

Resolution Limited

Third quarter 2012

Interim Management Statement

Highlights

- Continuation of the strategy of value maximisation and cash generation
- Successful refinancing of the deferred consideration notes further de-risking cash flow to shareholders
- Final regulatory approval being sought for the intended sale of AmLife
- Strong operational progress continues in the UK and clear direction identified from strategic review of International

Summary

New business profitability continues to improve

- New business profitability has continued to improve as the Group makes good progress towards delivery of the 2013 new business financial targets. The value of new business ("VNB") for the nine months to 30 September 2012 increased to £138 million (30 September 2011: £95 million) and new business cash strain ("NBS") reduced to £(172) million (30 September 2011: £(239) million):
 - Total UK VNB increased to £102 million (30 September 2011: £40 million) reflecting the step change made to new business profitability of the UK businesses. Total UK NBS of £(87) million (30 September 2011: £(143) million) continues the improving trend towards the targeted £200 million reduction by the end of 2013;
 - FPI (International excluding Lombard) continues to reduce the risk profile of the business and remains focused on the generation of value rather than volume with VNB of £24 million (30 September 2011: £32 million) and NBS of £(67) million (30 September 2011: £(78) million); and
 - Lombard delivered £12 million of VNB in the period to date (30 September 2011: £23 million) reflecting both the challenging markets and changes in underlying product mix. NBS at £(18) million remains unchanged compared to the same period in 2011.
- Friends Life Investments Limited ("FLI") added a further £3 billion of fixed income assets to the £6 billion already recaptured in July 2012.

Target for cost reductions raised although higher expected costs to complete

- The target for UK cost reductions has been raised to £160 million run-rate by end 2015 (previous target £143 million) and 78% of this total has been secured. The majority of the increase is expected to be achieved by the end of 2013. Run-rate cost reductions achieved as at 30 September 2012 are £78 million (30 June 2012: £65 million from synergy programmes);
- Whilst good progress has been made on completing the cost reduction programmes, the complexity arising from the migration from AXA IT systems is causing extra costs of completing the separation and integration projects. Firstly, known costs are

now expected to be c. £35 million higher than previously anticipated with the extra costs spread over the rest of 2012 and 2013. In addition, two key IT and systems migration programmes are being reviewed and, whilst the outcomes of these reviews are uncertain, additional costs of low tens of millions of pounds may be incurred over the next 12 months. Lastly, costs of the Group's outsourcing programme are expected to increase by c. £30 million to c. £280 million largely as a result of changes in the costs of terminating and transferring pre-existing contractual relationships, and the provision of IT platform development services to the International businesses. Further details are provided in section 4.

Capital position remains robust

- The Group's capital position at 30 September 2012 remains robust with Friends Life Group's ("FLG") estimated Insurance Group Capital Adequacy ("IGCA") surplus of £1.9 billion, representing a coverage ratio of 202% (30 June 2012: £1.9 billion, coverage 204%). The stable surplus position reflects the payment from FLG of a £100 million internal dividend to the Resolution holding companies, partially offset by the benefit of narrowing corporate bond spreads in the period;
- On 8 November 2012, FLG successfully raised US\$575 million of perpetual reset subordinated notes with a coupon of 7.875%. This is enabling Resolution Limited (or "the Company") to repay the remaining £363 million of medium term funding from AXA Group, originally provided on the acquisition of the AXA UK Life Business, thereby significantly improving the cover from ongoing cash flow of the Group's ordinary dividend;
- Group available shareholder cash held in Resolution and Friends Life holding companies totalled £621 million at 30 September 2012 (30 June 2012: £619 million) and is before the payment of the interim dividend to Resolution Limited's shareholders on 5 October 2012; and
- Today's announcements are not expected to affect the Group's ability to achieve its financial targets nor have any impact on dividends to shareholders.

International strategy

- Today, the Group will hold an investor presentation setting out the strategy for the International division, comprising Friends Provident International ("FPI"), AmLife and Lombard following a thorough review that has applied the same rigorous financial discipline employed in the UK. The International division will focus on attractive growth markets, where it has a competitive advantage, and on returning cash to shareholders:
 - FPI will refocus around its two core propositions serving expatriates globally and affluent customers in key selected markets, principally Singapore and Hong Kong. It will close to new business in markets that are unprofitable, sub-scale or which do not fit with its new risk and value focused strategy. As a result, the company is no longer accepting business from Japanese nationals;
 - FPI's OLAB operations, which principally operate in Germany, have performed poorly. The Group is conducting a major review of the business and is considering restructuring options in order to improve overall business performance;
 - As part of this new approach, the Company announced on 16 October its intention to sell its 30% stake in joint venture, AmLife Takaful Berhad ("AmLife"), as this

business no longer fits within the International division's strategy. Final regulatory approval is being sought and it is hoped that the sale will be completed by the end of the year;

