

Friends Life and Pensions Limited

Annual PRA Insurance Returns for the year ended

31 December 2013

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

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

Global business

Financial year ended **31 December 2013**

Adjusted solo solvency calculation

Adjusted solo solvency calculation

Company registration number	GL/ UK/ CM	day	month	year	Units	
R2	475201	GL	31	12	2013	£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	100262	109900
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	373863	288334
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	474125	398234

Guarantee fund

Guarantee fund requirement	21	130820	116817
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	343305	281417

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	176152	144113
Resilience capital requirement	32		
Base capital resources requirement	33	3146	2984
Individual minimum capital requirement	34	176152	144113
Capital requirements of regulated related undertakings	35	72103	68779
Minimum capital requirement (34+35)	36	248255	212892
Excess (deficiency) of available capital resources to cover 50% of MCR	37	349998	291788
Excess (deficiency) of available capital resources to cover 75% of MCR	38	287934	238565

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	248255	212892

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	248255	212892
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	225870	185342

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

Global business

Financial year ended **31 December 2013**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R3	475201	GL	31	12	2013	£000
			General insurance business	Long-term insurance business		Total as at the end of this financial year	Total as at the end of the previous year
			1	2		3	4

Core tier one capital

Permanent share capital	11		868000	868000	868000
Profit and loss account and other reserves	12		840832	840832	734650
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16		(931909)	(931909)	(929001)
Core tier one capital (sum of 11 to 16)	19		776923	776923	673649

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		776923	776923	673649
Investments in own shares	32				
Intangible assets	33		9734	9734	9434
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		57694	57694	9103
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		67428	67428	18537
Total tier one capital after deductions (31-37)	39		709495	709495	655112

Components of capital resources

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

Global business

Financial year ended **31 December 2013**

		Company registration number	GL/ UK/ CM	day month year			Units	
		R3	475201	GL	31	12	2013	£000
				General insurance business	Long-term insurance business		Total as at the end of this financial year	Total as at the end of the previous year
				1	2		3	4

Tier two capital

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

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

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

Components of capital resources

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

Global business

Financial year ended **31 December 2013**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R3	475201	GL	31	12	2013	£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		709495	709495	656086
Inadmissible assets other than intangibles and own shares	73		221830	221830	236860
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		13540	13540	20992
Total capital resources after deductions (72-73-74-75-76-77)	79		474125	474125	398234

Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81		474125	474125	398234
Available capital resources for 50% MCR requirement	82		474125	474125	398234
Available capital resources for 75% MCR requirement	83		474125	474125	398234

Financial engineering adjustments

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

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

Global business

Financial year ended **31 December 2013**

Long term insurance business

	Company registration number	GL/ UK/ CM	day	month	year	Units
R11	475201	GL	31	12	2013	£000
			This financial year 1			Previous year 2
Gross premiums written		11	21291			
Premiums taxes and levies (included in line 11)		12				
Premiums written net of taxes and levies (11-12)		13	21291			
Premiums for classes 11, 12 or 13 (included in line 13)		14				
Premiums for "actuarial health insurance" (included in line 13)		15				
Sub-total A (13 + 1/2 14 - 2/3 15)		16	21291			
Gross premiums earned		21	21291			
Premium taxes and levies (included in line 21)		22				
Premiums earned net of taxes and levies (21-22)		23	21291			
Premiums for classes 11, 12 or 13 (included in line 23)		24				
Premiums for "actuarial health insurance" (included in line 23)		25				
Sub-total H (23 + 1/2 24 - 2/3 25)		26	21291			
Sub-total I (higher of sub-total A and sub-total H)		30	21291			
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure		31				
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32	3832			
	Excess (if any) over 61.3M EURO x 0.02	33				
Sub-total J (32-33)		34	3832			
Claims paid in period of 3 financial years		41	970			
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42				
	For insurance business accounted for on an accident year basis	43	559			
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44				
	For insurance business accounted for on an accident year basis	45				
Sub-total C (41+42+43-44-45)		46	1529			
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		47	334			
Sub-total D (46-47)		48	1195			
Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)		49	0.78			
Premiums amount (Sub-total J x reinsurance ratio)		50	2996			
Provision for claims outstanding (before discounting and net of reinsurance)		51	293			
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero		52				
Brought forward amount (See instruction 4)		53				
Greater of lines 50 and 53		54	2996			

Calculation of general insurance capital requirement - claims amount and result

Name of insurer Friends Life and Pensions Limited

Global business

Financial year ended 31 December 2013

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	475201	GL	31	12	2013	£000
				This financial year 1			Previous year 2	
Reference period (No. of months) See INSPRU 1.1.63R			11	12				
Claims paid in reference period			21	970				
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis		22					
	For insurance business accounted for on an accident year basis		23	559				
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis		24					
	For insurance business accounted for on an accident year basis		25					
Claims incurred in reference period (21+22+23-24-25)			26	1529				
Claims incurred for classes 11, 12 or 13 (included in 26)			27					
Claims incurred for "actuarial health insurance" (included in 26)			28					
Sub-total E (26 +1/2 27 - 2/3 28)			29	1529				
Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)			31	1529				
Division of sub-total F (gross adjusted claims amount)	x 0.26		32	398				
	Excess (if any) over 42.9M EURO x 0.03		33					
Sub-total G (32-33)			39	398				
Claims amount Sub-total G x reinsurance ratio (11.49)			41	311				
Higher of premiums amount and brought forward amount (11.54)			42	2996				
General insurance capital requirement (higher of lines 41 and 42)			43	2996				

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

Global business

Financial year ended **31 December 2013**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2013	£000	1
					As at end of this financial year		As at end of the previous year	
					1		2	
Land and buildings				11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23	83076	59263
	Debts and loans	24		
Non-insurance dependants	Shares	25	274	274
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41		
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	197818	
Rights under derivative contracts		44	29	
Fixed interest securities	Approved	45		
	Other	46	8875	10975
Variable interest securities	Approved	47		
	Other	48		
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		149387
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

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

Global business

Financial year ended **31 December 2013**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2013	£000	1
					As at end of this financial year		As at end of the previous year	
					1		2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	69	
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	13105	233
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	226	323
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	303472	220455
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Analysis of admissible assets

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

Global business

Financial year ended **31 December 2013**

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

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2013	£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	303472	220455
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94	72103	68779
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95	13540	20992
Inadmissible assets of regulated related undertakings	96	10373	11218
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	931909	929001
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	(1265)	(866)
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	1330132	1249579
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

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

Global business

Financial year ended **31 December 2013**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2013	£000	10
					As at end of this financial year		As at end of the previous year	
					1		2	
Land and buildings			11					

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares		41	112152	115474
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	33830	7165
Rights under derivative contracts		44	3694	7650
Fixed interest securities	Approved	45	365367	511768
	Other	46	1921982	1797857
Variable interest securities	Approved	47	26128	18380
	Other	48	38398	35799
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	640	817
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	50059	553
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	41082	36423
	Property linked	59	15715213	11438868

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

Global business

Financial year ended **31 December 2013**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2013	£000	10
					As at end of this financial year		As at end of the previous year	
					1		2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	1863	164
	Intermediaries	72		12
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	109044	
	Ceded	75	393	928
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	49501	3765
	due in more than 12 months	79		25909

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	15017	11623
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	41889	37719
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	618	

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	18526870	14179328
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Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2013**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2013	£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	18526870	14179328
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	29614	
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99	229582	234103
Reinsurers' share of technical provisions excluded from line 89	100	10113879	5689266
Other asset adjustments (may be negative)	101	(21297)	
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	28878648	20102697
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Long term insurance business liabilities and margins

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

Global business

Financial year ended **31 December 2013**

Total business/Sub fund **Total Long Term Insurance Business**

Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus		11	18364661	14052574
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	100262	109900
Long term insurance business fund carried forward (11 to 13)		14	18464923	14162474
Claims outstanding	Gross	15	1462	20
	Reinsurers' share	16		118
	Net (15-16)	17	1462	(98)
Provisions	Taxation	21		
	Other risks and charges	22	700	
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	20890	3094
	Reinsurance accepted	32		
	Reinsurance ceded	33	421	360
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37		
	Other	38	38474	13498
Accruals and deferred income		39		
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	61947	16854
Excess of the value of net admissible assets		51		
Total liabilities and margins		59	18526870	14179328

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	15715213	11438868

Total liabilities (11+12+49)	71	18426608	14069428
Increase to liabilities - DAC related	72	38004	
Reinsurers' share of technical provisions	73	10113879	5689266
Other adjustments to liabilities (may be negative)	74	(78991)	(9103)
Capital and reserves and fund for future appropriations	75	379148	353106
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	28878648	20102697

Liabilities (other than long term insurance business)

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

Global business

Financial year ended **31 December 2013**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	475201	GL	31	12	2013	£000
			As at end of this financial year 1			As at end of the previous year 2	

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47	1265	866
	Foreseeable dividend	48		
	Other	49	447	34
Accruals and deferred income		51		
Total (19 to 51)		59	1712	900
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	1712	900

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	(1265)	(866)
Capital and reserves	84	1329685	1249545
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	1330132	1249579

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

Global business

Financial year ended **31 December 2013**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	475201	GL	31	12	2013	£000
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account		From Form 20	11					
		Equalisation provisions	12					
Transfer from the long term insurance business revenue account			13					
Investment income	Income		14	23966			2095	
	Value re-adjustments on investments		15	13188			2415	
	Gains on the realisation of investments		16	98				
Investment charges	Investment management charges, including interest		17	177			354	
	Value re-adjustments on investments		18					
	Loss on the realisation of investments		19				621	
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21	53978				
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29	91053			3535	
Tax on profit or loss on ordinary activities			31	353			866	
Profit or loss on ordinary activities after tax (29-31)			39	90700			2669	
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	90700			2669	
Dividends (paid or foreseeable)			51	10000				
Profit or loss retained for the financial year (49-51)			59	80700			2669	

Analysis of derivative contracts

Name of insurer Friends Life and Pensions Limited

Global business

Financial year ended 31 December 2013

Category of assets Total other than long term insurance business assets

			Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
			R17	475201	GL	31	12	2013	£000	1
Derivative contracts				Value as at the end of this financial year			Notional amount as at the end of this financial year			
				Assets 1	Liabilities 2		Bought / Long 3	Sold / Short 4		
Futures and contracts for differences	Fixed-interest securities	11								
	Interest rates	12								
	Inflation	13								
	Credit index / basket	14								
	Credit single name	15								
	Equity index	16								
	Equity stock	17								
	Land	18								
	Currencies	19	29				5021			
	Mortality	20								
	Other	21								
In the money options	Swaptions	31								
	Equity index calls	32								
	Equity stock calls	33								
	Equity index puts	34								
	Equity stock puts	35								
	Other	36								
Out of the money options	Swaptions	41								
	Equity index calls	42								
	Equity stock calls	43								
	Equity index puts	44								
	Equity stock puts	45								
	Other	46								
Total (11 to 46)		51	29				5021			
Adjustment for variation margin		52								
Total (51 + 52)		53	29							

