# 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 |

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Friends Life

# 2013 Half Year Results Agenda

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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[1]

**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.[2] SFS benefit

**Good profitable growth**

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**

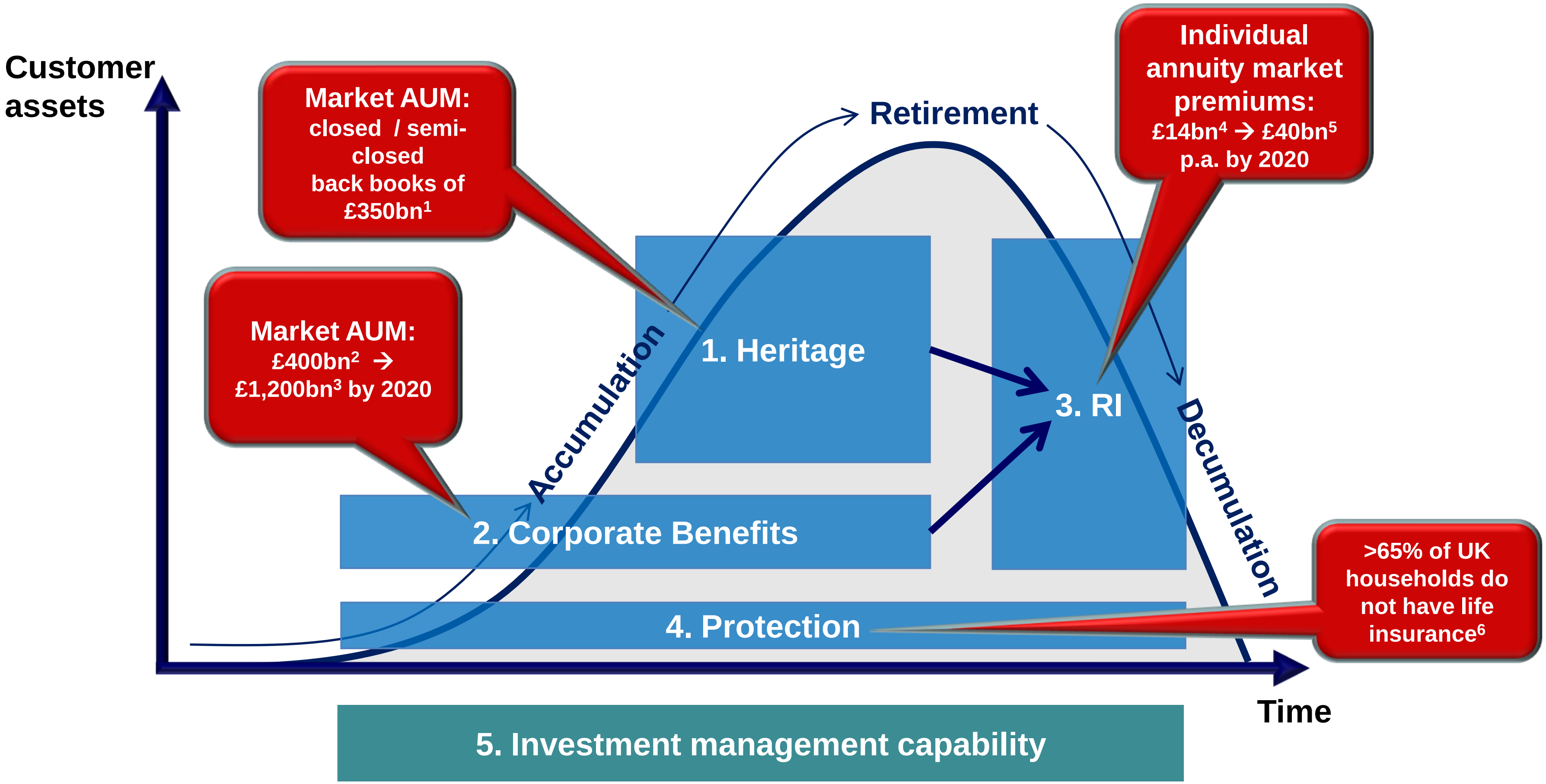
| Substantial EV in closed products | DB → DC, auto-enrolment<br>Ageing population, reducing state support | Strong growth in global wealth, especially Asia |
|---|---|---|

| | Heritage | UK | | | International | |
|---|---|---|---|---|---|---|
| | | Corporate Benefits | Retirement Income | Protection | FPI | Lombard |
| **Market position** | Unique, dedicated division | No. 2[1] | 11% of maturing pension market | Top 4[2] | Top 3 IFA player[3] | No. 1[4] |
| **Scale** | £71bn AUM | £20bn AUM | £2bn p.a. maturing pensions | 2m customers | £7bn AUM | €24bn AUM |

**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




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

### Competitive client and distributor propositions

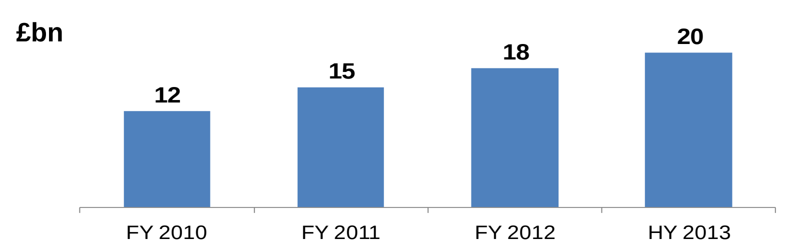
| | |
|---|---|
| **Client relationships** | Strong client relationships driving auto-enrolment take-up |
| **EBC relationships** | On panel with all major targets |
| **Proposition** | MyMoney platform and auto-enrolment proposition |

| | |
|---|---|
| **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 |

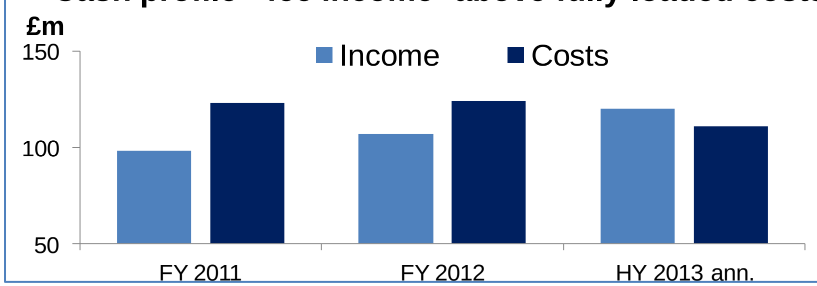
### Our strategic positioning

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

**We have significantly grown Corporate Benefits AUM**




**Cash profile - fee income[3] above fully loaded costs[4]**




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]

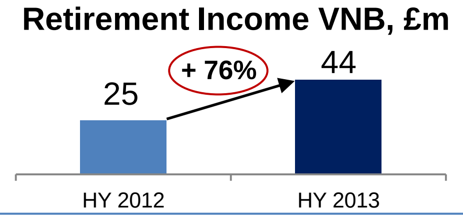
×

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

=

### Results and opportunities

**Strong growth in HY VNB**




+

**Future oppor-tunities**
- 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

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**

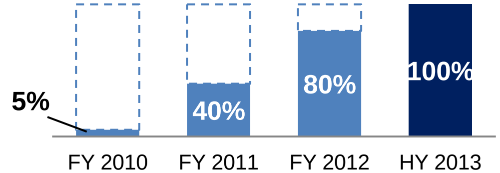
- Further recognition of products and service[1]

WINNER Investment Life & Pensions Moneyfacts Awards 2012 Best Critical Illness Provider

**Migration to low cost platforms complete**

- Market-leading cost efficiency[2]

**% new business on target platforms**



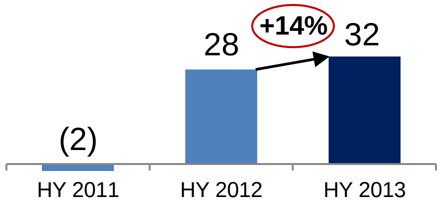

**Distribution partnerships**

Countrywide integrated solutions local expertise | INTRINSIC | Connells group

### Results and opportunities

**Further growth in H1 VNB despite Q1 impacted by individual volumes**

**Strong VNB growth, £m**




**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

1. Moneyfacts Critical Illness Cover 5 Star Rating, May 2013; rated 1st for Income Protection Service in Money Marketing Service Ratings survey, May 2013

2. Oliver Wyman, November 2011

# 5. Investment management capability
## Building broad capability and growing FLI to support our Retirement Businesses

### Heritage

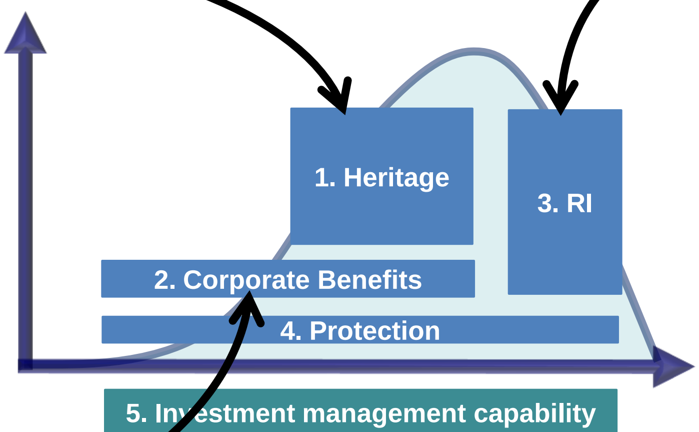
- c.80% of £71bn Heritage assets are with discretionary managers, where we were paying 14 bps p.a.[1]
- c.20% now managed by FLI - significant savings
- Opportunity to consider further FI or other asset classes, but break fees may apply

**Potential value opportunity**

### Corporate Benefits

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

**Potential additional revenue**




### Retirement Income

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

**Generating additional yield**

### 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

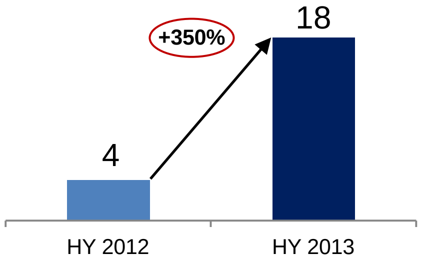
**Strong first year**

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**

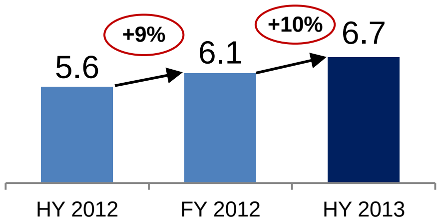



### Exiting non-core markets

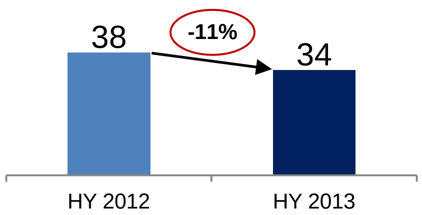
- German manufacturing exit to complete in Q3
- Ceased new business from Japanese nationals and Corporate Pensions in 2012
- AmLife sold for £50m in Q1

