

Resolution Limited

First Quarter 2011

Interim Management Statement

10 May 2011

Executive summary

- UK Life Project remains on track to deliver the targeted mid-teen returns with on-going progress on integration and delivery of targets announced at the time of the strategic update in February.
- Resolution Limited (“Resolution”) continues to be focused on improving the efficiency of cash and capital resources within the Group and a detailed update on the capital position will be given on 7 June 2011. Group available shareholder cash at 31 March 2011 totalled £1,052 million, comprising £482 million held by Resolution holding companies and £570 million held by Friends Life holding companies. Resolution remains confident of meeting the distributable cash target of £400 million per annum after interest costs from 2011 without reducing the MCEV of Friends Provident Holdings (UK) plc (“FPH”).
- The estimated Insurance Group Capital Adequacy (“IGCA”) surplus for FPH was £2.0 billion at 31 March 2011 after payments of dividends to Resolution holding companies of £250 million.
- FPH has successfully issued £500 million of lower tier 2 debt on 18 April 2011, £100 million higher than initially anticipated due to strong demand. The £400 million bridge loan used in the acquisition of the AXA UK Life businesses was subsequently repaid from the proceeds of the funds.
- The Friends Life brand was successfully launched at the end of March, bringing together Friends Provident, the acquired AXA UK Life businesses and Bupa Health Assurance (“BHA”).
- Resolution sets out in the attached Appendix the new business sales for Friends Life for the first quarter of 2011. Sales (measured on an annual premium equivalent (“APE”) basis) in the first quarter of 2011 were £270 million compared to £178 million for the same quarter in 2010. £66 million of the £92 million increase is due to the acquired AXA UK Life businesses and BHA. Friends Provident business sales grew by £26 million (up 15%).
- UK sales were £172 million, comprising £106 million from Friends Provident (an increase of 20% on the comparable period in 2010) and £66 million from the acquired AXA UK Life businesses and BHA. Lombard and International sales were £98 million, up 9% on the comparable period in 2010.
- A significant part of the corporate pensions business which Friends Life has contracted to acquire from AXA is written in Winterthur Life UK Limited (“WLUK”). As announced at the time of the acquisition of the AXA UK Life businesses, Friends Life will complete the purchase of WLUK later in 2011 following regulatory approval and expected completion of certain Part VII Schemes. The purchase price to be paid for WLUK is fixed under the terms of the agreement with AXA and will not be adjusted to reflect the value of new business written in WLUK prior to completion of its acquisition by Friends Life. The value of business written in WLUK prior to completion of its acquisition will therefore accrue to

Friends Life. This business, which generated £24 million of corporate pensions APE and £2 million APE in respect of other products in the first quarter of 2011, is not included in the new business figures quoted above as Friends Life has not yet completed the acquisition of WLUK. If the acquisition of WLUK had completed as at 1 January 2011, then Friends Life would have achieved total sales and UK sales of £296 million and £198 million respectively in the first quarter of 2011.

UK Life Project

On 23 February 2011, Resolution set out its targets for FPH. These were confirmed in the presentation of the 2010 financial results on 24 March 2011. The Group remains confident that FPH will achieve these targets.

Integration of the acquired businesses

The programme to integrate the acquired businesses and generate £112 million of synergies per annum before tax by the end of 2013 is progressing well. The BHA integration and outcomes of the UK Strategic review have been absorbed without disruption and the transitional service agreements between Friends Life and AXA continue to run smoothly. 2011 will see a significant number of strategic milestones achieved with the BHA separation, acquisition of WLUK and disposal of the Guaranteed Over Fifties ("GOF") and Trustee Investment Plan ("TIP") portfolios due for completion along with ongoing separation from AXA.

Cash and capital management

Available shareholder cash at a Group level at the end of March 2011 was £1,052 million (31 December 2010: £1,067 million). The fall is attributable to the payment of external debt interest and professional fees. Available shareholder cash at FPH level was £570 million (31 December 2010: £836 million) and reflects the dividend of £250 million paid to Resolution holding companies and debt interest payments. Available shareholder cash held by Resolution holding companies at the end of March 2011 was £482 million (31 December 2010: £231 million), increasing by the dividend of £250 million and interest payments received from FPH offset by external debt interest and fees paid.

