

# Resolution Limited

2013 Full Year Results & Strategy Update  
18 March 2014

# Board and Name Changes

- Clive Cowdery and John Tiner to step down from the Board – restructuring complete, mid teens returns delivered
- Structure of the Group is unchanged:
  - Resolution Limited holds its investment in the Friends Life group through Resolution Holdco No.1 LP in which both Resolution Limited and RCAP GP Limited are partners. Resolution Limited has no other business.
  - Resolution Holdco No.1 LP is a Guernsey registered limited partnership and is regulated in the UK as a Collective Investment Scheme.
  - The purpose of Resolution Holdco No.1 LP is to generate returns for its partners.
  - Resolution Limited acts as the general partner of Resolution Holdco No.1 LP.
  - Resolution Limited's board will keep the interests of both partners in mind as it considers the most appropriate strategy for generating returns
- Quarterly partnership advisory committee established
- Rename listed company to Friends Life Group Ltd – appropriate now to move away from a restructuring brand

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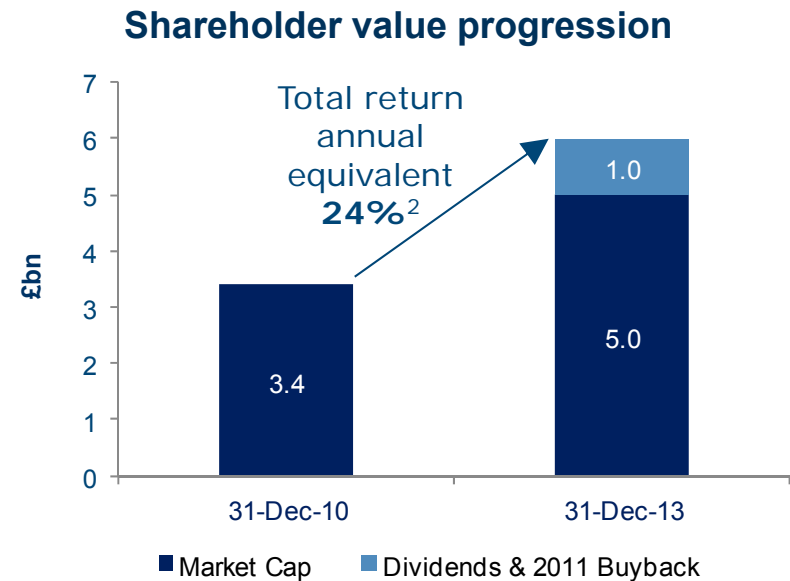
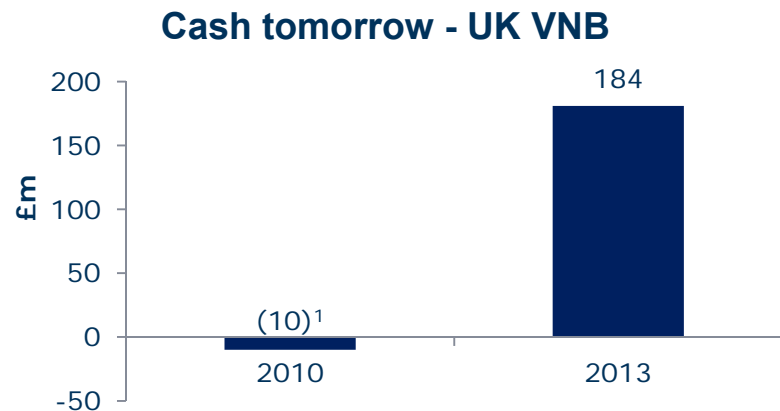
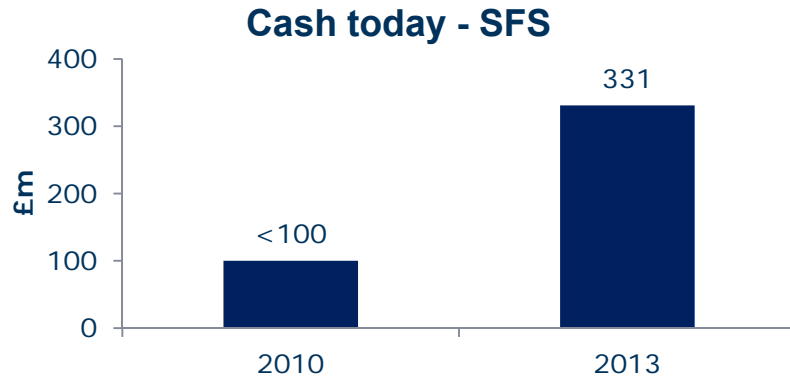
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# Today's Key Messages

Andy Briggs

# Today's key messages

## Restructuring and turnaround complete



**Strong base and distinctive capabilities built for profitable growth**

1. 2010 figures are annualised baseline for the most relevant products, as the divisional structure did not exist at that time

2. Assumes dividends reinvested in Resolution Limited shares

# Today's key messages

## Friends Life strategy



Friends Life is a leading scale player in the UK Life & Pensions market, primarily focused on:

- Legacy products
- Fast growing retirement market



Strong financially disciplined team building distinctive capabilities and competitive advantage

- Strategic partnership with Schroders



Growing cash generation demonstrates sustainable and growing franchise

- UK and Heritage in force return in 2014 estimated to be c.£40m higher than 2013

**Attractive growth markets, with scale and competitive advantage,  
to drive cash and returns for shareholders**

# Agenda

Item	Presenter
Today's key messages	Andy Briggs
2013 results	Tim Tookey
<b>Friends Life Group strategy</b> <ul style="list-style-type: none"><li>• Where we play</li><li>• How we win:<ul style="list-style-type: none"><li>– Heritage, including investment management</li><li>– UK</li></ul></li><li>• How we deliver cash and returns: Financial framework</li></ul>	Andy Briggs  Jonathan Moss John Van Der Wielen Tim Tookey
Summary	Andy Briggs
Q&A	

# 2013 Results

Tim Tookey



# 2013 financial highlights

## Operating performance

### Strong 2013 operating performance

- Sustainable free surplus of £331m, up 10%
- UK division; VNB up 30% with investment in new business down 8%, IRR increased to 15.3%
- Group IFRS based operating profit before tax of £436m, up 59%
- Group MCEV operating profit before tax of £489m, up 28%

## 2013 targets

### Delivered majority of 2013 targets

- 2013 cost savings target delivered
- Successful delivery of key 2013 financial targets
- International dividends of £33m received
- Transformational change programmes delivered

## Capital position and dividend

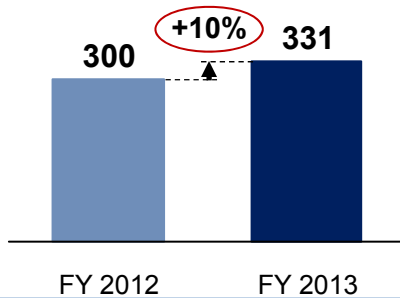
### Robust and low risk balance sheet

- Strong capital base maintained
- IGCA surplus of £2.2bn (coverage ratio of 238%)
- Estimated economic capital surplus of £3.9bn (coverage ratio of 193%)
- Final 2013 dividend of 14.09 pence per share (full year 21.14 pence)