### FPI (core markets)

**FPIL AUM growth, £bn**




**Operating expenses[1] reduced, £m**

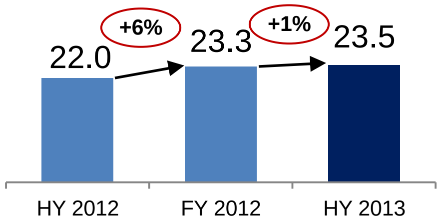



- Continued focus on Bank partnerships
- Sales steady against lower unit-linked market sales in Asia[2]

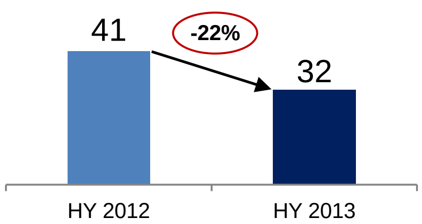
**Interim dividend of £6m**

### Lombard

**AUM growth, €bn**




**Operating expenses reduced, £m**




- Second half remains key for new business
- Continued focus on private banks

**Interim dividend of £4m**

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

# 2013 Half year results key messages
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**Growing cash tomorrow**

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**Good profitable growth**

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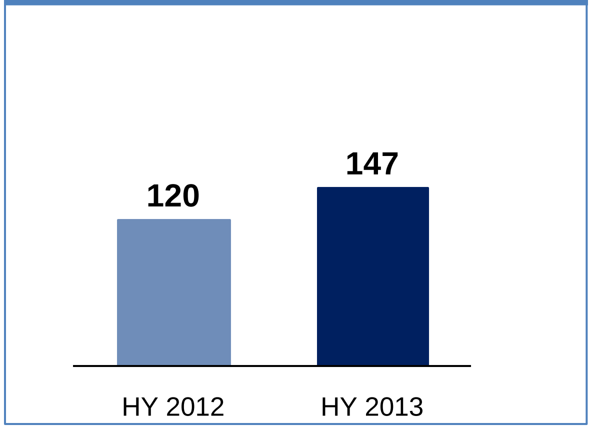
# 2013 Half Year Financial Highlights

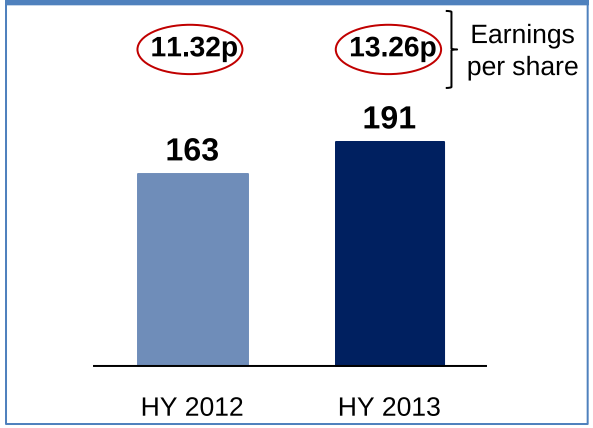
| | | |
|---|---|---|
| **Operating performance** | **Good operating performance across all metrics** | - Performance led by UK and Heritage divisions<br>- FLG sustainable free surplus of £147m, up 23%<br>- UK division VNB up 41% with investment in new business down 44%; IRR increased to 16.7%<br>- Group IFRS based operating profit before tax of £191m, up 17%<br>- Group MCEV operating profit before tax of £214m, down 9% |
| **Capital position and dividend** | **Robust and low-risk balance sheet** | - IGCA surplus of £2.1bn (coverage ratio of 222%)<br>- Estimated economic capital surplus of £3.7bn (coverage ratio of 192%)<br>- Interim 2013 dividend of 7.05 pence per share |
| **Progress toward targets** | **Confident in delivery of vast majority of 2013 targets** | - On track to deliver vast majority of 2013 financial targets<br>- Corporate benefits momentum and order book enhance target delivery confidence<br>- 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

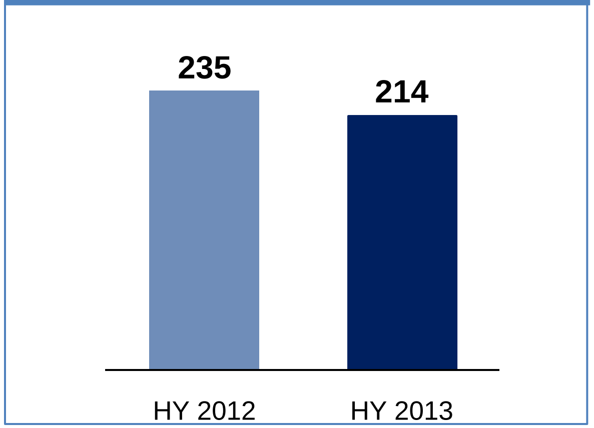
### Sustainable free surplus, £m



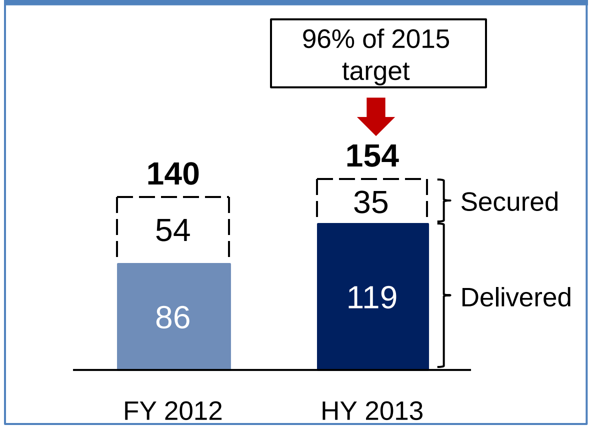

### IFRS based operating profit, £m



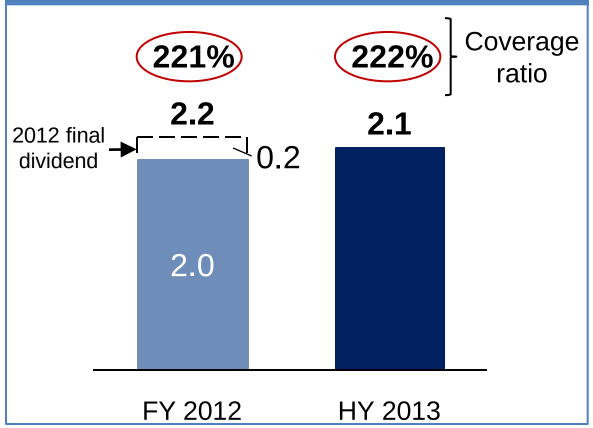

### MCEV operating profit, £m



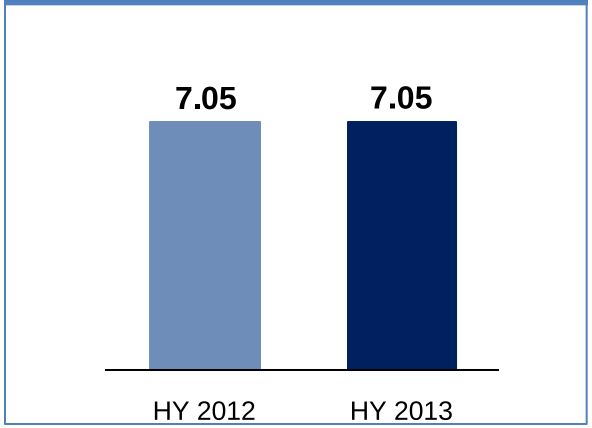

### Run-rate cost savings, £m




### Group IGCA surplus, £bn




### Dividend, pence per share



# Sources and uses of cash generation

**Improving the quantity and quality of SFS**

## Sources

**Expected return on in-force book**

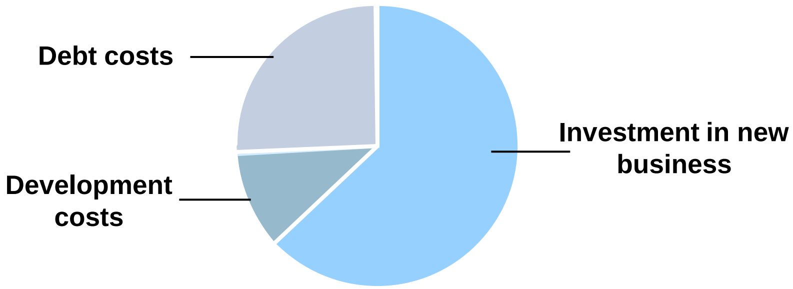
*e.g. Capital release, AMCs / charges, risk margin, maintenance costs*

**Expected return on shareholder assets**

+/-

Variances (non-economic)

