Resolution Limited

2013 Interim Results
13 August 2013
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## 2013 Half Year Results Agenda

### Introduction
- **Sir Malcolm Williamson**
- Business Review: Andy Briggs
- Financial Review: Tim Tookey
- Questions: Andy Briggs
# 2013 Half Year Results Agenda

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<td>Tim Tookey</td>
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<td>Questions</td>
<td>Andy Briggs</td>
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2013 Half year results key messages
Delivering strongly on a consistent strategy

Attractive strategic outlook
Scale businesses with competitive advantage, well placed for key market trends

Cash generation today underpins dividend
Strong growth in underlying SFS, underpinned by stable in-force expected return

Excellent progress on cash generation

Growing cash tomorrow
Core new business franchises delivering strong growth in new business profit

Good profitable growth
Strong financial performance
Delivering strongly on a consistent strategy

Cash generation today underpins dividend

- Sustainable free surplus increased 23% to £147m
- Expected in-force return stable year on year while INB reduced by 30%
- Higher quality of SFS, £176m before operating variances

Excellent progress on cash generation

Growing cash tomorrow

- New business profits of £110m in core new business franchises up 29% at IRR of 15.4%
  - including UK up 41% at IRR of 16.7%
- Final non-core International exit actions to be completed in Q3, and interim dividends of £10m upstreamed
- Heritage and Investment Management initiatives:
  - Annuity back-book restructure expected to deliver £10m p.a. SFS
  - Further £7bn of assets captured by FLI, increasing AUM to £18bn; expected £6m p.a. SFS benefit

Good profitable growth

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1. Operating variances comprise: operating experience variances, other operating variances, other income and charges
2. Run-rate from July 2013 £6m p.a., equivalent at 1 Jan 2013 c.£1m p.a.
Strategic outlook attractive
Scale businesses, with competitive advantage, well placed for key market trends

### Key market trends

<table>
<thead>
<tr>
<th>Heritage</th>
<th>UK</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial EV in closed products</td>
<td>DB → DC, auto-enrolment</td>
<td>Strong growth in global wealth, especially Asia</td>
</tr>
<tr>
<td>Ageing population, reducing state support</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Market position</th>
<th>Corporate Benefits</th>
<th>Retirement Income</th>
<th>Protection</th>
<th>FPI</th>
<th>Lombard</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Heritage</strong></td>
<td>Unique, dedicated division</td>
<td>No. 2¹</td>
<td>11% of maturing pension market</td>
<td>Top 4²</td>
<td></td>
</tr>
<tr>
<td><strong>Scale</strong></td>
<td>£71bn AUM</td>
<td>£20bn AUM</td>
<td>£2bn p.a. maturing pensions</td>
<td>2m customers</td>
<td>£7bn AUM</td>
</tr>
</tbody>
</table>

### Sustainable dividend and strong growth in profitable core new business

1. Corporate Benefits – by DC assets
2. Protection – by 2012 new business, based on company reports
3. FPI – in Hong Kong/Middle East IFA markets (NMG Consulting Wealth Management Programme, Asia and Middle East)
4. Lombard – in European privatbancassurance
Retirement businesses in the UK
Our strategy targets the rapidly growing market for retirement provision

Market AUM: closed / semi-closed back books of £350bn

Market AUM: £400bn → £1,200bn by 2020

Individual annuity market premiums: £14bn → £40bn p.a. by 2020

>65% of UK households do not have life insurance

Customer assets

Time

1. Friends Life analysis of Synthesis 2011 FSA Return data, includes companies with limited participation in new business 2. 31 December 2010, ONS April 2012
3. Oliver Wyman analysis, 2011
4. ABI/MSE FY2012 ©2013 Association of British Insurers
5. Oliver Wyman analysis, 2011
6. ABI 2012, based on 2010 ONS survey data
1. Heritage
Focus moving from capital optimisation to generating incremental cash

**Market outlook**

- £350bn\(^1\) in closed / semi-closed life and pensions products in UK

**Our strategic positioning**

- Unique, dedicated and highly skilled Heritage division focused on turning EV into cash. £71bn AUM.

