

Electronic Submission Certificate

Friends Life Company Limited

Financial year ended 31st December 2012

We certify:-

That the data in the electronic copy of the Return is a complete and accurate copy of the data in the printed copy of the Return.

List of electronic files that make up the electronic copy of the Return:

- 185063_GL1_201212_forms.csv
- 185063_GL1_201212_notes.doc
- 185063_GL1_201212_notes.csv
- 185063_GL1_201212_miscellaneous.doc
- 185063_GL1_201212_actuary.doc
- 185063_GL1_201212_auditor.doc
- 185063_GL1_201212_controllers.doc
- 185063_GL1_201212_derivatives.doc
- 185063_GL1_201212_directors.doc
- 185063_GL1_201212_valuation.doc
- 185063_GL1_201212_control.csv

<u>Signed by one of the company directors who is a signatory on the Director's Certificate in the Return</u>	<u>Dated</u>
.....

Friends Life Company Limited

**Annual FSA Insurance Returns for the year ended
31st December 2012**



(Appendices 9.1, 9.3, 9.4, 9.6)

Friends Life Company Limited

Year ended 31st December 2012

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Statement of solvency - long-term insurance business

Form 2

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

Solo solvency calculation

	Company registration number	GL/UK/CM	Period ended			units	
			day	month	year		
	R2	3291349	GL	31	12	2012	£000
				As at end of this financial year		As at end of the previous year	
				1	2		

Capital resources

Capital resources arising within the long-term insurance fund	11	5128	1538365
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	62000	809458
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	67128	2347823

Guarantee fund

Guarantee fund requirement	21	2984	182944
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	64144	2164879

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	2874	548832
Resilience capital requirement	32		
Base capital resources requirement	33	2984	3056
Individual minimum capital requirement	34	2984	548832
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	2984	548832
Excess (deficiency) of available capital resources to cover 50% of MCR	37	65636	2073407
Excess (deficiency) of available capital resources to cover 75% of MCR	38	64890	1936199

Enhanced capital requirement

With-profits insurance capital component	39		1276625
Enhanced capital requirement	40	2984	1825459

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	2984	1825459
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	64144	522364

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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Components of capital resources

Form 3
(Sheet 1)Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

	Company registration number	GL/UK/CM	Period ended			units	
			day	month	year		
	R3	3291349	GL	31	12	2012	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year			
	1	2	3	4			

Core tier one capital

Permanent share capital	11		92500	92500	92500
Profit and loss account and other reserves	12		7896	7896	1705741
Share premium account	13				
Positive valuation differences	14				1489571
Fund for future appropriations	15				191858
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		100396	100396	3479670

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		100396	100396	3479670
Investments in own shares	32				
Intangible assets	33				136418
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		17098	17098	
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		17098	17098	136418
Total tier one capital after deductions (31-37)	39		83298	83298	3343252

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

Global business

Financial year ended **31st December 2012**

	Company registration number	GL/UK/CM	Period ended			units
			day	month	year	
R3	3291349	GL	31	12	2012	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
	1	2	3	4		

Tier two capital

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

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

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

Components of capital resources**Form 3
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

	Company registration number	GL/UK/CM	Period ended			units	
			day	month	year		
	R3	3291349	GL	31	12	2012	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year			
	1	2	3	4			

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		83298	83298	3343252
Inadmissible assets other than intangibles and own shares	73		16170	16170	995429
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79		67128	67128	2347823

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		67128	67128	2347823
Available capital resources for 50% MCR requirement	82		67128	67128	2347823
Available capital resources for 75% MCR requirement	83		67128	67128	2347823

Financial engineering adjustments

Implicit items	91				
Financial reinsurance – ceded	92				44059
Financial reinsurance – accepted	93				
Outstanding contingent loans	94				
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	96				44059

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

Form 11

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

Long-term insurance business

	Company registration number	GL/UK/CM	Period ended			units
			day	month	year	
R11	3291349	GL	31	12	2012	£000
			This financial year		Previous year	
			1		2	
Gross premiums written		11				19619
Premiums taxes and levies (included in line 11)		12				
Premiums written net of taxes and levies (11-12)		13				19619
Premiums for classes 11, 12 or 13 (included in line 13)		14				
Premiums for "actuarial health insurance" (included in line 13)		15				10261
Sub-total A (13 + 1/2 14 - 2/3 15)		16				12778
Gross premiums earned		21				23780
Premium taxes and levies (included in line 21)		22				
Premiums earned net of taxes and levies (21-22)		23				23780
Premiums for classes 11, 12 or 13 (included in line 23)		24				
Premiums for "actuarial health insurance" (included in line 23)		25				12344
Sub-total H (23 + 1/2 24 - 2/3 25)		26				15551
Sub-total I (higher of sub-total A and sub-total H)		30				15551
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure		31				
Division of gross adjusted premiums amount: sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32				2799
	Excess (if any) over 61.3M EURO x 0.02	33				
Sub-total J (32-33)		34				2799
Claims paid in period of 3 financial years		41				76431
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42				
	For insurance business accounted for on an accident year basis	43				105494
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44				
	For insurance business accounted for on an accident year basis	45				104276
Sub-total C (41+42+43-44-45)		46				77649
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		47				31249
Sub-total D (46-47)		48				46400
Reinsurance ratio (Sub-total D / sub-total C or, if more, 0.50 or, if less, 1.00)		49		1.00		0.60
Premiums amount (Sub-total J x reinsurance ratio)		50				1673
Provisions for claims outstanding (before discounting and net of reinsurance)		51				59242
Provisions for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero		52				
Brought forward amount (see instruction 4)		53				3870
Greater of lines 50 and 53		54				3870

Calculation of general insurance capital requirement - claims amount and result

Form 12

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

Long-term insurance business

		Company registration number	GL/UK/CM	Period ended			units	
		R12	3291349	GL	31	12	2012	£000
				This financial year		Previous year		
				1		2		
Reference period (No. of months) See <i>INSPRU</i> 1.1.63R		11						36
Claims paid in reference period		21						76431
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis	22						
	For insurance business accounted for on an accident year basis	23						105494
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis	24						
	For insurance business accounted for on an accident year basis	25						104276
Claims incurred in reference period (21+22+23-24-25)		26						77649
Claims incurred for classes 11, 12 or 13 (included in 26)		27						
Claims incurred for "actuarial health insurance" (included in 26)		28						68889
Sub-total E (26 + 1/2 27 - 2/3 28)		29						31723
Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)		31						10574
Division of sub-total F (gross adjusted claims amount)	X 0.26	32						2749
	Excess (if any) over 42.9M EURO x 0.03	33						
Sub-total G (32 - 33)		39						2749
Claims amount Sub-total G x reinsurance ratio (11.49)		41						1643
Higher of premiums amount and brought forward amount (11.54)		42						3870
General insurance capital requirement (higher of lines 41 and 42)		43						3870

Analysis of admissible assets**Form 13
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Total other than Long-term insurance business assets**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	1
							As at end of this financial year	As at end of the previous year
							1	2
Land and buildings			11					

Investments in group undertakings and participating interests

UK insurance dependants	shares	21		234512
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non-insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27		
	debts and loans	28		5033
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	62000	410042
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	25406
	Other	46	
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	70000
Other financial investments	56		

Analysis of admissible assets**Form 13
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Total other than Long-term insurance business assets**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	1
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities		Index linked		58				
		Property linked		59				

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		17
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		78095
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		98
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	62000	823203
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Analysis of admissible assets**Form 13
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Total other than Long-term insurance business assets**

R13	Company registration number	GL/UK/CM	Period ended			units	Category of assets
			day	month	year		
	3291349	GL	31	12	2012	£000	1
			As at end of this financial year			As at end of the previous year	
			1			2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	62000	823203
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	62000	823203
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assets**Form 13
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Total Long-term insurance business assets**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	10
							As at end of this financial year	As at end of the previous year
					1			2
Land and buildings				11				721426

Investments in group undertakings and participating interests

UK insurance dependants	shares	21		
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non-insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27		64108
	debts and loans	28		4899
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares		41		2299875
Other shares and other variable yield participations		42		511281
Holdings in collective investment schemes		43	28000	315566
Rights under derivative contracts		44		255258
Fixed interest securities	Approved	45		1104294
	Other	46		2317390
Variable interest securities	Approved	47		257296
	Other	48		207218
Participation in investment pools		49		
Loans secured by mortgages		50		23
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		10539
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		

Analysis of admissible assets**Form 13
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Total Long-term insurance business assets**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	10
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities	Index linked			58				230760
	Property linked			59				26050881

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	248	72531
	Intermediaries	72	4	10266
Salvage and subrogation recoveries	73			
Reinsurance	Accepted	74		15020
	Ceded	75		1325
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	246	244038
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		70739
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		69890
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		4146

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	28498	34838769
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Analysis of admissible assets**Form 13
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Total Long-term insurance business assets**

R13	Company registration number	GL/UK/CM	Period ended			units	Category of assets
			day	month	year		
	3291349	GL	31	12	2012	£000	10
			As at end of this financial year			As at end of the previous year	
			1			2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	28498	34838769
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		272425
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99	21000	1043885
Reinsurers' share of technical provisions excluded from line 89	100	571637	4830823
Other asset adjustments (may be negative)	101	(651)	(421987)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	620484	40563915
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assets**Form 13
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Old With Profits Fund**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	11
							As at end of this financial year	As at end of the previous year
					1			2
Land and buildings				11				143262

Investments in group undertakings and participating interests

UK insurance dependants	shares	21		
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non-insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27		12286
	debts and loans	28		979
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares		41		456447
Other shares and other variable yield participations		42		100901
Holdings in collective investment schemes		43		50242
Rights under derivative contracts		44		44344
Fixed interest securities	Approved	45		158153
	Other	46		402789
Variable interest securities	Approved	47		10175
	Other	48		13991
Participation in investment pools		49		
Loans secured by mortgages		50		5
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		2096
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		

Analysis of admissible assets**Form 13
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Old With Profits Fund**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	11
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities	Index linked			58				3289
	Property linked			59				

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		769
	Intermediaries	72		8
Salvage and subrogation recoveries	73			
Reinsurance	Accepted	74		3931
	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		39357
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		17751
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		11281
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		5

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		1472061
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Analysis of admissible assets**Form 13
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Old With Profits Fund**

R13	Company registration number	GL/UK/CM	Period ended			units	Category of assets
			day	month	year		
	3291349	GL	31	12	2012	£000	11
			As at end of this financial year			As at end of the previous year	
			1			2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91		1472061
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		16869
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		30259
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102		1519189
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assets**Form 13
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **New With Profits Fund**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	12
							As at end of this financial year	As at end of the previous year
							1	2
Land and buildings				11				578164

Investments in group undertakings and participating interests

UK insurance dependants	shares	21		
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non-insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27		49595
	debts and loans	28		3920
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares		41		1842728
Other shares and other variable yield participations		42		410380
Holdings in collective investment schemes		43		214252
Rights under derivative contracts		44		209320
Fixed interest securities	Approved	45		706751
	Other	46		1771468
Variable interest securities	Approved	47		44938
	Other	48		61794
Participation in investment pools		49		
Loans secured by mortgages		50		18
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		8443
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		

Analysis of admissible assets**Form 13
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **New With Profits Fund**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	12
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities	Index linked			58				19988
	Property linked			59				

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		3394
	Intermediaries	72		65
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		563
	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		49714
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		13096
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		51110
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		6039701
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Analysis of admissible assets**Form 13
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **New With Profits Fund**

R13	Company registration number	GL/UK/CM	Period ended			units	Category of assets
			day	month	year		
	3291349	GL	31	12	2012	£000	12
			As at end of this financial year			As at end of the previous year	
			1			2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91		6039701
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		119599
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		(85621)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102		6073679
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assets**Form 13
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Non Profit Fund One**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	13
							As at end of this financial year	As at end of the previous year
							1	2
Land and buildings				11				

Investments in group undertakings and participating interests

UK insurance dependants	shares	21		
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non-insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27		2227
	debts and loans	28		
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares		41		700
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43		
Rights under derivative contracts		44		1258
Fixed interest securities	Approved	45		102363
	Other	46		70368
Variable interest securities	Approved	47		98203
	Other	48		63839
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		

Analysis of admissible assets**Form 13
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Non Profit Fund One**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	13
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities	Index linked			58				72291
	Property linked			59				12975126

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		49136
	Intermediaries	72		5466
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		8523
	Ceded	75		1094
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78		105896
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		11523
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		4171
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		2500

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		13574684
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Analysis of admissible assets**Form 13
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Non Profit Fund One**

R13	Company registration number 3291349	GL/UK/CM GL	Period ended			units £000	Category of assets 13
			day	month	year		
			31	12	2012		
			As at end of this financial year			As at end of the previous year	
			1			2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91		13574684
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		83288
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		557989
Reinsurers' share of technical provisions excluded from line 89	100		189249
Other asset adjustments (may be negative)	101		(234893)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102		14170317
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assets**Form 13
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Non Profit Fund Two**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	14
							As at end of this financial year	As at end of the previous year
							1	2
Land and buildings			11					

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43	28000	51072
Rights under derivative contracts	44		336
Fixed interest securities	Approved	45	137027
	Other	46	72765
Variable interest securities	Approved	47	103980
	Other	48	67594
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		

Analysis of admissible assets**Form 13
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Non Profit Fund Two**

	Company registration number	GL/UK/CM	Period ended			units	Category of assets	
			day	month	year			
	R13	3291349	GL	31	12	2012	£000	14
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities	Index linked			58				135192
	Property linked			59				13075755

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	248	19232
	Intermediaries	72	4	4727
Salvage and subrogation recoveries	73			
Reinsurance	Accepted	74		2003
	Ceded	75		231
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	246	49071
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		28369
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		3328
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		1641

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	28498	13752323
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Analysis of admissible assets**Form 13
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Category of assets **Non Profit Fund Two**

R13	Company registration number	GL/UK/CM	Period ended			units	Category of assets
			day	month	year		
	3291349	GL	31	12	2012	£000	14
			As at end of this financial year			As at end of the previous year	
			1			2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	28498	13752323
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		52669
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99	21000	485896
Reinsurers' share of technical provisions excluded from line 89	100	571637	4641574
Other asset adjustments (may be negative)	101	(651)	(131731)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	620484	18800731
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Long-term insurance business liabilities and margins