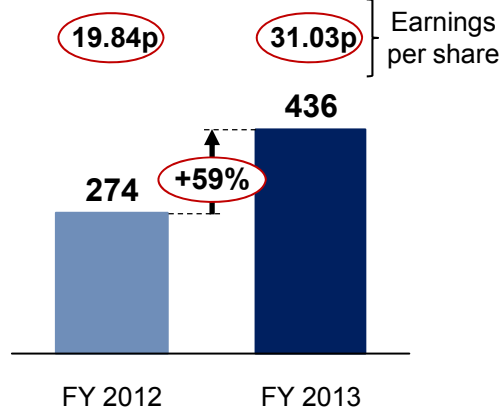
# 2013 financial highlights

## Strong profitable base for future growth

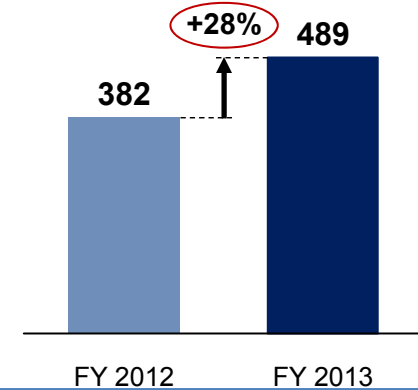
Sustainable free surplus, £m



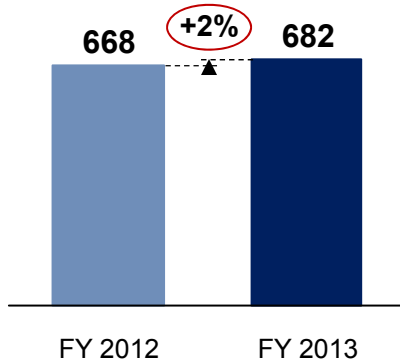
IFRS based operating profit, £m



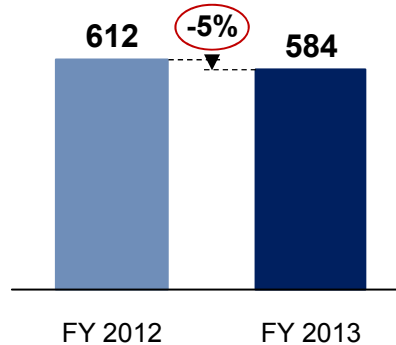
MCEV operating profit, £m



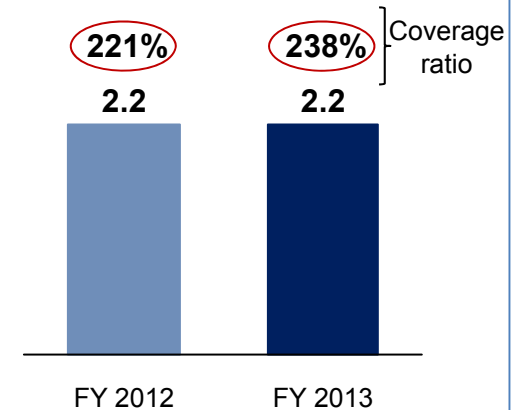
Free surplus expected return, £m



Group operating expenses<sup>1</sup>, £m



Group IGCA surplus, £bn



1. Operating expenses include acquisition, maintenance and corporate expenses only.

# Sustainable free surplus

## New business efficiency driving sustainable growth

### Sustainable free surplus

	£m	FY 2012	FY 2013	
Sources	Expected return from in-force business	668	<b>682</b>	<b>+2%</b>
Uses	Investment in new business	(285)	<b>(213)</b>	<b>-25%</b>
	Development costs	(38)	<b>(41)</b>	
	Coupon on debt	(85)	<b>(92)</b>	
		260	336	
Variances / other	Operating experience variances	(31)	<b>25</b>	
	Other operating variances	86	<b>2</b>	
	Other income and charges	(15)	<b>(32)</b>	
	<b>Sustainable free surplus</b>	300	<b>331</b>	<b>+10%</b>

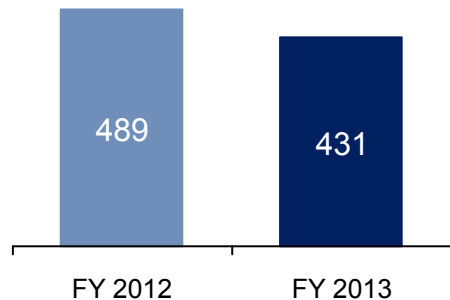
### Driver of performance

- Expected return growth achieved for the first time
- Financial discipline driving reduced cost of new business
- Variances/other contribute net £(5)m, in line with goal to achieve close to net nil average through the cycle
- 10% growth underpinned by higher quality of earnings

# Sustainable free surplus contribution

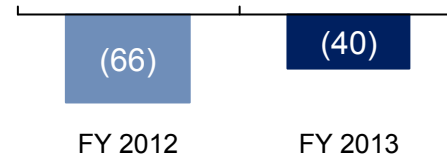
## Strong growth driven by underlying performance

### Heritage division, £m



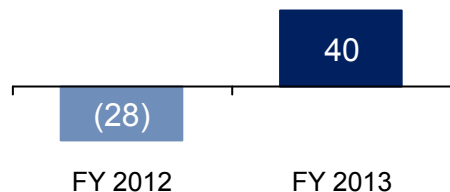
- 2% growth in free surplus emergence
- Investment in new business down 45%
- 2012 result includes +£96m variances/other items (2013: +£26m)

### UK division, £m



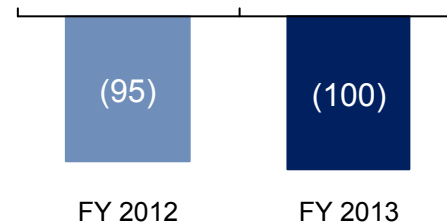
- Growing in-force book driving surplus generation
- Investment in new business down 8%
- £(22)m loss from Sesame due to remediation provision

### International division, £m



- Non-core exits driving a 31% reduction in the cost of new business
- Non-core business to be transferred to Heritage

### Corporate, £m

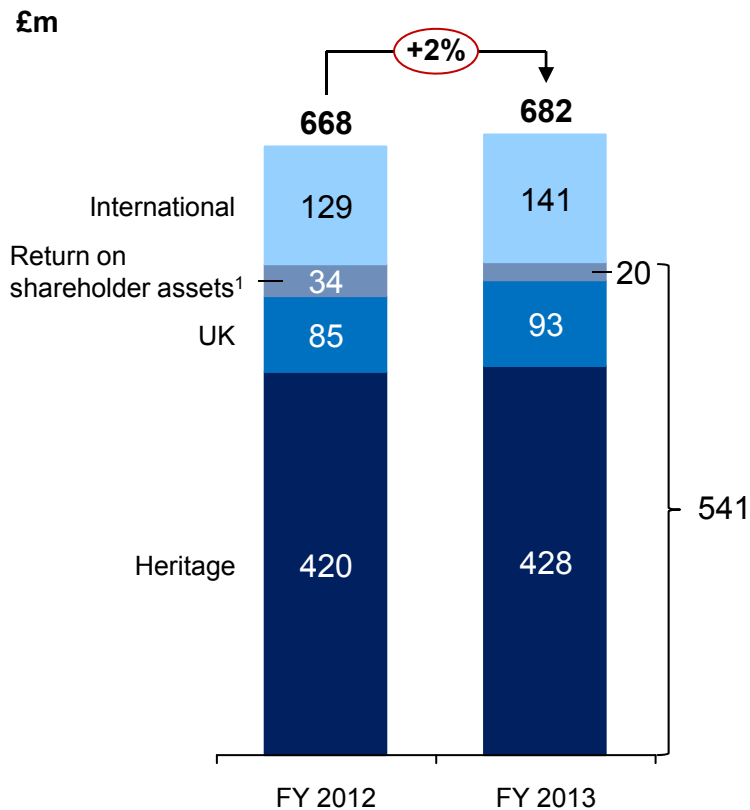


- Increased finance costs following debt restructure in 2012

# Expected return

## Improved performance from each division

### Expected return from in-force business



### Key drivers of in-force movement

#### UK & Heritage

- Heritage division up with business run-off offset by with-profits maturity spike
- UK division surplus up principally reflecting surplus from 2012 new business growth

#### International division

£m	2012	2013
<i>Lombard</i>	36	44
<i>Core International</i>	78	77
<i>Non-core International</i>	15	20

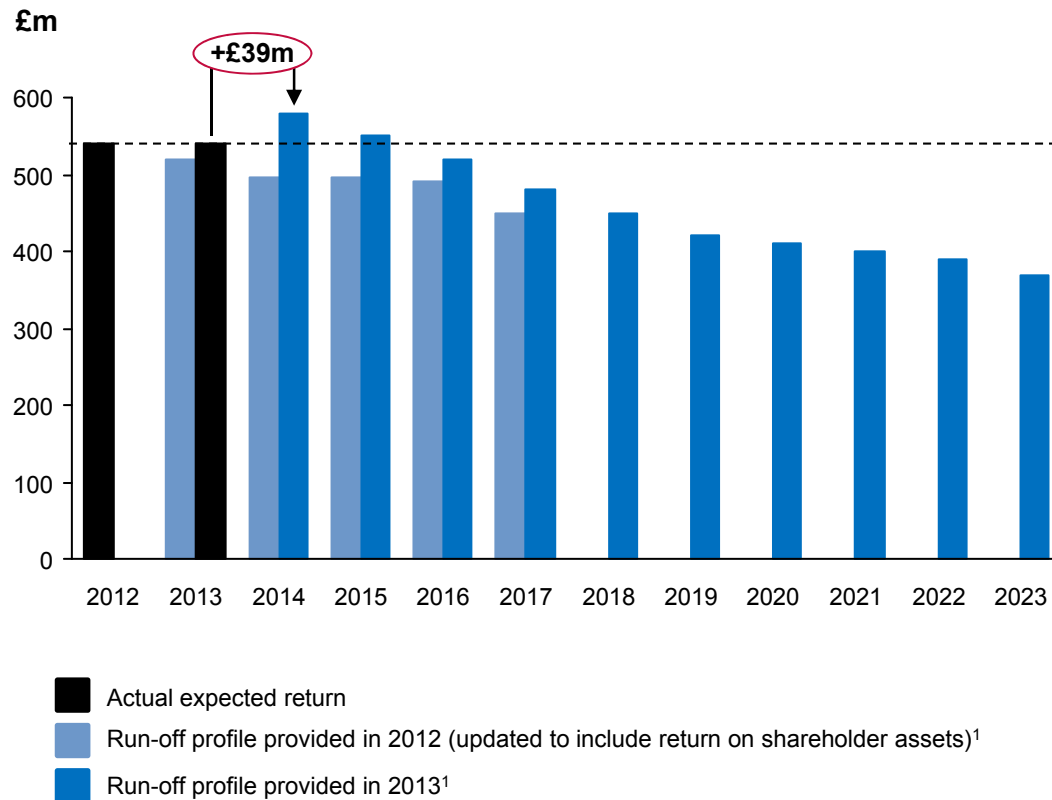
- Core International surplus in line with 2012
- Non-core International up due to financial reinsurance provision release

1.Return on shareholder assets has been allocated across the UK division (£6m) (2012: £1m) and Heritage division (£14m) (2012: £33m).