The Group's capital position remains strong at 31 March 2011, with an estimated IGCA surplus, calculated at the FPH level, of £2.0 billion. This reflects a £0.3 billion decrease on that reported for FPH at 31 December 2010 and includes the effects of the BHA acquisition and the payment of the £250 million dividend to Resolution referred to above.

FPH successfully issued £500 million of lower tier 2 debt in April 2011 with a coupon of 8.25%. The debt issue has been used to repay £400 million of the internal tier 2 debt and subsequently enable the repayment of the £400 million bridge loan entered into to part fund the AXA UK Life businesses acquisition. The remaining £100 million of proceeds from the issue has been retained in one of the life operating companies as working capital for the time being and, for so long as it is so retained, will result in the IGCA surplus increasing by £100 million.

Insurer financial strength ratings for each of the three rating agencies, Moody's, Standard & Poor's and Fitch remain in the 'A' range.

Name change

Following the implementation of the new "Friends Life" brand, FPH is expected to change its name to Friends Life Group plc with effect from 1 July 2011.

Enquires:

Investors / analysts

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Media

Alex Child-Villiers, Temple Bar Advisory +44 (0)7795 425580

Forward-looking statements

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

Notes to editors

The UK Life Project targeted mid-teens return is a mid-teens gross internal rate of return over the duration of the project. It is calculated before payment of the "value share" receivable by members of Resolution Operation's group. The gross internal rate of return is the rate of interest such that the present value of all equity deployed into the UK Life Project and capital returned to Resolution from the UK Life Project is zero. The equity deployed in the UK Life Project reflects that part of the consideration paid, and transaction costs incurred, for Friends Provident and the acquired AXA UK Life businesses which was funded by equity, as described in the prospectuses issued in relation to the Friends Provident and AXA UK Life transactions. Capital returned to Resolution includes amounts paid to Resolution to fund its dividends to shareholders and to meet Resolution corporate costs during the duration of the project, and will include the value realised for the UK Life Project at exit whether in cash form, or by the distribution in specie of shares in acquired businesses to Resolution shareholders, or otherwise.

Headline new business figures are presented on the annual premium equivalent basis, representing annualised new business premiums plus 10% of single premiums.

Media

There will be a conference call today for real-time media at 07:30 BST, hosted by John Tiner, CEO of Resolution Operations and Trevor Matthews, CEO of Friends Life (+44 (0) 1452 555566 quoting 64237079).

Investors / Analysts

There will be a conference call today for analysts and investors at 08:30 BST, hosted by John Tiner, CEO of Resolution Operations and Trevor Matthews, CEO of Friends Life (+44 (0) 1452 555566 quoting 64251672). A recording of this call will be available for 7 days (+44 (0) 1452 550000 replay access number 64251672#).

Financial calendar

Annual General Meeting	18 May 2011
UK Life Project Update: Focus on Cash & Capital	7 June 2011
2011 Interim Results	16 August 2011
UK Life Project update and Q3 2011 IMS	15 November 2011

Website

www.resolution.gg

Appendix

Total life and pensions new business

Total new business volumes of Friends Life for the three month period, on an APE basis, were £270 million (2010: £178 million), including £66 million from the acquired AXA UK Life businesses and BHA. The BHA business has been included for the period from 1 February 2011 to 31 March 2011 and contributed £6 million.

A significant part of the corporate pensions business which Friends Life has contracted to acquire from AXA is written in WLUK. Friends Life will not complete the purchase of WLUK until later in 2011 following regulatory approval and Part VII Schemes to transfer out of WLUK the business which Friends Life has not purchased and transfer the GOF and TIP portfolios back to AXA. The purchase price to be paid for WLUK is fixed under the terms of the agreement with AXA and will not be adjusted to reflect the value of new business written in WLUK prior to completion of its acquisition by Friends Life. The value of new business written in WLUK prior to completion of its acquisition will therefore accrue to Friends Life. This business, which generated £23 million of new regular premiums and £26 million of new single premiums, giving total APE written in WLUK of £26 million, is not included in the new business figures quoted in this Appendix as Friends Life has not yet completed the acquisition of WLUK. The regular premium business is primarily corporate pensions business while single premiums business comprises £12 million of corporate pensions business, £10 million of annuities and £4 million of other products. Consequently the total WLUK APE comprises £24 million of corporate pensions business and £2 million of other business.

