

# 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



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

### Business philosophy

- Manage portfolio of businesses to secure maximum value for each part of the Group
- Rigorous financial discipline and capital allocation to drive cash and returns
- Simple, clear and transparent

### Listed company brand

- Friends Life Group will become the listed brand<sup>1</sup>
- Marks completion of restructuring phase
- Alignment of UK trading and listed brands

***Friends Life is a leading scale player in the attractive UK Life & Pensions market: helping more customers enjoy a secure and prosperous retirement***

1. Subject to shareholder approval at the 2014 AGM

# International strategy

## Update

### FPI

- 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

### Lombard

- 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

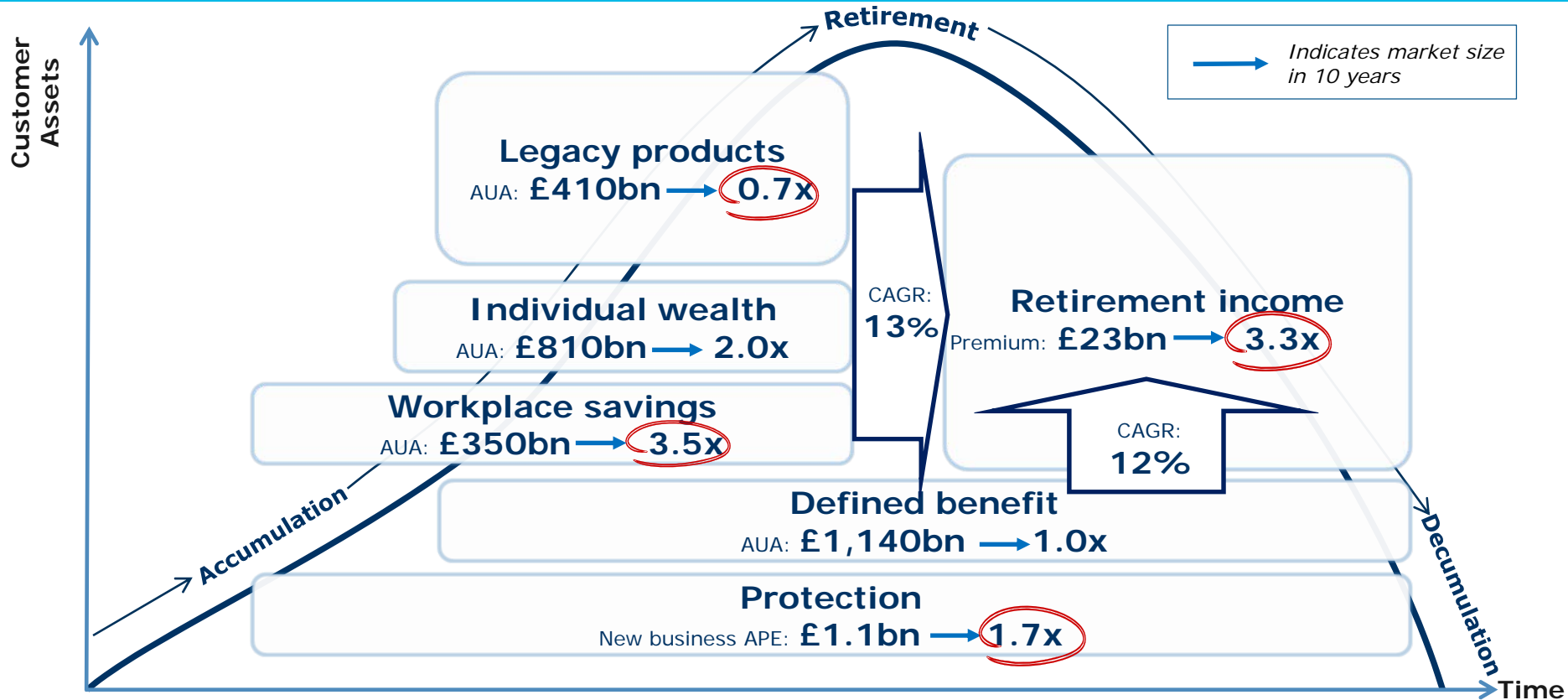
### Non-core

- 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



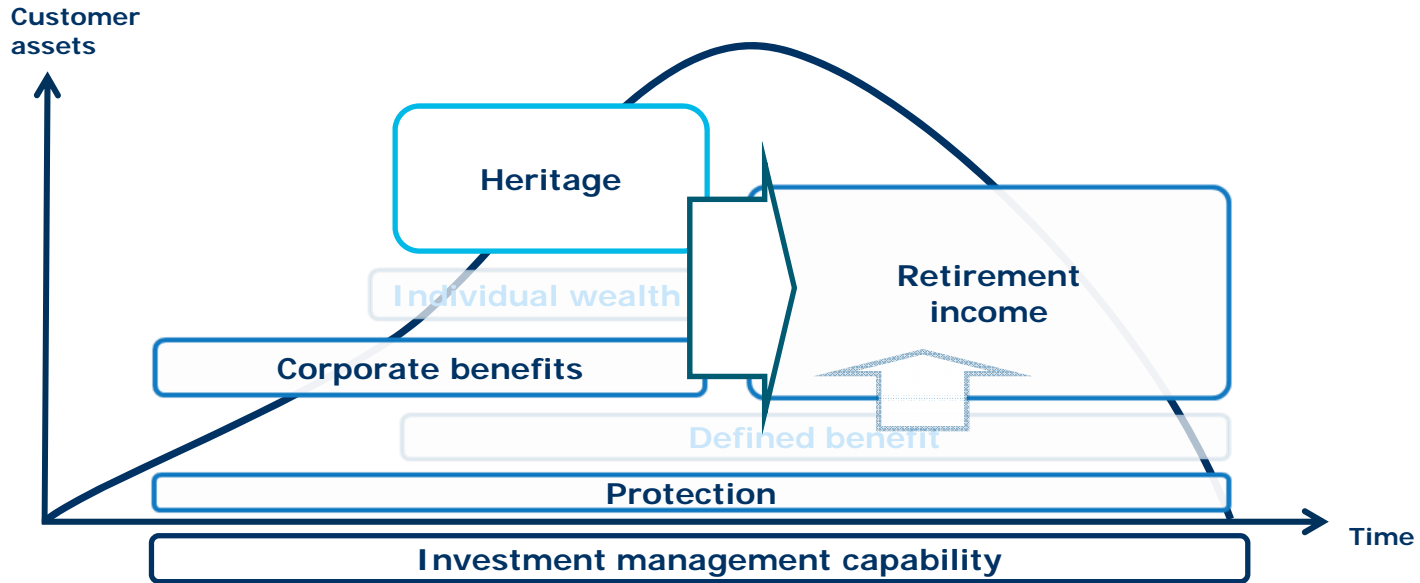
**Two main parts of the UK Life and Pensions market<sup>1</sup>:**

