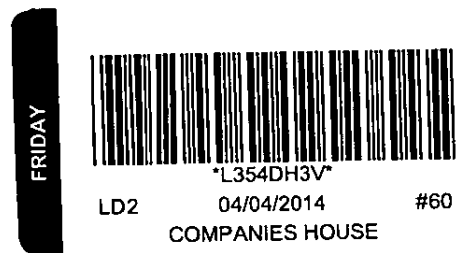


Registered Number 03291349

FRIENDS LIFE COMPANY LIMITED

REPORT AND ACCOUNTS

For the year ended 31 December 2013



Registered Office Pixham End, Dorking, Surrey RH4 1QA

**FRIENDS LIFE COMPANY LIMITED
COMPANY INFORMATION**

DIRECTORS

R D Smith
S S Calder
J S Moss
M R B Versey

SECRETARY

Friends Life Secretarial Services Limited

AUDITORS

Ernst and Young LLP

FRIENDS LIFE COMPANY LIMITED
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

PRINCIPAL ACTIVITY

Friends Life Company Limited's ("the Company") principal business was formerly the transaction of long-term insurance business in the United Kingdom

On 28 December 2013 the unit linked pension business which remained in the Company following the Part VII transfer which took place in 2012, was transferred to Friends Life and Pensions Limited ("FLP") via a Business Transfer Scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA") The Company subsequently ceased to underwrite long term insurance business.

The Company is part of the Friends Life group ("Group") of companies which transacts long-term insurance business encompassing the UK protection market, UK group pensions and vesting annuity market and international savings and investments, pensions and protection markets

The Company is a wholly owned subsidiary of Friends Life Limited ("FLL") FLL is a wholly owned subsidiary of Friends Life Group plc ("FLG") The Company's ultimate parent and controlling company is Resolution Limited The Company is limited by shares and is incorporated and domiciled in the United Kingdom

At 31 December 2013 the Company was authorised by the Prudential Regulation Authority ("PRA") to transact ordinary long-term insurance business in the United Kingdom. However, following the transfer of business referred to below the Company was de-authorised on 7 February 2014

TRANSFER OF BUSINESS

On 28 December 2013, the remaining long term business (following the Part VII transfer in 2012) was transferred to FLP via a business transfer scheme ("the Scheme") under Part VII of the FSMA The purpose of the Scheme was to align the business with the separate UK and Heritage divisions of the Group while removing solvency capital inefficiencies, constraints and taking advantage of cost synergies

The scheme was implemented on 28 December 2013 and in total resulted in £802m of assets and £718m of liabilities being transferred from the Company generating a total loss on the Part VII transfer of business of £84m The assets and liabilities transferred are set out in note 7 of the Report & Accounts

Under the terms of the Business Transfer Scheme £8m of assets were retained in the Company to meet minimum capital requirements until PRA approval for de-authorisation had been received and Board approval obtained to transfer these assets to the FLL shareholder fund The PRA approval for de-authorisation was received on 7 February 2014 and Board approval for the transfer was received on 17 March 2014

FRIENDS LIFE COMPANY LIMITED
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

RESULTS AND BUSINESS REVIEW

Operational structure

Prior to the 2012 business transfer scheme the Company largely operated in the UK individual and group protection, savings and investment and annuity markets. During 2013, prior to the 2013 business transfer scheme, it operated in the UK savings market selling pension products.

BUSINESS PERFORMANCE

	2013	2012
	£m	£m
Loss after tax	92	1,625
Pillar one solvency surplus	5	64

Loss after tax

The decrease in the loss from the prior year of £1,533m was primarily the effect of a decrease of £1,455m in the loss on the Part VII transfer of assets and liabilities from the Company. The Part VII transfer in 2013 to FLP resulted in a loss of £84m after tax compared to a loss of £1,539m after tax arising on the Part VII transfer in 2012 to FLL.

Capital Resources

The excess of available capital resources to cover capital resources requirements is a measure of the solvency of the Company and its insurance subsidiaries on a PRA basis, rather than the UK GAAP basis used to prepare these financial statements. It is a key measure used for the management of the Company.

The decrease of £59m in solvency surplus is primarily an effect of the Part VII transfer which has transferred the Company's remaining long term business to FLP.

Actuarial Valuation

A valuation of the long-term business fund was made as at 27 December 2013 immediately before the Part VII transfer, which showed a surplus. Following the business transfer a valuation is no longer necessary.

EMPLOYEES

Companies within the Group receive services and administration from either Friends Life Services Limited ("FLS"), Friends Life Management Services Limited ("FLMS") or both. These entities either employ staff engaged in these activities or outsource the provision of these services to external outsourced service providers. Accordingly, the Company has no direct employees. The average number of employees of FLS and FLMS is disclosed in the accounts of those entities.

FRIENDS LIFE COMPANY LIMITED
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

Following the Part VII transfer all the assets and liabilities have been transferred to FLP and the Company has ceased to underwrite long term business. The Company is therefore no longer considered to be exposed to significant risk or uncertainties

The risks and uncertainties of the wider Friends Life Group are disclosed in the Report and Accounts 2013 of FLG

Approved by the Board on 25 March 2014 and signed on its behalf by



J S Moss
Director

FRIENDS LIFE COMPANY LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS & OFFICERS

The directors of the Company at the date of this report are shown on page 1. Changes during the year are set out below

Mr D E Hynam resigned as a director of the Company on 5 July 2013

Mrs L. C J'Afari-Pak resigned as a director of the Company on 1 August 2013

Mr R. D. Smith was appointed as a director of the Company on 16 September 2013.

Mr J M Black was appointed as a director of the Company on 8 February 2013 and resigned as a director on 27 September 2013

DIVIDENDS

No interim dividend was paid in 2013 (2012 £200m) The directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: £nil)

INDEMNIFICATION OF DIRECTORS

FLG, a parent company, maintains insurance cover with respect to directors' and officers' liabilities. In addition, qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) are in force for the benefit of directors within the Group and were in force for the benefit of former directors of the Group during 2013. Copies of the indemnity are available for inspection at the Company's registered office

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each director in office at the date of approval of this report confirms that

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

In accordance with section 487 of the Companies Act 2006, the company has dispensed with the obligation to reappoint its auditor annually and Ernst & Young LLP ("E&Y") will therefore continue in office

FRIENDS LIFE COMPANY LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013
(CONTINUED)

STATEMENT ON GOING CONCERN

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the latest working capital forecasts and estimated forecast solvency. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Key information in respect of the Company's business activities, financial performance (including financial strength), and risks is set out on pages 2 to 4 of the financial statements. In addition, note 2 to the financial statements sets out in detail the Company's risk management objectives and policies for mitigating risks, including liquidity risk.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



J. S. Moss

Director

25 March 2014

**FRIENDS LIFE COMPANY LIMITED
AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRIENDS LIFE COMPANY LIMITED

We have audited the financial statements of Friends Life Company Limited for the year ended 31 December 2013, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**FRIENDS LIFE COMPANY LIMITED
AUDITOR'S REPORT (CONTINUED)**

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to 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 financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Stuart Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27/3/14