Form 14

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

Fund **Total Long-term insurance business**

Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11	18471	32527378
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		13
Balance of surplus / (valuation deficit)	13	5128	136500
Long term insurance business fund carried forward (11 to 13)	14	23599	32663891
Claims outstanding	Gross	15	332
	Reinsurers' share	16	
	Net (15-16)	17	332
Provisions	Taxation	21	36461
	Other risks and charges	22	63797
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	2791
	Reinsurance accepted	32	4951
	Reinsurance ceded	33	1334
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		2939
Creditors	Taxation	37	42
	Other	38	400
Accruals and deferred income	39		20586
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	4899	773014
Excess of the value of net admissible assets	51		1401865
Total liabilities and margins	59	28498	34838770
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		31217
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		25941259
Total liabilities (11+12+49)	71	23370	33300405
Increase to liabilities – DAC related	72	4830	184459
Reinsurers' share of technical provisions	73	571637	4830823
Other adjustments to liabilities (may be negative)	74	(17748)	1067587
Capital and reserves and fund for future appropriations	75	38395	1180641
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	620484	40563915

Long-term insurance business liabilities and margins

Form 14

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Fund **Old With Profits Fund**Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11		1099569
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus / (valuation deficit)	13		
Long term insurance business fund carried forward (11 to 13)	14		1099569
Claims outstanding	Gross	15	2904
	Reinsurers' share	16	
	Net (15-16)	17	2904
Provisions	Taxation	21	27922
	Other risks and charges	22	5
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	40
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	1073
	Other	38	14402
Accruals and deferred income	39		1949
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49		48295
Excess of the value of net admissible assets	51		322509
Total liabilities and margins	59		1470373
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		353
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		
Total liabilities (11+12+49)	71		1147864
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76		

Long-term insurance business liabilities and margins

Form 14

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Fund **New With Profits Fund**Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11		4694491
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		13
Balance of surplus / (valuation deficit)	13		50000
Long term insurance business fund carried forward (11 to 13)	14		4744504
Claims outstanding	Gross	15	23605
	Reinsurers' share	16	
	Net (15-16)	17	23605
Provisions	Taxation	21	8539
	Other risks and charges	22	32
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	304
	Reinsurance accepted	32	4951
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	94293
	Other	38	78511
Accruals and deferred income	39		12783
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49		223018
Excess of the value of net admissible assets	51		1073871
Total liabilities and margins	59		6041393
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		(714)
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		
Total liabilities (11+12+49)	71		4917522
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76		

Long-term insurance business liabilities and margins

Form 14

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Fund **Non Profit Fund One**Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11		13197099
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus / (valuation deficit)	13		86500
Long term insurance business fund carried forward (11 to 13)	14		13283599
Claims outstanding	Gross	15	122550
	Reinsurers' share	16	
	Net (15-16)	17	122550
Provisions	Taxation	21	
	Other risks and charges	22	5564
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	7399
	Reinsurance accepted	32	
	Reinsurance ceded	33	49053
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	63298
	Other	38	37784
Accruals and deferred income	39		30
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49		285678
Excess of the value of net admissible assets	51		5485
Total liabilities and margins	59		13574762
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		325
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		12929784
Total liabilities (11+12+49)	71		13482777
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76		

Long-term insurance business liabilities and margins

Form 14

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**Fund **Non Profit Fund Two**Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11	18471	13536219
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus / (valuation deficit)	13	5128	
Long term insurance business fund carried forward (11 to 13)	14	23599	13536219
Claims outstanding	Gross	15	332
	Reinsurers' share	16	
	Net (15-16)	17	332
Provisions	Taxation	21	
	Other risks and charges	22	58196
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	2791
	Reinsurance accepted	32	
	Reinsurance ceded	33	1334
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		2939
Creditors	Taxation	37	42
	Other	38	400
Accruals and deferred income	39		5824
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	4899	216023
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	28498	13752242
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		31253
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		13011475
Total liabilities (11+12+49)	71	23370	13752242
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76		

Liabilities (other than long-term insurance business)**Form 15**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

	Company registration number	GL/UK/CM	Period ended			units
			day	month	year	
R15	3291349	GL	31	12	2012	£000
			As at the end of this financial year		As at the end of the previous year	
			1		2	

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		6458
	Foreseeable dividend	48		
	Other	49		7287
Accruals and deferred income		51		
Total (19 to 51)		59		13745
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69		13745

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		71		
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Amounts deducted from technical provisions for discounting		82		
Other adjustments (may be negative)		83		
Capital and reserves		84	62000	809458
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)		85	62000	823203

Profit and loss account (non-technical account)**Form 16**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**

		Company registration number	GL/UK/CM	Period ended			units	
		R16	3291349	GL	31	12	2012	£000
				This financial year		Previous year		
				1		2		
Transfer (to) / from the general insurance business technical account	From Form 20	11						
	Equalisation provisions	12						
Transfer from the long term insurance business revenue account		13			73396		502275	
Investment income	Income	14			2345		8983	
	Value re-adjustments on investments	15						
	Gains on the realisation of investments	16			2278			
Investment charges	Investment management charges, including interest	17			346		1829	
	Value re-adjustments on investments	18						
	Loss on the realisation of investments	19						
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			(751574)		22	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29			(673901)		509451	
Tax on profit or loss on ordinary activities		31			1024		1902	
Profit or loss on ordinary activities after tax (29-31)		39			(674925)		507549	
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			(674925)		507549	
Dividends (paid or foreseeable)		51			200000		985281	
Profit or loss retained for the financial year (49-51)		59			(874925)		(477732)	

With-profits insurance capital component for the fund**Form 18**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**With-profits fund **Old With Profits Fund**Units **£000**

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

Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	1472061
	Implicit items allocated to the fund	12	
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	132343
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	5491
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15	
	Total (11+12-(13+14+15))	19	1334227
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21	967226
	Regulatory current liabilities of the fund	22	48295
	Total (21+22)	29	1015521
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts	31	40258	
Resilience capital requirement in respect of the fund's with-profits insurance contracts	32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)	39	1055779	
Regulatory excess capital (19-39)	49	278448	

Realistic excess capital

Realistic excess capital	51	(15196)
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	293644
Face amount of capital instruments attributed to the fund and included in the capital resources (unstressed)	62	
Realistic amount of capital instruments attributed to the fund and included in the capital resources (stressed)	63	
Present value of future shareholder transfers arising from distribution of surplus	64	17790
Present value of other future internal transfers not already taken into account	65	
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero; else greater of 61-64-65 and zero)	66	275854

With-profits insurance capital component for the fund**Form 18**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**With-profits fund **New With Profits Fund**Units **£000**

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

Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	6039701
	Implicit items allocated to the fund	12	
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	846360
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	35206
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15	
	Total (11+12-(13+14+15))	19	5158135
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21	3848142
	Regulatory current liabilities of the fund	22	223018
	Total (21+22)	29	4071160
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts	31	161366	
Resilience capital requirement in respect of the fund's with-profits insurance contracts	32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)	39	4232526	
Regulatory excess capital (19-39)	49	925609	

Realistic excess capital

Realistic excess capital	51	(150040)
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1075649
Face amount of capital instruments attributed to the fund and included in the capital resources (unstressed)	62	
Realistic amount of capital instruments attributed to the fund and included in the capital resources (stressed)	63	
Present value of future shareholder transfers arising from distribution of surplus	64	94984
Present value of other future internal transfers not already taken into account	65	(20106)
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero; else greater of 61-64-65 and zero)	66	1000771

Realistic balance sheet**Form 19
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**With-profits fund **Old With Profits Fund**Units **£000**

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

Realistic value of assets available to the fund

Regulatory value of assets	11		1334227
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22		22165
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in the fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of the fund (11+21+22+23+24+25-(12+13))	26		1356392
Support arrangement assets	27		
Assets available to the fund (26+27)	29		1356392

Realistic value of liabilities of fund

With-profits benefits reserve	31		864917	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32		
	Past miscellaneous deficit attributed to with-profits benefits reserve	33		
	Planned enhancements to with-profits benefits reserve	34		237514
	Planned deductions for the cost of guarantees, options and smoothing from with-profits benefits reserve	35		
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41		91578
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43		86147
	Future costs of smoothing (possibly negative)	44		(25057)
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47		31145
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49		421327	
Realistic current liabilities of the fund	51		53391	
Realistic value of liabilities of the fund (31+49+51)	59		1339635	

Realistic balance sheet**Form 19
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**With-profits fund **Old With Profits Fund**Units **£000**

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

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62	1371588
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63	
Value of relevant assets before applying the most adverse scenario (62+ 63)	64	1371588
Risk capital margin for fund (62-59)	65	31953
Realistic excess capital for fund (26-(59+65))	66	(15196)
Realistic excess available capital for fund (29-(59+65))	67	(15196)
Working capital for for fund (29-59)	68	16757
Working capital ratio for fund (68/29)	69	1.24

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

Additional amount potentially available for inclusion in line 62	81	15200
Additional amount potentially available for inclusion in line 63	82	

Realistic balance sheet**Form 19
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**With-profits fund **New With Profits Fund**Units **£000**

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

Realistic value of assets available to the fund

Regulatory value of assets	11	5158135
Implicit items allocated to the fund	12	
Value of shares in subsidiaries held in the fund (regulatory)	13	
Excess admissible assets	21	
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	153734
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23	
Value of shares in subsidiaries held in the fund (realistic)	24	
Prepayments made from the fund	25	
Realistic value of assets of the fund (11+21+22+23+24+25-(12+13))	26	5311869
Support arrangement assets	27	71778
Assets available to the fund (26+27)	29	5383647

Realistic value of liabilities of fund

With-profits benefits reserve	31	3449947	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	940229
	Planned deductions for the cost of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	
	Future costs of contractual guarantees (other than financial options)	41	330705
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	265956
	Future costs of smoothing (possibly negative)	44	(80877)
	Financing costs	45	
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	178209
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1634222	
Realistic current liabilities of the fund	51	223017	
Realistic value of liabilities of the fund (31+49+51)	59	5307186	

Realistic balance sheet**Form 19
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2012**With-profits fund **New With Profits Fund**Units **£000**

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

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62	5461909
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63	
Value of relevant assets before applying the most adverse scenario (62+ 63)	64	5461909
Risk capital margin for fund (62-59)	65	154723
Realistic excess capital for fund (26-(59+65))	66	(150040)
Realistic excess available capital for fund (29-(59+65))	67	(78262)
Working capital for for fund (29-59)	68	76461
Working capital ratio for fund (68/29)	69	1.42

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

Additional amount potentially available for inclusion in line 62	81	325754
Additional amount potentially available for inclusion in line 63	82	

Long-term insurance business: Revenue account**Form 40**

Name of insurer **Friends Life Company Limited**

Name and number of fund/Summary **Total Long-term insurance business**

Financial year ended **31st December 2012**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	1112435	1727630
Investment income receivable before deduction of tax	12	1136487	1212874
Increase (decrease) in the value of non-linked assets brought into account	13	229629	546710
Increase (decrease) in the value of linked assets	14	1250106	(466959)
Other income	15	1884	292231
Total income	19	3730541	3312486

Expenditure

Claims incurred	21	4235522	4582347
Expenses payable	22	426395	449127
Interest payable before deduction of tax	23	1977	753
Taxation	24	66451	113376
Other expenditure	25		87795
Transfer to (from) non technical account	26	73396	502275
Total expenditure	29	4803741	5735673

Business transfers-in	31		
Business transfers-out	32	31567092	56534
Increase (decrease) in fund in financial year (19-29+31-32)	39	(32640292)	(2479721)
Fund brought forward	49	32663891	35143612
Fund carried forward (39+49)	59	23599	32663891

Long-term insurance business: Revenue account**Form 40**

Name of insurer **Friends Life Company Limited**

Name and number of fund/Summary **Old With Profits Fund**

Financial year ended **31st December 2012**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	31353	45478
Investment income receivable before deduction of tax	12	79258	59813
Increase (decrease) in the value of non-linked assets brought into account	13	(10332)	34358
Increase (decrease) in the value of linked assets	14		
Other income	15	300	336
Total income	19	100579	139985

Expenditure

Claims incurred	21	89816	109185
Expenses payable	22	8003	3442
Interest payable before deduction of tax	23	228	95
Taxation	24	9065	(2374)
Other expenditure	25		
Transfer to (from) non technical account	26	2225	2875
Total expenditure	29	109337	113223

Business transfers-in	31		
Business transfers-out	32	1090811	
Increase (decrease) in fund in financial year (19-29+31-32)	39	(1099569)	26762
Fund brought forward	49	1099569	1072807
Fund carried forward (39+49)	59		1099569

Long-term insurance business: Revenue account**Form 40**

Name of insurer **Friends Life Company Limited**

Name and number of fund/Summary **New With Profits Fund**

Financial year ended **31st December 2012**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	212201	210155
Investment income receivable before deduction of tax	12	204474	252045
Increase (decrease) in the value of non-linked assets brought into account	13	178338	210776
Increase (decrease) in the value of linked assets	14		
Other income	15	1441	1340
Total income	19	596454	674316

Expenditure

Claims incurred	21	575508	580366
Expenses payable	22	45315	29062
Interest payable before deduction of tax	23	912	396
Taxation	24	41085	12207
Other expenditure	25		
Transfer to (from) non technical account	26	16389	15400
Total expenditure	29	679209	637431

Business transfers-in	31		
Business transfers-out	32	4661749	
Increase (decrease) in fund in financial year (19-29+31-32)	39	(4744504)	36885
Fund brought forward	49	4744504	4707619
Fund carried forward (39+49)	59		4744504

Long-term insurance business: Revenue account**Form 40**

Name of insurer **Friends Life Company Limited**

Name and number of fund/Summary **Non Profit Fund One**

Financial year ended **31st December 2012**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	232121	573012
Investment income receivable before deduction of tax	12	453056	477956
Increase (decrease) in the value of non-linked assets brought into account	13	(20520)	72492
Increase (decrease) in the value of linked assets	14	440400	117289
Other income	15	19	275526
Total income	19	1105076	1516275

Expenditure

Claims incurred	21	1433990	1508287
Expenses payable	22	186251	218838
Interest payable before deduction of tax	23	177	4
Taxation	24	941	95090
Other expenditure	25		56706
Transfer to (from) non technical account	26	(1218)	484000
Total expenditure	29	1620141	2362925

Business transfers-in	31		
Business transfers-out	32	12768534	18943
Increase (decrease) in fund in financial year (19-29+31-32)	39	(13283599)	(865593)
Fund brought forward	49	13283599	14149192
Fund carried forward (39+49)	59		13283599