The figures in this Appendix do not include any GOF or TIP new business written in Friends Life Company Limited ("FLC") as this business will be transferred back to AXA under a Part VII Scheme later this year and the consideration received in respect of this transfer will not reflect the value of any GOF and TIP new business written in FLC since completion of its acquisition by Friends Life.

UK life and pensions

UK sales of £172 million reflect both the underlying business performance as well as the inclusion of the newly acquired businesses. The acquired businesses, which currently exclude WLUK as explained above, contributed £66 million (acquired AXA businesses £60 million and BHA £6 million) to the 2011 first quarter UK result with the remaining £106 million generated from the Friends Provident business up 20% on a like-for-like basis.

UK Individual

The individual protection market continues to reflect the low property market transaction levels and strong competition. Sales through the IFA channels of both Critical Illness and Income Protection performed well in the period, although this has been offset by weaker volumes through the tied distribution channel.

Individual Protection sales were £22 million in the quarter, an increase of 154% on the first quarter of 2010. The acquired businesses contributed significantly to the overall volumes with the acquired AXA UK Life businesses and BHA generating £11 million and £4 million respectively.

As announced previously, Friends Life will build on its Critical Illness and Income Protection products and develop simplified term assurance and 'over-50s' products. Through integration of products and the use of the BHA platform as well as sales and marketing synergies, the returns targeted as part of the strategic review will be achieved.

UK Corporate

The combination of Friends Provident and the acquired AXA UK Life businesses has created a Group Pension proposition with scale and capability for future growth. At the end of the quarter the Friends Life business had pensions funds under management of £17 billion (including Friends Provident unit-linked and AXA group pensions business but excluding £2 billion of WLUK business).

Group Pension sales of £113 million in the quarter are up 71% on the first quarter of 2010. Sales in the period reflect a strong performance for the combined business with Friends Provident contributing £85 million and acquired AXA UK Life businesses contributing £28 million.

Single premium sales in the first quarter of the year benefitted from a number of large schemes being written in March. The timing of single premium scheme wins typically results in some quarter-on-quarter volatility although the development of pipeline business is encouraging.

Regular premium business, which largely reflects premiums on existing schemes, continued to show quarter-on-quarter stability.

The acquisition of BHA has enhanced the Friends Life Group Risk capability with the addition of Group Life and Critical Illness to the existing Income Protection product. Sales in the period of £5 million represent a significant improvement on 2010. The Group Risk market is competitive with the focus of industry participants directed principally at the retention of existing business with minimal levels of new business to the market.

Annuities

Annuity volumes are up 13% on the first quarter of 2010 to £9 million with the Friends Provident and acquired AXA UK Life businesses contributing £5 million and £4 million respectively. This compares to a particularly strong comparative period which benefitted from individuals in the 50-55 year age bracket acting in advance of changes to early retirement rules in April 2010.

Friends Life believe the annuity market is attractive and the business is working towards a strategy for the development of this product as well as the improvement of take up rates from the Group's sizable volume of vesting pension annuity customers.

International

The International business continued the strong growth of 2010, with sales up 12% to £63 million (2010: £57 million). The markets in Asia and the Middle East have maintained levels of growth with sales up 22% and 18% respectively. Sales in Asia have been supported by good performances in the Hong Kong and Singapore branches, with some benefit in the period from large cases, whilst sales in the Middle East have benefitted from strong regular premium volumes. European sales have been generally weaker as the economic environment remains challenging.

Sales through AmLife, the 30% owned Malaysian associate, are down 15% on the strong first quarter of 2010 to £2 million with the business focusing on value over volume.

Lombard

After a strong trading performance in 2010, Lombard sales have improved 4% to £34 million in the first quarter of 2011 (2010: £33 million), a rise of 5% excluding currency movements. First quarter trading is low compared to the previous quarter reflecting the seasonal nature of sales.