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

Analysis of derivative contracts

Name of insurer Friends Life and Pensions Limited

Global business

Financial year ended 31 December 2013

Category of assets Total long term insurance business assets

			Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
			R17	475201	GL	31	12	2013	£000	10
Derivative contracts				Value as at the end of this financial year			Notional amount as at the end of this financial year			
				Assets 1	Liabilities 2		Bought / Long 3	Sold / Short 4		
Futures and contracts for differences	Fixed-interest securities	11								
	Interest rates	12								
	Inflation	13								
	Credit index / basket	14								
	Credit single name	15								
	Equity index	16								
	Equity stock	17								
	Land	18								
	Currencies	19								
	Mortality	20								
	Other	21								
In the money options	Swaptions	31	3694			17000				
	Equity index calls	32								
	Equity stock calls	33								
	Equity index puts	34								
	Equity stock puts	35								
	Other	36								
Out of the money options	Swaptions	41								
	Equity index calls	42								
	Equity stock calls	43								
	Equity index puts	44								
	Equity stock puts	45								
	Other	46								
Total (11 to 46)		51	3694			17000				
Adjustment for variation margin		52								
Total (51 + 52)		53	3694							

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

Long-term insurance business : Revenue account

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2013**
Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	3824006	2672533
Investment income receivable before deduction of tax	12	429632	432873
Increase (decrease) in the value of non-linked assets brought into account	13	(142324)	158600
Increase (decrease) in the value of linked assets	14	1434446	839285
Other income	15		
Total income	19	5545760	4103291

Expenditure

Claims incurred	21	2327870	2597367
Expenses payable	22	336524	184906
Interest payable before the deduction of tax	23	19	25
Taxation	24	3201	6417
Other expenditure	25	25617	26226
Transfer to (from) non technical account	26		
Total expenditure	29	2693231	2814941

Business transfers - in	31	1449920	
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	4302449	1288350
Fund brought forward	49	14162474	12874124
Fund carried forward (39+49)	59	18464923	14162474

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2013**
Units **£000**

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

Gross

Regular premiums	11	21260	1445981		1467241	1359080
Single premiums	12	30	2701186		2701216	1742355

Reinsurance - external

Regular premiums	13	2773	68		2841	
Single premiums	14	2	334687		334689	396494

Reinsurance - intra-group

Regular premiums	15		849		849	(790)
Single premiums	16		6072		6072	33198

Net of reinsurance

Regular premiums	17	18487	1445064		1463551	1359870
Single premiums	18	28	2360427		2360455	1312663

Total

Gross	19	21290	4147167		4168457	3101435
Reinsurance	20	2775	341676		344451	428902
Net	21	18515	3805491		3824006	2672533

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2013**
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	1588	27412		29000	25710
Disability periodic payments	12	11			11	135
Surrender or partial surrender	13		2211597		2211597	2473291
Annuity payments	14		112102		112102	94814
Lump sums on maturity	15		10926		10926	19003
Total	16	1599	2362037		2363636	2612953

Reinsurance - external

Death or disability lump sums	21	785	(75)		710	
Disability periodic payments	22	(269)			(269)	278
Surrender or partial surrender	23					
Annuity payments	24		68		68	(3)
Lump sums on maturity	25					
Total	26	516	(7)		509	275

Reinsurance - intra-group

Death or disability lump sums	31		587		587	254
Disability periodic payments	32					
Surrender or partial surrender	33		34516		34516	14953
Annuity payments	34					
Lump sums on maturity	35		154		154	104
Total	36		35257		35257	15311

Net of reinsurance

Death or disability lump sums	41	803	26900		27703	25456
Disability periodic payments	42	280			280	(143)
Surrender or partial surrender	43		2177081		2177081	2458338
Annuity payments	44		112034		112034	94817
Lump sums on maturity	45		10772		10772	18899
Total	46	1083	2326787		2327870	2597367

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2013**
Units **£000**

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

Gross

Commission - acquisition	11	97405	9086		106491	16843
Commission - other	12		10145		10145	10430
Management - acquisition	13	48789	64890		113679	72576
Management - maintenance	14	7713	78414		86127	56409
Management - other	15	5	20077		20082	30382
Total	16	153912	182612		336524	186640

Reinsurance - external

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

Reinsurance - intra-group

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

Net of reinsurance

Commission - acquisition	41	97405	9086		106491	15094
Commission - other	42		10145		10145	10430
Management - acquisition	43	48789	64890		113679	72576
Management - maintenance	44	7713	78414		86127	56424
Management - other	45	5	20077		20082	30382
Total	46	153912	182612		336524	184906

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

Total business

Financial year ended **31 December 2013**Units **£000**

Financial year	Previous year
1	2

Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	9867606	7318378
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	5912667	4093331
Total assets (excluding cross investment) (11+12+13)	14	15780273	11411709
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	104328	5887
Total net assets (14-15-16-17)	18	15675945	11405822

Directly held linked assets

Value of directly held linked assets	21	39268	33046
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Total

Value of directly held linked assets and units held (18+21)	31	15715213	11438868
Surplus units	32		
Deficit units	33		
Net unit liability (31-32+33)	34	15715213	11438868

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

Total business

Financial year ended **31 December 2013**Units **£000**

Financial year	Previous year
1	2

Income

Value of total creation of units	11	4230401	2569828
Investment income attributable to the funds before deduction of tax	12	317301	327539
Increase (decrease) in the value of investments in the financial year	13	1429606	837790
Other income	14	1398579	
Total income	19	7375887	3735157

Expenditure

Value of total cancellation of units	21	2960143	2668268
Charges for management	22	130195	118311
Charges in respect of tax on investment income	23	5996	6386
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	9430	13358
Total expenditure	29	3105765	2806323

Increase (decrease) in funds in financial year (19-29)	39	4270122	928834
Internal linked fund brought forward	49	11405822	10476988
Internal linked funds carried forward (39+49)	59	15675944	11405822

Long-term insurance business : Summary of new business

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

Total business

Financial year ended **31 December 2013**

Units **£000**

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

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

Regular premium business	11	157917	136710		294627	76135
Single premium business	12		31626		31626	68093
Total	13	157917	168336		326253	144228

**Amount of new regular
premiums**

Direct insurance business	21	48868	426295		475163	359363
External reinsurance	22					
Intra-group reinsurance	23					
Total	24	48868	426295		475163	359363

**Amount of new single
premiums**

Direct insurance business	25		831234		831234	1069587
External reinsurance	26					
Intra-group reinsurance	27					
Total	28		831234		831234	1069587

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life and Pensions Limited

Total business

Financial year ended

31 December 2013

Units

£000

UK Life / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
325	Level term assurance	29931	7990		
330	Decreasing term assurance	25769	7303		
340	Accelerated critical illness (guaranteed premiums)	37323	19744		
345	Accelerated critical illness (reviewable premiums)	6152	3588		
350	Stand-alone critical illness (guaranteed premiums)	5455	2230		
355	Stand-alone critical illness (reviewable premiums)	1275	488		
360	Income protection non-profit (guaranteed premiums)	1809	903		
365	Income protection non-profit (reviewable premiums)	13047	4623		
380	Miscellaneous protection rider	29570	289		
910	Miscellaneous index linked	7586	1710		

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life and Pensions Limited

Total business

Financial year ended

31 December 2013

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)			12745	328481
525	Individual pensions UWP	3	11	2	217
535	Group money purchase pensions UWP	23	379	31	1540
725	Individual pensions property linked	3766	4969	1089	45440
735	Group money purchase pensions property linked	132919	420936	17759	455555

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

Name of insurer **Friends Life and Pensions Limited**
Category of assets **10 Total long term insurance business assets**
Financial year ended **31 December 2013**
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	370723	370723	15640	3.32	
Other fixed interest securities	13	1958274	1958274	96075	4.47	
Variable interest securities	14	64658	64658	403	4.09	
UK listed equity shares	15	102090	106985	3629	5.32	
Non-UK listed equity shares	16	9797	10612	253	3.27	
Unlisted equity shares	17					
Other assets	18	265033	259324	553	0.25	
Total	19	2770575	2770575	116553	3.94	

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

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

Overall return on with-profits assets

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

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life and Pensions Limited**
Category of assets **10 Total long term insurance business assets**
Financial year ended **31 December 2013**
Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	223734	12.60	3.10	3.10

Other approved fixed interest securities	21	146988	11.17	3.65	3.50
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Other fixed interest securities

AAA/Aaa	31	383029	11.96	4.41	3.99
AA/Aa	32	296680	11.55	4.03	3.64
A/A	33	950836	10.92	4.34	3.77
BBB/Baa	34	308104	8.77	5.24	3.99
BB/Ba	35	13255	6.68	6.48	3.38
B/B	36	2925	10.74	7.38	3.95
CCC/Caa	37				
Other (including unrated)	38	3445	8.64	4.83	0.48
Total other fixed interest securities	39	1958274	10.85	4.47	3.82

Approved variable interest securities	41	31827	20.92	3.25	3.23
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Other variable interest securities	51	32831	17.46	4.91	4.31
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Total (11+21+39+41+51)	61	2393655	11.26	4.28	3.73
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Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2013**
Units **£000**

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

Gross

Form 51 - with-profits	11					
Form 51 - non-profit	12	(76568)	2468810		2392242	2345554
Form 52	13		103245		103245	121504
Form 53 - linked	14		25662477		25662477	16995348
Form 53 - non-linked	15		248239		248239	226329
Form 54 - linked	16		41082		41082	36423
Form 54 - non-linked	17	316			316	
Total	18	(76252)	28523854		28447602	19725158

Reinsurance - external

Form 51 - with-profits	21					
Form 51 - non-profit	22	35420			35420	
Form 52	23					
Form 53 - linked	24		8737027		8737027	5084653
Form 53 - non-linked	25		(15787)		(15787)	(16564)
Form 54 - linked	26					
Form 54 - non-linked	27	4347			4347	
Total	28	39767	8721239		8761006	5068089

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32		9286		9286	12183
Form 52	33		102412		102412	120485
Form 53 - linked	34		1210237		1210237	471827
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38		1321935		1321935	604495

Net of reinsurance

Form 51 - with-profits	41					
Form 51 - non-profit	42	(111988)	2459524		2347536	2333372
Form 52	43		833		833	1018
Form 53 - linked	44		15715213		15715213	11438868
Form 53 - non-linked	45		264027		264027	242893
Form 54 - linked	46		41082		41082	36423
Form 54 - non-linked	47	(4030)			(4030)	
Total	48	(116019)	18480679		18364661	14052574

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2013**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance	28677	4149632	6932				(3182)
330	Decreasing term assurance	25049	3976374	6450				(15832)
340	Accelerated critical illness (guaranteed premiums)	36200	3604188	17357				(30145)
345	Accelerated critical illness (reviewable premiums)	5948	642282	3150				(4686)
350	Stand-alone critical illness (guaranteed premiums)	5143	304646	1891				(5523)
355	Stand-alone critical illness (reviewable premiums)	1192	65687	416				(1274)
360	Income protection non-profit (guaranteed premiums)	1754	24767	796				(2047)
365	Income protection non-profit (reviewable premiums)	12449	136808	3996				(13606)
380	Miscellaneous protection rider	28593	11501	253				(833)
385	Income protection claims in payment		201					559