# UK & Heritage expected return

## Driving increased confidence in the future

### Undiscounted free surplus emergence



1. Based on management estimates and expectations (unaudited).

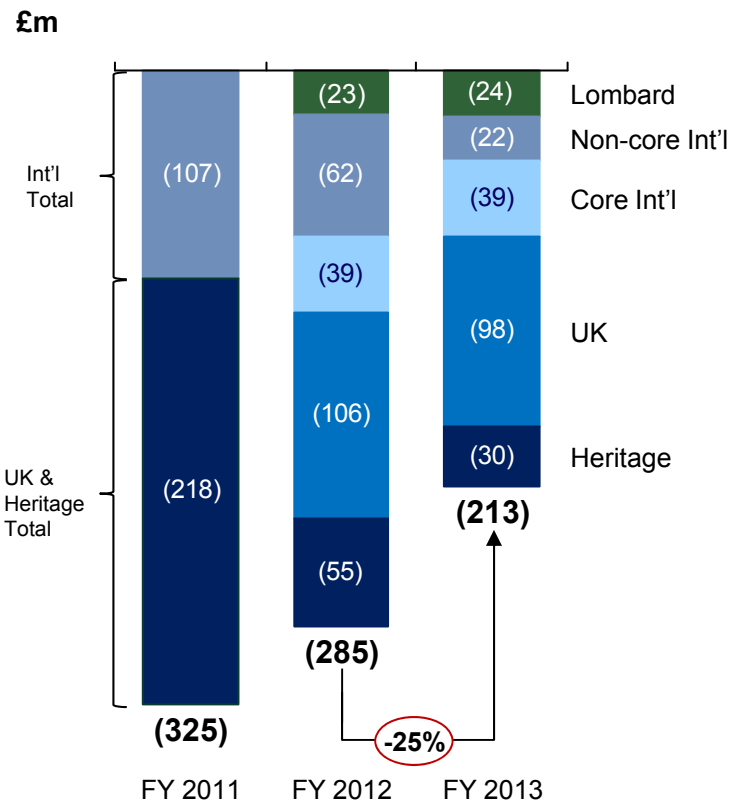
### Principal drivers of increasing free surplus emergence profile

- Surplus improvements, split evenly between UK and Heritage divisions, more than offsetting natural run-off
- UK division growth driven by new business contribution
- Benefits from Heritage revenue optimisation initiatives, including with-profits annuity reallocation and FLI asset recaptures, supported by economic factors

# Investment in new business

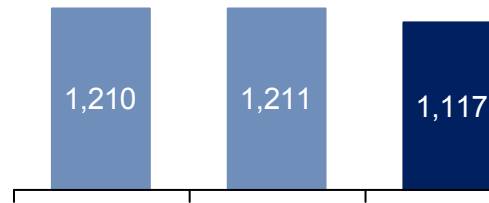
## Increased new business profitability at lower cost

### Group investment in new business



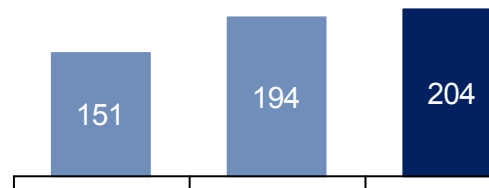
### Group new business metrics

#### APE, £m



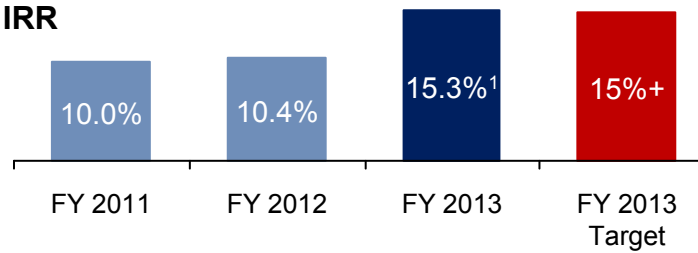
	£m	Δ
UK	724	8%
Heritage	54	-47%
Core Int'l	127	-13%
Non-core Int'l	14	-75%
Lombard	198	-17%

#### VNB, £m



	£m	Δ
UK	184	30%
Heritage	(19)	n/a
Core Int'l	21	24%
Non-core Int'l	(7)	-42%
Lombard	25	-44%

#### IRR

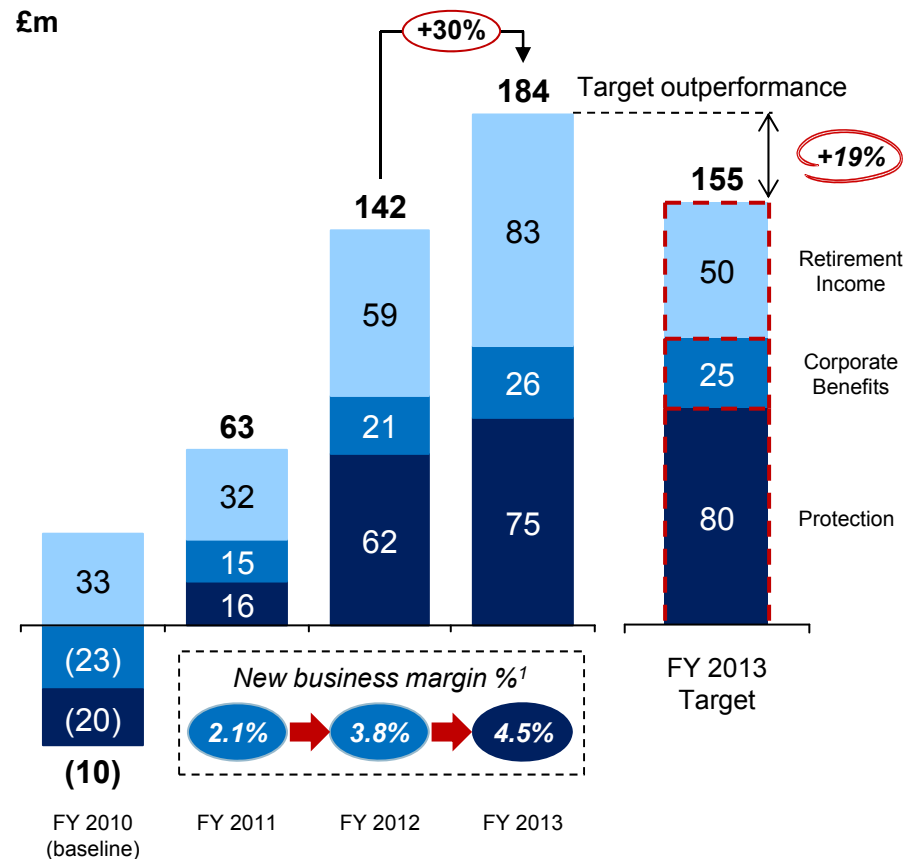


1. Includes the benefit of discretionary investment of shareholder assets in the with-profits annuity reallocation.

# UK division new business profitability

## Strong performance reflects financial discipline

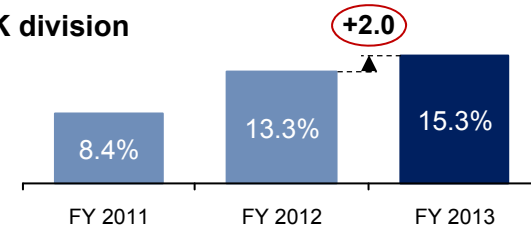
### Growth in UK division VNB



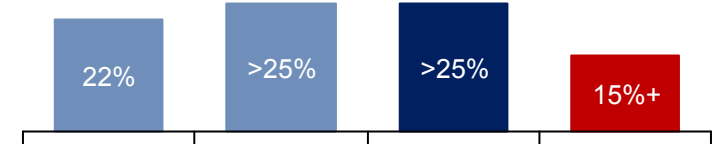
1. Pre-tax VNB / PVNBP.

