

FRIENDS LIFE WL LIMITED

REPORT AND ACCOUNTS

for the year ended 31 December 2013



Registered Office Pixham End, Dorking, Surrey, RH4 1QA

FRIENDS LIFE WL LIMITED

COMPANY INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Friends Life Secretarial Services Limited

AUDITORS

Ernst and Young LLP
1 More London Place,
London,
SE1 2AF
United Kingdom

FRIENDS LIFE WL LIMITED**STRATEGIC REPORT**

The directors present their Strategic Report on the Company for the year ended 31 December 2013

PRINCIPAL ACTIVITY

The Company's principal business was formerly the transaction of long-term insurance business (i.e. life insurance, investment products and pensions) in the United Kingdom. The Company is incorporated in the United Kingdom

On 28 December 2013, the long-term business of the Company (excluding the long-term business written on the Embassy Platform), was transferred to the Company's immediate parent, Friends Life Limited ("FLL") via a Business Transfer Scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). On the same date the long-term business written on the Embassy Platform was transferred to Friends Life and Pension Limited ("FLP"), another group Company. The Company subsequently ceased to underwrite long term insurance business

Friends Life WL Limited ("FLWL") is part of the Friends Life group of Companies ("the Group") which transacts long-term insurance business.

As at 31 December 2013, the Company was authorised by the Prudential Regulation Authority to transact ordinary long term insurance business in the United Kingdom. Following the transfer of business referred to below, the Company was de-authorised on 4 March 2014.

TRANSFER OF BUSINESS

On 28 December 2013, the long-term business of the Company (excluding the long-term business written on the Embassy Platform) was transferred to FLL via Business Transfer Scheme (the "Scheme") under Part VII of the Financial Services and Markets Act 2000 (FSMA). On the same date the long-term business written on the Embassy Platform was transferred to FLP via the Scheme. The purpose of the Scheme was to align the business with the separate UK and Heritage divisions while removing solvency capital inefficiencies, constraints and taking advantage of cost synergies

The Scheme resulted in the following business being transferred out of the Company

- All with-profit fund assets and policies to a separate with-profit fund within FLL
- All non-profit business and associated assets being transferred to the non-profit fund of FLL or FLP.
- £88m of shareholder fund assets to the FLL shareholder fund

The scheme resulted in £8,143m of assets and £7,910m of liabilities being transferred from the Company generating a total loss on the Part VII transfer of business of £233m. The assets and liabilities transferred are set out in note 8 of this 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 4 March 2014 and the Board approval for the transfer was received on 17 March 2014

FRIENDS LIFE WL LIMITED**STRATEGIC REPORT (CONTINUED)****RESULTS AND BUSINESS REVIEW****Operational structure**

Prior to the business transfer scheme the Company operated in the UK individual and group protection, savings and investment and annuity markets

Business Performance

	2013	2012
	£m	£m
(Loss)/Profit after tax	(151.2)	35.4
Pillar one solvency surplus	4.9	69.0

Profit after taxation

The Part VII transfer of assets and liabilities from the Company to FLL and FLP resulted in a loss of £233m. Excluding this one off impact a net profit of £82m arises mainly from the movement in the technical account, details of which are set out on page 9 of the financial statements

Pillar one solvency surplus

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 £64.1m in solvency surplus is primarily an effect of the Part VII transfer which has transferred the Company's long term business to FLL and FLP

ACTUARIAL VALUATION

A valuation of the long-term business fund was made as at 27 December 2013 immediately before the Business Transfer which showed a surplus.

A transfer of £6.9m (2012: £6.0m) of the surplus from the long-term business fund has been made to the shareholders' fund, comprising £2.2m from the with-profits fund (2012: £2.0m) and £4.7m from the segregated sub fund (2012: £4.0m)

EMPLOYEES

Companies within the Group receive services and administration from 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 WL LIMITED

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

Following the Part VII transfer all the assets and liabilities have been transferred to FLL and 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 Friends Life Group ("FLG").

RISK GOVERNANCE

Following the announcement made to the London Stock Exchange on 10 January 2013, the RSL and FLG Boards were streamlined. Up to 28 March 2013 the RSL Board delegated responsibility for the Group risk's management framework to the FLG board. With effect from close of business on 28 March 2013 the RSL Board took on direct responsibility for the Group's risk management framework, with the RSL Risk and Compliance Committee ("RCC") taking over responsibility for overseeing risk management across the Group from the FLG Board Risk and Compliance Committee ("BRCC"). The FLG BRCC was and the RSL RCC is supported by the Executive Risk Committee ("ERC").

The RCC oversees and advises the Board on the Company's overall risk appetite, tolerance and strategy and the current risk exposures of the Company, as well as informing the Board's decision making in relation to risk assessment, any material breaches of risk appetite and adequacy of remedial action plans.

The ERC provides a Group wide and aggregated view of the risks the Group faces at an executive level and manages the implementation and ongoing operation of the risk management and compliance frameworks and associated activities of the Group, ensuring that customer impacts are considered alongside shareholder impacts. It is supported by Divisional Risk committees which ensure that the enterprise risks to which the Group is exposed, through their respective Divisions, are identified, measured, efficiently managed and fall within the appetite for those risks specified by the RSL board. All risk policies are reviewed and approved annually to ensure they remain relevant to the changing demands of the business, its risk profile and the current regulatory environment.

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



J S Moss
Director

FRIENDS LIFE WL LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2013.

DIRECTORS AND OFFICERS

The directors of the Company at the date of this report are shown on page 1

Mr D.E Hynam resigned as a director on 5 July 2013.

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

Ms L C J'Afari-Pak resigned as a director on 1 August 2013

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

All other directors named on page 1 held office throughout the year

DIRECTORS AND OFFICERS – INDEMNITY AND INSURANCE

Friends Life Group (FLG) 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.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2013 (2012 £nil)

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.

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 and the latest working capital forecasts. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review above. The ability to cope with

FRIENDS LIFE WL LIMITED

DIRECTORS' REPORT (CONTINUED)

unexpected risks to the financial position is shown within the Management of Financial Risks note on pages 24 to 35.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT OF THE DIRECTORS AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, Directors' Report 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. The directors confirm that they have complied with these requirements.

By Order of the Board



J. S. Moss
Director
25 March 2014

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

We have audited the financial statements of Friends Life WL 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 the Shareholders' Funds, the Balance Sheet and the related notes 1 to 34. 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 Strategic Report and the Directors' Report 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.

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

FRIENDS LIFE WL LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRIENDS LIFE WL
LIMITED (CONTINUED)**

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Director's Report 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 WL LIMITED

**PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

		2013	2012
	Note	£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	3	91,994	86,530
Outward reinsurance premiums		<u>(919)</u>	<u>(1,223)</u>
		91,075	85,307
Investment income	4	397,530	341,950
Unrealised gains on investments	4	512,155	329,237
Other technical income, net of reinsurance	5	29,724	27,919
		<u>1,030,484</u>	<u>784,413</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(258,415)	(249,444)
Reinsurers' share		<u>28,587</u>	<u>31,276</u>
		<u>(229,828)</u>	<u>(218,168)</u>
Change in the provision for outstanding claims			
Gross amount		(3,271)	(3,229)
Reinsurers' share		<u>(1,036)</u>	<u>(2,873)</u>
		<u>(4,307)</u>	<u>(6,102)</u>
		<u>(234,135)</u>	<u>(224,270)</u>
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
Gross amount		209,457	73,572
Reinsurers' share		<u>(38,850)</u>	<u>(6,919)</u>
		<u>170,607</u>	<u>66,653</u>
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities			
Gross amount	26	(821,431)	(511,788)
Reinsurers' share	26	<u>(105)</u>	<u>(136)</u>
		<u>(821,536)</u>	<u>(511,924)</u>
		<u>(650,929)</u>	<u>(445,271)</u>
Net operating expenses	7	(36,626)	(56,571)
Investment expenses and charges	4	(7,177)	(5,227)
Net loss arising on Part VII transaction	8	(145,043)	-
Tax (charge) / credit attributable to the long-term business	9	(12,622)	(39,039)
Decrease in present value of future profits on non-profit business written in the with-profits fund		(4,545)	(2,459)
Transfers from the fund for future appropriations		<u>(3,078)</u>	<u>23,163</u>
Balance on the long-term business technical account		<u>(63,671)</u>	<u>34,739</u>

The information on pages 15 to 62 forms an integral part of these financial statements

