16 August 2011

Resolution Limited

Performance for the half year ended 30 June 2011

- IFRS based operating profit before tax of £390 million (H1 2010: £151 million) (includes net benefit to in-force of £201 million from capital synergies)
- MCEV operating profit before tax of £180 million (H1 2010: £180 million)
- Operating free surplus generation (excluding capital synergies) of £122 million supporting full year cash target of £400 million
- £100 million of capital synergies delivered towards £235 million 2011 target
- Interim dividend per share of 6.47 pence up 18.5% (H1 2010: 5.46 pence per share)

Cash delivery and capital efficiency

- Cash available to shareholders £793 million after payment of cash dividend of £141 million
- £250 million share buy-back commenced, of which £34 million achieved by 30 June 2011 (£97 million achieved by 12 August 2011)
- Reaffirmed intention of further £250 million cash return in the first half of 2012 and full year 2011 dividend guidance
- Robust capital position maintained, IGCA surplus as at 30 June 2011 of £2,027 million

Strategy on-track

- The Company remains on-track to deliver previously announced 2013 financial targets
- Integration of acquired businesses in line with expectations, run-rate of £24 million synergies delivered as at 30 June 2011
- Value of new business of £66 million (H1 2010: £81million), impacted by lower volumes in the non-UK businesses
- UK new business strategy being implemented in line with February announcement

Focused on delivery of UK Life Project

- A circular detailing the proposed changes to the Operating Agreement and other related agreements is expected to be provided to shareholders in October and will reflect previously announced confirmation that Resolution Limited does not expect to undertake any other project until after the completion of the UK Life Project

John Tiner, CEO of Resolution Operations LLP, commented:

“We announced strategic and financial objectives for Friends Life in February. Four months into this programme, the business is showing signs of delivery in a number of areas that demonstrate it is on a path to deliver against its targets in full.

Market conditions remain unsettled but the Group’s robust balance sheet and disciplined risk management underpin our confidence in achieving these targets.”

Enquiries:

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Media

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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 numbers: UK National 0871 700 0345, UK Standard International +44 (0) 1452 555 566 Passcode: 87407055

Analysts/Investors

A presentation to analysts will take place at 09.30 (GMT) at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Dial in telephone numbers: UK Freephone 0800 634 5205, UK Standard International +44 (0)208 817 9301. An audio cast of the presentation and the presentation slides will be available on Resolution’s website, www.resolution.gg.

Financial calendar

UK Life Project update and Q3 2011 IMS	9 November 2011
Full year 2011 results	27 March 2012

2011 interim dividend

Ex-dividend date	7 September 2011
Dealing days for calculating the price of the new shares to be offered pursuant to scrip dividend scheme for the interim dividend	7 September – 13 September 2011
Record date	9 September 2011
Final time and date for receipt of the mandate forms and dividend election input messages	5.00 pm 23 September 2011
Payment of interim dividend and first day of dealing in the new shares	7 October 2011

Chairman's statement

Overview

In the first half of 2011, the Company continued its consolidation strategy. The acquisition of Bupa Health Assurance Limited ("BHA") that was announced on 15 October 2010 was completed on 31 January 2011. The three acquisitions made to date by the Company, which include Friends Provident, the AXA UK Life Business and BHA, have a blended average acquisition price (net of external debt) of approximately 66.9% of net Market Consistent Embedded Value ("MCEV"). The net MCEV of the Group as at 30 June 2011 was £6,482 million.

On 23 February, the Company announced the details of the strategic review of the UK product propositions and businesses of the enlarged Group. The strategic review concluded that the UK Life Project was on track to achieve its target returns and that expected cost synergies could be increased from £75 million to £112 million, affirming the Company's confidence in its distributable cash target ("DCT") of £400 million per annum[(i)]. At that time the Company provided details of its focused UK product strategies that prioritised value over volume. It also confirmed that it expected to achieve its targeted mid-teen returns on the UK Life Project without further acquisitions and that it would not contemplate acquisitions that would dilute the returns likely to emerge from the three acquisitions already made.

The Company provided a market update on 7 June 2011, in keeping with its commitment to provide an update on its cash and capital position. In the update, the Company confirmed that it expected to be a single project vehicle – namely that it would focus solely on the UK Life Project – and that there was no requirement to retain cash for other projects. A £500 million targeted cash return was announced with the first £250 million to be returned to shareholders by way of a share buy-back during 2011. The share buy-back commenced on 8 June 2011. The second £250 million targeted cash return to shareholders is expected to take place during 2012 and is subject to delivery of capital synergies and regulatory approval with the form of return yet to be determined. The capital framework and position of the Friends Life group ("FLG") was also set out in the market update.

The first half 2011 results highlight ongoing progress with separation and integration programmes across the Group. The UK business was re-launched in March 2011 under the brand "Friends Life". While Friends Life is making progress in each of its chosen product areas of corporate benefits, protection and retirement income, implementation of the new strategy is at an early stage. Profitability is expected to improve as synergies are delivered and other strategic initiatives are implemented. The Board is confident that Friends Life will meet its targeted product metrics by the end of 2013. A review of the strategy, market context and results are set out it more detail in the Operating Report by Resolution Operations LLP ("ROL") and the business review that follow.

Dividend

At the time of announcing its full year 2010 results, the directors, after due consideration, proposed an increase in the final dividend of 15%, which took the total dividend for 2010 to 18.03 pence per share. At the same time the Company also gave guidance of its intention to increase the 2011 dividend to 18.85 pence per share. On 7 June, the Company announced that the directors had reviewed the dividend policy in light of the decision to implement a share buy-back programme and had concluded that the aggregate value of dividend payable by the Company on all shares in issue should not reduce as a result of the buy-back. This means that the proposed dividend per share is expected to increase as a result of the planned £250 million buy-back in 2011.

Dividends continue to be paid one-third in respect of the interim dividend and two-thirds in respect of the final dividend. Consistent with this policy, the Board is declaring an interim dividend of 6.47 pence per share in respect of 2011. Shareholders will be offered a scrip alternative in respect of the interim dividend.

The Board will continue to keep under review the appropriateness of the Company moving to a growing dividend.

(i) The DCT is the amount that could be paid to Resolution holding companies without reducing the MCEV of FLG, excluding investment variances and non-recurring items.

Resolution Limited – scope

The Company has previously stated that the Board understands that shareholders do not wish to have the returns from the UK Life Project blended with those of other potential projects. Therefore, the Board confirmed on 7 June 2011 that the Company would not undertake additional projects until after the completion of the UK Life Project.

ROL

The Company has an Operating Agreement with ROL, which has a highly experienced team with skills in sourcing and implementing mergers and acquisitions, raising capital in the capital markets and overseeing large operational change. In light of the Company confirming that it would not undertake other projects until after completion of the UK Life Project, the Board has agreed principles with ROL which will allow ROL to sponsor restructuring projects and advise other entities which do not conflict with the UK Life Project. These principles will drive changes to the Operating Agreement and other related agreements with the ROL team and continue to ensure the ongoing commitment of the ROL team to securing a successful outcome for shareholders for the UK Life Project. A circular to shareholders setting out the detail of the proposals, and convening a general meeting to enable shareholders to vote on them, is expected to be published in October.

M&A

The Board continues to believe that value can be created from further consolidation in the UK life sector. This value will be a function of the specific factors in respect of each transaction and could include, the price paid, the strategic logic, the quantum of synergies and the risks around integration. The Company has confirmed that it will not undertake further acquisitions if they would dilute the returns expected to emerge from the three acquisitions undertaken to date.

ROL continues to research the opportunities for the Company to add value to its existing portfolio of assets.

Recent investment market volatility

Since the end of July 2011, global investment markets have been increasingly volatile. Having traded in a range broadly between 5,700 and 6,100 for the first seven months of the year, the FTSE 100 index has fallen by 13% from a closing value of 5,815 on 29 July 2011 to a closing value as low as 5,069 on 8 August 2011. Whilst this will inevitably have had an impact on the embedded value of the Company, it has also had a material impact on the value placed on listed life companies by investors. As measured by the FTSE 350 Life Insurance Index[ii], the market value of the UK listed life sector has fallen by 15% since the end of July.

Outlook

The Board remains confident that Friends Life will achieve the financial metrics which the Company has set by the end of 2013. The Board also remains confident that, on the basis that market valuations of UK life companies are restored to levels prevailing prior to the recent extreme volatility, the Company should achieve its targeted mid-teens returns on the UK Life Project.

Michael Biggs
Chairman

(ii) The FTSE 350 Life Insurance Index is a capitalisation-weighted index of all stocks designed to measure the performance of the life insurance sector of the broader FTSE 350 Index. It is comprised of eight members namely, Prudential plc, St James's Place plc, Legal and General Group plc, Standard Life plc, Phoenix Group Holdings, Aviva plc, Old Mutual plc and Resolution Limited.

Operating report by Resolution Operations LLP

Introduction

ROL is pleased to report that in the first half of 2011 the Company continued to make good progress in executing its objectives for the UK Life Project. The Company is focused on the development of a sustainable UK life business and delivery of the value from the UK Life Project.

This operating report provides an update on four matters: strategy; current market environment; performance of the UK Life Project; and the outlook.

Strategy

At the core of the strategic aims of the Company is the creation of a sustainable business that wins customers with products that meet their needs while also delivering strong cash returns to shareholders. ROL expects that Friends Life's new and improved product mix, focused distribution, integration synergies and efficient platforms will contribute to increased returns.

In the UK, Friends Life is seeking to build on its position in individual protection; leverage both its comprehensive range of product solutions and its platform to improve the returns in corporate benefits; and invest with the shorter term objective of increasing the retention of vesting amounts in annuities. In combination with the non-UK businesses of International and Lombard, with their leading positions in high margin specialist markets, the Company is confident that Friends Life will meet its financial targets.

Market environment

The first half of 2011 was characterised by continuing volatility in financial markets. Uncertainty about the strength and sustainability of global growth, a European and US debt crisis and geopolitical unrest in North Africa and the Middle East, negatively impacted investor sentiment. The Group is managed for low market risk exposures and remains robustly capitalised for the current volatile environment. The Group is vigilant about the risks facing the sector from volatile markets and believes its exposures in these areas are limited and manageable. This will be covered in more detail in the business review that follows.

The UK life assurance sector continues to face regulatory uncertainty with the expected implementation of Solvency II, the introduction of auto-enrolment, and the Retail Distribution Review ("RDR").

The new capital regime under Solvency II is expected to present insurers with a changing capital framework. Disappointingly, there is a lack of clarity on the final position with respect to Solvency II, and the implementation date looks likely to be delayed. We are supportive of the principle of having a risk-based capital framework.

The introduction of auto-enrolment in the second half of 2012, under which employees will automatically be enrolled into a qualifying scheme, will also impact the corporate pension landscape. The Company currently expects auto-enrolment to fuel market growth, with a good uplift in pension scheme membership. Friends Life will continue to develop its corporate pension proposition, segment the customer base and optimise the development of profitable business. Friends Life believes that auto-enrolment represents a considerable opportunity for the business to generate a significant increase in new members from both new and existing schemes. It will be used as an opportunity to develop a market leading proposition for clients, supporting employers with the heavy compliance requirements imposed on them as a result of pensions reform.

The RDR will drive significant change in the distribution landscape, with many advisers expected to either retire or retrench to a much more limited panel-based advice proposition. Friends Life expects the individual wealth market, particularly single premium bond sales, to be adversely affected as this market has historically been driven by the higher levels of commission that can be paid as compared with mutual funds. Friends Life closed its IFA single premium bond proposition following the UK strategic review and therefore the Group does not expect a significant impact from this. Protection is outside the RDR regime and the Group's focus in the corporate pensions market is on the nil commission/funded commission segment of the market.

In summary, Friends Life is well placed to deal with the regulatory uncertainty facing the UK life sector.

UK Life Project

The UK Life Project is broadly comprised of three overlapping phases: acquisition; integration; and value delivery.

Acquisition

As the Company has said in reports in the 2010 financial year, its aim since the launch of the UK Life Project, with the acquisition of Friends Provident Group plc in November 2009, has been to acquire companies well; focus the business on sustainable and profitable value delivery; extract synergies to generate cash for shareholders; and deliver the targeted returns on the project.

The Company has said that it will only undertake further acquisitions if they are expected to be accretive to the project returns expected to emerge from the three acquisitions already made.

Integration

The separation and integration programmes for the AXA UK Life Business and BHA remain on track to deliver a fully integrated Friends Life business from the end of 2013.

The joint separation plans have been agreed and exits from the transitional service agreements remain in line with expectations. The Group has engaged with external technology partners to ensure the separation of the IT infrastructure and the migration of certain blocks of customer policies.

The integration of the three acquired businesses are expected to deliver synergy benefits of £112 million by the end of 2013, of which £39 million are due to be realised by the end of 2011 on a run-rate basis. As at 30 June 2011, a total of £24 million of run-rate cost savings have been delivered through:

- creating a streamlined sales capability for a targeted and rationalised individual protection proposition;
- integrating the sales and marketing model for corporate benefits;
- rationalising brand budgets;
- improving third-party supplier terms; and
- restructuring the central functions.

Product strategy

The update provided to the market in February 2011 on UK new business strategy identified corporate benefits, protection and retirement income as the product areas the UK business would focus on. The following subsections will briefly review the market and the plans to achieve the strategic aims for each of the product propositions.

Corporate benefits

Market

The outlook for the corporate benefits market will be driven by changes in product mix, legislation and demographic factors. The UK defined contribution market currently has in excess of £300 billion of assets under management. Strong growth is expected over the next decade as:

- schemes enrol current and future members in defined contribution schemes;
- pension reform, in particular auto-enrolment, is expected to support market growth;
- the RDR should increase customer engagement and provide an opportunity for workplace distribution; and
- the UK working population grows, ages and saves.

Implementation of strategy

Friends Life currently has one of the largest corporate benefits business in the UK market with approximately £18 billion of assets under management and over 17,000 corporate clients.

The strategy will be implemented by:

- retaining and growing the existing customer base;
- participating selectively in new business focused on the nil commission and the fee-based market segments; and
- extracting synergies from the acquired businesses.

Friends Life expects to launch its corporate platform in the second half of 2011. This will allow it to expand into the wider workplace savings market and provide enhanced functionality to Friends Life's unbundled investment proposition.

Friends Life expects an improved pipeline of new business as it progresses with the integration of the sales and marketing teams and the migration to the more efficient New Generation Platform. The business is expected to expand its footprint from a pension savings proposition to include a wider range of individual products accessed through the workplace.

It is expected that the RDR will focus more business in Friends Life's target market segment and remove the major driver for advisors to "re-broke" schemes; this is expected to aid customer retention. Fee-based business, which is Friends Life's main focus, is not directly affected by the ban on commissions. It is expected that the removal of upfront commissions in the IFA market will lead to more rational competition and likely re-open that channel to Friends Life. The "advice gap" in the retail market is expected to present opportunities for worksite marketing.

Auto-enrolment also represents an opportunity for the business to increase its members from both new and existing business. Friends Life intends to use auto-enrolment as an opportunity to further develop its proposition for clients and also segment the customer base for profitable growth.

Protection

Market

As the protection market has been excluded from the RDR, Friends Life expects that intermediaries are likely to focus on protection sales in the short term.

Implementation of strategy

The unified individual protection business will provide life, critical illness and income protection to individuals and corporations. These products are distributed through IFAs, banks, estate agents and leading brands like Tesco, Virgin and AA.

The strategy will be implemented by:

- leveraging the efficient BHA platform;
- improving the product and distribution mix with a focus on profitability;
- reducing operating costs through the delivery of synergy targets;
- building market leading propositions in critical illness and income protection; and
- focusing on exclusive and mutually beneficial distribution arrangements.

The BHA platform is a low cost operating platform that will provide the required functionality for the business going forward, utilising the best features of the acquired businesses. The enhanced proposition is expected to be delivered in October. Friends Life will ensure an effective transition to the new platform through 2011 and 2012.

The impact of the RDR on the individual protection business is expected to be neutral to slightly positive. Some reduction in the number of IFAs is anticipated; however, as the costs of serving clients' investment needs rise, advisers are expected to put more focus on the business protection, family protection and mortgage market for business.

The Company also expects that with respect to group protection, the BHA sales and administrative platform will act as the base for the integrated business. It is expected that by the last quarter of 2011, all group protection new business will be offered and written on the BHA platform.

Retirement income

Market

The prospects for future market growth in this segment remain strong as the baby boomer generation approaches retirement age, and as the market moves from defined benefit to defined contribution pension products. The removal of compulsory annuitisation is expected to have a limited initial impact other than for those individuals with large retirement funds as there is a minimum income requirement to avail of the flexible drawdown options. The open market option segment of the annuity market continues to benefit from the drive by the industry and the regulator to publicise its benefits. Providers, in anticipation of the higher capital requirements under Solvency II, have been adjusting their pricing which is leading to increasing margins.

Implementation of strategy

As previously announced, Friends Life's immediate objective in the annuity market is to retain a larger proportion of vesting pension funds while keeping the option to enter the open market.

The strategy will be implemented by:

- building enhanced capability to retain vesting pensions and enter the open market by developing sophisticated mortality analysis to inform a targeted pricing approach;
- developing new customer management systems to support improved engagement with customers and distributors; and
- building capability to support more sophisticated investment strategies.

It is expected that these enhanced capabilities will be delivered over 12–18 months, and will increase volumes and profitability materially during 2013. Senior hires in this team have already been made with the appointment of David Still, as Managing Director of Retirement Income and Richard Willets as Director of Longevity.

Friends Life is currently well positioned for the impact of the RDR on annuities. Friends Life currently has no exposure to the segment likely to be affected. It is building capability to selectively enter the market. It also expects that the "advice gap" due to the RDR will expand opportunities for its strong internal vesting propositions, and for non-advised, simplified distribution models.

Cash and capital management

In June, the Company communicated the results of its work on the cash and capital position of Friends Life. The Company announced that as a principle it would return excess cash released from the UK Life Project to shareholders to the extent that it was not required for further M&A opportunities in the short to medium term.

Whilst the requirements of Solvency II are uncertain, the Company's current expectation is that Solvency II will lead to an increase in Friends Life group's capital surplus relative to that under current Pillar 1 solvency requirements.

Business leadership

Andy Briggs was appointed as Chief Executive Officer ("CEO") of Friends Life in June 2011. Andy joined from Lloyds Banking Group, where he was CEO of General Insurance, having previously been CEO of Scottish Widows.

Under Andy Briggs's leadership, Friends Life will establish a new business unit to manage the requirements of customers with products that are no longer actively marketed to new customers. This UK Heritage Business will be led by Evelyn Bourke who has been appointed Chief Commercial Officer. The Friends Life Chief Commercial Officer role includes responsibility for Friends Life's strategy and capital. The risk functions will now report directly to the Friends Life CEO.

As a result of the strategy and subsequent related decisions announced in February, a number of business lines are no longer being actively marketed. These lines will be managed in the UK Heritage Business alongside customers with legacy products that have previously been closed to new business. The creation of the UK Heritage Business to run alongside the corporate benefits, protection and retirement income business units will enable Friends Life to focus on the distinct value drivers for all of its products and ensure that the Group meets the needs of all customers.

Business performance

The business review following this report sets out in detail the performance of the Group for the first half of 2011 on both an IFRS and MCEV bases. The period on period comparisons are complicated as 2011 half year results include six months for Friends Provident, six months for the AXA UK Life Business and five months for BHA whereas prior periods included only the Friends Provident results in full and a partial inclusion for the AXA UK Life Business from September 2010.

The IFRS based operating profit before tax was £390 million and includes a net benefit to in-force of £201 million from capital synergies. The underlying result is in line with previous guidance provided in June. The IFRS based operating profit before tax for the first half of 2010 was £151 million. The MCEV operating profit before tax was £180 million reflecting lower economic returns.

The key highlights of this half's results include:

- operating free surplus generation of £283 million;
- integration of acquired businesses in line with expectations and run-rate of £24 million expense synergies delivered as at 30 June 2011; and
- UK new business strategy being implemented in line with February announcement.

Outlook

ROL believes that Friends Life is on a clear path to creating a sustainable UK business that is focused on shareholder returns. The implementation of the strategy will continue while maintaining discipline in the allocation of capital and managing risk.

The outlook for the UK product areas where Friends Life will participate is good. Friends Life has existing advantages of scale and respected customer service in its chosen product areas. This along with appropriate capital allocation and financial discipline, that includes a focus on value over volume, should allow Friends Life to differentiate itself and generate strong returns for shareholders.

John Tiner
Chief Executive, Resolution Operations LLP

Key performance indicators

The Group uses the following key performance indicators. These include the post acquisition results of the acquired businesses and are therefore not currently directly comparable from period to period. The Group has also set a number of targets for the life operating businesses which are detailed in the following sections.

£m (unless otherwise stated)	**Half year 2011**	Half year 2010	Full year 2010
IFRS based operating profit before tax(i)	**390**	151	275
IFRS profit after tax	**45**	72	820
MCEV(ii) operating profit before tax	**180**	180	412
MCEV profit after tax	**54**	148	460
Group embedded value on an MCEV basis	**6,482**	3,489	6,515
FLG operating ROEV(iii)	**4.5%**	9.1%	8.3%
Group available shareholder cash	**793**	605	1,067
Estimated IGCA surplus capital (£bn)	**2.0**	1.0	2.3
Asset quality(iv) for shareholder related assets	**96%**	97%	95%

- IFRS based operating profit before tax up from £151 million to £390 million reflecting the inclusion of the acquired businesses and a £221 million one-off benefit following the release of negative reserves in the acquired AXA UK Life Business and Bupa Health Assurance Limited ("BHA"). IFRS profit after tax of £45 million reflects higher amortisation of intangible assets (arising from the acquisitions and an accelerated charge to offset the negative reserves release), negative goodwill on the acquisition of BHA and non-recurring costs.
- MCEV based operating profit before tax unchanged at £180 million reflecting the inclusion of the acquired businesses offset by lower rates of expected return and lower contribution from new business as Lombard has experienced a slow down in new business from the exceptional levels attained in 2010. However, volumes remain strong compared to historic levels. MCEV profit after tax down from £148 million to £54 million reflecting the fall in actual market returns and non-recurring costs.
- Group embedded value on an MCEV basis of £6,482 million down from £6,515 million at the end of 2010 principally reflecting the £141 million final cash dividend paid in respect of 2010 and the return of capital to shareholders through the share buy-back programme.
- FLG operating ROEV of 4.5% primarily reflects the reduced contribution from new business as a proportion of opening embedded value. The ROEV has also been negatively affected by lower expected rates of return and operating variances in the period and inclusion of the AXA UK Life Business for the full period.
- Group available shareholder cash of £793 million down from £1,067 million at 31 December 2010 reflects dividends and capital returned to shareholders, finance costs and the scheduled repayment of the deferred consideration notes.
- Estimated IGCA surplus capital of £2.0 billion as at 30 June 2011, down from £2.3 billion at the end of 2010 principally reflecting the £350 million dividend paid from the life businesses to Resolution Limited.
- Continued high asset quality, with no significant shareholder exposure to sovereign debt or corporate bonds of higher risk European economies.

(i) The half year 2010 IFRS based operating profit has been restated to exclude the impact of investment volatility in the long-term funds. £52 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) The MCEV basis is in compliance with the European Insurance CFO Forum MCEV Principles ("MCEV Principles") (Copyright© Stichting CFO Forum Foundation 2008), issued in June 2008, and re-issued in amended form in October 2009.

(iii) FLG operating ROEV is calculated as the annualised MCEV operating return, after tax and financing, divided by the start of period net embedded value, and is adjusted to allow for the timing of significant capital movements such as dividends and acquisitions.

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

Group summary

The Group has made solid progress in the first half of 2011. Following the acquisition of the AXA UK Life Business in 2010, the Group completed the acquisition of BHA in January 2011. BHA was the third business acquired in the UK Life Project and forms an important part of the integrated business, increasing the Group's scale and capabilities in group and individual protection. In February, the results of the Group's strategic review were announced, setting out the Group's focus in the UK on three key business lines, being corporate benefits, protection and retirement income.

The Group's results for the half year reflect the enlarged group, including the results of the AXA UK Life Business and, from 31 January, BHA. The IFRS based operating profit before tax of £390 million (30 June 2010: £151 million) benefited from the implementation of certain elements of PS06/14 as part of the capital optimisation programme for the UK business. MCEV operating profit before tax of £180 million (30 June 2010: £180 million) reflects a reduced contribution from new business for International and Lombard and low rates of expected return, especially in respect of the net worth, for which current expected returns are just over 1%. The contribution from UK new business is progressing but the benefit of the actions taken to reduce costs and to channel new business to the selected platforms has not yet flowed through into the operating result. For International, whilst the business has continued to develop well, the result has been adversely affected by weaknesses in modelling systems which were identified during a groupwide review and update of the finance systems infrastructure. Lombard has continued to perform well, delivering its second highest sales for a first half period, but has not repeated the exceptional levels achieved in the first half of 2010.

The operating results of the Group are set out below and are discussed in more detail in the operating reviews that follow.

	IFRS based operating profit		MCEV operating profit	
	2011 Half year £m	2010 Half year(i) £m	**2011 Half year £m**	2010 Half year £m
UK	**364**	99	**184**	121
International	**41**	47	**15**	31
Lombard	**21**	13	**40**	51
Corporate	**(20)**	–	**(43)**	(15)
FLG operating result before tax	**406**	159	**196**	188
RSL other income and charges	**(16)**	(8)	**(16)**	(8)
RSL operating result before tax	**390**	151	**180**	180

i) 2010 half year results include the following restatements:

a. reclassify £9 million from UK to International segment in respect of a DAC acquisition accounting adjustment; and

b. reclassify £52 million of positive investment fluctuations on non-profit fund investments as short-term investment fluctuations.

IFRS based operating profit analysis by segment

£m	UK	Int'l	Lombard	Corporate	RSL 2011 Half year	RSL 2010 Half year
New business strain	(66)	(20)	(17)	–	**(103)**	(60)
In-force surplus	214	69	40	–	**323**	209
Long-term investment return	4	–	(1)	(17)	**(14)**	17
Reserving changes and one-offs	222	(6)	–	–	**216**	6
Development costs	(10)	(3)	(1)	–	**(14)**	(11)
FLG other income and charges	–	1	–	(3)	**(2)**	(2)
RSL other income and charges	–	–	–	(16)	**(16)**	(8)
IFRS based operating profit before tax	**364**	**41**	**21**	**(36)**	**390**	**151**

MCEV operating profit analysis by segment

£m	UK	Int'l	Lombard	Corporate	**RSL 2011 Half year**	RSL 2010 Half year
Value of new business	28	20	18	–	**66**	81
Expected existing business contribution	167	14	21	(21)	**181**	92
Operating experience variances	(7)	(1)	2	–	**(6)**	28
Other operating variances	6	(13)	–	–	**(7)**	(2)
Operating assumption changes	–	(2)	–	–	**(2)**	–
Development costs	(10)	(3)	(1)	–	**(14)**	(11)
FLG other income and charges	–	–	–	(22)	**(22)**	–
RSL other income and charges	–	–	–	(16)	**(16)**	(8)
MCEV operating profit before tax	**184**	**15**	**40**	**(59)**	**180**	**180**

The strategic review announced in February 2011 set a number of targets for improvement in the profitability of new business in the UK. A number of critical early steps have now been taken. The selection of the BHA protection platform and the Friends Provident corporate benefits platform as the new business platforms for the future, seeks to ensure that future new business will benefit from the low unit cost associated with these platforms. The IRRs of the business written on these platforms are already close to or above the target returns announced in February with the target platform for corporate benefits business achieving an IRR of 8.8% in the period and the target platform for the individual protection business achieving an IRR of 26.4%. The UK business has commenced the development of its annuity proposition and has recruited a number of key individuals to lead the retirement income business. The objective of significantly growing the Group's market position in retirement income will be achieved through increasing the capture of internal vestings, while maintaining overall profitability, as well as through the development of an open market proposition.

International is making good progress with its strategy as it seeks deeper penetration in the markets in which it has established positions. It has benefited from the strong growth in the Asian markets serviced through the Hong Kong and Singapore branches and is on track to deliver its financial targets by 2013.

Lombard new business in the first half of 2011 was the second highest first half sales Lombard has seen in its 20 year history. Sales are reduced compared to the first half of 2010 which benefited from the impact of the European Union Saving Directive ("EUSD") and the final phase of the Italian tax amnesty. New business for Lombard can be highly dependant on economic returns, and the recent volatility seen in global investment markets may introduce volatility into business growth, though the company remains well positioned in its market.

Profitable new business

The following table shows the IRR performance of the key business lines compared with the targets set for 2013.

IRR (%)	2013 Target	**2011 Half year all platforms**	**2011 Half year target platforms**	2010 Full year baseline(i)	2010 Half year	2010 Full year
UK corporate benefits	10+	**5.3**	**8.8**	4.2	8.2	6.2
UK individual protection	20	**5.0**	**26.4**	3.3	2.1	2.7
UK retirement income	15+	**23.8**		16.5	n/a	20.0
International	20+	**13.5**		15.4	18.3	15.4
Lombard(ii)	20+	**19.0**		26.7	23.1	26.7
Blended group new business IRR(ii)	15+	**9.6**		8.6	15.1	11.2
New business cash strain (£m)	192	**161**		392	110	238

(i) 2010 full year baseline includes an estimate of 12 months BHA and AXA UK Life Business results.

(ii) The 2011 Lombard IRR (and therefore the blended group IRR) now takes account of the Luxembourg regulatory regime in which DAC is an allowable asset.

Integration and cost savings

The integration of the UK businesses is on track and the Group remains confident of delivering the synergy target of £112 million, with £24 million of run-rate savings delivered by the half year. The integration activities are key to building an efficient and cost effective base for the combined business. In March 2011, the Group launched the "Friends Life" brand which brings together all parts of the UK business and is a key step in the integration, both for Friends Life's customers and people.

Cash delivery

The Group has committed to deliver both distributable cash and a capital efficient business. In the period to 30 June 2011 the Group has delivered a contribution to the annual distributable cash target of £283 million, after including a one-off benefit on a free surplus basis of £161 million following management actions to take account of certain elements of FSA’s policy statement PS06/14 (Prudential changes for Insurers (“PS06/14”)) in Friends Life Company Limited (“FLC”) and BHA, primarily the recognition of negative reserves with an allowance for prudent lapses in accordance with the rest of the Friends Life Group. Excluding negative reserves, the Group has delivered operating free surplus before one-off capital synergies of £122 million in the six month period. The Group is confident that through the delivery of the targeted cost savings and the reduction of new business strain in the UK (targeted overall reduction of £200 million by 2013) the underlying free surplus, including related capital movements, will grow to support the £400 million annual distributable cash target for the business.

The one-off benefit of PS06/14 adoption of £161 million comprised £61 million in respect of the BHA acquired assets, with the balance arising from the AXA UK Life Business. This £100 million delivers part of the Group’s overall £235 million capital synergies target for 2011, which the Group remains confident of achieving in addition to the £400 million distributable cash target.

UK operating review

UK operating segment

£m (unless otherwise stated)	2011 Half year Corporate benefits	Individual protection	Group protection	Retirement income	Other	Total	2010 Half year	2010 Full year
VNB	**(1)**	**4**	**2**	**16**	**7**	**28**	20	19
New business cash strain	**(39)**	**(41)**	**(4)**	**7**	**(21)**	**(98)**	(38)	(149)
IRR (%)	**5.3**	**5.0**	**7.0**	**23.8**	**8.9**	**7.0**	10.8	7.1
APE	**242**	**44**	**12**	**19**	**55**	**372**	203	472
IFRS based operating profit before tax						**364**	99	187
MCEV operating profit before tax						**184**	121	306
Operating free surplus generation						**317**	n/a	157

IFRS based operating profit before tax in the first half of 2011 was £364 million (30 June 2010: £99 million) reflecting the enlarged scale of the UK business following the acquisitions, as well as the one-off benefit following the implementation of negative reserves.

As part of the Group's capital optimisation programme, the Group has adopted elements of the PS06/14 guidance; this has enabled the recognition of negative reserves, thereby reducing capital requirements on protection products. This has effectively accelerated the surplus generated on these products with lower in-force surplus releases expected in future. In addition, as the profit profile of these products has changed the corresponding amortisation of deferred acquisition costs has likewise been accelerated. The resulting one-off benefit to IFRS based operating profit is £221 million in the period, with a corresponding reduction of £20 million in the emerging in force surplus. This £20 million reduction is likely to reoccur in the second half of the year and then to reduce to an annualised £25 million to £30 million in 2012 based on current expectations of in-force run-off. The overall net impact on IFRS based operating profit for 2011 (excluding improvements in new business strain), is expected to be approximately £180 million. IFRS profit after tax remains largely unaffected, despite the increased one-off benefit as the earlier recognition of surplus is offset by the accelerated run-off of acquired value of in-force business.

MCEV operating profit of £184 million (30 June 2010: £121 million) reflects the change in the size of the business following the acquisitions and the initial impact of the revised strategy. It is not significantly affected by negative reserves.

Included in the assets that were acquired within the AXA UK Life Business are certain portfolios of insurance business (the Guaranteed over Fifty, ("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 FLG and AXA UK. In line with the agreed timetable for the finalisation of the AXA UK Life Business transaction, 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 on track 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 and is not therefore included within these financial results.

Profitable new business

The Group's strategy focuses on products and distribution channels in the UK market where Friends Life has a significant existing presence and the prospect of generating attractive returns. The key product lines in the UK are corporate benefits, protection and retirement income. Full implementation plans are being executed and tracked to ensure delivery of the 2013 targets. Management structures have been reorganised to bring individual protection and group protection under a single executive, consistent with the plan to write all new group protection and individual protection business on the existing BHA platforms.

In UK product lines where Friends Life will not be able to generate satisfactory returns (principally individual pensions and investment bonds) steps have been taken to exit or scale back sales to reduce new business strain.

New business profitability is not comparable year-on-year due to the inclusion of the acquired AXA UK Life Business and BHA. The profitability of new business will improve significantly as the remainder of the synergies and implementation actions are delivered. The profitability of the selected platforms is already close to or above target returns with the target corporate benefits platform at 8.8% (target: 10%) and the target individual protection platform at 26.4% (target: 20%).

As such, Friends Life remains confident of meeting the targeted product metrics by the end of 2013. The relevant sections below contain a detailed commentary on the results for each proposition.

Integration and cost savings

The UK Life Project has brought together the Friends Provident operations, the AXA UK Life Business and BHA through a series of acquisitions from November 2009 to January 2011. There is a unified executive team responsible for the day-to-day management of the business and this has overseen the development and roll-out of a single set of corporate values, an integrated staff grading structure, a streamlined pay and reward system and the alignment of performance management processes across the acquired businesses. The Friends Life brand was launched in March 2011, supported by significant brand activity including sponsorship of the Friends Life t20 cricket tournament.