## Uses



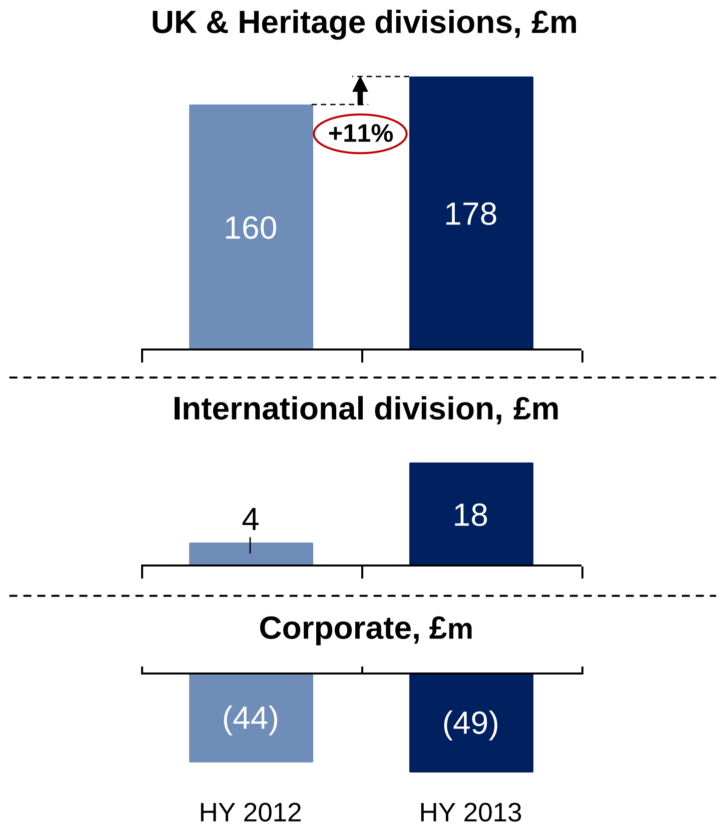

**Sustainable free surplus**

# Sustainable free surplus
## Improving surplus generation; higher quality

### Sustainable free surplus

| | £m | HY 2012 | HY 2013 | |
|---|---|---|---|---|
| Sources | Expected return from in-force business | 348 | **351** | |
| Uses | Investment in new business | (157) | **(110)** | -30% |
| | Development costs | (20) | **(20)** | |
| | Coupon on debt | (42) | **(45)** | |
| | | *129* | ***176*** | |
| Variances / other | Operating experience variances | (23) | **(17)** | |
| | Other operating variances | 16 | **(2)** | |
| | Other income and charges | (2) | **(10)** | |
| | **Sustainable free surplus** | 120 | **147** | +23% |

### Sustainable free surplus contribution

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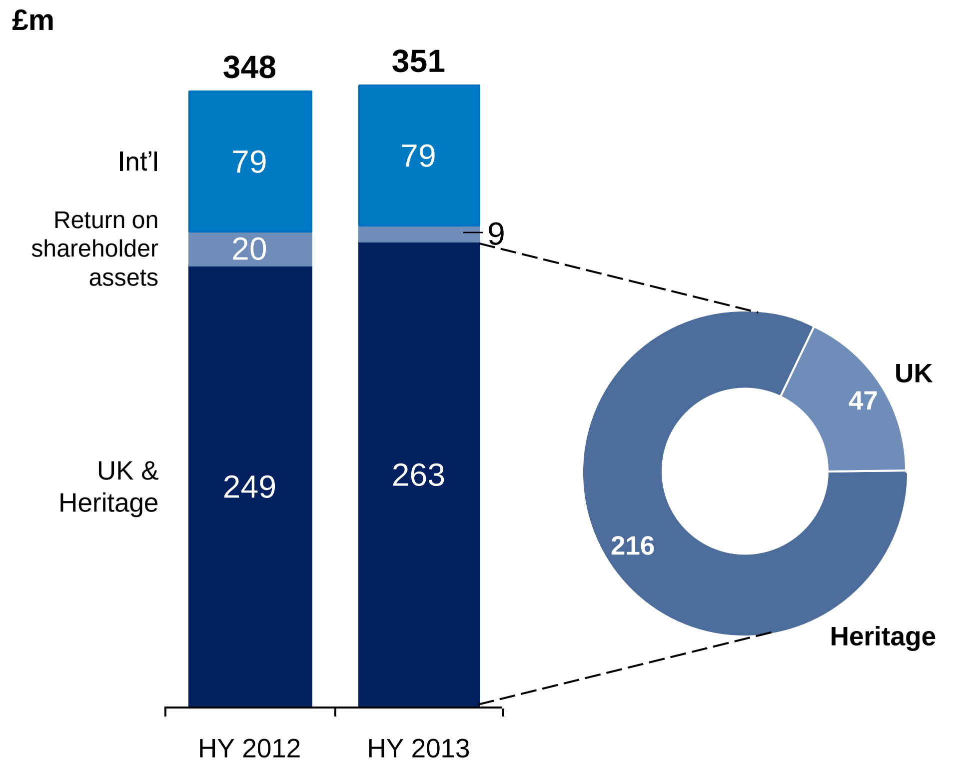
# Expected return
## Resilient performance in line with guidance

### Expected return from in-force business




### 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

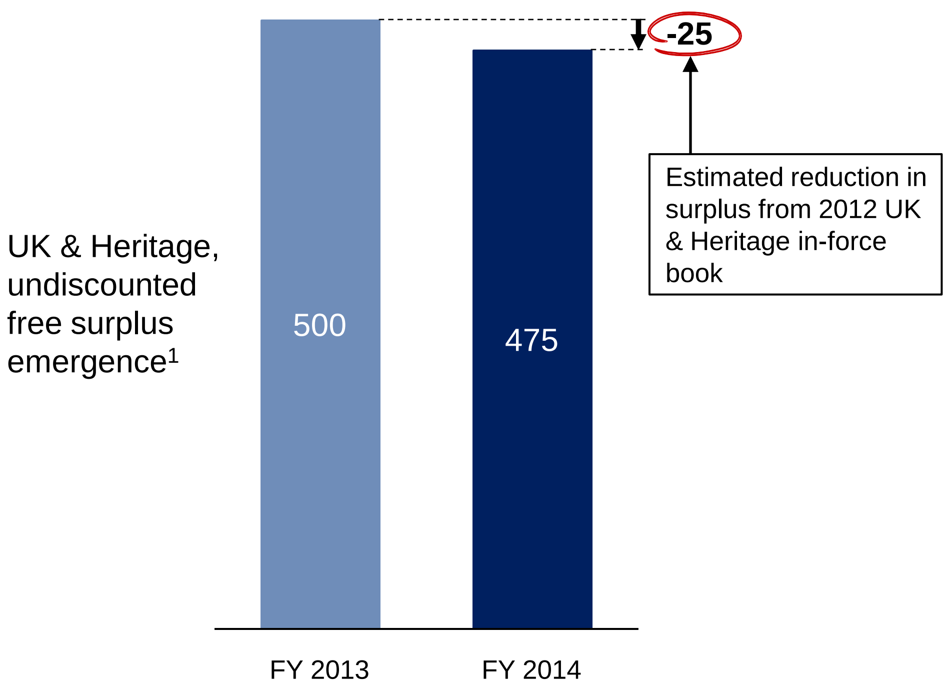
**International division**

- 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

£m




### 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**

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

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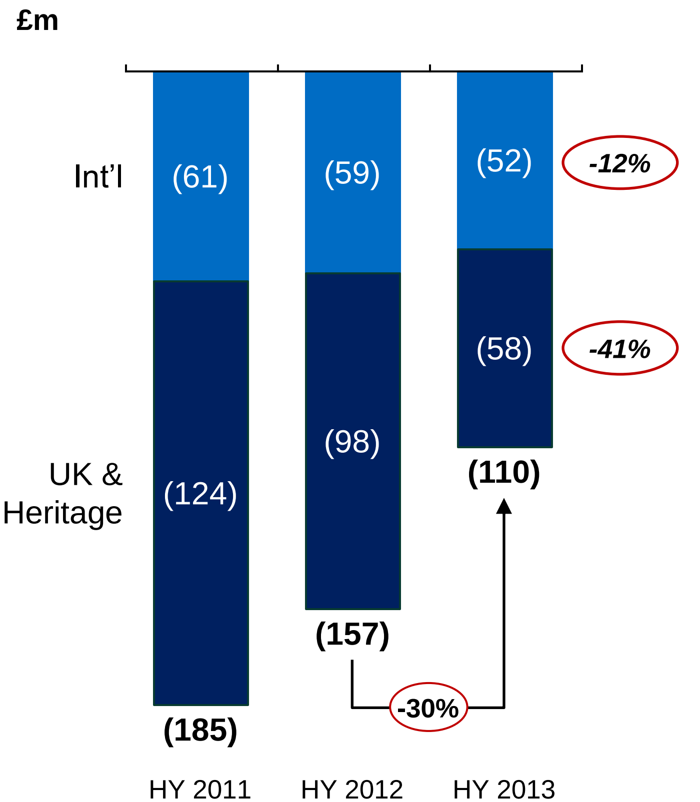
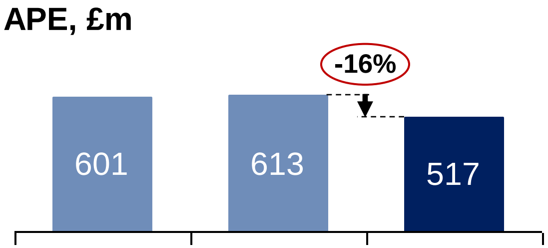
# Investment in new business
## New business acquired with increasing efficiency

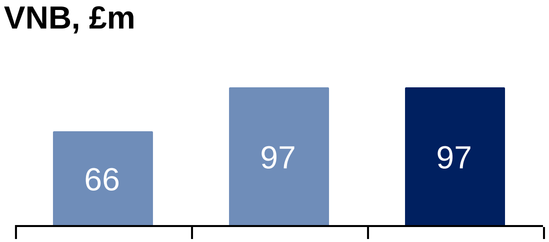
### Group investment in new business



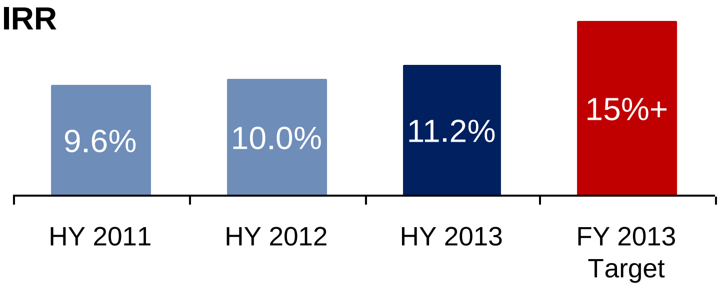

### Group new business metrics




| | £m | chg |
|---|---|---|
| *UK* | *324* | *-8%* |
| *Heritage* | *27* | *-55%* |
| *Int'l core* | *157* | *-7%* |
| *Int'l non-core* | *9* | *-70%* |