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Life / Reinsurance ceded external

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		3581510	4				18574
330	Decreasing term assurance		3449707	0				3320
340	Accelerated critical illness (guaranteed premiums)		1641807	10				8411
345	Accelerated critical illness (reviewable premiums)		291045	5				1889
350	Stand-alone critical illness (guaranteed premiums)		155556					428
355	Stand-alone critical illness (reviewable premiums)		37234					57
360	Income protection non-profit (guaranteed premiums)		11091	7				199
365	Income protection non-profit (reviewable premiums)		56383	16				2275
385	Income protection claims in payment		105					266

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Gross

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
315	Individual deposit administration non-profit	36088	267159	95				275887
320	Group deposit administration non-profit	1418	114504	580				151320
390	Deferred annuity non-profit	3831	1720					35000
400	Annuity non-profit (CPA)	104618	119610					2006603

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Reinsurance ceded intra-group

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit		563					9286

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Gross

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP	1859	28359	453	28210	28210	362	28572
535	Group money purchase pensions UWP	5075	74464	2655	74420	74420	253	74673

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Reinsurance ceded intra-group

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
574	UWP investment only reinsurance		102630	6	102630	102630	(218)	102412

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Gross

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked	431840	5752660	112259	5717305	5717304	76766	5794070
735	Group money purchase pensions property linked	921833	14264743	1568293	14264103	14263580	51112	14314693
755	Trustee investment plan	641	17261		17261	17261	3783	21044
794	Property linked investment only reinsurance		5767789	40783	5688083	5664331	102627	5766958
800	Additional reserves property linked						13951	13951

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Reinsurance ceded external

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
794	Property linked investment only reinsurance		8737027		8737027	8737027	(15787)	8721239

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Reinsurance ceded intra-group

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
794	Property linked investment only reinsurance		1203118		1210237	1210237		1210237

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Life / Gross

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
901	Index linked income protection claims in payment		282				2279	2279
910	Miscellaneous index linked	7369	52740	1509			(1962)	(1962)

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Life / Reinsurance ceded external

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
901	Index linked income protection claims in payment		169				1304	1304
910	Miscellaneous index linked		25588	16			3043	3043

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Pension / Gross

Friends Life and Pensions Limited

Total Long Term Insurance Business

31 December 2013

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity	1089	1448		41082	41082		41082

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2013**
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Balanced	12 - individual pension - balanced managed fund	5395037	Cross Holdings		1.7254	1.9800	14.76
Cash	13 - individual pension - defensive managed fund	461658	Cross Holdings		11.8138	11.8617	0.41
Equity	15 - individual pension - UK equity	2263280	Cross Holdings		1.9089	2.3076	20.88
European	16 - individual pension - overseas equity	360601	FP Accumulation 0.75% PRB	0.01	8.1954	10.5447	28.67
Fixed Interest	11 - individual pension - stock market managed fund	688435	Cross Holdings		2.9887	2.9764	(0.41)
International	16 - individual pension - overseas equity	2593080	Cross Holdings		1.9223	2.3749	23.54
Investment Trust	11 - individual pension - stock market managed fund	256482	L&M 0.75%	0.01	64.2638	77.7692	21.02
Managed Stewardship	14 - individual pension - other managed fund	657889	Cross Holdings		1.9588	2.3476	19.85
North American	16 - individual pension - overseas equity	132781	Cross Holdings		0.9577	1.2840	34.08
Pacific Basin	16 - individual pension - overseas equity	148395	Cross Holdings		1.9250	1.9630	1.97
Property	17 - individual pension - property	504877	Cross Holdings		2.5878	2.8569	10.40
Pre-Retirement Fixed	11 - individual pension - stock market managed fund	413705	Cross Holdings		2.1020	1.9817	(5.73)
Stewardship	15 - individual pension - UK equity	1438493	FP Accumulation 0.75% PRB	0.01	17.8617	22.8176	27.75
FL Balanced Index Enhanced Funds of Funds	12 - individual pension - balanced managed fund	422042			1.6935	1.9592	15.69
FL BlackRock (40:60) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	241566			1.6448	2.0232	23.00
FL Invesco Perpetual High Income	15 - individual pension - UK equity	116326			2.1476	2.7386	27.52
FL Baillie Gifford Managed	12 - individual pension - balanced managed fund	121964				2.2294	
FL Balanced Index Fund of Funds	12 - individual pension - balanced managed fund	560808			1.9859	2.2670	14.15

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2013**
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
FL BlackRock Consensus (Aquila HP)	12 - individual pension - balanced managed fund	457779			1.7386	2.0241	16.43
FL Cautious Index Fund of Funds	11 - individual pension - stock market managed fund	164305			1.8790	2.0182	7.41
NGP Deposit	13 - individual pension - defensive managed fund	391773			1.6283	1.6349	0.41
NGP Equity	15 - individual pension - UK equity	328036			1.5065	1.8125	20.31
NGP European	16 - individual pension - overseas equity	166985			1.6648	2.1648	30.04
FL BlackRock European Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	182681	Cross Holdings		1.7962	2.2692	26.34
NGP Fixed Interest	11 - individual pension - stock market managed fund	200564			2.4261	2.4151	(0.45)
FL BlackRock (50:50) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	1649822			2.4339	2.9588	21.56
FL BlackRock Long Term (60:40) Index (Aquila HP)	11 - individual pension - stock market managed fund	892159			2.5812	3.1292	21.23
NGP International	16 - individual pension - overseas equity	154965			1.5599	1.9265	23.50
NGP Managed	14 - individual pension - other managed fund	3510809			1.5971	1.8329	14.76
NGP Managed Stewardship	14 - individual pension - other managed fund	629129			1.6743	2.0068	19.86
FL Newton Balanced	12 - individual pension - balanced managed fund	127872			1.8724	2.1079	12.58
FL BlackRock Over 15 Year Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	161347			1.9211	1.8093	(5.82)
NGP Pacific Basin	16 - individual pension - overseas equity	108001			1.9076	1.9411	1.76
NGP Property	17 - individual pension - property	390020			2.3377	2.5809	10.40
NGP Pre-Retirement Fixed	11 - individual pension - stock market managed fund	394086			2.3093	2.1732	(5.90)
NGP Stewardship	15 - individual pension - UK equity	471722			1.6764	2.1443	27.91

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2013**
Units **£000**

Fund name	Type of fund	Net assets	Main series	Unit management charge	Price at previous valuation date	Price at current valuation date	Change in price during year
1	2	3	4	5	6	7	8
FL BlackRock Over 15 Year Corporate Bond Index (Aquila HP)	11 - individual pension - stock market managed fund	183292			2.0179	1.9941	(1.18)
FL BlackRock UK Equity Index (Aquila HP)	15 - individual pension - UK equity	1003854	Cross Holdings		2.4832	2.9853	20.22
FL BlackRock Over 5 Year Index-Linked Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	135860			2.0510	2.0617	0.52
FL BlackRock US Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	204717	Cross Holdings		1.4206	1.8672	31.44
FL BlackRock World (Ex-UK) Equity Index (Aquila HP)	16 - individual pension - overseas equity	267403	Cross Holdings		1.8293	2.2846	24.89
FL BlackRock Aquila Life Overseas Bond Index	11 - individual pension - stock market managed fund	104190	Cross Holdings		1.5635	1.4548	(6.95)
FL Standard Life Global Absolute Return	13 - individual pension - defensive managed fund	123524	Cross Holdings			1.3438	
FL LIP Global Equity	11 - individual pension - stock market managed fund	112535				1.2713	
FL ADCP: Balanced Investments	12 - individual pension - balanced managed fund	230195			1.0774	1.2222	13.44
FL ADCP: Diversified Investments	12 - individual pension - balanced managed fund	165128	Cross Holdings		1.0636	1.1696	9.97
FL ADCP: Global Developed Market Shares	16 - individual pension - overseas equity	117306	Cross Holdings			1.3890	
FL BlackRock DC Diversified Growth	15 - individual pension - UK equity	115048	Cross Holdings			1.1508	
FL My Future Growth	11 - individual pension - stock market managed fund	156546				1.1165	
FL Blended Growth	11 - individual pension - stock market managed fund	107659				1.0528	
FL Aberdeen Multi-Asset EP	14 - individual pension - other managed fund	210898	Aberdeen Multi-Asset Fund (KPMG WL) 0.65% (WL)	0.01		2.3469	
FL Schroeder Managed EP	12 - individual pension - balanced managed fund	408122	Schroder Managed 0.25% (WL)	0.00		2.5145	
FL Baillie Gifford Managed EP	12 - individual pension - balanced managed fund	126560	Baillie Gifford Managed (Seagate) 0.55% (WL)	0.01		4.2075	

Long-term insurance business: Analysis of valuation interest rate

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

Total business **Total Long Term Insurance Business**

Financial year ended **31 December 2013**

Units **£000**

Product group	Net mathematical reserves	Net valuation interest rate	Gross valuation interest rate	Risk adjusted yield on matching assets
1	2	3	4	5
UK F51 L&GA NP (IP & CI)	(83336)	n/a	4.20	
UK F51 L&GA NP	(31521)	n/a	2.10	
UK F51 Pensions NP (Annuities)	1931183	n/a	3.76	3.89
UK F51 Pensions NP (GAOs)	27182	n/a	3.00	4.58
UK F51 Pensions NP	116999	n/a	3.20	3.49
UK F51 Pensions NP (Secure Growth Fund)	395092	n/a		4.26
UK F52 Pensions	833	n/a	3.30	3.64
UK F53 Pensions NL	33305	n/a	3.20	3.49
UK F53 Pensions NL (GAOs)	6382	n/a	3.00	4.58
UK F53 Pensions NL (h-FLC)	5249	n/a	2.54	4.58
UK F53 Pensions NL (h-FLWL)	8558	n/a	2.50	4.58
UK F53 Pensions NL (Secure Growth Fund)	158483	n/a		4.26
Miscellaneous UK F51 L&GA NP	2868	n/a	n/a	
Miscellaneous UK F51 Pensions NP	(10932)	n/a	n/a	4.58
Miscellaneous UK F53 Pensions NL	52050	n/a	n/a	3.88
Miscellaneous UK F54 Life NL	(4030)	n/a	n/a	4.85
Total	2608365			

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2013**
Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	18464923	14162474
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	18464923	14162474
Mathematical reserves	21	18364661	14052574
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	100262	109900

Composition of surplus

Balance brought forward	31	109900	93540
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33	8448	
Surplus arising since the last valuation	34	(18086)	16360
Total	39	100262	109900

Distribution of surplus

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	100262	109900
Total (48+49)	59	100262	109900

Percentage of distributed surplus allocated to policyholders

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

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

Global business

Financial year ended **31 December 2013**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%	47	47	0.50	0	
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%	12416723	3484628		18625	
Classes III, VII and VIII	15	0.3%	2488	2488	1.00	7	7
Total	16		12419258	3487163		18633	7