The separation and integration programme remains on track. This includes the separation of the former AXA UK Life Business and BHA and the creation of a fully integrated Friends Life business.

Joint separation plans have been agreed with AXA and exits from transitional service agreements are in line with expectations (25% exited to date). Significant expenditure has been committed with the Group's external partners to deliver the separation of IT infrastructure from AXA Technology Services and to migrate certain blocks of policies onto strategic IT platforms.

The separation of BHA remains on plan with IT infrastructure changes due to be delivered ahead of the 12-month deadline ending January 2012, and all Finance and HR-related service agreements terminated ahead of schedule (including payroll and general ledger migrations).

The integration of these three businesses is expected to deliver synergy benefits of £112 million by the end of 2013, of which £39 million is expected to be realised by the end of 2011 on a run-rate basis. To date, a total of £24 million run-rate cost savings have been delivered through:

- creating an integrated and streamlined sales capability for a targeted and rationalised individual protection proposition;
- integrating the sales and marketing model for corporate benefits;
- rationalising the combined brand budgets;
- improving contractual negotiations with strategic sourcing suppliers; and
- restructuring the senior management team and central functions.

The platforms acquired with BHA have been chosen to provide a cost-effective solution for the individual and group protection businesses, both for targeted IFA and controlled distribution. The restructure of the combined salesforce, marketing capability and customer service functions are well advanced.

The Group has announced the planned closure of the Coventry site by the middle of 2012. Further closures of the Loudwater, Manchester, Basingstoke and the BHA London offices, in line with the Group's target operating model, are planned during 2011 and 2012.

Implementation costs are on track against forecast and are being closely controlled through a robust governance structure. To date cumulative separation costs of £35 million (£20 million in the period) have been incurred and are tracking in line with budget. Cumulative costs of the integration project, totalling £30 million to date (£21 million in the period), have also been incurred and are at the level expected as the business aims to deliver the targeted cost savings.

Cash delivery

The planned strategy will steadily improve the free surplus generation of the UK businesses. The UK operating free surplus generated in the period was £317 million, up on 2010 primarily due to the inclusion of a one-off benefit of £161 million from the recognition of negative reserves across the AXA UK Life Business and BHA. The impact of investment in new business on free surplus was £124 million for the period and £98 million measured on a "cash" basis at product level (that is, before the impact of capital requirements and tax). £98 million on a cash basis for the 2011 half year compares to a 2010 full year baseline of £303 million, demonstrating strong progress in the six months towards the target annual reduction of £200 million. Further details are provided in the cash and capital sections. In order to further generate capital efficiencies, the Group is undertaking a number of Part VII transfers to move business from some of the smaller life companies into Friends Provident Life and Pensions ("FPLP"). These transfers are expected to reduce aggregate Pillar 1 capital requirements by around £90 million, thereby increasing excess capital over capital policies by around £135 million, and are on track to be approved by the court and implemented in 2011. Further Part VII transfers are planned for 2012.

Corporate benefits

The Friends Life corporate benefits business is one of the largest in the UK market with £18 billion of assets under management and over 17,000 corporate clients. Current propositions are focused around both trust and contract-based pensions solutions. The launch of the corporate platform in the second half of 2011 will expand this into a wider workplace savings market and also bring enhanced functionality to Friends Life's investment proposition.

The proposition is highly regarded in the market, ranking first in the Greenwich 2010 DC survey with eighteen leading employee benefits consultants ("EBCs"), based on overall proposition including investment solutions, service and relationship management.

Market environment

The Friends Life corporate benefit business has continued to deliver against a difficult economic back drop. The market has seen membership declining in recent years as a result of employers implementing recruitment freezes, and rationalising their workforces. There has also been an increasing trend in employers opting for pay freezes; this, coupled with increasing pressure on disposable income, means there have been limited opportunities to grow existing pension arrangements. Despite this pressure, Friends Life has been able to drive significant volume growth from the existing in-force schemes.

The outlook for the corporate benefits market is favourable, driven by changes in product mix, legislation and demographic factors.

Strategy implementation

In February, Resolution reiterated the importance of the corporate benefits market to the Friends Life UK strategy, based around selective participation in an increasingly valuable market. The business will improve value and returns by focusing on:

- retention and growth of the existing large customer base;
- selective participation in new business, focusing on the nil commission and fee based market; and
- efficiency gains from synergy savings as the Friends Provident and acquired AXA UK Life Business are integrated.

Friends Life's selected platform for new corporate pension business, the existing Friends Provident New Generation Pension ("NGP") platform, will be enhanced in order to accept approximately 150,000 members and £3.5 billion assets moving across from the Embassy platform, which is being retained by AXA UK, in 2012. At the same time the business will consider opportunities to offer a wider product range to the NGP customer base.

Financial performance

£m (unless otherwise stated)	2013 Full year target	**2011 Half year all platforms**	**2011 Half year target platforms**	2010 Full year baseline[(i)]	2010 Half year
VNB	25	**(1)**	**11**	(23)	4
New business cash strain	(75)	**(39)**	**(23)**	(80)	(25)
IRR	10%+	**5.3%**	**8.8%**	4.2%	8.2%
APE	n/a	**242**	**176**	399	152

(i) 2010 full year baseline includes an estimate of 12 months AXA UK Life Business results.

Strong incremental new business, combined with cost synergies has led to the significant improvement in the VNB written in the period, although at negative £1 million this is clearly not satisfactory. Overall returns are impacted by the less profitable new business on the acquired AXA UK Life Business platforms. The profitability of business written on the target Friends Provident NGP platform has been better, delivering £11 million of VNB and an IRR of 8.8%. This platform is expected to achieve the 10% target return during 2012 as the cost synergies and migration of business onto NGP takes effect.

Additionally, the overall business mix remains favourable leading to a static new business strain picture despite the increased flow of business.

New scheme wins in the first half of 2011 (40 scheme wins) were restricted as a result of both market caution around the AXA UK Life Business acquisition and a significant restructuring of the new business sales force in January, in order to drive out cost savings. The outlook for the second half of 2011 is promising with a strong pipeline of new business skewed towards single premium business, and a step-change in the quality of schemes being secured (average APE per scheme is significantly higher in 2011 compared to 2010).

Group pensions assets

Pensions assets	RSL £bn
31 December 2010	**17.0**
Inflows	**1.2**
Outflows	**(0.9)**
Market movements	**0.5**
30 June 2011	**17.8**

Over the first half of 2011 group pensions assets have grown by approximately £1 billion and now stand at £18 billion. There have been strong volume increases in the first half of the year from increments to the existing book, with both the Friends Provident and acquired AXA UK Life Business performing well. This pattern is expected to continue in the second half of 2011, subject to market conditions, driving a strong underlying business performance from increasing fee revenues.

There have been notable successes as a result of defined benefit plan closures and large consolidation exercises where companies are folding a number of arrangements into one and choosing Friends Life as the consolidating scheme. This trend is expected to continue into the second half of the year.

The business is confident of achieving the 2013 financial targets as a result of:

- expected business growth, benefiting from the combination of Friends Life's highly regarded proposition and a significant growth in customer premium flows driven by auto enrolment ("AE"). This is expected to increase revenues on a primarily fixed cost base;
- ongoing separation and integration, in particular the migration of business off the AXA UK-owned platform Embassy, onto the more efficient NGP platform with reducing operational complexity and cost; and
- continuing realisation of cost synergies as part of the wider programme to reduce the overall cost base of the business.

Protection

Friends Life's protection business brings together the Friends Provident individual and group protection propositions with those acquired from the AXA UK Life Business and BHA. It presents a unique opportunity to combine the strengths of each proposition to build a market leading protection provider.

The individual protection business provides life, critical illness and income protection cover to individuals and businesses. The products are distributed through IFAs, banks, estate agents and leading brands such as Tesco, Virgin and the AA.

The acquisition of BHA in January 2011 enhanced the group protection capability and the Group's product range now includes the full suite of group income protection, group life and group critical illness products. In February 2011, the Group confirmed group protection as a strategic proposition alongside individual protection to support distribution partnerships within the corporate benefits business.

The integration of the Friends Provident, AXA UK Life Business and BHA protection propositions is well underway with the decision taken to adopt the BHA platform as the base for the integrated business. In line with this the Friends Provident group income protection proposition will cease trading in the second half of 2011 from which point new group business will be written on the BHA platform.

Individual protection

Market environment

The individual protection market has held up well in a difficult economic climate, including a depressed housing market. Friends Life envisages this continuing in the lead up to the Retail Distribution Review ("RDR") implementation. As protection has been excluded from the main impacts of the RDR there is an expectation of an increased focus on protection sales by intermediaries in the short term.

The changes in the tax regime for life business will support the competitiveness in the medium term with all providers being on a level playing field for tax. The protection proposition is value based which should facilitate Friends Life being able to respond positively to the new tax regime for protection and the removal of gender based premium rating relative to the commoditised players where price is a more significant factor.

Strategy implementation

In March, the Group announced the decision to consolidate the individual protection business onto the acquired BHA platform. It is a low cost operating platform which will deliver the required functionality to support the business going forward. The proposition will be further enhanced by improving the functionality available on the platform, drawing upon the "best" features across the three former propositions.

The enhanced proposition is expected to be delivered in October 2011, with focused activity in train with each distribution partner to ensure the transition of all targeted IFA new business to the new platform by the end of 2011. The Group will also work with existing controlled distribution partners on a case-by-case basis throughout 2011 and 2012 to achieve the same outcome.

In February, a new distribution arrangement was announced to provide the AA with Life, Critical Illness and Over 50s products. This arrangement adds to the Group's current agreements with Tesco and Virgin Money. A new simplified product is being developed to leverage the existing distribution partnerships and also to attract new distribution.

Financial performance

£m (unless otherwise stated)	2013 Full year target	**2011 Half year all platforms**	**2011 Half year target platforms**	2010 Full year baseline(i)	2010 Half year
Value of new business	80	**4**	**9**	(20)	(4)
New business cash strain	(30)	**(41)**	**(2)**	(193)	(18)
IRR	20%	**5.0%**	**26.4%**	3.3%	2.1%
APE	n/a	**44**	**10**	106	18

(i) 2010 full year baseline includes 12 months BHA and AXA UK Life Business results.

The growth in sales volumes reflects the acquisitions of the AXA UK Life Business and BHA in 2010 and 2011. However, as the strategy is delivered the volumes will reduce from the 2010 baseline as there is more selective market participation through greater pricing discipline and increased focus on profitable product lines.

The improvement in value of new business from 2010 is due to the delivery of synergy benefits across the AXA UK Life Business and Friends Provident and the writing of increased levels of critical illness business in BHA following the acquisition. Further synergy benefits will be delivered as the businesses are integrated during the remainder of 2011 and 2012.

This change, combined with the transition to the target BHA platform and emerging costs synergies, is expected to result in a reduction in the 2011 full year new business strain of some £100 million. The IRR of individual protection business has improved to 5.0% in the period with the lower new business strain benefiting the half year result. The improvement is expected to continue through to 2013 as the strategy is delivered, with further efficiencies achieved as new business is migrated to the BHA platform and an increased proportion of the higher margin critical illness and income protection business is written. The current returns on the BHA platform are significantly higher than those being delivered through the Friends Provident and AXA UK Life Business with the IRR for the half year at 26.4% already in excess of the 20% target. As more business is migrated to the BHA platform and the mix of business changes, returns in excess of the target IRR are expected to be maintained although it is likely that there will be some fluctuations in the level of return achieved from period to period.

Group protection

Financial performance

£m (unless otherwise stated)	**2011 Half year**	2010 Half year
Value of new business	**2**	–
New business cash strain	**(4)**	(2)
IRR	**7.0%**	4.0%
APE	**12**	2

The BHA proposition has made a significant difference to the scale of the Friends Life group protection proposition with sales in the period of £12 million APE significantly higher than that recorded in the first half of 2010. BHA contributed £7 million APE in the period with the Friends Provident proposition also performing well, recording £5 million APE (30 June 2010: £2 million).

New business profitability with VNB of £2 million and IRR of 7.0% is expected to improve as business is consolidated onto the BHA platform and volumes of income protection and critical illness are increased.

Retirement income

Retirement income business written by the Group is generated from internal vestings as existing Friends Life pension policyholders retire. The current business model looks to maximise the value from these maturities but does not compete for business in the open market for those customers who look to consider other providers. The strategy for the annuity market has been reviewed and in future will include a more sophisticated proposition to vesting policyholders alongside developing new capabilities to support participation in the open market. There is a significant opportunity to leverage the value available from the £2 billion per annum of maturing pensions across the Group.

Market environment

The changes to the minimum retirement age in April 2010 created a spike in annuity market sales in the first half of 2010 and also reduced the number of consumers eligible to buy an annuity in future. As a result, annuity market sales fell back in the second half of 2010. Market figures for the beginning of 2011 show growth on the last quarter of 2010 but are still lower than previous years. The proportion of vesting pensions using the open market option ("OMO") continues to rise (57% in the first quarter of 2011). The share of vestings represented by impaired annuities also continues to rise and now stands at 23% of the annuity market (41% of open market annuities).

Prospects for future market growth remain strongly positive, principally as a result of the impacts of the baby boomer generation approaching retirement age and the continued movement from defined benefit to defined contribution pension products in the pensions accumulation phase. The removal of compulsory annuitisation at age 75 is expected to have a limited initial impact on the market except for those individuals with large retirement funds, as a result of the minimum income requirements that need to be met to take advantage of this increased flexibility. The OMO part of the market continues to benefit from the regulatory and industry push to publicise the benefits of the open market option, including access to impaired annuities.

Competition within the annuity market has reduced over the last year as the number of providers looking to compete at the top of the open market has reduced and providers have looked to reflect the impact of expected higher capital requirements under Solvency II in their pricing, leading to increased margins.

Strategy implementation

The Group has started to implement the annuity strategy which will focus on building the enhanced range of capabilities needed to retain vesting pensions and provide optionality for entry into the open market. The developments will include sophisticated mortality analysis to inform a highly targeted pricing approach, new customer management systems to support improved engagement with customers and distributors in the run up to retirement and the development of more sophisticated capability for the selection and management of investments such as credit. The developments are expected to deliver enhanced capabilities over a 12–18 month timeframe which will drive increased volumes and profitability during 2013. A good start has been made in building the team with the appointment of a Managing Director of Retirement Income and a Director of Longevity.

Financial performance

£m (unless otherwise stated)	2013 Full year target	**2011 Half year**	2010 Full year Baseline[(i)]	2010 Half year
Value of new business	50	**16**	33	15
New business cash strain	n/a	**7**	26	11
IRR	15%+	**23.8%**	16.5%	n/a
APE	n/a	**19**	39	14

(i) 2010 full year baseline includes an estimate of 12 months AXA UK Life Business results.

Half year sales volumes of £19 million represent a 40% increase on the 2010 half year comparative, reflecting the acquisition of the AXA UK Life Business in the second half of 2010. Annuity sales in the first half of 2010 were boosted by the change to early retirement rules in April last year, which resulted in a spike of retirements from 50–55 year-olds who might otherwise not have been able to take their benefits for up to a further five years.

The key financials remain attractive for the retirement income proposition with high revenue margin and IRR for annuity new business. Annuity business also continues to be cash generative before allowance for capital requirements. VNB at the half year of £16 million is consistent with the annualised 2010 levels whilst IRR has improved to 23.8%. A significant portion of sales continues to be driven by internal vestings with a guaranteed annuity option where margins are lower.

Retention rates as a percentage of vesting funds have fallen marginally compared to 2010, reflecting the general move towards open market options seen in the market more widely. The benefits of the strategy to improve the value retained from maturing pensions business are not expected to be reflected in improvements to this retention figure or VNB until later in 2012.

UK: other products and Sesame Bankhall Group

£m (unless otherwise stated)	**2011 Half year**	2010 Half year
Value of new business	**7**	5
New business cash strain	**(21)**	(3)
IRR	**8.9%**	n/a
APE	**55**	17

Other products

Other products include the combined individual pensions and investment propositions of Friends Provident and the AXA UK Life Business. The Group does not expect to be able to generate the minimum target returns required from these product lines and as a result sales are being limited.

Other sales in the period relate to the onshore bond proposition acquired with the AXA UK Life Business. The decision was made to close to IFA new business applications on 31 March 2011 in line with the UK new business strategy announced in February. New business continues to be written through the Group's inherited tied bancassurance relationships with £14 million APE being written in the period.

The Group does not expect to see significantly increased lapses on the back book of bond business as a result of RDR, for various reasons such as the shrinkage in the population of advisers, the wide choice of funds offered and the popularity of income withdrawals on these bonds.

The remainder of the other product category mainly relates to individual pensions business which delivered £33 million of APE in the first six months. This includes a significant contribution from DWP rebates in respect of individuals who are contracted-out of the State Second Pension, with £11 million of APE generating £6 million of VNB. Contracting out of the State Second Pension ceases in 2012, with no further new business contribution from this business expected after that date.

Sesame Bankhall Group

Sesame Bankhall Group ("SBG") is the UK's largest distributor of retail financial advice and operates three market leading brands. Sesame is the leading appointed representative network, Bankhall is the largest support service provider for directly regulated IFAs and PMS is the biggest mortgage club for intermediaries. SBG traded profitably in line with expectations in the first six months, whilst making significant investments in its technology infrastructure and in new services for its customers, and has commenced a number of implementation activities in advance of RDR.

The operating result for the first six months of the year (£nil) reflects this programme of investment (30 June 2010: £2 million).

UK operating segment – In-force

A key driver of the Group's ability to meet its £400 million per annum distributable cash target is the rate at which profits emerge on the Group's existing in-force business.

Value of in-force ("VIF")

The most significant source of future profits in the UK book is unit-linked pensions and investment business which, at 30 June 2011, accounted for 58% of the VIF. The corporate pensions business VIF is expected to grow over time as profitable new business is added, whilst the VIF from investment business is expected to decline over time as the Group has ceased to write new investment bond business, although the book remains open for increments. The profits emerging from with-profits business will decline over time as the existing business runs-off and increments to with-profits policies are small in volume.

The table below shows the 30 June 2011 UK VIF split, on an estimated basis, between the major product lines.

UK VIF analysis	
With-Profits Fund	15%
Protection	21%
Annuities	6%
UL Pensions	29%
UL Investment	29%

By product line, the primary drivers of future profit are:

- Unit-linked pensions and investment: the value of charges (mostly annual management charges) less costs of administration and any renewal or trail commission. Profits are therefore sensitive to the levels of investment markets and, to a lesser extent, lapse and expense experience. Relative to other product lines, these policies require little regulatory capital.
- Annuities: the value of the investment margins expected on the assets and the release of reserving margins, in particular in relation to longevity. Profits are affected by changes in long-term longevity assumptions and the return achieved on the assets. Relative to other product lines, these policies require significant regulatory capital.
- Protection: the value of the margins assumed in the premiums less the best estimate expected costs of claims, expenses and renewal commission. Relative to other product lines, these policies require modest amounts of regulatory capital.
- With-profits: typically the value of the shareholders' 10% share of the cost of bonus on 90/10 with-profits business and the value of charges less expenses on other with-profits business. Relative to other products lines, these policies require significant regulatory capital.

UK profit emergence in 2011

Based on the 2010 year end MCEV, during 2011 approximately £380 million of VIF is expected to monetise, of which unit-linked business accounts for around £200 million. In addition, recognition of negative reserves in respect of certain protection portfolios has accelerated the emergence of profit by approximately £146 million.

The table illustrates the VIF expected to emerge in future five year periods.

Undiscounted VIF run-off	RSL £bn
Year 1–5	**1.5**
Year 6–10	**1.0**
Year 11–15	**0.7**
Year 16–20	**0.4**
Year 21–25	**0.2**
Year 26–30	**0.1**
Year 31+	**0.1**

Unit-linked funds under management

Unit-linked funds under management are a significant source of future revenue in the form of annual management charges less investment management fees and trail commission. Unit-linked funds under management in respect of pensions business have grown in recent years, with inflows from new and existing business, combined with strong investment returns during 2010 in particular, more than outweighing claim payments. In 2011, the Group has seen net outflows of unit-linked pensions business driven by individual pensions business. Unit-linked funds in relation to investment business, primarily single premium bonds, have declined over the year as outflows have outweighed inflows as new business has been modest for some years and is expected to reduce further in the future.

Unit-linked pensions	RSL £bn
31 December 2010	**30.6**
Inflows	**1.3**
Outflows	**(1.9)**
Market movements	**0.7**
30 June 2011	**30.7**

Unit-linked investments	RSL £bn
31 December 2010	**17.1**
Inflows	**0.2**
Outflows	**(0.9)**
Market movements	**0.5**
30 June 2011	**16.9**

Key drivers

Cash generation from the in-force business is sensitive to a number of key drivers, including:

- investment performance of the assets, in particular on unit-linked funds and the £6.4 billion of assets held in respect of shareholder backed pension annuities;
- lapse experience, which is a function of client behaviour in response to future uncertainties around the economic outlook and their particular situations, adviser behaviour and changes in UK UK fiscal and regulatory regimes;
- future claims experience on the Group's protection and annuity business which is a function of underlying mortality and morbidity trends, risk selection and claims management; and
- capital requirements as specified by the regulatory regime eg Solvency II in 2013.
- During the first six months of 2011, cash generation was affected by:
- the accelerated emergence of surplus on protection business through the adoption of negative reserves;
- operating cost savings in respect of servicing in-force business; and
- positive investment returns from a modest rise in UK equity markets and falling yields on fixed interest assets.

Further information on how these have affected cash generation, IFRS and MCEV profits are contained in subsequent sections.

UK operating segment – IFRS based operating profit

UK IFRS based operating profit

	2011(i) Half year £m	2010(ii) Half year £m	2010(iii) Full year £m
New business strain	**(66)**	(27)	(89)
In-force surplus	**214**	113	280
Investment return and other items	**4**	16	35
Principal reserving changes and one-off items	**222**	5	(15)
Development costs	**(10)**	(8)	(21)
Other	**–**	–	(3)
IFRS based operating profit before tax	**364**	99	187

(i) 2011 half year results comprise six months results for Friends Provident; six months for the AXA UK Life Business; and five months for BHA.

(ii) 2010 half year results comprise six months for Friends Provident and include the following restatements to align with the re-presentation of full year results at the 2010 year end:
a. reclassify £9 million from UK to International segment; in respect of a DAC acquisition accounting adjustment; and
b. reclassify £52 million of positive investment fluctuations on non-profit fund investments as short-term investment fluctuations.

(iii) 2010 full year results include 12 months for Friends Provident and four months for the AXA UK Life Business.

In the period to 30 June 2011 the UK segment delivered IFRS based operating profit before tax of £364 million (30 June 2010: £99 million), representing an increase of £265 million on the prior period. The increase reflects a number of significant changes to the UK segment including the acquisition of the AXA UK Life Business and BHA, and the subsequent implementation of negative reserves on both of these businesses.

Principal reserving changes reflect the implementation of negative reserves on protection business which accelerates the recognition of surplus. This earlier recognition of surplus has a one-off positive impact on the overall UK result of £221 million. This one-off benefit is offset by reduced ongoing in-force surplus (due to the accelerated recognition referred to above) of £20 million in the first six months, with a further estimated £20 million expected in the second six months. There is also an impact on the first half year through a reduction in new business strain of £5 million.

UK new business strain and in-force surplus

Details of new business strain and in-force surplus for the UK business are set out below with the 2010 half year comparatives restated in line with the operating profit changes noted above.

Reconciliation of cash strain to IFRS new business strain

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Total UK new business cash strain	**(98)**	(38)	(149)
DAC/DFF adjustments	**33**	11	59
Other IFRS adjustments	**(1)**	–	1
Total UK IFRS new business strain	**(66)**	(27)	(89)

IFRS new business strain of £66 million includes £31 million in respect of the AXA UK Life Business and BHA; this explains the majority of the increase from the half year ended 30 June 2010. In addition, the strengthened annuitant mortality assumptions, effective at the end of 2010, have increased new business strain compared to 2010.

The implementation of PS06/14 reserving changes and the recognition of negative reserves across the UK protection portfolio means that DAC is no longer recognised on this business. This change in treatment offsets the reserving benefits which are apparent in cash strain and as a consequence there is no significant reduction in protection IFRS new business strain. DAC continues to be recognised on pensions and investments business and has moved in line with expectations given the current product mix and levels of new business.

Reconciliation of cash surplus to IFRS in-force surplus

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Total UK cash surplus	**207**	115	268
DAC/DFF adjustments	**(1)**	2	8
Other IFRS adjustments	**8**	(4)	4
Total UK IFRS surplus	**214**	113	280

In-force surplus of £214 million is £101 million higher than that recorded in the first half of 2010 due to the inclusion of the AXA UK Life Business and BHA results. These account for £96 million of this income. IFRS surplus generated by the Friends Provident UK business increased marginally to £118 million (30 June 2010: £113 million).

The £1 million net amortisation of acquisition costs and front end fees (“DAC/DFF”) reflects the relatively small value of these costs that has been capitalised in the post acquisition period. On the acquisition of the business, the existing capitalised deferred acquisition costs and deferred front end fees were eliminated and recognised within the acquired value of in-force (“AVIF”). In the post acquisition period, as new business is written, the capitalisation of acquisition expenses and front end fees resumed and hence the amortisation charged against in-force surplus will increase each year for pensions and investments business.

Investment return and other items

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Longer term return on life and pension shareholder funds – excluding debt	**35**	37	76
Longer term return on life and pension shareholder funds – debt	**(31)**	(23)	(46)
Distribution businesses	**–**	2	5
Total	**4**	16	35

Longer term investment return on shareholder funds, net of debt, was lower at £4 million (30 June 2010: £14 million) reflecting a lower expected return on shareholder assets due to a decrease in expected rates and a change in asset mix from bonds to cash. This change has more than offset the effect of the higher asset base from the inclusion of the AXA UK Life Business shareholder assets. There was also an £8 million interest charge associated with the £500 million debt issued by Friends Life in April 2011.

Distribution businesses relate to Sesame Bankhall Group, which generated operating profits of £nil in the first six months of 2011 (30 June 2010: £2 million) and, for the period prior to its disposal in March 2010, Pantheon Financial Limited.

Principal reserving changes and one-off items

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Negative reserving (PS06/14) changes	**221**	–	–
Annuitant longevity strengthening	**–**	–	(39)
Modelling and methodology changes	**1**	5	14
Scheme expense release	**–**	–	10
Total	**222**	5	(15)

The implementation of the PS06/14 reserving change to the AXA UK Life Business and BHA has resulted in a one-off £221 million release of reserves including a DAC write-off of £22 million in the protection proposition. As a result of this early recognition of margins, the Group has reviewed the run-off profile of the AVIF and accelerated the amortisation charge for these UK businesses. As the amortisation of AVIF is presented as a non-operating item, the impact of this additional charge (£201 million) is recognised within non-operating profit.

UK operating expenses

	2011 Half year £m	2010 Full year baseline(i) £m	2010 Half year £m	2010 Full year £m
Acquisition	**89**	220	46	130
Maintenance	**130**	256	37	140
	219	476	83	270
Development	**10**	23	8	21
Total	**229**	499	91	291

(i) 2010 full year baseline includes an estimate of 12 months AXA UK Life Business, BHA and WLUK operating expenses.

UK operating expenses, which exclude commission payments and non-recurring costs, were £229 million compared to £91 million in the first half of 2010 reflecting the increased scale of the business. Operating expenses remain a key focus with the delivery of the £112 million targeted synergies critical to driving a step change in UK business performance.

Acquisition and maintenance costs total £219 million in the six month period compared to the full year 2010 baseline of £476 million. The 2010 baseline includes £31 million of WLUK operating costs, which the Group is due to acquire by the end of 2011. After adjusting for the inclusion of WLUK, costs are slightly below baseline on a run-rate basis and reflect a number of the early synergies, which include the reorganisation of sales, marketing and new business processing functions. These are however partially offset by temporary increases for VAT on transitional services from AXA UK, and increases in finance and governance, to support business as usual activities during a period of significant change.

To date in 2011, development costs of £10 million include £5 million expenditure on the development of the corporate platform, refinement and progression of the Group's retirement income strategy and a number of other projects spanning the UK Life business.

UK operating segment – MCEV operating profit

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Value of new business	**28**	20	19
Expected existing business contribution	**167**	79	210
Operating experience variances	**(7)**	26	37
Operating assumption changes	**–**	–	(41)
Other operating variances	**6**	4	96
Development costs	**(10)**	(8)	(21)
Life and pensions covered business operating profit before tax	**184**	121	300
Other income and charges	**–**	–	6
Operating profit before tax	**184**	121	306

The MCEV operating profit of £184 million in the half year to 30 June 2011 includes a contribution from Friends Provident UK of £105 million (30 June 2010: £121 million). The half year to 30 June 2011 included a full six months' contribution from the AXA UK Life Business and contribution from BHA from 31 January 2011.

Value of new business

The value of new business for the six months ended 30 June 2011 was £28 million (30 June 2010: £20 million). The run-rate cost savings achieved at 30 June 2011 were largely not reflected in this result as they were not secured throughout this six month period. In addition, the result includes less profitable business lines where sales run-rates reduced by the end of the period.

	Value of new business		PVNBP margin	
	2011 Half year £m	2010 Half year £m	**2011 Half year %**	2010 Half year %
Corporate benefits	**(1)**	4	**–**	0.6
Individual protection	**4**	(4)	**1.2**	(4.2)
Group protection	**2**	–	**3.5**	(2.0)
Retirement income	**16**	15	**8.8**	11.3
Other products	**7**	5	**1.6**	3.4
UK total	**28**	20	**1.2**	1.8

Expected existing business contribution

The expected existing business contribution for 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 the cost of non-hedgeable risk capital.

The expected return on the value of in-force has increased following the acquisition of the AXA UK Life Business and BHA. However, the longer term rates of return applied to equities and properties have fallen since 2010.

Expected return comprises two components:

- expected earnings on all opening assets assuming a reference rate based on the one year swap return set at the beginning of the period, plus an illiquidity premium which is applied to annuity business only; and
- additional expected earnings consistent with management's long-term expectation of the asset returns on the business.

For assets such as cash and government bonds, management's expectation has been based on the one year risk free rate, by reference to the swap yield curve. The rate applied for the half year 2011 results is based on the one year risk free rate at 31 December 2010 of 1.14%, which is materially below the longer term rate that could be derived from a 10 year swap rate (31 December 2010: 3.70%). The use of a one year rate for cash and government bonds results in a lower expected return, and hence a lower MCEV operating profit, than that which would have been obtained had a longer term risk free rate been applied. It is estimated that adopting a longer term rate would increase operating profit by £20 million for the period. The Group believes that this approach is appropriate given the current market conditions and the decision to apply the lower rate has no impact on overall embedded value, as any reduction in operating profit is compensated for by an increase in economic variances.

	Rates of return	
	2011 %	2010 %
Reference rate (non annuity business)	**1.14**	1.01
Reference rate (annuity business)	**1.89**	1.76
Best estimate returns:		
Corporate bonds	**2.45**	2.98
Cash/Government Bonds	**0.00**	0.00
Equity	**6.70**	7.30
Property	**5.70**	6.30

Operating experience variances

Total operating experience variances in the UK amounted to a £7 million charge as a result of the net impact of:

- higher lapses than expected on corporate pensions business, from a combination of scheme withdrawals, rewrites of existing schemes on different charging structures, and premium reductions; and
- better mortality and morbidity experience than expected on life and income protection business, primarily as a result of improved recovery rates.

The persistency experience has been partially offset by the release of £11 million (£8 million net of tax) of the short-term recessionary provision held at 31 December 2010 of £26 million (net of tax).

In 2010 the operating experience variance benefited from a £14 million benefit following the release of the final element of a prior year's tax provision held to cover potential tax exposures arising on transactions undertaken by Friends Provident.

Operating assumption changes

In accordance with the Group's normal practice, there have been no operating assumption changes in the period to 30 June 2011. The normal review of assumptions, notably those where experience is diverging from that expected, will be conducted in the second half of 2011 and, where necessary, assumptions updated accordingly.

Other operating variances

Other operating variances of £6 million (30 June 2010: £4 million) include the effects of a number of refinements to calculations to better reflect the underlying nature of the policies.

International operating review

International operating segment

£m (unless otherwise stated)	**2011 Half year**	2010 Half year	2010 Full year
VNB	**20**	30	43
New business cash strain	**(52)**	(57)	(83)
IRR	**13.5%**	18.3%	15.4%
APE	**132**	120	238
IFRS based operating profit before tax	**41**	47	95
MCEV operating profit before tax	**15**	31	68
Operating free surplus generation	**9**	n/a	10

The International business has increased new business flows, with APE growing to £132 million in the first half of 2011. Whilst this has generated reasonable VNB, enhancements to modelling methodology made at the end of 2010 to correct historic errors, show a reduced result when compared to the previous, unadjusted half year. The operating result reflects the growing book of business which generates an increasing return on the in-force book, offset by a number of one-off items that are explained further below.

The International segment comprises:

- Friends Provident International Limited ("FPIL"), an Isle of Man based company manufacturing unit-linked regular contribution savings and single premium bond products targeted at high net worth individuals via distribution hubs in Hong Kong, Singapore and Dubai;
- Overseas Life Assurance Business ("OLAB"), the overseas branch business of Friends Provident Life Assurance Limited, benefiting from EU freedom of services rules which allow regulated EU insurers to trade anywhere within its borders;
- Financial Partners Business AG ("fpb"), a German distributor of OLAB unit-linked pensions business; and
- a 30% interest in AmLife Insurance Berhad ("AmLife"), a Malaysian life insurance company, majority owned by AmBank Berhad, a major Malaysian banking group.

Market environment

Most core markets appear to have recovered well from the recession, in particular in Asia where demand is strong, although Europe remains a difficult environment and is expected to remain so over the course of 2011.

The largest market is the North Asian region, serviced through the Hong Kong branch. This is a relatively mature market, although continuing to grow strongly, with an established IFA distribution segment servicing affluent local nationals, corporate clients and expatriates. FPIL is one of the market leaders in IFA distributed business with very strong relationships, supported by strong service and leading propositions which include a wide choice of funds available through FPIL's range of unit-linked products. Quality of distribution relationships, service, commitment to overseas markets, systems capability and proposition development are fundamental to success in the region.

Singapore, serving South Asia, has been one of the most resilient regions, being first out of the global recession, with 14.5% GDP growth in 2010. It is rapidly evolving as a wealth management hub to rival Hong Kong, and should offer excellent growth potential for FPIL.

The United Arab Emirates and the wider Middle Eastern region are relatively under-developed, but wealthy markets with potential for further development. FPIL has transformed itself from a Western expatriate-oriented business to a leading regional life insurance operation and remains well positioned for continued growth in the region.