**Capital optimisation**

- Three-year programme to accelerate cash and capital, simplify Group
- 2013 the last year of activity; completes simplification down to 2 UK life companies
- Streamlines decision-making; expect benefits to cover costs
- To complete by end of year subject to Court sanction

**Annuity back-book restructure**

- Focus moving to generating incremental cash from Heritage book
- Deal agreed to reallocate c.£2bn annuities to shareholder-backed fund, subject to regulatory approval
- Expect c.£10m p.a. free surplus benefit from 2014\(^2\) in return for c.£(20)m SFS impact in H2 2013

**Further Heritage initiatives**

- Programme continuing through 2014 and 2015 for uniform with profits management framework
- Opportunities to enhance cash and match fund risk appetites
- Exploring further tranches from c.£2.5bn of annuities in Heritage with profits funds, recognising complexity to negotiate and deliver

---

1. Friends Life analysis of Synthesis 2011 FSA Return data, includes companies with limited participation in new business
2. Impact will depend on asset mix and market conditions at December 2013; estimates based on July 2013 position
2. Corporate Benefits
Market leading proposition on cost-efficient platform with strong further growth expected

**Market outlook**

UK DC AUM to grow from £400bn\(^1\) to £1,200bn\(^2\) by 2020

**Our strategic positioning**

No. 2 player in market; £20bn AUM; focus on existing customers and selective new schemes

**Competitive client and distributor propositions**

- Strong client relationships driving auto-enrolment take-up
- On panel with all major targets
- MyMoney platform and auto-enrolment proposition

**Auto-enrolment on existing schemes**

- 40 schemes staged in H1 with further 150 schemes expected to stage in H2

**New scheme wins**

- Pipeline of new scheme wins at 3x June 2012 level

**We have significantly grown Corporate Benefits AUM**

<table>
<thead>
<tr>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>HY 2013</th>
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<tbody>
<tr>
<td>£bn</td>
<td></td>
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</tr>
<tr>
<td>12</td>
<td>15</td>
<td>18</td>
<td>20</td>
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**Cash profile - fee income\(^3\) above fully loaded costs\(^4\)**

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<thead>
<tr>
<th></th>
<th>Income</th>
<th>Costs</th>
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<tr>
<td>FY 2011</td>
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<td>FY 2012</td>
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<tr>
<td>HY 2013 ann.</td>
<td></td>
<td></td>
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</tbody>
</table>

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1. 31 December 2010, ONS April 2012
2. Oliver Wyman analysis, 2011
3. Annual management charges on Corporate Benefits schemes
4. Including direct expenses, allocated overheads, commission and investment management fees
3. Retirement Income
Significant growth potential through investment in propositions, customer engagement and building capability

**Market outlook**

UK annuity market to grow from £14bn\(^1\) in 2012 to £40bn\(^2\) p.a. by 2020

**Our strategic positioning**

£2bn p.a. maturing pensions, c.11% of total market

**Addressing the drivers of value**

- **Underlying vestings**
  - Redirection of former AXA With Profits fund customers to Retirement Income business

- **Retention rate**
  - Retention rate of over 50% for customers engaging with enhanced (lifestyle) proposition, overall retention rate 32%\(^3\)

- **Margin**
  - Investment yield and pricing competitiveness improved

**Results and opportunities**

- Strong growth in HY VNB
  - HY 2012: 25
  - HY 2013: 44 (76% increase)

- **Future opportunities**
  - Open Market Option launch in Q4, initially limited to lifestyle annuities
  - Scope to further increase both pricing competitiveness and investment yield
  - Key Retirement Solutions broking services partnership

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1. ABI/MSE FY2012 ©2013 Association of British Insurers
2. Oliver Wyman analysis, 2011
3. May 2013 ytd
4. Protection
Market leading proposition underpinned by low cost base and strong distribution relationships

Market outlook
Good margins; stable market outlook after expected improvement from Q1 2013 dip

Our strategic positioning
Top 4 player, focused on profitable CI / IP market segments

Competitive advantage and value drivers

- High quality CI / IP offers
- Migration to low cost platforms complete
- Distribution partnerships

Market-leading cost efficiency

Further recognition of products and service

% new business on target platforms

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<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>HY 2013</th>
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<tbody>
<tr>
<td></td>
<td>5%</td>
<td>40%</td>
<td>80%</td>
<td>100%</td>
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</tbody>
</table>

Results and opportunities

Further growth in H1 VNB despite Q1 impacted by individual volumes

Strong VNB growth, £m

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<thead>
<tr>
<th></th>
<th>HY 2011</th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2)</td>
<td>28</td>
<td>32</td>
<td>+14%</td>
</tr>
</tbody>
</table>

Building further distribution partnerships

- New long-term Protection partnership with Virgin Money starting from Jan 2014
- Distribution of a suite of high-quality simple protection products in-store, over the phone and online

