24 March 2011

Resolution Limited

Cash delivery

Preliminary audited results for the year ended 31 December 2010

Increased cash delivery and strong capital position maintained

- Available shareholder cash increased to £1,067 million at 31 December 2010, from £510 million at 31 December 2009
- Successful completion of the testing exercise regarding the re-attributed inherited estate.
- Proposed rebasing of the final dividend to 12.57 pence per ordinary share, up 15% on the prior period with the intention to increase the 2011 dividend to 18.85 pence per ordinary share.
- The board will continue to keep under review the appropriateness of the Company moving to a growing dividend, from the rebased level, by the end of the UK Life Project.
- Strong capital position maintained with estimated IGCA surplus as at 31 December 2010 of £2.3 billion.

Restructuring and strategic re-positioning on track

- The acquisitions to date have an attractive blended average acquisition price (net of external debt) of approximately 66.9% of net MCEV
- As announced in February 2011, anticipated cost synergies have been increased from £112 million per annum before tax by end 2013
- Clear financial targets set in the February 2011 strategic update are re-confirmed and expected to be met on schedule
- Good progress continues to be made with integrating the businesses
- Management team strengthening continues, Andy Briggs will be starting in July 2011

Profits focused on value

- IFRS operating profit before tax of £275 million (including £71 million for the 4 month post acquisition period for the AXA UK Life Business)
- MCEV operating profit before tax increased to £412 million (including £87 million for the 4 month post acquisition period for the AXA UK Life Business)
- Value of new business was up 9% to £145 million from £133 million driven by the non UK businesses, Lombard increased its value of new business by 38% to £83 million
- UK remains challenging but expense reductions continue: new business strain reduced from 18.9% of APE to 16.6% of APE

Outlook

- Confidence that the UK life project will achieve its targeted returns for shareholders, without the need for further acquisitions
- No contemplation of acquisitions which would dilute project returns, creating a high threshold
- Focus on cash delivery for shareholders remains a priority

Mike Biggs, Chairman of Resolution Limited, said:

"2010 was an important year for the Company. The acquisitions we have made and the clear strategic plans we are implementing underpin the Board's confidence that the project will deliver its targeted mid-teens returns."

John Tiner, CEO of Resolution Operations LLP, said:

"The delivery of cash in 2010 shows early value for shareholders. The non UK businesses are performing well and generating value. In the UK our restructuring and strategic repositioning continues. As we deliver operationally these businesses will generate valuable growth and cash rewards for shareholders."

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Forward-looking statements

This announcement includes statements that are, or may be deemed to be, "forward-looking statements" with respect to Resolution, its subsidiary undertakings and their outlook, plans and current goals. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "targets", "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend upon circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Resolution's actual performance, results of operations, internal rate of return, financial condition, liquidity, distributions to shareholders and the development of its acquisition, financing and restructuring and consolidation strategies may differ materially from the impression created by the forward-looking statements contained in this document. Forward-looking statements in this document are current only as of the date of this announcement. Resolution undertakes no obligation to update the forward-looking statement it may make. Nothing in this announcement should be construed as a profit forecast.

Media

There will be a conference call today for wire services at 07.30 (GMT) hosted by John Tiner, Chief Executive of Resolution Operations LLP. Dial in telephone number: UK National call 0871 700 0343, UK Standard International +44 (0) 1452 555 566 Passcode: 50602403.

Analysts/Investors

A presentation to analysts will take place at 09.30am (GMT) at the City Presentation Centre, 4 Chiswell Street, Finsbury Square, London, EC1Y 4UP. Dial in telephone number: 0800 634 5205, UK standard International 0044 (0)208 817 9301. An audio cast of the presentation and the presentation slides will be available on Resolution's website, www.resolution.gg.

In accordance with the obligations for issuers of listed debt contained in the Disclosure and Transparency Rules, Friends Provident Holdings (UK) plc will issue a separate preliminary results announcement later today.

Financial calendar

Financial market and operational update for the enlarged Friends Life business and Q1 2011 IMS	May 2011
Annual General Meeting	18 May 2011
Interim results 2011	16 August 2011
UK Life Project update and Q3 2011 IMS	15 November 2011

2010 final dividend

Ex-dividend date	20 April 2011
Dealing days for calculating the price of the new shares to be offered pursuant to scrip dividend scheme for the final dividend	20 April 2011 to 28 April 2011
Record date	26 April 2011
Final time and date for receipt of the mandate forms and dividend election input messages	5.00pm, 12 May 2011
Payment of dividend and first day of dealing in the new shares	26 May 2011
Website	www.resolution.gg

Chairman's Statement

Overview

In 2010 the Company continued its consolidation strategy and was pleased to announce on 24 June 2010 the acquisition of the majority of the UK life and pensions business of AXA UK plc ("AXA UK") which completed on 15 September 2010. The Company was also pleased to announce the acquisition of Bupa Health Assurance Limited ("BHA") on 15 October 2010 which completed on 31 January 2011. The combination of these businesses with Friends Provident, acquired in 2009, create one of the leading life assurance providers in the protection and corporate pensions markets in the UK. The UK business will be re-launched at the end of March 2011 under the brand Friends Life.

The enlarged life assurance group comprises a significant provider in the UK (Friends Life), the largest IFA distribution network in the UK (Sesame), a specialist estate management business in Luxembourg (Lombard) and a provider of unit-liked life products internationally (Friends Provident International "International"). Lombard and International have strong positions in their respective markets and have generated good levels of performance in 2010. The priority for these businesses in the next few years is to maintain their momentum in winning profitable market share and focusing on cash generation and payment of dividends to the group. Following completion of the AXA UK Life Business acquisition the Company has conducted a comprehensive strategic review of the UK business focusing on product offerings, costs, cash and capital management. The conclusions of this review were released to the market on 23 February 2011 and are discussed in further detail in ROL's operating report which follows this statement.

As the 2010 results confirm, the UK businesses have not performed to a satisfactory level during 2010. The board is confident that the steps to be taken following the strategic review to narrow the products and distribution channels, focus on value rather than volume, and reduce costs and new business strain will put the UK new business activities onto a sustainable footing. The strategic review has also enabled the Company to conclude that it can meet its target mid-teens percentage gross internal rate of return[(i)] over the duration of the UK Life Project without the need for further acquisitions.

The Company was established in 2008 with a broad mandate to engage in restructuring projects within the financial services industry in the UK and Western Europe. The Company decided that its first project would be the UK Life Project and the three acquisitions to date have created a business with a net Market Consistent Embedded Value ("MCEV") of £6.5 billion at the end of 2010.

(i) The gross internal rate of return is calculated before payment of the Value Share and the rate of interest such that the present value of all investor cash flows is zero. Investor cash flows are the net investor outflows and investor inflows. The investor outflows include the initial fund raising by the Company (including issue costs) and future shareholder investments (for example, by way of rights issues or issue of shares as consideration for an acquisition); the investor inflows include all dividends and returns of capital made by the Company, whether by cash or the distribution in *specie* of shares in acquired businesses to Shareholders or otherwise.

Corporate governance

The Company was pleased to announce the appointment of Jacques Aigrain, Gerardo Arostegui and Mel Carvill to the Board as independent non-executive directors with effect from 1 February 2010. The Company was also pleased to welcome Tim Wade to the Board with effect from 19 May 2010. All have experience and expertise across the financial services industry.

Dividend policy

As previously announced, following the acquisition of the AXA UK Life Business, the Board reviewed the Company's dividend policy and confirmed an annual dividend of 16.39 pence per ordinary share (reflecting the impact of the rights issue and share consolidation on the number of outstanding shares).

After due consideration, the directors have decided to propose an increase in the final dividend by 15% to 12.57 pence per share, which brings the total dividend for the year to 18.03 pence per share. Subject to approval by shareholders at the AGM, the dividend will be paid on 26 May 2011. In line with previous dividends, shareholders will be offered a scrip alternative in respect of the final dividend.

The Company intends to increase the 2011 dividend to 18.85 pence per ordinary share.

As the Group progresses towards the end of the UK Life Project, the Board intends to keep under review the appropriateness of the Company moving to a growing dividend.

ROL

Resolution has an operating agreement with ROL, which has a highly experienced management team. ROL provides a number of important services to Resolution. These include: (i) assisting the Company with the origination and completion of new acquisitions, (ii) assessing Resolution's funding requirements, (iii) advising on the reorganisation of completed acquisitions and monitoring their progress; and (iv) assisting with the disposal of assets. The directors of Resolution are, however, responsible ultimately to shareholders for consideration of these matters and for overseeing the delivery of all services provided by ROL. In view of the importance of these activities, ROL, through its Chief Executive, John Tiner, has been requested by the Board to provide an operating report. This is included immediately after my statement.

Other projects

The Company announced on 23 February 2011 that it is confident that it will achieve its targeted mid-teen returns on the UK Life Project without further acquisitions and that the Company and Resolution Operations LLP ("ROL") recognise that shareholders do not currently wish to blend returns from the UK Life Project with those from other projects shareholders may wish to support.

As envisaged at the time of the Company's IPO in 2008, ROL was engaged to develop proposals for a number of projects for consolidation in Western Europe in one or more of the life assurance, asset management, general insurance, banking and diversified general financial sectors. The first of those projects was the consolidation of UK life insurance and asset management, the UK Life Project. The Company, in conjunction with ROL, is determined to complete the UK Life Project to deliver its targeted mid-teen returns.

The Company understands that ROL has new projects within the wider scope of the Company which may proceed in 2011. In light of this, ROL has discussed with the Company how ROL could undertake new projects outside of RSL. The Board is considering the scope and extent of changes needed to the Operating Agreement for this, whilst at the same time ensuring the successful completion and value delivery of the UK Life Project.

Any proposed changes to the Operating Agreement would seek to achieve three objectives; firstly that ROL remains committed to overseeing the successful completion of the UK Life Project and will continue to (a) advise Resolution on all opportunities within the scope of the UK Life Project; (b) oversee the integration and implementation of the Friends Life strategic review; and (c) advise RSL on exit strategies for the UK Life Project to maximise returns for the Company's shareholders; secondly that returns from the UK Life Project will not be blended with those from other projects; and thirdly that new ROL sponsored projects in other vehicles would not compete with the UK Life Project.

The Board will continue to listen to the views of shareholders and will in due course, if appropriate, present a recommendation to shareholders on the scope and extent of any proposed changes to the Operating Agreement. Any changes to the Operating Agreement would require approval by ordinary resolution of the Company's shareholders.

Outlook

The Board is confident that Resolution will achieve its targeted mid-teens returns on the UK Life Project. Its focus is on the continued integration of the businesses and the delivery of the announced targets on cost synergies, new business strain, cash flow per annum and returns from its product strategies.

Operating Report by Resolution Operations LLP

Introduction

2010 was an important year for the Company as it continued the successful execution of its consolidation strategy in the UK life assurance market.

During the year, the Company announced the acquisition of the AXA UK Life Business and BHA. Following completion of the AXA acquisition in September the Company started a strategic review of the enlarged business and announced the outcome of that review to the market on 23 February 2011.

The strategic aim of the Company is to create a business which has a clear and strong future cash flow profile; is successful in winning new customers while at the same time generating good returns; and delivers the target mid-teens returns on the UK Life Project. Based on the outcome of the strategic review summarised below, the Company has confirmed that it is confident that it can meet its mid-teens target return for the UK Life Project from the three acquisitions to date.

The UK business will focus on providing customers with individual protection, group risk, corporate pensions and annuities products delivered through distribution partners where the Group is able to establish strong and long term business relationships. In combination with the successful overseas businesses, the Group is targeting an IRR on new business of at least 15% per annum by the end of 2013. The review has also underscored the Company's confidence in achieving its distributable cash target of £400 million per annum after interest costs from 2011 onwards.

The Company is now well into the integration phase of the project and the work carried out to date has enabled the Company to increase the level of expected annual cost synergies from £75 million announced at the time of the AXA UK life acquisition to £112 million.

Set out below are ROL's comments on the:

- market environment;
- UK Life Project;
- business performance in 2010; and
- business leadership.

Market environment

While 2009 was characterised by extremely weak market conditions during the first six months followed by a muted recovery during the second half of the year, 2010 has been a relatively more stable year. Fears of a double-dip recession abated but there remained risks to the downside, notably in relation to potential sovereign default, where it has been necessary to make available to heavily indebted countries in Western Europe funds from the European Financial Stability Facility and the International Monetary Fund. The Group has relatively immaterial exposure to these countries.

The macro environment continues to present significant challenges to policy makers: the re-emergence of inflation; geopolitical risks; rising oil prices; and, the consequences of the terrible events in Japan, all present risks to global growth prospects.

The UK life assurance market also faces a number of significant policy developments which will influence the shape of the market in the future: Solvency II; the Retail Distribution Review ("RDR"); auto-enrolment; and gender neutral pricing.

Solvency II is a major undertaking for the entire insurance industry. For the major players the preparations are complex and costly and the business implications remain uncertain. While Solvency II may well be a catalyst for better risk management across the industry, it does not seem at all clear that the very substantial investments made by the industry will produce better outcomes for UK policyholders or shareholders. There also remains uncertainty over the treatment of the so-called illiquidity premium in determining the discount rate applicable to annuity business. The private pension market is an essential means of saving for retirement in the UK and policy makers must consider carefully the implications of policy on the UK's aging population. The Group preparations for Solvency II are on track.

From 2013 the structure and economics relating to the distribution of savings products will change substantially as the FSA's RDR is implemented. Overall, given the Group's product mix, we do not expect that the RDR will have a major impact on the Group. The Group has studied closely the economic viability of offering savings and investment products to the mass market following the changes to be brought about by the RDR and has reached the conclusion that the combination of the investment needed to build RDR compliant point of sale and operating platforms, the likely margins available and the projected volumes, will not generate adequate returns for shareholders. Therefore the Group do not plan to actively market investment products post-RDR.

Auto-enrolment, whereby all employees above the age of 22 earning more than £7,475 are automatically enrolled into a qualifying scheme (of which NEST is one) will impact the corporate pensions market from 2013 onwards, with a substantial transitional effect in 2013 and 2014 and a more steady impact thereafter.

The European Court of Justice has recently ruled that, as from 21 December 2012, it will be unlawful to use gender-related factors for determining premiums and benefits under insurance policies. Member states must change domestic law so that it complies with the ruling from 21 December 2012. This may have a significant impact for many insurers in Europe which use gender as a risk factor for pricing life insurance policies.

Overall, we believe that the UK life assurance market environment has improved during the last year or two from an investor perspective. A number of companies have responded to the demands from shareholders for greater transparency and have increased the focus of their business and of their reporting on cash flow, capital management and returns. However, issues of over-capacity, regulatory uncertainty and unclear profitability remain. Shareholders continue to demand greater transparency and a focus on value and cash over volume.

UK Life Project update

The UK Life Project comprises three overlapping phases:

1. Acquisition: where the Company's primary focus is on acquiring suitable businesses;
2. Integration: where the focus shifts to integrating and optimising the business models of acquired businesses; and
3. Value delivery for investors

Acquisition

The aim of the acquisition phase is to acquire sufficient scale and capability at suitable prices to allow the realisation of value and the generation of target returns through synergies realised from effective integration of acquired businesses and the optimisation of business models.

To date the Company has completed three acquisitions:

- Friends Provident plc in November 2009 for £2.01 billion;
- AXA UK Life Business in September 2010 for £2.75 billion; and
- BHA in January 2011 for £168 million.

The embedded value of the acquired businesses amounts to £6.5 billion in aggregate, net of debt, on an MCEV basis as at 31 December 2010. The three acquisitions to date have a blended average acquisition price (net of external debt) of approximately 66.9% of net MCEV.

We continue to follow closely the activities of other life assurers in the UK market, since the Company has a responsibility to shareholders to bring them acquisition opportunities which would be clearly accretive to the Group's project returns. It follows naturally that any such transactions would need demonstrably to add to the mid-teens return on the project that we are already confident of achieving. However, the weight of our focus on the UK Life Project, which remains as committed and intense as it has been since launched in August 2009, has nonetheless shifted to the integration phase.

Integration

Separation and integration

The Group has been working intensively on the separation and integration of the AXA UK Life Business. The 100 day plan to secure the leadership and control of the acquired business has been completed. There are 75 transitional service agreements between Friends Provident and AXA, the majority of which will be closed in 2011 and the Part VII business transfers are progressing on track

Integration planning and implementation is also progressing well. The detailed work carried out since completion has lead to the Company revising its expectation of cost synergies from £75 million per annum at the time the transaction was announced in June 2010 to £112 million, to be substantially achieved by the end of 2013. This compares to a cost baseline, including BHA, of £476 million. The one-off costs to realise these ongoing annual savings have increased from £76 million estimated when the acquisition was announced to £117 million.

The Group's launch of a new unified brand for its UK life businesses, Friends Life, by the end of March is on track. Later in the year a single service company will be established to support all of Friends Life's operations.

Strategic Review

Following completion of the AXA UK Life Business acquisition in September 2010, the Company carried out a strategic review of the Friends Life UK operations focussing on product propositions, distribution channels and cash and capital management.

Products and Distribution
The UK business strategy is centred on three key business lines: Individual Protection; Corporate Pensions and Risk; and Annuities.

Individual Protection
Friends Life will build on its market-leading positions in Critical Illness Cover and Income Protection; introduce simplified term assurance targeted to the family and over 50's segments; and further develop profitable distribution segments and exclusive partnerships. This improved product mix and focused distribution, along with sales and marketing synergies, and consolidating the new businesses onto a single platform will improve returns significantly. Since the market announcement in February, the Group has concluded that the platform acquired with BHA would be the strategic platform for the future.

Corporate Pensions and Risk
The current financial returns from Friends Life's Corporate Pensions business are unacceptably low. The market is evolving, and its structure from 2013 onwards is uncertain due to the RDR and the introduction of auto-enrolment.

Friends Life has the advantages of a comprehensive range of defined contribution solutions, an integrated online workplace savings platform and a full range of group risk products, as well as the scale and relationships to be a major and profitable player, but it is not prepared to write loss making new business in anticipation of future reward. It will reshape the sales and marketing teams into more focused distribution and selectively migrate schemes to the more efficient Friends Provident NGP (New Generation Pensions) platform to improve returns on new business.

Group income protection is offered by the Friends Provident and BHA businesses. This market is dominated by a few market participants and price competition is high as competitors are keen to retain existing schemes. Friends Life will combine the Friends Provident and BHA businesses.

Annuities

Friends Life will have vesting pension claims in excess of £2 billion in 2011, growing steadily in subsequent years. Both Friends Provident and the AXA UK Life Business have historically retained only a small proportion of their available vesting pension funds as annuity new business. This is in part because of under-investment in the expertise required to underwrite and manage annuity business profitably. Following completion of the strategic review of product propositions, Friends Life continues to believe that the pension annuity market is attractive and intends to build its own capability in annuity underwriting, credit management and longevity risk management; while not ruling out acquiring capability via a bolt-on transaction should the opportunity arise.

Friends Life's immediate objective in the annuity market is to retain a larger proportion of vesting pension funds, and will aim to raise its retention rates from 30% of vesting amounts (excluding tax free cash) to at least 50% by 2013. As it has low exposure to longevity risk (as a result of past longevity risk hedging activity), and as the annuity market currently has attractive IRRs and Value of New Business ("VNB"), Friends Life has appetite to write more annuity business than available from its vesting pensions, and so in due course will examine options to enter the open market option ("OMO") market.

The financial targets for the product propositions from the end of 2013 are as follows:

	VNB	NBS(i)	IRR
Protection	£80 million	£30 million	20%
Corporate Pensions	£25 million	£75 million	10%+
Annuities	£50 million		15%+

(i) New business strain .

In overall terms, the Company is targeting an operating return on embedded value of at least 10% per annum by 2013 on the FPH business as it is currently constituted.

Cash and capital management

At 31 December 2010, available shareholder cash was £1,067 million. The Company has defined a DCT of £400 million per annum, comprising cash and capital (excluding investment variances and one-off costs) that can be released from the Friends Life business without reducing the capital base of the Company, after meeting interest costs. The Company expects FPH to achieve this target from 2011 onwards. Over time, the amount will be fully driven by cash emergence from the back book, less the strain associated with writing new business and the associated movements in capital requirements, but in the near term will include releases of working capital and capital synergies.

The cash and capital position is impacted by the testing every five years of the reattributed inherited estate ("RIE") within the non-profit funds of Friends Life Company Limited ("FLC", formerly AXA Sun Life plc) to determine whether it is possible to transfer funds to the shareholders' fund and/or to distribute any of the inherited estate retained in the Old With Profits Fund ("the Old WPF"). As at 31 December 2010, the RIE was £2,437 million.

The latest five yearly test was undertaken as at 31 December 2010 and resulted in the FLC Board making:

(a) a transfer of £1,010 million of RIE from the non-profit funds to the shareholders' fund; and

(b) a distribution of £157 million of the inherited estate in the Old WPF, which will be split 90% to with-profits policies allocated to or reinsured to the Old WPF in the form of a Special Bonus and 10% to the FLC Shareholders Fund.

The cash transferred to the FLC Shareholders Fund will support the Group's ongoing capital requirements, the DCT, and form part of the wider capital plans of the business, which are currently being reviewed. The company has advised the market of its intention to provide a wider update on capital in May 2011.

The Company continues to examine its capital structure and will seek to optimise required capital and reduce working capital. In designing the capital structure, the Company will ensure that due consideration is given to the options around exit and leverage.

Value delivery

The Company is committed to securing an exit for shareholders so that the value created by Resolution's UK Life Project can be crystallised. Exit options will be developed in due course and could take several forms:

- a cash sale, together or in parts, of the FPH businesses;
- a direct listing of FPH as a standalone entity;
- a separation of the UK open business from the UK back book leading to a separate sale or listing(s), or
- a merger with another life company.

Business performance

The reported performance for the year and comparisons to the prior year are complicated by the acquisitions to date occurring part way through each of the last two years and also by the dual reporting bases of IFRS and MCEV.

The business review following this report sets out a detailed commentary on the 2010 performance on both an IFRS and MCEV basis including, where relevant, like for like comparisons with 2009.

The IFRS operating profit before tax was £275 million, including £71 million for the AXA UK Life Business for the 4 month post acquisition period, compared to £6 million in 2009.

The MCEV operating profit before tax was £412 million, including £87 million for the AXA UK Life Business for the 4 month post acquisition period, compared to £41 million in 2009.

Overall, the results for the year in contrast to 2009 reflect:

- increased annual management charges arising from higher investment markets;
- reduced expenses in the UK offset by weaker new business performance in protection and corporate pensions, where the markets remain challenging, and the effects of improved annuitant mortality assumptions;
- a strong all round performance by Lombard, which reports new business value up by 38% on 2009; and
- the non-recurrence of significant negative operating assumptions in International in 2009.

The net MCEV at the end of the period was £6,515 million reflecting the acquisition of the AXA UK Life Business but not including BHA.

The balance sheet of the Group also remained strong with an Insurance Group Capital Adequacy ("IGCA") surplus of £2,317 million at 31 December 2010.

Based on the 2010 results the current position and targets for 2013 onwards (except where noted) are summarised below:

	Current (baseline)	Target
New business strain	£372 million annualised	£172 million
UK Individual protection IRR	2.7%	20%
UK Corporate pension IRR	6.2%	10%+
UK Annuities IRR	16.5%	15%+
Blended group new business IRR	11.2%	15%+
Cash dividends from non UK businesses	£2 million	£50 million
DCT	£746 million	£400 million[(i)]
FPH ROEV	8.3%[(ii)]	10%+

(i) Target for 2011 onwards
(ii) Operating return after tax

Business leadership

A leadership team comprising executives from both Friends Provident and the AXA UK Life Business has been in place since September 2010, led by Trevor Matthews. Trevor will continue in this role until Andy Briggs joins the group as CEO of Friends Life in July 2011, at which time Trevor will become Vice Chairman focusing on external relationships including with major distribution partners.

Other projects

ROL and other members of The Resolution Group continue their research and development activities in other financial services sectors and geographies which may benefit from the team's restructuring skills, be capable of delivering attractive returns, and be of interest to investors.

This research and development work suggests that there are opportunities in the asset management sector, either as a stand-alone consolidation project, or as part of the UK Life Project if there is the potential for synergy benefits with the Friends Life business. The Resolution Group has undertaken substantial development work into possible projects involving the consolidation of books of in-force life assurance policies in both the US and Continental Europe, and believes such projects have the potential to provide interesting investment opportunities in the near to medium term.

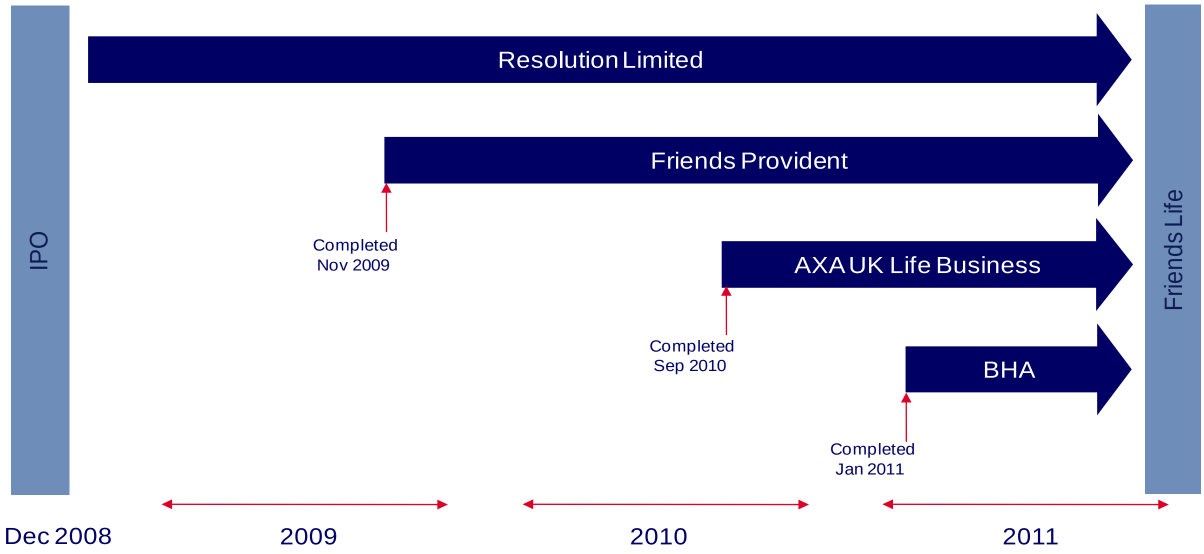
Conclusion

We and the Company remain grateful for shareholders' support. Our focus remains on helping the Company to successfully deliver its target mid-teens returns on the UK Life Project.

Business review: introduction

Introduction

Resolution's results over the last two years clearly reflect the fact that the UK Life Project has been in its acquisition phase; the profile of IFRS and MCEV profits for 2010 and 2009 is dominated by the timing of the acquisitions of Friends Provident and the AXA UK Life Business. These financial statements include the results of the acquired businesses from the dates of their acquisitions, as set out below:



The results for 2010 therefore include:

- Friends Provident for the full twelve months of 2010; and
- The AXA UK Life Business for the period from 3 September 2010.

Included in the assets that were acquired within the AXA UK Life Business are certain portfolios of insurance business (the Guaranteed over Fifties, "GOF", and Trustee Investment Plan, "TIP" portfolios) that are expected to be transferred back to AXA UK via Part VII transfers as part of the separation process agreed between FPH and AXA UK. This transfer is anticipated to take place in the final quarter of 2011. The terms of the transfer were agreed as part of the transaction and the portfolios are treated as "held for sale" in the Group's accounts.

In addition, the shares of Winterthur Life UK Limited ("WLUK") are to be acquired by the Group once the businesses to be retained by AXA UK have been removed from WLUK. This acquisition is also anticipated to take place in the final quarter of 2011, once the GOF and TIP insurance portfolios have been transferred back to AXA UK. WLUK will only be included in the Group's accounts once the acquisition has taken place in 2011 and is not therefore included within these financial results.

Recognising the difficulty in gaining clarity on the performance of the underlying businesses from the published consolidated results, the business review includes full 2010 actual and 2009 comparatives for Friends Provident and the AXA UK Life Business, as well as the actual results for the periods of ownership.

The operating segment results section includes the IFRS based operating results of the acquired businesses for the full year 2010 with a comparison to the full year 2009, and, for the Friends Provident businesses, MCEV operating profit for the same periods. The AXA UK Life Business did not prepare MCEV information prior to its acquisition, consequently MCEV results for this business are only included from 3 September.

The results for the AXA UK Life Business and Friends Provident components are shown separately to provide clarity on the underlying results in the periods following acquisition. These businesses are managed as one segment and in future reporting periods the Group will not supply separate numbers

Business review: introduction

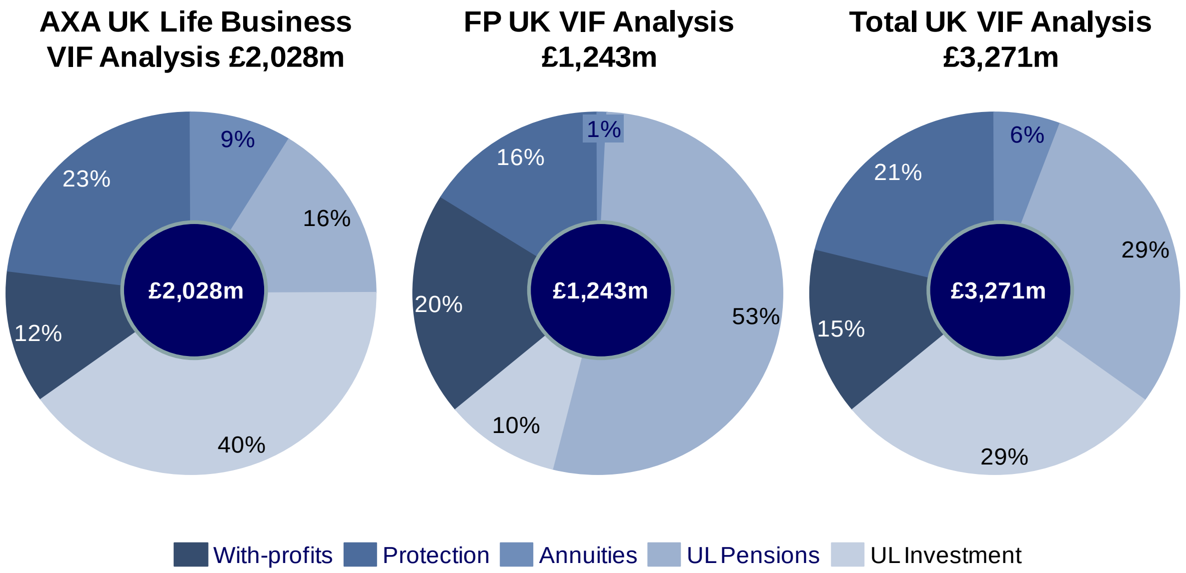
for these components as the businesses are being integrated and will not be distinguishable as separate entities.

The acquisition of BHA completed on 31 January 2011 and consequently the results for BHA are not included in these financial statements.

Operating business overview

The life operating businesses are managed in three distinct segments. These are:

- The UK segment, comprising the UK life and pensions operations of Friends Provident; the AXA UK Life Business; and the UK distribution businesses, Sesame Bankhall Group Limited ("Sesame Bankhall") and (until its disposal in March 2010) Pantheon Financial Limited ("Pantheon"). BHA forms part of this segment from the date of acquisition, 31 January 2011. The life and pensions companies within the UK segment are long established entities with large "back books" of unit-linked life savings, with-profits savings and annuity business.



The charts above show the relative profiles by product of the value of in-force profits ("VIF") of the AXA UK Life Business and Friends Provident UK life and pensions companies at 31 December 2010. The market facing activities involve offering defined contribution pension schemes and group protection to corporate customers, protection products (term life, critical illness and income protection) to consumers and annuities to maturing pensions customers. The alignment of the business units from the integration of the Friends Provident and the AXA UK Life Business sales and marketing operations is already largely complete, and plans are well advanced for incorporating the BHA business while protecting its market leading capabilities. At a recent presentation, the Group clarified its intention to continue to develop the UK business focusing on annuities, protection and corporate pensions. Within the UK, the Group does not expect to write significant volumes of individual unit-linked or with-profits savings business. The Group remains open to increments for existing customers and will continue to offer with-profits and unit-linked options as part of its pensions product.

Business review: introduction

- The International segment, comprising Friends Provident International Limited ("FPIL"); the overseas branch business of Friends Provident Life Assurance Limited ("FPLA"); a German distribution business, Financial Partners Business AG ("fpb"); and Friends Provident's 30% interest in AmLife Insurance Berhad ("AmLife"). The major component is FPIL which is an Isle of Man-based entity, manufacturer of unit-linked regular contribution savings and single premium bond products targeted at high net worth individuals via its distribution hubs in Hong Kong, Singapore and Dubai. fpb is responsible for the German distribution of products, largely unit-linked regular contribution pensions savings, manufactured in the overseas branch of FPLA. In December 2008, Friends Provident acquired a 30% interest in AmLife, a Malaysian life insurance company, majority owned by AmBank Berhad, a major Malaysian banking group. In 2010, AmLife was granted a Takaful licence to manufacture and sell Sharia compliant products. The Takaful subsidiary is expected to become active in 2011.
- Lombard, which is a leading pan-European life assurance business specialising in estate planning solutions for high and ultra high net worth individuals. The business, based in Luxembourg, offers innovative solutions, backed up by superior service, through private banks and high-end IFAs across Europe. The products offered are single premium, whole of life, unit-linked life assurance with the majority of the life exposure reinsured.

Business review: KPIs

Key performance indicators, including Friends Provident business from 5 November 2009 and the AXA UK Life Business from 4 September 2010

	2010	2009 restated
	£m	£m
IFRS based operating profit(i)	**275**	6
IFRS profit after tax(ii)	**820**	1,308
MCEV operating profit before tax	**412**	41
MCEV profit after tax	**460**	71
Group embedded value on an MCEV basis	**6,515**	3,488
FPH operating ROEV (iii)	**8.3%**	n/a
Group available shareholder cash	**1,067**	510
Estimated IGCA surplus capital (£bn)	**2.3**	1.0
Asset quality(iv) for shareholder related assets	**95%**	95%

(i) IFRS based operating profit in 2009 has been restated to exclude the impact of investment volatility in the long term funds. £14 million of positive investment return has been reclassified from operating profit to short term investment fluctuations. This has no impact on profit after tax.

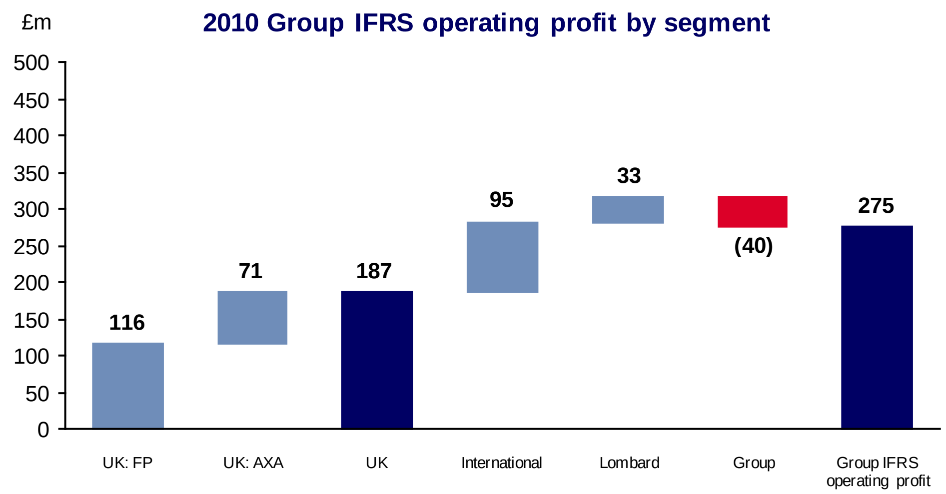
(ii) IFRS profit after tax in 2009 has been restated in accordance with improvements to IFRS 3 (Revised) issued by the IASB, resulting in an increase to the gain on acquisition of Friends Provident Group Limited of £119 million.

(iii) FPH operating ROEV is calculated as the MCEV operating return, after tax and financing, divided by the start of period net embedded value, and adjusted to allow for the timing of the rights issue, dividend payments, the acquisition of the AXA UK Life Business and the issue of debt during the year. A 2009 comparative has not been provided as FPH earnings in 2009 only cover the period from 5 November 2009 to 31 December 2009.

(iv) corporate debt and asset-backed securities at investment grade or above.

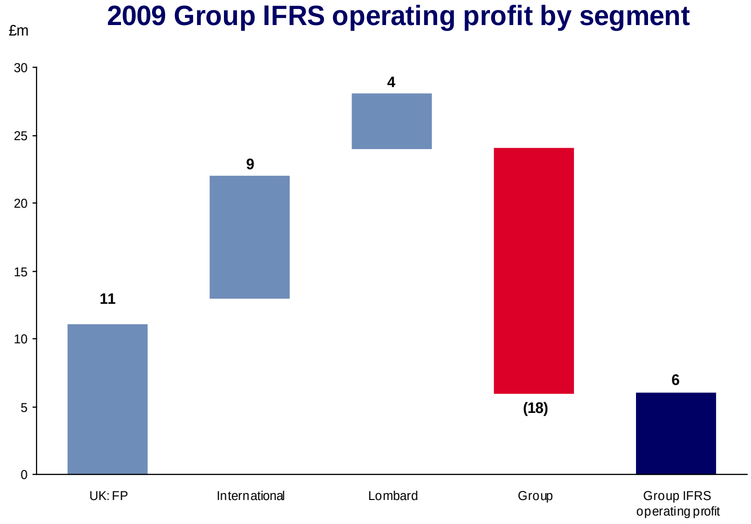
KPI: IFRS based operating profit

2010: £275 million



Business review: KPIs

2009: £6 million(i)

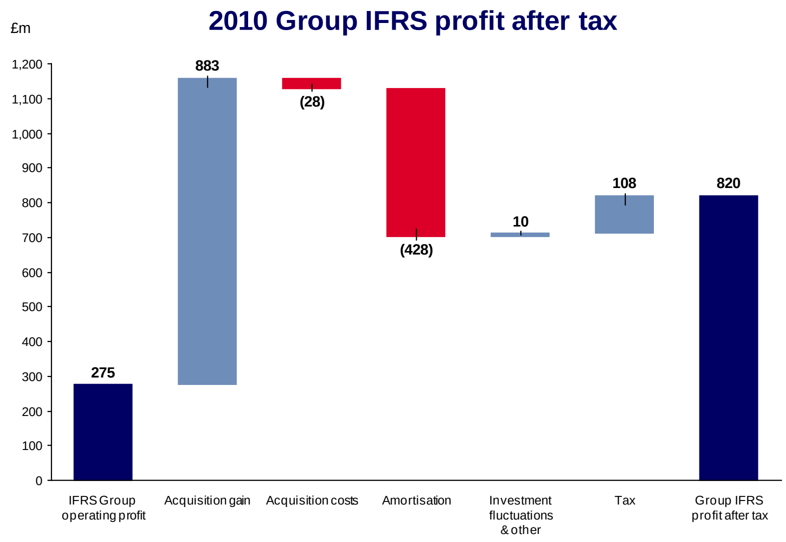


(i) restated

IFRS based operating profit before tax of £275 million in 2010 compared to £6 million in 2009. This reflects a full year of Friends Provident results and the post acquisition four month results of the AXA UK Life Business. Operating profit for the life businesses of £315 million, offset by £40 million of corporate costs, demonstrates the good performance of the in-force book, with positive experience variances offsetting the impact of assumptions strengthening in respect of annuitant mortality. New business strain reflects good control over acquisition expenses, despite increased sales in International and Lombard businesses.

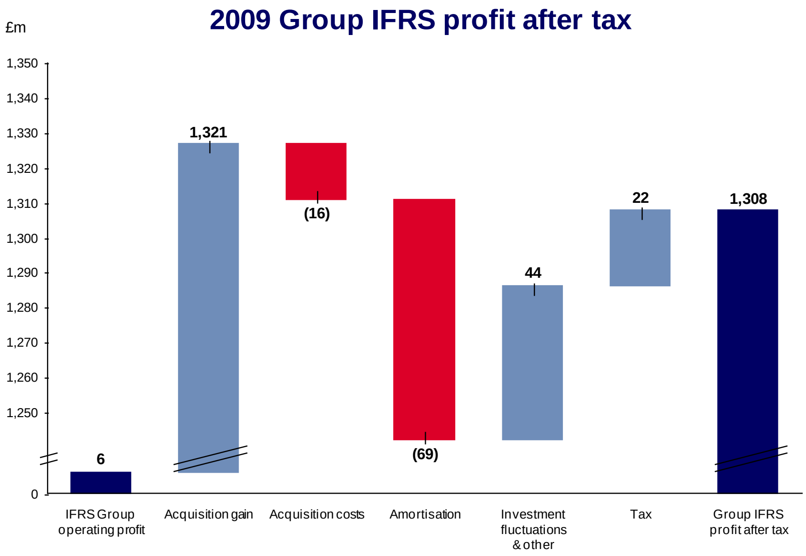
KPI: IFRS profit after tax

2010: £820 million



Business review: KPIs

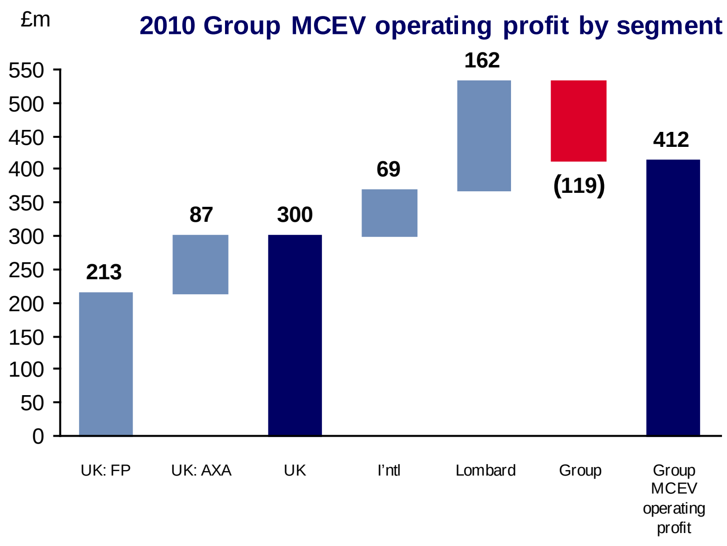
2009: £1,308 million



IFRS profit after tax of £820 million in 2010 compares to £1,308 million in 2009. This primarily reflects the differing gains on acquisition recognised for Friends Provident and the AXA UK Life Business together with the inclusion of a full year's amortisation of acquired value of in-force business and other intangible assets for Friends Provident in 2010.

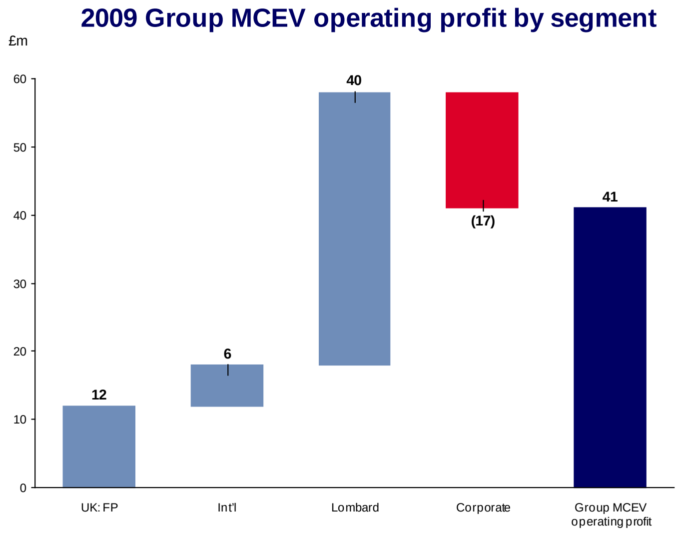
KPI: MCEV operating profit before tax

2010: £412 million



Business review: KPIs

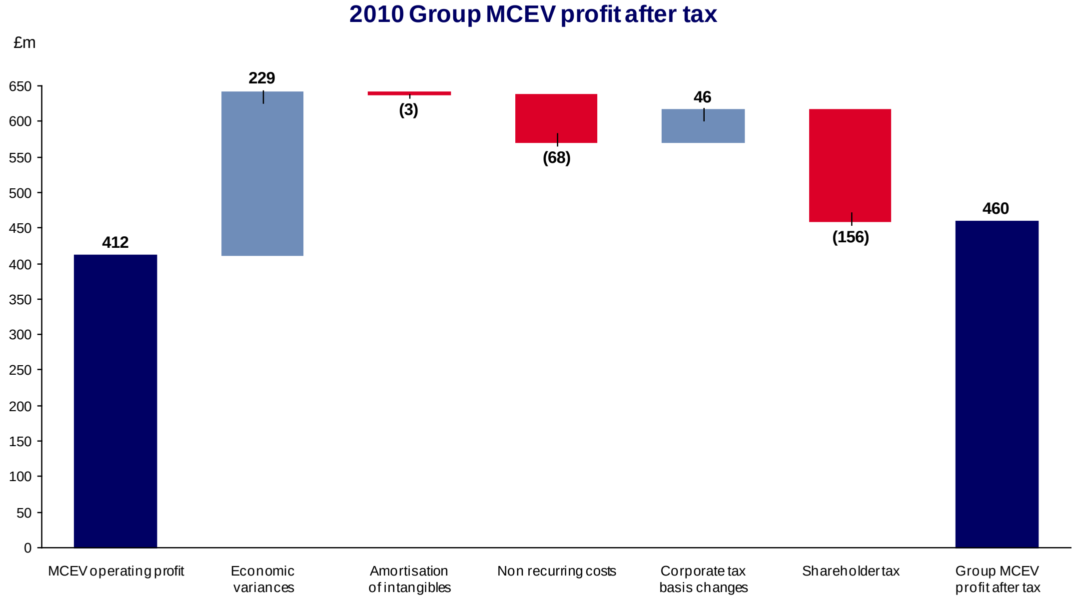
2009: £41 million



MCEV based operating profit before tax of £412 million in 2010 increased from £41 million in 2009, reflecting a full year of Friends Provident results and the post acquisition four month results of the AXA UK Life Business. Key drivers, in addition to the value of new business and the expected existing business contribution, include positive operating experience variances and economic variances offset by the adverse impact of operating assumption changes, cost of capital and development costs.