- **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



Heritage	Corporate benefits	Retirement income	Protection	Investment management
<ul style="list-style-type: none"> <li>• Leading scale player with £68bn AUA</li> <li>• Dedicated team and management expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Top 2 with £20bn AUA</li> <li>• Cash positive in 2013</li> </ul>	<ul style="list-style-type: none"> <li>• 1 in 9 retiring DC pension customers with us<sup>1</sup></li> <li>• Entry to open market and considering bulks</li> </ul>	<ul style="list-style-type: none"> <li>• Top 5 by sales volume</li> <li>• 2 million customers with protection policies<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Schroders strategic partnership</li> <li>• FLI £19bn AUM<sup>3</sup></li> <li>• CRE &amp; infrastructure mandates: £0.5bn each</li> </ul>

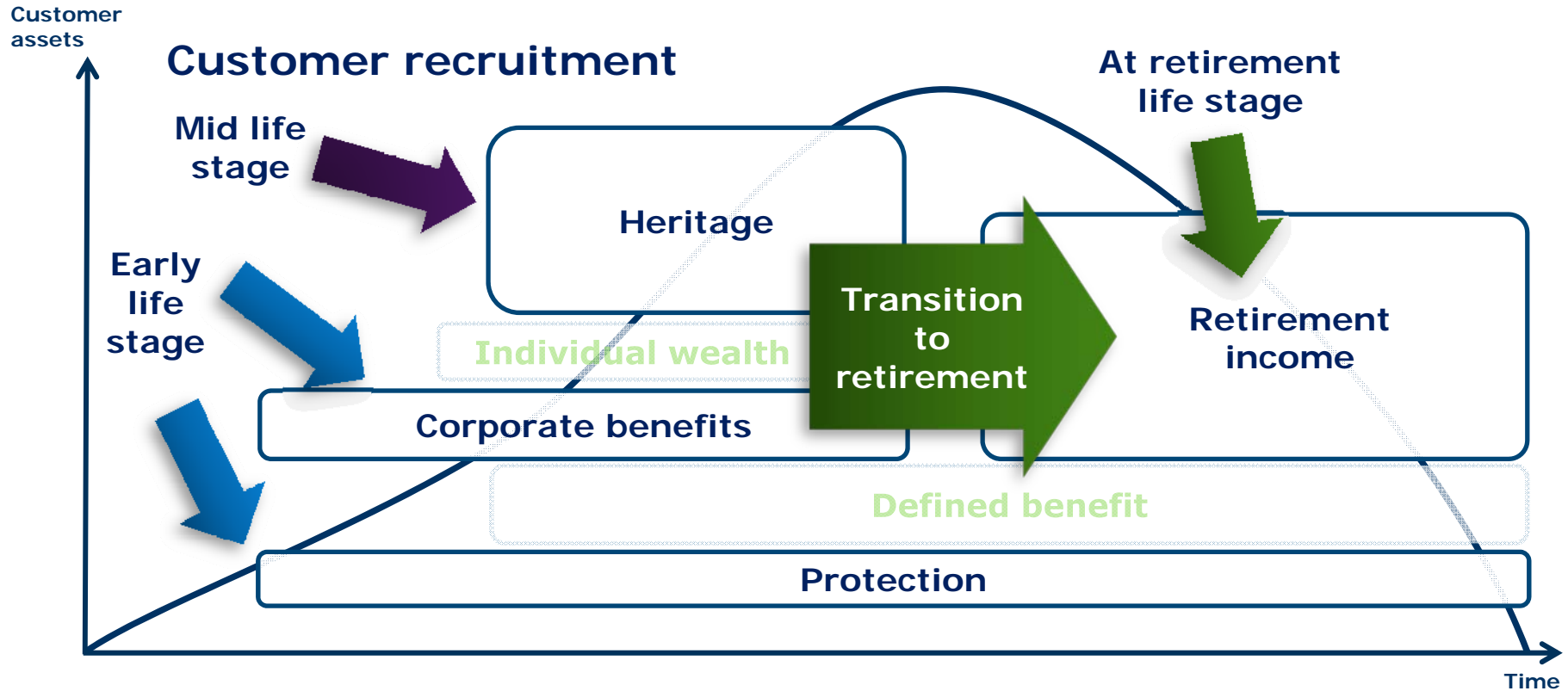
1. Estimated based on 50,000 Friends Life vesting pensions customers and ABI policy sales data for market size