FRIENDS LIFE COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – LONG-TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Note	£m	£m
Earned premiums, net of reinsurance			
Gross premiums written	3	-	949 9
Outward reinsurance premiums		-	(136 8)
		-	813 1
Investment income	4	0.1	1,747.8
Unrealised gains on investments	4	107.6	1,253.2
Other technical income, net of reinsurance		2.4	118.5
		<u>110.1</u>	<u>3,932 6</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		-	(2,815 7)
Reinsurers' share		-	298 0
		-	(2,517 7)
Change in the provision for outstanding claims			
Gross amount		-	(9 3)
Reinsurers' share		-	14 4
		-	5 1
		-	<u>(2,512 6)</u>
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
Gross amount	19	-	(291 7)
Reinsurers' share		-	120 6
Other technical provision, net of reinsurance		-	(171 1)
Technical provision for linked liabilities			
Gross amount	18	(107.6)	(639 8)
Reinsurers' share		-	18 4
		<u>(107.6)</u>	<u>(621 4)</u>
		<u>(107.6)</u>	<u>(792 5)</u>
Net operating expenses	6	(14.0)	(505 3)
Investment expenses and charges	4	-	(89 8)
Net loss arising on Part VII transfer	7	(30.0)	(787 7)
Tax credit/(charge) attributable to the long-term business	8	3.1	(30 5)
Increase in present value of future profits on non-profit business written in the with-profits fund		-	68 0
Transfers to the fund for future appropriations		-	(159 2)
Balance on the long-term business technical account		<u>(38.4)</u>	<u>(877 0)</u>

The above amounts are in respect of discontinued operations (see page 10)

The information on pages 15 to 46 forms an integral part of these financial statements

FRIENDS LIFE COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Note	£m	£m
Balance on the long-term business technical account		(38.4)	(877.0)
Tax charge attributable to balance on long-term business technical account	8	<u>(3.1)</u>	<u>(24.0)</u>
Shareholders' pre-tax loss from long-term business		(41.5)	(901.0)
Investment income	4	0.2	2.7
Unrealised gains on investments	4	-	1.9
Investment expenses and charges	4	-	(0.3)
Other charges		-	(0.1)
Net loss arising on Part VII transfer	7	<u>(54.0)</u>	<u>(751.5)</u>
Loss on ordinary activities before tax		(95.3)	(1,648.3)
Tax on loss on ordinary activities	8	<u>3.1</u>	<u>23.0</u>
Loss on ordinary activities after tax		<u>(92.2)</u>	<u>(1,625.3)</u>

The above amounts are in respect of discontinued operations

On the face of the profit and loss account all operations have been classified as discontinued operations under FRS 3 because the business, and associated assets and liabilities, of the Company were transferred to FLP on 28 December 2013 in accordance with the terms of a scheme under Part VII of the FSMA

Note on historical profits and losses

Neither gains nor losses of an insurance company arising on the holding or disposal of investments, nor the effects of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax and their historical cost equivalents.

The information on pages 15 to 46 forms an integral part of these financial statements

FRIENDS LIFE COMPANY LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Note	<u>£m</u>	<u>£m</u>
Loss for the financial year	16	(92.2)	(1,625.3)
Revaluation of investment in shareholder subsidiaries	16	-	127.5
Total recognised losses relating to the year		<u>(92.2)</u>	<u>(1,497.8)</u>

The information on pages 15 to 46 forms an integral part of these financial statements

FRIENDS LIFE COMPANY LIMITED
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	<u>2013</u>	<u>2012</u>
		£m	£m
Loss for the financial year	16	(92.2)	(1,625 3)
Revaluation of investment in shareholder subsidiaries	16	-	127 5
Dividends paid		-	(200 0)
		<u>(92.2)</u>	<u>(1,697 8)</u>
Total shareholders' funds at 1 January		<u>100.4</u>	<u>1,798 2</u>
Total shareholders' funds at 31 December		<u>8.2</u>	<u>100 4</u>

The information on pages 15 to 46 forms an integral part of these financial statements

FRIENDS LIFE COMPANY LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2013

		2013	2012
Assets	Note	£m	£m
Assets held to cover linked liabilities	12	-	571 6
Debtors			
Other debtors	13	-	0 2
Other assets			
Cash at bank and in hand		8.2	89 6
Prepayments and accrued income			
Deferred acquisition costs	14	-	21 0
Total assets		<u>8.2</u>	<u>682 4</u>

The information on pages 15 to 46 forms an integral part of these financial statements.

FRIENDS LIFE COMPANY LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2013

Liabilities	Note	2013 £m	2012 £m
Capital and reserves			
Called up share capital	15	92.5	92.5
Profit and loss account		(84.3)	7.9
Total shareholders' funds		<u>8.2</u>	<u>100.4</u>
Technical provisions			
Claims outstanding		-	0.1
Technical provisions for linked liabilities	17	-	571.6
Provisions for other risks	20	-	6.2
Creditors			
Creditors arising out of direct insurance operations		-	2.8
Creditors arising out of reinsurance operation	21	-	1.3
		<u>-</u>	<u>4.1</u>
Total liabilities		<u><u>8.2</u></u>	<u><u>682.4</u></u>

The financial statements were approved by the Board of Directors on 25 March 2014 and signed on its behalf by



M R B Versey

Director

The information on pages 15 to 46 forms an integral part of these financial statements

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are set out below. Following the Part VII transfers in 2012 and 2013 the majority of the accounting policies are no longer relevant to the 31 December 2013 and 31 December 2012 balance sheets. However, the accounting policies previously used continue to be shown in this note so that users of the accounts are able to understand the accounting policies under which the years ended 31 December 2013 and 31 December 2012 profit and loss account has been prepared.

Basis of presentation

The financial statements have been prepared in accordance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) made under the Companies Act 2006. The financial statements comply with the Association of British Insurers (ABI) Statement of Recommended Practice on Accounting for Insurance Business (SORP) December 2005 (as amended in December 2006).

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation land and buildings, derivatives and financial instruments at fair value through the profit and loss account as set out in these notes.

Compliance with Statement of Accounting Practice ("SSAP") 19 (Accounting for Investment Properties) requires departure from the requirements of Companies Act 2006 relating to depreciation and an explanation of the departure is provided in the accounting policy note relating to investments below.

Under FRS 1 (Cash Flow Statements (revised 1996)), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of a parent undertaking which produces a consolidated cash flow statement which is publicly available.

The Company has applied all applicable accounting standards and interpretations effective at 31 December 2013.

On the face of the profit and loss account all operations have been classified as discontinued operations under FRS 3 because the business, and associated assets and liabilities, of the Company were transferred to FLP on 28 December 2013 in accordance with the terms of a scheme under Part VII of the FSMA.

Contract classification

FRS 26 (Financial Instruments Measurement) requires contracts issued by an insurer to be classified as insurance, investment with a discretionary participation feature ("DPF") or investment. Contracts classified as investment fall within the scope of FRS 26 whilst those classified as insurance or investment with DPF fall within the scope of the ABI SORP.

The Company issues contracts that transfer insurance risk, financial risk or both.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Insurance contracts are those contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of the insured event that are at least 10% more than the benefits payable if the insured event did not occur. A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations under the contract expire.

Investment contracts are those contracts that transfer financial risk but do not transfer significant insurance risk. Unit-linked contracts where the liability under the contract is dependent on the value of the underlying financial assets, derivatives or investment property are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

All with-profits contracts contain a DPF which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant proportion of the total contractual benefits,
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract,
 - realised and/or unrealised investment returns on a specified pool of assets held by the Company,
 - the profit or loss of the fund that issues the contracts

The terms and conditions of these contracts, together with UK regulations and the Principles and Practices of Financial Management ("PPFM") for the Company set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise discretion as to the quantum and timing of their payment to policyholders.

With-profits contracts or mixed policies containing both unit-linked and with-profits elements are classified as either insurance contracts or investment with DPF contracts depending on the level of insurance risk transferred.

Where business is written via contracts with the legal form of reinsurance, the contract is assessed to determine whether it transfers significant risk. For this assessment a significant transfer of persistency or expense risk can give rise to significant insurance risk.

Insurance contracts and with-profits investment contracts

Premium income and commission

Premiums, reinsurance premiums, commission and reinsurance commission are accounted for when due, other than those in respect of unit-linked policies.

Premiums in respect of unit-linked policies are accounted for in the same period as the resulting liabilities are created.

