Resolution Limited

Strategy Update
18 March 2014
Friends Life Group strategy
- Where we play

Andy Briggs
## Friends Life Group strategy

Approach and philosophy unchanged

### Strategic approach

<table>
<thead>
<tr>
<th>Where we play</th>
<th>Business philosophy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Our markets</strong></td>
<td>- Manage portfolio of businesses to secure maximum value for each part of the Group</td>
</tr>
<tr>
<td><strong>How we win</strong></td>
<td>- Rigorous financial discipline and capital allocation to drive cash and returns</td>
</tr>
<tr>
<td><strong>Our distinctive capabilities</strong></td>
<td>- Simple, clear and transparent</td>
</tr>
<tr>
<td><strong>How we deliver cash and returns</strong></td>
<td><strong>Listed company brand</strong></td>
</tr>
<tr>
<td><strong>Our shareholders</strong></td>
<td>- Friends Life Group will become the listed brand¹</td>
</tr>
</tbody>
</table>

**Friends Life is a leading scale player in the UK Life and Pensions market, primarily focused on:**
- Legacy products
- Fast growing retirement market

**Strong financially disciplined team building distinctive capabilities and competitive advantage**
- Strategic partnership with Schroders

**Growing cash generation demonstrates sustainable and growing franchise**
- UK and Heritage in force return in 2014 estimated to be c.£40m higher than 2013

¹. Subject to shareholder approval at the 2014 AGM
## International strategy
### Update

<table>
<thead>
<tr>
<th>FPI</th>
<th>Lombard</th>
<th>Non-core</th>
</tr>
</thead>
</table>
| • Core focus is unit linked products for global expatriates and domestic affluent customers in Asia and the Middle East  
  • Significant investment to re-platform  
  – Enhanced standalone capability and opportunities for organic growth  
  • Dividends of £20m received | • Process for potential sale ongoing  
  • Difficult trading in Q4 due to challenging market environment and impact of leak of sale process  
  • Dividends of £13m received | • All significant non-core exits completed in 2013  
  – Sold AmLife stake in 2013, proceeds repatriated to Group  
  – Exited / closed unprofitable and high risk business lines e.g. Corporate Pensions, Japanese nationals  
  – Withdrew from the sale of new products in Germany |

**Strong delivery against November 2012 strategy, and securing opportunities for further, incremental value**
Where we play
UK Life and Pensions in the next decade

Two main parts of the UK Life and Pensions market¹:
• Legacy products - with drivers for consolidation
• Fast growing retirement market – driven by DB to DC shift and auto-enrolment

¹. Estimated 2013 and 2014 market sizes and flows are taken from Oliver Wyman, 2014. All market sizes are shown as estimated December 2013 AUA, with the exception of protection (estimated 2013 new business APE) and retirement income (estimated 2013 new business premium volumes). Majority of individual wealth and defined benefit markets are not in life and pensions products, figure provided to support holistic view of related markets. Workplace savings growth estimate excludes NEST.
Where we play
Scale player in both main parts of UK Life and Pensions market

- Leading scale player with £68bn AUA
- Dedicated team and management expertise

- Top 2 with £20bn AUA
- Cash positive in 2013

- 1 in 9 retiring DC pension customers with us
- Entry to open market and considering bulks

- Top 5 by sales volume
- 2 million customers with protection policies

- Schroders strategic partnership
- FLI £19bn AUM
- CRE & infrastructure mandates: £0.5bn each

1. Estimated based on 50,000 Friends Life vesting pensions customers and ABI policy sales data for market size
2. Individual protection across Group; approximately 1.8m individual protection customers in Heritage
3. Pro-forma based on 31 December 2013 assets after transfer planned for 2014
Where we play
Future opportunities

- Strong customer recruitment and retention
- Significant transition to retirement opportunity
- Potential additional benefit of legacy book consolidation
How we win
Our distinctive capabilities and competitive advantage

- **Group-wide**
  - Customer management
  - Cost management
  - Capital, pricing & underwriting
  - Investment management

- **Heritage**
  - Customer service & engagement
  - Cost & supplier management
  - Capital & risk management
  - Investment management capability

- **UK**
  - Customer propositions
  - Cost efficiency
  - Pricing & underwriting

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Resolution

FriendsLife
Friends Life Group strategy
- How we win: Heritage, including investment management

Jonathan Moss
How we win: Heritage
Our strengths and track record

Capabilities

Cost & supplier management

Customer service & engagement

Capital & risk management

Investment management capability

Evidence of delivery

- Cost synergies of £160m secured
- 3.8m Heritage customers, managed through cost-efficient outsourcers
- Delivery of £291m capital synergies
- Strategic partnership with Schroders
- £19bn in-house fixed income asset manager\(^1\)