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

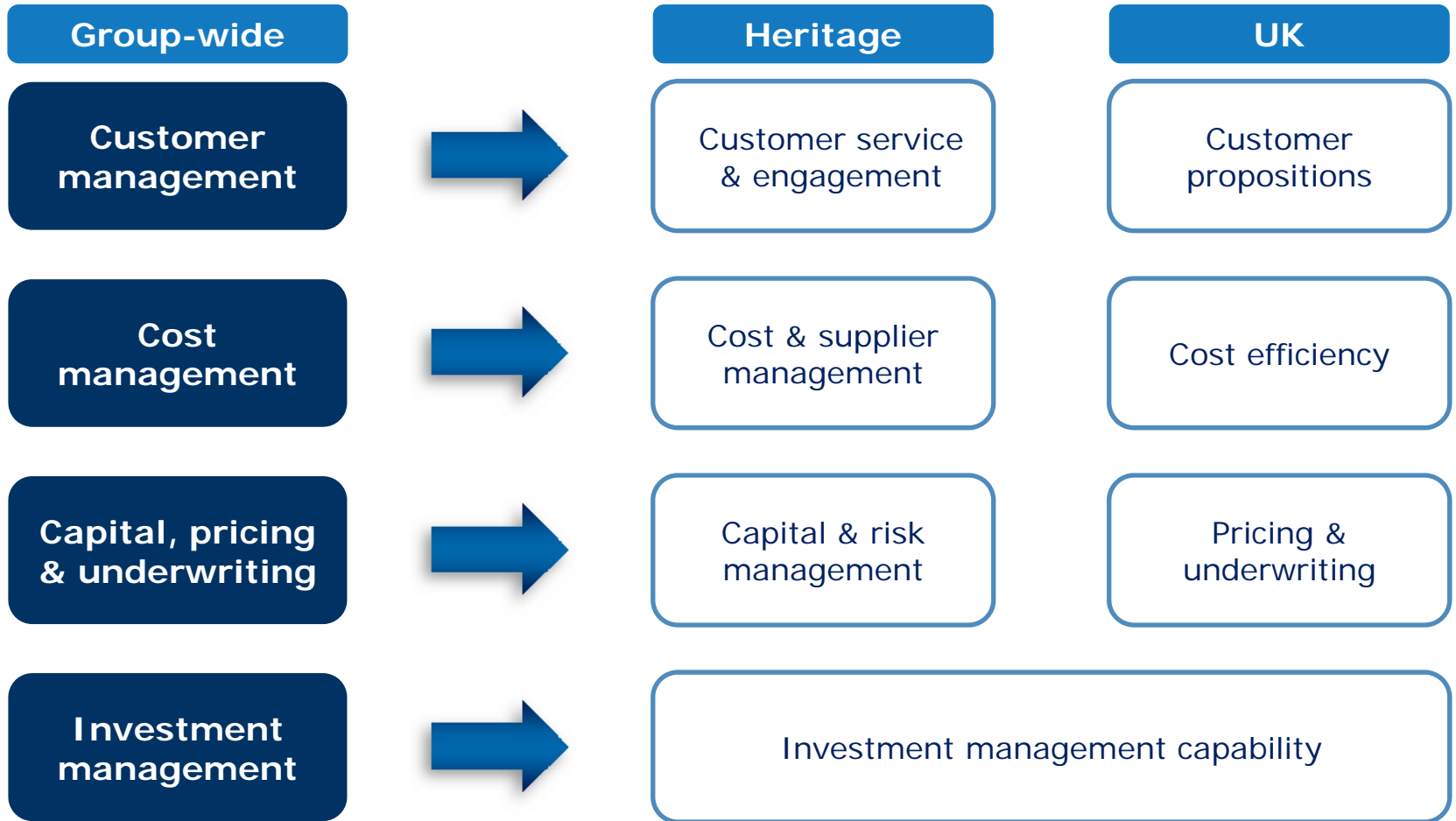
## Future opportunities



- *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





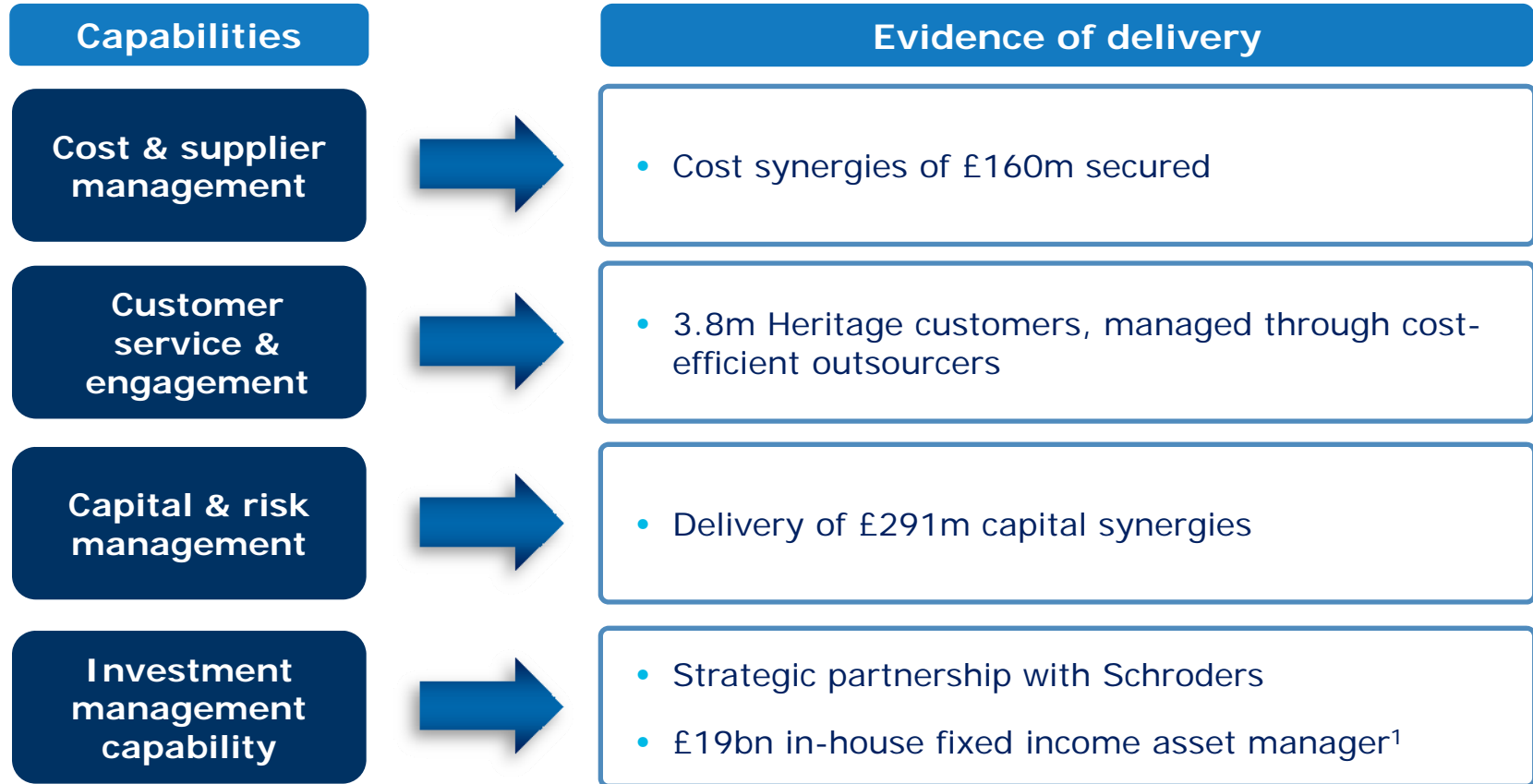
# Friends Life Group strategy

## - How we win: Heritage, including investment management

Jonathan Moss

# How we win: Heritage

Our strengths and track record

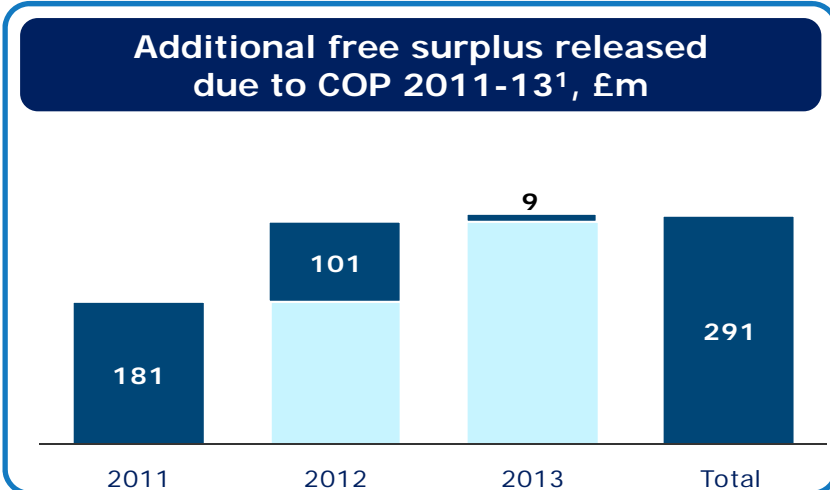
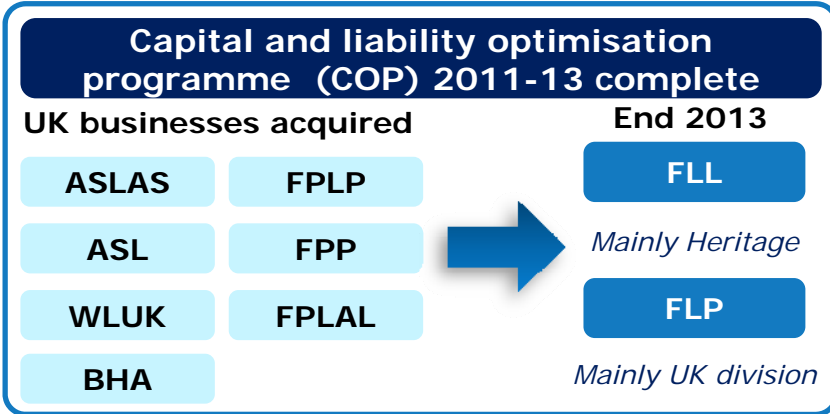


