

# News Release

11 August 2009

## Friends Provident Group plc Interim management report and results for the half-year ended 30 June 2009 A strong base for profitable growth

### Financial highlights

- Life and pensions gross cash generated improved to £35 million (2008: £(19)m)
- IFRS underlying profit £38 million (2008: £13m)
- Dividend maintained; Interim dividend 1.3p per share (2008: 1.3p)
- EEV underlying profit £131 million (2008: £211m) and embedded value 124p per share (31 December 2008: 128p)
- First half new life and pensions business £319 million annualised premium equivalent (2008: £507m) with second quarter 15% up on first quarter
- Strong Insurance Groups Directive (IGD) surplus maintained, estimated at £0.9 billion at 31 July 2009 (31 December 2008: £0.85bn)

### Operating highlights

- UK business restructure largely complete and targeted cost savings secured
- International businesses continue to have strong prospects with resilient profitability for Friends Provident International
- Demerger of F&C Asset Management plc (completed 3 July 2009)

Trevor Matthews, chief executive officer, said:

"We are excited by the prospects for our business as the foundation for Resolution's consolidation and restructuring strategy for the open businesses in the Life and Asset Management sectors. Resolution is supportive of our current strategy and turnaround plan.

"Our achievements over the last 18 months in reshaping and refocusing our business have placed us well to participate in industry consolidation and leverage our efficient infrastructure.

"We sum up our existing organic growth strategy in just four words: 'Fix UK, Build International'. To this end, we have secured our targeted cost savings and have created an efficient platform capable of handling significant new business volumes making us an attractive distribution partner both in the UK and overseas.

Friends Provident Group plc

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Incorporated company limited by shares and registered in England number 06861305

Website: [www.friendsprovident.com](http://www.friendsprovident.com)



"Trading conditions remain tough. In the UK, the economic slowdown has reduced new business from increments and new members on our existing group pensions schemes, while the protection market remains subdued compared to recent years. We are making headway in new schemes on nil or funded commission terms but there are significant timelags, exacerbated by the recession, from participating in tenders to winning the schemes and seeing new business volumes come through. As expected, these lower volumes have an exaggerated effect on new business metrics, but that will reverse when volumes recover. Our International businesses produced resilient results against a tough economic backdrop worldwide.

"The demerger of our stake in F&C represented a further significant achievement and bolsters our already strong capital position."

## Financial Summary

	Half year ended	
	30 June 2009	30 June 2008
<b>Cash</b>		
Life and pensions gross cash generated	<b>£35m</b>	£(19)m
Life and pensions net cash operating surplus	<b>£23m</b>	£10m
Shareholder cash outflow	<b>£(7)m</b>	£(121)m
Internal rate of return on new business (i)	<b>10.7%</b>	12.6%
Discounted cash payback on new business (i)	<b>14 years</b>	11 years
<b>IFRS</b>		
IFRS underlying profit (i) before tax	<b>£38m</b>	£13m
IFRS loss before tax from continuing operations	<b>£(102)m</b>	£(221)m
Basic IFRS loss per share	<b>(4.2)p</b>	(2.6)p
IFRS net asset value per share excluding goodwill	<b>75p</b>	77p (iv)
<b>EEV</b>		
Contribution from new business (i)	<b>£30m</b>	£67m
EEV underlying profit (i) before tax	<b>£131m</b>	£211m
Return on embedded value (i) (annualised)	<b>5.9%</b>	8.4%
Embedded value per share (ii)	<b>124p</b>	128p (iv)
<b>Capital and dividend</b>		
IGD surplus capital resources (i)	<b>£0.9bn (iii)</b>	£0.85bn (iv)
Total shareholder return	<b>(24)%</b>	(34)%
Interim dividend per share	<b>1.3p</b>	1.3p

(i) As defined within Appendix 4

(ii) Embedded value is stated on a pro forma basis, including an uplift of the net asset value attributable to F&C to the market value

(iii) As at 31 July 2009 (estimated)

(iv) As at 31 December 2008

**- Ends -**

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## Notes to Editors

1. There will be a conference call on these results for investors and analysts 2.30pm BST hosted by Trevor Matthews, CEO and Evelyn Bourke, CFO. Dial in telephone number +44 (0)20 3037 9157.
2. A recording of this call will be available for 7 days by dialling +44 (0)20 8196 1998 (access code 3849752#)
3. Presentation slides for this call will be available from 9.30am today on [www.friendsprovident.com/presentations](http://www.friendsprovident.com/presentations)
4. For more information on Friends Provident including photos, awards, fast facts, presentations, and media contacts please visit the media section at [www.friendsprovident.com/media](http://www.friendsprovident.com/media)
5. Financial reporting dates  
**Financial Reporting Calendar:**

Friends Provident Group plc Interim Management Statement and Quarter 3 2009 New Business Announcement	27 October 2009
Friends Provident Group plc Quarter 4 New Business	28 January 2010
Friends Provident Group plc 2009 Preliminary Results	16 March 2010
Friends Provident Group plc Interim Management Statement and Quarter 1 2010 New Business	28 April 2010
Friends Provident Group plc 2010 Half-year Results and Quarter 2 2010 New Business	10 August 2010
Friends Provident Group plc Interim Management Statement and Quarter 3 2010 New Business	28 October 2010
6. Certain statements contained in this announcement constitute 'forward-looking statements'. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements, from time to time, of Friends Provident Group plc, its subsidiaries and subsidiary undertakings or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, adverse changes to laws or regulations; risks in respect of taxation; unforeseen liabilities from product reviews; asset shortfalls against product liabilities; changes in the general economic environment; levels and trends in mortality, morbidity and persistency; restrictions on access to product distribution channels; increased competition; and the ability to attract and retain personnel. These forward-looking statements are made only as at the date of this announcement and, save where required in order to comply with the Listing Rules, there is no obligation on Friends Provident Group plc to update such forward-looking statements.

7. We are holders of a large number of industry awards, showing continued recognition of the quality of our products and service:

**Service**

- SimplyBiz Awards 2009. Best Overall Service
- FTAdviser.com - Online Service Awards 2008. Friends Provident received the 4 Star award for Life & Pensions Provider
- Money Marketing Financial Services Awards 2008. Friends Provident came 3<sup>rd</sup> in the category of Company of the Year

**eBusiness**

- Investment Life & Pensions Moneyfacts 2008 Awards. Winner of Best Online Service
- FTAdviser.com - Online Service Awards 2008. Friends Provident received the 5 Star award for Investment Providers and Packagers
- Financial Technology Research Centre - e-Excellence Ratings 2009. Friends Provident received numerous Triple E ratings: Individual Pensions, Group SIPP, Life Protection, Critical Illness, Income Protection, Protection Menu, CIMP and Group Personal Pensions including Stakeholder for both new and existing business

**Pensions**

- Incisive Media - Gold Standard Awards 2008. Friends Provident won the Group Pensions category
- European Pensions Awards 2009. Friends Provident was awarded Pension Provider of the Year
- Professional Pensions UK Pensions Awards 2009. Friends Provident won DC Provider of the Year

**Protection**

- Online Finance Awards 2008. Friends Provident was awarded Best Online Protection Provider
- Incisive Media Gold Standard Awards 2008. Winner of Protection category
- Health Insurance Awards 2008. Friends Provident was named Best Individual Income Protection Provider

**Investments**

- Investment Life & Pensions Moneyfacts 2008 Awards. Friends Provident won award for Best Ethical Investment Provider

## **Overview**

Trading conditions have been tough through the first half of 2009, with significant volatility in investment markets, especially in the first quarter. Against this backdrop, we have continued to implement the strategy set out at the start of 2008. Since a major element of the strategy is to focus on a narrower range of key products in the UK, we expected that our new business volumes would reduce and that this would impact on our profitability in the short term. The reported results do indeed bear this out. It remains our belief that in time we will be able to demonstrate the benefits of the strong progress we have made in reducing our cost base and building distribution relationships. We continue to build our International businesses, FPI and Lombard, to capitalise on opportunities as they arise. The ongoing cash generation of the business has improved and we are maintaining our current dividend policy. We have strengthened our management team through the arrival of Evelyn Bourke as chief financial officer, and also appointed key experienced personnel in human resources, risk and internal audit. Having now distributed our stake in F&C to our own shareholders, we have substantially reshaped the business to be well positioned to demonstrate the benefits of the turnaround and provide a strong base for the future.

## **Strategy implementation**

We have now secured the delivery of the cost savings targeted for the end of 2009. The target was to reduce the operating cost base of the UK business and corporate functions by £40 million and development costs by £20 million, both in real terms, a total of over 20% of the 2007 cost base of the business. We have carried out a fundamental restructure of our UK operations over the last 18 months and we are now well positioned to compete strongly in the protection and group pensions markets.

## **Demerger of F&C stake**

On 3 July 2009, we demerged our 52% stake in F&C Asset Management plc by distributing the shares to our own shareholders. This was a further important milestone in the execution of the strategy set out at the start of 2008, allowing us to focus on our core operations.

Small shareholders who would have received 250 or fewer F&C shares were mainly paid in cash raised through a placement of their shares in the market. The demerger effectively returned 6.2 pence per Friends Provident share. We covered the costs of the transaction by selling residual shares in F&C.

## **Financial strength**

Our estimated surplus on the IGD basis increased to £0.9 billion at 31 July (31 December 2008: £0.85bn) following the demerger of the Group's stake in F&C Asset Management plc and payment of the final 2008 dividend. The IGD surplus measure is conservative, excluding £0.4 billion of surplus assets held within long-term funds.

## **Recommended offer from Resolution**

Separately today we have announced that the Board of Friends Provident Group plc has recommended acceptance of an offer from Resolution Plc.

Resolution and Friends Provident believe that consolidation can be beneficial to the sector. The actions taken following the strategic review in January 2008 are transforming our business and as a consequence, Friends Provident brings to this deal: an attractive franchise; an experienced management team; efficient and scalable systems; a strong capital position; and a good fit with future possible acquisitions.

## **Outlook**

The outlook for the remainder of 2009 remains challenging given the uncertain pace of recovery in the UK economy. In the UK we have now secured our targeted cost savings, extended our key distribution partnerships, and are well positioned to compete strongly in the protection and group pensions markets. FPI's sales will depend on the demand in the markets in which it operates, although it now has more balance between operations in different territories than ever before. We remain optimistic about the prospects for Lombard in the key fourth quarter as it has a very strong pipeline of potential new business.

Beyond this, there are significant opportunities to extend our distribution, as our operating platform is capable of handling higher volumes which would in turn improve reported profitability. In the UK we have reached agreement with Tesco Personal Finance to market our protection products and have further opportunities under discussion. Our ownership of Sesame will provide exposure to the UK's largest IFA network, together with options for responding to the FSA's Retail Distribution Review. FPI continues to provide exciting opportunities to extend our business to new markets. Lombard is uniquely placed and has considerable potential.

## **Financial performance**

### **Cash**

- Life and pensions gross operating cash (new business strain less in-force surplus) was £35 million up from £(19)m in first half 2008.
- New business strain reduced to £(134) million (2008: £(179)m) while in-force surplus increased to £169 million (2008: £160m).
- Shareholder cash and capital outflow reduced to £(7) million (2008: £(121)m) as we maintained our conservative reserving basis for credit default allowances in annuity liabilities, but there was no increase in credit spreads (2008: £(70)m).
- Internal rate of return on new business was 10.7% (2008: 12.6%) and cash payback increased to 14 years (2008: 11 years) primarily due to the impact of sharply reduced volumes.

### **IFRS**

- IFRS underlying profit before tax improved to £38 million (2008: £13m), with the new business strain and in-force surplus both reducing, while the charge in 2008 of £(70) million for increased credit spreads was not repeated.
- IFRS loss before tax from continuing operations was £(102) million (2008: £(221)m) and basic loss per share (4.2)p (2008: (2.6)p). The result in first half 2009 included investment return variances of £(44) million, amortisation of intangible assets of £(45) million and non-recurring costs of £(59) million, mainly related to implementing the cost savings programme.
- IFRS net asset value per share excluding goodwill was 75p (31 December 2008: 77p) representing the equity attributable to ordinary shareholders, less all goodwill.

## **EEV**

- Our embedded value results are calculated on the market-consistent basis that we have used since 2005. This basis assumes that the illiquidity premium on corporate bonds is zero. There is considerable uncertainty around the eventual treatment of annuity business within the CFO Forum Market Consistent Embedded Value Principles. Using the approaches some of our peers have taken to corporate bond illiquidity premia would materially improve our reported results, so we have presented sensitivities, where appropriate, to assist investors.
- Contribution from new business was £30 million (2008: £67m) as UK business showed an anticipated fall in profitability due to volumes reducing by more than the reduction in acquisition expenses. Recalculating this result, allowing for an illiquidity premium of 100bps\* over risk-free rates on assets backing annuity business, would increase the overall contribution from new business to £42 million.
- EEV underlying profit before tax of £131 million (2008: £211m) was lower due to the reduced contribution from new business shown above, together with a reduction of in-force profit to £83 million (2008: £108m) mainly due to adverse lapse and paid up experience variances. These adverse variances partly reflect an effect of our strategy, where we have withdrawn from the commission-paying group pensions market, and partly the impact of the recession.
- Return on Embedded Value on an underlying basis was 5.9% (2008: 8.4%) resulting from the same drivers as the reduction in underlying profit.
- Embedded value per share was 124p (31 December 2008: 128p), impacted by negative investment return variances. Embedded value per share would increase to 131p assuming a 100bps\* illiquidity premium on annuity business.

\* The sensitivities take into account potential illiquidity premia implied by appropriate bond indices and the derivative markets.

## **Debt, group structure and dividend**

In May 2009 Friends Provident plc offered holders of its two long-term subordinated debt issues the opportunity to exchange their holdings for a new subordinated instrument maturing in 2021. Holders of £322 million of the debt outstanding before the exchange elected to receive £162 million of the new issue. This transaction allowed us to reduce the ultimate amount of debt outstanding, extend the call and maturity dates and modestly reduce annual interest costs, with no detriment to policyholder interests or IGD surplus.

In order to create sufficient distributable reserves to pay the final 2008 dividend and distribute the Group's stake in F&C, a new top holding company, Friends Provident Group plc, was put in place in June 2009. Subsequent capital reductions have created a significant amount of distributable reserves. Friends Provident Group plc declared and paid on 24 July 2009 a dividend of 2.6 pence per share representing the final dividend for 2008.

The Board has recommended a maintained 2009 Interim Dividend of 1.3 pence per share to be paid in October 2009. This is in line with the Group's policy, which is to maintain its dividend per share at the level determined by the Board to be supportable in due course by the operating cash flow of the business.

## Business Review

**New business sales and profitability**  
**Table 1: New business sales**

	APE			PVNBP		
	First half 2009 £m	First half 2008 £m	APE Change %	First half 2009 £m	First half 2008 £m	PVNBP Change %
UK Corporate	144	246	(41)	666	1,179	(44)
UK Individual	47	74	(36)	373	602	(38)
<b>UK Total</b>	<b>191</b>	<b>320</b>	<b>(40)</b>	<b>1,039</b>	<b>1,781</b>	<b>(42)</b>
FPI	81	117	(31)	481	737	(35)
Lombard	47	70	(33)	466	702	(34)
<b>Intl Total</b>	<b>128</b>	<b>187</b>	<b>(32)</b>	<b>947</b>	<b>1,439</b>	<b>(34)</b>
<b>Total</b>	<b>319</b>	<b>507</b>	<b>(37)</b>	<b>1,986</b>	<b>3,220</b>	<b>(38)</b>

First half new business volumes reduced significantly year-on-year. The operating environment has remained tough throughout the first half of 2009 as a result of the worldwide economic slowdown. In addition, the strategy entered into at the start of 2008 means that prior year comparatives, particularly in the UK, include significant volumes of business from lines in which we are no longer active. New business volumes improved on a quarter-on-quarter basis in the second quarter, with total sales of £171 million APE compared to £148 million in the first quarter. Including results for the Malaysian joint venture AmLife, in which the Group holds a 30% interest, would increase the first half APE by an estimated £3 million.

**Table 2: Contribution from new business and PVNBP margin**

	Contribution from new business				PVNBP margin	
	First half 2009 £m	First Half 2009* £m	First half 2008 £m	First half 2008* £m	First half 2009 %	First half 2008 %
UK Corporate	(1)	(1)	7	7	(0.1)	0.6
UK Individual	4	16	20	26	1.1	3.3
<b>UK Total</b>	<b>3</b>	<b>15</b>	<b>27</b>	<b>33</b>	<b>0.3</b>	<b>1.5</b>
FPI	18	18	22	22	3.7	3.0
Lombard	9	9	18	18	1.9	2.6
<b>Intl Total</b>	<b>27</b>	<b>27</b>	<b>40</b>	<b>40</b>	<b>2.9</b>	<b>2.8</b>
<b>Total</b>	<b>30</b>	<b>42</b>	<b>67</b>	<b>73</b>	<b>1.5</b>	<b>2.1</b>

\* Contribution recalculated assuming 100 bps allowance for illiquidity on assets backing annuity business in the first half of 2009 (2008: 50bps).

Contribution from new business before tax has reduced to £30 million (2008: £67m). PVNBP margin (defined as contribution from new business as a percentage of PVNBP) is lower mainly due to the gearing effect on contribution of changes in new business volumes.

The UK contribution from new business has significantly reduced, with a consequent impact on PVNBP margin. Contribution is equal to the difference between margins on sales (the embedded value added by writing new policies allowing for directly incurred costs) and acquisition expenses. Volumes of new business in the UK are around 40% lower than in first half 2008, significantly reducing margin on sales to £60 million (2008: £93m). Margin on sales as a proportion of PVNBP in the UK increased to 5.7%

(2008: 5.2%), as our strategy means we no longer compete aggressively in market segments where less attractive returns are available. Acquisition expenses have reduced as a result of our cost savings programme, but by less than the reduction in margin on sales, and this is the reason why contribution is modest both in absolute terms and expressed as a proportion of PVNBP.

Our platform for the UK and FPI businesses is able to handle higher volumes of new business than written in the first half, without corresponding increases in acquisition expenses. We would therefore expect both contribution from new business and PVNBP margin to improve as volumes grow. To illustrate the potential for future growth, a 25% improvement in UK volumes would be expected to improve UK contribution by £13 million if current expense levels are maintained.

International contribution was lower as a result of lower volumes in both FPI and Lombard. FPI margins have improved, mainly as a result of a change in business mix compared to first half 2008. Lombard's reduced contribution reflects lower volumes over its semi-fixed cost base and is expected to increase at the full year due to the weighting of business towards the second half of the year. Lombard's margin on sales was a higher proportion of PVNBP than in first half 2008, as a result of a smaller proportion of large cases and stable profitability on smaller cases. AmLife's contribution, based on our 30% share, is estimated to be £2 million.

Our market-consistent embedded value methodology does not fully value the anticipated returns on annuity business. This is because it makes no allowance for expected returns on assets backing policyholder liabilities above risk-free (gilt) rates until those returns are realised. We have seen significant volatility in the spreads implied by market prices of corporate bonds in the last 18 months. The sensitivity to an alternative approach, in line with peers, of allowing for 100 bps of the return on assets above risk free to be taken in to account within the calculation would increase the reported contribution from new business by £12 million for the half year.

**Table 3: Internal rate of return (IRR) and discounted cash payback of new business**

	<b>First half 2009 IRR %</b>	First half 2008 IRR %	<b>First half 2009 Discounted payback</b>	First half 2008 Discounted payback
UK Corporate	<b>5.4</b>	7.5	<b>N/a</b>	23yrs
UK Individual	<b>16.3</b>	20.2	<b>15yrs</b>	7yrs
<b>UK Total</b>	<b>9.9</b>	10.9	<b>25yrs</b>	16yrs
FPI	<b>14.5</b>	15.7	<b>6yrs</b>	7yrs
Lombard	<b>10.0</b>	17.4	<b>13yrs</b>	7yrs
<b>International Total</b>	<b>12.3</b>	16.4	<b>9yrs</b>	7yrs

IRR and discounted cash payback are measures of the expected returns on capital invested in new business. Each metric is strongly influenced by the initial cost incurred to acquire the business. As outlined above, volumes have reduced sharply year-on-year while acquisition expenses have not reduced by as much, consequently IRR and discounted payback are both behind the first half 2008 results. As with contribution from new business, we would expect volume growth and reduced expenses to improve these metrics. To illustrate this, a 25% increase in volume in the UK would improve UK IRR on new business to 12.2% and discounted payback to 16 years.

## Management expenses

The management expenses of the life and pensions businesses, which exclude both commission payments and non-recurring costs, are set out in the table below.

**Table 4: Management expenses**

	First half 2009				First half 2008			
	UK £m	FPI £m	Lombard £m	Total £m	UK £m	FPI £m	Lombard £m	Total £m
Acquisition	57	13	19	89	65	11	16	92
Maintenance	44	10	10	64	53	8	8	69
Development	1	2	1	4	-	7	1	8
Other	-	-	-	-	9	-	-	9
<b>Total Life &amp; Pensions</b>	<b>102</b>	<b>25</b>	<b>30</b>	<b>157</b>	127	26	25	178
Corporate	6	-	-	6	8	-	-	8
<b>Total</b>	<b>108</b>	<b>25</b>	<b>30</b>	<b>163</b>	135	26	25	186

In January 2008 we set out our strategy, including the target to reduce the run-rate of UK and corporate operating costs by £40 million and development costs by £20 million in real terms by the end of 2009. This meant that the annual UK and corporate operating cost base following implementation of the cost savings programme would be £215 million, £60 million lower than the 2007 total of £275 million.

We have secured the identified cost savings with £40 million of operating cost run-rate savings and £20 million of development cost savings secured at 30 June (31 Dec 2008: £25 million operating cost and £15 million development cost savings). In order to achieve £60 million of real savings, we needed to secure some £80 million of nominal cost savings. The additional £20 million was required to allow for cost increases on the 2007 cost base (primarily salary inflation) and capability improvements not categorised as development spend. The total £80 million of savings secured comprises:

- £13 million in activities stopped, including rationalisation of the UK product portfolio;
- £19 million in consolidation and de-duplication of activities through a more efficient operating structure;
- £15 million in reduced input costs through procurement efficiencies and outsourcing of IT infrastructure and development;
- £13 million in productivity improvements including process re-engineering; and
- £20 million in development spend largely from realigning the development portfolio.

To achieve these savings, we have reduced headcount by 22% of full time equivalent roles from December 2007 to June 2009.

The total cost of implementing these savings, plus a number of other strategic changes, is approximately £80 million. £32 million of this was incurred in 2008, with the remaining £48 million reported as a non-recurring item in first half 2009 IFRS and embedded value results.

Actual UK operating costs in the first half are £25 million below first half of 2008. International operating expenses continue to be tightly controlled, with FPI costs slightly down year-on-year and the reported increase in Lombard operating costs due primarily to exchange rate changes increasing the largely Euro-denominated costs when reported in Sterling.

The cost savings programme has reinforced the importance of cost control within the business. While the cost structure of the business is now appropriate for the anticipated future requirements of the business, we will continue to control our cost base carefully. We will continue to recognise development expenses only for significant extensions of our capabilities in to new products or territories.

## UK Corporate

**Table 5: UK Corporate results**

	Group pensions	Group protection	Total
New business (APE)			
<b>First half 2009</b>	<b>£140m</b>	<b>£4m</b>	<b>£144m</b>
First half 2008	£242m	£4m	£246m
New business (PVNBP)			
<b>First half 2009</b>	<b>£652m</b>	<b>£14m</b>	<b>£666m</b>
First half 2008	£1,165m	£14m	£1,179m
Contribution			
<b>First half 2009</b>	<b>£(1)m</b>	-	<b>£(1)m</b>
First half 2008	£7m	-	£7m
PVNBP margin			
<b>First half 2009</b>	<b>(0.1)%</b>	-	<b>(0.1)%</b>
First half 2008	0.6%	-	0.6%
IRR			
<b>First half 2009</b>	<b>5.8%</b>	<b>1.1%</b>	<b>5.4%</b>
First half 2008	7.9%	1.1%	7.5%
Discounted cash payback			
<b>First half 2009</b>	<b>N/a</b>	<b>N/a</b>	<b>N/a</b>
First half 2008	23yrs	N/a	23yrs

Speculation on corporate ownership in early 2008 led, until Autumn 2008, to a number of employee benefit consultants and consulting actuaries ceasing to recommend Friends Provident to employers seeking to change their pension provider. Our UK Corporate business unit has made significant progress since then in re-establishing productive relationships with these key intermediaries. We have now achieved positions on pensions provider panels for almost all of our targeted distributors and are active in the market for new schemes. We intend to develop new additions to our product offering in order to support our activity in this market.