In Germany, the business participates, through OLAB, in the market for unit-linked individual pensions, a growth segment where the business has a well regarded product set. This market and the product choices offered by local players are still dominated by with-profits type investment products. Whilst the market environment is challenging in the short term, as low investment market confidence drives consumers towards traditional with-profits business, the unit-linked sector has good prospects in the medium term through demand for private sector savings and investments and the move from state to private pensions provision. The trend towards lower guaranteed rates of return is also reducing the attractiveness of traditional product structures whilst the impact of Solvency II is expected to limit market participants' ability to provide traditional with-profits product offerings. OLAB is well positioned to benefit from these changes as the German pensions market continues to evolve and market confidence returns.

The UK offshore market is significant and comprises mainly single premium investments. FPIL has a small market share, leaving significant scope for growth. The market remains attractive as mass affluent investors continue to seek tax advantageous savings solutions outside the UK.

AmLife participates in the Malaysian market through both an agency and the bancassurance channel. This is a fast moving market which is currently closed to further entrants through the rationing of available licences.

Strategy implementation

The Friends Life strategy is to grow the value of the International business and its component parts, improving overall growth prospects and returns. As the business grows, the level of cash generation is expected to improve to deliver the targeted sustainable cash generation of at least £20 million per annum by 2013 whilst increasing new business IRR to at least 20%.

The business has continued to invest in building capability, developing propositions and platforms, and revising product structures to improve profitability and persistency. New business profitability will be enhanced by the development and rollout over the next 18 months of an improved FPIL regular premium product.

Financial performance

New business volumes

APE by region (£m, actual exchange rates)	**2011 Half year**	2010 Half year	2010 Full year
North Asia	**55**	48	95
South Asia	**13**	11	19
Middle East	**24**	23	46
Europe (excluding UK)	**16**	18	35
UK	**10**	5	14
AmLife (Malaysia)	**4**	5	10
Rest of the world	**10**	10	19
APE total (at actual exchange rates)	**132**	120	238
APE total (at constant exchange rates)	**137**	120	238

International new business sales (APE) increased by 10% compared with the first half of 2010, with a 14% increase for FPIL offset by a 7% reduction for OLAB. The results were driven by strong sales in Asia and the UK, offset by weaker European sales, where market conditions remain challenging.

New business profitability

	Value of new business			**PVNBP margin**		
	2011 Half year £m	2010 Half year £m	2010 Full year £m	**2011 Half year %**	2010 Half year %	2010 Full year %
FPIL	**14**	20	27	**2.0%**	3.5%	2.3%
OLAB	**4**	7	12	**5.4%**	8.0%	6.7%
AmLife	**2**	3	4	**9.2%**	7.4%	6.5%
	20	30	43	**2.5%**	4.3%	3.0%

The value of new business has reduced from the levels of the first half of 2010 following the enhancements to internal models and methodology changes that were made in the second half of 2010 which impacted the measurement of new business profitability. The full year 2010 results are consequently a better comparator for VNB and PVNBP margin.

Total International margins are slightly below 2010 full year comparatives as a result of changes in business mix, with the writing of a higher proportion of FPIL regular premium business and a lower proportion of OLAB business. This driver has likewise adversely affected the half year new business IRR of 13.5% (31 December 2010: 15.4%).

International fund flows	RSL £bn
31 December 2010	**5.7**
Inflows	**0.5**
Outflows	**(0.2)**
Market movements	**(0.1)**
30 June 2011	**5.9**

Funds under management (£bn)	1 January 2011	Inflows	Outflows	Net inflows/ (outflows)	Market and other movements	30 June 2011
FPIL	5.3	0.5	(0.2)	0.3	(0.1)	**5.5**
OLAB	0.3	–	–	–	–	**0.3**
AmLife	0.1	–	–	–	–	**0.1**
International total	5.7	0.5	(0.2)	0.3	(0.1)	**5.9**

Funds under management as at 30 June 2011 total £5.9 billion and have increased by 3% in the six months to 30 June 2011. Fund flows are largely driven by the growth of the FPIL business with net in-flows in the period of £0.3 billion.

IFRS based operating profit

	2011 Half year £m	2010[(i)] Half year £m	2010 Full year £m
New business strain	**(20)**	(11)	(28)
In-force surplus	**69**	58	120
Investment return and other items	**–**	1	3
Principal reserving changes and one-off items	**(6)**	2	2
Development costs	**(3)**	(2)	(6)
Other	**1**	(1)	4
IFRS based operating profit before tax	**41**	47	95

(i) 2010 half year results comprise six months for Friends Provident and a reclassification of £9 million from UK to International segment in respect of a DAC acquisition accounting adjustment.

International generated IFRS based operating profits of £41 million in the six month period to 30 June 2011 compared to £47 million in the first six months of 2010.

New business strain

Reconciliation of new business strain to IFRS

	2011 Half year £m	2010 Half year £m	2010 Full year £m
New business cash strain	**(52)**	(57)	(83)
DAC/DFF adjustments	**105**	97	210
Other IFRS adjustments	**(73)**	(51)	(155)
IFRS new business strain	**(20)**	(11)	(28)

New business strain has reduced by £5 million to £52 million period on period principally as a result of the increased benefit from financial reinsurance. Higher acquisition costs as sales volumes increased have partly offset this benefit.

IFRS new business strain has increased to £20 million from £11 million at half year 2010, largely due to modelling improvements as well as increased new business volumes. Other IFRS adjustments include the elimination of financial reinsurance from IFRS new business strain as well as the elimination of actuarial funding and sterling reserves which are a feature of the products sold by the International business.

In-force surplus

Reconciliation of in-force surplus to IFRS

	2011 Half year £m	2010 Half year £m	2010 Full year £m
In-force cash surplus	**73**	71	106
DAC/DFF adjustments	**2**	3	7
Other IFRS adjustments	**(6)**	(16)	7
IFRS in-force surplus	**69**	58	120

Cash in-force surplus increased by £2 million to £73 million, benefiting from the growth of the back book although this growth has been restricted by adverse economic and currency variances, notably the weakening of the US Dollar against Sterling. Exchange rate movements on Sterling reserves have had a £5 million adverse impact on the cash surplus in the period.

In-force surplus on the IFRS basis increased from £58 million in the first half of 2010 to £69 million at half year 2011 and likewise benefited from the underlying cash drivers. However, the majority of the exchange rate impact on the cash surplus is reversed out within other IFRS adjustments and therefore does not impact on the IFRS in-force surplus.

In the first half of 2010 the cost of enhanced allocations on in-force policies still in their initial 18 month period was not deferred, as in 2010 these policies largely related to the block of pre-acquisition business, and therefore no further DAC was set up on this block of business. Much of this impact is offset by increased DAC amortisation on the growing book of post-acquisition policies, which was minimal in 2010. The first half of 2011 represents a more normalised level of in-force surplus. In future the growth of the book of post-acquisition business will result in higher DAC amortisation but this should be more than offset by the growth in in-force surplus from the growing back book.

Principal reserving changes and one-off items

Adverse principal reserving changes and one-off items of £6 million comprise a number of small adjustments principally relating to FPIL, arising from the Group's review and enhancement of the business's financial infrastructure.

Operating expenses

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Acquisition	**15**	13	28
Maintenance	**13**	10	22
Development	**3**	2	6
Other	**–**	–	1
Total	**31**	25	57

International operating expenses, which exclude commission payments and non-recurring costs, have increased to £31 million from £25 million in the first six months of 2010. Expense increases across the business reflect the higher new business volumes and improvements to propositions and distribution capabilities as well as the costs of strengthening the governance and controls to meet the needs of a growing, complex business. Development costs relate to the German business and the development of the International business's platform.

MCEV operating profit

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Value of new business	**20**	30	43
Expected existing business contribution	**14**	12	29
Operating experience variances	**(1)**	(3)	12
Operating assumption changes	**(2)**	–	(2)
Other operating variances	**(13)**	(6)	(7)
Development costs	**(3)**	(2)	(6)
Life and pensions covered business operating profit before tax	**15**	31	69
Other income and charges	**–**	–	(1)
Life and pensions operating profit before tax	**15**	31	68

International MCEV operating profit has reduced from £31 million in the first half of 2010 to £15 million in 2011.

Value of new business

New business profitability has reduced from the levels of the first half of 2010, with full year 2010 being a better comparator for VNB. Margins have also been affected by business mix in the first half of 2011, leaving the VNB result below 2010 levels despite increased new business volumes.

Expected existing business contribution

The expected existing business contribution has increased from £12 million to £14 million. This has been driven primarily by strong growth of the in-force book, offset by a slight reduction in expected rates of return.

	Rates of return	
	2011 %	2010 %
Reference rate	**1.14**	1.01
Best estimate returns:		
Corporate bonds	**2.45**	2.98
Equity	**6.70**	7.30
Property	**5.70**	6.30

Operating experience variances

Adverse experience variances of £1 million result from a number of small items primarily in relation to persistency.

Operating assumption changes

Adverse operating assumption changes of £2 million are in respect of AmLife basis review changes for mortality and expenses (identified through the annual valuation process for AmLife which has a year end of 31 March) offset by a small positive persistency variance.

Other operating variances

Adverse other operating variances amounting to £13 million are mainly in respect of £7 million improved modelling of FPIL partial surrenders and a variety of other smaller modelling improvements, mainly in FPIL, which increase the robustness of the reported market consistent embedded value. The models for FPIL are being updated as part of the Group’s overall transformation of the finance systems infrastructure to a more robust base, which will provide a basis for enhanced financial and economic risk management.

Lombard operating review

Lombard operating segment

£m (unless otherwise stated)	**2011 Half year**	2010 Half year	2010 Full year
VNB	**18**	31	83
New business cash strain	**(11)**	(15)	(6)
IRR[(i)]	**19.0%**	23.1%	26.7%
APE	**97**	135	302
IFRS based operating profit	**21**	13	33
MCEV operating profit	**40**	51	162
Operating free surplus generation	**4**	n/a	(12)

(i) The 2011 Lombard IRR now takes account of the Luxembourg regulatory regime in which DAC is an allowable asset.

Lombard has delivered a solid result in the first half of 2011, although the exceptional sales experienced in certain markets in the first half of 2010 have not been repeated. MCEV operating profit has been impacted by this lower contribution from new business, whilst IFRS based operating profit continues to be sustained, benefiting from the higher managed asset base.

Lombard is the leading pan-European life assurance business specialising in onshore estate planning solutions for high and ultra-high net worth individuals. Based in Luxembourg the business offers innovative solutions and superior service, through a well-established distribution network of private banks, high-end IFAs and independent family offices across Europe and selected markets in Latin America and Asia. Solutions offered by Lombard are typically based on single premium, whole of life, unit-linked life assurance structures with all but minimal levels of life exposure reinsured. The business is well placed to benefit from the continued flow of business into onshore propositions.

Market environment

2010 was an exceptional period for the cross-border life insurance market with this being particularly evident in the first six months of the year. Total Luxembourg life insurance market premiums were estimated at around €22 billion with Lombard accounting for 16% of the market, underlining its market leading position.

Market activity has been markedly lower in the first half of 2011 as the European Savings Directive ("EUSD") and the Italian tax amnesty, which drove volume in the first half of 2010, were not prominent and there were no other similar event drivers. Additionally, whilst Lombard's performance is not directly linked to investment markets the continued market uncertainty and pervasive risk arising from the ongoing uncertainty in sovereign debt and general market-related volatility has led to clients postponing actions to structure their investments and manage intergenerational transfer of their wealth.

Notwithstanding the challenging short-term market conditions, the longer term drivers of the demand for compliant "Privatbancassurance" solutions remain compelling.

Strategy implementation

There are three core elements of Lombard's strategy and these will continue to progress in 2011:

- strengthening of sales force: Lombard has strengthened its sales force in key markets with a 20% increase in sales consultants by the end of July 2011. This action, taking advantage of Lombard's leading market position, enhances Lombard's presence in key geographical markets. The business will continue to invest throughout the remainder of 2011 with the objective of increasing the total sales force by some 25%;
- investment in marketing and deepening partner relationships: Lombard expanded its marketing and product development resource to enable further valuable support to existing and potential partners. Lombard is undertaking due diligence exercises with selected key partners to continue the tailoring of its service offering to match their precise needs and those of their clients (thereby enhancing Lombard's franchise and protecting margins); and
- operating model: consistent with the needs of Lombard's partners and clients, this initiative is seeking to further improve the maintenance and servicing of policies whilst streamlining the business's operating model. This will contribute to enhancing competiveness and improving profitability whilst reducing business model risk.

It is envisaged that these initiatives will contribute to the delivery of the financial outcomes (strong growth in profitable new business and cash generation) by 2013 (IRR above 20% and £30 million dividend).

Financial performance

Overall, business in the first half of 2011 is below 2010 levels, with sales volumes of £97 million APE 28% below the same period in 2010. The lower volumes have directly affected the contribution from new business with VNB of £18 million and IRR of 19.0% falling below those generated last year. Historically, both VNB and IRR have increased in the second half of the year and accordingly the current levels should not be extrapolated for the full year. Compound annual growth rate ("CAGR") for sales in the first half of the year is 11% between 2007 and 2011.

CAGR

	Lombard H1 APE £m	Lombard H2 APE £m
2007	**65**	134
2008	**70**	176
2009	**47**	226
2010	**135**	167
2011	**97**	

Performance in the period has being impacted by a number of factors including:

- the absence of strong policy drivers to generate new business which Lombard experienced in the first half of 2010, namely the planned EUSD changes, and ongoing flow of Italian post tax amnesty business;
- Northern Europe and UK are primarily impacted by lower activity among IFAs. The business has seen some increase in activity but it remains significantly below 2010; and
- a general increase in the time it takes to close large client deals due to market uncertainties in certain European countries.

Despite these factors, several markets have performed strongly with Finland, France, Italy, Sweden and Asia showing volumes significantly above 2010 business levels. These improvements reflect the benefits from sales force enhancement and continued deepening of relationships with partners in these markets. The growth in these regions is encouraging and highlights the market diversity of Lombard's business.

APE performance per region is as follows:

APE by region (actual exchange rates)	**2011 Half year £m**	2010 Half year £m	Change %
UK and Nordic	**25**	33	(23)
Northern Europe	**18**	53	(66)
Southern Europe	**41**	43	(6)
Rest of world	**13**	6	132
Total including large cases	**97**	135	(28)
Of which: large cases (greater than €10 million)	**39**	41	(5)
Total excluding large cases	**58**	94	(38)

Whilst the external environment is challenging, it is anticipated that activity will be higher in the second half of 2011. This reflects the natural switch in the focus of the sales force from developing leads and client opportunities to closing business. The second half of the year also traditionally benefits from the December fiscal year end in operation within most markets. It is anticipated that Lombard will continue to attract a significant share of its target high and ultra-high net worth market segment.

Albeit below 2010 levels, the pipeline of new business remains high and large case prospects in development are encouraging.

IFRS based operating profit

	2011 Half year £m	2010 Half year £m	2010 Full year £m
New business strain	**(17)**	(22)	(28)
In-force surplus	**40**	38	66
Investment return and other items	**(1)**	(1)	(4)
Principal reserving changes and one-off items	**–**	(1)	–
Development costs	**(1)**	(1)	(1)
IFRS based operating profit before tax	**21**	13	33

Lombard generated operating profit before tax of £21 million in the six month period to 30 June 2011, up 62% on 2010.

New business strain and in-force surplus

Reconciliation of new business strain to IFRS

	2011 Half year £m	2010 Half year £m	2010 Full year £m
New business cash strain	**(11)**	(15)	(6)
DAC/DFF adjustments	**(6)**	(7)	(21)
Other IFRS adjustments	**–**	–	(1)
IFRS new business strain	**(17)**	(22)	(28)

Period on period, levels of new business strain have remained higher than the 2010 full year, despite the lower sales volumes to date. This is due to local rules on deferral of acquisition costs which mean that DAC has been indirectly restricted by the lower level of new business to date. This proportion is expected to return to consistent levels in the second half of the year. Excluding the impact of deferred acquisition costs, actual new business strain cash flows have improved significantly compared to the first half of 2010.

Reconciliation of in-force surplus to IFRS

	2011 Half year £m	2010 Half year £m	2010 Full year £m
In-force cash surplus	**22**	22	30
DAC/DFF adjustments	**18**	16	36
Other IFRS adjustments	**–**	–	–
IFRS in-force surplus	**40**	38	66

Surplus generated has benefited principally from the growth in the existing book of business with the increase in charges generated reflecting the growing scale of the managed asset base.

Average funds under management have increased significantly from £14.5 billion in the first half of 2010 to £17.7 billion in 2011 as a result of both investment market growth in 2010 and the significant sales volumes brought onto the book in the second half of 2010. The business has delivered net business inflows of £0.6 billion through the first half of 2011.

H1 average assets	**Half year ended 30 June 2011 £bn**	Year ended 31 December 2010 £bn	Year ended 31 December 2009 £bn
Average FUM	**17.7**	14.5	12.1

Lombard fund flows	**£bn**
31 December 2010	**17.1**
Inflows	**1.0**
Outflows	**(0.4)**
Market movements	**0.5**
30 June 2011	**18.2**

Operating expenses

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Acquisition	**20**	19	47
Maintenance	**12**	9	19
Development	**1**	1	1
Other	**–**	–	2
Total	**33**	29	69

The operating expenses of Lombard, which exclude both commission payments and non-recurring costs, are set out in the table above. Notwithstanding the growth in the in-force book, Lombard has maintained tight control of expense levels which, on a constant currency basis, and excluding an accrual for the management long-term incentive plan, are 5% higher than 2010, while average funds under management increased by 17%.

Development costs consist of expenses related to new product and market development.

Lombard MCEV operating profit

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Value of new business	**18**	31	83
Expected existing business contribution	**21**	16	38
Operating experience variances	**2**	5	(17)
Operating assumption changes	**–**	–	20
Other operating variances	**–**	–	39
Development costs	**(1)**	(1)	(1)
Life and pensions covered business operating profit before tax	**40**	51	162

Lombard MCEV operating profit of £40 million has decreased from the prior year of £51 million, principally due to the impact of lower sales volumes on the value of new business.

The value of new business reduced as a result of lower volumes and lower average margins with the semi-fixed nature of acquisition costs also adversely affecting the new business contribution during the first months of the year.

The overall margin levels achieved in 2011 have decreased compared to last year as a result of a different product mix (lower proportions of higher margin IFA business and a higher proportion of large cases: 40% in 2011 compared to 30% in 2010).

Expected existing business contribution

The expected existing business contribution of £21 million is £5 million higher than the same period in 2010 with this increase principally resulting from the increased in-force book. Rates of return have also reduced slightly compared to 2010 levels.

	Rates of return	
	2011 %	2010 %
Reference rate	**1.40%**	1.32%
Best estimate returns:		
Corporate bonds	**4.46%**	4.72%
Equity	**6.46%**	6.72%

Operating experience variances

Persistency and mortality experience variance are the principal drivers of a favourable variance of £2 million in the period.

Corporate operating review

FLG corporate segment

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

Financing and interest costs

FLG has a number of debt instruments and the operating cost of financing these for the half year ended 30 June 2011 are presented below.

£m	Market value of debt[i]	Finance cost[ii] IFRS	Finance cost[ii] MCEV
Internal £200 million lower tier two issued to Resolution Limited	200	24	24
£162 million external lower tier 2	208	12	5
£500 million external tier 2 bond	498	8	6
STICS 2003	178	6	4
STICS 2005	229	7	6
Total	1,313	57	45

(i) Market value is based on listed offer price, at 30 June 2011, excluding accrued interest and before tax on market valuation

(ii) Finance cost is operating profit impact, before tax

The interest cost incurred differs between the two bases, reflecting the lower expected rate of return applied in the MCEV results.

In so much as these debts have been raised to support the ongoing growth and development of the life operating businesses the cash raised has been loaned to the UK operating segment. The external cost attributable to each segment is shown here.

	IFRS £m	**MCEV before tax Covered £m**	**MCEV before tax Non-covered £m**
Corporate segment	**(26)**	**(21)**	**(24)**
UK operating segment	**(31)**	**–**	**–**
	(57)	**(21)**	**(24)**

FLG corporate IFRS based operating profit

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Investment return and other items excluding debt	**40**	23	47
Expected return on debt	**(57)**	(22)	(61)
Other	**(3)**	(1)	(11)
IFRS based operating profit before tax	**(20)**	–	(25)

The corporate result is primarily driven by the expected return on the debt held in the Group, offset by the investment return on shareholder assets. Corporate costs of £3 million primarily relate to the FLG long-term incentive scheme.

FLG 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 FLG corporate holding and service companies whilst the covered element principally represents the net debt liabilities held at the Friends Life group level.

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Expected existing business contribution on debt	**(21)**	(15)	(30)
Other operating variances	**–**	–	(63)
Life and pensions covered business operating loss before tax	**(21)**	(15)	(93)
Other income and charges	**(22)**	–	(16)
Operating loss before tax	**(43)**	(15)	(109)

The Friends Life corporate segment includes the interest on the STICS and external lower tier 2 debt instruments at the reference rate and expected return over reference rate.

The interest on the £200 million debt issued to Resolution holding companies of £24 million is included within other income and charges as well as £3 million of corporate costs (in line with IFRS results). Other items primarily comprise the expected return on the pension asset and other investments (which are included in investment return in IFRS).

Resolution corporate segment

The operating results of the Resolution holding companies are summarised in the table below. These are presented consistently in the IFRS financial statements and MCEV supplementary information.

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Interest on internal FLG lower tier 2	**24**	–	18
Financing and interest costs	**(26)**	–	(18)
Other operating items	**(14)**	(8)	(15)
Total	**(16)**	(8)	(15)

Friends Provident holding companies issued £700 million lower tier 2 debt to Resolution in September 2010 to fund the acquisition of the AXA UK Life Business; £500 million was repaid in April 2011.

Financing and interest costs are analysed in the following section.

Other operating items mainly comprise fees payable to ROL, directors and professional fees and other corporate costs. It also includes interest earned on cash based assets held by the Resolution holding companies.

Financing and interest costs

External financing within Resolution holding companies is summarised in the following table:

£m	**2011 Half year Carrying amount**	**2011 Half year Finance cost**	2010 Full year Carrying amount	2010 Full year Finance cost
Deferred consideration notes	**437**	**16**	500	10
Acquisition finance facility	**–**	**10**	400	8
Total	**437**	**26**	900	18

The deferred consideration notes were issued in September 2010 in connection with the acquisition of the AXA UK Life business; £63 million was repaid in June 2011.

The acquisition finance facility was a term loan facility agreement also issued in September 2010 to fund part of the consideration payable for the acquisition of the AXA UK Life business; this loan was repaid in April 2011.

IFRS result

Group IFRS profit

The Group's IFRS results are set out below, including a reconciliation from operating profit to IFRS based profit before tax. The Group uses the operating profit measure as the Board 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, the AXA UK Life Business and BHA from the deemed dates of their acquisitions, which are 4 November 2009, 3 September 2010 and 31 January 2011 respectively.

£m	**RSL(i) Half year 2011**	RSL(ii) Half year 2010	RSL(iii) Full year 2010
UK	**364**	99	187
International	**41**	47	95
Lombard	**21**	13	33
Corporate			
– FLG	**(20)**	–	(25)
– RSL	**(16)**	(8)	(15)
IFRS based operating profit before tax	**390**	151	275
Short-term fluctuations in investment return	**(2)**	64	24
Returns on F&C Commercial Property Trust	**–**	23	23
Acquisition accounting adjustments:			
Amortisation and impairment of acquired in-force business	**(453)**	(142)	(364)
Amortisation of other acquired intangible assets	**(41)**	(25)	(64)
Non-recurring items:			
Gain on acquisition of businesses	**68**	–	883
Costs associated with the business acquisitions	**(1)**	(6)	(28)
Other non-recurring items	**(79)**	(3)	(68)
STICS interest adjustment to reflect IFRS accounting for STICS as equity	**16**	16	31
IFRS (loss)/profit before shareholder tax	**(102)**	78	712
Shareholder tax	**147**	(6)	108
IFRS profit after tax	**45**	72	820

(i) 2011 half year results comprise six months results for Friends Provident; six months for the AXA UK Life Business; and five months for BHA.

(ii) 2010 half year results comprise six months for Friends Provident and include the following restatements:
a. reclassify £9 million from UK to International segment in respect of a DAC acquisition accounting adjustment; and
b. reclassify £52 million of positive investment fluctuations on non-profit fund investments as short-term investment fluctuations.

(iii) 2010 full year results include 12 months for Friends Provident and four months for the AXA UK Life Business.

IFRS based operating profit for 2011 was £390 million comprising the operating profit for the life business of £426 million and £36 million of corporate costs. A detailed review of the operating profit of each segment has been provided in the relevant segmental review section of this business review.

Non-operating items

Short-term fluctuations in investment return of £2 million includes a £9 million benefit from the unwind of the credit default allowance in excess of actual defaults within the non-profit fund. This is partially offset by a £7 million variance on expected investment return.

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 so the result for 2011 is nil. The £23 million return on F&C CPT in 2010 reflects the market return attributable to third-parties for the period up to April 2010.

Acquisition accounting adjustments, totalling £494 million, represent the amortisation and impairment of the intangible assets recognised on the acquisitions. These charges include £252 million of amortisation of acquired in-force business, and £41 million of amortisation of other intangible assets. Following the implementation of negative reserves within the AXA UK Life business and BHA, an acceleration of AVIF amortisation amounting to £201 million has been recognised to reflect the earlier recognition of surplus within operating profit.

Non-recurring items include the gain on acquisition of BHA of £68 million and £1 million costs associated with this. Other non-recurring costs totalling £79 million include Solvency II implementation and other finance transformation costs of £24 million, separation and integration programme costs of £41 million, capital optimisation programme costs of £8 million and other non-recurring costs of £6 million.

Interest payable on the Friends Provident STICS of £16 million is included as a £13 million deduction to corporate long-term investment return in the operating profit analysis, and £3 million adverse investment fluctuation. As the STICS are accounted for as equity in IFRS (with interest being recorded as a reserve movement), £16 million is added back to the non operating result to reflect the requirements of IFRS.

A shareholder tax credit of £147 million is recognised in the period and is significantly higher than the loss before tax of £102 million would imply. The principal differences between the implied and the actual shareholder tax credit relate to:

- a £48 million one-off shareholder tax credit triggered by the change in pricing basis on certain unit-linked funds to reflect the fact that these funds were contracting. The discounted tax provision previously included in the pricing (and thus reflected in policyholder liabilities) has been replaced by an undiscounted provision for asset gains. This facilitated the release of a shareholder tax provision which was previously established as IFRS does not permit the discounting of tax provisions.
- a £30 million shareholder tax credit relating to the reduction in rate of UK corporation tax; and
- the £68 million accounting gain on the acquisition of BHA, which is non-taxable.

Summary IFRS balance sheet

£m	**RSL 30 June 2011**	RSL 31 December 2010
Acquired value of in-force business	**4,439**	4,685
Other intangible assets	**431**	455
Financial assets	**101,088**	99,445
Cash and cash equivalents	**8,962**	9,288
Other assets	**9,032**	8,492
Total assets	**123,952**	122,365
Insurance and investment contracts	**108,608**	107,492
Loans and borrowings		
– deferred consideration notes	**438**	500
– acquisition finance facility	**–**	400
– other	**806**	312
Other liabilities	**7,682**	7,112
Total liabilities	**117,534**	115,816
IFRS net assets	**6,418**	6,549
Equity attributable to equity holders of the parent	**6,105**	6,227
Attributable to non-controlling interests	**313**	322
Total equity	**6,418**	6,549
Shares in issue(i)	**1,454,460,459**	1,443,985,079

(i) Adjusted to exclude 499,873 Resolution Limited shares held by subsidiaries at 30 June 2011 (31 December 2010: 8,579,292).

At 30 June 2011, IFRS total equity was £6,418 million (31 December 2010: £6,549 million), with equity attributable to equity holders of the parent of £6,105 million (31 December 2010: £6,227 million) giving IFRS net assets per share attributable to shareholders of £4.20 (31 December 2010: £4.31) based on shares in issue at the balance sheet date, excluding Resolution Limited shares held by subsidiaries.

Resolution Limited issued share capital has increased reflecting the scrip element of the final 2010 dividend (14 million shares), offset by the share buy-back programme and changes in the shares held by subsidiaries. The return of capital to shareholders through the share buy-back programme which was announced on 7 June 2011 and commenced on 8 June 2011 has resulted in a reduction in issued share capital of 11 million shares with a total value of £34 million. The share buy-back programme is expected to conclude by the end of 2011. There has been a reduction in the number and value of shares in Resolution Limited held by the life companies (£1 million compared to £20 million at 31 December 2010). In accordance with IFRS requirements, these shares have been excluded from the equity attributable to equity holders of the parent. It is expected that the Group's remaining shareholdings in Resolution Limited will be divested by the end of 2011.

Financial assets are predominantly invested in listed shares, other variable yield securities and corporate bonds and asset backed securities where 96% are at investment grade or above. Other assets and other liabilities shown above include £284 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, a £400 million short-term funding arrangement was put in place. This was repaid in April 2011 following the successful raising of £500 million lower tier two debt in the Friends Life group.

At 30 June 2011, the ratio of debt to IFRS equity, gross of debt, was 16.9% (31 December 2010: 16.3%), with the movement primarily reflecting the decrease in equity following the return of capital to shareholders.

MCEV results

Group MCEV profit

MCEV is an alternative accounting basis to 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.

Group MCEV profit

	RSL 2011 Half year £m	RSL 2010 Half year £m	RSL 2010 Full year £m
Life and pensions			
UK	**184**	121	300
International	**15**	31	69
Lombard	**40**	51	162
Corporate	**(21)**	(15)	(93)
Life and pensions covered business operating profit before tax	**218**	188	438
FLG other income and charges	**(22)**	–	(11)
Life and pensions operating profit before tax	**196**	188	427
RSL corporate income and charges	**(16)**	(8)	(15)
Operating profit before tax	**180**	180	412
Economic variances	**(48)**	16	229
Amortisation of non-covered business intangible assets	**(1)**	(1)	(3)
Costs associated with the business acquisitions	**(1)**	(6)	(28)
Non-recurring costs (as reported in IFRS)	**(79)**	(3)	(68)
Other non-recurring items and non-operating variances	**34**	–	74
Profit from continuing operations before tax	**85**	186	616
Tax	**(31)**	(38)	(156)
Profit from continuing operations after tax	**54**	148	460

Overall MCEV operating profit before tax for the half year was unchanged at £180 million in 2011 and 2010, primarily reflecting the impact of the reduced contribution from International and Lombard new business as well as the lower expected rates of return. The 2011 half year operating profit comprised operating profit for the Friends Life group of £196 million (30 June 2010: £188 million) and £16 million (30 June 2010: £8 million) of corporate costs in the Resolution holding companies.

Non-operating items

Economic variances combine the impact of changes to economic assumptions with the investment return variances over the year. In the period the total economic variances for the Group had a £48 million adverse impact on results (30 June 2010: £16 million favourable). This arises from a loss of £28 million on foreign exchange movements in both the International and Lombard businesses, reflecting the weakening of the euro and US dollar in the period and a loss from the mark to market valuation of group debt (including the STICS) of £35 million. Offsetting these losses was a gain on wider economic experience of £15 million, arising from gains on corporate bonds and swaps, partially off set by falls in equity returns.

The MCEV of the covered business of the Group remains relatively insensitive to market risk and, in particular, falls in equity and property capital values. The sensitivity to a 10% fall in equity and property capital values remains broadly in line with the position at 31 December 2010 which was a net of tax adverse impact of £258 million.

Non-recurring expenses and non-operating items totalling £46 million (30 June 2010: £9 million) comprise £1 million costs relating the acquisition of BHA and £79 million of non-recurring expenses as described in the IFRS section offset by £34 million benefit from the impact on the UK business of the Budget in April 2011. This includes the impact on the value of in-force business of changing the corporation tax rate from 27% to 26% with effect from 6 April 2011 and changing the ultimate corporation tax rate effective from 6 April 2014 from 24% to 23%.

MCEV balance sheet

Gross life and pensions MCEV	30 June 2011 Net worth £m	30 June 2011 VIF £m	30 June 2011 Total £m	31 December 2010 Total £m
UK	**2,391**	**3,294**	**5,685**	5,995
International	**85**	**467**	**552**	557
Lombard	**84**	**513**	**597**	577
FLG corporate	**758**	**(45)**	**713**	620
FLG other(i)	**69**	**–**	**69**	61
Gross FLG MCEV	**3,387**	**4,229**	**7,616**	7,810
FLG corporate – STICS	**(407)**	**–**	**(407)**	(393)
FLG corporate – lower tier 2 debt	**(706)**	**–**	**(706)**	(201)
FLG corporate – internal LT2 bond	**(200)**	**–**	**(200)**	(702)
Net FLG MCEV	**2,074**	**4,229**	**6,303**	6,514
RSL net assets (incl internal debt)	**616**	**–**	**616**	901
RSL deferred consideration notes	**(437)**	**–**	**(437)**	(500)
RSL acquisition finance facility	**–**	**–**	**–**	(400)
Net Group MCEV	**2,253**	**4,229**	**6,482**	6,515
Shares in issue(ii)			**1,454,460,459**	1,443,985,079

(i) Includes IFA distribution and management services businesses.

(ii) Adjusted to exclude 499,873 Resolution Limited shares held by subsidiaries at 30 June 2011 (31 December 2010: 8,579,292).

At 30 June 2011, net Group MCEV was £6,482 million (31 December 2010: £6,515 million) giving MCEV per share of £4.46 based on shares in issue at the balance sheet date, adjusted to exclude shares held by subsidiaries. MCEV per share at 31 December 2010 was £4.51 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 (excluding internal debt) was 19.3% (31 December 2010: 18.7%), primarily reflecting the reduction in MCEV arising from the return of capital to shareholders. The ratio of debt to gross FLG MCEV was 17.2% (31 December 2010: 16.6%).

Resolution holding companies net worth, including internal and external debt, increased by £178 million over the period reflecting the £350 million dividends received from FLG, offset by £141 million cash dividends paid to shareholders, the holding companies' results for the period and the impact of the share buy-back programme and disposal of shares held by subsidiaries, consistent with IFRS.

The annualised FLG operating ROEV, after tax, for the period to 30 June 2011 is 4.5% compared to a 2010 baseline of 5.5%. The baseline operating ROEV includes the estimated full year impact of AXA UK Life Business and BHA and assumes nil impact of operating variances and assumption changes. The operating ROEV at 30 June 2011 principally reflects the reduced contribution from new business as a proportion of opening embedded value. The ROEV has also been adversely affected by low expected rates of return, particularly on net assets, as well as the annualisation of operating variances in the period. The ROEV is calculated assuming that experience in the second half of 2011 will mirror that recorded in the first half and as a result any items which are one-off in nature will be compounded, causing a larger effect than would otherwise be expected if they did not recur. The use of a one year rate for cash and government bonds to calculate the expected existing business contribution results in a low expected return, and hence a lower operating ROEV than one based on a longer term view of swap rates.