Continue to apply rigorous financial discipline to all opportunities and risks

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\(^1\) Pro-forma FLI assets as at 31 December 2013 after planned 2014 transfer
### How we win: Heritage

**Capital and risk management**

<table>
<thead>
<tr>
<th>UK businesses acquired</th>
<th>End 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASLAS</td>
<td>FPLP</td>
</tr>
<tr>
<td>ASL</td>
<td>FPP</td>
</tr>
<tr>
<td>WLUK</td>
<td>FPLAL</td>
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<tr>
<td>BHA</td>
<td></td>
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</tbody>
</table>

### Risk management

- Fund by fund analysis
- Deep understanding of assets and liabilities
- Achieve value by understanding risk exposure and hedging
- Manage risk within capital management policy to stabilise cash generation

### Capital and liability optimisation programme (COP) 2011-13 complete

<table>
<thead>
<tr>
<th>UK businesses acquired</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASLAS</td>
<td>181</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FPLP</td>
<td></td>
<td>101</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASL</td>
<td></td>
<td></td>
<td>9</td>
<td>9</td>
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<tr>
<td>FPP</td>
<td></td>
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<td></td>
<td>9</td>
</tr>
<tr>
<td>WLUK</td>
<td></td>
<td></td>
<td></td>
<td>291</td>
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<tr>
<td>FPLAL</td>
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Significantly de-risked business with more stable cash generation

1. Includes benefit of deauthorisation of FLWL and FLC in Feb 2014 in 2013
How we win: Heritage
Capital and risk management

With-profits annuity reallocation (WPAR)

- WPAR benefits shareholders and with-profits policy holders
- Completed first WPAR in Q3 - c.£2bn with-profits fund annuities to non-profit funds
- Free surplus cost of £(16)m
- Generates c.£10m p.a. of SFS from 2014
- Expect to reallocate c.£700m of further assets in 2014, expect to require at least the same investment with smaller benefits
- Further c.£1.6bn of assets potentially addressable in future years

2011-13 substantial acceleration of free surplus; 2014 value creation through liability reallocation
How we win: Heritage
Investment management: best of breed model

- Specialist asset managers benefiting annuity customers
- Commercial Real Estate and Infrastructure mandates and £75m Drax loan

- Major new strategic partnership
- Customer access to leading asset management brand
- Significant competitive advantage, and future potential

- Open architecture supports customer propositions
- Broad customer choice – c.100 managers

- In-house fixed interest expertise, core skills in rates and credit
- FLI recaptures additional £2bn of assets bringing pro-forma total to £19bn

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1. Pro-forma AUA as at 1 January 2014, post-implementation of planned Schroders, FLI, CRE and infrastructure asset transfers; 2. £2bn assets already placed with Schroders with additional £12bn now announced; 3. Agreement with Pramerica Investment Management, LLC through Pricoa Mortgage Capital
Friends Life Group strategy
- How we win: UK

John Van Der Wielen
### How we win: UK
Deploying key capabilities in attractive growth markets

<table>
<thead>
<tr>
<th>Customer propositions</th>
<th>Cost efficiency</th>
<th>Pricing &amp; underwriting</th>
<th>Investment management capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-year growth 1.7x</td>
<td>10-year growth 3.5x</td>
<td>10-year growth 3.3x</td>
<td></td>
</tr>
<tr>
<td>• Cost-efficient platform</td>
<td>• Auto enrolment drives AUA growth</td>
<td>• 1 in 9 retiring DC pensions customers</td>
<td></td>
</tr>
<tr>
<td>• Value over volume</td>
<td>• Well placed as number 2 by size</td>
<td>• Significant capability built</td>
<td></td>
</tr>
<tr>
<td>• Strong ties with IFAs and estate agents</td>
<td>• Strong investment proposition</td>
<td>• Positive open market launch</td>
<td></td>
</tr>
<tr>
<td>• Top 5 by sales volume</td>
<td>• Largely fixed, efficient cost base</td>
<td>• Considering bulk annuity market opportunity</td>
<td></td>
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#### Evidence of delivery

<table>
<thead>
<tr>
<th>Protection</th>
<th>Corporate benefits</th>
<th>Retirement income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong VNB growth</td>
<td>Strong cash growth</td>
<td>Strong VNB growth</td>
</tr>
<tr>
<td>• £75m in 2013 from £16m in 2011</td>
<td>• c.£10m p.a. over last 2 years</td>
<td>• VNB growth of 150% since 2010</td>
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**Resolution**

**FriendsLife**
How we win: UK
Our proposition in the annuity market

- Lifestyle pricing model developed based on in-house data and research
- Full range offered for existing pensions customers
- Open market launch focused on lifestyle pricing

Annuity market

<table>
<thead>
<tr>
<th>Standard (including postcode)</th>
<th>Enhanced</th>
</tr>
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<tbody>
<tr>
<td>Lifestyle</td>
<td>Medically underwritten</td>
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</table>

Existing customers

Open market

Initial focus

(with Swiss Re)
How we win: UK
Transition to retirement – customer-led opportunities

We have significantly improved the retirement process for customers...