### New business IRR

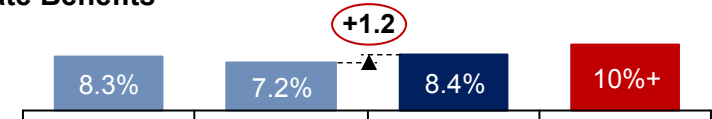
#### Total UK division



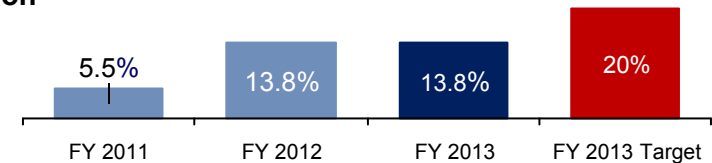
#### Retirement Income



#### Corporate Benefits



#### Protection



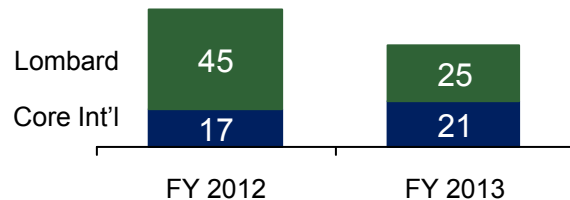


# Lombard and Core International

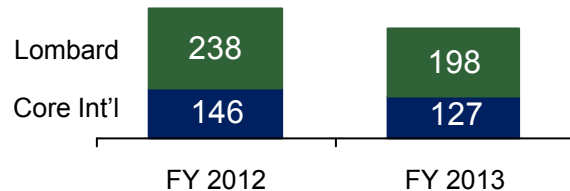
## Performance impacted by challenging market environment

### New business

#### VNB, £m



#### APE, £m



#### IRR

	FY 2012	FY 2013
Lombard	22.5%	<b>13.3%</b>
Core Int'l	11.0%	<b>11.0%</b>

### Highlights

#### Lombard

- Challenging market environment and uncertainty impacting Q4 sales

#### Core International

- Improved VNB but competitive pressures remain
- Reduced APE includes closure to the Japanese market

### Momentum

- Continued discipline on the business we write
- Improving efficiency of the back office operations
- Deploying more resources into Asia
- Challenges remain in certain markets for Lombard
- Some Lombard performance disruption due to potential disposal

# IFRS based operating profit

## Delivering strong growth

### Group IFRS based operating profit

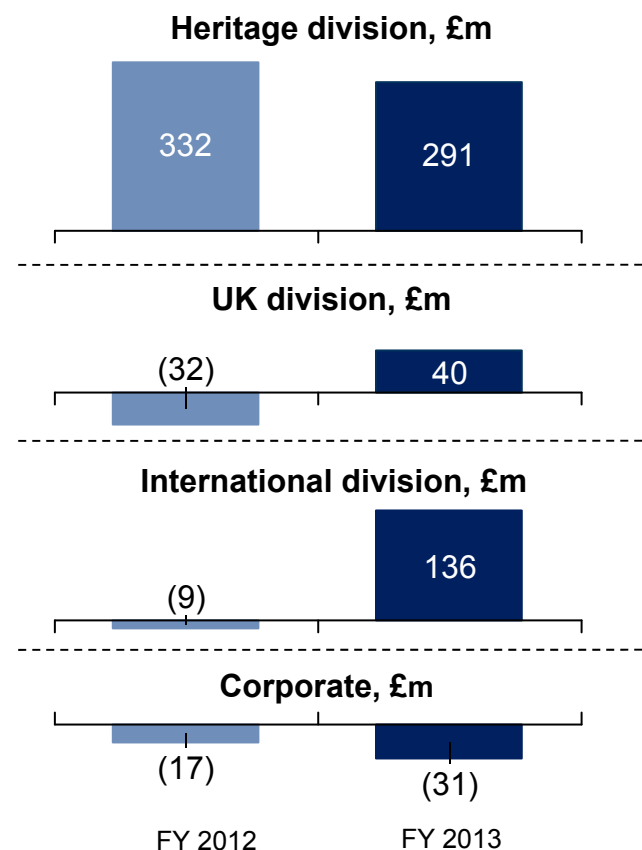
	£m	FY 2012	FY 2013
<b>Sources</b>	In-force surplus	550	<b>541</b>
	Expected return on shareholder assets <sup>1</sup>	78	<b>51</b>
<b>Uses</b>	Finance costs <sup>1</sup>	(101)	<b>(120)</b>
	New business strain	(142)	<b>(97)</b>
	Development costs	(50)	<b>(50)</b>
<b>Other</b>	Principal reserving changes & one-offs	(23)	<b>164</b>
	Other income and charges	(38)	<b>(53)</b>
<b>IFRS based operating profit before tax</b>		<b>274</b>	<b>436</b>

**-32%**

**+59%**

1. Expected return on shareholder assets less finance costs is equivalent to long-term investment return.

### IFRS based operating profit contribution



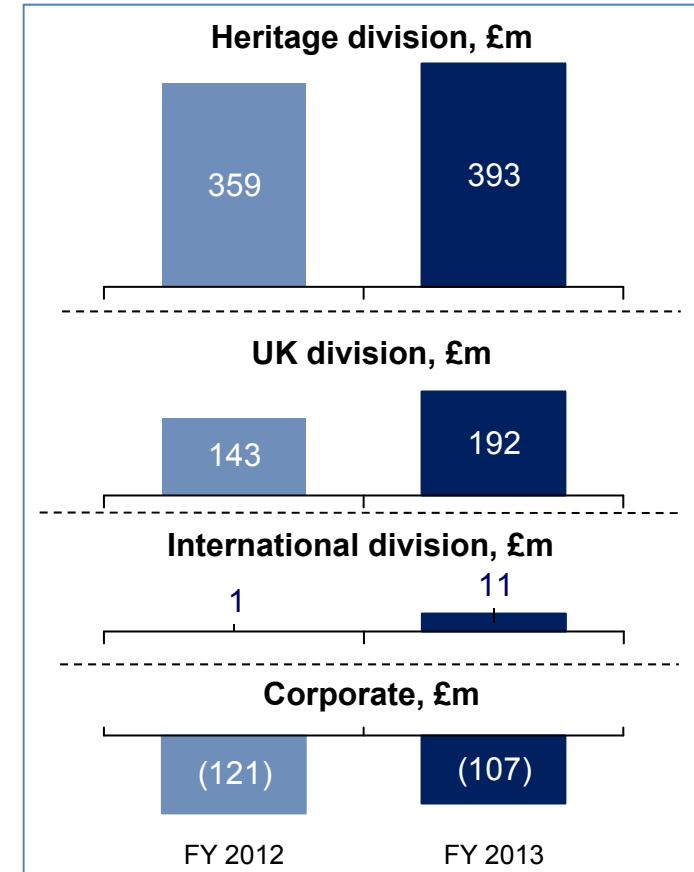
# MCEV operating profit

## Strong growth despite reduced economic returns

### Group MCEV operating profit

£m	FY 2012	FY 2013	
Value of new business	194	204	+5%
Expected existing business contribution	325	248	-24%
Operating experience variances	(56)	(57)	
Other operating variances	27	82	
With-profits annuity reallocation	-	96	
Operating assumption changes	(9)	19	
Development costs	(50)	(50)	
Other income and charges	(49)	(53)	
<b>MCEV operating profit before tax</b>	<b>382</b>	<b>489</b>	<b>+28%</b>

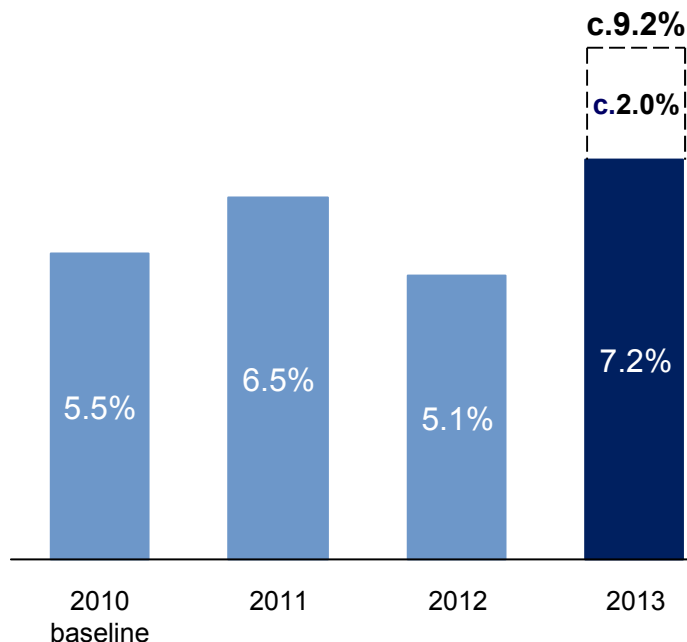
### MCEV operating profit contribution



# Return on embedded value

c.2.0% drag due to lower rates of return since target set in 2010

## ROEV annual progression<sup>1</sup>



## Impact on operating embedded value returns

Rates (%)	Equity	Corporate bonds <sup>2</sup>	Cash/Gilts (Risk free)	Debt <sup>3</sup> Δ
2010	7.30	3.35	1.01	5.90
2013	4.90	2.25	0.67	4.70
Δ	(2.40)	(1.10)	(0.34)	(1.20)

Impact on ROEV 2013 v 2010 (%)	c.(1.0)	c.(0.7)	c.(0.5)	c.0.2	c.(2.0)%
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Rates (%)	Equity	Corporate bonds <sup>2</sup>	Cash/Gilts (Risk free)	Debt <sup>3</sup> Δ
2014	6.10	1.85	0.71	3.94

➤ Cash and gilt bond rates remain significantly below normal levels for 2014

➤ 2014 equity and property expected returns will reflect the benefit of improving 10 year risk-free returns<sup>4</sup>