In particular, we are working with FNZ, one of the leading platform providers, to introduce a corporate platform in 2010, to maintain a leadership position in this market. This platform is planned to provide access to corporate ISAs and we are exploring how employers' ShareSave and Share Incentive Plan proceeds can be integrated. The development will also enable the delivery of an enhanced Group SIPP and a more sophisticated individual SIPP.

## Group Pensions

**Table 6: Group pensions new business APE**

	<b>First half 2009</b>	First half 2008
	<b>£m</b>	£m
Transfers in and lump sum contributions	<b>13</b>	31
Regular contributions		
- from increments to existing schemes	<b>112</b>	156
- from new schemes with unfunded commission	-	40
- from new schemes in target segment	<b>15</b>	15
<b>Total</b>	<b>140</b>	242

There are a number of drivers of reduced group pensions sales year-on-year. As part of our strategy change in early 2008, we revised terms so as not to take on new schemes on an unfunded initial commission basis. As a result we had no APE from new schemes on an unfunded commission basis compared to £40 million of APE in first half 2008.

Transfers in and lump sum contributions were lower due to a combination of reduced new scheme wins and the economic backdrop. The 2009 figure includes some £2 million of APE related to DWP rebates whereas all 2008 rebate premiums are reported within individual pensions.

As a result of the economic environment, increments to existing schemes, which form a major share of reported new business, have reduced significantly. Such increments arise from new employees joining employers for which we provide schemes, and increases in contributions, which typically are driven by annual salary increases. Both of these factors are affected by rising unemployment and wage constraints in the wider economy. We would expect increments to improve when economic conditions ease.

A total of 58 new mandates were won in the first half. New business is not recorded until funds are moved on to our systems, which is typically a number of months after the mandate is awarded. This pipeline of business from new mandates is now stronger than at the beginning of the year, although the time lag between winning mandates and funds coming on to the platform is greater than in previous years.

**Table 7: Pension assets under management**

	<b>First half 2009</b>
	<b>£m</b>
<b>Start of period</b>	<b>7,281</b>
Regular contributions	<b>596</b>
Transfers in and lump sum contributions	<b>137</b>
Transfers out and retirements	<b>(316)</b>
<b>Net cash inflow</b>	<b>417</b>
Investment return	<b>(12)</b>
<b>End of period</b>	<b>7,686</b>

Despite negative investment returns, and limited transfers in, we increased funds under management (including unit-linked individual and group pensions) to around £7.7 billion. Scheme members increased from 750,000 to 765,000 over the half year.

Reported profitability reflects the reduced volume in the first half. We do not believe that the reported IRR or payback for this period gives a guide to the ultimate returns from this business.

## Group protection

Sales of group protection were steady year-on-year in a highly competitive market. We have enhanced our group income protection product to maintain its competitiveness and have further developments planned for the second half of the year.

## UK Individual

**Table 8: UK Individual results**

	<b>Individual protection</b>	<b>Individual pensions</b>	<b>Annuities</b>	<b>Investments</b>	<b>Total</b>
New business (APE)					
<b>First half 2009</b>	<b>£20m</b>	<b>£13m</b>	<b>£13m</b>	<b>£1m</b>	<b>£47m</b>
First half 2008	£24m	£30m	£14m	£6m	£74m
New business (PVNBP)					
<b>First half 2009</b>	<b>£125m</b>	<b>£110m</b>	<b>£125m</b>	<b>£13m</b>	<b>£373m</b>
First half 2008	£155m	£250m	£139m	£58m	£602m
Contribution					
<b>First half 2009</b>	<b>£1m</b>	<b>£5m</b>	<b>£(1)m</b>	<b>£(1)m</b>	<b>£4m</b>
First half 2008	£7m	£11m	£2m	£(1)m	£20m
PVNBP margin					
<b>First half 2009</b>	<b>0.8%</b>	<b>4.5%</b>	<b>(0.8)%</b>	<b>(7.7)%</b>	<b>1.1%</b>
First half 2008	4.5%	4.4%	1.4%	(1.7)%	3.3%
IRR					
<b>First half 2009</b>	<b>4.3%</b>	<b>24.3%</b>	<b>N/a</b>	<b>N/a</b>	<b>16.3%</b>
First half 2008	12.2%	N/a	30.9%	6.1%	20.2%
Discounted cash payback					
<b>First half 2009</b>	<b>26yrs</b>	<b>6yrs</b>	<b>N/a</b>	<b>N/a</b>	<b>15yrs</b>
First half 2008	9yrs	N/a	8yr	N/a	7yrs

## Individual protection

Activity in the protection market is closely related to the level of transactions in the housing market, because sales of protection products are often linked to mortgage sales. The low levels of housing market activity seen in second half 2008 have largely persisted in to first half 2009. As a result, first half sales remain relatively low, down 19% year-on-year. Second quarter sales were 15% higher than in the first quarter, reflecting some of the re-pricing activity undertaken during the half. Protection premiums in payment were £264 million, broadly in line with the year-end figure.

As with all UK product lines, declines in new business profitability are largely caused by the balance of volume against expenses in the first half and do not reflect the underlying returns available in this market.

During the first half we have undertaken considerable activity aimed at expanding our distribution to write more business on our platform. Currently we have some exposure to tied distribution, in particular through the Countrywide estate agency business, but limited bank distribution. In April we announced a distribution agreement with Tesco Personal Finance and have a number of similar initiatives under discussion. We will continue to seek out such opportunities.

### Individual pensions

Individual pensions sales are lower year-on-year, primarily due to withdrawal of initial commission on this product during first half 2008. The comparative also includes £9m of DWP rebate business compared to £6 million in first half 2009 (with the remainder of the £8 million of DWP rebate premiums received now reported within group pensions after further analysis of the business giving rise to the premiums). We believe the majority of DWP rebate premiums for the year have now been received.

### Annuities

Annuity sales reduced slightly year-on-year reflecting lower fund values for retiring pension policy holders. Over 9,000 annuities were written in the first half, representing more than 40% of vesting policyholders electing to take a Friends Provident annuity.

### Investments

Investment sales are significantly lower as initial commissions are no longer paid.

### Friends Provident International (FPI)

Table 9: FPI results

	First half 2009	First half 2008
New business (APE):		
Asia	£38m	£62m
UK	£2m	£8m
Middle East	£21m	£21m
Europe (excluding UK)	£14m	£18m
Rest of the World	£6m	£8m
Total APE	£81m	£117m
New business (PVNPB)	£481m	£737m
Contribution from new business	£18m	£22m
PVNPB margin	3.7%	3.0%
IRR	14.5%	15.7%
Discounted cash payback	6 years	7 years
Assets under management	£4,516m	£4,526m*

\* as at 31 December 2008

FPI operates a 'hub and spoke' model to enable cost-effective delivery of international products through distribution relationships in markets where more attractive returns are available to providers than in the UK. FPI first half sales were down 31% year-on-year, mainly driven by economic uncertainty constraining demand for investment products around the world. Second quarter sales were 20% above those in the first quarter. We have continued to tailor new products that position FPI to perform strongly in the medium term, as confidence returns in each of the markets where we operate.

The Hong Kong market comprises the majority of the Asia result. This is a territory where FPI has been established for over 20 years and has longstanding relationships with distributors. The first half comparative from 2008 is very strong as FPI wrote significant volumes of regular premium business on competitive terms in this market. This enabled FPI to capitalise on strong demand for savings products, before adjusting terms in mid-2008 as market demand reduced. Unit-linked regular premium Hong Kong market sales were down 64% year-on-year in the first quarter (source: Office of the Commissioner of Insurance), with FPI performing a little ahead of this. Singapore is our other main market within Asia, with a sales office established in 2007. Sales in this market were up 20% on first half 2008 to £5 million APE, reflecting a wider range of products offered over the last year.

Middle East sales have held up well, supported by growth in sales through Riyadh Bank, and the branch in Dubai. We launched the Optus group savings product late in 2008. There has been strong interest and 15 employers have committed to place business with us. We expect funds to start to come on to the platform, and be reported as new business, over the second half of the year.

Sales from our German pensions distribution were in line with first half 2008 in Sterling terms at £8 million APE. Elsewhere in Europe, and in the UK, sales were lower due to reduced demand for investment products.

Contribution from new business was down on reduced volumes. However, new business profitability has been improved, with a shift in the mix of business towards higher margin protection business. This allowed an improvement in PVNBP margin and payback while IRR was only slightly below 2008's result.

We have continued to develop this business to provide products leveraging our capabilities and UK expertise to address local market requirements. In July we launched group protection in the Middle East to enhance our Optus offering and we continue to add to the range of funds available on our platform. Also in July we announced a distribution partnership for insurance bond products in Singapore with ANZ bank. We will continue to seek to access new markets where we can do so cost effectively, for example, through extending our operations in the Middle East.

## Lombard

**Table 10: Lombard results**

	<b>First half 2009</b>	First half 2008
New business (APE):		
UK and Nordic	<b>£11m</b>	£20m
Northern Europe	<b>£14m</b>	£23m
Southern Europe	<b>£21m</b>	£23m
Rest of the World	<b>£1m</b>	£4m
Total APE	<b>£47m</b>	£70m
Of which, large cases (greater than €10m)	<b>£7m</b>	£17m
Total APE excluding large cases	<b>£40m</b>	£53m
New business (PVNBP)	<b>£466m</b>	£702m
Contribution from new business	<b>£9m</b>	£18m
PVNBP margin	<b>1.9%</b>	2.6%
IRR	<b>10.0%</b>	17.4%
Discounted cash payback	<b>13 years</b>	7 years
Assets under management	<b>£11,365m</b>	£12,425m*

\* as at 31 December 2008

Lombard specialises in estate planning solutions for wealthy clients throughout Europe and beyond. Sales are seasonal due to the concentration of European tax year-ends in December and the consequent peak of sales in the fourth quarter. New business volume in the first three quarters depend largely on timing of large cases. Second quarter results were stronger than the first quarter's, but first half 2009 results are significantly lower than first half 2008 reflecting the difficult economic climate, which has continued to affect client confidence. Large cases made up just 14% of first half 2009 results compared with 25% in first half 2008. We will be able to give some more guidance on the full year outturn with our third quarter trading results.

Sales by territory reflect the incidence of large cases, as well as specific drivers for each territory. Belgium, Italy, France and UK performed well. Spain and Germany were affected by previously reported legal and fiscal changes, where uncertainty remains on the implications of these changes. Clarification is anticipated in the autumn, and we are hopeful that new business will pick up in both these markets in the fourth quarter.

The new business contribution reflects the semi-fixed nature of Lombard's cost base and the relatively low first half volumes. Higher volumes in the second half will drive improvements in the full year financial metrics. Percentage margin on sales, before acquisition costs, was up on first half 2008, as a result of a reduction in the proportion of large cases and the maintenance of Lombard's margin on other business. In addition, Lombard continues to work to improve the cash characteristics of its products. This is progressing as planned.

Funds under management are mostly euro-denominated. These increased from €13.0 billion at 31 December 2008 to €13.3 billion at 30 June 2009. In Sterling terms these have decreased due to strengthening of Sterling against the Euro.

Lombard remains a business with considerable prospects and with a capable, motivated management team in place. Large case prospects are stronger than at the same stage last year.

### **AmLife**

AmLife is the Malaysian insurance joint venture that Friends Provident entered into in December 2008 with AmBank Berhad, the major Malaysian banking group. This business has performed well over the first half while developing its range of unit-linked products. Friends Provident's 30% share equates to an estimated £5 million of EEV operating profit, including an estimated £2 million contribution from new business from £3 million of APE.

### **IFA businesses**

**Table 11: IFA business results**

	<b>First half 2009 £m</b>	First half 2008 £m
Sesame underlying profit	(1)	2
Pantheon Financial underlying profit	1	2

Economic conditions in the UK have reduced revenues year-on-year for both Sesame and Pantheon. In each case, careful management of operating costs has offset the impact on underlying profit. However, we expect the full year underlying profit for Sesame to be below the £10 million reported in 2008, which benefited from a number of one-off items.

Sesame announced in June 2009 that it is in discussions with Skandia UK to acquire Bankhall and Premier Mortgage Services, two major UK distribution businesses. This combination would result in a 3,000-strong appointed representative network, a service business supporting over 1,500 firms, and a mortgage distributor that generated over £45 billion of applications in 2008. This transaction is not expected to require any additional funding from the Group to Sesame.

## Asset Management

**Table 12: Asset Management results**

	<b>First half 2009</b>	First half 2008
	<b>£m</b>	£m
Net revenue	<b>105</b>	118
Operating expenses	<b>(86)</b>	(89)
Other	<b>(10)</b>	(2)
<b>Asset Management underlying profit before tax</b>	<b>9</b>	27
Operating margin	<b>18.1%</b>	25.4%
Assets under management	<b>£88bn</b>	£99bn*

\* as at 31 December 2008

Assets under management reduced in the first half due to £(4.3) billion of net fund flows combined with the influence of Sterling strengthening against the Euro. Net revenues were significantly affected by weakness in equity markets, which recovered in the second quarter but the average FTSE100 level for the first half was 30% below first half 2008. Operating expenses reduced as a result of F&C's own cost savings programme, although by less than the reduction in revenues. The operating margin was therefore lower than in first half 2008.

Other expenses are primarily financing costs on debt, net of income from shareholder-owned invested cash. The net difference increased year-on-year as the returns available on these investments have fallen and additional loan notes were issued related to the acquisition of F&C REIT.

Friends Provident Group plc distributed its shares in F&C Asset Management plc to shareholders on 3 July 2009.

## Financial Review

This review is structured in the following sections: Cash and capital generation, IFRS Profitability, Financial Strength, EEV Profitability, Embedded Value and Risk Management.

In the Financial Review published as part of the Interim management report and results for the half-year ended 30 June 2008, three businesses, F&C Asset Management plc (F&C), Lombard and Pantheon Financial (Pantheon), were identified as non-core and shown separately. Since that date it has been decided to retain and develop Lombard and Pantheon. Whilst the investment in F&C was de-merged on 3 July 2009, its results are included as continuing operations for the first half of 2009 as required by accounting standards. For the purposes of this report, all three businesses are included in the review of the Group's financial results.

### CASH AND CAPITAL GENERATION

Shareholder cash and capital generation is the cash and capital generated by the business during the year that is available to meet dividends and cover capital requirements. This is calculated on the regulatory basis and includes tax, realised and unrealised investment movements and one-offs.

**Table 13: Summary of Shareholder cash and capital generation**

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
New business strain	(134)	(179)
In-force surplus	169	160
<b>Life and pensions gross cash generation</b>	<b>35</b>	<b>(19)</b>
Tax and other items	(12)	29
<b>Life and Pensions net cash operating result</b>	<b>23</b>	<b>10</b>
Investment return and other items	(9)	(26)
One-off items	(21)	(35)
<b>Shareholder cash and capital generation before credit spread effects</b>	<b>(7)</b>	<b>(51)</b>
Effect of credit spreads on assets and liabilities for annuities	-	(70)
<b>Shareholder cash and capital outflow</b>	<b>(7)</b>	<b>(121)</b>

Shareholder cash and capital outflow was £(7)m compared to £(121)m in 2008. This improvement arises from an increased Life and Pensions net cash operating result of £23m (2008: £10m) together with less adverse investment return and other items and lower one-off items. There was no repeat of the adverse £70m net impact of credit spreads on assets and liabilities for annuities seen in 2008.

**Table 14: Life and Pensions gross cash generation**

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	New business strain	In-force surplus	Total	New business strain	In-force surplus	Total
	£m	£m	£m	£m	£m	£m
Protection	(22)	22	-	(21)	28	7
Pensions	(44)	22	(22)	(58)	17	(41)
Annuities	5	1	6	(1)	1	-
Investments	(2)	6	4	(7)	1	(6)
With Profits Fund	-	31	31	-	34	34
<b>UK Total</b>	<b>(63)</b>	<b>82</b>	<b>19</b>	<b>(87)</b>	<b>81</b>	<b>(6)</b>
FPI	(46)	60	14	(69)	51	(18)
Lombard	(25)	27	2	(23)	28	5
<b>Intl Total</b>	<b>(71)</b>	<b>87</b>	<b>16</b>	<b>(92)</b>	<b>79</b>	<b>(13)</b>
<b>Total</b>	<b>(134)</b>	<b>169</b>	<b>35</b>	<b>(179)</b>	<b>160</b>	<b>(19)</b>

Cash new business strain mainly consists of acquisition expenses, commissions paid, and reserves established on a prudent basis in respect of the business written. The cash in-force surplus takes account of annual management charges received less maintenance expenses incurred together with other items. All figures are stated before tax and one-off items. Further detail is provided in Appendix 3.

Total cash new business strain is £(134)m compared to £(179)m last year. The UK strain has fallen by 28% as a result of the lower sales, commissions and acquisition expenses following implementation of the new strategy. International strain has fallen by 23% mainly as a result of lower sales from FPI.

Total cash in-force surplus has increased from £160m to £169m driven by a rise in International in-force surplus of £8m as a result of annual management charges on higher funds under management in Sterling terms.

**Table 15: Life and Pensions net cash operating result**

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	UK	Intl	Total	UK	Intl	Total
	£m	£m	£m	£m	£m	£m
New business strain	(63)	(71)	(134)	(87)	(92)	(179)
In-force surplus	82	87	169	81	79	160
Tax and other items	5	(17)	(12)	32	(3)	29
<b>Total</b>	<b>24</b>	<b>(1)</b>	<b>23</b>	<b>26</b>	<b>(16)</b>	<b>10</b>

The Life and Pensions net cash operating result was £13m higher than in 2008 at £23m. This increase was driven by £24m lower new business strain in the UK as a result of lower volumes, lower expenses and exiting high strain product lines, £21m lower International new business strain as a result of lower sales volume and £8m higher International in force surplus from the Premier business written in late 2007 and early 2008, offset by £41m lower tax and other items.

## Protection

UK Protection sales are 19% down measured on the APE basis. New business strain has not fallen, as reductions in commission and expenses have been offset by lower negative reserves also due to reduced new business volume. In-force surplus has fallen from £28m to £22m partly as a result of reduced persistency and partly as a one-off item within the 2008 result has not recurred.

## Pensions

Pension sales have decreased by 43%, resulting in a £14m reduction in new business strain. Commission payments have fallen, with a 46% decrease from £27m to £15m, showing the effects of implementing our strategy and lower incremental business volumes. In force surplus rose by 29% as a result of a number of small items, despite broadly flat asset values.

## Annuities

Annuity sales were comparable to 2008. Cash generation at point of sale was £5m, reversing a strain of £1m in 2008, as pricing margins improved relative to the reserving basis. In-force surplus was unchanged at £1m.

## Investments

Adopting a more selective approach to writing new investment business has resulted in a fall in new business to £1m (2008: £6m) and consequently a substantially lower new business strain. In-force surplus has risen to £6m, as falls in investment markets impacted liabilities less adversely.

## With Profits

The reduction in the surplus generated by the With Profits Fund from £34m to £31m reflects a combination of the decline in the book and lower investment markets. Within this surplus the shareholders' one-ninth share of cost of bonus is £3m.

## FPI

FPI sales have reduced by 31% with the percentage fall in the new business strain being largely consistent with the fall in volume but slightly affected by lower single premium business. In-force surplus has increased from £51m to £60m, largely due to the increased volume of regular premiums from the Premier product, which was sold in large volumes in late 2007 and the first half of 2008, and exchange rate movements.

## Lombard

Lombard sales fell by 33% but new business strain rose slightly as expenses were not reduced commensurately. The in-force surplus is largely unchanged.

**Table 16: Tax and other items**

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	UK £m	Intl £m	Total £m	UK £m	Intl £m	Total £m
Tax	9	-	9	35	4	39
Other items	(4)	(17)	(21)	(3)	(7)	(10)
<b>Total</b>	<b>5</b>	<b>(17)</b>	<b>(12)</b>	<b>32</b>	<b>(3)</b>	<b>29</b>

The tax credit of £9m (2008: £35m) is lower in 2009 as there were fewer investment gains in the unit-linked and with profit funds against which expenses can be relieved. International other items are mainly one-off of which the largest part relates to a reassessment of actuarial reserves.

## **Investment return and other items**

Investment return and other items £(9)m (2008: £(26)m) comprises investment return on shareholder assets, net of interest charges on Group borrowings including STICS and lower tier 2 debt, of £(28)m (2008: £(32)m) and dividends received from F&C of £10m (2008: £10m) together with a number of smaller items.

### **One-off items**

One-off items of £(21)m (2008: £(35)m) include the cost of the group reorganisation and demerger of our stake in F&C £(14)m and strategic review implementation costs of £(48)m in respect of the cost reduction programme, less release of the provision of £42m established for these at the end of 2008. In 2008 this item included £(15)m in respect of strategic review implementation costs and a one-off contribution to the Friends Provident Pension Scheme of £(20)m.

### **Credit default allowances in annuity liabilities**

Within our portfolio, bond spreads above gilt yields as at the end of June 2009 were largely unchanged from end 2008 at approximately 450 basis points, the effect of spread narrowing within ratings bands having been offset by the effects of ratings migration. Our corporate bond portfolio remains highly rated with over 96% at investment grade.

Statutory reserving rules allow the recognition of an illiquidity premium in the discount rate used to value the annuity liabilities. As at the end of 2008, we included half of the spread above risk-free rates, up to a maximum of 250 basis points on a stock by stock basis, as an illiquidity premium, and this approach remains unchanged. This is a very prudent assumption, one of the most prudent assumptions in a range used by life assurers.

As both spreads and the allowance for illiquidity are unchanged, a charge of £nil (2008: £70m) is recognised in the shareholder cash result.

At 30 June 2009 there is an allowance in liabilities for future credit defaults on corporate bonds of approximately £0.5bn on an investment portfolio of around £2.7bn, which includes £0.6bn of government backed securities. The shareholders' interest in this allowance is around 70%. As the bonds backing the annuities are generally expected to be held to maturity, the default allowance will be released as profit and shareholder cash flow over time, to the extent that defaults do not arise.

At a portfolio level, the statutory reserving basis is approximately equivalent to taking 30% of the spread above risk-free rates as an illiquidity premium. As a sensitivity, if we changed the recognised illiquidity premium to 70% of the spread above risk-free rates then the improvement in shareholder cash and capital and in IFRS profits would be £140m.

### **Movement in shareholder cash and capital resources**

Shareholder cash and capital resources, and their movement, have been stated below excluding the mark to market of corporate debt. In disclosures as at 31 December 2007 and 31 December 2008 the mark to market had been included. The adjustment to exclude the mark to market of corporate debt from these opening balances amounted to £48m at 31 December 2007 and £254m at 31 December 2008.

**Table 17: Movement in shareholder cash and capital resources**

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
<b>Shareholder cash and capital outflow</b>	<b>(7)</b>	(121)
Dividends paid in the period	-	(123)
<b>Cash and capital outflow after dividends</b>	<b>(7)</b>	(244)
<b>Capital items:</b>		
Financial reinsurance	<b>(3)</b>	(2)
Gain on exchange of STICS for Subordinated Debt	<b>113</b>	-
Other finance items	<b>1</b>	3
<b>Total movement</b>	<b>104</b>	(243)

An interim dividend of 2.6 pence per Friends Provident Group plc share was paid on 24 July 2009 in lieu of the previously contemplated final 2008 dividend of 2.6 pence per Friends Provident plc share. A gain of £113m (net of expenses and tax) was realised on exchange of £322m of STICS for £162m of new subordinated debt.

Shareholder cash and capital resources rose by £104m from £897m to £1,001m, as set out below.