2010
- Warm up pack
- Basic information pack

Now
- Warm up pack
- Phone follow-up
- Improved information pack
- Better rates
- Enhanced offering
- Telephone guidance
- Shopping around referral (KRS)
- Engagement with deferring retirees

Expected retirement date

25% of vesting pensions stay with Friends Life

34% of vesting pensions stay with Friends Life

...but there is scope to do much more
Friends Life Group strategy
- How we deliver cash and returns: Financial Framework

Tim Tookey
Using our framework to measure cash and returns

Strategic approach

Where we play
Our markets

How we win
Our distinctive capabilities

How we deliver cash and returns
Our shareholders

How we deliver cash and returns
Our shareholders

Framework
Capital
Cash today
Cash tomorrow
Returns
Presenting our business increasingly as we manage it
Developing clearer links between business drivers and performance

Our businesses...

...two business characteristics...

...one financial framework

<table>
<thead>
<tr>
<th>Protection</th>
<th>Retirement Income</th>
<th>Heritage</th>
<th>FPI</th>
<th>Corporate Benefits</th>
<th>Lombard</th>
</tr>
</thead>
</table>

Insurance

Asset-based

Framework

<table>
<thead>
<tr>
<th>Capital</th>
<th>Cash today</th>
<th>Cash tomorrow</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Returns</td>
<td></td>
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Resolution

FriendsLife
Strong capital base – a prerequisite for high performance
Strength to be maintained across all measures, at all times

Current reporting

IGCA surplus
- £2.2bn
- 238%
- 160%
- CMP1 150%
- 100%

Economic capital
- £3.9bn
- 193%
- CMP1 125%
- 100%

ASA
- £917m

Prudence buffer: £325m
Final dividend: £200m

Transitioning to Solvency II

Solvency II
- Solvency II founded on economic capital
- Commencing migration to Solvency II from a strong capital position
- Preparations for Solvency II well advanced

IGCA

Economic capital
- Expect IMAP submission during 2016 for approval by end 2016

1. CMP is the Capital Management Policy
Shareholder assets
Increased investment risk appetite allows generation of higher returns

Shareholder assets
Available shareholder assets
£917m
Annuities
£9.3bn¹

Now
100% cash

Future direction
- Looking to invest a proportion (up to £0.2bn) of available shareholder assets in assets with higher expected risk-adjusted returns
- Prudence and dividend buffers to be held in cash and gilts

- Targeting an allocation with an overall higher yield for new business:
  - Shift in mix towards c.30% BBB including increased diversification to illiquid asset types
- £1bn allocated to commercial real estate and infrastructure loans
- Boosting capability in Friends Life Investments to widen available asset universe e.g. US credit market
- Move back-book towards new business strategy in time

Note: Analysis excludes cash assets

1. Excludes £1.6bn reinsurance asset  2. Gilts include supranational bond exposures
Cash today – SFS remains a principal measure
Enhanced analysis of asset-based businesses

Greater analysis to be provided across business lines

| Expected return from in-force business | 682 |
| Investment in new business | (213) |
| Underlying free surplus | 469 |
| Development costs | (41) |
| Debt coupon | (92) |
| Operating variances and other | (5) |
| Sustainable free surplus | 331 |

<table>
<thead>
<tr>
<th>Insurance</th>
<th>Asset-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prot.</td>
<td>Ret. Income</td>
</tr>
<tr>
<td>Expected return</td>
<td>30</td>
</tr>
<tr>
<td>INB</td>
<td>(44)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>(14)</td>
</tr>
</tbody>
</table>

1. Other principally includes movements on required capital, non-unit reserves and regulatory DAC (in Lombard)
## Cash tomorrow
Improving the relevance of our performance metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Insurance</th>
<th>Asset-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>VNB</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>IRR</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>INB</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Net fund flows</td>
<td>-</td>
<td>✔️</td>
</tr>
<tr>
<td>Regular premiums</td>
<td>-</td>
<td>✔️</td>
</tr>
<tr>
<td>Income bps</td>
<td>-</td>
<td>✔️</td>
</tr>
<tr>
<td>Outgoings bps</td>
<td>-</td>
<td>✔️</td>
</tr>
</tbody>
</table>

- Primary reporting metric
- Secondary reporting metric

Improved transparency on the levers of value
## Cash tomorrow
Clear ambitions for future growth established