Claims

Maturities and annuities are accounted for when due, death and disability claims when

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

notified, and surrenders when paid, except for unit-linked business, where such transactions are accounted for when the policy ceases to hold units in the fund.

Reinsurance recoveries are accounted for when the related claims become due.

Acquisition costs and deferred acquisition costs

The costs of acquiring new business written outside of the with-profits funds which are expected to be recoverable from future revenue margins are deferred and recognised in the balance sheet as deferred acquisition costs. For business written within the with-profits fund, acquisition costs are not deferred.

The deferred acquisition cost asset is amortised over the period in which the costs, net of the related deferred tax provision, are expected to be recoverable out of margins arising from the related policies. The rate of amortisation is consistent with the pattern of emergence of such margins.

Long-term reinsurance contracts

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant. Some contracts which provide for the transfer of risk are also structured to provide financing. In such circumstances the directors do not consider it practicable on a contract-by-contract basis to separate out the financing components from the transfer of insurance risk.

Certain outward reinsurance contracts which transfer significant insurance risks relate in whole or in part to underlying investment contracts that are subject to deposit accounting. Deposit accounting has been adopted for those elements of reinsurance contracts that relate to direct written inwards contracts which are classified as investment contracts and which are deposit accounted for. This presentation has been adopted in order to remove the accounting mismatch that would otherwise arise in the profit and loss account in respect of gross and reinsurance premiums and claims.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

Unit-linked investment contracts

Amounts received in respect of unit-linked investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder. Liabilities in respect of unit-linked investment contracts are carried in the balance sheet as 'Technical provisions for linked liabilities' (see separate accounting policy note).

Fees receivable (included in other technical income) are recognised in the profit and loss account in the year they are assessed unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Incremental costs that are directly attributable to securing unit-linked investment contracts, and are expected to be recoverable, are deferred and recognised in the balance sheet as deferred acquisition costs. The asset is amortised as the related fees for investment management services are recognised.

In addition, expected future payments to intermediaries, which will be funded by future income from policyholders, are deferred and recognised in the balance sheet as deferred acquisition costs. The asset is amortised in line with actual payments to intermediaries.

Outward investment contracts

Long-term business ceded to reinsurers under contracts which do not transfer significant risk but have the legal form of reinsurance are classified as financial instruments. Deposit accounting is adopted in respect of these contracts and the reinsurance asset is shown under assets held to cover linked liabilities.

Investment return

Investment income and expenses include dividends, rent, interest, gains and losses on the realisation of investments, and related expenses. Dividends are recognised on the date which shares are quoted ex-dividend. Income from government and other fixed income securities, loans and deposits is recognised on an accruals basis. Shareholder investment income and expenses are recognised in the non-technical account. Investment income and expenses of the long-term insurance business fund are recognised in the technical account.

Unrealised gains and losses represent the difference between the most recent valuation at the balance sheet date and either the valuation at the last balance sheet date or original cost if purchased during the period, net of disposals during the period. Unrealised gains and losses on assets are taken to the profit and loss account. Those arising from long-term business or held to cover linked liabilities are recognised in the technical account. Other unrealised gains and losses arising are included in the non-technical account.

Realised gains and losses are calculated as sale proceeds less purchase cost.

Expenses incurred and interest payable on the management of investments are accounted for on an accruals basis.

Purchases and sales of financial assets are accounted for at trade date.

Other income

Other income is accounted for on an accruals basis.

Investments

Land and buildings

Land and buildings are valued at open market value. Full valuations are made by external, professionally qualified valuers every year.

Under the Companies Act 2006, land and buildings are required to be depreciated over their

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expected useful economic lives In respect of investment properties this requirement conflicts with the requirement of SSAP 19 that no depreciation should be provided in respect of such investments. The directors consider that to depreciate investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. It is considered that if depreciation was charged it would not be significant on the basis of expected future residual values

In respect of owner-occupied freehold properties, the directors consider that the lives of these assets and their residual values (based on prices prevailing at the time of acquisition or subsequent valuation) are such that their depreciation is insignificant and is therefore not provided

Investments in group undertakings and participating interests

Shares in subsidiary undertakings owned by the long-term fund are valued at current value with valuation movements going to the profit and loss account Shares in subsidiary undertakings held by the shareholders' fund are valued at current value with valuation movements going to the revaluation reserve

Loans issued to group undertakings are initially stated at fair value plus directly attributable transaction costs and are then subsequently valued at amortised cost using the effective interest method The effective interest rate is determined by identifying the yield on financial instruments with similar terms and conditions to the loans being valued.

Other financial investments

The Company designates all its shares, other variable yield securities, units in unit trusts, debt securities and other fixed interest securities at fair value through profit or loss The designation of investments is determined at initial recognition

Financial assets are recognised when the Company becomes a party to the contractual provision of the instruments For equities and debt securities, this is taken to be the trade date Financial assets are derecognised when the Company's contractual rights to the cash flows of the financial assets expire provided that substantially all risks and rewards have been transferred For equities and debt securities, the derecognition date is taken to be the trade date of the sale transaction.

Investments in the long-term fund are recorded at fair value through profit or loss This policy is appropriate because, within the profit and loss account, it results in the matching of movements in the policyholder liabilities with the movements in the financial assets backing these liabilities Investments in the shareholders' fund are recorded at fair value through profit or loss because the assets are managed and their performance evaluated on a fair value basis.

The fair values of investments listed in an active market are based on current bid prices at the balance sheet date. The fair values of other investments, including corporate debts, for which no active market exists, are established by the directors using valuation techniques The valuations are generally provided by external broker pricing service, using proprietary models, based on techniques using observable inputs During the period, the Company has performed independent reviews of the pricing models to ensure that appropriate

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

methodologies have been applied. The approach taken for each class of specific unlisted investment is as follows:

- The valuation of the holding in AXA Private Equity Limited Partnerships is performed by the venture capital managers and is based on the most recent underlying valuations available at the reporting date as adjusted for contributions, distributions and known diminutions in value of individual stocks in the period since valuations were calculated. The valuation technique is not supported by observable market values.
- The valuation of holdings in Parallel Ventures is prepared in accordance with British Venture Capital Association and European Venture Capital Association guidelines. Underlying holdings are valued directly by Parallel Private Equity Limited or by a number of third party investment managers. Parallel Private Equity Limited use two valuation techniques: "price of last transaction" and "earnings multiple". The assumptions used in the valuation technique, "earnings multiple", are the price earnings ("P/E") ratio of a sector relevant to the entity being valued. If the P/E ratio is not considered appropriate given the size and recent performance of the company being valued then an appropriate multiple of earnings before interest and tax ("EBIT") is used, based on current generally accepted market ranges. This multiple can vary from six (used for companies experiencing a stable period of growth) through to ten (used for companies going through a period of high growth or significant change resulting in increased profitability). The valuation techniques used by the third party investment managers also include the use of "earnings multiple" and the "price of last transaction" along with the use of "discounted cash flows", where this is deemed more appropriate.
- The fair value of the investments in property limited partnerships is taken as the Company's appropriate share of the net asset value of the partnerships. The net asset value is based on the latest external market valuation of the underlying property investments, which is updated at least every six months. The valuation would be adjusted in the event of a significant market movement in the period between the last market valuation and the reporting date.
- Private loans are valued using discounted cash flows, which are carried out by AXA Investment Managers and reviewed by the AXA Investment Managers Private Loans Committee. The interest rate used when calculating the present value is derived from the UK Gilts Curve, adjusting the spread by the movement in the most appropriate IBoxx GBP Corp Curve associated with the loan rating. All spreads are reviewed on a quarterly basis and any spreads that appear inappropriate taking into consideration loan details (loan sector, maturity, rating), available market proxies, comparable instruments and underlying securities are recalibrated accordingly.