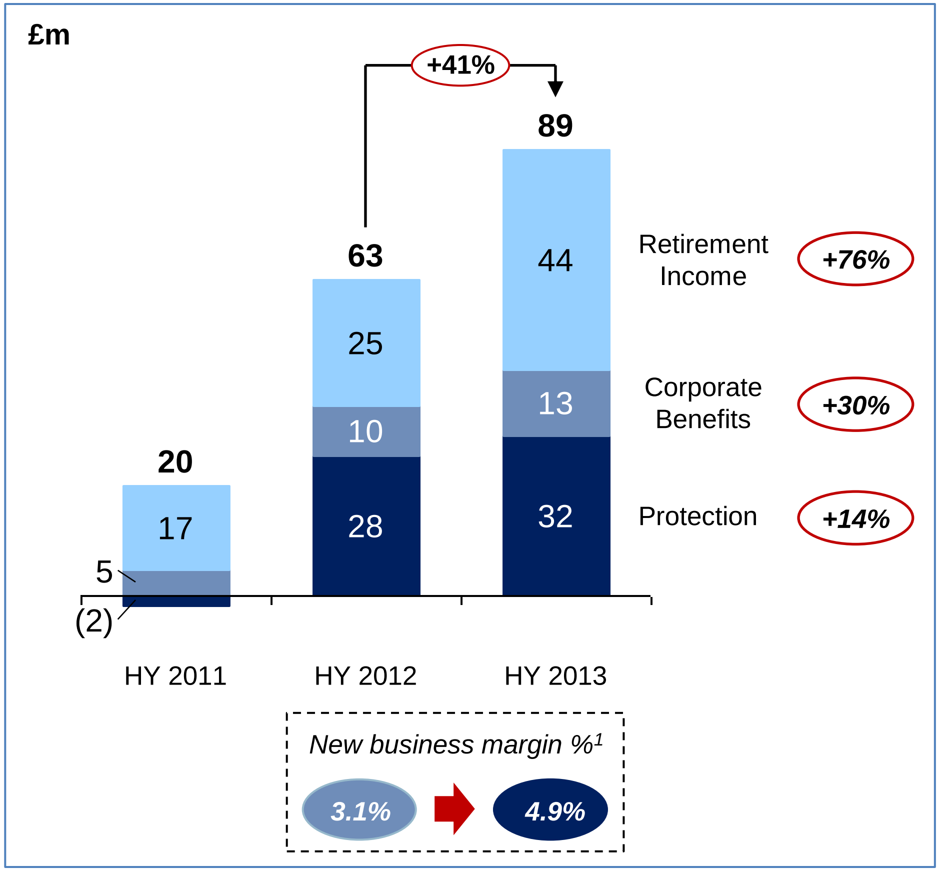

| | £m | chg |
|---|---|---|
| *UK* | *89* | *41%* |
| *Heritage* | *(8)* | *n/a* |
| *Int'l core* | *21* | *-5%* |
| *Int'l non-core* | *(5)* | *n/a* |



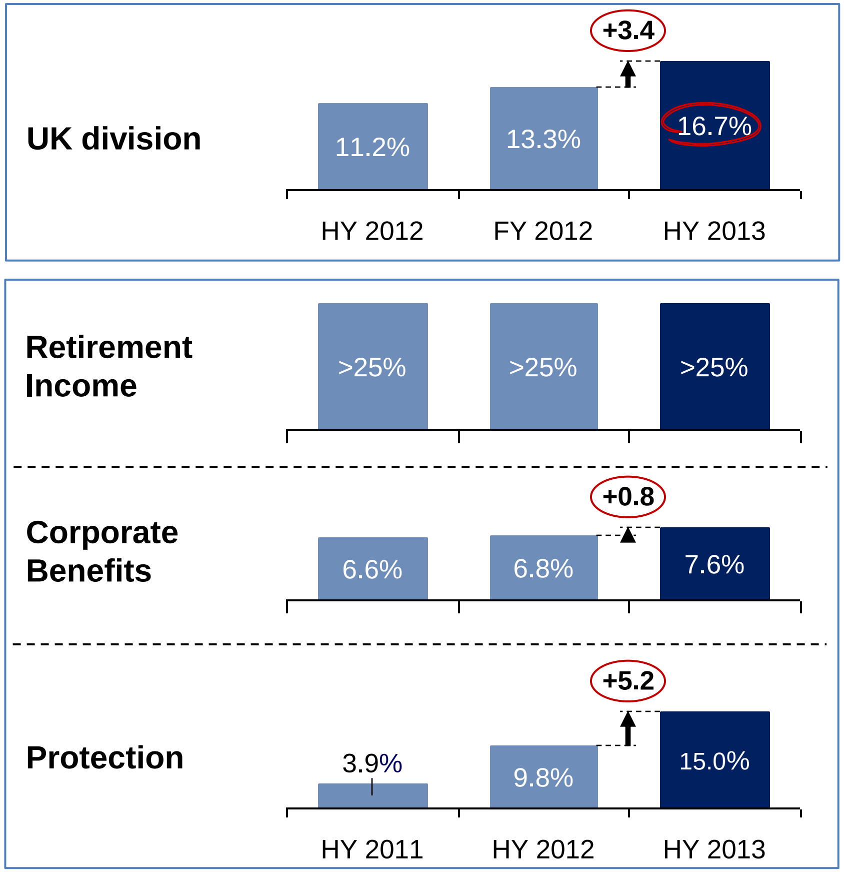

*IRR of 15.4% for core new business franchises*

# UK division new business profitability
## Strong growth in new business contribution

**Growth in UK division VNB**



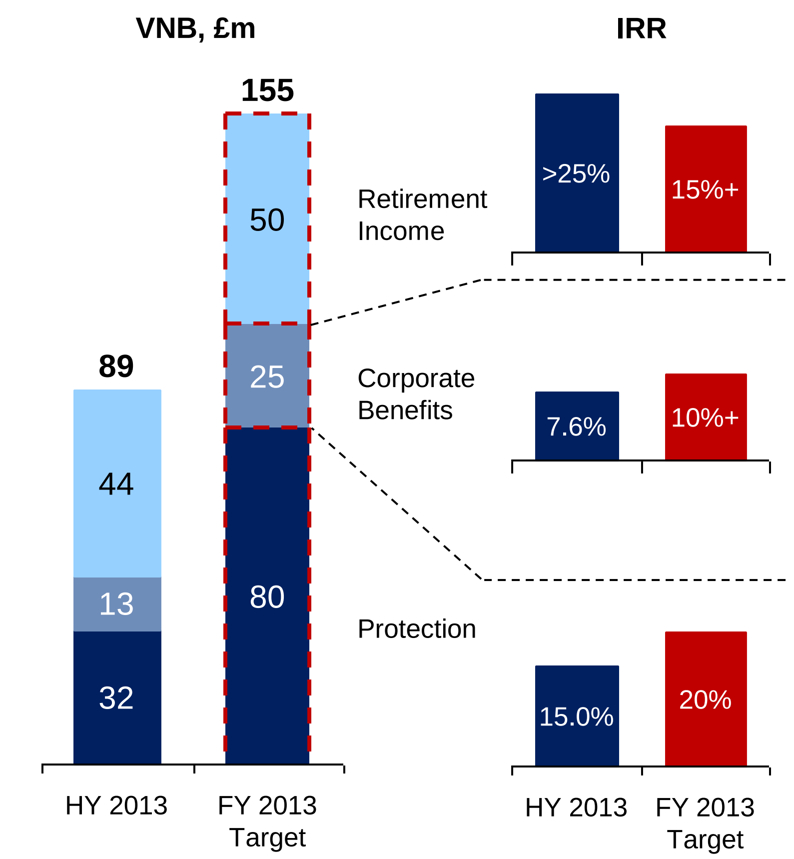

**New business IRR**




1. Pre-tax VNB / PVNBP

# Trajectory to targets
## Continued progress towards market targets

### Progression to UK division market targets




### Trajectory to targets

**Retirement Income**

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

Financial targets achieved at year end 2012

**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

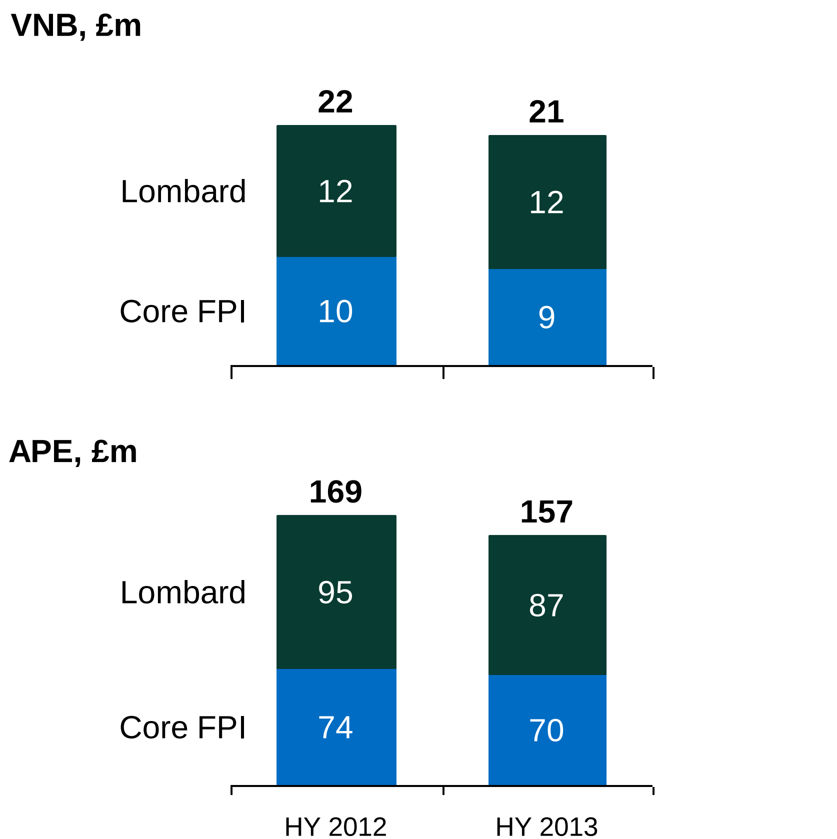
**Protection**

- Gender neutral spike in Q4 2012 impacted early 2013 performance
- Q2 APE of £21m is 17% higher than Q1