The region that has performed most strongly is the UK and Nordic region with sales up 23%, driven by the Finnish and Swedish markets. In addition a strong sales performance in Asia, supported by a number of large cases, benefitted the contribution from the non-European regions.

Northern and Southern Europe regions have started the year more slowly. The sales for the first half of 2010 were positively influenced by the expected introduction of the European Union Savings Directive and the carry forward business derived from the Italian tax amnesty ("Scudo Fiscale").

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.

Regular and Single Premiums

Group

	Regular premiums			Single premiums		
	Q1 ⁽ⁱ⁾	Q1 ⁽ⁱⁱ⁾	Change	Q1 ⁽ⁱ⁾	Q1 ⁽ⁱⁱ⁾	Change
	2011	2010		2011	2010	
	£m	£m	%	£m	£m	%
UK Corporate						
- pensions	92.3	62.0	49	209.1	43.1	385
- protection	4.5	0.8	463	-	-	-
UK Individual						
- protection	22.1	8.7	154	-	-	-
- pensions	3.6	1.3	177	62.4	25.9	141
- Investments	-	-	-	134.5	6.2	2,069
Annuities	-	-	-	88.2	78.2	13
Total UK Life and Pensions	122.5	72.8	68	494.2	153.4	222
International	45.9	44.7	3	175.1	118.6	48
Lombard	-	-	-	343.7	329.6	4
Total International Life and Pensions	45.9	44.7	3	518.8	448.2	16
Total Life and Pensions	168.4	117.5	43	1,013.0	601.6	68

(i) includes the trading results of the acquired BHA businesses for the period 1 February 2011 to 31 March 2011

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

Friends Life excluding acquired businesses AXA UK Life and BHA

	Regular premiums			Single premiums		
	Q1	Q1	Change	Q1	Q1	Change
	2011	2010		2011	2010	
	£m	£m	%	£m	£m	%
UK Corporate						
- pensions	67.0	62.0	8	185.3	43.1	330
- protection	2.5	0.8	213	-	-	-
UK Individual						
- protection	7.4	8.7	(15)	-	-	-
- pensions	1.5	1.3	15	27.1	25.9	5
- investments	-	-	-	8.4	6.2	35
Annuities	-	-	-	52.0	78.2	(34)
Total UK Life and Pensions	78.4	72.8	8	272.8	153.4	78
International	45.9	44.7	3	175.1	118.6	48
Lombard	-	-	-	343.7	329.6	4
Total International Life and Pensions	45.9	44.7	3	518.8	448.2	16
Total Life and Pensions	124.3	117.5	6	791.6	601.6	32

Acquired businesses of AXA UK Life and BHA

	AXA UK Life		BHA	
	Regular premiums	Single premiums	Regular premiums	Single premiums
	3 months	3 months	2 months	2 months
	2011	2011	2011	2011
	£m	£m	£m	£m
UK Corporate				
- pensions	25.3	23.8	-	-
- protection	-	-	2.0	-
UK Individual				
- protection	11.0	-	3.7	-
- pensions	2.1	35.3	-	-
- investments	-	126.1	-	-
Annuities	-	36.2	-	-
Total Life and Pensions	38.4	221.4	5.7	-

Group New Business - APE

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

	Q1 ⁽ⁱ⁾ 2011 £m	Q1 ⁽ⁱⁱ⁾ 2010 £m	Change %	Q1 ⁽ⁱ⁾ 2011 £m	Q4 2010 £m	Change %
UK Corporate						
- pensions	113.2	66.3	71	113.2	101.3	12
- protection	4.5	0.8	463	4.5	2.2	104
UK Individual						
- protection	22.1	8.7	154	22.1	19.9	11
- pensions	9.8	3.9	151	9.8	8.6	14
- investments	13.5	0.6	2,150	13.5	15.5	(13)
Annuities	8.8	7.8	13	8.8	8.5	4
Total UK Life and Pensions	171.9	88.1	95	171.9	156.0	10
International	63.4	56.5	12	63.4	61.7	3
Lombard	34.4	33.0	4	34.4	89.1	(61)
Total International Life and Pensions	97.8	89.5	9	97.8	150.8	(35)
Total Life and Pensions	269.7	177.6	52	269.7	306.8	(12)