FRIENDS LIFE WL LIMITED

**PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

		2013	2012
	Note	<u>£000</u>	<u>£000</u>
Balance on the long-term business technical account		(63,671)	34,739
Tax charge attributable to balance on long-term business technical account	9	<u>7,265</u>	<u>703</u>
Shareholders' pre-tax (loss) / profit from long-term business		(56,406)	35,442
Investment income	4	387	2,287
Unrealised gains on investments	4	-	(1,540)
Investment expenses and charges	4	(79)	(360)
Net loss arising on Part VII transaction	8	(87,767)	-
Other operating income		-	552
(Loss) / Profit on ordinary activities before tax		<u>(143,865)</u>	<u>36,381</u>
Tax (charge) / credit on profit on ordinary activities	9	<u>(7,336)</u>	<u>(932)</u>
(Loss) / Profit on ordinary activities after tax		<u>(151,201)</u>	<u>35,449</u>

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 FLL and 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 and losses of an insurance company arising on the holding or disposal of investments, nor the effect 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 loss on ordinary activities before tax stated above and their historical cost equivalents

The information on pages 15 to 62 forms an integral part of these financial statements

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

		2013	2012
	Note	£000	£000
(Loss) / Profit for the financial year	23	(151,201)	35,449
Revaluation reserve	23	189	1
Total recognised (losses) and gains relating to the year		<u>(151,012)</u>	<u>35,450</u>

The information on pages 15 to 62 forms an integral part of these financial statements

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

		2013	2012
	Note	£000	£000
Total shareholders' funds at 1 January		159,012	118,562
(Loss) / Profit for the financial year	23	(151,201)	35,449
Capital contribution received	23	-	5,000
Revaluation reserve	23	189	1
Total shareholders' funds at 31 December		8,000	159,012

The information on pages 15 to 62 forms an integral part of these financial statements.

FRIENDS LIFE WL LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2013**

		2013	2012
	Note	£000	£000
Assets			
Investments			
Land and buildings	12	-	3,025
Investment in group undertakings and participating interests	13	-	1,398
Other financial investments	16	-	1,598,912
		<u>-</u>	<u>1,603,335</u>
Present value of future profits on non-profit business written in the with-profit fund		-	17,400
Assets held to cover linked liabilities	18	-	5,607,374
Reinsurers' share of technical provisions			
Long-term business provision		-	397,613
Claims outstanding		-	1,903
Technical provision for linked liabilities		-	1,549
		<u>-</u>	<u>401,065</u>
Debtors			
Debtors arising out of direct insurance operations	20	-	11
Debtors arising out of reinsurance operations		-	628
Other debtors	21	-	38,272
		<u>-</u>	<u>38,911</u>
Other assets			
Cash at bank and in hand		8,000	6,066
Prepayments and accrued income			
Accrued interest and rent		-	15,351
Other prepayments and accrued income		-	1,774
		<u>-</u>	<u>17,125</u>
Total assets		8,000	7,691,276

The information on pages 15 to 62 forms an integral part of these financial statements.

FRIENDS LIFE WL LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2013**

		2013	2012
	Note	£000	£000
Liabilities			
Capital and reserves			
Called up share capital	22	27,400	27,400
Capital contribution	23	159,000	159,000
Revaluation reserve	23	-	1,398
Profit and loss account	23	(178,400)	(28,786)
Total shareholders' funds		<u>8,000</u>	<u>159,012</u>
Fund for future appropriations		-	9,748
Technical provisions			
Long-term business provision		-	1,768,297
Claims outstanding		-	35,689
		<u>-</u>	<u>1,803,986</u>
Other technical provisions			
Technical provisions for linked liabilities	26	-	5,605,819
Provisions for other risks	27	-	6,903
Creditors			
Creditors arising out of direct insurance operations		-	1,392
Creditors arising out of reinsurance operations		-	65
Deferred tax liability	27	-	13,572
Other creditors including current tax and social security	28	-	65,478
		<u>-</u>	<u>80,507</u>
Accruals and deferred income	29	-	25,301
Total liabilities		<u>8,000</u>	<u>7,691,276</u>

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



M. R. B. Versey
Director

The information on pages 15 to 62 forms an integral part of these financial statements.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****1. STATEMENT OF ACCOUNTING POLICIES**

The principal accounting policies are set out below. As explained in the Strategic Report, all of the long-term business of the Company has been transferred to FLL and FLP via a business transfer scheme under Part VII of the Financial and Services Act 2000. Following the transfer of business the Company has no assets and liabilities apart from £8m of retained cash.

However, the accounting policies previously used continue to be shown in these notes so that users of the accounts are able to understand the accounting policies under which the Profit and Loss Accounts for the years ended 31 December 2012 and 31 December 2013, and Balance Sheet for the year ended 31 December 2012 have been prepared.

Basis of presentation

The financial statements have been prepared in accordance with the provisions of Schedule 3 of The Large & Medium-sized Companies & Groups (Accounts & Reports) Regulations 2008 applicable to insurance companies.

The financial statements have also been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention as modified by the revaluation of land and buildings, derivatives and financial instruments at fair value through profit and loss as set out in these notes and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 2005 and revised in December 2006.

Compliance with Statement of Accounting Practice ("SSAP") 19 (Accounting for Investment Properties) requires departure from the requirements of the 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 taken advantage of section 400 of the Companies Act 2006 and has not produced consolidated financial statements on the basis that it is a subsidiary undertaking of FLG which prepares consolidated financial statements.

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

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.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

The Company issues contracts that transfer insurance risk or financial risk or both. 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 discretionary participation feature 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, and
 - 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.

Unitised policies which contain both unit-linked and with-profits elements are split in accordance with a Scheme approved by the High Court in 2001 (as amended in 2004) with the unit-linked liabilities in the non-profit fund and the with-profits liability in the with-profits fund. Both elements are classified as insurance contracts if there is a transfer of significant insurance risk. If there is not significant insurance risk then the unit-linked component is classified as investment and the unitised with-profits component is classified as investment with DPF.

Where business is written via contracts with 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 insurance risk.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

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 the policy liabilities resulting from those premiums are created

Claims

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

Certain outwards 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, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. 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

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

the period Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due

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

In determining the realistic liabilities for with-profit 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 fund 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 the PVFP is determined in accordance with the FSA'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.

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 Financial 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

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 on a straight line basis allowing for expected level of surrenders

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

Outwards 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

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Investment return

Investment return includes interest income, gains and losses on the realisation of investments, unrealised movements in the fair value of investments and related expenses. Income from fixed income securities, loans and deposits is recognised on an accruals basis using the effective interest method. Shareholder investment income and related expenses are recognised in the non-technical account. Investment income and related expenses of the long-term insurance business fund are recognised in the technical account.

Unrealised gains and losses are recognised in the profit and loss account and 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. The balance is shown net of any unrealised gains or losses recognised in previous periods that have been reversed due to the asset being realised in the current period.

Realised gains and losses on asset, derivatives and investment properties are calculated as sale proceeds less purchase cost.

Expenses incurred and interest payables 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 independent, professionally qualified valuers every year.

Under the Companies Act 2006, land and buildings are required to be depreciated over their expected useful economic lives. In respect of freehold investment properties and leasehold investment properties with over 20 years to run, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19 that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted.

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.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

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.

Financial investments

The Company designates all its shares, other variable yield securities, units in unit trusts and open ended investment companies, debt securities and other fixed interest securities at fair value through profit and 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 de-recognition date is taken to be the trade date of the sale transaction.

Investments backing policyholders' liabilities are recorded at fair value through the profit and loss because it results in the matching of movements in the policyholder liabilities with the movements in financial assets. Other investments 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 unlisted investments, for which no active market exists, are established using valuation techniques. The valuations are generally provided by an external valuer 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 methodologies have been applied.

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

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Derivative financial instruments

Derivative financial instruments include futures, forward foreign exchange contracts, over the counter swaptions, credit default swaps ("CDS"), cross currency swaps, equity put and call 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 incorporating any premium paid on acquisition of the contract 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 FLI who outsource the models to HSBC.

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, including debtors

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. Debtors are accounted for as loans and receivables.

Impairment of assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset accounted for at amortised cost 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.

Allocation of surpluses and the fund for future appropriations

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

- New reversionary bonuses declared (which are guaranteed once credited) in respect of that year 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-profit fund. The main components of this are the value of future shareholders' transfers on a realistic valuation basis, less the expected support required

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

from the segregated sub fund. The segregated sub fund is a separate pool of assets maintained to provide support for the with-profits fund.