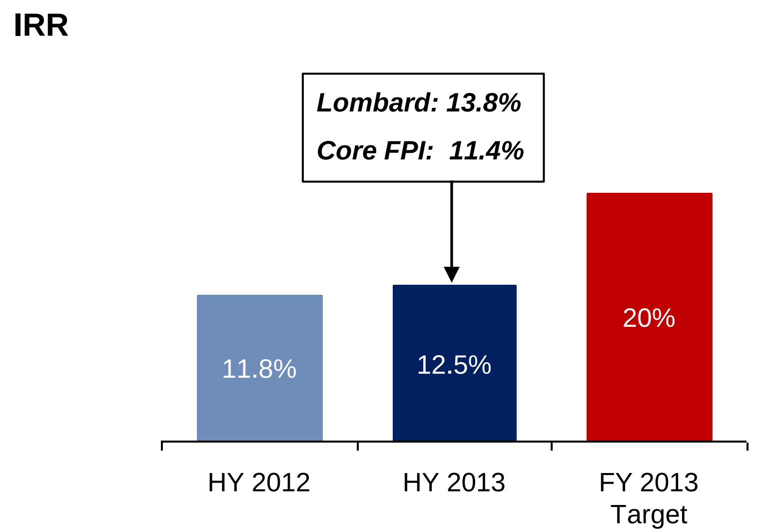
Good progress; competitive challenges remain

# International: Core new business
## Resilient performance in difficult market environment

### Core International new business




### Core International new business IRR

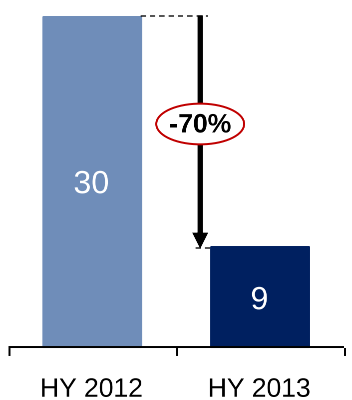



- Lombard profitability and IRR are geared to fourth quarter volumes; acquisition costs largely fixed
- Core FPI business resilient in challenging markets

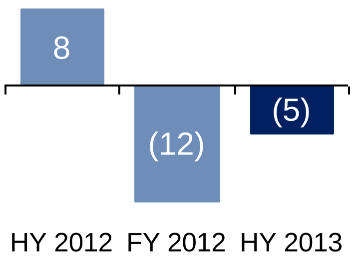
# International: Non-core new business
## Market exits to be completed by end of Q3

### Non-core International new business volumes

**APE, £m**




**VNB, £m**




- Sales to Japanese nationals ceased
- Closure to new corporate pension business
- AmLife sold 4 January 2013 (IFRS profit on disposal £20m)
- Reduced sales in Germany

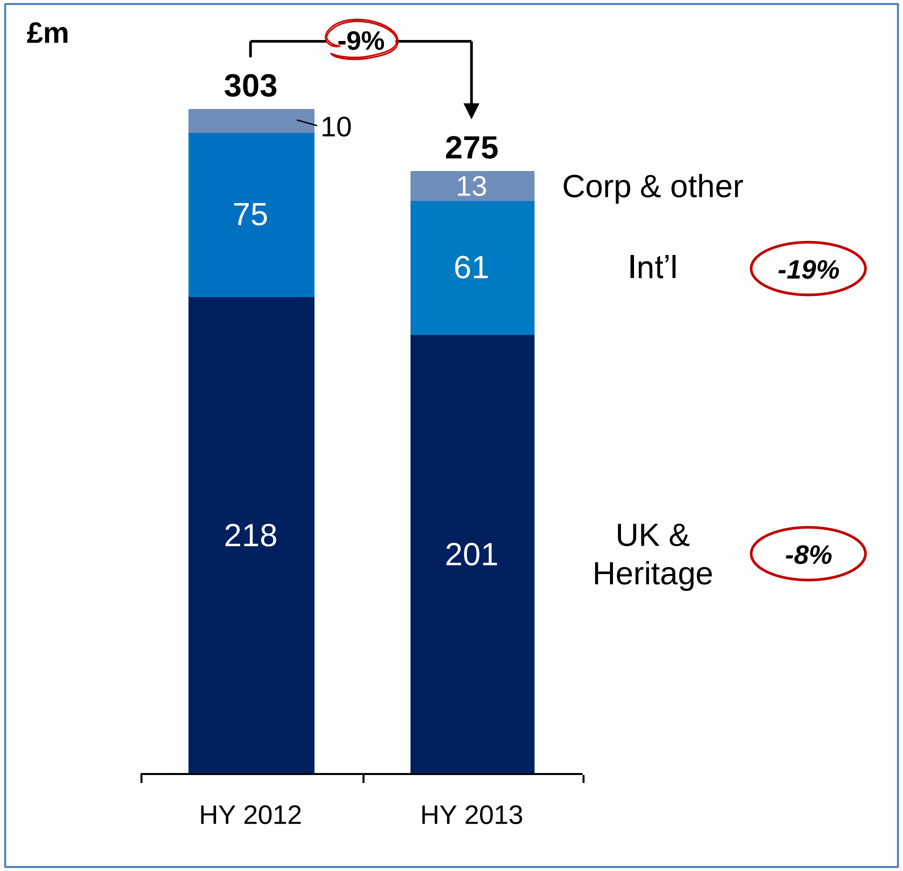
### Non-core operational drag

| £m | HY 2012 | **HY 2013** |
|---|---|---|
| Expected return from in-force business | 14 | **13** |
| Investment in new business | (22) | **(16)** |
| Development costs | - | **(1)** |
| Operating experience variances | (4) | **1** |
| Other operating variances | - | **2** |
| **Sustainable free surplus** | (12) | **(1)** |

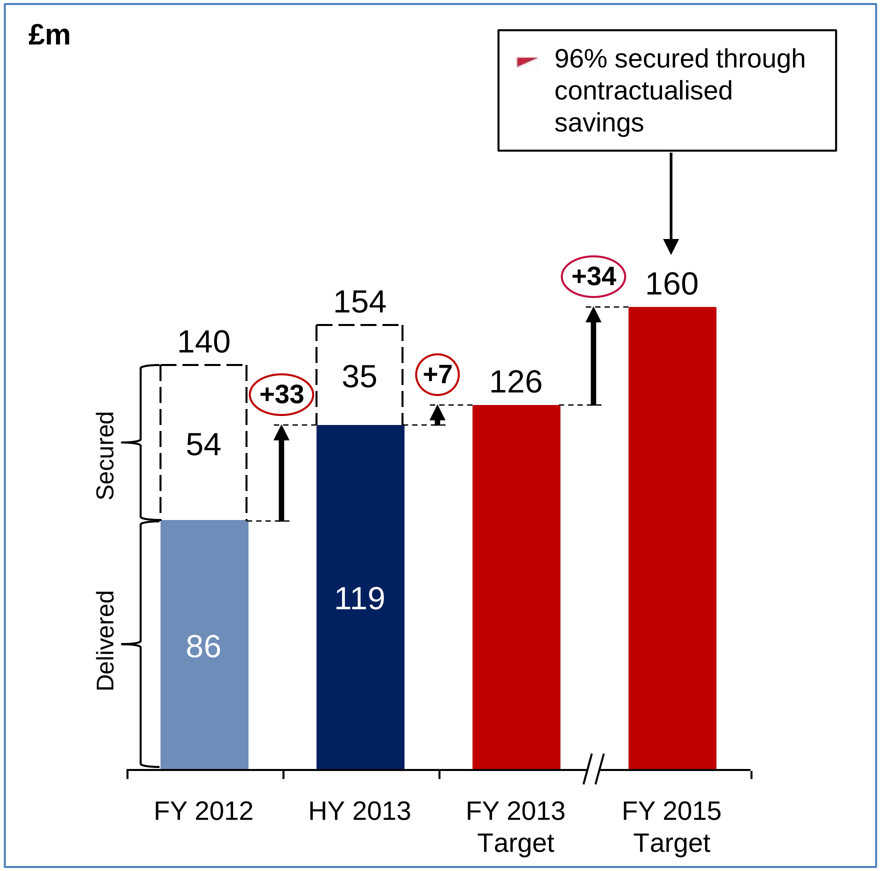
- Controlled withdrawal from manufacturing in German market; new business activity to cease at end Q3 2013
- Investment in new business causing operating drag; expected to be lower in second half of 2013