**Table 18: Shareholder cash and capital resources**

	30 June 2009	31 Dec 2008
	£m	£m
Shareholder invested net assets	<b>1,159</b>	1,181
Securitisation funding	<b>71</b>	71
Financial reinsurance funding	<b>6</b>	9
IFA subsidiaries – intangible assets	<b>(46)</b>	(48)
Mark to market of corporate debt (included in Shareholder invested net assets)	<b>(169)</b>	(254)
Regulatory reserves not included in Shareholder invested net assets	<b>(20)</b>	(62)
<b>Shareholder cash and capital resources</b>	<b>1,001</b>	897

The regulatory reserves of £(20)m (2008: £(62)m) include an allowance for future strategic review implementation costs of £nil (2008: £(42)m) together with a prudential margin of £(20)m (2008: £(20)m) in future unit cost assumptions.

## IFRS PROFITABILITY

Our financial results are presented on two reporting bases: International Financial Reporting Standards (IFRS) as adopted by the EU and European Embedded Value (EEV). IFRS is the primary accounting basis. It includes the cash surplus earned during the period but differs from the EEV basis in that, with one exception, it does not recognise future cash flows in profit. The exception is that negative reserves on certain product lines are permitted.

**Table 19: Summary of IFRS results**

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
New business strain	(79)	(91)
In-force surplus	117	124
Investment return and other items	(6)	21
Asset Management	9	27
Corporate and other items	(3)	2
<b>IFRS underlying profit before credit spread effects</b>	<b>38</b>	<b>83</b>
Effect of credit spreads on assets and liabilities for annuities	-	(70)
<b>IFRS underlying profit before tax</b>	<b>38</b>	<b>13</b>
Non-underlying items	(140)	(234)
<b>IFRS loss before tax from continuing operations</b>	<b>(102)</b>	<b>(221)</b>
IFRS underlying profit per share	0.3p	1.2p
IFRS basic loss per share	(4.2)p	(2.6)p
Interim dividend per share	1.30p	1.30p
Dividend cover on an underlying basis	0.2 times	0.6 times
IFRS net assets excluding goodwill per share	75p	77p*

\* 31 December 2008

IFRS underlying profit before tax has increased from £13m to £38m. Within this the net effect of new business strain and in-force surplus improved from £33m to £38m. Investment return and other items including interest charges on Group borrowings was £(6)m (2008: £21m) and the increase in allowances for credit spreads was £nil (2008: £(70)m).

The IFRS loss before tax from continuing operations fell from £(221)m to £(102)m. In addition to the underlying result, the main charges contributing to the loss are short term fluctuations in investment return £(44)m mainly arising on shareholder assets not backing policyholder liabilities, non-recurring items £(59)m, amortisation £(45)m together with the total of IFRS adjustments for STICS interest, policyholder tax and the loss attributable to minority interests in the F&C Commercial Property Trust of £8m.

IFRS underlying profit per share is 0.3p (2008: 1.2p) and IFRS basic loss per share is (4.2)p (2008: (2.6)p).

The interim dividend for 2009 is unchanged at 1.30p and is in line with our dividend policy. The dividend cover on an underlying basis is 0.2 times.

IFRS net assets excluding goodwill per share were 75p (31 December 2008: 77p). On

a pro forma basis excluding F&C, IFRS net assets excluding goodwill per share were 77p.

**Table 20: Underlying profit by segment**

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	UK £m	Intl £m	Total £m	UK £m	Intl £m	Total £m
New business strain	(49)	(30)	(79)	(63)	(28)	(91)
In-force surplus	73	44	117	82	42	124
Investment return and other income	12	(18)	(6)	25	(4)	21
<b>Life and pensions underlying profit before credit spread effects</b>	<b>36</b>	<b>(4)</b>	<b>32</b>	44	10	54
Effects of credit spreads on assets and liabilities for annuities	-	-	-	(70)	-	(70)
<b>Life and pensions underlying profit/ (loss)</b>	<b>36</b>	<b>(4)</b>	<b>32</b>	(26)	10	(16)
Asset Management			9			27
Corporate and other items			(3)			2
<b>IFRS underlying profit before tax</b>			<b>38</b>			13

The UK underlying profit before credit spreads effects was £36m (2008: £44m). Within this, the net impact of new business strain and in-force surplus improved by £5m to £24m. Investment return fell to £12m reflecting lower expected returns on lower opening assets. There was no repeat of the net charge in respect of credit spreads seen in 2008.

The International underlying loss was £(4)m (2008: profit £10m). Recurring profit was unchanged at £14m, however this was offset by one-off items of £(18)m of which the largest item was a reassessment of actuarial reserves in respect of unit-linked policies.

Asset Management reflects lower F&C underlying profit in 2009, which is discussed in the Business Review section.

**Table 21: Profitability by product**

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	New business £m	In- force £m	Profit/ (loss) £m	New business £m	In- force £m	Profit/ (loss) £m
Protection	(22)	22	-	(21)	28	7
Pensions	(30)	15	(15)	(35)	9	(26)
Annuities	5	1	6	(1)	1	-
Investments	(2)	4	2	(6)	10	4
With Profits Fund	-	31	31	-	34	34
<b>UK Total</b>	<b>(49)</b>	<b>73</b>	<b>24</b>	<b>(63)</b>	<b>82</b>	<b>19</b>
FPI	(11)	17	6	(11)	16	5
Lombard	(19)	27	8	(17)	26	9
<b>International Total</b>	<b>(30)</b>	<b>44</b>	<b>14</b>	<b>(28)</b>	<b>42</b>	<b>14</b>
<b>Total</b>	<b>(79)</b>	<b>117</b>	<b>38</b>	<b>(91)</b>	<b>124</b>	<b>33</b>

All figures are stated before tax and one-off items. More detailed analyses of new business strain and in-force surplus are provided below and in Appendix 3.

The IFRS new business strain is £(79)m compared to £(91)m last year. The UK IFRS strain has fallen by 22% as lower acquisition expenses and commissions were incurred on lower sales. International IFRS new business strain has increased by £2m despite much lower sales as expenses have increased.

The IFRS in-force surplus has reduced from £124m to £117m. UK IFRS in-force surplus has reduced by £9m mainly as a result of slower new business growth and lower asset values. International IFRS in-force surplus is £44m up 5% from £42m in 2008.

### **New business strain**

New business strain consists of three elements:

- the cash strain arising during the year;
- IFRS adjustments, reflecting the difference between regulatory and IFRS reserving bases; and
- an allowance for the deferral of acquisition costs (DAC), to the extent it is allowed by IFRS.

**Table 22: New business strain**

	Half year ended 30 June 2009				Half year ended 30 June 2008			
	Cash Strain	IFRS	DAC	IFRS strain	Cash strain	IFRS	DAC	IFRS strain
		adjust-ments	move-ment			adjust-ments	move-ment	
£m	£m	£m	£m	£m	£m	£m	£m	
Protection	(22)	-	-	(22)	(21)	-	-	(21)
Pensions	(44)	2	12	(30)	(58)	(2)	25	(35)
Annuities	5	-	-	5	(1)	-	-	(1)
Investments	(2)	(1)	1	(2)	(7)	(4)	5	(6)
<b>UK Total</b>	<b>(63)</b>	<b>1</b>	<b>13</b>	<b>(49)</b>	<b>(87)</b>	<b>(6)</b>	<b>30</b>	<b>(63)</b>
FPI	(46)	(31)	66	(11)	(69)	(48)	106	(11)
Lombard	(25)	(2)	8	(19)	(23)	(3)	9	(17)
<b>Intl Total</b>	<b>(71)</b>	<b>(33)</b>	<b>74</b>	<b>(30)</b>	<b>(92)</b>	<b>(51)</b>	<b>115</b>	<b>(28)</b>
<b>Total</b>	<b>(134)</b>	<b>(32)</b>	<b>87</b>	<b>(79)</b>	<b>(179)</b>	<b>(57)</b>	<b>145</b>	<b>(91)</b>

The cash strain is discussed in the Cash and capital generation section above.

The UK IFRS adjustments have changed from £(6)m to £1m because of the lower UK investments and commission-paying pensions sales. The UK DAC movement has decreased from £30m to £13m for the same reasons. We have maintained our policy of not taking credit for DAC on protection business, which errs on the conservative side.

The International IFRS adjustments £(33)m and DAC movement £74m have the effect of adjusting the cash strain so that the IFRS new business strain is broadly equal to acquisition expenses which increased over the period. The movement in these items since 2008 reflects changes in the volume and mix of sales.

### In-force surplus

In-force surplus consists of three elements:

- the cash surplus arising during the year;
- the amortisation of IFRS adjustments; and
- the amortisation of DAC.

**Table 23: In-force surplus**

	Half year ended 30 June 2009				Half year ended 30 June 2008			
	Cash Surplus	IFRS	DAC	IFRS surplus	Cash surplus	IFRS	DAC	IFRS surplus
		adjust-ments	move-ment			adjust-ments	move-ment	
£m	£m	£m	£m	£m	£m	£m	£m	
Protection	22	-	-	22	28	-	-	28
Pensions	22	4	(11)	15	17	2	(10)	9
Annuities	1	-	-	1	1	-	-	1
Investments	6	9	(11)	4	1	20	(11)	10
With Profits Fund	31	-	-	31	34	-	-	34
<b>UK Total</b>	<b>82</b>	<b>13</b>	<b>(22)</b>	<b>73</b>	<b>81</b>	<b>22</b>	<b>(21)</b>	<b>82</b>
FPI	60	(12)	(31)	17	51	(25)	(10)	16
Lombard	27	8	(8)	27	28	5	(7)	26
<b>Intl Total</b>	<b>87</b>	<b>(4)</b>	<b>(39)</b>	<b>44</b>	<b>79</b>	<b>(20)</b>	<b>(17)</b>	<b>42</b>
<b>Total</b>	<b>169</b>	<b>9</b>	<b>(61)</b>	<b>117</b>	<b>160</b>	<b>2</b>	<b>(38)</b>	<b>124</b>

The cash surplus is discussed in the Cash and capital generation section above.

The UK IFRS adjustments have decreased from £22m to £13m, with most of the decrease in respect of investment products. As explained above, falls in investment markets impacted liabilities less adversely than in 2008 for investment products and as these liabilities are reversed out in arriving at IFRS profits there is a corresponding item within the 2008 IFRS adjustments. The UK DAC movement is in line with 2008.

The International IFRS adjustments and DAC movements reflect changes in the amount and composition of the business and of levels of funds under management. For FPI the dominant factor is the emergence as cash surplus of front-end fees on the large volumes of Premier products sold in late 2007 and early 2008 and its impact on IFRS adjustments and DAC amortisation. DAC amortisation has been further accelerated as a result of an increased propensity to make Premier plans paid up or to reduce premiums.

**Table 24: Investment return and other items**

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	UK £m	Intl £m	Total £m	UK £m	Intl £m	Total £m
Longer-term return on life and pensions shareholder funds	13	(1)	12	22	-	22
One-off items	(1)	(17)	(18)	3	(4)	(1)
<b>Total</b>	<b>12</b>	<b>(18)</b>	<b>(6)</b>	25	(4)	21

UK longer-term investment return has reduced from £22m to £13m because of a 35% decrease in the weighted average value of UK life and pensions shareholder assets during the year from £975m for 2008 to £633m and because of generally lower expected rates of return. The longer-term rates of investment return are assumed to be: equities 6.7% p.a. (2008, 8.0% p.a.), gilts 3.7% p.a. (2008, 5.0% p.a.) and other fixed interest 6.7% p.a. (2008, 5.5% p.a.).

The major item within one-off items relates to a reassessment of actuarial reserves.

**Table 25: Asset Management, corporate and other items**

	Half year ended	
	30 June 2009 £m	30 June 2008 £m
Asset Management underlying profit	9	27
Expected return on net pension asset	4	2
Expected return on corporate net assets	(1)	4
Corporate costs	(6)	(8)
IFA businesses /AmLife	-	4
<b>Total</b>	<b>6</b>	<b>29</b>

Asset Management underlying profit is discussed in the Business Review section. The increase in the expected return on the net pension asset reflects an increase in the opening surplus as reported under IAS19. The expected return on corporate net assets has decreased because of lower invested assets.

The trading results of our IFA businesses and of AmLife Berhad are discussed in the Business Review section.

## Effect of credit spreads on assets and liabilities for annuities

There has been no repeat of the charge of £(70)m for credit spreads seen in 2008. This is discussed in the Cash Generation section.

**Table 26: Non-underlying items**

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
Short-term fluctuations in investment return	(44)	(68)
Non-recurring items	(59)	(17)
Amortisation of acquired present value of in-force business	(12)	(13)
Amortisation of Life & Pensions acquired intangible assets	(8)	(7)
Amortisation of Asset Management acquired intangible assets	(25)	(22)
Interest payable on STICS	24	26
Policyholder tax	14	(81)
Returns on Group-controlled funds attributable to third parties	(30)	(52)
<b>Total</b>	<b>(140)</b>	<b>(234)</b>

Non-underlying items reflect the differences between IFRS underlying profit and IFRS profit before tax from continuing operations.

Short-term investment fluctuations of £(44)m (2008: £(68)m) represent the differences between actual and expected longer-term investment returns.

Non-recurring items include: strategic review implementation costs of £48m (2008, £15m) related to the cost reduction programme and costs of the group reorganisation and demerger of F&C of £14m.

Within the calculation of the underlying IFRS result, STICS are accounted for as debt to reflect the economic reality. However, IFRS rules require that STICS should be accounted for as equity in calculating IFRS profit before tax and consequently STICS interest is added back and treated as an appropriation of profit. The lower overall STICS interest results from the reduced principal outstanding following the debt restructuring. The lower tier 2 debt that in part replaced these securities is charged as a finance cost in underlying profit. The overall impact of the debt restructuring will be to modestly reduce the amount of annual interest payable.

Policyholder tax is excluded from the underlying result as it is not attributable to shareholders. The credit of £14m in 2009 is tax on policyholder income. In 2008 the charge of £81m is in respect of a reduction in deferred tax as a result of investment losses.

Returns on Group controlled funds attributable to third parties mainly comprise the 49% minority interest in F&C Commercial Property Trust and reflect falls in underlying property values. The loss attributable to minority interests is excluded from the underlying result and is therefore added back to arrive at profit before tax.

## FINANCIAL STRENGTH

Despite continued volatility in the investment markets during 2009, our business remains financially strong. We continue to meet all our capital requirements. These include the group-wide Insurance Groups Directive capital requirements, the realistic solvency requirement for our with profits business, the regulatory solvency basis for all life companies and our internal economic capital requirements.

**Table 27: Insurance Groups Directive (IGD) surplus resources**

	<b>30 June 2009</b>	31 Dec 2008
	<b>£bn</b>	£bn
Total Group resources for IGD calculation	2.10	1.95
Group resource requirement	(1.35)	(1.10)
<b>IGD surplus</b>	<b>0.75</b>	<b>0.85</b>
<b>Resource requirement coverage</b>	<b>1.6 times</b>	<b>1.7 times</b>

Our capital position is strong with an estimated IGD surplus of £0.75bn (31 December 2008: £0.85bn), reflecting capital resources of £2.10bn less requirements of £1.35bn. The IGD surplus measure is conservative, excluding £0.4bn of surplus assets held within the long-term funds.

After allowing for the demerger of F&C and payment of the Friends Provident Group plc interim dividend (in lieu of the Friends Provident plc final 2008 dividend) the IGD surplus was estimated to be £0.9bn at 31 July 2009.

We have maintained an active hedging strategy throughout 2009 to mitigate the impact of equity markets and interest rate movements on the capital position of our with profits business.

**Table 28: IGD surplus**

The movement in IGD surplus to 31 July 2009 can be analysed as follows:

	<b>£bn</b>
<b>Surplus 31 December 2008</b>	<b>0.85</b>
Payment of dividends and STICS interest	(0.1)
Net transfers to long-term funds	-
F&C demerger	0.2
Other items	(0.05)
<b>Estimated surplus 31 July 2009</b>	<b>0.9</b>

Other items include the investment return on shareholder assets.

### IGD surplus sensitivities

The IGD surplus has no material sensitivity to a 30% fall in equity markets from 31 July 2009 levels, and would not be reduced by more than £0.1bn if bond spreads were to widen by a further 100 basis points.

### Economic capital

We continue to use economic capital to inform business decisions. We have developed a sophisticated capital model, which has helped with setting our financial risk appetite and our continued drive for capital efficiency. The model forms the basis for discussions with the FSA to agree the individual capital requirements for each company based on an assessment of its own risk profile.

EEV required capital is set at the higher of regulatory capital and requirements arising from internal capital management policies, which include economic risk capital objectives. In aggregate, EEV required capital is higher than regulatory requirements by approximately £400m (31 December 2008: £400m).

**Table 29: Life and pensions excess capital resources**

	<b>30 June 2009</b>	31 Dec 2008
	<b>£bn</b>	£bn
Total available capital resources	<b>1.9</b>	2.0
Regulatory capital requirement	<b>(0.7)</b>	(0.8)
<b>Excess capital resources</b>	<b>1.2</b>	1.2

Total available capital resources are calculated on a realistic basis for the FPLP With Profits Fund and on a regulatory basis for all other funds. The excess capital resources stand at £1.2bn, including the excess capital resources within the long-term funds. The bulk of the Group's capital is held outside the with profits funds and, consequently, can be deployed around the Group with a relatively high degree of flexibility.

#### **FPLP With Profits Fund solvency**

We manage the FPLP with profits business on a realistic balance sheet basis. For solvency monitoring, the assets and liabilities are calculated both on a realistic basis and on a regulatory basis. If the realistic balance sheet has a lower surplus than the regulatory balance sheet, an additional capital requirement, the WPICC, is applied to the regulatory balance sheet. As at 30 June 2009 and 31 December 2008 the more onerous requirement has been the realistic basis.

For the realistic basis, policyholder liabilities (including options and guarantees) are valued using a market-consistent stochastic model. The realistic balance sheet is resilient in the event of falls or rises in investment markets, in large measure due to the actions taken to hedge the exposure to guarantees and options.

On the realistic basis at 30 June 2009 there were surplus assets of £225m available to cover the risk capital margin of £225m (31 December 2008: £291m available to cover the risk capital margin of £291m). Our objective is to manage the fund so that, over time, the risk capital margin remains covered from assets within the With Profits Fund. In accordance with the Principles and Practices of Financial Management, in the event that surplus assets exceed the risk capital margin, this excess is used to reduce the charge for guarantees. Conversely if the surplus assets are less than the risk capital margin, the charge is increased.

#### **Free asset ratio**

The free asset ratio is a common measure of financial strength. It is the ratio of assets less liabilities (including actuarial reserves but before the capital requirements), expressed as a percentage of actuarial reserves. The FPLP free asset ratio was 17.0% at 30 June 2009 (31 December 2008: 14.7%) and available assets to meet capital requirements were £2.4bn (31 December 2008: £2.2bn).

## **FPLP financial strength ratings**

Current ratings are:

- Standard & Poor's: A- (strong) with a stable outlook
- Fitch's rating: A (strong) with a negative outlook
- Moody's rating: A3 (strong) with a stable outlook

We target our financial strength ratings in the single A range and expect them to remain there for the foreseeable future.

The three rating agencies recognise the strength of our capital position as a positive rating factor. In recent years, capital strength, one of several factors considered by the agencies, has been one of the strongest components of our overall financial strength ratings.

## **Solvency II**

Solvency II is still at an early stage of consultation in terms of the calibration detail. We participated in the last calibration exercise in 2008 (QIS 4) which provided a good indication of the solvency position for the FP Group. We are, however, conscious that the debate on calibration is still evolving. We are following closely the consultations by CEIOPS on the proposed implementation measures. We welcome the approach of a risk based capital regime but are concerned that recent consultations from CEIOPS appear to be excessively prudent in some areas, notably reserving for annuities and limits on forms of capital. However, discussions are at an early stage on these issues and we are supportive of the work of the ABI in these debates.

## **Liquidity**

Our liquidity remains strong. We also have an undrawn £300m funding facility with a consortium of banks. This facility runs until April 2011 and provides the group with considerable flexibility.

## **Financial risk reduction**

We actively manage financial risk and have taken a number of initiatives to reduce our exposures.

## **FPLP With Profits Fund**

The overall aim remains to balance risk to shareholders with maximising returns to policyholders whilst ensuring guarantees are met as they fall due. We have continued to manage the proportion of equities and property backing asset shares actively. At 30 June 2009 the effective proportion of equities and property in the fund was 20% (31 December 2008: 16%).

## **Other life and pensions funds**

Other risk mitigation activities include cashflow matching and other inflation and interest rate hedging.

## **Pension schemes**

Before the IFRIC 14 ('The limit on a defined benefit asset, minimum funding requirements, and their interaction') restriction on the carrying value of the IAS 19 surplus, the after tax surplus of the Friends Provident Pension Scheme (FPPS) was £2m (31 December 2008: surplus of £82m). The change in surplus mainly arose from

changes in corporate bond spreads, as the liabilities are discounted based on AA rated corporate bond yields, as required by the accounting standard.

After the application of IFRIC 14, the carrying value of the pension scheme asset has been restricted to £nil (31 December 2008: £nil).

Following the triennial valuation of the FPPS in September 2008, the Scheme Trustees and Company have reached agreement in principle on an increase in funding of which an element is contingent on future investment returns.

### Table 30: Financial assets

The Group's financial assets, excluding cash and property, are summarised as follows as at 30 June 2009:

	Unit linked £bn	With Profit Funds* £bn	Non- profit £bn	Share- holder £bn	30 June 2009 Total £bn	31 Dec 2008 Total £bn
Shares, unit trusts & OEICs	23.1	2.5	0.1	-	25.7	26.2
Gilts	1.9	3.4	0.7	0.1	6.1	6.7
Corporate bonds & ABS	2.8	4.2	2.6	0.4	10.0	10.3
Derivatives	-	0.3	-	-	0.3	0.6
Deposits	0.4	-	-	-	0.4	0.5
<b>Total</b>	<b>28.2</b>	<b>10.4</b>	<b>3.4</b>	<b>0.5</b>	<b>42.5</b>	<b>44.3</b>

\*With Profit Funds includes the non-profit assets within the FPLP With Profits Fund of £2.2bn including £0.2bn gilts and £1.9bn corporate bonds and ABS.

Shares, unit trusts and OEICs comprise: unit trusts and OEICs £13.7bn, listed equity £10.7bn and unlisted equity £1.3bn.

The equity exposure to the FPLP With Profits Fund is largely hedged with sold futures. The net exposure of the FPLP With Profits Fund to equity at 30 June 2009 was £0.9bn. The net exposure of the Fund to property was a further £0.6bn.

Corporate bonds and ABS comprise: listed corporate bonds, £8.2bn, unlisted corporate bonds £0.4bn and Asset Backed Securities (ABS) £1.4bn.

### Table 31: Corporate bonds

Listed corporate bonds of £8.2bn are analysed by fund and credit rating as follows:

	Unit linked £m	With Profit Funds £m	Non- profit £m	Share- holder £m	30 June 2009 Total £m	31 Dec 2008 Total £m
AAA	131	1,005	193	50	1,379	1,319
AA	136	440	1,740	48	2,364	2,667
A	346	1,377	358	141	2,222	2,190
BBB	153	461	74	31	719	605
Sub-BBB or rating not available	*1,316	165	19	8	1,508	1,780
<b>Total</b>	<b>2,082</b>	<b>3,448</b>	<b>2,384</b>	<b>278</b>	<b>8,192</b>	<b>8,561</b>

\* £1.0bn out of the £1.3bn corporate bonds in the unit linked 'Sub-BBB or rating not available' category represent Lombard investments where the ratings information is not retained. These are all unit-linked assets with no shareholder exposure.

Our corporate debt portfolio remains highly rated, with over 96% of £6.1 billion of corporate bonds (excluding unit-linked funds) at investment grade.

The value of debt holdings in UK banks and building societies, including foreign-owned subsidiaries, was as follows:

	<b>30 June 2009</b>	31 Dec 2008
	<b>£m</b>	£m
Senior and government backed	<b>338</b>	93
Lower tier 2	<b>276</b>	241
Tier 1 and Upper tier 2	<b>288</b>	429
	<b>902</b>	763

Over the period an additional £200m nominal value of UK Government guaranteed bank debt was purchased and some lower ranked debt has been tendered for more senior rated tranches.