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 actuarial methods, with due regard to the actuarial principles set out in Council Directive 2002/83/EC

The principal assumptions underlying the calculation of the long-term business provision for non-participating policies are detailed in Note 24 "Technical provisions"

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, derivatives or investment property

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 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 associated tax obligations having regard to their expected timing

Other financial liabilities

Other financial liabilities are held at fair value on initial recognition and then subsequently valued at amortised cost using the effective interest method, 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

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

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

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.

The balance transferred from the long-term business technical account is grossed up by the related shareholder tax charged to the long-term business technical account

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 WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****2. MANAGEMENT OF FINANCIAL RISK****Overview**

Following the Part VII transfer all the assets and liabilities of the Company have been transferred to FLL and FLP and the Company has ceased trading. The Company is no longer exposed to any of the following risks and uncertainties. The following disclosure relates to the risks and uncertainties that the Company experienced prior to the transfer.

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

- Financial risks including market risk, credit risk and liquidity risk, and
- 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

Hedge Accounting

There were no transactions for which hedge accounting was used.

Main classes of financial assets

The main classes of financial assets that the Company was exposed to are Equities and Debt Securities and funds invested in other Insurance Funds as set out below. A full reconciliation of these amounts to the balance sheet is found in notes 16 and 18.

	2013 £000	2012 £000
Financial assets		
Equities:		
Other financial investments (Note 16)	-	418,535
Linked assets (Note 18)	-	3,006,010
	-	<u>3,424,545</u>
Debt securities:		
Other financial investments (Note 16)	-	1,090,722
Linked assets (Note 18)	-	426,683
	-	<u>1,517,405</u>
Other insurance funds:		
Linked assets (Note 18)	-	<u>2,088,147</u>

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Market risk

Market risk can be defined as the risk that movements in market factors impact adversely the value of, or income from, shareholder and policyholder funds. For an insurance company market risk appetite is required to reflect the aim of retaining prudent margins to avoid insolvency. Other factors which are relevant to market risk strategies are meeting the regulatory duty to Treat Customers Fairly and the desire to optimise investment performance.

In order to control market risk, assets are chosen, where relevant, to match underlying liability characteristics such as duration, inflation (e.g. index-linked) and currency. The investment guidelines for each portfolio document the necessary investment restrictions to help control the impact of price risks on the portfolio. The Board sets appetite for market risk for each of the different asset classes taking account of the risk appetite set by the Resolution Board. Consideration is given to the objectives of the asset pools to which they relate and the nature of the liabilities backed by those assets.

The Market Risk Control Standard 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 and foreign exchange risk. 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 which is a sub-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 is managed predominantly by a mixture of third party fund managers in respect of unit linked business sold by the Company and AXA Investment Managers UK Limited ("AXA IM") in respect of unit linked business on the Embassy platform and the With Profits fund, Annuity and Non Profit portfolios and Friends Life Investments Limited ("FLI") in respect of the shareholder portfolio.

Mandates are set for each fund within the Company taking account of the relevant factors outlined above.

The Company manages market risk attaching to assets backing specific policyholder liabilities and to assets held to deliver income and gains for the shareholder. Within the unit-linked funds and with-profits funds, the Company manages market risk so as to provide a return in line with the expectations of policyholders. The principal objective for shareholder assets is to

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

manage them so that they meet the capital requirements of the Company.

With-profits funds

The investment strategy of the with-profits funds is set out in the PPFM. The overall strategy is to invest in a broad range of asset types with the intention of providing the best investment return for the policyholders subject to the nature of the funds and its liabilities. The financial strength of the funds influences the proportion invested in equities and properties.

Non-profit funds

The investment strategy adopted aimed to ensure that even under extreme investment conditions there are sufficient assets to back the liabilities and the value of assets remains broadly aligned to the value of liabilities. This means that the duration of fixed interest assets is closely matched with the liabilities.

Shareholder funds

Shareholder funds invest in cash or fixed income assets designed to generate a return over that available on cash deposits at low level of price risk.

Derivatives were used to facilitate efficient portfolio management where their use is provided for in the relevant fund mandates.

In order to monitor market risk, liability and asset profiles were subject to annual price risk stress and scenario testing to examine the impact of significant market movements on shareholders' and policyholder funds and the implications for supporting capital requirements.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS***Determination of fair value hierarchy*

In accordance with the 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 asset-backed securities), 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 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

The fair value classification of assets and liabilities held at 31 December 2012 is shown in the table below.

	2012			Total Fair Value
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Shares and other variable yield securities and holdings in collective investment schemes	4,979,457	532,400	835	5,512,692
Debt securities and other fixed income	1,434,506	77,147	5,752	1,517,405
Loans secured by mortgages	-	-	25,753	25,753
Other loans to policyholders	-	-	4,762	4,762
Deposits with credit institutions	-	48,224	-	48,224
Derivative assets	12,723	39,694	-	52,417
Cash	-	6,066	-	6,066
Total financial assets at fair value	6,426,686	703,531	37,102	7,167,319
Financial liabilities				
Derivative liabilities	(804)	(7,353)	-	(8,157)

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

During the period, equities and debt securities amounting to £247.3m and £3.9m respectively were transferred from Level 1 to Level 2. Further transfers of equities and debt securities amounting to £5.4m and £218.4m respectively were made from Level 2 to Level 1. These changes arose from market activity and the changes in liquidity assessments. There were no significant changes between Level 1 and Level 2 for other financial assets.

The reconciliation of movement in financial instruments categorised as Level 3 is as follows:

	2013						At 31 December 2013 £000
	At 1 January 2013 £000	Total gains / (losses) in P&L £000	Purchases £000	Sales £000	Transfers (to)/ from Level 1 & 2 £000	Part VII transfer out £000	
Financial Assets							
Shares and other variable yield securities and holdings in collective investment schemes	835	44	344	(410)	156,415	(157,228)	-
Debt securities and other fixed income	5,752	70	-	(5,678)	4,711	(4,855)	-
Loans secured by mortgages	25,753	(1,820)	-	-	-	(23,933)	-
Other loans to policyholders	4,762	(238)	-	-	-	(4,524)	-
Total	37,102	(1,944)	344	(6,088)	161,126	(190,540)	-

	2012						At 31 December 2012 £000
	At 1 January 2012 £000	Total gains / (losses) in P&L £000	Purchases £000	Sales £000	Transfers (to) / from Level 1 & 2 £000		
Financial Assets							
Shares and other variable yield securities and holdings in collective investment schemes	2,188	(295)	439	(1,598)	101		835
Debt securities and other fixed income	-	(54)	2,433	-	3,373		5,752
Loans secured by mortgages	26,543	(790)	-	-	-		25,753
Other loans to policyholders	5,037	-	-	(275)	-		4,762
Total	33,768	(1,139)	2,872	(1,873)	3,474		37,102

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Interest rate risk

The Company was exposed to fair value interest rate risk where changes to interest rate result in changes to fair values rather than cash flows. Bond related performance benchmarks within fund mandates are generally set so that asset profiles and hence interest rate risk is minimised.

Management of interest rate risk for the Company's investments managed by multiple asset managers was largely undertaken by ALM, which is responsible for monitoring and managing net asset-liability interest rate risk across the entire Group.

Currency risk

The Company was exposed to currency risk in respect of portfolios denominated in other currencies. Consequently the Company was exposed to the risk that the exchange rate of its presentational currency relative to other currencies may change in a manner that has an adverse effect on the value of the Company's financial assets and liabilities. Mitigation of this risk is achieved by matching the liabilities with assets in the same currency.

For unit linked contracts, the currency risk is borne by the policyholder.

Business was transacted mainly in the United Kingdom and all business was denominated in sterling except for the Irish Life reinsurance arrangement which is denominated in Euros (and for which no new business is written). The amount included in the long-term business provision relating to Irish Life as at 31 December 2012 was £10.5m. The currency exposure on this business was managed through asset and liability matching such that the net currency risk is not material.

The Company also had a loan to 787 Holdings LLC which is secured on property and denominated in US dollars. The amount included in other financial investments in respect of this loan as at 31 December 2012 was £25.8m. The currency exposure on this loan was mitigated by a cross currency swap.

Credit risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades. 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.

The Company was exposed to investment credit risk on its investment portfolio, primarily from investments in corporate bonds. Creditworthiness assessment for new and existing investments was largely undertaken on behalf of the Company by multiple asset managers. In their decision making, the asset managers assessed the extent of investment credit risk allowed by each fund as set out in the fund mandates and relative to defined performance benchmarks.