Long-term insurance business: Revenue account**Form 40**

Name of insurer **Friends Life Company Limited**

Name and number of fund/Summary **Non Profit Fund Two**

Financial year ended **31st December 2012**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	636760	898986
Investment income receivable before deduction of tax	12	399699	423060
Increase (decrease) in the value of non-linked assets brought into account	13	82144	229084
Increase (decrease) in the value of linked assets	14	809706	(584248)
Other income	15	124	15029
Total income	19	1928433	981911

Expenditure

Claims incurred	21	2136208	2384509
Expenses payable	22	186826	197784
Interest payable before deduction of tax	23	660	258
Taxation	24	15359	8453
Other expenditure	25		31091
Transfer to (from) non technical account	26	56000	
Total expenditure	29	2395053	2622095

Business transfers-in	31		
Business transfers-out	32	13046000	37591
Increase (decrease) in fund in financial year (19-29+31-32)	39	(13512620)	(1677775)
Fund brought forward	49	13536219	15213994
Fund carried forward (39+49)	59	23599	13536219

Long-term insurance business: Analysis of premiums

Form 41

Name of insurer **Friends Life Company Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2012**

Units **£000**

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

Gross

Regular premiums	11	356514	540402	1419	898335	1087690
Single premiums	12	130145	486192	22	616359	968684

Reinsurance - external

Regular premiums	13	58073		(1)	58072	123600
Single premiums	14	1635			1635	15102

Reinsurance - intra-group

Regular premiums	15	14	82890		82904	16045
Single premiums	16	65	259583		259648	173998

Net of reinsurance

Regular premiums	17	298427	457512	1420	757359	948045
Single premiums	18	128445	226609	22	355076	779584

Total

Gross	19	486659	1026594	1441	1514694	2056374
Reinsurance	20	59787	342473	(1)	402259	328745
Net	21	426872	684121	1442	1112435	1727629

Long-term insurance business: Analysis of premiums

Form 41

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

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

Gross

Regular premiums	11	15853	2295	55	18203	31819
Single premiums	12	61	13089		13150	13659

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17	15853	2295	55	18203	31819
Single premiums	18	61	13089		13150	13659

Total

Gross	19	15914	15384	55	31353	45478
Reinsurance	20					
Net	21	15914	15384	55	31353	45478

Long-term insurance business: Analysis of premiums

Form 41

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

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

Gross

Regular premiums	11	134965	24063	1320	160348	163118
Single premiums	12	467	51364	22	51853	47037

Reinsurance - external

Regular premiums	13					1
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17	134965	24063	1320	160348	163117
Single premiums	18	467	51364	22	51853	47037

Total

Gross	19	135432	75427	1342	212201	210155
Reinsurance	20					1
Net	21	135432	75427	1342	212201	210154

Long-term insurance business: Analysis of premiums

Form 41

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

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

Gross

Regular premiums	11	189805		189805	274353
Single premiums	12	93294		93294	349269

Reinsurance - external

Regular premiums	13	50922		50922	50508
Single premiums	14				

Reinsurance - intra-group

Regular premiums	15	14		14	26
Single premiums	16	42		42	76

Net of reinsurance

Regular premiums	17	138869		138869	223819
Single premiums	18	93252		93252	349193

Total

Gross	19	283099		283099	623622
Reinsurance	20	50978		50978	50610
Net	21	232121		232121	573012

Long-term insurance business: Analysis of premiums

Form 41

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

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

Gross

Regular premiums	11	15891	514044	44	529979	618399
Single premiums	12	36323	421740		458063	558719

Reinsurance - external

Regular premiums	13	7151			7151	73090
Single premiums	14	1635			1635	15101

Reinsurance - intra-group

Regular premiums	15		82890		82890	16019
Single premiums	16	23	259583		259606	173922

Net of reinsurance

Regular premiums	17	8740	431154	44	439938	529290
Single premiums	18	34665	162157		196822	369696

Total

Gross	19	52214	935784	44	988042	1177118
Reinsurance	20	8809	342473		351282	278132
Net	21	43405	593311	44	636760	898986

Long-term insurance business: Analysis of claims

Form 42

Name of insurer **Friends Life Company Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2012**

Units **£000**

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

Gross

Death or disability lump sums	11	355174	35726	618	391518	397726
Disability periodic payments	12	45642	27	151	45820	45189
Surrender or partial surrender	13	1333876	1762251	7077	3103204	3192426
Annuity payments	14	8099	285314	422	293835	292039
Lump sums on maturity	15	137038	878017	924	1015979	1003044
Total	16	1879829	2961335	9192	4850356	4930424

Reinsurance - external

Death or disability lump sums	21	43941			43941	34893
Disability periodic payments	22	6868			6868	8092
Surrender or partial surrender	23		1639	61	1700	12018
Annuity payments	24					
Lump sums on maturity	25					
Total	26	50809	1639	61	52509	55003

Reinsurance - intra-group

Death or disability lump sums	31		255		255	30
Disability periodic payments	32					
Surrender or partial surrender	33		311060		311060	41977
Annuity payments	34		247089		247089	248193
Lump sums on maturity	35		3921		3921	2874
Total	36		562325		562325	293074

Net of reinsurance

Death or disability lump sums	41	311233	35471	618	347322	362803
Disability periodic payments	42	38774	27	151	38952	37097
Surrender or partial surrender	43	1333876	1449552	7016	2790444	3138431
Annuity payments	44	8099	38225	422	46746	43846
Lump sums on maturity	45	137038	874096	924	1012058	1000170
Total	46	1829020	2397371	9131	4235522	4582347

Long-term insurance business: Analysis of claims

Form 42

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

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

Gross

Death or disability lump sums	11	6093	1633	53	7779	11702
Disability periodic payments	12					
Surrender or partial surrender	13	17921	14412	128	32461	51218
Annuity payments	14	2	3909	8	3919	4751
Lump sums on maturity	15	20851	25444	154	46449	42048
Total	16	44867	45398	343	90608	109719

Reinsurance - external

Death or disability lump sums	21	792			792	534
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26	792			792	534

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41	5301	1633	53	6987	11168
Disability periodic payments	42					
Surrender or partial surrender	43	17921	14412	128	32461	51218
Annuity payments	44	2	3909	8	3919	4751
Lump sums on maturity	45	20851	25444	154	46449	42048
Total	46	44075	45398	343	89816	109185

Long-term insurance business: Analysis of claims

Form 42

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

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

Gross

Death or disability lump sums	11	67715	4341	565	72621	66545
Disability periodic payments	12					
Surrender or partial surrender	13	145402	63843	6949	216194	244866
Annuity payments	14	14	34267	8	34289	30285
Lump sums on maturity	15	100918	150995	770	252683	238773
Total	16	314049	253446	8292	575787	580469

Reinsurance - external

Death or disability lump sums	21	279			279	103
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26	279			279	103

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41	67436	4341	565	72342	66442
Disability periodic payments	42					
Surrender or partial surrender	43	145402	63843	6949	216194	244866
Annuity payments	44	14	34267	8	34289	30285
Lump sums on maturity	45	100918	150995	770	252683	238773
Total	46	313770	253446	8292	575508	580366

Long-term insurance business: Analysis of claims

Form 42

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

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

Gross

Death or disability lump sums	11	281334		281334	284804
Disability periodic payments	12	794		794	1548
Surrender or partial surrender	13	1170202		1170202	1234549
Annuity payments	14	8063		8063	8534
Lump sums on maturity	15	15269		15269	13109
Total	16	1475662		1475662	1542544

Reinsurance - external

Death or disability lump sums	21	41672		41672	34257
Disability periodic payments	22				
Surrender or partial surrender	23				
Annuity payments	24				
Lump sums on maturity	25				
Total	26	41672		41672	34257

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41	239662		239662	250547
Disability periodic payments	42	794		794	1548
Surrender or partial surrender	43	1170202		1170202	1234549
Annuity payments	44	8063		8063	8534
Lump sums on maturity	45	15269		15269	13109
Total	46	1433990		1433990	1508287

Long-term insurance business: Analysis of claims

Form 42

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

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

Gross

Death or disability lump sums	11	32	29752		29784	34674
Disability periodic payments	12	44849	27	151	45027	43641
Surrender or partial surrender	13	350	1683996		1684346	1661794
Annuity payments	14	20	247137	406	247563	248470
Lump sums on maturity	15		701579		701579	709114
Total	16	45251	2662491	557	2708299	2697693

Reinsurance - external

Death or disability lump sums	21	1198			1198	
Disability periodic payments	22	6868			6868	8092
Surrender or partial surrender	23		1639	61	1700	12018
Annuity payments	24					
Lump sums on maturity	25					
Total	26	8066	1639	61	9766	20110

Reinsurance - intra-group

Death or disability lump sums	31		255		255	30
Disability periodic payments	32					
Surrender or partial surrender	33		311060		311060	41977
Annuity payments	34		247089		247089	248193
Lump sums on maturity	35		3921		3921	2874
Total	36		562325		562325	293074

Net of reinsurance

Death or disability lump sums	41	(1166)	29497		28331	34644
Disability periodic payments	42	37981	27	151	38159	35549
Surrender or partial surrender	43	350	1371297	(61)	1371586	1607799
Annuity payments	44	20	48	406	474	277
Lump sums on maturity	45		697658		697658	706240
Total	46	37185	2098527	496	2136208	2384509

Long-term insurance business: Analysis of expenses

Form 43

Name of insurer **Friends Life Company Limited**Total business / subfund **Total Long-term insurance business**Financial year ended **31st December 2012**Units **£000**

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

Gross

Commission - acquisition	11	20856	8730	1088	30674	80158
Commission - other	12	20716	13365	62	34143	38250
Management - acquisition	13	10744	40033		50777	77306
Management - maintenance	14	175791	135010		310801	253412
Management - other	15					
Total	16	228107	197138	1150	426395	449126

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					

Net of reinsurance

Commission - acquisition	41	20856	8730	1088	30674	80158
Commission - other	42	20716	13365	62	34143	38250
Management - acquisition	43	10744	40033		50777	77306
Management - maintenance	44	175791	135010		310801	253412
Management - other	45					
Total	46	228107	197138	1150	426395	449126

Long-term insurance business: Analysis of expenses

Form 43

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

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

Gross

Commission - acquisition	11	14	94	108	247
Commission - other	12	347	101	449	426
Management - acquisition	13	5	81	86	138
Management - maintenance	14	3092	4268	7360	2631
Management - other	15				
Total	16	3458	4544	8003	3442

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
Total	36				

Net of reinsurance

Commission - acquisition	41	14	94	108	247
Commission - other	42	347	101	449	426
Management - acquisition	43	5	81	86	138
Management - maintenance	44	3092	4268	7360	2631
Management - other	45				
Total	46	3458	4544	8003	3442

Long-term insurance business: Analysis of expenses

Form 43

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

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

Gross

Commission - acquisition	11	660	385	985	2030	1455
Commission - other	12	1976	544	22	2542	2589
Management - acquisition	13	3	693		696	668
Management - maintenance	14	26083	13964		40047	24350
Management - other	15					
Total	16	28722	15586	1007	45315	29062

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					

Net of reinsurance

Commission - acquisition	41	660	385	985	2030	1455
Commission - other	42	1976	544	22	2542	2589
Management - acquisition	43	3	693		696	668
Management - maintenance	44	26083	13964		40047	24350
Management - other	45					
Total	46	28722	15586	1007	45315	29062

Long-term insurance business: Analysis of expenses

Form 43

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

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

Gross

Commission - acquisition	11	18784	102	18886	67370
Commission - other	12	18625	39	18664	22167
Management - acquisition	13	8302		8302	20649
Management - maintenance	14	140399		140399	108652
Management - other	15				
Total	16	186110	141	186251	218838

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
Total	36				

Net of reinsurance

Commission - acquisition	41	18784	102	18886	67370
Commission - other	42	18625	39	18664	22167
Management - acquisition	43	8302		8302	20649
Management - maintenance	44	140399		140399	108652
Management - other	45				
Total	46	186110	141	186251	218838

Long-term insurance business: Analysis of expenses

Form 43

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

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

Gross

Commission - acquisition	11	1398	8251	9649	11088
Commission - other	12	(232)	12720	12488	13068
Management - acquisition	13	2435	39259	41694	55851
Management - maintenance	14	6217	116778	122995	117778
Management - other	15				
Total	16	9818	177008	186826	197785

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
Total	36				

Net of reinsurance

Commission - acquisition	41	1398	8251	9649	11088
Commission - other	42	(232)	12720	12488	13068
Management - acquisition	43	2435	39259	41694	55851
Management - maintenance	44	6217	116778	122995	117778
Management - other	45				
Total	46	9818	177008	186826	197785

Long-term insurance business: Linked funds balance sheet**Form 44**Name of insurer **Friends Life Company Limited**

Total business

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

	Financial year	Previous year
	1	2

Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	22379848
Directly held assets in collective investment schemes of connected companies	12	
Directly held assets in other collective investment schemes	13	3590384
Total assets (excluding cross investment) (11+12+13)	14	25970232
Provision for tax on unrealised capital gains	15	
Secured and unsecured loans	16	2939
Other liabilities	17	106683
Total net assets (14-15-16-17)	18	25860610

Directly held linked assets

Value of directly held linked assets	21	84645
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Total

Value of directly held linked assets and units held (18+21)	31	25945255
Surplus units	32	20195
Deficit units	33	16199
Net unit liability (31-32+33)	34	25941259

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

Form 45

Name of insurer **Friends Life Company Limited**

Total business

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

	Financial year	Previous year
	1	2

Income

Value of total creation of units	11	1754736	2657336
Investment income attributable to the funds before deduction of tax	12	793662	845374
Increase (decrease) in the value of investments in the financial year	13	1268968	(466304)
Other income	14	16379	26398
Total income	19	3833745	3062804

Expenditure

Value of total cancellation of units	21	4358488	5212736
Charges for management	22	210518	223071
Charges in respect of tax on investment income	23	23095	85242
Taxation on realised capital gains	24	2857	1450
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	1957	18989
Other expenditure	26	25097440	53055
Total expenditure	29	29694355	5594543

Increase (decrease) in funds in financial year (19-29)	39	(25860610)	(2531739)
Internal linked fund brought forward	49	25860610	28392349
Internal linked funds carried forward (39+49)	59		25860610