# Operating expenses and cost savings
## 96% of 2015 cost saving target secured

### Group operating expenses[1]

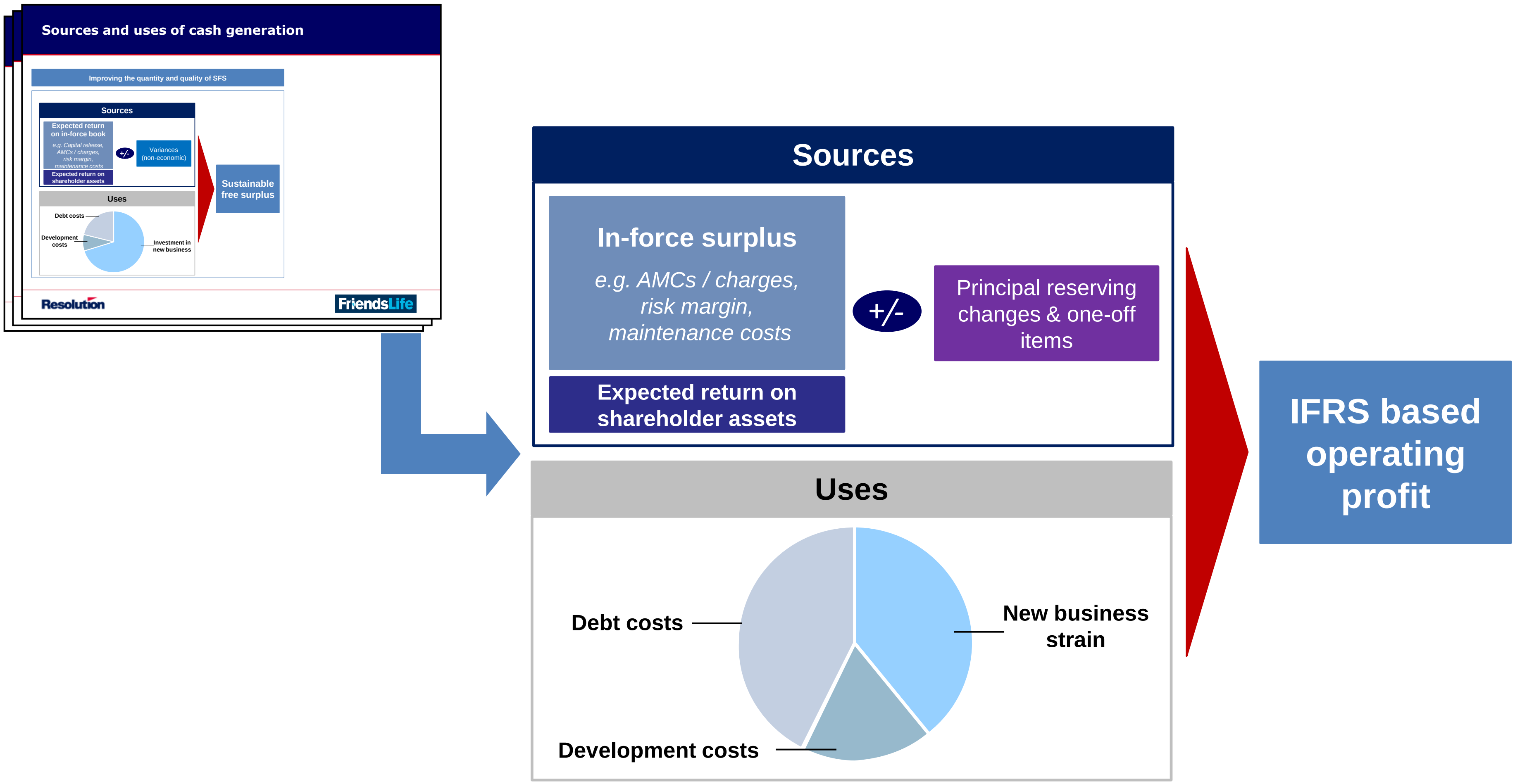



### UK cost savings run-rate




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

# IFRS based operating profit

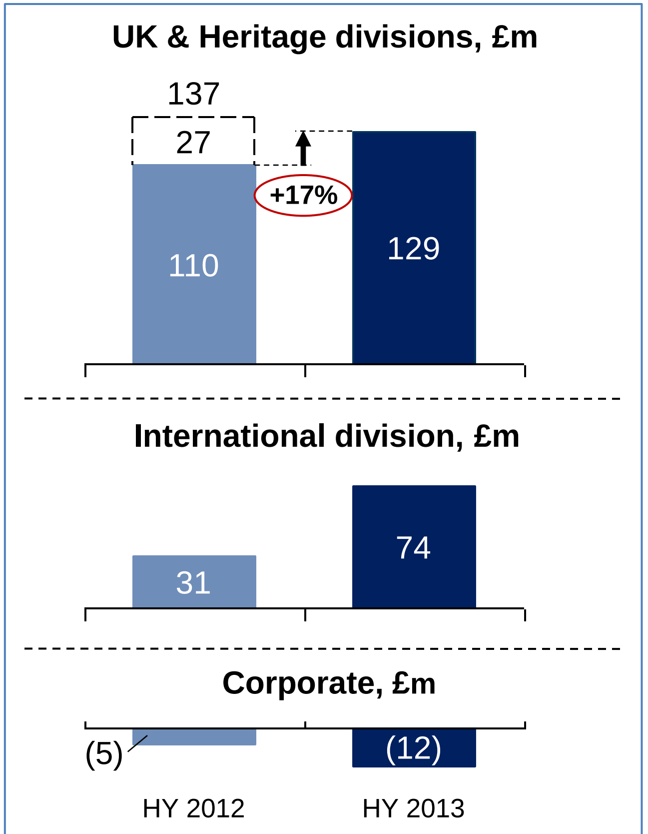


# IFRS based operating profit
## Profits up 17%

### Group IFRS based operating profit

| | £m | HY 2012 | HY 2013 | |
|---|---|---|---|---|
| Sources | In-force surplus | 275 | **319** | +16% |
| | Expected return on shareholder assets[1] | 32 | **29** | |
| Uses | Finance costs[1] | (49) | **(60)** | |
| | New business strain | (83) | **(55)** | -34% |
| | Development costs | (22) | **(26)** | |
| Other | Principal reserving changes & one-offs | 27 | **2** | |
| | Other income and charges | (17) | **(18)** | |
| | **IFRS based operating profit before tax** | 163 | **191** | +17% |

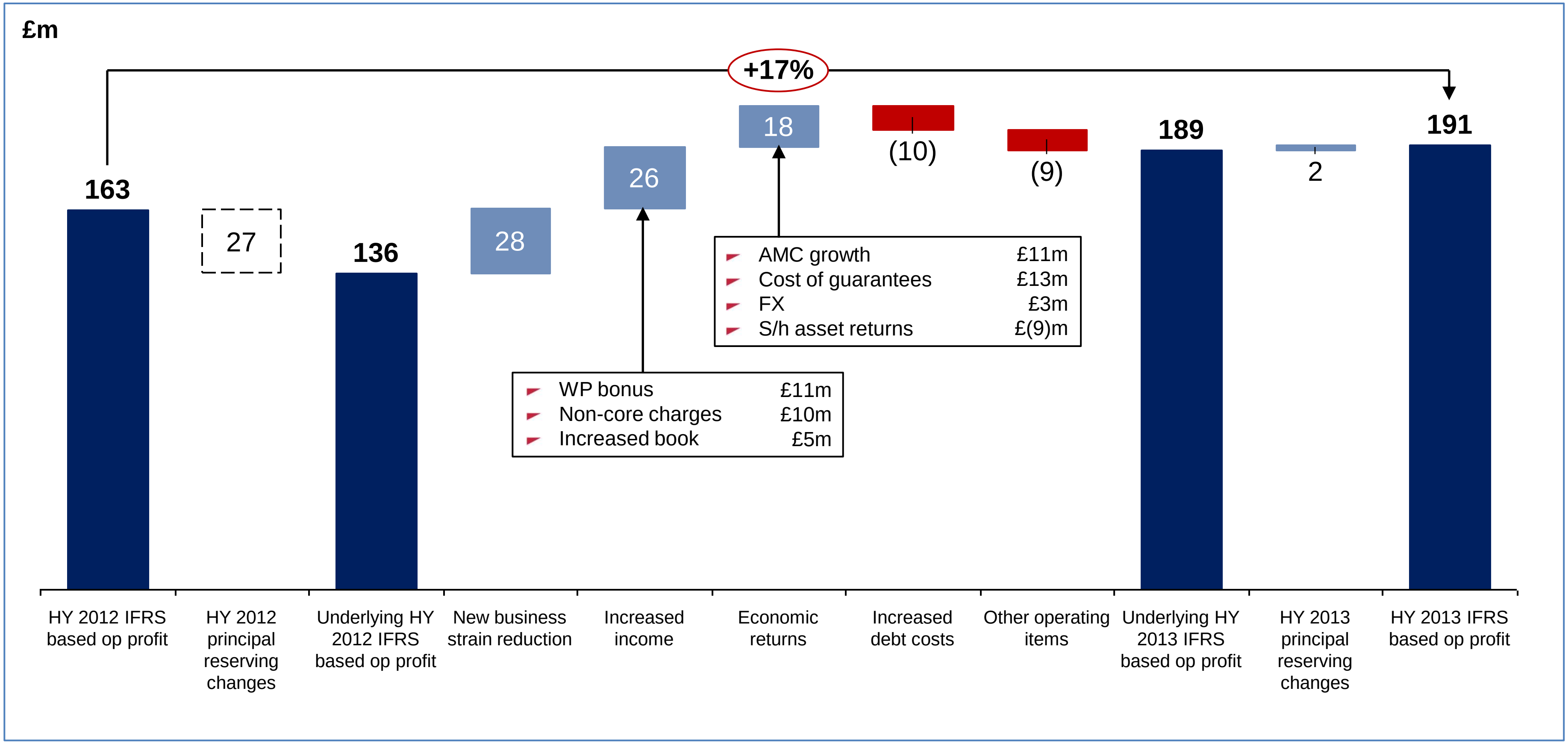
### IFRS based operating profit contribution




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

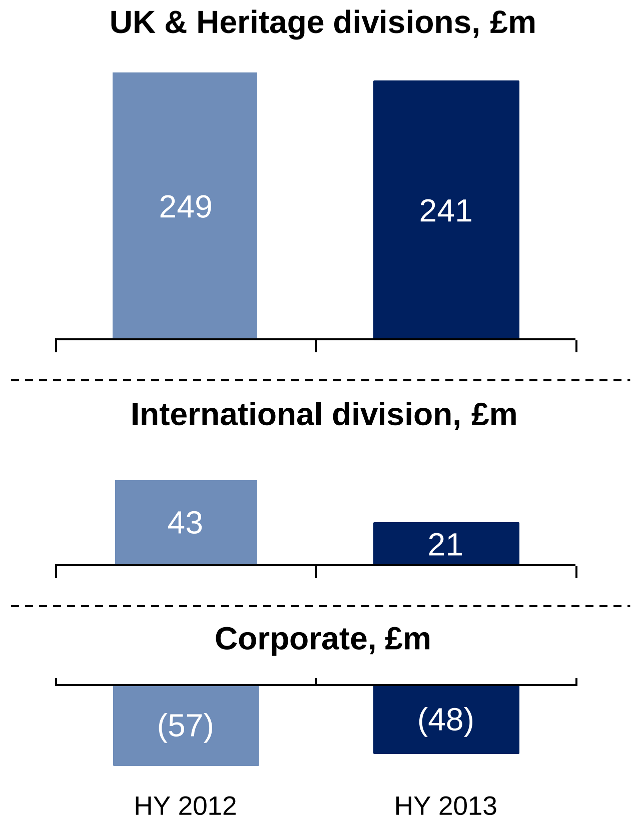


# MCEV operating profit
## Resilient UK & Heritage performance; International result rebased

### Group MCEV operating profit

| £m | HY 2012 | HY 2013 | |
|---|---|---|---|
| Value of new business | 97 | **97** | |
| Expected existing business contribution | 165 | **126** | -24% |
| Operating experience and other variances | 4 | **(1)** | |
| Operating assumption changes | 14 | **34** | |
| Development costs | (22) | **(26)** | |
| Other income and charges | (23) | **(16)** | |
| **MCEV operating profit before tax** | 235 | **214** | -9% |
| **ROEV[1]** | 6.4% | **6.1%** | |