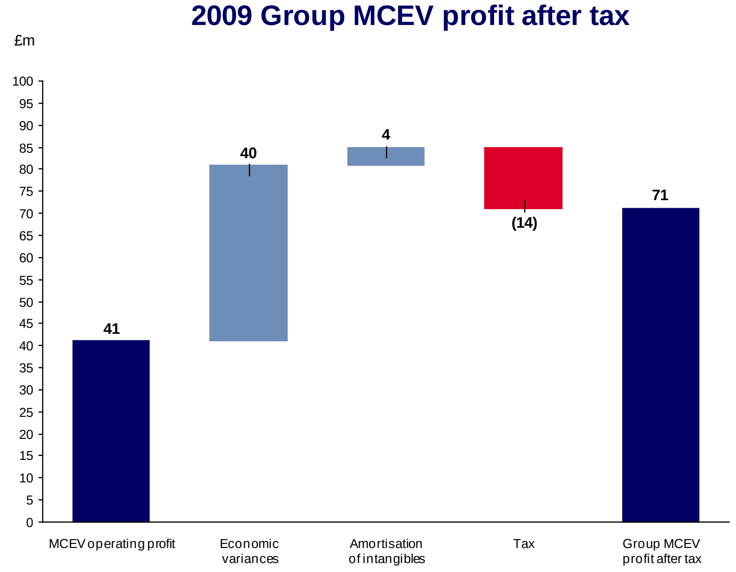
KPI: MCEV profit after tax

2010: £460 million



Business review: KPIs

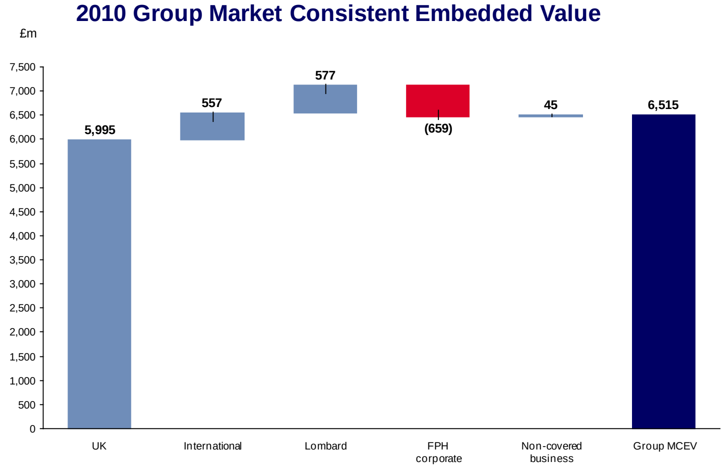
2009: £71 million



Economic variances, which reflect investment returns over and above the expected returns included in operating profit, have benefitted the results in 2010 more than the offsetting impact of changes to economic assumptions. Separation and integration costs, together with the costs relating to Solvency II and other finance transformation costs have been mitigated by the impact on the Friends Provident business of the change in tax rate (offset partly by the increase in VAT rate) set out in the Emergency Budget in June 2010.

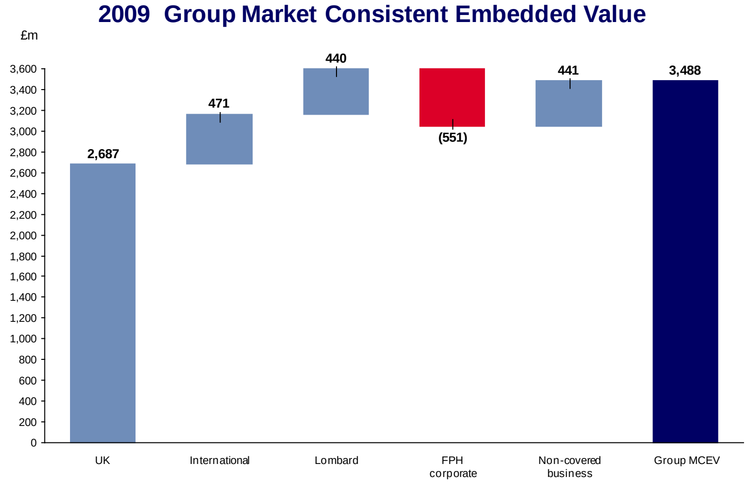
KPI: Group embedded value on an MCEV basis

2010: £6,515 million



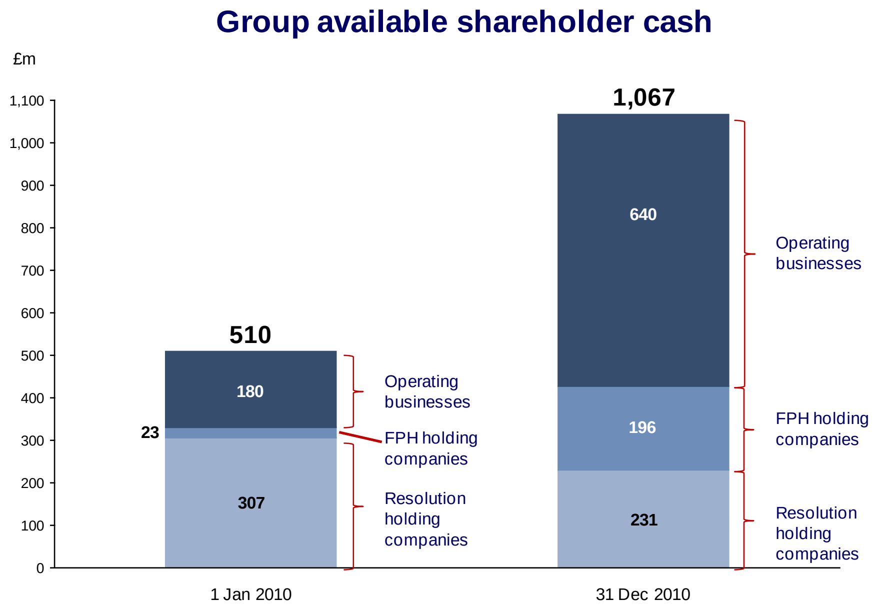
Business review: KPIs

2009: £3,488 million



Group embedded value on an MCEV basis of £6,515 million up from £3,488 million in 2009 reflects the inclusion of the AXA UK Life Business (£3,498 million MCEV at 3 September 2010). The acquisition was funded by the proceeds of a rights issue by the Company, net of costs, of £1,979 million, short term borrowings of £400 million and the issue of deferred consideration notes of £500 million to members of the AXA UK group. External dividends of £136 million were paid in cash in the year (the scrip dividend does not impact on MCEV).

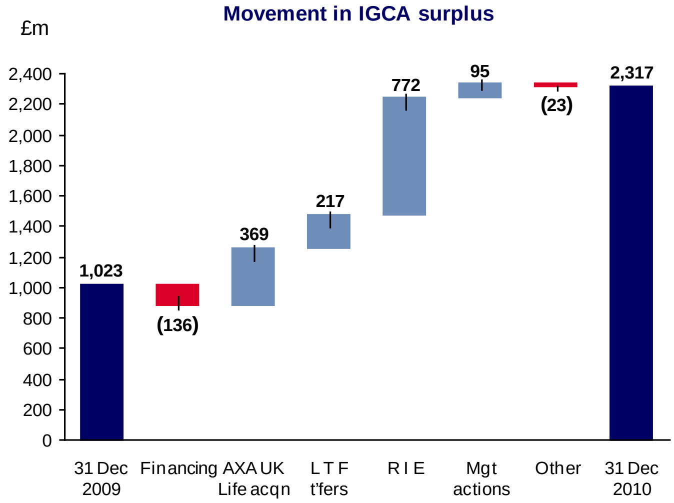
KPI: available shareholder cash



Group available shareholder cash of £1,067 million as at 31 December 2010 has increased significantly from £510 million at 31 December 2009, reflecting £810 million dividends paid or declared in respect of 2010 by the life businesses, including £300 million funded by the transfer to the FLC shareholders' funds from the RIE. This was offset by amounts retained for integration activities, payment of external dividends and other corporate costs.

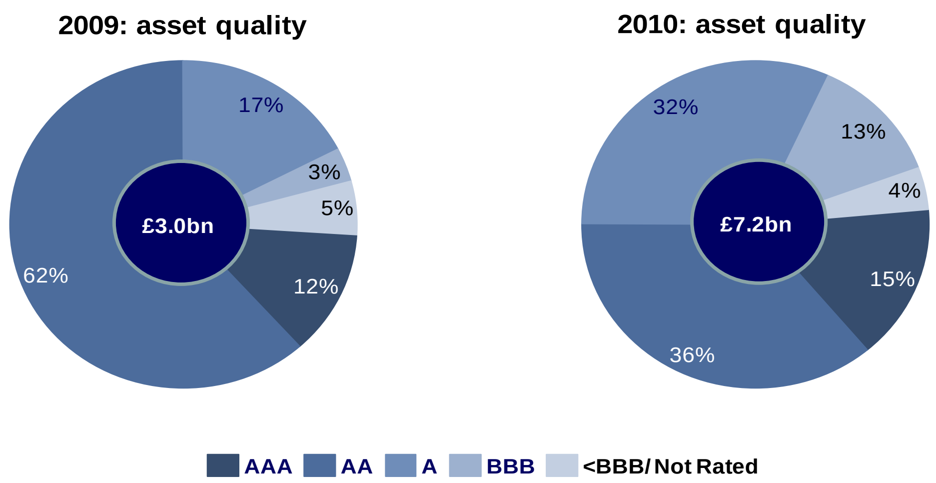
Business review: KPIs

KPI: IGCA



Estimated IGCA surplus capital at FPH level of £2.3 billion as at 31 December 2010, up from £1.0 billion at the end of 2009 reflects the positive impact from the acquisition of the AXA UK Life Business, the transfer from the RIE from the FLC non-profit funds to the FLC shareholders' fund, transfers from other long term funds and the positive impact of management actions offset by financing costs.

KPI: asset quality (corporate debt and asset backed securities)



The quality of the Group's corporate debt and asset-backed securities portfolio remains high with an overall improvement in rating quality for a portfolio almost twice the size in volume terms compared to 2009.

Business review: IFRS results

IFRS profit

The Group's IFRS results are set out below, including a reconciliation from operating profit to IFRS profit before tax. The Group utilises the operating profit measure as management considers that this better represents the underlying performance of the business and the way in which it is managed. These results include the results of the acquired Friends Provident business and the AXA UK Life Business from the dates of their acquisitions, which are 4 November 2009 and 3 September 2010 respectively.

£m	**RSL[(i)] 2010**	RSL[(ii)] 2009 restated[(iii)]
UK		
- Friends Provident[(iv)]	**116**	11
- AXA UK Life Business	**71**	-
International	**95**	9
Lombard	**33**	4
Corporate		
- FPH	**(25)**	(5)
- Resolution[(iv)]	**(15)**	(13)
IFRS based operating profit before tax	**275**	6
Short-term fluctuations in investment return	**24**	12
Returns on F&C Commercial Property Trust	**23**	23
Acquisition accounting adjustments:		
Amortisation of acquired in-force business	**(364)**	(59)
Amortisation of other acquired intangible assets	**(64)**	(10)
Non-recurring items:		
Gain on acquisition of businesses	**883**	1,321
Costs associated with the business acquisitions	**(28)**	(16)
Other non-recurring items	**(68)**	4
STICS interest adjustment to reflect IFRS accounting for STICS as equity	**31**	5
IFRS profit before shareholder tax	**712**	1,286
Shareholder tax	**108**	22
IFRS profit after tax	**820**	1,308

(i) 2010 results comprise 12 months results for the Resolution Group holding companies, 12 months for Friends Provident and four months for the AXA UK Life Business.

(ii) 2009 results comprise 12 months results for the Resolution Group holding companies and two months for Friends Provident.

(iii) Restated to:

a. reclassify £14 million of positive investment fluctuations on non-profit fund investments as short term investment fluctuations; and

b. increase the gain on acquisition of Friends Provident by £119 million reflecting revaluation of STICS to fair value.

(iv) The Friends Provident operating result includes £19 million of interest expense in respect of the £700 million loan from Resolution holding companies. The corresponding interest receipt is included in the Resolution corporate result.

Business review: IFRS results

Operating profit

£m	UK: FP	UK: Ex-AXA	Int'l	Lombard	Corporate	RSL 2010
New business strain	(65)	(24)	(28)	(28)	-	(145)
In-force surplus	195	85	120	66	-	466
Long term investment return	24	11	3	(4)	(14)	20
Reserving changes and one-offs	(15)	-	2	-	-	(13)
Development costs	(20)	(1)	(6)	(1)	-	(28)
FPH other income and charges	(3)	-	4	-	(11)	(10)
RSL other income and charges	-	-	-	-	(15)	(15)
IFRS based operating profit before tax	**116**	**71**	**95**	**33**	**(40)**	**275**

Operating profit is based on a longer-term investment return with the impact of short-term investment fluctuations shown separately as a non-operating item. In common with a number of life companies, the Group has amended its definition of operating profit to exclude the impact of investment volatility in the non-profit funds. This reduces operating profit by £14 million offset by a corresponding increase in short term investment fluctuations for the two months to 31 December 2009.

IFRS based operating profit for 2010 was £275 million comprising operating profit for the life business of £315 million and £40 million of corporate costs. A detailed review of each segment is set out in the operating segment results section.

Overall, new business strain was £145 million, reflecting the inclusion of a full year's result for the Friends Provident businesses and the results for the four month post acquisition period for the AXA UK Life Business. In the UK, Friends Provident new business strain improved due to a 10% fall in acquisition expenses against a smaller reduction in new business volumes. The AXA UK Life Business results for the post acquisition period benefitted from no longer writing commission paying pensions business although this was offset by continuing strain in the protection book.

Acquisition expense levels in the International business were held to a 7.6% increase whilst annual new business volumes rose by 24% thereby mitigating the increase in strain that would otherwise have been experienced. In Lombard new business strain remained flat year on year, despite a 10% increase in volumes.

Similarly, the in-force result for the period includes 12 months of Friends Provident results and four months in respect of the AXA UK Life Business. The main driver of in-force surplus improvement has been the stock market advances which have helped to generate higher annual management charges on increased funds under management across all business segments. The shareholders' share of the special bonus arising from the inherited estate five year testing has also benefitted the in-force surplus by £16 million.

Longer term investment returns on shareholders' funds in the life businesses have been adversely impacted by the payment of £462 million of dividends to the holding companies and the continuing relatively low level of current interest rates. This is offset, in part, by interest earned by the Friends Provident holding companies on the dividend receipts.

Principal reserving changes mainly affecting the Friends Provident result were largely driven by the strengthening for future improvements in annuitant mortality offset by the benefit of the re-negotiation of expense recoveries from the Friends Provident Life and Pensions Limited ("FPLP") with-profits fund in accordance with the Friends Provident demutualisation scheme.

Development costs of £28 million, which are reported consistently across IFRS and MCEV, include UK corporate investment platform development, Tesco distribution relationship, enhanced web security and ongoing development of the German operation and other International and Lombard business initiatives.

Corporate costs of £40 million comprise £14 million negative expected investment return and £11 million corporate costs in Friends Provident holding companies as well as £15 million corporate costs in Resolution holding companies. The expected return in the Friends Provident holding companies includes interest on the £700 million lower tier 2 debt issued to Resolution holding companies to fund the acquisition of the AXA UK Life Business (for which the income is included in the Resolution corporate result) and fees in respect of the revolving credit facility offset by the expected return on corporate assets. Friends Provident corporate costs include the impact of management incentive schemes.

The Resolution operating loss is a combination of £2 million investment return earned on the largely cash based assets of the holding companies, £19 million of interest received from Friends Provident on the £700 million lower tier 2 debt referred to above, offset by £18 million interest on the external debt, £13 million of fees payable to ROL, £1 million of directors' emoluments as well as £4 million of other professional fees and corporate costs.

Non operating items

Short-term fluctuations in investment return of £24 million include the variance between expected and actual investment return on assets backing shareholders' and non-profit funds, with the benefit primarily driven by a slightly improved credit default allowance on the corporate bond portfolio to reflect current market conditions. As noted above, the 2009 short-term fluctuations in investment return have been restated to include £14 million of fluctuations relating to the non-profit funds.

In April 2010, the Friends Provident UK business reduced its holdings in F&C Commercial Property Trust ("F&C CPT") from 50.3% to 34.16% in order to manage the property exposure of the life funds. As a result, the Group is no longer required to consolidate the assets, liabilities and results of this investment trust and the results for the year therefore only include F&C CPT through to April. The £23 million return on F&C CPT in 2010 reflects the market return attributable to third parties for the period up to April; this will not recur in future.

Acquisition accounting adjustments, totalling £428 million, represent the amortisation of the intangible assets recognised on the acquisition of Friends Provident and the AXA UK Life Business in 2009 and 2010 respectively. These charges include £364 million of amortisation of acquired in-force business, and £64 million of amortisation of other intangible assets. The amortisation in 2009 includes a full 12 month charge relating to the intangible assets recognised on the acquisition of Friends Provident with a four month charge relating to the intangible assets recognised on the AXA UK Life Business. The charges in 2009 relate to two month's amortisation accounted for in the period from the acquisition of Friends Provident to 31 December 2009.

Non-recurring items are a significant element of the Group IFRS profit before tax. The main item in 2010 relates to the gain on the acquisition of the AXA UK Life Business amounting to £883 million. Total transaction costs for the acquisition amounted to £104 million, compared to the £110 million estimated at announcement. Of this amount, £76 million has been charged to equity (in accordance with IAS32) and the balance of £28 million, including stamp duty, has been charged to profit. In 2009 the gain on, and cost of, acquiring the Friends Provident business was similarly recorded.

Other non-recurring items of £68 million include separation and integration costs of £34 million, capital optimisation costs of £3 million, finance transformation costs (including the costs of preparing for Solvency II) of £24 million and a charge of £7 million reflecting the one-off impact of the increase in the VAT rate to 20%.

Interest payable on the Friends Provident Step-up Tier one Insurance Capital Securities ("STICS") of £31 million is included as a deduction to corporate long term investment return in the foregoing operating profit analysis, and is added back here to reflect the requirements of IFRS (where the STICS are accounted for as equity with interest being recorded as a reserve movement).

The total IFRS tax charge is £136 million and comprises a policyholder tax charge of £244 million and a shareholder tax credit of £108 million. Of the total tax charge, £7 million is current and £129 million is deferred. The policyholder tax charge is predominantly tax borne by the policyholder funds in the operating life companies but accounted for by the Group under the UK's I minus E tax regime. The quantum of the policyholder tax is a function of the investment return on the policyholder funds and is not included in the summary of IFRS shareholder profit shown above. The shareholder tax credit principally comprises tax relief for expenses.

Summary IFRS balance sheet

£m	RSL 2010	RSL 2009 restated
Acquired value of in-force business	**4,685**	2,879
Other intangible assets	**455**	372
Financial assets	**99,445**	48,315
Cash and cash equivalents	**9,288**	5,386
Other assets	**8,492**	4,139
Total assets	**122,365**	61,091
Insurance and investment contracts	**107,492**	52,602
Loans and borrowings		
- Deferred consideration notes	**500**	-
- acquisition finance facility	**400**	-
- other	**312**	590
Other liabilities	**7,112**	3,629
Total liabilities	**115,816**	56,821
IFRS net assets	**6,549**	4,270
Equity attributable to equity holders of the parent	**6,227**	3,655
Attributable to non-controlling interests	**322**	615
Total equity	**6,549**	4,270
Shares in issue[(i)]	**1,443,985,079**	600,700,335

(i) post share consolidation and rights issue, and for 2010, adjusted to exclude 8,579,292 Resolution Limited shares held by subsidiaries.

At 31 December 2010, IFRS total equity was £6,549 million (31 December 2009: £4,270 million), with equity attributable to equity holders of the parent of £6,227 million (2009: £3,655 million) giving IFRS net assets per share attributable to shareholders of £4.31 based on shares in issue at the balance sheet date, excluding Resolution Limited shares held by subsidiaries. IFRS net assets per share at 31 December 2009 were £1.52 based on shares in issue at that date and £6.08 after adjusting for the impact of the Company's share consolidation and rights issue, explained below.

Resolution undertook a share consolidation on 20 July 2010 to ensure that, following the rights issue, the number of its shares in issue and the likely share price would be appropriate for a company of its size in the UK market. The share consolidation was undertaken on the basis that shareholders received one consolidated ordinary share for every 30 existing ordinary shares held at the share consolidation record date. The share consolidation was followed by a rights issue of 17 shares issued for every share (on a post consolidation basis) held.

£20 million of shares in Resolution Limited were held by the life companies, primarily in unit-linked funds and OEICS. In accordance with IFRS requirements, these shares have been excluded from the equity attributable to equity holders of the parent. On divestment of these holdings, the equity will increase by £20 million.

Financial assets are predominantly invested in listed shares, other variable yield securities and corporate bonds and asset backed securities where 98% are at investment grade or above. There have been no corporate bond defaults in the period.

Other assets and other liabilities shown above include £281 million of net assets in respect of the GOF and TIP portfolios which are treated as "held for sale" in the Group's accounts.

As part of the financing for the acquisition of the AXA UK Life Business, £500 million of deferred consideration notes ("DCNs") were issued to the AXA UK group. An additional £400 million short term funding arrangement was put in place; this has an extendable maturity date of 30 June 2012 and is expected to be refinanced in due course.

At 31 December 2010, the ratio of debt to IFRS equity, gross of debt, was 16.3% (31 December 2009: 13.9%), with the movement primarily reflecting the financing put in place to fund the acquisition of the AXA UK Life Business.

Business review: MCEV results

MCEV profit

Market consistent embedded value ("MCEV") is an alternative accounting basis to International Financial Reporting Standards ("IFRS") for life assurance companies. MCEV reporting is designed to recognise profit as it is earned over the lifetime of each policy and reflects the future cash flows that are expected to arise from sales in the year, together with the effect of updating the previous year's assumptions on existing business for the actual experience. The total profit recognised under both MCEV and IFRS will be the same over the life of each policy, it is the timing of the recognition of that profit which differs.

Resolution presents the results and financial position for its life and pensions business ("covered business") on the MCEV basis and for its other businesses on the IFRS basis. The MCEV basis is in compliance with the European Insurance CFO Forum MCEV Principles(i) ("MCEV Principles"), issued in June 2008, and re-issued in amended form in October 2009. The amendments in October 2009 primarily related to the allowance of an illiquidity premium on contracts with predictable cash flows.

	RSL 2010(ii) £m	RSL 2009 (iii) £m
Life and pensions		
UK		
- Friends Provident	**213**	12
- AXA UK Life Business	**87**	-
International	**69**	6
Lombard	**162**	40
Corporate	**(93)**	(7)
Life and pensions covered business operating profit before tax	**438**	51
Other income and charges	**(11)**	3
Life and pensions operating profit before tax	**427**	54
Corporate income and charges	**(15)**	(13)
Operating profit before tax	**412**	41
Economic variances	**229**	40
Amortisation of non-covered business intangible assets	**(3)**	(1)
Non-recurring items and non-operating variances	**(22)**	5
Profit from continuing operations before tax	**616**	85
Tax	**(156)**	(14)
Profit from continuing operations after tax	**460**	71

(i) Copyright© Stichting CFO Forum Foundation 2008.

(ii) 2010 results comprise 12 months results for the Resolution Group holding companies, 12 months for the Friends Provident companies and four months for the AXA UK Life Business.

(iii) 2009 results comprise 12 months results for the Resolution Group holding companies, and two months for the Friends Provident companies.

Business review: MCEV results

Operating profit

£m	UK: FP	UK: Ex-AXA	Int'l	Lombard	Corporate	RSL 2010
Value of new business	26	(7)	43	83	-	145
Expected existing business contribution	143	67	29	38	(30)	247
Operating experience variances	43	(6)	12	(17)	-	32
Other operating variances	62	34	(7)	39	(63)	65
Operating assumption changes	(41)	-	(2)	20	-	(23)
Development costs	(20)	(1)	(6)	(1)	-	(28)
Covered business operating profit	213	87	69	162	(93)	438
FPH other income and charges	6	-	(1)	-	(16)	(11)
RSL other income and charges	-	-	-	-	(15)	(15)
MCEV operating profit	**219**	**87**	**68**	**162**	**(124)**	**412**

Overall MCEV operating profit increased from £41 million in 2009 to £412 million in 2010, primarily reflecting the impact of the timing of acquisitions of the life businesses. The 2010 operating profit comprised operating profit for the Friends Life group of £427 million and £15 million of corporate costs in the Resolution holding companies.

In the Friends Provident UK business, the value of new business ("VNB") on a like for like basis was flat despite a 4% fall in APE income, reflecting the focus on value over volume. The AXA UK Life Business generated a negative £7 million contribution in the period of ownership, reflecting reduced business volumes in corporate pensions and individual protection as a result of uncertainties in the market surrounding the AXA UK Life Business activities ahead of the announcement of the conclusions of the Group's UK strategic review.

International held VNB in line with previous levels with the increase in new business sales of 24% offset by the impact of strengthening and improvement of internal models and a degree of margin compression. Lombard improved the value of in-force result and benefitted from expected existing business contribution rising in line with the growing in-force book and enhanced operating assumptions for maintenance expenses.

Expected existing business contribution reflected a lower reference interest rate and lower expected returns on corporate bonds backing annuity funds whilst equity and property rates were increased. Returns on shareholder net worth for the Friends Provident UK business have also fallen due to being invested in cash, gilts and corporate bonds; however, a reduction in the cost of non-hedgeable risk benefitted the expected return by £15 million and the AXA UK Life Business reported a pleasing £67 million for the four months of ownership.

Total operating variances were £97 million for the year, comprising £32 million experience and £65 million from management actions, with positive operating performance in all business segments other than for the corporate segment, where a cost of capital of £63 million was recognised which includes the impact of a change in the Group's capital management policy. This reflects the decision of the FPH board to increase its group capital policy to hold a minimum of 160% of Group Capital Resource Requirements (excluding WPICC), the cost of which impacts the FPH corporate segment. Further details on this are given in the cash and capital section. Positive operating experience was driven by mortality and morbidity claims on individual protection business being below long term expectations across the total UK book and the benefit of a £14 million release of a prior year tax provision as reported at the interim in 2010.

The positive operating performance was partly offset by negative assumption changes of £23 million reflecting the strengthening of annuitant longevity provisions in the UK, the results of a thorough appraisal of the modelling of investment management charges in International and adverse persistency experience in Spain in the fourth quarter of the year for Lombard. Overall, operating variances and assumption changes therefore amounted to £74 million, even after longevity and capital strengthening.

Development costs are consistent with the IFRS results.

The Friends Provident corporate segment includes the interest on debt instruments at the reference rate and expected return over reference rate, together with the impact of the frictional costs in respect of the group capital policy. Other income and charges of £(11) million represent the Friends Provident corporate costs as reported in the IFRS section. The expected return on the debt held by the Friends Provident companies is £(30) million in MCEV compared to £(14) million in IFRS, primarily reflecting the treatment of the STICS as debt in MCEV, but as equity in IFRS.

Resolution holding companies operating loss of £(15) million is the same as the IFRS result.

Non-operating items

There have been strong profits from economic variances in 2010. These variances reflect investment returns over and above the expected returns included in operating profit, offset by changes to economic assumptions underlying the value of in-force and statutory liabilities.

In 2010, positive equity returns and exchange rate movements have significantly increased the value of future unit-linked annual management charges, with these unit-linked products constituting 58% of VIF at 31 December 2010. These returns, over and above those expected, are reflected in the economic variances.

Within the UK, average returns on linked funds were significantly in excess of those expected within the operating profit and contributed £147 million to the economic variances. This was particularly the case in the final quarter of the year where average returns on the AXA UK Life Business linked funds were 10% higher than the return included in operating profit.

Within International and Lombard, positive investment returns in global markets were coupled with favourable exchange rate movements that increased the value of annual management charges by £59 million.

The remaining items in economic variances reflect the positive returns on shareholders' net assets as a result of falling yields on fixed interest assets, offset by economic assumption changes to reflect the economic position at the end of 2010 and movements in the market value of debt.

Non-recurring expenses and non-operating items of £(22) million comprise the £(68) million of non-recurring expenses described in IFRS and £46 million of other non-operating items. These relate primarily to the impact on the Friends Provident UK business of the Emergency Budget in June 2010 and include the effects on the value of in-force business of changing the corporation tax rate from 28% to 24% offset by the change in the rate of Value Added Tax from 17.5% to 20.0%. The impacts on the AXA UK Life Business of the budget changes were reflected in the acquisition balance sheet published on 23 February 2011.

Business review: MCEV results

MCEV balance sheet

Gross life and pensions MCEV	2010 Net worth £m	2010 VIF £m	2010 Total £m	2009 Total £m
UK	**2,724**	**3,271**	**5,995**	2,687
International	**84**	**473**	**557**	471
Lombard	**80**	**497**	**577**	440
FPH corporate	**659**	**(39)**	**620**	17
FPH other [(i)]	**61**	**-**	**61**	71
Gross FPH MCEV	**3,608**	**4,202**	**7,810**	3,686
RSL net assets, excl internal debt[(ii)]	**199**	**-**	**199**	307
Gross Group MCEV	**3,807**	**4,202**	**8,009**	3,993
FPH corporate – STICS	**(393)**	**-**	**(393)**	(318)
FPH corporate – Lower tier 2 debt	**(201)**	**-**	**(201)**	(187)
RSL deferred consideration notes	**(500)**	**-**	**(500)**	-
RSL acquisition finance facility	**(400)**	**-**	**(400)**	-
Net Group MCEV	**2,313**	**4,202**	**6,515**	3,488
Shares in issue[(iii)]			**1,443,985,079**	600,700,335

(i) includes IFA distribution and management services businesses**.**

(ii) Resolution net assets and FPH debt exclude £702 million of internal debt.

(iii) post share consolidation and rights issue, and for 2010, adjusted to exclude 8,579,292 Resolution Limited shares held by subsidiaries.

At 31 December 2010, net Group MCEV was £6,515 million (31 December 2009: £3,488 million) giving MCEV per share of £4.51 based on shares in issue at the balance sheet date, adjusted to exclude shares held by subsidiaries. MCEV per share at 31 December 2009 was £5.81 based on shares in issue at that date adjusted to include the impact of the share consolidation and rights issue.

At the end of the period the ratio of debt to gross Group MCEV was 18.7% (31 December 2009: 12.6%), primarily reflecting the acquisition of the AXA UK Life Business part funded by the issuance of DCNs and the £400 million acquisition financing facility.

Resolution holding companies net worth, including internal and external debt, reduced by £306 million over the period reflecting the result for the period, the impact of external debt financing and the reduction in net assets in respect of shares held by subsidiaries, consistent with IFRS.

Business review: AXA UK Life Business acquisition

Acquisition of the AXA UK Life Business on an IFRS basis

Resolution completed the acquisition of the AXA UK Life Business with an effective acquisition date for accounting purposes of 3 September 2010. Included in the assets that were acquired are the GOF and TIP portfolios of insurance business that are required to be transferred back to AXA UK via Part VII transfer as part of the separation. This transfer is anticipated to take place later in 2011. The terms of the transfer were agreed as part of the transaction and the GOF and TIP portfolios are treated as "held for sale" in the Group's financial statements.

The acquisition of WLUK will not complete until after the transfer of the GOF and TIP portfolios back to AXA UK, and is anticipated to take place in the last quarter of 2011. Again the terms of the transfer were agreed as part of the transaction. WLUK will only be included in the Group's accounts once the acquisition has taken place in 2011 and is not therefore included within the current acquisition balance sheet.

The total consideration payable was £2,750 million, comprising:

- £2,224 million paid in cash;
- £26 million net (plus interest) of deferred consideration to be paid in cash on completion of the agreed post-completion steps outlined above; and
- £500 million, consisting of DCNs issued to the AXA UK group and repayable in equal instalments over eight years from completion of the acquisition.

The acquisition was financed by:

- a fully underwritten rights issue of £2,055 million (gross), which successfully completed on 5 August 2010 with the new ordinary shares issued by Resolution commencing trading on the London Stock Exchange on the following day;
- a short term acquisition finance facility of £400 million; and
- £500 million DCNs, as outlined above.

The deferred consideration is the estimated difference between the receipt of £281 million (plus interest, before tax) which will be paid by AXA UK to the FLC non-profit fund in respect of the GOF and TIP portfolios, offset by the payment of £307 million (plus interest) to be paid by the FPLP shareholders' fund in respect of WLUK.

Summary of transaction financing

Sources of funds	£m
Rights issue proceeds	2,055
Costs attributable to rights issue	(76)
DCNs	500
Acquisition finance facility	400
TOTAL	**2,879**

Utilisation of funds	£m
Transaction consideration	2,750
Less deferred consideration	(26)
Plus transaction costs expensed	28
Amounts retained to support integration	127
TOTAL	**2,879**

Business review: AXA UK Life Business acquisition

IFRS acquisition balance sheet as at 3 September 2010 and gain on acquisition

Assets	£m	Liabilities	£m
Intangible assets	2,342	Insurance contracts	22,050
Property, plant and equipment	2	Unallocated surplus	823
Investment property	2,292	Financial liabilities:	
Financial assets	43,191	- Investment contracts	25,031
Reinsurance assets	640	- Loans and borrowings	23
Current tax assets	37	- Amounts due to reinsurers	25
Insurance and other receivables	939	Net asset value attributable to unit-holders	377
Cash and cash equivalents	3,193	Provisions	155
Held for sale assets(i)	1,122	Deferred tax liabilities	494
		Insurance payables, other payables and deferred income	332
		Held for sale liabilities(i)	841
Total assets	**53,758**	**Total liabilities**	**50,151**
Net identifiable assets acquired			**3,607**

	£m
Fair value of net assets acquired	3,607
Cash paid	2,224
Deferred consideration notes	500
Fair value of consideration	2,724
Gain on the acquisition of AXA UK Life Business (excluding transaction costs)	**883**

(i) Held for sale assets and liabilities relate to the proposed transfer of the GOF and TIP portfolios under Part VII FSMA 2000 as set out in the sale and purchase agreement with AXA UK.

In accordance with IFRS, Resolution is required to ascribe fair values to the acquired value of in-force business ("AVIF") and other intangible assets as well as placing a fair value on the assets acquired and liabilities assumed.

The AVIF has been calculated on the basis of assumptions which are consistent with those which have been used in the preparation of the MCEV results. The AVIF and other intangibles of £2,192 million and £150 million, respectively, are presented gross of tax.

Distribution relationships have been valued using an income based methodology with the valuation reflecting the net present value of the underlying cash flows for forecast new business from existing distribution relationships over appropriate periods. Customer relationships have been valued based on the net cash flows for fees and commissions expected to be earned.

Business review: AXA UK Life Business acquisition

Acquisition of the AXA UK Life Business on a MCEV basis

The review of the MCEV assets and liabilities at the acquisition date confirmed that there were no unexpected changes from the items identified as part of Resolution's pre-acquisition due diligence with no material difference between the estimated embedded value of Friends ASLH Limited ("FASLH") and the actual embedded value of FASLH at 31 December 2009.

On an MCEV basis, the amount attributable to ordinary shareholders at the acquisition date was £3,498 million and consideration paid, net of external debt of £900 million, was £1,824 million, representing 70.2% of acquired net MCEV. A summarised balance sheet as at the date of acquisition is set out below.

AXA UK Life Business	**£m**	**£m**
Adjusted net assets		1,594
Value of in-force business		
- Certainty equivalent value	2,045	
- Time value of options and guarantees	(9)	
- Frictional costs of required capital	(46)	
- Cost of residual non hedgeable risks	(86)	
		1,904
AXA UK Life Business MCEV (excluding WLUK)		**3,498**

Reconciliation of equity attributable to ordinary shareholders on an IFRS basis to MCEV as at 3 September 2010

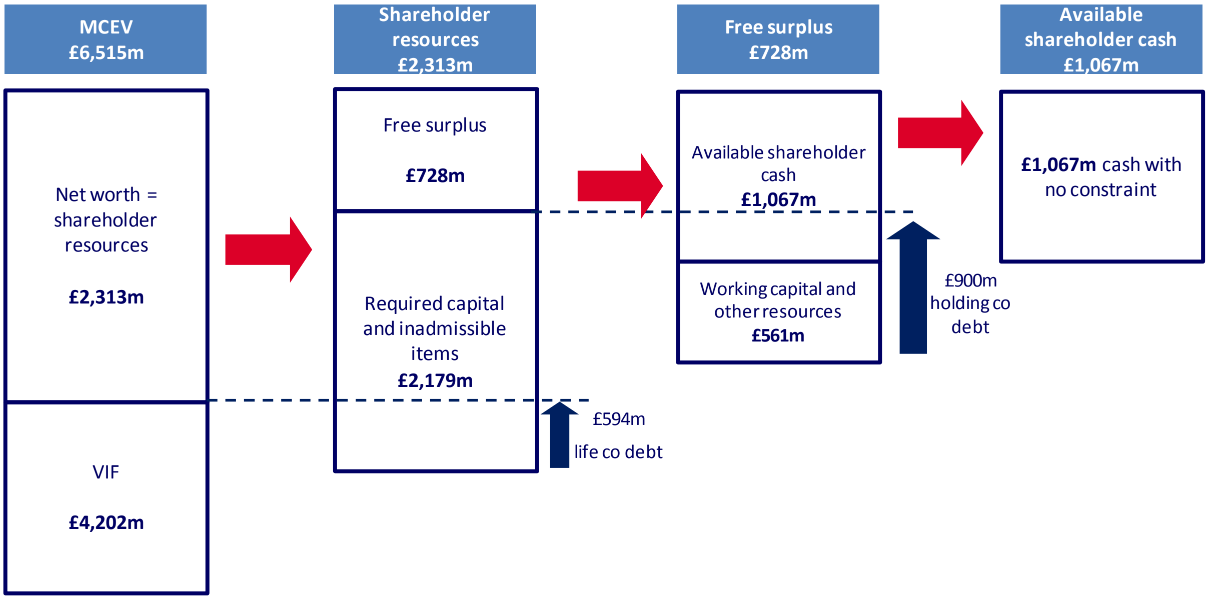
	£m
Equity attributable to ordinary shareholders on an IFRS basis (excluding WLUK)	**3,607**
Less items only included on an IFRS basis:	
- IFRS reserving and other IFRS adjustments	30
- GOF/ TIP held for sale valuation uplift in IFRS but not in net worth	(281)
- Acquired VIF (net of tax)	(1,640)
- Other intangible assets (net of tax)	(122)
Net worth on an MCEV basis	**1,594**
Value of in-force business	1,904
Equity attributable to ordinary shareholders on an MCEV basis (excluding WLUK)	**3,498**

Business review: cash and capital

1. Group cash delivery

The Group has continued to focus on cash management during the period and cash available to shareholders at the end of the year has increased from £510 million at 31 December 2009 to £1,067 million at 31 December 2010, after payment of £136 million of cash dividends to shareholders in the year.

The Group's cash management framework is based on the movement in MCEV, reflecting the basis of MCEV as the discounted value of anticipated future cash flows on a market consistent basis. The chart below shows how the core components of MCEV within this framework, and their respective values as at 31 December 2010, reconcile to available shareholder cash.



The total MCEV is split between the net worth, or shareholder resources, and the value of in-force business ("VIF"). At 31 December 2010, total MCEV before debt was £8,009 million of which £4,202 million was the VIF, that is, the value of the future cash flows arising from the policies currently in-force, and £3,807 million which was shareholder resources. Total debt amounted to £1,494 million resulting in net shareholder resources of £2,313 million and net MCEV of £6,515 million. Debt, at market consistent values, therefore equated to 18.7% of the gross MCEV at the balance sheet date.

Shareholder resources comprise the free surplus and the required capital of the business. Free surplus for the life businesses is defined as shareholder net assets (in line with MCEV definitions) after required capital. Required capital is based on the Group's capital management policy of maintaining 160% of Group capital resource requirements ("CRR") excluding WPICC, and at life company level, the higher of 150% of Pillar 1 CRR excluding WPICC and 125% of Pillar 2 CRR including Individual Capital Guidance. For other operating businesses and Friends Life group holding companies, free surplus is defined as IFRS net assets less required capital and inadmissible assets on an IGCA basis which are treated as if they are required capital.

At 31 December 2010, total required capital and inadmissible assets of the Group were £2,179 million on a gross basis and £1,585 million net of the £594 million of debt that is supporting the operations of the Friends Life group and is guaranteed by the life businesses. The debt comprises STICS of £393 million and lower tier 2 subordinated debt of £201 million.

Business review: cash and capital

The free surplus of £728 million at the balance sheet date comprises available shareholder cash of £1,067 million and working capital of £561 million less £900 million of debt (£500 million DCNs and £400 million acquisition finance facility) taken on by the Group to support the acquisition of the AXA UK Life Business. The total free surplus, net of debt, comprises free surplus of the life businesses of £977 million and free surplus of the operating businesses and holding companies of £(249) million. Available shareholder cash is stated after the deduction of regulatory and other restrictions on the availability of cash resources. Required capital and inadmissible assets comprise £1,291 million in respect of the life operating businesses and £294 million in respect of other operating businesses and holding companies. Available shareholders cash represents cash available to cover corporate costs, to service debt and, subject to shareholder approval, to pay dividends, fund future acquisitions, or return to shareholders.

The key components and drivers of available shareholder cash for 2010 are detailed in the following sections.

a) Value of in-force business and shareholder resources

The movement in the VIF and shareholder resources is summarised in the table below, adopting an MCEV style presentation on a net of tax basis. The movements in shareholder resources are further subdivided into required capital, including inadmissible assets and free surplus.

Analysis of movement in shareholder resources

£m	Value in force	Shareholder resources: Required capital	Shareholder resources: Free surplus	Total MCEV
Opening MCEV at 1 January 2010	1,873	649	966	3,488
Impact of capital raise and acquisition of AXA UK Life Business	1,904	1,467	(618)	2,753
Capital movements within profit	-	(460)	460	-
MCEV profit after tax	433	3	24	460
Other movements in IFRS net equity	-	-	(42)	(42)
Foreign exchange variances	(11)	(2)	2	(11)
Dividend and share based payments	3	-	(136)	(133)
Closing MCEV at 31 December 2010	**4,202**	**1,585**	**728**	**6,515**

The impact of the capital raise and subsequent acquisition of the AXA UK Life Business is set out in more detail below.

£m	Value in force	Shareholder resources: Required capital	Shareholder resources: Free surplus	Total MCEV
Rights issue net of capital raise costs	-	-	1,979	1,979
Assets acquired: AXA UK Life Business	1,904	1,467	127	3,498
Consideration paid	-	-	(2,724)	(2,724)
Total impact	**1,904**	**1,467**	**(618)**	**2,753**

To fund the acquisition of the AXA UK Life Business, Resolution raised £1,979 million (net of capital raising costs) through a rights issue and took on debt of £900 million. The net rights issue proceeds result in an increase in free surplus, but the debt gives rise to an increase in gross free surplus (the asset acquired) that is offset by the debt liability assumed. Free surplus is therefore unaffected by the debt raise.

The consideration paid of £2,724 million therefore gives rise to a net reduction in free surplus of £745 million, compared to the funds raised.

Business review: cash and capital

In exchange for the consideration, the Group received businesses with a value of £3,498 million, giving a gain on acquisition of £774 million on a MCEV basis. The acquired business included free surplus of £127 million, required and retained capital of £1,467 million and VIF of £1,904 million.

This transaction therefore results in an overall increase in shareholder resources of £849 million, representing an increase in required and retained capital, which included the net assets of the RIE, of £1,467 million and a decrease in free surplus of £618 million.

The movements arising from the MCEV profits are set out in more detail in the following section. They include capital movements of £460 million. These are the result of a £178 million increase in required capital, following the change in the Friends Life group capital management policy and £638 million in respect of the RIE, transferred from retained capital to free surplus. This is explained in more detail in the section that follows. Other movements in IFRS net equity arise from the actuarial losses on defined benefit pension schemes and the accounting for the scrip issue element of the dividend.

The shareholder dividend of £136 million comprises the cash element of the dividends paid in the period; that is, £61 million final dividend for 2009 and £75 million interim dividend for 2010. The scrip dividends (£5 million 2009 final dividend and £4 million 2010 interim dividend) do not impact on free surplus.

b)   Impact of MCEV profits on shareholder resources and free surplus

The table below sets out the impact of the year's operating performance and non-recurring and non-operating items on shareholder resources split between free surplus and required capital. The analysis is shown on a net of tax basis. The impact of VIF is also included to enable a reconciliation to the full MCEV impact.

£m	Value in-force	Shareholder resources: Required capital	Shareholder resources: Free surplus	Total MCEV
Expected return from in-force business	(162)	(43)	404	199
Operating experience variances	30	(38)	4	(4)
Other operating variances	13	(1)	24	36
Operating assumption changes	20	5	(42)	(17)
FPH operating shareholder resources generation	**(99)**	**(77)**	**390**	**214**
Investment in new business	331	31	(245)	117
FPH operating profit/ net shareholder resource generation	232	(46)	145	331
RSL income and charges	-	-	(15)	(15)
Group operating profit	**232**	**(46)**	**130**	**316**
Non-recurring and non-operating variances	201	(411)	354	144
Profit after tax	**433**	**(457)**	**484**	**460**

The primary components of underlying free surplus generation are expected return from in-force business (£404 million free surplus, £(43) million required capital) and investment in new business (£(245) million free surplus, £31 million required capital). The increase in free surplus arising from the expected return on in-force business is net of £(22) million expected return on the STICS and external lower tier 2 debt. Further detail on the return from in-force business and investment in new business is given in subsequent sections.

Business review: cash and capital

Operating experience variances (£4 million free surplus, £(38) million required capital) primarily relate to mortality and morbidity profits from protection products, expense overruns in the AXA UK Life Business offset by minor adverse persistency and mortality variances.

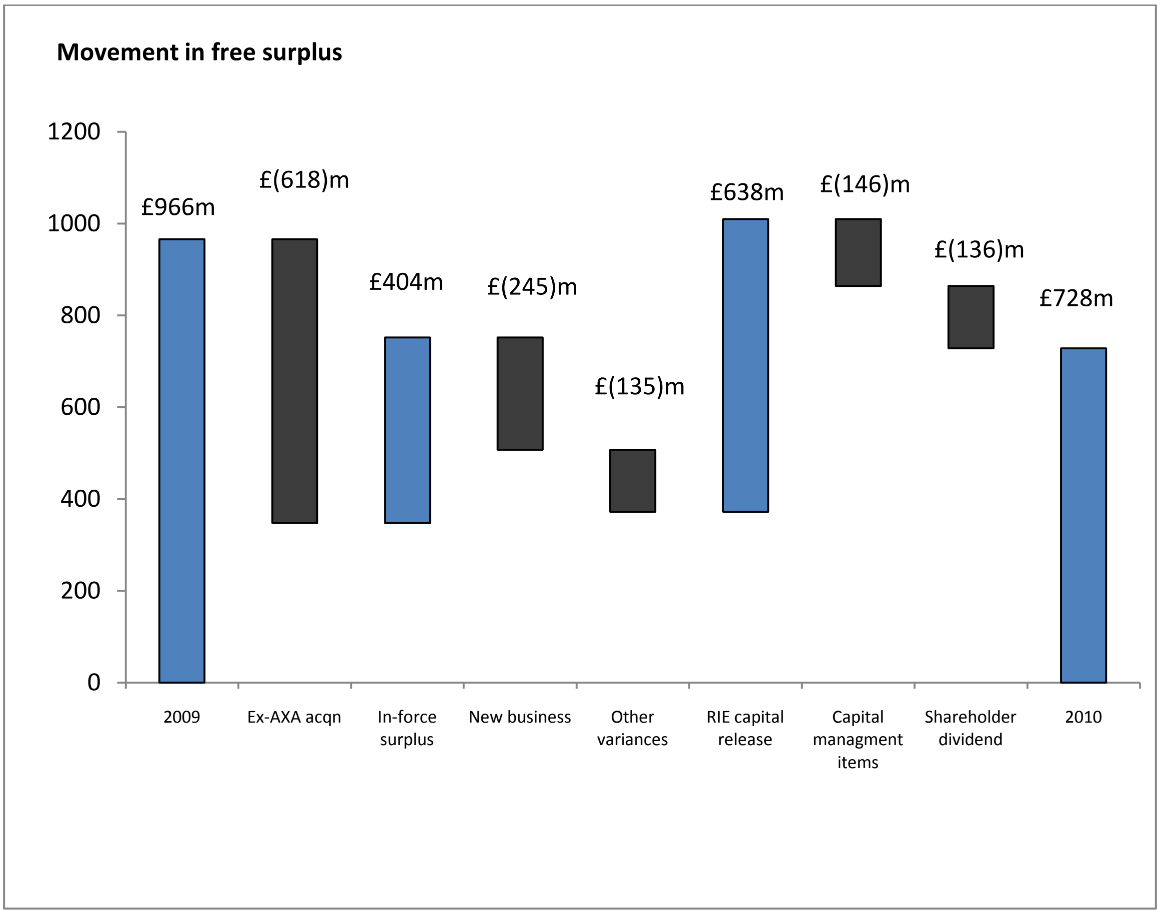
Other operating variances (£24 million free surplus, £(1) million required capital) represent the benefit of modelling improvements and shareholders' share of the special bonus declared from the Old WPF of FLC, offset by development costs and corporate income and other charges.