Derivatives purchased over the counter had the potential to expose the Company to substantial credit risk but this risk was significantly reduced through collateral arrangements with counterparties. The ALM function was responsible for recommending derivative strategies to

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

the Board, and assisting other teams to put into place the appropriate internal management processes. The Company endeavoured only to transact over the counter derivatives with highly rated counter parties.

Collateral was received from the derivative counterparty if the sum of all contracts held with the counterparty are in-the-money (i.e. is an asset to the Company). The Company had a legal right to this collateral if the counterparty did not meet its obligations but had no economic benefit from holding the assets and the counterparty may, at any time, substitute the collateral delivered with another asset of the same value and quality. It was repayable if the contract was terminated or the contract's fair value fell. Contractual agreements between the Company and each counterparty existed to protect the interests of each party, taking into consideration minimum threshold, asset class of collateral pledged and the frequency of valuation. At 31 December 2012 the fair value of such collateral held was £32.3m. This reduced the exposure to these financial instruments by £31.7m leaving a remaining exposure to these derivative assets of £nil. No collateral received from counterparties has been sold or repledged.

For investment related items, credit risk was actively accepted in anticipation of the potential returns to be made on the investments. The level of credit risk to which the portfolios were exposed was controlled to limit the exposure to any one counterparty and, in the case of fixed income and cash instruments, to limit total exposure to issuers with lower credit ratings.

An indication of the Company's exposure to credit risk was the credit quality of the investments that it holds. The Company was most exposed to credit risk on debt securities. The below table provides information regarding the external credit ratings of debt securities. Any unrated debt securities are included in the "below BBB" category.

Ratings	2013 £000	%	2012 £000	%
AAA	-	-	923,294	60.9
AA	-	-	141,280	9.3
A	-	-	251,519	16.6
BBB	-	-	190,036	12.5
Below BBB	-	-	11,276	0.7
Total	-	-	1,517,405	100.0

The total amount of financial assets exposed to credit risk, which includes debt securities, deposits with credit institutions, reinsurers' share of technical provisions, investments in funds of other insurance companies, loans, receivables and cash as at 31 December 2012 was £4,108.5m.

Of £7,231.5m of financial assets held by the Company as at 31 December 2012 £7,212.4m was held at fair value through profit or loss, and therefore reflected any changes in value. The remaining £19.1m was held at amortised cost, and of those assets no amounts were past due but not impaired, and £nil were impaired. All financial assets that are neither past due nor impaired were considered to be of acceptable credit quality in accordance with Company policy.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

The exposure of the Company to the governments of Portugal, Italy and Spain in shareholder and non-profit funds at 31 December 2012 is set out in the table below. Where the Company holds securities issued by financial companies, it has considered the Company's financial strength and the ability of the domicile government to provide financial support in the event of stress. There was no exposure to Greece or Ireland.

	2013			2012		
	Govt debt £000	Corporate debt £000	Total £000	Govt debt £000	Corporate debt £000	Total £000
Portugal	-	-	-	-	-	-
Italy	-	-	-	-	8,808	8,808
Spain	-	-	-	-	20,616	20,616
Total	-	-	-	-	29,424	29,424

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 was 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.

At 31 December 2012, the Company had invested £2.1bn of the assets backing its pension unit-linked liabilities with external providers of investment funds ("fund reinsurers"). The risk of default by the fund reinsurers was small but the size of the exposure was significant. The biggest exposure to a fund reinsurer at 31 December 2012 was £1.6bn, with Blackrock Advisors (UK) Limited. Exposures to the fund reinsurers are monitored on a monthly basis.

The Company entered into a floating charge agreement with each of the fund reinsurers whereby the Company ranks (as a reinsurance policyholder) equally with direct policyholders.

The Company had developed processes to formally examine all reinsurers before entering into new business arrangements with them. Counterparty limits were set for each reinsurer and these limits are monitored.

The Company reinsured most of its annuity liabilities. The reinsured reserve under this treaty as at 31 December 2012 was £386.0m. The credit risk was significantly mitigated, in respect of this transaction, by the use of collateralised security that allowed the Company to recover the bulk of the amounts paid to the reinsurer to cover future annuity liabilities, in the event of the insolvency of the reinsurer.

At the 31 December 2012 there were no other significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including reinsurance assets in the balance sheet plus the credit risk on the fund reinsurers.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Liquidity risk**

Liquidity risk is defined as the risk that the Company, irrespective of solvency and profitability, 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 was controlled via the requirements of the Group that business units carry out periodic liquidity reviews including stress testing to ensure that sufficient liquidity exists in the business. These reviews incorporated the results of appraisals by the investment managers who monitor liquidity of the investment portfolios on an ongoing basis. The approach was reviewed and updated to reflect current and expected market conditions. Operating cash flow was also monitored on a daily basis.

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

Contractually all investment contract liabilities were repayable on demand and would fall into the "less than 1 year" category if analysed on that basis. The maturity analysis below shows the expected maturity of liabilities on this basis.

Maturity analysis	Less than 1 year £000	1 – 5 years £000	Over 5 years £000	Total £000
2013				
Financial liabilities				
Investment contract liabilities	-	-	-	-
Derivative Liabilities	-	-	-	-
Creditors	-	-	-	-
Total	-	-	-	-

Maturity analysis	Less than 1 year £000	1 – 5 years £000	Over 5 years £000	Total £000
2012				
Financial liabilities				
Investment contract liabilities	5,337,435	-	-	5,337,435
Derivative liabilities	233	2,895	5,020	8,148
Creditors	72,359	-	-	72,359
Total	5,410,027	2,895	5,020	5,417,942

The Company had financial liabilities which contain a discretionary participation feature arising as a result of investment within the Company's with-profits fund. The element of the carrying value of these instruments linked to the investment in the with-profits funds is disclosed in the table above at the realistic valuation required under FRS 27 (Life Assurance). The Company cannot measure reliably the fair value of these financial liabilities due to the

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

lack of a reliable basis to measure the supplemental discretionary returns arising on with-profits contracts and because there is not an active market for such instruments.

Sensitivities

The Company used a number of sensitivity 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 methodology used a "market-consistent" approach to setting asset return assumptions. Each cash flow was 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) adjusted to include an illiquidity premium on annuity business.

The major assumptions included

- "Best estimate" demographic assumptions based on recent experience and where appropriate long term trends
- Expense assumptions are based on experience which has been adjusted for non-recurring expenses and one-time strategic spending. The impact on direct expenses of service agreements with third party providers is also taken into account in calculations,
- Some benefit from future mortality improvement is included, while annuity business includes an allowance for the costs of longevity increasing in all markets, and
- Non-financial risks are allowed for based on Individual Capital Assessment ("ICA") capital requirements

The sensitivity of the MCEV had been calculated for changes in major economic assumptions. The sensitivities were applied one at a time rather than in combination.

The sensitivities monitored are set out below.

Upward parallel shift of 100 basis points in reference interest rates

This simulates a sudden shock to the initial conditions. This means changes to 1) the current market values of fixed-interest assets, with related possible changes to projected capital gains/losses and/or fee revenues, 2) future reinvestment rates for all asset classes, and 3) risk-discount rates. Inflation rates are not changed in this analysis. Policyholder and management behaviour is adjusted following normal behavioural modelling, and may not be wholly consistent with these conditions.

Downward parallel shift of 100 basis points in reference interest rates

This is the same as above but with a shift downward. Where the shift of 100 basis points would drop rates below 0%, the calculations assume a reference rate of 0%.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

10% higher value of equity markets 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 markets at the start of the projection

This is the same as above but a decrease

10% reduction of the value of sterling against other currencies

This simulates a shock to the initial conditions. It is calculated using the equity sensitivities with the 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% increase of the value of sterling against other currencies

This is the same as above but with an increase in the value of overseas assets

Widening of credit spreads by 100 basis points

This simulates a widening to the spreads of corporate bonds held by the company. This means changes to the value of corporate bond assets (held in free surplus and required capital) are modelled. For annuities, the illiquidity premium is stressed by an increase of 40bps as an approximate allowance for the impact of a change in credit spreads on annuity business. Policyholder and management behaviour is adjusted following normal behavioural modelling, and may not be wholly consistent with these conditions.

Narrowing of credit spreads by 100 basis points

This is the same as above but with a narrowing of the spreads

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

The table below provides a summary of the estimated impact on MCEV of these sensitivities.