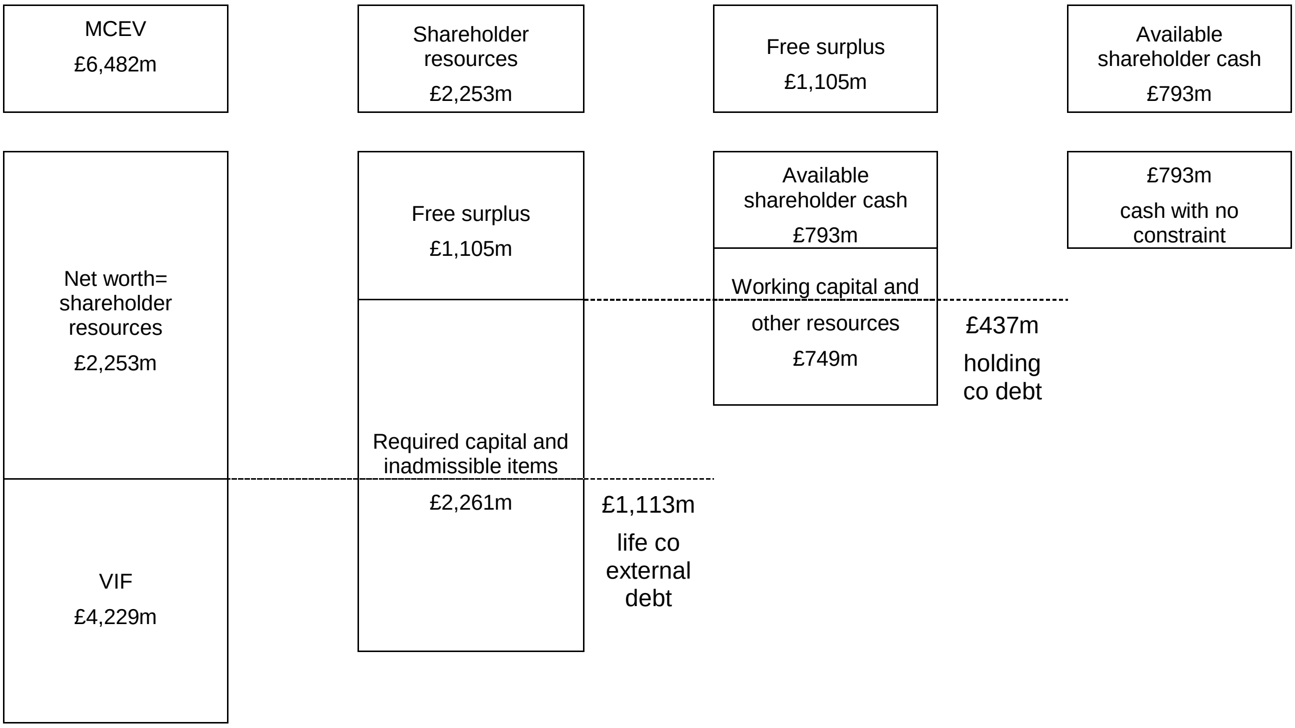
Cash and capital

Group cash delivery

Available shareholder cash ("ASC") at 30 June 2011 was £793 million. The movement in ASC in the six months to 30 June 2011 does not include any cash paid up from the life companies in respect of surplus generated by these businesses; in accordance with normal practice, cash transfers from the life companies, based upon actuarial valuations, form part of the year end reporting process. Consequently ASC for the first half of the year will not normally include cash generated in the life companies. As a proxy for the expected contribution to ASC from the life companies, the Group has considered the movements in free surplus in the period and compared these to the distributable cash target ("DCT") of £400 million per year. DCT is defined as the increase in FLG ASC after interest and before dividends to Resolution holding companies. DCT is the amount that could be paid to Resolution holding companies without reducing the MCEV of FLG, excluding investment variances and non-recurring items. The contribution to the DCT from FLG in the period, based on movements in free surplus, is £283 million, including the one-off impact of £161 million arising from the implementation of certain elements of PS06/14. This one-off benefit of £161 million represents part of the ongoing programme of optimising the capital base which is well underway. The Group remains confident of delivering its annual target of £400 million in 2011 and of generating additional cash from the targeted capital synergies of £235 million announced previously. These capital synergies will facilitate the Group's announced potential return of a further £250 million of capital to shareholders in 2012. The Group continues to maintain a prudent buffer, in addition to working capital, of £400 million to cover the external dividend, financing and corporate costs at Resolution holding companies level.

Cash management framework

The Group's cash management framework is based on the movement in MCEV, reflecting the basis of MCEV as the discounted value of expected 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 30 June 2011, reconcile to ASC.



The total MCEV is split between the net worth, or shareholder resources, and the value of in-force business ("VIF"). Shareholder resources comprise the free surplus, required capital and inadmissible assets of the business. 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 (for MCEV, where these assets relate to non-covered business, they are all included within free surplus). VIF comprises the value of the future cash flows arising from the policies currently in-force.

External debt issued by FLG is offset against required capital in the life businesses as this debt has been guaranteed by life operating companies and has been used to support their activities. This debt comprises STICS of £407 million and lower tier 2 subordinated debt of £706 million. Deferred consideration notes ("DCN") issued by the Company to AXA UK as part of the acquisition of the AXA UK Life Business are offset against free surplus.

ASC is stated after the deduction of regulatory and other restrictions on the availability of cash resources. ASC represents cash available to cover corporate costs, to service debt issued by Resolution holding companies and, subject to shareholder approval, to pay dividends, fund future acquisitions, or return to shareholders. The Group intends to maintain a prudence buffer, within ASC, of £400 million to cover the Company's dividend cost, DCN repayments and interest and Resolution holding companies corporate costs.

The key components and drivers of ASC for 2011 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 between required capital, including inadmissible assets and free surplus.

Analysis of movement in MCEV

		Shareholder resources		
£m	**Value in-force**	**Required capital**	**Free surplus**	**Total MCEV**
Opening MCEV at 1 January 2011	4,202	1,585	728	6,515
MCEV profit after tax	(131)	(19)	204	54
Impact of acquisition of BHA	132	91	(165)	58
Other movements in net equity	–	(24)	19	(5)
Foreign exchange variances	27	5	(1)	31
Capital and dividend flows	(1)	7	(177)	(171)
External tier 2 bond issuance (net of issue costs)	–	(497)	497	–
Closing MCEV at 30 June 2011	**4,229**	**1,148**	**1,105**	**6,482**

MCEV profit after tax for the period of £54 million comprises £204 million of free surplus generation offset by £19 million reduction in required capital and £131 million reduction in VIF. These movements are set out in more detail in the following section.

The value of BHA at acquisition was £226 million, comprising VIF of £132 million, required capital of £91 million and free surplus of £3 million. The consideration paid by FLG was £168 million, resulting in a gain on acquisition of £58 million. The net impact on free surplus was a reduction of £165 million reflecting the consideration paid net of the free surplus acquired.

Other movements in net equity comprise actuarial losses on defined benefit pension schemes (£24 million) offset by the reduction in the adjustment to exclude intra-group holdings in Resolution Limited shares (£19 million).

Capital and dividend flows comprise outflows in respect of the cash dividends paid to shareholders of £141 million and the impact of the share buy-back programme of £34 million, partly offset by £4 million inflow reflecting the change in value of the Lombard share option scheme (as this is an equity settled scheme, changes in value are shown as movements in equity).

The £500 million external tier 2 bond issued by FLG (net of £3 million costs) was used to repay £500 million of internal lower tier 2 debt issued by FLG to Resolution holding companies in 2010. The external tier 2 bond is offset against required capital as it supports the activities of the life businesses whereas the internal debt was, for FLG, offset against free surplus. Consequently the issue of the external tier 2 bond and repayment of the internal debt results in an increase in free surplus and an offsetting reduction in required capital.

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

The table below sets out the impact of the MCEV profits generated in the period on the VIF, required capital and free surplus of the business. The analysis identifies the impact of underlying surplus generation, operating variances, including the implementation of certain aspects of PS06/14, and non-recurring and other non-operating items. The analysis is shown on a net of tax basis.

		Shareholder resources		
£m	Value in-force	Required capital	Free surplus	Total MCEV
Expected return from in-force business net of finance costs	(165)	(28)	330	137
Add back coupon on FLG external debt[(i)]	–	(9)	24	15
Investment in new business	202	35	(185)	52
Underlying MCEV generation	**37**	**(2)**	**169**	**204**
Development costs	–	–	(11)	(11)
Financing costs	–	9	(41)	(32)
Impact of PS06/14	(146)	(13)	161	2
Other operating items	(31)	9	5	(17)
FLG operating result	**(140)**	**3**	**283**	**146**
RSL income and charges	–	–	(16)	(16)
Group operating result	**(140)**	**3**	**267**	**130**
Economic variances	(17)	(24)	(1)	(42)
Non-recurring and non-operating variances	26	2	(62)	(34)
Result after tax	**(131)**	**(19)**	**204**	**54**

(i) The expected return from in-force business is shown net of the expected return on FLG external debt. As the coupon on this debt of £24 million is included within the financing costs of £41 million, it has been added back to underlying MCEV generation to provide greater clarity on the impact of debt on free surplus generation.

The key driver of underlying MCEV generation is expected return from in-force business net of investment in new business; this is explained in more detail below. The underlying free surplus generation of £169 million and £161 million impact on free surplus of the adoption of certain elements of PS06/14 underpin the £283 million operating free surplus generation in the period.

The impact on free surplus of financing costs, net of tax, comprises £11 million in respect of the STICS issued by FLG, £13 million in respect of the existing external lower tier 2 debt and new tier 2 bond issued by FLG and £17 million in respect of the internal lower tier 2 debt issued by FLG to Resolution holding companies. The receipt of this interest is included in the operating result for Resolution holding companies.

The implementation of certain elements of PS06/14 resulted in accelerated recognition of free surplus; this has been largely offset by a reduction in future profits that were present in the VIF; the £2 million net MCEV profit represents the release of the associated cost of capital.

Other operating items relate to the impact of persistency and modelling changes on VIF and the positive impact on free surplus of mortality and morbidity experience variances, offset by FLG corporate costs.

Economic variances include £25 million for an increase in the market value of corporate debt within required capital. Adverse investment variances in Lombard and International have reduced VIF as a result of fund performance and exchange differences.

Non-recurring and non-operating items include the impact on VIF of the reduction in the corporation tax rate (£26 million) offset by the impact on free surplus of separation and integration and Solvency II costs (£62 million) as well as a related minor increase in required capital (£2 million).

c) Free surplus – £1,105 million

The generation of free surplus, net of movements in required capital, underpins the declaration of future dividends. The table below details the movement in free surplus.

Movement in free surplus	RSL £m
1 January 2011	**728**
In-force surplus(i)	**354**
New business	**(185)**
Finance costs	**(41)**
Development costs and other operational items	**(6)**
PSO6/14 impact	**161**
Operating free surplus generated in the period	**283**
Other profit items and one-off costs	**(79)**
BHA acquisition	**(165)**
Debt raising	**497**
Transfers to shareholders	**(175)**
Other capital movements	**16**
30 June 2011	**1,105**

(i) Before coupon on FLG external debt of £24 million

Total free surplus of the Group amounts to £1,105 million at 30 June 2011 up from £728 million at the end of 2010. This reflects the free surplus generated in the period of £204 million, the impact of the acquisition of BHA in January 2011, debt raising and the return of capital to shareholders.

A summary of the free surplus generated in the period is set out in the preceding section detailing the principal profit drivers, the BHA acquisition and the impact of debt raising. Further information on in-force surplus and new business strain are shown below.

The transfers to shareholders of £175 million comprise £141 million of cash dividend and £34 million in respect of the share buy-back programme. Other capital movements reflect the favourable impact of £19 million reduction in Resolution Limited shares held by subsidiaries, £1 million adverse foreign exchange movements, £4 million favourable movement in respect of the Lombard long-term incentive scheme and other variances primarily relating to the difference between the accrued and cash payments on the FLG STICS.

In-force business expected return and investment in new business

At product level, in-force surplus and new business drivers are monitored on a “cash strain” and “cash surplus” basis which excludes movements in required capital and is stated before tax and other adjustments. 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. The impact of this is set out below.

£m	Free surplus	Movement in required capital	Tax and other items	Cash strain/ surplus
New business strain	(185)	35	(11)	(161)
In-force surplus(i)	354	(37)	(15)	302
	169	(2)	(26)	141

(i) movement in required capital for in-force surplus is shown before the impact of the £24 million coupon on FLG external debt

The following table provides a segmental analysis of in-force surplus and new business strain on both the MCEV free surplus and cash bases.

£m	Free surplus	Movement in required capital, tax and other items	Cash strain/ surplus
New business strain			
UK	(124)	26	(98)
International	(50)	(2)	(52)
Lombard	(11)	–	(11)
Total strain	**(185)**	**24**	**(161)**
In-force surplus			
UK	266	(59)	207
International	72	1	73
Lombard	16	6	22
Total surplus	**354**	**(52)**	**302**
Net strain/surplus	**169**	**(28)**	**141**

The Group has set a target, for the UK business to reduce cash strain, the measure used to manage individual products, by £200 million, by the end of 2013. This target is set from a full year baseline of £392 million, of which the UK accounted for £303 million. The UK new business cash strain of £98 million for the half year therefore represents an annualised reduction of just over £100 million compared to this baseline. The targeted reduction of £200 million is expected to be achieved for the UK business through moving to target platforms, utilising negative reserves and other initiatives set out in the UK operating section. International and Lombard have not been set specific targets for reductions in new business strain, but are expected to deliver annual dividends of £30 million by the end of 2014 for Lombard and £20 million by the end of 2013 for International. Continued improvement in business performance, focused on managing new business strain in comparison to in-force surplus emergence is expected to deliver the dividend targets.

Analysis of FLG operating free surplus generation by segment

£m	UK	Int'l	Lombard	Corporate covered	Non-covered	Total
Expected return from in-force business net of finance costs	266	72	16	(24)	–	330
Add back coupon on FLG external debt	–	–	–	24	–	24
Investment in new business	(124)	(50)	(11)	–	–	(185)
Underlying free surplus generation	**142**	**22**	**5**	**–**	**–**	**169**
Development costs	(7)	(3)	(1)	–	–	(11)
Financing costs	–	–	–	(24)	(17)	(41)
Impact of PS06/14	161	–	–	–	–	161
Other operating items	21	(10)	–	–	(6)	5
FLG operating free surplus generation	**317**	**9**	**4**	**(24)**	**(23)**	**283**

Working capital – £749 million

The £1,105 million of free surplus at 30 June 2011 comprises £793 million available shareholder cash and £749 million of working capital, illiquid and restricted assets, net of the Deferred Consideration Notes of £437 million.

Working capital is held to cover known future requirements or reflects illiquid assets together with requirements to ensure sufficient flexibility to comply with the Group's capital policy. At 30 June 2011, it also includes free surplus generated to date as the Group would normally only expect to declare dividends in the life businesses following the year end valuation. The Group does not include free surplus within ASC until it is paid up to group holding companies.

An analysis of the movement in working capital in the period is shown below.

£m	Working capital (gross)	RSL holding company debt	Net working capital
Opening position at 1 January 2011	561	(900)	(339)
FLG free surplus for the period:			
– operating	283	–	283
– non operating	(63)	–	(63)
Difference between internal and external interest	30	–	30
Impact of BHA acquisition	(165)	–	(165)
Injection into life businesses	100	–	100
Repayment of acquisition finance facility	–	400	400
DCN repayment	–	63	63
Share buy-back programme	(9)	–	(9)
Other	12	–	12
Group closing position at 30 June 2011	**749**	**(437)**	**312**

The movements in working capital primarily comprise the retention of free surplus generated in the period, the transfer of £100 million into the life companies on a temporary basis as part of an internal reorganisation, offset by the utilisation of resources from the life companies to acquire BHA. The £9 million reduction in respect of the share buy-back programme represents amounts owed to corporate brokers in respect of shares bought back in the period.

As at 30 June 2011, the key components of working capital are:

	2011 Half year £m	2010 Full year £m
Amounts retained to support separation integration and service company costs	**140**	175
Amounts retained to facilitate BHA acquisition	**–**	77
Long-term fund surplus currently unavailable to shareholders and restricted assets	**174**	129
Life company amounts retained for flexibility	**385**	125
Other operating businesses working capital	**50**	55
Total working capital (gross of debt)	**749**	561

d) Available shareholder cash – £793 million

Available shareholder cash comprises £502 million of shareholder cash at FLG holding company level, offset by £140 million retained in FLG to fund integration costs and other operating costs together with £431 million held by Resolution holding companies. At 31 December 2010, £175 million cash was retained in FLG to fund integration and other operating costs. During the first six months of 2011, £35 million of this has been utilised to fund separation, integration and other restructuring activities. Life business free surplus generation will not directly impact available shareholder cash for the period, as dividends from life operating businesses are normally based on declaration of surplus as a result of annual actuarial valuations.

Movement in available shareholder cash	**£m**
1 January 2011	**1,067**
Corporate costs	**(22)**
DC Notes repayments	**(63)**
DC Notes interest	**(23)**
Share buy-back settlements	**(25)**
2010 final dividend	**(141)**
30 June 2011	**793**

At 1 January 2011, after allowing for the impact of the year end intragroup dividend available shareholder cash was £1,067 million (£481 million at Resolution holding companies; £586 million at FLG holding companies). At 30 June 2011 available shareholder cash was £793 million (£431 million at Resolution holding companies; £362 million at FLG holding companies).

	£m
Friends Life holding companies cash	502
Cash retained to fund integration costs and service company losses (working capital)	(140)
Friends Life holding companies available shareholder cash	362
Proposed dividends from Life business – to be determined at year end	–
Friends Life available shareholder cash	**362**
Resolution holding companies cash	431
Group available shareholder cash	**793**

In the period ended 30 June 2011, the Group received £575 million of dividends from the life businesses as well as £65 million of loan repayments from the holding companies. These amounts were included in ASC at 31 December 2010 as they had been declared at the time of reporting.

The issue of the £500 million tier 2 bond by FLG, net of issue costs of £3 million, was used to finance the repayment of the £400 million acquisition finance facility drawn down to part fund the acquisition of the AXA UK Life Businesses. £100 million was injected into the life companies on a temporary basis as part of an internal reorganisation and is expected to be repaid before the end of 2011. A £63 million scheduled repayment of the Deferred Consideration Notes was also made in the period.

The £166 million outflow in respect of dividends and share buy-back comprises £141 million cash in respect of the final 2010 dividend and £25 million cash paid to corporate brokers in respect of the shares bought back in the period.

Other cash outflow of £42 million includes £69 million payment of the coupon on the STICS and external lower tier 2 debt, offset by £39 million of interest received from the life businesses in respect of internal loans less £12 million of corporate costs paid net of interest received in the period.

Distributable cash target ("DCT")

The Company has set a DCT of £400 million per annum at Friends Life Group level for 2011 and onwards, after interest costs and without reducing the MCEV of Friends Life group (excluding investment variances and non-recurring items). The DCT is satisfied by the payment of dividends from the life operating companies to the Friends Life group holding companies; as these are normally declared on an annual basis following the completion and approval of the actuarial valuations in those life companies, an indication of DCT generation in the period is given in the table below showing the movements in free surplus which would be expected to fund future dividends.

	£m
Expected return from in-force business (before coupon on external debt)	354
Investment in new business	(185)
Underlying free surplus generation	**169**
Development costs and other operating items	(6)
FLG finance costs	(41)
Sustainable DCT contribution	**122**
Capital synergies: impact of PS06/14	161
DCT contribution	**283**

As announced in February 2011, the strategic plan aims to reduce cash new business strain by £200 million by the end of 2013, and in addition to this, the Group has targeted the delivery of £50 million of dividends from the overseas businesses 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, in part, on the release of working capital and capital synergies. In addition to the £400 million expected to be generated in 2011 from the sustainable sources and the release of working capital, the Group expects a further £235 million to be generated from capital synergies. Of the £161 million of free surplus generated in the period through the implementation of certain elements of PS06/14, £100 million relates to the AXA UK Life Business and will contribute towards the £235 million to be generated from capital synergies. The additional capital synergies generated in BHA were already assumed in the Group's valuation of BHA (for capital purposes) and do not form part of the incremental £235 million. Part VII transfers to move business from smaller life companies into FPLP are currently on schedule to complete in the second half of 2011; these are expected to generate a further £135 million of excess capital over capital policies.

Targeted cash return

As announced on 7 June 2011, the Group plans to return £500 million of excess capital to shareholders. This will be completed in two stages with an initial £250 million share buy-back started on 8 June 2011. The return of a further £250 million is targeted for 2012 although this is subject to regulatory approval and the Group achieving £235 million of capital synergies planned for 2011 from the implementation of negative reserves and other reserving changes and the Part VII transfers noted above.

During the period the Company has returned £34 million of capital to shareholders, purchasing 11.2 million of its own ordinary shares at prices between 280.6 pence per share and 317.7 pence per share; all of these shares have been cancelled. The first tranche of the share buy-back programme is expected to complete by the end of 2011.

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 including ICG – the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year period;
- at the FLG 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 regulatory 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 implemented including fund mergers and the optimisation of the corporate structure, to ensure capital efficiency and to maximise the fungibility of capital resources.

Solvency II

The implementation of the EU Solvency II Directive continues to be a key focus of attention for the Group. 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 uncertainty remains.

During the first half of the year, Friends Life group participated in the EIOPA stress test exercise, an EU wide set of stress tests performed by the large insurance companies assessing companies' ability to meet their Solvency II Minimum Capital Requirements ("MCR") under a set of specified stress tests. Friends Life group also continues to be closely engaged in the development of the tax proposals including any changes arising as a result of Solvency II.

The development and streamlining of some financial systems and tools are included within the Solvency II implementation programme and the overall implementation programme is on track against its plans and budget.

FLG is committed to applying for internal model approval pursuant to the Solvency II Directive and is planning accordingly. The Group has been accepted into the FSA's pre-application process.

The Group assesses strategic developments and opportunities on a Solvency II basis.

The Solvency II requirements are not completely specified, but if the industry is successful in achieving a satisfactory outcome to the key outstanding policy decisions, the Group believes that it will have a favourable capital impact on the Friends Life group relative to current Pillar 1 solvency requirements.

Insurance Groups Capital Adequacy

In addition to individual company requirements FLG, as the ultimate European Economic Area ("EEA") parent insurance undertaking, is required to meet the IGCA requirements of the Insurance Groups Directive. IGCA is monitored at FLG level and does not include the assets of the Resolution holding companies. 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.

The balance sheet remained strong at the Friends Life group level, with an IGCA surplus of £2.0 billion at 30 June 2011, with Group Capital Resources being 209% of Group CRR (excluding WPICC). Group Capital Resources were £0.9 billion in excess of the amount required to satisfy the FLG group capital policy of holding 160% of Group CRR (excluding WPICC).

The IGCA surplus would reduce by around £0.1 billion for a 40% fall in equity markets from 30 June 2011 levels and would reduce by slightly less if interest rates were to rise by 100bps across the yield curve.

The movement in IGCA surplus over the period largely reflects the expected surplus emerging in the period after financing costs and less amounts retained in the long term funds, non-recurring and non-operating costs of £62 million (including integration costs), offset by the £132 million impact of acquiring BHA (£169 million cost of investment offset by a £37 million IGCA surplus at the acquisition date) and the £157 million benefit (on an IGCA basis) of negative reserves released in FLC and BHA businesses. Additional surplus of £46 million relating to surplus generated in FPLP during the year is not available in IGCA until it is transferred to shareholder funds after the full year actuarial valuation.

The surplus is also impacted by financing and dividend costs, which include the £350 million of dividends paid to Resolution holding companies in the period, £500 million of the lower tier 2 debt issued to Resolution holding companies has been repaid during the period, following an external debt raising by FLG of £500 million tier 2 bond, with £3 million of associated costs.

Management initiatives in the year to optimise the IGCA surplus position delivered a benefit of £157 million. This relates to the recognition of negative reserves in the acquired BHA and AXA UK Life Business. This benefit applies to the base IGCA position with release of capital requirements at 100% whereas the free surplus impact of £161 million includes the release of FLG – level required capital at 160% . Part VII transfers to be implemented in 2011 to move business from some of the smaller life companies into FPLP are expected to reduce aggregate Pillar 1 capital requirements by around £90 million, thereby increasing excess capital over capital policies by around £135 million. Further Part VII transfers are planned for 2012.

Movement in IGCA surplus	**RSL £m**
1 January 2011	**2,317**
Increase in expected surplus	**100**
Other	**(62)**
PS06/14	**157**
BHA acquisition	**(132)**
Dividend to RSL	**(350)**
External LT2 debt	**497**
Repay RSL debt	**(500)**
30 June 2011	**2,027**

At 30 June 2011 the capital held to meet FLG capital policies was £1,112 million (1 January 2011: £1,085 million) and the excess over the capital policies was £915 million (1 January 2011: £1,232 million).

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 £85 million of non-profit funds outstanding surplus remains in the UK business which is not counting towards the IGCA surplus. The IGCA surplus also excludes £755 million of UK 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 (“FPLP”)

Asset allocation within the With-Profits Fund is actively managed. Market Value Reductions (“MVRs”) were reduced in January 2010 and then removed from all product lines on 1 April 2010 in response to the high investment returns of the Fund over 2009 and the first quarter of 2010.

At 30 June 2011 the proportion of equities and property backing asset shares (equity backing ratio or “EBR”) was close to 51% (31 December 2010: 49%).

A strategic EBR level of 50% for pre-demutualisation business and 55% for post-demutualisation business for assets backing asset share liabilities was approved in April 2011.

The split of investment strategy of pre- and post-demutualisation business was implemented on 30 June 2011.

Management actions allowed for within the risk management framework were revised and a change was approved in April 2011.

These actions reflect the risk appetite and risk management framework 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.

Non-profit business in the With-Profits Fund, the majority of which is annuities, is backed by a mix of gilts and corporate bonds.

Friends Life Company Limited ("FLC")

Asset allocation within the With-Profits Fund is actively managed. During the first half of 2011 the Group has been able to continue to reduce 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 30 June 2011 the EBR was close to 66% (December 2010: 68%).

There have been no recent changes to investment policy. The fund maintains 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 remain 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 Fund is backed by a 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 the first half of 2011 the Group has been able to continue to reduce MVRs on single premium bonds, although some remain due to the low levels of current equity markets compared to when these bonds were taken out.

At 30 June 2011 the EBR was close to 52% (31 December 2010: 54%).

The investment policy of FLAS was reviewed in 2010. The strategy now is to target a stable EBR of 50% for assets backing policy asset shares. The allocation for assets backing guarantees and options comprises gilts and hedging derivatives (equity put options, sold equity futures, interest rate swaps, swaptions and "spreadlock" trades). The target allocation for assets backing the realistic with-profits estate is gilts only, although currently some property and corporate bond holdings still remain.

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

Asset quality and exposure

The Group's financial assets as at 30 June 2011, excluding cash, are summarised as follows:

	Unit-linked £bn	**With-profit £bn**	**Non-profit £bn**	**Shareholder £bn**	**30 June 2011 Total £bn**	31 December 2010 Total £bn
Shares, unit trusts and OEICs	**53.7**	**7.8**	**0.2**	**–**	**61.7**	60.4
Gilts	**7.7**	**7.2**	**1.2**	**0.1**	**16.2**	16.1
Corporate bonds and asset backed securities	**5.7**	**9.2**	**6.8**	**0.5**	**22.2**	21.5
Derivatives	**–**	**0.4**	**–**	**–**	**0.4**	0.4
Deposits	**0.4**	**–**	**–**	**–**	**0.4**	0.4
Loans	**–**	**–**	**0.2**	**–**	**0.2**	0.7
Total 30 June 2011	**67.5**	**24.6**	**8.4**	**0.6**	**101.1**	–
Total 31 December 2010	65.5	24.3	8.3	1.4	–	99.5

The vast majority of the Group's exposure to sovereign debt holdings is to UK gilts. The Group has £8 million shareholder exposure (including shareholder fund exposure to non-profit and with-profit funds) to the higher risk government debts of Spain, Portugal, Italy, Ireland and Greece (31 December 2010: £7 million).

In addition the Group's shareholder exposure to various corporate securities issued by companies domiciled in Spain, Portugal, Italy, and Ireland is £439 million (31 December 2010: £444 million). The Group's shareholder exposure to Greek corporate securities and sovereign debt is less than £1 million. 56% 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, 23% of these are not linked to the institution's domestic economy. In all cases the company's financial strength and the ability of the domicile government to provide financial support in the event of stress has been considered.

£m	Total	Spain	Portugal	Italy	Ireland
Sovereign debt	**8**	–	–	8	–
Corporate exposure: domestic financials	**151**	34	–	92	25
Total sovereign and domestic financials 30 June 2011	**159**	34	–	100	25
Other corporate exposure					
– Non-domestic financials	**44**	40	–	4	–
– Domestic non-financials	**212**	66	12	121	13
– Non-domestic non-financials	**32**	32	–	–	–
Total exposure 30 June 2011	**447**	**172**	**12**	**225**	**38**
Total sovereign and domestic financial 31 December 2010	173	37	–	103	33
Total exposure 31 December 2010(i)	451	159	14	228	50

(i) Restated to include two non-domestic financials totalling £39 million

Corporate bonds and asset backed securities (excluding £0.7 billion 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	30 June 2011 Total £bn	30 June 2011	31 December 2010 Total £bn	31 December 2010
AAA	**0.3**	**2.5**	**1.1**	**0.1**	**4.0**	**19%**	3.7	18%
AA	**0.3**	**1.2**	**2.5**	**0.1**	**4.1**	**19%**	4.2	20%
A	**0.6**	**2.6**	**2.1**	**0.2**	**5.5**	**25%**	5.4	26%
BBB	**0.5**	**2.3**	**0.9**	**0.1**	**3.8**	**18%**	3.4	17%
Sub-BBB or rating not available	**3.3**	**0.6**	**0.2**	**–**	**4.1**	**19%**	3.9	19%
Total 30 June 2011	**5.0**	**9.2**	**6.8**	**0.5**	**21.5**	**100%**	–	–
Total 31 December 2010	**4.5**	**8.9**	**6.6**	**0.6**	**–**	**–**	20.6	100%

Over 96% of the corporate bond and asset backed securities, to which the shareholder funds are exposed 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.

Liquidity

The liquidity of the Group remains strong.

FLG has an undrawn £500 million funding facility with a consortium of banks. This facility is due to run until June 2013 but can be extended at the option of FLG for a further two years.

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.

Value share

The Resolution Group, which is the private advisory group of which ROL forms a part, remains aligned with shareholders through its investment in the Company's ordinary shares, its direct investment in Resolution Holdco No. 1 LP ("Holdco") and its entitlement to receive 10 per cent of the value created from the UK Life Project through its Value Share. The Value Share structure was established at the time the Company was formed and, in broad terms, rewards members of The Resolution Group where the accumulated value of the deployed equity capital contributed to the UK Life Project has been returned to the Company or its shareholders, or there has been a change of control of the Group. The structure of the Value Share means that it is expected to be payable only on completion of the UK Life Project.

However, given that the Company has only one restructuring project, a mark-to-market valuation of the Value Share can be determined on any given day by deducting the value of cash held at Resolution level from the market value of Resolution, and then comparing the result to the accumulated value of the net equity deployed in Holdco (i.e., in the UK Life Project) accumulated at the agreed rate (currently 4% per annum).

Total gross equity deployed in the UK Life Project is approximately £4,056 million and the accumulated value of net equity deployed (at 4% per annum and after the return of £475 million of capital returned to Resolution Limited to date) is £3,769 million as shown below.

	Equity deployed		
£m	**RSL**	**TRG**	**Total**
Friends Provident	1,915.8	0.2	1,916.0
AXA UK Life Business	2,139.8	0.2	2,140.0
BHA(i)	–	–	–
Total	**4,055.6**	**0.4**	**4,056.0**

(i) The acquisition of BHA was funded using existing FLG resources

£m	**30 June 2011**	**30 June 2010**	**31 Dec 2010**
Accumulated value of net equity deployed at 4% p.a.	**3,768.6**	1,904.1	4,041.7

The market value of the Company, based on the closing share price of 294 pence per share on 30 June 2011 was £4,278 million. Deducting the £377 million cash held by Resolution Limited, leads to an implied value of Holdco of £3,901 million and implied value added in Holdco of £132 million. The implied Value Share at 30 June 2011 was therefore approximately £13 million.

Whether there is an implied value to the Value Share calculated on this basis will vary day-to-day depending, among other things, on the Company's share price. Furthermore, this implied market value does not guarantee that the Value Share will be realised for this amount, which will depend on how and when the Company realises value from the UK Life Project.

Dividend policy

On 7 June, at the cash and capital announcement, the directors announced a reviewed dividend policy in light of the decision to implement a buy-back programme. This proposed that the aggregate value of dividend payable by the Company on all shares in issue should not reduce as a result of the buy-back. The aggregate dividend cost in respect of 2011 is expected to be £277 million, based on shares in issue, before the buy-back programme commenced, of 1.47 billion and a total dividend per share of 18.85 pence.

Dividends will continue to be paid one-third in respect of the interim and two thirds in respect of the final. Consistent with this policy, the Board has declared an interim dividend of 6.47 pence per share in respect of 2011. This is based on the expected number of shares in issue on the record date of 9 September 2011 and would result in an estimated cost of £92 million. The dividend will be paid on 7 October 2011. Shareholders will be offered a scrip alternative in respect of the interim dividend which will give them the opportunity to receive new ordinary shares in the Company instead of the relevant cash dividend to which they would otherwise have been entitled. The final dividend per share in respect of 2011 is expected to be 13.33 pence per share, subject to shareholder approval. This is based on the expected number of shares in issue after completion of the share buy-back programme.

The Board will continue to keep under review the appropriateness of the Company moving to a growing dividend.

Principal risks and uncertainties

The Group actively manages its risk profile and 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 principal risks and uncertainties to which the Group has been exposed to during the first six months of 2011 are unchanged from those described in the 2010 Annual Report and Accounts; that is:

- economic conditions;
- acquisition of target companies;
- integration and restructuring;
- regulatory change and compliance;
- mortality and other assumption uncertainties; and
- reliance on Resolution Operations LLP.

In the case of economic conditions it is noted that the drivers of uncertainty in the economic environment have changed to some degree since the end of 2010. In particular there has been increased concern about the risk of sovereign debt defaults both within continental Europe and the USA and this has impacted consumer confidence and driven uncertainties in both the debt and equity markets in recent months.

The Group's integration and restructuring work is continuing to plan, so while the work has progressed since the year end and some aspects of the work have been completed, the integration and restructuring programme remains an area of risk.

All of these remain relevant and applicable for the remainder of 2011.

