



# Annual Group Capital Adequacy Report

Return Reference Number: 196142

Reference date of the report: 31 December 2013

This return is date critical

## To be Completed by Firm

Firm's Name

Friends Life Limited

Firm's Reference Number

196142

## To be completed by FSA

Date and Time of Receipt

Entry Receipt Number

Name & Initials of Person  
Receiving it

Division Passed To

**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers (“IPRU(INS)”)**

**Friends Life Limited**

**Financial year ended 31 December 2013**

1. This report is made pursuant to rules 9.40(1) and 9.40(1A) of IPRU(INS).
2. The firm’s ultimate insurance parent undertaking and EEA insurance parent undertaking is Resolution Limited, with its head office at One New Change, London, EC4M 9EF and carrying on the activity of an insurance holding company.
3.
  - a) The Group Capital Resources of Resolution Limited is £8,117 million.
  - b) The Group Capital Resources Requirement of Resolution Limited is £5,865 million.
  - c) The excess of Group Capital Resources over Group Capital Resources Requirement of Resolution Limited is £2,252 million.
4. This report is submitted by Friends Life Limited on behalf of Friends Life and Pensions Limited (110414) and Friends Life FPLMA Limited (202225), and has been copied and made available to their Boards of Directors. The report is also submitted on behalf of Friends Life Company Limited (185063), and Friends Life WL Limited (182007) which were authorised life companies at 31 December 2013, but were de-authorised on 7 February 2014 and 4 March 2014 respectively..
5. The FSA, on the application of the firm, made a direction on 22 December 2011 under section 148 of the Act. The effect of the direction is to modify INSPRU 6.1.37R so that the firms may report the 6.875% Step up Tier 1 Insurance Capital Securities issued by Friends Life FPL Limited (then known as Friends Provident plc) on 21 November 2003, in respect of which the rights and obligations of Friends Life FPL were novated to Friends Life FPG (then known as Friends Provident Group plc) on 6 July 2009 and subsequently further novated to Friends Life Group plc (then known as Friends Provident Holdings (UK) plc) on 15 December 2010, as part of the group capital resources
6. In accordance with rule 9.41, solvency deficits in regulated related undertakings are reported on page 6.
7. Information required by rule 9.40(1A), is reported on pages 8 and 9.
8. Signing of Group Capital Adequacy Report in accordance with IPRU(INS) 9.33(1) is on page 3.
9. The Independent auditor’s statement to the directors pursuant to rule 9.40(3)(c) of the IPRU(INS) is on pages 10 and 11.

**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers (“IPRU(INS)”)**

**Friends Life Limited**

**Financial year ended 31 December 2013**

Signing of Group Capital Adequacy Report in accordance with IPRU(INS) 9.33(1)

J. S. Moss, Director



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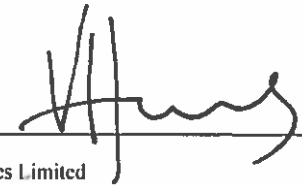
M. Carvill, Director



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V. Hames, Secretary

Signed on behalf of Friends Life Secretarial Services Limited



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Date: 26 March 2014



**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers**

**Friends Life Limited**

**Financial year ended 31 December 2013**

**Insurance Group Capital Adequacy**

Name of ultimate worldwide insurance parent undertaking

Resolution Limited
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Name of ultimate EEA insurance parent undertaking

Resolution Limited
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**Calculation of Consolidated Position:**

	<b>EEA Parent £m</b>	<b>Worldwide Parent £m</b>
<b>TIER 1</b>		
Group Core Tier 1	8,256	8,256
Group Non-Cumulative Preference Shares	-	-
Group Innovative Tier 1	488	488
Deductions from tier one	93	93
<b>Total Group Tier 1</b>	<b>8,651</b>	<b>8,651</b>
<b>TIER 2</b>		
Group Upper Tier 2	347	347
Group Lower Tier 2	662	662
<b>Total Group Tier 2</b>	<b>1,009</b>	<b>1,009</b>
<b>Total Capital Resources (before deductions)</b>	<b>9,660</b>	<b>9,660</b>
<b>Total group capital resources deductions</b>	<b>1,543</b>	<b>1,543</b>
<b>Total Group Capital Resources:</b>	<b>8,117</b>	<b>8,117</b>
<b>Total Group Capital Resources Requirement</b>	<b>5,865</b>	<b>5,865</b>
<b>Group surplus/ (deficit)</b>	<b>2,252</b>	<b>2,252</b>