Loans, receivables, deposits with credit institutions and certificates of deposits are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. These instruments are classified upon initial recognition at fair value through profit or loss. This policy is appropriate because, within the profit and loss account, it results in the matching of movements in the policyholder liabilities in the long-term business fund with the movements in the financial assets backing these liabilities. Where the assets are in the

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

shareholders' fund the policy is appropriate because the assets are managed on a fair value basis

Loans secured by collateral

Loans secured by collateral are held as a result of sale and repurchase arrangements with Barclays Bank plc. These assets are initially recorded at fair value and are subsequently measured at their amortised cost, using the effective interest method.

Loaned Government securities

All securities lent under securities lending agreements remain on the balance sheet of the Company as substantially all the risks and rewards of ownership are retained by the Company, and the associated investment income received is recognised. Any non-cash collateral received from the borrower is held off balance sheet as substantially all the risks and rewards of ownership remain with the borrower unless the borrower defaults, when the Company can take legal ownership of any collateral. Any investment income received on the collateral is not included within the profit and loss account.

Derivative financial instruments

Derivative financial instruments include futures, forward foreign exchange contracts, over the counter swaptions, credit default swaps, currency swaps, equity put options and interest rate swaps. They are classified as held for trading. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques including option pricing models which have certain inputs based on observable market prices. Over the counter derivative valuations are obtained from counterparties.

Credit default swaps' ("CDS") fair value is obtained from the Sophis system, valued internally and independently from fund management. Spread data required in the valuation is provided by "Markit", an external, independent pricing data provider. Markit receives contributed CDS data from market makers from their official books and records. This data then undergoes a rigorous cleaning process where they test for stale, flat curves, outliers and inconsistent data.

Changes in the fair value of derivative instruments are recognised immediately in net fair value gains in the profit and loss account for the period. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions. Unrealised gains and losses on derivatives and financial instruments attributable to the long-term funds or held to cover linked liabilities are included in the long-term business technical account.

Loans and Receivables

Loans and receivables are initially recorded at fair value plus incremental direct transaction costs, and are subsequently measured at their amortised cost, using the effective interest method.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Impairment of assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset valued at amortised cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment. This may be as a result of one or more events that have occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial assets.

Allocations of surpluses and the fund for future appropriations

Surpluses arising from participating (with-profits) and non-participating (non-profit) business are ascertained as a result of actuarial valuations of the related assets and liabilities. The directors make appropriations from surpluses to participating policyholders by way of bonuses charged to the long-term business technical account in a given period and comprise:

- New reversionary bonuses declared (which are guaranteed once credited) in respect of that period which are provided within the calculation of the long-term business provision, and
- Terminal bonuses (which are not guaranteed) paid out to policyholders on maturity, death or surrender and are included within claims paid.

The fund for future appropriations ("FFA") represents the excess of assets over policyholder liabilities for the Company's with-profits fund, the allocation of which to either the policyholder or the shareholder has not been determined at the balance sheet date.

The amount of appropriated surplus released to the non-technical account is determined by the directors in accordance with applicable laws and regulations.

Long-term business provision

The long-term business provision is calculated using recognised methods, with due regard to the actuarial principles set out in Council Directive 2002/83/EC.

The principal assumptions previously underlying the calculation of the long-term business provision are set out in note 24 "Technical Provisions" of the Report and Accounts at 31 December 2012.

Technical provision for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets.

Unit-linked contracts which transfer significant insurance risk are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date, based upon the value of the underlying assets.

Unit-linked contracts classified as investment contracts are carried in the balance sheet at amortised cost. The amortised cost of these financial liabilities is equivalent to the amount payable on demand. The Company considers this basis to be equivalent in all material

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

aspects to the valuation of contracts which transfer significant insurance risk and to the fair value of the liabilities

In addition to the above, allowance is made within the technical provision for linked liabilities for deferred tax obligations in respect of investment gains in unit linked investment funds having regard to the expected timing of their realisation

Present value of future profits on non-profit business written in the with-profits funds

In determining the realistic liabilities for with-profits policies, an amount is included as an allowance for future bonuses that will be payable out of profits from non-profit business written within the with-profits funds. An asset is therefore recognised to represent the present value of future profits ("PVFP") arising on this business. These profits include profits expected to arise from margins for prudence in the gross premium valuation basis.

The value of PVFP is determined in accordance with the PRA's "realistic" liability regime. In particular, the methodology and assumptions are based on current estimates of future experience and current market yields. The value is also adjusted to remove the value of regulatory capital requirements in respect of the non-profit business.

Other financial liabilities

Other financial liabilities are held at fair value on initial recognition and then subsequently accounted for at amortised cost using the effective interest rate, with movements included in the profit and loss account.

Financial liabilities are recognised when the Company becomes a party to the contractual provision of the instruments. Financial liabilities are derecognised when the obligation specified in the instrument is discharged, cancelled or expires.

Offsetting financial instruments

Financial assets and liabilities are only offset when a legally enforceable right to offset exists and when there is either an intention to settle on a net basis or it is intended to realise the asset and settle the liability simultaneously.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Foreign currency transactions are recorded at the actual rate of exchange prevailing on the date of the transaction and any exchange differences are dealt with in the part of the profit and loss account in which the underlying transaction is reported.

Non-monetary items measured in terms of historical cost in a foreign currency are translated into sterling at the actual exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date of latest valuation.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Taxation*Current tax*

Taxation is based on the profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods. Tax payable is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss recognised outside the profit and loss account, in which case the current tax is recognised in the statement of total recognised gains and losses, or equity, as applicable.

In 2013 the balance transferred from the long-term business technical account is grossed up by the actual amount of tax charged to the long-term business technical account. In 2012 the balance transferred from the long-term business technical account was grossed up at the effective rate of tax on the long-term business.

Deferred tax

Deferred tax is recognised on timing differences arising between the recognition of gains and losses in the financial statements and their recognition in a tax computation. The tax rates used are the rates that have been enacted or substantively enacted by the balance sheet date.

Full provision is made for deferred tax liabilities.

Deferred tax assets are recognised to the extent that they are more likely than not to be regarded as recoverable against suitable taxable profits.

Deferred taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss recognised outside the profit and loss account, in which case the deferred tax is recognised in the statement of total recognised gains and losses, or equity, as applicable. The deferred tax balances are not discounted.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT

Overview

Following the Part VII transfer, the majority of the assets and liabilities of the Company have been transferred to FLP, leaving £8 2m of cash in the shareholders' fund, and the Company is therefore no longer exposed to any of the following risks and uncertainties. The following disclosure therefore relates to the risks and uncertainties that the Company experienced during 2013 prior to the transfer. During this period the Company only had unit-linked pension investment contract business written in the non-profit fund.

The Company in the course of doing business is exposed to the following categories of risk

- Financial risks including market risk, credit risk and liquidity risk
- Insurance risks including persistency risk and capital risk management
- Operational risks arising from inadequate or failed internal processes or from people systems or external events. Operational risks include regulatory, financial crime, people, legal, information technology and business protection risks.

The Board of FLG has overall responsibility for the Group's risk management framework and for setting its risk appetite and risk policies. The Company's risk management framework is aligned with the Resolution Limited risk management framework. The Board of Resolution Limited have approved a set of risk management policies within which the Company operates.

Management is responsible for putting in place the ongoing management and monitoring disciplines for risks and activities under its control. Through these mechanisms, risks are identified in a timely manner, their financial implications assessed, control procedures re-evaluated and, where appropriate, actions agreed and implemented.