Long-term insurance business: Summary of new business

Form 46

Name of insurer **Friends Life Company Limited**

Total business

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

	UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
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Number of new policyholders / scheme members for direct insurance business

Regular premium business	11	12441	9261	6	21708	72497
Single premium business	12	478	7687		8165	15784
Total	13	12919	16948	6	29873	88281

Amount of new regular premiums

Direct insurance business	21	4867	37645	14	42526	81269
External reinsurance	22					
Intra-group reinsurance	23	288	3831		4119	6188
Total	24	5155	41476	14	46645	87457

Amount of new single premiums

Direct insurance business	25	116179	314779	22	430980	722232
External reinsurance	26	76			76	1008
Intra-group reinsurance	27	13885	171418		185303	245444
Total	28	130140	486197	22	616359	968684

Long-term insurance business: Analysis of new business**Form 47
(Sheet 1)**Name of insurer **Friends Life Company Limited**

Total business

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

UK Life / Direct insurance business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
300	Regular premium non-profit WL/EA OB	1			
325	Level term assurance	2605	1086		
330	Decreasing term assurance	3656	1060	124	1472
340	Accelerated critical illness (guaranteed premiums)	4570	2000		
345	Accelerated critical illness (reviewable premiums)	233	128		
350	Stand-alone critical illness (guaranteed premiums)	324	148		
355	Stand-alone critical illness (reviewable premiums)	62	30		
360	Income protection non-profit (guaranteed premiums)	904	381		
365	Income protection non-profit (reviewable premiums)	86	34		
390	Deferred annuity non-profit			16	805
395	Annuity non-profit (PLA)			186	39270
500	Life UWP single premium				193
506	Life UWP whole life regular premium (ISA)				10
700	Life property linked single premium			1	64787
705	Life property linked single premium quasi index linked			96	2264
910	Miscellaneous index linked			55	7378

Long-term insurance business: Analysis of new business**Form 47
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Total business

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

UK Life / Reinsurance accepted external

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
500	Life UWP single premium				76

Long-term insurance business: Analysis of new business**Form 47
(Sheet 3)**Name of insurer **Friends Life Company Limited**

Total business

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

UK Life / Reinsurance accepted intra-group

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
700	Life property linked single premium				7570
710	Life property linked whole life regular premium		288		
794	Property-linked investment only reinsurance				6315

Long-term insurance business: Analysis of new business**Form 47
(Sheet 4)**Name of insurer **Friends Life Company Limited**

Total business

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

UK Pension / Direct insurance business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA)			6066	135223
525	Individual pensions UWP	34	35	124	1750
530	Individual pensions UWP - increments		650		863
535	Group money purchase pensions UWP	129	107	118	39
540	Group money purchase pensions UWP - increments		194		3216
555	Group deposit administration with-profits	174	423		
565	DWP National Insurance rebates UWP				13455
570	Income drawdown UWP			6	285
571	Trustee investment plan UWP				19
575	Miscellaneous UWP				1
725	Individual pensions property linked	319	953	727	31790
730	Individual pensions property linked - increments		1691		53672
735	Group money purchase pensions property linked	8605	18380	508	5253
740	Group money purchase pensions property linked - increments		15202		14967
745	DWP National Insurance rebates property linked		1		35026
750	Income drawdown property linked			133	18777
755	Trustee investment plan			5	353
760	Small self administered schemes		9		90

Long-term insurance business: Analysis of new business**Form 47
(Sheet 5)**Name of insurer **Friends Life Company Limited**

Total business

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

UK Pension / Reinsurance accepted intra-group

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
725	Individual pensions property linked		7		48
730	Individual pensions property linked - increments		449		14629
735	Group money purchase pensions property linked		1260		27
740	Group money purchase pensions property linked - increments		2095		5657
745	DWP National Insurance rebates property linked		1		51674
750	Income drawdown property linked				104
760	Small self administered schemes		19		754
794	Property-linked investment only reinsurance				98525

Long-term insurance business: Analysis of new business**Form 47
(Sheet 6)**Name of insurer **Friends Life Company Limited**

Total business

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

Overseas / Direct insurance business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
555	Group deposit administration with-profits	6	14		22

Long-term insurance business: Assets not held to match linked liabilities**Form 48**

Name of insurer **Friends Life Company Limited**

Financial year ended **31st December 2012**

Category of assets **Total Long-term insurance business assets**

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				
Other fixed interest securities	13				
Variable interest securities	14				
UK listed equity shares	15				
Non-UK listed equity shares	16				
Unlisted equity shares	17				
Other assets	18	28497	28497	0.05	
Total	19	28497	28497	0.05	

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

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

Overall return on with-profits assets

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

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

Form 48

Name of insurer **Friends Life Company Limited**Financial year ended **31st December 2012**Category of assets **Non Profit Fund Two**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				
Other fixed interest securities	13				
Variable interest securities	14				
UK listed equity shares	15				
Non-UK listed equity shares	16				
Unlisted equity shares	17				
Other assets	18	28497	28497	0.05	
Total	19	28497	28497	0.05	

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

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

Overall return on with-profits assets

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

Long-term insurance business: Summary of mathematical reserves

Form 50

Name of insurer **Friends Life Company Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2012**

Units **£000**

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

Form 51 - with-profits	11				972660
Form 51 - non-profit	12				4994260
Form 52	13				3823217
Form 53 - linked	14		571637	571637	26569921
Form 53 - non-linked	15		18471	18471	228838
Form 54 - linked	16				718569
Form 54 - non-linked	17				31258
Total	18		590108	590108	37338723

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22				302835
Form 52	23				
Form 53 - linked	24				66856
Form 53 - non-linked	25				(57)
Form 54 - linked	26				47722
Form 54 - non-linked	27				
Total	28				417356

Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32				3404807
Form 52	33				
Form 53 - linked	34		571637	571637	561806
Form 53 - non-linked	35				26
Form 54 - linked	36				440087
Form 54 - non-linked	37				6742
Total	38		571637	571637	4413468

Net of reinsurance

Form 51 - with-profits	41				972660
Form 51 - non-profit	42				1286618
Form 52	43				3823217
Form 53 - linked	44				25941259
Form 53 - non-linked	45		18471	18471	228869
Form 54 - linked	46				230760
Form 54 - non-linked	47				24516
Total	48		18471	18471	32507899

Long-term insurance business: Summary of mathematical reserves

Form 50

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

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

Form 51 - with-profits	11				230885
Form 51 - non-profit	12				128864
Form 52	13				731858
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16				3289
Form 54 - non-linked	17				190
Total	18				1095086

Reinsurance - external

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

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41				230885
Form 51 - non-profit	42				128864
Form 52	43				731858
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				3289
Form 54 - non-linked	47				190
Total	48				1095086

Long-term insurance business: Summary of mathematical reserves

Form 50

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

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

Form 51 - with-profits	11				741775
Form 51 - non-profit	12				825393
Form 52	13				3091359
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16				19988
Form 54 - non-linked	17				980
Total	18				4679495

Reinsurance - external

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

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41				741775
Form 51 - non-profit	42				825393
Form 52	43				3091359
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				19988
Form 54 - non-linked	47				980
Total	48				4679495

Long-term insurance business: Summary of mathematical reserves

Form 50

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

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

Form 51 - with-profits	11				
Form 51 - non-profit	12				312822
Form 52	13				
Form 53 - linked	14				12929784
Form 53 - non-linked	15				71185
Form 54 - linked	16				72291
Form 54 - non-linked	17				266
Total	18				13386348

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22				189249
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
Total	28				189249

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42				123573
Form 52	43				
Form 53 - linked	44				12929784
Form 53 - non-linked	45				71185
Form 54 - linked	46				72291
Form 54 - non-linked	47				266
Total	48				13197099

Long-term insurance business: Summary of mathematical reserves

Form 50

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

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

Form 51 - with-profits	11				
Form 51 - non-profit	12				3727181
Form 52	13				
Form 53 - linked	14		571637	571637	13640137
Form 53 - non-linked	15		18471	18471	157653
Form 54 - linked	16				623001
Form 54 - non-linked	17				29822
Total	18		590108	590108	18177794

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22				113586
Form 52	23				
Form 53 - linked	24				66856
Form 53 - non-linked	25				(57)
Form 54 - linked	26				47722
Form 54 - non-linked	27				
Total	28				228107

Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32				3404807
Form 52	33				
Form 53 - linked	34		571637	571637	561806
Form 53 - non-linked	35				26
Form 54 - linked	36				440087
Form 54 - non-linked	37				6742
Total	38		571637	571637	4413468

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42				208788
Form 52	43				
Form 53 - linked	44				13011475
Form 53 - non-linked	45		18471	18471	157684
Form 54 - linked	46				135192
Form 54 - non-linked	47				23080
Total	48		18471	18471	13536219

Long-term insurance business: Valuation summary of property linked contracts**Form 53
(Sheet 1)**Name of insurer **Friends Life Company Limited**Total business / subfund **Non Profit Fund Two**Financial year ended **31st December 2012**Units **£000****UK Pension / Gross**

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
735	Group money purchase pensions property linked	24120	562944	77155	562944	562944	5313	568257
755	Trustee investment plan	655	8693		8693	8693	12553	21245
800	Additional reserves property linked						605	605

Long-term insurance business: Valuation summary of property linked contracts**Form 53
(Sheet 2)**Name of insurer **Friends Life Company Limited**Total business / subfund **Non Profit Fund Two**Financial year ended **31st December 2012**Units **£000****UK Pension / Reinsurance ceded intra-group**

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
735	Group money purchase pensions property linked		562944		562944	562944		562944
755	Trustee investment plan		8693		8693	8693		8693

Long-term insurance business: distribution of surplus**Form 58**

Name of insurer **Friends Life Company Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2012**

Units **£000**

	Financial year	Previous year
	1	2

Valuation result

Fund carried forward	11	23599	32663891
Bonus payments in anticipation of a surplus	12	148047	144986
Transfer to non-technical account	13	74614	502275
Transfer to other funds / parts of funds	14	124763	
Subtotal (11 to 14)	15	371023	33311152
Mathematical reserves	21	18471	32507899
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	352552	803253

Composition of surplus

Balance brought forward	31	136500	20500
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	216052	782753
Total	39	352552	803253

Distribution of surplus

Bonus paid in anticipation of a surplus	41	148047	144986
Cash bonuses	42		13
Reversionary bonuses	43		19479
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	148047	164478
Net transfer out of fund / part of fund	47	199377	502275
Total distributed surplus (46+47)	48	347424	666753
Surplus carried forward	49	5128	136500
Total (48+49)	59	352552	803253

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance business: distribution of surplus**Form 58**Name of insurer **Friends Life Company Limited**Total business / subfund **Old With Profits Fund**Financial year ended **31st December 2012**Units **£000**

	Financial year 1	Previous year 2
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Valuation result

Fund carried forward	11		1099569
Bonus payments in anticipation of a surplus	12	15488	21395
Transfer to non-technical account	13	2225	2875
Transfer to other funds / parts of funds	14	4540	
Subtotal (11 to 14)	15	22253	1123839
Mathematical reserves	21		1095086
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	22253	28753

Composition of surplus

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	22253	28753
Total	39	22253	28753

Distribution of surplus

Bonus paid in anticipation of a surplus	41	15488	21395
Cash bonuses	42		
Reversionary bonuses	43		4483
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	15488	25878
Net transfer out of fund / part of fund	47	6765	2875
Total distributed surplus (46+47)	48	22253	28753
Surplus carried forward	49		
Total (48+49)	59	22253	28753

Percentage of distributed surplus allocated to policyholders

Current year	61	69.60	90.00
Current year - 1	62	90.00	90.00
Current year - 2	63	90.00	90.00
Current year - 3	64	90.00	90.00

Long-term insurance business: distribution of surplus**Form 58**Name of insurer **Friends Life Company Limited**Total business / subfund **New With Profits Fund**Financial year ended **31st December 2012**Units **£000**

	Financial year 1	Previous year 2
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Valuation result

Fund carried forward	11		4744504
Bonus payments in anticipation of a surplus	12	132559	123591
Transfer to non-technical account	13	16389	15400
Transfer to other funds / parts of funds	14	98555	
Subtotal (11 to 14)	15	247503	4883495
Mathematical reserves	21		4679495
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	247503	204000

Composition of surplus

Balance brought forward	31	50000	
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	197503	204000
Total	39	247503	204000

Distribution of surplus

Bonus paid in anticipation of a surplus	41	132559	123591
Cash bonuses	42		13
Reversionary bonuses	43		14996
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	132559	138600
Net transfer out of fund / part of fund	47	114944	15400
Total distributed surplus (46+47)	48	247503	154000
Surplus carried forward	49		50000
Total (48+49)	59	247503	204000

Percentage of distributed surplus allocated to policyholders

Current year	61	53.56	90.00
Current year - 1	62	90.00	90.00
Current year - 2	63	90.00	90.00
Current year - 3	64	90.00	90.00

Long-term insurance business: distribution of surplus**Form 58**Name of insurer **Friends Life Company Limited**Total business / subfund **Non Profit Fund One**Financial year ended **31st December 2012**Units **£000**

	Financial year 1	Previous year 2
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Valuation result

Fund carried forward	11		13283599
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		484000
Transfer to other funds / parts of funds	14	90296	
Subtotal (11 to 14)	15	90296	13767599
Mathematical reserves	21		13197099
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	90296	570500

Composition of surplus

Balance brought forward	31	86500	20500
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	3796	550000
Total	39	90296	570500

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	90296	484000
Total distributed surplus (46+47)	48	90296	484000
Surplus carried forward	49		86500
Total (48+49)	59	90296	570500

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance business: distribution of surplus**Form 58**Name of insurer **Friends Life Company Limited**Total business / subfund **Non Profit Fund Two**Financial year ended **31st December 2012**Units **£000**

	Financial year 1	Previous year 2
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Valuation result

Fund carried forward	11	23599	13536219
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	56000	
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	79599	13536219
Mathematical reserves	21	18471	13536219
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	61128	

Composition of surplus

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33	68628	
Surplus arising since the last valuation	34	(7500)	
Total	39	61128	

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	56000	
Total distributed surplus (46+47)	48	56000	
Surplus carried forward	49	5128	
Total (48+49)	59	61128	

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

Form 60

Name of insurer **Friends Life Company Limited**

Global business

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

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

Insurance death risk capital component

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				12
Classes I (other), II and IX	13	0.15%				2692
Classes I (other), II and IX	14	0.3%				56016
Classes III, VII and VIII	15	0.3%				26006
Total	16					84726

Insurance health risk and life protection reinsurance capital component

Class IV, supplementary classes 1 and 2 and life protection reinsurance	21					3870
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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%				87725
Classes III, VII and VIII (investment risk)	33	1%	18471	18471	1.00	13698
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	121768		0.85	14737
Classes III, VII and VIII (other)	35	25%				27412
Class IV (other)	36	1%				3099
Class V	37	1%				
Class VI	38	1%				
Total	39					2320

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%				263175
Classes III, VII and VIII (investment risk)	43	3%	18471	18471	1.00	41094
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	121768			
Classes III, VII and VIII (other)	45	0%	446860			
Class IV (other)	46	3%				9296
Class V	47	0%				
Class VI	48	3%				
Total	49		587099	18471		554

Long term insurance capital requirement	51					2874
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Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

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

The Financial Services Authority (FSA), on application of the firm, made a direction effective December 2012 under section 148 of the Financial Services and Markets Act 2000 (the Act). The effect of this direction is stated in notes 1322 and 1901. It was impacted by the transfer of business described in note 0212.