Operating assumption changes (£(42) million free surplus, £5 million required capital) reflect the impact on the Friends Provident UK business of strengthening annuitant mortality reserves for forecast longevity improvements (free surplus impact) offset by the benefit of reduced expenses in Lombard which primarily benefits required capital and VIF.

Non-operating items reflect those items reported in the MCEV summary and their effects on surplus (£354 million increase) and required capital (£411 million decrease). This includes the impact of positive economic variances outlined earlier in the review. The impact on free surplus reflects the costs of separation and integration, finance transformation, capital optimisation and acquisition related costs. These were offset by the corporation tax changes which impact on VIF.

c)   Free surplus - £728 million

The generation of free surplus, net of movements in required capital, underpins the declaration of dividends. The chart below details the movements in free surplus already outlined on an MCEV basis, followed by an analysis of free surplus between those resources available to shareholders as cash, and resources retained by the operating businesses as working capital.



Total free surplus of the Group amounts to £728 million at the end of 2010 down from £966 million at the end of 2009. This predominantly reflects the acquisition of the AXA UK Life Business in September 2010, the net increase in free surplus from the emergence of profit on the in-force book and investment in new business, the transfer of surplus from the RIE offset by the impact of the change in capital management policy and the dividend to shareholders.

The principal drivers of the operating free surplus generated in the retained business are the expected return from in-force business of £404 million less investment in new business of £245 million. At product level these drivers are monitored on a "cash strain" and "cash surplus" basis which reflects a slightly more prudent basis than free surplus, utilising IFRS reserving and tax assumptions rather than MCEV best estimates. The impact of this is set out below.

In-force business expected return and investment in new business

£m	Free surplus	Movement in required capital	Tax and other items[(i)]	Cash strain/ surplus
New business cash strain	(245)	31	(24)	(238)
In-force cash surplus	404	(42)	42	404
	159			166

(i) Tax and other items include the cumulative adjustments for tax and long-term investment return which use different assumptions across the MCEV and IFRS bases. Experience variances are also excluded and reported separately in the movement in shareholder resources.

The new business cash strain and in-force cash surplus is split between the business segments as follows. A detailed analysis by product, showing the year on year change is included for each business in the segmental analysis section of this review.

£m	New business cash strain	In-force cash surplus	TOTAL
UK			
- Friends Provident	(82)	177	**95**
- AXA UK Life Business	(67)	91	**24**
International	(83)	106	**23**
Lombard	(6)	30	**24**
Total	**(238)**	**404**	**166**

Based on full year results for the life operating businesses, excluding the AXA UK Life Business, and including an annualised estimate for the AXA UK Life Business based on the four month period shown above, the in-force surplus and new business strain for the combined Friends Life group businesses are new business strain of £370 million and in-force surplus of £580 million respectively. Annualised new business strain is targeted to be reduced by approximately £200 million from this level by 2013 through actions put in place following the UK strategic review.

Business review: cash and capital

Reconciliation of cash strain and surplus to IFRS

A reconciliation of cash strain and surplus to IFRS is shown below. The principal adjustments are the inclusion of deferred acquisition costs ("DAC") and deferred front end fees ("DFF") in IFRS strain and surplus and other adjustments in respect of sterling reserves and actuarial funding.

New business strain £m	Free surplus impact	Movement in required capital and other items	Cash strain	DAC/DFF adjustments	Other IFRS adjustments	IFRS strain
UK						
- FP UK	(78)	(4)	(82)	20	(3)	(65)
- Ex-AXA	(70)	3	(67)	39	4	(24)
International	(84)	1	(83)	210	(155)	(28)
Lombard	(13)	7	(6)	(22)	-	(28)
	(245)	**7**	**(238)**	**247**	**(154)**	**(145)**

In-force surplus £m	Free surplus	Movement in required capital and other items	Cash surplus	DAC/DFF adjustments	Other IFRS adjustments	IFRS surplus
UK						
- FP UK	208	(31)	177	8	10	195
- Ex-AXA (4 months)	73	18	91	-	(6)	85
International	99	7	106	7	7	120
Lombard	24	6	30	36	-	66
	404	**-**	**404**	**51**	**11**	**466**

Working capital

The £728 million of closing free surplus comprises £1,067 million available shareholder cash and £561 million of working capital, illiquid and restricted assets, less £900 million of debt taken on to finance the acquisition of the AXA UK Life Business. A review of available shareholder cash is included in the next section.

Working capital is held to cover known future requirements or reflects illiquid assets and requirements to ensure sufficient flexibility to manage to the Group's capital policy.

As at 31 December 2010, the key components are:

	£m
Amounts retained to support separation integration and service company costs	175
Amounts retained to facilitate BHA acquisition	77
Long term fund surplus currently unavailable to shareholders and restricted assets	129
Life company amounts retained for flexibility	125
Other operating businesses working capital	55
Total working capital	**561**

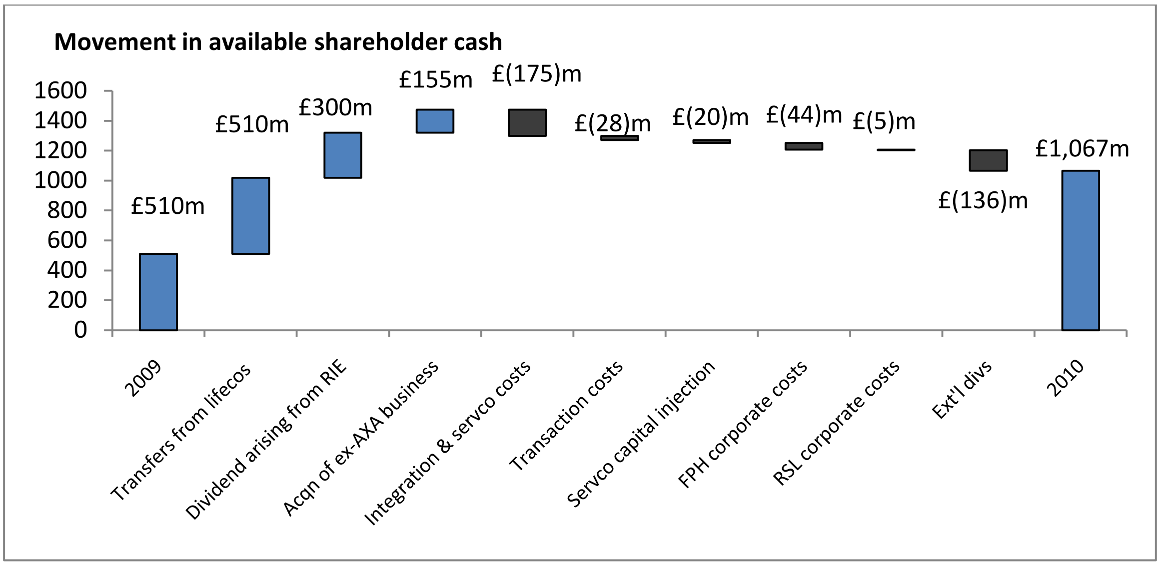
Business review: cash and capital

d) Available shareholder cash - £1,067 million

Available shareholder cash comprises £602 million of shareholder cash at holding company level, less £175 million required to fund integration costs and other operating costs, plus £640 million proposed dividends from life operating businesses, as summarised below.

	£m
Friends Provident holding companies cash	371
Cash retained to fund integration costs and service company losses (working capital)	(175)
Friends Provident holding companies available shareholder cash	196
Proposed dividends from life businesses:	
- FPLP	185
- FLC dividend funded by transfer in respect of RIE	300
- FLC dividend funded by special bonus and trading result in the period	90
Agreed loan repayment from FASLH to FPH	65
Friends Provident available shareholder cash	**836**
Resolution holding companies cash	231
Group available shareholder cash	**1,067**

The dividends were declared by the life companies after 31 December 2010 and consequently are included in available shareholder cash. The agreed loan repayment represents a scheduled loan repayment to FPH from the life businesses.



During the year the Group received £350 million of dividends (net of internal loan repayments) from the life businesses. Of this amount, £180 million was included in opening available shareholder cash, having been declared at the time of reporting and a further £170 million was declared and paid in the year.

In addition to the £170 million of dividends declared and paid above, the life companies have declared further dividends and made loan repayments totalling £340 million at the year end, bringing the total increase in shareholder cash from life company sources to £510 million.

A further £300 million was declared as a dividend from FLC following the transfer in respect of the RIE. This is covered in more detail in the section that follows.

Business review: cash and capital

Together with the £810 million received from the life businesses outlined above, the Group received a net £155 million as a result of the funding of the acquisition of the AXA UK Life Business comprising receipt of rights issue proceeds, net of equity raising costs, of £1,979 million and acquisition financing of £400 million which funded the payment of the cash consideration of £2,224 million. Transaction costs of £28 million were also incurred.

This amount will be retained, together with a further £20 million of existing resources, to fund the separation and integration costs and short-term operational costs of the service companies. During 2010, £20 million was made available to the service companies to support their operations.

Friends Life group corporate costs of £44 million include £31 million payment of the coupon on the STICS, £16 million interest paid on external Lower Tier 2 debt, £19 million interest paid to Resolution holding companies, £8 million fees in respect of the revolving credit facility offset by £46 million of interest received from the life businesses on loans to the life businesses.

Resolution corporate cash outflows of £5 million represent payment of financing costs and corporate expenses offset by the receipt of £19 million loan interest from Friends Life group (as referred to above). The £136 million dividend paid to shareholders is the cash element of the 2009 final dividend and 2010 interim dividend paid in the year.

Distributable cash target ("DCT")

The Company has set a DCT of £400 million per annum at Friends Life Group for 2011 and onwards, after interest costs and without reducing the MCEV of Friends Life Group.

In 2010 the increase in available shareholder cash at Friends Life Group level, which is the measure against which this is set, was as summarised below:

	£m
Friends Life group ASC at 1 January 2010	**203**
Friends Life group ASC at 31 December 2010	**836**
Movement in Friends Life group ASC in 2010	**633**
Adjusted to exclude:	
Dividends paid to RSL	**65**
Net transaction funding	**(127)**
Cash retained for integration	**175**
Underlying Friends Life group ASC generation	**746**

This arose from:

	£m
Excess of in-force surplus over new business strain (including AXA UK Life Business for four months only)	159
Capital strengthening	(146)
Net benefit of other operating items, economic experience and a reduction in working capital	266
Cash from RIE	300
Assets transferred from RIE	167
	746

Business review: cash and capital

The excess of in-force surplus over new business strain only included the AXA UK Life Business for four months. Had it been included for 12 months, the estimated underlying net cash surplus would have been approximately £50 million higher.

As announced in February 2011, there is a strategic initiative in place to reduce cash new business strain by £200 million by the end of 2013 and the Group has targeted the overseas businesses to deliver £50 million of dividends by the end of 2014. The Group therefore expects the £400 million DCT to be met predominantly from operational cash flows and related releases of required capital, but until such time as this is achieved the delivery of the target will be dependent on the release of working capital and capital synergies to some extent.

2. Distribution of the FLC re-attributed inherited estate

As at 31 December 2010, the FLC RIE was £2,437 million, increased from an estimated £2,200 million at 31 December 2009.

The High Court approved scheme ("the Scheme") rules require that a test be undertaken every five years to determine whether it is possible to transfer any of the RIE from the FLC non-profit funds to the FLC shareholders' fund or to distribute any of the inherited estate retained in the Old With-Profits Fund ("the Old WPF") in the form of Special Bonuses (and associated transfer to the shareholders' fund). The latest five yearly test was undertaken as at 31 December 2010.

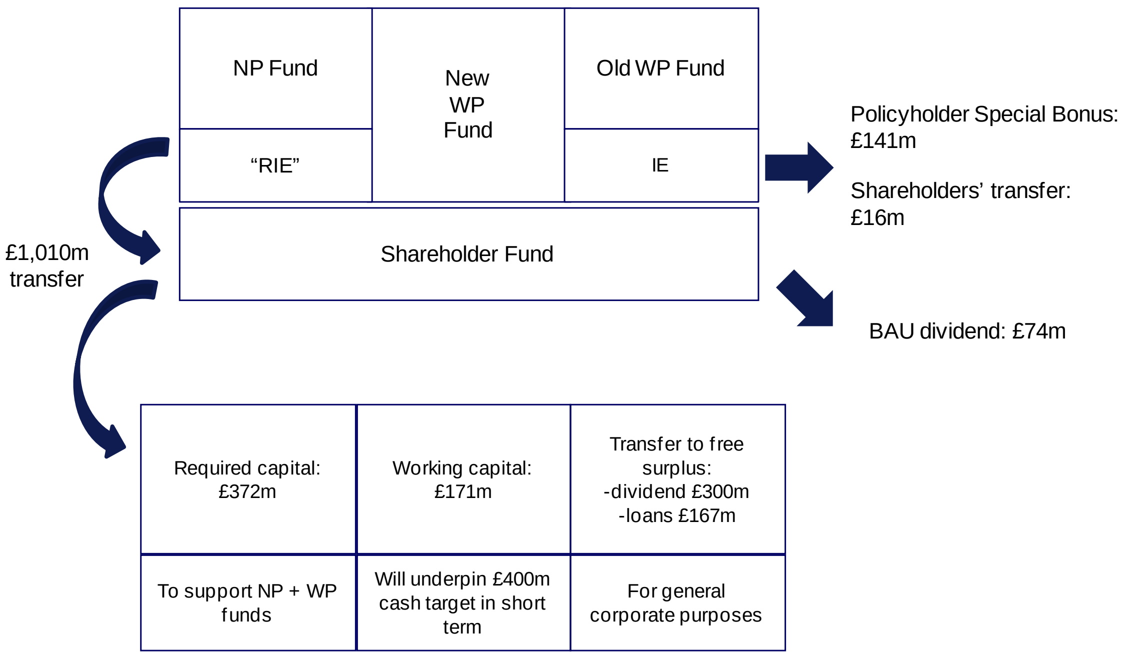
Following the results of the five year testing, the FLC board determined that as at 31 December 2010 it should make:

(a) a transfer of £1,010 million of RIE from the non-profit funds to the shareholders' fund; and

(b) a distribution of £157 million of the inherited estate in the Old WPF, which will be split 90% to with-profits policies allocated to or reinsured to the Old WPF in the form of a Special Bonus and 10% to the FLC Shareholders' Fund.

The transfer of RIE to the FLC Shareholders' Fund is an after tax amount, and consists of £843 million of cash and £167 million of receivables which would otherwise have had to be repaid by holding companies. Following completion of the 2010 year end valuation, FLC has paid a dividend of £390 million to its parent company, FPLP, consisting of £300 million of the cash transferred from the RIE, the £16 million shareholders' share of the Special Bonus declared in the Old WPF, and £74 million derived from business as usual activities.

Friends Life Company Limited - formerly AXA Sun Life plc



3. Group capital management

The Friends Life group manages its capital on both regulatory and economic capital bases, focusing primarily on capital efficiency and the ease with which cash and capital resources can be transferred between entities. In managing capital, the Friends Life group considers the following:

- establishing targets for the main UK life companies at the greater of 150% of Pillar 1 CRR (excluding WPICC) and 125% of Pillar 2 CRR – the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year period;
- at the FPH level, to hold sufficient capital to meet 160% of the Group CRR (excluding WPICC);
- maintaining financial strength within companies sufficient to support new business growth targets, including rating agency requirements;
- the need to have strong liquidity to cover expected and unexpected events, which includes access to an undrawn facility with a consortium of banks;
- managing, in particular, the with-profits business of the Group in accordance with agreed risk appetites and all statutory requirements;
- transfers from long-term business funds and dividends from entities that support the cash generation requirements of the Group, balanced with the need to maintain appropriate capital within the businesses for the reasons outlined above.

As part of the integration of the AXA UK Life Business, a number of initiatives are being considered including fund mergers and the optimisation of the corporate structure, to ensure capital efficiency and maximise the fungibility of capital resources.

Solvency II

The implementation of the EU Solvency II Directive continued to be a key focus of attention for the Group during 2010. The Group has been closely following the emerging regulations and monitoring their potential impact on the Group balance sheet. Friends Life group is closely involved with the industry in lobbying on key areas where some uncertainty remains. During 2010, Friends Life group participated in the QIS5 exercise, which was an EU wide test of the calibration of the standard formula and other technical items. Friends Life group continues to be closely engaged in the development of the tax proposals arising as a result of Solvency II.

During the course of 2010, Friends Life group has successfully integrated the Solvency II programme for Friends Provident and the AXA UK Life Business and the overall programme is progressing well against its plans.

Friends Life group intends to apply for internal model approval pursuant to the Solvency II Directive and has been notified by the FSA that it may start the internal model pre-application process. The purpose of the internal model pre-application process is to give firms and the FSA an opportunity to consider whether a firm's proposed internal model is suitable to be submitted for approval under the formal internal model assessment requirements. The pre-application process ends when a firm either submits a formal internal model application to the FSA for approval or notifies the FSA that it no longer intends to use an internal model.

Insurance Groups Capital Adequacy

In addition to individual company requirements FPH, as the ultimate European Economic Area (“EEA”) parent insurance undertaking, is required to meet the IGCA requirements of the Insurance Groups Directive. The Group’s capital policy is to maintain sufficient group capital resources to cover 160% of group CRR (excluding WPICC). This policy was increased from 150% following the acquisition of the AXA UK Life Business. It is anticipated that the FPH capital management policy target will reduce back to 150% in due course as the integration of the AXA UK Life Business and BHA into the group proceeds.

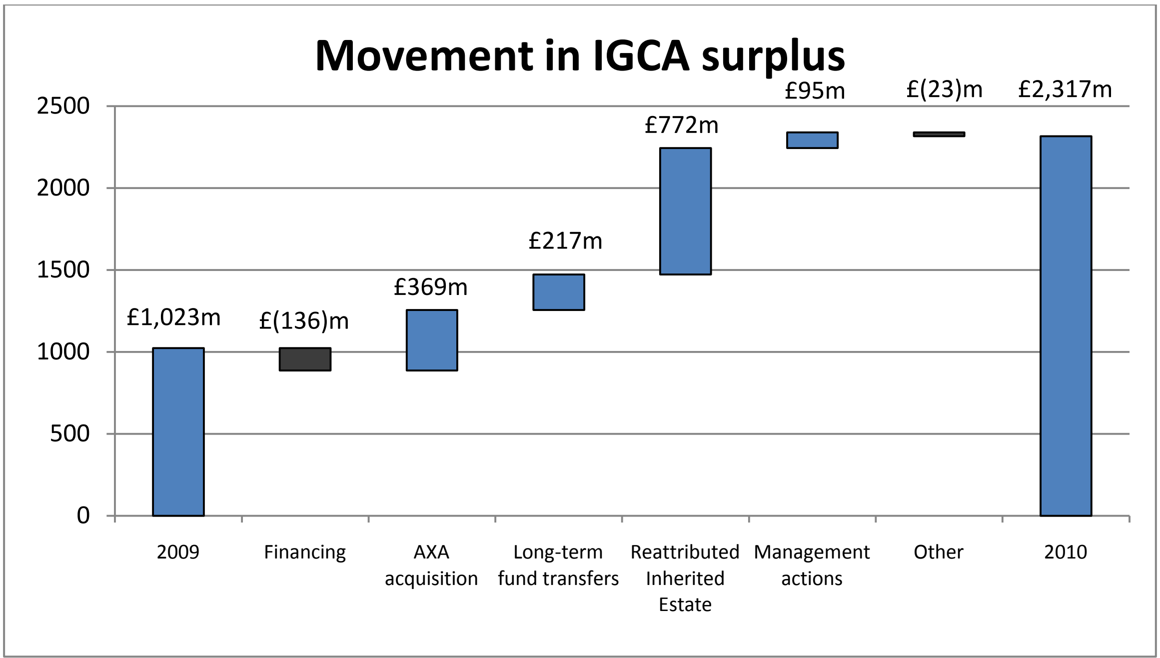
Business review: cash and capital

The balance sheet remained strong at the Friends Life group level, with an IGCA surplus of £2.3 billion at 31 December 2010, with Group Capital Resources being 228% of Group CRR (excluding WPICC). Group Capital Resources were estimated to be £1.2 billion in excess of the amount required to satisfy Friends Life group's revised group capital policy of holding 160% of Group CRR (excluding WPICC).

The increase in IGCA surplus over the year largely reflects the £369 million impact of the AXA UK Life Business, the impact of the transfer of RIE to the FLC shareholders' fund of £772 million (£1,010 million transfer less shareholder funds required to cover FLC non-profit fund capital resources requirements of £238 million and other long-term fund transfers totalling £215 million (net of any shareholder funds now being utilised to cover capital resource requirements).

Financing costs include the £65 million dividend paid to Resolution and interest costs at Friends Life group. These include the coupon payments of the external debt in addition to the interest due on the £700 million lower tier 2 debt issued to Resolution in September 2010.

Management initiatives in the year to optimise the IGCA surplus position delivered a benefit of £95 million. This largely related to the more appropriate valuation treatment of non regulated entities within the Group's distribution businesses.



The IGCA surplus is a prudent measure and excludes surplus capital not immediately available to shareholders, such as surplus capital held in long-term funds to the extent that this is not needed to cover the capital resource requirements of the long term fund concerned. Following actions taken in 2010 to transfer surplus long-term fund assets to shareholders, only £39 million of non-profit funds outstanding surplus remains in the UK business which is not counting towards the IGCA surplus; this has not been transferred due to FPLP demutualisation scheme restrictions. The IGCA surplus also excludes £836 million of with-profits funds surpluses. As the calculation is prepared to include the subsidiaries of the highest EEA parent company, the net assets of the Resolution holding companies are excluded.

Management of the with-profits fund

Friends Provident Life and Pensions Limited

Asset allocation within the With-Profits Fund is actively managed. During 2010 steady improvement in the investment return of the With-Profits Fund has facilitated the removal of Market Value Reductions ("MVRs").

Business review: cash and capital

At 31 December 2010 the proportion of equities and property backing asset shares (equity backing ratio or "EBR") was 49% (2009: 26%).

Following credit de-risking of the With-Profits Fund, the EBR was increased throughout the year. A strategic level of 45% was approved by FPLP's board in November 2010 reflecting the fund's ability to support more investment risk.

These actions reflect work to more clearly define the risk appetite of the With-Profits Fund and are in line with FPLP's commitment to fair treatment of all its customers and the published Principles and Practices of Financial Management underlying the Fund.

Friends Life Company Limited

Asset allocation within the With-Profits Funds is actively managed. During 2010 steady improvement in the investment return of the With-Profits Funds has facilitated the reduction in MVRs on single premium bonds, although some remain due to the low levels of equity markets compared to when these bonds were taken out.

At 31 December 2010 the EBR was close to 68% (2009: 68%).

There were no changes to the investment policy in 2010. The fund maintained a stable asset allocation with a target EBR of 65% for assets other than those backing the realistic cost of guarantees, options and non-profit business. Guarantees and options remained backed by a combination of bonds and hedging derivatives (equity put options, interest rate swaps and swaptions). Cash is allocated to back current liabilities.

Non-profit business in the With-Profits Funds is backed by mix of gilts and corporate bonds (some with credit default swap protection to hedge the default risk).

Friends Life Assurance Society Limited ("FLAS")

Asset allocation within the With-Profits Fund is actively managed. During 2010 steady improvement in the investment return of the With-Profits Fund has facilitated the reduction in MVRs on single premium bonds, although some remain due to the low levels of equity markets compared to when these bonds were taken out.

At 31 December 2010 the EBR was close to 54% (2009: 52%).

The investment policy of FLAS was reviewed in 2010, and this has resulted in the following target strategic allocation:

- The allocation for assets backing asset shares has been set to target a stable EBR of 50% previously 48%.
- The allocation for assets backing guarantees and options has been defined to consist of gilts and hedging derivatives (equity put options, sold equity futures, interest rate swaps, swaptions and 'spreadlock' trades).
- The allocation for assets backing the realistic with-profits estate has been defined to consist of gilts only.
- The most significant effect of the change for assets backing guarantees, options and the realistic estate has been the sale of corporate bonds previously allocated to these pools to reduce the credit risk exposure of the fund.
- The allocation for non-profit business in the fund has been defined according to two pools. The first pool consists of a large block of immediate pension annuity liabilities for which 95% of the longevity risk was reinsured in June 2010. These liabilities are backed by a portfolio of low risk assets including gilts, UK government guaranteed assets, and other 'liquidity trade' assets (such as corporate bonds with matching credit default swap protection) which seek an enhanced yield

relative to gilts with very low default risk exposure. The second pool consists of the other non-profit liabilities which are backed by a mix of bonds, with some sales of corporate bonds taking place in this pool during 2010 with the purpose of reducing the credit risk exposure of the fund.

4. Asset quality and exposure

The Group's financial assets as at 31 December 2010, excluding cash, are summarised as follows:

	Unit-linked £bn	**With-profit £bn**	**Non-profit £bn**	**Share-holder £bn**	**31 Dec 2010 Total £bn**	31 Dec 2009 Total £bn
Shares, unit trusts and OEICs	**52.1**	**8.1**	**0.2**	**-**	**60.4**	30.4
Gilts	**7.6**	**6.9**	**1.4**	**0.2**	**16.1**	6.3
Corporate bonds and asset backed securities	**5.4**	**8.9**	**6.6**	**0.6**	**21.5**	11.0
Derivatives	**-**	**0.4**	**-**	**-**	**0.4**	0.1
Deposits	**0.4**	**-**	**-**	**-**	**0.4**	0.4
Loans	**-**	**-**	**0.1**	**0.6**	**0.7**	0.1
Total 31 December 2010	**65.5**	**24.3**	**8.3**	**1.4**	**99.5**	
Total 31 December 2009	33.4	10.8	3.5	0.6		48.3

The vast majority of the Group's exposure to sovereign debt holdings is to UK gilts. The Group's non-profit and shareholder funds have immaterial exposure totalling £7 million to the higher risk government debts of Spain, Portugal, Italy, Ireland and Greece.

The Group has a direct exposure through its non-profit and shareholder funds to various corporate securities issued by companies domiciled in Spain, Portugal, Italy, Ireland and Greece of £405 million. 60% by value of these corporate securities are issued by non-financial companies, which are in many cases less exposed to their domicile economy than to other countries. Where the Group holds securities issued by financial companies, the company's financial strength and the ability of the domicile government to provide financial support in the event of stress has been considered.

Corporate bonds and asset backed securities (excluding £0.9 million of unlisted bonds held in unit-linked funds) are analysed by fund and credit rating as follows:

	Unit-linked £bn	With-profit £bn	Non-profit £bn	Share-holder £bn	31 Dec 2010 Total £bn	31 Dec 2010	31 Dec 2009 Total £bn	31 Dec 2009
AAA	**0.3**	**2.3**	**1.0**	**0.1**	**3.7**	**18%**	1.9	18%
AA	**0.2**	**1.4**	**2.4**	**0.2**	**4.2**	**20%**	2.7	26%
A	**0.6**	**2.5**	**2.1**	**0.2**	**5.4**	**26%**	2.3	22%
BBB	**0.5**	**2.0**	**0.8**	**0.1**	**3.4**	**17%**	0.7	7%
Sub-BBB or rating not available	**2.9**	**0.7**	**0.3**	**-**	**3.9**	**19%**	2.8	27%
Total 31 December 2010	**4.5**	**8.9**	**6.6**	**0.6**	**20.6**	**100%**		
Total 31 December 2009	2.9	4.4	2.7	0.4			10.4	100%

Over 95% of the corporate bond and asset backed securities held in the non-profit and shareholder funds are investment grade. The Group controls its exposures to corporate issuers by rating, type of instrument and type of issuer. The sub-investment grade bonds held in investment portfolios are monitored closely in order to maximise exit values. Where asset backed securities and other complex securities are held, the Group monitors closely its exposures to ensure that the relevant structure, liquidity and tail credit risks are well understood and controlled.

No defaults have been experienced in the year.

5. Liquidity

The liquidity of the Group remains strong.

FPH has an undrawn £500 million funding facility with a consortium of banks, which increased from £300 million in place at 31 December 2009 following the completion of the AXA UK Life Business acquisition. This facility is due to run until June 2013 but can be extended at the option of FPH for a further two years.

6. Financial strength ratings

A number of the Group's life businesses are attributed financial strength ratings.

	Fitch	Moody's	Standard & Poor's
FPLP	A+ (strong)	A3 (strong)	A-(strong)
FLC	A+ (strong)	A2 (strong)	A-(strong)
FLAS	A+ (strong)	A2 (strong)	NR

The Group targets financial strength ratings in the single A range and expects them to remain there for the foreseeable future.

7. Dividend policy

Following the acquisition of Friends Provident, Resolution announced that it expected to pay a dividend of 4.08 pence per share each year with one third payable as an interim dividend and two thirds as a final dividend commencing with a final dividend in respect of 2009.

A final dividend in respect of 2009 of 2.72 pence per share was paid on 28 May 2010. In total £61 million of the 2009 dividend was paid in cash with the remaining £5 million (8%) taken as shares.

At the time of the acquisition of the AXA UK Life Business the directors reaffirmed the intention that the Company should continue to pay an annual dividend equivalent to 4.08 pence per share in issue as at 30 June 2010. Following the rights issue and share consolidation, the dividend policy was therefore to pay an annual dividend of 16.39 pence per new ordinary share with one third, 5.46 pence, paid on 8 October 2010 in respect of the interim dividend for 2010. As with the 2009 final dividend, shareholders were offered a scrip alternative in respect of the interim dividend and 5.2% exercised this right in respect of total shareholdings.

After due consideration, the directors have decided to recommend a final dividend of 12.57 pence per share, an increase of 15%, which brings the total dividend for the year to 18.03 pence per share. Subject to approval by shareholders at the AGM, the dividend will be paid on 26 May 2011. In line with previous dividends, shareholders will be offered a scrip alternative in respect of the final dividend.

As the Group progresses towards the end of the UK Life Project, the Board intends to keep under review the appropriateness of the Company moving to a growing dividend.

Business review: operating segment results

Operating segment results

The results for Friends Provident, including International and Lombard, and the AXA UK Life Business are only reflected in the statutory Group results from their respective acquisition dates of 4 November 2009 and 3 September 2010.

The operating results below present the IFRS and MCEV operating results for UK, International and Lombard, with the UK segment further split between the Friends Provident UK business and the AXA UK Life Business. As the integration of the acquired business continues, the results for The Friends Provident UK business and the AXA UK Life Business will no longer be reported separately.

IFRS based operating results have been presented for each business unit for the whole of 2010 and the full year 2009, and are presented on a post acquisition basis to assist in comparability between years. This presentation treats each business as if it had been acquired as at 1 January 2009 and therefore removes DAC amortisation which was incurred prior to acquisition providing a clear view of underlying performance. DAC arising post acquisition is amortised through in-force surplus.

In seeking to enhance comparability and clarity of performance across business segments and bases of reporting, the Group has amended its definition of operating profit. As operating profit is intended to show a clear view of performance based upon a longer term view of investment returns, which in turn reflect the long term nature of the majority of the Group's product lines, investment variances over and above the calculated longer term rate of return have been excluded from operating profit. This change impacts investment variances arising from fixed interest assets backing policyholder liabilities which are now included within short term investment fluctuations.

The redefinition of operating profit has resulted in the reclassification of £176 million of fixed interest investment variances from operating profit to short term investment fluctuations for the year ended 31 December 2009. In addition to this reclassification, the presentation of operating profit has been revised for the following points:

- development costs, previously disclosed within new business strain, are now presented separately to allow better comparison with development costs under MCEV; and
- in-force surplus has been restated to include some one-off items, which were previously reported within principal reserving changes and one-off items. These items have been allocated to in-force surplus as they are variances on experience, similar to those presented in MCEV, rather than changes in assumption or modelling. Other one-off items comparable to other assumption and modelling changes in MCEV continue to be reported within principal reserving and one-off items.

The MCEV results are likewise presented for the Friends Provident UK, International and Lombard businesses with the AXA UK Life Business only presented for the post acquisition period of four months as the businesses did not formally report on this basis prior to acquisition. Estimates of the MCEV on a Resolution basis at 31 December 2009 were prepared in support of the acquisition. Subsequent to the acquisition, systems and processes capable of producing MCEV results and analyses have been implemented.

Following the segmental results is a section covering cash strain and in-force surplus by segment which reconciles new business strain and in-force surplus on an IFRS basis to cash strain and cash surplus with supporting commentary for each segment, including analysis by product for the UK business segment.

Business review: operating segment results

a) UK operating segment

	FP UK 12 months 2010	**Ex-AXA 4 months 2010**	FP UK 12 months 2009
	£m	**£m**	£m
APE	**391**	**81**	407
VNB	**26**	**(7)**	26
IFRS operating profit	**116**	**71**	132(i)
MCEV operating profit	**219**	**87**	127
PVNBP margin	**1.2**	**(1.1)**	1.1
IRR on cash and capital invested in new business	**9.0%**	**3.9%**	9.3%

(i) restated

Key highlights of the 2010 results:

- New business volumes in the Friends Provident UK businesses were reduced in comparison to 2009 reflecting the competitive market conditions. The profitability of new business remained on a par with the previous year as active cost management reduced expenses from £223 million in 2009 to £199 million in 2010, offsetting the impact of lower volumes. AXA UK Life Business VNB was adversely impacted by reduced sales of group pensions, following the acquisition and also reflects incorporation of appropriate allowances for the cost of capital and the cost of non-hedgeable risk in accordance with MCEV Principles.
- Persistency experience improved in the UK as the economy emerged from recession and the company focused on retaining profitable business in line with the strategy of the enlarged business.
- There was generally positive experience on mortality and morbidity relative to assumptions, but this was offset by strengthening of mortality assumptions in the Friends Provident annuity book in anticipation of the likely industry wide shift to new models for mortality improvement assumptions in the coming years and in line with the AXA UK Life Business.
- After adjusting for the impact of one-off benefits in 2010 due to methodology improvements and taking account of the persistency provision established in 2009 and partially utilised in 2010, the underlying performance on an MCEV basis for the Friends Provident UK businesses have seen positive experience variance on mortality and expenses outweighed by the strengthening of mortality improvement assumptions as mentioned above together with lower expected contribution from existing business reflecting lower rates on corporate bonds and reduced shareholder net assets due to dividend payments.

Business review: operating segment results

Friends Provident UK

The Friends Provident UK business has continued to focus on the core markets of group pensions, individual protection and the provision of annuity policies to retiring pensions customers. Against a backdrop of challenging conditions in the UK life insurance industry, the business has maintained pricing discipline and remains focused on cash generation.

Friends Provident UK IFRS operating profit

	2010 12 months £m	2009 12 months £m
New business strain	**(65)**	(77)
In-force surplus	**195**	171
Investment return and other items	**24**	36
Principal reserving changes and one-off items	**(15)**	17
Development costs	**(20)**	(15)
Other	**(3)**	-
IFRS based operating profit before tax	**116**	132

Friends Provident UK IFRS based operating profit before tax of £116 million benefits from the action taken to reduce expenses, reflected in reduced new business strain and increased income from higher annual management charges on fund values which have risen as a result of improved market conditions.

The results also reflect the impact of basis changes which were a significant positive in 2009.

Friends Provident UK new business strain and in-force surplus

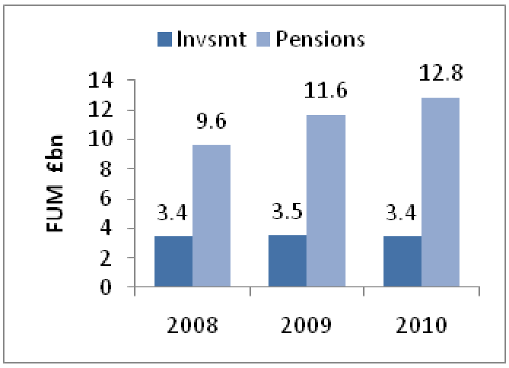
Details of new business strain and in-force surplus for the main Friends Provident UK product areas are as follows with the 2009 comparatives restated in line with the operating profit changes noted above:

	2010 12 months		2009 12 months	
	New business strain £m	**In-force surplus £m**	New business strain £m	In-force surplus £m
Protection	**(45)**	**38**	(49)	41
Pensions	**(33)**	**72**	(41)	44
Annuities	**15**	**18**	15	(3)
Investments	**(2)**	**23**	(2)	20
With-profits	**-**	**44**	-	69
Total	**(65)**	**195**	(77)	171
APE	**391**		407	

Against broadly consistent sales volumes, the principal driver of the movement in new business strain from year to year is the reduction of acquisition expenses with 2010 strain of £65 million down £12 million on 2009. The majority of this benefit can be seen in the protection and pension product lines with protection strain down £4 million to £45 million and pension strain down £8 million to £33 million.

Business review: operating segment results

Annuity business continues to be cash generative at the point of sale with a day one surplus of £15 million, comparable to that seen in 2009.



As the chart shows, pensions funds under management have grown year on year. As the majority of the pensions business (and investments) is unit-linked, income from annual management charges is the key driver of profitability as opposed to premium income.

In-force surplus generated by the existing book has, in total, grown to £195 million over the year, and is up £24 million on 2009. The principal drivers of this improvement are the pension and annuity lines offset partially by a reduction in the surplus arising from the with-profits funds due to the non-recurrence of investment return methodology enhancements which benefitted prior years.

While the underlying annuity in-force surplus is consistent with that arising in 2009, overall it has increased by £21 million as a result of a number of current and prior year one-off items. In 2010 the business refined the methodology for calculating expected investment return to improve consistency with MCEV reporting resulting in an £8 million increase in the in-force surplus compared to 2009. The surplus in 2010 also reflects a one-off increase in liabilities of £6 million offset by a £6 million benefit to the with-profits funds and a £2 million release of reserves due to prior strengthening of annuitant mortality basis. In 2009 there was a guaranteed annuity option rebate catch-up cost totalling £5 million which has not recurred in 2010.

Surplus emerging from the with-profits fund products was £44 million which reflects the negative impact of £9 million due to a refinement of the methodology for calculating expected return. The one-off items include the reallocation of liabilities from the annuity proposition referred to above and positive items totalling £10 million which benefitted 2009.

Investment return and other items

	2010	2009
	£m	£m
Longer-term return on life and pension shareholder funds	**19**	26
Distribution businesses	**5**	4
Non-recurring items	**-**	6
Total	**24**	36

UK longer-term investment returns have decreased from £26 million to £19 million with the payment of £462 million in dividends to the holding companies reducing the returns expected on the shareholders' surplus assets.

Business review: operating segment results

Distribution businesses principally relate to Sesame Bankhall, which generated operating profits of £5 million in 2010 (2009: £3 million). Sesame acquired Bankhall, an IFA directly regulated service business, and PMS, a mortgage adviser services provider, in October 2009 and successfully completed the integration of these businesses in the first half of 2010. The result reflects the combined fees generated by these businesses and is after charging £1 million of one-off integration costs related to the consolidation of offices. The 2009 comparative includes a contribution of £1 million from Pantheon which was disposed of in March 2010.

Principal reserving changes and one-off items

	2010 £m	2009 £m
Annuitant longevity strengthening	**(39)**	
Modelling and methodology changes	**14**	
Scheme expense release	**10**	
Total	**(15)**	17

In light of emerging industry and in-house views, in particular new mortality projection models, and as part of the harmonisation of assumptions across the Group, the assumptions regarding future rates of annuitant mortality improvement have been strengthened for the Friends Provident UK business. The minimum annual rates of improvement have been increased in both IFRS and MCEV with a £39 million adverse effect on the Friends Provident UK IFRS result.

A one-off benefit to the results of £14 million reflects improvements to the modelling of income protection expenses and of the charging structure applied to ex-employees in group pension schemes together with other small improvements.

Other one-off items include a £10 million provision release relating to the renegotiation of FPLP with-profits scheme expenses. Under the demutualisation scheme the amount of expenses that can be recovered from the with-profits fund is capped. A renegotiation of this cap, resulting in a 2% increase, has resulted in a £10 million release from the provision.

Friends Provident UK operating expenses

	2010 £m	2009 £m
Acquisition	**96**	107
Maintenance	**81**	97
Development	**20**	15
Other	**2**	4
Total	**199**	223

Friends Provident UK operating expenses, which exclude commission payments and non-recurring costs, have been further reduced in 2010 to £199 million for the Friends Provident business alone and continue the progress made on reducing the operating cost base in the last two years.

In 2010, development costs of £20 million include the development of the Corporate Investment Platform, a core element of the corporate pensions positioning in support of the strategic objectives, and the distribution arrangement for protection products with Tesco bank.

Business review: operating segment results

AXA UK Life Business

The pro forma results shown below for the full year 2010 and 2009 have been prepared on a post acquisition basis and assume constant economic and demographic assumptions over the period from 1 January 2009. The results, therefore, do not include the impact of changes to the longer term investment rate in the prior year or the impact of amortisation of deferred acquisition costs pre-September 2010. The pro forma results have been presented excluding both the WLUK business, yet to be acquired, as well as the GOF and TIP portfolios which are held for sale.

AXA UK Life Business IFRS based operating profit

The results for the AXA UK Life Business are only reflected in the Group's statutory results from the acquisition date, 3 September 2010. The following analysis compares the IFRS based operating results of the AXA UK Life Business on a standalone pro forma basis for the years ended 31 December 2010 and 2009.

Details of pro forma AXA UK Life Business operating profit are set out below.

	2010 4 months £m	**2010 12 months £m**	2009 12 months £m
New business strain	**(24)**	**(80)**	(85)
In-force surplus	**85**	**244**	207
Investment return and other items	**11**	**36**	39
Principal reserving changes and one-off	**-**	**-**	-
Development costs	**(1)**	**(3)**	(3)
IFRS based operating profit before tax	**71**	**197**	158

AXA UK Life Business new business strain and in-force surplus

Details of new business strain and in-force surplus for the main UK product areas are as follows:

	2010 12 months		2009 12 months	
	New business strain £m	**In-force surplus £m**	New business strain £m	In-force surplus £m
Protection	**(72)**	**116**	(74)	114
Pensions	**(19)**	**37**	(24)	30
Annuities	**11**	**21**	13	16
Investments	**-**	**22**	-	21
With-profits	**-**	**48**	-	26
Total	**(80)**	**244**	(85)	207

New business strain fell in the year from £85 million in 2009 to £80 million in 2010 with reduced volumes across the majority of products lines.

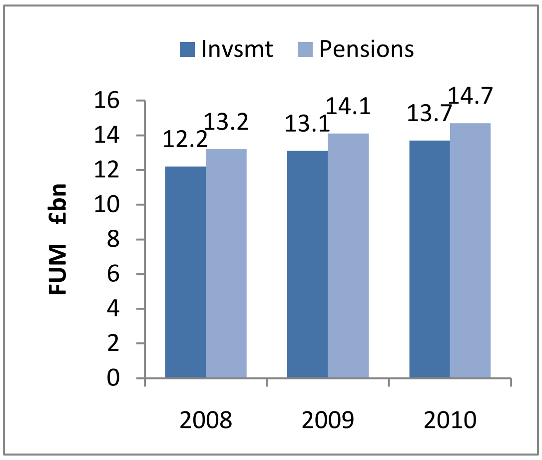
The full benefits of the FSA's Policy Statement PS06/14 in terms of utilisation of negative reserves have yet to be realised in the AXA UK Life Business acquired. This will impact 2011 and beyond.

Business review: operating segment results

Pensions strain has fallen by £5 million and is largely driven by the AXA UK Life Business ceasing to write commission paying pension products resulting in an associated fall in variable acquisition expenses.

In-force surplus increased year on year to £244 million principally as a result of the stronger stock market and a one-off transfer of £16 million in respect of the shareholder's share of the special bonus declared by FLC following the results of the 31 December 2010 inherited estate testing.

Investments and pensions surplus increased due to improved stock market conditions offsetting the run-off of the in-force business.



Investment return and other items

Longer-term return on life and pension shareholder funds was £36 million in the year, a fall of £3 million from 2009. The marginal change in investment return reflects changes to the mix of shareholders' fund assets. The acquired companies held a number of strategic AXA equities during 2009 and the first eight months of 2010. These were disposed of as part of the acquisition of FASLH and largely invested in cash holdings generating lower returns.

Operating expenses

	2010 12 months £m	2009 12 months £m
Acquisition	**102**	123
Maintenance	**172**	156
Development	**3**	3
Total	**277**	282

UK operating expenses, which exclude commission payments and non-recurring costs, remained largely flat at £277 million over 2010.

Acquisition expenses reduced following the closure of legacy pensions to new business in the fourth quarter of 2009. In addition 2009 acquisition costs include the AXA UK retained bancassurance sales force. Post acquisition, certain of these costs have been replaced with commission payments to AXA UK which are not included as initial expenses.

Maintenance expenses have increased temporarily largely due to increased service costs before integration synergies, including VAT on AXA UK provided services. In addition there is a transfer of overhead costs from period to period between maintenance and acquisition. This is driven by reduced new business volumes which in turn means that a higher proportion of acquisition expenses are allocated to the in-force book.

Friends Provident UK MCEV operating profit

	2010 12 months £m	2009 12 months £m	2009 2 months £m
Value of new business	**26**	26	-
Expected existing business contribution	**143**	163	26
Operating experience variances	**43**	(68)	(12)
Operating assumption changes	**(41)**	11	1
Other operating variances	**62**	8	-
Development costs	**(20)**	(16)	(3)
Life and pensions covered business operating profit before tax	**213**	124	12
Other income and charges	**6**	3	-
Operating profit before tax	**219**	127	12

Friends Provident UK contributed operating profit of £213 million in the year to 31 December 2010 (2009: £127 million). Adjusting for the impact of a short term persistency provision of £64 million in 2009 and the significant one-off operating variances shown above in 2010 demonstrates an underlying fall in operating profit which is largely due to operating assumption changes in 2010 for improved annuitant mortality.

Sales across the UK are marginally down on 2009 to £391 million APE (2009: £407 million).

	Value of new business		**PVNBP margin**	
	2010 12 months £m	2009 12 months £m	**2010 12 months %**	2009 12 months %
UK corporate (principally group pensions)	**5**	11	**0.3**	0.7
UK individual (principally individual protection)	**(1)**	(8)	**(0.4)**	(1.7)
Annuities	**22**	23	**9.0**	9.8
UK total	**26**	26	**1.2**	1.1

The market for group pensions remains challenging with levels of incremental business remaining depressed (relative to long-term trends), although stable, in the current UK economic climate but the profitability of new business reduced due to a change in the timing of tax relief attributable to new business acquisition costs.

For UK individual business, individual protection sales for the period of £36 million APE are down 13% on sales in 2009. The protection market is still subdued and reflects the poor economic conditions and low housing transaction levels. This situation is not expected to improve in the near term. Price levels as a result are very competitive with the value of protection new business remaining negative but improved in 2010 as the focus on lowering the acquisition expense levels more than offsets the reduction in volumes.

Business review: operating segment results

The majority of the Group's value of new business is contributed by annuities, with the contribution in 2010 of £22 million marginally down compared to 2009. The annuity contribution was adversely affected by a £3 million strengthening of the base mortality and longevity improvements assumptions which follows the alignment of the Friends Provident and AXA annuity bases. The effects of volume growth partially offset this as annuity sales increased by 4% in 2010. Annuity sales peaked in the first half of the year following changes in minimum retirement age from 50 to 55, which took effect from 5 April 2010.

Expected existing business contribution

The expected existing business contribution for Friends Provident UK includes the expected return on the value of in-force business, the expected return on shareholders' net assets and an allowance for the release of non-hedgeable risk.

The expected return on the value of in-force has fallen due to the lower long term rates of return applied to corporate bonds backing the annuity business and lower investment income following dividend payments to holding companies, as set out below.

	Rates of return	
	2010	2009
	%	%
Reference rate	**1.01**	2.00
Best estimate returns:		
Corporate bonds	**2.98**	4.74
Equity	**7.30**	6.50
Property	**6.30**	5.50

Operating experience variances

Positive operating experience variances of £43 million arose in the period as follows:

- mortality and morbidity experience has resulted in a positive variance of £30 million in the year with claims on protection products at levels below long term expectations;
- £12 million release of a historic tax provision held by Friends Provident as reported at the 2010 interim results; and
- positive expense experience of £4 million in 2010 as incurred expenses were lower than assumed offset by other negative variances totalling £3 million.