Capital management policies

Subject to the terms of the Scheme and the need to retain sufficient solvency coverage, the Company aims to maintain an efficient capital structure using a combination of equity in shareholders' funds and intra-group loans or contingent loans. This structure is consistent with the risk profile and regulatory and market requirements of the business. The Company's objectives in managing its capital are

- to support the writing of new business
- to ensure that guarantees to policyholders are met
- to satisfy the capital requirements of the regulators
- to assist in the efficient use of available capital in the Group

The Company's PRA capital resources as at 31 December 2013 are £8 2m (2012: £67.1m). The Company has met all regulatory capital requirements during 2013.

The regulatory capital resources of the Company are equal to the excess of the market value of assets (after deducting the value of certain assets that cannot be included in the regulatory valuation) over the regulatory value of liabilities. The regulatory value of liabilities is based on a valuation of liabilities on prudent assumptions.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For non-profit funds, surplus can generally be distributed to shareholders subject to meeting regulatory requirements and other capital management objectives of the Company

No transfers from the non-profit funds can take place without an up to date actuarial valuation

The capital held within the shareholders' funds is generally available to meet any requirements, including distribution to shareholders, provided that regulatory requirements and other capital management objectives of the Company remain satisfied

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to expenses and persistency

The most significant sensitivity arises from the persistency risk which would arise if increased rates of surrenders or conversions to paid-up reduced future profit margins on fund management charges

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position

Hedge accounting

There were and are no current or forecasted transactions for which hedge accounting was used

Market risk

Market risk is defined within the Group's Investment Risk Policy as "The risk that movements in market factors, impact adversely the value of or income from, shareholder and policyholder funds"

Shareholders' earnings are exposed to market risk to the extent that the income from policyholder funds is based in the value of financial assets held within the unit-linked funds

The Company manages market risk attaching to assets backing specific policyholder liabilities and to assets held to deliver income and gains for the shareholders. Within the unit-linked funds the Company manages market risk so as to provide a return in line with the expectations of policyholders. The principal objective for shareholders' assets is to manage them so that they meet the capital requirements of the Company, and support its future strategic and operational objectives

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Group has adopted a Market Risk Control Standard which sets out how market risk should be managed and is primarily owned by the Chief Investment Officer. As part of the annual refresh of risk policies, the Chief Risk Officer, supported by the Group Actuarial Director, is responsible for ensuring that the policy is reviewed

The Market Risk Control Standard is further embedded in the business through the operation of investment limits. These specify the permitted asset classes for investment, the limits for exposures to asset classes including bond exposures, cash exposures, derivative exposures, equity and other exposure and also limits in relation to interest rate risk, inflation risk, foreign exchange risk, implied and equity and interest rate volatility. The relevant limits are also reflected in investment guideline documents which are maintained for each fund.

To support the setting of Investment Limits, the Asset and Liability Management ("ALM") function is responsible for carrying out strategic asset allocation studies on each block of business within a three year life cycle. This review considers risk appetite, capital requirements and other metrics.

The Investment Oversight Committee, a Committee of the FLG Board, oversees investment policy and strategy, which the Group controls primarily through the use of investment fund mandates. Day-to-day implementation of investment policy and strategy for the Company's unit linked business is managed by AXA Investment Managers UK Limited ("AXA IM") but the management of the shareholder and Non Profit portfolios was transferred to Friends Life Investments during the year.

Mandates are set for each fund within each of the insurance legal entities within the Group taking account of the relevant factors outlined above. Unit-linked funds are managed in line with their underlying objectives as set out in policyholder contracts.

Unit-linked funds may use derivatives for the purposes of efficient portfolio management and risk reduction in accordance with policyholder contracts and marketing literature relevant to the funds.

Credit risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default, issuer credit downgrades or widening credit spreads. Credit risk can arise from investment related assets or from non-investment related assets. Policies exist for the control of investment related credit risk and for non-investment related items. All financial assets are considered to be of an acceptable quality in accordance with Company policy.

Non-investment items which generate credit risk generally arise as a by-product of the Company's insurance operations. Items covered by the non-investment credit risk policy include balances with external reinsurers, loans and advances to intermediaries, commission debts, policyholder premium debts, policyholder loans and other operational debts. Exposure to credit risk is controlled via the operation of a number of processes including external reinsurer selection and monitoring procedures, requirements for security over loans, and the active monitoring of premium debt.

The £8.2m of cash held at 31 December 2013 has a credit rating of AAA.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Liquidity and cash flow risk

Liquidity and cash flow risk is defined as the risk that the Company, although solvent, may not have sufficient available cash (or near cash assets or funding facilities) to enable the Company to meet policyholder, Government, regulatory or operational obligations as they fall due. This risk could arise as a result of illiquid asset holdings, inappropriate asset/liability matching, or inaccurate assessments of potential operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer term liquidity.

Liquidity risk in the Company is managed through ensuring investments of suitable maturity and marketability are held to meet policyholder liabilities as they fall due and through setting limits on the level of investment in securities that are not readily realisable. These are typically restricted to 5% of non-linked assets. Additionally there may be the implementation of temporary restrictions on the withdrawal of funds, such as extension of the notice periods of switches and restriction of withdrawals from property funds.

Assets with no stated maturity are available to address liquidity requirements across all periods.

Maturity analysis	Less than 1 year £m	1-5 years £m	Over 5 years £m	No stated maturity £m	Total £m
2013					
Financial assets					
Receivables	-	-	-	-	-
Reinsurance assets	-	-	-	-	-
Cash	-	-	-	8.2	8.2
Total	-	-	-	8.2	8.2

Maturity analysis	Less than 1 year £m	1-5 years £m	Over 5 years £m	No stated maturity £m	Total £m
2012					
Financial assets					
Receivables	0.2	-	-	-	0.2
Reinsurance assets	44.2	129.5	397.9	-	571.6
Cash	-	-	-	89.6	89.6
Total	44.4	129.5	397.9	89.6	661.4

Contractually all investment contract liabilities are repayable on demand except for some property funds where repayment is currently deferred by up to six months. These would all fall into the "less than 1 year" category if analysed on that basis. The maturity analysis below shows the expected maturity of investment and insurance contract liabilities based on experience of customer behaviour and the contractual maturity of creditors.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Maturity analysis	Less than 1 year £m	1-5 Years £m	Over 5 years £m	Total £m
2013				
Financial liabilities				
Investment contract liabilities	-	-	-	-
Creditors	-	-	-	-
Total	-	-	-	-

Maturity analysis	Less than 1 year £m	1-5 Years £m	Over 5 years £m	Total £m
2012				
Financial liabilities				
Investment contract liabilities	44.2	129.5	397.9	571.6
Creditors	4.2	-	-	4.2
Total	48.4	129.5	397.9	575.8

Investment contracts without a discretionary participation feature are disclosed in the table above at the current contract surrender values.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Sensitivities

The Company uses a number of sensitivity test based risk management tools to understand the volatility of earnings and capital management requirements, and to manage its capital efficiently. The key management metric measuring the risk adjusted value of the business and tracking its evolution over time is Market Consistent Embedded Value ("MCEV").

The calculation methodologies use a "market-consistent" approach to setting asset return assumptions. Each cash flow is discounted at an appropriate discount factor. Mechanically, this can be described as assuming that all assets will earn the risk-free rate (based on UK swap curve).

The major assumptions relevant to the Company include

- Future expenses are the maintenance expenses payable under the service fee agreement with FLS together with an allowance for recurring direct expenses, and investment management expenses at the rates payable under the agreements with the investment management companies,
- Non-financial risks are allowed for based on Individual Capital Assessment ("ICA") capital requirements

The sensitivity of the Market Consistent Embedded Value has been calculated for changes in major economic assumptions. The sensitivities are applied one at a time rather than in combination. The sensitivities monitored for the Company are set out below:

10% higher value of equity and property values at the start of the projection

This simulates a shock to the initial conditions for equities and properties. This means changes to current market values of equities and properties, with related possible changes to projected capital gains/losses and/or fee revenues. Policyholder and management behaviour is adjusted to be consistent with these conditions.