***Continue to apply rigorous financial discipline to all opportunities and risks***

1. Pro-forma FLI assets as at 31 December 2013 after planned 2014 transfer

# How we win: Heritage

## Capital and risk management



**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

***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)

**c.£2bn** Reallocation completed in 2013

**c.£0.7bn** Reallocation planned for 2014

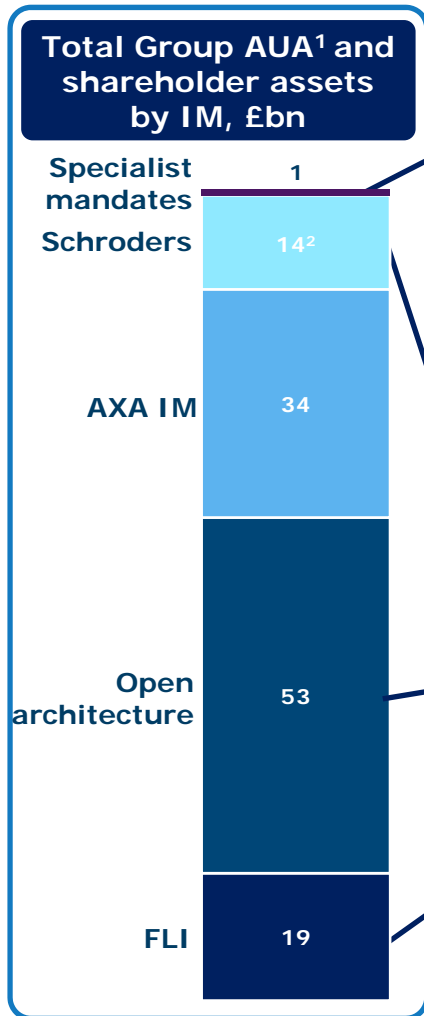
**c.£1.6bn** Potential future reallocations

- 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<sup>3</sup> 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