- Lombard will continue its existing strategy with increasing focus on Private Bank distribution in Europe and will explore opportunities for targeted expansion in high net worth markets in Asia;
- The International division as a whole will continue to target an IRR of 20% by the end of 2013, although FPI on its own is now expected to achieve IRRs more in line with the overall Group target of 15%;
- The International division remains committed to remitting dividends to the Group. FPI continues to focus on its original annual dividend target of £20 million from 2013. As a result of sustained growth in administered assets and improved cost efficiency, Lombard's in-force book has now reached sufficient scale that sustainable dividends can start to be paid to the Group. Lombard paid its first dividend of £4 million on 7 November 2012 and is targeting aggregate dividends of £37 million by spring 2015 and £30 million annually thereafter;
- The Group estimates that revisions to actuarial assumptions for the division to reflect the outcome of the strategic review and to adjust for recent business performance will result in a £50-£100 million reduction in the division's MCEV, which was £1.2 billion as at 30 June 2012. This is net of likely positive changes of c. £45 million in Lombard's MCEV principally as a result of its successful expense reduction programme launch. The reductions largely relate to FPI's German business – this business is performing poorly and is experiencing reduced business sales volumes, expense overruns and rising embedded guarantee costs; and
- The proposed MCEV revisions exclude any adjustments which may arise from the completion of the German business restructuring review and also from the decision to no longer accept business from Japanese nationals. The VIF of the existing Japanese book at 30 June 2012 was c. £73 million. The final position on these impacts will be determined as part of the annual review of assumptions and included in the 2012 full year results.

Andy Briggs, Group Chief Executive Officer designate said: "Overall, these results demonstrate our continued momentum, with the Group delivering significantly improved new business profitability despite the challenges in the wider economy. The capital position remains robust and I am pleased with the success of our recent debt offering which has enhanced our financial flexibility and further de-risked cash flow to shareholders.

We continue to make good progress implementing our strategy and are seeing the benefits of this in the strong UK performance in the period.

In contrast, the performance of our International division remains below par as a whole, with the continued uncertainty in Europe and other markets weighing on overall performance. We have set out today the strategic direction of these businesses and remain confident that we can, through a rigorous focus on costs and new business profitability, generate the returns required to contribute to the achievement of the Group's financial targets."

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Forward-looking statements

This announcement may contain certain "forward-looking statements" with respect to certain of the Company's (and its subsidiaries) plans and current goals and expectations relating to future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks", "aims", "may", "could", "outlook", "estimates" and "anticipates", and words of similar meanings, are forward-looking statements. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, the Company's (and its subsidiaries) actual future financial condition, performance or other indicated results may differ materially from those indicated in any forward-looking statement.

Any forward-looking statements contained in this announcement are made only as of the date hereof. Resolution undertakes no obligation to update the forward-looking statements contained in this announcement or any other forward-looking statements it may make.

No statement contained in this announcement should be construed as a profit forecast.

Media

There will be a conference call today for wire services at 07.30 (BST) hosted by Andy Briggs. Dial in telephone numbers: UK National 0800 694 0257, UK Standard International +44 (0)1452 55 55 66 Conference ID: 60311761.

Analysts/Investors

A presentation to analysts will take place at 09:00 (GMT) at the Andaz Hotel, 40 Liverpool Street, London, EC2M 7QN. Dial in telephone numbers: 0800 634 5205, UK Standard International +44 (0) 208 817 9301, Conference ID: 9256990.

Financial calendar

Preliminary results 2012

26 March 2013

Overview

1. Friends Life Group New Business

The new business results reported here include the value of new business ("VNB") and new business cash strain ("NBS") associated with the reported new business volumes. These results are presented on the same basis as those in the 2012 half year and 2011 full year results and there have been no operating assumption changes made in the period to 30 September 2012. The normal review of assumptions, notably those where experience is diverging from that expected, will be conducted in advance of the 2012 full year result and, where necessary, assumptions updated accordingly. This review will include the impact of the International division strategic review.