	2013 £000	2013 %	2012 £000	2012 %
Base calculated MCEV	8,000	100	317,000	100
Estimated upward parallel shift of 100 bps in risk free rates	-	-	(5,000)	(2)
Estimated downward parallel shift of 100 bps in risk free rates	-	-	5,000	2
10% higher value of equity and property markets at start of projection	-	-	8,000	3
10% lower value of equity and property markets at start of projection	-	-	(8,000)	(3)
10% reduction of the value of sterling against other currencies	-	-	(1,000)	-
10% increase of the value of sterling against other currencies	-	-	1,000	-
Widening of credit spreads by 100bps	-	-	(13,000)	(4)
Narrowing of credit spreads by 100bps	-	-	17,000	5

3. SEGMENTAL ANALYSIS

Amounts reported in 2013 relate to premiums received in the period 1 January to 27 December 2013. Following the Part VII transfer of business on 28 December 2013 the Company has ceased trading. Consequently all amounts are in respect of discontinued activities.

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

(i) Gross premiums written and investment contract deposits

	2013 £000	2012 £000
Direct insurance	91,477	86,172
Reinsurance inwards	517	358
Gross premiums written as reported in the technical account	91,994	86,530
Non-participating investment contract deposits		
Direct	297,139	350,456
Reinsurance inwards	72,362	82,182
Non-participating investment contract deposits	369,501	432,638
Gross premiums written and non-participating investment contract deposits	461,495	519,168

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

		Gross direct premiums written	
		2013	2012
		£000	£000
Pensions	Non-participating	60,825	47,472
	Participating	852	380
Life	Non-participating	12,678	16,564
	Participating	16,588	20,922
PHI	Non-participating	939	1,071
	Participating	112	121
		<u>91,994</u>	<u>86,530</u>
Regular premiums		28,781	39,738
Single premiums		<u>63,213</u>	<u>46,792</u>
		<u>91,994</u>	<u>86,530</u>
Individual premiums		75,485	68,880
Premiums under group contracts		<u>16,509</u>	<u>17,650</u>
		<u>91,994</u>	<u>86,530</u>
		Non-participating investment contracts	
		2013	2012
		£000	£000
Pensions	Non-participating	369,501	432,638
Life	Non-participating	-	-
		<u>369,501</u>	<u>432,638</u>
Regular premiums		325,164	318,498
Single premiums		<u>44,337</u>	<u>114,140</u>
		<u>369,501</u>	<u>432,638</u>
Individual premiums		147,350	187,488
Premiums under group contracts		<u>222,151</u>	<u>245,150</u>
		<u>369,501</u>	<u>432,638</u>

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****(ii) Gross new business premiums and new business investment contract deposits**

	2013	2012
	£000	£000
Direct	147,046	195,856
Reinsurance inwards	-	-
Gross new business premiums written and non-participating investment contract deposits on new business	147,046	195,856

Gross direct premiums written and non-participating investment contract deposits

		Regular		Single	
		2013	2012	2013	2012
		£000	£000	£000	£000
Pensions	Non-Participating	63,373	62,436	83,672	133,125
	Participating	-	-	1	295
		63,373	62,436	83,673	133,420
Life	Non-Participating	-	-	-	-
	Participating	-	-	-	-
		63,373	62,436	83,673	133,420

As there is no outward reinsurance relating to new business the analyses of gross and net are the same

In classifying new business premiums and deposits, the following bases of recognition have been adopted

- Recurrent single premium contracts, including Department of Work and Pensions rebates on certain pension products, are classified as periodic where they are deemed likely to renew at or above the amount of initial premium
- Increments under existing policies are classified as new business premiums or deposits
- Funds at retirement under individual pension contracts left with the Company and transfers from group to individual contracts are classified as new business single premiums and, for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written.
- Regular premiums or deposits received other than annually are reported on an annualised basis

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

	2013	2012
	£000	£000
(iii) Reinsurance balance – debit balance	<u>(12,322)</u>	<u>20,125</u>

The balance represents the aggregate total of all of 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 provisions.

4. INVESTMENT INCOME

	Long-term business technical account		Non-technical account	
	2013	2012	2013	2012
	£000	£000	£000	£000
Income from other financial investments				
Income on assets at fair value through profit and loss	166,109	159,219	387	606
Income from group companies	332	332	-	-
Income from land and buildings	2,312	3,265	-	-
Gains on the realisation of investments	228,777	179,134	-	1,681
	<u>397,530</u>	<u>341,950</u>	<u>387</u>	<u>2,287</u>
Investment expenses and charges including interest				
Investment management charges	(1,265)	(2,833)	(79)	(360)
Interest payable	(210)	(271)	-	-
Losses on the realisation of investments	-	-	-	-
Transaction costs on investment purchases	(5,702)	(2,123)	-	-
	<u>(7,177)</u>	<u>(5,227)</u>	<u>(79)</u>	<u>(360)</u>
Net unrealised gain / (losses) on investments	512,155	329,237	-	(1,540)
Total investment return	<u>902,508</u>	<u>665,960</u>	<u>308</u>	<u>387</u>

Investment income includes changes in the fair value of financial assets estimated using a valuation technique of £ (11.3m) (2012: £0.2m)

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

	Long-term business technical account		Non-technical account	
	2013	2012	2013	2012
	£000	£000	£000	£000
Included in the total investment return are net gains / (losses) on financial assets at fair value through profit and loss				
Assets designated upon initial recognition	756,636	514,993	-	141
Assets held for trading	<u>(15,704)</u>	<u>(6,622)</u>	<u>-</u>	<u>-</u>
Total net realised and unrealised gains included in investment return	<u>740,932</u>	<u>508,371</u>	<u>-</u>	<u>141</u>
Interest (expense) / income for financial liabilities not at fair value through profit and loss				
Interest (expense) in respect of investment contracts	(486,827)	(437,331)	-	-
Interest income in respect of the with-profits element of investment contracts with DPF	2,068	6,934	-	-
Interest (expense) payable on financial liabilities	<u>(210)</u>	<u>(271)</u>	<u>-</u>	<u>-</u>
Total interest (expense) for financial liabilities not at fair value through profit and loss	<u>(484,969)</u>	<u>(430,668)</u>	<u>-</u>	<u>-</u>

Interest income/(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 income/(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.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****5. OTHER TECHNICAL INCOME, NET OF REINSURANCE**

	2013	2012
	£000	£000
Fees on unit-linked investment contracts	26,036	23,992
Other income and charges	3,688	3,927
	<u>29,724</u>	<u>27,919</u>

6. BONUSES

The aggregate of the bonuses added to policies in the year was £21.6m (2012 £19.7m)

7. NET OPERATING EXPENSES

	Long-term business technical account	
	2013	2012
	£000	£000
Acquisition costs	7,513	9,027
Administrative expenses	29,113	47,544
	<u>36,626</u>	<u>56,571</u>

Administrative expenses include £1.6m (2012. £2.0m) relating to net commissions on life and pension business

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****8. PART VII TRANSFER OF BUSINESS**

On 28 December 2013, as disclosed in the Strategic Report, the Company's assets and liabilities were transferred under a Part VII transfer into FLL and FLP. The following table summarises the fair value of assets and liabilities transferred

Long term insurance business	£000
Investments	1,264,210
Present value of future profits on non-profit business written in the with- profits fund	12,855
Assets held to cover linked liabilities	6,220,568
Reinsurers' share of technical provisions	361,075
Debtors	4,948
Other assets	169,418
Prepayments and accrued income	17,058
Fund for future appropriations	(12,824)
Technical provisions	(1,596,784)
Technical provisions for linked liabilities	(6,229,536)
Provisions for other risks	(8,934)
Creditors	(34,464)
Accruals and deferred income	(22,547)
Loss on Part VII transfer of business (in the technical account)	145,043
Shareholders' fund	
Investments in group undertakings	1,587
Other assets/liabilities (including cash holdings)	86,180
Loss on Part VII transfer of business (in the non-technical account)	87,767
Loss on Part VII transfer of business	232,810

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****9. TAXATION**

	Long-term business technical account		Non-technical account	
	2013	2012	2013	2012
	£000	£000	£000	£000
UK corporation tax:				
UK corporation tax	(1,172)	(2,300)	(71)	(229)
Adjustments in respect of prior periods	-	(449)	-	-
Total UK corporation tax	(1,172)	(2,749)	(71)	(229)
Withholding tax written off	(1,844)	(689)	-	-
Tax credit attributable to balance on long-term business technical account	-	-	(7,265)	(703)
Total current tax	(3,016)	(3,438)	(7,336)	(932)
Deferred tax:				
Origination and reversal of timing differences	(9,606)	(35,601)	-	-
Total deferred tax	(9,606)	(35,601)	-	-
Tax (charge) / credit on loss on ordinary activities	(12,622)	(39,039)	(7,336)	(932)

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. Deferred tax has been calculated at rates expected to apply on reversal of the relevant timing differences. UK corporation tax shown under the non-technical account is charged at a rate of 23.25% (2012 24.5%).