1. Measured at an FLG level, plus spread on Group debt.

2. Return on corporate bonds varies by portfolio, the rates shown are an indicative weighted average.

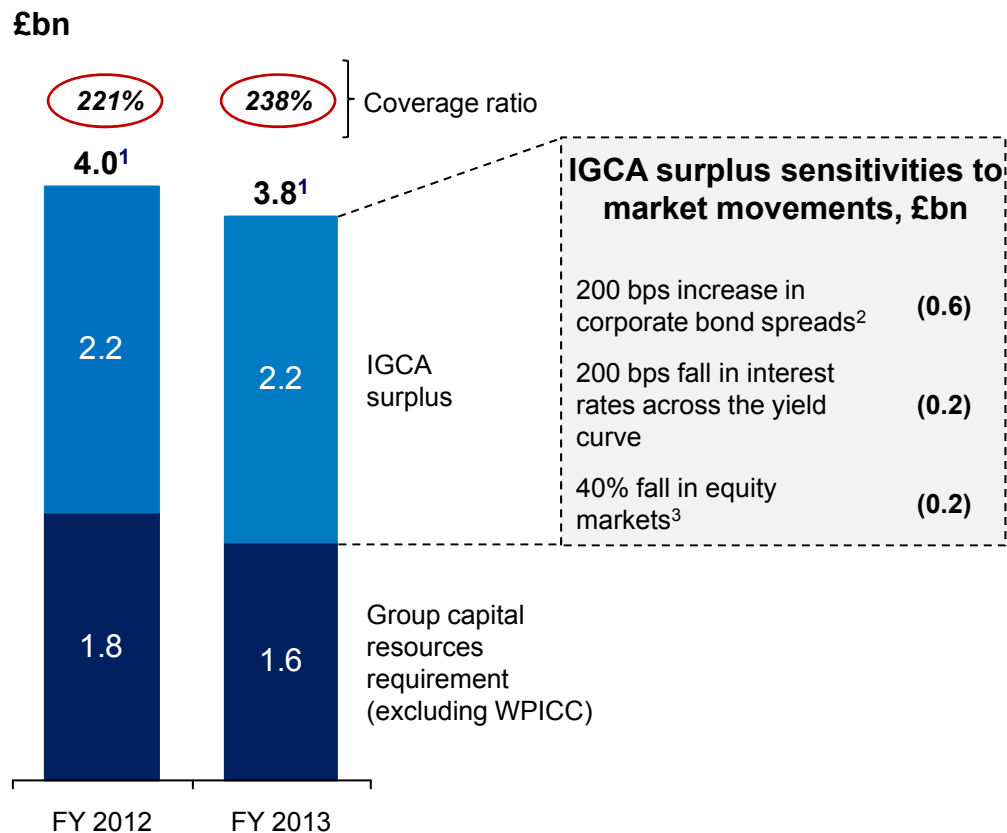
3. Rates applied to debt commitments are equivalent to the cash/gilt return

4. Expected return for property is 1% lower than equity.

# Capital and cash

## Performance underpinned by strong capital position

### IGCA surplus and sensitivities to market movements



### Strong capital position

- Estimated IGCA surplus of £2.2bn
- Capital base remains resilient to market movements
- Estimated economic capital surplus of £3.9bn<sup>4</sup> (coverage ratio of 193%)

### Cash and dividends

- Available shareholder assets of £917m
- Total dividends received by Group holding companies of £383m for the year
  - Includes International dividends of £33m

1. Total capital is the sum of IGCA surplus and Group capital resource requirements (excluding WPICC); coverage ratio also excludes WPICC; 2013 WPICC: £4.2bn (2012: £3.4bn). 2013 surplus is 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

# 2013 report card

			Commitment	Status	Commentary
2013	VNB, (NBS), IRR £m, £m, %	UK	Protection £80m, £(30)m, 20%	£75m ✓ 13.8%	All business on target platforms IRR constrained by AE margins Targets met
			Corporate Benefits £25m, £(75)m, 10%+		
			Retirement Income £50m, n/a, 15%+		
			£155m VNB	✓ ✓ 8.4%	
		International	20% (Lombard and Core Int'l)	12.0%	Competitive challenges in Europe and Asia
		Group total	15%+	✓	15.3% delivered in 2013
	UK & Heritage new business strain		£200m reduction by 2013	✓	£251m reduction delivered
Medium term	UK & Heritage cost reduction		£126m of cost reductions	✓	£129m reduction delivered
	Cash dividend from International		£33m for 2013 (due spring 2014)	✓	£33m paid
	FLG cash generation		£400m from sustainable sources	£331m	Timescale extended due to economic headwinds
Medium term	UK & Heritage cost reductions		£160m of cost reductions	✓	Fully secured
	FLG operating ROEV		10%+ in the medium term	7.2%	Timescale extended due to economic headwinds

# 2013 results key messages

## We have a strong platform for the future

### Summary

- Restructuring phase now complete
- Strong cash generation growth being achieved
- Improving returns reflecting financial discipline and delivery of Heritage activities
- Strong capital base maintained

**Strong platform from which to deliver our growth ambitions**

# Friends Life Group strategy

## - Where we play

Andy Briggs



# Friends Life Group strategy

## Approach and philosophy unchanged

### Strategic approach



Friends Life is a leading scale player in the UK Life and Pensions market, primarily focused on:

- Legacy products
- Fast growing retirement market



Strong financially disciplined team building distinctive capabilities and competitive advantage

- Strategic partnership with Schroders



Growing cash generation demonstrates sustainable and growing franchise

- UK and Heritage in force return in 2014 estimated to be c.£40m higher than 2013

### Business philosophy

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

### Listed company brand

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

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

1. Subject to shareholder approval at the 2014 AGM

# International strategy

## Update

### FPI

- Core focus is unit linked products for global expatriates and domestic affluent customers in Asia and the Middle East
- Significant investment to re-platform
  - Enhanced standalone capability and opportunities for organic growth
- Dividends of £20m received

### Lombard

- Process for potential sale ongoing
- Difficult trading in Q4 due to challenging market environment and impact of leak of sale process
- Dividends of £13m received

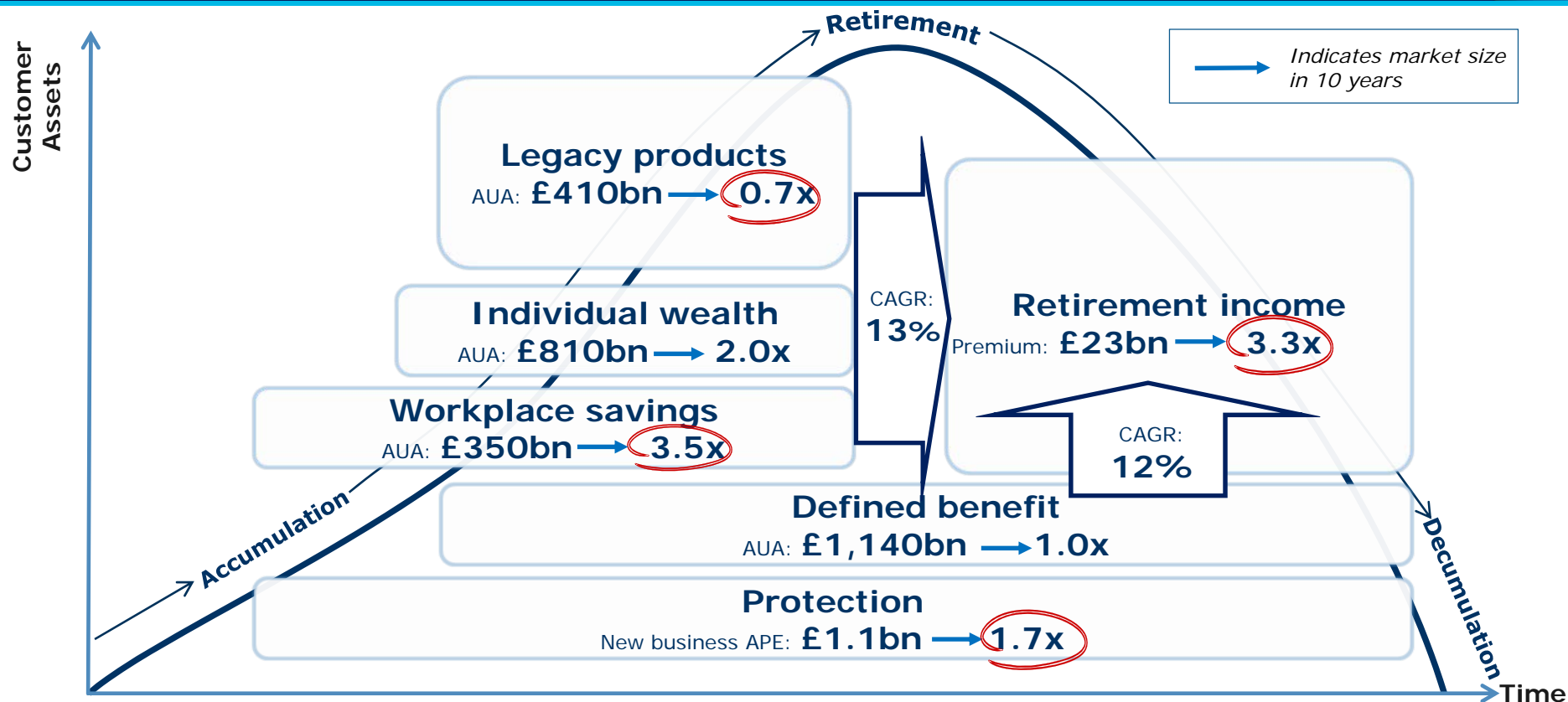
### Non-core

- All significant non-core exits completed in 2013
  - Sold AmLife stake in 2013, proceeds repatriated to Group
  - Exited / closed unprofitable and high risk business lines e.g. Corporate Pensions, Japanese nationals
  - Withdrew from the sale of new products in Germany