	9 months 2012 £m	9 months 2011 £m	<i>Change %</i>	Half year 2012 £m	Full year 2011 £m
Value of new business					
UK	94	32	194	63	63
Heritage	8	8	-	4	(4)
Total UK	102	40	155	67	59
International	24	32	(25)	18	40
Lombard	12	23	(48)	12	52
Total International	36	55	(35)	30	92
Total Group	138	95	45	97	151
New business cash strain					
UK	(59)	(106)	44	(40)	(115)
Heritage	(28)	(37)	24	(20)	(54)
Total UK	(87)	(143)	39	(60)	(169)
International	(67)	(78)	14	(48)	(89)
Lombard	(18)	(18)	-	(12)	(20)
Total International	(85)	(96)	11	(60)	(109)
Total Group	(172)	(239)	28	(120)	(278)
APE					
UK	513	425	21	354	564
Heritage	85	122	(30)	60	157
Total UK	598	547	9	414	721
International	153	195	(22)	104	252
Lombard	119	138	(14)	95	237
Total International	272	333	(18)	199	489
Total Group	870	880	(1)	613	1,210

2012 has seen a step change in the new business performance of the Group with the contribution of new business amounting to £138 million in the nine month period to 30 September 2012 (30 September 2011: £95 million). New business strain has also been reduced significantly with a 28% reduction compared to the same period in 2011.

As reported previously, the improvement in Group new business performance has been delivered through action taken in the UK business. The focusing of new business on to the target UK platforms as well as cost reductions, through synergy delivery and the outsourcing arrangement, have ultimately improved the value generated on new business at a significantly lower strain.

The International results continue to reflect the changes made to focus the business on value rather than volume. Performance in the period to 30 September 2012 shows a continuation of the performance reported in the first half of the year.

Lombard continues to be affected by the challenging markets with conditions resulting in individuals delaying investment decisions. New business profitability remains below 2011 levels with the changes in product mix, from IFAs to generally lower margin but more stable private bank business, reflected in the results.

2. Asset Management

As reported in the 2012 half year results, FLI was launched on 2 July 2012 with £6 billion of recaptured fixed income assets. The immediate focus of this business has been to recapture fixed income and cash assets backing annuities and shareholder funds. As anticipated in the half year 2012 results, a further £3 billion of assets was recaptured in September 2012 taking assets under management of this business to c. £9 billion. The Group will continue to assess and seek out opportunities to recapture further tranches of assets.

3. Cash & Capital Strength

The Group maintained a robust capital position in the third quarter with FLG's estimated IGCA surplus of £1.9 billion representing a coverage ratio of 202% consistent with that reported at the half year (30 June 2012: £1.9 billion, coverage 204%). The surplus reflects improvement in investment markets in particular narrowing of corporate bond spreads in the third quarter. The benefit of these improved investment markets has been offset by the £100 million interim dividend paid by FLG to Resolution holding companies at the end of September.

On 8 November 2012, Friends Life Group plc successfully completed the issuance of US\$575 million perpetual reset subordinated notes with a coupon of 7.875%. From the proceeds, £200 million has been utilised to redeem the internal Tier 2 instrument with Resolution whilst a further £150 million has been transferred to the Resolution holding companies by way of a dividend. The completion of this transaction is enabling Resolution Limited to repay the remaining £363 million of medium term funding from AXA Group, originally provided on the acquisition of the AXA UK Life Business, that was due to amortise over the next six years. The incremental interest cost of the Group's ongoing debt structure is c. £5 million pre-tax in 2013.

Available shareholder cash within the Resolution and Friends Life holding companies totalled £621 million at the end of September 2012 (30 June 2012: £619 million). The movement in the period principally reflects the payment of interest and financing costs, net of receipts from life companies, and is before payment of the Company's interim dividend of £98 million on 5 October 2012 (comprising £43 million cash payment and £55 million scrip dividend). It is also before any increase in net working capital provisions required for additional separation, integration and outsourcing project costs,

as described in section 4, and before any potential proceeds from the proposed AmLife disposal, discussions about which are ongoing.

Furthermore and consistent with previous periods, the balance of available shareholder cash does not include surplus generated in the life operating companies. This is only reflected annually following the completion of actuarial valuations and declaration of full year dividends by these companies.

4. Cost reduction programmes

Good progress continues to be made in completing the separation, integration and outsourcing programmes. In addition, further opportunities for delivering operating efficiencies and cost reductions have also been identified. As a result, the Group is increasing its target for run-rate cost reductions by £17 million to £160 million by the end of 2015 (target run rate for end 2013: £126 million). Against the increased target, run-rate cost reductions of £78 million have been achieved at 30 September 2012 (30 June 2012: synergies of £65 million achieved). Combined with the cost savings contractualised through the Diligenta transaction, total secured savings amount to £125 million at 30 September 2012 being 78% of the Group's increased target.