10% lower value of equity and property values at the start of the projection

This is the same as above but a decrease

	2013		2012	
	£m	%	£m	%
Base calculated MCEV	8.2	100.0	87.0	100.0
10% higher value of equity markets at start of projection	-	-	2.0	2.3
10% lower value of equity markets at start of projection	-	-	(2.0)	(2.3)

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENTAL ANALYSIS

Consistent with the technical account for long term business there are no premiums shown in 2013. This is because all of the business written by the Company in that year is classified as investment business for which deposit accounting is applied under FRS 26. Following the Part VII transfer of business on 28 December 2013 the Company has ceased to write insurance business. Consequently all amounts shown are in respect of discontinued operations.

In the opinion of the directors, the Company operated in one geographical business segment, being that of long-term insurance business in the United Kingdom.

(i) Gross premiums written

	2013 £m	2012 £m
Direct insurance	-	694.5
Reinsurance inwards	-	255.4
	<u>-</u>	<u>949.9</u>

	2013 £m	2012 £m
Pensions		
Investment linked	-	302.1
Non-participating	-	134.2
Participating	-	47.9
Life		
Investment linked	-	144.8
Non-participating	-	197.8
Participating	-	105.7
PHI	-	17.4
	<u>-</u>	<u>949.9</u>

	2013 £m	2012 £m
Regular premiums	-	463.8
Single premiums	-	486.1
	<u>-</u>	<u>949.9</u>

Individual premiums	-	470.7
Premiums under group contracts	-	479.2
	<u>-</u>	<u>949.9</u>

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(ii) Gross new business premiums

Gross new premium income is made up of

	Regular premiums		Single premiums	
	2013	2012	2013	2012
	£m	£m	£m	£m
Direct insurance	-	7.9	-	283.0
Reinsurance inwards	-	4.1	-	185.4
Gross new business premiums	-	12.0	-	468.4

		Gross direct new business premiums			
		Regular premiums		Single premiums	
		2013	2012	2013	2012
		£m	£m	£m	£m
Pensions	Investment linked	-	1.7	-	21.2
	Non-participating	-	-	-	135.2
	Participating	-	1.4	-	19.6
		-	3.1	-	176.0
Life	Investment linked	-	-	-	65.3
	Non-participating	-	2.1	-	41.5
	Participating	-	-	-	0.2
		-	2.1	-	107.0
PHI	Non-participating	-	2.7	-	-
		-	7.9	-	283.0

In classifying new business premiums the following bases of recognition have been adopted:

- recurrent single premium contracts, including Department of Work and Pensions rebates on certain pension products, are included as new business single premiums
- increments under existing group pension schemes are classified as new business premiums
- regular premiums received other than annually are reported on an annualised basis.
- premiums received in respect of contracts which do not transfer significant risk are deposit accounted for and therefore not included in this analysis

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2013	2012
	£m	£m
(iii) Reinsurance balance –credit balance	<u>-</u>	<u>417.3</u>

This balance represents the aggregate total of all those items included in the technical account for long-term business which relate to reinsurance transactions including reinsurance premiums, claims, commission and share of technical provision.

4. INVESTMENT INCOME

	Long-term business Technical Account		Non-technical Account	
	2013	2012	2013	2012
	£m	£m	£m	£m
Income from other financial investments				
Income on assets at fair value through profit and loss	<u>0.1</u>	1,029.6	<u>0.2</u>	2.2
	0.1	1,029.6	0.2	2.2
Income from group companies	-	-	-	0.1
Income from land and buildings	-	108.7	-	-
Gains on the realisation of investments	-	609.5	-	0.4
	<u>0.1</u>	1,747.8	<u>0.2</u>	2.7
Interest expenses and charges including interest				
Investment management charges	-	(56.5)	-	(0.3)
Interest payable	-	(3.0)	-	-
Transaction costs on investment purchases	-	(30.3)	-	-
	-	(89.8)	-	(0.3)
Net unrealised gains on investments	<u>107.6</u>	1,253.2	-	1.9
Total investment return	<u>107.7</u>	2,911.2	<u>0.2</u>	4.3
Included in the total investment return are net gains / (losses) on financial assets at fair value through profit or loss:				
Assets designated upon initial recognition	-	1,785.7	-	(2.3)
Assets held for trading	-	69.8	-	-

Investment income includes changes in the fair value of financial assets estimated using a valuation technique of £nil (2012 £5.0m)

Interest income or cost on loans between group companies and other borrowings valued at amortised cost is considered to be immaterial and is therefore not disclosed

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Long-term business Technical Account		Non-technical Account	
	2013	2012	2013	2012
	£m	£m	£m	£m
Interest expense for financial liabilities not at fair value through profit or loss				
Interest expense in respect of investment contracts	(141.2)	(2,293.4)	-	-
Interest expense in respect of the unit linked element of investment contracts with DPF	-	(153.5)	-	-
Interest expense in respect of financial liabilities at amortised cost	(141.2)	(2,446.9)	-	-
Interest expense in respect of the with-profits element of investment contracts with DPF	-	(270.6)	-	-
Interest expense payable on financial liabilities	-	(3.0)	-	(1.3)
Total interest expense for financial liabilities not at fair value through profit or loss	(141.2)	(2,720.5)	-	(1.3)

Interest expense in relation to financial liabilities in respect of unit-linked investment contracts is included in the Technical account under the change in technical provision for linked liabilities

Interest expense in relation to financial liabilities in respect of investment contracts and with-profits investment contracts is included in the Technical account under the change in long-term business provision

5. BONUSES

The aggregate of the bonuses added to policies in the year was £nil (2012 £167.5m)

6. NET OPERATING EXPENSES

		Long-term business Technical Account	
		2013	2012
		£m	£m
Acquisition costs	- Gross	7.1	62.6
	- Reinsurance	-	(5.6)
Change in deferred acquisition costs		6.1	19.2
Change in deferred origination costs		-	133.5
Administrative expenses	- Gross	0.8	313.2
	- Reinsurance	-	(17.6)
		14.0	505.3

Net operating expenses include net commission payable in respect of insurance business of £0.5m (2012 £64.8m)

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 PART VII TRANSFER OF BUSINESS

(a) 2013 Part VII transfer of business

On 28 December 2013, part of the shareholders' fund and the entire long term business fund was transferred under a Part VII transfer into FLP. Nil consideration was received for the transferred assets

The movements in profit or loss account during the year represent the transfer of the following assets and liabilities under the Scheme

Long term insurance business	£m
Assets held to cover linked liabilities	712.8
Debtors	2.2
Other assets	18.5
Prepayments and accrued income	14.9
Technical provisions	(0.3)
Technical provisions for linked liabilities	(712.8)
Provisions for other risks	(3.1)
Creditors	(2.2)
Loss on Part VII transfer of business (in the technical account)	<u><u>30.0</u></u>
Shareholders' fund	
Other assets	54.0
Loss on Part VII transfer of business (in the non-technical account)	<u><u>54.0</u></u>
Total loss on Part VII transfer of business	<u><u>84.0</u></u>

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(b) 2012 Part VII transfer of business

On 28 December 2012, the majority of the long term business and part of the shareholders' fund was transferred under a Part VII transfer into FLL. Nil consideration was received for the transferred assets.

The impact of the Part VII transfer is seen throughout the report and accounts with many of the closing balance sheet items either reduced to £nil or substantially reduced in value relative to prior years.