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

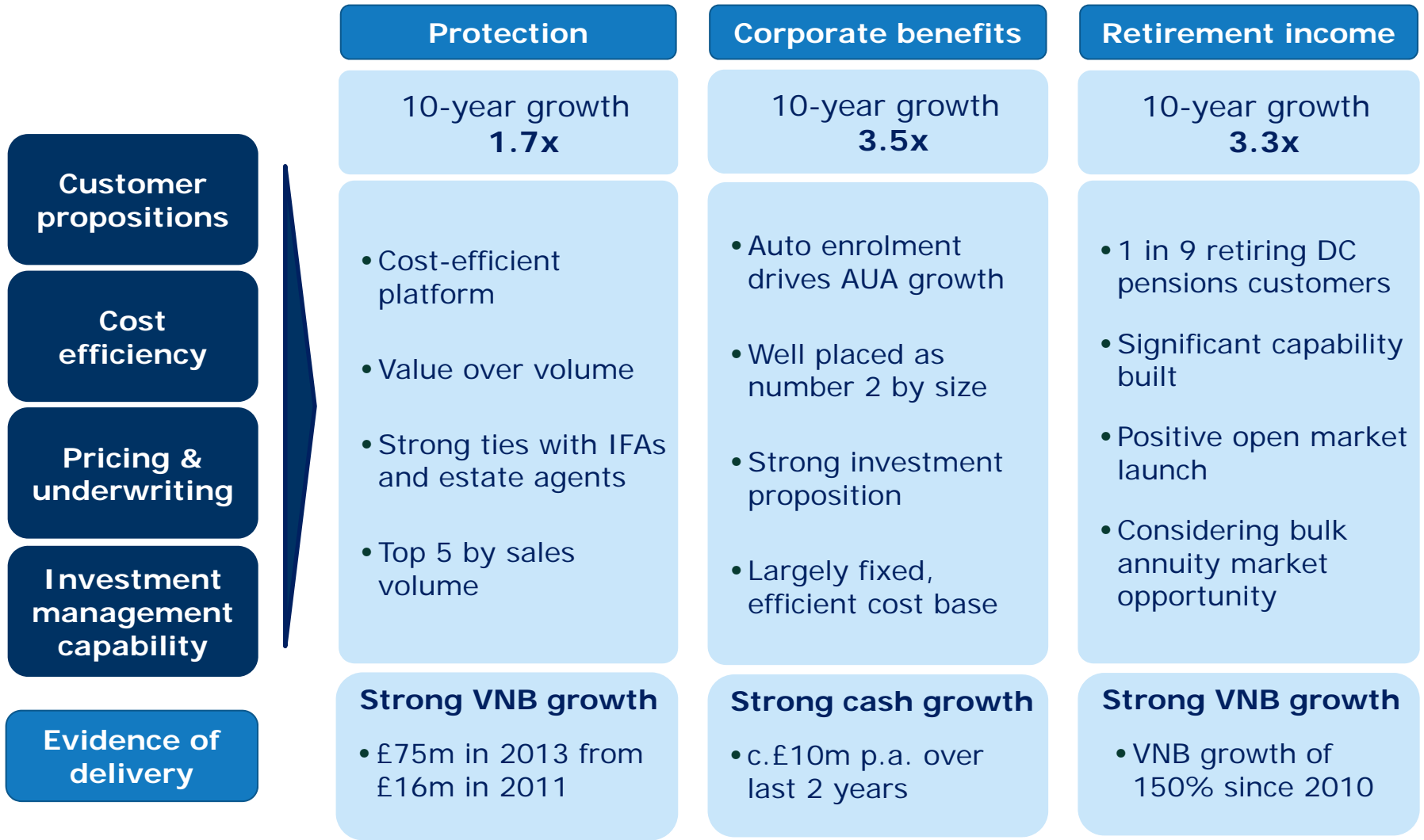
# Friends Life Group strategy

## - How we win: UK

John Van Der Wielen

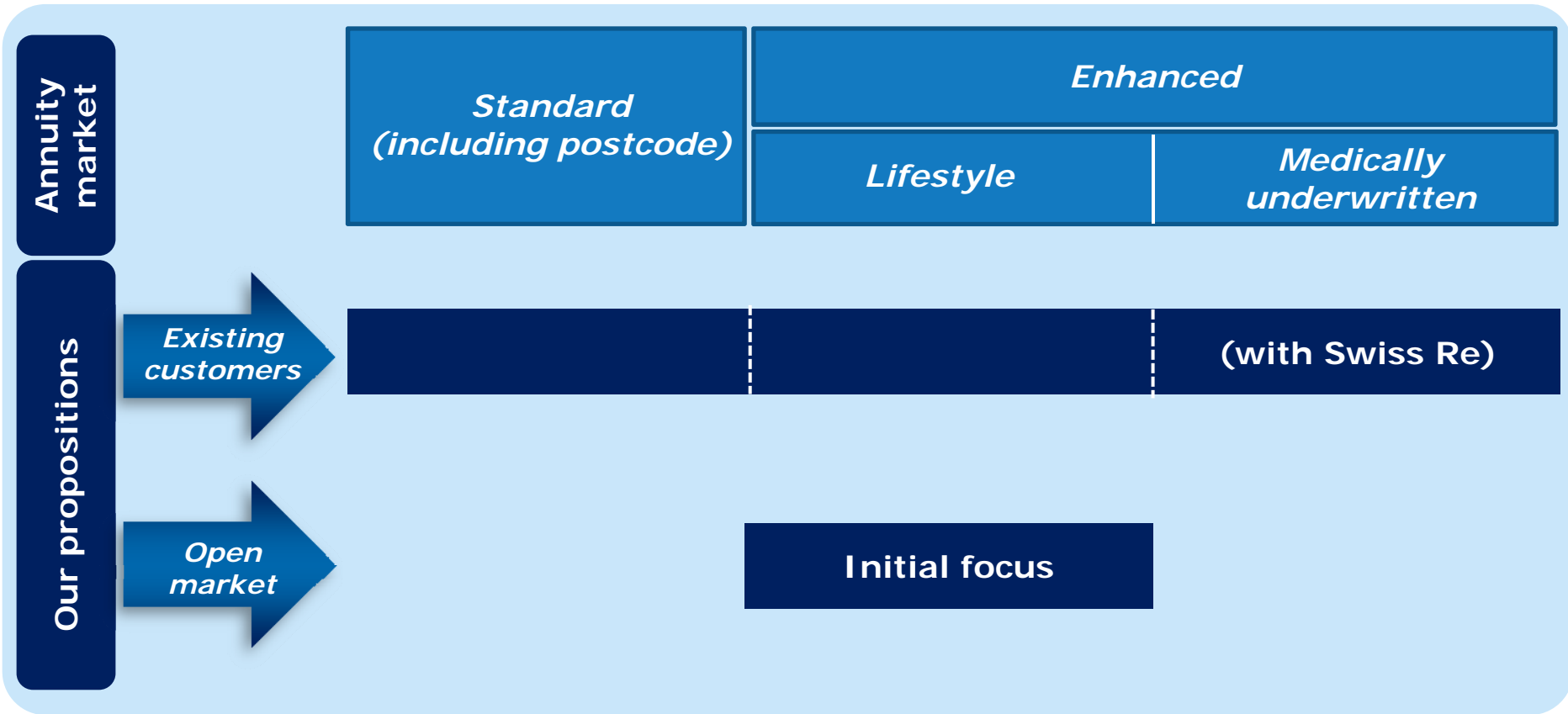
# How we win: UK

Deploying key capabilities in attractive growth markets



# 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



# How we win: UK

## Transition to retirement – customer-led opportunities

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