In 2009 the UK business experienced a worsening in persistency experience with more policies going off the books than had been assumed. At that time it was anticipated that this would be a short term impact over a period of two years as the economy moved out of recession. As a result, a provision of £64 million gross of tax was set up in the 31 December 2009 MCEV results. In 2010, adverse persistency has continued at levels higher than the long term expectation, in particular in respect of unit-linked pensions business. However, this adverse experience is within the level provided for at 31 December 2009. In aggregate, £27 million of the provision has been utilised to offset this experience and £37 million remains to be offset against further variances in 2011.

Operating assumption changes

Operating assumption changes total £41 million in the year (2009: £11 million).

In light of emerging industry and in-house views, in particular new mortality projections, and as part of the harmonisation of assumptions across the Group, the assumptions regarding future rates of annuitant mortality improvement have been strengthened for the Friends Provident UK business. The minimum annual rates of improvement have been increased in both IFRS and MCEV with a £47 million adverse effect on the Friends Provident UK MCEV result.

Other positive operating assumption changes of £6 million relate to changes to persistency and operational assumptions underlying the time value of options and guarantees.

Other operating variances

Other operating variances of £62 million (2009: £8 million) comprise a number of positive methodology and modelling enhancements.

Modelling enhancements totalling £14 million have benefitted the 2010 results. Of this, £9 million relates to the inclusion of variable charging structures in the modelling of group pensions business. The remaining £5 million benefit relates to the improved modelling of corporate pensions persistency.

Methodology changes amounted to £41 million, largely due to a change in the timing of modelled tax relief on group pensions business which has resulted in a £26 million benefit to the results. In addition to this the attribution of required capital across the UK, International and corporate segments has been updated, creating a £12 million benefit in the Friends Provident UK business with offsetting adverse impacts relating to the cost of capital in the International (£2 million) and corporate segment (£10 million).

The remaining balance of £7 million relates to a number of smaller modelling and methodology changes.

Business review: operating segment results

AXA UK Life Business post acquisition MCEV operating profit

The results of the AXA UK Life Business for the post acquisition period are presented below on a MCEV basis. Results for the period prior to acquisition are not included as the acquired companies did not prepare their results on a market consistent embedded value basis prior to acquisition.

	2010 4 months £m
Value of new business	**(7)**
Expected existing business contribution	**67**
Operating experience variances	**(6)**
Operating assumption changes	**-**
Other operating variances	**34**
Development costs	**(1)**
Life and pensions covered business operating profit before tax	**87**
Other income and charges	**-**
Operating profit before tax	**87**

The post acquisition operating result of the AXA UK Life Business was £87 million and principally reflects the expected return from the in-force book. Details of the loss on new business of £7 million are shown below.

	Value of new business 2010 4 months £m	PVNBP margin 2010 4 months %
UK corporate (group pensions)	**(10)**	**(4.8)**
UK individual (predominantly protection)	**(1)**	**(0.4)**
Annuities	**4**	**8.0**
UK total	**(7)**	**(1.1)**

The VNB generated by corporate business mainly represents new members joining existing schemes, as new schemes are no longer being actively sold on the AXA UK Life Business platforms following its acquisition by Friends Provident. Maintenance expense assumptions are also temporarily impacted by the limited reduction of the corporate cost base in advance of integration activity in 2011.

Individual business is predominantly protection business where the market continues to be very competitive. The traditional trigger for purchases, housing transactions, continues to remain at low levels. Price levels as a result are very competitive. Also within the UK individual segment, investment bond sales of £20 million contributed £5 million of VNB, representing a tail of business sold through IFAs following acquisition, and the temporary sales via the AXA UK bancassurance channels. Volumes reduced following the separation from the AXA wealth management IFA sales force, with future bancassurance volumes also expected to reduce as the investment bond becomes a non-core product for the AXA UK Life Business.

Annuity sales of £5 million in the post acquisition period have contributed £4 million to the AXA UK Life Business result and reflect the vesting of in-force pension policies.

Business review: operating segment results

Expected existing business contribution

The expected existing business contribution for the AXA UK Life Business includes the expected return on the value of in-force business, the expected return on shareholders' net assets and an allowance for the release of non-hedgeable risk. The opening value of in-force business was £1.9 billion at acquisition. The rates are set out in the table below.

	Rates of return 30 September 2010 %
Reference rate	**1.05**
Best estimate returns:	
Corporate bonds	**2.77**
Equity	**6.10**
Property	**5.10**

Operating experience variances

Negative operating experience variances amounting to £6 million arose in the period and include:

- a £5 million charge relating to worse than expected persistency incurred in the post acquisition period. The year end results include a provision for future corporate pension lapses, although this has not been utilised in the four month period. The increase in lapses in the last four months of the year is not significant enough to cause a revision in the long-term rate of discontinuance assumed;
- mortality experience resulting in a negative variance of £3 million in the period. The small impact arises from a number of lines of business and again no changes to the long-term mortality assumptions are required. In addition, the use of reinsurance arrangements is anticipated to ensure mortality variances are small; and
- other favourable variances totalling £2 million including an accumulation of smaller operational experience items.

Operating assumption changes

The businesses' operating assumptions were set on acquisition and there has been no cause for these to be amended at the year end.

Other operating variances

Following various management actions including a review of the tax asset relating to the re-attributed inherited estate, there has been a £21 million increase in MCEV operating profit.

In addition, £13 million relates to ongoing review of systems and processes.

Business review: operating segment results

b) International operating segment

	2010 12 months £m	2009 12 months £m
APE	**238**	192
VNB	**43**	47
IFRS operating profit	**95**	57[(i)]
MCEV operating profit	**69**	18
PVNBP margin	**3.0**	4.3
IRR	**15.4%**	14.4%

(i) restated

International benefited from an improvement in customer confidence across the majority of its markets, impacting both new business volumes and profits and cash from the back book of business. International sales volumes were up 24% to £238 million (2009: £192 million), and IFRS operating profit rose by 66% to £95 million (a rise of 12% excluding the impact of principal reserving changes and one off items). MCEV profits also improved as the negative experience variances of 2009 were not repeated.

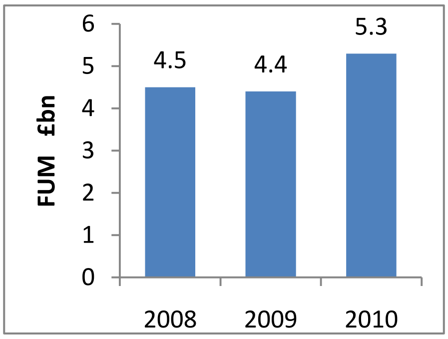
International IFRS operating profit

	2010 12 months £m	2009 12 months £m	2009 2 month result £m
New business strain	**(28)**	(23)	
In-force surplus	**120**	97	
Investment return and other items	**3**	3	
Principal reserving changes and one-off items	**2**	(26)	
Share of results of AmLife Insurance Berhad	**4**	11	
Development costs	**(6)**	(5)	
IFRS based operating profit before tax	**95**	57	9

International generated operating profits of £95 million in 2010 with the result reflecting the strong increase in fee generation as improved global investment markets increased assets under management.

International new business strain and in-force surplus

The level of new business strain has increased in the year in line with, and driven by, the 24% increase in new business volumes. The impact on strain was mitigated by the impact of acquisition expenses before commissions, which are less variable, rising by only 7%.



The surplus generated from existing business improved to £120 million in the year and principally reflects the increased size of the in-force book. As the business (excluding Overseas Life Assurance Business "OLAB") is largely unit-linked, investment values are a significant driver of profit via annual management charges. Funds under management for the business grew 16% in 2010, which has been achieved through net cash inflows of £0.6 billion, positive investment market growth and favourable exchange rate movements. The broad combination of these factors has resulted in higher levels of annual management charges generated over the year.

Business review: operating segment results

Principal reserving changes and one-off items

In 2010 a small positive of £2 million reflects a number of modelling improvements. The 2009 result was adversely affected by a £20 million expense reserve set up in respect of the growing German business, of which £3 million was released in 2010.

AmLife Insurance Berhad

AmLife, the 30% owned Malaysian associate, performed well over the year. The business, which mainly distributes through bancassurance and tied agency sales channels delivered sales of £10 million APE (FPH share) up 8% on 2009. The IFRS results are distorted by certain one-off items which principally comprise a positive £6 million item in 2009 reflecting a one-off regulatory reserve change, and a £6 million negative in 2010 reflecting a change in valuation methodology for a particular product. The underlying progression of operating profit year on year is positive.

International operating expenses

	2010 12 months £m	2009 12 months £m
Acquisition	**28**	26
Maintenance	**22**	20
Development	**6**	5
Other	**1**	-
Total	**57**	51

International operating expenses, which exclude commission payments and non-recurring costs have increased to £57 million from £51 million in 2009.

Expenses were constrained in 2009 in the face of recessionary impacts on new business volumes. The increase in 2010 largely reflects the reinstatement of proposition and regional infrastructure spend deferred from 2009 to develop propositions and distribution capabilities as well as volume driven increases in acquisition expenses and growth of the in-force book increasing maintenance expenses. The largest single item in 2010, development expenditure, relates to the costs of improving the underlying global international policy administration platform and costs related to the ongoing development of the German business.

Business review: operating segment results

International MCEV operating profit

	2010 12 months £m	2009 12 months £m	2009 2 months
Value of new business	**43**	47	9
Expected existing business contribution	**29**	23	5
Operating experience variances	**12**	(21)	(6)
Operating assumption changes	**(2)**	(8)	–
Other operating variances	**(7)**	(18)	–
Development costs	**(6)**	(5)	(2)
Life and pensions covered business operating profit before tax	**69**	18	6
Other income and charges	**(1)**	-	–
Operating profit before tax	**68**	18	6

The International business delivered an increase in MCEV operating profit to £69 million (2009: £18 million), reflecting positive experience on the back book of business, from both persistency and expenses, although the value of new business and in-force was impacted by modelling improvements, instigated by management, to better reflect the underlying profitability of the business written.

	Value of new business		**PVNBP margin**	
	2010 12 months £m	2009 12 months £m	**2010 12 months %**	2009 12 months %
FPIL	**27**	31	**2.3**	3.6
OLAB	**12**	12	**6.7**	7.6
AmLife	**4**	4	**6.5**	6.8
International total	**43**	47	**3.0**	4.3

New business sales increased across all key territories and in total finished 24% up on 2009, reflecting improved customer confidence. This is particularly evident in the Asian and European markets where sales in Singapore and Hong Kong were up 51% and 16% respectively and sales in Germany grew by 15%.

The value of new business reduced as a result of the improvement and strengthening of internal models and operating assumptions in the period, with a corresponding impact on margins, but now reflects a more robust view of current profitability. In addition, increased volumes were offset by the impact of some margin compression reflecting both changes in mix and competitive market pressures.

Friends Provident's 30% share of AmLife VNB in the period has remained consistent with that delivered in 2009 whilst margins have been impacted by lower bond yields.

Expected existing business contribution

The expected existing business contribution of £29 million has increased year on year due to the growing size of the in-force book, a reduction in the cost of non-hedgeable risk and as the best estimate returns applied to the opening value of in-force business more than offset the decrease in reference rate.

Business review: operating segment results

	Rates of return	
	2010	2009
	%	%
Reference rate	**1.01**	2.00
Best estimate returns:		
Corporate bonds	**2.98**	4.74
Equity	**7.30**	6.50
Property	**6.30**	5.50

Operating experience variances

Positive operating experience variances of £12 million have benefitted the 2010 result (2009: £21 million negative), demonstrating an improved operational performance over the year with positive experience in persistency, mortality and levels of fund rebates. Experience includes the full release of the £6 million recessionary provision set aside at 31 December 2009 to cover short-term adverse persistency as a result of the recent recessionary conditions. This provision has not been fully utilised in 2010, but has been fully released due to the improvements in market conditions and the positive impact of management actions on persistency.

Operating assumption changes

£2 million net adverse operating assumption changes reflects the impact of stronger assumptions with regard to investment expenses, offset by positive changes across persistency and mortality, as a result of improved experience. In 2009, an £8 million net charge reflected the set up of a £20 million reserve for OLAB expenses, and the set up of a £6 million short term recessionary provision for persistency, offset by positive changes relating to longer-term persistency assumptions.

Other operating variances

Other operating variances amounting to negative £7 million (2009: £18 million negative) have been incurred in the year. The principal impact relates to enhancements to internal models and methodology changes following internal review. This resulted in a £22 million charge to the International operating result.

Partially offsetting the above changes was a £10 million benefit from changes to the cost of non-hedgeable risk methodology to reflect more accurately operational risk and related capital requirements.

c) Lombard operating segment

	2010	2009
	12 months	12 months
	£m	£m
APE	**302**	274
VNB	**83**	60
IFRS operating profit	**33**	16[(i)]
MCEV operating profit	**162**	87
PVNBP margin	**2.7**	2.2
IRR	**26.7%**	18.8%

(i) restated

2010 was a particularly strong year for Lombard. The business achieved record results, with an emphasis on significantly improving underlying cash generation and distributable profits, whilst growing the contribution from new business by 38%.

Business review: operating segment results

Lombard has continued the positive sales momentum generated at the end of 2009 with volumes up 10% (15% in local currency) in the year to 31 December 2010. In this period management has successfully spread sales across the year which differs from the predominantly fourth quarter weighted sales profile of previous years.

MCEV operating profit nearly doubled benefitting from the strength of VNB, increased funds under management and the one off effect of internal corporate restructuring resulting in a lower effective tax rate, offsetting the adverse impact of a short-term increase in lapses in Spain.

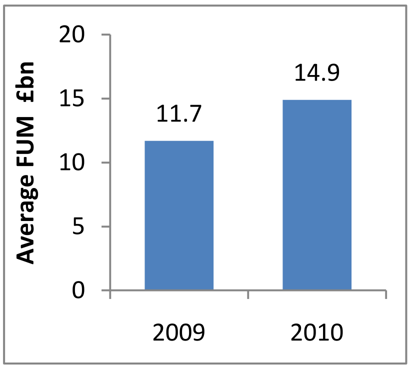
Lombard IFRS operating profit

	2010 12 months £m	2009 12 months £m	2009 2 months £m
New business strain	**(28)**	(29)	
In-force surplus	**66**	55	
Investment return and other items	**(4)**	(6)	
Principal reserving changes and other one-off items	**-**	(2)	
Development costs	**(1)**	(2)	
IFRS based operating profit before tax	**33**	16	4

Lombard generated operating profits of £33 million, up £17 million from 2009. The result highlights the focus on shareholder cash resource generation and IFRS profitability, with the enhancements made to products and distribution contributing to a reduction in new business strain notwithstanding increased sales.

Lombard new business strain and in-force surplus

New business strain is marginally down on 2009 and compares well in a period when volumes have grown 10% (15% in local currency).



In-force surplus has principally benefitted from the growth in the existing book of business. The increase in charges generated from the in-force book has increased both as a result of investment market growth but also as a result of the significant sales volumes brought onto the book at the end of 2009 and through the first half of 2010. As a result average funds under management have increased significantly from £11.7 billion in 2009 to £14.9 billion in 2010. In addition to this growth of the in-force book, Lombard has been able to control maintenance expenses, with these remaining at a similar level to the previous year.

Business review: operating segment results

Lombard operating expenses

	2010 £m	2009 £m
Acquisition	**47**	44
Maintenance	**15**	19
Development	**1**	2
Other	**2**	1
Total	**65**	66

The operating expenses of Lombard, which exclude both commission payments and non-recurring costs, are set out in the table above. Operating expenses are marginally lower than 2009 with acquisition and maintenance expenses tightly controlled in conditions of positive sales growth and increased scale of the in-force book.

Lombard MCEV operating profit

	2010 12 months £m	2009 12 months £m	2009 2 months £m
Value of new business	**83**	60	43
Expected existing business contribution	**38**	28	4
Operating experience variances	**(17)**	(8)	(7)
Operating assumption changes	**20**	(7)	-
Other operating variances	**39**	16	-
Development costs	**(1)**	(2)	-
Life and pensions covered business operating profit before tax	**162**	87	40
Other income and charges	**-**	-	-
Operating profit before tax	**162**	87	40

On a MCEV basis, Lombard contributed operating profit of £162 million in the year (2009: £87 million) as the business improved the value of in-force business whilst also benefitting from higher expected existing business contribution and positive operating variances.

	Value of new business		PVNBP margin	
	2010 12 months	2009 12 months	**2010 12 months**	2009 12 months
	£m	£m	**%**	%
Lombard	**83**	60	**2.7**	2.2

Lombard new business contribution of £83 million has significantly increased in 2010 driven principally by a 10% (15% in local currency) increase in annual sales whilst acquisition costs have been maintained at a level comparable to 2009.

Sales volumes have benefited from an increased marketing effort and returning client confidence in a number of markets with particularly strong improvements in Belgium and the UK. The return in confidence is further illustrated by the increased proportion of larger cases (transactions greater than 10 million Euros) which increased from the low levels (22% of total sales) in 2009 to 30% in 2010.

These cases bring significant funds onto the administrative platform but have not diluted overall margin.

The margin levels achieved in 2010 of 2.7% have increased by 50 bps compared to last year as a result of higher volumes achieved with a lower overall acquisition cost and a lower cost of frictional items such as non-hedgeable risk.

Lombard sales volumes, which have traditionally been weighted towards the fourth quarter, have been spread more evenly across the year in 2010 facilitating operational benefits and the receipt of more in-force charges during the year.

The expected existing business contribution of £38 million is £10 million higher than the previous year with this increase principally a result of the increased value of the in-force book.

Operating experiences variances

Adverse operating experience variances of £17 million include a £19 million persistency charge relating to surrenders within the Spanish book. These surrenders have been driven by the prevailing economic conditions in the Spanish market and do not reflect a wider trend for persistency across the rest of Lombard's in-force book. Excluding these surrenders persistency experience in 2010 contributed a positive £8 million.

Lombard has as a result of tight expense management seen positive expense experience of £2 million in 2010. In addition to this mortality experience has also resulted in a £3 million benefit to the business.

Other experience variances include a charge for tax experience of £4 million and other smaller variances.

Operating assumption changes

Operating assumption changes of £20 million include an £18 million benefit from improvements to expense apportionment methodology. This has been enhanced to better allow for the progression of fixed and variable expenses across the major product classes and countries. In addition to this, updated lapse assumptions reflecting recent experience have resulted in an overall benefit of £2 million. This positive experience item incorporates a provision of £6 million against further adverse persistency in the Spanish book and reflects the value of the geographic diversification across the total book.

Other operating variances

Other operating variances of £39 million include a £32 million benefit resulting from a review of Lombard's corporate structure which has resulted in the business's intermediation service company being repatriated from Jersey to Luxembourg and the reduction in the business's tax rate from 28.59% to 23.5%.

Other operating variances also include a £7 million benefit following a reassessment of the cost of non-hedgeable risk.

d) Corporate segment

The corporate segment includes the corporate holding and principal service companies of the Friends Life group.

Corporate IFRS based operating profit

The life operating segments disclosed above have been reported excluding the contribution made by the Friends Life group corporate segment. These are shown below:

	2010 12 months £m	2009 12 months £m	2009 2 months £m
Investment return and other items	**(14)**	-	
Other	**(11)**	4	
IFRS based operating profit before tax	**(25)**	4	(5)

In the year to 31 December 2010, the corporate segment contributed a loss of £25 million. This result is driven to a large extent by the debt composition of shareholder assets.

Investment return in the year, a cost of £14 million, increased to include interest on the £700 million lower tier 2 subordinated debt issued to Resolution holding companies in September 2010 and £7 million in respect of the Friends Life group credit facility. These are partially offset by the expected return of other shareholder net assets and the expected return on the pension asset.

Other of £11 million relates to charges for the Long Term Incentive Plan (£5 million) and £6 million of other corporate costs.

Corporate MCEV operating results

The corporate business unit consists of both non-covered and covered business. The non-covered element relates to the net assets of the Friends Life group's corporate holding and service companies whilst the covered element principally represents the net debt liabilities held at the Friends Life group level.

	2010 12 months £m	2009 12 months £m	2009 2 months £m
Expected existing business contribution	**(30)**	(38)	(7)
Other operating variances	**(63)**	-	-
Life and pensions covered business operating loss before tax	**(93)**	(38)	(7)
Other income and charges	**(16)**	10	3
Operating loss before tax	**(109)**	(28)	(4)

The negative £30 million expected return includes the expected interest costs on the external STICS and lower tier 2 subordinated debt, which are held by the Friends Life group life and pensions covered business.

At 31 December 2010, the gross MCEV carrying values of the external STICS and lower tier 2 debt, including accrued interest, were £403 million and £213 million, respectively.

The £63 million of other operating variances relate to the change in the group capital policy, the resultant increase in capital held and associated cost of capital within MCEV as described in the review of the Group's MCEV results above. Whilst the additional capital required to meet the group capital policy is currently held within the life operating companies, the cost associated with the additional capital is recognised in the Friends Life group corporate segment.

Other income and charges of £(16) million include the interest payable on the lower tier 2 subordinated debt funded by Resolution holding companies, and other corporate costs, offset by the expected return on corporate assets

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Business review: principal risks and uncertainties

Principal risk and uncertainties

The Group has actively managed its risk profile during 2010. The Group's risk appetite framework drives the identification and mitigation of strategic, financial and operational risks to support the achievement of its objectives.

The formalised risk management framework which the Company has developed to guide the management of risk is further described within the Governance section of the Annual Report and Accounts. A more detailed review of the Group's exposures to market, credit, insurance and operational risks together with the framework and instruments for their management are included in the notes to the accounts.

Following is a list of the principal risks and uncertainties to which the Group was exposed to during 2010 and a description of its approach to managing these exposures:

Economic conditions

The Group is exposed to volatile and uncertain economic conditions as a result of holding a broad range of investment assets to meet the obligations arising from its insurance business. Adverse or uncertain economic conditions also impact the willingness of consumers to buy and continue to hold the Group's products.

During 2010 there was a recovery in financial markets and some reduction in volatility from the very high levels experienced in recent years, leading to improved market confidence. There have also been signs of growth in UK life insurance and pension markets. However, economic conditions remain challenging and uncertain, with extremely low levels of interest rates, volatile economic growth and insecure labour markets.

The Group's business model is designed to mitigate the impact of market conditions through measures including the matching of assets and liabilities, the use of financial instruments to reduce the volatility of returns on assets, diversification in the product portfolio, and ensuring the operating companies within the Group are robustly capitalised. The Group also actively monitors changes in the economic environment to enable proactive management of impacts to relevant markets.

The Group is aware that the impact of measures to reduce government spending in the UK and elsewhere has yet fully to feed through to the UK economy. Deterioration in, or substantially slower recovery of, the UK or other major economies throughout the world where the Group operates, could reduce the level of demand for the Group's products and services and impact its operating results. The Group continues to actively monitor these risks and will take proactive action to manage expenses and its business model in the light of economic developments.

Acquisition of target companies

The Group's business strategy is founded on the acquisition and restructuring of existing businesses in the financial services sector. Hence, a key inherent risk for the Group is the failure to identify target companies which represent a good strategic fit with its existing business and the execution of acquisitions of these targets at a price consistent with building shareholder value.

The successful enlargement of the Group's business through the acquisition of the AXA UK Life Business in September 2010 has enabled the Group to make substantive progress in building the scale of business necessary to deliver the Company's UK Life Project. Further progress has been made since the end of 2010 through completion of the acquisition of BHA, which diversifies the Group's product offering and builds market share in the group risk and individual protection markets.

Business review: principal risks and uncertainties

The Company is confident that it will achieve its targeted mid- teen returns on the UK Life Project without further acquisitions. Further acquisitions will only be contemplated if they do not dilute the returns likely to emerge from the three acquisitions already made. There is a high threshold for evaluating further acquisitions and therefore a correspondingly reduced level of acquisition risk in the execution of the Group's strategy.

Integration and restructuring

The Group is exposed to the risk of failing to integrate and successfully restructure the financial services businesses that it acquires, and to achieve project specific objectives. As expected, the AXA UK Life Business acquisition in September 2010 led to a step change in this inherent risk and the focus of the Group's activity to manage the risk. The Group has a well developed approach to managing integration risk. This is founded on:

- Preparation of its existing businesses to be ready to support growth by acquisition;
- Building capability and resilience into the resourcing model;
- Rigorous planning for the governance, control and operation of new businesses from the day of completion;
- A "100 day plan" to stabilise on an integrated basis the governance, systems and controls of the acquired business pending implementation of full integration;
- Review and analysis of the enlarged business to refocus and refine the business plans of the enlarged business focussing on "best of breed" products and distribution channels; and
- Comprehensive analysis and planning for the integration of business platforms and systems ahead of the streamlining of operations.

This rolling programme of activity will continue with the emphasis for those acquisitions completed to date on implementation of restructuring proposals and achievement of synergy benefits.

Regulatory change and compliance

The Group operates in a highly regulated financial services market both in the UK and internationally which has a significant impact/influence on both strategic decisions and on-going day-to-day management of acquired businesses. Unanticipated changes in legal requirements (including taxation) and regulatory regimes, or the differing interpretation and application of regulation over time, may have detrimental effects on the Group.

The current framework of regulation in the UK and throughout the world continues to evolve due to the national and, from a UK perspective, European requirements and in response to the wider recent turmoil in the global financial markets. It is impossible to predict the full nature of the regulatory changes which may occur in the future or the impact that such changes may have on the Group and its strategic objectives. The burden of regulatory change facing the Group's insurance businesses continues to grow with preparation being required for compliance with gender neutral pricing, Solvency II and associated tax changes, IFRS Phase II and the FSA's Retail Distribution Review.

The Group bases its business strategy on prevailing regulation and known/planned change. To mitigate the risk of legislation or regulation adversely impacting its business, the Group and its operational businesses engage with regulatory and legislative authorities and support lobbying activity conducted by relevant industry groups. The Group has processes in place to identify regulatory and legislative change and to monitor the timely implementation of new requirements.

Business review: principal risks and uncertainties

Mortality and other assumption uncertainties

The writing of life assurance and pension business by the Group's insurance businesses necessarily requires the setting of assumptions for future experience of factors such as mortality/longevity, lapse/persistency rates, valuation interest rates, credit defaults and expense levels.

During 2010 the Group continued to manage actively its mortality/longevity exposure. Longevity risk in the AXA UK Life Business was further reduced through the purchase of reinsurance. This complements the longevity hedges and reinsurance of mortality risk already in place across the Friends Life group.

The Group takes a prudent approach to evaluating the appropriate level of provisions and capital for these risks and the assumptions are subject to rigorous and on-going review. However an extreme event causing a substantial change in mortality/morbidity experience could require assumptions to be recalibrated and impact the profitability, earnings and capital position of the Group. Stress and scenario testing is used to validate the appropriateness of key assumptions to single events and combinations of extreme events including economic conditions, investment performance and mortality/morbidity events. The management of these risks is covered further in the full financial statements.

Reliance on Resolution Operations LLP

The Group currently depends to a significant degree on ROL and key ROL personnel for the successful implementation of the Group's strategy, the provision of day-to-day oversight of the Friends Life group and the provision of certain other services to the Company in its role as a holding company. These services are provided in conjunction with the Board which independently approves every acquisition made by the Company and oversees the performance of ROL.

There was minimal change in the composition of the top team within ROL during 2010. However the resources of ROL have increased in order to reflect the growth in the Group's business and increased requirement for oversight of the Friends Life group.

The Company has sought to mitigate the risk of reliance on ROL by aligning the interest of the key members of the ROL team through an incentive structure which rewards the founders and staff for the capital value created on each restructuring project which the Company undertakes. There is also a formal process of evaluating the performance of ROL against the services it has contracted to provide and restrictions on the termination of ROL's contract. ROL may not terminate the agreement under which it provides services to the Company until 10 December 2013 and then only subject to providing the Company with 12 months written notice (except that the agreement may be terminated by ROL prior to December 2013 (and on shorter notice) upon a change of control of the Company and in certain other limited circumstances). Conversely, the Company is not able to remove ROL in the absence of negligence or material default or similar until 10 December 2013.

Directors' responsibility statement pursuant to Disclosure and Transparency Rule 4 (extracted from the 2010 Annual Report and Accounts)

The Annual Report and Accounts contains the following statements regarding responsibility for the financial statements and the business review included in the Annual Report and Accounts.

"Each of the Directors of the Company confirms that to the best of their knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group as a whole; and

(b) the business review included in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group as a whole, together with a description of the principal risks and uncertainties that they face."

IFRS Financial Information

Consolidated income statement

For the year ended 31 December 2010

	Notes	**2010[ii]** **£m**	As restated 2009[iii] £m
Revenue			
Gross earned premiums	3	**1,288**	133
Premiums ceded to reinsurers	3	**(241)**	(15)
Net earned premiums	3	**1,047**	118
Fee and commission income and income from service activities		**751**	126
Investment return		**8,426**	1,267
Total revenue		**10,224**	1,511
Other income	3	**891**	1,305
Claims, benefits and expenses			
Gross claims and benefits paid		**(2,004)**	(211)
Amounts receivable from reinsurers		**322**	32
Net claims and benefits paid	3	**(1,682)**	(179)
Change in insurance contract liabilities		**(891)**	129
Change in investment contract liabilities		**(5,863)**	(1,189)
Transfer to unallocated surplus		**(4)**	(3)
Movement in net asset value attributable to unit-holders		**(139)**	(31)
Movement in policyholder liabilities		**(6,897)**	(1,094)
Acquisition expenses		**(392)**	(74)
Administrative and other expenses		**(1,061)**	(167)
Finance costs		**(127)**	(20)
Total claims, benefits and expenses		**(10,159)**	(1,534)
Share of profits of associates and joint venture		**–**	5
Profit before tax from continuing operations		**956**	1,287
Policyholder tax		**(244)**	(1)
Profit before shareholder tax from continuing operations		**712**	1,286
Total tax (charge)/credit	5	**(136)**	21
Policyholder tax	5	**244**	1
Shareholder tax	5	**108**	22
Profit for the period		**820**	1,308
Attributable to:			
Equity holders of the parent[i]		**765**	1,280
Non-controlling interests		**55**	28
Profit for the period		**820**	1,308

	Notes	**2010 pence**	As restated 2009 pence
Earnings per share:			
Basic earnings per share from continuing operations	7	**81.10**	550.58
Diluted earnings per share from continuing operations	7	**80.47**	549.63
Earnings per share prior to restatement for 21 July 2010 share consolidation and rights issue:			
Basic earnings per share from continuing operations	7	**n/a**	137.09
Diluted earnings per share from continuing operations	7	**n/a**	136.86

(i) All profit attributable to equity holders of the parent is from continuing operations.

(ii) The consolidated income statement includes the results of AXA UK Life Business from the date of acquisition on 3 September 2010.

(iii) In accordance with the requirements of the 2010 IASB "Improvements to IFRSs" the Group has restated the 2009 valuation of the STICS to their acquisition fair value. This has resulted in an increase in other income and profit of £119 million.

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Equity holders of the parent £m	Non-controlling interests £m	**2010 £m**	As restated 2009 £m
Profit for the period	765	55	**820**	1,308
Actuarial (losses)/gains on defined benefit pension schemes	(46)	–	**(46)**	25
Foreign exchange adjustments[(i)]	(6)	–	**(6)**	(2)
Revaluation of owner occupied properties	–	–	**–**	1
Shadow accounting[(ii)]	(3)	–	**(3)**	(4)
Aggregate tax effect of above items	25	–	**25**	5
Other comprehensive (loss)/income, net of tax	(30)	–	**(30)**	25
Total comprehensive income, net of tax	735	55	**790**	1,333

(i) Foreign exchange adjustments relate to the translation of overseas subsidiaries.

(ii) Shadow accounting relates to revaluation of owner-occupied properties and foreign exchange adjustments on translation of overseas subsidiaries held by the with-profits fund of FPLP.

Consolidated statement of IFRS based operating profit

For the year ended 31 December 2010

	Notes	2010 £m	As restated[i] 2009 £m
Profit before tax from continuing operations	3	**956**	1,287
Policyholder tax	5	**(244)**	(1)
Returns on Group-controlled funds attributable to third parties		**(23)**	(23)
Profit before tax excluding return generated within policyholder funds		**689**	1,263
Other non-recurring items		**(787)**	(1,309)
Amortisation of acquired present value of in-force business		**364**	59
Amortisation of other intangible assets		**64**	10
Interest payable on step-up tier one insurance capital securities (STICS)		**(31)**	(5)
Short-term fluctuations in investment return		**(24)**	(12)
Operating profit before tax		**275**	6
Tax on operating profit		**16**	14
Operating profit after tax attributable to equity holders of the parent[i]		**291**	20

		2010 pence	2009 pence
Earnings per share			
Operating earnings per share	7	**30.85**	8.60
Operating earnings per share prior to restatement for 21 July share consolidation and rights issue	7	**n/a**	2.14

(i) The Group has revised the definition of IFRS based operating profit in order to reduce the impact of investment volatility on operating profit. Operating profit excludes: (a) all investment variances from expected investment return which is calculated on a long term rate of return; (b) policyholder tax; (c) returns attributable to non-controlling interests in policyholder funds; (d) significant non-recurring items; and (e) amortisation and impairment of present value of acquired in-force business and other intangible assets and is stated after deducting interest payable on STICS. Operating profit is considered to be a better measure of the performance of the Group and this measure of profit is used internally to monitor the Group's IFRS results. Further details are included in note 2.

Consolidated statement of financial position

At 31 December 2010

	Notes	2010 £m	As restated(i) 2009 £m
Assets			
Pension scheme surplus	4	**22**	38
Intangible assets	8	**5,140**	3,251
Property and equipment		**46**	47
Investment properties		**3,189**	1,546
Investments in associate and joint ventures		**32**	30
Deferred tax assets		**4**	12
Financial assets	9	**99,445**	48,315
Deferred acquisition costs		**358**	46
Reinsurance assets		**2,637**	1,972
Current tax assets		**22**	4
Insurance and other receivables		**976**	444
Cash and cash equivalents		**9,288**	5,386
Assets of operations classified as held for sale	14	**1,206**	–
Total assets		**122,365**	61,091
Liabilities			
Insurance contracts		**35,081**	12,107
Unallocated surplus		**1,098**	273
Financial liabilities:			
– investment contracts		**72,411**	40,495
– loans and borrowings	10	**1,212**	590
– amounts due to reinsurers		**1,666**	1,610
Net asset value attributable to unit-holders		**1,173**	668
Provisions		**221**	72
Deferred tax liabilities		**1,115**	535
Current tax liabilities		**11**	15
Insurance payables, other payables and deferred income		**903**	456
Liabilities of operations classified as held for sale	14	**925**	–
Total liabilities		**115,816**	56,821
Equity attributable to equity holders of the parent			
– Share capital		**4,317**	2,349
– Other reserves	11	**1,910**	1,306
		6,227	3,655
Attributable to non-controlling interests(i)		**322**	615
Total equity		**6,549**	4,270
Total equity and liabilities		**122,365**	61,091

(i) In accordance with the requirements of the 2010 IASB "improvements to IFRS", the Group has restated the 2009 valuation of the STICS to their acquisition fair value.

The financial statements were approved by the Board of directors on 23 March 2011.

Consolidated statement of changes in equity

For the year ended 31 December 2010

	Attributable to equity holders of the parent				
	Share capital £m	**Other reserves £m**	**Total £m**	**Non-controlling interests £m**	**Total £m**
At 31 December 2009 as previously reported	**2,349**	**1,187**	**3,536**	**780**	**4,316**
Prior year adjustment[(i)]	**–**	**119**	**119**	**(165)**	**(46)**
As restated at 1 January 2010	**2,349**	**1,306**	**3,655**	**615**	**4,270**
Profit for the year	**–**	**765**	**765**	**55**	**820**
Other comprehensive loss	**–**	**(30)**	**(30)**	**–**	**(30)**
Total comprehensive income	**–**	**735**	**735**	**55**	**790**
Interest paid on STICS	**–**	**–**	**–**	**(31)**	**(31)**
Dividends paid	**–**	**(144)**	**(144)**	**(7)**	**(151)**
Appropriations of profit	**–**	**(144)**	**(144)**	**(38)**	**(182)**
Tax relief on STICS interest	**–**	**9**	**9**	**–**	**9**
Shares issued in lieu of dividend	**9**	**–**	**9**	**–**	**9**
Rights issue	**1,979**	**–**	**1,979**	**–**	**1,979**
Disposals of business	**–**	**–**	**–**	**(310)**	**(310)**
Share-based payments	**–**	**4**	**4**	**–**	**4**
Treasury shares	**(20)**	**–**	**(20)**	**–**	**(20)**
At 31 December 2010	**4,317**	**1,910**	**6,227**	**322**	**6,549**

(i) Adjustment to reflect the fair value of the STICS at the date of acquisition of Friends Provident.

For the year ended 31 December 2009 (restated)

	Attributable to equity holders of the parent				
	Share capital £m	Other reserves £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2009	650	–	650	–	650
Profit for the period	–	1,280	1,280	28	1,308
Other comprehensive income	–	25	25	–	25
Total comprehensive income	–	1,305	1,305	28	1,333
Interest paid on STICS	–	–	–	(7)	(7)
Dividends paid to non-controlling interests	–	–	–	(4)	(4)
Appropriations of profit	–	–	–	(11)	(11)
Tax relief on STICS interest	–	1	1	–	1
Issue of share capital	1,699	–	1,699	–	1,699
Acquired through business combinations	–	–	–	598	598
At 31 December 2009	2,349	1,306	3,655	615	4,270

Consolidated cash flow statement

For the year ended 31 December 2010

	Notes	2010 £m	As restated 2009 £m
Operating activities			
Profit for the period		**820**	1,308
Adjusted for:			
– other income		**(891)**	(1,305)
– net realised and unrealised gains on assets at fair value		**(6,379)**	(810)
– finance costs		**127**	20
– amortisation of intangible assets		**428**	69
– depreciation of property and equipment		**4**	1
– movement in deferred acquisition costs		**(312)**	(46)
– total tax charge/(credit)		**136**	(21)
– purchase of shares and other variable yield securities		**(21,985)**	(8,828)
– sale of shares and other variable yield securities		**19,029**	7,717
– purchase of loans, debt securities and other fixed income securities		**(33,869)**	(4,082)
– sale of loans, debt securities and other fixed income securities		**34,880**	3,751
– purchase of investment properties		**(67)**	–
– sale of investment properties		**81**	46
– increase/(decrease) in insurance contract liabilities		**925**	(158)
– increase in investment contract liabilities		**7,372**	2,936
– increase in unallocated surplus		**2**	2
– decrease in provisions		**(3)**	(17)
– net increase/(decrease) in receivables and payables		**667**	(50)
Pre-tax cash inflow from operating activities		**965**	533
Tax received		**15**	11
Net cash inflow from operating activities		**980**	544
Investing activities			
Acquisition of subsidiaries, net of cash acquired		**969**	4,271
Disposal of investment securities		**–**	652
Other income, net of related costs		**–**	4
Additions to internally generated intangible assets		**(4)**	(1)
Net (additions)/disposals of property and equipment		**(1)**	3
Net cash inflow from investing activities		**964**	4,929
Financing activities			
Proceeds from issue of ordinary share capital, net of transactions costs		**1,979**	(4)
Proceeds from issue of long-term debt		**428**	–
Repayment of long-term debt		**(123)**	–
Finance costs		**(113)**	(17)
STICS interest		**(31)**	(7)
Net movement in other borrowings, net of expenses		**15**	(45)
Dividends paid to equity holders of the parent		**(135)**	–
Dividends paid to non-controlling interest		**(7)**	(3)

	Notes	**2010** **£m**	As restated 2009 £m
Net cash inflow/(outflow) from financing activities		**2,013**	(76)
Increase in cash and cash equivalents		**3,957**	5,397
Balance at beginning of period		**5,386**	1
Exchange adjustments on the translation of foreign operations		**(55)**	(12)
Balance at end of period		**9,288**	5,386

Notes to the consolidated accounts

1. Basis of preparation

The financial statements of the Company as at and for the year ended 31 December 2010 comprise the consolidated financial statements of the Company and its subsidiaries (together referred to as "the Group") and the Group's interests in associates and jointly controlled entities.

On 3 September 2010, the Company acquired all of the share capital of FASLH, a life insurance business which at that date was owned by AXA UK. The consolidated income statement therefore includes the result of this business from that date.

Under the terms of the acquisition of the AXA UK Life Business certain portfolios of business have been purchased that are currently still legally owned by AXA UK and similarly certain portfolios of business legally owned by the Group as a result of the acquisition are to be transferred back to AXA UK.

In particular, it is intended that the assets and liabilities of two portfolios of insurance contracts, the GOF and TIP business, will be transferred under the provisions of Part VII of the Financial Services and Markets Act 2000 back to AXA UK and they are therefore classified as held for sale assets and liabilities.

The WLUK book of business, which contains another book of business which has been purchased by the Group, is still legally owned by AXA UK and the Company is expected to acquire the shares of WLUK in 2011. This is contingent upon a transfer under Part VII of the Financial Services and Markets Act 2000 of AXA retained business out of WLUK and FSA approval for change of control being received. The results and net assets of WLUK have therefore not been included in these financial statements.

The 2009 comparatives include the consolidated income statement of the Company for the full year and those of Friends Provident Group Limited ("FPG") from the date of acquisition (4 November 2009).

The consolidated financial statements as at and for the year ended 31 December 2010 have been prepared in accordance with IFRS as adopted by the European Union.

The results in this preliminary announcement have been prepared in accordance with IFRS applicable at 31 December 2010 and have been taken from the Group's Annual Report and Accounts.

This preliminary announcement does not constitute the Company's statutory accounts for 2010 or 2009 but is derived from those accounts. The auditor has reported on the 2010 and 2009 financial statements and the reports were unqualified.

The presentation currency of the Group is Sterling. Unless otherwise stated the amounts shown in these financial statements are in millions of pounds sterling (£ million).

The preparation of the financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The IASB issued the following new standards, changes to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2010:

- IFRS 2: Share-based payment: group cash-settled share-based payment transactions. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It does not have an impact on the financial position or performance of the Group.
- IAS 39: Financial instruments: recognition and measurement – eligible hedged items. The amendment, which is effective from 1 July 2009, clarifies that an entity is permitted to designate a portion of the fair value change or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk. The Group has not entered into any such hedges.
- Annual improvements to IFRSs (April 2009). The Group has evaluated the impact of these annual improvements and incorporated them where appropriate. The Group has assessed that they do not have a material impact.
- IFRIC 17: Distribution of non-cash assets to owners, effective for annual periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The Group has determined that this interpretation does not have a material impact on the Group; and
- IFRIC 18: Transfers of assets from customers, effective for transfers of assets received on or after 1 July 2009. The Group has determined that this interpretation does not have a material impact on the Group.

Below is a list of new standards, changes to standards and interpretations that have been issued by the IASB with effective dates for accounting periods beginning after 1 January 2010, but where earlier adoption is permitted.

The Group has elected to only adopt the following in the financial statements for the year ended 31 December 2010:

IFRS 3 (revised) Business combinations which requires that non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation are measured at either fair value or as the present ownership Instruments’ proportionate share in the recognised amounts of the acquiree’s net identifiable assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRS.

The impact of early adopting this annual improvement for the year ended 31 December 2010 is that non-controlling interests, which do not entitle their holders to a proportionate share of net assets, previously held at principal less issue costs plus interest have been measured at their fair value. This results in a decrease in the carrying amount of the STICS of £165 million;

Amendments to IFRIC 14: Prepayments of a minimum funding requirement (amendment). The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The Group has decided to adopt this amendment early but it has no effect on the financial statements as the Group has not made any prepayments.

The Group has elected to adopt the following when they become effective.

IAS 32: Financial instruments: presentation – classification of rights issues. This amendment, effective for annual periods beginning on or after 1 February 2010, addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. This amendment will not have a material impact on the Group.

IFRS 7: Financial instruments: disclosures. This amendment is effective for annual periods beginning on or after 1 July 2011 and amends IFRS 7 to improve the disclosure requirements in relation to transferred financial assets. It also emphasises the interaction between quantitative and qualitative disclosures about the nature and the extent of risks associated with financial instruments.

IFRS 9: Financial instruments: classification and measurement. This standard reflects the first phase of the Board's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. This IFRS has not yet been endorsed by the EU. The adoption of IFRS 9 will have a material effect on the classification and measurement of the Group's financial assets and the Group will require adequate time to assess its impact.

IAS 24 (revised): Related party disclosures. The revised IAS 24 is required to be applied to annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party and provides a partial exemption for government controlled activities. This exemption is not applicable to the Group. Annual improvement to IFRSs (May 2010) – the IASB issued improvements to its IFRS in May 2010. Apart from the annual improvement that amended IFRS 3 (Revised), the other improvements and amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The Group does not expect a material impact on its financial position or performance from the annual improvements that have not been adopted.

IFRIC 19: Extinguishing financial liabilities with equity Instruments. This interpretation, effective for annual periods beginning on or after 1 July 2010, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

The financial statements comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) insofar as these requirements do not contradict the requirements of IFRS.

The Group presents its balance sheet in order of liquidity. Where applicable, for each asset and liability line item that combines amounts expected to be recovered or settled both within and beyond 12 months after the balance sheet date, disclosure of the amount due beyond 12 months is made in the respective note.

Financial assets and financial liabilities are not offset, unless there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2. Restatement of prior period figures

a) Restatement of IFRS based operating profit

IFRS based operating profit is used internally to monitor the Group's performance and is included within these financial statements to give shareholders a better understanding of the Group's underlying performance.

Operating profit is based on a longer term investment return with the impact of short-term investment fluctuations shown separately as a non-operating item. The Group has amended its definition of operating profit to exclude the impact of investment volatility in the non-profit fund. This has been recorded as a restatement of prior year figures

The table below reconciles the previous basis of IFRS operating profit for the year ended 31 December 2009 to the amended basis.

Year ended 31 December	As reported 2009 £m	Effect of restatement £m	Restated 2009 £m
Operating profit before tax from continuing operations	20	(14)	6
Tax on operating profit	10	4	14
Operating profit for the period after tax attributable to ordinary shareholders of the parent	30	(10)	20

Restatement due to adoption of amendments to IFRS 3 (revised)

The application of annual Improvements to IFRS 3 (revised): Business combinations results in certain non-controlling interests arising from the acquisition of Friends Provident being restated at fair value whereas they were previously shown at their nominal value less issue costs and interest adjustments.

This results in the equity attributable to STICS holders decreasing by £165 million at 31 December 2009. The impact of this change in accounting policy is to increase the gain on acquisition of Friends Provident recognised in the previous period by £119 million (£165 million net of deferred tax of £46 million).

The effect of the restatement on the financial statements is summarised below.

Year ended 31 December	As reported 2009 £m	Effect of restatement £m	Restated 2009 £m
Other income	1,186	119	1,305
Profit before tax from continuing operations	1,168	119	1,287
Attributable to non-controlling interests	780	(165)	615
Deferred tax liabilities	489	46	535
Equity attributable to equity holders of the parent	3,536	119	3,655

3. Segmental information

Summary

Segmental information is presented on the same basis as internal financial information used by the Group to evaluate operating performance. Segmental information relating to revenue, net income, products and services for the years ended 31 December 2010 and 31 December 2009 includes Friends Provident from 4 November 2009 and AXA UK Life Business from 3 September 2010. No segmental information is presented in respect of the year ended 31 December 2009 for the acquired AXA UK Life Business as the acquisition had not occurred at this point.

The Group's management and internal reporting structure is based on the following operating segments which all meet the definition of a reportable segment under IFRS 8:

- UK – comprising Friends Provident UK life and pensions business, the acquired AXA UK Life Business, Sesame Bankhall and, for the period prior to its disposal, Pantheon;
- International comprising FPIL, the overseas life assurance business within the UK life and pensions subsidiaries and the Group's share of AmLife; and
- Lombard.