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					2996	
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Insurance expense risk capital component

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	2563724	2419831	0.94	24198	23490
Classes III, VII and VIII (investment risk)	33	1%	330144	330144	1.00	3301	3173
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	3859861	3699969	0.96	37000	27790
Classes III, VII and VIII (other)	35	25%				8719	9663
Class IV (other)	36	1%	(22296)	(29868)	1.34	(299)	
Class V	37	1%					
Class VI	38	1%					
Total	39					72920	64116

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	2563724	2419831	0.94	72595	70470
Classes III, VII and VIII (investment risk)	43	3%	330144	330144	1.00	9904	9520
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	3859861	3699969			
Classes III, VII and VIII (other)	45	0%	21716170	11944585			
Class IV (other)	46	3%	(22296)	(29868)	1.34	(896)	
Class V	47	0%					
Class VI	48	3%					
Total	49		28447602	18364661		81603	79990

Long term insurance capital requirement	51					176152	144113
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***0201* Directions modifying the Accounts and Statements Rules**

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

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

	2013	2012
	£000	£000
Form 13 Line 89 total admissible assets (other than long-term)	303,472	220,455
Form 13 Line 89 total admissible assets (long-term)	18,526,870	14,179,328
	18,830,342	14,399,783
Less:		
Form 14 Line 11 mathematical reserves after distribution of surplus	18,364,661	14,052,574
Form 14 Line 49 other insurance & non-insurance liabilities	61,947	16,854
Form 15 Line 69 liabilities other than long-term business	1,712	900
Net admissible assets	402,022	329,455
Add:		
Form 2 Line 35 capital requirements of regulated related undertakings	72,103	68,779
Form 3 Line 79 capital resources after deductions	474,125	398,234

***0310* Valuation Differences**

Negative valuation differences included within line 35 are:

In respect of liabilities valued lower than in the Companies Act accounts	2013	2012
	£000	£000
Deferred taxation	-	20,543
Deferred front end fees	6,505	7,358
	6,505	27,901
In respect of liabilities valued higher than in Companies Act accounts		
Non-unit reserve differences between regulatory reserves and Companies Act reserves	44,956	18,440
Additional reserves in respect of reinsurer credit risk (non-linked)	15,787	16,564
Other actuarial reserve	3,456	2,000
	64,199	37,004
Total equalling Form 3 Line 35	57,694	9,103

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

	2013	2012
	£000	£000
Profit and loss account reserves b/fwd	734,650	453,660
Profit and loss account reserves c/fwd	840,832	734,650
Movement	106,182	280,990
Revaluation reserve	-	(271,252)
Lombard share scheme	561	-
Prior year adjustment in respect of deferred tax	-	4,219
UKGAAP profit arising in the long-term fund	(26,043)	(11,288)
Total equalling Form 16 line 59	80,700	2,669

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***1102* Prior Year Comparatives**

There is no prior year comparative Form 11; no such form was publicised as at 31 December 2012 for FLP or in respect of business transferred into FLP under the Part VII.

***1202* Prior Year Comparatives**

There is no prior year comparative Form 12; no such form was publicised as at 31 December 2012 for FLP or in respect of business transferred into FLP under the Part VII.

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

- i) The Company held unlisted fixed interest securities valued at £nil.
- ii) Lines 41, 46 & 48 include assets to the value of £239.1m in the long term insurance business fund and £3.4m in the other than long term insurance business fund where, due to market conditions, the latest valuation available did not reflect active trading as at the valuation date.
- iii) There were £0.2m of beneficial interests in collective schemes in the long term insurance business fund, which were not UCITS or authorised schemes.
- iv) There were no reversionary interest or remainders in property other than land or buildings.

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

The Company held hybrid securities valued at £61.8m in the long-term fund and £3.8m in the shareholder fund.

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

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

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

This note includes information in relation to the Part VII Transfer of assets from Friends Life Company Limited ("FLC") and Friends Life WL Limited ("FLWL") to the Company.

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

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

BONDS	FLP – Secure Growth	Limits	FLP – SANP	Limits
CREDIT RATINGS				
AAA and Below	100.0%	100.0%	100.0%	100.0%
AA+ and Below	85.0%	100.0%	80.1%	100.0%
A+ and Below	67.7%	75.0%	46.9%	65.0%
BBB+ and Below	28.1%	37.5%	10.8%	40.0%
Sub-investment grade	1.2%	3.0%	0.7%	10.0%

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SINGLE ISSUER LIMITS				
Gilts				
Investment grade	3.8%	100.0%	20.9%	100.0%
Sub-investment grade	0.0%	100.0%	0.0%	100.0%
Corporates (excl. Covered Bonds)				
Investment Grade	2.9%	5.0%	1.9%	7.0%
Sub-investment Grade	0.4%	1.0%	0.2%	1.0%
Quasi Sovereign/Non-UK Sovereign				
Investment Grade	5.9%	10.0%	2.7%	15.0%
Sub-investment Grade	0.0%	1.0%	0.0%	1.0%
Non-UK Sovereign				
Investment Grade	0.0%	10.0%	0.0%	
Sub-investment Grade	0.0%	1.0%	0.0%	
Covered Bonds				
Investment Grade	1.2%	15.0%	12.6%	
Sub-investment Grade	0.0%	1.0%	0.0%	

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

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

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

CREDIT INSTRUMENTS	FLP - Secure Growth	Limits	FLP - SANP	Limits
Sovereign Bonds	4.4%	100.0%	21.5%	100.0%
Gilts (including UK government guaranteed assets)	3.8%	100.0%	20.9%	100.0%
Government bonds issued by G7 and other AAA rated Countries	0.6%	90.0%	0.6%	90.0%
Other Government bonds	0.0%	20.0%	0.0%	20.0%
Quasi Sovereign	9.6%	100.0%	4.4%	100.0%
Supranationals	5.9%	100.0%	2.8%	100.0%
Subsovereigns	3.7%	80.0%	1.6%	80.0%
Senior Debt	65.6%	100.0%	78.3%	100.0%
Senior non financial debt	44.7%	100.0%	49.3%	100.0%
Senior financial non insurance debt	17.3%	60.0%	17.3%	60.0%
Covered Bonds	3.6%	100.0%	11.7%	100.0%
Subordinated Financial Non Insurance Debt	9.0%	20.0%	4.2%	20.0%
Lower Tier 2	7.4%	20.0%	2.8%	20.0%
Upper Tier 2	0.3%	10.0%	0.2%	10.0%
Tier 1	1.3%	5.0%	1.2%	5.0%
Contingent Convertible securities	0.0%	0.0%	0.0%	0.0%
Asset Backed Securities	18.4%	20.0%	13.4%	20.0%
RMBS	0.2%	10.0%	0.6%	10.0%
CMBS	7.0%	10.0%	4.4%	10.0%
Whole Business securitisation	5.4%	8.0%	3.2%	8.0%
Non-mortgage loan securitisations	1.8%	7.0%	0.3%	7.0%
PFI	0.8%	10.0%	2.0%	10.0%
Other	1.4%	10.0%	1.9%	10.0%
Housing Associations	1.8%	15.0%	1.0%	15.0%
Structured Credit	0.0%	8.0%	0.0%	8.0%
Collateralised Loan Obligations	0.0%	8.0%	0.0%	8.0%

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Other Collateralised Loan Obligations	0.0%	3.0%	0.0%	3.0%
Securities issued by Insurance Companies	6.2%	10.0%	3.7%	10.0%
Senior	3.3%	10.0%	2.8%	10.0%
Lower Tier 2	2.5%	10.0%	0.6%	10.0%
Upper Tier 2	0.0%	6.0%	0.1%	6.0%
Tier 1	0.5%	5.0%	0.2%	5.0%
Junior Subordinated	0.0%	6.0%	0.0%	6.0%
Private Loans	0.0%	15.0%	0.0%	15.0%
PFI	0.0%	15.0%	0.0%	15.0%
Commercial Real Estate	0.0%	12.0%	0.0%	12.0%
Financial	0.0%	8.0%	0.0%	8.0%
Other	0.0%	8.0%	0.0%	8.0%
Sinking Bonds	8.0%	10.0%	8.1%	10.0%
Leveraged Loans	0.0%	5.0%	0.0%	5.0%
Senior Secured loans		5.0%		5.0%
CCC and below		0.0%		0.0%
Synthetic Credit		10.0%		10.0%
Small Medium Enterprise (SME) Loans		5.0%		10.0%
Leveraged (Syndicated) Loans		5.0%		10.0%
Direct Lending		0.0%		10.0%
Alternative Credit Loans		15.0%		30.0%
Commercial Real Estate		15.0%		20.0%
Infrastructure		5.0%		20.0%

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

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

EQUITY/ PROPERTY	FLP – Secure Growth	Limits	FLP – SANP	Limits
Common Stock, Preference Stock, Investment Trusts	6.8%	10.0%	0.0%	10.0%
Individual Property	0.0%	12% or £15m	0.0%	12% or £15m
Limited Partnerships	0.0%	£27m (1% of LTBA)	0.0%	£27m (1% of LTBA)
UCITS-certified vehicles	0.0%	100%	0.0%	100%
Other collective investment schemes	0.0%	£27m (1% of LTBA)	0.0%	£27m (1% of LTBA)

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

There were no equity breaches during the year.

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

CASH	FLP – Secure Growth	Limits	FLP – SANP	Limits
COUNTRIES				
Supranational	0.0%	10.0%	0.0%	10.0%
US	9.4%	23.0%	14.0%	23.0%
UK	45.4% (1)	37.0%	18.3%	37.0%
France	23.0%	37.0%	34.4%	37.0%
Germany	5.1%	25.0%	7.7%	25.0%

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Canada	0.8%	20.0%	1.2%	20.0%
Australia	1.1%	10.0%	1.6%	10.0%
Japan	5.5%	10.0%	8.2%	10.0%
Sweden	2.6%	10.0%	3.8%	10.0%
Netherlands	4.2%	10.0%	6.3%	10.0%
Switzerland	1.7%	10.0%	2.5%	10.0%
Norway	0.8%	2.5%	1.2%	2.5%
Singapore	0.5%	2.5%	0.7%	2.5%
Denmark	0.0%	2.5%	0.0%	2.5%
Spain	0.0%	0.0%	0.0%	0.0%
Italy	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
COUNTERPARTY				
Supranational	0.0%	10.0%	0.0%	10.0%
US	5.3%	8.0%	8.0%	8.0%
UK	35.4% (1)	8.0%	6.7%	8.0%
France	7.2%	8.0%	10.8% (2)	8.0%
Germany	2.6%	5.0%	3.9%	5.0%
Canada	0.6%	4.0%	0.9%	4.0%
Australia	0.6%	2.5%	0.9%	2.5%
Japan	2.0%	4.0%	3.1%	4.0%
Sweden	1.3%	3.0%	1.9%	3.0%
Netherlands	2.6%	5.0%	3.9%	5.0%
Switzerland	1.0%	5.0%	1.5%	5.0%
Norway	0.8%	2.5%	1.2%	2.5%
Singapore	0.5%	1.2%	0.7%	1.2%
Denmark	0.0%	1.2%	0.0%	1.2%
Spain	0.0%	0.0%	0.0%	0.0%
Italy	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
CASH INSTRUMENTS				
UK Treasury Bills		100.0%		100.0%
Deposits at bank		100.0%		100.0%
Certificates of Deposit		100.0%		100.0%
Commercial Paper		40.0%		40.0%
ABS Commercial Paper		10.0%		10.0%
Floating rate notes		20.0%		20.0%
Repos		20.0%		20.0%

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

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

- (1) Total UK cash exposure within the Secure Growth fund is over 37%; the largest single UK cash counterparty exposure is over 8%. This results from cash placed with the custodian; HSBC. This cash was held whilst awaiting re-investment opportunities and to meet outflows.
Action: None being taken but the situation will be reviewed once the cash has been re-invested.
- (2) The largest individual French cash counterparty exposure is over 8% (AXA). Cash in the SNAV is awaiting re-investment (unsettled cash) and has been reassigned to the manager, AXA (France).
Action: None being taken as this is a temporary breach as the cash in the SNAV will be invested.