The FSA, on the application of the firm, made a direction in October 2008, under section 148 of the Act. The effect of the direction was to allow the firm to:

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

The holding in FAL was transferred under the Part VII transfer described in note 0212.

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

In accordance with a Direction dated 24 December 2012, the requirement of IPRU(INS) 9.3(4) that an insurer's financial year must be a 12 month period has been modified to require that the financial year commencing 1 January 2012 shall end on 27 December 2012. The Direction also required the provision of a return for the 12 month period from 1 January 2012 to 31 December 2012 and this return has been prepared for that period.

In accordance with the Direction a separate return has also been provided to the FSA with respect to the period from 1 January 2012 to 27 December 2012.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

0212 - Business transfer out

On 28 December 2012, the majority of the business of the Company was transferred to Friends Life Limited ("FLL") via a business transfer scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). The purpose of the Scheme was to align the business with the separate UK and Heritage divisions while removing solvency capital inefficiencies, constraints and taking advantage of cost synergies.

The business transfer scheme resulted in the following business being transferred out of the Company:

- All with-profit fund assets and policies to separate funds within FLL.
- All non-profit business and associated assets with the exception of £587.1m of unit linked pension business to the existing non-profit fund of FLL.
- £751.6m of shareholder fund assets to the FLL shareholder fund.

As a consequence of the transfer, many of the forms within this return are showing nil balances to represent the 31 December 2012 post transfer position. Forms and notes are still included where there are values in the prior year columns.

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

	2012	2011
	£000	£000
Grand total of admissible assets after deduction of market risk and counterparty limits – other than long term business (F13 OTLT L89)	62,000	823,203
Grand total of admissible assets after deduction of market risk and counterparty limits – long term business (F13 LT L89)	28,498	34,838,769
Mathematical reserves, after distribution of surplus (F14 L11)	(18,471)	(32,527,378)
Cash bonuses which had not been paid to policyholders prior to end of the financial year (F14 L12)	-	(13)
Total other insurance and non-insurance liabilities (F14 L49)	(4,899)	(773,014)
Total liabilities – other than long term business (F15 L69)	-	(13,745)
Total capital resources after deductions (F3 L79)	67,128	2,347,822

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

***0306* - Reinsurance arrangement contributing to Form 3 Line 92**

Until the date of the transfer described in 0212 above, Friends Life Assurance Society Limited (FLAS) provided new business financing in respect of business reinsured from FLAS to the Company. This arrangement was transferred to FLL as part of the Part VII scheme described in note 0212.

***0310* - Valuation differences**

The amounts included at line 35 on Form 3 in the current year, and line 14 in the prior year, are as follows:

	2012	2011
	£000	£000
Difference between mathematical and realistic reserves	-	1,390,970
Differences arising on the valuation of provisions, deferred income and reserves arising from the implementation of FRS 26	(18,471)	120,857
Valuation differences on tax	1,373	(66,316)
Amount due under reinsurance contract with FLAS (Note 0306)	-	44,059
Valuation differences on liabilities (Note 1405)	17,098	1,489,570

***0313* - Reconciliation of profit and loss account and other reserves to profit or loss retained**

	2012	2011
	£000	£000
Profit and loss account and other reserves brought forward	1,705,741	2,431,297
Loss retained for the financial year (F16 L59)	(874,925)	(477,732)
(Loss)/Profits recognised in the statutory accounts under the modified statutory basis retained in the long term fund for FSA reporting	(876,990)	269,597
Movement in revaluation reserve	127,465	(15,146)
Surplus arising in the long term fund transferred to other than long term fund for FSA reporting (F40 L26)	(73,396)	(502,275)
Profit and loss account and other reserves carried forward (F3 L12)	7,895	1,705,741

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

***1112* & *1212* Class IV business**

There is no class IV business remaining in FLC following the Part VII Scheme. The forms have been left in to show the previous years values.

***1301* & *1308* - Aggregate value of assets**

	2012	2011
	£000	£000
The aggregate value of:-		
(i) Unlisted investments	-	522,276
(ii) Investments which are not readily realisable	-	23,028
(iii) Units in collective investment schemes that are not schemes falling within the UCITS Directive	-	39,726

***1304* & *1310* - Amounts set off**

Certain amounts shown in Form 13 have been set off to the extent permitted by generally accepted accounting principles.

***1305* & *1319* – Maximum counterparty limits**

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

- All counterparties will have been formally approved by the Investment Manager's principal credit forum prior to a business relationship starting. In the case of the Investment Manager this is the Global Risk Committee.
- Bonds issued other than in the domestic currency (i.e. non Sterling denominated bonds) may be held but must be hedged back to Sterling currency unless the respective fund guidelines indicate that a less stringent position may apply. The hedging range will be 95 % - 105%. Any non GBP currency that is over 2% of the portfolio NAV will be alerted to the Clients.
- The minimum credit rating for fixed income securities is BBB-. The rating to consider for each corporate bond is defined as the lowest available of the credit ratings communicated by S&P, Moody's and Fitch. Where a bond is not formally rated the Investment Manager's own equivalent ratings may be used.
- Active positions taken by the Investment Manager relative to the benchmark weight (expressed as a percentage of a fund's total equity value) will not exceed the following limits unless the limits are exceeded as a result of market movements;
 - Largest 250 FTSE stocks 4.5% + 1.5% = 6%
 - Other FTSE All Share stocks 4.5% + 1% = 5.5%

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

- The maximum permitted aggregate holding across relevant UK equity funds will not exceed 10% of the free float market capitalisation (“free float”). For those the combined part of the 90:10 with profits funds managed by the Investment Manager the maximum permitted exposure is 7% of the free float.

There are no downside limits with regard to minimum holdings (versus benchmark) of equities that the Investment Manager is required to hold.

The exposure limits will not apply to holdings with “Special Status”. Similarly the limits on holdings in collective investment vehicles and investment trusts are excluded from the calculations for the constraints below given the inherent diversification properties of these vehicles.

The maximum permitted aggregate holding across all overseas equity portfolios of any single overseas equity will not exceed 4% of total market capitalisation. (Free float is not used due to there being no systematic way of monitoring this across all stocks in the overseas universe).

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

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

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

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

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

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

During 2012, there have been no breaches of the equity limits, government and sovereign fixed income assets. There were fixed income breaches, as a result of some bond downgrades.

***1306* & *1312* – Exposure at year end to large counterparties**

At the year end, there were no exposures in excess of 5% of the sum of the Insurer’s base capital resources requirement and Insurer’s long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

***1309* - Aggregate value of hybrid securities**

The aggregate value of hybrid securities included at line 46 and 48 on Form 13 is £nil (2011: £241.0m).

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

1313 - Aggregate value of certain fully secured rights

The aggregate value of fully secured rights on 31 December 2012 was £nil (2011: £404.2m).

1318 - Other asset adjustments

The amounts included at line 101 on Form 13 are as follows:

	Other than Long Term Fund		Long Term Fund	
	2012	2011	2012	2011
	£000	£000	£000	£000
Gross up of liabilities within the internal linked funds	-	-	-	(109,622)
Other gross ups	-	-	(651)	(312,365)
	-	-	(651)	(421,987)

1321 - Allocation of Assets

Non Profit invested assets are allocated to the correct fund at source. With Profits invested assets are allocated to the With Profits fund however notionally allocated between the Old With Profits and New With Profits sub-funds. This allocation is in accordance with the Scheme Document approved by the High Court in December 2000.

The apportionment of current assets and current liabilities between subfunds is also notional, rather than being allocated to the subfund in which a transaction first gave rise to the asset or liability.

All allocations are carried out by a method which preserves the correct total value of the net assets of each subfund.

1322 - Direction modifying the Accounts and Statement Rules

The FSA issued to the firm, in December 2012, a direction under section 148 of the Act. The effect of the direction is to allow the firm to include assets available to support the New With-Profits Funds in its realistic balance sheet (at line 27 of Form 19), in accordance with the firm's Reorganisation Scheme. Those assets are comprised of the amount £nil which is included at line 89 and the amount £nil which is included at line 92 of this form.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

Following the five year test performed as at 31 December 2010 consistent with FLC 2000 Court Scheme, the FLC Board subsequently approved a revised support arrangement of up to £406m conditional upon support being required by the Scheme. The shareholder's fund provides support to the extent that the Non Profits Fund is not able to meet support requirements up to £406m. In accordance with the current direction we have only shown the support assets from Non Profit Fund 1 as being available to support the New With Profits Fund. The relevant business was transferred to FLL as detailed in note 0212.

***1323* - Effect of transfer of business on Form 13**

Included in the business transferred to Friends Life Limited was all the business reported in Non Profit Fund One, New With Profits Fund and Old With Profits Fund until 27 December 2012. As a result of this, the subfund forms are blank in the current year column.

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

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

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

***1402* & *1502* - Long Term and other than long term business assets / liabilities**

a) Charges on assets

There were no charges on any of the assets of the Company.

b) Provision for capital gains tax

A capital gains tax liability of £nil (2011: £8.7m) would arise if the insurer was to dispose of all its non unit linked assets.

Current tax of nil (2011: £158.1m) would arise if the insurer disposed of its unit linked assets. In 2011 provision for this amount is included in mathematical reserves because it will be borne by the unit linked funds. In 2012 the liability is nil as the unit linked life funds have transferred to FLL under the Part VII Scheme.

c) Contingent liabilities

The Company had no contingent liabilities.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

d) Guarantees, indemnities or other contractual commitments

The Company has provided indemnity to a fellow subsidiary, Friends Life Services Limited (FLS), which acts as a distributor and third party administrator for the Company's products and services. This indemnity is provided in the event of FLS becoming insolvent, to meet and deal with any civil liability which FLS has incurred to investors (i.e. policyholders) in the course of its marketing of investments which the Company is party to. Any liability arising from the indemnity would be met with other than long term fund assets.

e) Other uncertainties

Levies are made under the Financial Services Compensation Scheme (FSCS) to compensate consumers in the event of the failure of any firm authorised under the Financial Services and Markets Act 2000. At the end of the financial year, no amounts had been provided for such levies as the proposed levies for insurance firms in 2012 are not significant.

***1405* - Other liability adjustments**

The amount included at line 74 of Form 14 is as follows:

	2012	2011
	£000	£000
Gross up of liabilities within the internal linked funds	-	(109,622)
Other gross ups	(650)	(312,360)
Valuation differences (note 0310)	(17,098)	1,489,570
	(17,748)	1,067,588

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

Prior to the transfer, the value of non-linked assets in the Old With Profits Fund decreased during the year by £11.4m (2011: £34.5m increase). For the New With Profits Fund there was an increase during the year of £178.9m (2011: £210.9m increase).

***1412* - Effect of transfer of business on Form 14**

Included in the business transferred to Friends Life Limited was all the business reported in Non Profit Fund One, New With Profits Fund and Old With Profits Fund until 27 December 2012. As a result of this, the subfund forms are blank in the current year column.

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

Income and expenditure in foreign currencies are translated to Sterling at rates of exchange current at the transaction date.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

1603 - Other income and charges

The amount included at line 21 relates to:

	2012	2011
	£000	£000
Fee rebates received	-	22
Administration fees	(100)	-
Amounts transferred to FLL in Part VII transfer	(751,473)	-

1700 - Submission of blank form

As at 31 December, the Insurer held no derivative contracts and so no Form 17 is required.

1812 and *1912* - Current period figures in Forms 18 and 19

No With Profits business remains in FLC after the transfer to FLL as described in note 0212. As a result, the current period columns in Forms 18 and 19 are blank since no realistic valuation is required.

1901 - Direction modifying the Accounts and Statement Rules

The FSA issued to the firm, effective December 2012, a direction under section 148 of the Act. The effect of the direction is to allow the firm to include assets available to support the New With Profits Fund in its realistic balance sheet (at line 27), in accordance with the firm's Reorganisation Scheme. These assets are also included in 89 and line 92 (if applicable) of Form 13 for the Non Profit Fund One and Non Profit Fund Two.

4002 - Other income and expenditure

	2012	2011
	£000	£000
Other income		
Consideration on GOF/TIP transfer	-	285,359
Rebated unit trust charges	1,884	6,872
	1,884	292,231

4004- Business transfers out

Refer to note 0212.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

***4006* - Apportionment between notional sub-funds**

The principles and methods of apportionment applied in Form 40 in respect of the long term insurance business funds are as follows:

- (i) Investment income arising from assets notionally identified to the Old With Profits, New With Profits, Non Profit One and Non Profit Two sub-funds respectively has been allocated to those sub-funds;
- (ii) The increase/decrease in the value of non-linked assets is the amount required so that the fund corresponds to the mathematical reserves.
- (iii) Commission has been allocated according to the nature of the relevant contract;
- (iv) Expenses are directly allocated to the relevant sub-fund according to the nature of individual contracts; and,
- (v) United Kingdom taxation has been allocated based on separate tax calculations for each sub-fund.

***4008* - Management services**

During the financial year ended 31 December 2012 investment management services have been provided to the Company by AXA Investment Managers UK Limited. Various other management services have been provided by Friends Life Services Limited ("FLS"), a fellow subsidiary company.

***4009* - Material connected party transactions**

During the financial year ended 31 December 2012 the Insurer carried out the following transactions which exceed 5% of the Insurer's liabilities arising from its long-term insurance business, excluding property linked liabilities and net of reinsurance ceded.