2. Oliver Wyman, November 2011
5. Investment management capability
Building broad capability and growing FLI to support our Retirement Businesses

**Heritage**
- c.80% of £71bn Heritage assets are with discretionary managers, where we were paying 14 bps p.a.¹
- c.20% now managed by FLI - significant savings
- Opportunity to consider further FI or other asset classes, but break fees may apply

**Corporate Benefits**
- 3 new blended AE default fund solutions offered to improve customer outcomes

**Retirement Income**
- Optimisation of investment strategy, improving yield
- Infrastructure loans - £75m with Drax Group plc
- Commercial Real Estate loans - £500m mandate

**Friends Life Investments**
- FLI now manages £18bn of FI assets, with total run-rate benefits from July of c.£6m p.a.²
- Starting to consider options for fixed income assets with no break-fee in H2 2014

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¹ Assets managed by discretionary managers (FLI and external), cost evaluated in 2011 including VAT
² Equivalent at Jan 2013 c.£1m p.a.
International division
Good progress on strategy delivery and cash generation

**Improved cash generation**

- **SFS growth, £m**
  - HY 2012: 4
  - HY 2013: 18
  - +350%

**FPI (core markets)**

- **FPIL AUM growth, £bn**
  - HY 2012: 5.6
  - FY 2012: 6.1
  - HY 2013: 6.7
  - Operating expenses\(^1\) reduced, £m
  - HY 2012: 38
  - HY 2013: 34
  - -11%

**Lombard**

- **AUM growth, €bn**
  - HY 2012: 22.0
  - FY 2012: 23.3
  - HY 2013: 23.5
  - Operating expenses reduced, £m
  - HY 2012: 41
  - HY 2013: 32
  - -22%

**Exiting non-core markets**

- German manufacturing exit to complete in Q3
- Ceased new business from Japanese nationals and Corporate Pensions in 2012
- AmLife sold for £50m in Q1

**Interim dividend of £6m**

1. Total FPI operating expenses
2. Q1 unit-linked sales year-on-year in Hong Kong (source: OCI) and Singapore (source: LIA)

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<td>Questions</td>
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</table>
Performance led by UK and Heritage divisions

FLG sustainable free surplus of £147m, up 23%

UK division VNB up 41% with investment in new business down 44%; IRR increased to 16.7%

Group IFRS based operating profit before tax of £191m, up 17%

Group MCEV operating profit before tax of £214m, down 9%

IGCA surplus of £2.1bn (coverage ratio of 222%)

Estimated economic capital surplus of £3.7bn (coverage ratio of 192%)

Interim 2013 dividend of 7.05 pence per share

On track to deliver vast majority of 2013 financial targets

Corporate benefits momentum and order book enhance target delivery confidence

Protection Q1 market reduction and competitive market pressures continue but financial discipline will not be compromised
# 2013 Half Year Financial Highlights

## Strategic execution delivering results

<table>
<thead>
<tr>
<th>Sustainable free surplus, £m</th>
<th>IFRS based operating profit, £m</th>
<th>MCEV operating profit, £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HY 2012</strong></td>
<td><strong>HY 2013</strong></td>
<td><strong>HY 2012</strong></td>
</tr>
<tr>
<td>120</td>
<td>147</td>
<td>163</td>
</tr>
<tr>
<td>Run-rate cost savings, £m</td>
<td>Group IGCA surplus, £bn</td>
<td>Dividend, pence per share</td>
</tr>
<tr>
<td><strong>FY 2012</strong></td>
<td><strong>HY 2013</strong></td>
<td>2012 final dividend</td>
</tr>
<tr>
<td>140</td>
<td>154</td>
<td>2.2</td>
</tr>
<tr>
<td>54</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>86</td>
<td>119</td>
<td>221%</td>
</tr>
</tbody>
</table>

**Earnings per share**

**Coverage ratio**

**Target**

- **96% of 2015 target**
- **Secured**
- **Delivered**
- **2012 final dividend**
- **221%**
- **222%**
- **7.05**
- **7.05**
**Sources and uses of cash generation**

### Improving the quantity and quality of SFS

#### Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected return on in-force book</td>
<td>e.g. Capital release, AMCs / charges, risk margin, maintenance costs</td>
</tr>
<tr>
<td>Expected return on shareholder assets</td>
<td></td>
</tr>
</tbody>
</table>