Going concern and directors' responsibility statement

Going concern

Notwithstanding the Company's incorporation in Guernsey, the directors have undertaken a going concern assessment in accordance with "Going Concern and Liquidity Risk: Guidance for UK directors of UK Companies 2009", published by the Financial Reporting Council in October 2009. As a result of this assessment, the Directors are satisfied that the Group and the Company have adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the latest business plan profit forecasts, the latest working capital forecasts and estimated forecast solvency of the regulated subsidiaries of the Group. These forecasts have been subject to sensitivity tests and the directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Key information in respect of the Group's business activities, financial performance (including cash generation and financial strength) and risks is set out on pages 10 to 55.

Directors' responsibilities

Each of the directors of the Company confirms that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union;
- the interim report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7, namely important events that have occurred during the period and their impact on the condensed set of financial statements, as well as a description of the principal risks and uncertainties faced by the Company and the undertakings included in the condensed consolidated financial statements taken as a whole for the remaining six months of the financial year; and
- the interim report includes a fair review of material related party transactions and any material changes in the related party transactions described in the last annual report as required by Disclosure and Transparency Rule 4.2.8.

By order of the Board

Director

15 August 2011

Independent review report to Resolution Limited

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report and accounts for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of IFRS based operating profit, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and the related notes 1 to 13. We have read the other information contained in the interim report and accounts and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The interim report and accounts is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report and accounts in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with *International Accounting Standard 34, “Interim Financial Reporting”*, as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report and accounts based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report and accounts for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

London

15 August 2011

Condensed consolidated income statement

For the half year ended 30 June 2011

	Notes	**2011[ii] Half year £m**	2010 Half year £m	2010[ii] Full year £m
Revenue				
Gross earned premiums	3	**1,069**	426	1,288
Premiums ceded to reinsurers	3	**(296)**	(50)	(241)
Net earned premiums	3	**773**	376	1,047
Fee and commission income and income from service activities		**410**	323	751
Investment return		**2,579**	1,183	8,426
Total revenue		**3,762**	1,882	10,224
Other income	3	**78**	–	891
Claims, benefits and expenses				
Gross claims and benefits paid		**(1,824)**	(676)	(2,004)
Amounts receivable from reinsurers		**318**	88	322
Net claims and benefits paid		**(1,506)**	(588)	(1,682)
Change in insurance contracts liabilities		**69**	(86)	(891)
Change in investment contracts liabilities		**(928)**	(473)	(5,863)
Transfer to unallocated surplus		**(49)**	(1)	(4)
Movement in net assets attributable to unit-holders		**(30)**	2	(139)
Movement in policyholder liabilities		**(938)**	(558)	(6,897)
Acquisition expenses		**(300)**	(166)	(392)
Administrative and other expenses		**(954)**	(364)	(1,061)
Finance costs		**(80)**	(66)	(127)
Total claims, benefits and expenses		**(3,778)**	(1,742)	(10,159)
Share of profit/(loss) of associates and joint venture		**1**	(1)	–
Profit before tax from continuing operations		**63**	139	956
Policyholder tax	6	**(165)**	(61)	(244)
(Loss)/profit before shareholder tax from continuing operations		**(102)**	78	712
Total tax charge	6	**(18)**	(67)	(136)
Policyholder tax	6	**165**	61	244
Shareholder tax	6	**147**	(6)	108
Profit for the period		**45**	72	820
Attributable to:				
Equity holders of the parent[i]		**29**	33	765
Non-controlling interests		**16**	39	55
Profit for the period		**45**	72	820

Earnings per share	**2011 Half year pence**	2010 Half year pence	2010 Full year pence
Basic earnings per share from continuing operations	**2.00**	5.49	81.10
Diluted earnings per share from continuing operations	**2.00**	5.46	80.47

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

(ii) The consolidated income statement includes the results of BHA from the date of acquisition on 31 January 2011. The results for the year ended 31 December 2010 include the results of the acquired AXA UK Life Business from 3 September 2010.

Condensed consolidated statement of comprehensive income

For the half year ended 30 June 2011

For the half year ended 30 June 2011	**Equity holders of the parent £m**	**Non-controlling interests £m**	**Total £m**
Profit for the period	**29**	**16**	**45**
Actuarial losses on defined benefit schemes	**(25)**	**–**	**(25)**
Foreign exchange adjustments(i)	**20**	**–**	**20**
Shadow accounting(ii)	**2**	**–**	**2**
Aggregate tax effect of above items	**1**		**1**
Other comprehensive loss, net of tax	**(2)**	**–**	**(2)**
Total comprehensive income, net of tax	**27**	**16**	**43**

For the half year ended 30 June 2010	Equity holders of the parent £m	Non-controlling interests £m	Total £m
Profit for the period	33	39	72
Actuarial losses on defined benefit schemes	(78)	–	(78)
Foreign exchange adjustments(i)	(45)	–	(45)
Shadow accounting(ii)	(8)	–	(8)
Aggregate tax effect of above items	40	–	40
Other comprehensive loss, net of tax	(91)	–	(91)
Total comprehensive (loss)/income, net of tax	(58)	39	(19)

For the year ended 31 December 2010	Equity holders of the parent £m	Non-controlling interests £m	Total £m
Profit for the period	765	55	820
Actuarial losses on defined benefit schemes	(46)	–	(46)
Foreign exchange adjustments(i)	(6)	–	(6)
Shadow accounting(ii)	(3)	–	(3)
Aggregate tax effect of above items	25	–	25
Other comprehensive loss, net of tax	(30)	–	(30)
Total comprehensive income, net of tax	735	55	790

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

(ii) Shadow accounting relates to a gain of £2 million (30 June 2010: loss of £8 million; 31 December 2010: loss of £3 million) in respect of foreign exchange adjustments on translation of overseas subsidiaries held by the with-profits fund of FPLP.

Condensed consolidated statement of IFRS based operating profit

For the half year ended 30 June 2011

For the half year ended 30 June 2011	Notes	**2011 Half year £m**	As restated 2010 Half year [(i)] £m	2010 Full year £m
Profit before tax from continuing operations		**63**	139	956
Policyholder tax	6	**(165)**	(61)	(244)
Returns on Group-controlled funds attributable to third parties		**–**	(23)	(23)
(Loss)/Profit before tax excluding returns generated within policyholder funds		**(102)**	55	689
Non-recurring items	3	**12**	9	(787)
Amortisation and impairment of acquired present value of in-force business	7	**453**	142	364
Amortisation of intangible assets	7	**41**	25	64
Interest payable on STICS		**(16)**	(16)	(31)
Short-term fluctuations in investment return		**2**	(64)	(24)
Operating profit before tax		**390**	151	275
Tax on operating profit		**(57)**	(25)	16
Operating profit after tax attributable to equity holders of the parent[(i)]		**333**	126	291

Earnings per share		**2011 Half year pence**	As restated 2010 Half year pence	2010 Full year pence
Operating earnings per share	5	**23.02**	20.97	30.85

(i) In the year ended 31 December 2010, the Group 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 the present value of acquired in-force business and other intangible assets and is stated after deducting interest payable on step-up tier one insurance capital securities ("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 of the restatement are included in note 2.

(ii) On 7 June 2011 the Company began a repurchase programme involving the repurchase over time of £250 million of ordinary shares. As at 30 June 2011 a total of 11,243,352 shares had been repurchased at a total cost of £34 million.

Condensed consolidated statement of financial position

At 30 June 2011

	Notes	**30 June 2011 £m**	As restated 30 June 2010[(i)] £m	31 December 2010 £m
Assets				
Pension scheme surplus		**3**	–	22
Intangible assets	7	**4,870**	3,021	5,140
Property and equipment		**58**	45	46
Investment properties		**3,128**	857	3,189
Investments in associate and joint venture		**33**	33	32
Deferred tax assets		**–**	8	4
Financial assets	8	**101,088**	49,053	99,445
Deferred acquisition costs		**490**	180	358
Reinsurance assets		**2,614**	1,926	2,637
Current tax assets		**27**	4	22
Insurance and other receivables		**1,411**	646	976
Cash and cash equivalents		**8,962**	5,260	9,288
Assets of operations classified as held for sale		**1,268**	–	1,206
Total assets		**123,952**	61,033	122,365
Liabilities				
Insurance contracts		**35,071**	12,146	35,081
Unallocated surplus		**1,148**	275	1,098
Financial liabilities:				
– investment contracts		**73,537**	40,877	72,411
– loans and borrowings	9	**1,244**	282	1,212
– amounts due to reinsurers		**1,650**	1,713	1,666
Net asset value attributable to unit-holders		**1,199**	697	1,173
Provisions		**227**	56	221
Pension scheme deficit		**–**	35	–
Deferred tax liabilities		**1,126**	514	1,115
Current tax liabilities		**29**	19	11
Insurance payables, other payables and deferred income		**1,319**	564	903
Liabilities of operations classified as held for sale		**984**	–	925
Total liabilities		**117,534**	57,178	115,816
Equity attributable to equity holders of the parent				
– Share capital		**4,343**	2,354	4,317
– Other reserves		**1,762**	1,188	1,910
		6,105	3,542	6,227
Attributable to non-controlling interests[(i)]		**313**	313	322
Total equity		**6,418**	3,855	6,549
Total equity and liabilities		**123,952**	61,033	122,365

(i) During 2010, the Group chose to early adopt amendments to IFRS 3 (revised): Business Combinations which requires that the STICS should be recorded at their fair value at the date of acquisition of Friends Provident.

The financial statements were approved by the Board of directors on 15 August 2011.

Director

Condensed consolidated statement of changes in equity

For the half year ended 30 June 2011

	Attributable to equity holders of the parent				
For the half year ended 30 June 2011	**Share capital £m**	**Other reserves £m**	**Total £m**	**Non-controlling interests £m**	**Total £m**
At 1 January 2011	**4,317**	**1,910**	**6,227**	**322**	**6,549**
Profit for the period	**–**	**29**	**29**	**16**	**45**
Other comprehensive income	**–**	**(2)**	**(2)**	**–**	**(2)**
Total comprehensive income	**–**	**27**	**27**	**16**	**43**
Dividends on equity shares	**–**	**(182)**	**(182)**	**–**	**(182)**
Interest paid on STICS	**–**	**–**	**–**	**(25)**	**(25)**
Appropriations of profit	**–**	**(182)**	**(182)**	**(25)**	**(207)**
Tax relief on STICS interest	**–**	**4**	**4**	**–**	**4**
Shares issued in lieu of dividend	**41**	**–**	**41**	**–**	**41**
Reduction in own shares held by the Group	**19**	**–**	**19**	**–**	**19**
Share buy-back	**(34)**	**–**	**(34)**	**–**	**(34)**
Share-based payments	**–**	**3**	**3**	**–**	**3**
At 30 June 2011	**4,343**	**1,762**	**6,105**	**313**	**6,418**

	Attributable to equity holders of the parent				
For the half year ended 30 June 2010 (restated)	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)
At 1 January 2010	2,349	1,306	3,655	615	4,270
Profit for the period	–	33	33	39	72
Other comprehensive loss	–	(91)	(91)	–	(91)
Total comprehensive (loss)/income	–	(58)	(58)	39	(19)
Dividends on equity shares		(66)	(66)	(7)	(73)
Interest paid on STICS	–	–	–	(25)	(25)
Appropriations of profit	–	(66)	(66)	(32)	(98)
Tax relief on STICS interest	–	5	5	–	5
Shares issued in lieu of dividend	5	–	5	–	5
Share-based payments	–	1	1	–	1
Disposals of businesses	–	–	–	(309)	(309)
At 30 June 2010	2,354	1,188	3,542	313	3,855

(i) Adjustment to reflect the fair value of the STICS at the date of acquisition (4 November 2009) of Friends Provident.

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)
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
Dividends paid		(144)	(144)	(7)	(151)
Interest paid on STICS	–	–	–	(31)	(31)
Appropriations of profit	–	(144)	(144)	(38)	(182)
Tax relief on STICS interest	–	9	9	–	9
Shares issued in lieu of dividend	9	–	9	–	9
Disposals of businesses	–	–	–	(310)	(310)
Issue of share capital	1,979	–	1,979	–	1,979
Share-based payments	–	4	4	–	4
Own shares held by the Group	(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 (4 November 2009) of Friends Provident.

Condensed consolidated cash flow statement

For the half year ended 30 June 2011

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Operating activities			
Profit for the period	**45**	72	820
Adjusted for:			
other income (gain on acquisition)	**(68)**	–	(891)
net realised and unrealised gains on assets at fair value	**(1,041)**	(133)	(6,379)
finance costs	**80**	66	127
amortisation and impairment of intangible assets	**494**	171	428
depreciation of property and equipment	**2**	3	4
movement in deferred acquisition costs	**(130)**	(136)	(312)
total tax charge	**18**	67	136
(purchase)/sale of shares and other variable yield securities	**(325)**	552	(2,956)
sale of loans, debt securities and other fixed income securities	**359**	170	1,011
sale/(purchase) of investment properties	**98**	(34)	14
(decrease)/increase in insurance contract liabilities	**(167)**	40	925
Increase/(decrease) in investment contract liabilities	**501**	(7)	7,372
Increase in unallocated surplus	**50**	2	2
Increase/(decrease) in provisions	**5**	21	(3)
Net movement in receivables and payables	**58**	(660)	667
Pre-tax cash (outflow)/inflow from operating activities	**(21)**	194	965
Tax (paid)/received	**(33)**	–	15
Net cash (outflow)/inflow from operating activities	**(54)**	194	980
Investing activities			
Acquisition of subsidiaries, net of cash acquired	**(78)**	–	969
Other income net of related costs	**–**	1	–
Additions to internally generated intangible assets	**(2)**	(2)	(4)
Net additions of property and equipment	**(14)**	(1)	(1)
Net cash (outflow)/inflow from investing activities	**(94)**	(2)	964
Financing activities			
Proceeds from issue of ordinary share capital	**–**	–	1,979
Share buy-back	**(25)**	–	–
Proceeds from issue of long-term debt	**497**	–	428
Repayment of long-term debt	**(463)**	(128)	(123)
Finance costs	**(77)**	(63)	(113)
STICS interest	**(25)**	(25)	(31)
Net movement in other borrowings, net of expenses	**(4)**	47	15
Dividends paid to equity holders of the parent	**(141)**	(61)	(135)
Dividends paid to non-controlling interests	**–**	(7)	(7)
Net cash (outflow)/inflow from financing activities	**(238)**	(237)	2,013
(Decrease)/increase in cash and cash equivalents	**(386)**	(45)	3,957
Balance at beginning of period	**9,288**	5,386	5,386
Exchange adjustments on the translation of foreign operations	**60**	(81)	(55)
Balance at end of period	**8,962**	5,260	9,288

Notes to the condensed consolidated accounts

1. Basis of preparation

The financial statements of the Company as at and for the half year ended 30 June 2011 comprise the condensed consolidated financial statements of the Company and its subsidiaries (the Group) and the Group's interests in associates and jointly controlled entities.

On 31 January 2011, the Group through its subsidiary, Friends Provident Life and Pensions Limited (FPLP), acquired all of the share capital of BHA. The condensed 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 it was agreed that certain portfolios 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 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.

Insurance payables, other payables and deferred income includes a liability for an amount of £34 million payable from FLG to AXA UK on completion of the Part VII transfer of the GOF and TIP portfolios of insurance business. The amount is part of the wrong-pocket adjustment which will be made from FLG to AXA UK to reflect the surpluses which have arisen in WLUK and FLC respectively in respect of the businesses which will be transferred during the second half of 2011. The £34 million is calculated by reference to the expected cash surplus arising on the GOF and TIP portfolios in the period since the acquisition of the AXA UK Life Business by the Group.

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

The June 2010 comparatives do not include either the acquired AXA UK Life Business or BHA as they had not been acquired at the time.

The annual financial statements of the Group are prepared in accordance with IFRS, as adopted by the European Union. The condensed consolidated interim financial statements as at and for the half year ended 30 June 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, IAS 34: *Interim Financial reporting* as adopted by the European Union ("EU"), and with accounting policies adopted in respect of the financial statements for the year ended 31 December 2010, as updated by changes that are intended to be made in the full year 2011 financial statements as a result of changes to International Financial Reporting Standards.

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).

During the period certain subsidiary companies, FLC and the acquired BHA business, revised their reserving methodology by allowing for negative reserves on protection business as allowed for under PS06/14. This has been treated as a change in estimates under IAS 8: *Accounting policies, changes in accounting estimates and errors* in line with the accepted approach taken by the UK industry on adoption of PS06/14.

The impact of this methodology change was as follows:

- a reduction in policyholder liabilities of £243 million and a write-off of DAC on protection business of £22 million in the AXA UK Life Business resulting in a one-off benefit to operating profit of £221 million;
- an acceleration of AVIF amortisation of £130 million in the AXA UK Life Business and an AVIF impairment of £71 million in the acquired BHA business resulting in a one-off adverse impact on non-operating profit of £201 million; and
- a reduction in the emerging surplus and new business strain of £15 million

The net impact on profit before tax was a £5 million gain.

The International Accounting Standards Board ("IASB") issued the following changes to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2011:

- IFRS 7: *Financial Instruments: Disclosure*. This amendment enhances the requirements for credit risk disclosures.
- IAS 1: *Presentation of Financial Statements*. This amendment is presentational in nature and does not have an impact on the Group as the existing presentation complies with the standard.
- IAS 24: *Related Party Disclosures*. This revision to IAS 24 clarifies the definition of a related party and does not have a material impact on the Group.
- IAS 34: *Interim Financial Reporting*. This amendment reinforces the principle in IAS 34 with which the Group already complies.

The IASB issued the following new interpretation which is effective for annual periods beginning on or after 1 July 2010:

- IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*. This interpretation does not have a material impact on the Group.

The IASB issued the following changes to standards that are effective for future reporting periods, but where early adoption is permitted. The Group has not adopted them for half year reporting since they have not yet been endorsed by the EU. The impact on the Group is being assessed.

- IFRS 7: *Financial Instruments: Disclosure*. This amendment enhances disclosures about the risks arising from derecognised assets. Effective for reporting periods beginning on or after 1 July 2011.
- IAS 12: *Income Taxes*. This amendment, effective for reporting periods beginning on or after 1 January 2012, will not have a material impact on the Group.
- IAS 1: *Presentation of financial statements*. The amendment requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendment is effective for financial years beginning on or after 1 July 2012.

The IASB has issued the following standards which are effective for annual reporting periods beginning on or after 1 January 2013. These have not been endorsed by the EU and have not been adopted for half year reporting. The impact on the Group is being assessed.

- IFRS 10: *Consolidated Financial Statements* provides a single consolidation model that identifies control as the basis for consolidation for all types of entities;
- IFRS 11: *Joint Arrangements* establishes principles for financial reporting by parties to a joint arrangement.
- IFRS 12: *Disclosure of Interests in Other Entities* combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- IFRS 13: *Fair Value Measurement* defines fair value and sets out in a single IFRS a framework for measuring fair value.

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. At the 2010 year end the Group amended its definition of operating profit to exclude the impact of investment volatility in the non-profit funds. This has been recorded as a restatement of prior year figures.

The table below reconciles the previous basis of IFRS operating profit for the half year ended 30 June 2010 to the restated basis.

	As reported 2010 Half year £m	Effect of restatement £m	Restated 2010 Half year £m
Operating profit before tax from continuing operations	203	(52)	151
Tax on operating profit	(35)	10	(25)
Operating profit for the period after tax attributable to equity holders of the parent	168	(42)	126

b) 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 the 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 FLG recognised and as a result, the closing reserves at 30 June 2010 by £119 million (£165 million net of deferred tax of £46 million).

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

	As reported 2010 Half year £m	Effect of restatement £m	Restated 2010 Half year £m
Attributable to non-controlling interests	478	(165)	313
Deferred tax liabilities	468	46	514
Equity attributable to equity holders of the parent	3,423	119	3,542

c) Restatement of prior period segmental notes

The 2010 half year segmental results have been restated to correct a misclassification between operating segments. The operating result of the UK segment has been reduced by £9 million and the International segment correspondingly increased by £9 million. This arises from deferred acquisition costs and deferred front end fees for the OLAB business being incorrectly allocated to the UK segment rather than the International segment. There is no impact on the consolidated operating result.

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

For the half year ended 30 June 2010	UK £m	Int'l £m
Operating profit before tax	108	38
Restatement	(9)	9
Operating profit/loss before tax (restated)	99	47

3. Segmental information

a) 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 half year ended 30 June 2011 includes BHA from 31 January 2011. The segmental information for the year ended 31 December 2010 includes 12 months for the acquired Friends Provident business and four months for the acquired AXA UK Life Business. The half year 2010 segmental information solely covers Friends Provident.

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: *Operating segments*.

- UK – comprising Friends Provident UK life and pensions business, the acquired AXA UK Life Business, BHA, Sesame Bankhall and, for the period prior to 19 March 2010 when it was disposed, Pantheon Financial Limited;
- 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.

b) Operating segment information

i) Operating profit

For the half year ended 30 June 2011	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Total £m
Life and pensions operating profit	**370**	**43**	**23**	**–**	**–**	**436**
Longer term return on shareholder funds	**4**	**–**	**(1)**	**(17)**	**–**	**(14)**
Other income and charges	**–**	**1**	**–**	**(3)**	**(16)**	**(18)**
Development costs	**(10)**	**(3)**	**(1)**	**–**	**–**	**(14)**
Operating profit/(loss) before tax	**364**	**41**	**21**	**(20)**	**(16)**	**390**
Tax on operating profit						**(57)**
Operating profit after tax attributable to ordinary shareholders of the parent						**333**
Operating earnings per share (pence)						**23.02**

For the half year ended 30 June 2010 (restated)	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Total £m
Life and pensions operating profit	91	49	15	–	–	155
Longer term return on shareholders' funds	14	1	(1)	1	–	15
Other income and charges	2	(1)	–	(1)	(8)	(8)
Development costs	(8)	(2)	(1)	–	–	(11)
Operating profit/(loss) before tax	99	47	13	–	(8)	151
Tax on operating profit						(25)
Operating profit after tax attributable to ordinary shareholders of the parent						126
Operating earnings per share (pence)						20.97

For the year ended 31 December 2010	UK £m	Int'l £m	Lombard £m	FLG 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/(loss) 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

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

For the half year ended 30 June 2011	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Total £m
Operating profit/(loss) before tax	**364**	**41**	**21**	**(20)**	**(16)**	**390**
Non-recurring items(i)	**(12)**	**–**	**–**	**–**	**–**	**(12)**
Amortisation and impairment of acquired present value of in-force business	**(353)**	**(67)**	**(33)**	**–**	**–**	**(453)**
Amortisation of other acquired intangible assets	**(22)**	**(4)**	**(15)**	**–**	**–**	**(41)**
Interest payable on STICS	**16**	**–**	**–**	**–**	**–**	**16**
Short-term fluctuations in investment return	**3**	**(1)**	**–**	**(4)**	**–**	**(2)**
Profit/(loss) before tax excluding profit generated within policyholder funds	**(4)**	**(31)**	**(27)**	**(24)**	**(16)**	**(102)**
Policyholder tax	**165**	**–**	**–**	**–**	**–**	**165**
Profit/(loss) before tax from continuing operations	**161**	**(31)**	**(27)**	**(24)**	**(16)**	**63**

(i) UK non-recurring items include £68 million (£67 million net of stamp duty) in respect of the gain on acquisition of BHA. Further details are set out in note 11. This is offset by £80 million of non-recurring costs comprising £41 million of separation and integration costs in respect of the acquired BHA and AXA UK Life Business, £24 million in respect of Solvency II and finance system developments and £15 million of other costs.

For the half year ended 30 June 2010 (restated)	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Total £m
Operating profit/(loss) before tax	99	47	13	–	(8)	151
Non-recurring items(i)	(73)	(6)	–	76	(6)	(9)
Amortisation of acquired present value of in-force business	(44)	(62)	(36)	–	–	(142)
Amortisation of intangible assets	(11)	(3)	(11)	–	–	(25)
Interest payable on STICS	16	–	–	–	–	16
Short-term fluctuations in investment return	71	–	2	(9)	–	64
Profit/(loss) before tax excluding profit generated within policyholder funds	58	(24)	(32)	67	(14)	55
Policyholder tax	61	–	–	–		61
Returns on Group-controlled funds attributable to third parties	23	–	–	–		23
Profit/(loss) before tax from continuing operations	142	(24)	(32)	67	(14)	139

(i) Non-recurring items comprise £3 million of UK project costs, £6 million recharge between UK and International in respect of pension scheme funding and £6 million of corporate costs associated with the acquisition of AXA UK Life Business. They also include £76 million which comprise a management recharge to the life companies for pension scheme contributions.

For the year ended 31 December 2010	UK £m	Int'l £m	Lombard £m	FLG 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 intangible assets	(27)	(8)	(28)	(1)	–	(64)
Interest payable on STICS	31	–	–	–	–	31
Short-term fluctuations in investment return	28	2	1	(7)	–	24
(Loss)/ profit 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.

iii) Revenue and expenses

For the half year ended 30 June 2011	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Elimination of inter-segment amounts(ii) £m	Total £m
Gross earned premiums on insurance and investment contracts	**2,604**	**545**	**969**	**–**	**–**	**–**	**4,118**
Investment contract premiums(i)	**(1,540)**	**(540)**	**(969)**	**–**	**–**	**–**	**(3,049)**
Gross earned premiums	**1,064**	**5**	**–**	**–**	**–**	**–**	**1,069**
Premiums ceded to reinsurers	**(296)**	**1**	**–**	**–**	**–**	**(1)**	**(296)**
Net earned premiums	**768**	**6**	**–**	**–**	**–**	**(1)**	**773**
Fee and commission income	**273**	**80**	**57**	**–**	**–**	**–**	**410**
Investment return	**2,792**	**(76)**	**(140)**	**21**	**24**	**(42)**	**2,579**
Total revenue	**3,833**	**10**	**(83)**	**21**	**24**	**(43)**	**3,762**
Inter-segment revenue	**1**	**1**	**–**	**17**	**23**	**(42)**	**–**
Total external revenue	**3,832**	**9**	**(83)**	**4**	**1**	**(1)**	**3,762**
Other income(iii)	**78**	**–**	**–**	**–**	**–**	**–**	**78**
Net claims and benefits paid	**(1,504)**	**(2)**	**–**	**–**	**–**	**–**	**(1,506)**
Movement in insurance and investment contracts liabilities	**(1,123)**	**80**	**184**	**–**	**–**	**–**	**(859)**
Transfer to unallocated surplus	**(47)**	**(2)**	**–**	**–**	**–**	**–**	**(49)**
Movement in net assets attributable to unit-holders	**(30)**	**–**	**–**	**–**	**–**	**–**	**(30)**
Acquisition expenses	**(257)**	**(20)**	**(23)**	**–**	**–**	**–**	**(300)**
Administrative and other expenses	**(741)**	**(95)**	**(104)**	**(1)**	**(14)**	**1**	**(954)**
Finance costs	**(48)**	**(3)**	**(1)**	**(44)**	**(26)**	**42**	**(80)**
Total claims, benefits and expenses	**(3,750)**	**(42)**	**56**	**(45)**	**(40)**	**43**	**(3,778)**
Inter-segment expenses	**(17)**	**(1)**	**–**	**(1)**	**(24)**	**43**	**–**
Total external claims, benefits and expenses	**(3,733)**	**(41)**	**56**	**(44)**	**(16)**	**–**	**(3,778)**
Share of profits of associate and joint venture	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Profit/(loss) before tax from continuing operations	**161**	**(31)**	**(27)**	**(24)**	**(16)**	**–**	**63**
Policyholder tax	**(165)**	**–**	**–**	**–**	**–**	**–**	**(165)**
Shareholder tax	**137**	**1**	**9**	**–**	**–**	**–**	**147**
Segmental result after tax	**133**	**(30)**	**(18)**	**(24)**	**(16)**	**–**	**45**

(i) Accounted for as deposits under IFRS.

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

(iii) Includes £68 million in respect of the gain on acquisition of BHA.

For the half year ended 30 June 2010 (restated)	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Elimination of inter-segment amounts(ii) £m	Total £m
Gross earned premiums on insurance and investment contracts	1,354	495	1,347	–	–	–	3,196
Investment contract premiums(i)	(934)	(489)	(1,347)	–	–	–	(2,770)
Gross earned premiums	420	6	–	–	–	–	426
Premiums ceded to reinsurers	(49)	–	–	–	–	(1)	(50)
Net earned premiums	371	6	–	–	–	(1)	376
Fee and commission income	173	105	46	–	–	(1)	323
Investment return	760	135	290	10	1	(13)	1,183
Total revenue	1,304	246	336	10	1	(15)	1,882
Inter-segment revenue	4	–	4	7	–	(15)	–
Total external revenue	1,300	246	332	3	1	–	1,882
Other income	–	–	–	–	–	–	–
Net claims and benefits paid	(586)	(2)	–	–	–	–	(588)
Movement in insurance and investment contract liabilities	(135)	(173)	(251)	–	–	–	(559)
Transfer to unallocated surplus	(1)	–	–	–	–	–	(1)
Movement in net assets attributable to unit-holders	2	–	–	–	–	–	2
Acquisition expenses	(145)	(5)	(16)	–	–	–	(166)
Administrative and other expenses	(241)	(87)	(100)	72	(15)	7	(364)
Finance costs	(56)	(2)	(1)	(15)	–	8	(66)
Total claims, benefits and expenses	(1,162)	(269)	(368)	57	(15)	15	(1,742)
Inter-segment expenses	(9)	–	(1)	(5)	–	15	–
Total external claims, benefits and expenses	(1,153)	(269)	(367)	62	(15)	–	(1,742)
Share of losses of associate and joint venture	–	(1)	–	–	–	–	(1)
Profit/(loss) before tax from continuing operations	142	(24)	(32)	67	(14)	–	139
Policyholder tax	(61)	–	–	–	–	–	(61)
Shareholder tax	3	3	12	(24)	–	–	(6)
Segmental result after tax	84	(21)	(20)	43	(14)	–	72

(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.

For the year ended 31 December 2010	UK £m	Int'l £m	Lombard £m	FLG 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 return	6,477	569	1,374	22	20	(36)	8,426
Total revenue	7,886	846	1,485	23	20	(36)	10,224
Inter-segment revenue	3	1	–	14	18	(36)	–
Total external revenue	7,883	845	1,485	9	2	–	10,224
Other income[iii]	8	–	–	883	–	–	891
Net claims and benefits paid	(1,678)	(4)	–	–	–	–	(1,682)
Movement in insurance and investment contracts 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 of associate 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 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.

iv) Products and services

For the half year ended 30 June 2011	**Protection £m**	**Invest-ment £m**	**Annuities £m**	**Individual pensions £m**	**Group pensions £m**	**Other[(i)] £m**	**Total £m**
Gross earned premiums	**568**	**260**	**197**	**36**	**8**	**–**	**1,069**
Net earned premiums	**455**	**259**	**16**	**35**	**8**	**–**	**773**
Fee and commission income	**–**	**178**	**–**	**130**	**10**	**92**	**410**
Total external revenue	**455**	**437**	**16**	**165**	**18**	**92**	**1,183**

For the half year ended 30 June 2010	Protection £m	Invest-ment £m	Annuities £m	Individual pensions £m	Group pensions £m	Other[(i)] £m	Total £m
Gross earned premiums	165	95	156	5	5	–	426
Net earned premiums	117	94	156	5	5	(1)	376
Fee and commission income	–	167	–	20	40	96	323
Total external revenue	117	261	156	25	45	95	699

For the year ended 31 December 2010	Protection £m	Invest-ment £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 on 19 March 2010).

v) Assets and liabilities

Half year ended 30 June 2011	**UK £m**	**Int'l £m**	**Lombard £m**	**FLG corporate £m**	**RSL corporate £m**	**Elimina-tion of inter-segment amounts[(i)] £m**	**Total £m**
Segment assets	**96,418**	**7,341**	**19,072**	**1,601**	**631**	**(1,144)**	**123,919**
Investment in associate and joint venture	**5**	**28**	**–**	**–**	**–**	**–**	**33**
Total assets	**96,423**	**7,369**	**19,072**	**1,601**	**631**	**(1,144)**	**123,952**
Total liabilities	**91,652**	**7,007**	**18,611**	**956**	**452**	**(1,144)**	**(117,534)**

Half year ended 30 June 2010	UK £m	Int'l £m	Lombard £m	FLG corporate £m	RSL corporate £m	Elimina-tion of inter-segment amounts[(i)] £m	Total £m
Segment assets	38,641	6,167	15,627	671	305	(411)	61,000
Investment in associate and joint venture	8	25	–	–	–	–	33
Total assets	38,649	6,192	15,627	671	305	(411)	61,033
Total liabilities (restated)	36,412	5,723	15,183	262	9	(411)	57,178

Year ended 31 December 2010	UK £m	Int'l £m	Lombard £m	FLG 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
Investment in associate 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.

c) 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. BHA is reported as UK, as its customers are located in the UK.

For the half year ended 30 June 2011	**UK £m**	**Rest of the world £m**	**Total £m**
Gross earned premiums	**1,063**	**6**	**1,069**
Fee and commission income	**282**	**128**	**410**
Revenue from external customers	**1,345**	**134**	**1,479**
Investment return			**2,579**
Premiums ceded to reinsurers			**(296)**
Total revenue			**3,762**

For the half year ended 30 June 2010	UK £m	Rest of the world £m	Total £m
Gross earned premiums	420	6	426
Fee and commission income	186	137	323
Revenue from external customers	606	143	749
Investment return			1,183
Premiums ceded to reinsurers			(50)
Total revenue			1,882

For the year ended 31 December 2010	UK £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

4. Appropriations of profit

a) Dividends paid on ordinary shares

A final dividend in respect of 2010 of 12.57 pence per share was paid on 26 May 2011 comprising £141 million of cash and £41 million of shares issued in lieu of dividends. As required by IFRS, the costs of these dividends are taken directly to reserves. An interim dividend of 6.47 pence per ordinary share will be paid to shareholders on the register at the close of business on 9 September 2011; this is expected to total £92 million if all dividends were to be taken in cash.

As required by IAS 10: *Events after the reporting period*, dividends declared after the statement of financial position date are not accrued in these accounts.

b) 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 half year ended 30 June 2011, interest of £7 million (30 June 2010: £7 million, 31 December 2010: £14 million) was paid to the 2003 STICS holders.

Interest on the 2005 STICS is paid annually in June at a rate of 6.292%. During the half year ended 30 June 2011, interest of £18 million (30 June 2010: £18 million, 31 December 2010: £18 million) was paid to the 2005 STICS holders.

5. 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 2010 half year have been recalculated to reflect the share consolidation and rights issue undertaken in 2010 in accordance with IAS 33: Earnings per Share. The 2010 half year earnings have also been restated to reflect profit measures as set out in note 3.