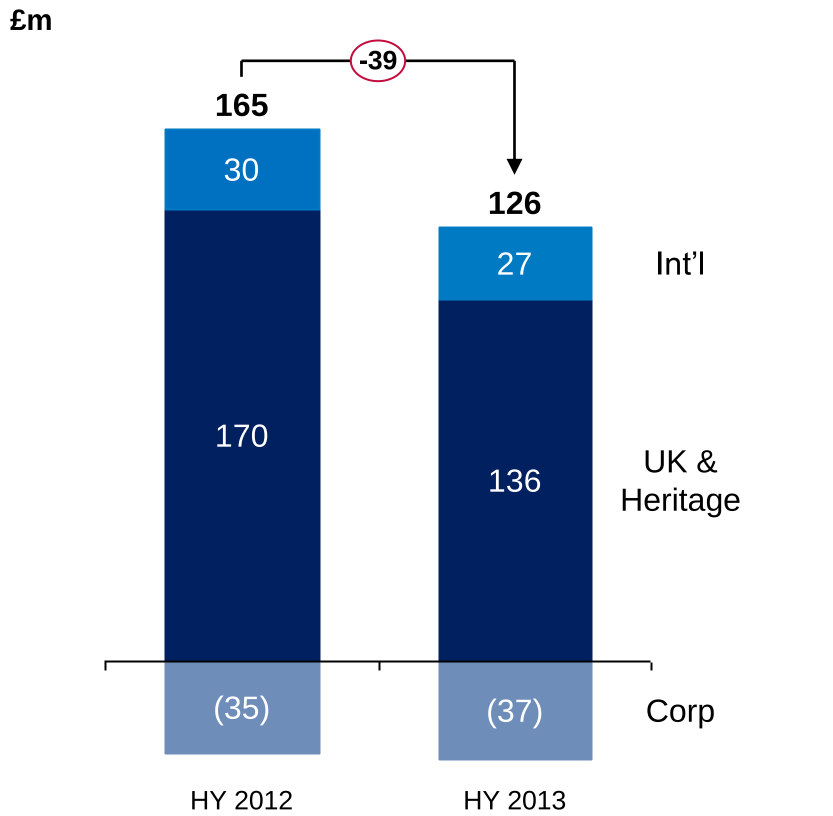
### MCEV operating profit contribution




1. Measured at FLG level

# MCEV expected existing business contribution
## Contribution in-line with year end guidance

### Movement in expected existing business contribution




### Lower expected rates of return

| Rates (%) | 2012 | 2013 | Δ |
|---|---|---|---|
| - *Equity* | 5.40 | **4.90** | -0.50 |
| - *Corporate bonds*[1] | 3.30 | **2.25** | -1.05 |
| - *Cash/Gilts (Risk free)* | 1.35 | **0.67** | -0.68 |
| - *Debt*[2] | 7.42 | **4.70** | -2.72 |

| Portfolio | £bn | Principal driver | Rate (%) Δ | HY 2013 indicative impact (£m) |
|---|---|---|---|---|
| VIF | 4.2 | Risk free | -0.68 | **(14)** |
| S/h assets | 2.3 | Risk free | -0.68 | **(8)** |
| Corp bonds backing annuities | 5.5 | Return over risk free[3] | -0.22 | **(6)** |
| Debt, tax and other | | | | **(11)** |
| | | | | **(39)** |

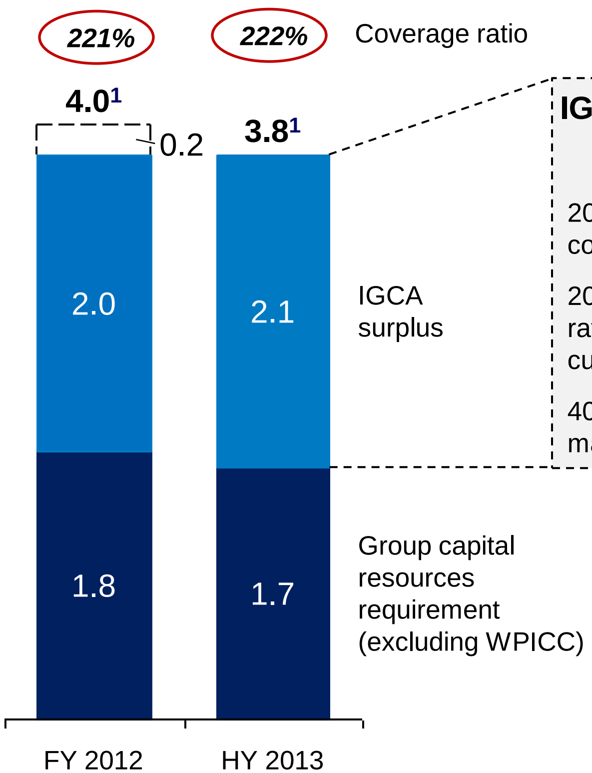
1. Return on corporate bonds varies by portfolio. The rates shown are an indicative weighted average
2. Rates applied to debt commitments are equivalent to the cash/gilt return plus spread on Group debt
3. Excludes the impact of changes in illiquidity premium

Resolution

Friends Life

# Capital and cash
## Strong capital position maintained

### IGCA surplus and sensitivities to market movements




**IGCA surplus sensitivities to market movements, £bn**

| | |
|---|---|
| 200 bps increase in corporate bond spreads[2] | **(0.5)** |
| 200 bps fall in interest rates across the yield curve | **(0.3)** |
| 40% fall in equity markets[3] | **(0.1)** |

### IGCA remains the biting constraint

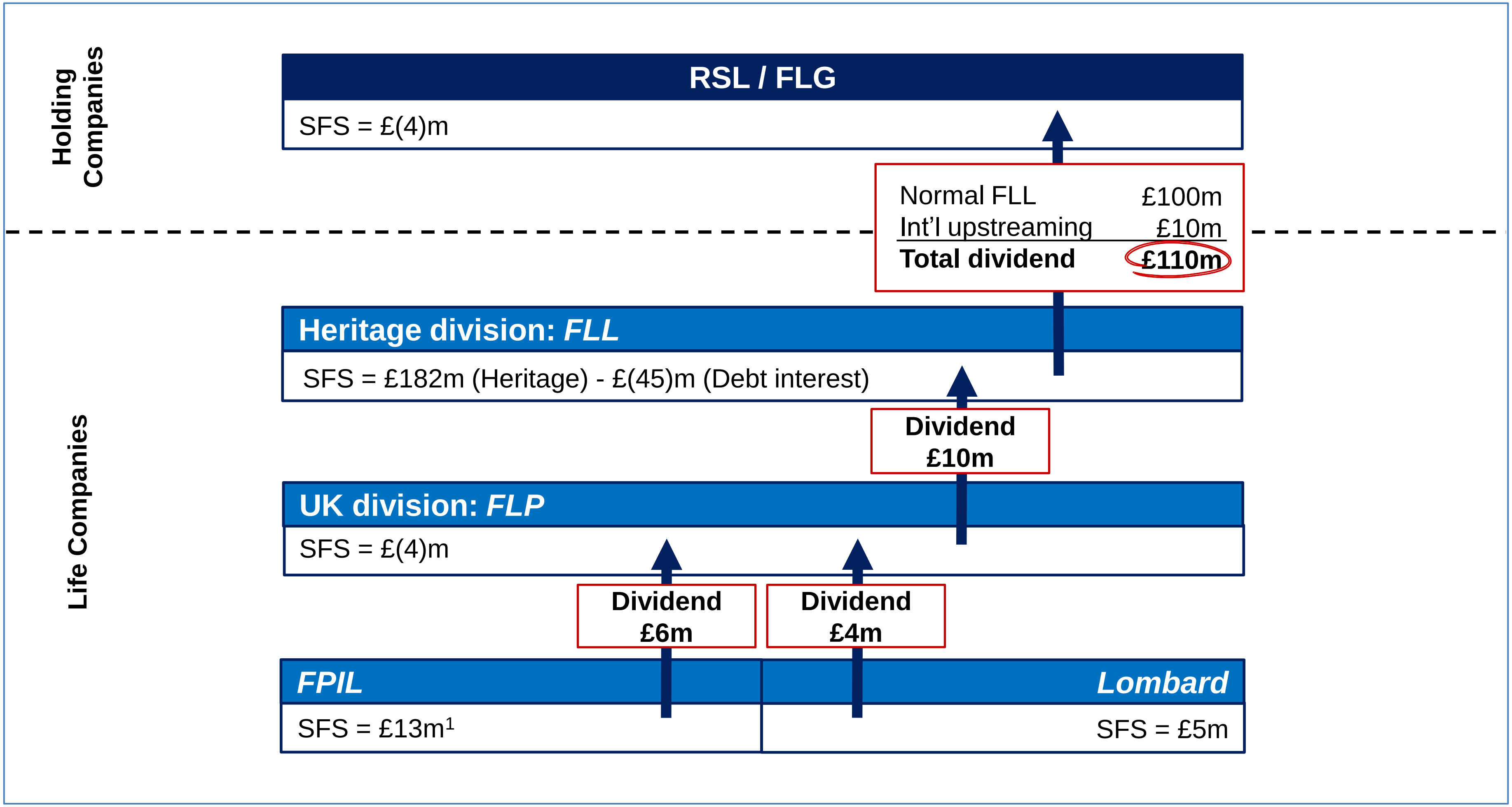
- IGCA surplus of £2.1bn after payment of £200m dividend to shareholders
- Capital base remains resilient to market movements
- At 30 June 2013, estimated surplus on an economic capital basis was £3.7bn[4] (coverage ratio of 192%)

### 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




1. Reflects SFS of FPI which includes both the FPIL and OLAB entities

# Interim 2013 report card: Continued strong progress

| | | | Commitment | Status | Commentary |
|---|---|---|---|---|---|
| Cash | FLG cash generation | | £400m from sustainable sources in medium term | | Timescale extended due to economic headwinds |
| Cash | UK & Heritage new business strain | | £200m reduction by 2013 | ✓ | Delivered 2012 |
| Cash | UK & Heritage cost reductions | | £126m of cost reductions by 2013<br>£160m of cost reductions by 2015 | | Fully embedded |
| Cash | Cash dividends from International businesses | | FPI: £20m for 2013 (due spring 2014)<br>Lombard: cumulative £37m by spring 2015; £30m pa thereafter | | On track |
| Returns | FLG operating ROEV | | 10%+ in medium term | | Timescale extended due to economic headwinds |
| Returns | New business:<br>VNB & *(NBS)*, (£m)<br>IRR, (%) | UK – Protection | £80m, *£(30)m*<br>20% | | Strong second half delivery expected |
| | | UK – Corporate Benefits | £25m, *£(75)m*<br>10%+ | | |
| | | UK – Retirement Income | £50m<br>15%+ | ✓ | |
| | | UK total | £155m VNB | | |
| | | International – FPI | 20% | | Steady progress made following strategic review |
| | | International – Lombard | | | |
| | | Group total | 15%+ | | On track |
| | | | by 2013 | | |