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2013

Name of ultimate worldwide insurance parent undertaking	Resolution Limited
Name of ultimate EEA insurance parent undertaking	Resolution Limited

Name of related undertaking	Worldwide parent % interest	EEA parent % interest	Type of firm	Group Core Tier 1 £m	Group Non-Cumulative Preference Shares £m	Group Innovative Tier 1 £m	Deductions from Tier 1 £m	Group Upper Tier 2 £m	Group Lower Tier 2 £m	Total group capital resources deductions £m	Total Group Capital Resources Requirement £m	GCA Surplus £m
Resolution Limited	100	100	Insurance holding company	147	-	-	-	-	-	-	-	147
Resolution Holdco No 1 LP	99.99 (S)	99.99 (S)	Insurance holding company	15	-	-	-	-	-	-	-	15
Resolution Holdings (Guernsey) Limited	99.99 (S)	99.99 (S)	Insurance holding company	3	-	-	-	-	-	-	-	3
Friends Life Group plc	99.99 (S)	99.99 (S)	Insurance holding company	584	(51)	(110)	-	-	-	30	-	393
Friends Life FPG Limited	99.99 (S)	99.99 (S)	Insurance holding company	34	-	-	-	-	-	-	-	34
Friends Life FPL Limited	99.99 (S)	99.99 (S)	Insurance holding company	320	-	-	-	-	-	93	-	227
Friends Life Limited	99.99 (S)	99.99 (S)	Regulated Insurance	6,327	51	598	23	347	662	1,170	5,586	1,206
Friends Life Company Limited	99.99 (S)	99.99 (S)	Regulated Insurance	8	-	-	-	-	-	-	3	5
Friends Life WL Limited	99.99 (S)	99.99 (S)	Regulated Insurance	8	-	-	-	-	-	-	3	5
Friends Life and Pensions Limited	99.99 (S)	99.99 (S)	Regulated Insurance	598	-	-	57	-	-	221	177	143
Friends Provident International Limited (IOM)	99.99 (S)	99.99 (S)	Regulated Insurance	67	-	-	-	-	-	-	17	50
London and Manchester Group Limited	99.99 (S)	99.99 (S)	Insurance holding company	-	-	-	-	-	-	-	-	-
Friends Life FPLMA Limited	99.99 (S)	99.99 (S)	Regulated Insurance	6	-	-	-	-	-	-	3	3
Insurance Development Holdings A.G.	99.99 (S)	99.99 (S)	Insurance holding company	2	-	-	-	-	-	-	-	2
Lombard International Protected Cell Company Limited	99.99 (S)	99.99 (S)	Regulated Insurance	6	-	-	-	-	-	-	-	6
Lombard International Assurance S.A.	99.99 (S)	99.99 (S)	Regulated Insurance	92	-	-	10	-	-	1	55	26
Friends Provident Distribution Holdings Limited	99.99 (S)	99.99 (S)	Financial holding company	(12)	-	-	-	-	-	-	-	(12)
Friends Life Distribution Limited (see Page 7)	99.99 (S)	99.99 (S)	Financial holding company	9	-	-	3	-	-	25	16	(35)
Friends Life Services Limited	99.99 (S)	99.99 (S)	Regulated Investment	43	-	-	-	-	-	3	5	35
Less minority interest in EEA parent and its regulated related undertakings not in deficit				(1)	-	-	-	-	-	-	-	(1)
<b>TOTAL - Ultimate EEA Insurance Parent Undertaking</b>				<b>8,256</b>	<b>-</b>	<b>488</b>	<b>93</b>	<b>347</b>	<b>662</b>	<b>1,543</b>	<b>5,865</b>	<b>2,252</b>
<b>TOTAL - Ultimate Worldwide Insurance Parent Undertaking</b>				<b>8,256</b>	<b>-</b>	<b>488</b>	<b>93</b>	<b>347</b>	<b>662</b>	<b>1,543</b>	<b>5,865</b>	<b>2,252</b>