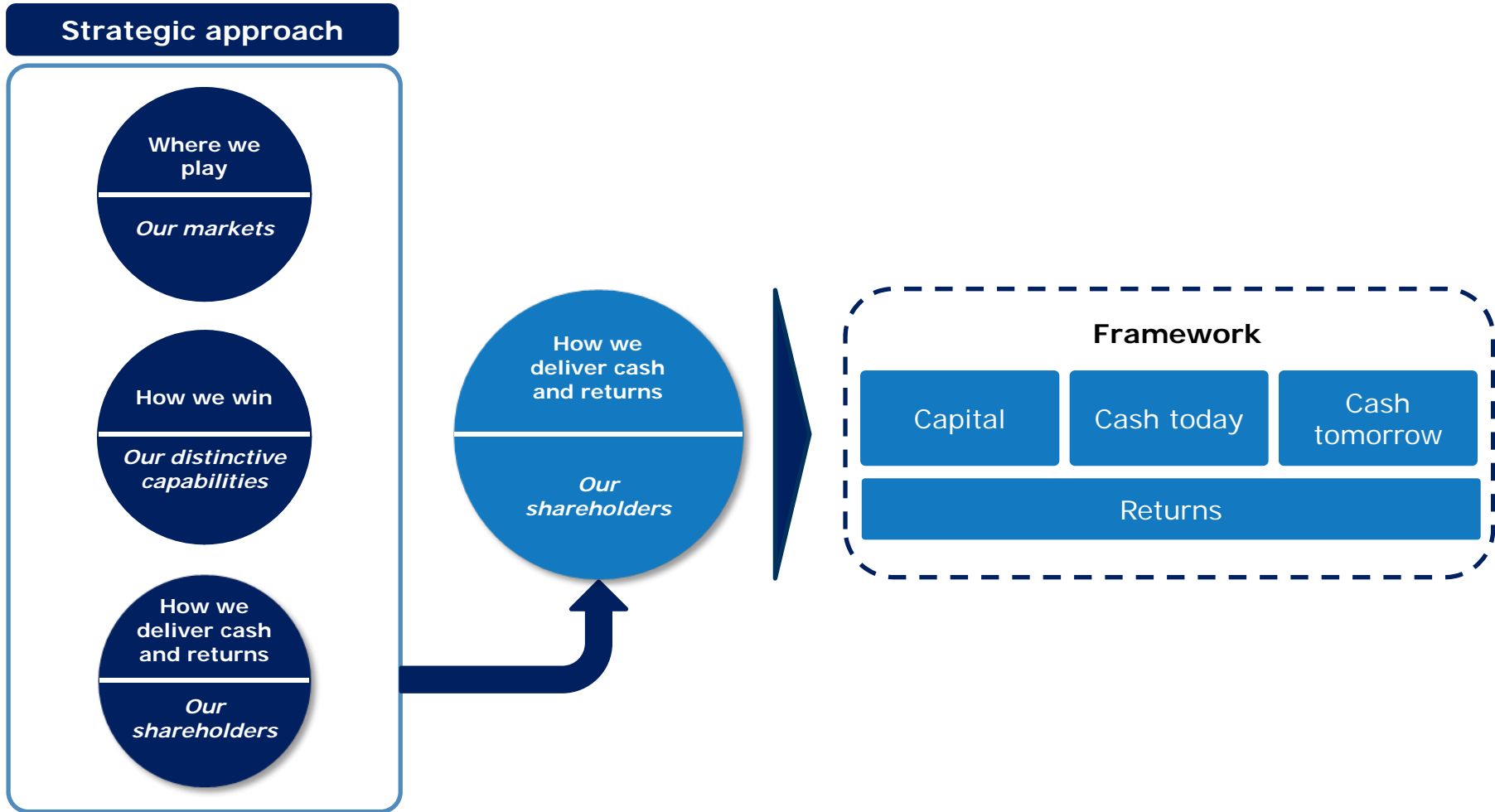
*...but there is scope to do much more*

# Friends Life Group strategy

- How we deliver cash and returns:  
**Financial Framework**

Tim Tookey

# Using our framework to measure cash and returns



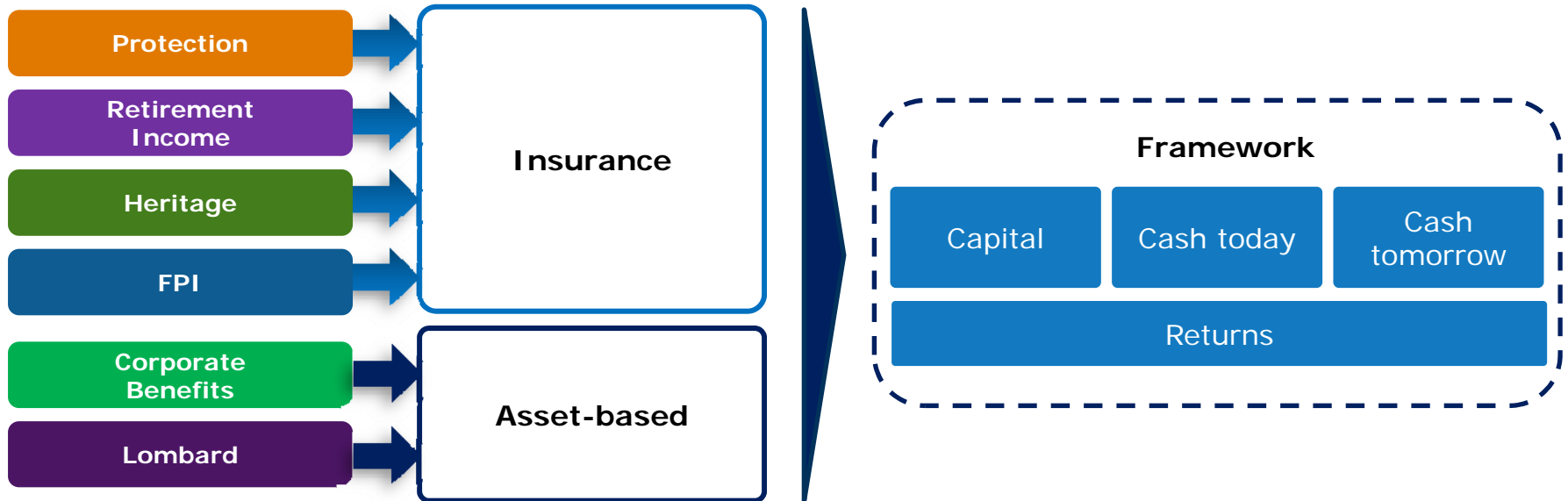
# Presenting our business increasingly as we manage it

Developing clearer links between business drivers and performance

Our businesses...

...two business characteristics...