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

	Long term insurance business 2013 £000	Other than long term insurance business 2013 £000	Long term insurance business 2012 £000	Other than long term insurance business 2012 £000
Deferred tax netted off in accounts	(21,297)	-	-	-
Taxation creditors netted off in accounts	-	(1,265)	-	(866)
	(21,297)	(1,265)	-	(866)

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

The Company's assets are valued on a mark to market basis. Where this is not possible, mark to model is calculated on a prudent basis and incorporates all necessary valuation adjustments required by GENPRU 1.3.30R to GENPRU 1.3.33R.

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

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

- i) No charge has been made on the assets of the Company to secure the liabilities of any other person.
- ii) No provision has been made (2012: £nil) for liability to tax on capital gains which would arise if the Company disposed of its total business assets. The potential liability is £nil.
- iii) The Company has a contingent liability in respect of compensation that could become payable to certain policyholders who effected personal pension contracts and who may have been given inappropriate advice in relation thereto.

The Company has a provision of £nil (2012: £nil) in line 11 of Form 14 for the expected costs of the compensation. The final costs may be in excess of this figure and there may also be a contingent liability in respect of the Financial Services Compensation Scheme.

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

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

	2013 Long term insurance business	2013 Other than long term insurance business	2012 Long term insurance business	2012 Other than long term insurance business
	£000	£000	£000	£000
Deferred tax	-	-	20,543	-
Deferred front-end fees	6,505	-	7,357	-
Companies Act accounts fair value adjustment to liabilities	(64,200)	-	(37,003)	-
Deferred tax netted off in accounts	(21,296)	-	-	-
Taxation creditors netted off in accounts	-	(1,265)	-	(866)
Assets included in Companies Act accounts, excluded for FSA purposes	(78,991)	(1,265)	(9,103)	(866)

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

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

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

***1603* - Other income**

The amount included at Line 21 relates to other than long term insurance business fund assets of FLC that were transferred into the Company's shareholder fund in accordance with the Part VII scheme described in note 4004. This transfer resulted in exceptional income of £54m within the other than long term insurance business fund.

***1701* Variation margin**

The aggregate value of excess variation margin needed to be repaid due to underlying market movements is £nil (2012: £5,810). Variation margin of £nil (2012: £3,115) has been included in Form 14 line 38.

***1702* Quasi-derivatives**

a) The aggregate value of rights in respect of assets which have the effect of derivative contracts at the end of the financial year was £1,273.0m. The amounts contributed to each line in Form 13 in respect of quasi derivatives is as follows:

	Long term insurance business	Other than long term insurance business
	£m	£m
Line 45 Fixed Interest Approved	27.5	-
Line 46 Fixed Interest Other	1,221.0	5.1
Line 47 Variable Interest Approved	-	-
Line 48 Variable Interest Other	19.4	-
	1,267.9	5.1

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

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***4002* Other Income and Expenditure**

Other expenditure comprises of:

	2013	2012
	£000	£000
Fund management charge rebate to Friends Life Limited ("FLL")	25,617	26,226

***4004* Business transfers-in**

On 28 December 2013 all of the long-term business of FLC and the long-term business of FLWL written on the Embassy platform was transferred to the Company via a business transfer scheme (the "2013 Scheme") under Part VII of the Financial Services and Markets Act 2000. The total shown as a business transfer in on Form 40 Line 31 is £1,450m which is equal to the net of reinsurance mathematical reserves plus Form 14 Line 13 surplus transferred at the transfer date.

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

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

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

***4009* Material connected party transactions**

During the period 1 January 2013 to 31 December 2013 the Company held several reinsurance agreements, exceeding 5% of the Company's long-term insurance business liabilities, with its parent undertaking FLL, principally consisting of pension business written in FLL. During this period, the Company has accepted £79m of reinsurance premiums and incurred £449m of reinsurance claims. In addition the new fund access reinsurance treaty with FLL generated a £1,801m reinsurance premium receipt.

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

Assets within this Form have been valued as follows:

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

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

At the end of 2013 rights of £16.8m and liabilities of £15.6m were held under derivative contracts.

***4403* Variation margin**

There is a liability to repay a variation margin of £0.9m at the year-end.

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***4502* Other income and expenditure**

Other income and expenditure consists of:

	2013	2012
	£000	£000
Transfer in under Part VII	1,398,579	-
Total other income	1,398,579	-
Transaction costs	9,010	12,811
Custodian charges	410	536
Interest payable	4	2
Miscellaneous charges	6	9
Total other expenditure	9,430	13,358

***4802* Interest in default**

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

***4901* Rating agencies**

The majority of ratings used in Form 49 were provided by either Standard & Poor's, Moody's or Fitch where available. It was not possible to separately identify "CCC" rated bonds from those of non-investment grade. All "CCC" rated bonds have, therefore, been included in Line 38.

***5600* Index-linked assets**

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

***5701* Negative reserves**

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

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

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***5702* Risk adjusted yield**

The FSA, on application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in August 2009. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination.

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

Product Group	Total Long Term Insurance Business	
	Yield	Risk Adjusted Yield
UK F51 Pensions NP (h-FP Annuities)	4.27%	3.89%
UK F51 Pensions NP (GAOs)	4.58%	4.58%
UK F51 Pensions NP	3.49%	3.49%
UK F51 Pensions NP (Secure Growth Fund)	4.26%	4.26%
UK F52 Pensions	3.64%	3.64%
UK F53 Pensions NL	3.49%	3.49%
UK F53 Pensions NL (GAOs)	4.58%	4.58%
UK F53 Pensions NL (FLC)	4.58%	4.58%
UK F53 Pensions NL (FLWL)	4.58%	4.58%
UK F53 Pensions NL (Secure Growth Fund)	4.26%	4.26%
Miscellaneous UK F51 Pensions NP	4.58%	4.58%
Miscellaneous UK F53 Pensions NL	3.88%	3.88%
Miscellaneous UK F54 Life NL	5.32%	4.85%

***5711* Zero valuation interest rate**

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

***5802* Transfers to and from other funds**

£8m of surplus has been transferred from the FLC non-profit fund into the Company's non-profit fund as part of the Part VII transfer.

***6011* Restatement of Prior Year Comparatives**

The prior year comparative has not been restated to reflect the Part VII transfer of FLWL business into FLP. This is because the business is not significant enough to require a restatement for comparative purposes.

**Additional information on derivative and quasi-derivative contracts
(IPRU (INS) rule 9.29)
Friends Life and Pensions Limited
Financial year ended 31 December 2013**

Derivative Contracts

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

- a) Investment Guidelines.
Investment guidelines operated by the Company during 2013 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. The derivatives which are permitted to be used include derivatives traded on a listed exchange, forward foreign exchange contracts (with an approved institution) and other over the counter derivatives with specific counterparties. All obligations arising out of derivative contracts are required to be covered and must not be used as a means of gearing the fund.
- b) Guidelines in respect of derivatives not likely to be exercised.
The investment guidelines do not explicitly allow or exclude the use of derivatives which create rights or obligations which are not, at the time when the contract is entered into, reasonably likely to be exercised. Therefore, providing such derivatives meet the over arching investment guidelines stated above, that they are held for efficient portfolio management or a reduction in investment risks, they are permitted.
- c) Use of derivatives not likely to be exercised.
The long-term fund held derivatives during the year, which at the time when acquired were not likely to be exercised to the value of £3.7m.. These were held for purpose of protecting the fund from interest rate sensitivity. No other contracts were entered into during the financial year that were not, at the time of entry, reasonably likely to be exercised.
- d) The Company held no derivative contracts during the financial year other than permitted derivative contracts under permitted links rules, and nor did any contracts require a significant provision to be made under INSPRU 3.2.17R.
- e) The Company did not grant rights under derivative contracts during the financial year.

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

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

As at 31 December 2013

Controller	Shareholding/Voting Rights
Friends Life Limited (FLL) Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 4096141	100% shareholding in Friends Life and Pensions Limited
Friends Life FPL Limited Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 4113107	100% holding of the ordinary shares in Friends Life Limited. Friends Life FPL Limited has no interest in FLL's 4.8% preference share class – which are a non voting (therefore non-controlling) class, held by Friends Life Group plc.
Friends Life FPG Limited Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06861305	100% shareholding in Friends Life FPL Limited
Friends Life Group plc Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06986155	100% shareholding in Friends Life FPG plc
Resolution Holdings (Guernsey) Limited Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No: 50756	100% shareholding in Friends Life Group plc
Resolution Holdco No.1 LP Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No:1118	100% shareholding in Resolution Holdings (Guernsey) Limited
Resolution Limited Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No: 49558	99.99% shareholding in Resolution Holdco No. 1 LP which exercised 100% of the voting rights at any general meeting. No shareholder owns 10% or more of the shares or votes in Resolution Limited

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

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

VALUATION REPORT

Throughout this report the following notation is used:

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

Part VII transfers into the Company on 28 December 2013

All remaining FLC business and FLWL business administered on the Embassy platform was transferred to FLP in accordance with a Scheme under Part VII of the Financial Services and Markets Act 2000.

Internal reinsurance arrangements as at 31 December 2013

Four new internal reinsurance arrangements are required due to FLWL transferring to FLP and FLL (remaining FLWL business administered on the Life platform was transferred to FLL).

Two reinsurance arrangements are required to provide new unit linked access between FLL NPF and FLP NPF. And two reinsurance arrangements are required to provide unitised with-profits contracts access to unit-linked funds and vice versa, between FLP NPF and FLL FLWL WPF.

1. Valuation Date

- (1) The actuarial investigation relates to a valuation date of 31 December 2013.
- (2) The valuation date of the previous investigation was 31 December 2012.
- (3) There have been no interim valuations (for the purpose of IPRU (INS) rule 9.4) since the previous valuation date.

2. Product Range

From 1 January 2013, all new individual protection products have been written into FLP; any products written before this date were written under FLL and will remain there.

New products

Clear Life and Accelerated Critical Illness cover: A new type of life cover and accelerated critical illness cover which offers a restricted benefit in return for reduced underwriting. These products are sold through the AA but are not restricted to members of the AA.