Transacting Party	Type of Transaction	Amount £000
Friends Life Assurance Society Limited	Reassurance claims paid	905,958
Friends Life Limited	Reinsurance premiums paid	170,514

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

The amount of investment income relating to linked assets in Line 12 of Form 40 for the Old With Profits Fund is £0.2m (2011: £0.2m). For the New With Profits Fund it is £1.0m (2011: £1.0m).

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

***4013* - Difference in treatment from accounts prepared under Companies Act 2006**

Financial Reporting Standard 26 has been adopted in the Insurer's accounts prepared under Companies Act 2006 ('the financial statements'). As a consequence, in the financial statements, direct written contracts which do not transfer significant insurance risk have not been accounted for as insurance contracts and no premiums or claims are recorded in respect of these contracts. However, in accordance with paragraph 8 of Appendix 9.3 of IPRU(INS), for the purpose of these returns these contracts continue to be treated as insurance. Due to this difference in treatment certain items in Form 40, Form 41 and Form 42 will not correspond with the amounts reported in the financial statements.

***4201* - Analysis of Claims**

A proportion of the claims reported in Form 42 are paid under reinsurance arrangements to Friends Life Assurance Society Limited (FLAS) which is another insurance company. The analysis of claims shown reflects the nature of the claim from the perspective of the initial insurer.

***4412* - Figures in current year column**

The current year column of Form 44 is blank since all business remaining in the company is reassured to FLL and therefore the net value of this business is £nil.

***4502* - Other income and expenditure**

The amount at line 14 relates to:

	2012	2011
	£000	£000
Rebated unit trust charges	16,290	26,177
Other	89	221
	16,379	26,398

The amount at line 26 relates to:

	2012	2011
	£000	£000
Investment management expenses	2,171	2,869
Transaction costs on investment purchases	28,734	12,595
Part VII transfer	25,066,535	37,591
	25,097,440	53,055

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

***4800* - Assets not held to match linked liabilities**

Form 48 is only populated for NPF2 subfund as this is the only subfund with business remaining after business was transferred under the Part VII Scheme.

***4804* - Yield of 'other assets'**

The assets included in lines 18 and 28 of Form 48 break down as follows:

	Market Value	Yield
	£m	%
Cash	28	0.05%

***4912* - Fixed and variable interest assets**

Form 49 is not populated as after the transfer of business under the Part VII Scheme no fixed or variable interest assets are required to meet liabilities. This is consistent with form 48.

***5112* - Non-linked contracts**

Form 51 has been omitted from the return as all non-linked contracts previously within the Company which gave rise to the need to prepare these forms was transferred under the Part VII Scheme.

***5200* - Accumulating with-profits contracts**

Form 52 has been omitted from the return as all accumulating with-profit contracts previously within the Company which gave rise to the need to prepare these forms was transferred under the Part VII Scheme.

***5300* - Property-linked contracts**

Form 53 is only populated for NPF2 subfund as this is the only subfund with business remaining after business was transferred under the Part VII Scheme.

***5400* - Index-Linked contracts**

Form 54 has been omitted from the return as all index-linked contracts previously within the Company which gave rise to the need to prepare these forms was transferred under the Part VII Scheme.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2012**

NOTES TO THE RETURN

***5500* - Omission of Form 55**

The company did not have any internal linked funds at the date of the return, therefore inclusion of Form 55 is not required.

***5712* Analysis of valuation rate**

As the amount of non-linked business within the company is £18.5m it is not required to be completed.

***5802* Transfer to and from other funds**

£99m has been transferred from the Friends Life Company New with-profit (FLC NWPF) fund into Friends Life Limited New with-profits fund (FLL NWPF). This is composed of £15m to meet the Reversionary bonus and £84 of surplus carried forward £5m has been transferred from the Friends Life Company Old with-profit (FLC OWPF) fund into Friends Life Limited Old with-profits fund (FLL NWPF) to meet the reversionary bonus. £21m has been transferred from Friends Life Company non-profit fund 1 (FLC NPF1) into the Friends Life Limited non-profit fund (FLL NPF) for surplus carried forward. There has also been an internal fund transfer of £69m from the Friends Life Company non-profit fund 1 (FLC NPF1) to Friends Life Company non-profit fund 2 (FLC NPF2). The Company position will be shown net of this transfer to avoid double counting.

***5803* Distribution of surplus**

The established percentage of surplus distributed to policyholders in the New and Old with-profits funds is 90%. Due to the with-profits business being transferred under the Part VII reversionary Bonus will be met from moneys transferred to Friends Life Limited. This amounts of £5m and £15m has not been taken into account in the calculation of the current year percentage of distributed surplus to policyholders. A further £84 in the New with-profit fund which would have been surplus carried forward has been transferred out to Friends Life Limited. Had these been taken account of the percentage of distributed surplus to policyholders would have been 90%.

***6001* - Insurance health risk and life protection reinsurance capital component**

There is no class IV business or life protection business in force at 31 December 2012.

***6002* - Reconciliation with Form 50 and Form 58**

The net reserves included in line 49 column 6 of Form 60 do not reconcile with the sum of Form 50 Line 48 column 5, Form 58 Line 43 column 2 and Form 14 line 11 column 2. This is due to the reinsurance of annuity reserves to FAL (the intra-group ISPV). The net reserves in FAL (£3,918.5m) are recaptured in Form 60 for the purpose of calculating the reinsurance ratio in accordance with INSPRU 1.1.92A.

Name of Insurer: **Friends Life Company 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 Company Limited (FLC) (formerly AXA Sun Life Plc)
FAL	denotes	Friends Annuities Limited (formerly AXA Annuity Company Limited)
FLAS	denotes	Friends Life Assurance Society Limited (formerly Sun Life Assurance Society Plc)
FLS	denotes	Friends Life Services Limited (formerly AXA Sun Life Services Plc)
FLWL	denotes	Friends Life WL Limited (formerly Winterthur Life UK Limited)
FLL	denotes	Friends Life Limited (formerly Friends Provident Life and Pensions Limited)

Part VII transfers out of the Company on 28 December 2012

All business (except unit-linked pension policies on the Embassy platform) formerly written by or reinsured to FLC was subject to a Part VII transfer out of the Company as follows:

- business formerly in the FLC Old With Profits Fund was transferred into the FLL FLC Old With Profits Fund
- business formerly in the FLC New With Profits Fund was transferred into the FLL FLC New With Profits Fund
- business formerly in the FLC Non Profit Fund 1 and the FLC Non Profit Fund 2 was transferred into the FLL Non Profit Fund

FLC's shares in FAL were transferred to the FLL Shareholder Fund, making FLL the sole owner of FAL.

The information in this report in respect of the year to 27 December 2012 also relates to business that was subject to the Part VII transfer to FLL on 28 December 2012.

Internal reinsurance arrangements as at 31 December 2012

There are two reinsurance arrangements that allow access to FLWL and FLL unit-linked funds.

1. Valuation date

- (1) The actuarial investigation relates to a valuation date of 31 December 2012.
- (2) The valuation date of the previous investigation was 31 December 2011.
- (3) There was an interim valuation on 27/12/2012 (for the purpose of IPRU(INS) rule 9.4).

2. Changes to product range in 2012

There were no changes to product range during the year, but following the Part VII transfer the only products in the company are unit-linked corporate pensions.

3. Discretionary charges and benefits

(1) Application of Market Value Reduction

During 2012, a Market Value Reduction (MVR) was applied on discontinuance (where permitted, and subject to relevant minima) in respect of the following unitised with profits products effected in the policy years set out below.

Product Description	Period That MVR Applied		Policy Dates of Entry
	From	To	
Dollar offshore bonds	01/01/2012	27/12/2012	2005-2006
Euro offshore bonds	01/01/2012	27/12/2012	2001-2002 & 2005

For Bonds, MVR rates vary by quarter of entry. For some quarters in the above years, MVR adjustments did not apply.

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

Individual Lifetime Care Plans

The mathematical reserves, net of reinsurance, held for this business at the 27 December 2012 prior to Part VII to FLL were £194m.

All reviewable contracts that reached a review date in 2012 have been reviewed, this totalled £98m of net mathematical reserves as at 27 December 2012 prior to Part VII to FLL. The reviewability of a policy is determined by the following conditions:

- Contracts written prior to 1 September 1994 may be reviewed at any time.
- For contracts written after 1 September 1994 but before 1 July 1996, the first review will take place after 10 years with subsequent reviews taking place annually;
- For those written after 1 July 1996 but before 1 May 2003, the first review will take place after 10 years with subsequent reviews being 5 yearly;
- For contracts written after 1 May 2003, the reviews will take place every 5 years.
- For single premium contracts written after 19 June 2000 (or with application date after 1 June 2000) but before 1 May 2003, no reviews will take place after age 70;
- For single premium contracts written after 1 May 2003 no reviews will take place after age 85;
- For regular premium contracts written after 19 June 2000 (or with application date after 1 June 2000) no reviews will take place after age 89.

At review policyholders are given, as appropriate, options of amending premium amounts to maintain the current benefit level, or selecting an equivalent amendment to the benefits under the contract. The following tables provide “quoted” premium changes for policies where a policy review initiated during 2012.

Reviews during 2012

4455 reviews were initiated during 2012.

227 of these were “first reviews”, typically falling 10 years after a policy was sold. First review results were as follows:		
Favourable: 1 (0.4%)	Neutral: 0	Unfavourable: 226 (99.6%)
Largest premium increase:	193% (regular premium), 150% (single premium)	
Largest premium decrease:	2% (regular premium)	

4,228 were “subsequent reviews”, as many policies continue to be reviewable after the first review. Results of the subsequent reviews were as follows:		
Favourable: 1847 (43.7%)	Neutral: 2276 (53.8%)	Unfavourable: 105 (2.5%)
Largest premium increase:	47% (regular premium), 34% (single premium)	
Largest premium decrease:	57% (regular premium)	

It should be noted that the premium increase option quoted may not have been chosen in all cases.

It is also worth noting that a fairly significant number of contracts were subject to quinquennial reviews after the expiry of their initial 10 year premium/benefit guarantee. Many of these experienced their first “subsequent review” in 2012 having last been reviewed in 2007. The largest increases and decreases at “subsequent review” arise from these quinquennial reviews (i.e. the largest increases and decreases upon “subsequent review” represent 5 years of change, not just 1 year of change).

For neutral or favourable reviews there was often no change to premiums quoted, instead the benefits under the contracts remained the same or increased.

Individual Critical Illness and Individual Permanent Health Insurance

The premiums for these contracts can be reviewed at any time. However, no reviews took place in 2012 and there is currently no intention to review these products in the future.

The total mathematical reserves for this business as at 27 December 2012 prior to Part VII to FLL were £5.3m.

Friends Life Protection Account

The first review takes place after 5 years. Subsequent reviews then take place annually, unless the premium changes as a result of the review in which case the premium is then guaranteed for a further 5 years.

The outcome of the review is determined by the following conditions:

- If the review shows a premium reduction of more than 10%, the premium is automatically reduced.

- If the review shows a premium increase of more than 10%, the default option is to increase the premium, but the policyholder has the option to reduce the sum assured and keep the premium unchanged.
- If the review outcome would mean that the premium increase/decrease would not exceed 10%, no change is made to the premium.

The mathematical reserves, net of reinsurance, held for this business at the 27 December 2012 prior to Part VII to FLL were £(0.1)m.

4122 contracts reached a review date in 2012 and the net mathematical reserves for these contracts totalled £(0.07)m as at 27 December 2012 prior to Part VII to FLL. The premiums on 57 of these policies reduced by an amount in the range 10% to 23%. The premiums on the other 4065 policies did not change because the increase/reduction was within +/- 10% of the current premium.

(3) Non-profit deposit administration benefits

The average annualised rate of interest added to non-profit deposit administration benefits during 2012 was:

Period		Rate of Interest
From	To	
01/01/2012	27/12/2012	1.06%

This rate was before deduction of the rate of annual fund management charge relevant to the policy.

(4) Service charges on linked policies

Service charges for unit-linked policies changed as follows during 2012 or with effect from 1 January 2013:

No change:

Low-cost Homebuyers Plan
Multivestor
Unit-linked pensions (except where described below)

Increase of approximately 3.2% (in line with Retail Prices Index to July 2012):

Flexible Pensions (except paid-up pensions)
Health Care Income Plan
Multiplan

Increase of approximately 2.6% (in line with Retail Prices Index to September 2012):

Flexible Cover Plan
Flexible Mortgage Plan

Increase of approximately 3.2% (in line with Retail Prices Index to October 2012):

Individual Lifetime Care Bond

Increase in line with Retail Prices Index dependent on policy anniversary date:

Homebuyers' Investment Plan

Increase of approximately 1.5% (in line with Average Weekly Earnings Index to July 2012):

Private pension funds

(5) Benefit charges on linked policies

Multipension

During 2012, the mortality charges on these policies were reviewed. The total reserves net of reinsurance for these products at the 27 December 2012 prior to Part VII to FLL were £2,472m.

The impact of the review generally resulted in a decrease in mortality charges of 15% for males, although for some males the reduction was less, and for females there was no change at all. Thus for individual policies, charges either remained static or reduced by 15%.

Other products

No other changes to mortality or morbidity charges for unit-linked policies took place during 2012.

(6) Fund management charges

During 2012, the net annual management charge (the fund charge after rebate) was changed for the following funds:

Fund	Net Annual Management Charge		Fund size at 27/12/2012 £000
	Old	New	
Baillie Gifford	0.40%	0.25%	17
Fidelity	0.80%	0.40%	60,000
Kames	1.00%	1.25%	8,000
MFS Meridian	0.80%	0.85%	97,000

There are no notional charges to accumulating with profits policies.

(7) Unit pricing methods

Funds other than Group Managed Funds and Ex-PPP Lifetime Care Funds

For each fund other than Private Funds, asset prices are normally obtained at 2 pm on each business day. For funds which invest in external OEICs, the assets are valued by the OEIC provider and the latest published prices available are used. Private Funds are valued less frequently – usually monthly or quarterly for large Funds and yearly for small Funds.

The assets are normally valued on a creation basis (i.e. the price at which assets could be bought), unless it is known that there is a net outflow, in which case the assets are normally valued on a cancellation basis (i.e. the price at which assets could be sold). However, judgement is exercised by the Company as to which basis to use, or whether to use an intermediate basis, depending on the expected trend of net inflows and outflows, to ensure fairness to incoming, outgoing and continuing unit holders. In each case allowance is made for dealing costs, accrued income and any tax implications.