### Insurance

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>VNB (£m)</td>
<td>153</td>
<td>51</td>
<td>204</td>
<td>194</td>
<td>+5%</td>
</tr>
<tr>
<td>IRR (%)</td>
<td>18.1&lt;sup&gt;1&lt;/sup&gt;</td>
<td>9.7</td>
<td>15.3&lt;sup&gt;2&lt;/sup&gt;</td>
<td>10.4</td>
<td>+4.9pp</td>
</tr>
<tr>
<td>INB (£m)</td>
<td>(141)</td>
<td>(72)</td>
<td>(213)</td>
<td>(285)</td>
<td>(25)%</td>
</tr>
</tbody>
</table>

### Asset-based

<table>
<thead>
<tr>
<th>Metric</th>
<th>Asset-based businesses 2013</th>
<th>Asset-based businesses 2012</th>
<th>2013 v 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net fund flows (£bn)</td>
<td>(0.2)</td>
<td>1.2</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Regular premiums (£m)</td>
<td>1,760</td>
<td>1,680</td>
<td>+5%</td>
</tr>
<tr>
<td>Income (bps)</td>
<td>68</td>
<td>68</td>
<td>Leverage</td>
</tr>
<tr>
<td>Outgoings (bps)</td>
<td>(56)</td>
<td>(62)</td>
<td>+6bps</td>
</tr>
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### Performance ambitions

- **Group VNB**: +10%
- **15%+ (open insurance business)**: Disciplined
- **+ve and growing**: Growing
- **+ve operating leverage**:

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<sup>1</sup> IRR for open insurance businesses  
<sup>2</sup> Includes the impact of with-profits annuity reallocation
**Returns metrics – now includes a ‘cash returns’ lens**

A stronger indicator of financial discipline and cash focus

<table>
<thead>
<tr>
<th>Return on embedded value</th>
<th>Cash return</th>
</tr>
</thead>
<tbody>
<tr>
<td>• ROEV impacted by some factors outside management control such as economics</td>
<td></td>
</tr>
<tr>
<td>• 10% achievable but requires increase in asset returns (i.e. risk free rates)</td>
<td></td>
</tr>
<tr>
<td>• Growth constrained by high proportion of Heritage book relative to open business</td>
<td></td>
</tr>
</tbody>
</table>

\[
\frac{\text{SFS}}{\text{SNW}^1} = \frac{\text{Sustainable earnings post tax, post debt, post capital}}{\text{Good proxy for shareholder owned tangible assets}}
\]

<table>
<thead>
<tr>
<th>(£m)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFS</td>
<td>291</td>
<td>300</td>
<td>331</td>
<td></td>
</tr>
<tr>
<td>SNW(^1)</td>
<td>2,048</td>
<td>1,841</td>
<td>1,453</td>
<td></td>
</tr>
</tbody>
</table>

1. Shareholders Net Worth (“SNW”) is free surplus and required capital (net of external debt), i.e. MCEV excluding VIF. The SNW is adjusted to reflect the in-period impacts of dividend payments and other capital movements.
Existing £400m ‘distributable cash generation’ target for considering a move towards a progressive dividend is replaced by:

“Our ordinary dividend policy is to pay 21.14 pence per share per annum, with the expectation that a progressive dividend would be considered once the coverage ratio of SFS : Dividend cost exceeds 1.3x”
Confidence in our returns generating capabilities

Performance ambitions

**Capital**
- Maintain a strong capital base, on each measure, at all times

**Cash today**
- Positive operating leverage on asset-based business
- Growing free surplus generation from insurance business
- SFS dividend cover of >1.3x

**Cash tomorrow**
- Group VNB growth of 10% p.a.
- 15% IRR from open insurance business

**Returns**
- ‘Cash return’ above 25%

Framework

- Capital
- Cash today
- Cash tomorrow
- Returns
Summary

Andy Briggs
How we deliver cash and returns
Growing our cash generation

Delivery evidenced by c.£40m increase in UK and Heritage estimated in force return in 2014
**Today’s key messages**
**Friends Life strategy**

<table>
<thead>
<tr>
<th>Where we play</th>
<th>How we win</th>
<th>How we deliver cash and returns</th>
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  - Legacy products  
  - Fast growing retirement market | Strong financially disciplined team building distinctive capabilities and competitive advantage  
  - Strategic partnership with Schroders | Growing cash generation demonstrates sustainable and growing franchise  
  - UK and Heritage in force return in 2014 estimated to be c.£40m higher than 2013 |

*Attractive growth markets, with scale and competitive advantage, to drive cash and returns for shareholders*
Friends Life – A sustainable business with an exciting future

Q&A