#### Uses

- **Debt costs**
- **Development costs**
- **Investment in new business**

#### Variances (non-economic) +/-

**Sustainable free surplus**
### Sustainable free surplus

**Improving surplus generation; higher quality**

#### Sustainable free surplus

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected return from in-force business</td>
<td>348</td>
<td>351</td>
<td></td>
</tr>
<tr>
<td><strong>Uses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in new business</td>
<td>(157)</td>
<td>(110)</td>
<td></td>
</tr>
<tr>
<td>Development costs</td>
<td>(20)</td>
<td>(20)</td>
<td></td>
</tr>
<tr>
<td>Coupon on debt</td>
<td>(42)</td>
<td>(45)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td><strong>129</strong></td>
<td><strong>176</strong></td>
</tr>
<tr>
<td><strong>Variances / other</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Operating experience variances</td>
<td>(23)</td>
<td>(17)</td>
<td></td>
</tr>
<tr>
<td>Other operating variances</td>
<td>16</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Other income and charges</td>
<td>(2)</td>
<td>(10)</td>
<td></td>
</tr>
<tr>
<td><strong>Sustainable free surplus</strong></td>
<td>120</td>
<td>147</td>
<td></td>
</tr>
</tbody>
</table>

#### Sustainable free surplus contribution

**UK & Heritage divisions, £m**

- HY 2012: 160
- HY 2013: 178
  - +11%

**International division, £m**

- HY 2012: 4
- HY 2013: 18
  - +23%

**Corporate, £m**

- HY 2012: (44)
- HY 2013: (49)

**-30%**

**+23%**
Expected return
Resilient performance in line with guidance

<table>
<thead>
<tr>
<th>Expected return from in-force business</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
</tr>
<tr>
<td><strong>UK &amp; Heritage</strong></td>
</tr>
<tr>
<td>HY 2012:</td>
</tr>
<tr>
<td>Int’l Return on shareholder assets:</td>
</tr>
<tr>
<td>249</td>
</tr>
<tr>
<td>263</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>348</td>
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<tr>
<td>351</td>
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**Key drivers of in-force movement**

**UK & Heritage**
- Half year returns in line with previous guidance, adjusting for £13m with-profits spike in H1 2013
- Guidance reflected economic factors being broadly neutral
  - Higher opening equity markets
  - Lower expected rates of return
- Lower shareholder returns in line with opening rates

**International division**
- FPI surplus lower by £8m principally reflecting reduced volumes of higher charge new business in 2012. Further reduction expected in H2
- Growth in Lombard, up £8m, driven by higher opening funds under management
Management of UK & Heritage expected return
Good progress made to replenish future run-off

Expected reduction in in-force surplus

<table>
<thead>
<tr>
<th>£m</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK &amp; Heritage, undiscounted free surplus emergence(^1)</td>
<td>500</td>
<td>475</td>
</tr>
</tbody>
</table>

- **Management actions**
  - Increased UK division new business profitability, up 41%
  - Recurring benefits from proposed with-profits annuities transfer\(^2\) (£10m p.a. from 2014)
  - Sustainable benefits from asset recaptures in FLI (additional £5m p.a.)

Driving increased confidence in replenishing future run-off

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\(^1\) Based on management estimates and expectations at 31 December 2012 (unaudited), relates specifically to the in-force book as at 31 December 2012 and is consistent with that reported in full year 2012 results. Excludes return on shareholder assets and new business written in 2013.

\(^2\) With-profits annuities transfer subject to regulatory approval.
Investment in new business
New business acquired with increasing efficiency

Group investment in new business

<table>
<thead>
<tr>
<th>£m</th>
<th>HY 2011</th>
<th>HY 2012</th>
<th>HY 2013</th>
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</thead>
<tbody>
<tr>
<td>UK &amp; Heritage</td>
<td>(185)</td>
<td>(157)</td>
<td>(124)</td>
</tr>
<tr>
<td>Int'l</td>
<td>(61)</td>
<td>(59)</td>
<td>(52)</td>
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</table>

- IRR of 15.4% for core new business franchises

Group new business metrics

APE, £m

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>chg</th>
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<tbody>
<tr>
<td>UK</td>
<td>324</td>
<td>-8%</td>
</tr>
<tr>
<td>Heritage</td>
<td>27</td>
<td>-55%</td>
</tr>
<tr>
<td>Int'l core</td>
<td>157</td>
<td>-7%</td>
</tr>
<tr>
<td>Int'l non-core</td>
<td>9</td>
<td>-70%</td>
</tr>
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VNB, £m