Despite the good progress on these programmes, the total costs of delivery are expected to be higher than previously estimated, as explained below:

Separation and Integration

Since September 2010, the Group has been engaged in a significant project to separate the acquired AXA UK Life Business from the AXA Group's systems infrastructure. In parallel, the Group has worked to integrate the business and processes with those of the existing Friends Provident business.

As reported in our market update on 23 February 2011, the estimated costs of completing these projects were £190 million with the possibility of them being reduced by a £26 million rebate from AXA, which was contingent under the original terms of the agreement. Due to the scale and complexity of the separation project, for both Friends Life and AXA, it is now believed that this rebate will not be received. As a result, and after recognising £8 million of costs relating to the BHA separation project, total separation and integration project costs were expected to amount to £198 million.

There remain elements of this work that are proving more challenging to deliver than expected. As a consequence, the Group now expects costs to be c. £35 million higher than originally estimated with the extra costs spread over the rest of 2012 and 2013. These relate principally to certain IT and integration programmes.

In addition, the Group is addressing complexities and necessary remediation work, arising from the proposed migration from AXA systems hosting environment. The programme is undertaking an extensive re-planning exercise to evaluate the options and minimise any further financial impact of this significant infrastructure migration. As part of this reassessment, the timing and impact of the migration from AXA's Embassy customer administration platform is also being reviewed. In line with the business's desire to minimise customer impact at a time when there is significant regulatory change, and as reported in the Group's 2012 half year results, the Group is now pursuing a longer term arrangement with AXA regarding the Embassy customer

administration platform and eventually migration strategies, or otherwise, are being considered and evaluated. At this time, the Group is unable to quantify the additional non-recurring costs to complete the overall migrations that are covered by both these reviews but current estimates indicate possible additional costs of low tens of million of pounds over the next 12 months.

Outsourcing

On 9 November 2011, the Group announced that it had entered into a substantial outsourcing arrangement with Diligenta. In line with the agreed timetable, service commencement began on 1 March 2012 and good progress has been made on the transformation of Customer Service and IT activities.

The cost of completing this transition through to 2015 was originally estimated to be £250 million, with this reflecting the fixed price contractual spend with Diligenta and an estimate for internal project spend and cost of exiting existing third party agreements. The Group has since reassessed expectations for the total project cost and now expects these will be in the region of £280million (including inflation).

The increase in total costs of £30 million will be incurred over the next few years to 2015. It includes higher than expected costs of work being completed in parallel with Diligenta on IT platform development services for the International business, amounting to £7 million, which arise following the International strategic review and are likely to be incurred in 2013. The remaining £23 million, to be incurred between 2013 and 2015, includes revisions to the costs of supporting Diligenta's transformation of our UK business activities, including the terminating and transfer of pre-existing contractual arrangements with c. 60% of these costs expected to occur in 2014. These costs are driven in part by the complexity attached to the separation of the infrastructure and technology supporting the business acquired from AXA, referred to in the update on the separation and integration programme above.

APPENDIX 1

1. Introduction

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.

2. Regular and single premiums

	Regular premiums			Single premiums		
	9 months ⁽ⁱ⁾ 2012 £m	9 months 2011 £m	Change %	9 months ⁽ⁱ⁾ 2012 £m	9 months 2011 £m	Change %
Corporate Benefits	345	280	23	752	476	58
Protection	65	72	(10)	-	-	-
Retirement Income	-	-	-	279	250	12
Heritage	37	62	(40)	479	605	(21)
Total UK	447	414	8	1,510	1,331	13
International	108	144	(25)	454	513	(12)
Lombard	-	-	-	1,187	1,376	(14)
Total International	108	144	(25)	1,641	1,889	(13)
Total Group	555	558	(1)	3,151	3,220	(2)

(i) Includes the trading results of the acquired WLUK business, acquired 7 November 2011.

	Regular premiums			Single premiums		
	Q3⁽ⁱ⁾ 2012 £m	Q3 2011 £m	Change %	Q3⁽ⁱ⁾ 2012 £m	Q3 2011 £m	Change %
Corporate Benefits	111	95	17	173	135	28
Protection	22	22	-	-	-	-
Retirement Income	-	-	-	92	92	-
Heritage	11	23	(52)	139	123	13
Total UK	144	140	3	404	350	15
International	32	48	(33)	168	151	11
Lombard	-	-	-	239	407	(41)
Total International	32	48	(33)	407	558	(27)
Total Group	176	188	(6)	811	908	(11)

(i) Includes the trading results of the acquired WLUK business, acquired 7 November 2011.