GOF+: Guaranteed Over 50's life cover sold through the AA. This product is a guaranteed acceptance product which pays out on the death of the life assured. This cover can be level or indexing and has guaranteed premiums.

Life cover: Fully underwritten life cover paying out on the death of the life assured (or first death if joint life). This cover can be level, indexing or decreasing with guaranteed premiums.

CIC cover: Fully underwritten cover paying out on the life assured (or first life assured if joint life) contracting a defined critical illness. This cover can be level, indexing or decreasing with guaranteed or reviewable premiums.

CIC with Life cover: Fully underwritten cover paying out on the death of the life assured (or first death if joint life) or contracting a defined critical illness. This cover can be level, indexing or decreasing with guaranteed or reviewable premiums.

IP cover: Fully underwritten income protection cover paying out a monthly benefit for either a defined term or until retirement on the life assured being unable to work according to a defined definition. This cover can be level or indexing with guaranteed or reviewable premiums.

Changes to existing products

Enhancements were made to Critical Illness products to widen the range of illnesses covered.

Products Withdrawn

No products were withdrawn during 2013.

3. Discretionary Charges and Benefits

(1) Application of Market value Reduction

No market value reduction (MVR) factors were applied during 2013 on unitised with-profits contracts.

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

No premiums were reviewed in 2013.

(3) Non-profit deposit administration benefits

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

Plan Type	Annual Rate of Interest Addition	
	Applied from 01/01/2013 to 31/01/2013	Applied from 01/02/2013 to 31/12/2013
Transplan	3.5%	4.5%
Compass (88) Pension Plan, Passbook Pension Plan, Passbook (92) Pension Plan, Transplan (88), Bespoke, Total Pension Plan, Executive Total Pension Plan, Transplan Plus, Group Personal Pension Plan, Group Money Purchase Plan, Group Money Purchase Plan Executive Option, Trustees' Investment Plan, Multibenefit Pension Solutions, Transplan GMP, Transplan Protected Rights Bulk Buyout, Personal Pension Plan – New Generation, Money Purchase plan – New Generation, Premier Retirement Plan, Group Secure Growth Plan, Voluntary Benefits Plan, Secure Growth Investment Only Plan, Compass Pension Plan, Combine Pension Plan, Combine (86) Pension Plan, Combine (90) Pension Plan, Combine GMP, Combine Final Salary and Combine Multibenefit	5.5% before charges	6.5% before charges

(4) Service charges on linked policies

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

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

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

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

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

The policy fees on ex-FLWL linked policies changed in 2013 as follows:

Product	Change in 2013
Winterthur Pensions	2.0%

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

(5) Benefit charges on linked policies

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

(6) Fund management charges

During 2013, the net annual management charge (the fund charge after rebate) was changed for the following funds:

Fund	Net Annual Management Charge		Fund size at 31/12/2013 £m
	Old	New	
Ascent Life (60:40) Global Equity (ex-FLWL)	0.500%	0.250%	0.34
Ascent Life (60:40) Global Equity (Herbert Smith)	0.370%	0.185%	47.31
Old Mutual Corporate Bond Fund	1.10%	1.00%	2.04
Towry A Acc	1.00%	2.00%	2.58

There were no changes to unit management charges or notional charges to accumulating with-profits policies during 2013.

(7) Unit Pricing

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

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

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

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

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

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

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

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

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

- b) Unit pricing bases are determined at fund level. Within a fund there are no variations between the pricing bases used for different policies other than through the use of different initial and annual management charges.
- c) Where assets are units in collective investment schemes (CIS) or similar assets, the assets used would be based on the market valuation as at close of business the previous working day

or current day's pricing point depending on the individual fund. Policyholders will receive a unit price appropriate for the timing of receipt and method of instruction and in accordance with their policy terms and conditions.

(8) Tax deductions from unit-linked funds

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

(9) Tax provisions for unit-linked funds

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

(10) Discounts on purchases of units

Ex-FLWL Funds:

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

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

Other funds

Where internal linked funds invest in permitted scheme interests that are exclusively authorised OEICs managed by F&C Asset Management Limited, the internal linked fund receives a management charge rebate up to 1.1% to ensure that the overall annual management charge to the policyholders is maintained. In respect of the Investment Trust Retirement Annuity (ITRA) contract the Company holds JP Morgan Fleming Investment Trust units to match the liabilities. The Company receives a rebate of 0.875% per annum from the annual charge, which it retains.

All Funds:

Fund Manager	Discount on Management Charge for benefit of policyholders %	Discount on Management Charge for benefit of the Company %
Aberdeen Asset Managers Ltd	0.5 - 1	-0.5 - 0.005
Allianz Global Investors	0.1 - 0.9	0 - 0.005
Architas Multi-Manager Limited	0.38 - 1.3	-0.65 - 0.03
Artemis	0.75 - 1	0 - 0.1
Artemis Investment Management Ltd	0.5 - 0.85	0 - 0.05
Ashmore	0.1 - 0.1	0 - 0
Aviva	0.625 - 0.625	0 - 0.125
Aviva Investment	-	0 - 0
AXA Investment Managers	0.45 - 1.35	0 - 0.25
Baillie Gifford	0 - 0.35	-0.55 - 0.15
Barclays Capital	0.7 - 0.7	-0.05 - -0.05
BlackRock Investment Management UK Ltd	0 - 1.05	0 - 0.18
Capital International (The Capital Group Companies)	0 - 1.25	0 - 0
Cazenove	0.6 - 0.75	0 - 0
Charlotte Square	0.6 - 0.6	0 - 0
Close	0.65 - 0.65	0 - 0

F&C	0.81 - 0.81	0.06 - 0.06
Fidelity International	0.5 - 0.75	0 - 0.4
First State	0.05 - 0.75	0 - 0
Franklin Templeton	0.75 - 0.8	0 - 0.05
GLG Partners / MAN plc	0.75 - 0.75	0 - 0
Goldman Sachs	1 - 1	0 - 0
Hargreaves Lansdown	0.65 - 0.65	0 - 0
Henderson Global Investors Limited	0 - 0.8	-0.1 - 0.05
HSBC	0 - 0.625	0 - 0
IFDS Managers Limited	0.8 - 1	0.05 - 0.13
Insight Investment (BNY Mellon)	0 - 0	0 - 0
Invesco Perpetual	0 - 0.75	0 - 0.4
Investec Asset Management	0.65 - 0.9	-0.12 - 0.15
JO Hambro	0.5 - 0.5	0 - 0
JPMorgan Asset Management	0 - 0.75	0 - 0
Jupiter Unit Trust Managers Ltd	0.625 - 0.75	0 - 0.005
Kames Capital	0.5 - 0.75	-0.1 - 0.1
Lazard Asset Management	0.125 - 0.85	0 - 0.005
Legal & General Investment Management	0 - 0	0 - 0
Legg Mason	0.75 - 0.75	0 - 0
Liontrust	0.75 - 0.75	0 - 0
M&G	0 - 0.775	-0.7125 - 0.025
MAM C F Midas and Miton (Midas Capital)	0.75 - 0.8	0 - 0
Margetts	0.75 - 0.75	0 - 0
Martin Currie	0 - 0.75	0 - 0
Mellon Global Investments/ Newton	0 - 0.375	-0.1 - 0.005
Mercer Global Investments	0 - 0.2	-0.09 - 0.81
MFS	0.15 - 0.25	0 - 0.41
Neptune	0.85 - 0.95	0 - 0.08
Newton (BNYMellon)	0 - 1.2	-0.1 - 0
Nomura	0 - 0	0 - 0
Old Mutual	0 - 0.87	0 - 0.5
Premier Asset Management	0.7 - 0.9	-0.06 - 0
P-Solve	0.12 - 0.12	0 - 0
Rathbone	0.75 - 0.75	0 - 0
River & Mercantile	0.6 - 0.6	0 - 0
Sarasin	0.1 - 0.1	0 - 0
Schroders Investments Ltd	0 - 0.825	0 - 0
SSGA	0.75 - 0.75	-0.45 - -0.45
Standard Life Investments	0 - 0.8	0 - 0.21
T.Rowe Price	0.25 - 0.96	0 - 0
Threadneedle Investments	0.075 - 0.85	0 - 0.075
Towry Law	1.3 - 1.3	0 - 0
Trilogy	0.15 - 0.15	0 - 0
UBS	0.55 - 0.55	0 - 0

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

4. Valuation Basis (Other Than for Special Reserves)

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

(1) Valuation Methods Used

a) General Method

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

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

- iv) 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.

b) General Principles

- i) All policies are valued individually and any negative reserves that arise from the valuation methodology are eliminated. The exceptions where negative reserves are permitted are non-profit protection products.
- ii) A provision has been made to cover the possibility of default by external reinsurers equal to 0.25% of all linked valuation liabilities.

c) Non Standard Methods

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

- In respect of deposit administration benefits, policyholders have expectations of annual interest additions. These have arisen from policy literature describing the operation of the Secure Growth Fund. The annual interest addition will be a smoothed rate of return on the underlying types of asset deemed appropriate to meet this objective. In the valuation, the face

values of policyholder accounts are restated consistent with assets at market value to ensure any earnings on assets not yet declared are reserved for the future benefit of policyholders.

- Annual premium income protection business is valued using a gross premium method. In all cases claims in payment are valued in addition to the above. Hospitalisation benefit claims are assumed to be 0.006% of the annual policy benefit, although, in practice, the amount of hospitalisation benefit is not related to policy benefit.

(2) Valuation Interest Rates

	31/12/2013	31/12/2012
	Pension %	Pension %
Investment Trust Retirement Annuity	1.00	1.00
Annuities in Possession (Pre July 2001)	3.76	3.27
Annuities in Possession (Post July 2001)	3.76	3.25
Regular Premium Term Assurances	3.20	2.20
Unit-linked business	4.40	3.40
Other Non Profits	3.20	2.20
GAO Reserve	3.00	1.90
Unitised With Profits	3.30	2.80
Pensions transferred from FLWL	1.90	1.70
Unit-linked pensions transferred from FLC	0.50	0.50

The valuation interest rate for each individual protection product type is set out in the table below. For regular premium policies appearing on Form 54, the nominal valuation rate has been reduced by 3.3% to obtain a real yield. 2012 rates are not applicable as business only began being written into the Company in 2013.

	31/12/2013
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	Policy as a Liability %	Policy as an Asset %
Accelerated Critical Illness	2.70	4.20
Stand-alone Critical Illness	2.70	4.20
Life	2.70	4.20
Income Protection	2.70	4.20
Immediate Needs (Level)	2.70	N/A
Long Term Care	2.70	N/A
Claims in Payment	3.20	N/A

(3) Adjustment to Yields for Risk

Fixed Interest

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

The internal rates of return on corporate bonds have been reduced to make a prudent allowance for the risk of default. This allowance uses the experience from 1920-2012 data, plus a margin for prudence.

The following transition/default table plus 26 percent of spread over gilts for non-gilt assets have been deducted from gross redemption yields to allow for credit default risk (figures shown below are in basis points):

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

Subordinated bonds (non callable) will have a 30% uplift applied to table above while subordinated bonds (callable) will have a 70% uplift applied.