Holdings within unit-linked funds are excluded from the above analysis because there is no direct shareholder exposure to asset price falls. More than 80% of the total debt holdings shown above are held within the with profit funds to back asset shares or non-profit liabilities.

#### **Asset Backed Securities (ABS)**

Of the £1,382m total ABS, £1,245m is managed by F&C on behalf of the Group. The balance is represented by investments in ABS held by externally managed funds in which the shareholder has no exposure. The F&C managed ABS is analysed as follows:

**Table 32: Type of ABS**

<b>Type of ABS</b>	<b>£m by ratings</b>							<b>Total</b>
	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>BB</b>	<b>Sub B</b>	<b>Unrated</b>	
Collateralised Debt Obligations (CDO)	-	-	10	-	-	-	7	17
Collateralised Loan Obligations (CLO)	2	-	-	-	-	-	-	2
Commercial Mortgage Backed Securities (CMBS)	185	71	44	36	-	-	-	336
Residential Mortgage Backed Securities (RMBS)	111	8	-	-	-	2	-	121
Monoline Wrapped	-	207	62	160	-	-	6	435
Other ABS	123	65	124	10	5	7	-	334
<b>30 June 2009 Total</b>	<b>421</b>	<b>351</b>	<b>240</b>	<b>206</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>1,245</b>
	<b>34%</b>	<b>28%</b>	<b>19%</b>	<b>17%</b>	<b>0%</b>	<b>1%</b>	<b>1%</b>	<b>100%</b>
31 December 2008 Total	524	323	386	62	4	7	14	1,320
	40%	24%	29%	5%	0%	1%	1%	100%

'Other ABS' in the tables above cover a variety of securities including credit card receivables, Structured Investment Vehicles, whole business securitisations, housing association and other asset backed securities.

Of the above ABS, the shareholder exposure amounts to £661m, including £361m of assets backing annuity liabilities.

Analysis of exposure is as follows:

**Table 33: ABS exposure**

Exposure	£m by ratings							Total
	AAA	AA	A	BBB	BB	Sub B	Unrated	
Shareholder exposure								
– 30 June 2009	<b>231</b>	<b>189</b>	<b>121</b>	<b>105</b>	-	<b>5</b>	<b>10</b>	<b>661</b>
– 31 December 2008	269	162	171	20	-	2	11	635
With Profit Funds								
Exposure								
– 30 June 2009	<b>171</b>	<b>143</b>	<b>90</b>	<b>76</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>488</b>
– 31 December 2008	227	136	171	31	4	4	1	574
Unit linked exposure								
– 30 June 2009	<b>19</b>	<b>19</b>	<b>29</b>	<b>25</b>	-	<b>2</b>	<b>2</b>	<b>96</b>
– 31 December 2008	28	25	44	11	-	1	2	111
<b>30 June 2009 Total</b>	<b>421</b>	<b>351</b>	<b>240</b>	<b>206</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>1,245</b>
31 December 2008 Total	524	323	386	62	4	7	14	1,320

The above exposure analysis takes account of the profit sharing proportions of the funds.

The movement of ABS in the period is analysed in the following table:

	£m
<b>Value at 1 January 2009</b>	<b>1,320</b>
Maturities and disposals	(47)
Impact of mark to market	(28)
Defaults	-
<b>Value at 30 June 2009</b>	<b>1,245</b>

ABS are valued using external pricing services. Almost all of the ABS portfolio is valued using active prices, generally from multiple pricing sources.

In addition to the Group's ABS exposure, the Friends Provident Pension Scheme has direct exposure to ABS of £60m and a further £87m via its investment in F&C Liability Driven Investment Pools. The ABS represent 23% of the investment pools and these are all AAA rated.

#### Defaults

Total corporate bond and ABS defaults during the period were £1m representing a default rate of less than 0.1% of the portfolio. The shareholder exposure was £0.1m.

## EEV PROFITABILITY

European Embedded Value (EEV) is an alternative accounting basis to IFRS for life assurance companies. EEV profit reflects the future cashflows that are expected to arise from sales in the year and the effect of updating previous assumptions with actual experience.

In June 2008 the CFO Forum published its Market Consistent Embedded Value (MCEV) Principles that it is intended will replace the current EEV Principles. Following continued debate over the Principles, in particular the appropriate risk-free rate to apply to certain classes of business, the CFO Forum announced in April 2009 it was to delay the implementation of the MCEV Principles until 2011. In line with our 2008 reporting we have not adopted the revised Principles for these results. Once the CFO Forum has confirmed the Principles, we will re-assess whether to adopt them and when.

We continue to use a market-consistent approach and in particular use gilt returns to represent risk-free returns.

There is much debate at present around the most appropriate discount rate to use to discount cashflows on business such as annuities. In current market conditions, with very wide spreads on corporate bonds, it is likely that some of this spread represents illiquidity risk rather than credit risk and therefore some companies have sought to modify the risk-free rate for their spread business in their EEV. For annuity business the impacts of using a risk-free rate above gilts have been provided for the values of new and in-force business.

**Table 34: Summary of EEV results**

	Half year ended	
	30 June 2009 £m	30 June 2008 £m
Contribution from new business	30	67
In-force profit	83	108
Other life and pensions items	8	7
Asset Management	9	27
Corporate and other items	1	2
<b>EEV underlying profit before tax</b>	<b>131</b>	211
Non-underlying items	(222)	(216)
<b>EEV loss before tax</b>	<b>(91)</b>	(5)
Return on embedded value	5.9%	8.4%
EEV underlying earnings per share	3.7p	6.5p
EEV basic loss per share	(2.9)p	(1.0)p
Pro forma embedded value per share	124p	128p*

\* 31 December 2008

EEV underlying profit has reduced from £211m to £131m. The main drivers for the reduced underlying profit are the reduced contribution from new business, reduced Asset Management profits, and reduced persistency on UK business.

The EEV loss before tax is £91m (2008: £5m). This takes into account the impacts of investment return variances and economic assumption changes. These items totalled to a £222m charge in 2009 compared to a charge of £216m in 2008.

The return on embedded value, which is calculated on the underlying basis after tax, has reduced from 8.4% to 5.9%. The UK return reduced from 7.1% to 5.0% and the International return reduced from 14.4% to 8.5%.

The EEV underlying earnings per share reduced from 6.5p to 3.7p and the EEV basic loss per share was 2.9p (2008: 1.0p)

**Table 35: Underlying profit by segment**

	Half year ended 30 June					
	2009			2008		
	UK £m	Intl £m	Total £m	UK £m	Intl £m	Total £m
Contribution from new business	3	27	30	27	40	67
In-force profit	62	21	83	80	28	108
Other life and pensions items	12	(4)	8	14	(7)	7
<b>Life and pensions underlying profit</b>	<b>77</b>	<b>44</b>	<b>121</b>	121	61	182
Asset Management, corporate and other items			10			29
<b>EEV underlying profit before tax</b>			<b>131</b>			211

The UK underlying profit has reduced from £121m to £77m, because of the lower contribution from new business and worsening persistency on group pensions, single premium bonds and protection business. In addition the expected return on shareholder net assets has fallen due to lower invested assets in 2009 compared with 2008.

The International underlying profit has reduced from £61m to £44m mainly due to a reduced contribution from new business, partially offset by lower development expenses.

#### **Contribution from new business**

The UK contribution from new business decreased from £27m to £3m, and the International contribution has decreased from £40m to £27m. This is discussed in the Business Review section.

The pro forma impact of using risk-free rates of 100 basis points above gilts for annuity business is shown in the table below.

**Table 36: Contribution from new business**

	Half year ended 30 June 2009 100 bps £m
UK Contribution from new business as reported	3
Impact of additional spread above gilts	12
<b>UK Contribution from new business with additional spreads above gilts</b>	<b>15</b>
International contribution from new business	27
<b>Contribution from new business with additional spread above gilts</b>	<b>42</b>

**Table 37: In-force profit**

	Half year ended					
	30 June 2009			30 June 2008		
	UK	Intl	Total	UK	Intl	Total
£m	£m	£m	£m	£m	£m	
Expected return on in-force	87	27	114	73	26	99
Experience variances	(25)	(6)	(31)	7	2	9
<b>Total</b>	<b>62</b>	<b>21</b>	<b>83</b>	<b>80</b>	<b>28</b>	<b>108</b>

The expected return on the UK in-force book has increased from £73m to £87m reflecting the wider credit spreads on corporate bonds backing annuity business. The expected return on the International in-force book has slightly increased to £27m with the growth in the in-force business in 2008 offset by adverse investment and exchange rate movements.

Within the UK experience variance the main item is a charge of £19m for reduced persistency over the first half of 2009 in respect of reduced contributions received on individual and group pensions and increased lapses on protection and investment business. Some of the losses on the group pensions book are due to the withdrawal from the unfunded commission part of the group pensions market. This has led to some of the business being rebrokered to companies who still pay initial commission. There is also a recessionary impact as premiums reduce or cease on group pensions plans and customers cancel policies due to affordability concerns. Both these impacts are expected to be short-term. The balance of £6m includes a number of items, largely one-off in nature, including some repricing activity on schemes following corporate restructuring.

International experience variances include small adverse persistency experience within both Lombard and FPI.

### Operating assumption changes

We have not sought to anticipate in these results the potential effect of a continued recession on future profits from the in-force business. To give an indication of the sensitivity, the value of in-force business would reduce by approximately £80m (equivalent to approximately £110m pre-tax EEV profit) if the persistency and morbidity experience were to deteriorate by approximately 25% over the average assumption for the next two years as a result of the economic downturn for life protection, income protection, unit-linked bonds, pensions (group and legacy) and International business.

**Table 38: Other life and pensions items**

	Half year ended					
	30 June 2009			30 June 2008		
	UK	Intl	Total	UK	Intl	Total
£m	£m	£m	£m	£m	£m	
Expected return on shareholder net assets	13	(1)	12	21	-	21
Development costs	(1)	(3)	(4)	-	(7)	(7)
Other income	-	-	-	(7)	-	(7)
<b>Total</b>	<b>12</b>	<b>(4)</b>	<b>8</b>	<b>14</b>	<b>(7)</b>	<b>7</b>

The UK expected return fell from £21m to £13m because of a decrease in the weighted average value of UK life and pensions shareholder assets during the year from £975m for 2008 to £633m.

As indicated in 2008, development costs now only include costs relating to developing wholly new products or entering wholly new markets.

Other income in 2008 included a charge of £(5)m relating to the Wrap project.

**Table 39: Asset Management, corporate and other items**

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
Asset Management underlying profit	9	27
Expected return on net pension asset	4	2
Expected return on corporate net assets	(1)	4
Corporate costs	(6)	(8)
Other income	4	4
<b>Total</b>	<b>10</b>	<b>29</b>

Asset Management underlying profit is discussed in the Business Review section. The increase in the expected return on the net pension asset reflects an increase in the opening surplus as reported under IAS19. The expected return on corporate net assets has decreased because of lower invested assets.

Other income includes AmLife £5m (2008: £nil), Sesame £(1)m (2008: £2m) and Pantheon £1m (2008: £2m) which are discussed in the Business Review section.

**Table 40: Non-underlying items**

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
Investment return variances	(102)	(289)
Effect of economic assumption changes	(34)	115
Non-recurring items	(59)	(17)
Amortisation of Asset Management acquired intangibles	(25)	(22)
Amortisation of Sesame / Pantheon acquired intangibles	(2)	(3)
<b>Total</b>	<b>(222)</b>	<b>(216)</b>

Investment return variances of £(102)m include the investment variances on life and pensions assets of £(139)m. The life and pensions investment variances comprise £(90)m of UK variances and £(49)m of International variances, and derive from equity market movements, interest rate changes, credit spreads and exchange rate movements.

The effect of economic assumption changes of £(34)m comprises £(27)m UK changes, and £(7)m of International changes.

Non-recurring items include: strategic review implementation costs of £48m (2008, £15m) related to the cost reduction programme and costs of the group reorganisation and demerger of F&C of £14m.

## EMBEDDED VALUE

The embedded value has reduced by 2.4% from £2,965m to £2,894m. It comprises:

**Table 41: Total embedded value**

	<b>30 June 2009</b>	31 Dec 2008
	<b>£m</b>	£m
Shareholders' invested net assets	<b>1,159</b>	1,181
Value of in-force life and pensions business	<b>1,652</b>	1,731
Market value of the listed asset management business	<b>180</b>	150
Provision for future corporate costs	<b>(97)</b>	(97)
Net pension scheme asset	-	-
<b>Total embedded value</b>	<b>2,894</b>	2,965

The pro forma embedded value per share is 124p (31 December 2008: 128p).

**Table 42: Shareholders' invested net assets**

Shareholders' invested net assets have decreased by £22m over the year and comprise:

	<b>30 June 2009</b>	31 Dec 2008
	<b>£m</b>	£m
Life and pensions shareholder funds	<b>96</b>	113
Life and pensions long-term funds	<b>478</b>	496
<b>Total life and pensions net assets</b>	<b>574</b>	609
Corporate net assets	<b>585</b>	572
<b>Shareholders' invested net assets</b>	<b>1,159</b>	1,181

Life and pensions shareholder funds have decreased reflecting unrealised investment losses. Life and pensions long-term funds have decreased reflecting the negative life surplus in the period.

Corporate net assets have increased mainly because of the £13m impact of marking to market the STICS, partly offset by unrealised investment losses.

### Value of in-force life and pensions business

The reduction in the period is mainly due to investment market movements.

The impact of using risk-free rates of 100 basis points above gilts would be to increase the value of in-force annuity business by £159m.

**Table 43: Market value of the listed Asset Management business**

	<b>30 June 2009</b>	31 Dec 2008
Share price of F&C	<b>70p</b>	58p
Number of shares held	<b>259m</b>	259m
Percentage of shares held	<b>52.3%</b>	52.5%
<b>Market value of holding in F&amp;C</b>	<b>£180m</b>	£150m

## **Provision for future corporate costs**

Regular on-going corporate costs of £12m p.a. (31 December 2008: £12m p.a.) are capitalised and deducted from the embedded value.

## **Net pension asset**

As explained in the Financial Strength section, the surplus in the Friends Provident Pension Scheme has again been restricted to Enil value at 30 June 2009.

## **EEV tax assets and taxation of foreign profits**

The Finance Act 2009 was enacted on 21 July 2009 and this changed the UK taxation basis of foreign profits remitted to the UK. As a consequence of this change we would consider releasing the provision in the EEV in respect of tax on the International Business profits at the end of 2009. This, however, is subject to potential changes emerging from the Controlled Foreign Companies Consultation by HM Treasury. In addition, we will review the value of tax assets in the EEV at year end, in light of market conditions and expected future levels of life business investment income in the UK. The outcome of that review is uncertain and, therefore, there is a possibility of a reduction in the current EEV deferred tax values at the end of 2009. Consequently, we have not reflected any adjustments to the current value of tax assets in the first half of 2009.

## **RISK MANAGEMENT**

The reporting requirements for listed companies require us to comment on the risks and uncertainties that could affect results in the second half of 2009. The Board believes that the principal risks and uncertainties facing the Group are those that were explained in the Annual Report & Accounts for 2008 (pages 30-31) and is satisfied that there are appropriate arrangements in place to manage and mitigate them. The following are the key risks during the second half of 2009.

### **Consolidation activity in the insurance sector**

We see advantages in consolidation within the UK life industry that allows life companies to achieve the scale necessary for margins to rise and payback periods to fall to levels that provide greater returns for shareholders. Consolidation could also enhance returns to shareholders through operational and financial efficiencies and improved cash flows. The Board has an effective strategy in place for responding to potential consolidation activity.

### **Implementation of the revised strategy**

Implementation of the revised strategy announced in January 2008 has entailed making changes to the organisation's structure and business processes as well as to some of the products offered to the market. These changes are now largely complete. The second half of 2009 will see the more recent changes becoming bedded in, with new operational processes in place, in particular in the relationship with our recently demerged fund manager, F&C Asset Management plc.

### **Changes or volatility in UK and global economic factors**

The economic outlook remains challenging, despite some early signs of a possible improvement, particularly in relation to credit default risk and spreads and to the UK housing market. There remains a risk that a prolonged downturn will reduce the Group's income. Although we cannot control the external environment, the Board monitors the situation closely and will continue to adapt the Group's approach to the market as required.

## **Statement of directors' responsibilities**

The directors confirm that the condensed consolidated IFRS interim financial information has been prepared in accordance with IAS 34, Interim financial reporting, as adopted by the European Union and that the interim management report includes a fair review of the information required by 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in related party transactions described in the last annual report that could do so.

By order of the Board

**Trevor Matthews**  
Chief Executive Officer

**Evelyn Bourke**  
Chief Financial Officer

10 August 2009

## **Independent review report by KPMG Audit Plc to Friends Provident Group plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Condensed consolidated income statement on an IFRS basis, the Condensed consolidated statement of comprehensive income on an IFRS basis, the Condensed consolidated statement of financial position on an IFRS basis, the Condensed consolidated statement of change in equity on an IFRS basis, Condensed consolidated cash flow statement on an IFRS basis and the related explanatory notes (including the Condensed consolidated underlying profit on an IFRS basis) and to review the European Embedded Value Basis Supplementary Information for the six months ended 30 June 2009 which comprises the Summary consolidated income statement on an EEV basis, the Consolidated statement of comprehensive income on an EEV basis, the Consolidated statement of changes in ordinary shareholders' equity on an EEV basis, the Consolidated statement of financial position on an EEV basis and notes thereto (the Supplementary Information).

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements or the Supplementary Information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the DTR) of the UK's Financial Services Authority (the UK FSA) and also to provide a review conclusion to the Company on the Supplementary Information. Our review of the condensed set of financial statements has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. Our review of the Supplementary Information has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA. The directors have accepted responsibility for preparing the Supplementary Information contained in the half-yearly financial report in accordance with the European Embedded Value Principles issued in May 2004 by the European CFO Forum and supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 (together the 'EEV Principles') and for determining the methodology and assumptions used in the application of those principles.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim financial reporting as adopted by the EU. The Supplementary Information has been prepared in accordance with the EEV Principles, using the methodology and assumptions set out in notes 1 and 13 to the Supplementary Information. The Supplementary Information should be read in conjunction with the Group's condensed financial statements.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements and the Supplementary Information in the half-yearly financial report based on our review.

**Scope of review**

We conducted our reviews 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 UK. A review of interim financial information and Supplementary 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 half yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Based on our review, nothing has come to our attention that causes us to believe that the Supplementary Information for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 1 and 13 to the Supplementary Information.

**Ian A Dewar**

**For and on behalf of KPMG Audit Plc**

Chartered Accountants

8 Salisbury Square

London

EC4Y 8BB

10 August 2009

**Condensed consolidated income statement on an IFRS basis**  
**For the half year ended 30 June 2009**

		Half year ended 30 June	
	Notes	2009 £m	2008 £m
<b>Revenue</b>			
Gross earned premiums	3	451	492
Premiums ceded to reinsurers	3	(51)	(48)
<b>Net earned premiums</b>	3	<b>400</b>	444
Fee and commission income and income from service activities		384	388
Investment return		319	(3,440)
<b>Total revenue</b>		<b>1,103</b>	(2,608)
<b>Claims, benefits and expenses</b>			
Gross claims and benefits paid		772	860
Amounts receivable from reinsurers		(95)	(58)
<b>Net claims and benefits paid</b>		<b>677</b>	802
Change in insurance contracts liabilities		(708)	(1,317)
Change in investment contracts liabilities		592	(2,391)
Transfer from fund for future appropriations		(77)	(50)
Movement in net assets attributable to unit holders		15	(128)
<b>Movement in policyholder liabilities</b>		<b>(178)</b>	(3,886)
Acquisition expenses		259	237
Administrative and other expenses		380	391
Finance costs		67	69
<b>Total claims, benefits and expenses</b>		<b>1,205</b>	(2,387)
<b>Loss before tax from continuing operations</b>		<b>(102)</b>	(221)
Policyholder tax		(14)	81
<b>Loss before shareholder tax from continuing operations</b>		<b>(116)</b>	(140)
Total tax (charge)/credit		(6)	137
Policyholder tax		14	(81)
<b>Shareholder tax</b>		<b>8</b>	56
<b>Loss for the period</b>	3	<b>(108)</b>	(84)
Attributable to:			
Equity holders of the parent: (i)			
Ordinary shareholders		(98)	(60)
Other equity holders		24	26
		(74)	(34)
Minority interest		(34)	(50)
<b>Loss for the period</b>		<b>(108)</b>	(84)
		<b>2009</b>	2008
<b>Earnings per share</b>		<b>pence</b>	pence
Basic loss per share	5(a)	(4.2)	(2.6)
Diluted loss per share	5(b)	(4.2)	(2.6)

(i) All profit attributable to equity holders of the parent is from continuing operations. As explained in the basis of preparation, F&C has been presented as a continuing operation.

Condensed consolidated statement of comprehensive income on an IFRS basis

For the half year ended 30 June 2009

	Equity holders of the parent (ordinary shares) £m	Equity holders of the parent (STICS) £m	Total equity holders of the parent £m	Minority Interest £m	Total £m
<b>(Loss)/profit for the period</b>	<b>(98)</b>	<b>24</b>	<b>(74)</b>	<b>(34)</b>	<b>(108)</b>
Other comprehensive income:					
Actuarial losses on defined benefit schemes	(18)	-	(18)	(12)	(30)
Tax credit	5	-	5	3	8
Foreign exchange adjustments (i)	(90)	-	(90)	(17)	(107)
Revaluation of owner occupied properties	(2)	-	(2)	-	(2)
Shadow accounting (ii)	21	-	21	-	21
<b>Other comprehensive loss, net of tax</b>	<b>(84)</b>	<b>-</b>	<b>(84)</b>	<b>(26)</b>	<b>(110)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>(182)</b>	<b>24</b>	<b>(158)</b>	<b>(60)</b>	<b>(218)</b>

- (i) Foreign exchange adjustments relate to the translation, net of tax, of overseas subsidiaries.
- (ii) Shadow accounting includes £2m in respect of the revaluation of owner occupied properties and £19m in respect of foreign exchange adjustments on translation of overseas subsidiaries held by the With Profits Fund of Friends Provident Life & Pensions Limited (FPLP).

For the half year ended 30 June 2008

	Equity holders of the parent (ordinary shares) £m	Equity holders of the parent (STICS) £m	Total equity holders of the parent £m	Minority interest £m	Total £m
<b>(Loss)/profit for the period</b>	<b>(60)</b>	<b>26</b>	<b>(34)</b>	<b>(50)</b>	<b>(84)</b>
Other comprehensive income:					
Actuarial gains/(losses) on defined benefit schemes	42	-	42	(3)	39
Tax (charge)/credit	(12)	-	(12)	1	(11)
Foreign exchange adjustments	39	-	39	6	45
<b>Other comprehensive income, net of tax</b>	<b>69</b>	<b>-</b>	<b>69</b>	<b>4</b>	<b>73</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>9</b>	<b>26</b>	<b>35</b>	<b>(46)</b>	<b>(11)</b>

## Condensed consolidated underlying profit on an IFRS basis

For the half year ended 30 June 2009

	Notes	Half year ended 30 June	
		2009 £m	2008 £m
<b>Loss before tax from continuing operations</b>		<b>(102)</b>	(221)
Policyholder tax		(14)	81
Returns on Group-controlled funds attributable to third parties		30	52
<b>Loss before tax excluding profit generated within policyholder funds</b>		<b>(86)</b>	(88)
Non-recurring items	3	59	17
Amortisation of Asset Management acquired intangible assets		25	22
Amortisation of acquired present value of in-force business		12	13
Amortisation of acquired intangible assets		8	7
Interest payable on Step-up Tier one Insurance Capital Securities (STICS)		(24)	(26)
Short-term fluctuations in investment return		44	68
<b>Underlying profit before tax</b>		<b>38</b>	13
Tax on underlying profit		(27)	26
Minority interest in underlying profit		(4)	(10)
<b>Underlying profit after tax attributable to ordinary shareholders of the parent</b>		<b>7</b>	29
		<b>2009</b>	2008
<b>Earnings per share</b>		<b>pence</b>	pence
Underlying earnings per share	5(a)	<b>0.3</b>	1.2

IFRS underlying profit is based on longer-term investment return and excludes: (i) policyholder tax, (ii) returns attributable to minority interests in policyholder funds, (iii) non-recurring items, (iv) amortisation and impairment of acquired intangible assets and present value of acquired in-force business; and is stated after deducting interest payable on STICS. Management consider that underlying profit better reflects the performance of the Group and focus on this measure of profit in its internal monitoring of the Group's IFRS results.