The movements in profit or loss account during the year represent the transfer of the following assets or liabilities under the Scheme:

Long term insurance business	£m
Investments	7,663.0
Present value of future profits on non-profit business written in the with-profits fund	204.4
Assets held to cover linked liabilities	25,282.4
Reinsurers' share of technical provisions	4,364.8
Debtors	241.8
Other assets	630.2
Prepayments and accrued income	935.8
Fund for future appropriations	(351.1)
Technical provisions	(11,751.6)
Technical provisions for linked liabilities	(25,788.6)
Provisions for other risks	(79.1)
Deposits received from ceding undertakings	(26.4)
Creditors	(357.1)
Accruals and deferred income	(180.8)
Loss on Part VII transfer of business (in the technical account)	787.7
Shareholders' fund	
Investments	377.7
Other assets	373.8
Loss on Part VII transfer of business (in the non-technical account)	751.5
Total loss on Part VII transfer of business	1,539.2

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 TAXATION

	Long-term business Technical Account		Non-technical Account	
	2013	2012	2013	2012
	£m	£m	£m	£m
UK corporation tax:				
UK corporation tax	-	19 0	-	1 0
Adjustments in respect of prior periods	-	0 3	-	-
Total UK corporation tax	-	19.3	-	1 0
Overseas tax	-	7 5	-	-
Tax charge attributable to the balance on the long-term business technical account	-	-	(3.1)	(24 0)
Total current tax	-	26 8	(3.1)	(23 0)
Deferred tax:				
Deferred tax on unrealised gains	-	12 2	-	-
Deferred tax on deferred acquisition expenses	(1.9)	(1 9)	-	-
Deferred tax on losses	(0.3)	3 6	-	-
Deferred tax on other timing differences	(0.9)	(7 3)	-	-
Deferred tax on excess assets of the inherited estate	-	(2.9)	-	-
Total deferred tax	(3.1)	3 7	-	-
Tax on profit on ordinary activities	(3.1)	30 5	(3.1)	(23 0)

UK corporation tax shown under the technical account is charged on the basis applicable to life assurance companies. Corporation tax has been calculated at a rate of 23.25% (2012 24.5%) on shareholders' profits and 20% (2012 20%) on policyholders' income. UK corporation tax shown under the non-technical account is charged at a rate of 23.25% (2012 24.5%).

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (23.25%). The differences are set out below:

	Non-technical Account	
	2013	2012
	£m	£m
Loss on ordinary activities before tax	(95.3)	(1,648.3)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 24.5%)	(22.2)	(403.8)
Non-deductible cost on Part VII transfer	19.5	377.1
Difference between effective (27.03%) (2012 21.22%) and standard rate (23.25%) (2012 24.5%) on balance on long-term business account	(0.4)	3.7
Tax credit for the period	(3.1)	(23.0)

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. AUDITOR'S REMUNERATION

	2013	2012
	£m	£m
Fees payable to Company's auditor	-	0.5
Audit- related assurance services	0.1	0.2
Total	<u>0.1</u>	<u>0.7</u>

10. REMUNERATION OF DIRECTORS AND EMPLOYEES

The directors of the Company are also directors of the holding company and/or fellow subsidiaries. The total emoluments received by the directors is detailed below, all of which was paid by FLMS or FLS for their services to the Group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies. Amounts for annual bonus payments to the directors for the year ended 2013 have been agreed by the Resolution Limited Remuneration Committee and are included in the 2013 emoluments below.

Aggregate Emoluments	2013	2012
	£	£
Remuneration	3,160,305	4,510,948
Awards under long-term incentive schemes (excluding share options and shares)	Nil	Nil
Company contributions to pension schemes	76,860	83,881
Number of directors accruing benefits under money purchase schemes	Six	Six
Number of directors accruing benefits under defined benefit schemes	None	None

David Hynam ceased to be a director on 5 July 2013 and left the Group on the same date. Compensation for loss of office received by David Hynam is included in the aggregate remuneration figure above.

	2013	2012
	£	£
Highest paid director		
Remuneration	1,191,322	1,300,007
Awards under long-term incentive schemes (excluding share options and shares)	Nil	Nil
Company contributions to pension schemes	10,682	17,609

The total remuneration payable to directors includes £1,191,322 in respect of the highest paid director, of which £nil relates to long term incentive schemes. This is the total of the costs incurred by the Group in respect of the highest paid director due to it being impractical to isolate the element of total remuneration relating to the Company.

The Company's staff are employed and paid by FLS or FLMS. FLS and FLMS levy management fees on the Company based upon standard rates and volumes of business processed. It is not therefore possible to identify separately the amounts of staff costs within the management fees. Staff costs are disclosed in the accounts of FLS and FLMS.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. OTHER FINANCIAL INVESTMENTS

Financial Assets	Carrying Value		Cost	
	2013	2012	2013	2012
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Designated at initial recognition	-	661.2	-	661.2
	-	661.2	-	661.2
Loans and receivables, at amortised cost	-	0.2	-	0.2
Total financial assets	-	661.4	-	661.4

These amounts are included in the balance sheet as follows.

	Carrying Value		Cost	
	2013	2012	2013	2012
	£m	£m	£m	£m
Linked assets (note 12)	-	571.6	-	571.6
Debtors	-	0.2	-	0.2
Cash	8.2	89.6	8.2	89.6
Total financial assets	8.2	661.4	8.2	661.4
Other Assets				
Deferred Acquisition Costs (note 14)	-	21.0	-	21.0
Total Assets	8.2	682.4	8.2	682.4

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Determination of fair value hierarchy

In accordance with the revised requirements of FRS 29 (Financial Instruments Disclosures), financial assets at fair value have been classified into three categories as set out below. Financial assets at fair value include shares and other variable yield securities, government securities, corporate bonds (including ABS), derivative financial instruments and deposits with credit institutions.

Level 1 – quoted prices (unadjusted) in active markets for identical assets An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples include listed equities and bonds in active markets and quoted unit trusts/open ended investment companies.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) This category generally includes assets that are priced based on models using market observable inputs. Examples include certificates of deposit and derivatives.

Level 3 – inputs for the asset that are not based on observable market data Assets with single price feeds and/or limited trading activity are included in this category. Examples include unlisted equities and private equity.

The revised requirements of FRS 29 also require financial liabilities at fair value to be categorised into the above level 1, 2 or 3 hierarchies. Financial liabilities at fair value include derivative financial instruments. The classifications take into account the types of inputs used to determine the fair value measurements.

An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below in respect of the assets held as at 31 December 2012. Following the Part VII transfer on 28 December 2013 the only asset remaining within the Company is £8.2m cash which is not classified as a financial asset under FRS 29 and therefore does not need to be classified in the fair value hierarchy.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2012			Total Fair value
	Level 1	Level 2	Level 3	
Financial Assets at Fair Value	£m	£m	£m	£m
Reinsurance assets	571.6	-	-	571.6
Total financial assets at fair value	571.6	-	-	661.2

During 2013 the Company has held no level 3 assets. The reconciliation of movements in financial instruments categorised as Level 3 during 2012 is as follows

Financial Assets	At 1 January 2012 £m	Total gain/(loss) £m	Purchases £m	Sales/ Repayments £m	Transfer between levels £m	Part VII transfer out £m	At 31 December 2012 £m
Shares and other variable yield securities and holdings in collective investment schemes	558.0	78.0	13.7	(89.5)	21.1	(581.3)	-
Debt securities and other fixed income	37.5	(7.2)	2.1	(6.8)	18.6	(44.2)	-
Other loans to policyholders	10.5	-	-	(2.7)	-	(7.8)	-
Investment in group undertakings	298.6	135.6	-	-	-	(434.2)	-
Total	904.6	206.4	15.8	(99.0)	39.7	(1,067.5)	-

Of the total gain/(loss) recognised on Level 3 assets in 2012, £78.9m has been recognised through the profit and loss account and the remaining £127.5m was recognised through the revaluation reserve

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. ASSETS HELD TO COVER LINKED LIABILITIES

	Carrying Value		Cost	
	2013	2012	2013	2012
	£m	£m	£m	£m
Assets held to cover linked liabilities	<u>-</u>	<u>571.6</u>	<u>-</u>	<u>571.6</u>

The carrying value is split as follows

	2013	2012
	£m	£m
Other assets	<u>-</u>	<u>571.6</u>
Total	<u>-</u>	<u>571.6</u>

These investments are measured at fair value through profit or loss. Included within assets held to cover linked liabilities is £nil (2012 £571.6m) of assets backing contracts where the financial risks are borne by policyholders.