(i) includes the trading results of the acquired BHA businesses for the period 1 February 2011 to 31 March 2011

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

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

	Q1 2011 £m	Q1 2010 £m	Change %	Q1 2011 £m	Q4 2010 £m	Change %
UK Corporate						
- pensions	85.5	66.3	29	85.5	78.9	8
- protection	2.5	0.8	213	2.5	2.2	14
UK Individual						
- protection	7.4	8.7	(15)	7.4	8.3	(11)
- pensions	4.2	3.9	8	4.2	4.3	(2)
- investments	0.9	0.6	50	0.9	1.1	(18)
Annuities	5.2	7.8	(33)	5.2	5.1	2
Total UK Life and Pensions	105.7	88.1	20	105.7	99.9	6
International	63.4	56.5	12	63.4	61.7	3
Lombard	34.4	33.0	4	34.4	89.1	(61)
Total International Life and Pensions	97.8	89.5	9	97.8	150.8	(35)
Total Life and Pensions	203.5	177.6	15	203.5	250.7	(19)

Acquired businesses of AXA UK Life and BHA - APE

	AXA UK Life		BHA
	Q1 2011 £m	Q4 2010 £m	Q1 ⁽ⁱ⁾ 2011 £m
UK Corporate			
- pensions	27.7	22.4	-
- protection	-	-	2.0
UK Individual			
- protection	11.0	11.6	3.7
- pensions	5.6	4.3	-
- investments	12.6	14.4	-
Annuities	3.6	3.4	-
Total UK Life and Pensions	60.5	56.1	5.7

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

International

	Q1 2011	Q1 2010	Change
APE by region (actual exchange rates)	£m	£m	%
Asia	32.8	26.9	22
Middle East	11.1	9.4	18
Europe (Excl UK)	7.6	10.5	(28)
UK	4.8	2.7	78
Rest of World	4.8	4.3	12
Malaysia (AmLife)	2.3	2.7	(15)
Total	63.4	56.5	12

Lombard

	Q1 2011	Q1 2010	Change
APE by region (actual exchange rates)	£m	£m	%
UK and Nordic	12.9	10.5	23
Northern Europe	3.3	5.4	(39)
Southern Europe	8.3	14.5	(43)
Rest of World	9.9	2.6	281
Total including large cases	34.4	33.0	4
Of which: Large cases (greater than €10m)	14.4	11.3	27
Total excluding large cases	20.0	21.7	(8)

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:

	Q1 2011	Q1 2010 (as reported)	Change
	£m	£m	%
International	64.3	56.5	14
Lombard	34.8	33.0	5

New Business – Present Value of New Business Premiums (“PVNBP”)

PVNBP equals new single premiums plus the expected present value of new regular premiums. Premium values are calculated on a consistent basis with the EV contribution to profits from new business. Start of period assumptions are used for the economic basis and end of period assumptions are used for the operating basis. A risk free rate is used to discount expected premiums in future years. The impact of operating assumption changes across a whole reporting period will normally be reflected in the PVNBP figures for the final quarter of the period that the basis changes relate to. No change in operating assumptions will be reflected in the PVNBP for the first and third quarters, when the contribution to profits from new business is not published. All amounts in currency other than Sterling are translated into Sterling at a monthly average exchange rate.

	Q1 ⁽ⁱ⁾	Q1 ⁽ⁱⁱ⁾		Q1 ⁽ⁱ⁾	Q4	
	2011	2010	Change	2011	2010	Change
	£m	£m	%	£m	£m	%
UK Corporate						
- pensions	577	297	94	577	536	8
- protection	27	5	440	27	12	125
UK Individual						
- protection	142	51	178	142	135	5
- pensions	82	31	165	82	100	(18)
- investments	134	6	2,133	134	153	(12)
Annuities	88	78	13	88	85	4
Total UK Life and Pensions	1,050	468	124	1,050	1,021	3
International	396	334	19	396	359	10
Lombard	344	330	4	344	892	(61)
Total International Life and Pensions	740	664	11	740	1,251	(41)
Total Life and Pensions	1,790	1,132	58	1,790	2,272	(21)

(i) includes the trading results of the acquired BHA businesses for the period 1 February 2011 to 31 March 2011

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