**Condensed consolidated statement of financial position on an IFRS basis  
At 30 June 2009**

	Notes	30 June 2009 £m	31 Dec 2008 £m
<b>Assets</b>			
Intangible assets	6	1,228	1,358
Property and equipment		60	66
Investment properties		1,350	1,493
Investments in associates and joint venture		47	47
Deferred tax assets		13	15
Financial assets	7	42,587	44,372
Deferred acquisition costs		1,225	1,223
Reinsurance assets		1,930	1,964
Current tax assets		5	4
Insurance and other receivables		860	670
Cash and cash equivalents		4,647	5,183
<b>Total assets</b>		<b>53,952</b>	<b>56,395</b>
<b>Liabilities</b>			
Insurance contracts		11,906	12,677
Fund for future appropriations		324	401
Financial liabilities			
- Investment contracts		34,264	35,275
- Loans and borrowings		883	729
- Amounts due to reinsurers		1,626	1,792
Net asset value attributable to unit holders		676	668
Provisions		160	108
Deferred tax liabilities		107	108
Current tax liabilities		84	90
Insurance payables, other payables and deferred income		852	1,003
<b>Total liabilities</b>		<b>50,882</b>	<b>52,851</b>
<b>Equity attributable to equity holders of the parent</b>			
Attributable to ordinary shareholders:			
Share capital	9	468	234
Share premium	9	-	2,372
Other reserves	9	1,830	(242)
		<b>2,298</b>	<b>2,364</b>
Attributable to other equity holders	8	475	810
		<b>2,773</b>	<b>3,174</b>
<b>Minority interest</b>		<b>297</b>	<b>370</b>
<b>Total equity</b>		<b>3,070</b>	<b>3,544</b>
<b>Total equity and liabilities</b>		<b>53,952</b>	<b>56,395</b>

**Condensed consolidated statement of changes in equity**  
**Half year ended 30 June 2009**

	Equity attributable to equity holders of the parent					Minority Interest	Total
	Share capital	Share premium	Other reserves	STICS	Total		
	£m	£m	£m	£m	£m		
<b>At 1 January 2009</b>	<b>234</b>	<b>2,372</b>	<b>(242)</b>	<b>810</b>	<b>3,174</b>	<b>370</b>	<b>3,544</b>
(Loss)/profit for the period	-	-	(98)	24	(74)	(34)	(108)
Other comprehensive loss	-	-	(84)	-	(84)	(26)	(110)
Total comprehensive (loss)/income	-	-	(182)	24	(158)	(60)	(218)
Dividends on equity shares	-	-	-	-	-	(20)	(20)
Interest paid on STICS	-	-	-	(40)	(40)	-	(40)
Appropriations of profit	-	-	-	(40)	(40)	(20)	(60)
Share based payments	-	-	3	-	3	3	6
Change in participation in subsidiary	-	-	-	-	-	4	4
STICS exchange (i)	-	-	113	(319)	(206)	-	(206)
Group reorganisation (ii)	234	(2,372)	2,138	-	-	-	-
<b>At 30 June 2009</b>	<b>468</b>	<b>-</b>	<b>1,830</b>	<b>475</b>	<b>2,773</b>	<b>297</b>	<b>3,070</b>

(i) See note 8

(ii) See notes 9 & 10

Half year ended 30 June 2008

	Equity attributable to equity holders of the parent					Minority Interest	Total
	Share capital	Share premium	Other reserves	STICS	Total		
	£m	£m	£m	£m	£m		
<b>At 1 January 2008</b>	<b>234</b>	<b>2,372</b>	<b>346</b>	<b>810</b>	<b>3,762</b>	<b>562</b>	<b>4,324</b>
(Loss)/profit for the period	-	-	(60)	26	(34)	(50)	(84)
Other comprehensive income	-	-	69	-	69	4	73
Total comprehensive income /(loss)	-	-	9	26	35	(46)	(11)
Dividends on equity shares	-	-	(123)	-	(123)	(20)	(143)
Interest paid on STICS	-	-	-	(42)	(42)	-	(42)
Appropriations of profit	-	-	(123)	(42)	(165)	(20)	(185)
Share based payments	-	-	5	-	5	3	8
Change in participation in subsidiary	-	-	-	-	-	18	18
<b>At 30 June 2008</b>	<b>234</b>	<b>2,372</b>	<b>237</b>	<b>794</b>	<b>3,637</b>	<b>517</b>	<b>4,154</b>

**Condensed consolidated statement of cash flows**  
**For the half year ended 30 June 2009**

	<b>Half year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
<b>Operating activities</b>		
Loss for the period	<b>(108)</b>	(84)
Adjusted for:		
Net realised and unrealised losses on assets at fair value	<b>417</b>	4,739
Finance costs	<b>67</b>	69
Amortisation and impairment of intangible assets	<b>50</b>	47
Depreciation of property and equipment	<b>5</b>	5
Movement in deferred acquisition costs	<b>(24)</b>	(124)
Total tax charge/(credit)	<b>6</b>	(137)
Net purchases and sales of investments	<b>380</b>	(429)
Decrease in insurance contract liabilities	<b>(771)</b>	(1,374)
Increase/(decrease) in investment contract liabilities	<b>248</b>	(1,981)
Decrease in fund for future appropriations	<b>(77)</b>	(50)
Increase/(decrease) in provisions	<b>53</b>	(8)
Net decrease in receivables and payables	<b>(559)</b>	(410)
<b>Pre-tax cash (outflow)/inflow from operating activities</b>	<b>(313)</b>	263
Tax paid	<b>(17)</b>	(22)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(330)</b>	241
<b>Investing activities</b>		
Acquisition of subsidiaries and investment vehicles, net of cash acquired	<b>39</b>	8
Reduction in participation in subsidiaries and investment vehicles, net of cash disposed	-	26
Additions to internally generated intangible assets	-	(5)
Purchase of property and equipment (net)	<b>(1)</b>	(3)
<b>Net cash inflow from investing activities</b>	<b>38</b>	26
<b>Financing activities</b>		
Finance costs	<b>(56)</b>	(70)
STICS interest	<b>(40)</b>	(42)
Repayment of long term debt	-	(75)
Net movement in other borrowings, net of expenses	<b>5</b>	17
Dividends paid to equity holders of the parent	-	(123)
Dividends paid to minority interest	<b>(20)</b>	(20)
<b>Net cash outflow from financing activities</b>	<b>(111)</b>	(313)
<b>Decrease in cash and cash equivalents</b>	<b>(403)</b>	(46)
Balance at beginning of period	<b>5,183</b>	4,782
Exchange adjustments on the translation of foreign operations	<b>(133)</b>	82
<b>Balance at end of period</b>	<b>4,647</b>	4,818

The Group's consolidated statement of cash flows includes both shareholder and policyholder cash flows.

## Notes to the consolidated financial statements

### 1. Basis of preparation

Friends Provident Group plc (the Company) is a company domiciled in England and Wales. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in associates and jointly controlled entities.

F&C has been included as a continuing operation for half year reporting, as under IFRS its demerger on 3 July 2009 is treated as a non-adjusting post balance sheet event.

The condensed consolidated interim financial statements for the half-year ended 30 June 2009 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim financial reporting as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with IFRS's as adopted by the European Union.

The Company became the new top holding company of Friends Provident plc on 15 June 2009 following a court approved reorganisation. In accordance with IFRS 3 Business combinations, this group reorganisation has been accounted for as a reverse acquisition. Although the condensed consolidated interim financial statements have been prepared in the name of the legal parent, the Company, they are in substance a continuation of the condensed consolidated interim financial statements of the legal subsidiary, Friends Provident plc. The following accounting treatment has been applied in respect of the reverse acquisition:

- (i) The assets and liabilities of Friends Provident plc are recognised and measured in the condensed consolidated interim financial statements at the pre-combination carrying amounts, without restatement to fair value.
- (ii) The equity structure (share capital and premium) appearing in the condensed consolidated interim financial statements reflects the equity structure of the Company. However, the retained earnings and other equity balances recognised in the condensed consolidated interim financial statements reflect those of Friends Provident plc immediately before the business combination, and the results of the period from 1 January 2009 to 30 June 2009 are those of Friends Provident plc.
- (iii) Comparative numbers presented in the condensed consolidated interim financial statements for the income statement are those reported in the condensed consolidated interim financial statements of Friends Provident plc for the six months ended 30 June 2008 and for the financial position are those reported in the consolidated financial statements of Friends Provident plc for the year ended 31 December 2008.

There has been no impact on profitability (apart from the costs of reorganisation) of the revised Group structure.

The comparative figures for the financial position at 31 December 2008 are not the Report & Accounts of Friends Provident plc and its subsidiaries for that financial year, but they are derived therefrom. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Report & Accounts of the Group for the year ended 31 December 2008 is available upon request from the Company's registered office at Pixham End, Dorking, RH4 1QA, or at <http://www.friendsprovident.co.uk/investor/>

In considering whether the condensed consolidated interim financial statements should be prepared under the going concern basis, the directors have considered the information contained in the condensed consolidated interim financial statements, the latest business plan profit forecasts for the Group, the latest working capital forecasts for the Group and estimated forecast solvency. These forecasts have been subject to sensitivity tests given the current uncertain economic outlook and the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Friends Provident plc in its consolidated financial statements as at and for the year ended 31 December 2008, except for the adoption of new standards and amendments to existing standards as of 1 January 2009, as follows:

#### IFRS 2 Share based payment (amendments)

Amendments to IFRS 2 clarified the terms vesting conditions and cancellations. As a result of the amendments, cancellations by an individual are accounted for as an acceleration of the expense that would otherwise have been recognised over the remainder of the vesting period. The impact of adopting the amendments to IFRS 2 has £nil impact on 2009 loss before tax and shareholders' funds (June 2008: £nil impact on loss before tax or shareholders' funds).

#### IFRS 8 Operating segments

IFRS 8 replaces IAS 14 Segment reporting and introduced new requirements for reporting segmental information. It requires information to be reported on the basis of internal financial information used by the Group to evaluate operating performance. The impact of adopting IFRS 8 is an increase in the number of reportable segments presented. The measures presented are unchanged from those presented under IAS 14. Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on profit.

#### IAS 1 Presentation of financial statements (revised)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The IFRS results were approved by the Board of Directors on 10 August 2009.

## 2. Changes in accounting estimates

There have been no significant changes in accounting estimates since 31 December 2008 or in those items subject to significant use of estimates, assumptions and judgements.

## 3. Segmental information

### (a) Summary

The Group presents segmental information based on internal financial information used by the Group to evaluate operating performance, in accordance with new requirements introduced by IFRS 8. The impact of IFRS 8 is an increase in the number of reportable segments presented, based principally on an underlying measure of performance.

The Group's management and internal reporting structure is based on the following operating segments:

- UK Life & Pensions
- Friends Provident International (FPI)
- Lombard
- Asset Management (including F&C's Managed Pension Fund business)
- All other includes the IFA Groups Sesame and Pantheon Financial, and associate undertaking AmLife Berhad

Corporate functions are not 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) Underlying profit

Half year ended 30 June 2009

	UK Life & Pensions £m	FPI £m	Lombard £m	Asset Management £m	Other All other £m	Corporate £m	Total £m
Life result	23	(9)	6	-	-	-	20
Longer-term return on shareholder funds	13	1	(2)	-	-	-	12
Other income	-	-	-	9	-	(3)	6
<b>Underlying profit/(loss) before tax</b>	<b>36</b>	<b>(8)</b>	<b>4</b>	<b>9</b>	<b>-</b>	<b>(3)</b>	<b>38</b>
Tax on underlying profit							(27)
Minority interest							(4)
<b>Underlying profit after tax attributable to ordinary shareholders of the parent</b>							<b>7</b>
<b>Earnings per share</b>							
Underlying earnings per share (pence)							0.3

Half year ended 30 June 2008

	UK Life & Pensions £m	FPI £m	Lombard £m	Asset Management £m	Other All other £m	Corporate £m	Total £m
Life result	(47)	2	8	-	-	-	(37)
Longer-term return on shareholder funds	22	1	(1)	-	-	-	22
Other income	(1)	-	-	27	4	(2)	28
<b>Underlying profit/(loss) before tax</b>	<b>(26)</b>	<b>3</b>	<b>7</b>	<b>27</b>	<b>4</b>	<b>(2)</b>	<b>13</b>
Tax on underlying profit							26
Minority interest							(10)
<b>Underlying profit after tax attributable to ordinary shareholders of the parent</b>							<b>29</b>
<b>Earnings per share</b>							
Underlying earnings per share (pence)							1.2

**(ii) Reconciliation of underlying profit before tax to profit before tax**  
Half year ended 30 June 2009

	UK Life & Pensions £m	FPI £m	Lombard £m	Asset Management £m	Other All other £m	Corporate £m	Total £m
<b>Underlying profit/(loss) before tax</b>	<b>36</b>	<b>(8)</b>	<b>4</b>	<b>9</b>	<b>-</b>	<b>(3)</b>	<b>38</b>
Non-recurring items (i)	(48)	-	-	4	-	(15)	(59)
Amortisation of acquired present value of in-force business	(4)	(3)	(5)	-	-	-	(12)
Amortisation of acquired intangible assets	-	-	(5)	(25)	(3)	-	(33)
Interest payable on STICS	16	-	-	-	-	8	24
Short-term fluctuations in investment return	(40)	(1)	2	-	-	(5)	(44)
<b>Loss before tax excluding profit generated within Policyholder funds</b>	<b>(40)</b>	<b>(12)</b>	<b>(4)</b>	<b>(12)</b>	<b>(3)</b>	<b>(15)</b>	<b>(86)</b>
<b>Policyholder tax</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14</b>
Returns on Group- controlled funds attributable to third parties	(30)	-	-	-	-	-	(30)
<b>Loss before tax</b>	<b>(56)</b>	<b>(12)</b>	<b>(4)</b>	<b>(12)</b>	<b>(3)</b>	<b>(15)</b>	<b>(102)</b>

(i) Non recurring items

UK Life & Pensions items comprise £48m (2008: £15m) of strategic review costs, bringing the total cost of implementing the cost savings programme and securing the identified cost savings to £80m.

Asset Management items comprise £3m (2008: £2m) in respect of reorganisation costs, £10m gains (2008: £nil) on forward currency contracts, £2m (2008: £nil)

further payments payable on the REIT acquisition and £1m (2008: £nil) of costs in respect of the demerger of F&C.

Other items comprise £14m (2008: £nil) of costs in respect of the Group reorganisation and demerger of F&C and £1m (2008: £nil) of other project costs.

Half year ended 30 June 2008

	UK Life & Pensions £m	FPI £m	Lombard £m	Asset Management £m	Other All other £m	Corporate £m	Total £m
<b>Underlying profit/(loss) before tax</b>	(26)	3	7	27	4	(2)	13
Non-recurring items (i)	(15)	-	-	(2)	-	-	(17)
Amortisation of acquired present value of in-force business	(5)	(3)	(5)	-	-	-	(13)
Amortisation of acquired intangible assets	-	-	(4)	(22)	(3)	-	(29)
Interest payable on STICS	16	-	-	-	-	10	26
Short-term fluctuations in investment return	(67)	-	1	-	-	(2)	(68)
<b>(Loss)/profit before tax excluding profit generated within Policyholder funds</b>	(97)	-	(1)	3	1	6	(88)
<b>Policyholder tax</b>	(82)	-	-	1	-	-	(81)
Returns on Group- controlled funds attributable to third parties	(52)	-	-	-	-	-	(52)
<b>(Loss)/profit before tax</b>	(231)	-	(1)	4	1	6	(221)

(iii) Revenue and expenses  
Half year ended 30 June 2009

	UK L&P £m	FPI £m	Lombard £m	Asset Mgt £m	All other £m	Other Corporate £m	Inter- segment amounts (ii) £m	Total £m
Gross earned premiums on insurance and investment contracts	1,391	332	478	50	-	-	-	2,251
Investment contract premiums (i)	(947)	(325)	(478)	(50)	-	-	-	(1,800)
Gross earned premiums	444	7	-	-	-	-	-	451
Premiums ceded to reinsurers	(50)	(1)	-	-	-	-	-	(51)
<b>Net earned premiums</b>	394	6	-	-	-	-	-	400
All other revenue	74	(29)	471	126	82	10	(31)	703
<b>Total revenue</b>	468	(23)	471	126	82	10	(31)	1,103
Intersegment revenue	1	-	1	20	2	7	(31)	-
<b>Total external revenue</b>	467	(23)	470	106	80	3	-	1,103
<b>Total claims, benefits and expenses</b>	524	(11)	475	138	85	25	(31)	1,205
Intersegment expenses	29	1	-	-	-	1	(31)	-
<b>Total external claims, benefits and expenses</b>	495	(12)	475	138	85	24	-	1,205
Share of profits of associates and Joint venture	-	-	-	-	-	-	-	-
<b>Loss before tax from continuing operations</b>	(56)	(12)	(4)	(12)	(3)	(15)	-	(102)
Policyholder tax	(14)	-	-	-	-	-	-	(14)
Shareholder tax	1	-	2	3	1	1	-	8
<b>Segmental result after tax</b>	(69)	(12)	(2)	(9)	(2)	(14)	-	(108)

(i) Accounted for as deposits under IFRS

(ii) Intersegment amounts include the eliminations of fee income and loan interest

Half year ended 30 June 2008

	UK L&P £m	FPI £m	Lombard £m	Asset Mgt £m	All other £m	Other Corporate £m	Inter- segment amounts (ii) £m	Total £m
Gross earned premiums on insurance and investment contracts	1,843	428	702	134	-	-	-	3,107
Investment contract premiums (i)	(1,359)	(420)	(702)	(134)	-	-	-	(2,615)
Gross earned premiums	484	8	-	-	-	-	-	492
Premiums ceded to reinsurers	(47)	(1)	-	-	-	-	-	(48)
<b>Net earned premiums</b>	437	7	-	-	-	-	-	444
All other revenue	(2,650)	(149)	(394)	38	117	18	(32)	(3,052)
<b>Total revenue</b>	(2,213)	(142)	(394)	38	117	18	(32)	(2,608)
Intersegment revenue	-	1	-	21	3	7	(32)	-
<b>Total external revenue</b>	(2,213)	(143)	(394)	17	114	11	-	(2,608)
<b>Total claims, benefits and expenses</b>	(1,982)	(142)	(393)	34	116	12	(32)	(2,387)
Intersegment expenses	31	-	1	-	-	-	(32)	-
<b>Total external claims, benefits and expenses</b>	(2,013)	(142)	(394)	34	116	12	-	(2,387)
Share of profits of associates and Joint venture	-	-	-	-	-	-	-	-
<b>Loss before tax from continuing operations</b>	(231)	-	(1)	4	1	6	-	(221)
Policyholder tax	82	-	-	(1)	-	-	-	81
Shareholder tax	50	-	-	1	(1)	6	-	56
<b>Segmental result after tax</b>	(99)	-	(1)	4	-	12	-	(84)

(i) Accounted for as deposits under IFRS

(ii) Intersegment amounts include the eliminations of fee income and loan interest

**(iv) Assets and liabilities  
At 30 June 2009**

	UK Life & Pensions £m	FPI £m	Lombard £m	Asset Management £m	All other £m	Other Corporate £m	Elimination of inter- segment amounts (i) £m	Total £m
<b>Total assets</b>	35,236	4,784	12,058	1,436	184	645	(391)	53,952
<b>Total liabilities</b>	33,281	4,649	11,600	1,325	133	285	(391)	50,882

At 31 December 2008

	UK Life & Pensions £m	FPI £m	Lombard £m	Asset Management £m	All other £m	Other Corporate £m	Elimination of inter- segment amounts (i) £m	Total £m
<b>Total assets</b>	36,181	4,806	13,502	1,503	186	616	(399)	56,395
<b>Total liabilities</b>	34,104	4,663	12,989	1,326	133	35	(399)	52,851

(i) Eliminations include intersegment loans and outstanding fee income and loan interest balances

#### 4. Appropriations of profit

##### (a) Dividends paid on ordinary shares

Dividends paid during the period and recognised in reserves

	Half year ended 30 June	
	2009 £m	2008 £m
Final dividend in respect of 2007 and paid in May 2008 of 5.3p per share	-	123
<b>Total dividends paid</b>	<b>-</b>	<b>123</b>

The following dividends are payable after the balance sheet date and in accordance with IAS 10 Events after the balance sheet date, these have not been provided as a liability at the balance sheet date:

	30 June 2009 £m	31 Dec 2008 £m
Dividend of 2.6p per share (in respect of 2008 final dividend) paid 24 July 2009	61	-
Dividend of 1.3p per share (in respect of 2009 interim dividend) payable October 2009	30	-

The dividend of £61m above is equivalent to the previously contemplated final dividend of 2008 that was not recommended or declared by Friends Provident plc due to the need to complete the reorganisation to establish a new holding company for the Group. The distributable reserves of Friends Provident Group plc as at 30 June 2009 were £655m.

##### (b) STICS interest

STICS interest paid during the period and recognised in equity

	2009 £m	2008 £m
Interest on 2003 STICS at 6.875% paid in May 2009 (May 2008)	10	11
Interest on 2005 STICS at 6.292% paid in May 2009(i) and June 2009 (June 2008)	30	31
<b>Total STICS interest paid</b>	<b>40</b>	<b>42</b>

(i) Holders of 2005 STICS who opted to exchange their holding for Subordinated Guaranteed Notes on 21 May 2009 (see note 8) were paid accrued interest on that date.

Interest on the 2003 STICS is paid half yearly in May and November each year. Interest on the 2005 STICS is paid annually in June each year.

## 5. Earnings per share

### (a) Basic and underlying earnings per share from continuing operations

Earnings per share have been calculated based on the loss after tax and on the underlying profit after tax, attributable to ordinary shareholders of the parent. The directors consider that the underlying earnings per share figure gives a better indication of operating performance.

	Half year ended 30 June 2009		Half year ended 30 June 2008	
	Earnings £m	Per share pence	Earnings £m	Per share pence
<b>Loss after tax attributable to ordinary shareholders of the parent</b>	<b>(98)</b>	<b>(4.2)</b>	(60)	(2.6)
Short-term fluctuations in investment return	44	1.9	68	2.9
Non-recurring items	59	2.5	17	0.7
Amortisation and impairment of acquired intangible assets	45	1.9	42	1.8
Minority interest on items excluded from underlying profit	(8)	(0.3)	(8)	(0.3)
Tax credit on items excluded from underlying profit	(35)	(1.5)	(30)	(1.3)
<b>Underlying profit after tax attributable to ordinary shareholders of the parent</b>	<b>7</b>	<b>0.3</b>	29	1.2

### (b) Diluted basic earnings per share from continuing operations

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	Earnings £m	Weighted average number of ordinary shares millions	Per share pence	Earnings £m	Weighted average number of ordinary shares millions	Per share pence
Loss after tax attributable to ordinary shareholders of the parent	(98)	2,325	(4.2)	(60)	2,325	(2.6)
Dilution (c)	-	-	-	-	-	-
Diluted loss after tax attributable to ordinary shareholders of the parent	(98)	2,325	(4.2)	(60)	2,325	(2.6)

The weighted average number of ordinary shares for the comparative period, previously 2,323m, has been recalculated as a result of the reverse acquisition of Friends Provident plc by Friends Provident Group plc (see note 10). The weighted average number of shares represents the number of shares issued by Friends Provident Group plc to the shareholders of Friends Provident plc, adjusted for changes to Friends Provident plc's share capital during the period to 30 June 2008. There is no impact on earnings per share.