***Strong delivery against November 2012 strategy, and securing opportunities for further, incremental value***

# Where we play

## UK Life and Pensions in the next decade



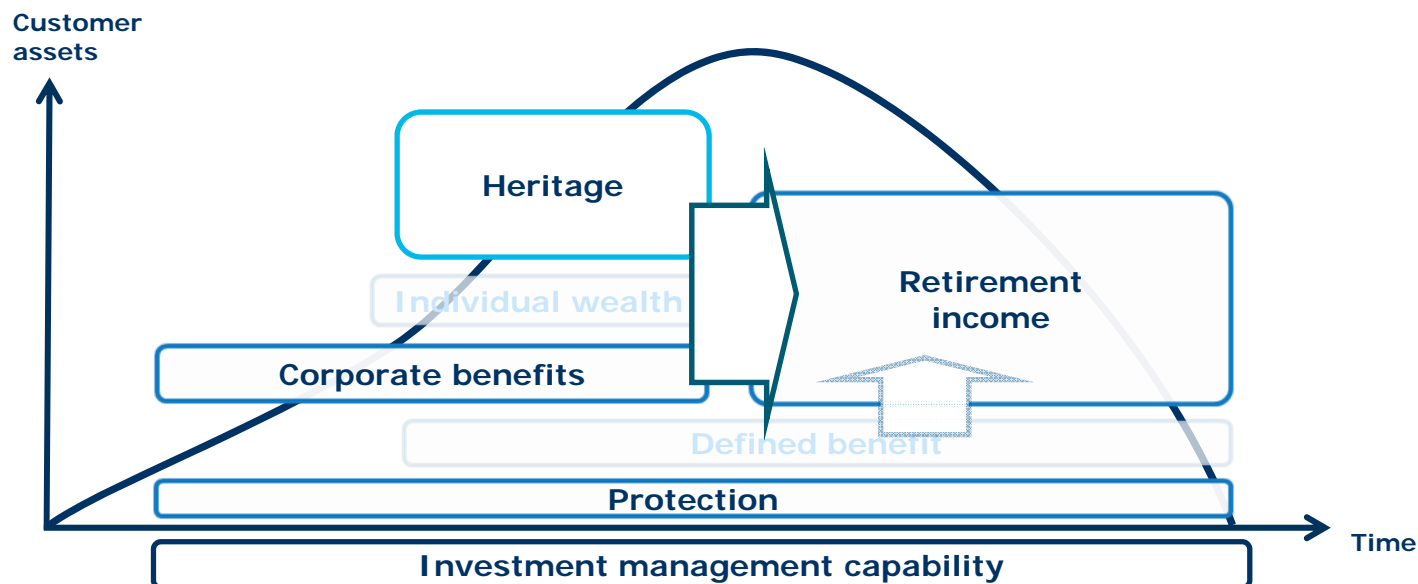
**Two main parts of the UK Life and Pensions market<sup>1</sup>:**

- **Legacy products - with drivers for consolidation**
- **Fast growing retirement market – driven by DB to DC shift and auto-enrolment**

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

# Where we play

Scale player in both main parts of UK Life and Pensions market



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

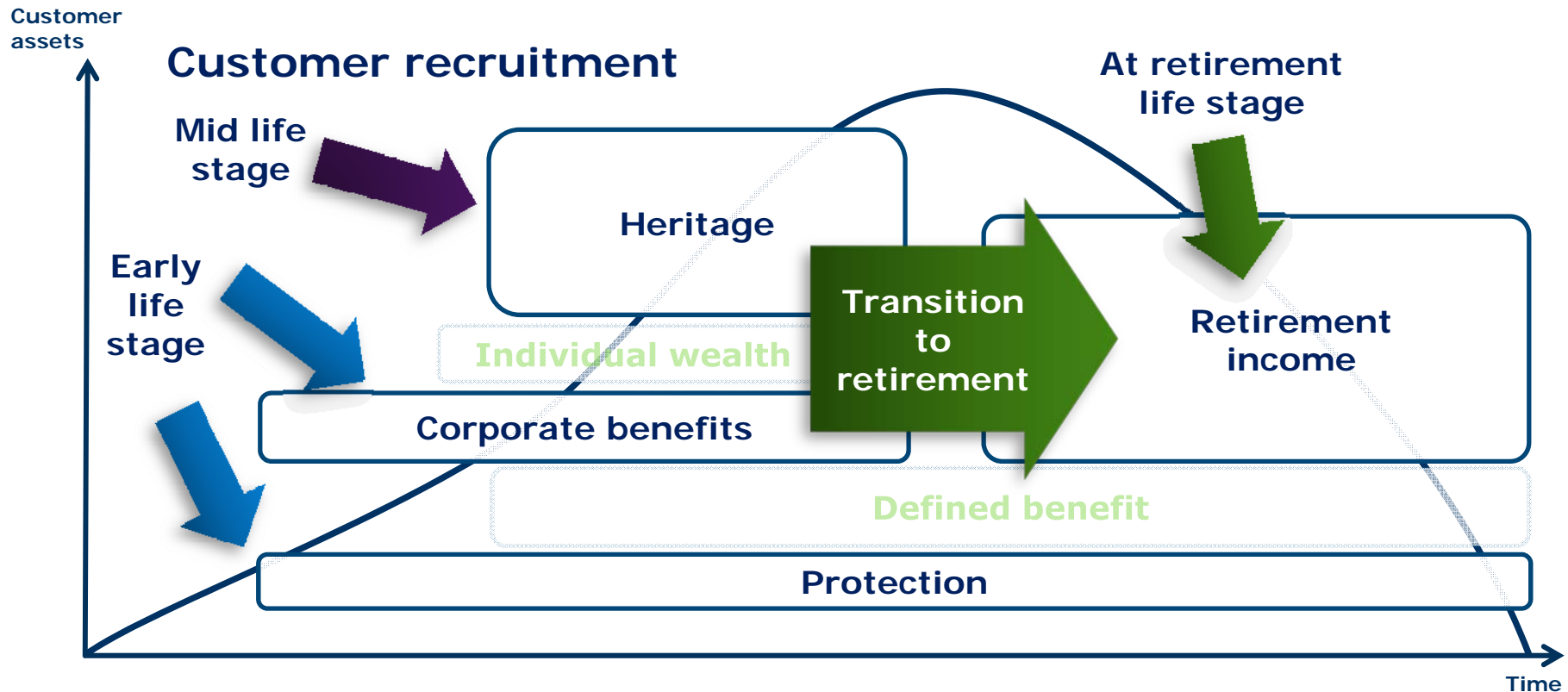
1. Estimated based on 50,000 Friends Life vesting pensions customers and ABI policy sales data for market size