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Factors affecting the tax charge**

The tax assessed for the year is lower (2012 lower) than the standard rate of corporation tax in the UK (23.25%) (2012 24.5%) The differences are explained below:

	Non-technical account	
	2013	2012
	£000	£000
(Loss) / Profit on ordinary activities before tax	(143,865)	36,381
(Loss) / Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 24.5%)	33,449	(8,913)
Non-deductible cost on Part VII	(54,128)	-
Difference between effective rates (8.21%) (2012 2.56%) and standard rate (23.25%) (2012 24.5%) on balance on long-term business account	13,343	7,981
Tax (charge) / credit for the period	<u>(7,336)</u>	<u>(932)</u>

During the year legislation was enacted to bring a decrease in the rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. Under UK GAAP, deferred tax is calculated using rates substantively enacted by the reporting date and as such the 20% rate has been taken into account in deferred tax balances. The average rate of corporation tax for the full calendar year is 23.25%

10. AUDITOR'S REMUNERATION

	2013	2012
	£000	£000
Fees payable to Company's auditor	56	65
Audit-related assurance services	98	70
	<u>154</u>	<u>135</u>

Current year figures include £18,000 relating to additional prior year fees.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****11. 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 are detailed below, all of which was paid by Friends Life Management Services Limited or Friends Life Services Limited 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 2012 were not agreed by the Resolution Limited Remuneration Committee until after the signing of the Company's accounts and were therefore not included in the 2012 emoluments but are included in the 2013 emoluments. Amounts for annual bonus payments to the directors for the year ended 2013 have already been agreed by the Resolution Limited Remuneration Committee and are therefore also included in the 2013 emoluments below.

Aggregate Emoluments	2013	2012
	£	£
Remuneration	4,078,578	3,560,885
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 pension schemes	Six	Six
Number of directors accruing benefits under defined benefit pension 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.

Highest paid director

	2013	2012
	£	£
Remuneration		
Awards under long-term incentive schemes (excluding share options and shares)	1,486,322	1,005,007
Company contributions to pension schemes	10,682	17,609

The total remuneration payable to directors includes £1,486,322 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.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Employees**

The Company has no employees during the year (2012 none). The costs of staff are borne by the service company FLS. The service companies 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.

12. LAND AND BUILDINGS

	Investment properties £000
As at 1 January 2013	3,025
Revaluations	-
Disposals	-
Transferred out under Part VII	(3,025)
As at 31 December 2013	-

The cost of investment properties was £nil (2012 £3.8m)

All land and buildings were held as freehold and were valued every year for the purpose of the financial statements at open market basis. The valuation was made at 1 December 2012 by GVA, a firm of independent Chartered Surveyors.

13. INVESTMENTS IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

The amount in the Company's balance sheet for investments in group undertakings and participating interests is

	Carrying value		Cost	
	2013	2012	2013	2012
	£000	£000	£000	£000
Subsidiary holdings	-	1,398	-	-

The assessment of current value in 2012 was based upon the net asset value of the subsidiary. During 2013 the business transfer resulted in the holdings in subsidiaries being transferred to FLL on 28 December 2013 leaving no holdings in subsidiaries at 31 December 2013.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****14. SHARES AND OTHER VARIABLE YIELD SECURITIES AND HOLDINGS IN COLLECTIVE INVESTMENT SCHEMES**

	2013	2012
	£000	£000
UK listed	-	154,827
Other listed	-	70,910
Unlisted	-	192,798
	<u>-</u>	<u>418,535</u>

Included in the current year balance for unlisted investments is £nil (2011: £192.8m) relating to an investment in an AXA IM collective investment fund, which is a cash management fund.

15. DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES

	2013	2012
	£000	£000
UK listed	-	752,395
Other listed	-	338,327
	<u>-</u>	<u>1,090,722</u>

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****16. OTHER FINANCIAL INVESTMENTS**

Financial Assets	Carrying Value		Cost	
	2013	2012	2013	2012
	£000	£000	£000	£000
Financial assets at fair value through profit and loss				
Designated at initial recognition	-	7,159,935	-	6,124,893
Derivative financial instruments – held for trading	-	52,417	-	17,735
	-	7,212,352	-	6,142,628
Loans and receivables, at amortised costs	-	19,151	-	17,753
Total financial assets	-	7,231,503	-	6,160,381

These amounts are included in the balance sheet as follows:

	Carrying Value		Cost	
	2013	2012	2013	2012
	£000	£000	£000	£000
Other financial investments				
Shares and other variable yield securities and holdings in collective investment schemes (Note 14)	-	418,535	-	402,298
Debt securities and other fixed income securities (Note 15)	-	1,090,722	-	1,010,781
Derivative assets (Note 17)	-	51,572	-	17,735
Loans secured by mortgages	-	25,753	-	20,632
Loans secured by insurance policies	-	4,762	-	4,762
Deposits with credit institutions	-	7,568	-	7,568
Total other financial investments	-	1,598,912	-	1,463,776
Linked assets (see Note 18)	-	5,607,374	-	4,672,786
Receivables	-	17,125	-	17,125
Investment in group undertakings (Note 13)	-	1,398	-	-
Reinsurance asset	-	628	-	628
Cash	8,000	6,066	8,000	6,066
Total financial assets	8,000	7,231,503	8,000	6,160,381

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Total financial assets	8,000	7,231,503	8,000	6,160,381
Other assets				
Land and buildings (Note 12)	-	3,025	-	3,831
Present value of future profits on non-profit business written in the with-profits fund	-	17,400	-	17,400
Reinsurers share of technical provisions	-	401,065	-	401,065
Debtors	-	38,283	-	38,283
Total assets	8,000	7,691,276	8,000	6,620,960

17. DERIVATIVES

The Company entered into derivative contracts to manage the market risk and credit risk arising from its investment activities.

The nature and extent of derivative instruments held are as follows:

Notional and fair value of derivatives

	2013			2012		
	Notional Amount	Fair Value Asset	Fair Value Liability	Notional Amount	Fair Value Asset	Fair Value Liability
	£000	£000	£000	£000	£000	£000
Net assets						
Swaptions	-	-	-	96,173	695	-
Interest rate swaps	-	-	-	231,484	38,445	(6,119)
Credit default swaps	-	-	-	86,600	555	(1,234)
Cross currency swaps	-	-	-	18,695	-	(785)
Futures	-	-	-	80,160	139	(11)
Options	-	-	-	129,752	11,738	-
Total	-	-	-	642,864	51,572	(8,149)

	2013			2012		
	Notional Amount	Fair Value Asset	Fair Value Liability	Notional Amount	Fair Value Asset	Fair Value Liability
	£000	£000	£000	£000	£000	£000
Assets held to cover linked liabilities						
Futures and options	-	-	-	33,617	845	(8)

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****18. ASSETS HELD TO COVER LINKED LIABILITIES**

	Carrying Value		Cost	
	2013	2012	2013	2012
	£000	£000	£000	£000
Assets held to cover linked liabilities	-	5,607,374	-	4,662,403

The carrying value of linked assets comprises.

	2013	2012
	£000	£000
Equity	-	3,006,010
Debt securities	-	426,683
Land and buildings	-	34,901
Deposits with credit institutions	-	40,656
Debtors and accrued income	-	20,523
Derivative assets	-	845
Investments in funds of other insurance companies	-	2,088,147
Total assets	-	5,617,765
Creditors	-	(10,383)
Derivative liabilities	-	(8)
Net assets	-	5,607,374

These investments are measured at fair value through profit and loss. As disclosed in Note 2, the financial risks associated with these contracts are borne by policyholders.