Friends Annuities Limited has been included within Friends Life Limited and is not shown separately. (S) denotes a subsidiary of Worldwide parent or EEA parent

**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers  
Friends Life Limited**

**Financial year ended 31 December 2013**

**Details of regulated related undertakings where individual capital resources requirement exceeds its solo capital resources pursuant to rule 9.41 of the Interim Prudential Sourcebook for Insurers**

Name of ultimate worldwide insurance parent undertaking Resolution Limited  
 Name of ultimate EEA insurance parent undertaking Resolution Limited

As set out in INSPRU 6.1.28R in accordance with INSPRU 6.1.30R and INSPRU 6.1.31R:

Name of related undertaking	Worldwide parent		EEA parent % interest	Type of firm	Group Core Tier 1 £m	Group Non-Cumulative Preference Shares £m	Group Innovative Tier 1 £m	Deductions from Tier 1 £m		Group Upper Tier 2 £m	Group Lower Tier 2 £m	Total group capital resources £m	Total Group Capital Resources Requirement £m	CCA Surplus £m
	% interest							Tier 1	2					
Friends Provident Distribution Holdings Limited	99.99 (S)		99.99 (S)	Financial holding company	(3)	-	-	3	-	-	-	25	16	(47)
Friends Life Distribution Limited	99.99 (S)		99.99 (S)	Financial holding company	9	-	-	3	-	-	-	25	16	(35)
Sesame Bankhall Group Limited	99.99 (S)		99.99 (S)	Financial holding company	(79)	-	-	3	-	-	-	25	7	(114)

**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers**

**Friends Life Limited**

**Financial year ended 31 December 2013**

**Analysis of Friends Life Distribution Limited by legal entity**

Name of ultimate worldwide insurance parent undertaking	Resolution Limited
Name of ultimate EEA insurance parent undertaking	Resolution Limited

Name of ultimate worldwide insurance parent undertaking  
Name of ultimate EEA insurance parent undertaking

As set out in INSPRU 6.1.28R in accordance with INSPRU 6.1.30R and INSPRU 6.1.31R.

Name of related undertaking	Worldwide parent % interest	EEA parent % interest	Type of firm	Group Core Tier 1 £m	Group Cumulative Preference Shares £m	Group Innovative Tier 1 £m	Deductions from Tier 1 £m	Group Upper Tier 2 £m	Group Lower Tier 2 £m	Total group capital resources £m	Total Group Capital Resources Requirement £m	OCA Surplus £m
Friends Life Distribution Limited	99.99 (S)	99.99 (S)	Financial holding company	-	-	-	-	-	-	-	-	-
Sesame Services Limited	99.99 (S)	99.99 (S)	Financial holding company	84	-	-	-	-	-	-	9	75
Financial Options Services Limited	99.99 (S)	99.99 (S)	Investment	4	-	-	-	-	-	-	-	4
Sesame Bankhall Group Limited	99.99 (S)	99.99 (S)	Financial holding company	(161)	-	-	-	-	-	3	-	(164)
Sesame Limited	99.99 (S)	99.99 (S)	Regulated investment	67	-	-	-	-	-	22	7	38
Bankhall Investment Management Limited	99.99 (S)	99.99 (S)	Financial holding company	(1)	-	-	-	-	-	-	-	(1)
Bankhall PMS Limited	99.99 (S)	99.99 (S)	Regulated Investment	16	-	-	3	-	-	-	-	13
Friends Life Distribution Limited	99.99 (S)	99.99 (S)	Financial holding company	9	-	-	3	-	-	25	16	(35)

The individual capital resources above are calculated after the deduction of investment in the capital resources of relevant regulated related undertakings



**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers**

**Friends Life Limited**

**Financial year ended 31 December 2013**

Reconciliation between the group capital resources of the ultimate EEA insurance parent undertaking and the shareholders' funds, subordinated liabilities and other relevant amounts included in the published annual consolidated accounts of the ultimate EEA insurance parent undertaking pursuant to rule 9.40(1A)(a) of the Interim Prudential Sourcebook for Insurers