### (c) Dilution

Share options outstanding under the Group's various option schemes as at 30 June 2008 and 2009 had no dilutive impact on EPS.

## 6. Intangible assets

	Goodwill £m	Acquired PVIF £m	Investment management contracts £m	Other £m	Total £m
<b>Cost</b>					
At 1 January 2008	733	499	585	267	2,084
Acquisition through business combinations	29	-	71	-	100
Other additions	-	-	-	8	8
Disposals	(16)	-	-	(1)	(17)
Adjustment to consideration	(6)	-	-	-	(6)
Foreign exchange adjustments	52	76	40	40	208
At 1 January 2009	792	575	696	314	2,377
Other additions	-	-	-	3	3
Disposals	-	-	-	(6)	(6)
Foreign exchange adjustments	(25)	(37)	(12)	(21)	(95)
<b>At 30 June 2009</b>	<b>767</b>	<b>538</b>	<b>684</b>	<b>290</b>	<b>2,279</b>
<b>Amortisation and impairment</b>					
At 1 January 2008	-	169	331	128	628
Amortisation charge for year	-	26	49	23	98
Impairment charge	216	-	48	3	267
Foreign exchange adjustments	-	15	1	10	26
At 1 January 2009	216	210	429	164	1,019
Amortisation charge for period	-	13	25	12	50
Disposals	-	-	-	(3)	(3)
Foreign exchange adjustments	-	(8)	-	(7)	(15)
<b>At 30 June 2009</b>	<b>216</b>	<b>215</b>	<b>454</b>	<b>166</b>	<b>1,051</b>
<b>Carrying amounts</b>					
At 1 January 2009	576	365	267	150	1,358
<b>At 30 June 2009</b>	<b>551</b>	<b>323</b>	<b>230</b>	<b>124</b>	<b>1,228</b>
<b>Deferred tax relating to the above</b>					
At 1 January	-	88	74	37	199
<b>At 30 June 2009</b>	<b>-</b>	<b>76</b>	<b>64</b>	<b>31</b>	<b>171</b>

Goodwill is the only intangible asset which has an indefinite useful life. Acquired PVIF is amortised over the lifetime of the in-force policies. Investment management contracts and other intangible assets (mainly consisting of distribution channel relationships and software development) are amortised over their estimated useful lives. The average remaining useful lives for each category of asset are: acquired PVIF 14 years, investment management contracts 5 years and other intangibles 7 years.

All identifiable intangible assets are reviewed at each reporting date to assess whether there are any circumstances that might indicate that they are impaired. If such circumstances exist, the impairment testing is performed and any resulting impairment losses are charged to the income statement. Goodwill is tested annually at 31 December for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

There was no impairment charge for the half years ended 30 June 2009 or 30 June 2008. As a result of impairment testing undertaken in December 2008, an impairment charge of £267m was made in 2008 – mainly related to Asset Management. At 30 June 2009 there was no indication of further potential impairment of intangible assets.

An analysis of intangible assets by significant Cash Generating Units is set out below:

	30 June 2009			31 December 2008		
	Cost £m	Amortisation and impairment £m	Net book value £m	Cost £m	Amortisation and impairment £m	Net book value £m
UK Life and Pensions	462	208	254	466	204	262
Lombard	614	113	501	695	115	580
Asset Management	1,054	682	372	1,067	658	409
Other CGUs	149	48	101	149	42	107
<b>Total</b>	<b>2,279</b>	<b>1,051</b>	<b>1,228</b>	<b>2,377</b>	<b>1,019</b>	<b>1,358</b>

## 7. Financial assets

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

	30 June 2009 £m	31 Dec 2008 £m
Fair value through the income statement	42,498	44,275
Loans at amortised cost*	89	97
<b>Total financial assets</b>	<b>42,587</b>	<b>44,372</b>

\* Includes £82m (31 December 2008: £82m) due from the Friends Provident Pension Scheme.

**(a) Financial assets at fair value through the income statement**

<b>30 June 2009</b>	<b>With Profits (i) £m</b>	<b>Unit Linked (ii) £m</b>	<b>Non-Linked</b>		<b>Share- holder £m</b>	<b>Total £m</b>
			<b>Annuities £m</b>	<b>Other £m</b>		
Shares and other variable yield securities (iii)	2,519	23,111	-	81	4	25,715
Debt securities and other fixed-income securities:						
Government securities	3,415	1,912	402	266	96	6,091
Corporate bonds (iv)	4,229	2,736	2,061	584	394	10,004
Derivative financial instruments	301	2	-	8	11	322
Deposits with credit institutions	-	366	-	-	-	366
	<b>10,464</b>	<b>28,127</b>	<b>2,463</b>	<b>939</b>	<b>505</b>	<b>42,498</b>

<b>31 December 2008</b>	<b>With Profits (i) £m</b>	<b>Unit Linked (ii) £m</b>	<b>Non-Linked</b>		<b>Share- holder £m</b>	<b>Total £m</b>
			<b>Annuities £m</b>	<b>Other £m</b>		
Shares and other variable yield securities (iii)	2,584	23,486	-	75	4	26,149
Debt securities and other fixed-income securities:						
Government securities	4,059	1,950	355	282	100	6,746
Corporate bonds (iv)	4,077	3,005	2,187	613	421	10,303
Derivative financial instruments	549	9	-	8	10	576
Deposits with credit institutions	-	494	-	7	-	501
	<b>11,269</b>	<b>28,944</b>	<b>2,542</b>	<b>985</b>	<b>535</b>	<b>44,275</b>

(i) Includes the consolidation of OEICs funds in which the Group holding is 50% or greater and financial assets of With Profits held subsidiaries.

(ii) Includes the consolidation of OEICs funds in which the Group holding is 50% or greater.

(iii) Includes holdings in unit trusts and OEICs.

(iv) Includes Asset Backed Securities.

The table above analyses the Group's financial assets by principal fund type. Investment risk in the With Profits and Unit Linked funds is largely borne by policyholders.

Asset Backed Securities (ABS) directly held by the UK Life and Pensions business comprise approximately 3.25% (31 December 2008: 3.3%) of Group investments, virtually all of which are at investment grade.

The majority of financial assets held are readily realisable and have been valued based on quoted prices in an 'active market'.

## 8. Financial restructuring

On 21 May 2009, Friends Provident plc exchanged £90m of its £300m 6.875% Step-Up Tier one Insurance Capital Securities issued on 21 November 2003 (the 2003 STICS) and £232m of its £500m 6.292% Step-Up Tier one Insurance Capital Securities issued on 30 June 2005 (the 2005 STICS) for £162m 12% Sterling Denominated Fixed Rate Subordinated Guaranteed Notes due 2021, irrevocably guaranteed on a subordinated basis by Friends Provident Life and Pensions Limited.

The subordinated debt is carried at £159m, being £162m principal less capitalised issue costs of £3m.

The gain of £160m attributable to ordinary shareholders less previously capitalised issue costs in respect of the exchanged STICS of £3m have been recognised directly in equity.

The impact of the exchange is to increase equity attributable to ordinary shareholders by £113m (being STICS exchanged of £322m less debt issued of £162m, original issue costs on the STICS exchanged of £3m and tax of £44m), increase loans and borrowings by £159m and reduce equity attributable to other equity holders (STICS) by £319m (being STICS exchanged of £322m less original issue costs on the STICS exchanged of £3m).

## 9. Share capital, share premium and reserves

### (a) Share capital

	<b>30 June 2009</b>	31 Dec 2008*
	<b>£m</b>	£m
<b>Authorised</b>		
2,500m ordinary shares of 20 pence	<b>500</b>	-
2,500m ordinary shares of 10 pence	-	250
<b>Allotted, called up and fully paid</b>		
2,340m ordinary shares of 20 pence	<b>468</b>	-
2,341m ordinary shares of 10 pence	-	234

\* comparative is in respect of Friends Provident plc which was the holding company at 31 December 2008.

As explained in note 10, the Friends Provident Group plc became the holding company on 15 June 2009 when it issued 2,340,000,000 ordinary shares of 48 pence each. As part of the reorganisation 1,118,083 treasury shares were cancelled.

On 16 June 2009, a reduction in the nominal values of each ordinary share from 48 pence to 20 pence was confirmed by the Court. The relevant Court order was registered and the reduction in capital became effective on 17 June 2009 and distributable reserves of £655m were created.

### (b) Share premium

	<b>30 June 2009</b>	31 Dec 2008*
	<b>£m</b>	£m
Share premium account	-	2,372

\* comparative is in respect of Friends Provident plc which was the holding company at 31 December 2008.

There is no share premium account as the shares issued on 15 June 2009 by Friends Provident Group plc were issued at par value of 48 pence.

### (c) Other reserves

	<b>30 June 2009 £m</b>	31 Dec 2008 £m
Retained earnings	<b>(413)</b>	(417)
Reverse acquisition reserve	<b>2,138</b>	-
Foreign currency translation reserve	<b>105</b>	175
<b>Total</b>	<b>1,830</b>	(242)

The reverse acquisition reserve represents the difference between the share capital and share premium of Friends Provident plc of £2,606m and the share capital of the new holding company, Friends Provident Group plc, of £468m.

### 10. Group reorganisation

The objective of the reorganisation was to impose a new holding company on top of the Group with increased share capital to allow a capital reduction to create distributable reserves and to provide flexibility to effect other corporate transactions including the demerger of the Group's stake in F&C. As a result of the reorganisation, Friends Provident Group plc (the Company) became the ultimate holding company of the Friends Provident group of companies. Shares in Friends Provident plc ceased to be listed and Friends Provident Group plc was admitted to listing on the Official List of the UKLA and to trading on the London Stock Exchange.

The reorganisation became effective on 15 June 2009, when the Company issued 2,340,000,000 new ordinary shares of 48p each with shareholders in Friends Provident plc receiving one new ordinary share in Friends Provident Group plc for every one share held in Friends Provident plc. On 16 June 2009, a Court hearing confirmed a reduction in the nominal value of each Friends Provident Group plc share from 48p to 20p. The relevant Court order was registered and the reduction of share capital became effective on 17 June 2009 and distributable reserves of £655,200,000 were created.

The reorganisation has been accounted for as a reverse acquisition under IFRS 3 Business combinations, as detailed in note 1. The reorganisation has had no material impact on the Group's results.

### 11. Contingent liabilities

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

### 12. Related party transactions

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

Detailed below are the significant related party transactions during the period:

### Services provided to related parties

	2009		2008	
	Income earned to 30 June £m	Receivable at 30 June £m	Income earned to 30 June £m	Receivable at 31 Dec £m
Employee pension schemes	-	-	-	4
Other related parties	17	8	17	10
<b>Total</b>	<b>17</b>	<b>8</b>	<b>17</b>	<b>14</b>

### Services provided by related parties

	2009		2008	
	Income earned to 30 June £m	Receivable at 30 June £m	Income earned to 30 June £m	Receivable at 31 Dec £m
Joint venture	5	-	9	-
Other related parties	2	2	2	8
<b>Total</b>	<b>7</b>	<b>2</b>	<b>11</b>	<b>8</b>

Other related parties include Eureka BV which holds in excess of 10% of the ordinary share capital of F&C and is entitled to F&C board representation.

A Group company made a loan of £160m to the Friends Provident Pension Scheme during 2008 of which £82m is outstanding at 30 June 2009.

### 13. Post Balance sheet events

Following on from the reorganisation (see note 10), the Group demerged its stake in F&C on 3 July 2009 by means of a return of capital by the Company. Shareholder approval for this proposal was received on 12 June 2009 and on 2 July 2009, a Court hearing confirmed a reduction in the nominal value of each Friends Provident Group plc share from 20p to 5p resulting in a reduction of capital of £351m which facilitated the demerger of F&C by way of a return of capital. The reduction of capital from 20p to 5p per share reflected the return of capital of the Group's holding in F&C that was demerged (a number of shares in F&C were held back and sold to recover costs) at market value, which was £158m, together with some additional capital being reduced to create £193m of additional distributable reserves. The relevant Court order was registered and the demerger and capital reduction became effective on 3 July 2009.

On 6 July 2009 the external STICS, external loan notes, internal preference shares, internal STICS and bank facility were all transferred from Friends Provident plc to Friends Provident Group plc so that the new holding company is in the same position as the previous holding company.

The net asset value of F&C, attributable to the Group on 30 June 2009 was £111m, which has been recognised in the Group's consolidated financial statements. In the 2009 year-end financial statements, the demerger will be accounted for as an equity distribution to shareholders, reducing equity attributable to ordinary shareholders in the Company's books by £158m.

**Summary consolidated income statement on an EEV basis  
For the half year ended 30 June 2009**

		<b>Half year ended</b>	
		<b>30 June</b>	30 June
		<b>2009</b>	2008
	Notes	<b>£m</b>	£m
<b>Life &amp; Pensions</b>			
Contribution from new business	2(b), 3(a)	<b>30</b>	67
Contribution from existing business:			
Expected return		<b>114</b>	99
Experience variances		<b>(31)</b>	9
Operating assumption changes		-	-
Development costs		<b>(4)</b>	(7)
Expected return on shareholders' net assets within the Life & Pensions business		<b>12</b>	21
Other income		-	(7)
<b>Life &amp; Pensions underlying profit</b>	2(a)	<b>121</b>	182
Asset Management underlying profit		<b>9</b>	27
Expected return on net pension liability		<b>4</b>	2
Expected return on corporate net assets		<b>(1)</b>	4
Other net income		<b>4</b>	4
Corporate costs		<b>(6)</b>	(8)
Operating assumption changes for corporate costs		-	-
<b>Underlying profit before tax</b>		<b>131</b>	211
Investment return variances		<b>(102)</b>	(289)
Effect of economic assumption changes	2(a)	<b>(34)</b>	115
Non-recurring items	4	<b>(59)</b>	(17)
Amortisation of non-covered business acquired intangible assets		<b>(27)</b>	(25)
<b>Loss before tax</b>		<b>(91)</b>	(5)
Attributed tax		<b>20</b>	10
<b>(Loss)/profit after tax</b>		<b>(71)</b>	5
Attributable to:			
Ordinary shareholders of the parent		<b>(67)</b>	(24)
Minority interest		<b>(4)</b>	29
<b>(Loss)/profit after tax</b>	8	<b>(71)</b>	5
<b>Earnings per share</b>			
		<b>2009</b>	2008
		<b>Pence</b>	Pence
Basic loss per share	5	<b>(2.9)</b>	(1.0)
Diluted basic loss per share	5	<b>(2.9)</b>	(1.0)
Underlying earnings per share	5	<b>3.7</b>	6.5

EEV underlying profit is based on expected investment return and excludes: (i) amortisation and impairment of non-covered business acquired intangible assets (ii) effect of economic assumption changes (iii) non-recurring items; and is stated after deducting interest payable on STICS. Management consider that underlying profit better reflects the performance of the Group and focus on this measure of profit in its internal monitoring of the Group's EEV results.

## Consolidated statement of comprehensive income on an EEV basis

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
<b>(Loss)/profit for the period</b>	<b>(71)</b>	5
Actuarial (losses)/gains on defined benefit schemes	(30)	39
Tax credit/(charge)	8	(11)
Foreign exchange adjustments	(68)	39
<b>Other comprehensive (loss)/income, net of tax</b>	<b>(90)</b>	67
<b>Total comprehensive (loss)/income, net of tax</b>	<b>(161)</b>	72
Attributable to:		
Ordinary shareholders of the parent	(138)	39
Minority interest	(23)	33
<b>Total comprehensive (loss)/income for the period</b>	<b>(161)</b>	72

## Consolidated statement of changes in ordinary shareholders' equity on an EEV basis

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
<b>At beginning of period</b>	<b>2,965</b>	3,647
Total comprehensive (loss)/income for the period attributable to ordinary shareholders of the parent	(138)	39
Dividends on equity shares	-	(123)
Share based payments (impact on EEV reserves)	3	5
Decrease in EEV reserves for the period	(135)	(79)
<b>At end of period</b>	<b>2,830</b>	3,568

## Consolidated statement of financial position on an EEV basis

	Notes	30 June 2009 £m	31 Dec 2008 £m
<b>Assets</b>			
Value of in-force Life & Pensions business	10	1,652	1,731
Intangible assets	6	438	484
Property and equipment		60	66
Investment properties		1,350	1,493
Investment in associates and joint venture		30	26
Deferred tax assets		13	15
Financial assets		42,587	44,372
Deferred acquisition costs	7	10	12
Reinsurance assets		1,930	1,964
Current tax assets		5	4
Insurance and other receivables		912	722
Cash and cash equivalents		4,647	5,183
<b>Total assets</b>		<b>53,634</b>	<b>56,072</b>
<b>Liabilities</b>			
Insurance contracts		11,906	12,677
Fund for future appropriations		309	385
Financial liabilities			
- Investment contracts		33,676	34,695
- Loans and borrowings		1,124	1,189
- Amounts due to reinsurers		1,626	1,792
Net asset value attributable to unit holders		676	668
Provisions		257	205
Deferred tax liabilities		94	128
Current tax liabilities		84	90
Insurance payables, other payables and deferred income		755	908
<b>Total liabilities</b>		<b>50,507</b>	<b>52,737</b>
<b>Equity attributable to:</b>			
Ordinary shareholders of the parent	2(d)	2,830	2,965
Minority interest		297	370
<b>Total equity</b>		<b>3,127</b>	<b>3,335</b>
<b>Total equity and liabilities</b>		<b>53,634</b>	<b>56,072</b>

## Notes to the EEV results

### 1. Methodology

#### 1.1 Basis of preparation

The EEV results presented in this document have been prepared in accordance with the European Insurers' Chief Financial Officers Forum's EEV Principles issued in May 2004 and the Additional Guidance issued in 2005. They provide supplementary information for the period ended 30 June 2009. As explained in the Financial Review, Friends Provident has not adopted the June 2008 CFO Forum MCEV Principles whilst some doubt remains over their final form. The market-consistent approach we have used incorporates gilt returns to represent risk-free rates.

The EEV basis of reporting is designed to recognise profit as it is earned over the term of the 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.

The reported embedded value provides an estimate of the value of shareholders' interest in the covered business, excluding any value that may be generated from future new business. This value comprises the sum of the shareholders' net worth, the provision for future corporate costs and the value of existing business. The shareholders' net worth is the net assets attributable to shareholders, and is represented by the sum of required capital and free surplus. The value of existing business is the present value of the projected stream of future distributable profits available to shareholders from the existing business at the valuation date, on a best estimate basis allowing for risk, adjusted for the cost of holding required capital.

A significant number of assumptions are made, including: the behaviour of customers (for example, persistency); mortality; the level of expenses required to maintain the book of business; tax and regulatory environment and the future economic environment. The assumptions are a reflection of our best estimate of the likely behaviours, outcomes, or circumstances in the future. The estimate is made, typically, on an annual basis following experience investigations based on the data available at the time both from our own book of business and externally sourced information. No change has been made to the expense basis in respect of impacts from the de-merger of F&C, this will be considered at the year-end along with other expense basis items.

The supplementary information should be read in conjunction with the Group's condensed IFRS results.

The Group's Report & Accounts for the year ended 31 December 2008 contain further information on the methodologies applied in preparing the EEV result. There have been no significant changes to the methodologies used to prepare these interim results from those used to prepare the Group's Report & Accounts for the year ended 31 December 2008.

The results for covered business as reported under EEV principles are combined with the results for the remainder of the business reported in accordance with IFRS, except where EEV principles dictate otherwise. In particular the EEV principles have been applied to reflect Step-up Tier one Insurance Capital Securities (STICS) as debt rather than equity.

In addition, a pro forma embedded value is reported showing ordinary shareholders' funds on an EEV basis adjusted to include the F&C listed subsidiary at market value.

Shareholders' net assets on an EEV basis for the Group consist of the following:

- Life & Pensions net assets
- the Group's share of its investment in the Asset Management business (including the net pension liability) on an IFRS basis
- other net assets
- the net pension asset of FPPS on an IAS 19 basis
- the provision for future corporate costs
- the present value of future profits attributable to shareholders from existing policies of the Life & Pensions business.

The shareholders' net worth includes the corporate debt of the Group. This debt is valued at market value, consistent with the EEV guidance.

EEV and other balance sheet items denominated in foreign currencies have been translated to Sterling using the appropriate closing exchange rate. The new business contribution and other income statement items have been translated using an average exchange rate for the relevant period.

The EEV results were approved by the Board of Directors on 10 August 2009.

### **1.2 Covered business**

The covered business incorporates the UK Life & Pensions business, FPI and Lombard.

The Asset Management business, IFA distribution businesses and AmLife are excluded from the definition of covered business, and are included in the Corporate and Other segment in line with IFRS reporting.

Following the write-down of F&C to market value under IFRS and EEV at 31 December 2008 (as a result of the proposed demerger), the movement in the market value of the debt held by F&C has not been reflected in the Group EEV for the half year to 30 June 2009. Had this adjustment been made, there would have been a gain in the EEV of £18m gross of tax.

### **1.3 Allowance for risk**

The allowance for risk in the shareholder cash flows is a key feature of the EEV Principles. The EEV guidance sets out three main areas available to allow for risk in an embedded value:

- the risk discount rate
- the allowance for the cost of financial options and guarantees
- the cost of holding both prudential reserves and any additional required capital.

The market-consistent approach has been used to allow for risk in all three areas.

### **1.4 Deriving risk discount rates**

A market-consistent embedded value has been calculated for each product line by valuing the cash flows in line with the prices of similar cash flows traded on the open market.

In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow 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 risk-free rate and all cash flows are discounted using the risk-free rate. This gives the same result as applying the method in the previous paragraph.

A market-consistent cost of financial options and guarantees and a market-consistent cost of holding required capital have also been calculated. The cost of financial options and guarantees includes additional allowance for non-market risk within FPLP's With Profits Fund. An additional provision has been made for operational risks. These are described in more detail below.

For presentational purposes, a set of risk discount rates has been derived for each product line, and for in-force and new business, by calculating the risk discount rate under a traditional embedded value approach that gives the same value as that from the market-consistent embedded value determined above. These derived risk discount rates are a function of the assumptions used (eg equity risk premium and credit spreads). However, as the market-consistent approach is used, these assumptions do not impact the level of embedded value: a higher equity risk premium results in an exactly compensating higher risk discount rate.

### **1.5 Financial options and guarantees**

The material financial options and guarantees are those in the FPLP With Profits Fund, 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 Fund are insufficient to meet these guarantees. While shareholders are entitled to only a small share of profits in the With Profits Fund (via one ninth of the cost of bonus), they can potentially be exposed to the full cost if fund assets are insufficient to meet policyholder guarantees. The time value cost of this asymmetry, known as the burnthrough cost, is modelled stochastically, as it will only occur in some adverse scenarios. The burnthrough time value cost is calculated as the difference between the average value of shareholder cash flows under a number of market-consistent scenarios, and the intrinsic shareholder value using risk-free assumptions included within the deterministic model.

The burnthrough cost 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 burnthrough cost would be markedly higher without the hedging activities currently undertaken.

The burnthrough cost at 30 June 2009 of £81m (31 December 2008: £72m), is split between £28m (31 December 2008: £30m) market risk and £53m (31 December 2008: £42m) non-market risk. The non-market risks include lapses, annuitant longevity, and operational risk within the With Profits Fund. The allowance for non-market risks is made by consideration of the impact of extreme scenarios from our economic capital model.

Significant amounts of new with profits business are no longer written and the guarantee levels offered are lower, hence there is no material impact of the burnthrough cost in the contribution to profits of new business.

## **1.6 Required capital and the cost of capital**

Required capital is set at the greater of regulatory capital and 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 Company's risk appetite.

In aggregate, required capital is higher than regulatory requirements by approximately £400m (31 December 2008: £400m). Capital requirements under EEV amounted to £897m (31 December 2008: £908m).

The EEV includes a deduction for the cost of holding the required capital. Frictional costs, being the tangible costs of holding capital, have been allowed for on a market-consistent basis. These consist of the total taxation and investment expenses incurred on locked-in shareholder capital and reflect the cost to an investor of holding an asset through investment in a life company, rather than investing in the asset directly.

No adjustment has been made for any agency cost; this represents the potential markdown to value that investors will apply because they do not have direct control over their capital. Any adjustment would be subjective and different investors will have their own views of what adjustment, if any, should be made.