As at June 2011	2011 Half year Earnings £m	2011 Half year Per share pence	Restated 2010 Half year earnings £m	Restated 2010 Half year Per share pence	2010 Full year earnings £m	2010 Full year per share pence
Profit after tax attributable to ordinary shareholders of the parent	**29**	**2.00**	33	5.49	765	81.10
Short-term fluctuations in investment return	**2**	**0.14**	(64)	(10.65)	(24)	(2.54)
Non-recurring items	**12**	**0.83**	9	1.50	(787)	(83.43)
Amortisation and impairment of acquired intangible assets	**494**	**34.15**	167	27.79	428	45.37
Tax credit on items excluded from operating profit	**(204)**	**(14.10)**	(19)	(3.16)	(91)	(9.65)
Operating profit after tax attributable to equity holders of the parent	**333**	**23.02**	126	20.97	291	30.85

b) Diluted basic earnings per share from continuing operations

There were no dilutive factors for the half year ended 30 June 2011.

For the half year ended 30 June 2010 (restated)	Earnings £m	Weighted average number of ordinary shares millions	Per share pence
Profit after tax attributable to ordinary shareholders of the parent	33	600,962,972	5.49
Dilution	–	3,434,442	(0.03)
Diluted profit after tax attributable to ordinary shareholders of the parent	33	604,397,414	5.46

For the year ended 31 December 2010	Earnings £m	Weighted average number of ordinary shares million	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

c) Weighted average number of ordinary shares

For the half year ended 30 June 2011	**2011 Actual**	**2011 Weighted**
Issued ordinary shares at beginning of period	**1,452,564,371**	**1,452,564,371**
Own shares held by the Group	**(8,579,292)**	**(8,579,292)**
	1,443,985,079	**1,443,985,079**
Effect of:		
Scrip dividend (final 2010)	**13,639,313**	**2,652,088**
Share buy-back	**(11,243,352)**	**(62,463)**
Reduction in own shares held by the Group	**8,079,419**	**44,886**
Number of ordinary shares at end of period	**1,454,460,459**	**1,446,619,590**

For the half year ended 30 June 2010 (restated)	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	1,054,766
Number of shares before share consolidation	2,418,204,413	2,413,505,911
Share consolidation	–	(1,812,542,939)
Number of ordinary shares at end of period	2,418,204,413	600,962,972

For the full year ended 31 December 2010	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
Own shares held by the Group	(8,579,292)	(2,820,589)
Number of ordinary shares at end of period	1,443,985,079	943,284,481

6. Taxation

a) Tax charged to the income statement

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Current tax			
UK corporation tax at 26.5% (2010: 28%)	**45**	44	16
Adjustments in respect of prior periods	**(6)**	(5)	(15)
Overseas taxation	**11**	4	6
Total current tax charge	**50**	43	7
Deferred tax			
Origination and reversal of temporary differences	**(32)**	27	121
Adjustments in respect of prior periods	**–**	(3)	8
Total deferred tax (credit)/charge	**(32)**	24	129
Total tax charge	**18**	67	136
Analysed as:			
Policyholder tax	**165**	61	244
Shareholder tax	**(147)**	6	(108)
Total tax charge	**18**	67	136

Policyholder tax is tax on the income and investment returns charged to policyholders of linked and with-profits funds. Shareholder tax is tax charged to shareholders on the profits of the Group.

b) Factors affecting tax charge for period

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Profit before tax from continuing operations	**63**	139	956
Profit before tax from continuing operations multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	**17**	39	268
Effects of:			
Non-taxable income	**(147)**	(36)	(115)
Deductions not allowable for tax purposes	**3**	2	46
Tax on reserving adjustments	**31**	–	7
Overseas tax	**(1)**	–	–
Valuation of excess expenses	**12**	(6)	(8)
Valuation of tax losses	**(16)**	12	(43)
Valuation of unrealised capital losses	**(1)**	6	–
With-profits minority interest[(i)]	**–**	(7)	(8)
Adjustments in respect of prior periods	**(1)**	(8)	(7)
Non-taxable gain on acquisition	**(18)**	–	(247)
Reduction in corporation tax rate to 26% (2010: 27%)[(ii)]	**(30)**	–	(8)
Non-taxable result of Resolution holding companies	**4**	4	7
Policyholder tax	**165**	61	244
Total tax charge	**18**	67	136

(i) This relates to tax on F&C CPT prior to deconsolidation.

Changes in rates of corporation tax

During 2010 and the first half of 2011, legislation was announced to bring in a phased decrease in the rate of corporation tax commencing with a reduction to 26% on 1 April 2011 and further reductions of 1% per annum until 1 April 2014, from when the rate will be 23%. Under IFRS deferred tax is calculated using substantively enacted rates and as such only the reduction to a 26% rate has been taken into account in the closing deferred tax balance (the opening balance is calculated using a 27% rate, being the rate which was substantively enacted at 31 December 2010).

Future tax regime applicable to life insurance companies

The March 2011 announced significant measures in relation to the tax regime applicable to life insurance companies. This was followed by a consultation period which ran from 5 April 2011 to 28 June 2011. Detailed discussion is continuing and draft legislation will not be published until late 2011. Given the outstanding detail, the impact on the deferred tax assets and liabilities recognised in the balance sheet is too uncertain to quantify at present.

7. Intangible assets

Movements in intangible assets are as follows:

For the half year ended 30 June 2011	**AVIF £m**	**Other £m**	**Total £m**
Cost			
At 1 January 2011	**5,107**	**528**	**5,635**
Acquisition of BHA	**172**	**8**	**180**
Other additions	**–**	**2**	**2**
Foreign exchange adjustments	**33**	**10**	**43**
At 30 June 2011	**5,312**	**548**	**5,860**
Amortisation and impairment			
At 1 January 2011	**422**	**73**	**495**
Amortisation charge for the period	**382**	**41**	**423**
Impairment charge	**71**	**–**	**71**
Foreign exchange adjustments	**(2)**	**3**	**1**
At 30 June 2011	**873**	**117**	**990**
Carrying amounts at 30 June 2011	**4,439**	**431**	**4,870**

For the half year ended 30 June 2010	AVIF £m	Other £m	Total £m
Cost			
At 1 January 2010	2,938	382	3,320
Additions	–	2	2
Foreign exchange adjustments	(50)	(13)	(63)
At 30 June 2010	2,888	371	3,259
Amortisation			
At 1 January 2010	59	10	69
Amortisation charge for the period	142	29	171
Foreign exchange adjustments	(3)	1	(2)
At 30 June 2010	198	40	238
Carrying amounts at 30 June 2010	2,690	331	3,021

For the year ended 31 December 2010	AVIF £m	Other £m	Total £m
Cost			
At 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

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

30 June 2011	Cost £m	Amortisation £m	Impairment £m	Net book value £m
UK – Friends Provident (Life and Pensions including Sesame Bankhall)	**1,457**	**(195)**	**–**	**1,262**
UK – AXA	**2,342**	**(328)**	**–**	**2,014**
UK – BHA	**180**	**(9)**	**(71)**	**100**
International (including FPIL and AmLife Berhad)	**1,059**	**(204)**	**–**	**855**
Lombard	**822**	**(183)**	**–**	**639**
Total	**5,860**	**(919)**	**(71)**	**4,870**

30 June 2010	Cost £m	Amortisation £m	Net book value £m
UK – Friends Provident (Life and Pensions including Sesame Bankhall)	1,457	(86)	1,371
International (including FPIL and AmLife Berhad)	1,056	(76)	980
Lombard	746	(76)	670
Total	3,259	(238)	3,021

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 (including FPIL and AmLife Berhad)	1,057	(141)	916
Lombard	779	(126)	653
Total	5,635	(495)	5,140

Impairment

All identifiable intangible assets are reviewed at each reporting date, or where impairment indicators are present, 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 30 June 2011, based on an impairment review of each of the CGUs, the directors are satisfied that none of the Group's intangible assets are impaired except as stated below.

Impact of negative reserves

As explained in note 1, the benefit of negative reserving has been offset by an acceleration of AVIF amortisation of £130 million in the AXA UK Life Business CGU and by an impairment charge against AVIF of £71 million in the BHA CGU. This is included within administrative and other expenses in the condensed consolidated income statement.

The impairment arose from the implementation of negative reserves, which resulted in an earlier recognition of surplus and the recoverable amount of the AVIF being assessed to be lower than the carrying value. The AVIF asset which has been impaired is included in the UK segment (disclosed in note 3).

For the purpose of the AVIF impairment test, the calculation of the recoverable amount is consistent with its measurement at initial recognition and is based on a current adjusted MCEV VIF balance for pre-acquisition business only, which represents a reasonable basis for determining future profits generated by the asset acquired.

8. Financial assets

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

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Fair value through the income statement (note 8 (a))	**100,881**	49,041	98,768
Loans at amortised cost (note 8 (c))	**207**	12	677
Total financial assets	**101,088**	49,053	99,445

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

As at June 2011	**With-profits £m**	**Unit-linked £m**	**Non-linked annuities £m**	**Non-linked other £m**	**Shareholder £m**	**Total £m**
Shares and other variable yield securities	**7,771**	**53,708**	**–**	**202**	**7**	**61,688**
Debt securities and other fixed-income securities:						
– Government securities	**7,168**	**7,664**	**642**	**567**	**76**	**16,117**
– Corporate bonds	**9,230**	**5,703**	**5,774**	**991**	**542**	**22,240**
Derivative financial instruments	**406**	**26**	**38**	**5**	**(6)**	**469**
Deposits with credit institutions	**–**	**349**	**–**	**18**	**–**	**367**
Total financial assets	**24,575**	**67,450**	**6,454**	**1,783**	**619**	**100,881**

As at June 2010	With-profits £m	Unit-linked £m	Non-linked annuities £m	Non-linked other £m	Shareholder £m	Total £m
Shares and other variable yield securities	2,351	28,526	–	222	7	31,106
Debt securities and other fixed-income securities:						
– Government securities	3,752	1,906	347	247	183	6,435
– Corporate bonds	4,085	3,380	2,526	525	361	10,877
Derivative financial instruments	278	8	–	4	(4)	286
Deposits with credit institutions	–	337	–	–	–	337
Total financial assets	10,466	34,157	2,873	998	547	49,041

As at 31 December 2010	With-profits £m	Unit-linked £m	Non-linked annuities £m	Non-linked other £m	Shareholder £m	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

The above unit-linked column and with-profits column include £1,058 million (30 June 2010: £602 million; 31 December 2010: £964 million) of financial assets comprising £794 million of shares, £77 million of corporate bonds and £187 million of government bonds relating to the minority interests in the Open Ended Investment Companies ("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.

Asset backed securities (excluding those held by the linked funds) amount to £2,420 million (30 June 2010: £929 million; 31 December 2010: £2,505 million) and 91% (30 June 2010: 95%; 31 December 2010: 92%) of these are at investment grade as set out in note 8 (b).

b) Creditworthiness of financial assets

The following table gives an indication of the level of creditworthiness of those categories of assets which are neither past due nor impaired and are most exposed to credit risk using principally ratings prescribed by Standard & Poor's and Moody's. Assets held within unit-linked funds have been excluded from the tables below as the credit risk on these assets is borne by the policyholders rather than the shareholders. The carrying amount of assets included in the statement of financial position represents the maximum credit exposure.

As at 30 June 2011	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**B £m**	**Not rated £m**	**Total £m**
Corporate bonds	**3,055**	**3,147**	**4,308**	**2,965**	**338**	**46**	**258**	**14,117**
Asset backed securities	**529**	**709**	**618**	**344**	**120**	**2**	**98**	**2,420**
Derivative financial instruments	**66**	**139**	**244**	**–**	**–**	**–**	**(6)**	**443**
Reinsurance assets	**–**	**2,377**	**237**	**–**	**–**	**–**	**1**	**2,615**
Deposits with credit institutions	**–**	**18**	**–**	**–**	**–**	**–**	**–**	**18**
Cash and cash equivalents	**1,679**	**1,180**	**1,619**	**38**	**–**	**–**	**97**	**4,613**
Total	**5,329**	**7,570**	**7,026**	**3,347**	**458**	**48**	**448**	**24,226**
%	**22%**	**31%**	**29%**	**14%**	**2%**	**0%**	**2%**	**100%**

As at 30 June 2010	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Corporate bonds	1,408	2,439	1,746	506	186	19	264	6,568
Asset backed securities	246	262	222	148	5	3	43	929
Derivative financial instruments	–	–	278	–	–	–	–	278
Reinsurance assets	–	1,926	–	–	–	–	–	1,926
Cash and cash equivalents	702	916	838	–	–	–	131	2,587
Total	2,356	5,543	3,084	654	191	22	438	12,288
%	19%	45%	25%	5%	2%	0%	4%	100%

As at 31 December 2010	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Corporate bonds	2,876	3,196	4,147	2,645	315	57	269	13,505
Asset backed securities	560	825	622	289	110	2	97	2,505
Derivative financial instruments	46	141	245	–	–	–	–	432
Reinsurance assets	–	2,349	287	–	–	–	1	2,637
Deposits with credit institutions	–	3	–	–	–	–	–	3
Cash and cash equivalents	2,004	988	1,225	36	–	–	6	4,259
Total	5,486	7,502	6,526	2,970	425	59	373	23,341
%	23%	32%	28%	13%	2%	0%	2%	100%

The exposure of the Group to the debt of the governments and companies of Ireland, Italy, Portugal and Spain in shareholder and annuity funds is set out in the table below. There is no exposure to Greece and the exposure to the economies of Ireland and Portugal is relatively immaterial. The corporate debt is diversified across industries and relates mainly to companies with trans-national operations. Where the Group holds securities issued by financial companies, it has considered the Company's financial strength and the ability of the domicile government to provide financial support in the event of stress.

	2011 Half year			2010 Half year			2010 Full year		
	Govt debt £m	**Corporate debt £m**	**Total £m**	Govt debt £m	Corporate debt £m	Total £m	Govt debt £m	Corporate debt £m	Total £m
Ireland	**–**	**38**	**38**	–	35	35	–	50	50
Portugal	**–**	**12**	**12**	–	2	2	–	14	14
Italy	**8**	**217**	**225**	–	30	30	7	221	228
Spain	**–**	**172**	**172**	–	22	22	–	159	159
Total	**8**	**439**	**447**	–	89	89	7	444	451

c) Loans

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Mortgage loans	**3**	3	61
Other loans	**204**	9	616
Total loans	**207**	12	677

Loan assets of £600 million which were held at 31 December 2010, were repaid in March 2011. A further £200 million collateralised loan was provided to Barclays on 11 May 2011.

d) 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:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Investment properties	**1,759**	548	1,831
Shares and other variable yield securities	**53,961**	28,404	52,166
Debt securities and other fixed-income securities	**12,134**	4,806	11,893
Derivative financial instruments	**26**	8	24
Deposits with credit institutions	**349**	337	349
Other receivables	**461**	173	356
Cash and cash equivalents	**4,175**	2,527	4,879
Total assets	**72,865**	36,803	71,498
Other payables	**(495)**	(126)	(235)
Total unit-linked net assets	**72,370**	36,677	71,263

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 OIECs are included within shares and other variable yield securities.

9. Loans and borrowings

The Group's loans and borrowings are as follows:

	Coupon %	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m
Subordinated liabilities:				
Lombard undated subordinated loans	**Various**	**3**	4	3
£162 million external lower tier 2 debt(i)	**12.00**	**184**	187	186
£500 million external lower tier 2 bond(ii)	**8.25**	**497**	–	–
Deferred consideration notes(iii)				
Series A deferred consideration notes	**6.00**	**240**	–	300
Series B deferred consideration notes	**7.25-6.50**	**197**	–	200
Reinsurance:				
Lombard financial reinsurance treaties	**Various**	**13**	20	15
Friends Provident financial reinsurance treaties(iv)	**Various**	**50**	12	29
Other:				
Acquisition finance facility(v)	**Various**	**–**	–	400
Amounts owed to credit institutions (overdrafts)(vi)		**60**	59	79
Total loans and borrowings		**1,244**	282	1,212

Unless otherwise stated below, the carrying values of interest-bearing loans and borrowings closely approximate fair value.

(i) The FLG lower tier 2 debt due 2021 is irrevocably guaranteed on a subordinated basis by FPLP. The debt is carried at amortised cost. The carrying value of £184 million is based on £162 million principal, less capitalised issue costs of £2 million, plus the fair value adjustment arising on acquisition (less amortisation) of £24 million. The fair value of this subordinated debt is £208 million.

(ii) On 21 April 2011, FLG issued a £500 million tier 2 debt instrument with a coupon of 8.25% and a maturity of 2022, which is guaranteed on a subordinated basis by FPLP. This debt is carried at amortised cost being £500 million principal less capitalised issue costs of £3 million.

(iii) On 15 September 2010 the Company issued fixed rate, unsecured loan notes with an aggregate principal amount of £500 million to AXA UK in connection with the acquisition of the AXA UK Life Business. The deferred consideration notes constitute senior, unsecured and unsubordinated obligations of the Company.

The original terms of the Series A notes were that they be redeemed by payment of £60 million on 30 September each year from 2011 to 2015. A deed of amendment was made on 2 June 2011 changing the annual payment date from 30 September to 31 May each year from 2011 to 2015. The Series A coupon rate remains at 6% throughout the loan period.

The original terms of the Series B notes were that they be redeemed by payment of £2.5 million on 30 September each year from 2011 to 2015, followed by payments of £62.5 million on each of the subsequent three anniversaries to 2018. The Series B coupon rate commenced at 7.25% and reduces in incremental amounts annually on 30 September to a rate of 6.50% on 30 September 2015. Thereafter, the rate remains fixed at 6.50% for the three years to the final repayment date of 30 September 2018. A deed of amendment was made on 2 June 2011 changing the annual payment date (and annual date for reducing the rate of interest) from 30 September to 31 May each year. The final repayment will be made on 31 May 2018.

In addition to the scheduled repayments of loan principal described above, the Company may at any time redeem the loan notes in full or in part and is required to repay the loan notes in full or in part on occurrence of certain specified events.

(iv) FPLP has two financial reinsurance contracts with Munich Reinsurance Company UK Limited ("Munich Re") to finance new German unit-linked pensions business written in the years ended 31 December 2010 and 2011 respectively. The total amount owed to Munich Re under these financial reinsurance arrangements as at 30 June 2011 was £42 million (30 June 2010: £10 million; 31 December 2010: £29 million).

On 30 June 2011, FPIL entered into a financial reinsurance agreement with Munich Re to finance new Hong Kong Premier regular premium savings business written since 1 January 2011. The amount owed to Munich Re as at 30 June 2011 was £8 million.

(v) On 24 June 2010, RHG 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 with a maturity date extendable to 30 June 2012. On 21 April 2011, the loan was fully repaid with funding provided by the £500 million LT2 issue referred to in (ii).

(vi) Amounts owed to credit institutions (overdrafts) includes £47 million relating to credit balances held within OEICs that have been consolidated as the Group holding is 50% or more.

10. Contingent liabilities

In the normal course of its business, the Group is subject to matters of litigation or dispute or regulatory uncertainty. 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.

11. Business combinations

Acquisition of Bupa Health Assurance

In January 2011, the Group through its subsidiary, FPLP, acquired 100% of the shares in BHA from Bupa Investment Limited and its parent Bupa Finance Plc. The Group is deemed to have acquired control of BHA on 31 January 2011, the date at which the last substantive condition to legal completion was satisfied, and has consolidated it from that point. The gross consideration paid in cash 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 acquisition is consistent with the UK Life Project, which aims to generate value by consolidating UK life and asset management businesses.

In the period from the acquisition to 30 June 2011, BHA contributed revenue of £44 million and a loss after tax of £3 million. If the acquisition had occurred on 1 January 2011, management estimate that consolidated revenue would have been £53 million, and the consolidated loss after tax for the half year would have been £2 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 2011.

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

	£m
Cash paid	**168**
Fair value of purchase consideration	**168**
Fair value of net assets acquired	**(236)**
Excess of the interest in the fair value of assets acquired over cost	**(68)**

The condensed consolidated income statement includes £1 million within administrative and other expenses in relation to stamp duty payable on the shares acquired.

Identifiable assets acquired and liabilities assumed

	Recognised values on acquisition £m
Intangible assets:	
Acquired value of in-force business	**172**
Other intangible assets	**8**
Financial assets	**83**
Cash and cash equivalents	**90**
Current assets	**30**
Total identifiable assets	**383**
Insurance liabilities	**67**
Other liabilities	**80**
Total identifiable liabilities	**147**
Net identifiable assets acquired and liabilities assumed	**236**
Attributable to equity holders of the parent	**236**

The values of assets acquired and liabilities assumed, recognised on acquisition, are their estimated fair values.
The gain of £68 million recognised as a result of the acquisition is attributable to the purchase price being at a discount to the fair value of the net assets acquired which is based on the market consistent embedded value of BHA. The gain is reported within other income in the condensed consolidated income statement.

12. 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 half year (period from acquisition in respect of transactions related to BHA) are set out below.

a) Other related parties

Transactions 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.

The Company has entered into certain contracts with related parties as discussed 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 £11 million has been included in administrative expenses and an amount of £2 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 the 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;
- 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;
- Own shares held by subsidiary undertakings of the Company with a fair value of £19 million have been acquired as part of the share buy-back programme.

13. Post Balance Sheet events

a) Changes in rates of corporation tax

During 2010 and the first half of 2011, legislation was announced to bring in a phased decrease in the rate of corporation tax. The reduction to 25% effective from 1 April 2012 became substantively enacted on 5 July 2011 when Finance Bill 2011 completed the report stage and third reading in the House of Commons. The effect of this would be to increase the Group's net assets by approximately £30 million.

Subsequent reductions (to 24% and 23%) will be dealt with by future legislation. The benefit to the Group's net assets from the further 2% reduction in the rate is estimated to be approximately £51 million in total and will be recognised when the legislation is substantively enacted.

b) Supreme Court Judgement in the case Scottish Widows plc v Commissioners for Her Majesty's Revenue and Customs

On 6 July 2011, the Supreme Court issued its judgement and found in favour of HMRC in respect of the above case involving the tax treatment of surplus assets accumulated in a mutual and passed into a proprietary environment on demutualisation. The decision impacts on Friends Provident which demutualised shortly after Scottish Widows. However, the impact is minor based on Friends Provident's fact pattern, and a provision is held in the accounts to cover the additional tax payable.

Statement of directors' responsibilities in respect of the market consistent embedded value (MCEV) basis

The directors of Resolution Limited have chosen to prepare supplementary information in accordance with European Insurance CFO Forum (MCEV Principles), issued in October 2009. When compliance with the MCEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the methodology contained in the MCEV Principles and to disclose and explain any non-compliance in the guidance included in the MCEV Principles.

In preparing the MCEV supplementary information, the directors have:

- done so in accordance with the MCEV Principles and fully complied with the guidance included therein;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- made estimates that are reasonable and consistent; and
- described the basis on which business that is non-covered has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group condensed consolidated IFRS financial statements.

By order of the Board

Director

15 August 2011

Independent Review Report to Resolution Limited

Introduction

We have been engaged by the Company to review the set of MCEV financial statements in the interim report and accounts for the six months ended 30 June 2011 which comprise the consolidated income statement – MCEV basis, the consolidated statement of comprehensive income – MCEV basis, the consolidated statement of changes in equity – MCEV basis, the consolidated statement of financial position – MCEV basis, the Group MCEV analysis of earnings and the related notes 1 to 11. We have read the other information contained in the interim report and accounts and considered whether it contains any apparent misstatements or material inconsistencies with the information in the MCEV financial statements.

We have reported separately on the condensed financial statements of Resolution Limited prepared on an IFRS basis for the six months ended 30 June 2011. The information contained in the MCEV financial statements should be read in conjunction with the condensed set of financial statements prepared on an IFRS basis.

This report is made solely to the Company in accordance with guidance contained in International Standards on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board (ISRE 2410). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The MCEV financial statements in the interim report and accounts are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the MCEV financial statements in accordance with the Market Consistent Embedded Value Principles issued in October 2009 by the CFO forum ("the MCEV Principles") and the basis of preparation set out in note 1.

Our responsibility

Our responsibility, as set out in our engagement letter with you dated 8 July 2011, is to express to the Company a conclusion on the MCEV financial statements based on our review.

Scope of review

We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the MCEV financial statements in the interim report and accounts for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the MCEV Principles and the basis of preparation set out in note 1.

Ernst & Young LLP

London

15 August 2011

Consolidated income statement – MCEV basis

For the half year ended 30 June 2011

	Notes	**Resolution Limited 2011 Half year £m**	Resolution Limited 2010 Half year £m	Resolution Limited 2010 Full year £m	FLG 2011 Half year £m	FLG 2010 Half year £m
Life and pensions						
Value of new business	6	**66**	81	145	66	81
Expected existing business contribution		**181**	92	247	181	92
Operating experience variances		**(6)**	28	32	(6)	28
Operating assumption changes		**(2)**	–	(23)	(2)	–
Other operating variances		**(7)**	(2)	65	(7)	(2)
Development costs	9	**(14)**	(11)	(28)	(14)	(11)
Life and pensions covered business operating profit before tax	3	**218**	188	438	218	188
Other income and charges		**(22)**	–	(11)	(22)	–
Life and pensions operating profit before tax		**196**	188	427	196	188
Corporate income and charges		**(16)**	(8)	(15)	–	–
Operating profit before tax		**180**	180	412	196	188
Economic variances	3	**(48)**	16	229	(48)	16
Amortisation and impairment of non-covered business acquired intangible assets		**(1)**	(1)	(3)	(1)	(1)
Non-recurring items and non-operating variances		**(46)**	(9)	(22)	(46)	(3)
Profit from continuing operations before tax	3	**85**	186	616	101	200
Tax on operating profit		**(50)**	(46)	(96)	(50)	(46)
Tax on other activities		**19**	8	(60)	19	8
Profit for the period(i)		**54**	148	460	70	162

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

Earnings per share

For the half year ended 30 June 2011

	Notes	**Resolution Limited** **2011 Half year pence**	Resolution Limited 2010 Half year pence	Resolution Limited 2010 Full year pence
Earnings per share				
Operating earnings per share on MCEV basis after tax, attributable to equity holders of the parent				
– Basic	4	**8.99**	22.30	33.50
– Diluted		**8.95**	22.17	33.24
Earnings per share on MCEV basis after tax, attributable to equity holders of the parent				
– Basic	4	**3.73**	24.63	48.77
– Diluted	4	**3.72**	24.49	48.39

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 income statement – MCEV basis

For the half year ended 30 June 2011

	Resolution Limited 2011 Half year £m	Resolution Limited 2010 Half year £m	Resolution Limited 2010 Full year £m	FLG 2011 Half year £m	FLG 2010 Half year £m
Profit for the period	**54**	148	460	70	162
Actuarial losses on defined benefit pension schemes, net of tax	**(24)**	(54)	(22)	(24)	(54)
Foreign exchange adjustments	**31**	(32)	(11)	31	(32)
Other comprehensive income/(loss) for the period, net of tax	**7**	(86)	(33)	7	(86)
Total comprehensive income for the period(i)	**61**	62	427	77	76

(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 half year ended 30 June 2011

	Resolution Limited 2011 Half year £m	Resolution Limited 2010 Half year £m	Resolution Limited 2010 Full year £m	FLG 2011 Half year £m	FLG 2010 Half year £m
Opening ordinary shareholders' equity	**6,515**	3,488	3,488	6,514	3,181
Acquired value of BHA as at 31 January 2011	**226**	–	–	226	–
Cost of acquisition of BHA(i)	**(168)**	–	–	(168)	
Acquired value of AXA UK Life Business as at 3 September 2010	**–**	–	3,498	–	–
Cost of acquisition of AXA UK Life Business(i)	**–**	–	(2,724)	–	–
Total comprehensive income for the period	**61**	62	427	77	76
Issue of share capital (net of capitalised expenses and own shares held by the Group)	**60**	5	1,967	–	–
Share buy-back	**(34)**	–	–	–	–
Dividends on equity shares	**(182)**	(66)	(144)	(350)	(65)
Share-based payments (impact on MCEV reserves)	**4**	–	3	4	–
Increase/(decrease) in MCEV reserves for the period	**(33)**	1	3,027	(211)	11
Closing ordinary shareholders' equity	**6,482**	3,489	6,515	6,303	3,192

(i) Transaction costs are included in other non-operating expenses in half year 2011 (£1 million in FLG) and in full year 2010 (£28 million in total in Resolution Limited, of which £14 million is included in FLG).

Consolidated statement of financial position – MCEV basis

At 30 June 2011

	Resolution Limited	Restated Resolution Limited	Resolution Limited	FLG	FLG
	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m	30 June 2011 £m	31 December 2010 £m
Assets					
Pension scheme surplus	**3**	–	22	3	22
VIF covered business excluding assets of operations classified as held for sale	**4,007**	1,848	3,966	4,007	3,966
Intangible assets	**29**	42	29	29	29
Property and equipment	**58**	45	46	58	46
Investment properties	**3,128**	857	3,189	3,128	3,189
Investment in associates and joint venture	**27**	25	27	27	27
Deferred tax assets	**–**	24	–	–	–
Financial assets	**101,094**	49,053	99,445	101,095	99,465
Deferred acquisition costs	**115**	130	119	115	119
Reinsurance assets	**2,614**	1,926	2,637	2,614	2,637
Current tax assets	**27**	4	22	27	22
Insurance and other receivables	**1,462**	696	1,024	1,462	1,023
Cash and cash equivalents	**8,962**	5,260	9,288	8,531	9,057
Assets of operations classified as held for sale					
– VIF covered business	**222**	–	236	222	236
– other assets	**1,046**	–	970	1,046	970
Total assets	**122,794**	59,910	121,020	122,364	120,808
Liabilities					
Insurance contracts	**35,126**	12,166	35,142	35,126	35,142
Unallocated surplus	**1,138**	275	1,090	1,138	1,090
Financial liabilities					
– investment contracts	**72,665**	40,197	71,535	72,665	71,535
– loans and borrowings	**1,622**	692	1,599	1,385	1,399
– amounts due to reinsurers	**1,650**	1,713	1,666	1,650	1,666
Net asset value attributable to unit-holders	**1,199**	697	1,173	1,199	1,173
Provisions	**231**	56	221	231	221
Pension scheme deficit	**–**	35	–	–	–
Deferred tax liabilities	**379**	–	270	379	270
Current tax liabilities	**29**	19	11	29	11
Insurance payables, other payables and deferred income	**1,285**	567	869	1,271	858
Liabilities of operations classified as held for sale	**984**	–	925	984	925
Total liabilities	**116,308**	56,417	114,501	116,057	114,290
Equity attributable to:					
– Equity holders of the parent	**6,482**	3,489	6,515	6,303	6,514
– Non-controlling interests	**4**	4	4	4	4
Total equity	**6,486**	3,493	6,519	6,307	6,518
Total equity and liabilities	**122,794**	59,910	121,020	122,364	120,808

Group MCEV analysis of earnings

For the half year ended 30 June 2011

	Covered business £m	Non-covered business £m	FLG 2011 Half year Total £m	Resolution Limited (ex. FLG)(i) 2011 Half year Non-covered business £m	Resolution Limited 2011 Half year Total business £m	Resolution Limited 2010 Half year Total business £m	Resolution Limited 2010 Full year Total business £m	FLG 2010 Half year Total £m
Opening Group MCEV	**6,470**	**44**	**6,514**	**1**	**6,515**	3,488	3,488	3,181
Opening adjustments:								
capital and dividend flows	**–**	**–**	**–**	**–**	**–**	–	1,979	–
acquired/divested businesses:								
– acquired value of BHA	**226**	**–**	**226**	**–**	**226**	–	–	–
– cost of acquisition of BHA(ii)	**(168)**	**–**	**(168)**	**–**	**(168)**	–	–	–
– acquired value of AXA UK Life Business	**–**	**–**	**–**	**–**	**–**	–	3,498	–
– cost of acquisition of AXA UK Life Business(ii)	**–**	**–**	**–**	**–**	**–**	–	(2,724)	–
Adjusted opening Group MCEV	**6,528**	**44**	**6,572**	**1**	**6,573**	3,488	6,241	3,181
Operating MCEV earnings	**164**	**(18)**	**146**	**(16)**	**130**	134	316	142
Non-operating MCEV earnings	**(75)**	**(1)**	**(76)**	**–**	**(76)**	14	144	20
Total MCEV earnings	**89**	**(19)**	**70**	**(16)**	**54**	148	460	162
Other movements in IFRS net equity	**–**	**(24)**	**(24)**	**19**	**(5)**	(54)	(42)	(54)
Closing adjustments:								
capital and dividend flows	**(985)**	**639**	**(346)**	**175**	**(171)**	(61)	(133)	(65)
foreign exchange variances	**31**	**–**	**31**	**–**	**31**	(32)	(11)	(32)
Closing Group MCEV	**5,663**	**640**	**6,303**	**179**	**6,482**	3,489	6,515	3,192

(i) Resolution Limited (ex. FLG) refers to the Group excluding the acquired assets of Friends Provident, the AXA UK Life Business and BHA.

(ii) Transaction costs are included in non-operating MCEV earnings in half year 2011 (£1 million in FLG) and in full year 2010 (£28 million in Resolution Limited, of which £14 million is included in FLG).

Notes to the MCEV results
For the half year ended 30 June 2011

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 Principles[(i)] (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, the life insurance business which at that date was owned by AXA UK. Under the terms of the AXA UK Life Business acquisition certain portfolios of business that are still legally owned by AXA UK are to be transferred to the Group 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.

Insurance payables, other payables and deferred income includes a liability for an amount of £34 million payable from FLG to AXA UK on completion of the Part VII transfer of the GOF and TIP portfolios of insurance business. The amount is part of the wrong-pocket adjustment which will be made from FLG to AXA UK to reflect the surpluses which have arisen in WLUK and FLC respectively in respect of the businesses which will be transferred during the second half of 2011. The £34 million is calculated by reference to the expected cash surplus arising on the GOF and TIP portfolios in the period since the acquisition of the AXA UK Life Business by the Group.

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

On 31 January 2011 the Company, via its subsidiary FPLP, acquired all of the share capital of BHA. The consolidated income statement therefore includes the result of this business from that date.

This MCEV supplementary information presents results for Resolution Limited and FLG, including the results for Friends Provident, the AXA UK Life Business and BHA from the dates of the respective acquisitions.

The comparative MCEV results for the period ended 30 June 2010 include results for the Resolution holding companies and the acquired Friends Provident businesses only.

The MCEV results were approved by the Board of directors on 15 August 2011.

Segmental analysis and definitions

Comparative figures for 30 June 2010 have been restated, where necessary, to reflect the revised segmentation and definitions adopted for reporting as at 31 December 2010. Details of the changes are included in note 10.

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;
- all life and pensions business written by BHA; and
- 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, external lower tier 2 subordinated debt and the tier 2 bond 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, external lower tier 2 subordinated debt and the tier 2 bond are included within the MCEV at market value, based on listed ask prices.