3. Group new business - APE

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

	9 months⁽ⁱ⁾ 2012 £m	9 months 2011 £m	Change %	Q3⁽ⁱ⁾ 2012 £m	Q3 2011 £m	Change %
	Corporate Benefits	420	328	28	128	109
Protection	65	72	(10)	22	22	-
Retirement Income	28	25	12	9	9	-
Heritage	85	122	(30)	25	35	(29)
Total UK	598	547	9	184	175	5
International	153	195	(22)	49	63	(22)
Lombard	119	138	(14)	24	41	(41)
Total International	272	333	(18)	73	104	(30)
Total Group	870	880	(1)	257	279	(8)

(i) Includes the trading results of the acquired WLUK business, acquired 7 November 2011.

Quarterly new business progression - APE

	Q3 2012 £m	Q2 2012 £m	Q1 2012 £m
Corporate Benefits	128	146	146
Protection	22	25	18
Retirement Income	9	10	9
Heritage	25	36	24
Total UK	184	217	197
International	49	53	51
Lombard	24	51	44
Total International	73	104	95
Total Group	257	321	292

International

APE by region (actual exchange rates)	9 months 2012 £m	9 months 2011 £m	Change %
North Asia	48	83	(42)
South Asia	18	20	(10)
Middle East	34	34	-
Europe (Excl UK)	17	22	(23)
UK	16	14	14
Rest of World	16	17	(6)
Malaysia (AmLife)	4	5	(20)
Total	153	195	(22)

Lombard

APE by region (actual exchange rates)	9 months 2012 £m	9 months 2011 £m	Change %
UK and Nordic	38	33	15
Northern Europe	17	22	(23)
Southern Europe	54	63	(14)
Rest of World	10	20	(50)
Total including large cases	119	138	(14)
Of which: Large cases (greater than €10m)	36	49	(27)
Total excluding large cases	83	89	(7)

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:

	9 months 2012	9 months 2011 (as reported)	Change %	Q3 2012 £m	Q3 2011 £m	Change %
International	152	195	(22)	50	63	(21)
Lombard	127	138	(8)	26	41	(37)

4. 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. All amounts in currency other than Sterling are translated into Sterling at a monthly average exchange rate.

	9 months⁽ⁱ⁾ 2012 £m	9 months 2011 £m	Change %	Q3 2012 £m	Q2 2012 £m	Q1 2012 £m
Corporate Benefits	2,164	1,643	32	612	776	776
Protection	423	441	(4)	141	164	118
Retirement Income	279	250	12	92	96	91
Heritage	662	935	(29)	201	292	169
Total UK	3,528	3,269	8	1,046	1,328	1,154
International	1,040	1,206	(14)	343	356	341
Lombard	1,187	1,376	(14)	239	505	443
Total International	2,227	2,582	(14)	582	861	784
Total Group	5,755	5,851	(2)	1,628	2,189	1,938

(i) Includes the trading results of the acquired WLUK business, acquired 7 November 2011.

5. UK new business

Summary

VNB	9 months ⁽ⁱ⁾	9 months	Change	Half year	Full year
	2012	2011		2012	2011
	£m	£m	%	£m	£m
Corporate Benefits	14	3	367	10	15
Protection	44	2	2,100	28	16
Retirement Income	36	27	33	25	32
UK	94	32	194	63	63
Heritage	8	8	-	4	(4)
Total UK	102	40	155	67	59
APE	598	547	9	414	721

NBS	9 months ⁽ⁱ⁾	9 months	Change	Half year	Full year
	2012	2011		2012	2011
	£m	£m	%	£m	£m
Corporate Benefits	(47)	(53)	11	(32)	(51)
Protection	(32)	(63)	49	(23)	(77)
Retirement Income	20	10	100	15	13
UK	(59)	(106)	44	(40)	(115)
Heritage	(28)	(37)	24	(20)	(54)
Total UK	(87)	(143)	39	(60)	(169)

(i) Includes the trading results of the acquired Friends Life WL Limited (known formerly as Winterthur Life UK Limited ("WLUK"), acquired 7 November 2011).

The UK and Heritage businesses delivered VNB of £102 million in the period to 30 September 2012 in line with the half year performance and significantly above the levels delivered in 2011. The improvement has been delivered across the UK businesses where the contribution of new business has been enhanced by the migration of new business to target platforms and the delivery of operating cost synergies.

Total UK sales volumes (on an APE basis) have increased by 9% period on period reflecting both good Corporate Benefits sales as well as the inclusion of Friends Life WL Limited (known formerly as WLUK) results (WLUK was acquired on 7 November 2011). Heritage sales, consistent with previous periods, reflect the action taken to close the investment bond business as well as reduced pensions increments.