## **1.7 Non-market risk**

A provision of £85m (31 December 2008: £86m) has been set up for operational risks in the shareholders' funds. This provision has been calculated by comparing the mean impact of variations in operational risk, as modelled in the economic capital calculations, with the existing allowance for operational risk in specific accounting provisions and embedded value projection assumptions.

This provision of £85m is equivalent to a 0.4% pa (31 December 2008: 0.4% pa) increase in the risk discount rate for UK Life & Pensions business and 0.8% pa (31 December 2008: 0.8% pa) for International Life & Pensions business. This impacts both embedded value and the contribution from new business.

## **1.8 EEV tax assets and taxation of foreign profits**

The Finance Act 2009 was enacted on 21 July 2009 and this changed the UK taxation basis of foreign profits remitted to the UK. As a consequence of this change we would consider releasing the provision in the EEV in respect of tax on the International Business profits at the end of 2009. This, however, is subject to potential changes emerging from the Controlled Foreign Companies Consultation by HM Treasury. In addition, we will review the value of tax assets in the EEV at year end, in light of market conditions and expected future levels of life business investment income in the UK. The outcome of that review is uncertain and, therefore, there is a possibility of a reduction in the current EEV deferred tax values at the end of 2009. Consequently, we have not reflected any adjustments to the current value of tax assets in the first half of 2009.

## **1.9 Expenses**

The EEV guidance requires companies to actively review expense assumptions, and include an allowance for holding company (corporate) costs and service company costs.

### **(a) Corporate costs**

Corporate costs relate to those costs incurred at the corporate level that are not directly attributable to the Life & Pensions or the Asset Management businesses.

Under EEV methodology, corporate costs are classified as either ongoing costs or development and one-off costs. At 30 June 2009 £6m (30 June 2008: £6m) of corporate costs were regular ongoing costs and there were no one-off corporate costs (30 June 2008: £2m). For 30 June 2009, £12m (31 December 2008: £12m) of annual regular ongoing corporate costs were capitalised and deducted from the embedded value, resulting in a provision of £97m (31 December 2008: £97m).

(b) Service costs

Service company costs are included in the EEV expense assumption calculations. Included within these are the fees charged by F&C for investment management services to the covered Life & Pensions business.

F&C service fee profits in respect of covered Life & Pensions business are not capitalised under the EEV methodology, as F&C is a separate business segment within the Group and the arrangement between F&C and the Life & Pensions business is on an arm's length basis. Instead these profits, approximately £3m (30 June 2008: £4m), are brought into the consolidated income statement on an IFRS basis, and F&C is brought into the pro forma embedded value at market value.

Productivity gains have been assumed within the EEV in respect of International business in anticipation of future business growth. The Lombard EEV has been reduced by £12m (31 December 2008: £15m) for a projected expense overrun for the period to 2013.

(c) Development costs

Development costs include costs related to developing wholly new products or entering wholly new markets.

### **1.10 New business**

New business within the covered business includes:

- premiums from the sale of new contracts
- payments on recurring single premium contracts, 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 contract and not new business
- non-contractual increments on existing policies, and
- new entrants in the group pensions business.

The EEV new business definition is consistent with the quarterly New Business disclosure.

## 2. Segmental analysis

### (a) Life & Pensions EEV Profit

	Notes	Half year ended 30 June 2009				Half year ended 30 June 2008			
		UK £m	FPI £m	Lombard £m	Total £m	UK £m	FPI £m	Lombard £m	Total £m
Contribution from new business	2(b),3(a)	3	18	9	30	27	22	18	67
Contribution from existing business:									
Expected return		87	10	17	114	73	8	18	99
Experience variances (i)		(25)	(2)	(4)	(31)	7	1	1	9
Operating assumption changes		-	-	-	-	-	-	-	-
Development costs		(1)	(2)	(1)	(4)	-	(6)	(1)	(7)
Expected return on shareholders' net assets within the Life & Pensions business		13	-	(1)	12	21	1	(1)	21
Other income		-	-	-	-	(7)	-	-	(7)
<b>Life &amp; Pensions EEV underlying profit before tax</b>		<b>77</b>	<b>24</b>	<b>20</b>	<b>121</b>	<b>121</b>	<b>26</b>	<b>35</b>	<b>182</b>
Investment return variances	3(e)	(90)	(52)	3	(139)	(427)	(18)	(66)	(511)
Effect of economic assumption changes		(27)	(15)	8	(34)	104	-	9	113
Non-recurring items	4	(48)	-	-	(48)	(15)	-	-	(15)
<b>Life &amp; Pensions EEV (loss)/profit before tax</b>		<b>(88)</b>	<b>(43)</b>	<b>31</b>	<b>(100)</b>	<b>(217)</b>	<b>8</b>	<b>(22)</b>	<b>(231)</b>
Attributed tax	3(f)	22	12	(9)	25	60	(2)	6	64
<b>Life &amp; Pensions EEV (loss)/profit after tax</b>		<b>(66)</b>	<b>(31)</b>	<b>22</b>	<b>(75)</b>	<b>(157)</b>	<b>6</b>	<b>(16)</b>	<b>(167)</b>

(i) The UK experience variances for 2009 mainly reflect an adverse £19m from lower persistency as a result of transfers out and reduced contributions on individual and group pensions and increased lapses on protection and investment products. The balance of £6m includes a number of items, largely one-off in nature including some re-pricing activity on schemes following corporate restructuring.

### (b) New business margin

	Half year ended 30 June 2009				Half year ended 30 June 2008			
	UK £m	FPI £m	Lombard £m	Total £m	UK £m	FPI £m	Lombard £m	Total £m
Contribution from new business	3	18	9	30	27	22	18	67
Present Value of New Business								
Premiums (PVNBP)	1,039	481	466	1,986	1,781	737	702	3,220
Margin – PVNBP	0.3%	3.7%	1.9%	1.5%	1.5%	3.0%	2.6%	2.1%

PVNBP represents new single premiums plus the expected present value of new business regular premiums.

(c) Pro forma embedded value

	30 June 2009 £m	31 Dec 2008 £m
Ordinary shareholders' equity on an EEV basis	2,830	2,965
Adjustment to the value of the listed Asset Management business to market value	64	-
<b>Pro forma embedded value</b>	<b>2,894</b>	<b>2,965</b>
<b>Pro forma embedded value per share</b>	<b>124p</b>	<b>128p</b>

(d) Summary consolidated statement of financial position on an EEV basis

	30 June 2009			31 December 2008		
	Segmental analysis £m	Intra- group debt (iii) £m	Total £m	Segmental analysis £m	Intra- group debt (iii) £m	Total £m
Life & Pensions - long-term funds	478	-	478	496	-	496
Life & Pensions - shareholders' funds	96	795	891	113	795	908
Life & Pensions net assets	574	795	1,369	609	795	1,404
All other net assets	585	(795)	(210)	572	(795)	(223)
Shareholders' invested net assets (i)	1,159	-	1,159	1,181	-	1,181
Attributable net asset value of the Asset Management business net of minority interest	116	-	116	150	-	150
Net pension asset of Friends Provident Pension Scheme (ii)	-	-	-	-	-	-
Shareholders' net worth	1,275	-	1,275	1,331	-	1,331
Provision for future corporate costs			(97)			(97)
Value of in-force Life & Pensions business			1,652			1,731
<b>Ordinary shareholders' net assets on an EEV basis</b>			<b>2,830</b>			<b>2,965</b>
Called-up share capital (iv)			468			234
Share premium account (iv)			-			2,372
EEV reserves (iv)			2,362			359
<b>Ordinary shareholders' equity on an EEV basis</b>			<b>2,830</b>			<b>2,965</b>

(i) Within shareholders' invested net assets is £30m (31 December 2008: £30m) of goodwill and £21m (31 December 2008: £24m) of other acquired intangible assets in relation to the purchase of the Group's two IFA distribution businesses, Sesame and Pantheon Financial.

(ii) The surplus in the Friends Provident Pension Scheme has been restricted to £nil value at 30 June 2009 and 31 December 2008.

(iii) Intra-group long-term debt is analysed as follows:

	Debt		Interest payable Half year ended	
	30 June 2009 £m	31 Dec 2008 £m	30 June 2009 £m	2008 £m
Due from FPLP to Friends Provident plc	795	795	23	23

(iv) As explained in IFRS note 9 the impact of the Group reorganisation and capital reduction was to increase called-up share capital by £234m, reduce share premium account by £2,372m and to increase EEV reserves by £2,138m.

### (e) Life & Pensions net assets segmental information by business segment

	30 June 2009				31 December 2008			
	UK £m	FPI £m	Lombard £m	Total £m	UK £m	FPI £m	Lombard £m	Total £m
Life & Pensions net assets	582	47	(55)	574	634	43	(68)	609
Value of in-force Life & Pensions business	955	279	418	1,652	975	307	449	1,731
	1,537	326	363	2,226	1,609	350	381	2,340

### 3. Life & Pensions EEV profit

#### (a) Contribution from new business

The contribution from new business is calculated using economic assumptions at the beginning of the period and operating assumptions from the end of the period. 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 table below gives the contribution before cost of capital and share based payments.

	Half year ended	
	30 June 2009 £m	30 June 2008 £m
Contribution from new business before cost of capital and share based payments	32	73
Cost of share based payments	-	(2)
Cost of capital	(2)	(4)
<b>Contribution from new business</b>	<b>30</b>	<b>67</b>

The contribution from new business using end-of-period economic assumptions was £28m (2008: £66m) and is quoted after cost of required capital and share incentives.

The contribution is £2m lower on end-of-period economic assumptions owing to the increase in risk free rate and expense inflation assumptions.

#### (b) Profit from existing business – Life & Pensions

Profit from existing Life & Pensions business comprises the expected return on the value of in-force business at the start of the period plus the impact of any changes in the assumptions regarding future operating experience, changes in the reserving basis (other than economic assumption changes) and profits and losses caused by differences between the actual experience for the period and the assumptions used to calculate the embedded value at the end of the period.

The expected return on the value of in-force business is the difference between the expected return on the assets backing the liabilities and the expected return on the market-consistent value of the liabilities. Effectively, this approach is similar to applying an unwind in the risk discount rate to the value of the in-force business at the beginning of the year. However, the risk discount rate to be used is a rate appropriate over the period of return only, which is not necessarily equal to the overall in-force risk discount rate averaged across all future durations.

#### (c) Development costs – Life & Pensions

Development costs include costs related to developing wholly new products or entering wholly new markets.

#### (d) Expected return on shareholders' net assets

The expected return on shareholders' net assets held within the Life & Pensions business comprises the return on the shareholders' net assets held by the life assurance companies within that business using the 31 December 2008 investment return assumptions detailed in note 13(a).

The expected return on other net assets is the expected investment return on assets held by Friends Provident plc and its non-life subsidiaries. It excludes the expected return on the net pension liability and the result of the Asset Management business, which are shown separately in the summary consolidated income statement.

#### (e) Investment return variance

The split of the investment return variance in the Life & Pensions EEV profit is shown in the table below:

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
In respect of net assets at the start of year	(29)	(52)
In respect of covered business	(71)	(320)
Investment return variances after tax	(100)	(372)
<b>Investment return variances before tax</b>	<b>(139)</b>	<b>(511)</b>

The investment return variance of £29m (2008: £52m) after tax relates to shareholder net assets. The investment return variance in respect of covered business comprises £27m (2008: £123m) after tax, relating to assets backing policyholder liabilities, and £44m (2008: £197m) after tax, relating to the value of the in-force business.

#### (f) Attributed tax charge

EEV Life & Pensions profits, except for the expected return and investments variance on shareholders' net assets, are calculated net of tax and then grossed up at the effective rate of shareholder tax. The full standard rate of UK corporation tax has been used to gross up after tax profits on UK business and appropriate tax rates have been used for the International business. EEV deferred tax is provided on the mark-to-market revaluation of debt held within covered business.

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
Contribution from new business	8	19
Profit from existing business	24	30
Development costs	(1)	(2)
Expected return on shareholders' net assets within the Life & Pensions business	6	8
Other	-	(1)
Tax charge on underlying profit	37	54
Other non-recurring and non-underlying items	(13)	(4)
Investment return variances	(39)	(139)
Effect of economic assumption changes	(10)	33
Tax credit on non-underlying loss	(62)	(110)
Prior year tax adjustments	-	(8)
<b>Attributed tax credit</b>	<b>(25)</b>	<b>(64)</b>

#### 4. Non-recurring items

	Half year ended	
	30 June 2009	30 June 2008
	£m	£m
Group reorganisation and F&C demerger costs	(14)	-
Other	(1)	-
Corporate non-recurring item	(15)	-
Strategic review costs	(48)	(15)
Life & Pensions non-recurring items	(48)	(15)
Asset Management reorganisation costs	(3)	(2)
Gains on forward currency contracts	10	-
REIT acquisition costs	(2)	-
Other	(1)	-
Asset Management non-recurring items	4	(2)
<b>Total non-recurring items</b>	<b>(59)</b>	<b>(17)</b>

Explanations of non-recurring items are set out in note 3 to the IFRS condensed consolidated financial statements.

#### 5. Earnings per share

Earnings per share have been calculated based on EEV underlying profit after tax and profit after tax attributable to ordinary shareholders of the parent. The directors consider the underlying earnings per share figure gives a better indication of operating performance.

##### (a) Basic and underlying earnings per share

	Half year ended 30 June 2009		Half year ended 30 June 2008	
	Earnings £m	Per share pence	Earnings £m	Per share pence
<b>Loss after tax attributable to ordinary shareholders of the parent</b>	<b>(67)</b>	<b>(2.9)</b>	(24)	(1.0)
Investment return variances	102	4.4	289	12.4
Effect of economic assumption changes	34	1.5	(115)	(5.0)
Amortisation and impairment of non-covered business acquired intangible assets	27	1.2	25	1.1
Non-recurring items	59	2.5	17	0.7
Tax credit on items excluded from underlying loss	(60)	(2.6)	(59)	(2.5)
Minority interest on items excluded from underlying loss	(8)	(0.4)	19	0.8
<b>Underlying profit after tax attributable to ordinary shareholders of the parent</b>	<b>87</b>	<b>3.7</b>	152	6.5
		<b>2009 millions</b>		2008 millions
Weighted average number of ordinary shares		<b>2,325</b>		2,325

## (b) Diluted basic earnings per share

Share options outstanding under the Group's various option schemes as at 30 June 2008 and 2009 had no dilutive impact.

## 6. Intangible assets on an EEV basis

Carrying amounts	Goodwill £m	Investment management contracts £m	Other £m	Total £m
At 31 December 2008	171	267	46	484
<b>At 30 June 2009</b>	<b>171</b>	<b>230</b>	<b>37</b>	<b>438</b>

Of the total goodwill £141m (2008: £141m) relates to Asset Management.

Goodwill is assessed for possible impairment in December of each year. Other intangible assets are reviewed for possible impairment at the end of each reporting period. All intangible assets are reviewed for impairment whenever there is an indication of possible impairment.

Further details of intangible assets are contained in note 6 to the IFRS condensed consolidated financial statements.

## 7. Deferred acquisition costs

Deferred acquisition costs of £10m (31 December 2008: £12m) relate to Asset Management business.

## 8. Reconciliation of movement in pro forma embedded value

	UK Life & Pensions £m	FPI £m	Lombard £m	Total Life & Pensions EEV £m	Other £m	Total EEV £m
<b>Pro forma embedded value at 1 January 2009</b>	<b>1,609</b>	<b>350</b>	<b>381</b>	<b>2,340</b>	<b>625</b>	<b>2,965</b>
Contribution from new business	3	18	9	30	-	30
Contribution from existing business						
- Expected return	87	10	17	114	-	114
- Experience variances	(25)	(2)	(4)	(31)	-	(31)
- Operating assumption changes	-	-	-	-	-	-
Development costs	(1)	(2)	(1)	(4)	-	(4)
Expected return on shareholders' net assets	13	-	(1)	12	(1)	11
Other net income	-	-	-	-	6	6
Other underlying items	-	-	-	-	5	5
<b>Underlying EEV profit before tax</b>	<b>77</b>	<b>24</b>	<b>20</b>	<b>121</b>	<b>10</b>	<b>131</b>
Investment return variances	(90)	(52)	3	(139)	37	(102)
Effect of economic assumption changes	(27)	(15)	8	(34)	-	(34)
Non-recurring items	(48)	-	-	(48)	(11)	(59)
Other non-underlying items	-	-	-	-	(27)	(27)
<b>EEV (loss)/profit before tax</b>	<b>(88)</b>	<b>(43)</b>	<b>31</b>	<b>(100)</b>	<b>9</b>	<b>(91)</b>
Attributed tax	22	12	(9)	25	(5)	20
<b>EEV (loss)/profit after tax</b>	<b>(66)</b>	<b>(31)</b>	<b>22</b>	<b>(75)</b>	<b>4</b>	<b>(71)</b>
Net movement recognised directly in the statement of recognised income and expenses	-	-	(44)	(44)	(46)	(90)
Minority interest	-	-	-	-	23	23
Dividends on ordinary shares	-	-	3	3	(3)	-
Share based payments	-	-	-	-	3	3
Acquisition of subsidiaries & associate	-	-	1	1	(1)	-
Adjustment to the value of the listed Asset Management business to market value	-	-	-	-	64	64
Allocation of OLAB surplus to International L&P	(6)	6	-	-	-	-
Other movements	-	1	-	1	(1)	-
<b>Total movement in EEV</b>	<b>(72)</b>	<b>(24)</b>	<b>(18)</b>	<b>(114)</b>	<b>43</b>	<b>(71)</b>
<b>Pro forma embedded value at 30 June 2009</b>	<b>1,537</b>	<b>326</b>	<b>363</b>	<b>2,226</b>	<b>668</b>	<b>2,894</b>

Pro forma EEV comprises the EEV of the entire Group, incorporating the Group's share of F&C at market value of £180m (31 December 2008: £149m).

'Other' includes Asset Management business, Sesame, Pantheon, AmLife and corporate items.

## 9. Reconciliation of net worth and value of in-force business for Life & Pensions

	Free surplus £m	Required Capital £m	Total net worth £m	Value of in-force business £m	Total Life & Pensions EEV £m
<b>Shareholders' capital and reserves at 1 January 2009</b>	<b>(299)</b>	<b>908</b>	<b>609</b>	<b>1,731</b>	<b>2,340</b>
Contribution from new business	(102)	9	(93)	115	22
Expected return	(3)	10	7	82	89
Experience variances, operating assumption changes and other underlying items	(11)	(13)	(24)	(3)	(27)
Expected profit – transfer to net worth	125	(6)	119	(119)	-
<b>Life &amp; Pensions underlying profit after tax</b>	<b>9</b>	<b>-</b>	<b>9</b>	<b>75</b>	<b>84</b>
Investment return variances and economic assumption changes	(15)	(6)	(21)	(103)	(124)
Other non-underlying variances	(35)	-	(35)	-	(35)
<b>Life &amp; Pensions EEV loss after tax</b>	<b>(41)</b>	<b>(6)</b>	<b>(47)</b>	<b>(28)</b>	<b>(75)</b>
Acquisitions	1	-	1	-	1
Foreign exchange adjustments	12	(5)	7	(51)	(44)
Dividend to parent company	3	-	3	-	3
Other movements	1	-	1	-	1
<b>Shareholders' capital and reserves at 30 June 2009</b>	<b>(323)</b>	<b>897</b>	<b>574</b>	<b>1,652</b>	<b>2,226</b>

All items in the table above are shown net of tax. £986m of regulatory capital is also available, largely raised through the STICS, securitisation and financial reinsurance, that is not included within the EEV shareholder capital above.

## 10. Value of in-force Life & Pensions business on an EEV basis

	30 June 2009 £m	31 Dec 2008 £m
Value of in-force allowing for market risk (excluding time value of options and guarantees)	1,885	1,950
Time value cost of options and guarantees (including the impact of non-market risks)	(81)	(72)
Cost of required capital, plus excess economic capital requirements	(67)	(61)
Provision for operational risks	(85)	(86)
<b>Value of in-force Life &amp; Pensions business</b>	<b>1,652</b>	<b>1,731</b>

## 11. Equity attributable to equity holders of the parent

Ordinary shareholders' equity on an EEV basis reconciles to equity attributable to equity holders of the parent on an IFRS basis as follows:

	30 June 2009 £m	31 Dec 2008 £m
<b>Ordinary shareholders' equity on an EEV basis</b>	<b>2,830</b>	2,965
Less items only included on an EEV basis:		
Value of in-force Life & Pensions business	(1,652)	(1,731)
Provision for future corporate costs	97	97
Adjustment of long term debt to market value	(169)	(254)
Add items only included on an IFRS basis:		
Goodwill on covered business	379	404
Other intangible assets	63	74
Acquired PVIF	234	265
STICS treated as equity	475	810
Deferred acquisition costs	1,215	1,211
Deferred front end fees	(116)	(115)
IFRS reserving and other IFRS adjustments	(583)	(552)
<b>Equity attributable to equity holders of the parent on an IFRS basis</b>	<b>2,773</b>	3,174

## 12. Maturity profile in years of Value of In-force (VIF) by proposition As at 30 June 2009

	Total £m	1-5 £m	6-10 £m	11-15 £m	16-20 £m	21-25 £m	26-30 £m	31-35 £m	36-40 £m	41+ £m
<b>UK</b>										
With Profits Fund	72	(16)	39	28	14	6	1	-	-	-
Protection	155	67	42	26	14	5	1	-	-	-
Investments	103	54	28	13	5	2	1	-	-	-
Pensions	467	138	129	94	58	30	13	4	1	-
Annuities	(16)	(21)	2	2	1	-	-	-	-	-
UK other	175	128	44	3	-	-	-	-	-	-
<b>UK total</b>	<b>956</b>	<b>350</b>	<b>284</b>	<b>166</b>	<b>92</b>	<b>43</b>	<b>16</b>	<b>4</b>	<b>1</b>	<b>-</b>
		37%	30%	17%	10%	4%	2%	0%	0%	0%
<b>International</b>										
FPI	278	155	66	35	16	5	1	-	-	-
Lombard	418	179	88	58	37	23	14	9	5	5
<b>International total</b>	<b>696</b>	<b>334</b>	<b>154</b>	<b>93</b>	<b>53</b>	<b>28</b>	<b>15</b>	<b>9</b>	<b>5</b>	<b>5</b>
		48%	22%	13%	8%	4%	2%	1%	1%	1%
<b>Total VIF</b>	<b>1,652</b>	<b>684</b>	<b>438</b>	<b>259</b>	<b>145</b>	<b>71</b>	<b>31</b>	<b>13</b>	<b>6</b>	<b>5</b>
		41%	27%	16%	9%	4%	2%	1%	0%	0%

The maturity profile shown above makes no allowance for illiquidity premium on corporate bonds backing annuity business and, as such, is not a fair reflection of the cash-flows anticipated from this business.

Allowance for the repayment of the outstanding securitisation is via the shareholders' net worth rather than a reduction in the value of in-force business.

### 13. EEV assumptions

#### (a) Principal economic assumptions – deterministic

Economic assumptions are actively reviewed and are based on the market yields on risk-free assets at the valuation date.

	<b>30 June 2009</b>	31 Dec 2008
<b>UK and International (excluding Lombard):</b>	<b>%</b>	<b>%</b>
Risk-free rate (i)	<b>4.1</b>	3.7
Investment returns before tax:		
Fixed interest	<b>3.2-8.1</b>	3.6-7.7
Equities	<b>7.1</b>	6.7
Properties	<b>6.1</b>	5.7
Future expense inflation:		
UK business	<b>4.2</b>	3.7
International business	<b>4.2</b>	3.7
UK and OLAB corporation tax rate	<b>28</b>	28
Isle of Man corporation tax rate	<b>28</b>	28

- (i) For UK and FPI business the risk-free rate is set with reference to the gilt yield curve at the valuation date. For annuity business a term-dependent rate allowing for the shape of the yield curve is used as this can significantly impact value. For other business, a rate based on the annualised 15-year gilt yield is used.