Corporate functions are not strictly an operating segment, but are reported to management and are provided in the analysis below to reconcile the Group's reportable segments to total profit.

Operating segment information

Operating profit

Year ended 31 December 2010	**UK £m**	**Int'l £m**	**Lombard £m**	**FPH corporate £m**	**RSL corporate £m**	**Total £m**
Life and pensions operating profit	**176**	**94**	**38**	**–**	**–**	**308**
Longer-term return on shareholders' funds	**30**	**1**	**(4)**	**(14)**	**–**	**13**
Other income and charges	**2**	**6**	**–**	**(11)**	**(15)**	**(18)**
Development costs	**(21)**	**(6)**	**(1)**	**–**	**–**	**(28)**
Operating profit before tax	**187**	**95**	**33**	**(25)**	**(15)**	**275**
Tax on operating profit						**16**
Operating profit after tax attributable to ordinary shareholders of the parent						**291**
Operating earnings per share (pence)						**30.85**

Year ended 31 December 2009 (restated)	UK £m	Int'l £m	Lombard £m	FPH corporate £m	RSL[i] corporate £m	Total £m
Life and pensions operating profit	10	11	4	–	–	25
Longer-term return on shareholders' funds	4	–	–	–	–	4
Other income and charges	–	–	–	(5)	(13)	(18)
Development costs	(3)	(2)	–	–	–	(5)
Operating profit before tax	11	9	4	(5)	(13)	6
Tax on operating profit						14
Operating profit after tax attributable to ordinary shareholders of the parent						20
Operating earnings per share (pence)						8.60
Operating earnings per share prior to restatement for 21 July 2010 share consolidation and rights issue (pence)						2.14

(i) Resolution Limited

Reconciliation of operating profit before tax to profit before tax from continuing operations

Year ended 31 December 2010	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	RSL Corporate £m	Total £m
Operating profit/(loss) before tax	**187**	**95**	**33**	**(25)**	**(15)**	**275**
Non-recurring items[i]	**(121)**	**(6)**	**–**	**928**	**(14)**	**787**
Amortisation of acquired present value of in-force business	**(169)**	**(123)**	**(72)**	**–**	**–**	**(364)**
Amortisation of other acquired intangible assets	**(27)**	**(8)**	**(28)**	**(1)**	**–**	**(64)**
Interest payable on STICS	**31**	**–**	**–**	**–**	**–**	**31**
Short-term fluctuations in investment return	**28**	**2**	**1**	**(7)**	**–**	**24**
Profit/(loss) before tax excluding profit generated within policyholder funds	**(71)**	**(40)**	**(66)**	**895**	**(29)**	**689**
Policyholder tax	**244**	**–**	**–**	**–**	**–**	**244**
Returns on Group-controlled funds attributable to third parties	**23**	**–**	**–**	**–**	**–**	**23**
Profit/(loss) before tax from continuing operations	**196**	**(40)**	**(66)**	**895**	**(29)**	**956**

(i) Corporate items include £883 million in respect of the gain on acquisition of AXA UK Life Business. A further £96 million of non-recurring costs comprises £34 million of separation and integration costs in respect of the acquired AXA UK Life Business, £28 million in respect of expensed acquisition costs , £24 million in respect of Solvency II and other finance transformation costs and, £10 million of other items. Segment results also include £80 million of non-recurring items comprising recharges to the life companies for pension scheme contributions. The net impact of the recharge for the Group is nil.

Year ended 31 December 2009 (restated)	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	RSL Corporate £m	Total £m
Operating profit/(loss) before tax	11	9	4	(5)	(13)	6
Non-recurring items(i)	5	–	–	1,320	(16)	1,309
Amortisation of acquired present value of in-force business	(27)	(9)	(23)	–	–	(59)
Amortisation of other acquired intangible assets	(5)	(1)	(4)	–	–	(10)
Interest payable on STICS	5	–	–	–	–	5
Short-term fluctuations in investment return	5	(1)	–	8	–	12
Profit/(loss) before tax excluding profit generated within policyholder funds	(6)	(2)	(23)	1,323	(29)	1,263
Policyholder tax	1	–	–	–	–	1
Returns on Group-controlled funds attributable to third parties	23	–	–	–	–	23
Profit/(loss) before tax from continuing operations	18	(2)	(23)	1,323	(29)	1,287

(i) In 2009, the corporate non-recurring item of £1,305 million was in respect of the gain on acquisition of Friends Provident being the excess of the interest in the fair value of assets acquired over cost, net of acquisition costs of £16 million.

Revenue and expenses

Year ended 31 December 2010	UK £m	Int'l £m	Lombard £m	FPH corporate £m	RSL corporate £m	Elimination of inter-segment amounts[ii] £m	Total £m
Gross earned premiums on insurance and investment contracts	**3,457**	**1,063**	**3,021**	**–**	**–**	**–**	**7,541**
Investment contract premiums[i]	**(2,181)**	**(1,051)**	**(3,021)**	**–**	**–**	**–**	**(6,253)**
Gross earned premiums	**1,276**	**12**	**–**	**–**	**–**	**–**	**1,288**
Premiums ceded to reinsurers	**(240)**	**(1)**	**–**	**–**	**–**	**–**	**(241)**
Net earned premiums	**1,036**	**11**	**–**	**–**	**–**	**–**	**1,047**
Fee and commission income	**373**	**266**	**111**	**1**	**–**	**–**	**751**
Investment income	**6,477**	**569**	**1,374**	**22**	**20**	**(36)**	**8,426**
Total revenue	**7,886**	**846**	**1,485**	**23**	**20**	**(36)**	**10,224**
Other income[iii]	**8**	**–**	**–**	**883**	**–**	**–**	**891**
Inter-segment revenue	**3**	**1**	**–**	**14**	**18**	**(36)**	**–**
Total external revenue	**7,883**	**845**	**1,485**	**9**	**2**	**–**	**10,224**
Net claims and benefits paid	**(1,678)**	**(4)**	**–**	**–**	**–**	**–**	**(1,682)**
Movement in insurance and investment contract liabilities	**(4,768)**	**(694)**	**(1,292)**	**–**	**–**	**–**	**(6,754)**
Transfer to unallocated surplus	**(2)**	**(2)**	**–**	**–**	**–**	**–**	**(4)**
Movement in net assets attributable to unit-holders	**(139)**	**–**	**–**	**–**	**–**	**–**	**(139)**
Acquisition expenses	**(329)**	**(15)**	**(48)**	**–**	**–**	**–**	**(392)**
Administrative and other expenses	**(670)**	**(169)**	**(208)**	**18**	**(32)**	**–**	**(1,061)**
Finance costs	**(108)**	**(6)**	**(3)**	**(29)**	**(17)**	**36**	**(127)**
Total claims, benefits and expenses	**(7,694)**	**(890)**	**(1,551)**	**(11)**	**(49)**	**36**	**(10,159)**
Inter-segment expenses	**(3)**	**(1)**	**–**	**(32)**	**–**	**36**	**–**
Total external claims, benefits and expenses	**(7,691)**	**(889)**	**(1,551)**	**21**	**(49)**	**–**	**(10,159)**
Share of profits/(losses) of associates and joint venture	**(4)**	**4**	**–**	**–**	**–**	**–**	**–**
Profit/(loss) before tax from continuing operations	**196**	**(40)**	**(66)**	**895**	**(29)**	**–**	**956**
Policyholder tax	**(244)**	**–**	**–**	**–**	**–**	**–**	**(244)**
Shareholder tax	**99**	**7**	**21**	**(19)**	**–**	**–**	**108**
Segmental result after tax	**51**	**(33)**	**(45)**	**876**	**(29)**	**–**	**820**

(i) Accounted for as deposits under IFRS.

(ii) Eliminations include inter-segment fee income and loan interest. Inter-segment transactions are undertaken on an arm's-length basis.

(iii) includes £883 million in respect of the gain on acquisition of the AXA UK Life Business.

Year ended 31 December 2009	UK £m	Int'l £m	Lombard £m	FPH corporate £m	RSL corporate £m	Elimination of inter-segment amounts(ii) £m	Total £m
Gross earned premiums on insurance and investment contracts	746	150	1,935	–	–	–	2,831
Investment contract premiums(i)	(615)	(148)	(1,935)	–	–	–	(2,698)
Gross earned premiums	131	2	–	–	–	–	133
Premiums ceded to reinsurers	(15)	–		–	–	–	(15)
Net earned premiums	116	2	–	–	–	–	118
Fee and commission income	63	46	18	–	–	(1)	126
Investment income	713	174	380	5	4	(9)	1,267
Total revenue	892	222	398	5	4	(10)	1,511
Other income(iii)	–	–	–	1,321	(16)	–	1,305
Inter-segment revenue	2	–	5	3	–	(10)	–
Total external revenue	890	222	393	2	4	–	1,511
Net claims and benefits paid	(178)	(1)	–	–	–	–	(179)
Movement in insurance and investment contract liabilities	(512)	(197)	(351)	–	–	–	(1,060)
Transfer to unallocated surplus	(3)	–	–	–	–	–	(3)
Movement in net assets attributable to unit-holders	(31)	–	–	–	–	–	(31)
Acquisition expenses	(55)	(14)	(5)	–	–	–	(74)
Administrative and other expenses	(75)	(17)	(65)	–	(17)	7	(167)
Finance costs	(20)	–	–	(3)	–	3	(20)
Total claims, benefits and expenses	(874)	(229)	(421)	(3)	(17)	10	(1,534)
Inter-segment expenses	(3)	–	–	(7)	–	10	–
Total external claims, benefits and expenses	(871)	(229)	(421)	4	(17)	–	(1,534)
Share of profits of associates and joint venture	–	5	–	–	–	–	5
Profit/(loss) before tax from continuing operations	18	(2)	(23)	1,323	(29)	–	1,287
Policyholder tax	(1)	–	–	–	–	–	(1)
Shareholder tax	8	3	8	3	–	–	22
Segmental result after tax	25	1	(15)	1,326	(29)	–	1,308

(i) Accounted for as deposits under IFRS.

(ii) Eliminations include inter-segment fee income and loan interest. Inter-segment transactions are undertaken on an arm's-length basis.

(iii) £1,305 million in respect of the gain on acquisition, being the excess of the interest in the fair value of assets acquired over cost arising on the acquisition of Friends Provident, net of acquisition costs of £16 million. This amount has been restated to reflect the adoption of amendments to IFRS 3 (revised).

Products and services

Year ended 31 December 2010	**Protection £m**	**Investment £m**	**Annuities £m**	**Individual pensions £m**	**Group pensions £m**	**Other[(i)] £m**	**Total £m**
Gross earned premiums	**598**	**312**	**327**	**42**	**9**	**–**	**1,288**
Net earned premiums	**480**	**310**	**207**	**41**	**9**	**–**	**1,047**
Fee and commission income	**(3)**	**423**	**–**	**145**	**6**	**180**	**751**
Total external revenue	**477**	**733**	**207**	**186**	**15**	**180**	**1,798**

(i) Other includes revenue streams from Sesame Bankhall and Pantheon for the period prior to its disposal.

Year ended 31 December 2009	Protection £m	Investment £m	Annuities £m	Individual pensions £m	Group pensions £m	Other[(i)] £m	Total £m
Gross earned premiums	51	37	42	2	1	–	133
Net earned premiums	37	36	42	2	1	–	118
Fee and commission income	–	54	–	19	–	53	126
Total external revenue	37	90	42	21	1	53	244

(i) Other includes revenue streams from Sesame Bankhall and Pantheon.

Assets and liabilities

At 31 December 2010	**UK £m**	**Int'l £m**	**Lombard £m**	**FPH Corporate £m**	**RSL Corporate £m**	**Elimination of inter-segment amounts[(i)] £m**	**Total £m**
Segment assets	**96,551**	**7,184**	**17,930**	1,325	911	(1,568)	122,333
Investments in associates and joint venture	**5**	**27**	**–**	–	–	–	32
Total assets	**96,556**	**7,211**	**17,930**	1,325	911	(1,568)	122,365
Total liabilities	**91,237**	**6,814**	**17,487**	936	910	(1,568)	115,816

(i) Eliminations mainly comprise intercompany loans.

At 31 December 2009 (Restated)	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	RSL Corporate £m	Elimination of inter-segment amounts[(i)] £m	Total £m
Segment assets	39,490	5,858	15,367	575	315	(544)	61,061
Investments in associates and joint venture	7	23	–	–	–	–	30
Total assets	39,497	5,881	15,367	575	315	(544)	61,091
Total liabilities	36,718	5,386	14,865	388	8	(544)	56,821

(i) Eliminations mainly comprise intercompany loans.

Geographical segmental information

In presenting geographical segment information, segment revenue is based on the geographical location of customers. The Group has defined two geographical areas: UK and the rest of the world. AXA UK Life Business is reported as UK, as its business is entirely written and sold to customers based in the UK.

Year ended 31 December 2010	**UK(i) £m**	**Rest of the world £m**	**Total £m**
Gross earned premiums	**1,276**	**12**	**1,288**
Fee and commission income	**398**	**353**	**751**
Revenue from external customers	**1,674**	**365**	**2,039**
Investment return			**8,426**
Premiums ceded to reinsurers			**(241)**
Total revenue			**10,224**

Year ended 31 December 2009	UK £m	Rest of the world £m	Total £m
Gross earned premiums	131	2	133
Fee and commission income	85	41	126
Revenue from external customers	216	43	259
Investment return			1,267
Premiums ceded to reinsurers			(15)
Total revenue			1,511

(i) AXA UK Life Business is reported within the UK geographical segment as its business is entirely written and sold to customers based in the UK.

4. Staff pension schemes

a) Introduction

The Friends Provident Life group operates a defined scheme: the Friends Provident Pension Scheme ("FPPS"). In addition, defined contribution schemes are operated by Friends Provident, FPIL and Pensions, FPI and Sesame Bankhall. Lombard does not operate a pension scheme.

On an IAS 19 basis, a gross surplus of £66 million has been recognised in respect of the FPPS at 31 December 2010 (£59 million at 31 December 2009). The last triennial actuarial valuation as at 30 September 2008 showed a deficit on a funding basis of £65 million. To meet the deficit, a revised funding agreement was entered into in June 2010 whereby deficit reduction contributions of £20 million per annum will be made over the next four years, commencing in July 2010.

Under IFRIC 14, deficit reduction contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available after they are paid into the scheme, a liability is recognised when the obligation arises. An additional liability of £44 million has been recognised (£21 million at 31 December 2009), reflecting the 35% tax that would arise on any notional refund in respect of the resultant IAS 19 surplus of £126 million (£60 million contributions plus the current surplus of £66 million). A deferred tax asset of £16 million (2009: £16 million) has also been recognised to reflect tax relief at a rate of 27% that is expected to be available on the contributions, once paid into the scheme.

Employees of the acquired AXA UK Life Business have been placed into new defined contribution scheme service accruing after the acquisition date. The pension obligation for service accruing up to the date of the acquisition is not borne by the Group. AXA UK will continue to manage the defined benefit pension scheme in respect of deferred and existing pensioners and will be responsible for future funding of this scheme. Therefore, for the purposes of these consolidated financial statements the impact of any AXA defined benefit scheme IAS 19 deficit in so far as it relates to relevant employees acquired by the Group has been excluded.

Total schemes

The pension surplus is recognised in the statement of financial position net of 35% (2008: 35%) penal tax payable on refund.

	2010 £m	2009 £m
IAS 19 pension surplus	**66**	59
Authorised payments surplus charge at 35% of available surplus following deficit reduction contributions	**(44)**	(21)
Net pension surplus	**22**	38

Movement in IAS 19 pension surplus

	2010 £m	2009 £m
Pension surplus at 1 January	**59**	–
Acquired through business combinations	**–**	(4)
Current service cost[i]	**(13)**	(3)
Interest cost[i]	**(55)**	(9)
Expected return on pension assets	**60**	10
Augmentations and termination benefits[i]	**(3)**	(1)
Prior service credit	**–**	10
Employer contributions	**41**	10
Actuarial (losses)/gains	**(23)**	46
Pension surplus at 31 December (excluding authorised payments surplus charge)	**66**	59
Deficit reduction contributions	**60**	–
Available surplus subject to authorised payments surplus charge	**126**	59

(i) Recognised in the consolidated income statement.

Analysis of net pension surplus and related deferred tax asset

As at 31 December 2010	**Pension surplus £m**	**Deferred tax £m**
Gross IAS 19 pension surplus and related deferred tax asset	**66**	**(18)**
Irrecoverable element of deficit reduction contributions (authorised payments surplus charge on available surplus)	**(44)**	**–**
Reversal of deferred tax asset due to pension surplus arising	**–**	**18**
Tax relief available on deficit reduction contributions	–	16
Net pension surplus and related deferred tax asset	**22**	**16**

As at 31 December 2009	Pension surplus £m	Deferred tax £m
Gross IAS 19 pension surplus and related deferred tax asset	59	(16)
Irrecoverable element of deficit reduction contributions (authorised payments surplus charge on available surplus)	(21)	–
Reversal of deferred tax asset due to pension surplus arising	–	16
Net pension surplus and related deferred tax asset	38	–

Amounts recognised in the consolidated statement of comprehensive income

	2010 £m	2009 £m
Actuarial (losses)/gains	**(23)**	46
Reverse authorised payments surplus charge on opening surplus	**21**	–
Irrecoverable element of deficit reduction contributions (authorised payments surplus charge on available surplus)	**(44)**	(21)
Actuarial (losses)/gains on defined benefit schemes	**(46)**	25
Taxation	**25**	5
Actuarial (losses)/gains on defined benefit schemes after tax	**(21)**	30

Tax relief of £16 million available on deficit reduction contributions and £9 million in respect of other movements in the pension scheme are included in the aggregate tax line of the consolidated statement of comprehensive income.

5. Taxation

Tax recognised in the income statement

	2010 £m	2009 £m
Current tax		
UK corporation tax at 28%	**16**	(8)
Adjustments in respect of prior periods	**(15)**	–
Overseas taxation	**6**	–
Total current tax charge/(credit)	**7**	(8)
Deferred tax		
Origination and reversal of temporary differences	**121**	(13)
Adjustments in respect of prior periods	**8**	–
Total deferred tax charge/(credit)	**129**	(13)
Total tax charge/(credit)	**136**	(21)
Analysis:		
– policyholder tax	**244**	1
– shareholder tax	**(108)**	(22)
Total tax charge/(credit)	**136**	(21)

Policyholders' tax is tax on the income and investment returns charged to policyholders of linked and with-profits funds. Shareholders' tax is charged to shareholders on the profits of the Group. During the year legislation has been introduced to bring in a phased decrease in the rate of corporation tax commencing with a reduction to 27% on 1 April 2011 and further reductions of 1% per annum until it reaches 24% on 1 April 2014. Under IFRS deferred tax is calculated using substantially enacted rates and as such only the reduction to a 27% rate has been taken into account in the deferred tax balance.

Factors affecting tax charge for period

Year ended 31 December	2010 £m	Restated 2009 £m
Profit before tax from continuing operations	**956**	1,287
Profit before tax from continuing operations determined with reference to the standard rate of corporation tax in the UK of 28%	**268**	360
Effects of:		
– non-taxable income	**(115)**	(9)
– deductions not allowable for tax purposes	**46**	1
– tax on reserving adjustments	**7**	–
– overseas tax	**–**	(1)
– tax relief for share based payments	**–**	3
– utilisation of excess expenses brought forward	**(8)**	5
– valuation of tax losses	**(43)**	(14)
– with-profits minority interest[(i)]	**(8)**	(6)
– adjustments in respect of prior periods	**(7)**	–
– non taxable gain on acquisition	**(247)**	(369)
– reduction in corporation tax rate from 28% to 27%	**(8)**	–
– non-taxable result of Resolution holding companies	**7**	8
– policyholder tax	**244**	1
Total tax charge/(credit)	**136**	(21)

(i) This relates to tax on F&C CPT prior to de-consolidation.

6. Appropriations of profit

a) Dividends paid on ordinary shares

A final dividend in respect of 2009 of 2.72 pence per ordinary share was paid on 28 May 2010 comprising £60 million of cash and £5 million of shares issued in lieu of dividends. An interim dividend of 5.46 pence per new ordinary share (after the share consolidation and rights issue) was paid to shareholders on the register at the close of business on 8 September 2010 comprising £75 million of cash and £4 million of shares issued in lieu of dividends. As required by IAS 10: Events after the balance sheet date, dividends declared after the balance sheet date are not accrued in these accounts. Also as required by IFRS, the costs of these dividends are taken directly to reserves. Subject to the approval of shareholders at the annual general meeting on 18 May 2011, a dividend of 12.57 pence per share will be paid on 26 May 2011 amounting to £183 million. Accordingly, this amount is not reflected in these financial statements.

STICS interest

The STICS are accounted for as equity instruments under IFRS and consequently the interest on the STICS is recorded in the financial statements as though it were a dividend.

Interest on the 2003 STICS is paid in equal instalments in May and November each year at a rate of 6.875%. During the year ended 31 December 2010, interest of £14 million (period ended 31 December 2009: £7 million) was paid to the 2003 STICS holders.

Interest on the 2005 STICS is paid annually in June at a rate of 6.292%, and interest of £17 million was paid on 30 June 2010.

These interest payments are shown as movements in reserves in these financial statements together with the related tax relief.

7. Earnings per share

a) Basic and operating earnings per share from continuing operations

Earnings per share have been calculated based on the profit after tax and on the operating profit after tax, attributable to ordinary shareholders of the parent and the weighted number of shares in issue. The directors consider that underlying earnings per share provides a better indication of operating performance. The earnings per share figures for 2009 have been recalculated to reflect the share consolidation and rights issue undertaken in 2010 in accordance with IAS 33: Earnings per Share. The 2009 earnings have also been restated to reflect restated profit measures as set out in note 2. In addition, to aid comparability the earnings per share figures in the voluntary disclosure made in the 2010 interim report in respect of the year ended 31 December 2009,are also presented on a pre-share consolidation and rights issue basis.

	2010 Earnings £m	**2010 Per share pence**	As restated 2009 Earnings £m	As restated 2009 Per share pence	As restated 2009[(i)] Earnings £m	As restated 2009[(i)] Per share pence
Profit after tax attributable to ordinary equity holders of the parent	**765**	**81.10**	1,280	550.58	1,280	137.09
Short-term fluctuations in investment return	**(24)**	**(2.54)**	(12)	(5.16)	(12)	(1.29)
Non-recurring items	**(787)**	**(83.43)**	(1,309)	(563.06)	(1,309)	(140.19)
Amortisation and impairment of acquired intangible assets	**428**	**45.37**	69	29.68	69	7.39
Tax credit on items excluded from operating profit	**(91)**	**(9.65)**	(8)	(3.44)	(8)	(0.86)
Operating profit after tax attributable to equity holders of the parent	**291**	**30.85**	20	8.60	20	2.14

(i) Disclosures made on a pre-share consolidation basis as included in the 2010 interim report.

b) Diluted basic earnings per share from continuing operations

	2010 £m	**2010 Weighted average number of shares number**	**2010 Per share pence**
Profit after tax attributable to ordinary shareholders of the parent	**765**	**943,284,481**	**81.10**
Dilution	**–**	**7,347,287**	**(0.63)**
Diluted profit after tax attributable to ordinary shareholders of the parent	**765**	**950,631,768**	**80.47**

	As restated 2009 £m	2009 Weighted average number of shares Number	2009 Per share Pence
Profit after tax attributable to ordinary shareholders of the parent	1,280	232,483,943	550.58
Dilution	–	400,500	(0.95)
Diluted profit after tax attributable to ordinary shareholders of the parent	1,280	243,884,443	549.63

The following table shows the earnings per share for 2009 based on restated profit after tax and the shares in issue in 2009 before the share consolidation and rights issue.

	As restated 2009 £m	2009 Weighted average number of shares number	2009 Per share pence
Profit after tax attributable to ordinary shareholders of the parent	1,280	933,670,453	137.09
Dilution	–	1,608,435	(0.23)
Diluted profit after tax attributable to ordinary shareholders of the parent	1,280	935,278,888	136.86

c) Weighted average number of ordinary shares

	2010 Actual	**2010 Weighted**
Issued ordinary shares at beginning of period	**2,412,451,145**	**2,412,451,145**
Effect of:		
– scrip dividend (final 2009)	**5,753,268**	**3,436,198**
– share consolidation	**(2,337,597,599)**	**(2,335,357,765)**
– rights issue	**1,370,315,835**	**865,193,173**
– scrip dividend (interim 2010)	**1,641,722**	**382,319**
– treasury shares	**(8,579,292)**	**(2,820,589)**
Number of ordinary shares at end of period	**1,443,985,079**	**943,284,481**

	2009 Actual	2009 Weighted	2009 Adjusted(i)
Issued ordinary shares at beginning of period	660,000,000	660,000,000	660,000,000
Effect of:			
– ordinary shares issued	1,752,451,145	273,670,453	1,752,451,145
Number of shares before share consolidation and rights issue	2,412,451,145	933,670,453	2,412,451,145
– share consolidation	–	(902,548,104)	(2,332,036,107)
– rights issue	–	201,361,594	520,285,297
Number of ordinary shares at end of period	2,412,451,145	232,483,943	600,700,335

(i) Adjusted to include impact of share consolidation and right issue.

8. Intangible assets

Movements in intangible assets during 2010 were as follows:

Year ended 31 December 2010	AVIF £m	Other £m	Total £m
Cost			
1 January 2010	**2,938**	**382**	**3,320**
Acquisition of AXA UK Life Business	**2,192**	**150**	**2,342**
Other additions	–	**4**	**4**
Foreign exchange adjustments	**(23)**	**(8)**	**(31)**
At 31 December 2010	**5,107**	**528**	**5,635**
Amortisation			
At 1 January 2010	**59**	**10**	**69**
Amortisation charge for the period	**364**	**64**	**428**
Foreign exchange adjustments	**(1)**	**(1)**	**(2)**
At 31 December 2010	**422**	**73**	**495**
Carrying amounts at 31 December 2010	**4,685**	**455**	**5,140**

Year ended 31 December 2009	AVIF £m	Other £m	Total £m
Cost			
1 January 2009	–	–	–
Acquisition of Friends Provident	2,943	363	3,306
Other additions	–	19	19
Foreign exchange adjustments	(5)	–	(5)
At 31 December 2009	2,938	382	3,320
Amortisation			
At 1 January 2009	–	–	–
Amortisation charge from date of acquisition of Friends Provident	59	10	69
At 31 December 2009	59	10	69
Carrying amounts at 31 December 2009	2,879	372	3,251

An analysis of intangible assets by significant cash generating unit ("CGU") is set out below:

At 31 December 2010	**Cost £m**	**Amortisation £m**	**Net book value £m**
UK – Friends Provident (life and pensions including Sesame Bankhall)	**1,457**	**(142)**	**1,315**
UK – AXA	**2,342**	**(86)**	**2,256**
International	**1,057**	**(141)**	**916**
Lombard	**779**	**(126)**	**653**
Total	**5,635**	**(495)**	**5,140**

At 31 December 2009	Cost £m	Amortisation £m	Net book value £m
UK – Friends Provident (life and pensions including Sesame Bankhall)	**1,457**	**(32)**	**1,425**
International	**1,052**	**(10)**	**1,042**
Lombard	**811**	**(27)**	**784**
Total	**3,320**	**(69)**	**3,251**

A detailed exercise was undertaken to identify intangible assets, categorised by CGU, as part of the acquisition of AXA UK Life Business on 3 September 2010. As a result of this review it was decided that the acquired business represented an additional CGU in its own right.

The valuation exercise excludes intangible assets related to the WLUK business that will be valued upon legal completion of the Part VII transfer which is expected to take place towards the end of 2011. The value of intangible assets related to GOF/TIP business have been excluded from intangible assets and included within held for sale assets.

The AVIF is the value attributed on acquisition to a portfolio of long-term business contracts which are in force at the date of acquisition. It represents the difference between the fair value of the contractual rights and obligations and the long-term business IFRS net assets acquired. AVIF is shown gross of policyholder and shareholder tax of £1,076 million (2009: £594 million), with the offsetting balance included in deferred taxation. The AVIF is based on the value of in-force business calculated on a market consistent embedded value basis, as detailed in the supplementary information section.

Intangible assets relating to customer relationships and distribution channels have been valued using an income approach method, specifically the Multi-period Excess Earnings Method ("MEEM"). The principle behind the MEEM is that the value of an intangible asset is equal to the present value of the after-tax cash flows attributable only to that intangible asset.

Other intangibles include in-house developed IT systems and databases which have been valued using a replacement cost approach which assess the cost of reproducing the equivalent technology in its current form.

The "AXA" brand and associated brands that existed within the acquired business have been retained by AXA and as such no value has been attributed to them.

For each type of asset, the useful economic life was determined, being the period over which the asset is expected to contribute directly or indirectly to future cash flows.

i) UK

An analysis of the intangible assets in respect of UK – Friends Provident is as follows:

At 31 December 2010	**Cost £m**	**Amortisation £m**	**Net book value £m**
AVIF	**1,304**	**(116)**	**1,188**
Distribution & customer relationships	**122**	**(18)**	**104**
Brand	**28**	**(6)**	**22**
Other	**3**	**(2)**	**1**
Total	**1,457**	**(142)**	**1,315**

At 31 December 2009	Cost £m	Amortisation £m	Net book value £m
AVIF	1,304	(27)	1,277
Distribution & customer relationships	111	(3)	108
Brand	28	(1)	27
Other	14	(1)	13
Total	1,457	(32)	1,425

An analysis of the intangible assets in respect of the acquired AXA UK Life Business is as follows:

At 31 December 2010	**Cost £m**	**Amortisation £m**	**Net book value £m**
AVIF	**2,192**	**(80)**	**2,112**
Distribution & customer relationships	**122**	**(4)**	**118**
Other	**28**	**(2)**	**26**
Total	**2,342**	**(86)**	**2,256**

ii) International

An analysis of the intangible assets in respect of International is as follows:

At 31 December 2010	**Cost £m**	**Amortisation £m**	**Net book value £m**
AVIF	**995**	**(132)**	**863**
Distribution & customer relationships	**40**	**(7)**	**33**
Brand	**9**	**(2)**	**7**
Other	**13**	**–**	**13**
Total	**1,057**	**(141)**	**916**

At 31 December 2009	Cost £m	Amortisation £m	Net book value £m
AVIF	995	(9)	986
Distribution & customer relationships	35	(1)	34
Brand	9	–	9
Other	13	–	13
Total	1,052	(10)	1,042

iii) Lombard

An analysis of the intangible assets in respect of Lombard is as follows:

At 31 December 2010	**Cost £m**	**Amortisation £m**	**Net book value £m**
AVIF	**616**	**(94)**	**522**
Distribution & customer relationships	**135**	**(25)**	**110**
Brand	**12**	**(2)**	**10**
Other	**16**	**(5)**	**11**
Total	**779**	**(126)**	**653**

At 31 December 2009	Cost £m	Amortisation £m	Net book value £m
AVIF	644	(23)	621
Distribution & customer relationships	141	(3)	138
Brand	13	–	13
Other	13	(1)	12
Total	811	(27)	784

Impairment

All identifiable intangible assets are reviewed at each reporting date to assess whether there are any circumstances that might indicate that they are impaired. If such circumstances exist, impairment testing is performed and any resulting impairment losses are charged to the income statement. As at 31 December 2010, based on an impairment review of each of the CGU's the Directors are satisfied that none of the Group's intangible assets are impaired.

9. Financial assets

The Group's financial assets are summarised by measurement category as follows:

	31 December 2010 £m	31 December 2009 £m
Fair value through the income statement	**98,768**	48,235
Loans at amortised cost	**677**	80
Total financial assets	**99,445**	48,315

a) Analysis of financial assets at fair value through the income statement

At December 2010	**With- profits £m**	**Unit- linked £m**	**Non-linked annuities £m**	**Non-linked other £m**	**Shareholder £m**	**31 December 2010 Total £m**
Shares and other variable yield securities	**8,108**	**52,003**	**–**	**241**	**8**	**60,360**
Debt securities and other fixed income securities:						
– Government securities	**6,937**	**7,644**	**659**	**716**	**189**	**16,145**
– Corporate bonds	**8,885**	**5,445**	**5,634**	**922**	**569**	**21,455**
Derivative financial instruments	**393**	**24**	**39**	**5**	**(5)**	**456**
Deposits with credit institutions	**3**	**349**	**–**	**–**	**–**	**352**
Total financial assets	**24,326**	**65,465**	**6,332**	**1,884**	**761**	**98,768**

At December 2009	With- profits £m	Unit- linked £m	Non-linked annuities £m	Non-linked other £m	Shareholder £m	31 December 2009 Total £m
Shares and other variable yield securities	2,568	27,693	–	103	8	30,372
Debt securities and other fixed income securities:						
– Government securities	3,654	1,803	424	256	173	6,310
– Corporate bonds	4,442	3,471	2,200	501	357	10,971
Derivative financial instruments	176	8	–	3	(6)	181
Deposits with credit institutions	–	375	–	24	2	401
Total financial assets	10,840	33,350	2,624	887	534	48,235

The above unit-linked column and with-profits column includes £964 million (2009: £584 million) of financial assets (£316 million of shares and £648 million of corporate bonds) relating to the minority interests in the OEICs that have been consolidated as the Group holding is 50% or more.

For unit-linked funds, the policyholders bear the investment risk and any change in asset values is matched by a broadly equivalent change in the liability.

The majority of financial assets held are readily realisable. However, included in the carrying amounts above, £87,707 million (2009: £44,852 million) is expected to be realised more than 12 months after the balance sheet date in line with the expected maturity of insurance/investment contract liabilities.

Asset backed securities (excluding those held by the linked funds) amount to £2,505 million (2009: £1,167 million) and 92% (2009: 89%) of these are at investment grade.

b) Determination of fair value hierarchy

In accordance with the requirements of IFRS 7: Financial Instruments: Disclosures, financial assets at fair value have been classified into three categories as set out below. Financial assets at fair value include shares and other variable yield securities, government securities, corporate bonds (including ABS), derivative financial instruments and deposits with credit institutions.

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

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 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 investments.

The majority of the Group's assets held at fair value are valued based on quoted market information or market observable data. Approximately 4.5% (4% excluding unit-linked assets) are based on valuation techniques where significant observable market data are not available or the price is not observable from current market transactions. However, the fair value measurement objective of these assets remains the same, that is, an exit price from the perspective of the Group.

The requirements of IFRS 7 also require financial liabilities at fair value to be categorised into Level 1, 2 or 3 hierarchies. Financial liabilities at fair value include unit-linked contracts, amounts due to reinsurers, net asset value attributable to unit-holders (non-controlling interests in the OEICs that are consolidated) and derivative financial instruments. The classifications take into account the types of inputs used to determine the fair value measurements.

For unit-linked funds this has been undertaken on a fund by fund basis. For the net asset value attributable to unit holders, this has been analysed in the same proportion as the underlying consolidated investments categorisation.

The Group has financial liabilities which contain discretionary participation features of £9,123 million (2009: £3,974 million) that form part of its with-profits funds. Products giving rise to these liabilities are mainly investment or pension contracts with a unitised with-profits element. The Group is unable to measure the fair value of these financial liabilities reliably due to the lack of a robust basis to measure the supplemental discretionary returns arising on with-profits contracts and because there is not an active market for such instruments. These liabilities have therefore been excluded from the fair value analysis below.

An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below. The table shows both the total financial assets and liabilities and the total excluding unit-linked assets and liabilities, as shareholders have no direct exposure to profits or losses on unit-linked assets (other than through investment management fees).

	Including unit-linked				Excluding unit-linked			
31 December 2010	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets held at fair value								
Shares and other variable yield securities	**48,119**	**8,892**	**3,349**	**60,360**	**7,103**	**271**	**983**	**8,357**
Debt securities and other fixed income securities:								
government securities	**16,094**	**51**	**–**	**16,145**	**8,500**	**1**	**–**	**8,501**
corporate bonds (including ABS)	**12,317**	**8,035**	**1,103**	**21,455**	**9,601**	**6,051**	**358**	**16,010**
Derivative financial instruments	**54**	**402**	**–**	**456**	**51**	**381**	**–**	**432**
Deposits with credit institutions	**351**	**1**	**–**	**352**	**3**	**–**	**–**	**3**
Total financial assets held at fair value	**76,935**	**17,381**	**4,452**	**98,768**	**25,258**	**6,704**	**1,341**	**33,303**
Financial liabilities held at fair value								
Unit-linked investment contracts	**–**	**62,492**	**–**	**62,492**	**–**	**–**	**–**	**–**
Amounts due to reinsurers	**–**	**1,666**	**–**	**1,666**	**–**	**1,666**	**–**	**1,666**
Net asset value attributable to unit-holders	**1,173**	**–**	**–**	**1,173**	**11**	**–**	**–**	**11**
Derivative financial instruments	**27**	**138**	**–**	**165**	**27**	**127**	**–**	**154**
Total financial liabilities held at fair value	**1,200**	**64,296**	**–**	**65,496**	**38**	**1,793**	**–**	**1,831**

31 December 2009	Including unit-linked Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Excluding unit-linked Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held at fair value								
Shares and other variable yield securities	25,445	207	4,720	30,372	2,283	–	396	2,679
Debt securities and other fixed income securities:								
government securities	6,297	13	–	6,310	4,507	–	–	4,507
corporate bonds (including ABS)	5,996	4,287	688	10,971	5,195	2,215	90	7,500
Derivative financial instruments	–	181	–	181	–	173	–	173
Deposits with credit institutions	343	58	–	401	–	26	–	26
Total financial assets held at fair value	38,081	4,746	5,408	48,235	11,985	2,414	486	14,885
Financial liabilities held at fair value								
Unit-linked investment contracts	–	36,410	–	36,410	–	–	–	–
Amounts due to reinsurers	–	1,610	–	1,610	–	1,610	–	1,610
Net asset value attributable to unit-holders	–	668	–	668	–	–	–	–
Derivative financial instruments	–	54	–	54	–	54	–	54
Total financial liabilities held at fair value	–	38,742	–	38,742	–	1,664	–	1,664

c) Transfers between Level 1 and Level 2

In the period, the Group has refined the methodology for classifying certain assets under the IFRS hierarchy. In the prior period, corporate bonds were classified based on the existence of recent traded prices and if none existed, by reference to credit risk. The refined classification methodology takes into account a liquidity assessment of each bond rather than a credit assessment. The liquidity assessment is based on bid/offer spreads. The impact in the period is that £2,495 million of corporate bonds have been reclassified from Level 1 to Level 2.

In addition to the reclassification of corporate bonds above £958 million of shares and other variable yield securities were transferred from Level 1 to Level 2 and £735 million (2009: £181 million) of corporate bonds, shares and other variable yield securities were transferred from Level 2 to Level 1. These movements arose from changes in the availability of current quoted prices and market activity. There were no significant transfers between Level 1 and Level 2 for other financial assets.

d) Financial instruments

The following table shows a reconciliation of Level 3 financial assets which are recorded at fair value.

	At 1 January 2010 £m	Acquisition through business combinations £m	Total gains/ (losses) in income statement £m	Purchases £m	Sales £m	Net transfer to/from Level 1 and Level 2 £m	Foreign exchange adjustments	At 31 December 2010 £m	Total gains or losses for the period included in profit or loss for assets held at 31 December 2010 £m
Financial assets held at fair value									
Shares and other variable yield securities	**4,720**	**529**	**394**	**1,100**	**(889)**	**(2,477)**	**(28)**	**3,349**	**184**
Corporate bonds (including ABS)	**688**	**213**	**180**	**216**	**(99)**	**(58)**	**(37)**	**1,103**	**139**
Total financial assets held at fair value	**5,408**	**742**	**574**	**1,316**	**(988)**	**(2,535)**	**(65)**	**4,452**	**323**

Transfers out of Level 3 arise due to availability of prices in an active market and the refinement of methodology that took place during the year.

	At 1 January 2009 £m	Acquisition through business combinations £m	Total gains/ (losses) in income statement £m	Purchases £m	Sales £m	Net transfer to/from Level 1 and Level 2 £m	Foreign exchange adjustments	At 31 December 2009 £m	Total gains or losses for the period included in profit or loss for assets held at 31 December 2009 £m
Financial assets held at fair value									
Shares and other variable yield securities	–	5,096	(927)	325	(73)	299	–	4,720	(930)
Corporate bonds (including ABS)	–	687	(9)	11	(1)	–	–	688	(9)
Total financial assets held at fair value	–	5,783	(936)	336	(74)	299	–	5,408	(939)

Transfers into level 3 arise due to prices no longer being readily available in an active market.

e) Level 3 sensitivity analysis

31 December	2010 Carrying amount £m	2010 Effect of reasonably possible alternative assumptions £m	2009 Carrying amount £m	2009 Effect of reasonably possible alternative assumptions £m
Unit-linked investments	**3,111**	**–**	4,922	–
Shares and other variable yield securities	**983**	**196**	396	79
Corporate bonds (including ABS)	**358**	**36**	90	9
	4,452	**232**	5,408	88

For unit-linked investments, the policyholders bear the investment risk and any change in asset values is matched by a broadly equivalent change in the liability. Shareholder profits from annual management charges levied on such funds will, however, vary according to the change in asset values leading to some limited investment risk.

For shares and other variable yield securities, where there is no active market the price at year end could reasonably be expected to be higher or lower by approximately 20%.

For corporate bonds, it could reasonably be expected that the current prices could be higher or lower by approximately 10% to reflect changes in the credit ratings of the underlying bonds.

f) Loans

At 31 December	2010 £m	2009 £m
Mortgage loans	**61**	3
Other loans	**616**	77
Total loans	**677**	80

Other loans include £600 million of loan assets held as a result of financial arrangements with Barclays Bank plc and Morgan Stanley. The loans which will be repaid in March 2011 are backed by collateral, which is routinely reviewed to ensure its valuation covers the loan value. As at 31 December 2010, the fair value of the collateral received from the counterparties was £645 million. No collateral receivegd from the counterparties has been sold or re-pledged. The 2009 comparative includes £68 million due from the FPPS which was repaid in 2010. The fair value of loans is considered to be the same as their carrying value.

g) Unit-linked net assets

The amounts included in the statement of financial position in respect of net assets held within unit-linked funds are as follows:

At 31 December	**2010 £m**	2009 £m
Investment properties	**1,831**	506
Shares and other variable yield securities	**52,166**	27,341
Debt securities and other fixed-income securities	**11,893**	5,042
Derivative financial instruments	**24**	8
Deposits with credit institutions	**349**	375
Other receivables	**356**	120
Cash and cash equivalents	**4,879**	3,126
Total assets	**71,498**	36,518
Other payables	**(235)**	(141)
Total unit-linked net assets	**71,263**	36,377

The impact of consolidating OEICs in which the Group has a holding in excess of 50% has been excluded from the above analysis of unit-linked net assets. However, the underlying holdings in the OEICs are included within shares and other variables yield securities.

10. Loans and borrowings

The Group's loans and borrowings are as follows:

	Coupon %	2010 £m	2009 £m
Subordinated liabilities:			
Lombard undated subordinated loans	Various	**3**	4
£162m Friends Provident Holdings (UK) plc subordinated debt due 2021(i)	12.00	**186**	–
£162m Friends Provident Group Limited subordinated debt due 2021(i)	12.00	**–**	189
Deferred consideration notes(ii)			
Series A deferred consideration notes	6.00	**300**	–
Series B deferred consideration notes	7.25-6.00	**200**	–
Debenture loans:			
Box Hill Life Finance plc securitisation notes – class A-1 due 2016(iii)	3m LIBOR +0.20	**–**	15
Box Hill Life Finance plc securitisation notes – class A-2 due 2019(iii)	3m LIBOR +0.23	**–**	100
F&C Commercial Property Trust secured bonds due 2017(iv)	5.23	**–**	219
Reinsurance:			
Lombard financial reinsurance treaty	Various	**15**	27
Friends Provident financial reinsurance treaty	3m EURIBOR +1.75	**–**	4
Friends Provident financial reinsurance treaty(v)	3m EURIBOR +3.60	**29**	–
Other:			
Acquisition finance facility(vi)	Various	**400**	–
Amounts owed to credit institutions (overdrafts)		**79**	32
Total loans and borrowings		**1,212**	590

(i) On 21 May 2009, Friends Provident exchanged £322 million of its STICS for £162 million 12%Sterling Denominated Fixed Rate Subordinated Guaranteed Notes due 2021. These notes are irrevocably guaranteed on a subordinated basis by FPLP. The subordinated debt is carried at amortised cost based on the fair value of the debt on acquisition of FPG. The carrying value of £186 million is based on £162 million principal less, capitalised issue costs of £2 million, plus a fair value adjustment arising on acquisition (less amortisation) of £26 million (2009: £29 million). On 15 December 2010, the subordinated debt was transferred to FPH in connection with a simplification of group debt capital structure, and FPH has been substituted for FPG as the principal obligor.

(ii) On 10 September 2010 the Company issued fixed rate, unsecured loan notes with an agreed principal amount of £500 million to AXA UK connection with the acquisition of the AXA UK Life Business. The deferred consideration notes constitute senior, unsecured and unsubordinated obligations of the Company. The Series A notes will be redeemed by payment of £60 million on each anniversary from issue for five years. The Series B notes will be redeemed by payment of £2.5 million on each of the first five anniversaries from issue, followed by payments of £62.5 million on each of the three anniversaries to 2018. The Series A coupon rate remains at 6% throughout the loan period. The Series B coupon rate commenced at 7.25% and reduces in incremental amounts annually to a rate of 6.66% at 29 September 2015. The rate reduces to 6.50% for the three years to 30 September 2018. The Company may at any time redeem the loan notes in full or in part. The Company has a mandatory requirement to redeem the loan notes in full or in part on occurrence of certain specified events.

(iii) On 16 December 2004 FPLP raised £380 million of core regulatory capital in the form of floating rate secured notes through a securitisation of the cash flows expected to emerge from a book of life insurance policies. Sufficient surplus emerging at 31 December 2009 allowed the notes to be repaid in full on 15 April 2010.

(iv) Following the reduction in the Group's investment in the F&C CPT on 23 April 2010 the entity is no longer consolidated by the Group. The retained holding is accounted for as a financial investment at fair value through the income statement.

(v) On 30 June 2010, FPLP entered into a financial reinsurance agreement with Munich Reinsurance Company UK Life Branch (Munich Re) which has advanced £29 million to finance new German unit-linked pension business written since 1 January 2010.

(vi) On 24 June 2010, Resolution Holdings (Guernsey) Limited and the Company entered into an acquisition finance term loan facility agreement with Barclays Bank plc and Royal Bank of Canada to fund part of the consideration payable for the AXA UK Life Business. The acquisition finance facility was issued on 13 September 2010 and has a maturity date that can be extended to 30 June 2012. The coupon rate is variable and consists of LIBOR plus a margin. The margin commenced at

2.50% and rises incrementally to 7.00% at 30 June 2012. Duration fees apply on a quarterly basis if the facility is still in force.

(vii) In addition to the loans and borrowings described above, the Group has a £500 million (2009: £300 million) multi-currency revolving credit facility with Barclays Bank plc, Royal Bank of Canada, HSBC Bank plc and The Royal Bank of Scotland plc, with Barclays Bank plc as agent, entered into on 24 June 2010. If a third party, who does not presently have control of the Group, acquires such control, the Group must notify the agent immediately. In this circumstance, the lenders are not obliged to fund utilisation and may notify the agent to cancel their commitments under the facility. This would have the effect of rendering all of their loans repayable within ten business days from the date of notice. As at the date of this report, the facility remains undrawn.