The creation or cancellation price, as appropriate, is then calculated by dividing the net asset value by the number of units.

If a creation price basis is being used, the offer price is derived by multiplying the creation price by an offer price factor, with an adjustment for fund management charges. If a cancellation price basis is being used, the offer price is derived by multiplying the cancellation price by an offer price factor, with an adjustment for fund management charges. The bid price is the resulting offer price multiplied by the reciprocal of the offer price factor.

For funds with a 5% bid-offer spread, the offer price factor is 100/95. For funds with no bid-offer spread, the offer price factor is 1.

Except for switches, units are allocated to a policy at offer price and cancelled at bid price.

Normally, for new business and payment of regular premiums for existing business, the price used is on a historic basis, i.e. that derived from the asset valuation at 2 pm on the previous business day. For all other transactions the price used is on a forward basis, i.e. that derived at 2 pm on the same day, except for certain switches, where the price used is that derived at 2 pm on the following day. For Premium Select Bond, all transactions into or out of the externally managed funds are priced on a forward basis.

Notwithstanding the normal rules as described above, the policies give the right in certain circumstances to defer transactions for up to one month (or up to six months for Property Fund units). At the end of such periods of deferral the unit prices used in such deferrals will be those determined immediately following such period.

Group Managed Funds

For each group managed fund, unit prices are calculated once a week (the “dealing” day). Ordinarily the dealing day is on a Thursday, but at month ends it is the last business day of the month whilst at the beginning of April it is on the fifth (or equivalent business day). On the dealing day asset prices are normally obtained at close of business on that day. For each fund unit prices are obtained by dividing the middle market prices of the underlying assets by the number of units, with an adjustment for fund management charges.

All purchases and sales of units (including switches) take place at the unit prices adjusted upwards for the average expenses of purchase or downwards for the average expenses of sale. These expenses are based on actual dealing costs and are regularly reviewed. Adjustment may also be made on account of income accrued but not received and expenses incurred but not paid (including provision for any potential liability for tax or other statutory payments).

Ex-PPP Lifetime Care Funds

For internal linked funds available to the Individual Lifetime Care Bond and the Money Market Fund available to the Triple Bonus Bond, prices are determined on a daily basis. For the Balanced Fund available to the Special Investment Bond, unit prices are determined on the first working day of the month.

The Money Market Fund and the Long Term Care Deposit Fund are invested in short term deposits and cash. The remainder of the unit funds are directly invested in unit trusts.

The assets are normally valued on a creation basis (i.e. the price at which assets could be bought), unless it is known that there is a net outflow, in which case the assets are normally valued on a cancellation basis (i.e. the price at which assets could be sold). However, judgement is exercised by the Company as to which basis to use, or whether to use an intermediate basis, depending on the expected trend of net inflows and outflows, to ensure fairness to incoming, outgoing and continuing unit holders.

Units are created or cancelled within each fund at the valuation bid price. This price is determined by taking the value of unit trust units and adjusting for any allowance for distributed income notified but not paid, any associated tax credits, and any investment management charges. This total fund value is divided by the number of units.

Units are purchased by the fund from policyholders at the bid price, which is calculated as the valuation bid price rounded to the lower 0.1p. Units are sold to policyholders at the offer price that is calculated as the bid price multiplied by 100/95 and rounded to the higher 0.1p.

The unit trust assets are valued using the creation price or cancellation price set by the underlying unit trust company on the day of valuation. In general these prices are set at or around 12.00 noon. On any given day the Company deals at the internal prices calculated at the next public valuation which is at 5.00pm.

(8) Tax deductions from unit-linked fundsLife Funds

Tax is provided for on realised capital gains at a rate of 20% immediately on realisation. For this purpose, one-seventh of the unrealised gains in the period on collective investment schemes is treated as a realised capital gain. The tax due is withdrawn from the funds annually after the end of the financial accounting period.

Provision is made in the unit pricing for the potential tax liability on unrealised gains (including gains on collective investment schemes that are not treated as realised gains) at a rate of 20% for funds priced on a bid basis and at a discounted rate for some offer basis funds. No money is removed from the funds in respect of these provisions.

Both realised and unrealised capital gains include an allowance for indexation. Tax is provided for in the unit prices on a daily basis.

Tax relief for losses is given if there are sufficient gains within the same investment fund against which to offset the loss. If there are insufficient gains then the losses are carried forward within the same fund to be utilised at a later date. Credit may be given in the unit price for losses (realised and unrealised) carried forward within the funds at rates of up to 10% (dependent on the amount of losses relative to the value of the fund and the pricing basis of the fund).

Other Funds

The only other funds are pension business, where no tax on capital gains is payable.

(9) Tax provisions for unit-linked funds

See section 3.(8).

(10) Discounts on purchases of units

The arrangements in place with the fund managers allow for unit purchases and sales to be transacted at their creation or cancellation prices respectively. The Company receives no commission payments for unit trust purchases.

An arrangement is in place with certain fund managers whereby Friends Life receives a rebate on the annual management charge levied by the underlying unit trust. Where this is the case, part of the discount received from the fund manager may be retained by the Company. In most other instances, discounts and rebates accrue to the benefit of the policyholders.

Please see the following table for further information on where rebates are allocated:

Fund manager	Discount on Initial Charge %	Discount on Management Charge for benefit of policyholders %	Discount on Management Charge for benefit of the Company %
Aberdeen Asset Management	4.00 - 4.25	0.75-0.90	

Fund manager	Discount on Initial Charge %	Discount on Management Charge for benefit of policyholders %	Discount on Management Charge for benefit of the Company %
Allianz	4	0.875-0.900	
Architas Multi-Manager	4.00 - 5.00	0.5-1.3	
Artemis Fund Managers Ltd	5.00 - 5.25	0.50-0.75	0.0-0.1
Aviva Investors	4.50 - 5.00	0.5	0.07-0.125
AXA	5.25 - 5.50	0.45-1.10	
AXA Framlington	5.25 - 5.50	0.55-0.87	0.000-0.005
Baillie Gifford	1	0.0-0.05	
Barclays Investor Services	4	0.5-0.7	
BlackRock	5	0.00-0.87	0.00-0.18
Cazenove	5	0.75	
CF Danske	3.75	0.625-0.750	
CF Miton	5	0.7-0.8	
Close	3	0.5	0.08
EFA	4.20 - 5.00	0.5-0.6	
F & C	5	0.6	0.00-0.15
Fidelity	3.50 - 5.25	0.300-0.625	0.00-0.25
First State Investment Ltd	4	0.05-0.75	
Franklin Templeton Investment Ltd	5	0.75-0.80	
Hargreaves Lansdown	5	0.50-0.65	0.00-0.15
Henderson	4.25 - 5.25	0.50-0.75	0.000-0.005
HSBC	Up to 4.00	0.625-0.750	
IFSL Sinfonia	5.5	0.75	
Ignis	4.25	0.55	
Insight	4	0.75-0.85	
Invesco Perpetual Fund Managers Ltd	5	0.30-0.75	0.00-0.15

Fund manager	Discount on Initial Charge %	Discount on Management Charge for benefit of policyholders %	Discount on Management Charge for benefit of the Company %
Investec	4.5	0.625-0.750	0.00-0.15
JP Morgan	Up to 5.50	0.030-0.750	0.000-0.005
Jupiter Unit Trust Managers	4.00 - 5.50	0.50-0.75	0.000-0.005
Legg Mason Investments	4.25	0.75	
M & G	4.00 - 5.00	0.150-0.775	0.000-0.005
Margetts	4	0.50-0.75	
Neptune	5	0.8	0.00-0.08
Newton	3.00 - 4.00	0.55-1.20	0.00-0.05
Old Mutual	3.50 - 4.00	0.50-0.75	0.0-0.1
Psigma	5.25	0.72-0.75	
River & Mercantile	5	0.6	
Sarasin	5	0.1-1.0	
Schroders Investments Ltd	3.25 - 5.25	0.15-0.90	
Standard Life Investments Ltd	3.00 - 4.00	0.475-0.800	
Threadneedle Asset Management Ltd	Up to 3.75	0.50-0.85	0.00-0.05
UBS	4	0.9	

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

4. Valuation basis (other than for special reserves)

The valuation bases set out in section 4 relate only to business remaining in FLC at 31 December 2012. The valuation task for the other business which transferred out of FLC on 27 December did not deviate materially from that disclosed in the FSA Return at 31 December 2011, other than in respect of changes in economic conditions.

(1) Valuation methods

General principles and methods used in the valuation

The valuation bases have been determined with regard to the nature and the term of the assets available to meet the liabilities valued.

The reserves were determined on a prudent basis in accordance with actuarial principles, taking account of the underlying nature of the contracts.

Full allowance has been made in the valuation for the effects of the ceding of premiums and risk under the various reinsurance arrangements in place at the valuation date.

A provision has been made to cover the possibility of default by the internal and external reinsurers.

Unit-linked Business

For each unit-linked policy the gross reserve is the sum of:

- (i) the value of units allocated at the valuation date, discounted, in the case of capital units and certain accumulation units subject to a discontinuance charge, at a rate not exceeding the rate of future annual management charge or other periodic charges; and
- (ii) a non-unit reserve.

For each individual policy the non-unit reserve is determined by discounting the expected future net cash flow determined on a set of assumptions relating to mortality, interest, expenses and future unit prices. Unit prices are assumed to grow from the prices calculated on the valuation date. Regard is had in the calculations to present and future discontinuance values under each policy so that the total reserve for each policy is adequate for the discontinuance value to be met at any time.

A prudent allowance for future voluntary discontinuance has been made.

For classes where it is prudent to do so (some group pensions business), the payment of future premiums is ignored in determining the non-unit reserve.

For Healthcare Income Plans an additional reserve is held for unexpired morbidity charges, for claims assumed to be incurred but not yet reported and for current claims in payment.

(2) Valuation interest rates

	31 December 2012 %	31 December 2011 %
<i>Non Profit Business written in NP funds</i>		
Unit-linked pensions	0.50	2.40

(3) Risk adjustments to yields

This section is not applicable as cash equivalent investments are used to back the liabilities.

(4) Mortality

Product group	31 December 2012		31 December 2011	
	Males	Females	Males	Females
Group Pensions	90.91% AM80 ult	90.91% AF80 ult	90.91% AM80 ult	90.91% AF80 ult

(5) Morbidity

This section is not applicable as the only business within the company is pension unit linked business.

(6) Expenses

Gross annual per policy expense levels assumed for specified products are set out below.

At 31 December 2012, for unit-linked business, the actual unit costs of Friends Life Services Limited (uplifted by 5% (2011 5%) to provide a margin for prudence) have been allocated as 65% (2011 65%) attributable and 35% (2011 35%) non-attributable, with the non-attributable expenses being covered by profits emerging from the unit-linked business.

During 2012 additional fees were charged to the Life Company where Friends Life Services Limited had incurred costs in respect of exceptional projects. Allowance is made in the reserves for future additional fees in respect of the transition of policies off the Embassy system, the migration of IT support services from AXA systems, and future Solvency II implementation costs.

Product	Product codes	31 December 2012 £ p.a.	31 December 2011 £ p.a.
<i>Unit-linked</i>			
Group pensions (regular premium)	735	130.43	116.24
Group pensions (single premium)	735	65.22	58.12

Where different expense assumptions apply to groups of policies within the above product types, the assumption shown is that relating to the largest group by number of policies at 31 December 2012. Paid-up policies have been treated as single premium, as the expense assumptions are the same for these groups.

The assumed gross investment expenses are the following percentages of fund size:

Pensions business 0.19% p.a.

(7) Inflation rate and unit growth rates

The future inflation rate assumed in the valuation is 3.20% per annum.

For expenses excluding Diligenta costs, expense inflation is assumed to be 4.20% per annum. For outsourced administration costs, these rates are reduced by 0.5%.

The unit growth rates assumed in the calculation of non-unit reserves for unit-linked business are:

Pensions business 3.40% p.a.

(8) Future bonus rates

This section is not applicable as the only business within the company is pension unit linked business.

(9) Lapse, surrender and conversion to paid-up

The following average annual rates of lapse, surrender and conversion to paid-up have been assumed:

Product		Average lapse / surrender /paid-up rate for the policy years			
		1-5 % p.a.	6-10 % p.a.	11-15 % p.a.	16-20 % p.a.
UL group. pension regular premium	PUP	0	0	0	0
UL group pension regular premium	surrender	See note 1.			

1. The surrender rates used for UL pension products vary between term gone and term-to-go. It is not representative to combine the rates for these different products in the format required.

Where different persistency assumptions apply to groups of policies within the above product types, the assumptions shown relate to a group which represents more than 50% of the total reserves for the product type.

For classes where it is prudent to do so (mainly group pensions business), the payment of future premiums is ignored in determining the non-unit reserve. Other than this, no allowance is made for conversion to paid-up.

(10) Other material assumptions

There are no assumptions not stated elsewhere that are considered to be material to the results of the valuation.

(11) Derivative contracts

This section is not applicable.

(12) Impact of changes in valuation rules effective from 31 December 2006

No additional changes have been made since the previous valuation.

5. Options and guarantees

This section is not applicable as no additional explicit reserves are held for options and 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 implicit and explicit reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is £1.7m, after allowing for expenses recovered through the internal reinsurance arrangements. The amounts arising from each of the implicit allowances, explicit allowances for investment expenses, explicit allowances for other maintenance expenses and the non-attributable expenses are shown in the table below:

Homogeneous risk group	Implicit allowances £m	Explicit allowances (investment) £m	Explicit allowances (other) £m	Non-attributable expenses £m	Total £m
Unit-linked business	0	0.0	1.1	0.6	1.7
Total	0	0.0	1.1	0.6	1.7

Renewal commission is not included in these amounts.

(2) Implicit expense allowances

There are no implicit allowances for expenses.

(3) Comparison with Form 43

The introduction of Financial Reporting Standard 26 in 2006 requires initial transaction costs on assets to be shown as investment expenses in the statutory accounts and, these expenses, amounting to £30.4m, have been included in line 14 of Form 43. The valuation implicitly assumes that there will be no future asset turnover, so no allowance is made for expenses of this nature.

During 2012, additional fees of £146.7m were charged to the Life Company where Friends Life Services Limited had incurred costs in respect of exceptional projects.