2. Individual protection across Group; approximately 1.8m individual protection customers in Heritage

3. Pro-forma based on 31 December 2013 assets after transfer planned for 2014

# Where we play

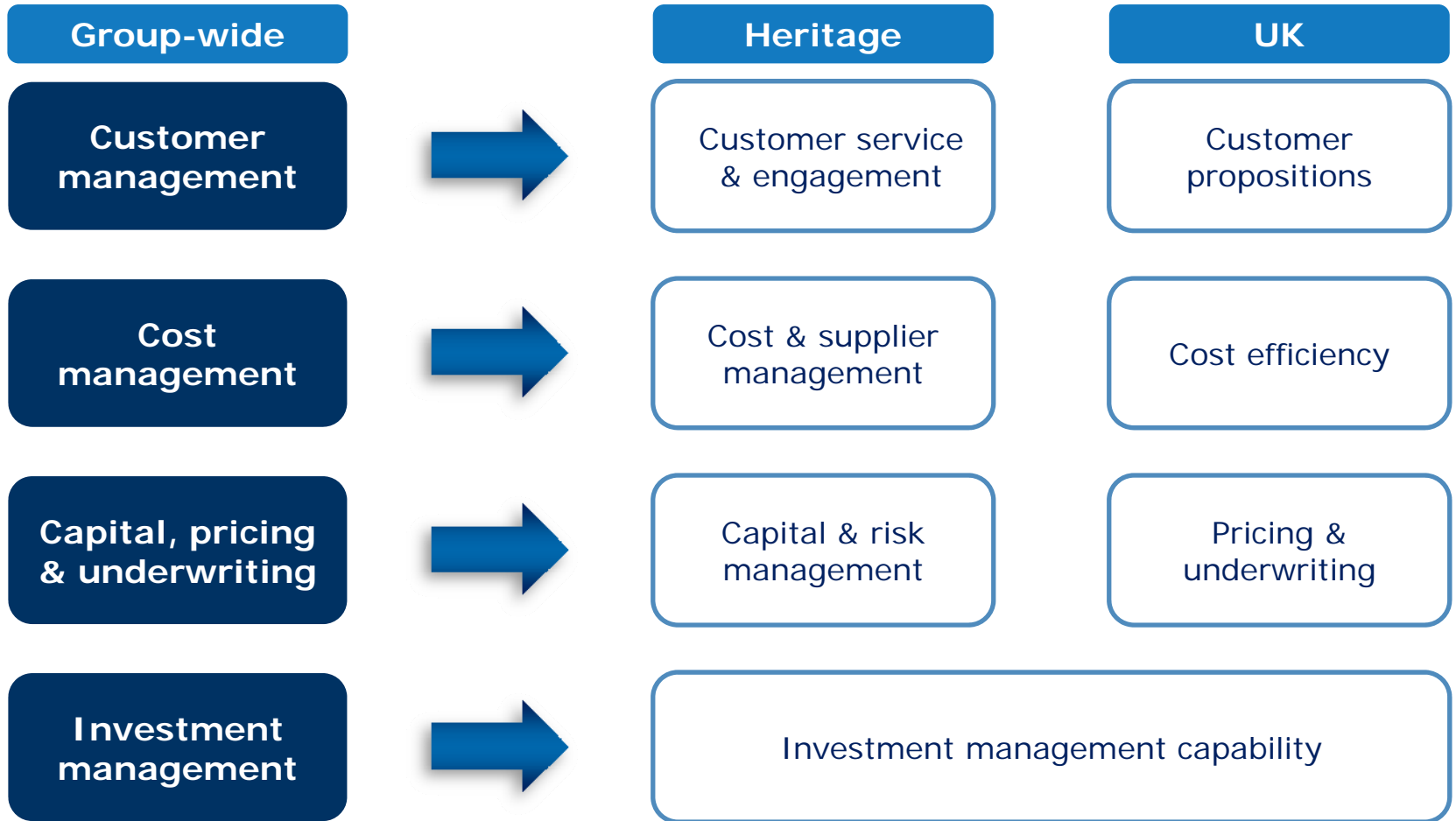
## Future opportunities



- *Strong customer recruitment and retention*
- *Significant transition to retirement opportunity*
- *Potential additional benefit of legacy book consolidation*

# How we win

Our distinctive capabilities and competitive advantage



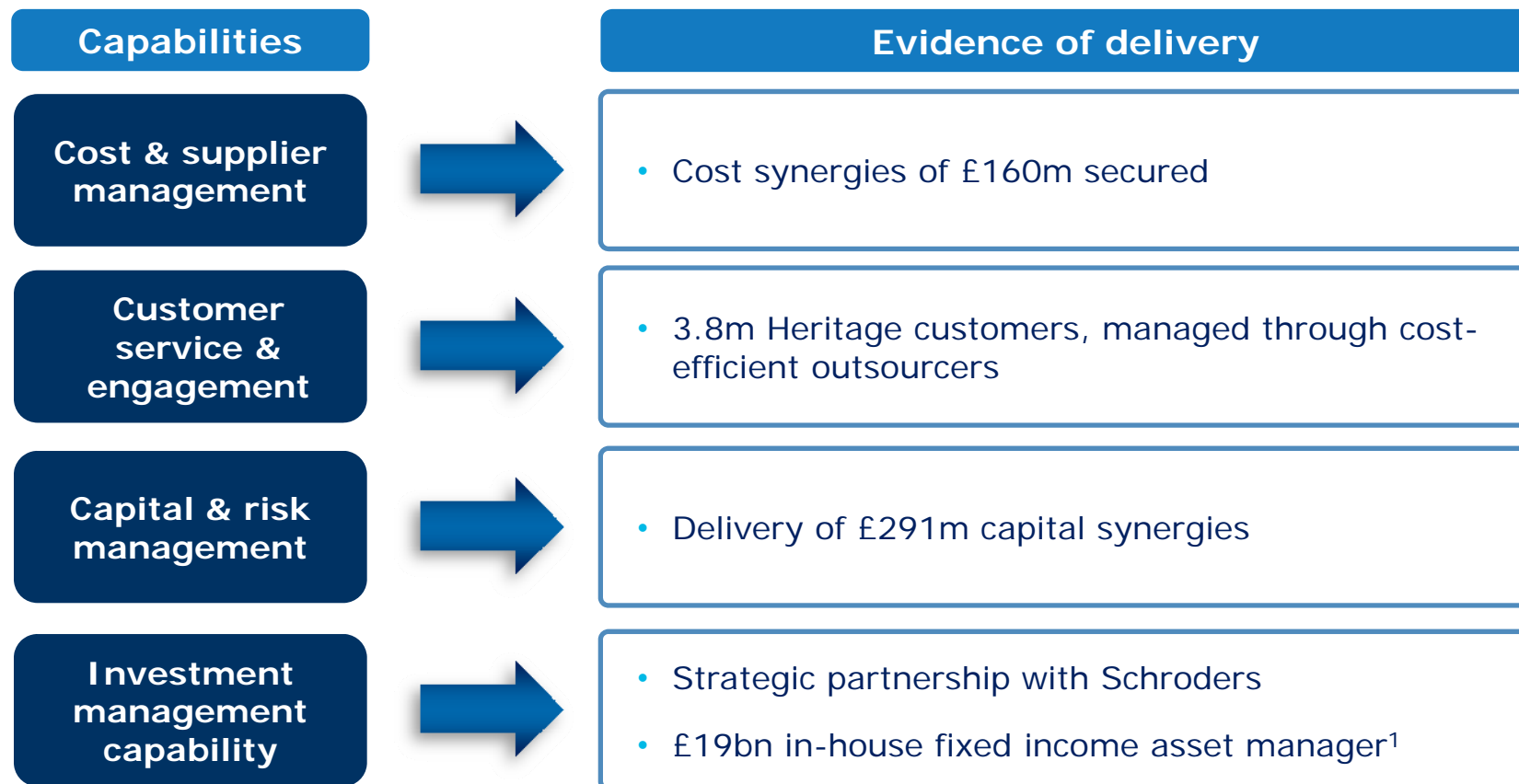
# **Friends Life Group strategy**

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

Jonathan Moss

# How we win: Heritage

## Our strengths and track record



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

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



# How we win: Heritage

## Capital and risk management

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

UK businesses acquired

End 2013

ASLAS

FPLP

FLL

ASL

FPP

*Mainly Heritage*

WLUK

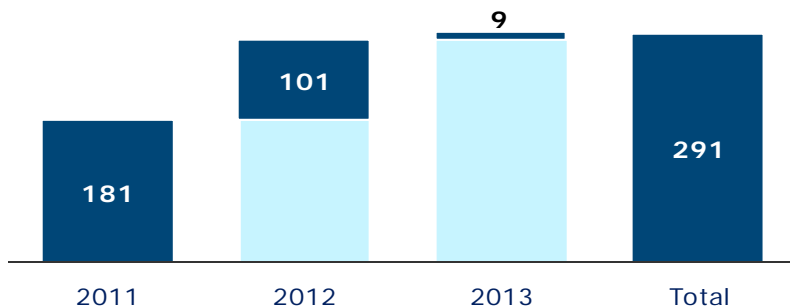
FPLAL

FLP

BHA

*Mainly UK division*

### Additional free surplus released due to COP 2011-13<sup>1</sup>, £m



### Risk management

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

***Significantly de-risked business with more stable cash generation***

1. Includes benefit of deauthorisation of FLWL and FLC in Feb 2014 in 2013

# How we win: Heritage

## Capital and risk management

### With-profits annuity reallocation (WPAR)

**c.£2bn**

Reallocation completed in 2013

**c.£0.7bn**

Reallocation planned for 2014

**c.£1.6bn**

Potential future reallocations

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

***2011-13 substantial acceleration of free surplus;  
2014 value creation through liability reallocation***

# How we win: Heritage

Investment management: best of breed model



1. Pro-forma AUA as at 1 January 2014, post-implementation of planned Schrodgers, FLI, CRE and infrastructure asset transfers; 2. £2bn assets already placed with Schrodgers with additional £12bn now announced; 3. Agreement with Pramerica Investment Management, LLC through Pricoa Mortgage Capital