Total interest-bearing loans and borrowings are repayable as follows:

	2010 £m	2009 £m
Within one year or on demand	**586**	166
Between one and two years	**63**	10
Between two and three years	**63**	8
Between three and four years	**63**	7
Between four and five years	**63**	3
In more than five years	**374**	396
Total loans and borrowings	**1,212**	590

Included in the carrying amount above, £626 million (2009: £435 million) is expected to be settled more than 12 months after the balance sheet date.

Total interest expense for financial liabilities not measured at fair value through the income statement, which arises solely from interest-bearing loans and borrowings, is £59 million (2009: £6 million).

11. Other reserves

Other reserves included in equity attributable to equity holders of the parent are as follows:

Year ended 31 December 2010	**Capital reserve £m**	**Retained earnings £m**	**Foreign currency translation reserve £m**	**Total £m**
At 31 December 2009 as previously reported	**1**	**1,191**	**(5)**	**1,187**
Prior year adjustment(i)	–	**119**	–	**119**
1 January 2010 as restated	**1**	**1,310**	**(5)**	**1,306**
Profit for the period	–	**765**	**–**	**765**
Actuarial loss on defined benefit schemes (net of tax)	–	**(21)**	**–**	**(21)**
Tax relief on STICS interest	–	**9**	**–**	**9**
Foreign exchange adjustments (net of tax) and other items	–	**–**	**(9)**	**(9)**
Share based payments	–	**4**	**–**	**4**
Dividends	–	**(144)**	**–**	**(144)**
At 31 December 2010	**1**	**1,923**	**(14)**	**1,910**

(i) Prior year restatement of STICS increasing the gain arising on the acquisition of Friends Provident as set out in note 2.

Year ended 31 December 2009	Capital reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Total £m
At 1 January 2009	1	(1)	–	–
Profit for the period	–	1,161	–	1,161
Actuarial gain on defined benefit schemes	–	30	–	30
Tax relief on STICS interest	–	1	–	1
Foreign exchange adjustments	–	–	(5)	(5)
At 31 December 2009	1	1,191	(5)	1,187

12. Contingent liabilities and commitments

a) Contingent liabilities

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

b) Commitments

Operating leases where the Group is lessee

The Group leases a number of properties under operating leases. These leases typically run for a period of 50 years, with an option of renewal at the end of the lease. Lease terms include annual escalation clauses to reflect current market conditions.

The future minimum rentals payable under non-cancellable leases are as follows:

	2010			2009		
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
Within one year	**7**	**1**	**8**	3	1	4
Between one and five years	**17**	**1**	**18**	12	1	13
In more than five years	**26**	**–**	**26**	10	–	10
Total operating lease payables	**50**	**2**	**52**	25	2	27

Other commitments

The Group has investment property commitments of £24 million (£2009: £nil) relating to ongoing construction, renovation costs and costs of acquiring existing properties.

The Group has potential commitments of £517 million (2009: £217) million to venture capital vehicles (partnerships and similar vehicles) that allow exposure to private equity investments in UK, US and European markets. All investments are held under agreements between the private equity managers and the Group which have committed the Group to providing an agreed maximum level of funding.

The Group has entered into a number of outsourcing arrangements which have resulted in financial commitments amounting to £510 million as at 31 December 2010 (2009: £nil). The average weighted years remaining on these outsourcing contracts is 15 years as at 31 December 2010 (2009: nil years).

13. Business combinations

a) Acquisition of AXA UK Life Business

In September 2010, the Group through its subsidiary, FPH, acquired the AXA UK Life Business, a UK life and pensions business by acquiring all of the shares and voting interests of FASLH. The Group is deemed to have obtained control of the AXA UK Life Business on 3 September 2010 following satisfaction of the last of the substantive conditions to legal completion.

The share capital of WLUK was not acquired at the acquisition date. Under an option agreement between FPH and a subsidiary of AXA UK ("the subsidiary"), subject to certain conditions, FPH has the right to require the subsidiary to sell and the subsidiary has the right to require FPH to acquire the shares of WLUK. However, some of the assets and liabilities currently held by WLUK and its subsidiaries do not form part of the acquisition and will therefore need to be transferred to the AXA group before WLUK can be transferred to the Group. These transfers are proposed to be effected under Part VII of the Financial Services and Markets Act 2000. Consequently, the WLUK acquisition is not expected to be completed until towards the end of 2011 and will not be consolidated into Group accounts until this has occurred. Two other portfolios of business GOF and TIP, are currently owned by the Group, but under the terms of the AXA acquisition, will be transferred to AXA during 2011.

Under the framework agreement the net amount payable to AXA in respect of the misplaced portfolios of business is £26 million plus interest. The amount payable is subject to an adjustment to reflect the actual value of shareholder net worth in the misplaced portfolios of business at the transfer date, if it is different from the value set out in the framework agreement.

In the period from the acquisition to 31 December 2010, the AXA UK Life Business contributed revenue of £3,339 million and a profit after tax of £1 million. If the acquisition had occurred on 1 January 2010, consolidated revenue is estimated to be £6,670 million and consolidated profit after tax for the year £109 million. In determining these amounts, it has been assumed that the fair value adjustments which arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The fair value of the consideration, calculated as the sum of the fair values transferred, and liabilities incurred at acquisition is shown in the table below:

	£m
Cash paid	**2,224**
Deferred consideration notes	**500**
Fair value of consideration excluding acquisition expenses incurred at acquisition	**2,724**
Fair value of net assets acquired	**3,607**
Excess of the interest in the fair value of assets acquired over cost	**883**

The acquisition was financed by:

- a fully underwritten rights issue of £2,055 million (before transaction costs) which successfully completed on 5 August 2010;
- a certain funds acquisition finance facility of £400 million; and
- £500 million deferred consideration notes representing senior, unsecured and unsubordinated obligations of the Company issued in connection with the acquisition.

The consolidated income statement includes within administrative and other expenses £28 million of costs related to the transaction and a further £76 million has been charged against equity as it relates to the costs of raising that equity.

Identifiable assets acquired and liabilities assumed

	Recognised values on acquisition £m
Intangible assets:	
– acquired value of in-force business	**2,192**
– distribution & customer relationships	**122**
– computer software	**28**
Property and equipment	**2**
Investment properties	**2,292**
Financial assets	**43,191**
Reinsurance assets	**640**
Current tax assets	**37**
Insurance and other receivables(i)	**939**
Cash and cash equivalents	**3,193**
Assets of operations classified as held for sale(ii)	**1,122**
Total identifiable assets	**53,758**
Insurance contracts	**22,050**
Unallocated surplus	**823**
Financial liabilities:	
– investment contracts	**25,031**
– loans and borrowings	**23**
– amounts due to reinsurers	**25**
Net asset value attributable to unit-holders	**377**
Provisions	**155**
Deferred tax liabilities	**494**
Current tax liabilities	**–**
Insurance payables, other payables and deferred income	**332**
Liabilities of operations classified as held for sale (ii)	**841**
Total identifiable liabilities	**50,151**
Net identifiable assets acquired and liabilities assumed	**3,607**
Attributable to equity holders of the parent	**3,607**

(i) The gross contractual amount in respect of the receivables acquired was £971 million of which £32 million is expected to be uncollectable.
(ii) The GOF/TIP business is presented on a held for sale basis with assets and liabilities having a net fair value of £281 million.

The values of assets acquired and liabilities assumed, recognised on acquisition, are their estimated fair values.

In determining the fair value of the acquired value of in-force business, the Group applied a pre-tax discount rate to the associated cash flows for each principal CGU of 8%.

In determining the fair value of other intangibles acquired, the Group applied a pre-tax discount rates of 10% to the associated projected cash inflows for each principal CGU.
The gain of £883 million recognised as a result of the acquisition is attributable mainly to the purchase price being at a discount to the fair value of the net assets acquired (based on the market consistent embedded value) of the AXA UK Life Business. This gain is shown in other income in the consolidated income statement.

b) Acquisition of Friends Provident in prior year

On 4 November 2009, the Group through its subsidiary, FPH, acquired Friends Provident Group Limited ("Friends Provident"), a UK-listed life and pensions business by acquiring all of the shares and voting interests FPG.

In the period from the acquisition to 31 December 2009, Friends Provident contributed revenue of £1,507 million and profit after tax of £18 million. If the acquisition had occurred on 1 January 2009, consolidated revenue would have been £6,551 million, and consolidated profit after tax for the year would have been £148 million. In determining these amounts, management has assumed that the fair value adjustments which arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	As restated £m
Issue of 1,752,451,145 ordinary shares (note 7)	**1,700**
Cash paid	**312**
Fair value of purchase consideration	**2,012**
Acquisition costs incurred	**16**
Fair value of net assets acquired (restated)	**3,333**
Excess of the interest in the fair value of assets acquired over cost	**1,305**

The fair value of the ordinary shares issued was based on the listed share price of the Company at close of business on 3 November 2009 of 97 pence per share.

Disposals of subsidiaries

a) Disposal of Pantheon Financial Limited

On 19 March 2010 the Group disposed of its entire holding in 100% of the share capital of Pantheon which formed part of the UK operating segment.

Details of the transaction are as follows:

	£m
Assets and liabilities on disposal:	
– Cash and cash equivalents	**3**
– Other net assets and liabilities	**(3)**
	–
Gain included in profit from continuing operations	**–**
Consideration received	**–**
Cash and cash equivalents in disposal	**(3)**
Cash flow from disposal of subsidiary, net of cash disposed	**(3)**

b) Reduction in holding in F&C Commercial Property Trust plc (F&C CPT)

On 23 April 2010 the Group reduced its holding in F&C CPT from 50.3% to 34.15%. The retained holding has been recognised as a financial asset at fair value through the income statement. As at 31 December 2010, F&C CPT is not treated as an associate as the Group does not have significant influence over this trust. Until 23 April 2010, the F&C CPT was treated as a subsidiary and all its assets and liabilities were consolidated on a line-by-line basis. Loss of control arose when the holding was reduced resulting in de-recognition of assets and liabilities. The carrying amounts de-recognised are set out in the table below.

	£m
Assets and liabilities on disposal:	
– Investment properties	**767**
– Financial assets	**6**
– Cash and cash equivalents	**97**
– Insurance and other receivables	**(4)**
– Interest-bearing loans and borrowings	**(219)**
– Insurance payables, other payables and deferred income	**(23)**
Net assets on disposal	**624**
Non-controlling interest in assets and liabilities on disposal	**(310)**
Fair value of investment retained	**(214)**
Gain included in profit from continuing operations	**–**
Consideration received (all cash)	**100**
Cash and cash equivalents on disposal	**(97)**
Cash flow from disposal of subsidiary, net of cash disposed	**3**

14. Disposal group classified as held for sale

Two portfolios of business, GOF and TIP, are currently owned by the Group but under the terms of the AXA acquisition, will be transferred to AXA under Part VII of the Financial Services and Markets Act 2000 and are therefore classified as held for sale assets. The transfer is expected to take place during 2011.

The major classes of assets and liabilities of the GOF and TIP business as at 31 December 2010 are disclosed in the table below:

	£m
Intangible assets – AVIF	**269**
Deferred tax assets	**20**
Financial assets	**904**
Cash and cash equivalents	**13**
Assets of operations classified as held for sale	**1,206**
Insurance contracts	**21**
Investment contracts	**904**
Liabilities of operations classified as held for sale	**925**
Net assets of operations classified as held for sale	**281**

The income statement impact is consolidated on a line-by-line basis in the core financial statements. The table below shows the income statement of the held for sale business:

	£m
Gross earned premiums	**29**
Gross claims and benefits paid	**(5)**
Changes in insurance contract liabilities	**7**
Acquisition expenses	**(19)**
Administrative and other expenses	**(15)**
Profit before tax from continuing operations	**(3)**

The disposal group is included in the UK segment for the purposes of segmental reporting.

15. Related parties

In the ordinary course of business, the Group and its subsidiary undertakings carry out transactions with related parties, as defined by IAS 24: *Related party disclosures*. Material transactions for the year (period from acquisition in respect of transactions related to AXA) are set out below.

a) Key management personnel compensation

Key management personnel consists of directors of Resolution Limited and ROL.

In aggregate the compensation paid to key management is as set out below:

	2010 Number	**2010 £m**	2009 Number	2009 £m
Short-term employee benefits	**11**	**1**	7	1
Post-employment benefits (excluding defined benefit scheme)	**–**	**–**	–	–
Share based payments	**–**	**–**	–	–
Total key management personnel compensation charged to the income statement	**11**	**1**	7	1
Post-employment benefits: defined benefit schemes	**–**	**–**	–	–
Total key management personnel compensation	**11**	**1**	7	1

b) Other related parties

Transactions made between the Group and related parties were made in the normal course of business. Loans from related parties are made on normal arm's length commercial terms.

A Group company made a loan of £160 million to FPPS in 2008, of which £nil million (2009: £68 million) is outstanding at 31 December 2010.

The Company has entered into certain contracts with related parties as described below:

- An operating agreement with ROL, as a result of which the Company has outsourced most of its operating functions to ROL. This agreement has, subject to certain conditions, a minimum term of five years. Under this agreement, the Company will pay an annual fee based on the value of the Company (subject to a minimum payment of £10 million) to ROL. An amount of £13 million has been included in administrative expenses and an amount of £1 million is included in trade creditors and other payables in the financial statements in respect of amounts due to ROL;
- RCAP Guernsey LP, a partnership in which the members of ROL are limited partners, acquired shares in the Company for a consideration of £20 million in the initial public offering. The Company has entered into a lock-up deed with RCAP GP Limited, acting in its capacity as general partner of RCAP Guernsey LP, restricting the sale of the shares held by RCAP Guernsey LP for a period of three years. Following the Company's acquisition of AXA UK Life Business, a further £8 million was invested by RCAP Guernsey LP as part of the rights issue. The sale of these shares will not be restricted by the lock-up deed.
- The Company has a 99.99% interest in, and is the general partner in, Resolution Holdco No 1 LP, a Guernsey limited partnership. The limited partners in this partnership are RCAP Guernsey LP and RCAP Investments SARL. The Company has entered into the partnership agreement with these parties for the purpose of making acquisitions of financial services businesses; and
- A trade mark licence agreement with Resolution (Brands) Limited, a company wholly owned by Clive Cowdery, a partner in ROL, under which the Group has paid a fee of £100,000 in respect of each of the years commencing 4 December 2009 and 4 December 2010, with the fee increasing annually in line with the retail price index.

- ROL was involved in the provision of certain capital raising services to the Company in connection with the financing of the AXA UK Life Business acquisition. In consideration for these services the Group has paid ROL a fee of £3.75 million with a further £0.75 million payment expected in 2011. Lazard provided financial advice to the Board in connection with the terms of the appointment of ROL in respect of the financing of the acquisition and provided confirmation to the UKLA that it considered that the terms of such appointment were fair and reasonable as far as shareholders are concerned.

16. Post balance sheet events

a) Acquisition of Bupa Health Assurance Limited

FPLP completed the acquisition of BHA on 31 January 2011. The purchase price was £168 million compared to an announced price in October 2010 of £165 million. The increase in price reflects an additional £3 million of capital injected into BHA in December 2010 by British United Provident Association Limited.

The work on the acquisition balance sheet is continuing and the figures set out below should be regarded as provisional.

The MCEV as at 31 January 2011 is estimated to be approximately £226 million, of which the acquired value of in-force business is £123 million.

On an IFRS basis for the acquisition balance sheet the net assets acquired are estimated at £236 million, which would give a gain on acquisition of £68 million.

The draft IFRS acquisition balance sheet is summarised as follows:

	£m
Acquired value of in-force (£123.4 million net of deferred tax)	**172**
Other intangible assets (£6.6 million, net of tax)	**8**
Investments and cash	**173**
Current assets	**30**
Total assets	**383**
Insurance liabilities	**67**
Other liabilities	**80**
Total liabilities	**147**
Net assets	**236**

b) Reorganisation

The Group recently completed a reorganisation of its operating and service companies with all life companies now being direct subsidiaries of the shareholder fund of FPLP, a subsidiary of FPL, and both the Friends Provident and acquired AXA service companies becoming fellow subsidiaries of FPL.

Prior to the year end the listed obligations of FPG, the STICS and subordinated debt were novated from FPG, the parent company of FPL, to FPH, its parent company.

The reorganisation has enabled the Group to simplify its internal financing structure. This will ensure that existing holders of the Group's listed debt obligations are supported by all of the operating company cash flows.

c) EU Gender Directive

On 1 March 2011 the European Court of Justice ("ECJ") announced that it had upheld the ruling on gender discrimination that results in insurers not being able to use gender related information to calculate insurance premiums and benefits. The ECJ has declared that the adoption of unisex premiums and benefits will apply with effect from 21 December 2012.

A transitional period has been granted to allow insurance companies sufficient time to adjust to the new legal framework and adapt its products and pricing policies accordingly. The Group is currently assessing the impact of this recent judgment which may have a significant impact on the way that future business is underwritten.

d) Changes in rates of corporation tax

A gradual reduction in the UK corporation tax rate from 28% to 24% over four years was announced in the Emergency Budget of 22 June 2010. The Finance (No. 2) Act 2010 enacted the first of the 1% rate reductions with effect from April 2011. Subsequent reductions will be dealt with by future legislation. The benefit to the Group's net assets from the reduction in the rate is estimated as approximately £84 million in total and will be recognised as the legislation is substantively enacted.

In the budget on 23 March 2011 the Chancellor announced a reduction of a further 1% to the corporation tax rate in April 2011 (to 26%) in addition to the 1% already substantively enacted. The final corporation tax rate following all planned changes will now be 23%. Given the timing of the announcement relative to the date of approval of these financial statements it has not been possible to quantify the impact on the Group's financial statements.

e) Future tax regime applicable to life insurance companies

The Chancellor's Budget which took place on 23 March contained significant announcements in relation to the tax regime applicable to life insurance companies following the consultation, issued in March 2010, on the effect of Solvency II on the tax regime. The announcements will be followed by a further period of consultation and detailed rules will not be available until late 2011. Given the timing of the announcement and the detail which is not as yet available, it is premature to assess the impact on the deferred tax assets and liabilities recognised in the balance sheet.

MCEV FINANCIAL INFORMATION

Consolidated income statement – MCEV basis

For the year ended 31 December 2010

	Notes	**Resolution Limited** **Year ended 31 December 2010** **£m**	Resolution Limited Year ended 31 December 2009 £m	FPH Year ended 31 December 2010 £m	FPH 5 November to 31 December 2009 £m
Life and pensions					
Value of new business	6	**145**	52	145	52
Expected existing business contribution		**247**	28	247	28
Operating experience variances		**32**	(25)	32	(25)
Operating assumption changes		**(23)**	1	(23)	1
Other operating variances		**65**	–	65	–
Development costs	10	**(28)**	(5)	(28)	(5)
Life and pensions covered business operating profit before tax	3	**438**	51	438	51
Other income and charges		**(11)**	3	(11)	3
Life and pensions operating profit before tax		**427**	54	427	54
Corporate income and charges		**(15)**	(13)	–	–
Operating profit before tax		**412**	41	427	54
Economic variances	3	**229**	40	229	40
Amortisation and impairment of non-covered business acquired intangible assets	3	**(3)**	(1)	(3)	(1)
Non-recurring items and non-operating variances	3	**(22)**	5	(8)	5
Profit from continuing operations before tax		**616**	85	645	98
Tax on operating profit		**(96)**	(15)	(96)	(15)
Tax on other activities		**(60)**	1	(60)	1
Profit for the period[(i)]		**460**	71	489	84

(i) Profit for the period is attributable to equity holders of the parent.

Earnings per share – MCEV basis

For the year ended 31 December 2010

	Notes	**Resolution Limited** **Year ended 31 December 2010 pence**	Resolution Limited Year ended 31 December 2009 pence
Earnings per share			
Operating earnings per share on MCEV basis after tax, attributable to equity holders of the parent			
– Basic	4	**33.50**	11.18
– Diluted		**33.24**	11.16
Earnings per share on MCEV basis after tax, attributable to equity holders of the parent			
– Basic	4	**48.77**	30.54
– Diluted	4	**48.39**	30.49
Earnings per share prior to restatement for 21 July 2010 share consolidation:			
Operating earnings per share on MCEV basis after tax, attributable to equity holders of the parent			
– Basic	4	**n/a**	2.78
– Diluted		**n/a**	2.78
Earnings per share on MCEV basis after tax, attributable to equity holders of the parent			
– Basic	4	**n/a**	7.60
– Diluted	4	**n/a**	7.59

MCEV operating profit is from continuing operations and is based on expected investment return and excludes:

(i) amortisation and impairment of non-covered business acquired intangible assets;

(ii) effect of economic variances (including the impact of economic assumption changes); and

(iii) significant non-recurring items.

Operating profit is considered to be a better measure of the performance of the Group and this measure of profit is used internally to monitor the Group's MCEV results.

Consolidated statement of comprehensive income – MCEV basis

For the year ended 31 December 2010

	Resolution Limited	Resolution Limited	FPH	FPH
	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Year ended 31 December 2010 £m	5 November to 31 December 2009 £m
Profit for the period	**460**	71	489	84
Actuarial gains/(losses) on defined benefit pension schemes, net of tax	**(22)**	29	(22)	29
Foreign exchange adjustments	**(11)**	(3)	(11)	(3)
Other comprehensive income/(loss) for the period, net of tax	**(33)**	26	(33)	26
Total comprehensive income for the period[(i)]	**427**	97	456	110

(i) Total comprehensive income for the period is attributable to equity holders of the parent.

Consolidated statement of changes in equity – MCEV basis

For the year ended 31 December 2010

	Resolution Limited	Resolution Limited	FPH	FPH
	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Year ended 31 December 2010 £m	5 November to 31 December 2009 £m
Opening ordinary shareholders' equity	**3,488**	650	3,181	–
Acquired value of Friends Provident as at 4 November 2009	**–**	3,070	–	3,070
Cost of acquisition of Friends Provident	**–**	(2,012)	–	–
Acquired value of AXA UK Life Business as at 3 September 2010	**3,498**	–	3,498	–
Cost of acquisition of AXA UK Life Business	**(2,724)**	–	(2,724)	–
Transaction costs(i)	**–**	(16)	–	–
Total comprehensive income/(expense) for the period	**427**	97	456	110
Issue of share capital (net of capitalised expenses and treasury shares)	**1,967**	1,699	2,165	–
Dividends on equity shares	**(144)**	–	(65)	1
Share-based payments (impact on MCEV reserves)	**3**	–	3	–
Increase in MCEV reserves for the period	**3,027**	2,838	3,333	3,181
Closing ordinary shareholders' equity	**6,515**	3,488	6,514	3,181

(i) Transaction costs are included in other non-operating expenses in 2010 (£28 million in total in Resolution Limited, of which £14 million is included in FPH).

Consolidated statement of financial position – MCEV basis

At 31 December 2010

	Resolution Limited 2010 £m	Restated Resolution Limited 2009 £m	FPH 2010 £m	Restated FPH 2009 £m
Assets				
Pension scheme surplus	**22**	38	22	38
VIF covered business excluding assets of operations classified as held for sale	**3,966**	1,873	3,966	1,873
Intangible assets	**29**	29	29	29
Property and equipment	**46**	47	46	47
Investment properties	**3,189**	1,546	3,189	1,546
Investment in associates and joint venture	**27**	22	27	22
Deferred tax assets	**–**	12	–	12
Financial assets	**99,445**	48,315	99,465	48,315
Deferred acquisition costs	**119**	128	119	128
Reinsurance assets	**2,637**	1,972	2,637	1,972
Current tax assets	**22**	4	22	4
Insurance and other receivables	**1,024**	444	1,023	464
Cash and cash equivalents	**9,288**	5,386	9,057	5,073
Assets of operations classified as held for sale				
– value of in-force covered business	**236**	–	236	–
– other assets	**970**	–	970	–
Total assets	**121,020**	59,816	120,808	59,523
Liabilities				
Insurance contracts	**35,142**	12,108	35,142	12,108
Unallocated surplus	**1,090**	295	1,090	295
Financial liabilities				
– Investment contracts	**71,535**	39,868	71,535	39,868
– Loans and borrowings	**1,599**	908	1,399	908
– Amounts due to reinsurers	**1,666**	1,610	1,666	1,610
Net asset value attributable to unit-holders	**1,173**	668	1,173	668
Provisions	**221**	72	221	72
Deferred tax liabilities	**270**	37	270	23
Current tax liabilities	**11**	15	11	15
Insurance payables, other payables and deferred income	**869**	450	858	478
Liabilities of operations classified as held for sale	**925**	–	925	–
Total liabilities	**114,501**	56,031	114,290	56,045
Equity attributable to:				
– Equity holders of the parent	**6,515**	3,488	6,514	3,181
– Non-controlling interests	**4**	297	4	297
Total equity	**6,519**	3,785	6,518	3,478
Total equity and liabilities	**121,020**	59,816	120,808	59,523

Group MCEV analysis of earnings

For the year ended 31 December 2010

			FPH	Resolution Limited (ex. FPH)(i)	Resolution Limited	Resolution Limited	FPH
			Year ended 31 December 2010	Year ended 31 December 2010	Year ended 31 December 2010	Year ended 31 December 2009	5 November to 31 December 2009
	Covered business £m	Non-covered business £m	Total £m	Non-covered business £m	Total business £m	Total business £m	Total £m
Opening Group MCEV(ii)	3,047	134	3,181	307	3,488	650	–
Opening adjustments:							
capital and dividend flows	–	2,165	2,165	(186)	1,979	–	–
acquired/divested businesses							
– acquired value of Friends Provident	–	–	–	–	–	3,070	3,070
– cost of acquisition of Friends Provident	–	–	–	–	–	(2,012)	–
– acquired value of AXA UK Life Business	3,343	155	3,498	–	3,498	–	–
– cost of acquisition of AXA UK Life Business	–	(2,724)	(2,724)	–	(2,724)	–	–
– transaction costs(iii)	–	–	–	–	–	(16)	–
Adjusted opening Group MCEV	6,390	(270)	6,120	121	6,241	1,692	3,070
Operating MCEV earnings	341	(10)	331	(15)	316	26	39
Non-operating MCEV earnings	126	32	158	(14)	144	45	45
Total MCEV earnings	467	22	489	(29)	460	71	84
Other movements in IFRS net equity	–	(22)	(22)	(20)	(42)	29	29
Closing adjustments:							
capital and dividend flows	(376)	314	(62)	(71)	(133)	1,699	1
foreign exchange variances	(11)	–	(11)	–	(11)	(3)	(3)
Closing Group MCEV	6,470	44	6,514	1	6,515	3,488	3,181

(i) 'Resolution Limited (ex. FPH)' refers to the Group excluding the acquired assets of Friends Provident and the AXA UK Life Business.
(ii) The opening Group MCEV split between covered and non-covered business has been revised. See note 12.
(iii) Transaction costs are included in non-operating MCEV earnings in 2010 (£28 million in Resolution Limited, of which £14 million is included in FPH).

Notes to the MCEV results

For the year ended 31 December 2010

1. Basis of preparation

Introduction

Resolution Limited is presenting the results and financial position for its life and pensions business on the MCEV basis and for its other businesses on the IFRS basis. The MCEV basis is in compliance with the European Insurance CFO Forum MCEV Principles1 (MCEV Principles), issued in June 2008, and re-issued in amended form in October 2009.

On 3 September 2010, the Company acquired all of the share capital of FASLH, a life insurance business which at that date was owned by AXA UK. The consolidated income statement therefore includes the result of this business from that date subject to the following exceptions. Under the terms of the AXA UK Life Business acquisition certain portfolios of business will be purchased that are currently still legally owned by AXA UK and similarly certain portfolios of business legally owned by the Group as a result of the acquisition are to be transferred back to AXA UK.

In particular, it is intended that the assets and liabilities of the GOF and "TIP businesses will be transferred under the provisions of Part VII of the Financial Services and Markets Act 2000 back to AXA UK and they are therefore classified as held for sale assets and liabilities.

WLUK is still legally owned by AXA UK and control is expected to pass to the Company in 2011. This is contingent upon a transfer under Part VII of the Financial Services and Markets Act 2000 of AXA retained business out of WLUK and FSA approval for change of control being received. The results and net assets of WLUK have therefore not been included in these financial statements.

The acquisition of BHA at a cost of £168 million completed on 31 January 2011. No contribution from BHA is included in the MCEV results for Resolution Limited at 31 December 2010.

This MCEV supplementary information presents results for Resolution Limited and FPH, including the results for Friends Provident and the AXA UK Life Business from the dates of the respective acquisitions.
The comparative MCEV results for the period ended 31 December 2009 include:

- results for Resolution holding companies for the full year to 31 December 2009; and
- results for the acquired Friends Provident businesses for the post acquisition period from 5 November 2009 to 31 December 2009.

The MCEV results were approved by the Board of directors on 23 March 2011.

Segmental analysis and definitions

Following the acquisition of the AXA UK Life Business and in line with IFRS 8: Operating segments, the Group has reviewed its segmental analysis under IFRS and MCEV reporting bases. This review resulted in certain changes to the segmental analysis that are set out in note 12

.

Following a review of definitions, and in order to assist with comparisons of disclosures such as cash and shareholder resources, a number of changes to the presentation of the split of MCEV between free surplus, required capital and value of in-force ("VIF") have been made. These changes have not affected the previously reported overall MCEV, the Operating MCEV Earnings or Total MCEV Earnings. The detailed changes are discussed in note 12.

Comparative figures for 2009 have been restated to reflect the revised segmentation and definitions.

MCEV methodology

Overview

The MCEV basis of reporting is designed to recognise profit as it is earned over the term of a life insurance policy. The total profit recognised over the lifetime of the policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

Covered business

Covered business comprises the following:

- all life and pensions business written by Friends Provident's UK and overseas life insurance subsidiaries;
- all life and pensions business written by the AXA UK Life Business;
- Friends Provident's 30% share in AmLife,, a Malaysian based life insurance business.

These businesses are collectively referred to as "life and pensions covered business".

The STICS and external lower tier 2 subordinated debt are formally allocated to covered business on the basis that all obligations to make payments in respect of this debt are guaranteed by FPLP. The STICS and external lower tier 2 subordinated debt are included within the MCEV at market value, based on listed bid price.

Non-covered business

The Group's non-covered business includes the IFA distribution businesses, the management services businesses and the net pension asset of FPPS on an IAS 19 basis. FPH corporate net assets, Resolution Limited corporate net assets, the Deferred Consideration Notes issued by Resolution Limited, the acquisition finance facility and the lower tier 2 subordinated debt issued by FPH to Resolution holding companies are all non-covered business.

Whilst the management services businesses are classified as non-covered, the expenses and cash flows of those businesses are linked to the life and pensions businesses via service agreements. The cash flows of the companies are calculated on the "look-through" principle and are allowed for when setting appropriate expense and tax assumptions.

Segmental reporting under MCEV

The covered business within Friends Life group has been split into the following segments in line with IFRS reporting:

- UK, which includes the life and pensions businesses within the UK from Friends Provident and the AXA UK Life Business;
- International, which includes FPIL, the overseas life assurance business within the Friends Provident life and pensions subsidiaries and Friends Provident's share in AmLife; and

- Lombard.

Corporate functions are not strictly an operating segment, but are reported to management, and are provided to reconcile the Group's reportable segments to total profit. FPH Corporate includes the STICS and external lower tier 2 subordinated debt and the cost of holding any required capital in excess of the operating segment capital policy.

Comparative figures for 2009 have been amended to reflect the revised segmentation as set out in note 12.

New business

New business within the life and pensions covered business includes:

- premiums from the sale of new policies;
- payments on recurring single premium policies, including Department for Work and Pensions rebate premiums, except existing stakeholder-style pensions business where, if a regular pattern in the receipt of premiums for individuals has been established, the regular payment is treated as a renewal of an existing policy and not new business;
- non-contractual increments on existing policies; and
- new entrants to existing schemes in the group pensions business.

The MCEV new business definition is consistent with the quarterly new business disclosures.

Calculation of embedded value

The MCEV provides an estimate of the value of shareholders' interest in the covered business, excluding any value that may be generated from future new business. The MCEV comprises the sum of the shareholders' net worth of the life and pensions covered business and the value of in-force covered business. The shareholders' net worth of the life and pensions covered business includes the listed debt of the STICS and external lower tier 2 subordinated debt at market value, based on listed bid price.

The MCEV is calculated on a post-tax basis. Where gross results are presented, these have been calculated by grossing up the post-tax results at the appropriate rate of corporation tax for each segment.

The reported Group MCEV provides an estimate of the total consolidated MCEV of the Group and comprises the MCEV in respect of the life and pensions covered business, plus the IFRS net assets in respect of the non-covered business, excluding intangible assets relating to future new business.

a) Shareholders' net worth

The shareholders' net worth of the life and pensions covered business consists of free surplus and required capital.

Free surplus is the market value of any assets allocated, but not required, to support the in-force covered business at the valuation date. Required capital is the market value of assets, attributed to the covered business over and above that required to back liabilities for covered business, whose distribution to shareholders is restricted. The Group's required capital is set at the greater of local regulatory capital requirements and those requirements arising from internal capital management policies, which include economic risk capital objectives. The economic risk capital is determined from internal models, based on the Group's risk appetite. The level of required capital is shown in note 10.

Value of in-force covered business

The value of in-force covered business consists of:

- present value of future profits; less
- time value of financial options and guarantees;
- frictional costs of required capital; and
- cost of residual non-hedgeable risks.

Present value of future profits ("PVFP")

The value of existing business is the present value of the future distributable profits available to shareholders from the in-force covered business. Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions.

The non-economic assumptions include: the behaviour of customers (eg persistency), mortality, the level of expenses required to maintain the book of business, tax and the regulatory environment. The assumptions are a reflection of best estimates of the likely behaviours, outcomes, or circumstances in the future. The estimates are made, typically, on an annual basis following experience investigations based on the data available at the time both from the book of business and externally sourced information. The aim is to set assumptions at a level that reflects recent or current experience.

The PVFP includes the capitalised value of profits and losses arising in subsidiary companies providing administration and other services to the extent that they relate to covered business. This is referred to as the "look through" into service company expenses. In addition expenses arising in holding companies that relate directly to acquiring or maintaining covered business have been allowed for.

In valuing shareholders' cash flows, allowance is made in the cash flow projections for taxes in the relevant jurisdiction affecting the covered business. Tax assumptions are based on best estimate assumptions, applying local corporate tax legislation and practice together with known future changes and taking credit for any deferred tax assets.

The economic assumptions are market consistent whereby, in principle, each cash flow is valued in line with the price of similar cash flows that are traded in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond risk discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, for liabilities where the payouts are either independent or move linearly with market movements, a method known as the "certainty equivalent approach" has been applied whereby all assumed assets earn the reference rate and all cash flows are discounted using the reference rate. This gives the same result as applying the method in the previous paragraph.

Time value of financial options and guarantees ("TVOG")

The PVFP is based on a single deterministic projection of future economic assumptions. However, a single projection does not fully reflect the potential for extreme events and the resulting impact of options and guarantees on the shareholder cash flows. While the PVFP allows for the intrinsic value of an option or guarantee under a single set of economic assumptions, it does not reflect the potential range of future economic scenarios on the shareholder cash flows. Stochastic modelling techniques are used to assess the impact of potential future economic scenarios on an option or guarantee and to determine the average value of shareholder cash flows under a number of market consistent scenarios.

The TVOG is calculated as the difference between the average value of shareholder cash flows under a number of market consistent scenarios, and the intrinsic value under a single projection within the PVFP.

The material financial options and guarantees are those in the with-profits funds of the subsidiary life companies of FPH, in the form of the benefits guaranteed to policyholders and the guaranteed annuity rates associated with certain policies. The risk to shareholders is that the assets of the with-profits funds are insufficient to meet these guarantees. While shareholders are entitled to only a small share of profits in the with-profits funds (via one-ninth of the cost of bonus), they can potentially be exposed to the full cost of fund assets being insufficient to meet policyholder guarantees. The TVOG has been assessed using a stochastic model derived from the current Realistic Balance Sheet ("RBS") model. This model has been calibrated to market conditions at the valuation date. Allowance has been made under the different scenarios for management actions, such as altered investment strategy, consistent with the RBS model. The TVOG would be markedly higher without the hedging activities and management actions currently undertaken.

Only modest amounts of new with-profits business are written and the guarantee levels offered are lower, hence there is no material impact in respect of the TVOG on the value of new business.

Frictional costs of required capital

The value of in-force covered business includes a deduction for the additional costs to an investor of holding the assets backing required capital through investment in a life company, rather than investing in the asset directly. These additional frictional costs comprise taxation and investment expenses on the assets backing the required capital.

The frictional costs of required capital are calculated as the difference between the market value of assets backing required capital and the present value of future releases of that capital allowing for future investment return (net of frictional costs) on that capital. The calculation allows for the run-off of the required capital over time using projections of the run-off of the underlying risks and regulatory requirements.

Details of the level of required capital are set out in note 10.

Cost of residual non-hedgeable risks ("CNHR")

The main area of non-hedgeable risk relates to non-financial risks, such as insurance and operational risks, where no deep, liquid market exists to fully mitigate the risk. Allowance for non-financial risk is made directly within:

- the PVFP via an appropriate choice of best estimate assumptions and with the impact of variability of the risk on the level, and hence cost, of required capital; and
- the TVOG for the impact of variations of non-financial risks on the possibility of shareholders needing to meet the guarantees within the with-profits funds of the subsidiary life companies of FPH.

The CNHR covers those non-hedgeable risks not already allowed for fully in the PVFP or in the TVOG. The most significant of these risks are those for which the impact of fluctuations in experience is asymmetric; where adverse experience has a higher impact on shareholder value than favourable experience and the best estimate assumptions do not reflect this asymmetry. The areas identified as having the potential for material asymmetry are operational risk, persistency risk and reinsurance counterparty default risk.

The CNHR has been calculated by considering the financial cost to shareholders of the impact of asymmetric risks and with regard to the results of risk-based capital modelling. The risk-based capital is calculated using internal models, consistent with those used in the Group's Individual Capital Assessment, with:

- a 99.5% confidence level over one year;
- allowance for diversification between non-hedgeable risks;
- no allowance for diversification between non-hedgeable and hedgeable risks; and
- no allowance for diversification between covered and non-covered business.

The CNHR impacts both the value of existing business and new business.

Participating business

Future regular bonuses on participating business are projected in a manner consistent with current bonus rates and expected future market consistent returns on assets deemed to back the policies. Future terminal bonuses are assumed to be set at a level to exhaust all the assets deemed to back the policies over the future lifetime of the in-force with-profit policies.

The PVFP includes the shareholders' share of future profits from the with-profits funds, based on the assumed bonus rates.

There may be some extreme future economic scenarios in which total assets in each of the with-profits funds are not sufficient to pay all policyholder claims and the resulting shortfall would be met by shareholders. Stochastic modelling techniques are used to assess the impact of future economic scenarios on the with-profits funds' ability to pay all policyholder claims and to determine the average additional cost to shareholders arising from future projected shortfalls. This cost to shareholders has been included in the TVOG.

Consolidation adjustments

The effect of transactions and reinsurance arrangements between life insurance subsidiary companies has been included in the results split by segment in a consistent manner. No elimination is required on consolidation.

Goodwill and intangibles

Goodwill and intangibles relating to the non-covered business are included on an IFRS basis. Intangible assets recognised under IFRS relating to the value of future new business, such as distribution relationships and brand value, have been excluded from the Group MCEV.

Exchange rates

The results and cash flows of overseas subsidiaries and joint ventures have been translated at the average exchange rates for the period and the assets and liabilities have been translated at the period end rates. Translation differences are shown as foreign exchange adjustments in the consolidated statement of comprehensive income. Exchange rate driven movements in MCEV earnings are reported within economic variances.

Details of the exchange rates used are shown in note 10.

2. Analysis of MCEV earnings

The following tables show the movement in the MCEV of Resolution Limited including the results for Friends Provident and the AXA UK Life Business from the dates of their acquisitions (5 November 2009 and 3 September 2010 respectively).

All of the Group's covered business is wholly contained within the Friends Life group.

The analysis is shown separately for free surplus, required capital and the value of the in-force covered business. All figures are shown net of tax.

For the year ended 31 December 2010

	FPH						Resolution Limited	
	Covered business							
Net of tax	Free surplus £m	Required capital £m	VIF £m	MCEV £m	Non-covered business £m	Total £m	Non-covered business £m	Total £m
Opening MCEV[(i)]	**812**	**362**	**1,873**	**3,047**	**134**	**3,181**	**307**	**3,488**
Opening adjustments:								
– capital and dividend flows	**–**	**–**	**–**	**–**	**2,165**	**2,165**	**(186)**	**1,979**
– acquired/divested businesses	**30**	**1,409**	**1,904**	**3,343**	**155**	**3,498**	**–**	**3,498**
– cost of acquisition	**–**	**–**	**–**	**–**	**(2,724)**	**(2,724)**	**–**	**(2,724)**
Adjusted opening MCEV	**842**	**1,771**	**3,777**	**6,390**	**(270)**	**6,120**	**121**	**6,241**
Value of new business	**(245)**	**31**	**331**	**117**	**–**	**117**	**–**	**117**
Expected existing business contribution:								
– expected existing business contribution (reference rate)	**13**	**(3)**	**30**	**40**	**–**	**40**	**–**	**40**
– expected existing business contribution (in excess of reference rate)	**5**	**(8)**	**162**	**159**	**–**	**159**	**–**	**159**
Transfers from VIF and required capital to free surplus	**386**	**(32)**	**(354)**	**–**	**–**	**–**	**–**	**–**
Experience variances	**4**	**(38)**	**30**	**(4)**	**–**	**(4)**	**–**	**(4)**
Operating assumption changes	**(42)**	**5**	**20**	**(17)**	**–**	**(17)**	**–**	**(17)**
Other operating items	**36**	**(3)**	**13**	**46**	**(10)**	**36**	**(15)**	**21**
Operating MCEV earnings	**157**	**(48)**	**232**	**341**	**(10)**	**331**	**(15)**	**316**
Economic variances	**104**	**(61)**	**131**	**174**	**(2)**	**172**	**–**	**172**
Other non-operating items	**288**	**(406)**	**70**	**(48)**	**34**	**(14)**	**(14)**	**(28)**
Total MCEV earnings	**549**	**(515)**	**433**	**467**	**22**	**489**	**(29)**	**460**
Other movements in IFRS net equity	**–**	**–**	**–**	**–**	**(22)**	**(22)**	**(20)**	**(42)**
Closing adjustments:								
– capital and dividend flows	**(416)**	**37**	**3**	**(376)**	**314**	**(62)**	**(71)**	**(133)**
– foreign exchange variances	**2**	**(2)**	**(11)**	**(11)**	**–**	**(11)**	**–**	**(11)**
Closing MCEV	**977**	**1,291**	**4,202**	**6,470**	**44**	**6,514**	**1**	**6,515**

(i) The opening MCEV split between free surplus, required capital and VIF has changed. See note 12.

For the year ended 31 December 2010, Resolution holding companies contributed operating MCEV earnings of £(15) million and non-operating MCEV earnings of £(14) million.

For the year ended 31 December 2009

Net of tax	FPH (Restated) 5 November to 31 December 2009 Covered business Free surplus £m	Required capital £m	VIF £m	MCEV £m	Non-covered business £m	Total £m	Resolution Limited Year ended 31 December 2009 Non-covered business £m	Total £m
Opening MCEV[(i)]	–	–	–	–	–	–	650	650
Opening adjustments:								
– acquired/divested businesses	860	354	1,769	2,983	87	3,070	(2,028)	1,042
Adjusted opening MCEV	860	354	1,769	2,983	87	3,070	(1,378)	1,692
Value of new business	(20)	7	51	38	–	38	–	38
Expected existing business contribution:								
– expected existing business contribution (reference rate)	4	(2)	9	11	–	11	–	11
– expected existing business contribution (in excess of reference rate)	1	(3)	12	10	–	10	–	10
Transfers from VIF and required capital to free surplus	39	(1)	(38)	–	–	–	–	–
Experience variances	(10)	–	(13)	(23)	–	(23)	–	(23)
Operating assumption changes	4	–	(3)	1	–	1	–	1
Other operating variances	–	–	–	–	2	2	(13)	(11)
Operating MCEV earnings	18	1	18	37	2	39	(13)	26
Economic variances	7	5	15	27	15	42	–	42
Other non-operating items	5	–	–	5	(2)	3	–	3
Total MCEV earnings	30	6	33	69	15	84	(13)	71
Other movements in IFRS net equity	–	–	–	–	29	29	–	29
Closing adjustments:								
– capital and dividend flows	(78)	2	74	(2)	3	1	1,698	1,699
– foreign exchange variances	–	–	(3)	(3)	–	(3)	–	(3)
Closing MCEV	812	362	1,873	3,047	134	3,181	307	3,488

(i) The opening and closing MCEV split between free surplus, required capital and VIF has changed. See note 12.

Further details of the calculation and analysis of the value of new business are set out in note 6.

The expected existing business contribution is the sum of two components:

- the expected earnings over the period assuming the opening assets earn the beginning of period reference rate; and
- the additional expected earnings (in excess of the beginning of period reference rate) consistent with management's expectation for the business.

The reference rate is based on the one-year swap return plus, for UK immediate annuity business only, an illiquidity premium.

The additional earnings are the excess over the reference rate and reflect management's long-term expectation of asset returns, based on assumed asset mix.

Detailed business commentary relating to the analysis of MCEV earnings is shown in note 3. Note 3 shows the analysis of MCEV earnings by business segment and on a gross of tax basis, with attributed tax shown separately.

3. Segmental analysis of MCEV earnings

The table below shows a further breakdown of the MCEV earnings. All of the Group's covered business is wholly contained within FPH.

All earnings are shown on a gross of tax basis with attributed tax shown separately.

For the year ended 31 December 2010

	FPH						Resolution Limited	
	Covered business							
Gross of tax	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	Non-covered business £m	Total £m	Resolution (ex. FPH)(i) Non-covered business £m	Total £m
Value of new business	19	43	83	–	–	145	–	145
Expected existing business contribution	210	29	38	(30)	–	247	–	247
Operating experience variances	37	12	(17)	–	–	32	–	32
Operating assumption changes	(41)	(2)	20	–	–	(23)	–	(23)
Other operating variances	96	(7)	39	(63)	–	65	–	65
Development costs	(21)	(6)	(1)	–	–	(28)	–	(28)
Life and pensions covered business operating profit/(loss) before tax	300	69	162	(93)	–	438	–	438
Other income and charges	–	–	–	–	(11)	(11)	–	(11)
Life and pensions operating profit/(loss) before tax	300	69	162	(93)	(11)	427	–	427
Corporate income and charges	–	–	–	–	–	–	(15)	(15)
Operating profit/(loss) before tax	300	69	162	(93)	(11)	427	(15)	412
Economic variances	276	25	33	(103)	(2)	229	–	229
Other non-operating items	(48)	(1)	1	(20)	57	(11)	(14)	(25)
Profit/(loss) before tax	528	93	196	(216)	44	645	(29)	616
Attributed tax on operating profits	(81)	(4)	(39)	27	1	(96)	–	(96)
Attributed tax on other activities	(59)	(1)	(7)	30	(23)	(60)	–	(60)
Profit/(loss) after tax	388	88	150	(159)	22	489	(29)	460

(i) 'Resolution (ex.FPH)' refers to the Group excluding the acquired assets of Friends Provident and the AXA UK Life Business.