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>chg</th>
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<tbody>
<tr>
<td>UK</td>
<td>89</td>
<td>41%</td>
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<tr>
<td>Heritage</td>
<td>(8)</td>
<td>n/a</td>
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<tr>
<td>Int'l core</td>
<td>21</td>
<td>-5%</td>
</tr>
<tr>
<td>Int'l non-core</td>
<td>(5)</td>
<td>n/a</td>
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IRR

<table>
<thead>
<tr>
<th></th>
<th>HY 2011</th>
<th>HY 2012</th>
<th>HY 2013</th>
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<tbody>
<tr>
<td>FY 2013 Target</td>
<td>15%+</td>
<td>11.2%</td>
<td>10.0%</td>
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</table>
UK division new business profitability
Strong growth in new business contribution

Growth in UK division VNB

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
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<tr>
<td>HY 2011</td>
<td>17</td>
<td>20</td>
<td>5</td>
<td>(2)</td>
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<tr>
<td>HY 2012</td>
<td>28</td>
<td>25</td>
<td>10</td>
<td>13</td>
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<tr>
<td>HY 2013</td>
<td>32</td>
<td>63</td>
<td>64</td>
<td>89</td>
<td></td>
</tr>
</tbody>
</table>

New business IRR

<table>
<thead>
<tr>
<th></th>
<th>HY 2011</th>
<th>HY 2012</th>
<th>FY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Income</td>
<td>6.6%</td>
<td>6.8%</td>
<td>&gt;25%</td>
<td>&gt;25%</td>
</tr>
<tr>
<td>Corporate Benefits</td>
<td>3.9%</td>
<td>9.8%</td>
<td>7.6%</td>
<td></td>
</tr>
<tr>
<td>Protection</td>
<td>11.2%</td>
<td>13.3%</td>
<td>16.7%</td>
<td></td>
</tr>
</tbody>
</table>

New business margin %¹

1. Pre-tax VNB / PVNB
Trajectory to targets
Continued progress towards market targets

Progression to UK division market targets

<table>
<thead>
<tr>
<th>VNB, £m</th>
<th>IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY 2013</td>
<td>FY 2013 Target</td>
</tr>
<tr>
<td>Protection</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>80</td>
</tr>
<tr>
<td>15.0%</td>
<td>20%</td>
</tr>
<tr>
<td>Corporate Benefits</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>80</td>
</tr>
<tr>
<td>7.6%</td>
<td>10%+</td>
</tr>
<tr>
<td>Retirement Income</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>155</td>
</tr>
<tr>
<td>&gt;25%</td>
<td>15%+</td>
</tr>
</tbody>
</table>

Trajectory to targets

Financial targets achieved at year end 2012

Retirement Income
- Enhanced annuity products improving customer choice and retention rates
- OMO volume improvements expected following launch in the fourth quarter of 2013

Corporate Benefits
- £20bn funds under management up 11% in good markets
- Strong pipeline of new sales and auto-enrolling schemes in second half of 2013 underpinning target confidence
- Auto-enrolment drives growth in second half of 2013; on track to achieve targets

Protection
- Gender neutral spike in Q4 2012 impacted early 2013 performance
- Q2 APE of £21m is 17% higher than Q1
- Good progress; competitive challenges remain
International: Core new business
Resilient performance in difficult market environment

Core International new business

VNB, £m

<table>
<thead>
<tr>
<th></th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lombard</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Core FPI</td>
<td>10</td>
<td>9</td>
</tr>
</tbody>
</table>

APE, £m

<table>
<thead>
<tr>
<th></th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lombard</td>
<td>95</td>
<td>87</td>
</tr>
<tr>
<td>Core FPI</td>
<td>74</td>
<td>70</td>
</tr>
</tbody>
</table>

Core International new business IRR

<table>
<thead>
<tr>
<th></th>
<th>HY 2012</th>
<th>HY 2013</th>
<th>FY 2013 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lombard</td>
<td>11.8%</td>
<td>12.5%</td>
<td>20%</td>
</tr>
<tr>
<td>Core FPI</td>
<td>11.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Lombard profitability and IRR are geared to fourth quarter volumes; acquisition costs largely fixed
- Core FPI business resilient in challenging markets
**International: Non-core new business**

**Market exits to be completed by end of Q3**

### Non-core International new business volumes

<table>
<thead>
<tr>
<th>APE, £m</th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td></td>
<td>9</td>
</tr>
</tbody>
</table>

- **VNB, £m**
  - HY 2012: 8
  - FY 2012: (12)
  - HY 2013: (5)