Notwithstanding the 9% increase in total UK sales volumes, new business strain has been reduced by £56 million, equivalent to a 39% reduction on the same period in 2011 (30 September 2011: £143 million). The improvement is consistent with the progress reported in the 2012 half year results and brings the business closer to achieving the targeted £200 million reduction in new business cash strain by the end of 2013.

5.1 UK - Corporate Benefits

	2013 Full year target	9 months 2012	9 months 2011	<i>Change</i>	Half year 2012	Full year 2011
	£m	£m	£m	%	£m	£m
VNB	25	14	3	367	10	15
NBS	(75)	(47)	(53)	11	(32)	(51)
APE	n/a	420	328	28	291	440

Corporate Benefits' new business results continue to show an increase on prior year with value of new business totalling £14 million in the first three quarters of 2012 reflecting the higher sales volumes in addition to the benefit delivered by the Diligenta outsourcing deal.

New business cash strain of £47 million, whilst giving an implied full year run-rate in excess of the 2011 full year result, reflects increased sales volumes in the period including the introduction of the Friends Life WL Limited (known formerly as WLUK) business. Sales volumes of £420 million in the first three quarters include £50 million from the Friends Life WL Limited business but also reflect good sales on the target platforms.

In line with the half year result, c. 80% of new business is now written on the NGP and My Money platforms. This proportion will be increased towards 100% when the business written on to the Embassy customer administration platform is migrated. Following the decision to defer migration of the business written on the Embassy customer administration platform, in line with client wishes to not manage this alongside the beginning of auto-enrolment, Corporate Benefits will concentrate on ensuring readiness for auto-enrolment for this platform also.

Net fund inflows of £0.7 billion along with improvements in investment markets in the period have contributed to increased Corporate Benefits funds under management of £17.4 billion (30 June 2012: £15.8 billion).

Corporate Benefits will continue the development and promotion of the acclaimed My Money platform and is focusing on the opportunities afforded by regulatory changes including auto-enrolment and the Retail Distribution Review.

5.2 UK - Protection

	2013 Full year target	9 months 2012	9 months 2011	<i>Change</i>	Half year 2012	Full year 2011
	£m	£m	£m	%	£m	£m
VNB	80	44	2	2,100	28	16
NBS	(30)	(32)	(63)	49	(23)	(77)
APE	n/a	65	72	(10)	44	92

Protection's new business results have continued in line with performance during the first half of 2012, and are significantly ahead of the same period in 2011. Migration of new business capability, with c. 80% of new business written to the target platforms, has delivered improved value of new business and reduced levels of new business strain.

Individual protection sales in the period to 30 September 2012 of £38 million APE show the expected reduction in run-rate against 2011, reflecting the decision to target value over volume, as evidenced in the VNB comparison. The Protect+ proposition is now a year old and has been well received by distributors, winning two Cover Excellence awards in October. Group Risk sales of £27 million APE continued the increase compared to 2011.

The Group is making satisfactory progress migrating remaining distribution partners to the target platforms by the end of 2012 with the completion of this activity supporting the delivery of 2013 targets. Additionally, the Protection business continues to pursue profitable growth, for example from new business deals and opportunities arising from the regulatory changes at end 2012. The focus remains on achieving value through product mix and managing profitability during continued subdued economic conditions.

5.3 UK - Retirement Income

	2013 Full year target	9 months 2012	9 months 2011	<i>Change</i>	Half year 2012	Full year 2011
	£m	£m	£m	%	£m	£m
VNB	50	36	27	33	25	32
NBS	n/a	20	10	100	15	13
APE	n/a	28	25	12	19	32

Retirement Income new business contributed £36 million of VNB in the period to 30 September 2012 exceeding the full year 2011 contribution of £32 million. Cautious pricing in response to uncertainty in fixed income markets in the first half of 2012 resulted in unusually high new business margins. While a cautious pricing approach remains appropriate, falling gilt yields in the third quarter resulted in a slight drop in the VNB run-rate as the natural lag between market movements and reactive price changes temporarily narrows annuity margins.

Sales volumes of £28 million APE in the period to 30 September 2012 reflect stable retention rates and the acquisition of the WLUK business in November 2011. At the end of the second quarter the group launched an enhanced annuity product which made a small contribution to sales in the period in line with our expectations at this stage. The new enhanced product will continue to be rolled out to Friends customers over the second half of 2012 and is expected to help to improve retention rates over 2013.