An analysis of total financial assets, including assets held to cover linked liabilities is provided in Note 16 "Other financial investments"

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****19. CLAIMS OUTSTANDING**

As a result of deposit accounting for insurance and investment contracts with DPF, the change in the provision for claims recorded in the technical account for long-term business does not equal the movement in the claims outstanding. The differences are explained below

	Gross Amount		Reinsurers' Share	
	2013	2012	2013	2012
	£000	£000	£000	£000
These amounts are included in the technical account as follows:				
Change in the provision for claims	<u>(3,271)</u>	<u>(3,229)</u>	<u>(1,036)</u>	<u>(2,873)</u>
Change in the provision for claims arising from deposit accounting	<u>1,016</u>	<u>(105)</u>	<u>-</u>	<u>-</u>
Change in provision for claims outstanding on a consistent basis with balance sheet classification	<u>(2,255)</u>	<u>(3,334)</u>	<u>(1,036)</u>	<u>(2,873)</u>
Part VII transaction	<u>37,944</u>	<u>-</u>	<u>(867)</u>	<u>-</u>
	<u>35,689</u>	<u>(3,334)</u>	<u>(1,903)</u>	<u>(2,873)</u>
Balance sheet movement in provision for claims outstanding	<u>35,689</u>	<u>(3,334)</u>	<u>(1,903)</u>	<u>(2,873)</u>

20. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2013	2012
	£000	£000
Amounts due from policyholders	<u>-</u>	<u>11</u>

21. OTHER DEBTORS

	2013	2012
	£000	£000
Loans to other group undertakings	-	2,719
Amounts due from other group undertakings – other amounts	-	28
Amounts owed by intermediaries	-	1,026
Taxation recoverable	-	28,743
Other debtors	<u>-</u>	<u>5,756</u>
	<u>-</u>	<u>38,272</u>

Loans to other group undertakings included a loan by the non-profit fund to DCP, a subsidiary

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

of the Company, for the amount of £nil (2012 £2.7m). The loan was repayable on demand with twelve months notice, and interest was payable at a rate of 6%. The loan was secured by way of a first all monies legal charge over the freehold property owned by DCP. The carrying value of the loan was a reasonable approximation of its fair value.

22. CALLED UP SHARE CAPITAL

	2013	2012
	£000	£000
Allotted and fully paid		
27,400,000 ordinary shares of £1 each	27,400	27,400

23. RESERVES

	Capital contribution £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At 1 January 2013	159,000	1,398	(28,786)	131,612
(Loss) for the financial year	-	-	(151,201)	(151,201)
Revaluation of investments in group undertakings	-	189	-	189
Reclassification of revaluation reserve	-	(1,587)	1,587	-
Capital contribution received	-	-	-	-
At 31 December 2013	<u>159,000</u>	<u>-</u>	<u>(178,400)</u>	<u>(19,400)</u>

	Capital contribution £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At 1 January 2012	154,000	1,397	(64,235)	91,162
Retained profit for the financial year	-	-	35,449	35,449
Revaluation of investments in group undertakings	-	1	-	1
Capital contribution received	5,000	-	-	5,000
At 31 December 2012	<u>159,000</u>	<u>1,398</u>	<u>(28,786)</u>	<u>131,612</u>

Distributable profits for insurance companies writing long-term business are determined after

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

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 the Companies Act 2006 requirements, taking into account only realised profits in the shareholders' fund, the cost of bonus transferred from the With-Profits fund and deducting any deficits on long term funds

As at 31 December 2013 the capital contribution and profit and loss account include £nil (2012: £59.7m) which is distributable.

During 2013 the Company's investment in Winterthur Finance Limited was transferred to FLL as part of the business transfer under the Part VII scheme. This has led to the revaluation reserve of £1.6m at the Part VII date being reclassified into Profit and Loss reserves.

24. TECHNICAL PROVISIONS

As reported in the Strategic Report and note 8 to the accounts, a business scheme transfer under Part VII of the FSMA was completed on 28 December 2013. All the technical provisions of the Company have been transferred to FLL and FLP; the information disclosed below relates to the 2012 comparatives

With-profits fund

The Company had one UK with-profits fund

For with-profits contracts, the long-term business provision was calculated in accordance with the FSA's 'realistic' liability regime. In particular, provision was made for all declared and future bonuses estimated in a manner consistent with the PPFM.

The liabilities were based on the aggregate value of policy asset shares reflecting the premiums paid, investment return earned and expenses incurred in respect of each policy (the "with-profits benefit reserve"). The liabilities also included allowances for

- the time and intrinsic value of options and guarantees and for possible future management actions such as changes to bonus rates, and
- other differences between the value of policy payouts (including future bonuses) and asset shares, due to either planned enhancements to payouts or smoothing practice

These allowances were determined using a market-consistent, risk-neutral, stochastic model simulating future investment returns and bonuses

The liabilities included allowance for the shareholders' share of future bonuses. At 31 December 2012 this amounted to £16.0m. Under FRS 27, this amount is excluded from the liabilities and forms part of the FFA.

The Court Schemes covering the governance of the with-profits fund required all of the surplus assets held in the Company's with-profits fund to be distributed. Surplus assets in the fund were distributed as enhancements to the with-profits benefits reserve. Similarly,

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subject to covering the value of any policy options and guarantees in the fund, where a deficit exists there are provisions to recover the deficit by making deductions from the with-profits benefits reserve. As a consequence, on this basis, the realistic value of the assets was equal to the realistic value of the liabilities, after allowance for the support arrangement assets provided by the segregated sub fund.

The principal assumptions underlying the calculation of the with-profits liabilities are set out below in "Main assumptions".

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

Since the realistic liabilities for with-profits policies include an allowance for future bonuses that will be payable out of profits from non-profit business written within the with-profits fund, an asset is recognised representing the present value of future profits ("PVFP") arising from such business. These profits include profits expected to arise from margins for prudence in the gross premium valuation basis. No corresponding asset is recognised for business written in the non-profit fund.

The value of the PVFP is determined in accordance with the FSA'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 the regulatory capital requirements in respect of the non-profit business.

Non-profit fund

For almost all conventional non-profit business, the long-term business provision is determined using a gross premium valuation method, which values guaranteed benefits, future expenses and the full premiums receivable. The assumptions used for this valuation include margins in comparison with corresponding assumptions used for the realistic valuation.

Unit-linked business

The technical provision for unit-linked liabilities is determined according to the policy set out in Note 1 (Statement of Accounting Policies). Additional technical provisions arising from unit-linked contracts classified under FRS 26 as insurance or investment with DPF contracts are held within the long-term business provision, and include an allowance for any excess of future costs over policy charges. A discounted cash-flow valuation method has been adopted to determine these additional provisions for all major classes of business. The main assumptions relate to the discount rate, future expenses, unit price growth and mortality experience. Further provisions are also held.

For the unit-linked liabilities, management's policy is to ensure that there is no significant mismatching between the assets and liabilities in each unit fund. Assets and liabilities for the non-linked business in the non-profit fund are broadly matched and therefore the risks from changes in market conditions are limited.

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The principal assumptions underlying the calculation of the non-profit liabilities are set out below in "Main assumptions"

Main assumptions**With-profits business***Economic*

The realistic assets and liabilities were calculated using a dynamic stochastic model based on economic data provided from a market consistent asset model. This included the cost of any options, guarantees or smoothing together with the value of any enhancement (or charges) to the with-profits benefit reserve

The assumptions underlying the projection of the liabilities were based upon best estimates. Assets were taken to be consistent with the market value

For the valuation of with-profits business, the yields were derived from UK gilts, which were assumed to be risk-free. The equity asset model was calibrated to market implied volatilities of in and out of the money FTSE100 put options.

The asset model used was the Barne & Hibbert Economic Scenario Generator. This was an arbitrage-free deflator model built for the purpose of pricing contingent claims written on multiple asset classes. The model is capable of recovering prices for assets and liabilities that can be directly verified from the market and is calibrated to recover the market-consistent prices for those assets that reflect the nature and term of the with-profits liabilities of the fund.

This asset model provided 2,000 simulations of the future comprising a range of good, average and poor economic scenarios which when combined were consistent with earlier calibration. These simulations were then used to project the realistic value of the assets and liabilities.

The stochastic model is a monthly model and projects cash flows over a period of 40 years. At the end of this period any residual cost of guarantees is estimated and included in the projected liabilities.

The model allows directly for some management (an allowance is made indirectly for others) and policyholder actions to be taken as economic conditions change. The range of actions has been detailed below.

Mortality

The mortality assumptions used in the model were largely based upon standard industry tables adjusted to reflect the expected experience of the fund. For life and pensions business before retirement, the rates were 80-90% of AM92 or AF92 as appropriate. In retirement

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male rates were 107.5% of PCMA00 with CMI 2011 (1.25%) improvements. In retirement female rates were 107.5% of PCFA00 with CMI 2011 (1.25%) improvements.

Persistency and expenses

Policy lapse assumptions were based upon recent past experience. Provision was also made for policyholder actions on dates where market value reductions do not apply.

The expense assumptions reflected the estimated future policy and investment expenses. Under the terms of the Scheme of Transfer the expenses were capped. It was been assumed that the expense cap will apply in the future. On average these expenses were assumed to increase at 3.8% p.a. Investment expenses were assumed to be 19 basis points.