#### Key Points:
- **APE** decreased by 70% from HY 2012 to HY 2013.
- **VNB** decreased from HY 2012 to HY 2013.
- **Sales to Japanese nationals ceased**
- **Closure to new corporate pension business**
- **AmLife sold** on 4 January 2013 (IFRS profit on disposal £20m)
- **Reduced sales in Germany**

### Non-core operational drag

<table>
<thead>
<tr>
<th>£m</th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected return from in-force business</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Investment in new business</td>
<td>(22)</td>
<td>(16)</td>
</tr>
<tr>
<td>Development costs</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Operating experience variances</td>
<td>(4)</td>
<td>1</td>
</tr>
<tr>
<td>Other operating variances</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td><strong>Sustainable free surplus</strong></td>
<td>(12)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

#### Key Points:
- **Controlled withdrawal from manufacturing in German market**; new business activity to cease at end Q3 2013.
- **Investment in new business causing operating drag**; expected to be lower in second half of 2013.
Operating expenses and cost savings
96% of 2015 cost saving target secured

1. UK & Heritage and International operating expenses include acquisition and maintenance expenses only
IFRS based operating profit

Sources and uses of cash generation

Sources

- In-force surplus
  - e.g. AMCs / charges, risk margin, maintenance costs
- Principal reserving changes & one-off items
- Expected return on shareholder assets

Uses

- Debt costs
- Development costs
- New business strain
- Sustainable free surplus

Improving the quantity and quality of SFS

Expected return on in-force book

e.g. Capital release, AMCs / charges, risk margin, maintenance costs

Variances (non-economic)

Investment in new business

Debt costs

Development costs

Sustainable free surplus

Expected return on shareholder assets
## IFRS based operating profit

**Profits up 17%**

### Group IFRS based operating profit

<table>
<thead>
<tr>
<th>Sources</th>
<th>HY 2012</th>
<th>HY 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-force surplus</td>
<td>275</td>
<td>319</td>
<td>+16%</td>
</tr>
<tr>
<td>Expected return on shareholder assets</td>
<td>32</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td>(49)</td>
<td>(60)</td>
<td>-34%</td>
</tr>
<tr>
<td>New business strain</td>
<td>(83)</td>
<td>(55)</td>
<td>-34%</td>
</tr>
<tr>
<td>Development costs</td>
<td>(22)</td>
<td>(26)</td>
<td></td>
</tr>
<tr>
<td>Principal reserving changes &amp; one-offs</td>
<td>27</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Other income and charges</td>
<td>(17)</td>
<td>(18)</td>
<td></td>
</tr>
<tr>
<td><strong>IFRS based operating profit before tax</strong></td>
<td>163</td>
<td>191</td>
<td>+17%</td>
</tr>
</tbody>
</table>

### IFRS based operating profit contribution

#### UK & Heritage divisions, £m

<table>
<thead>
<tr>
<th></th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>137</td>
<td>129</td>
</tr>
<tr>
<td>UK &amp; Heritage divisions</td>
<td>110</td>
<td>129</td>
</tr>
<tr>
<td>International division</td>
<td>31</td>
<td>74</td>
</tr>
<tr>
<td>Corporate</td>
<td>(5)</td>
<td>(12)</td>
</tr>
</tbody>
</table>

1. Expected return on shareholder assets less finance costs is equivalent to long-term investment return
Group IFRS based operating profit

Strong profit delivery

Group IFRS based operating profit

£m

HY 2012 IFRS based op profit 163
HY 2012 principal reserving changes 27
Underlying HY 2012 IFRS based op profit 136
New business strain reduction 28
Increased income 18
Economic returns 163
Increased debt costs (10)
Other operating items 189
Underlying HY 2013 IFRS based op profit 189
HY 2013 principal reserving changes 2
HY 2013 IFRS based op profit 191

- AMC growth £11m
- Cost of guarantees £13m
- FX £3m
- S/h asset returns £(9)m
- WP bonus £11m
- Non-core charges £10m
- Increased book £5m

+17%
### Group MCEV operating profit

<table>
<thead>
<tr>
<th>£m</th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of new business</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td>Expected existing business contribution</td>
<td>165</td>
<td>126</td>
</tr>
<tr>
<td>Operating experience and other variances</td>
<td>4</td>
<td>(1)</td>
</tr>
<tr>
<td>Operating assumption changes</td>
<td>14</td>
<td>34</td>
</tr>
<tr>
<td>Development costs</td>
<td>(22)</td>
<td>(26)</td>
</tr>
<tr>
<td>Other income and charges</td>
<td>(23)</td>
<td>(16)</td>
</tr>
<tr>
<td><strong>MCEV operating profit before tax</strong></td>
<td>235</td>
<td>214</td>
</tr>
<tr>
<td><strong>ROEV(^1)</strong></td>
<td>6.4%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