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

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

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

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

Equities

In compliance with INSPRU 3.1.37R, the running yield on equities is calculated as the greater of the dividend yield and the average of the dividend yield and the earnings yield. This yield, and the yield on property, is capped at the long-term gilt yield plus 4% p.a (7.45% at 31st December 2013).

(4) Mortality

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

	31/12/2013		31/12/2012	
	Male	Female	Male	Female
Ex FPLMA Unitised Business	110% AMC00	110% AFC00	110% AMC00	110% AFC00
Individual Annuities and Deferred Annuities once in payment (Pre July 2001) ⁽²⁾	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
Individual Annuities and Deferred Annuities once in payment (Post July 2001) ⁽²⁾	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
Group Annuities (Pre July 2001) ⁽²⁾	97% PCMA00	92% PCFA00	97% PCMA00	92% PCFA00
Group Annuities (Post July 2001) ⁽²⁾	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
Deferred Annuity in Deferment	65% AMC00	55% AFC00	65% AMC00	55% AFC00
Ex FLWL Unitised Business	100% AM92 ult	100% AF92 ult	100% AM92 ult	100% AF92 ult
Ex FLC Unitised Business	90.91% AM80 ult	90.91% AF80 ult	90.91% AM80 ult	90.91% AF80 ult
Stand-alone Critical Illness- Non-smoker	37.5% TM92 ult	37.5 TF92 ult	N/A	N/A
Stand-alone Critical Illness- Smoker	75% TM92 ult	75% TF92 ult	N/A	N/A
Life- Non-smoker	82.5% TMN00 sel	71.5% TFN00 sel	N/A	N/A
Life- Smoker	82.5% TMS00 sel	71.5% TFS00 sel	N/A	N/A
Life- Non-differentiated ⁽¹⁾	110% TMN00 sel	110% TFN00 sel	N/A	N/A
Income Protection	100% AM80 sel	100% AF80 sel	N/A	N/A

(1) Non-differentiated produces higher rates as this refers to a separate block of business where smoker status was not disclosed. This business is assumed to have a different

mortality experience to business sold where smoker status was required to be disclosed and hence uses a different percentage of the mortality table.

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

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

Product group	Current age	Age at which expectation is determined	31/12/2013		31/12/2012	
			Males years	Females years	Males years	Females years
Annuities in payment- Individual contracts- pension business (Pre-July 2001)	65	65	25.93	28.36	25.63	28.05
	75	75	16.23	18.17	15.93	17.86
Deferred annuities- group contracts – pension business (Post-July 2001)	45	65	28.88	30.68	28.56	30.39
	55	65	27.31	29.16	26.98	28.84
Annuities in payment– group contracts- pension business (Post-July 2001)	65	65	25.82	27.61	25.53	27.29
	75	75	15.93	17.51	15.64	17.20
Annuities in payment- Group contracts- pension business (pre-July 2001)	65	65	24.92	27.30	24.62	26.97
	75	75	15.42	17.31	15.11	17.00
Deferred annuities- individual contracts– pension business (Post-July 2001)	45	65	29.33	31.18	29.01	30.89
	55	65	27.75	29.67	27.42	29.35
Annuities in payment– individual contracts- pension business (Post-July 2001)	65	65	26.25	28.12	25.96	27.80
	75	75	16.42	18.01	16.12	17.71

(5) Morbidity

Tables showing the morbidity inception and termination assumptions used for each of the main individual protection product groups and tranche, where relevant, are set out below. These rates apply to guaranteed policies. There is a reduction of 5% in the provision for adverse deviation on reviewable accelerated CIC policies and 3.75% on reviewable stand-alone policies.

a) Inceptions

Product Type	Table	Inception Rates as Percentage of table CIBT02 at 31/12/2013			
Sex Smoker		M NS	M S	F NS	F S
Accelerated Critical Illness	CIBT02	46.7	72.0	60.6	106.1
Stand-alone Critical Illness	CIBT02	53.3	93.6	58.5	74.1
Income Protection	CMIR 12 Inceptions*	132.4	185.4	251.5	352.1

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

Occupational Class	IP Loading %
Valuation Date	31/12/2013
1	90
2	95
3	125
4	180
5	250

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

Deferred Period (weeks)	Factor
Valuation Date	31/12/2013
4	25
13	40
26	70
52	195

b) Termination/Recovery rates

Product Type	Table	Recovery Rates as Percentage of table at 31/12/2013			
Sex Smoker		M NS	M S	F NS	F S
Income Protection	CMIR 12 Recovery Rates	68 y1 72.25 y2 76.5 y3+	68 y1 72.25 y2 76.5 y3+	68 y1 72.25 y2 76.5 y3+	68 y1 72.25 y2 76.5 y3+
Long Term Care	See sample rates below	116.4	128.4	116.4	128.4
Group Risk Claims in Payment (IP)	CMIR 12 Termination Rates	77 y1 135 y2-y3 108 y4-5 81 y5+	77 y1 135 y2-y3 108 y4-5 81 y5+	77 y1 135 y2-y3 108 y4-5 81 y5+	77 y1 135 y2-y3 108 y4-5 81 y5+

- c) An allowance for future deterioration in morbidity experience is made on guaranteed and reviewable policies by applying factors to the morbidity rates shown in this section. Morbidity deterioration factors are calculated by compound increases to the underlying table rates according to the percentages below.

Product Type and launch date where appropriate	Annual Percentage at 31/12/2013	
	Guaranteed	Reviewable
Future Care (Security)	2	1
Accelerated Critical Illness	0.5	0.25
Stand-alone Critical Illness	1	0.5
Income Protection	0	0

(6) Expense Bases

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

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

		31/12/2013				31/12/2012			
Class		Zillmer adj. % SA	Annual Expense £	Investment Expense% of Fund pa	% of Premium	Zillmer adj. % SA	Annual Expense £	Investment Expense% of Fund pa	% of Premium
Term Assurance (325 / 330)	Premium Paying	N/A	16.29	0.108	0	N/A	17.33	0.108	0
	Otherwise	N/A	19.86	0.125	0	N/A	20.72	0.125	0
Critical Illness (340 / 345 / 350 / 355)	Premium Paying	N/A	16.29	0.108	0	N/A	17.33	0.108	0
	Otherwise	N/A	19.86	0.125	0	N/A	20.72	0.125	0
Income Protection (360 / 365)	All	N/A	16.29	0.108	2.5	N/A	17.33	0.108	2.5
Annuity pre demutualisation (400)	All	N/A	17.16	0.105	0	N/A	13.32	0.055	0
Annuity post demutualisation (400)	All	N/A	17.16	0.105	0	N/A	13.32	0.105	0
UWP regular premium pension (525 / 545)	Premium Paying	N/A	33.50	0.105	0	N/A	29.91	0.125	0
	Otherwise		16.80	0.105			18.71	0.125	
UWP single premium pension (525 /545)	All	N/A	16.06	0.105	0	N/A	15.40	0.125	0
UWP group regular premium pension (535)	Premium Paying	N/A	33.50	0.105	0	N/A	29.91	0.125	0
	Otherwise		16.80	0.105			18.71	0.125	
UWP group single premium pension (535)	All	N/A	16.06	0.105	0	N/A	15.40	0.125	0
UL regular premium pension (725)	Premium Paying	N/A	15.10	0.090 / 0.080 *	0	N/A	14.57	0.095 / 0.080 *	0
	Otherwise		7.60	0.090 / 0.080 *			8.44	0.095 / 0.080 *	
UL single premium pension (725)	All	N/A	7.79	0.090 / 0.080 *	0	N/A	8.15	0.095 / 0.080 *	0
UL group regular premium pension (735)	Premium Paying	N/A	15.10	0.090 / 0.080 *	0	N/A	14.57	0.095 / 0.080 *	0
	Otherwise		7.60	0.090 / 0.080 *			8.44	0.095 / 0.080 *	
UL group single premium pension (735)	All	N/A	7.79	0.090 / 0.080 *	0	N/A	8.15	0.095 / 0.080 *	0

For unit-linked pension products the Investment Expenses are 0.090% p.a. for business written prior to 01/01/2013 and 0.080% p.a. for business written after that date.

(7) Inflation rate and unit growth rates

The unit growth rates for gross and net linked business (before management charges) and the inflation rates assumed for future expenses and future increases in policy charges are shown below:

	31/12/2013		31/12/2012	
	Unit Growth % p.a.	Expense Inflation % p.a.	Unit Growth % p.a.	Expense Inflation % p.a.
	Gross		Gross	
Conventional Non Profit	N/a	4.8	N/a	4.2
Unitised	4.4	4.8	3.4	4.2

For policies with explicit policy charges, these charges increase in line with the RPI or Average Weekly Earnings (AWE) Index. We have assumed that future RPI is 3.3% p.a., and that future AWE is 1% higher at 4.3% p.a.

(8) Future bonus rates

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

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

(9) Lapse surrender and conversion to paid-up

A summary of the lapse assumptions is shown below:

Product		Average Annual Lapse / Surrender / Paid-up Rate for Policy Years			
		1-5	6-10	11-15	16-20
		%	%	%	%
Level term (incl. Critical Illness) – Low Rate	Lapse	6.4	4.2	3.6	3.6
Level term (incl. Critical Illness) – High Rate	Lapse	15.0	9.8	8.4	8.4
Decreasing Term (incl. Critical Illness) – Low Rate	Lapse	8.8	5.3	4.5	4.5
Decreasing Term (incl. Critical Illness) – High Rate	Lapse	20.4	12.5	10.5	10.5
Accelerated Critical Illness – Low Rate	Lapse	7.4	4.7	4.1	4.1
Accelerated Critical Illness – High Rate	Lapse	17.3	11.1	9.5	9.5
Income Protection – Low Rate	Lapse	6.4	4.2	3.6	3.6
Income Protection – High Rate	Lapse	15.0	9.8	8.4	8.4
UL Group Pension	PUP	21.3	15.6	15.6	15.6

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

(10) Other material assumptions

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

Product	IP	CI	Life
Reserve	40% of the average premiums in force over the last 6 months	15% of the average premiums in force over the last 2 months	10% of the average premiums in force.

(11) Derivative contracts

Derivatives are shown at market value using quoted prices where exchange traded, and own-modelled prices agreed with counterparties otherwise. Combined yields are calculated for assets with covering derivatives, whether in-the-money or out-of-the-money, in accordance with INSPRU 3.1.30R. The interest rates used in the valuation of liabilities are consistent with the yields on backing assets,

reflecting covering derivatives if appropriate. In the calculation of the resilience capital requirement the derivative values and the yields on the combined assets are recalculated to reflect the market risk scenario being tested.

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

No further changes have been made since the previous valuation.

5. Options and Guarantees

(1) Guaranteed Annuity Rate Options

- a) Certain deferred annuities are valued as the greater of the present value of the annuity or, if appropriate, the alternative cash fund available at vesting for the purchase of an annuity, less the present value of premiums for the same option where appropriate. It has been assumed that all contract plan types listed below have such a guarantee. It is assumed that 100% of the fund at retirement is taken in the form of an annuity if this option is more onerous than cash.