At December 2012 other assets represents fund reinsurance assets which access unit-linked funds in other group companies.

13. OTHER DEBTORS

	2013	2012
	£m	£m
Other debtors	<u>-</u>	<u>0.2</u>
	<u>-</u>	<u>0.2</u>

14. DEFERRED ACQUISITION COSTS

	2013	2012
	£m	£m
On non-participating investment contracts	<u>-</u>	<u>21.0</u>
	<u>-</u>	<u>21.0</u>

£14.9m of DAC was transferred under the Part VII scheme in 2013 (2012 £870.2m)

15. CALLED UP SHARE CAPITAL

	2013	2012
	£m	£m
Allotted and Issued		
92,500,002 ordinary shares of £1 each, fully paid	<u>92.5</u>	<u>92.5</u>

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. RESERVES

	Revaluation Reserve £m	Profit and Loss £m	Total £m
At 1 January 2013	-	7.9	7.9
Loss for the year	-	(92 2)	(92 2)
At 31 December 2013	-	(84 3)	(84 3)

	Revaluation Reserve £m	Profit and Loss £m	Total £m
At 1 January 2012	3 5	1,702 2	1,705 7
Revaluation of investment in subsidiaries	127 5	-	127 5
Revaluation reserve reclassification	(131 0)	131.0	-
Dividend paid	-	(200 0)	(200 0)
Loss for the year	-	(1,625 3)	(1,625 3)
At 31 December 2012	-	7.9	7 9

Distributable profits for insurance companies writing long-term business are determined after taking into account the deficit in any funds within the Company calculated under prudential reporting requirements. The amount of distributable profits is calculated in accordance with Companies Act 2006 requirements, taking into account only realised profits in the shareholder fund, the cost of bonus transferred from the with-profits funds and deducting any deficits on non-profit funds. Any amounts relating to inherited estate are also deducted.

As at 31 December 2013 profits available for distribution were estimated to be £nil (2012 £nil distributable profits)

During 2012 the Company's investment in FAL was transferred to FLL as part of the business transfer under the Part VII scheme. This has led to the revaluation reserve of £131m at the Part VII date being reclassified into Profit and Loss reserves.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. TECHNICAL PROVISION FOR LINKED LIABILITIES

The technical provision for unit-linked liabilities is determined according to the policy set out in note 1. Following the Part VII transfer of business in 2013 the Company's technical provisions for linked liabilities have been transferred to FLP. The information disclosed below relates to the 2012 comparatives in respect of the unit-linked pensions business.

	2013 £m	2012 £m
Investment contracts at amortised cost	-	571.6
Technical provision for linked liabilities	-	571.6

Included in the technical provision for linked liabilities is the financial liability of £nil representing the amount payable on demand in respect of these contracts. The maturity value of these financial liabilities is determined by the fair value of the linked assets (after allowance for taxation) at maturity date. There will be no difference between the carrying amount of these financial liabilities and the amount payable to the policyholder at maturity date.

In 2013 £712.8m of technical provision for linked liabilities were transferred to FLP (2012 £25,788.6m to FLL), under the terms of the Part VII transfers as disclosed in note 7.

18. CHANGE IN TECHNICAL PROVISIONS FOR LINKED LIABILITIES

As a result of reserves transferred under the Part VII scheme and deposit accounting for unit-linked investment contracts, the change in technical provisions for linked liabilities recorded in the technical account for long-term business does not equal the movement in the technical provisions for linked liabilities between the balance sheet dates. The differences are shown below.

	2013 £m	2012 £m
Change in technical provisions for linked liabilities	(107.6)	(639.8)
Adjustments made for reinsurance contracts which do not transfer significant risk		
Gross premiums written	(91.4)	(581.2)
Claims paid	57.8	2,039.7
Other technical income	-	106.8
Change in technical provisions arising from deposit accounting	(33.6)	1,565.3
Technical provision for linked liabilities transferred under Part VII scheme (note 7)	712.8	25,788.6
Change in technical provisions for linked liabilities on a consistent basis with balance sheet classification	571.6	26,714.1

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. CHANGE IN LONG TERM BUSINESS PROVISION

As a result of the Part VII transfer in 2012, the change in long term business provision recorded in the technical account for long-term business does not equal the movement in the long term business provision. The difference is shown below

	Gross Amount	
	2013	2012
	£m	£m
Change in long term business provision	-	(291.7)
Long term business provision transferred under Part VII Scheme	-	11,601.3
Change in long term business provision consistent with balance sheet classification	-	11,309.6

20. PROVISIONS FOR OTHER RISKS

	Deferred Tax	Total
	£m	£m
At 1 January 2013	6.2	6.2
Release for the year	(3.1)	(3.1)
Transferred out under Part VII	(3.1)	(3.1)
At 31 December 2013	-	-

Deferred Tax

As at 31 December 2013, the Company is holding a deferred tax liability of £nil (2012 £6.2m) within the provisions for other risks and charges. The balance in respect of deferred taxation as at 31 December can be analysed as follows

	2013	2012
	£m	£m
Net deferred acquisition expenses	-	4.8
Losses	-	(2.9)
Other timing differences	-	4.3
	-	6.2

The potential asset for deferred tax not recognised is £nil (2012 £nil)

Legislation in respect of the new life tax regime was included in Finance Act 2012. The new life tax regime took effect from 1 January 2013 and therefore impacts both current and deferred tax in the 2013 accounts.

FRIENDS LIFE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2013	2012
	£m	£m
Other creditors	-	13
	<u>-</u>	<u>13</u>

22. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent liabilities and capital commitments relating to the long term business were transferred out of the Company to FLP in 2013 under the terms of the 2013 Part VII scheme. In 2012 contingent liabilities and capital commitments relating to the long term business were transferred out of the Company to FLL under the terms of the 2012 Part VII scheme.

The Company has a contingent liability in relation to certain liabilities transferred to FLL under the Part VII scheme which could in certain circumstances revert to the Company. The likelihood of a liability reverting to the Company is considered remote.

23. ASSETS ATTRIBUTABLE TO THE LONG-TERM BUSINESS FUND

The total assets attributable to the long-term business fund valued in accordance with the Large & Medium-sized Companies & Groups (Accounts & Reports) Regulations 2008 is £nil (2012: £620.5m).

24. SUBSIDIARY COMPANIES

As at 31 December 2013 the Company had no subsidiary undertakings.

25. SHAREHOLDINGS IN EXCESS OF TWENTY PER CENT

There are no holdings that exceed 20% of one class of shares for UK Equities within other financial investments.

26. RELATED PARTIES

As the Company is a wholly-owned subsidiary it has taken advantage of the exemption granted under FRS 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with group companies qualifying as related parties provided that consolidated financial statements are publicly available.

27. ULTIMATE PARENT COMPANY

The Company's ultimate parent undertaking is Resolution Limited, which is incorporated in Guernsey. Copies of the Group Report and Accounts of Resolution Limited can be viewed via its website at www.resolution.gg.

The smallest group in which the results of the Company are consolidated is that headed by Friends Life Group plc. Copies of the Group Report and Accounts can be viewed via its website at www.friendslife.co.uk.