...one financial framework

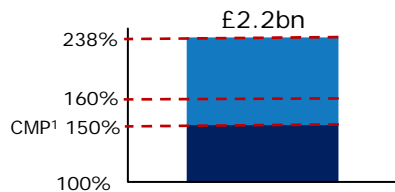


# Strong capital base – a prerequisite for high performance

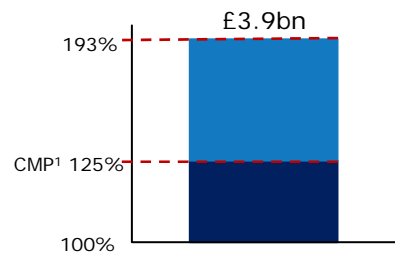
Strength to be maintained across all measures, at all times

## Current reporting

### IGCA surplus



### Economic capital



### ASA

£917m



Prudence buffer: £325m

Final dividend: £200m

## Transitioning to Solvency II

Solvency II

IGCA

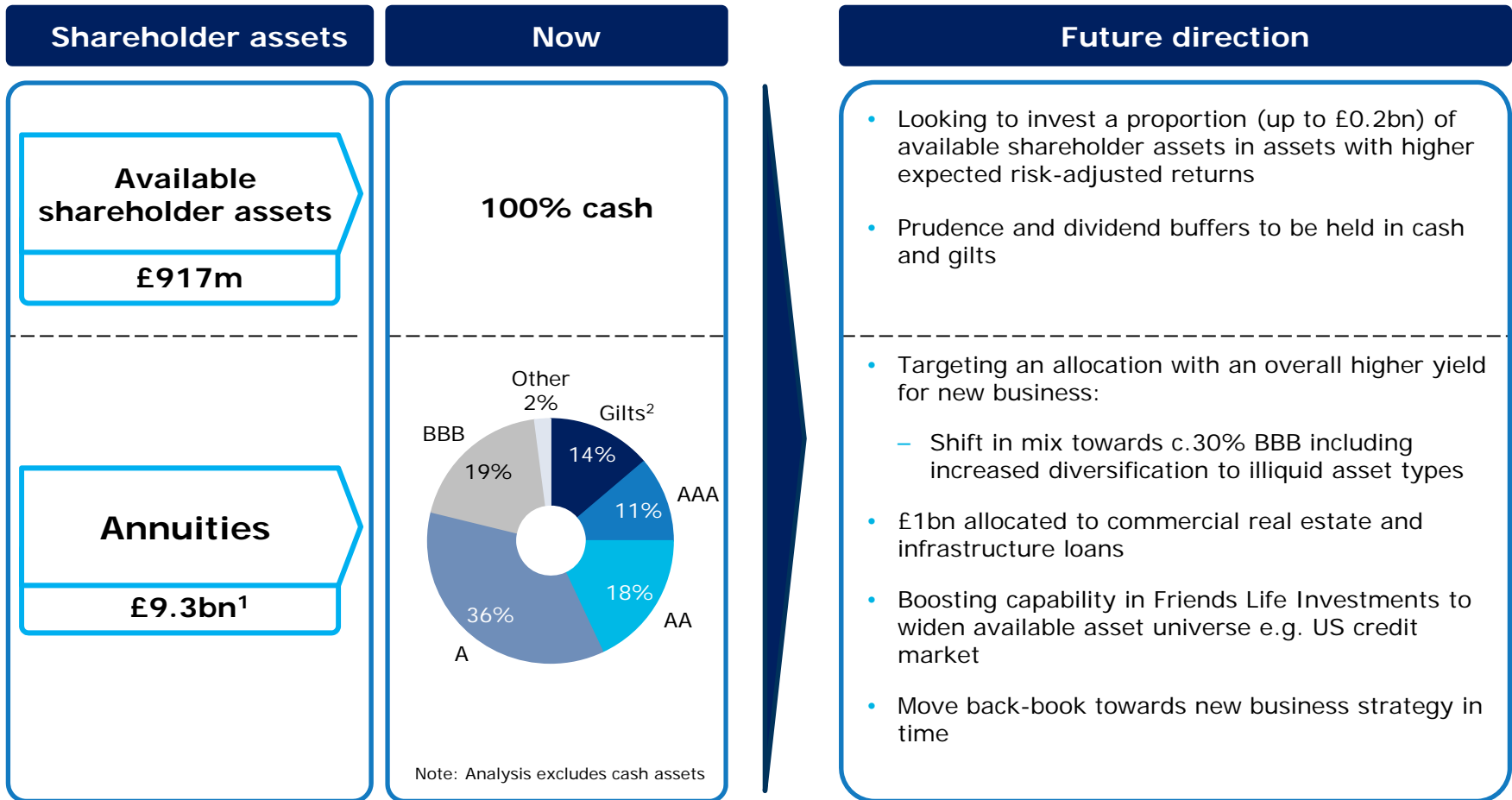
Economic capital

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



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)
<b>Underlying free surplus</b>	<b>469</b>
Development costs	(41)
Debt coupon	(92)
Operating variances and other	(5)
<b>Sustainable free surplus</b>	<b>331</b>

	Insurance					Asset-based			
	Prot.	Ret. Income	Heritage	FPI		Corporate Benefits	Lombard		
Expected return	30	10	442	97	579	Income	110	139	249
INB	(44)	(6)	(30)	(61)	(141)	Outgoings	(94)	(110)	(204)
						Other <sup>1</sup>	(5)	(9)	(14)
Subtotal	(14)	4	412	36	438	Subtotal	11	20	31

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

	Metric	Insurance	Asset-based
Insurance businesses	VNB	✓	✓
	IRR	✓	✓
	INB	✓	✓
Asset-based businesses	Net fund flows	-	✓
	Regular premiums	-	✓
	Income bps	-	✓
	Outgoings bps	-	✓

✓ Primary reporting metric    ✓ Secondary reporting metric

Improved transparency on the levers of value



# Cash tomorrow

Clear ambitions for future growth established

	Metric	Insurance businesses 2013	Asset-based businesses 2013	Group 2013	Group 2012	2013 v 2012
Insurance	VNB (£m)	153	51	204	194	+5%
	IRR (%)	18.1 <sup>1</sup>	9.7	15.3 <sup>2</sup>	10.4	+4.9pp
	INB (£m)	(141)	(72)	(213)	(285)	(25)%

Performance ambitions
Group VNB +10%
15%+ (open insurance business)
Disciplined

	Metric	Asset-based businesses 2013	Asset-based businesses 2012	2013 v 2012
Asset-based	Net fund flows (£bn)	(0.2)	1.2	(1.4)
	Regular premiums (£m)	1,760	1,680	+5%
	Income (bps)	68	68	Leverage +6bps
	Outgoings (bps)	(56)	(62)	