# 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

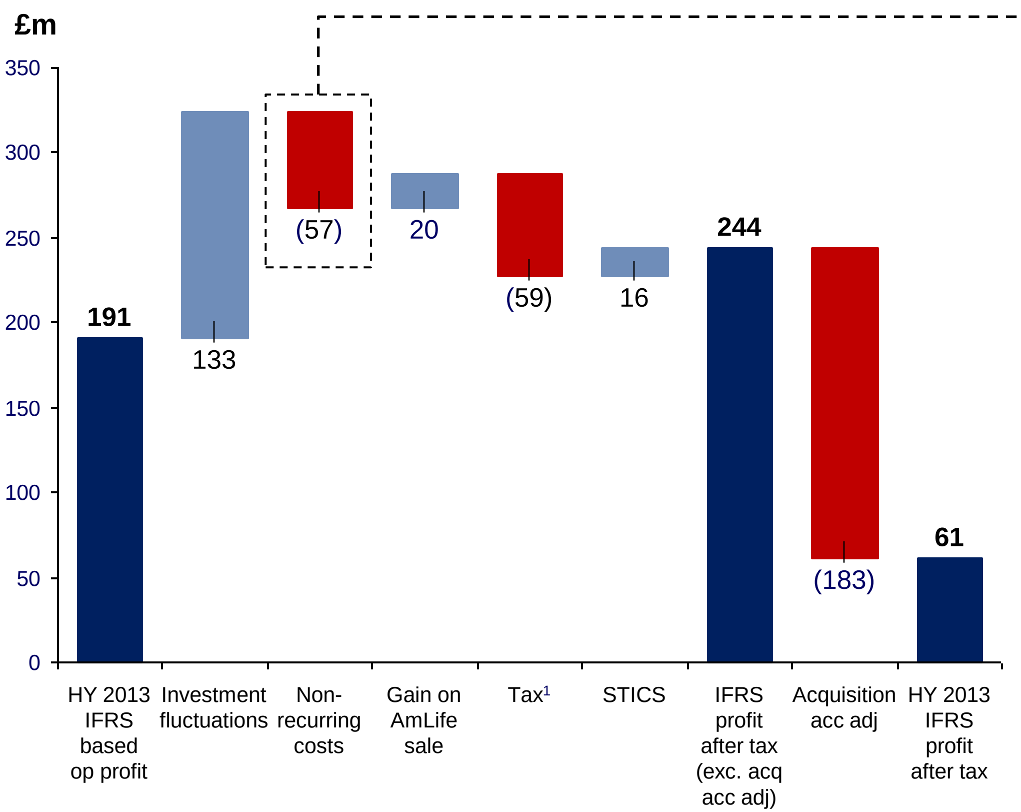
**Good profitable growth**

# Questions

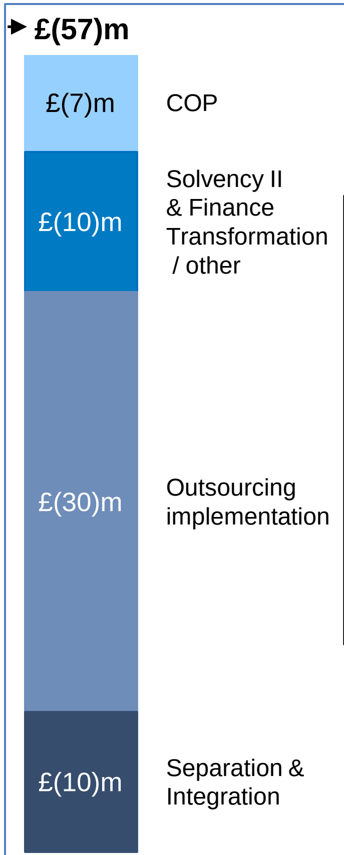
# Appendix

# IFRS result after tax
## Reflects positive investment variances

### Group IFRS result after tax




### Group non-recurring costs



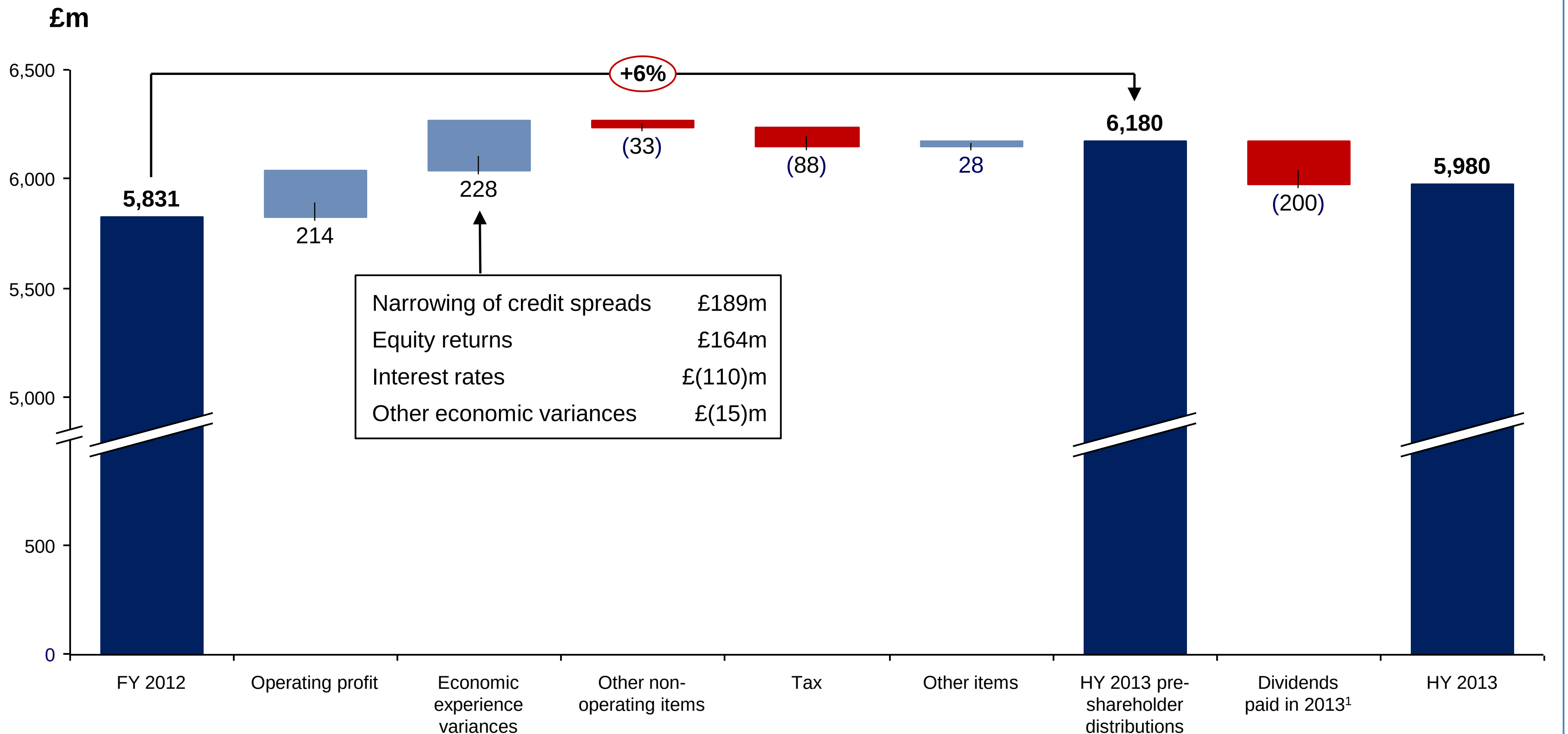

**Key capabilities and benefits**

- 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



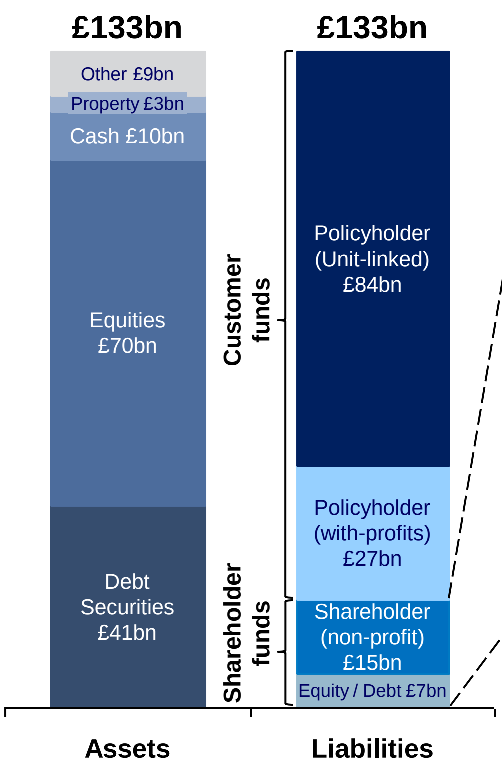

| | |
|---|---|
| Narrowing of credit spreads | £189m |
| Equity returns | £164m |
| Interest rates | £(110)m |
| Other economic variances | £(15)m |

1. Being 2012 final dividend paid

# Balance sheet
## Continued high asset quality

### Overview of Balance sheet

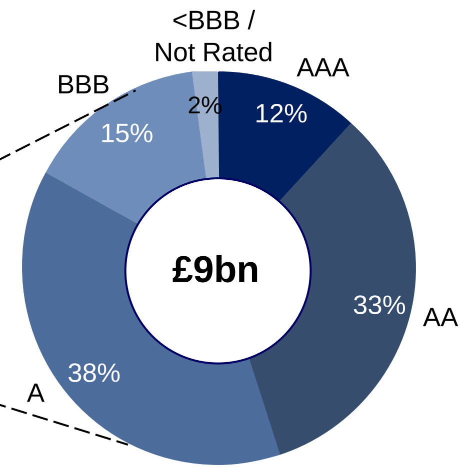
**HY 2013 IFRS balance sheet**




**Shareholder assets and assets backing non-profit business**

| | £bn | % |
|---|---|---|
| Cash | 3 | 20% |
| Government bonds | 3 | 20% |
| Corporate bonds | 9 | 60% |
| **Total investments** | **15** | **100%** |
| Intangible assets | 4 | |
| Reinsurance assets | 3 | |
| Other net receivables | - | |
| **Total shareholder asset exposure** | **22** | |

### 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

Resolution

Friends Life