	<b>30 June 2009</b>	31 Dec 2008
<b>Lombard:</b>	<b>%</b>	<b>%</b>
Risk-free rate	<b>4.6</b>	4.2
Investment returns before tax:		
Fixed interest	<b>4.6-5.6</b>	4.2-5.2
Equities	<b>7.6</b>	7.2
Cash	<b>0.8</b>	2.5
Future expense inflation	<b>3.3</b>	3.2
Tax rate	<b>28.6</b>	28.6

The key exchange rates used in respect of Lombard business were a closing exchange rate of 1 Euro = £0.8517 (2008: 1 Euro = £0.7913) and an average exchange rate over the year of 1 Euro = £0.8995 (2008: 1 Euro = £0.7720).

Margins are added to the risk-free rates to obtain investment return assumptions for equity and property. For corporate fixed interest securities the investment return assumptions are derived from an AA- bond yield spread, limited to the actual return on the underlying assets. As a market-consistent approach has been followed, these investment return assumptions affect only the derived risk discount rates and not the embedded value result.

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 retail price inflation. This is derived from the difference between the risk-free rate of return and the average of the FTSE Actuaries over five-year index-linked gilt yield at 5% and 0% inflation. Lombard maintenance expenses are assumed to increase in line with the European Central Bank target inflation rate.

For Lombard the risk-free rate is the average of the 10–15 year and the over 15 year yields using the EuroMTS indices. The investment return assumption is the weighted average (based on an assumed asset mix) of returns on fixed interest securities, equities and cash.

### Derived risk discount rates by product type

Average derived risk discount rates are shown below for the embedded value and the contribution from new business.

Annuities have been excluded as the increased allowance for illiquidity premium in the statutory valuation has resulted in a negative value of in-force business under MCEV and hence a meaningless derived risk discount rate.

A more detailed split of the derived risk discount rates is given in the following tables.

Derived risk discount rates for new business have been based on end-of-period economic assumptions.

<b>30 June 2009</b>	<b>UK with profits business</b>	<b>Other UK</b>	<b>Average UK</b>	<b>International</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>Sterling</b>	<b>Euro</b>
<b>Embedded value</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Risk-free rate	4.1	4.1	4.1	4.1	4.6
Market risks (non-options)	4.4	3.1	3.3	1.2	1.2
Options – market risks	7.9	-	0.8	-	-
Options – non-market risks	15.0	-	1.5	-	-
Other non-market risks	0.4	0.4	0.4	0.8	0.8
<b>Risk discount rate</b>	<b>31.8</b>	<b>7.6</b>	<b>10.1</b>	<b>6.1</b>	<b>6.6</b>

  

<b>31 December 2008</b>	<b>UK with profits business</b>	<b>Other UK</b>	<b>Average UK</b>	<b>International</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>Sterling</b>	<b>Euro</b>
<b>Embedded Value</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Risk-free rate	3.7	3.7	3.7	3.7	4.2
Market risks (non-options)	4.7	3.0	3.2	1.0	1.7
Options - market risks	8.0	-	0.9	-	-
Options - non-market risks	11.2	-	1.2	-	-
Other non-market risks	0.4	0.4	0.4	0.8	0.8
<b>Risk discount rate</b>	<b>28.0</b>	<b>7.1</b>	<b>9.4</b>	<b>5.5</b>	<b>6.7</b>

The with profits options elements have increased as burnthrough cost has increased and is a higher proportion of the value of in-force.

With profits business is subject to more investment risk than the remaining business, and so has higher non-option market risk.

<b>30 June 2009</b>	<b>UK</b>	<b>International</b>	
<b>Contribution from new business</b>	<b>%</b>	<b>Sterling</b>	<b>Euro</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Risk-free rate	4.1	4.1	4.6
Market risks	1.7	1.0	1.1
Non-market risks	0.4	0.8	0.8
<b>Risk discount rate</b>	<b>6.2</b>	<b>5.9</b>	<b>6.5</b>

31 December 2008

	UK	International	
		Sterling	Euro
Contribution from new business	%	%	%
Risk-free rate	3.7	3.7	4.2
Market risks	1.9	0.5	1.2
Non-market risks	0.4	0.8	0.8
Risk discount rate	6.0	5.0	6.2

**(b) Principal economic assumptions – stochastic**

The cost of options and guarantees is determined using The Smith Model Plus economic scenario generator. The model is calibrated to market conditions at the valuation date and correlations between the asset classes are derived from historic data, consistent with the model used for the Realistic Balance Sheet.

Risk-free rates are calibrated to the gilt yield curve. Equity volatility is calibrated to market implied volatility and is a reasonable fit to the implied volatility of FTSE 100 put options held by the FPLP With Profits Fund.

**(c) Other assumptions**

Other assumptions (for example mortality, morbidity, persistency and expenses) are a reflection of our 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 date available at the time both from our own 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.

In terms of future improvements in annuitant mortality, these have been assumed to be in accordance with the 'medium cohort' projections (with certain amendments) published in the CMI 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% pa and for females 0.75% pa.

## Appendix 1: Analysis of Life & Pensions new business

### Analysis of Life and Pensions New Business

In classifying new business premiums the following basis of recognition is adopted:

- 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.

#### Life & Pensions New Business – Regular and Single Premiums:

	Regular premiums			Single premiums		
	H1 2009 £m	H1 2008 £m	Change %	H1 2009 £m	H1 2008 £m	Change %
UK Corporate						
- pensions	<b>127.7</b>	210.7	(39)	<b>124.5</b>	304.8	(59)
- protection	<b>4.3</b>	4.2	2	-	-	-
<b>Total UK Corporate</b>	<b>132.0</b>	214.9	(39)	<b>124.5</b>	304.8	(59)
UK Individual						
- protection	<b>19.6</b>	24.7	(21)	-	-	-
- annuities	-	-	-	<b>125.1</b>	139.4	(10)
- pensions	<b>3.0</b>	7.7	(61)	<b>99.1</b>	220.0	(55)
- investments	<b>0.1</b>	0.6	(83)	<b>12.3</b>	54.1	(77)
<b>Total UK Individual</b>	<b>22.7</b>	33.0	(31)	<b>236.5</b>	413.5	(43)
<b>Total UK Life &amp; Pensions</b>	<b>154.7</b>	247.9	(38)	<b>361.0</b>	718.3	(50)
FPI	<b>69.0</b>	92.8	(26)	<b>120.6</b>	244.1	(51)
Lombard	-	-	-	<b>466.2</b>	702.2	(34)
<b>Total International Life &amp; Pensions</b>	<b>69.0</b>	92.8	(26)	<b>586.8</b>	946.3	(38)
<b>Total Life &amp; Pensions</b>	<b>223.7</b>	340.7	(34)	<b>947.8</b>	1,664.6	(43)

	Regular premiums			Single premiums		
	Q2	Q1	Change	Q2	Q1	Change
	2009	2009		2009	2009	
£m	£m	%	£m	£m	%	
UK Corporate						
- pensions	<b>63.9</b>	63.8	-	<b>66.8</b>	57.7	16
- protection	<b>2.1</b>	2.2	(5)	-	-	-
<b>Total UK Corporate</b>	<b>66.0</b>	66.0	-	<b>66.8</b>	57.7	16
UK Individual						
- protection	<b>10.5</b>	9.1	15	-	-	-
- annuities	-	-	-	<b>68.4</b>	56.7	21
- pensions	<b>1.3</b>	1.7	(24)	<b>81.1</b>	18.0	350
- investments	<b>0.1</b>	0.0	-	<b>7.9</b>	4.4	80
<b>Total UK Individual</b>	<b>11.9</b>	10.8	10	<b>157.4</b>	79.1	99
<b>Total UK Life &amp; Pensions</b>	<b>77.9</b>	76.8	1	<b>224.2</b>	136.8	64
FPI	<b>36.9</b>	32.1	15	<b>72.2</b>	48.4	49
Lombard	-	-	-	<b>262.2</b>	204.0	29
<b>Total International Life &amp; Pensions</b>	<b>36.9</b>	32.1	15	<b>334.4</b>	252.4	32
<b>Total Life &amp; Pensions</b>	<b>114.8</b>	108.9	5	<b>558.6</b>	389.2	44

#### New Business - Annual Premium Equivalent (APE):

Annualised Premium Equivalent (APE) represents annualised new regular premiums plus 10% of single premiums.

	H1	H1	Change	Q2	Q1	Change
	2009	2008		2009	2009	
	£m	£m	%	£m	£m	%
UK Corporate						
- pensions	<b>140.2</b>	241.2	(42)	<b>70.6</b>	69.6	1
- protection	<b>4.3</b>	4.2	2	<b>2.1</b>	2.2	(5)
<b>Total UK Corporate</b>	<b>144.5</b>	245.4	(41)	<b>72.7</b>	71.8	1
UK Individual						
- protection	<b>19.6</b>	24.7	(21)	<b>10.5</b>	9.1	15
- annuities	<b>12.5</b>	13.9	(10)	<b>6.8</b>	5.7	19
- pensions	<b>12.9</b>	29.7	(57)	<b>9.4</b>	3.5	169
- investments	<b>1.3</b>	6.0	(78)	<b>0.9</b>	0.4	133
<b>Total UK Individual</b>	<b>46.3</b>	74.3	(38)	<b>27.6</b>	18.7	48
<b>Total UK Life &amp; Pensions</b>	<b>190.8</b>	319.7	(40)	<b>100.3</b>	90.5	11
FPI	<b>81.1</b>	117.2	(31)	<b>44.1</b>	36.9	19
Lombard	<b>46.6</b>	70.2	(34)	<b>26.2</b>	20.4	29
<b>Total International Life &amp; Pensions</b>	<b>127.7</b>	187.4	(32)	<b>70.3</b>	57.3	23
<b>Total Life &amp; Pensions</b>	<b>318.5</b>	507.1	(37)	<b>170.6</b>	147.8	15

### 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:

	<b>H1 2009</b>	H1 2008 (as reported)	Change %	<b>Q2 2009</b>	Q1 2009 (as reported)	Change %
	<b>£m</b>	£m		<b>£m</b>	£m	
FPI	<b>70.2</b>	117.2	(40)	<b>45.5</b>	36.9	23
Lombard	<b>40.4</b>	70.2	(43)	<b>27.1</b>	20.4	33
<b>Total International Life Life &amp; Pensions</b>	<b>110.6</b>	187.4	(41)	<b>72.6</b>	57.3	27

### 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 EEV 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.

	<b>H1 2009</b>	H1 2008	Change %	<b>Q2 2009</b>	Q1 2009	Change %
	<b>£m</b>	£m		<b>£m</b>	£m	
UK Corporate						
- pensions	<b>652</b>	1,165	(44)	<b>333</b>	319	4
- protection	<b>14</b>	14	-	<b>6</b>	8	(25)
Total UK Corporate	<b>666</b>	1,179	(44)	<b>339</b>	327	4
UK Individual						
- protection	<b>125</b>	155	(19)	<b>66</b>	59	12
- annuities	<b>125</b>	139	(10)	<b>68</b>	57	19
- pensions	<b>110</b>	250	(56)	<b>86</b>	24	260
- investments	<b>13</b>	58	(78)	<b>8</b>	5	60
Total UK Individual	<b>373</b>	602	(38)	<b>228</b>	145	57
<b>Total UK Life &amp; Pensions</b>	<b>1,039</b>	1,781	(42)	<b>567</b>	472	20
FPI	<b>481</b>	737	(35)	<b>262</b>	219	20
Lombard	<b>466</b>	702	(34)	<b>262</b>	204	28
<b>Total International Life &amp; Pensions</b>	<b>947</b>	1,439	(34)	<b>524</b>	423	24
<b>Total Life &amp; Pensions</b>	<b>1,986</b>	3,220	(38)	<b>1,091</b>	895	22

**New Business PVNBP 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:

	<b>H1 2009 £m</b>	H1 2008 (as reported) £m	Change %	<b>Q2 2009 £m</b>	Q1 2009 (as reported) £m	Change %
FPI	<b>416</b>	737	(44)	<b>271</b>	219	24
Lombard	<b>403</b>	702	(43)	<b>271</b>	204	33
<b>Total International Life Life &amp; Pensions</b>	<b>819</b>	1,439	(43)	<b>542</b>	423	28

## Appendix 2: Cash related balance sheet disclosures

The table below provides an analysis of shareholder cash resources, IGD excess resources over capital requirements and realisable assets.

Shareholder cash resources are based on shareholder invested net assets on the EEV basis (excluding mark-to-market of long-term debt) adjusted to include cash resources generated from securitisation and financial reinsurance less the carrying value of non-covered business acquired intangible assets.

IGD is estimated and is analysed below after the deduction of group capital resource requirements from resources within long-term funds. The format provided is intended to demonstrate the relationship between the three cash related balance sheet disclosures and therefore differs from the presentation in the annual IGD return.

Realisable assets represent the assets and liabilities held by Friends Provident Group plc, Friends Provident plc and FPLP shareholders' funds (these being the funds where strategic resources are held). Assets and liabilities that we intend to hold for the long term, primarily loans, are excluded from realisable assets. An analysis of the movement in realisable assets is provided below.

	30 June 2009			31 December 2008		
	Shareholder cash resources £m	IGD surplus £m	Realisable assets £m	Shareholder cash resources £m	IGD surplus £m	Realisable assets £m
<b>Life &amp; Pensions long-term funds</b>	<b>478</b>	<b>18</b>	<b>-</b>	496	25	-
<b>Life &amp; Pensions shareholder funds</b>						
Regulatory debt	(795)	-	-	(795)	-	-
Other debt	14	14	-	14	14	-
Other net assets:						
FPLP realisable assets	662	662	662	636	636	636
Other	215	261	-	258	290	-
Less: accrued transfers from long-term funds	-	-	(3)	-	-	(12)
	<b>96</b>	<b>937</b>	<b>659</b>	113	940	624
<b>Other net assets</b>						
Other net assets:						
Friends Provident (Group) plc realisable assets	21	21	21	77	77	77
Other	395	14	-	241	31	-
IFA subsidiaries - intangible assets	(46)	(46)	-	(48)	(48)	-
	<b>370</b>	<b>(11)</b>	<b>21</b>	270	60	77
Asset Management, net of capital resource requirement	-	(182)	-	-	(175)	-
Securitisation, regulatory provisions and financial reinsurance	57	-	-	18	-	-
<b>Total</b>	<b>1,001</b>	<b>762</b>	<b>680</b>	897	850	701

## Movement in realisable assets

	<b>30 June 2009 £m</b>	30 June 2008 £m
Net transfers from long-term funds	<b>12</b>	211
Dividends received	<b>10</b>	10
Other operating cashflow	<b>(24)</b>	(37)
Non-recurring items	<b>(18)</b>	-
Dividends paid	-	(123)
Capital outflows:		
Loans and capital into life subsidiaries	<b>(1)</b>	(80)
Investment in IFA subsidiaries	-	(8)
Additional pension scheme contribution	-	(20)
Other	-	(5)
Movement in realisable assets	<b>(21)</b>	(52)
Realisable assets as at 1 January	<b>701</b>	844
<b>Realisable assets as at 30 June</b>	<b>680</b>	792

### Appendix 3: IFRS ongoing profit before one-off items

#### (a) UK Life & Pensions IFRS ongoing profit before one-off items Half year ended 30 June 2009

	Protection £m	Pensions £m	Annuities £m	Savings & Invest- ments £m	With Profits Fund £m	UK Life & Pensions £m
<b>New business strain</b>						
Commission	(31)	(15)	-	(1)	-	(47)
Acquisition expenses	(22)	(26)	(8)	(1)	-	(57)
Other revenue and reserve movements	31	(3)	13	-	-	41
	(22)	(44)	5	(2)	-	(63)
<b>In-force surplus</b>						
Annual management charges	-	34	-	9	17	60
Maintenance expenses	(10)	(8)	-	(7)	(8)	(33)
Investment management fees	-	(3)	-	(1)	(4)	(8)
Other revenue and reserve movements	32	(1)	1	5	26	63
	22	22	1	6	31	82
<b>Net cash generated</b>	-	(22)	6	4	31	19
<b>Deferred acquisition costs</b>						
Deferred in period	-	12	-	1	-	13
Amortised in period	-	(11)	-	(11)	-	(22)
	-	1	-	(10)	-	(9)
<b>Deferred income reserve</b>						
Deferred in period	-	-	-	-	-	-
Amortised in period	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Other IFRS adjustments</b>						
New business	-	2	-	(1)	-	1
In-force	-	4	-	9	-	13
	-	6	-	8	-	14
<b>IFRS ongoing profit/(loss) before one offs</b>						
IFRS new business strain	(22)	(30)	5	(2)	-	(49)
IFRS in-force surplus	22	15	1	4	31	73
	-	(15)	6	2	31	24
Investment return and other items						12
Effect of credit spreads on assets and liabilities for annuities						-
<b>IFRS underlying profit before tax</b>						<b>36</b>

Half year ended 30 June 2008

	Protection £m	Pensions £m	Annuities £m	Savings & Invest- ments £m	With Profits Fund £m	UK Life & Pensions £m
<b>New business strain</b>						
Commission	(39)	(27)	-	(4)	-	(70)
Acquisition expenses	(29)	(30)	(3)	(3)	-	(65)
Other revenue and reserve movements	47	(1)	2	-	-	48
	(21)	(58)	(1)	(7)	-	(87)
<b>In-force surplus</b>						
Annual management charges	-	37	-	12	23	72
Maintenance expenses	(9)	(8)	-	(8)	(10)	(35)
Investment management fees	-	(3)	-	(1)	(4)	(8)
Other revenue and reserve movements	37	(9)	1	(2)	25	52
	28	17	1	1	34	81
<b>Net cash generated</b>	7	(41)	-	(6)	34	(6)
<b>Deferred acquisition costs</b>						
Deferred in period	-	25	-	5	-	30
Amortised in period	-	(10)	-	(11)	-	(21)
	-	15	-	(6)	-	9
<b>Deferred income reserve</b>						
Deferred in period	-	(1)	-	-	-	(1)
Amortised in period	-	1	-	(1)	-	-
	-	-	-	(1)	-	(1)
<b>Other IFRS adjustments</b>						
New business	-	(1)	-	(4)	-	(5)
In-force	-	1	-	21	-	22
	-	-	-	17	-	17
<b>IFRS ongoing profit/(loss) before one offs</b>						
IFRS new business strain	(21)	(35)	(1)	(6)	-	(63)
IFRS in-force surplus	28	9	1	10	34	82
	7	(26)	-	4	34	19
Investment return and other items						25
Effect of credit spreads on assets and liabilities for annuities						(70)
<b>IFRS underlying loss before tax</b>						(26)

**(b) Total Life & Pensions IFRS ongoing profit before one-off items**  
**Half year ended 30 June 2009**

	FPI £m	Lombard £m	Intl Life & Pensions £m	UK Life & Pensions £m	Total Life & Pensions £m
<b>New business strain</b>					
Commission	(52)	(8)	(60)	(47)	(107)
Acquisition expenses	(15)	(19)	(34)	(57)	(91)
Other revenue and reserve movements	21	2	23	41	64
	(46)	(25)	(71)	(63)	(134)
<b>In-force surplus</b>					
Annual management charges	12	39	51	60	111
Maintenance expenses	(10)	(10)	(20)	(33)	(53)
Investment management fees	(1)	-	(1)	(8)	(9)
Other revenue and reserve movements	59	(2)	57	63	120
	60	27	87	82	169
<b>Net cash generated</b>	14	2	16	19	35
<b>Deferred acquisition costs</b>					
Deferred in period	66	8	74	13	87
Amortised in period	(31)	(8)	(39)	(22)	(61)
	35	-	35	(9)	26
<b>Deferred income reserve</b>					
Deferred in period	(3)	(2)	(5)	-	(5)
Amortised in period	(8)	5	(3)	-	(3)
	(11)	3	(8)	-	(8)
<b>Other IFRS adjustments</b>					
New business	(28)	-	(28)	1	(27)
In-force	(4)	3	(1)	13	12
	(32)	3	(29)	14	(15)
<b>IFRS ongoing profit/(loss) before one offs</b>					
IFRS new business strain	(11)	(19)	(30)	(49)	(79)
IFRS in-force surplus	17	27	44	73	117
	6	8	14	24	38
Investment return and other items	(14)	(4)	(18)	12	(6)
Effect of credit spreads on assets and liabilities for annuities	-	-	-	-	-
<b>IFRS underlying profit/(loss) before tax</b>	(8)	4	(4)	36	32

Half year ended 30 June 2008

	FPI £m	Lombard £m	Intl Life & Pensions £m	UK Life & Pensions £m	Total Life & Pensions £m
<b>New business strain</b>					
Commission	(87)	(9)	(96)	(70)	(166)
Acquisition expenses	(11)	(17)	(28)	(65)	(93)
Other revenue and reserve movements	29	3	32	48	80
	(69)	(23)	(92)	(87)	(179)
<b>In-force surplus</b>					
Annual management charges	14	37	51	72	123
Maintenance expenses	(8)	(8)	(16)	(35)	(51)
Investment management fees	(1)	-	(1)	(8)	(9)
Other revenue and reserve movements	46	(1)	45	52	97
	51	28	79	81	160
<b>Net cash generated</b>	(18)	5	(13)	(6)	(19)
<b>Deferred acquisition costs</b>					
Deferred in period	106	9	115	30	145
Amortised in period	(10)	(7)	(17)	(21)	(38)
	96	2	98	9	107
<b>Deferred income reserve</b>					
Deferred in period	(4)	(3)	(7)	(1)	(8)
Amortised in period	(8)	5	(3)	-	(3)
	(12)	2	(10)	(1)	(11)
<b>Other IFRS adjustments</b>					
New business	(44)	-	(44)	(5)	(49)
In-force	(17)	-	(17)	22	5
	(61)	-	(61)	17	(44)
<b>IFRS ongoing profit/(loss) before one offs</b>					
IFRS new business strain	(11)	(17)	(28)	(63)	(91)
IFRS in-force surplus	16	26	42	82	124
	5	9	14	19	33
Investment return and other items	(2)	(2)	(4)	25	21
Effect of credit spreads on assets and liabilities for annuities	-	-	-	(70)	(70)
<b>IFRS underlying profit/(loss) before tax</b>	3	7	10	(26)	(16)

## Appendix 4: Definitions

**Annual Premium Equivalent (APE)** represents annualised new regular premiums plus 10% of single premiums.

**Contribution from new business** is the present value of future cashflows 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.

**Discounted 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 discounted at the appropriate risk-discount rate, and calculated on the same assumptions and expense basis as those used for the contribution from new business.

**EEV underlying profit** is based on expected investment return and excludes: (i) amortisation and impairment of non-covered business acquired intangible assets, (ii) effect of economic assumption changes, (iii) non-recurring items; and is stated after deducting interest payable on STICS.

**IFRS underlying profit** is based on longer-term investment return and excludes: (i) policyholder tax, (ii) returns attributable to minority interests in policyholder funds, (iii) non-recurring items, (iv) amortisation and impairment of acquired intangible assets and present value of acquired in-force business; and is stated after deducting interest payable on STICS.

**IGD Surplus Capital resources (IGD)** is 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.

**Internal Rate of Return on new business (IRR)** is equivalent to the discount rate at which the present value of the after tax cashflows 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 the 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.

**Present Value of New Business Premiums (PVNBP)** represents new single premiums plus the expected present value of new business regular premiums.

**Pro forma embedded value** is the shareholders' equity on an EEV basis, adjusted to bring the value of the holding in F&C Asset Management plc to market value.

**Return on embedded value (ROEV)** is the underlying profit after tax on an EEV basis expressed as a percentage of the opening embedded value. Asset Management is excluded.

**Shareholder cash generation** is a measure of the cash generated available to cover dividends, increases in regulatory capital requirements and other capital items.

**Shareholder cash resources (SCR)** are a measure of the tangible assets available to the Life & Pensions business and attributable to shareholders. The movement in SCR therefore provides a view of the sustainability of the business model. SCR are based on shareholders' invested net assets included within the embedded value (excluding mark-to-market of long-term debt), but adjusted to include securitisation and financial reinsurance balances, and to exclude intangible assets.

**Total shareholder return (TSR)** is a measure of the annual return for shareholders taking into account both share price movements and dividends during the year.