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. FLG corporate net assets, Resolution Limited corporate net assets, the deferred consideration notes issued by Resolution Limited, the acquisition finance facility (until the date of its repayment in April 2011) and the lower tier 2 subordinated debt issued by FLG 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 FLG has been split into the following segments in line with IFRS reporting:

- UK, which includes the life and pensions businesses within the UK of Friends Provident, the AXA UK Life Business and BHA;
- 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. FLG corporate includes the STICS, external lower tier 2 subordinated debt, the tier 2 bond and the cost of holding any required capital in excess of the operating segment capital policy.

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 corporate benefits 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, external lower tier 2 subordinated debt and the tier 2 bond at market value, based on listed ask prices.

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 together with 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 9.

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 (e.g. 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 FLG, 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 9.

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 FLG.

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 9.

2. Analysis of MCEV earnings

The following tables show the movement in the MCEV of Resolution Limited including the results for Friends Provident, the AXA UK Life Business and BHA from the dates of the respective acquisitions.

All of the Group's covered business is wholly contained within FLG.

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 half year ended 30 June 2011

	FLG						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	**977**	**1,291**	**4,202**	**6,470**	**44**	**6,514**	**1**	**6,515**
Opening adjustments:								
– acquired/divested businesses	**(165)**	**91**	**132**	**58**	**–**	**58**	**–**	**58**
Adjusted opening MCEV	**812**	**1,382**	**4,334**	**6,528**	**44**	**6,572**	**1**	**6,573**
Value of new business	**(185)**	**35**	**202**	**52**	**–**	**52**	**–**	**52**
Expected existing business contribution:								
– expected existing business contribution (reference rate)	**4**	**3**	**27**	**34**	**–**	**34**	**–**	**34**
– expected existing business contribution (in excess of reference rate)	**(17)**	**6**	**114**	**103**	**–**	**103**	**–**	**103**
Transfers from VIF and required capital to free surplus	**343**	**(37)**	**(306)**	**–**	**–**	**–**	**–**	**–**
Experience variances and development costs	**4**	**4**	**(22)**	**(14)**	**–**	**(14)**	**–**	**(14)**
Operating assumption changes	**(1)**	**(2)**	**1**	**(2)**	**–**	**(2)**	**–**	**(2)**
Other operating items	**158**	**(11)**	**(156)**	**(9)**	**(18)**	**(27)**	**(16)**	**(43)**
Operating MCEV earnings	**306**	**(2)**	**(140)**	**164**	**(18)**	**146**	**(16)**	**130**
Economic variances	**(1)**	**(24)**	**(17)**	**(42)**	**–**	**(42)**	**–**	**(42)**
Other non-operating items	**(62)**	**3**	**26**	**(33)**	**(1)**	**(34)**	**–**	**(34)**
Total MCEV earnings	**243**	**(23)**	**(131)**	**89**	**(19)**	**70**	**(16)**	**54**
Other movements in IFRS net equity	**–**	**–**	**–**	**–**	**(24)**	**(24)**	**19**	**(5)**
Closing adjustments:								
– capital and dividend flows	**(494)**	**(490)**	**(1)**	**(985)**	**639**	**(346)**	**175**	**(171)**
– foreign exchange variances	**(1)**	**5**	**27**	**31**	**–**	**31**	**–**	**31**
Closing MCEV	**560**	**874**	**4,229**	**5,663**	**640**	**6,303**	**179**	**6,482**

For the half year ended 30 June 2010

Net of tax	Restated FLG Covered business Free surplus £m	Re-quired capital £m	VIF £m	MCEV £m	Non-covered business £m	Total £m	Resolution Limited Non-covered business £m	Total £m
Opening MCEV	812	362	1,873	3,047	134	3,181	307	3,488
Opening adjustments:								
– acquired/divested businesses	–	–	–	–	–	–	–	–
Adjusted opening MCEV	812	362	1,873	3,047	134	3,181	307	3,488
Value of new business	(125)	21	167	63	–	63	–	63
Expected existing business contribution:								
– expected existing business contribution (reference rate)	(6)	6	11	11	–	11	–	11
– expected existing business contribution (in excess of reference rate)	(12)	12	56	56	–	56	–	56
Transfers from VIF and required capital to free surplus	152	(10)	(142)	–	–	–	–	–
Experience variances and development costs	15	–	(2)	13	–	13	–	13
Operating assumption changes	–	–	–	–	–	–	–	–
Other operating variances	2	–	(3)	(1)	–	(1)	(8)	(9)
Operating MCEV earnings	26	29	87	142	–	142	(8)	134
Economic variances	75	27	(78)	24	–	24	(2)	22
Other non-operating items	(54)	–	–	(54)	50	(4)	(4)	(8)
Total MCEV earnings	47	56	9	112	50	162	(14)	148
Other movements in IFRS net equity	–	–	–	–	(54)	(54)	–	(54)
Closing adjustments:								
– capital and dividend flows	(258)	(18)	7	(269)	204	(65)	4	(61)
– foreign exchange variances	10	(3)	(41)	(34)	2	(32)	–	(32)
– acquired/divested business	(1)	–	–	(1)	1	–	–	–
Closing MCEV	610	397	1,848	2,855	337	3,192	297	3,489

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 FLG.

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

For the half year ended 30 June 2011

	FLG						Resolution Limited	
	Covered business							
Gross of tax	UK £m	Int'l £m	Lom-bard £m	FLG corp-orate £m	Non-covered bus-iness £m	Total £m	Resolut-ion (ex. FLG)(i) Non-covered bus-iness £m	Total £m
Value of new business	28	20	18	–	–	66	–	66
Expected existing business contribution	167	14	21	(21)	–	181	–	181
Operating experience variances	(7)	(1)	2	–	–	(6)	–	(6)
Operating assumption changes	–	(2)	–	–	–	(2)	–	(2)
Other operating variances	6	(13)	–	–	–	(7)	–	(7)
Development costs	(10)	(3)	(1)	–	–	(14)	–	(14)
Life and pensions covered business operating profit/(loss) before tax	184	15	40	(21)	–	218	–	218
Other income and charges	–	–	–	–	(22)	(22)	–	(22)
Life and pensions operating profit/(loss) before tax	184	15	40	(21)	(22)	196	–	196
Corporate income and charges	–	–	–	–	–	–	(16)	(16)
Operating profit/(loss) before tax	184	15	40	(21)	(22)	196	(16)	180
Economic variances	49	(12)	(49)	(35)	(1)	(48)	–	(48)
Other non-operating items	(47)	1	–	–	(1)	(47)	–	(47)
Profit/(loss) before tax	186	4	(9)	(56)	(24)	101	(16)	85
Attributed tax on operating profits	(50)	–	(10)	5	5	(50)	–	(50)
Attributed tax on other activities	2	(2)	11	8	–	19	–	19
Profit/(loss) after tax	138	2	(8)	(43)	(19)	70	(16)	54

(i) Resolution (ex.FLG) refers to the Group excluding the acquired assets of Friends Provident, the AXA UK Life Business and BHA.

For the half year ended 30 June 2010

Gross of tax	Restated FLG						Resolution Limited	
	Covered business							
	UK £m	Int'l £m	Lombard £m	FLG corp-orate £m	Non-covered business £m	Total £m	Resolut-ion (ex. FLG)(i) Non-covered business £m	Total £m
Value of new business	20	30	31	–	–	81	–	81
Expected existing business contribution	79	12	16	(15)	–	92	–	92
Operating experience variances	26	(3)	5	–	–	28	–	28
Operating assumption changes	–	–	–	–	–	–	–	–
Other operating variances	4	(6)	–	–	–	(2)	–	(2)
Development costs	(8)	(2)	(1)	–	–	(11)	–	(11)
Life and pensions covered business operating profit/(loss) before tax	121	31	51	(15)	–	188	–	188
Other income and charges	–	–	–	–	–	–	–	–
Life and pensions operating profit/(loss) before tax	121	31	51	(15)	–	188	–	188
Corporate income and charges	–	–	–	–	–	–	(8)	(8)
Operating profit/(loss) before tax	121	31	51	(15)	–	188	(8)	180
Economic variances	34	25	6	(46)	(3)	16	–	16
Other non-operating items	(70)	(6)	–	–	72	(4)	(6)	(10)
Profit/(loss) before tax	85	50	57	(61)	69	200	(14)	186
Attributed tax on operating profits	(36)	–	(14)	4	–	(46)	–	(46)
Attributed tax on other activities	21	2	(2)	6	(19)	8	–	8
Profit/(loss) after tax	70	52	41	(51)	50	162	(14)	148

(i) Resolution (ex.FLG) refers to the Group excluding the acquired assets of Friends Provident, the AXA UK Life Business and BHA.

UK covered business

The life and pensions covered business operating profit before tax for the UK segment was £184 million in the period to 30 June 2011 (30 June 2010: £121 million).

VNB

Further details of the calculation and analysis of the VNB are discussed in note 6.

Existing business contribution

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 equivalent to 75bps 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 assumed asset mix.

The total expected contribution of £167 million (30 June 2010: £79 million) comprises £152 million (30 June 2010: £62 million) from applying expected rates of return to the value of in-force at the start of the period and £15 million (30 June 2010: £17 million) of expected return on shareholders' net assets.

The expected contribution from the value of in-force of £152 million (30 June 2010: £62 million) reflects the expected rates of return applied to the opening value of in-force of £3,271 million at 31 December 2010 (£1,091 million at 31 December 2009).

The UK expected contribution on shareholders' net worth of £15 million (30 June 2010: £17 million) reflects the return based on the reference rate. The reduction in the contribution reflects the net cash outflows as a result of dividends paid from UK life companies to FLG corporate, and the acquisition of BHA.

Operating experience variances

Operating experience variances relate to variances between actual experience and that anticipated in the projection assumptions.

Operating experience variances totalled £(7) million (30 June 2010: £26 million) and comprise the following elements:

- a £(23) million charge due to worse than expected persistency experience on the AXA UK Life and BHA businesses, together with a charge of £(11) million due to worse than expected persistency experience on Friends Provident UK business that has been offset by a corresponding release of £11 million from the short-term recessionary provision, leaving the provision as £18 million net of tax;
- a £10 million benefit from better than assumed morbidity on income protection business;
- a £8 million benefit from lower than assumed mortality on life protection business; and
- other minor variances totalling £(2) million.

The operating experience variances at 30 June 2010 included £14 million in respect of a prior year's tax provision, and £12 million of other variances including a £5 million benefit from mortality experience.

Operating assumption changes

There have been no changes to operating assumptions in the period to 30 June 2011.

Other operating variances

Other operating variances of £6 million (30 June 2010: £4 million) comprise:

- a £2 million benefit from the implementation of PS06/14 reserving in the AXA UK Life Business and BHA; and
- other small modelling enhancements totalling £4 million.

Development costs

Development costs of £10 million (30 June 2010: £8 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 to the development of the corporate investment platform and the development costs associated with the annuity strategy and corporate pensions.

International covered business

The life and pensions covered business operating profit before tax for the International segment was £15 million (30 June 2010: £31 million).

VNB

Further details of the calculation and analysis of the VNB are discussed in note 6.

Existing business contribution

The expected contribution of £14 million (30 June 2010: £12 million) reflects the expected return on the opening value of in-force of £473 million (30 June 2010: £398 million).

Operating experience variances

Operating experience variances of £(1) million (30 June 2010: £(3) million) comprise a number of small operating variances relating to persistency, mortality and expenses.

Operating assumption changes

The operating assumption changes of £(2) million (30 June 2010: nil) relate to small changes to the persistency and mortality assumptions at AmLife.

Other operating variances

Other operating variances of £(13) million (30 June 2010: £(6) million) comprise:

- £(7) million from modelling enhancements to partial withdrawal assumptions on regular premium contracts; and
- £(6) million from several other small adjustments to net assets.

Development costs

Development costs of £3 million (30 June 2010: £2 million) include:

- £2 million for the development of online systems for International business; and
- £1 million for the development of the German pensions proposition.

Lombard covered business

The life and pensions covered business operating profit before tax for the Lombard segment was £40 million (30 June 2010: £51 million).

VNB

Further details of the calculation and analysis of the VNB are discussed in note 6.

Existing business contribution

The expected contribution of £21 million (30 June 2010: £16 million) reflects the expected return on the opening value of in force of £497 million (30 June 2010: £378 million).

Operating experience variances

Operating experience variances of £2 million (30 June 2010: £5 million) relate to small positive variances in respect of mortality and persistency.

At 31 December 2010 a short-term persistency provision of £6 million gross of tax (£4 million net of tax) was made to cover anticipated poor persistency in the Spanish market. There has been no release of this provision at 30 June 2011, pending the end of the Spanish fiscal year.

Operating assumption changes

There have been no operating assumption changes in the period to 30 June 2011.

Other operating variances

There are no other operating variances.

Development costs

The development costs of £1 million (30 June 2010: £1 million) include costs of developing new products.

FLG corporate covered business

FLG corporate includes the STICS, the external lower tier 2 subordinated debt, the tier 2 bond and the cost of holding any required capital in excess of the operating segment capital policy.

The expected existing business contribution of £(21) million (30 June 2010: £(15) million) represents the expected annual interest costs arising on the debt held within the FLG life and pensions covered business.

Non-covered business

FLG non-covered business reported an operating loss of £22 million (30 June 2010: nil) due to interest payable on the lower tier 2 subordinated debt issued to Resolution holding companies offset by a number of smaller items including expected return on the non-covered assets and expected return on the net pension asset.

Resolution Limited non-covered business reported an operating loss of £(16) million (30 June 2010: £(8) million) due to £23 million of interest income on the lower tier 2 subordinated debt issued by FLG and £1 million on largely cash-based assets offset by £26 million of finance costs and £15 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 period. The total economic variances were £(48) million (30 June 2010: £16 million) and these comprise:

- £49 million within UK, where the principal impact was the rise in equity markets increasing the value of future charges on unit-linked business;
- £(12) million from International, where positive investment returns were offset by generally unfavourable exchange rate movements that reduced the value of future management charges;
- £(49) million from Lombard, where adverse exchange rate movements were coupled with lower than expected returns on the linked policyholder assets;
- £(35) million from an increase in the market value of debt along with the interest costs accruing; and
- £(1) million of small variances on non-covered business.

Other non-operating items

Total other non-operating items of £(47) million (30 June 2010: £(4) million) include:

- £(80) million of non-recurring costs comprising £41 million of separation and integration costs in respect of the acquired BHA and AXA UK Life Business, £24 million in respect of Solvency II and finance system developments and £15 million of other costs.
- £33 million in respect of the change to UK corporation tax announced in April 2011. The impact reflects the change to the ultimate rate effective from April 2014 from 24% to 23%.

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 half year 2010 have been recalculated to reflect the share consolidation and rights issue undertaken in 2010 in accordance with IAS 33: *Earnings per Share*.

Basic and operating earnings per share

Half year ended 30 June 2011	**Earnings £m**	**Per share pence**
Profit after tax attributable to ordinary equity holders of the parent	**54**	**3.73**
Economic variances	**48**	**3.32**
Amortisation of non-covered business acquired intangible assets	**1**	**0.07**
Non-recurring items and non-operating variances	**46**	**3.18**
Tax credit on items excluded from operating profit/loss	**(19)**	**(1.31)**
Operating profit after tax attributable to ordinary equity holders of the parent	**130**	**8.99**

Half year ended 30 June 2010	Earnings £m	Per share pence
Profit after tax attributable to ordinary equity holders of the parent	148	24.63
Economic variances	(16)	(2.66)
Amortisation of non-covered business acquired intangible assets	1	0.16
Non-recurring items and non-operating variances	9	1.50
Tax credit on items excluded from operating profit/(loss)	(8)	(1.33)
Operating profit after tax attributable to ordinary equity holders of the parent	134	22.30

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 charge 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

Diluted earnings per share from continuing operations

Dilutive factors comprise the impact of the Lombard management incentive scheme. Awards made under the FLG executive long-term incentive plan introduced in March 2010 had no dilutive impact in any period.

Half year ended 30 June 2011	**£m**	**Weighted average number of shares Number**	**Per share Pence**
Profit after tax attributable to ordinary shareholders of the parent	**54**	**1,446,619,590**	**3.73**
Dilution	**–**	**5,208,690**	**(0.01)**
Diluted profit after tax attributable to ordinary shareholders of the parent	**54**	**1,451,828,280**	**3.72**

Half year ended 30 June 2010	£m	Restated Weighted average number of shares Number	Restated Restated Per share Pence
Profit after tax attributable to ordinary shareholders of the parent	148	600,962,972	24.63
Dilution	–	3,434,442	(0.14)
Diluted profit after tax attributable to ordinary shareholders of the parent	148	604,397,414	24.49

Year ended 31 December 2010	£m	Weighted average number of shares Number	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

Weighted average number of ordinary shares

Half year ended 30 June 2011	**2011 Actual**	**2011 Weighted**
Issued ordinary shares at beginning of period	**1,452,564,371**	**1,452,564,371**
Own shares held by subsidiaries	**(8,579,292)**	**(8,579,292)**
	1,443,985,079	**1,443,985,079**
Effect of:		
Scrip dividend (final 2010)	**13,639,313**	**2,652,088**
Share buy-back	**(11,243,352)**	**(62,463)**
Reduction in own shares held by subsidiary	**8,079,419**	**44,886**
Number of ordinary shares at end of period	**1,454,460,459**	**1,446,619,590**

Half year ended 30 June 2010	2010 Actual	Restated 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	1,054,766
Number of shares before share consolidation	2,418,204,413	2,413,505,911
Share consolidation	–	(1,812,542,939)
Number of ordinary shares at end of period	2,418,204,413	600,962,972

Year ended 31 December 2010	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
Own shares held by the Group	(8,579,292)	(2,820,589)
Number of ordinary shares at end of period	1,443,985,079	943,284,481

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	Resolution Limited	FLG	Restated FLG
	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m	30 June 2011 £m	30 June 2010 £m
Equity attributable to ordinary shareholders on an IFRS basis	**6,105**	3,542	6,227	5,926	3,245
Less items only included on an IFRS basis:					
– IFRS reserving and other IFRS adjustments	**500**	520	507	500	520
– Deferred front end fees	**37**	14	24	37	14
– Deferred acquisition costs	**(346)**	(50)	(201)	(346)	(50)
– Acquired present value of in-force ("AVIF") (net of tax)	**(3,422)**	(2,141)	(3,608)	(3,422)	(2,141)
– Other intangible assets (net of tax)	**(315)**	(216)	(332)	(315)	(216)
Other(i)	**(222)**	–	(236)	(222)	–
Add items only included on a MCEV basis:					
– Adjustment for long-term debt to market value (net of deferred tax)	**(84)**	(28)	(68)	(84)	(28)
Net worth on a MCEV basis	**2,253**	1,641	2,313	2,074	1,344
Value of in-force covered business(i)	**4,229**	1,848	4,202	4,229	1,848
Equity attributable to ordinary shareholders on a MCEV basis	**6,482**	3,489	6,515	6,303	3,192

(i) GOF and TIP businesses are classified as held for sale assets and liabilities in both the Group's IFRS and MCEV statements of financial position with a net value at 30 June 2011 of £284 million (31 December 2010: £281 million). Within the MCEV statement of financial position the held for sale assets are further split between value of in-force covered business of £222 million (31 December 2010: £236 million) and other assets. Within 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 £4,229 million at 30 June 2011.

6. New business

The following tables 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 sales 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.

UK figures exclude new business in relation to WLUK, GOF and TIP businesses.

Resolution Limited new business value for the half year ended 30 June 2011

	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								
– Corporate benefits	**327**	**208**	**242**	**4.3**	**1,199**	**(1)**	**(1)**	**(0.0)**
– Group protection	**–**	**12**	**12**	**5.8**	**74**	**1**	**2**	**3.5**
UK Individual								
– Individual protection	**–**	**44**	**44**	**6.5**	**287**	**3**	**4**	**1.2**
– Individual pensions	**246**	**9**	**33**	**2.8**	**288**	**2**	**3**	**1.2**
Annuities(ii)	**189**	**–**	**19**	**–**	**189**	**12**	**16**	**8.8**
Investments	**220**	**–**	**22**	**–**	**220**	**3**	**4**	**1.8**
UK total	**982**	**273**	**372**	**4.6**	**2,257**	**20**	**28**	**1.2**
International	**362**	**96**	**132**	**4.7**	**828**	**19**	**20**	**2.5**
Lombard	**968**	**–**	**97**	**–**	**969**	**13**	**18**	**1.8**
Non-UK total	**1,330**	**96**	**229**	**4.7**	**1,797**	**32**	**38**	**2.1**
Total	**2,312**	**369**	**601**	**4.6**	**4,054**	**52**	**66**	**1.6**

(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 six months to 30 June 2011.

Resolution Limited new business value for the half year ended 30 June 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								
– Corporate benefits	120	140	152	4.0	676	3	4	0.6
– Group protection	–	2	2	5.9	15	–	–	(2.0)
UK Individual								
– Individual protection	–	18	18	5.8	105	(3)	(4)	(4.2)
– Individual pensions	116	4	15	3.7	128	4	6	4.7
Annuities(ii)	135	–	14	–	135	11	15	11.3
Investments	17	–	2	–	17	(1)	(1)	(4.9)
UK total	388	164	203	4.2	1,076	14	20	1.8
International	232	97	120	4.8	696	27	30	4.3
Lombard	1,348	–	135	–	1,348	22	31	2.3
Non-UK total	1,580	97	255	4.8	2,044	49	61	3.0
Total	1,968	261	458	4.4	3,120	63	81	2.6

(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 six months to 30 June 2010.

UK

The pre-tax VNB from the UK segment was £28 million (30 June 2010: £20 million) comprising:

- UK Corporate pre-tax VNB of £1 million (30 June 2010: £4 million). This amount was principally derived from the group protection proposition, where the market remains challenging;
- UK Individual and Investments business of £11 million (30 June 2010: £1 million). The contribution improved following the acquisition of BHA; and
- Annuities of £16 million (30 June 2010: £15 million). Growth in annuity new business premiums has been affected by changes to early retirement rules in the first half of 2010 which resulted in increased volumes and potentially accelerated some of the business that might have ordinarily materialised in 2011.

International

International VNB was £20 million (30 June 2010: £30 million) for the period with strong continued growth in Asia offset by difficult conditions in Germany. VNB figures were reduced by the impacts of improvements to modelling and basis strengthening made in 2010, together with unfavourable exchange rate movements.

Lombard

Lombard VNB of £18 million (30 June 2010: £31 million) represents the second highest first half result ever achieved. The 2010 comparative benefited from strong drivers to close business given the planned EU Savings Directive changes.

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

	Half year ended 30 June 2011			Half year ended 30 June 2010		
	Pre-tax value of new business £m	**Internal rate of return on new business %**	**Cash payback on new business Years**	Pre-tax VNB £m	Internal rate of return on new business %	Cash payback on new business Years
UK corporate						
– Corporate benefits	**(1)**	**5.3**	**15**	4	8.2	13
– Group protection	**2**	**7.0**	**12**	–	4.0	17
UK Individual						
– Individual protection	**4**	**5.0**	**12**	(4)	2.1	19
– Individual pensions	**3**	**8.2**	**10**	6	45.6	3
Annuities	**16**	**23.8**	**6**	15	n/a	n/a
Investments	**4**	**9.4**	**8**	(1)	(0.7)	n/a
UK total	**28**	**7.0**	**12**	20	10.8	10
International	**20**	**13.5**	**7**	30	18.3	5
Lombard(i)	**18**	**19.0**	**6**	31	23.1	5
Non-UK total	**38**	**14.0**	**7**	61	20.0	5
Total(i)	**66**	**9.6**	**10**	81	15.1	7

(i) The 2011 Lombard IRR (and therefore the blended group IRR) now takes account of the Luxembourg regulatory regime in which DAC is an allowable asset.

7. Segmental analysis of Group MCEV

At 30 June 2011

									30 June 2011	31 December 2010
	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	**526**	**1,865**	**2,391**	**3,591**	**(37)**	**(102)**	**(158)**	**3,294**	**5,685**	5,995
International	**32**	**53**	**85**	**489**	**(1)**	**(3)**	**(18)**	**467**	**552**	557
Lombard	**1**	**83**	**84**	**541**	**–**	**(6)**	**(22)**	**513**	**597**	577
FLG corporate (ex.STICS, lower tier 2 debt and the tier 2 bond):										
– IFA and distribution businesses	**51**	**–**	**51**	**–**	**–**	**–**	**–**	**–**	**51**	22
– Pension asset of FPPS	**18**	**–**	**18**	**–**	**–**	**–**	**–**	**–**	**18**	39
– Other	**772**	**(14)**	**758**	**–**	**–**	**(45)**	**–**	**(45)**	**713**	620
Gross MCEV of FLG(i)	**1,400**	**1,987**	**3,387**	**4,621**	**(38)**	**(156)**	**(198)**	**4,229**	**7,616**	7,810
FLG corporate(ii) – STICS	**–**	**(407)**	**(407)**	**–**	**–**	**–**	**–**	**–**	**(407)**	(393)
FLG corporate(ii) – external lower tier 2 debt and the tier 2 bond	**–**	**(706)**	**(706)**	**–**	**–**	**–**	**–**	**–**	**(706)**	(201)
FLG corporate(ii) – Resolution(iii) lower tier 2 subordinated debt	**(200)**	**–**	**(200)**	**–**	**–**	**–**	**–**	**–**	**(200)**	(702)
Net MCEV of FLG	**1,200**	**874**	**2,074**	**4,621**	**(38)**	**(156)**	**(198)**	**4,229**	**6,303**	6,514
Resolution(iii) corporate net assets	**616**	**–**	**616**	**–**	**–**	**–**	**–**	**–**	**616**	901
Resolution Limited DCNs	**(437)**	**–**	**(437)**	**–**	**–**	**–**	**–**	**–**	**(437)**	(500)
Resolution(iii) acquisition finance facility	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	(400)
Net Group MCEV of Resolution Limited attributable to equity holders of parent	**1,379**	**874**	**2,253**	**4,621**	**(38)**	**(156)**	**(198)**	**4,229**	**6,482**	6,515

(i) For the purposes of this table "Gross" refers to the MCEV gross of the clean market value of the STICS, all lower tier 2 subordinated debt and the tier 2 bond. The accrued interest and tax adjustment on market valuation is included in the gross MCEV of FLG corporate.

(ii) FLG corporate includes the STICS, lower tier 2 subordinated debt, the tier 2 bond and the cost of holding any required capital in excess of the operating segment capital policy.

(iii) Resolution holding companies.

i) Net worth

The STICS, lower tier 2 subordinated debt and the tier 2 bond are included within the MCEV at market value, as detailed in note 9.

ii) PVFP

The PVFP at 30 June 2011 includes a deduction of £18 million (31 December 2010: £26 million) from the UK as a provision against worsening persistency experience arising from recessionary conditions, and £4 million (31 December 2010: £4 million) from Lombard set up as a short-term persistency provision in respect of the Spanish market.

iii) TVOG

The TVOG at 30 June 2011 of £38 million (31 December 2010: £38 million), is split between £12 million (31 December 2010: £12 million) market risk and £26 million (31 December 2010: £26 million) non-market risk. The non-market risks include lapses, annuitant longevity, and operational risk within the with-profits funds. 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 125% of ICA plus ICG.

Additionally the Group capital management policy in respect of FLG is to hold 160% of Group CRR excluding WPICC. The cost of holding this additional capital is shown in the FLG corporate segment. The same capital management policy applied at 31 December 2010. At 30 June 2010 the Group's capital management policy was to hold the greater of 150% of Group CRR excluding WPICC and 125% of the Individual Capital Assessment.

v) CNHR

The cost of residual non-hedgeable risk of £198 million (31 December 2010: £184 million) is presented as an equivalent annual cost of capital charge of 2% (31 December 2010: 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 following tables show a further breakdown of the Group MCEV earnings for each of Resolution Limited and FLG 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.

Half year ended 30 June 2011

	FLG						Resolution Limited	
	Covered business							
	UK £m	Int'l £m	Lom-bard £m	FLG corp-orate £m	Non-covered busi-ness £m	Total £m	Resolut-ion (ex. FLG) Non-covered bus-iness[i] £m	Total £m
Opening Group MCEV	**5,995**	**557**	**577**	**(659)**	**44**	**6,514**	**1**	**6,515**
Opening adjustments:								
– capital and dividend flows	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– acquired value of BHA	**226**	**–**	**–**	**–**	**–**	**226**	**–**	**226**
– cost of acquisition of BHA	**(168)**	**–**	**–**	**–**	**–**	**(168)**	**–**	**(168)**
Adjusted opening Group MCEV	**6,053**	**557**	**577**	**(659)**	**44**	**6,572**	**1**	**6,573**
Operating MCEV earnings	**135**	**15**	**30**	**(16)**	**(18)**	**146**	**(16)**	**130**
Non-operating MCEV earnings	**3**	**(13)**	**(39)**	**(26)**	**(1)**	**(76)**	**–**	**(76)**
Total MCEV earnings	**138**	**2**	**(9)**	**(42)**	**(19)**	**70**	**(16)**	**54**
Other movements in IFRS net equity	**–**	**–**	**–**	**–**	**(24)**	**(24)**	**19**	**(5)**
Closing adjustments:								
– capital and dividend flows	**(506)**	**(7)**	**(2)**	**(470)**	**639**	**(346)**	**175**	**(171)**
– foreign exchange variances	**–**	**–**	**31**	**–**	**–**	**31**	**–**	**31**
Closing Group MCEV	**5,685**	**552**	**597**	**(1,171)**	**640**	**6,303**	**179**	**6,482**

(i) Resolution (ex. FLG) refers to the Group excluding the acquired assets of Friends Provident, the AXA UK Life Business and BHA.

Other movements in IFRS net equity reflect £(24) million of actuarial losses on defined benefit pension schemes and an adjustment of £19 million for own shares held by the Group.

Within closing adjustments the capital and dividend flows reflect £(350) million of dividend paid by FLG to Resolution holding companies and £3 million impact of share-based payments, and the £500 million tier 2 bond issued in April 2011. Also included are dividends paid from life companies to FLG 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.

Half year ended 30 June 2010

	Restated FLG						Resolution Limited	
	Covered business							
	UK £m	Int'l £m	Lombard £m	FLG corp-orate £m	Non-covered business £m	Total £m	Resolut-ion (ex.FLG) Non-covered bus-iness(i) £m	Total £m
Opening Group MCEV	2,687	471	440	(551)	134	3,181	307	3,488
Operating MCEV earnings	86	30	37	(11)	–	142	(8)	134
Non-operating MCEV earnings	(16)	22	4	(40)	50	20	(6)	14
Total MCEV earnings	70	52	41	(51)	50	162	(14)	148
Other movements in IFRS net equity	–	–	–	–	(54)	(54)	–	(54)
Closing adjustments:								
– capital and dividend flows	(311)	(1)	–	43	204	(65)	4	(61)
– foreign exchange variances	–	3	(37)	–	2	(32)	–	(32)
– acquired/divested business	–	–	(1)	–	1	–	–	–
Closing Group MCEV	2,446	525	443	(559)	337	3,192	297	3,489

(i) Resolution (ex. FLG) refers to the Group excluding the acquired assets of Friends Provident, the AXA UK Life Business and BHA.

Year ended 31 December 2010

	FLG						Resolution Limited	
	Covered business							
	UK £m	Int'l £m	Lombard £m	FLG corp-orate £m	Non-covered business £m	Total £m	Resolut-ion (ex.FLG) Non-covered Bus-iness(i) £m	Total £m
Opening Group MCEV	2,687	471	440	(551)	134	3,181	307	3,488
Opening adjustments	3,343	–	–	–	(404)	2,939	(186)	2,753
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	5,995	557	577	(659)	44	6,514	1	6,515

(i) Resolution (ex. FLG) refers to the Group excluding the acquired assets of Friends Provident, the AXA UK Life Business and BHA.

9. MCEV assumptions

9.1 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		
	30 June 2011 %	30 June 2010 %	31 December 2010 %
UK			
Long-term rate	**3.70**	3.50	3.70
Swap yield curve			
– Term 1 year	**1.17**	1.14	1.14
– Term 5 years	**2.55**	2.50	2.69
– Term 10 years	**3.71**	3.54	3.70
– Term 15 years	**4.19**	3.99	4.09
– Term 20 years	**4.29**	4.07	4.15
International long-term rate	**3.70**	3.50	3.70
Lombard long-term rate	**3.53**	3.00	3.46

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		
	30 June 2011	30 June 2010	31 December 2010	**30 June 2011**	30 June 2010	31 December 2010
UK immediate annuities	**75bps**	75bps	75bps	**75bps**	75bps	75bps

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 (3% at 30 June 2010, 3% at 31 December 2010) and 2% for property (2% at 30 June 2010, 2% at 31 December 2010).

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		
	30 June 2011 %	30 June 2010 %	31 December 2010 %
UK	**4.5**	4.2	4.4
International	**4.5**	4.2	4.4
Lombard	**3.2**	3.0	3.0

Required capital

Required capital under MCEV amounted to £874 million (£861 million at 30 June 2010, £1,291 million at 31 December 2010).

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 FLG corporate covered business segment.

At 30 June 2010 the Group's capital management policy was to hold 150% of Group CRR excluding WPICC – this was changed to 160% for the 31 December 2010 valuation.

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, lower tier 2 subordinated debt and the tier 2 bond allocated to the life and pensions covered business within FLG corporate. For UK and OLAB business the appropriate tax rate has been calculated as the average rate of corporation tax applicable over the whole calendar year, and hence the rate applicable for 2011 reflects the reduction in corporation tax that took effect from April 2011.

For non-covered business, attributed tax is consistent with the IFRS financial statements.

	Tax rates		
	30 June 2011 %	30 June 2010 %	31 December 2010 %
UK	**26.5**	28.0	28.0
International			
– OLAB (UK)	**26.5**	28.0	28.0
– FPIL (Isle of Man)	**0.0**	0.0	0.0
– AmLife (Malaysia)	**25.0**	25.0	25.0
Lombard	**23.5**	28.6	23.5

The PVFP for UK and OLAB business includes allowance for the annual reductions in corporation tax announced in the Emergency Budget in June 2010 and the further reduction of 1% announced in the Budget in March 2011. The MCEV allows for anticipated future annual reductions in corporation tax from 26% to 23% (31 December 2010: 27% to 24%) over the period to 2014 and for an ultimate rate of 23% (31 December 2010: 24%) from April 2014.

VAT in the UK of 20.0% (31 December 2010: 20.0%, 30 June 2010: 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		
	30 June 2011	30 June 2010	31 December 2010
Closing exchange rate			
– Euro	**0.903**	0.819	0.857
– Malaysian Ringgit	**0.206**	0.206	0.207
Average exchange rate			
– Euro	**0.874**	0.868	0.859
– Malaysian Ringgit	**0.204**	0.192	0.200

Other 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 a 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 NWPF. With-profits policies which were not so elected were transferred to the FLC OWPF 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 OWPF 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 was available for 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 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 OWPF, which will be split 90% to with-profits policies allocated to or reinsured to the FLC OWPF 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 best estimate projections of the amounts to be transferred in future.