For the period 5 November 2009 to 31 December 2009

Gross of tax	Restated FPH(ii) Covered business UK £m	Int'l £m	Lombard £m	FPH Corporate £m	Non-covered business £m	Total £m	Resolution Limited Resolution (ex. FPH)(i) Non-covered business £m	Total £m
Value of new business	–	9	43	–	–	52	–	52
Expected existing business contribution	26	5	4	(7)	–	28	–	28
Operating experience variances	(12)	(6)	(7)	–	–	(25)	–	(25)
Operating assumption changes	1	–	–	–	–	1	–	1
Other operating variances	–	–	–	–	–	–	–	–
Development costs	(3)	(2)	–	–	–	(5)	–	(5)
Life and pensions covered business operating profit/(loss) before tax	12	6	40	(7)	–	51	–	51
Other income and charges	–	–	–	–	3	3	–	3
Life and pensions operating profit/(loss) before tax	12	6	40	(7)	3	54	–	54
Corporate income and charges	–	–	–	–	–	–	(13)	(13)
Operating profit/(loss) before tax	12	6	40	(7)	3	54	(13)	41
Economic variances	3	10	14	7	6	40	–	40
Other non-operating items	6	–	–	–	(2)	4	–	4
Profit/(loss) before tax	21	16	54	–	7	98	(13)	85
Attributed tax on operating profits	(4)	(1)	(11)	2	(1)	(15)	–	(15)
Attributed tax on other activities	(3)	–	(4)	(1)	9	1	–	1
Profit/(loss) after tax	14	15	39	1	15	84	(13)	71

(i) 'Resolution (ex.FPH)' refers to the Group excluding the acquired assets of Friends Provident and the AXA UK Life Business.
(ii) 5 November 2009 to 31 December 2009

UK covered

The life and pensions covered business operating profit before tax for the UK segment is £300 million in 2010.

VNB

Further details of the calculation and analysis of the VNB are discussed in note 6.

Expected existing business contribution

The reference rate is based on the one-year swap return plus, for UK immediate annuity business only, an illiquidity premium equivalent to 75 bps at the beginning of the year.

The additional earnings are the excess over the reference rate and reflect management's long-term expectation of asset returns, based on an assumed asset mix.

The total expected contribution of £210 million comprises £177 million from applying expected rates of return to the value of in-force at the start of the period and £33 million of expected return on shareholders' net assets.

The expected contribution from the value of in-force of £177 million reflects the expected rates of return applied to the opening value of in-force of £1,091 million at 31 December 2009 and the value of in-force from the AXA UK Life Business of £1,904 million at 3 September 2010.

The UK expected contribution on shareholders' net worth of £33 million includes offsetting items for the expected income on shareholder investments, including the use of a one-year return on bonds rather than a long-term average yield, and interest payable on debt instruments which is recharged to the life companies and is fixed in amount.

Operating experience variances

Operating experience variances relate to variances between actual experience and that anticipated in the projection assumptions. Operating experience variances totalled £37 million and comprise the following elements:

- a £12 million benefit from tax variances, notably £14 million in respect of a prior year's tax provision;
- a £11 million benefit from lower than assumed mortality on life protection business;
- a £16 million benefit from better than assumed morbidity experience on income protection business;
- a £7 million benefit from an accumulation of small operational and processing variances;
- a £4 million benefit from actual expenses being lower than long-term expense assumptions;
- a £(9) million charge from an increase in the vacant property charge provision, primarily relating to the relocation of the London head office of FPH;
- a £(5) million charge in respect of worse than expected persistency experience on the AXA UK Life Business. Persistency levels for Friends Provident business have been in line with expectations of a period of higher lapses compared with long-term assumptions given the challenging economic environment. At 31 December 2009 a provision of £64 million (gross of tax) was set up to cover short-term adverse persistency. At 31 December 2010, £27 million of this provision has been used to meet the adverse variance over 2010; the remaining provision is £37 million; and
- other minor variances totalling £1 million.

Operating assumption changes

The effect of operating assumption changes totalled £(41) million.

The Company reviewed the annuitant mortality assumptions of both Friends Provident and the AXA UK Life Businesses. This review has led to a strengthening of the assumptions and the resulting basis across the UK is now harmonised. This contributed £(47) million to operating assumption changes in 2010.

Other changes of £6 million include £3 million in relation to changes in persistency assumptions for some minor product lines, and £3 million of changes to operational assumptions underlying the TVOG.

Other operating variances

Other operating variances of £96 million include the effects of a number of items:

- £21 million following an increase in the value of tax assets within the AXA UK Life Business;
- £26 million from a change in the timing of modelled tax relief on group pensions business;
- £13 million relating to on-going reviews of systems and processes;
- £12 million from changes to the presentation by segment of frictional costs of capital. In previous years the cost of capital in respect of FPH Corporate has been shown under the UK segment. There is an offsetting adjustment within the FPH Corporate category;
- £9 million relating to the allowance for variable charging structures in the modelling of group pensions business;
- £12 million of other minor operating variances;
- £3 million from changes to the operational risk profile that reduced the cost of non-hedgeable risk.

Development costs

Development costs of £21 million relate to costs that are expected to enhance current propositions and generate future profits which are not captured in the MCEV. These costs relate principally to the development of the corporate investment platform and the development costs associated with tied distribution arrangements.

International covered

The life and pensions operating profit for International is £69 million in 2010.

VNB

Further details of the calculation and analysis of the VNB are discussed in note 6.

Existing business contribution

The expected contribution of £29 million comprises £27 million of expected return on the opening value of in-force of £398 million, and £2 million from the expected return on shareholders' net assets.

Operating experience variance

Operating experience variances of £12 million comprise:

- a £4 million benefit from better persistency than anticipated. At 31 December 2009 a recessionary provision of £6 million (net of tax) was set aside to cover short-term adverse persistency. At 31 December 2010 this provision has been released, and persistency experience has been broadly in line with the long-term persistency assumptions;
- a £3 million benefit from mortality experience being better than anticipated;
- a £4 million benefit from higher levels of fund rebates than anticipated; and
- £1 million of other variances.

Operating assumption changes

Operating assumption changes of £(2) million comprise:

- £(12) million from changes to the modelling and assumptions underlying the investment management charges on unit-linked mirror fund contracts;
- £7 million in respect of changes to persistency assumptions for single premium bond contracts;
- £2 million from the release of the remaining expense overrun provision included at 31 December 2009; and
- £1 million from a review of mortality assumptions.

Other operating variances

Other operating variances of £(7) million including £4 million relating to AmLife.

Development costs

Development costs of £6 million include £3 million in respect of the development of the German pensions proposition, and £3 million in respect of the development of on-line systems for International business.

Lombard covered

The MCEV operating profit from Lombard is £162 million in 2010.

VNB

Further details of the calculation and analysis of the VNB are discussed in note 6.

Existing business contribution

The expected contribution of £38 million reflects the expected return on the opening value of in-force of £378 million.

Operating experience variances

Operating experience variances of £(17) million comprise:

- £(11) million from persistency experience being worse than that assumed within the long-term assumptions. This included an £8 million benefit from all territories outside Spain, but a £19 million charge resulting from significantly increased surrenders of Spanish policies in the final quarter of 2010 driven by economic conditions in Spain;
- £2 million benefit from actual expenses being lower than long-term assumptions;
- £(4) million in respect of various taxation variances;
- £(4) million from renegotiation of fees with key third-party providers;
- £3 million benefit from better than assumed mortality experience, and
- £(3) million from other small variances.

Operating assumption changes

Operating assumption changes of £20 million comprise:

- £18 million from changes to expense assumptions across the major product classes and territories;
- £8 million in respect of changes to persistency assumptions in all markets outside Spain; and
- £(6) million set up as a short-term persistency provision in respect of the Spanish market.

Other operating variances

Other operating variances of £39 million comprise:

- £32 million following changes to the corporate structure of the Lombard companies, resulting in a reduced assumed overall tax rate for the Lombard segment; and
- £7 million following a change in the operational risk capital underlying the cost of non-hedgeable risk.

FPH Corporate covered

FPH Corporate includes the STICS, the external lower tier 2 subordinated debt, and the cost of holding any required capital in excess of the operating segment capital policy.

The expected existing business contribution of £(30) million represents the expected annual interest costs arising on the debt held within the FPH life and pensions covered business.

The other operating variances of £(63) million represent the frictional costs of holding any required capital in excess of the operating segment capital policy.

Non-covered

FPH non-covered business reported an operating loss of £11 million due to interest payable on the lower tier 2 subordinated debt issued by FPH offset by a number of smaller items including Sesame Bankhall operating profit of £6 million.

Resolution Limited non-covered business reported an operating loss of £(15) million due to £19 million of interest income on the lower tier 2 subordinated debt issued by FPH and £2 million on largely cash-based assets offset by £(17) million of finance costs and £(19) million from a combination of the fees payable to ROL, directors' emoluments as well as other day-to-day expenses.

Economic variances

Economic variances combine the impact of changes to economic assumptions with the investment return variances over the year.

Total economic variances of £229 million include:

- £147 million due to the net effect of positive investment returns on UK unit-linked business particularly evident in the fourth quarter of 2010;
- £50 million contribution from shareholder net worth where the value of fixed interest stocks held have increased as a result of falling yields;
- £47 million of investment benefits from the assets backing non-linked liabilities, after allowance for changes in economic assumptions;
- £(103) million from an increase in the market value of debt;
- £58 million from International and Lombard segments as a result of a combination of positive investment returns on unit-linked business and favourable exchange rate movements; and

- £30 million of other investment variances, including investment related tax variances and the reduction in frictional costs of capital due to economic conditions.

Other non-operating items

Total other non-operating items of £(25) million include:

- £(75) million in respect of the cost recharged from the non-covered business to the covered businesses of the scheduled additional pension contributions over the next four years. An offsetting item of £75 million is included within the non-covered business;
- £(19) million in respect of increased investment expense assumptions following the increase in VAT from 1 January 2011 from 17.5% to 20%;
- £55 million in respect of the proposed changes to UK corporation tax announced in June 2010. The corporation tax has been assumed to reduce by 1% to 27% in April 2011, and then by 1% each year until it reaches the ultimate rate of 24% from April 2014;
- £30 million from the recognition of a deferred tax asset;
- £(61) million in respect of non-recurring project costs within the covered business, including project costs in respect of acquiring and integrating UK businesses, Solvency II, financial reporting improvements and capital projects;
- £(14) million in FPH non-covered business in relation to stamp duty on the acquisition of the AXA UK Life Business; and
- £(14) million in Resolution Limited non-covered business in relation to costs associated with the acquisition of the AXA UK Life Business.

4. Earnings per share

Earnings per share have been calculated based on the MCEV profit after tax and on the operating profit after tax, attributable to ordinary equity holders of the parent and the weighted average number of shares in issue. The directors consider that operating earnings per share provides a better indication of operating performance.

In connection with the acquisition of the AXA UK Life Business, the Company undertook a rights issue and share consolidation in 2010. The earnings per share figures for 2009 have been recalculated to reflect the share consolidation and rights issue undertaken in 2010 in accordance with IAS33: Earnings per Share. In addition, the voluntary disclosure made in the 2010 interim report in respect of the year ended 31 December 2009, i.e. on a pre-share consolidation and rights issue basis, are repeated.

Basic and operating earnings per share

Year ended 31 December 2010	**Earnings £m**	**Per share pence**
Profit after tax attributable to ordinary equity holders of the parent	**460**	**48.77**
Economic variances	**(229)**	**(24.28)**
Amortisation of non-covered business acquired intangible assets	**3**	**0.32**
Non-recurring items and non-operating variances	**22**	**2.33**
Tax credit on items excluded from operating profit/loss	**60**	**6.36**
Operating profit after tax attributable to ordinary equity holders of the parent	**316**	**33.50**

		Pence per share	
Year ended 31 December 2009	Earnings £m	Pre share consolidation	Post share consolidation
Profit after tax attributable to ordinary equity holders of the parent	71	7.60	30.54
Economic variances	(40)	(4.28)	(17.21)
Amortisation of non-covered business acquired intangible assets	1	0.11	0.43
Non-recurring items and non-operating variances	(5)	(0.54)	(2.15)
Tax credit on items excluded from operating profit/(loss)	(1)	(0.11)	(0.43)
Operating profit after tax attributable to ordinary equity holders of the parent	26	2.78	11.18

Diluted earnings per share from continuing operations

Dilutive factors comprise the expected impact of the Lombard management incentive scheme. Awards made under the FPH executive long-term incentive plan introduced in March 2010 had no dilutive impact at 31 December 2010.

	2010 £m	**2010 Weighted average number of shares Number**	**2010 Per share Pence**
Profit after tax attributable to ordinary shareholders of the parent	460	943,284,481	48.77
Dilution	–	7,347,287	(0.38)
Diluted profit after tax attributable to ordinary shareholders of the parent	460	950,631,768	48.39
	2009 £m	2009 Weighted average number of shares Number	2009 Per share Pence
Profit after tax attributable to ordinary shareholders of the parent	71	232,483,943	30.54
Dilution	–	400,500	(0.05)
Diluted profit after tax attributable to ordinary shareholders of the parent	71	232,884,443	30.49

The following table repeats the disclosure made in the 2010 interim report in respect of the year ended 31 December 2009 on a pre-share consolidation basis.

	2009 £m	2009 Weighted average number of shares Number	2009 Per share Pence
Profit after tax attributable to ordinary shareholders of the parent	71	933,670,453	7.60
Dilution	–	1,608,435	(0.01)
Diluted profit after tax attributable to ordinary shareholders of the parent	71	935,278,888	7.59

Weighted average number of ordinary shares

	2010 Actual	**2010 Weighted**
Issued ordinary shares at beginning of period	**2,412,451,145**	**2,412,451,145**
Effect of:		
– scrip dividend (final 2009)	**5,753,268**	**3,436,198**
– share consolidation	**(2,337,597,599)**	**(2,335,357,765)**
– rights issue	**1,370,315,835**	**865,193,173**
– scrip dividend (interim 2010)	**1,641,722**	**382,319**
– treasury shares	**(8,579,292)**	**(2,820,589)**
Number of ordinary shares at end of period	**1,443,985,079**	**943,284,481**

	2009 Actual	2009 Weighted	2009 Adjusted[(i)]
Issued ordinary shares at beginning of period	660,000,000	660,000,000	660,000,000
Effect of:			
– ordinary shares issued	1,752,451,145	273,670,453	1,752,451,145
Number of shares before share consolidation and rights issue	2,412,451,145	933,670,453	2,412,451,145
– share consolidation	–	(902,548,104)	(2,332,036,107)
– rights issue	–	201,361,594	520,285,297
Number of ordinary shares at end of period	2,412,451,145	232,483,943	600,700,335

(ii) Adjusted to include impact of share consolidation and right issue.

5. Reconciliation of equity attributable to ordinary shareholders

Ordinary shareholders' equity on the MCEV basis reconciles to equity attributable to ordinary shareholders on the IFRS basis as follows:

	Resolution Limited	Restated Resolution Limited	FPH	Restated FPH
	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Equity attributable to ordinary shareholders on an IFRS basis	**6,227**	3,655	6,226	3,348
Less items only included on an IFRS basis:				
– IFRS reserving and other IFRS adjustments	**507**	414	507	414
– Deferred front end fees	**24**	8	24	8
– Deferred acquisition costs	**(201)**	82	(201)	82
– Acquired present value of value in-force ("PVIF") (net of tax)	**(3,608)**	(2,285)	(3,608)	(2,285)
– Other intangible assets (net of tax)	**(332)**	(258)	(332)	(258)
Other(i)	**(236)**	–	(236)	–
Add items only included on a MCEV basis:				
– Adjustment for long-term debt to market value (net of deferred tax)	**(68)**	(1)	(68)	(1)
Net worth on a MCEV basis	**2,313**	1,615	2,312	1,308
Value of in-force covered business(i)	**4,202**	1,873	4,202	1,873
Equity attributable to ordinary shareholders on a MCEV basis	**6,515**	3,488	6,514	3,181

(i) GOF and TIP businesses are classified as held for sale assets and liabilities in both the Group's IFRS and MCEV balance sheets with a net value of £281 million. Within the MCEV balance sheet the held for sale assets are further split between value of in-force covered business of £236 million and other assets. With MCEV supplementary information the value of in-force covered business for the GOF and TIP businesses is included in the Group's total value of in-force covered business of £4,202 million.

6. New business

The tables below set out the analysis of new business in terms of volumes and profitability.
New business volumes have been shown using two measures:

- Present Value of New Business Premiums ("PVNBP"). PVNBP is equal to the total single premium sales received in the period plus the discounted value of regular premiums expected to be received over the lifetime of new contracts, and is expressed at point of sale;
- Annual Premium Equivalent ("APE"). APE is calculated as the new regular premium per annum plus 10% of single premiums.

The MCEV new business definition is consistent with the quarterly new business disclosures.

The premium volumes and projection assumptions used to calculate the present value of regular premiums within PVNBP are the same as those used to calculate the value of new business.

The value of new business is calculated using economic assumptions at the beginning of the period for all products except immediate annuities. For annuity business, as the contribution is sensitive to the interest rate at outset, the appropriate rate for each month's new business is used.

The value of new business is calculated using operating assumptions at the end of period for all products. The operating assumptions are consistent with those used to determine the embedded value.

The value of new business is shown after the effects of the frictional costs of holding required capital and share-based payments, and after the effect of the costs of residual non-hedgeable risks on the same basis as for the in-force covered business.

The tables below exclude new business in relation to the GOF and TIP businesses.

Resolution Limited new business value for the year ended 31 December 2010

	New business premiums							
	Single £m	Regular £m	APE £m	Average annual premium multiplier (i)	PVNBP £m	Post-tax VNB £m	Pre-tax VNB £m	New business margin %
UK Corporate								
– Group pensions	273	303	330	4.2	1,535	(4)	(5)	(0.3)
– Group protection	–	6	6	5.3	32	–	–	–
UK Individual								
– Individual protection	19	50	52	6.1	323	(9)	(13)	(4.0)
– Individual pensions	226	9	31	7.9	297	5	7	2.4
Annuities(ii)	290	–	29	–	290	19	26	9.0
Investments	239	–	24	–	239	3	4	1.7
UK total	1,047	368	472	4.6	2,716	14	19	0.7
International	515	186	238	4.8	1,405	40	43	3.0
Lombard	3,022	–	302	–	3,022	63	83	2.7
Non-UK total	3,537	186	540	4.8	4,427	103	126	2.8
Total	4,584	554	1,012	4.6	7,143	117	145	2.0

(i) Defined as (PVNBP less total amount of single premiums)/(total annualised amount of regular premiums).

(ii) The value of new business for annuities shown in the table above has been valued assuming an average illiquidity premium of 75bps over the 12 months to 31 December 2010.

Resolution Limited new business value for the period from 5 November to 31 December 2009

	New business premiums							
	Single £m	Regular £m	APE £m	Average annual premium multiplier[(i)]	PVNBP £m	Post-tax VNB £m	Pre-tax VNB £m	New business margin %
UK Corporate								
– Group pensions	61	40	46	3.7	207	(2)	(2)	(0.9)
– Group protection	–	1	1	3.0	3	–	–	–
UK Individual								
– Individual protection	–	6	6	6.2	37	(2)	(3)	(8.1)
– Individual pensions	13	1	2	4.0	17	–	–	–
Annuities[(ii)]	34	–	3	–	34	4	5	14.7
Investments	5	–	1	–	5	–	–	–
UK total	113	48	59	4.0	303	–	–	–
International	66	32	39	4.9	222	7	9	4.1
Lombard	1,877	–	188	–	1,877	31	43	2.3
Non-UK total	1,943	32	227	4.9	2,099	38	52	2.5
Total	2,056	80	286	4.3	2,402	38	52	2.2

(i) Defined as (PVNBP less total amount of single premiums)/(total annualised amount of regular premiums).

(ii) The value of new business for annuities shown in the table above has been valued assuming an average illiquidity premium of 80bps over the period from 5 November 2009 to 31 December 2009.

UK

The pre-tax VNB from the UK segment was £19 million, comprising:

- UK Corporate pre-tax VNB of £5 million before the contribution of the AXA UK Life Business. This amount was principally derived from the Group pensions proposition, where the market remains challenging. The fall in volumes was offset by the expense control efficiencies. A change to the methodology and modelling of tax relief also served to reduce the VNB from this proposition. The Group Protection contribution was nil and new business volumes were impacted by a smaller market and competitive price levels. The contribution of the AXA UK Life Business to UK Corporate was £(10) million. The loss reflects reduced business volumes since acquisition as a result of uncertainties in the market surrounding the AXA UK Life Business propositions ahead of the announcement of the conclusions of the Group's UK strategic review;
- UK Individual and Investments of £(2) million. The protection market remains subdued and volumes written reflect this. The contribution improved over 2010 as lower acquisition expense levels more than offset the reduction in volumes; and
- Annuities of £26 million. The contribution from annuities was adversely affected by a £3 million strengthening of the annuitant mortality basis. Annuity sales peaked in the first half of the year following changes to the minimum retirement age.

International

International VNB was £43 million in the year with volume related increases being principally offset by reduced margins, strengthened assumptions and internal model improvements.
Margin levels have suffered some compression in 2010 and reflect the overall change in business mix towards the business's regular premium savings product, as well as competitive market pressures. In addition, the contribution from new business has also been impacted by model changes, following a review of modelling and assumptions underlying investment management fees.
AmLife, the 30% owned Malaysian associate, performed well over the year. The business, which mainly distributes through bancassurance and tied agency sales channels delivered sales of £10 million up 8% on 2009. VNB in the period has remained consistent with that delivered in 2009.

Lombard

Lombard new business contribution of £83 million has significantly increased in 2010 driven principally by a 10% increase in annual sales whilst acquisition costs have been maintained at a level comparable to 2009. Sales volumes have benefited from an increased marketing effort and returning client confidence in a number of markets with particularly strong improvements in Belgium and the UK. The business also continued to realise sustained levels of business driven by clients restructuring their portfolios in Italy. The return in confidence is further illustrated by the increased proportion of larger cases (transactions greater than 10 million Euros) which increased from 22% of total sales in 2009 to 30% in 2010. These cases bring significant funds onto the administrative platform but have not resulted in lower margins. The new business margins achieved in 2010 of 2.7% compares to 2.3% in 2009 as the regional sales mix has tended to the higher margin areas.

Lombard sales volumes, which have traditionally been weighted towards the fourth quarter, have in 2010 been successfully spread across the year. This action has resulted in the 2010 sales profile no longer resembling the seasonal profile delivered in previous years, as significantly more business has been written in the first half of the year.

New Business Performance Metrics

New business written requires an initial capital investment to meet the set-up costs and capital requirements.

The IRR provides a measure of the return to shareholders on this initial capital investment. It is equivalent to the discount rate at which the present value of the after-tax cash flows expected to be earned over the lifetime of the business written is equal to the initial capital invested, including setting aside the required capital, to support the writing of the business.

The cash payback on new business is the time elapsed until the total of expected (undiscounted) cash flows is sufficient to recoup the initial capital invested, including the release of the required capital, to support the writing of new business.

The value of new business is shown after the effects of the frictional costs of holding required capital, and after the effect of the costs of residual non-hedgeable risks on the same basis as for the in-force covered business.

New business key performance metrics

	Year ended 31 December 2010			5 November to 31 December 2009
	Pre-tax value of new business £m	**Internal rate of return on new business %**	**Cash payback on new business years**	Pre-tax VNB £m
UK Corporate				
– Group pensions	**(5)**	**6.2**	**14**	(2)
– Group protection	**–**	**4.7**	**16**	–
UK Individual				
– Individual protection	**(13)**	**2.7**	**16**	(2)
– Individual pensions	**7**	**14.2**	**7**	–
Annuities	**26**	**20.0**	**7**	5
Investments	**4**	**9.4**	**8**	–
UK total	**19**	**7.1**	**12**	1
International	**43**	**15.4**	**6**	8
Lombard	**83**	**26.7**	**4**	43
Non-UK total	**126**	**19.4**	**5**	51
Total	**145**	**11.2**	**9**	52

7. Segmental analysis of Group MCEV

Year ended 31 December 2010

	Year ended 31 December 2010									As restated Year ended 31 December 2009
	Free surplus £m	**Required capital £m**	**Total net worth £m**	**PVFP £m**	**TVOG £m**	**Frictional costs £m**	**Non-hedgeable risks £m**	**Total VIF £m**	**Total £m**	Total £m
UK	**936**	**1,788**	**2,724**	**3,554**	**(37)**	**(101)**	**(145)**	**3,271**	**5,995**	**2,687**
International	**36**	**48**	**84**	**494**	**(1)**	**(2)**	**(18)**	**473**	**557**	**471**
Lombard	**5**	**75**	**80**	**524**	**–**	**(6)**	**(21)**	**497**	**577**	**440**
FPH Corporate (ex.STICS & lower tier 2 subordinated debt)										
- IFA and distribution	**22**	**–**	**22**	**–**	**–**	**–**	**–**	**–**	**22**	**33**
- Pension asset of FPPS	**39**	**–**	**39**	**–**	**–**	**–**	**–**	**–**	**39**	**38**
- Other	**685**	**(26)**	**659**	**6**	**–**	**(45)**	**–**	**(39)**	**620**	**17**
Gross MCEV of FPH(ii)	**1,723**	**1,885**	**3,608**	**4,578**	**(38)**	**(154)**	**(184)**	**4,202**	**7,810**	**3,686**
FPH Corporate(i) – STICS	**–**	**(393)**	**(393)**	**–**	**–**	**–**	**–**	**–**	**(393)**	**(318)**
FPH Corporate(i) – external lower tier 2 subordinated debt	**–**	**(201)**	**(201)**	**–**	**–**	**–**	**–**	**–**	**(201)**	**(187)**
FPH Corporate(iii) – Resolution lower tier 2 subordinated debt	**(702)**	**–**	**(702)**	**–**	**–**	**–**	**–**	**–**	**(702)**	**–**
Net MCEV of FPH	**1,021**	**1,291**	**2,312**	**4,578**	**(38)**	**(154)**	**(184)**	**4,202**	**6,514**	**3,181**
Resolution Limited corporate net assets	**901**	**–**	**901**	**–**	**–**	**–**	**–**	**–**	**901**	**307**
Resolution Limited DCNs	**(500)**	**–**	**(500)**	**–**	**–**	**–**	**–**	**–**	**(500)**	**–**
Resolution(iii) acquisition finance facility	**(400)**	**–**	**(400)**	**–**	**–**	**–**	**–**	**–**	**(400)**	**–**
Net Group MCEV of Resolution Limited attributable to equity holders of parent	**1,022**	**1,291**	**2,313**	**4,578**	**(38)**	**(154)**	**(184)**	**4,202**	**6,515**	**3,488**

(i) FPH Corporate includes the STICS and lower tier 2 subordinated debt and the cost of holding any required capital in excess of the operating segment capital policy.

(ii) For the purposes of this table "Gross" refers to the MCEV gross of the clean market value of the STICS and all lower tier 2 subordinated debt. The accrued interest and tax adjustment on market valuation is included in the gross MCEV of FPH Corporate.

(iii) Resolution holding companies.

i) Net worth

The STICS and lower tier 2 subordinated debt are included within the MCEV at market value, as detailed in note 10.

ii) PVFP

The PVFP at 31 December 2010 includes a deduction of £26 million (2009: £45 million) from the UK and £nil (2009: £6 million) from International, as a provision against worsening 2011 persistency experience arising from recessionary conditions, and £4 million (2009: £nil) from Lombard set up as a short-term persistency provision in respect of the Spanish market.

iii) TVOG

The TVOG at 31 December 2010 of £38 million (2009: £41 million), is split between £12 million (2009: £14 million) market risk and £26 million (2009: £27 million) non-market risk. The non-market risks include lapses, annuitant longevity, and operational risk within the with-profits fund. The allowance for non-market risks is made by consideration of the impact of extreme scenarios from the Group's economic capital model.

iv) Frictional costs of holding required capital

The projected required capital for life company subsidiaries is derived from the Group's capital management policy which is to hold the greater of 150% of Pillar 1. CRR excluding WPICC and ICA plus ICG.

Additionally the Group capital management policy in respect of FPH is to hold 160% of Group CRR excluding WPICC.

At 31 December 2009 the Group's capital management policy was to hold the greater of 150% Group CRR excluding WPICC.

v) CNHR

The cost of residual non-hedgeable risk of £184 million (2009: £113 million) is presented as an equivalent annual cost of capital charge of 2% (2009: 2%) on projected risk-based Group required capital for all non-hedgeable risk. In line with management's view of the business, no allowance has been made for diversification benefits within the non-hedgeable risks of the covered business.

8. Segmental analysis of Group MCEV earnings

The tables below show a further breakdown of the Group MCEV earnings for each of Resolution Limited and FPH respectively, comprising the MCEV earnings for the life and pensions covered business and the IFRS earnings for the respective non-covered businesses.

All figures are shown net of attributed tax.

Year ended 31 December 2010

	FPH						Resolution Limited	
	Covered business							
	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	Non-covered business £m	Total £m	Resolution (ex.FPH) Non-covered business(i) £m	Total £m
Opening Group MCEV(ii)	2,687	471	440	(551)	134	3,181	307	3,488
Opening adjustments:								
– capital and dividend flows	–	–	–	–	2,165	2,165	(186)	1,979
– acquired value of AXA UK Life Business	3,343	–	–	–	155	3,498	–	3,498
– cost of acquisition of AXA UK Life Business	–	–	–	–	(2,724)	(2,724)	–	(2,724)
Adjusted opening Group MCEV	6,030	471	440	(551)	(270)	6,120	121	6,241
Operating MCEV earnings	219	65	123	(66)	(10)	331	(15)	316
Non-operating MCEV earnings	169	23	27	(93)	32	158	(14)	144
Total MCEV earnings	388	88	150	(159)	22	489	(29)	460
Other movements in IFRS net equity	–	–	–	–	(22)	(22)	(20)	(42)
Closing adjustments:								
– capital and dividend flows	(423)	(7)	3	51	314	(62)	(71)	(133)
– foreign exchange variances	–	5	(16)	–	–	(11)	–	(11)
Closing Group MCEV(ii)	5,995	557	577	(659)	44	6,514	1	6,515

(i) Resolution (ex. FPH) refers to the Group excluding the acquired assets of Friends Provident and the AXA UK Life Business.

(ii) The opening MCEV segmental split has been revised. See note 12.

Year ended 31 December 2009

	Restated FPH						Resolution Limited	
	Covered business							
	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	Non-covered business £m	Total £m	Resolution (ex.FPH) Non-covered business £m	Total £m
Opening Group MCEV	–	–	–	–	–	–	650	650
Opening adjustments:								
– acquired value of Friends Provident	2,681	458	407	(563)	87	3,070	–	3,070
– cost of acquisition of Friends Provident	–	–	–	–	–	–	(2,012)	(2,012)
– transaction costs	–	–	–	–	–	–	(16)	(16)
Adjusted opening Group MCEV	2,681	458	407	(563)	87	3,070	(1,378)	1,692
Operating MCEV earnings	8	5	29	(5)	2	39	(13)	26
Non-operating MCEV earnings	6	10	10	6	13	45	–	45
Total MCEV earnings	14	15	39	1	15	84	(13)	71
Other movements in IFRS net equity	–	–	–	–	29	29	–	29
Closing adjustments:								
– capital and dividend flows	(8)	(2)	(3)	11	3	1	1,698	1,699
– foreign exchange variances	–	–	(3)	–	–	(3)	–	(3)
Closing Group MCEV[(ii)]	2,687	471	440	(551)	134	3,181	307	3,488

(i) Resolution (ex. FPH) refers to the Group excluding the acquired assets of Friends Provident and the AXA UK Life Business.

(ii) The closing MCEV segmental split has been revised. See note 12.

Within the 2010 opening adjustments the capital and dividend flows reflect the proceeds of the Resolution Limited issue of share capital net of transaction costs of £1,979 million in connection with the acquisition of the AXA UK Life Business, the subsequent purchase by Resolution of FPH issued share capital of £1,665 million and the issue of £500 million of Deferred Consideration Notes.

Other movements in IFRS net equity reflect £(22) million actuarial losses on defined benefit pension schemes and an adjustment of £(20) million for treasury shares.

Within closing adjustments the capital and dividend flows reflect £(65) million of dividend paid by FPH to Resolution holding companies and £3 million impact of share based payments. Also included are dividends paid from the life companies to FPH net of any internal loans, and capital transfers between operating segments to eliminate from the closing MCEV the impact of profits and losses that are allocated to one segment but whose net assets are classified in another.

9. Maturity profile of value of in-force business by proposition

As at 31 December 2010

	Total	1–5	6–10	11–15	16–20	21–25	26–30	31–35	36–40	41+
UK										
With-profits funds	465	228	119	62	31	14	5	2	4	–
Protection	478	283	102	58	26	7	2	–	–	–
Investments	905	444	249	124	56	23	8	1	–	–
Pensions	992	414	267	166	89	39	12	4	1	–
Annuities	195	37	37	32	27	23	17	13	9	–
Other	236	236	–	–	–	–	–	–	–	–
UK total	3,271	1,642	774	442	229	106	44	20	14	–
Non-UK										
International	473	242	143	56	23	8	1	–	–	–
Lombard	497	196	112	77	47	29	17	10	5	4
Non-UK total	970	438	255	133	70	37	18	10	5	4
FPH Corporate	(39)	(17)	(10)	(6)	(3)	(1)	(1)	(1)	–	–
Total VIF	4,202	2.063	1,019	569	296	142	61	29	19	4

The UK Other category includes the VIF in respect of the GOF and TIP business that is held for sale.

The FPH Corporate VIF relates to cost of capital held in excess of the operating segment capital policy. This VIF is related to the capital requirements of the with-profits funds and the run off pattern is similar.

10. MCEV assumptions

10.1 Economic assumptions – deterministic calculations

Economic assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each reporting period.

Reference rates – risk free

The risk free reference rate is determined with reference to the swap yield curve appropriate to the currency of the cash flows. For some business types, where the impact on VIF is small, a long-term risk free reference rate has been used.

For annuity business the swap yield curve is extrapolated where necessary to provide rates appropriate to the duration of the liabilities.

	Reference rate – risk free	
	31 December 2010 %	31 December 2009 %
UK		
Long-term rate	**3.70**	4.30
Swap yield curve		
– Term 1 year	**1.14**	1.01
– Term 5 years	**2.69**	3.48
– Term 10 years	**3.70**	4.26
– Term 15 years	**4.09**	4.59
– Term 20 years	**4.15**	4.54
International long-term rate	**3.70**	4.30
Lombard long-term rate	**3.46**	3.72

Reference rate – Illiquidity premium adjustment

The updated MCEV Principles recognise that the inclusion of an illiquidity premium within the reference rate is appropriate where the liabilities are not liquid.

In this regard, the methodology adopted for the valuation of immediate annuities in the UK uses a reference rate that has been increased above the swap yield curve to allow for an illiquidity premium. This reflects the fact that, for these products, the backing asset portfolio can be held to maturity and earns risk-free returns in excess of swaps. Any illiquidity premia in respect of assets backing other product types are recognised within the MCEV as and when they are earned.

The illiquidity premium has been evaluated by considering a number of different sources of information and methodologies. There are two main approaches being commonly used to determine the illiquidity premium within the life insurance industry:

- a “negative basis trade”, which attributes a component of the difference between the spread on a corporate bond and a credit default swap (for the same issuing entity, maturity, seniority and currency) as being the illiquidity premium; and
- structural models – such as that used by the Bank of England in their analysis of corporate bond spreads – that use option pricing techniques to decompose the spread into its constituent parts including default risk, credit risk premium and a residual illiquidity premium.

Both of these methods have been used to help inform the extent of the illiquidity premium within the asset portfolios backing immediate annuity business.

No illiquidity premium has been applied for any other covered business.

The reference rate has been adjusted for immediate annuities as set out in the table below.

	Embedded value		New business	
	31 December 2010	31 December 2009	**Full year 2010**	5 November to 31 December 2009
UK immediate annuities	**75bps**	75bps	**75bps**	80bps

Expected asset returns in excess of reference rates

Margins are added to the reference rates to obtain investment return assumptions for equity, property and corporate bonds. These risk premia reflect management's expectations of asset returns in excess of the reference rate from investing in different asset classes. As a market consistent approach has been followed, these investment return assumptions affect the expected existing business contribution and the economic variances within the analysis of MCEV earnings, but do not affect the opening or closing embedded values. In addition, they will affect the additional disclosures of the payback periods.

For equities and property, the excess is calculated as the difference between the long-term rate of return and the one-year risk free reference rate. The long-term rate of return is derived using a 10 year swap rate plus a risk premium of 3% for equities (2009: 3%) and 2% for property (2009: 2%).

For cash and government bonds no excess over the one-year risk free reference rate has been assumed. For corporate bonds, the return is based on the excess of actual corporate bond spreads on the reporting date, less an allowance for defaults, over the one-year risk free reference rate.

For annuity business the excess return reflects the excess of the bond portfolio over the reference rate including the illiquidity premium adjustment.

Expense inflation

Maintenance expenses for UK and International business (excluding Lombard) are assumed to increase in the future at a rate of 1% per annum in excess of the assumed long-term rate of inflation. This is derived from the difference between the risk-free rate of return based on the FT Actuaries 15 year gilt index and the average of the FTSE Actuaries over five-year index-linked gilt yield at 5% and 0% inflation.

Maintenance expenses for Lombard are assumed to increase in the future at a rate of 0.75% per annum in excess of the assumed long-term rate of inflation. This is derived from an inflation swap curve based on a Euro-zone price index taking into account the run-off profile of the business.

	Expense inflation	
	31 December 2010 %	31 December 2009 %
UK	**4.4**	4.7
International	**4.4**	4.7
Lombard	**3.0**	3.3

Required capital

Required capital under MCEV amounted to £1,291 million (2009: £362 million, restated in note 12). The projected required capital is derived from the Group's capital management policy which is to hold, within life company subsidiaries, the greater of 150% Pillar 1 CRR excluding WPICC and 125% of ICA plus ICG. In addition the Group's capital management policy is to hold 160% of Group CRR excluding WPICC, and any cost of holding this additional capital is shown within the FPH Corporate covered business segment.

At 31 December 2009 the Group's capital management policy was to hold 150% of Group CRR excluding WPICC.

Taxation

The opening and closing embedded values in respect of covered business are determined on an after tax basis. The tax assumptions used are based upon the best estimate of the actual tax expected to arise. The attributable tax charge and profit before tax are derived by grossing up the profit after tax at the appropriate tax rates for each of the UK, Isle of Man, Luxembourg and Malaysia. Deferred tax is provided on the mark-to-market revaluation of the STICS and lower tier 2 subordinated debt allocated to the life and pensions covered business within FPH Corporate.

For non-covered business, attributed tax is consistent with the IFRS financial statements.

	Tax rates	
	31 December 2010 %	31 December 2009 %
UK	**28.0**	28.0
International		
– OLAB (UK)	**28.0**	28.0
– FPIL (Isle of Man)	**0.0**	0.0
– AmLife (Malaysia)	**25.0**	25.0
Lombard	**23.5**	28.6

The PVFP for UK and OLAB business at 31 December 2010 includes allowance for the Emergency Budget annual reductions in corporation tax to 24% in 2014. The MCEV at 31 December 2010 has been increased by £89 million for anticipated future annual reductions in corporation tax from 27% to 24% over the period to 2014 and for an ultimate rate of 24% from April 2014.

During 2010 the structure of the Lombard group of companies has been reorganised, as a result of which the effective rate of tax assumed within the MCEV results for Lombard has been reduced to 23.5% (2009: 28.6%).

VAT in the UK of 20.0% (2009: 17.5%) has been included on relevant investment management expenses and outsourced administration contracts.

Exchange rates

The results and cash flows of all businesses, except Lombard and AmLife, are calculated in Sterling. The results and cash flows for Lombard are calculated in Euros and those of AmLife in Malaysian Ringgits , and converted to Sterling at the following rates:

	Exchange rates	
	31 December 2010	31 December 2009
Closing exchange rate		
– Euro	**0.857**	0.888
– Malaysian Ringgit	**0.207**	0.180
Average exchange rate		
– Euro	**0.859**	0.891[(i)]
– Malaysian Ringgit	**0.200**	0.179[(i)]

(i) Average exchange rates for 2009 refer to the period from 5 November 2009 to 31 December 2009.

Other economic assumptions

Bonus rates on participating business have been set at levels consistent with the economic assumptions.

The MCEV allows for distribution of profit between the policyholders and shareholders within the following with-profits funds at the current rate of one-ninth of the cost of bonus:

- FPLP With Profits fund ("FPLP WPF")
- FLAS With Profits fund ("FLAS WPF")
- FLC Old With Profits fund ("FLC OWPF")
- FLC New With Profits fund ("FLC NWPF")

In addition it is assumed that the shareholder interest in the non-profit business of the FPLP WPF continues at the current rate of 60% of future profits.

FLC contains RIE which was transferred to the FLC NPFs as part of the reattribution of the FAELLAS inherited estate. The reattribution was implemented as part of an intra group Part VII scheme (the "Scheme") transferring business into FLC. The Scheme took effect on 1 April 2001 and was amended as part of a subsequent transfer of mainly unit-linked business into FLC on 1 January 2007 (the "2006 Scheme").

With-profits policies which had been elected to take part in the re-attribution were transferred to the FLC New WPF. With-profits policies which were not so elected were transferred to the FLC Old WPF with a proportionate share of the FAELLAS inherited estate.

The Scheme rules require that a test be undertaken every five years to determine whether it is possible to transfer any of the RIE from the FLC NPFs to the FLC shareholders' fund or to distribute any of the inherited estate retained in the FLC Old WPF in the form of Special Bonuses (and associated transfer to the shareholders' fund). The latest five yearly test was undertaken as at 31 December 2010.

As at 31 December 2010, the RIE was £2,437 million. The results of the testing showed that just under £2.0 billion of the RIE could be available to transfer to the FLC shareholders' fund in the five year period commencing 31 December 2010. However such transfers are subject to FLC being able to continue to satisfy certain tests of financial strength after any such transfer. This has restricted the amount available to be transferred to the FLC shareholders' fund at the end of 2010. Following the results of the five year testing, the FLC board determined that as at 31 December 2010 it should make:

a) a transfer of £1,010 million of RIE from the NPFs to the shareholders' fund; and

b) a distribution of £157 million of the inherited estate of the FLC Old WPF, which will be split 90% to with-profits policies allocated to or reinsured to the FLC Old WPF in the form of a Special Bonus and 10% to the FLC shareholders' fund.

The remaining RIE in the FLC NPFs is predominantly in the form of the VIF of non-profit business written within those funds. To the extent that this VIF emerges into cash during the five year period commencing 31 December 2010, the cash may be available to be transferred to the FLC shareholders' fund subject to passing the relevant financial strength tests and subject to an overall cap on such further transfers of £928 million prior to the next five year testing as at 31 December 2015. The MCEV allows for the transfer at 31 December 2010 and for best estimate projections of the amounts to be transferred in future.

10.2 Economic assumptions – stochastic calculations

Model

The time value of financial options and guarantees is determined using a Barrie & Hibbert economic scenario generator and is calculated using 2,000 simulations. The model is consistent with the model used for the Realistic Balance Sheet and is calibrated to market conditions at the valuation date using the gilt risk-free curve (extrapolated to a long-term assumption of 4% above 35 years) and implied volatilities in the market. Correlations between the asset classes are derived from historic data.

Swaption implied volatilities

	31 December 2010 Swap term				31 December 2009 Swap term			
Option term	**10 yrs %**	**15 yrs %**	**20 yrs %**	**25 yrs %**	10 yrs %	15 yrs %	20 yrs %	25 yrs %
UK Sterling								
10 years	**15.3**	**14.7**	**14.3**	**14.0**	15.4	14.9	14.2	13.9
15 years	**14.5**	**13.9**	**13.5**	**13.1**	15.7	15.0	14.0	13.6
20 years	**13.1**	**12.6**	**12.1**	**11.7**	16.3	15.2	13.9	13.3
25 years	**12.3**	**11.8**	**11.3**	**10.8**	15.7	14.3	12.9	12.3

Equity and property implied volatilities

Equity volatility is calibrated to market implied volatility and is a reasonable fit to the implied volatility of the FTSE 100 put options held by the with-profits funds. Property holdings are modelled assuming an initial volatility of 15% and a running yield of 4.7%. Sample implied volatilities are shown in the table below.

	31 December 2010		31 December 2009	
Option term	**Equity %**	**Property %**	Equity %	Property %
5 years	**27.4**	**15.9**	25.0	15.9
10 years	**27.7**	**16.2**	27.0	17.0
15 years	**28.0**	**16.4**	29.0	18.4

10.3 Other assumptions

Demographic assumptions

Other assumptions (for example mortality, morbidity and persistency) are a reflection of the best estimate of the likely behaviours, outcomes or circumstances in the future. Typically the estimates are made on an annual basis following experience investigations based on the data available at the time both from the book of business and externally sourced information. The aim is to set assumptions at a level that reflects recent experience, unless there are reliable indicators that suggest their adoption would result in a significant variance compared to these assumptions in the future. In some instances, there may be little or no direct experience to use in setting assumptions and the future outcome is therefore uncertain.

Future improvements in annuitant mortality have been assumed to be in accordance with the "medium cohort" projections (with certain amendments) published by the Continuous Mortality Investigation in 2002. The amendments are to use 75% of these projections for females and to introduce a minimum annual rate of improvement in future mortality – for males this is assumed to be 1.5% p.a. (2009: 1.0% p.a.) and for females 1.25% p.a. (2009: 0.75% p.a.).

Expense assumptions

The management expenses (including those relating to holding companies) attributable to the covered businesses have been analysed between expenses relating to the acquisition of new business, maintenance of in-force business (including investment management expenses) and development expenses.

Future maintenance expense assumptions reflect the expected ongoing expense levels required to manage the in-force business.

Productivity gains have generally only been included to the extent they have been achieved by the end of the reporting period.

In June 2009 FLSL entered into a 15 year agreement with Capita Life & Pensions Regulated Services Limited ("Capita") to outsource the administration of mature traditional life and pensions policies. This agreement includes the rationalisation of IT systems and significant longer term cost reductions. The maintenance expense assumptions for the relevant business allow for the agreed service fees with Capita. In addition allowance is made for the initial significant development expenditure and anticipated longer term savings as a result of a reduction in IT costs, which result in an overall expense overrun in FLSL.

Future projected short-term expense overruns in the Lombard business has been allowed for by reducing the PVFP by £2 million for a projected overrun to 2012 (2009: £6 million for a projected overrun to 2013). At 31 December 2009 the PVFP for International business was reduced by £4 million for a projected overrun to 2012. No such reduction has been made to the PVFP for International at 31 December 2010.

The MCEV makes provision for certain development costs to the extent that these are known with sufficient certainty and in line with current plans.

Development costs of £28 million (2009: £5 million) have been excluded from the calculation of unit costs and have been recognised in experience variances. Development costs relate to investment in activities expected to create value in the future, but where that expected value cannot be anticipated within the current year's financial results until the value is realised.

Development costs

	FPH	FPH
	Year ended 31 December 2010 £m	5 November to 31 December 2009 £m
UK	**21**	3
International	**6**	2
Lombard	**1**	–
Total	**28**	5

Non-hedgeable risks

A charge equivalent to 2% (2009: 2%) has been applied to the projected risk-based group required capital for all non-hedgeable risks over the remaining lifetime of in-force business.

In line with management's view of the business, no allowance has been made for diversification benefits within the non-hedgeable risks of the covered business.

Other assumptions

The STICS and external lower tier 2 subordinated debt are included within the MCEV at market value, based on listed bid price.

31 December 2010	**Principal £m**	**Clean market value of debt £m**	**Accrued interest £m**	**Tax adjustment on market valuation £m**	**Value of debt included in FPH Corporate[(i)] £m**
STICS 2003	**210**	**172**	**2**	**9**	**183**
STICS 2005	**268**	**221**	**8**	**10**	**239**
Lower tier 2 subordinated debt (external)	**162**	**201**	**12**	**(15)**	**198**
Total	**640**	**594**	**22**	**4**	**620**

31 December 2009	Principal £m	Clean market value of debt £m	Accrued interest £m	Tax adjustment on market valuation £m	Value of debt included in FPH Corporate[(i)] £m
STICS 2003	210	140	2	18	160
STICS 2005	268	178	9	22	209
Lower tier 2 subordinated debt (external)	162	187	12	(11)	188
Total	640	505	23	29	557

(i) The value of debt included in the FPH Corporate category is the market value of debt, including accrued interest, and the tax asset/liability on the market value adjustment.