New business cash strain has also benefited from the cautious pricing levels and strong volumes over the period, resulting in a cash release of £20 million compared to a full year contribution of £13 million in 2011.

5.4 Heritage

	9 months 2012	9 months 2011	<i>Change</i>	Half year 2012	Full year 2011
	£m	£m	%	£m	£m
VNB	8	8	-	4	(4)
NBS	(28)	(37)	24	(20)	(54)
APE	85	122	(30)	60	157

The Heritage business specifically focuses on those products no longer actively marketed. Despite not actively seeking new business the Heritage book delivers a significant level of ongoing incremental business written across all product types. New business value was better than expected in the third quarter of 2012 reflecting the level of Department of Work and Pensions ("DWP") rebates in what is the final year of this business. VNB in the first 9 months of 2012 for DWP business was £13 million, with no significant contribution expected in the final quarter of 2012.

As explained in the half year results, the most significant steps of the current phase of the capital optimisation programme to simplify the legal structure of the business and remove capital inefficiencies are expected to be completed by the end of 2012.

6. International (excluding Lombard)

	9 months 2012	9 months 2011	<i>Change</i>	Half year 2012	Full year 2011
	£m	£m	%	£m	£m
VNB	24	32	(25)	18	40
NBS	(67)	(78)	14	(48)	(89)
APE	153	195	(22)	104	252

International's trading performance continues to be impacted by the challenging economic environment and higher assumed take up rates of guarantees on German pension products, and in line with the new strategy reflects a continued focus on profitability rather than sales volume.

Overall, sales volumes are down by 22% compared to the same period in 2011, driven mainly by a significant reduction in regular premium business. This has been due to maintenance of pricing discipline and increased controls around business acceptance. Single premium business is below last year in most regions due to reduced investor confidence, although the UK offshore business has performed above expectations. Protection business remains strong as a result of IFAs moving from savings to risk products.

VNB is down by 25% to £24 million, primarily as a result of the drop in sales volumes. VNB margins have improved in 2012 due to new product structures, lower interest rates and an increase in higher margin protection business, but have been offset by increased assumed take up rates on German guarantees and higher acquisition costs from increased new business controls. Whilst VNB benefitted from selling a higher proportion of protection business, NBS was 14% lower than the same period in 2011. This is principally due to the reduced volumes, but has increased relative to premiums due to an increase in higher strain protection products as well as negative economic impacts.

The business will continue its focus on profitability rather than volume. Future improvements to trading performance are expected from the completion of the roll out of new higher margin product structures and a review of the cost base as part of the strategic review. The roll out of the new product structures is complete in Singapore and the Middle East and awaits regulatory approval in Hong Kong.

7. Lombard

	9 months 2012 £m	9 months 2011 £m	<i>Change %</i>	Half year 2012 £m	Full Year 2011 £m
VNB	12	23	<i>(48)</i>	12	52
NBS	(18)	(18)	-	(12)	(20)
APE	119	138	<i>(14)</i>	95	237

Lombard's performance in the first nine months of 2012 largely reflects the challenging economic conditions, with macroeconomic instability, elections and tax reforms announced in a number of Lombard's core markets (e.g. Spain, Italy, Belgium and France) generating uncertainty. Against this backdrop, there remains a lack of momentum in the market with clients and partners reluctant to make investment decisions. In particular, more sophisticated, entrepreneurial high net worth individuals are delaying investments, preferring to wait until proposed tax changes are on the statute books.

Value of new business in the first 9 months of 2012 is 48% below the same period in 2011. The principal drivers of this reduced new business contribution have been lower volumes and product mix with new business continuing to be increasingly sourced from Private Banks rather than IFAs. Whilst the move towards Private Banks is likely to impact short-term margins, especially as distribution channels mature, it does have the potential to bring significantly wider market access and more stable flows of business in the future. The proportion of new business originated from Private Banks in the first 9 months of 2012 was 44% (33% in the first 9 months of 2011).

New business strain is in line with last year despite a reduction in new business volumes as a result of Lombard's largely fixed acquisition cost base.

Results to date reflect Lombard's sales and profit profile, which remains materially weighted towards the final quarter of the year with a largely fixed cost base. As such, extrapolation of the nine month results is unlikely to be indicative of the full year's results.