	£m
Equity attributable to equity holders of the parent	5,229
Equity attributable to holders of Step-up Tier one Insurance Capital Securities (STICS)	318
Subordinated liabilities	1,009
Unallocated surplus	627
	<b>7,183</b>
Valuation difference between accounts and regulatory value of STICS	170
Intangible assets	(3,855)
Other regulatory adjustments: Assets	(499)
Valuation differences between regulatory and realistic actuarial liabilities	4,913
Other regulatory adjustments: Liabilities	763
<b>Group available capital resources as reported in the Capital Statement</b>	<b>8,675</b>
Restricted assets that cannot be readily transferred (on a regulatory basis)	(616)
Other	(4)
Late adjustments and roundings not reflected in Group available capital resources in the Capital Statement	62
<b>Total Group Capital Resources</b>	<b>8,117</b>

**Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers**

**Friends Life Limited**

**Financial year ended 31 December 2013**

Reconciliation of the group capital resources of the ultimate EEA insurance parent undertaking as calculated in the Group Capital Adequacy and the group capital resources included in the capital statement of the published annual consolidated accounts of the ultimate EEA insurance parent undertaking pursuant to rule 9.40(1A)(b) of the Interim Prudential Sourcebook for Insurers

	£m
<b>Group available capital resources as reported in the Capital Statement</b>	<b>8,675</b>
Restricted assets that cannot be readily transferred (on a regulatory basis)	(616)
Other	(4)
Late adjustments and roundings not reflected in Group available capital resources in the Capital Statement	62
<b>Total Group Capital Resources</b>	<b>8,117</b>

**Independent auditor's statement to the directors pursuant to rule 9.40(3)(c) of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")**

**Friends Life Limited**

**Financial year ended 31 December 2013**

We have reviewed the report prepared pursuant to rule 9.40(1) of IPRU(INS) on pages 2 to 7 ("the report") by Friends Life Limited ("the insurer").

This statement is made solely to the insurer's directors in accordance with rule 9.40(3)(c). Our review has been undertaken so that we might state to the insurer's directors those matters we are required to state to them in an auditor's statement 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 review, for this statement, or for the opinion we have formed.

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

The insurer is responsible for the preparation of the report under the provisions of rule 9.40(1) of IPRU(INS). The underlying requirements of INSPRU 6.1 have been modified by the direction referred to in paragraph 5 on page 2.

We are not required to examine and express an opinion on the statement made in relation to rule 9.40 (1A) in paragraph 7 on page 2 and on pages 8 and 9.

It is our responsibility to carry out the procedures set out below, in the basis of opinion section, and to state whether anything of significance has come to our attention to indicate that the report has not been properly compiled in accordance with INSPRU 6.1 as modified and rule 9.40(1) of IPRU(INS) from information provided to the insurer by other members of the insurance group and from the insurer's own records.

Our work did not constitute an audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board of the information provided to the insurer by other members of the insurance group and included no independent examination by us of any of the underlying financial information therein. It therefore provides a lower level of assurance than an audit.

***Basis of opinion***

Our work consisted principally of:

- comparing, on a test basis, the compilation of the report with the information provided to the insurer by other members of the insurance group and with information from the insurer's own records;
- confirming the mathematical accuracy of the compilation of the financial information contained in the report;
- comparing, on a test basis, the information provided to the insurer by other members of the insurance group and any adjustments made by the insurer thereto, with the requirements set out in INSPRU 6.1 as modified to identify any significant areas where such information may not comply therewith.

**Independent auditor's statement to the directors pursuant to rule 9.40(3)(c) of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")**

**Friends Life Limited**

**Financial year ended 31 December 2013**

**(continued)**

***Opinion***

On the basis of the above procedures, nothing of significance has come to our attention to indicate that the report has not been properly compiled in accordance with INSPRU 6.1 as modified and rule 9.40(1) of IPRU(INS) from information provided to the insurer by other members of the insurance group and from the insurer's own records.

*Ernst & Young LLP*

Ernst & Young LLP

Statutory Auditor

London

27 March 2014.