11. Sensitivity analysis

The table below shows the sensitivity of the embedded value and the value of new business to changes in assumptions. The sensitivities below apply to covered business only and include the impact on both shareholder net worth and VIF.

For each sensitivity, the other future experience assumptions remain unchanged, except where changes in economic assumptions directly affect them. The assumptions underlying the statutory reserving calculations remain unchanged in all sensitivities. There are no additional management actions or changes in policyholder behaviour assumed within any of the sensitivities.

The sensitivities for 2009 have been restated to align with the segmental reporting adopted in 2010. Sensitivities shown in a single direction have broadly symmetrical impacts.

	FPH (covered business only) Year ended 31 December 2010				
	Change in MCEV (net of tax)				
Impact on MCEV	**UK £m**	**Int'l £m**	**Lombard £m**	**FPH Corporate £m**	**Total £m**
Base MCEV	**5,995**	**557**	**577**	**(659)**	**6,470**
Market risk					
100bp increase in reference rates	**(144)**	**(7)**	**(6)**	**29**	**(128)**
100bp decrease in reference rates	**153**	**4**	**1**	**(31)**	**127**
Removal of illiquidity premium for immediate annuities	**(425)**	**–**	**–**	**–**	**(425)**
10% decrease in equity/property capital values at the valuation date, without a corresponding fall/rise in dividend/rental yield(i)	**(192)**	**(20)**	**(46)**	**–**	**(258)**
25% increase in equity/property volatility at the valuation date	**(22)**	**–**	**–**	**–**	**(22)**
25% increase in swaption implied volatility at the valuation date	**(4)**	**–**	**–**	**–**	**(4)**
100bps increase in corporate bond spreads(ii)	**(312)**	**–**	**(16)**	**29**	**(299)**
100bps decrease in corporate bond spreads(ii)	**329**	**–**	**16**	**(31)**	**314**
10% adverse movement in Sterling/overseas exchange rate(iii)	**(34)**	**(15)**	**(47)**	**–**	**(96)**
Insurance and other risk					
Reduction to EU minimum capital or equivalent(iv)	**34**	**1**	**2**	**45**	**82**
10% decrease in maintenance expenses	**162**	**8**	**23**	**–**	**193**
10% proportionate decrease in lapse rates	**85**	**15**	**42**	**–**	**142**
10% proportionate decrease in PUP rates	**13**	**4**	**–**	**–**	**17**
5% decrease in mortality/morbidity – life assurance					
– Before reinsurance	**227**	**4**	**2**	**–**	**233**
– After reinsurance	**62**	**2**	**–**	**–**	**64**
5% decrease in mortality/morbidity – annuity business					
– Before reinsurance	**(6)**	**–**	**–**	**–**	**(6)**
– After reinsurance	**(49)**	**–**	**–**	**–**	**(49)**

(i) The movement in embedded value from a reduction in market values comprises a £3 million (2009: £3 million) fall in the value of shareholders' net worth and a £189 million (2009: £93 million) reduction in the value of in-force covered business.

(ii) The corporate bond spread sensitivities of an increase/(decrease) of 100bps assume an increase/(decrease) in the illiquidity premium for immediate annuities of 30bps for in-force business and 40 bps for the value of new business.

(iii) Currency risk is expressed in terms of total overseas exposure; the Group's principal currency exposures other than Sterling are the Euro and US Dollar.

(iv) Required capital is set at the greater of regulatory capital and requirements arising from internal capital management policies. In aggregate, the required capital is higher than the regulatory requirement by £1,093 million (2009: £350 million). This sensitivity shows the impact on embedded value and value of new business of using the lower regulatory capital requirement.

	Change in value of new business (gross of tax)			
Impact on value of new business in 2010	**UK £m**	**Int'l £m**	**Lombard £m**	**Total £m**
Base Value of New Business	**19**	**43**	**83**	**145**
Market risk				
100bp increase in reference rates	**(7)**	**(1)**	**3**	**(5)**
100bp decrease in reference rates	**2**	**1**	**(4)**	**(1)**
Removal of illiquidity premium for immediate annuities	**(20)**	**–**	**–**	**(20)**
100bps increase in corporate bond spreads(i)	**(9)**	**–**	**–**	**(9)**
100bps decrease in corporate bond spreads(i)	**8**	**–**	**–**	**8**
Insurance and other risk				
Reduction to EU minimum capital or equivalent	**3**	**–**	**–**	**3**
10% decrease in maintenance expenses	**8**	**2**	**4**	**14**
10% proportionate decrease in lapse rates	**7**	**2**	**7**	**16**
10% proportionate decrease in PUP rates	**4**	**2**	**–**	**6**
5% decrease in mortality/morbidity – life assurance				
– Before reinsurance	**8**	**–**	**–**	**8**
– After reinsurance	**2**	**–**	**–**	**2**
5% decrease in mortality/morbidity – annuity business				
– Before reinsurance	**(2)**	**–**	**–**	**(2)**
– After reinsurance	**(2)**	**–**	**–**	**(2)**

(i) The corporate bond spread sensitivities of an increase/(decrease) of 100bps assume an increase/(decrease) in the illiquidity premium for immediate annuities of 30bps for in-force business and 40 bps for the value of new business.

	FPH (covered business only) Year ended 31 December 2009				
	Change in MCEV (net of tax)				
Impact on MCEV	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	Total £m
Base MCEV	2,687	471	440	(551)	3,047
Market risk					
100bp increase in reference rates	(72)	(6)	(9)	18	(69)
100bp decrease in reference rates	83	5	3	(19)	72
Removal of illiquidity premium for immediate annuities	(129)	–	–	–	(129)
10% decrease in equity/property capital values at the valuation date, without a corresponding fall/rise in dividend/rental yield	(54)	(18)	(23)	–	(95)
25% increase in equity/property volatility at the valuation date	(9)	–	–	–	(9)
25% increase in swaption implied volatility at the valuation date	(3)	–	–	–	(3)
100bps increase in corporate bond spreads	(133)	–	(10)	18	(125)
100bps decrease in corporate bond spreads	115	–	9	(19)	105
10% adverse movement in Sterling/overseas exchange rate	(10)	(21)	(42)	–	(73)
Insurance and other risk					
Reduction to EU minimum capital or equivalent	23	–	2	–	25
10% decrease in maintenance expenses	50	10	24	–	84
10% proportionate decrease in lapse rates	27	19	27	–	73
10% proportionate decrease in PUP rates	12	5	–	–	17
5% decrease in mortality/morbidity – life assurance					
– Before reinsurance	48	3	1	–	52
– After reinsurance	16	3	1	–	20
5% decrease in mortality/morbidity – annuity business					
– Before reinsurance	(35)	–	–	–	(35)
– After reinsurance	(23)	–	–	–	(23)

12. Segmental analysis

Changes to segmental analysis at 31 December 2009

Following the acquisition of the AXA UK Life Business, the Group has reviewed its segmental analysis under IFRS and MCEV reporting bases.

At 31 December 2010 the STICS and external lower tier 2 subordinated debt, are classified within MCEV covered business under "FPH Corporate". At 31 December 2009 the STICS and lower tier 2 subordinated debt were classified as covered business under the UK segment.

The value of debt included in FPH Corporate is calculated as the clean market value of the STICS and lower tier 2 subordinated debt plus accrued interest and tax on that debt.

In addition a number of small adjustments to the treatment of internal loans within the Group and their allocation have been made to help reconciliation between the disclosures under IFRS and MCEV. The following table shows the amendments required to the published embedded value figures for 31 December 2009.

	2010 MCEV segments					
31 December 2009	**UK £m**	**Int'l £m**	**Lombard £m**	**FPH Corporate £m**	**Non-covered business £m**	Total MCEV (by 2009 segments) £m
2009 MCEV segments						
UK	**2,668**	**–**	**–**	**(555)**	**–**	**2,113**
International	**4**	**471**	**–**	**–**	**–**	**475**
Lombard	**–**	**–**	**440**	**–**	**–**	**440**
Non-covered business	**15**	**–**	**–**	**4**	**134**	**153**
Total FPH MCEV (by 2010 segments)	**2,687**	**471**	**440**	**(551)**	**134**	**3,181**

Changes to definitions of free surplus and required capital at 31 December 2009

The analysis of MCEV earnings for the year ended 31 December 2009 has been restated to reflect the changes in definition, and a reconciliation from the reported to the adjusted opening and closing positions is provided below. The key change has been the presentation of the STICS and external lower tier 2 subordinated debt as a deduction from required capital and hence an increase in free surplus. Other adjustments have been made to align the presentation of the free surplus and required capital with the requirements under local regulations, and hence certain items previously reported as VIF are now reported as free surplus.

Year ended 31 December 2009	FPH						Resolution Liimited	
	Covered business							
Net of tax	Free surplus £m	Required capital m	VIF £m	MCEV £m	Non- covered business £m	Total £m	Non- covered business £m	Total £m
Previously reported adjusted opening MCEV	279	821	1,864	2,964	106	3,070	(1,378)	1,692
Adjustments:								
– STICS/lower tier 2 treatment	576	(563)	–	13	(13)	–	–	–
– capital requirement adjustments	(96)	96	–	–	–	–	–	–
– VIF/Free surplus adjustments	101	–	(95)	6	(6)	–	–	–
Restated adjusted opening MCEV	860	354	1,769	2,983	87	3,070	(1,378)	1,692

Year ended 31 December 2009	FPH						Resolution Liimited	
	Covered business							
Net of tax	Free surplus £m	Required capital £m	VIF £m	MCEV £m	Non- covered business £m	Total £m	Non- covered business £m	Total £m
Previously reported closing MCEV	286	826	1,916	3,028	153	3,181	307	3,488
Adjustments:								
– STICS/lower tier 2 treatment	570	(557)	–	13	(13)	–	–	–
– capital requirement adjustments	(93)	93	–	–	–	–	–	–
– VIF/Free surplus adjustments	49	–	(43)	6	(6)	–	–	–
Restated closing MCEV	812	362	1,873	3,047	134	3,181	307	3,488

Comparison of MCEV and IFRS classification and segments

The covered business segments within MCEV are consistent with the IFRS business segments.

The split of the MCEV by IFRS business segment for FPH is shown in the tables below:

FPH for the year ended 31 December 2010

	MCEV classification					
31 December 2010	**UK £m**	**Int'l £m**	**Lombard £m**	**FPH Corporate £m**	**Non-covered business £m**	**Total MCEV by IFRS segments £m**
IFRS segment						
UK	**5,995**	**–**	**–**	**–**	**22**	**6,017**
International	**–**	**557**	**–**	**–**	**–**	**557**
Lombard	**–**	**–**	**577**	**–**	**6**	**583**
FPH Corporate	**–**	**–**	**–**	**(659)**	**16**	**(643)**
Total MCEV (by MCEV segments)	**5,995**	**557**	**577**	**(659)**	**44**	**6,514**

FPH for the year ended 31 December 2009

	MCEV classification					
31 December 2009	UK £m	Int'l £m	Lombard £m	FPH Corporate £m	Non- covered business £m	Total MCEV by IFRS segments £m
IFRS segment						
UK	2,687	–	–	–	30	2,717
International	–	471	–	–	1	472
Lombard	–	–	440	–	6	446
FPH Corporate	–	–	–	(551)	97	(454)
Total MCEV (by MCEV segments)	2,687	471	440	(551)	134	3,181

13. FPH annualised return on embedded value

	Year ended 31 December 2010 % p.a.	5 November to 31 December 2009 % p.a.
Value of new business	**3.3**	8.6
Expected existing business contribution(i)	**5.6**	5.4
Operating experience variances	**0.8**	(4.1)
Operating assumption changes	**(0.5)**	0.1
Other operating variance	**1.1**	0.0
Development costs	**(0.6)**	(0.8)
Other income and charges(ii)	**0.2**	0.5
MCEV operating profit before tax and financing	**9.9**	9.7
Impact of financing	**0.7**	0.8
Attributed tax charge on MCEV operating profit	**(2.3)**	(2.9)
MCEV operating profit after tax	**8.3**	7.6
Economic variances	**4.7**	7.8
Other non-operating items	**0.1**	0.8
Attributed tax on other activities	**(1.3)**	0.2
MCEV profit after tax	**11.8**	16.4
Actuarial gains/(losses) on defined benefit pension schemes	**(0.6)**	5.7
Foreign exchange adjustments	**(0.3)**	(0.6)
Total return on MCEV over the period	**10.9**	21.5

(i) Excludes expected impact of financing of £30 million for 2010 and £5 million for the period from 5 November to 31 December 2009.

(ii) Excludes £18 million impact for 2010 (nil for 2009) of financing of non-covered debt.

The table above provides an analysis of the return on embedded value. The starting embedded value for 2010 is £3,181 million, net of the market-consistent value of debt instruments of £557 million at 31 December 2009. The starting embedded value on 5 November 2009 was £3,070 million, net of the market-consistent value of debt instruments of £563 million. These values are adjusted to allow for the timing of the rights issue, dividend payments, the acquisition of the AXA UK Life Business and the issue of lower tier 2 debt by Resolution holding companies to FPH during the period.

The MCEV operating return before tax and financing is based on the gross MCEV (i.e. before the market-consistent value of debt). The return includes both covered and non-covered business. The impact of the financing item reflects the leverage on the return on embedded value created within FPH through the use of debt instruments, net of the cost of financing these instruments.

Appendix 1: Redefinition and other adjustments to 2009 IFRS based operating profit

As described above in the business review, the Group's definition of IFRS based operating profit has been amended in the 2010 financial statements; investment return variances in excess of the calculated longer-term rate of return are now excluded from operating profit. In addition, presentational changes have been made within the components of operating profit in respect of the classification of development costs and certain one-off items; these presentational changes do not change operating profit. The impact of these changes on the results of the Resolution Group for the year ended 31 December 2009, and on the results of Friends Provident Group for the year ended 31 December 2009, as included in the business review, are set out in the following tables. In addition, as described in the business review, the figures for the year ended 31 December 2009 are adjusted to reflect the elimination of pre-acquisition DAC amortisation and DFF to aid comparability.

Resolution Group: Year ended 31 December 2009

	UK £m	**Intl £m**	**Lombard £m**	**Corporate £m**	**Total £m**
IFRS based operating profit before tax, as previously reported	25	9	4	(18)	20
Investment return variances reclassified to short-term fluctuations in investment return	(14)	-	-	-	(14)
Adjusted IFRS based operating profit before tax	**11**	**9**	**4**	**(18)**	**6**

Friends Provident Group: Year ended 31 December 2009

As reported	**UK £m**	**Intl £m**	**Lombard £m**	**Corporate £m**	**Total £m**
New business strain	(92)	(28)	(31)	-	(151)
In-force surplus	140	36	50	-	226
Investment return and other items	36	3	(6)	-	33
Principal reserving changes and on-off items	5	(30)	(2)	-	(27)
Fixed interest investment variances including bond spreads	176	-	-	-	176
Other	-	11	-	4	15
IFRS based operating profit before tax	**265**	**(8)**	**11**	**4**	**272**

Appendix 1: Redefinition and other adjustments to 2009 IFRS based operating profit

Adjustments relating to redefinition of IFRS based operating profit before tax	**UK £m**	**Intl £m**	**Lombard £m**	**Corporate £m**	**Total £m**
Development costs shown separately from new business strain					
New business strain	15	5	2	-	22
Development costs	(15)	(5)	(2)	-	(22)
Experience variances moved to in-force surplus					
In-force surplus	(12)	(4)	-	-	(16)
Principal reserving changes and on-off items	12	4	-	-	16
Fixed investment return variances moved outside operating profit					
Investment return variances reclassified to short-term fluctuations in investment return	(176)	-	-	-	(176)
Resolution basis DAC and DFF alignment					
Add back pre-acquisition charge for DAC amortisation and DFF – impact is to in-force surplus	43	65	5	-	113
Net impact on IFRS based operating profit before tax	**(133)**	**65**	**5**	**-**	**(63)**

Adjusted IFRS based operating profit before tax	**UK £m**	**Intl £m**	**Lombard £m**	**Corporate £m**	**Total £m**
New business strain	(77)	(23)	(29)	-	(129)
In-force surplus	171	97	55	-	323
Investment return and other items	36	3	(6)	-	33
Principal reserving changes and on-off items	17	(26)	(2)	-	(11)
Development costs	(15)	(5)	(2)	-	(22)
Other	-	11	-	4	15
Adjusted IFRS based operating profit before tax	**132**	**57**	**16**	**4**	**209**

Appendix 2: International and Lombard additional information

Analysis of International segment

APE, PVNBP and VNB

Year ended 31 December 2010 £m	FPIL	OLAB	AmLife	TOTAL
New Business APE	200	28	10	**238**
New Business PVNBP	1,167	170	68	**1,405**
VNB	27	12	4	**43**

IFRS based operating profit

Year ended 31 December 2010 £m	FPIL	OLAB	AmLife	TOTAL
New business strain	(21)	(7)	-	**(28)**
In-force surplus	89	31	-	**120**
Investment return and other items	1	2	-	**3**
Principal reserving changes and one off items	3	(1)	-	**2**
Investments in associated undertakings	-	-	4	**4**
Development costs	(3)	(3)	-	**(6)**
IFRS based operating profit before tax	**69**	**22**	**4**	**95**

MCEV operating profit

Year ended 31 December 2010 £m	FPIL	OLAB	AmLife	TOTAL
Value of new business	27	12	4	**43**
Expected existing business contribution	23	1	5	**29**
Operating experience variance	16	(3)	(1)	**12**
Operating assumption changes	(1)	(1)	0	**(2)**
Other operating variances	(7)	(4)	4	**(7)**
Development costs	(3)	(3)	-	**(6)**
MCEV operating profit before tax	**55**	**2**	**12**	**69**

MCEV

Year ended 31 December 2010 £m	FPIL	OLAB	AmLife	TOTAL
Total	**452**	**69**	**36**	**557**

Appendix 2: International and Lombard additional information

Operating expenses

Year ended 31 December 2010 £m	FPIL	OLAB	TOTAL
Acquisition	20	8	**28**
Maintenance	16	6	**22**
Development	3	3	**6**
Other	1	-	**1**
Total	**40**	**17**	**57**

As AmLife is an associated undertaking, its operating expenses are excluded from the analysis above.

Lombard sales by territory

Lombard sales by territory £m	2009	2010
UK and Nordic	41	72
Northern Europe	85	119
Southern Europe	129	94
Rest of World	18	17
Total sales	**273**	**302**

Appendix 3: new business information

Analysis of Life and Pensions New Business

Regular and Single Premiums

Group

	Regular premiums			Single premiums		
	12 months(i)	12 months		**12 months(i)**	12 months	
	2010	2009	Change	**2010**	2009	Change
	£m	£m	%	**£m**	£m	%
UK Corporate						
- pensions	**303**	262	16	**273**	474	(42)
- protection	**6**	9	(33)	**-**	-	-
UK Individual						
- protection	**50**	41	22	**19**	-	-
- pensions	**9**	6	50	**226**	163	39
- investments	**-**	-	-	**239**	28	754
Annuities	**-**	-	-	**290**	232	25
Total UK life and pensions	**368**	318	16	**1,047**	897	17
International	**186**	160	16	**515**	321	60
Lombard	**-**	-	-	**3,022**	2,735	10
Total International life and pensions	**186**	160	16	**3,537**	3,056	16
Total life and pensions	**554**	478	16	**4,584**	3,953	16

(i) includes the trading results of the acquired AXA UK Life Businesses for the 4 months of September to December 2010 inclusive. Premiums related to GOF and TIP portfolios within the AXA UK Life Business are not included as the portfolios are held for sale whilst premiums related to WLUK are similarly excluded. This treatment is consistent with the presentation of the Group results as a whole.

Appendix 3: new business information

Friends Provident

	Regular premiums			Single premiums		
	12 months	12 months		**12 months**	12 months	
	2010	2009	Change	**2010**	2009	Change
	£m	£m	%	**£m**	£m	%
UK Corporate						
- pensions	**271**	262	3	**244**	474	(48)
- protection	**6**	9	(33)	**-**	-	-
UK Individual						
- protection	**36**	41	(12)	**-**	-	-
- pensions	**7**	6	17	**189**	163	16
- investments	**-**	-	-	**39**	28	39
Annuities	**-**	-	-	**241**	232	4
Total UK life and pensions	**320**	318	1	**713**	897	(21)
International	**186**	160	16	**516**	321	61
Lombard	**-**	-	-	**3,022**	2,735	11
Total International life and pensions	**186**	160	17	**3,538**	3,056	16
Total life and pensions	**506**	478	6	**4,251**	3,953	8

AXA UK Life Business

	Regular premiums	Single premiums
	4 months	**4 months**
	2010	**2010**
	£m	**£m**
UK Corporate		
- pensions	**32**	**29**
- protection	**-**	**-**
UK Individual		
- protection	**14**	**19**
- pensions	**2**	**37**
- investments	**-**	**200**
Annuities	**-**	**49**
Total AXA UK Life Business	**48**	**334**

Appendix 3: new business information

Regular and Single Premiums

Group

	Regular premiums			Single premiums		
	Q4[(i)] 2010 £m	Q4 2009 £m	Change %	**Q4[(i)] 2010 £m**	Q4 2009 £m	Change %
UK Corporate						
- pensions	**91**	75	21	**103**	158	(35)
- protection	**2**	2	-	**-**	-	-
UK Individual						
- protection	**19**	10	90	**15**	-	-
- pensions	**3**	1	200	**52**	22	136
- investments	**-**	-	-	**155**	7	2,114
Annuities	**-**	-	-	**84**	44	91
Total UK life and pensions	**115**	88	31	**409**	231	77
International	**45**	47	(4)	**165**	105	57
Lombard	**-**	-	-	**892**	1,985	(55)
Total International life and pensions	**45**	47	(4)	**1,057**	2,090	(49)
Total life and pensions	**160**	135	19	**1,466**	2,321	(37)

(i) includes the trading results of the acquired AXA UK Life Businesses. Premiums related to GOF and TIP portfolios within the AXA UK Life Business are not included as the portfolios are held for sale whilst premiums related to WLUK are similarly excluded. This treatment is consistent with the presentation of the Group results as a whole.

Appendix 3: new business information

Group New Business - APE

Annualised Premium Equivalent ("APE") represents annualised new regular premiums plus 10% of single premiums.

	12 months[(i)] 2010 £m	12 months 2009 £m	Change %	**Q4[(i)] 2010 £m**	Q4 2009 £m	Change %
UK Corporate:						
- pensions	**330**	310	6	**101**	91	11
- protection	**6**	9	(33)	**2**	2	-
UK Individual						
- protection	**52**	41	22	**20**	10	100
- pensions	**31**	22	41	**9**	4	125
- investments	**24**	3	700	**16**	1	1,500
Annuities	**29**	23	26	**8**	4	100
Total UK life and pensions	**472**	408	16	**156**	112	39
International	**238**	192	24	**62**	57	9
Lombard	**302**	273	11	**89**	199	(55)
Total International life and pensions	**540**	465	16	**151**	256	(41)
Total life and pensions	**1,012**	873	16	**307**	368	(17)

(i) includes the trading results of the acquired AXA UK Life Businesses for the 4 months of September to December 2010 inclusive. Premiums related to GOF and TIP portfolios within the AXA UK Life Business are not included as the portfolios are held for sale whilst premiums related to WLUK are similarly excluded. This treatment is consistent with the presentation of the Group results as a whole.

Friends Provident

	12 months 2010 £m	12 months 2009 £m	Change %	**Q4 2010 £m**	Q4 2009 £m	Change %
UK Corporate						
- pensions	**296**	310	(5)	**79**	91	(13)
- protection	**6**	9	(33)	**2**	2	-
UK Individual						
- protection	**36**	41	(12)	**8**	10	(20)
- pensions	**25**	22	14	**4**	4	-
- investments	**4**	3	33	**1**	1	-
Annuities	**24**	23	4	**5**	4	25
Total UK life and pensions	**391**	408	(4)	**99**	112	(12)
International	**238**	192	24	**62**	57	9
Lombard	**302**	273	11	**89**	199	(55)
Total International life and pensions	**540**	465	16	**151**	256	(41)
Total life and pensions	**931**	873	7	**250**	368	(32)

Appendix 3: new business information

Group Quarterly Progression - APE

	Q4(i) 2010 £m	Q3(i) 2010 £m	Q2 2010 £m	Q1 2010 £m
UK Corporate				
- pensions	**101**	77	86	66
- protection	**2**	1	2	1
UK Individual				
- protection	**20**	14	9	9
- pensions	**9**	8	10	4
- investments	**16**	7	1	-
Annuities	**8**	7	6	8
Total UK life and pensions	**156**	114	114	88
International	**62**	55	64	57
Lombard	**89**	78	102	33
Total International life and pensions	**151**	133	166	90
Total life and pensions	**307**	247	280	178

(i) includes the trading results of the acquired AXA UK Life Businesses for the 4 months of September to December 2010 inclusive. Premiums related to GOF and TIP portfolios within the AXA UK Life Business are not included as the portfolios are held for sale whilst premiums related to WLUK are similarly excluded. This treatment is consistent with the presentation of the Group results as a whole.

International

APE by region (£m, actual exchange rates)	12 months 2010	12 months 2009
Asia	**114**	94
Middle East	**46**	38
Europe (Excl UK)	**35**	29
UK	**14**	7
Rest of World	**19**	15
Malaysia (AmLife)	**10**	9
Total	**238**	192

Lombard

APE by region (£m, actual exchange rates)	12 months 2010	12 months 2009
UK and Nordic	**72**	41
Northern Europe	**119**	86
Southern Europe	**94**	128
Rest of World	**17**	18
Total including large cases	**302**	273
Of which: Large cases (greater than €10m)	**90**	61
Total excluding large cases	**212**	212

Appendix 3: new business information

New business APE at constant exchange rates

All amounts in currency in the tables above other than Sterling are translated into Sterling at a monthly average exchange rate. The estimated new business assuming constant currency rates would be as follows:

	12 months 2010 £m	12 months 2009 (as reported) £m	Change %	**Q4 2010 £m**	Q4 2009 (as reported) £m	Change %
International	**234**	192	22	**61**	57	7
Lombard	**314**	273	15	**94**	199	(53)

New Business – Present Value of New Business Premiums ("PVNBP")

PVNBP equals new single premiums plus the expected present value of new regular premiums. Premium values are calculated on a consistent basis with the EV contribution to profits from new business. Start of period assumptions are used for the economic basis and end of period assumptions are used for the operating basis. A risk free rate is used to discount expected premiums in future years. The impact of operating assumption changes across a whole reporting period will normally be reflected in the PVNBP figures for the final quarter of the period that the basis changes relate to. No change in operating assumptions will be reflected in the PVNBP for the first and third quarters, when the contribution to profits from new business is not published. All amounts in currency other than Sterling are translated into Sterling at a monthly average exchange rate.

	12m 2010 £m	**12m 2009 £m**	**Change %**	**Q4(i) 2010 £m**	**Q3(i) 2010 £m**	**Q2 2010 £m**	**Q1 2010 £m**
UK Corporate							
- pensions	**1,535**	1,544	(1)	**536**	323	379	297
- protection	**32**	26	23	**12**	5	10	5
UK Individual							
- protection	**323**	253	28	**135**	83	54	51
- pensions	**297**	185	61	**100**	69	97	31
- investments	**239**	29	724	**153**	69	11	6
Annuities	**290**	232	25	**85**	70	57	78
Total UK life and pensions	**2,716**	2,269	20	**1,021**	619	608	468
International	**1,405**	1,091	29	**359**	350	362	334
Lombard	**3,022**	2,735	10	**892**	782	1,018	330
Total International life and pensions	**4,427**	3,826	16	**1,251**	1,132	1,380	664
Total life and pensions	**7,143**	6,095	17	**2,272**	1,751	1,988	1,132

(i) includes the trading results of the acquired AXA UK Life Businesses for the 4 months of September to December 2010 inclusive. Premiums related to GOF and TIP portfolios within the AXA UK Life Business are not included as the portfolios are held for sale whilst premiums related to WLUK are similarly excluded. This treatment is consistent with the presentation of the Group results as a whole.

Appendix 4: additional cash analysis

The build up of MCEV from available shareholder cash to free surplus and shareholder resources is shown below.

31 December 2010	Life operating businesses £m	Other operating businesses[(i)] £m	Friends holding companies £m	Resolution holding companies £m	Total £m
Available shareholder cash	465	-	371	231	**1,067**
Working capital and other resources	512	55	24	(30)	**561**
External debt	-	-	-	(900)	**(900)**
Intercompany debt	-	-	(700)	700	**-**
Total free surplus	977	55	(305)	1	**728**
Required capital and inadmissible items	1,885	152	142	-	**2,179**
External debt	(594)	-	-	-	**(594)**
Total shareholder resources	2,268	207	(163)	1	**2,313**
Value of in-force business	4,202	-	-	-	**4,202**
Total MCEV	**6,470**	**207**	**(163)**	**1**	**6,515**

(i) Other operating businesses comprise service companies and distribution companies

The financing put in place to fund the acquisition of the AXA UK Life Business has reduced free surplus in the holding companies of Friends Life group and Resolution. External debt of £900 million is currently held by Resolution holding companies; of this, £700 million is supported by the Friends Life group holding companies, but, unlike the STICS and external lower tier 2 debt, this debt has not been guaranteed by the life operating businesses. The result of this is that free surplus in the holding companies is currently reduced by the £900 million of external debt. This has not impacted available shareholder cash as it is expected that the costs of servicing this debt will be met by the surplus generated in the life companies, either through the emergence of VIF or the release, over time, of required capital. The Group will, in due course, replace the existing £400 million short term acquisition finance facility with listed capital instruments issued by FPH. This is expected to support required capital in the life businesses consequently it is anticipated that free surplus will increase (in the holding companies), offset by a reduction in required capital (in the life businesses).

Appendix 4: additional cash analysis

Analysis of movement in shareholder resources

£m	Life operating businesses		Other operating businesses(i)		FPH holding companies		RSL	Total	
	Free surplus	Required capital	Free surplus	RC/IA (ii)	Free surplus	RC/IA(ii)	Free surplus	Free surplus	Required capital
Opening shareholder resources	**812**	**362**	**(46)**	**184**	**(107)**	**103**	**307**	**966**	**649**
Fund raising	-	-	-	-	-	-	1,979	1,979	-
Transfer of funds to FPH	-	-	-	-	2,165	-	(2,165)	-	-
Asset acquired and consideration paid	30	1,409	97	-	(2,724)	58	-	(2,597)	1,467
Post acquisition shareholder resources	**842**	**1,771**	**51**	**184**	**(666)**	**161**	**121**	**348**	**2,116**
Expected return from in-force business	404	(43)	-	-	-	-	-	404	(43)
Investment in new business	(245)	31	-	-	-	-	-	(245)	31
Underlying shareholder resources generation	**159**	**(12)**	**-**	**-**	**-**	**-**	**-**	**159**	**(12)**
Experience variances	4	(38)	-	-	-	-	-	4	(38)
Operating assumption changes	(42)	5	-	-	-	-	-	(42)	5
Other operating movements	36	(3)	4	2	(16)	-	(15)	9	(1)
Operating shareholder resources generation	**157**	**(48)**	**4**	**2**	**(16)**	**-**	**(15)**	**130**	**(46)**
Change in capital management policy	(178)	178	-	-	-	-	-	(178)	178
RIE Release	638	(638)	-	-	-	-	-	638	(638)
Other non-operating variances	(68)	(7)	(3)	56	(21)	-	(14)	(106)	49
Shareholder resources generated in the businesses	**549**	**(515)**	**1**	**58**	**(37)**	**-**	**(29)**	**484**	**(457)**
Other one-off required capital movements	-	-	72	(72)	15	(15)	-	87	(87)
Internal dividend	(806)	-	-	-	741	-	65	-	-
Loan movements	456	-	-	-	(456)	-	-	-	-
Loan liability elimination	(112)	-	-	-	112	-	-	-	-
Other capital/net asset adjustments	48	35	(69)	(18)	(14)	(4)	(20)	(55)	13
Shareholder dividend	-	-	-	-	-	-	(136)	(136)	-
Total movement	**135**	**(480)**	**4**	**(32)**	**361**	**(19)**	**(120)**	**380**	**(531)**
Closing shareholder resources	**977**	**1,291**	**55**	**152**	**(305)**	**142**	**1**	**728**	**1,585**

Appendix 4: additional cash analysis

(i) Other operating businesses represent the Group's distribution businesses and service companies. FPMS, the Friends Provident service company, and the defined benefit pension asset are given no value in IGCA and have been presented here as inadmissible assets, rather than free surplus.

(ii) RC/ IA comprises required capital and inadmissible assets.

Appendix 4: additional cash analysis

The following table summarises the movement in shareholder resources as explained previously and includes the movement in VIF to give the total MCEV movement in the period.

£m	Life operating businesses			Other FPH businesses[i]			RSL	TOTAL MCEV
	Free surplus	Required capital	VIF	Free surplus	RC/ IA	TOTAL	Free surplus	
Opening shareholder resources	**812**	**362**	**1,873**	**(153)**	**287**	**134**	**307**	**3,488**
Fund raising	-	-	-	-	-	-	1,979	1,979
Transfer of funds to FPH	-	-	-	2,165	-	2,165	(2,165)	-
Asset acquired and consideration paid	30	1,409	1,904	(2,627)	58	(2,569)	-	774
Post acquisition shareholder resources	**842**	**1,771**	**3,777**	**(615)**	**345**	**(270)**	**121**	**6,241**
Expected return from in-force business	404	(43)	(162)	-	-	-	-	199
Investment in new business	(245)	31	331	-	-	-	-	117
Underlying shareholder resources generation	**159**	**(12)**	**169**	**-**	**-**	**-**	**-**	**316**
Experience variances	4	(38)	30	-	-	-	-	(4)
Operating assumption changes	(42)	5	20	-	-	-	-	(17)
Other operating movements	36	(3)	13	(12)	2	(10)	(15)	21
Operating shareholder resources generation	**157**	**(48)**	**232**	**(12)**	**2**	**(10)**	**(15)**	**316**
Change in capital management policy	(178)	178	-	-	-	-	-	-
RIE release	638	(638)	-	-	-	-	-	-
Other non-operating variances	(68)	(7)	201	(24)	56	32	(14)	144
Shareholder resources generated in the businesses	**549**	**(515)**	**433**	**(36)**	**58**	**22**	**(29)**	**460**
Other one-off required capital movements	-	-	-	87	(87)	-	-	-
Internal dividend	(806)	-	-	741	-	741	65	-
Loan movements	456	-	-	(456)	-	(456)	-	-
Loan liability elimination	(112)	-	-	112	-	112	-	-
Other capital/net asset adjustments	48	35	(8)	(83)	(22)	(105)	(20)	(50)
Shareholder dividend	-	-	-	-	-	-	(136)	(136)
Total movement	**135**	**(480)**	**425**	**365**	**(51)**	**314**	**(120)**	**274**
Closing shareholder resources	**977**	**1,291**	**4,202**	**(250)**	**294**	**44**	**1**	**6,515**

(i) Other FPH businesses represent distribution businesses, service companies and FPH holding companies.

Appendix 5: segmental analysis of cash strain

The new business cash strain and in-force surplus is monitored at product level as shown in the tables below.

Cash strain and in-force surplus are based on changes in the free surplus (in line with MCEV) net of movements in required capital and adjusted to align with IFRS tax and investment return assumptions. Cash strain and in-force surplus exclude movements in DAC and DFF and other IFRS accounting adjustments including sterling reserves and actuarial funding.

UK life business: cash strain

£m FP UK	New business strain	In-force surplus
Protection	(45)	31
Pensions	(50)	69
Annuities	15	18
Investments	(2)	14
Other products	–	45
Total (strain)/surplus	(82)	177

£m AXA UK Life Business (4 months)	New business strain	In-force surplus
Protection	(46)	37
Pensions	(15)	20
Annuities	4	7
Investments	(10)	3
Other products	–	24
Total (strain)/surplus	(67)	91

Net cash surplus generated by the Friends Provident UK business of £95 million reflects the net surplus generated across the majority of product lines. The core pension proposition generated a net surplus of £19 million in the year and leveraged the business's control of maintenance expenses against the growing scales of funds under management. Funds under management grew through 2010 driven by the improved investment market levels and this has been the main driver of the propositions positive surplus.

The protection proposition has a net deficit of £14 million in the year and highlights the high costs of acquiring protection business. Volume levels have also been hindered as the traditional trigger points for people buying (UK) protection suffer as the housing market transaction level continue to be slow, and many families remain financially constrained. This has increased overall protection competition particularly on price.

A net cash surplus of £33 million has been generated by the annuity proposition with this being cash generative at the point of sale. Friends Provident has not in the past actively competed in the annuity open market and consequently price conditions remain at a level which allows the business to generate a surplus on day one.

Other products relate to those legacy products within the with-profits fund and are not actively sold. The surplus generated therefore predominantly reflects the run-off of the legacy books.

The AXA UK Life Business generated a net cash surplus in the post acquisition period of £24 million.

Protection net strain of £9 million largely reflects commission and acquisition expenses incurred on the AXA UK Life Business protection proposition. The current reserving practice for the AXA UK Life Business protection proposition means that the business does not take credit for negative reserves on inception of these contracts (this is not the case for the Friends Provident business). For future reporting periods it is anticipated that the business will apply the use of negative reserves which will have the effect of reducing the strain and surplus positions.

As with the Friends Provident business the key drivers for surplus generation from the pensions book is the scale of the underlying assets under management. The AXA UK Life Business portfolio, which generated a net surplus of £5 million, has in a similar vein to Friends Provident, benefitted from the improved investment markets in 2010, particularly in the post acquisition period. Pensions strain is largely driven by acquisition expenses as the withdrawal, in 2009, from writing products incurring initial commission takes effect.

Annuities generate day one profits with low initial acquisition expenses more than offset by initial profits from premiums in excess of initial reserving. In force surplus reflects the long term expected return on assets offset by the unwind of liabilities.

Investments strain comes largely from commission payment on sale of unit-linked bonds with the surplus arising from the income generated by these products.

Other products relate to those products held within with-profits funds and the shareholders' share of surplus distributed in those funds. In 2010 there was a a one off impact of £16 million, being the shareholders share of the surplus distributed in the FLC Old WPF following completion of the 31 December 2010 inherited estate testing.

International and Lombard

£m	New business strain	In-force surplus
International	**(83)**	**106**

Despite the strong sales in the period, 24% above 2009, strain has been reduced in the period, reflecting the benefit of £31 million of financial reinsurance on the German business.

In-force surplus has increased by 23% over the year and reflects an increase in annual management charges as net new money, investment market growth and favourable exchange rates increase the scale of the funds under management.

Lombard

£m	New business strain	In-force surplus
Lombard	**(6)**	**30**

The new business strain of £6 million represents an improvement on 2009 and follows significantly reduced levels of acquisition expenses, resulting primarily from the restructuring and better alignment of sales incentivisation schemes.

In-force surplus has increased to £30 million in the year and has benefited from both significantly higher fee income as a result of increased average underlying funds and a stable maintenance expense base.

Definitions

Annual Premium Equivalent ("APE") represents annualised new regular premiums plus 10% of single premiums.

Annualised operating return on embedded value is calculated as the MCEV operating profit after tax over the period divided by the net embedded value at the start of the period. Where the period is not a full year, the calculated rate is then annualised.

Asset quality is the percentage of corporate bonds and asset backed securities in the shareholder and non-profit funds at investment grade compared to the total of such assets in these funds.

AXA UK Life Business means the traditional and protection businesses, most of the corporate benefits business and a minority part of the wealth management business carried on by the AXA UK Life and Savings business which were acquired by the Group.

Board denotes Resolution Limited board.

Cash payback on new business is the time at which the value of the expected cash flows, after tax, is sufficient to have recouped the capital invested to support the writing of the business. The cash flows are calculated on the same assumptions and expense basis as those used for the contribution from new business.

Company or Resolution denotes Resolution Limited.

Contribution from new business is the present value of future cash flows expected to arise from the new business sold during the year. It is calculated using economic assumptions at the beginning of the period, and is quoted after the cost of required capital, share based payments and including an apportionment of fixed acquisition expenses across products.

Equity Backing Ratio ("EBR") is the proportion of equities and property backing assets shares.

Friends Life group comprises Friends Provident Holdings (UK) plc and its subsidiaries from time to time including AXA UK Life Business from September 2010 and BHA from January 2011.

Group denotes Resolution Limited and its subsidiary undertakings, which do not include any member of The Resolution Group.

Group embedded value on an MCEV basis is the equity attributable to equity holders of the parent as shown in the consolidated statement of financial position - MCEV basis.

IGD surplus capital resources are the Insurance Groups Directive surplus capital as defined by the FSA. It is calculated as the surplus of the available resources over the capital resources requirement. It excludes the surplus capital held within the long-term funds except to the extent that they cover that fund's own capital resource requirements.

IFRS based operating profit is the profit (or loss) based on longer-term investment return excluding: (i) all investment return variances from expected investment return which is calculated on a long-term rate of return, (ii) policyholder tax, (iii) returns attributable to minority interests in policyholder funds (iv), significant non-recurring items, (v) amortisation and impairment of acquired intangible assets and present value of acquired in-force business; and is stated after deducting interest payable on STICS.

IFRS profit/(loss) after tax is the profit/(loss) after tax as shown in the consolidated income statement.

Internal rate of return on new business ("IRR") is equivalent to the discount rate at which the present value of the after tax cash flows expected to be earned over the lifetime of the business written is equal to the capital invested to support the writing of the business. With the exception of investment return, all assumptions and expenses are consistent with those used for calculating Contribution from new business. IRR assumes best estimate investment returns after an allowance for default risk, whereas Contribution from new business assumes (market consistent) risk-free rates. IRR also takes into account the funding and release of regulatory capital requirements.

Margins are defined as the pre-tax contribution from new business generated by each product type, divided by the new business volume for that product.

MCEV operating profit is the MCEV profit (or loss) based on expected investment return and excludes: (i) amortisation and impairment of non-covered business acquired intangible assets, (ii) effect of economic variances (including the impact of economic assumption changes) and (iii) significant non-recurring items.

MCEV profit after tax is the MCEV profit (or loss) after tax as shown in the consolidated income statement – MCEV basis.

Pillar 1 surplus is the excess of capital resources over capital resource requirements calculated in accordance with regulatory requirements.

Pillar 2 surplus is the excess of capital resources over the capital calculated on an economic basis required to ensure that the regulated entities can meet their liabilities, with a high likelihood, as they fall due. The result is reviewed and may be modified by the FSA. Pillar 2 requirements are not generally disclosed.

Present value of new business premiums ("PVNBP") represents new single premiums plus the expected present value of new business regular premiums.

Pro forma MCEV is the shareholders' equity on a MCEV basis, including the pre-acquisition period.

Shareholder resources 'shareholder resources' (SCR) are a measure of the tangible assets available to the life and pensions business and attributable to shareholders. The movement in 'shareholder resources' therefore provides a view of the sustainability of the business model. 'shareholder resources' are based on shareholders' invested net assets included within the embedded value, but adjusted to include securitisation and financial reinsurance balances and to exclude intangible assets.

The Resolution Group means Resolution Operations LLP, Resolution Financial Markets LLP, RCAP Guernsey LP, Resolution Capital Limited and their respective subsidiary undertakings. For the avoidance of doubt, neither the Group nor the Company are part of The Resolution Group.

UK Life Project denotes the Company's restructuring project in respect of companies and/or business which have substantial operations consisting of life assurance and/or asset management activities and which are listed in, or undertake a significant part of their business in UK and/or Western Europe

ABBREVIATIONS

ABI	Association of British Insurers
ABS	Asset-Backed Securities
AC	FPH Audit Committee
ACSM	Alternative Coupon Satisfaction Mechanism
AGM	Annual General Meeting
APE	Annual Premium Equivalent
AVIF	Acquired Value of In-Force
AXA IM	AXA Investment Management
BCM	Resolution Limited Board Control Manual
BHA	Bupa Health Assurance Limited
BRCC	FPH Board Risk and Compliance Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CMI	Continuous Mortality Investigations
CMIR	Continuous Mortality Investigations Report
CNHR	Cost of Non-Hedgeable Risk
CRO	Chief Risk Officer
CSR	Corporate Social Responsibility
DAC	Deferred Acquisition Costs
DCN	Deferred consideration note
DCT	Distributable Cash Target
DPF	Discretionary Participation Features
EBR	Equity Backing Ratio
ECJ	European Court of Justice
EEA	European Economic Area
EEV	European Embedded Value
EPS	Earnings Per Share

EU	European Union
EURIBOR	Euro Interbank Offered Rate
F&C	F&C Asset Management plc
FAL	Friends Annuities Limited (formerly known as AXA Annuity Company Limited)
FAELLAS	Friends AELLAS Limited (formally known as AXA Equity & Law Life Assurance Society plc)
FASLH	Friends ASLH Limited (formerly known as AXA Sun Life Holding Limited)
FLAS	Friends Life Assurance Society Limited (formally known as Sun Life Assurance Society plc)
FLC	Friends Life Company Limited (formerly known as AXA Sun Life plc)
F&C CPT	F&C Commercial Property Trust
FLSL	Friends Life Services Limited (formally known as AXA Sun Life Services plc)
FPG	Friends Provident Group Limited (including for MCEV disclosures, all subsidiary undertakings)
FPH	Friends Provident Holdings (UK) plc (including, for MCEV disclosures, all subsidiary undertakings in the period post-acquisition)
FPIL	Friends Provident International Limited
FPL	Friends Provident Limited
FPLA	Friends Provident Life Assurance Limited
FPLP	Friends Provident Life and Pensions Limited
FPP	Friends Provident Pensions Limited
FPPS	Friends Provident Pension Scheme
FRC	Financial Risk Committee
FRS	Financial Reporting Standards
FSA	Financial Services Authority
FSLPM	Friends SLPM Limited (formally known as Sun Life Pensions Management Limited)
FSLUA	Friends SLUA Limited (formally known as Sun Life Unit Assurance Limited)
FUM	Funds under management
FVTPL	Fair value through profit or loss
GMP	Guaranteed Minimum Pension
GOF	Guaranteed Over Fifties

IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICA	Individual Capital Assessment
ICG	Individual Capital Guidance
IFA	Independent Financial Adviser
IFRIC	IFRS Interpretation Committee
IFRS	International Financial Reporting Standards
IGD	Insurance Groups Directive
IRR	Internal Rate of Return
IASB	International Accounting Standards Board
LDI	Liability Driven Investment
LIBOR	London Interbank Offered Rate
LTIP	Friends Provident Long-Term Incentive Plan
MCEV	Market Consistent Embedded Value
MEEM	Multi-purpose Excess Earnings Method
MVR	Market Value Reduction
NBS	New business strain
NPF	Non-profit fund
OEIC	Open ended investment company
OLAB	Overseas Life Assurance Business
ORC	FPH Operational Risk Committee
PHI	Permanent Health Insurance
PPFM	Principles and Practices of Financial Management
PVFP	Present Value of Future Profits
PVIF	Present Value of In-force
PVNBP	Present Value of New Business Premiums
RBS	Realistic Balance Sheet
RCM	Risk Capital Margin
RH1	Resolution Holdco No1 LP
RHG	Resolution Holdings (Guernsey) Limited

RICS	Royal Institution of Chartered Surveyors
RIE	Re-attributed inherited estate
RISC	Risk and Investment Subcommittee
ROEV	Return on Embedded Value
ROL	Resolution Operations LLP
RPI	Retail Prices Index
RSL	Resolution Limited and its subsidiaries and subsidiary undertakings
STICS	Step-up Tier one Insurance Capital Securities
TCF	Treating Customers Fairly
TIP	Trustee Investment Plan
TSR	Total Shareholder Return
TVOG	Time Value of financial Operations and Guarantees
UKLA	UK Listing Authority
VIF	Value of In-Force
VNB	Value of New Business
WLUK	Winterthur Life UK Limited
WPC	With Profits Committee
WPF	With-profit fund
WPICC	With Profits Insurance Capital Component