APPENDIX 2 - Shareholder exposure to higher risk European debts and banks

£m	Total	Spain	Portugal	Italy	Ireland	Greece
Sovereign debt	7	-	-	7	-	-
Corporate exposure	375	180	7	148	40	-
Total 30 September 2012	382	180	7	155	40	-
Total 30 June 2012	372	168	8	159	37	-

Shareholder exposure to bank debt securities

(£m)		UK	Euro	USA	France	PIIGS ⁽ⁱ⁾	ROW	Shareholder total
Seniority	Rating							
Senior	AAA	15	95	-	15	-	3	128
	AA	36	93	13	-	-	55	197
	A	192	1	292	8	-	26	519
	BBB	2	-	-	-	15	-	17
	Below BBB/NR	1	4	-	-	7	-	12
	Senior total	246	193	305	23	22	84	873
Secured	AAA	382	-	-	31	52	14	479
	AA	9	-	-	-	-	-	9
	A	4	-	11	-	-	-	15
	BBB	-	-	13	-	-	-	13
	Below BBB/NR	-	-	-	-	-	-	-
	Secured total	395	-	24	31	52	14	516
Subordinated	AA	-	8	-	-	-	17	25
	A	163	22	19	14	-	13	231
	BBB	222	-	46	20	40	28	356
	Below BBB/NR	71	20	-	-	-	12	103
	Subordinated total	456	50	65	34	40	70	715
Cash	Cash total	790	399	714	405	1	335	2,644
Grand total		1,887	642	1,108	493	115	503	4,748

(i) Portugal, Ireland, Italy, Greece, Spain

(ii) The disclosure above excludes a £1.8 billion collateralised HSBC Amortising Note set up as part of an annuity reinsurance transaction which took effect 1 January 2007.

APPENDIX 3 - Update on Value Share

The partners and employees of the Resolution Group ("TRG"), which is the privately held advisory group of which ROL forms a part, are entitled to share in the value created from investments made through the Company's subsidiary undertaking, Resolution Holdco No. 1 LP ("Holdco"), in connection with the acquisitions of Friends Provident Group plc in 2009, the majority of AXA S.A.'s UK life business in 2010 and Bupa Health Assurance in 2011 (collectively, formerly known as the "UK Life Project" and which now form the Friends Life Group).

The Value Share structure was established at the time the Company was formed and, in broad terms, entitles members of TRG to 10% of all distributions made from Holdco where the accumulated value of the deployed equity capital contributed into Holdco (as set out below), plus an agreed return, has been returned to the Company or its shareholders, or there has been a change of control of the Group.

At 30 September 2012 the total gross equity deployed in Holdco was approximately £4,056 million and the accumulated value of net equity deployed (at the agreed return of 4% per annum and after allowing for £635 million of capital returned to Resolution Limited to date) was approximately £3,795 million, as shown below.

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

Date	Accumulated value of net Equity Deployed at 4% per annum (£m)
31 December 2009	1,927
31 December 2010	4,042
31 December 2011	3,844
31 March 2012	3,721
30 June 2012	3,758
30 September 2012 ^(iv)	3,795

(i) See page 102 of Friends Provident Group plc acquisition prospectus for more details of equity deployed.

(ii) See page 89 of AXA UK Life Business acquisition prospectus for more details of equity deployed.

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

(iv) Since 30 September 2012, a further £80m has been distributed from Holdco, leaving cash resources of approximately £117m at Resolution level as at 14 November 2012.

The rate used to calculate the "agreed return" (or accumulation rate) was set at 4.0% per annum for an initial three year period commencing 5 November 2009. This rate is required, in accordance with the terms of the Value Share arrangements, to be re-set every three years at the higher of (i) 4.0% per annum, and (ii) the gross redemption yield on a UK fixed interest gilt maturing approximately three years after the re-set date.

Accordingly, the rate used to calculate the agreed return was recently re-set at 4.0% per annum for the three year period ending 5 November 2015.

Given that Holdco is the Company's only direct subsidiary undertaking, a mark-to-market valuation of the Value Share can be determined on any given day by deducting the value of cash held at Resolution level from the market value of Resolution, and then comparing the result to the accumulated value of the net equity deployed in Holdco accumulated at the agreed return (i.e. 4% per annum).

Based on the accumulated value of net equity deployed and the value of the Company's net assets as at 30 September 2012, the value share would have theoretically been "in the money" at a Resolution Limited share price of 278.1 pence at that date. Therefore the implied Value Share at 30 September 2012 (based on a closing share price of 217.1 pence on 30 September) was nil (30 June 2012: nil).

Whether there is an implied value to the Value Share calculated on this basis will vary day-to-day depending, among other things, on the Company's share price. In any event, the implied value of the Value Share at any point in time cannot provide an accurate guide as to whether payments will ultimately be made to TRG under the terms of the Value Share, as this will depend on the distributions made to the Company by Holdco.