After allowing for initial transaction costs on assets and project costs, the amount of maintenance expenses (£117.4m) included in line 14 of Form 43 is higher than the expense loadings (£1.7m) disclosed in section 6.(1) above. The large discrepancy is due to the Part VII transfer of the majority of the business from FLC to FLL on 28 December 2012, however there is a prudent allowance for expenses for the business remaining.

(4) New business expense overrun

There is a £6m allowance to cover the potential new business strain of writing new increments into FLC during 2013.

(5) Maintenance expense overrun

Actual expenses and commission have been estimated for 2014 if the Company ceased to transact new business on 1st January 2014. Estimated expenses in 2014, on this basis, are less than the loadings expected from in-force business in 2014 and therefore no additional reserve is required.

(6) Non-attributable expenses

At 31 December 2012, valuation expenses for unit-linked business were split between attributable and non-attributable expenses. The attributable expenses were allowed for in the calculation of the non-unit reserves on unit-linked business. The non-attributable expenses were compared to future profits expected to emerge from the unit-linked business, and no additional reserve was deemed necessary.

All other expenses have been treated as attributable.

7. Mismatching reserves

(1) Analysis of reserves by currency

The mathematical reserves in respect of liabilities denominated in sterling (other than liabilities for property linked benefits) amount to £18.5m. An analysis by currency of the matching assets is set out in the following table.

Currency of asset	Value of assets £m
Sterling	18.5
Total	18.5

(2) Other currency exposures

There are no mathematical reserves in respect of liabilities denominated in currencies other than sterling.

(3) Currency mismatching reserve

There are no mathematical reserves in respect of liabilities denominated in currencies other than sterling.

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

- a fall in the market value of equities of 10%;
- a fall in real estate values of 20%; and
- a fall in yields on all fixed interest securities of 0.50% p.a.

(5) The most onerous of the scenarios specified by INSPRU 3.1.23R was:

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

- (i) The amount of the resilience capital requirement is £0m.
- (ii) The long term insurance liabilities increased by £0m.

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

Based on an analysis of expected cash inflows from assets held and future regular premiums and expected cash outflows from insurance liabilities as they fall due, it is believed that the assets held to cover the technical provisions and other long-term insurance liabilities are of a sufficient amount, and of an appropriate currency and term, to ensure that the cash inflows will meet the expected cash outflows without requiring any additional reserve.

8. Other special reserves

The following special reserves exceed £18,500 (0.01% of total reserves):

Reinsurance Default Provision

A provision is held within FLC to cover the risk of default on external reinsurance arrangements. This provision is calculated as a fixed percentage on the external reinsurance. The percentage as of 31 December 2012 is 0.2%.

At 31 December 2012, a provision of £605,396 was held in respect of FLC external reinsurance arrangements.

Embassy migration costs

A reserve of £5m is held to cover short term costs relating to the Embassy platform.

New business strain

A reserve of £6m is held to cover new business strain anticipated in 2013. Any future strain beyond 2013 would be met by FLL

9. Reinsurance**(1) Facultative reinsurance to reinsurers not authorised in the UK**

During 2012 no reinsurance business was ceded on a facultative basis to reinsurers not authorised to carry on insurance business in the UK.

(2) Reinsurance treaties

Details of reinsurance treaties under which the Company is the cedant and either the premiums payable to the reinsurer during 2012 or the reduction in mathematical reserves in respect of the reinsurance exceed £18,500 (0.01% of total reserves) are contained in the following table.

Reinsurer	Nature and extent of cover	Premiums payable during 2012 £m	Whether treaty closed to new business	Reduction in mathematical reserves £m
Unit Reassurance	Linked benefits where the member has chosen to invest in the funds of the below companies on a 100% quota share basis: Friends Life WL Limited Friends Life Limited	92.3 170.5	No	400 170.5

In respect of the above treaties:

- No amounts have been deposited under any deposit back arrangements.
- There are no undischarged obligations of the Company other than outstanding reinsurance premiums.

Friends Life Limited and Friends Life WL Limited are both connected with the Company.

The Company has credit risk exposure to each of the above reinsurers. The exposure does not exceed internal exposure limits, taking account of the rating of each reinsurer. A separate reserve is held in respect of the business reinsured to FLWL of the possibility of default of external FLWL reinsurance counterparties.

There are no legal disputes at the present time in connection with the Company's reinsurance treaties, and it is not believed that these treaties present any material legal risk or other risks.

No provision is made for the liability of the Company to refund any amounts of reinsurance commission in the event of lapse or surrender of contracts, as in each case the amount of such refund is less than the amount of premium refundable, if any, by the reinsurer.

10. Regular bonus

This section is not applicable as the only business within the company is pension unit linked business.

Name of Insurer **Friends Life Company Limited**

IPRU (INS) RULE 9.29 - STATEMENT ON DERIVATIVE CONTRACTS

Financial year ended 31 December 2012

a) Investment Guidelines

Investment guidelines operated by the Company during 2012 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. Derivatives can only be used to the extent that they are replicating a similar economic effect which would otherwise be achieved by selling existing assets or using cash in the portfolio to fund the purchase of permitted assets.

The guidelines restrict the investment in derivative contracts to specified exchange traded derivatives on a limited number of markets, forward foreign exchange contracts, interest rate swaps, credit derivatives, contracts for differences, over the counter equity options and inflation rate swaps. Derivatives instruments which are not listed above may be entered into on a case by case basis with prior approval from the Company. Derivatives may only be used when the Investment Manager, in consultation with the Company, is satisfied that their usage meets all the necessary regulatory requirements. Where any doubt arises over the proposed use of a derivative, the Chief Investment Officer is contacted and clarification sought prior to executing the proposed derivative contract.

The counterparties through whom such transactions can be made are restricted, as are the counterparty exposures that may be built up using derivatives. Prudent limits have also been set to the extent to which derivatives may be used within a given portfolio. Derivatives must not be used to gear the portfolio.

All derivatives held by the Company were transferred to Friends Life Limited following the Part VII transfer which took place on 28 December 2012. Therefore the Company did not hold any derivative contracts as at 31 December 2012.

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 the contract is entered into, reasonably likely to be exercised.

c) Use of derivatives not likely to be exercised

During the year, no contracts were entered into which were not, at the time of entry, reasonably likely to be exercised.

d) No other instrument, whether it be a derivative or an instrument of similar nature was used which required a significant provision under INSPRU 3.2.17R, or where appropriate, did not fall within the definition of a permitted derivative contract.

- e) There were no rights granted under derivative contracts, or instruments of similar nature, for which fixed consideration was received by the Company during the year.

Name of Insurer **Friends Life Company Limited****IPRU (INS) RULE 9.30 - STATEMENT OF CONTROLLERS OF FRIENDS LIFE COMPANY LIMITED**

As at 31 December 2012

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

Name of Insurer **Friends Life Company Limited**

IPRU(INS) RULE 9.36 - STATEMENT OF INFORMATION ON THE ACTUARY APPOINTED TO PERFORM THE WITH-PROFITS ACTUARY FUNCTION

Peter Jonathan Shelley performed the with-profits actuary function up to the date of his retirement on 27 December 2012. He was requested to furnish the insurer with particulars specified in Rule 9.36 of the Interim Prudential Sourcebook for Insurers and the Company Secretary of Friends Life Group plc has confirmed that the information below is correct.

1. Shares

Mr Shelley had no interest in the shares of the insurer or the insurer's group.

2. Remuneration

In respect of 2012 Mr Shelley received management remuneration and other benefits (other than pension contributions) to the value of £136,729.81.

3. Pension contributions

Up to the date of his retirement, Mr Shelley was a contributing member of the defined contribution Friends Pension Plan.

Michael Robert Kipling performed the with-profits actuary function from 28 December 2012 to 31 December 2012. He was asked to provide particulars specified in IPRU(INS) Rule 9.36 and the following details for the full year to 31 December 2012 have been furnished pursuant to that request.

- (a) At 31 December 2012, as a result of his participation in the Share Incentive Plan, Mr Kipling had a direct interest in 818 ordinary shares of no nominal value in the ultimate parent Company, Resolution Limited.

In addition, he has an interest in 25 units of the Friends Life Group plc Long Term Incentive Plan (LTIP), operational details of which are included in the accounts of the ultimate parent Company, Resolution Limited.

He had no interest at any time during the year in any shares in, or debentures of, the Company or its subsidiaries.

- (b) Mr Kipling was a member of a defined contribution pension scheme up to 31 March 2012.

- (c) The aggregate amount of remuneration and value of other benefits received by Mr Kipling during 2012, excluding contributions to the defined contribution pension scheme, was £319,925.33.

His other pecuniary benefits receivable are provided under the standard terms and conditions of the Group's permanent health insurance scheme.

Name of Insurer **Friends Life Company Limited**

CERTIFICATE OF THE MONITORING BOARD OF FRIENDS LIFE COMPANY LIMITED

Financial Year Ended 31 December 2012

1 Overall Conclusion

- (a) The Monitoring Board, having been advised by the Monitoring Actuary, hereby certifies pursuant to paragraph 2(b) of Part VII of Schedule 3 to the Scheme (see note 1) that from 1 January 2012 to 27 December 2012 ('the period'), the Old With Profits Fund (OWPF) of Friends Life Company (formerly AXA Sun Life Plc) (FLC) was managed in a manner that was consistent with the Scheme.

2 Detailed Conclusions

- (a) The Monitoring Board is satisfied that:

- (i) the operation and management of the sub-funds in the period, and
- (ii) the reassurance into the OWPF from the New With Profits Fund of FLC (NWPF) of new with profits business written by FLC during the period was performed in accordance with the Scheme.

- (b) The Monitoring Board has reviewed:

- (i) the investment policy of the OWPF during the period (the equity backing ratio having been above that of the median of the companies which FLC could reasonably determine as 'Peer Companies' as at the end of 2011, the latest available date for information)
- (ii) the bonus policy of FLC in respect of policies allocated to the OWPF during the period (during which bonus rates, including rates of Reorganisation Bonus, on policies allocated to the OWPF were identical to those on identical policies allocated to the NWPF),
- (iii) the volumes, mix and terms of new business which was written in or reassured in the OWPF during the period, and
- (iv) the surrender terms applied in the period to policies allocated to the OWPF

and is satisfied that none of those items have been managed by FLC in a way prejudicial to the reasonable expectations of holders of 'Monitored Policies'.

3 Financial Support from the Non Profit Funds (NPF) of FLC

- (a) The need for financial support for the OWPF and for the NWPF was assessed by FLC at 1 January 2012 in accordance with paragraph 21.3 of the Scheme. No financial support was required by the OWPF or by the NWPF.
- (b) The solvency on both a regulatory and a realistic basis of the OWPF and of the NWPF were assessed by FLC throughout the period. No financial support was required by the OWPF or by the NWPF.

The Monitoring Board is satisfied that these assessments in paragraphs 3 (a) and 3 (b) were made by FLC in accordance with the provisions of the Scheme.

Name of Insurer **Friends Life Company Limited**

CERTIFICATE OF THE MONITORING BOARD OF FRIENDS LIFE COMPANY LIMITED

Financial Period 1 January 2012 to 27 December 2012

4 Basis for the Certificate of the Monitoring Board

In preparing this certificate, the Monitoring Board has, as stated above, been advised by the Monitoring Actuary, and has had full access to documents and reports prepared by FLC and by its With Profits Actuary and Actuarial Function Holder.

Note 1: The 'Scheme' means the transfer of the long term business of Friends AELLAS Limited (formerly AXA Equity & Law Life Assurance Society Plc) to FLC and the subsequent financial reorganisation of the long term business of FLC as approved by the High Court and by the Royal Court of Jersey in December 2000. 'Peer Companies' and 'Monitored Policies' are as defined in the Scheme.

Note 2: On 28 December 2012, certain of the business of FLC, including all of the Monitored Policies, transferred to Friends Life Limited (FLL) under the terms of an insurance business transfer scheme sanctioned by High Court on 4 December 2012 pursuant to Part VII of the Financial Services and Markets Act 2000. From 28 December 2012 the duties of the Monitoring Board, apart from responsibility for this certificate, were assumed by the With Profits Committee of FLL which will be responsible for *inter alia* all future certificates.

W M Brown
Chairman of the Monitoring Board

25 March 2013

Name of Insurer **Friends Life Company Limited**

IPRU(INS) 9.34 - DIRECTORS' CERTIFICATE

Financial year ended 31 December 2012

We certify that:

- (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and
- (b) we are satisfied that:
 - (i) throughout the financial year in question, the Company has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the Company has continued to comply subsequently and will continue so to comply in future;
- (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 Company that are available for the purpose, to enable the Company to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- (d) the sum of the mathematical reserves as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (other than 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) the with-profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COBS 20.3;
- (f) we have, in preparing the return, taken and paid due regard to:
 - (i) advice from the actuary appointed by the Company to perform the actuarial function in accordance with SUP 4.3.13R; and
 - (ii) advice from the actuary appointed by the Company to perform the with-profits actuary function in accordance with SUP 4.3.16AR; and
- (g) in our opinion, the Company was managed in a manner that was consistent with the Scheme approved by the High Court in December 2000 to transfer the business of AXA Equity & Law Life Assurance Society plc to the Company.

Signed on behalf of Friends Life Company Limited

J.S. Moss

Director

L.C. J' Afari-Pak

Director

V. Hames
on behalf of Friends Life
Secretarial Services Limited

Secretary

25 March 2013

Friends Life Company Limited**INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS PURSUANT TO RULE 9.35 OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS****Global business****Financial year ended 31 December 2012**

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statement Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers (“the Rules”) made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 11 to 16, 18, 19, 40 to 45, 48, 58 and 60 (including the supplementary notes) (“the Forms”);
- the statement required by IPRU(INS) rule 9.29 (“the statement”);
- the valuation report required by IPRU(INS) rule 9.31 (“the valuation report”).

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

- Forms 46, 47, 50 and 53 (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36;
- the certificate required by IPRU(INS) rule 9.34(1); and
- the certificate of the monitoring board of Friends Life Company Limited.

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

Respective responsibilities of the insurer and its 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 directions issued under section 148 of the Act referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report are required to reflect appropriately the requirements of INSPRU 1.2.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statements 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.

Name of Insurer **Friends Life Company Limited**

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS PURSUANT TO RULE 9.35 OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

Global business

Financial year ended 31 December 2012

Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 19 March 2013. 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:

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

Ernst & Young LLP

Statutory Auditor

London

25 March 2013