9.2 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 and implied volatilities in the market. Correlations between the asset classes are derived from historic data.

Swaption implied volatilities

	30 June 2011 Swap term				30 June 2010 Swap term				31 December 2010 Swap term			
Option term	**10 years %**	**15 years %**	**20 years %**	**25 years %**	10 years %	15 years %	20 years %	25 years %	10 years %	15 years %	20 years %	25 years %
UK Sterling												
10 years	**13.0**	**13.8**	**14.4**	**14.9**	13.0	12.6	12.2	11.9	15.3	14.7	14.3	14.0
15 years	**12.9**	**13.5**	**13.9**	**14.1**	12.9	12.4	11.7	11.4	14.5	13.9	13.5	13.1
20 years	**12.8**	**13.1**	**13.2**	**13.1**	13.4	12.6	11.6	11.1	13.1	12.6	12.1	11.7
25 years	**12.5**	**12.4**	**12.2**	**12.0**	13.4	12.3	11.1	10.6	12.3	11.8	11.3	10.8

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 4.3%. Sample implied volatilities are shown in the table below.

	30 June 2011		30 June 2010		31 December 2010	
Option term	**Equity %**	**Property %**	Equity %	Property %	Equity %	Property %
5 years	**24.5**	**15.8**	25.3	16.1	27.4	15.9
10 years	**24.6**	**16.1**	26.9	17.1	27.7	16.2
15 years	**24.7**	**16.1**	28.4	18.8	28.0	16.4

9.3 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. (1% p.a. at 30 June 2010, 1.5% p.a. at 31 December 2010) and for females 1.25% p.a. (0.75% p.a. at 30 June 2010, 1.25% p.a. at 31 December 2010).

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 have been allowed for by reducing the PVFP by £2 million for a projected overrun to 2012 (30 June 2010: £5 million for a projected overrun to 2013, 31 December 2010: £2 million for a projected overrun to 2012).

At 30 June 2010 the PVFP for International business was reduced by £3 million for a projected overrun to 2012. No such reduction was made at 31 December 2010 or 30 June 2011.

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 £14 million (30 June 2010: £11 million, 31 December 2010: £28 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 period's financial results until the value is realised.

Development costs

	FLG	FLG	FLG
	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	Year ended 31 December 2010 £m
UK	**10**	8	21
International	**3**	2	6
Lombard	**1**	1	1
Total	**14**	11	28

Non-hedgeable risks

A charge equivalent to 2% (2% at 30 June 2010, 2% at 31 December 2010) 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, external lower tier 2 subordinated debt and the tier 2 bond are included within the MCEV at market value, based on listed ask price.

30 June 2011	**Principal £m**	**Clean market value of debt £m**	**Accrued interest £m**	**Tax adjustment on market valuation £m**	**Value of debt included in FLG corporate(i) £m**
STICS 2003	**210**	**178**	**2**	**7**	**187**
STICS 2005	**268**	**229**	**–**	**10**	**239**
Lower tier 2 subordinated debt (external)	**162**	**208**	**2**	**(13)**	**197**
Tier 2 bond (external)	**500**	**498**	**8**	**(2)**	**504**
Total	**1,140**	**1,113**	**12**	**2**	**1,127**

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 FLG 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

30 June 2010	Principal £m	Clean market value of debt £m	Accrued interest £m	Tax adjustment on market valuation £m	Value of debt included in FLG corporate(i) £m
STICS 2003	210	152	2	15	169
STICS 2005	268	196	–	19	215
Lower tier 2 subordinated debt (external)	162	198	2	(11)	189
Total	640	546	4	23	573

(i) The value of debt included in the FLG corporate category is the market value of debt, including accrued interest, and the tax asset/liability on the market value adjustment.

10. Segmental analysis

Changes to segmental analysis at 30 June 2010

Following the acquisition of the AXA UK Life Business, the Group reviewed its segmental analysis under IFRS and MCEV reporting bases and these revisions were reflected in the results published for 31 December 2010.

The following table shows the amendments required to the published embedded value figures for 30 June 2010.

	2010 MCEV segments					
30 June 2010	UK £m	Int'l £m	Lombard £m	FLG corporate £m	Non-covered business £m	Total MCEV (by 2009 segments) £m
2009 MCEV segments						
UK	2,396	–	–	(559)	–	1,837
International	12	525	–	–	–	537
Lombard	–	–	443	–	–	443
Non-covered business	38	–	–	–	337	375
Total FLG MCEV (by 2010 segments)	2,446	525	443	(559)	337	3,192

Changes to definitions of free surplus and required capital as at 30 June 2010

Following a review of definitions at the end of 2010, 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 VIF were made for reporting as at 31 December 2010. These changes have not affected the previously reported overall MCEV, the operating MCEV earnings or total MCEV earnings. Comparative figures at 30 June 2010 have been restated to reflect the revised definitions.

	FLG						Resolution Limited	
	Covered Business							
Half year ended 30 June 2010 net of tax	Free Surplus £m	Re-quired capital £m	VIF £m	MCEV £m	Non-covered business £m	Total £m	Non-covered business £m	Total £m
Previously reported opening 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 opening MCEV	812	362	1,873	3,047	134	3,181	307	3,488

	FLG						Resolution Limited	
	Covered business							
Half year ended 30 June 2010 net of tax	Free surplus £m	Re-quired capital £m	VIF £m	MCEV £m	Non-covered business £m	Total £m	Non-covered business £m	Total £m
Previously reported closing MCEV	61	861	1,895	2,817	375	3,192	297	3,489
Adjustments:								
– STICS/lower tier 2 treatment	570	(557)	–	13	(13)	–	–	–
– capital requirement adjustments	(93)	93	–	–	–	–	–	–
– VIF/Free surplus adjustments	72	–	(47)	25	(25)	–	–	–
Restated closing MCEV	610	397	1,848	2,855	337	3,192	297	3,489

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 FLG is shown in the tables below:

FLG for the half year ended 30 June 2011

	MCEV classification					
30 June 2011	**UK £m**	**Int'l £m**	**Lombard £m**	**FLG corporate £m**	**Non-covered business £m**	**Total MCEV by IFRS segments £m**
IFRS segment						
UK	**5,685**	**–**	**–**	**–**	**52**	**5,737**
International	**–**	**552**	**–**	**–**	**(2)**	**550**
Lombard	**–**	**–**	**597**	**–**	**8**	**605**
FLG corporate	**–**	**–**	**–**	**(1,171)**	**582**	**(589)**
Total MCEV (by MCEV segments)	**5,685**	**552**	**597**	**(1,171)**	**640**	**6,303**

FLG for the year ended 31 December 2010

	MCEV classification					
31 December 2010	UK £m	Int'l £m	Lombard £m	FLG 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
FLG corporate	–	–	–	(659)	16	(643)
Total MCEV (by MCEV segments)	5,995	557	577	(659)	44	6,514

FLG for the half year ended 30 June 2010

	MCEV classification					
30 June 2010	UK £m	Int'l £m	Lombard £m	FLG corporate £m	Non-covered business £m	Total MCEV by IFRS segments £m
IFRS segment						
UK	2,446	–	–	–	20	2,466
International	–	525	–	–	–	525
Lombard	–	–	443	–	3	446
FLG corporate	–	–	–	(559)	314	(245)
Total MCEV (by MCEV segments)	2,446	525	443	(559)	337	3,192

11. FLG annualised return on embedded value

	Half year ended 30 June 2011 % p.a.	Half year ended 30 June 2010 % p.a.	Full year ended 31 December 2010 % p.a.
Value of new business	**1.7**	4.4	3.3
Expected existing business contribution(i)	**5.2**	5.9	5.6
Operating experience variances	**(0.1)**	1.5	0.8
Operating assumption changes	**(0.1)**	0.0	(0.5)
Other operating variance	**(0.2)**	(0.1)	1.1
Development costs	**(0.4)**	(0.6)	(0.6)
Other income and charges(ii)	**0.1**	0.0	0.2
MCEV operating profit before tax and financing	**6.2**	11.1	9.9
Impact of financing	**(0.1)**	0.9	0.7
Attributed tax charge on MCEV operating profit	**(1.6)**	(2.9)	(2.3)
MCEV operating profit after tax	**4.5**	9.1	8.3
Economic variances	**(1.5)**	1.0	4.7
Other non-operating items	**(1.4)**	(0.2)	0.1
Attributed tax on other activities	**0.6**	0.5	(1.3)
MCEV profit after tax	**2.2**	10.4	11.8
Actuarial gains/(losses) on defined benefit pension schemes	**(0.8)**	(3.5)	(0.6)
Foreign exchange adjustments	**1.0**	(2.1)	(0.3)
Total return on MCEV over the period	**2.4**	4.8	10.9

(i) Excludes estimated impact of financing of covered debt of £21 million for half year 2011 (£15 million for half year 2010, £30 million for full year 2010).

(ii) Excludes £24 million impact of financing of non-covered debt of £200 million for half year 2011 (£nil for half year 2010, £18 million for full year 2010).

The table above provides an analysis of the return on embedded value. The starting embedded value for 2011 is £6,514 million, net of the market-consistent value of debt instruments of £1,296 million at 31 December 2010. The starting embedded value for 2010 is £3,181 million, net of the market-consistent value of debt instruments of £505 million. These values are adjusted to allow for the timing of dividend payments, the acquisition of BHA, the repayment of the lower tier 2 debt issued to Resolution holding companies by FLG and the new external tier 2 bond issued 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 FLG through the use of debt instruments, net of the cost of financing these instruments.

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 Life Group plc (formerly 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.

Heritage business comprises products that are no longer actively marketed to new customers and legacy products that have previously been closed to new business.

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
ASC	Available Shareholder Cash
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
FAELLAS	Friends AELLAS Limited (formally known as AXA Equity & Law Life Assurance Society plc)
FAL	Friends Annuities Limited (formerly known as AXA Annuity Company Limited)
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
FLG	Friends Life Group plc (formerly known as Friends Provident Holdings (UK) plc) (including, for MCEV disclosures, all subsidiary undertakings in the period post-acquisition)
FLSL	Friends Life Services Limited (formerly 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
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
ICA	Individual Capital Assessment
ICG	Individual Capital Guidance
IFA	Independent Financial Adviser
IFRIC	IFRS Interpretation Committee
IFRS	International Financial Reporting Standards
IGCA	Insurance Groups Capital Adequacy
IRR	Internal Rate of Return
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
TRG	The Resolution Group
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

Appendix 1: Redefinition and other adjustments to half year 2010 IFRS based operating profit

As described in the 2010 year end financial statements, the Group's definition of IFRS based operating profit was amended; 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 half year ended 30 June 2010, and on the results of Friends Life group for the half year ended 30 June 2010, as included in the business review, are set out in the following tables. In addition, the figures for the half year ended 30 June 2010 are adjusted to reflect the elimination of pre-acquisition DAC amortisation and DFF to aid comparability.

Resolution Group: Half year ended 30 June 2010

	UK £m	Intl £m	Lombard £m	Corporate £m	Total £m
IFRS based operating profit before tax, as previously reported	160	38	13	(8)	203
Investment return variances reclassified to short-term fluctuations in investment return	(52)	–	–	–	(52)
Refinement of DAC acquisition adjustment	(9)	9	–	–	–
Adjusted IFRS based operating profit before tax	**99**	**47**	**13**	**(8)**	**151**

Friends Provident Group: Half year ended 30 June 2010

As reported	UK £m	Intl £m	Lombard £m	Corporate £m	Total £m
New business strain	(35)	(13)	(23)	–	(71)
In-force surplus	91	30	35	–	156
Investment return and other items	16	1	(1)	–	16
Principal reserving changes and on-off items	3	2	(1)	–	4
Fixed interest investment variances including bond spreads	53	–	–	–	53
Other	–	(1)	–	–	(1)
IFRS based operating profit before tax	**128**	**19**	**10**	**–**	**157**

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	8	2	1	–	11
Development costs	(8)	(2)	(1)	–	(11)
Experience variances moved to in-force surplus					
In-force surplus	(2)	–	–	–	(2)
Principal reserving changes and on-off items	2	–	–	–	2
Fixed investment return variances moved outside operating profit					
Investment return variances reclassified to short-term fluctuations in investment return	(53)	–	–	–	(53)
Corporate segment gross-up					
Investment return and other items	–	–	–	1	1
Other				(1)	(1)
Resolution basis DAC and DFF alignment					
Add back pre-acquisition charge for DAC amortisation and DFF – impact is to in-force surplus	33	19	3	–	55
Refinement of DAC acquisition adjustment	(9)	9	–	–	–
Net impact on IFRS based operating profit before tax	**(29)**	**28**	**3**	**–**	**2**

Adjusted IFRS based operating profit before tax	UK £m	Intl £m	Lombard £m	Corporate £m	Total £m
New business strain	(27)	(11)	(22)	–	(60)
In-force surplus	113	58	38	–	209
Investment return and other items	16	1	(1)	1	17
Principal reserving changes and one-off items	5	2	(1)	–	6
Development costs	(8)	(2)	(1)	–	(11)
Other	–	(1)	–	(1)	(2)
Adjusted IFRS based operating profit before tax	**99**	**47**	**13**	**–**	**159**

Appendix 2: International additional information

Analysis of International segment

APE, PVNBP and VNB

Period ended 30 June 2011 £m	FPIL	OLAB	AmLife	TOTAL
New Business APE	115	13	4	**132**
New Business PVNBP	719	83	26	**828**
VNB	14	4	2	**20**

IFRS based operating profit

Period ended 30 June 2011 £m	FPIL	OLAB	AmLife	TOTAL
New business strain	(15)	(5)	–	(20)
In-force surplus	53	16	–	69
Investment return and other items	–	–	–	–
Principal reserving changes and one off items	(4)	(2)	–	(6)
Development costs	(2)	(1)	–	(3)
Other	1	(1)	1	1
IFRS based operating profit before tax	**33**	**7**	**1**	**41**

MCEV operating profit

Period ended 30 June 2011 £m	FPIL	OLAB	AmLife	TOTAL
Value of new business	14	4	2	20
Expected existing business contribution	12	1	1	14
Operating experience variance	3	(4)	–	(1)
Operating assumption changes	–	–	(2)	(2)
Other operating variances	(14)	2	(1)	(13)
Development costs	(2)	(1)	–	(3)
MCEV operating profit before tax	**13**	**2**	**–**	**15**

MCEV

As at 30 June 2011 £m	FPIL	OLAB	AmLife	TOTAL
Total	**447**	**69**	**36**	**552**

Operating expenses

Period ended 30 June 2011 £m	FPIL	OLAB	TOTAL
Acquisition	10	5	15
Maintenance	10	3	13
Development	2	1	3
Total	**22**	**9**	**31**

As AmLife is an associated undertaking, its operating expenses are excluded from the analysis above.

Appendix 3: New business information

Analysis of Life and Pensions new business

- single new business premiums consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals;
- regular new business premiums consist of those contracts under which there is an expectation of continuing premiums being paid at regular intervals, including repeated or recurrent single premiums where the level of premiums is defined, or where a regular pattern in the receipt of premiums has been established;
- non-contractual increments under existing group pensions schemes are classified as new business premiums;
- transfers between products where open market options are available are included as new business; and
- regular new business premiums are included on an annualised basis.

Regular and single premiums

Group

	Regular premiums			Single premiums		
	H1(i) 2011 £m	H1(ii) 2010 £m	Change %	**H1(i) 2011 £m**	H1(ii) 2010 £m	Change %
UK Corporate						
– pensions	**209.3**	140.1	49	**327.1**	120.3	172
– protection	**11.8**	2.5	372	**0.0**	0.0	–
UK Individual						
– protection	**44.0**	18.0	144	**0.0**	0.0	–
– pensions	**8.5**	3.1	174	**246.1**	116.1	112
– investments	**0.0**	0.0	–	**219.8**	16.7	1216
Annuities	**0.0**	0.0	–	**188.7**	135.1	40
Total UK Life and Pensions	**273.6**	163.7	67	**981.7**	388.2	153
International	**96.0**	97.2	(1)	**361.6**	232.6	55
Lombard	**0.0**	0.0	–	**968.7**	1,348.1	(28)
Total International Life and Pensions	**96.0**	97.2	(1)	**1,330.3**	1,580.7	(16)
Total Life and Pensions	**369.6**	260.9	42	**2,312.0**	1,968.9	17

(i) includes the trading results of the acquired BHA business for the period 1 February 2011 to 30 June 2011

(ii) represents the Friends Provident business only as the AXA UK Life business was acquired in Q3 2010

Friends Life excluding acquired businesses AXA UK Life and BHA

	Regular premiums			Single premiums		
	H1 2011 £m	H1 2010 £m	Change %	**H1 2011 £m**	H1 2010 £m	Change %
UK corporate						
– pensions	**153.4**	140.1	9	**275.1**	120.3	129
– protection	**4.4**	2.5	76	**0.0**	0.0	–
UK Individual						
– protection	**14.0**	18.0	(22)	**0.0**	0.0	–
– pensions	**3.2**	3.1	3	**114.0**	116.1	(2)
– investments	**0.0**	0.0	–	**16.0**	16.7	(4)
Annuities	**0.0**	0.0	–	**109.2**	135.1	(19)
Total UK Life and Pensions	**175.0**	163.7	7	**514.3**	388.2	32
International	**96.0**	97.2	(1)	**361.6**	232.6	55
Lombard	**0.0**	0.0	–	**968.7**	1,348.1	(28)
Total International Life and Pensions	**96.0**	97.2	(1)	**1,330.3**	1,580.7	(16)
Total Life and Pensions	**271.0**	260.9	4	**1,844.6**	1,968.9	(6)

Acquired businesses of AXA UK Life and BHA

	AXA UK Life		BHA	
	Regular premiums 6 months 2011 £m	**Single premiums 6 months 2011 £m**	**Regular premiums 5 months 2011 £m**	**Single premiums 5 months 2011 £m**
UK corporate				
– pensions	**55.9**	**52.0**	**0.0**	**0.0**
– protection	**0.0**	**0.0**	**7.4**	**0.0**
UK Individual				
– protection	**20.4**	**0.0**	**9.6**	**0.0**
– pensions	**5.3**	**132.1**	**0.0**	**0.0**
– investments	**0.0**	**203.8**	**0.0**	**0.0**
Annuities	**0.0**	**79.5**	**0.0**	**0.0**
Total Life and Pensions	**81.6**	**467.4**	**17.0**	**0.0**

Group new business – APE

APE represents annualised new regular premiums plus 10% of single premiums.

	H1[(i)] 2011 £m	H1[(ii)] 2010 £m	Change %	**Q2[(i)] 2011 £m**	Q1 2011 £m	Change %
UK corporate						
– pensions	**242.0**	152.1	59	**128.8**	113.2	14
– protection	**11.8**	2.5	372	**7.3**	4.5	62
UK Individual						
– protection	**44.0**	18.0	144	**21.9**	22.1	(1)
– pensions	**33.1**	14.7	125	**23.3**	9.8	138
– investments	**22.0**	1.7	1194	**8.5**	13.5	(37)
Annuities	**18.9**	13.5	40	**10.1**	8.8	15
Total UK Life and Pensions	**371.8**	202.5	84	**199.9**	171.9	16
International	**132.2**	120.6	10	**68.8**	63.4	9
Lombard	**96.9**	134.9	(28)	**62.5**	34.4	82
Total International Life and Pensions	**229.1**	255.5	(10)	**131.3**	97.8	34
Total Life and Pensions	**600.9**	458.0	31	**331.2**	269.7	23

(i) includes the trading results of the acquired BHA business for the period 1 February 2011 to 30 June 2011

(ii) represents the Friends Provident business only as the AXA UK Life business was acquired in Q3 2010

Friends Life excluding acquired AXA UK Life and BHA businesses – APE

	H1 2011 £m	H1 2010 £m	Change %	**Q2 2011 £m**	Q1 2011 £m	Change %
UK corporate						
– pensions	**180.9**	152.1	19	**95.4**	85.5	12
– protection	**4.4**	2.5	76	**1.9**	2.5	(24)
UK Individual						
– protection	**14.0**	18.0	(22)	**6.6**	7.4	(11)
– pensions	**14.6**	14.7	(1)	**10.4**	4.2	148
– investments	**1.6**	1.7	(6)	**0.7**	0.9	(22)
Annuities	**11.0**	13.5	(19)	**5.8**	5.2	12
Total UK Life and Pensions	**226.5**	202.5	12	**120.8**	105.7	14
International	**132.2**	120.6	10	**68.8**	63.4	9
Lombard	**96.9**	134.9	(28)	**62.5**	34.4	82
Total International Life and Pensions	**229.1**	255.5	(10)	**131.3**	97.8	34
Total Life and Pensions	**455.6**	458.0	(1)	**252.1**	203.5	24

Acquired businesses of AXA UK Life and BHA - APE

	AXA UK Life		BHA	
	Q2 2011 £m	Q1 2011 £m	**Q2 2011 £m**	Q1[(i)] 2011 £m
UK corporate				
– pensions	**33.4**	27.7	**0.0**	0.0
– protection	**0.0**	0.0	**5.4**	2.0
UK Individual				
– protection	**9.4**	11.0	**5.9**	3.7
– pensions	**12.9**	5.6	**0.0**	0.0
– investments	**7.8**	12.6	**0.0**	0.0
Annuities	**4.3**	3.6	**0.0**	0.0
Total UK Life and Pensions	**67.8**	60.5	**11.3**	5.7

(i) comprises the trading results for the period 1 February 2011 to 31 March 2011

International

APE by region (actual exchange rates)	**H1 2011 £m**	H1 2010 £m	Change %
North Asia	**55.4**	47.8	16
South Asia	**13.2**	10.8	22
Middle East	**24.2**	23.3	4
Europe (Excl UK)	**15.5**	18.1	(14)
UK	**9.7**	5.3	83
Rest of World	**10.0**	9.8	2
Malaysia (AmLife)	**4.2**	5.4	(22)
Total	**132.2**	120.5	10

Lombard

APE by region (actual exchange rates)	**H1 2011 £m**	H1 2010 £m	Change %
UK and Nordic	**25.2**	32.8	(23)
Northern Europe	**18.0**	53.2	(66)
Southern Europe	**40.7**	43.3	(6)
Rest of World	**13.0**	5.6	132
Total including large cases	**96.9**	134.9	(28)
Of which: Large cases (greater than €10m)	**38.6**	40.6	(5)
Total excluding large cases	**58.3**	94.3	(38)

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:

	H1 2011 £m	H1 2010 £m	Change %
International	**136.6**	120.5	13
Lombard	**96.3**	136.2	(29)

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.

	H1(i) 2011 £m	H1(ii) 2010 £m	Change %	**Q2(i) 2011 £m**	Q1 2011 £m	Change %
UK corporate						
– pensions	**1,199**	676	77	**622**	577	8
– protection	**74**	15	393	**47**	27	74
UK Individual						
– protection	**287**	105	173	**145**	142	2
– pensions	**288**	128	125	**206**	82	151
– investments	**220**	17	1194	**86**	134	(36)
Annuities	**189**	135	40	**101**	88	15
Total UK Life and Pensions	**2,257**	1,076	110	**1,207**	1,050	15
International	**828**	696	19	**432**	396	9
Lombard	**969**	1,348	(28)	**625**	344	82
Total International Life and Pensions	**1,797**	2,044	(12)	**1,057**	740	43
Total Life and Pensions	**4,054**	3,120	30	**2,264**	1,790	26

(i) includes the trading results of the acquired BHA business for the period 1 February 2011 to 30 June 2011

(ii) represents the Friends Provident business only as the AXA UK Life business was acquired in Q3 2010

Appendix 4: Additional cash analysis

The build up of MCEV from available shareholder cash to free surplus and shareholder resources is shown below.

30 June 2011	Life operating businesses £m	Other operating businesses[i] £m	Friends Life holding companies £m	Resolution holding companies £m	Total £m
Available shareholder cash	–	–	362	431	**793**
Working capital and other resources	560	41	163	(15)	**749**
External debt	–	–	–	(437)	**(437)**
Intercompany debt	–	–	(200)	200	**–**
Total free surplus	560	41	325	179	**1,105**
Required capital and inadmissible items	1,987	131	143	–	**2,261**
External debt	(1,113)	–	–	–	**(1,113)**
Total shareholder resources	1,434	172	468	179	**2,253**
Value of in-force business	4,229	–	–	–	**4,229**
Total MCEV	**5,663**	**172**	**468**	**179**	**6,482**

(i) Other operating businesses comprise service companies and distribution companies

Analysis of movement in shareholder resources

£m	Life operating businesses Free surplus	Life operating businesses Required capital	Other operating businesses[(i)] Free surplus	Other operating businesses[(i)] RC/IA (ii)	FLG holding companies Free surplus	FLG holding companies RC/IA(ii)	RSL Free surplus	Total Free surplus	Total Required capital
Opening shareholder resources	**977**	**1,291**	**58**	**151**	**(308)**	**143**	**1**	**728**	**1,585**
Fund raising	–	–	–	–	–	–	–	–	–
Transfer of funds to FLG	–	–	–	–	–	–	–	–	–
Asset acquired and consideration paid	(165)	91	–	–	–	–	–	(165)	91
Post acquisition shareholder resources	**812**	**1,382**	**58**	**151**	**(308)**	**143**	**1**	**563**	**1,676**
Expected return from in-force business	330	(28)	–	–	–	–	–	330	(28)
Investment in new business	(185)	35	–	–	–	–	–	(185)	35
Underlying shareholder resources generation	**145**	**7**	**–**	**–**	**–**	**–**	**–**	**145**	**7**
Experience variances	4	4	–	–	–	–	–	4	4
Operating assumption changes	(1)	(2)	–	–	–	–	–	(1)	(2)
Other operating movements	158	(11)	(2)	5	(21)	–	(16)	119	(6)
Operating shareholder resources generation	**306**	**(2)**	**(2)**	**5**	**(21)**	**–**	**(16)**	**267**	**3**
Change in capital management policy	–	–	–	–	–	–	–	–	–
RIE Release	–	–	–	–	–	–	–	–	–
Other non-operating variances	(63)	(21)	–	(1)	–	–	–	(63)	(22)
Shareholder resources generated in the businesses	**243**	**(23)**	**(2)**	**4**	**(21)**	**–**	**(16)**	**204**	**(19)**
Other capital/net asset adjustments	(495)	(485)	(15)	(24)	654	–	**336**	480	(509)
Shareholder dividend	–	–	–	–	–	–	**(142)**	(142)	–
Total movement	**(252)**	**(508)**	**(17)**	**(20)**	**633**	**–**	**178**	**542**	**(528)**
Closing shareholder resources	**560**	**874**	**41**	**131**	**325**	**143**	**179**	**1,105**	**1,148**

(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.

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.

	Life operating businesses			Other FLG businesses[i]			RSL	Total MCEV
£m	Free surplus	Required capital	VIF	Free surplus	RC/ IA	Total	Free surplus	
Opening shareholder resources	**977**	**1,291**	**4,202**	**(250)**	**294**	**44**	**1**	**6,515**
Fund raising	–	–	–	–	–	–	–	–
Transfer of funds to FPH	–	–	–	–	–	–	–	–
Asset acquired and consideration paid	(165)	91	132	–	–	–	–	58
Post-acquisition shareholder resources	**812**	**1,382**	**4,334**	**(250)**	**294**	**44**	**1**	**6,573**
Expected return from in-force business	330	(28)	(165)	–	–	–	–	137
Investment in new business	(185)	35	202	–	–	–	–	52
Underlying shareholder resources generation	**145**	**7**	**37**	**–**	**–**	**–**	**–**	**189**
Experience variances	4	4	(22)	–	–	–	–	(14)
Operating assumption changes	(1)	(2)	1	–	–	–	–	(2)
Other operating movements	158	(11)	(156)	(23)	5	(18)	(16)	(43)
Operating shareholder resources generation	**306**	**(2)**	**(140)**	**(23)**	**5**	**(18)**	**(16)**	**130**
Other non-operating variances	(63)	(21)	9	–	(1)	(1)	–	(76)
Shareholder resources generated in the businesses	**243**	**(23)**	**(131)**	**(23)**	**4**	**(19)**	**(16)**	**54**
Other capital/net asset adjustments	(495)	(485)	26	639	(24)	615	335	(4)
Shareholder dividend	–	–	–	–	–	–	(141)	(141)
Total movement	**(252)**	**(508)**	**(105)**	**616**	**(20)**	**596**	**178**	**(91)**
Closing shareholder resources	**560**	**874**	**4,229**	**366**	**274**	**640**	**179**	**6,482**

(i) Other FLG businesses represent distribution businesses, service companies and FLG holding companies.

Appendix 5: Analysis of 2010 full year baselines comparators

£m (unless otherwise stated)	2010 full year as reported Total	Adjustments		2010 full year baseline Total
		Annualisation of ex-AXA	Inclusion of BHA	
UK products				
Individual protection				
VNB	**(13)**	(10)	3	**(20)**
NBS	**(85)**	(91)	(17)	**(193)**
IRR	**2.7%**	3.0%	7.1%	**3.3%**
APE	**52**	32	22	**106**
Corporate benefits				
VNB	**(5)**	(18)		**(23)**
NBS	**(58)**	(22)		**(80)**
IRR	**6.2%**	(0.3%)		**4.2%**
APE	**330**	69		**399**
Retirement income				
VNB	**26**	7		**33**
NBS	**19**	7		**26**
IRR	**20.0%**	10.3%		**16.5%**
APE	**29**	10		**39**
Group				
Blended new business IRR (including Group protection and other products)	**11.2%**			**8.6%**
New business strain:	**(238)**			**(392)**
UK	**(149)**	(134)	(20)	**(303)**
International	**(83)**			**(83)**
Lombard	**(6)**			**(6)**

Appendix 6: IFRS long-term investment return

IFRS long-term investment return is based on average shareholder FLG assets and opening FLG debt and STICS for the period. Details of these, and the rates applied, are shown below.

	LTIR	
£m	**June 2011**	June 2010
Gross LTIR	**43**	39
Debt cost	**(57)**	(22)
Net LTIR	**(14)**	17
Average FLG shareholder assets	**2,615**	1,658
Opening FLG debt and STICS	**1,294**	505

Market value of debt/STICS underpinning LTIR for half year ended:

£m	**June 2011**	June 2010
£162m external LT2 debt	**201**	187
£500m external LT2 bond	**500**	–
Internal loan from Resolution holding company	**200**	–
STICS[1]	**393**	318
FLG debt and STICS underpinning LTIR	**1,294**	505

1 STICS are classed as equity not debt, under IFRS but an expected return for these instruments is included within LTIR, based on market value.

Shareholder assets underpinning gross LTIR

	June 2011		June 2010	
	Allocation %	**Return %**	Allocation %	Return%
Gilts	12%	**3.7%**	11%	4.3%
Bonds	19%	**5.0%**	35%	6.3%
Cash – lifeco	25%	**3.7%**	34%	4.3%
Cash – holdco	44%	**1.1%**	20%	1.0%
Total	**100%**	**2.8%**	100%	4.3%

Appendix 7: Updated AVIF amortisation profile

The table below shows the expected AVIF run off pattern over the next 10 years. This projection includes the impact in 2011 of the implementation of certain elements of PS06/14, resulting in:

- an acceleration of AVIF amortisation of £130 million in the AXA UK Life Business;
- an impairment charge against AVIF of £71 million in BHA; and
- a reduced gradient of the UK: H-AXA profile.

AVIF at end of year (£m)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
UK: h-FP	**1,188**	**1,102**	**1,018**	**936**	**857**	**780**	**705**	**632**	**565**	**504**	**446**
UK: h-AXA	**2,112**	**1,801**	**1,644**	**1,505**	**1,376**	**1,252**	**1,135**	**1,032**	**934**	**842**	**763**
UK: BHA	**-**	**82**	**72**	**66**	**62**	**58**	**56**	**54**	**51**	**48**	**45**
International	**863**	**745**	**637**	**537**	**445**	**361**	**287**	**222**	**171**	**127**	**91**
Lombard	**522**	**482**	**421**	**367**	**320**	**279**	**245**	**218**	**195**	**175**	**157**
FLG total	**4,685**	**4,212**	**3,792**	**3,411**	**3,060**	**2,730**	**2,428**	**2,158**	**1,916**	**1,696**	**1,502**
Amortisation for the period	**364**	**645**	**420**	**381**	**351**	**330**	**302**	**270**	**242**	**220**	**194**

Appendix 8: MCEV expected existing business contribution

	Net worth			Debt		
6 months to 30 June 2011	**Covered**	**Non-covered**	**VIF**	**Covered**	**Non-covered**	**Total net MCEV**
Opening MCEV(i) 1 January 2011 (£m)	2,788	945	4,334	(594)	(900)	6,573
Proportion of gross MCEV (%)	34%	12%	54%	(8)%	(11)%	81%
EEBC(ii) (£m)	15	–(iv)	187	(21)	–(iv)	181
Annualised EEBC(iii) (%)	**1.1%**	**–**	**8.6%**	**7.1%**	**–**	**5.5%**

	Net worth			Debt		
6 months to 30 June 2010	Covered	Non-covered	VIF	Covered	Non-covered	Total net MCEV
Opening MCEV 1 January 2010 (£m)	1,679	441	1,873	(505)	–	3,488
Proportion of gross MCEV (%)	42%	11%	47%	(13)%	–	87%
EEBC(ii) (£m)	18	–(iv)	89	(15)	–	92
Annualised EEBC(iii) (%)	**2.1%**	**–**	**9.5%**	**5.9%**	**–**	**5.3%**

	Year applied	
Expected economic rates of return	**2011**	2010
Cash/gilts	**1.14%**	1.01%
Corporate bonds	**2.45%**	2.98%
Property	**5.70%**	6.30%
Equities	**6.70%**	7.30%

(i) Adjusted to include £58m impact of acquisition of BHA.

(ii) Shown gross of tax.

(iii) Calculated as net of tax annualised EEBC divided by net of tax MCEV, then grossed up at tax rate of 26.5% for 2011 and 28% for 2010.

(iv) The expected return on non-covered business is included in “Other income and charges” rather than in “Expected Existing Business Contribution”.

Appendix 9: Key new business metrics – strategic products

Individual Protection

	Full year 2010 baseline	H1 2011 “old” platforms	H1 2011 target platform	H1 2011 actual	2013 target
VNB, £m	(20)	(5)	9	4	80
NBS, £m	(193)	(39)	(2)	(41)	(30)
IRR, %	3.3%	3.1%	26.4%	5.0%	20.0%

Corporate Benefits

	Full year 2010 baseline	H1 2011 “old” platforms	H1 2011 target platform	H1 2011 actual	2013 target
VNB, £m	(23)	(12)	11	(1)	25
NBS, £m	(80)	(16)	(23)	(39)	(75)
IRR, %	4.2%	0.9%	8.8%	5.3%	>10%