- b) The table below shows details of the options:

Product Name	Basic Reserve	Outstanding Durations	Guarantee Reserve	Guaranteed Rate	Increments Allowed	Annuity Form	Retirement Ages
(i)	(ii) £m	(iii)	(iv) £m	(v)	(vi)	(vii)	(viii)
Former LMP unitised pension business	38.1	Up to 17 years	33.6	10%	No	Single Life; monthly in advance, guaranteed 5 years	60-75

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

(2) Guaranteed Surrender and unit-linked maturity values

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

(3) Guaranteed Insurability Options

For individual protection business, Guaranteed Insurability options are offered on a range of policies as follows:

Life and Critical Illness:

Policyholders have the right to increase the sum assured under their contract upon marriage, the birth of a legitimate child, mortgage increases or promotion. The sum assured may be increased by 25% on each event subject to a maximum of 100% or £100,000 in aggregate.

Children under the age of 18 are covered free and on their 18th birthday have the right to take out a contract in their own name.

Renewable term contracts have renewability guaranteed until age 70.

Income Protection:

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

On marriage, birth of a legitimate child, mortgage increase, promotion or change of employment, policyholders may increase their benefit level by up to 50% of the pay rise subject to an annual limit of £9,000 and on overall limit of 50% of the original annual benefit.

Renewable term contracts either have renewability guaranteed until age 70 or have renewability guaranteed until a selected retirement age.

Guaranteed Insurability options are not valued explicitly but are allowed for within the mortality and morbidity assumptions.

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

Product Name (b)(i)	In-force Premiums (b)(ii) £m	Sum assured (b)(iii) £m
Decreasing Accelerated Critical Illness	14.6	3,225.5
Level Accelerated Critical Illness	12.7	1,998.1
Level Income Protection	7.9	268.4
Level Stand Alone Critical Illness	2.7	373.3
Decreasing Term Assurance	6.9	2,990.1
Level Term Assurance	11.7	5,457.7

(4) Other Guarantees and Options

- a) Transplan Section 32 policies must provide a benefit that is not less than the Guaranteed Minimum Pensions. A guarantee reserve of £4.9m has been set up in respect of a basic reserve of £25.9m. This has been calculated deterministically, allowing for additional margins, as an approximation to the stochastic value of the guarantee.

A number of old series deposit administration contracts linked to the Secure Growth Fund provide for guaranteed interest rates to apply over the contractual term of the contract or an initial number of years. The interest rate guarantee is an overall average rate per annum over the term of the contract rather than applicable each year. The actual interest declarations

made already are significantly in excess of the guaranteed rate and no specific provision was deemed necessary to fulfil any remaining guarantees. Additionally, some Secure Growth Fund Contracts have a guarantee that MVRs would never be applied. If either of these guarantees were to bite in future, the future interest declaration on the Secure Growth Fund would be reduced to cover the cost of the guarantee (in respect of the interest rate guarantee, the cost would effectively be borne by policies without the guarantee). Since the liability allows in full for future discretionary interest additions we have not deemed it necessary to increase the liability further to allow for guarantees.

6. Expense Reserves

(1) Expense Loadings

The aggregate amount, grossed up for tax where appropriate, arising during the twelve months after the valuation date from reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is £69.8m. The amounts arising from each of the implicit allowances, explicit allowances for investment expenses and explicit allowances for other maintenance expenses are shown in the table below.

Homogeneous Risk Group	Implicit Allowances £m	Explicit Allowance (Investment) £m	Explicit Allowances (Other) £m	Non-Attributable Expenses £m	Total £m
New Generation Pensions	0.0	14.2	12.0	13.0	39.2
All Expenses Attributable	0.0	4.5	9.6	0.0	14.1
Total (excluding ex-FLWL and ex-FLC)	0.0	18.7	21.6	13.0	53.3
Unit linked business (ex-FLWL)	0.0	8.8	2.5	2.0	13.3
Unit linked business (ex-FLC)	0.0	1.3	1.2	0.7	3.2
Total	0.0	28.8	25.3	15.7	69.8

(2) Implicit Expense Allowances

There are no implicit allowances for expenses.

(3) Comparison with Form 43

Financial Reporting Standard 26 requires initial transaction costs on assets to be shown as investment expenses in the statutory accounts and, these expenses, amounting to £9.2m, have been included in line 14 of Form 43. The valuation implicitly assumes that there will be no future asset turnover, so no allowance is made for expenses of this nature.

The maintenance expenses in line 14 of Form 43 are £86.1m. These include non-recurring project costs amounting to £28.7m. After allowing for initial transaction costs on assets and non-recurring project costs, the amount of maintenance expenses (£48.2m) included in line 14 of Form 43 is lower than the expense loadings (excluding ex-FLWL and ex-FLC) (£53.3m) disclosed in section 6.(1) above.

The reason that ex-FLWL and ex-FLC expenses have been excluded is because Form 43 only includes ex-FLWL and ex-FLC expenses that occurred in the period between 28/12/2013 and 31/12/2013 (which are minimal), whereas the expenses in section 6.(1) above are for the whole year so they are not comparable.

(4) New business expense overrun

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

(5) Maintenance expense overrun

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

(6) Non attributable expenses

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

7. Mismatching reserves

(1) Analysis of reserves by currency

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

Currency	Value of liabilities (£m)	Value of assets (£m)
Sterling	2,649	2,795
Total	2,649	2,795

(2) Other currency exposure

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

(3) Currency mismatching reserve

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

(4) Most onerous scenario under INSPRU 3.1.16R

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

- A fall in the market value of equities of 10%;
- A fall in real estate values of 20%; and
- A rise in yields on all fixed interest securities of 0.69% p.a.

(5) Most onerous scenario under INSPRU 3.1.23R

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

(6) Amount of resilience capital requirement

- a) The amount of the resilience capital requirement is £0m.
- b) The long term insurance liabilities decreased by £158.3m.
- c) The value of the assets allocated to match these liabilities decreased by £157.4m from their value as shown in Form 13.

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

The nature and term of the assets matching liabilities is regularly reviewed to ensure continued appropriateness and no additional provision was required at the valuation date to ensure that the company could meet its obligations as they arise.

8. Other Special Reserves

Embassy extra reserves

A reserve of £13m is held in relation to short term costs relating to the Embassy platform.

9. Reinsurance

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

No premiums for reinsurance ceded on a facultative basis were paid during 2013 to reinsurers who are not authorised to carry on insurance business in the United Kingdom.

(2) Reinsurance treaties

(a), (b) & (c) Details of reinsurance treaties under which the Company is the cedant and either the premiums payable to the reinsurer during 2013 or the reduction in mathematical reserves in respect of the reinsurance exceed £10m are contained in the table below, except as detailed here:

- d) The name of the reinsurer is quoted in the table.
- e) The nature and extent of cover is quoted in the table.
- f) The premiums paid in 2013 are quoted in the table.
- g) There were no deposit back arrangements.
- h) Availability to new business is quoted in the table.
- i) The undischarged obligations are listed below:

Reinsurer	Amount (£m)
SCOR Reinsurance Ireland Limited	0.2
RGA Global Reinsurance Limited	0.2
Total	0.4

- j) The mathematical reserves ceded under the treaty are quoted in the table.
- k) Retentions on new business are quoted in the table.
- d) Baillie Gifford Life Limited and JPMorgan Life Limited are not authorised to carry on insurance business in the UK. All of other reinsurers below are authorised to carry out insurance business in the UK.
- l) Connections of any reinsurer to the Company are quoted in the table.
- m) An additional liability of £15.8m is held in respect of the mathematical reserves shown in the table below to allow for credit risk (excluding liabilities ceded internally).
- n) None of the treaties are financing arrangements.

		9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above)				
(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathematical Reserves £m	(k) Retention for new policies	(m) Connected Company
RGA Global Reinsurance Ltd	IFA Life cover treaty	1.1	Open	10.8	10% up to £50,000	Not Connected
Scor Reinsurance Ireland Ltd	Quota Share 'Life and Critical Illness' and 'Critical illness' premium treaty for IFA-, Connells- and Countrywide- distributed business.	0.9	Open	19.7	60% up to £150,000	Not Connected
Baillie Gifford Life Limited	100% of Investment benefits under Baillie Gifford Unit Linked funds	6.0	Open	112.0	N/A	Not Connected
JP Morgan Life Limited	100% of Investment benefits under JP Morgan Unit Linked funds	2.6	Open	48.3	N/A	Not Connected
BlackRock	100% of Investment benefits under BlackRock Unit Linked funds	318.2	Open	5,980.4	N/A	Not Connected
Schroder	100% of Investment benefits under Schroder Unit Linked funds	3.7	Open	69.8	N/A	Not Connected

AXA Wealth	100% of Investment benefits under AXA Wealth Unit Linked funds	3.9	Open	72.9	N/A	Not Connected
	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0.3	Open	418.2	N/A	Not Connected
Friends Life Ltd	All investment benefits under Unitised With Profit funds	6.1	Open	102.0	N/A	Parent Company
	All liabilities for benefits relating to the value of Property Fund units.	-14.7*	Open	504.9	N/A	Parent Company
	Linked benefits where the member has chosen to invest in the funds of Friends Life Limited on a 100% quota share basis (originally in ex-FLC)	0.2	Open	194.6	N/A	Parent Company
Legal & General Assurance (Pensions Man) Ltd	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally	0	Open	35.2	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is	Not Connected

	in ex-FLWL)				retained by the Company.	
BlackRock Life Ltd	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	-0.2*	Open	1,875.5	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected
Schroder Pension Management Ltd	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0.1	Open	33.3	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected
Threadneedle Pensions Ltd	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0	Open	44.7	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected

*This is negative because the premiums are net of claims. This is consistent with Form 41.

10.Reversionary Bonus

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

Directors' certificate required by rule 9.34 of the Accounts and Statements Rules
Friends Life and Pensions Limited
Financial year ended 31 December 2013

Global Business

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU as modified by the waiver dated 13 August 2009 issued under section 148 of the Financial Services and Markets Act 2000, details of which are contained in note 5702; and

(b) we are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;

(b) that the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;

(c) that we have, in preparing the return, taken and paid due regard to-
 - (i) advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

A. D. Carr
Director

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

J. S. Moss
Director

25 March 2014

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

Friends Life and Pensions Limited

Global business

Financial year ended 31 December 2013

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Prudential Regulation Authority under section 137G of the Financial Services and Markets Act 2000:

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

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

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

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

Respective responsibilities of the insurer and its auditor

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. The requirements of the Rules have been modified by the direction on 13 August 2009 made by the Prudential Regulation Authority under section 138A of the Financial Services and Markets Act 2000 and referred to in supplementary notes 0201 and 5702. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report are required to reflect appropriately the requirements of INSPRU 1.2.

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

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

Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 25 March 2014. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation report.

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

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

Opinion

In our opinion:

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

Ernst & Young LLP

Statutory Auditor

London

25 March 2014