Performance ambitions
+ve and growing
Growing
+ve operating leverage

1. IRR for open insurance businesses 2. Includes the impact of with-profits annuity reallocation

# Returns metrics – now includes a ‘cash returns’ lens

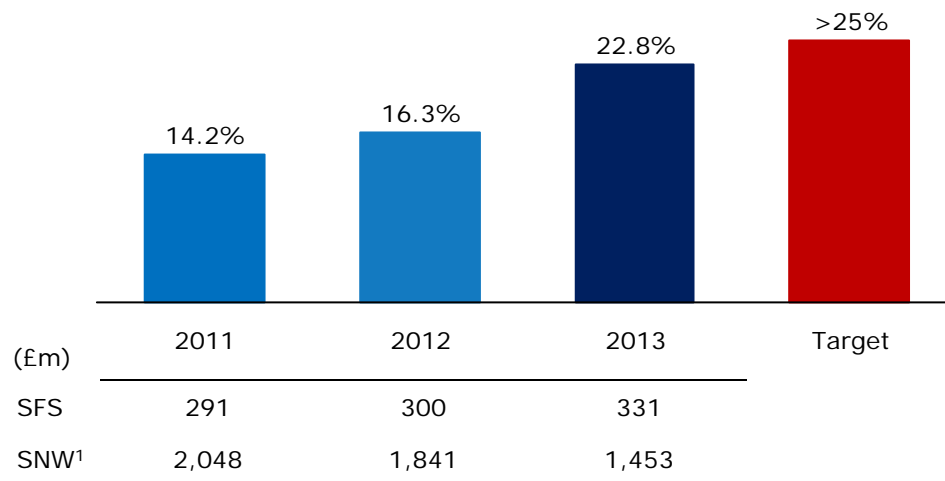
A stronger indicator of financial discipline and cash focus

## Return on embedded value

- ROEV impacted by some factors outside management control such as economics
- 10% achievable but requires increase in asset returns (i.e. risk free rates)
- Growth constrained by high proportion of Heritage book relative to open business

## Cash return

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



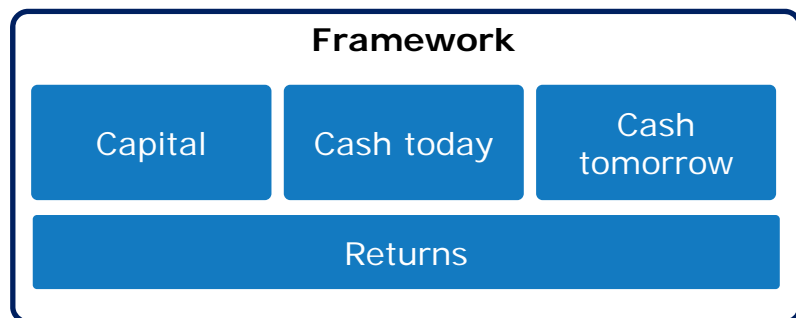
1. Shareholders Net Worth (“SNW”) is free surplus and required capital (net of external debt), i.e. MCEV excluding VIF. The SNW is adjusted to reflect the in-period impacts of dividend payments and other capital movements.

# Dividend policy

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

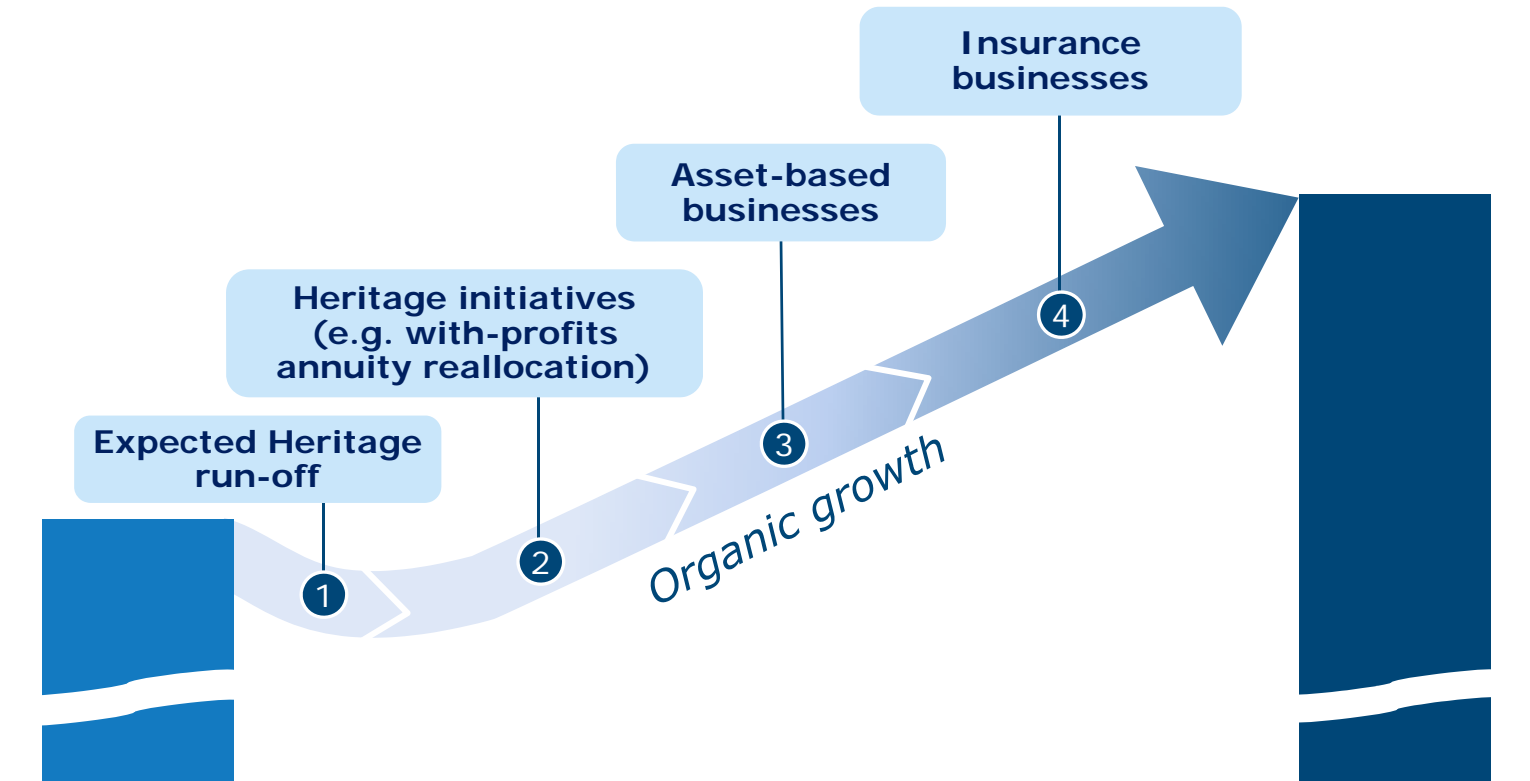
- 'Cash return' above 25%

# 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



Friends Life is a leading scale player in the UK Life & 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

***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