1. Measured at FLG level

### MCEV operating profit contribution

#### UK & Heritage divisions, £m
- HY 2012: 249
- HY 2013: 241

#### International division, £m
- HY 2012: 43
- HY 2013: 21

#### Corporate, £m
- HY 2012: (57)
- HY 2013: (48)
MCEV expected existing business contribution
Contribution in-line with year end guidance

Movement in expected existing business contribution

<table>
<thead>
<tr>
<th>£m</th>
<th>HY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK &amp; Heritage</td>
<td>170</td>
<td>136</td>
</tr>
<tr>
<td>(35)</td>
<td>(37)</td>
<td></td>
</tr>
<tr>
<td>Int’l</td>
<td>165</td>
<td>126</td>
</tr>
<tr>
<td>30</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Corp</td>
<td>165</td>
<td>126</td>
</tr>
<tr>
<td>30</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

Lower expected rates of return

<table>
<thead>
<tr>
<th>Rates (%)</th>
<th>2012</th>
<th>2013</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Equity</td>
<td>5.40</td>
<td>4.90</td>
<td>-0.50</td>
</tr>
<tr>
<td>- Corporate bonds(^1)</td>
<td>3.30</td>
<td>2.25</td>
<td>-1.05</td>
</tr>
<tr>
<td>- Cash/Gilts (Risk free)</td>
<td>1.35</td>
<td>0.67</td>
<td>-0.68</td>
</tr>
<tr>
<td>- Debt(^2)</td>
<td>7.42</td>
<td>4.70</td>
<td>-2.72</td>
</tr>
</tbody>
</table>

Rates applied to debt commitments are equivalent to the cash/gilt return plus spread on Group debt

VIF
- Principal driver: Risk free
- Rate (%): -0.68
- HY 2013 indicative impact (£m): (14)

S/h assets
- Principal driver: Risk free
- Rate (%): -0.68
- HY 2013 indicative impact (£m): (8)

Corp bonds backing annuities
- Principal driver: Return over risk free\(^3\)
- Rate (%): -0.22
- HY 2013 indicative impact (£m): (6)

Debt, tax and other
- HY 2013 indicative impact (£m): (39)

---

1. Return on corporate bonds varies by portfolio. The rates shown are an indicative weighted average
2. Rates applied to debt commitments are equivalent to the cash/gilt return plus spread on Group debt
3. Excludes the impact of changes in illiquidity premium
Capital and cash
Strong capital position maintained

IGCA surplus and sensitivities to market movements

<table>
<thead>
<tr>
<th>£bn</th>
<th>FY 2012</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGCA surplus</td>
<td>2.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Group capital resources requirement (excluding WPICC)</td>
<td>1.8</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Coverage ratio

- 221% (FY 2012)
- 222% (HY 2013)

IGCA surplus sensitivities to market movements, £bn

- 200 bps increase in corporate bond spreads\(^2\) \(\pm 0.5\)
- 200 bps fall in interest rates across the yield curve \(\pm 0.3\)
- 40% fall in equity markets\(^3\) \(\pm 0.1\)

IGCA remains the biting constraint

- IGCA surplus of £2.1bn after payment of £200m dividend to shareholders
- Capital base remains resilient to market movements
- At 30 June 2013, estimated surplus on an economic capital basis was £3.7bn\(^4\) (coverage ratio of 192%)

Cash and dividends

- Available shareholder cash of £839m
- Normal FLL interim dividend declared of £100m
- Int’l dividend of £10m declared (being circa 1/3 of full year dividend target of £33m)

1. Total capital is the sum of IGCA surplus and Group capital resource requirements (excluding WPICC); coverage ratio also excludes WPICC; Half year 2013 WPICC: £3.8bn (Full year 2012: £3.4bn). FY 2012 surplus was before payment of £200 million dividend to shareholders
2. of which one third is assumed to be defaults
3. includes a 30% fall in property markets
4. Estimated unaudited position
Upstreaming cash in the Group

Holding Companies

RSL / FLG

SFS = £(4)m

Heritage division: FLL

SFS = £182m (Heritage) - £(45)m (Debt interest)