Bonus rates

The bonus policy of the Company was explained in detail in the PPFM. In setting regular bonus rates the Company aimed to ensure that final bonus should represent a targeted proportion of the total maturity payout. Subject to these principles the Company sought to smooth the amount by which regular bonus changes at any one time.

The Company used asset shares, or other appropriate models, as a guide to determining final bonus rates. The general aim was that claim amounts should be based upon targeted proportions of the policy asset share, allowing for smoothing and subject to averaging over policies with the same scale of final bonus. Subject to smoothing, the practice was to target 100% of the asset share on maturity or death and 95% of the asset share for surrenders, transfers and switches. For surrenders, transfers and switches, where a final bonus is not being applied, the Company targeted a payout of 100% of asset share.

Included within the long-term business provision were amounts of £129m relating to liabilities under with-profits investment contracts. The Company could not measure reliably the fair value of with-profits investment contracts due to the lack of a reliable basis to measure the supplemental discretionary returns and because there is not an active market for such instruments. The realistic liabilities were, however, considered to be an appropriate proxy for fair value.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Non-profit business**

The principal assumptions underlying the calculation of the non-profit liabilities in the long-term business provision were as follows

Rates of interest:		2013	2012
With-profits fund	- life (immediate annuities)	n/a	1.60%
	- pensions (immediate annuities)	n/a	2.00%
	- life (other)	n/a	1.60%
	- pensions (other)	n/a	2.00%
Non-profit fund	- life	n/a	1.35%
	- pensions (immediate annuities)	n/a	3.05%
	- pensions (other)	n/a	1.70%
Mortality tables:		2013	2012
Term Assurance	Life and Pension	n/a	Males TM92 ult (126% Smoker, 66% Non-Smoker) Females TF92 ult (108% Smoker, 66% Non-Smoker)
Immediate annuities	Life and Pension	n/a	Males 98.9% PCMA00 (with CMI 2011 2% improvements) Females 98.9% PCFA00 (with CMI 2011 2% improvements)

Surrender rates at 31 December 2012 were

- 3% on group pensions without surrender penalties.
- 2% on personal pensions without surrender penalties.

The surrender rate was 4% on the Colonial Pacesetter Investment Plan, which is a whole life unit-linked product

No other allowance was made for lapses.

In common with other life offices in the United Kingdom, the Company had written pension transfer and opt-out business. A provision of £3.5m was made in respect of rectification costs for pension transfers and opt-outs from occupational schemes, and this was included in the long-term business provision at 31 December 2012. The provision was determined with

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due consideration to the guidelines issued by the Securities and Investments Board in October 1994, and subsequently by the PRA. The principal assumptions and estimates made in determining the provision related to the number of cases which on investigation give rise to a loss to the policyholder, and the average costs of making good the loss

Options and guarantees*With-profits business*

Some with-profits policies contained options and guarantees that could increase the benefits payable to the policyholder

The most significant options and guarantees were:

- Options attaching to the pensions pure endowments. Typically the maturity value can be converted to a pension on guaranteed terms consistent with a pension of £1 p.a. in respect of every £10 of maturity value (for a male aged 65).
- Options attaching to the pensions deferred annuities. Typically the pension can be converted to a maturity value on guaranteed terms consistent with a value of £9 in respect of every £1 per annum of pension (for a male aged 65).
- For other conventional with-profits policies there is a risk that the sum assured (plus any declared bonus) will be greater than the value of the assets underlying the policy at maturity. Where it is felt appropriate these risks may be hedged by purchasing suitable instruments (such as equity options).
- For unitised with-profits business the main options relate to the ability to take benefits at maturity (or at specific other dates) when investment values may be depressed, without an adjustment to reflect the underlying market value of the assets supporting the policy. In particular, investment bonds have dates from which benefits can be taken without any market value reduction; for some this is at any point after the eighth or tenth anniversary of the bond, and for others this is every anniversary from the seventh onwards. All bonds are now past the relevant dates when this first applies.

Non-profit business

For non-profit business the options were not material and the amount of policy benefits were largely fixed. The investment policy of the Company was to follow a broadly matched investment position to limit the risk of being unable to meet liabilities on a realistic basis as they fall due. This could lead to some degree of mismatch on a statutory basis.

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****25. CAPITAL MANAGEMENT**

After the Part VII business transfer and until de-authorisation the Company only has to retain enough capital to meet the base capital resources requirement for insurers of £3m. This requirement was satisfied by the Company through the retention of £8m of assets following the Part VII business transfer. Following the de-authorisation and board approval these assets will be transferred to FLL.

During the period 1 January 2013 to 31 December 2013 the Company complied with all regulatory capital requirements.

Detailed information on the Company's capital management policies and capital position at 31 December 2012 are disclosed in the Report & Accounts at 31 December 2012.

26. TECHNICAL PROVISION FOR LINKED LIABILITIES

	2013	2012
	£000	£000
Investment contracts liabilities with no DPF	-	5,157,105
Insurance contract liabilities	-	448,714
Technical provision for linked liabilities	-	5,605,819

Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet at amortised cost which closely approximates fair value.

As a result of 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 provision for linked liabilities. The differences are explained below.

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	Gross Amount		Reinsurers' Share	
	2013	2012	2013	2012
	£000	£000	£000	£000
These amounts are included in the technical account as follows:				
Change in technical provision for linked liabilities	821,431	511,788	105	136
Adjustments made for contracts which do not transfer significant risk				
Gross premiums written	369,501	432,638	-	-
Claims paid	(541,179)	(709,110)	-	-
Other technical income	(26,036)	(23,992)	-	-
Change in technical provision arising from deposit accounting	(197,714)	(300,464)	-	-
Change in technical provision for linked liabilities on a consistent basis with balance sheet classification	623,717	211,324	105	136
Part VII transaction	(6,229,536)	-	1,444	-
	(5,605,819)	211,324	1,549	136
Balance sheet movement in technical provision for linked liabilities	(5,605,819)	211,324	1,549	136

27. DEFERRED TAXATION AND PROVISIONS FOR OTHER RISKS**a) Deferred taxation**

	2013	2012
	£000	£000
At 1 January	13,572	(22,029)
Movement in year	9,606	35,601
Part VII transaction	(23,178)	-
At 31 December	-	13,572

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The balance in respect of deferred tax liability/(asset) can be analysed as follows

	2013	2012
	£000	£000
Unrealised gains / (losses) on investments	-	4,227
Capital losses carried forward	-	10,249
Deferred income liability	-	(5,230)
Short-term timing differences	-	11,808
Trading losses carried forward	-	(7,482)
Total liability/(asset)	-	13,572

b)	Other provisions	2013	2012
		£000	£000
	Provisions for other risks and charges	-	6,903

	Endowment complaints £000	Other provisions £000	Total £000
At 1 January 2013	3,611	3,292	6,903
Charged in the year	-	4,004	4,004
Utilised in the year	(1,661)	(312)	(1,973)
Transferred under Part VII scheme	(1,950)	(6,984)	(8,934)
At 31 December 2013	-	-	-

The endowment complaints provision related to the compensation costs likely to be incurred in respect of complaints relating to mis-sold policies. Other provisions include £nil (2012 £3.3m) in respect of potential compensation and professional fees expected to arise as a result of reviewing administrative procedures.

The provisions are reviewed on a regular basis and are anticipated to be fully utilised on completion of the investigations

FRIENDS LIFE WL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****28. OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY**

	2013	2012
	£000	£000
Amounts owed to group undertakings	-	20,134
Tax payable	-	32,060
Other creditors	-	13,284
Total Other Creditors	-	65,478

All remaining creditors are payable within a period of one year

29. ACCRUALS AND DEFERRED INCOME

	2013	2012
	£000	£000
Other accruals and deferred income	-	2,561
Deferred front end fees	-	22,740
	-	25,301

30. CONTINGENT LIABILITIES

At 31 December 2012 the Company had a contingent liability of £3.5m in relation to certain SIPP cases that have exceeded the 20% permitted links limit on investments in unregulated collectives

The Part VII business transfer has resulted in existing contingent liabilities and potential future contingent liabilities being transferred to FLL and FLP

31. 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 and Reports) Regulations 2008 is £nil (2012 £7.6bn)

32. SHAREHOLDINGS IN EXCESS OF TWENTY PER CENT

There are no holdings that exceed 20% of one class of shares for UK equities

33. RELATED PARTY TRANSACTIONS

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

FRIENDS LIFE WL LIMITED

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transactions with Group companies qualifying as related parties provided that consolidated financial statements are publicly available.

34. IMMEDIATE AND 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