UK division: FLP

SFS = £(4)m

FPIL

SFS = £13m¹

Lombard

SFS = £5m

Dividend £6m

Dividend £4m

Dividend £10m

Normal FLL £100m

Int'l upstreaming £10m

Total dividend £110m

1. Reflects SFS of FPI which includes both the FPIL and OLAB entities
## Interim 2013 report card: Continued strong progress

### Cash
- **FLG cash generation**
  - £400m from sustainable sources in medium term
- **UK & Heritage new business strain**
  - £200m reduction by 2013
- **UK & Heritage cost reductions**
  - £126m of cost reductions by 2013
  - £160m of cost reductions by 2015
- **Cash dividends from International businesses**
  - FPI: £20m for 2013 (due spring 2014)
  - Lombard: cumulative £37m by spring 2015; £30m pa thereafter

### Returns
- **FLG operating ROEV**
  - £80m, (£30)m 20%
  - £25m, (£75)m 10%+
  - £50m 15%+
  - £155m VNB by 2013

### Commitment
- Timescale extended due to economic headwinds
- Delivered 2012
- Fully embedded
- On track
- Timescale extended due to economic headwinds
- Strong second half delivery expected
- Steady progress made following strategic review
- On track
2013 Half year results key messages
Delivering strongly on a consistent strategy

Attractive strategic outlook
Scale businesses with competitive advantage, well placed for key market trends

Growing cash tomorrow
Core new business franchises delivering strong growth in new business profit

Cash generation today underpins dividend
Strong growth in underlying SFS, underpinned by stable in-force expected return

Excellent progress on cash generation

Good profitable growth
Questions
**IFRS result after tax**

Reflects positive investment variances

### Group IFRS result after tax

<table>
<thead>
<tr>
<th>Category</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY 2013 IFRS based op profit</td>
<td>191</td>
</tr>
<tr>
<td>Investment fluctuations</td>
<td>133</td>
</tr>
<tr>
<td>Non-recurring costs</td>
<td>(57)</td>
</tr>
<tr>
<td>Gain on AmLife sale</td>
<td>20</td>
</tr>
<tr>
<td>Tax</td>
<td>(59)</td>
</tr>
<tr>
<td>STICS</td>
<td>16</td>
</tr>
<tr>
<td>IFRS profit after tax</td>
<td>244</td>
</tr>
<tr>
<td>Acq acc adj</td>
<td>(183)</td>
</tr>
<tr>
<td>HY 2013 IFRS profit after tax</td>
<td>61</td>
</tr>
</tbody>
</table>

### Group non-recurring costs

- **£(57)m**
  - COP
  - £(7)m
  - £(10)m
  - £(10)m
  - £(30)m

**Key capabilities and benefits**

- Optimised capital requirements
- Integrated financial reporting process for a Solvency II regulatory environment
- Reduced and more directly variable costs
- Delivery of targeted cost savings

1. Excluding deferred tax on amortisation of acquisition accounting adjustments
MCEV development to 30 June 2013
Reflects good operating performance and positive investment returns

Change in Net Group MCEV

<table>
<thead>
<tr>
<th>£m</th>
<th>FY 2012</th>
<th>Operating profit</th>
<th>Economic experience variances</th>
<th>Other non-operating items</th>
<th>Tax</th>
<th>Other items</th>
<th>HY 2013 pre-shareholder distributions</th>
<th>Dividends paid in 2013</th>
<th>HY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,831</td>
<td>214</td>
<td>228</td>
<td>(33)</td>
<td>(88)</td>
<td>28</td>
<td>6,180</td>
<td>(200)</td>
<td>5,980</td>
</tr>
</tbody>
</table>

Narrowing of credit spreads £189m
Equity returns £164m
Interest rates £(110)m
Other economic variances £(15)m

1. Being 2012 final dividend paid
Balance sheet
Continued high asset quality

Overview of Balance sheet

HY 2013 IFRS balance sheet

Shareholder assets and assets backing non-profit business

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>£bn</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>3</td>
<td>20%</td>
</tr>
<tr>
<td>Government bonds</td>
<td>3</td>
<td>20%</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>9</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>15</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Reinsurance assets</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Other net receivables</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholder asset exposure</strong></td>
<td><strong>22</strong></td>
<td></td>
</tr>
</tbody>
</table>

Rating of £9bn corporate bond assets

- 98% of corporate bond assets at investment grade
- No credit defaults in six months to 30 June 2013
- c.£0.5bn shareholder share of default provisions; a haircut equivalent to 49% of spread over risk free