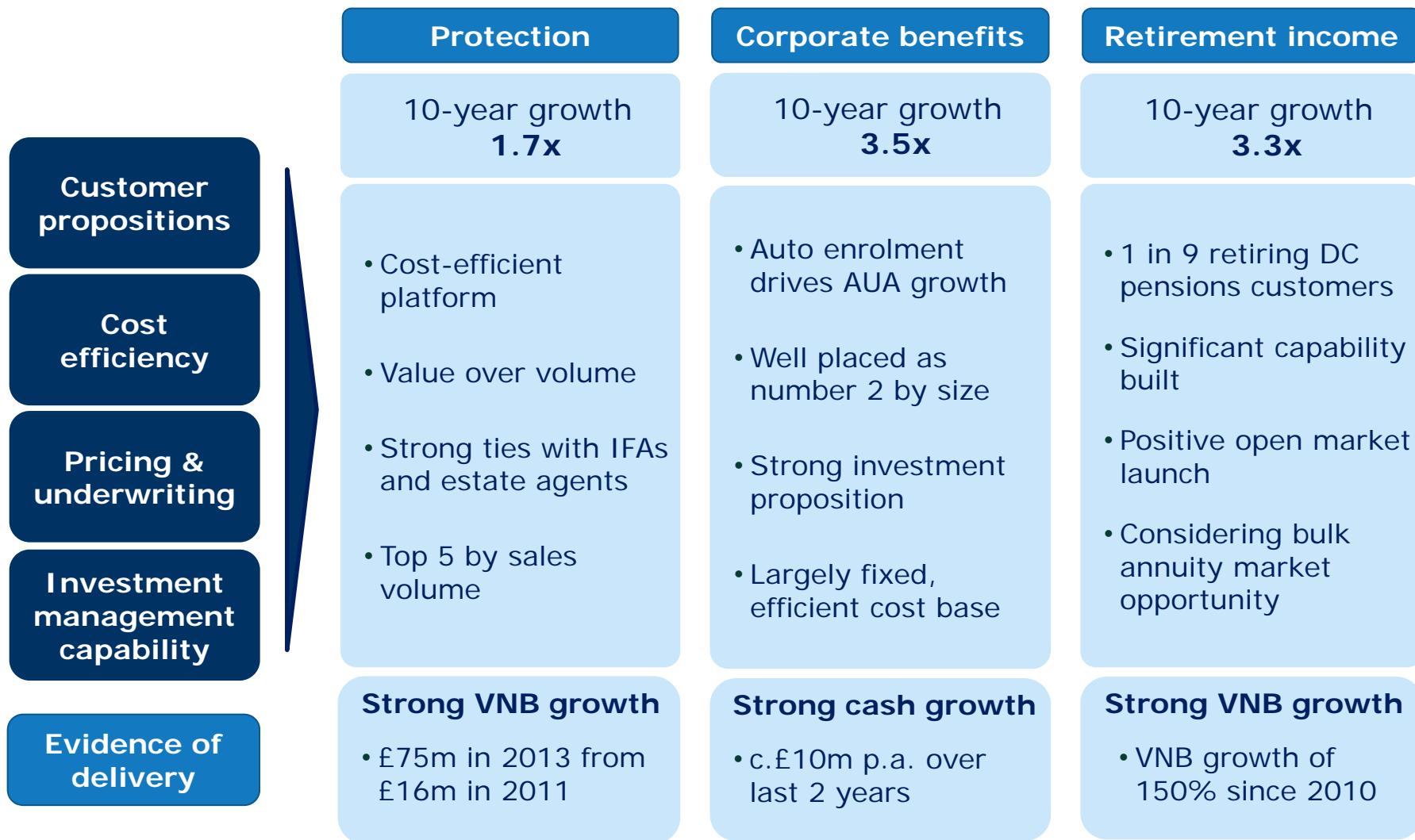
# Friends Life Group strategy

## - How we win: UK

John Van Der Wielen

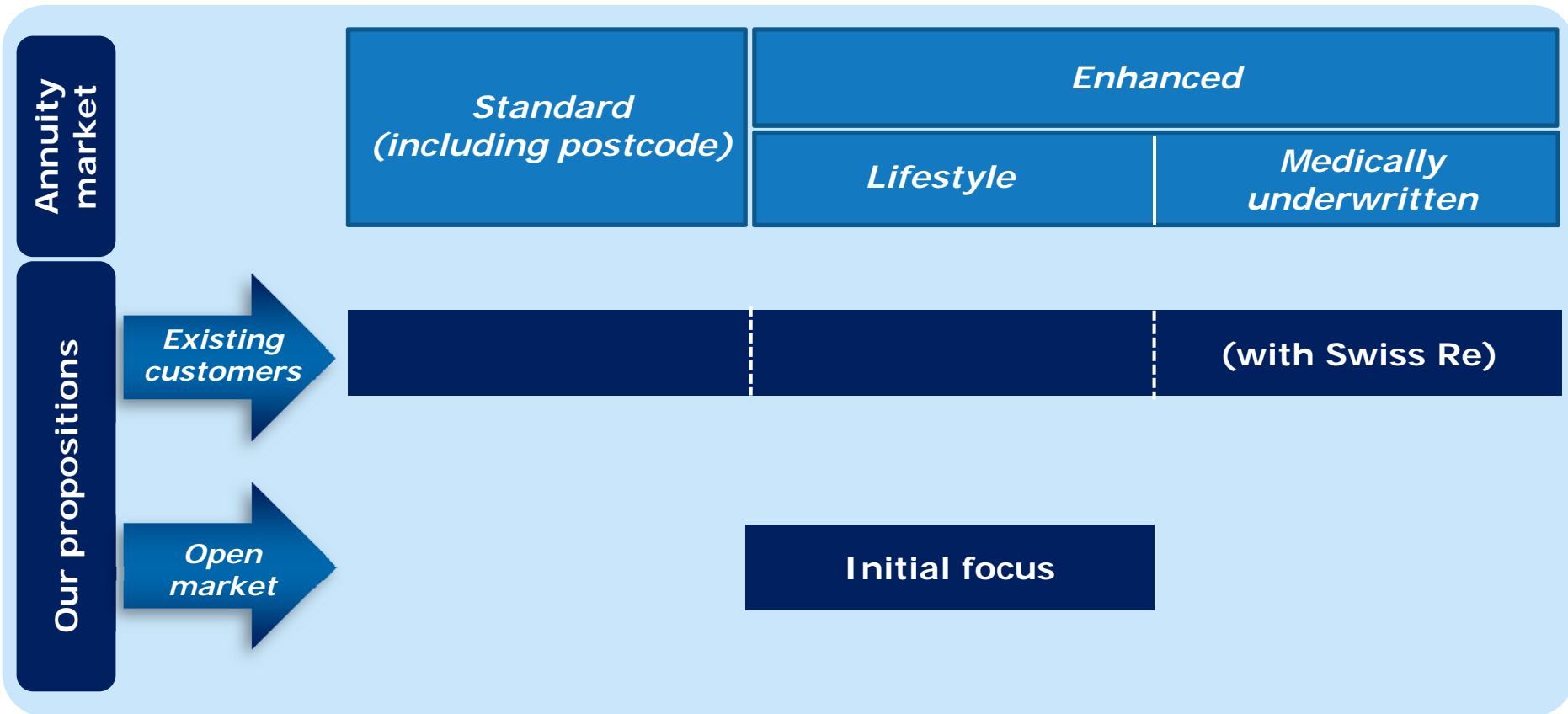
# How we win: UK

Deploying key capabilities in attractive growth markets



# How we win: UK

## Our proposition in the annuity market

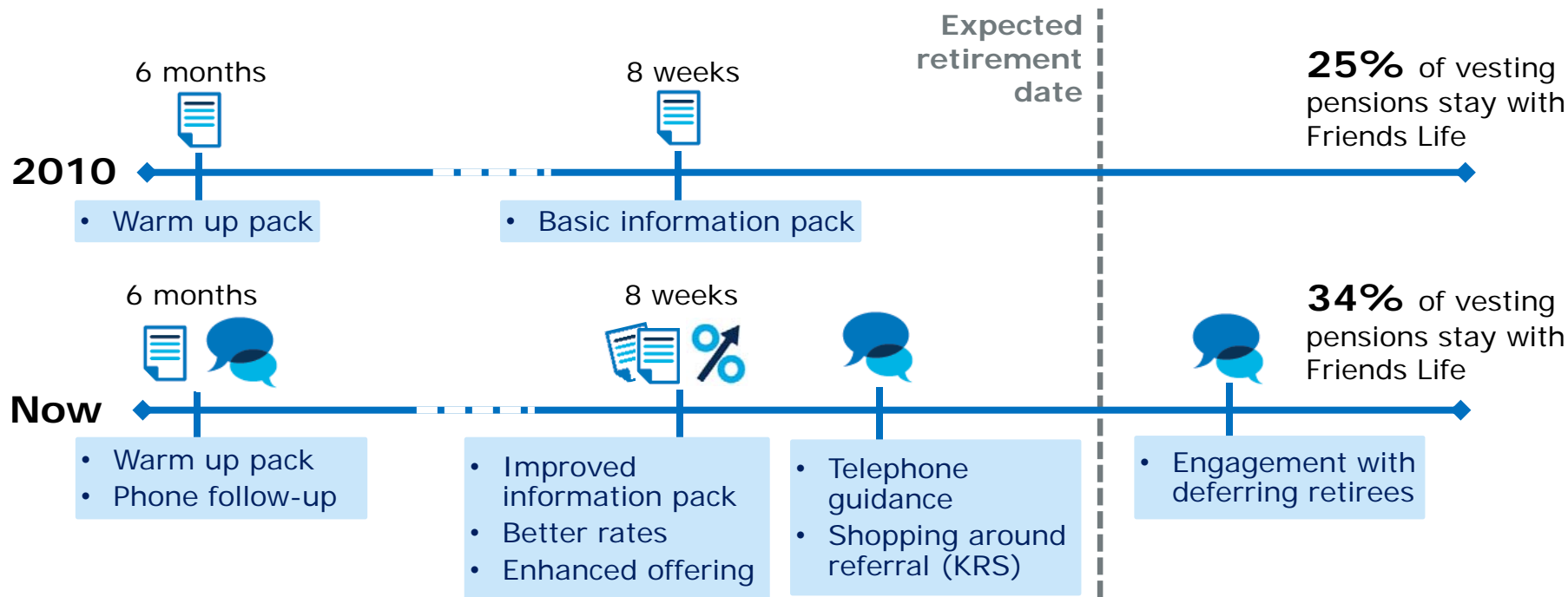


- Lifestyle pricing model developed based on in-house data and research
- Full range offered for existing pensions customers
- Open market launch focused on lifestyle pricing

# How we win: UK

## Transition to retirement – customer-led opportunities

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



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

# **Friends Life Group strategy**

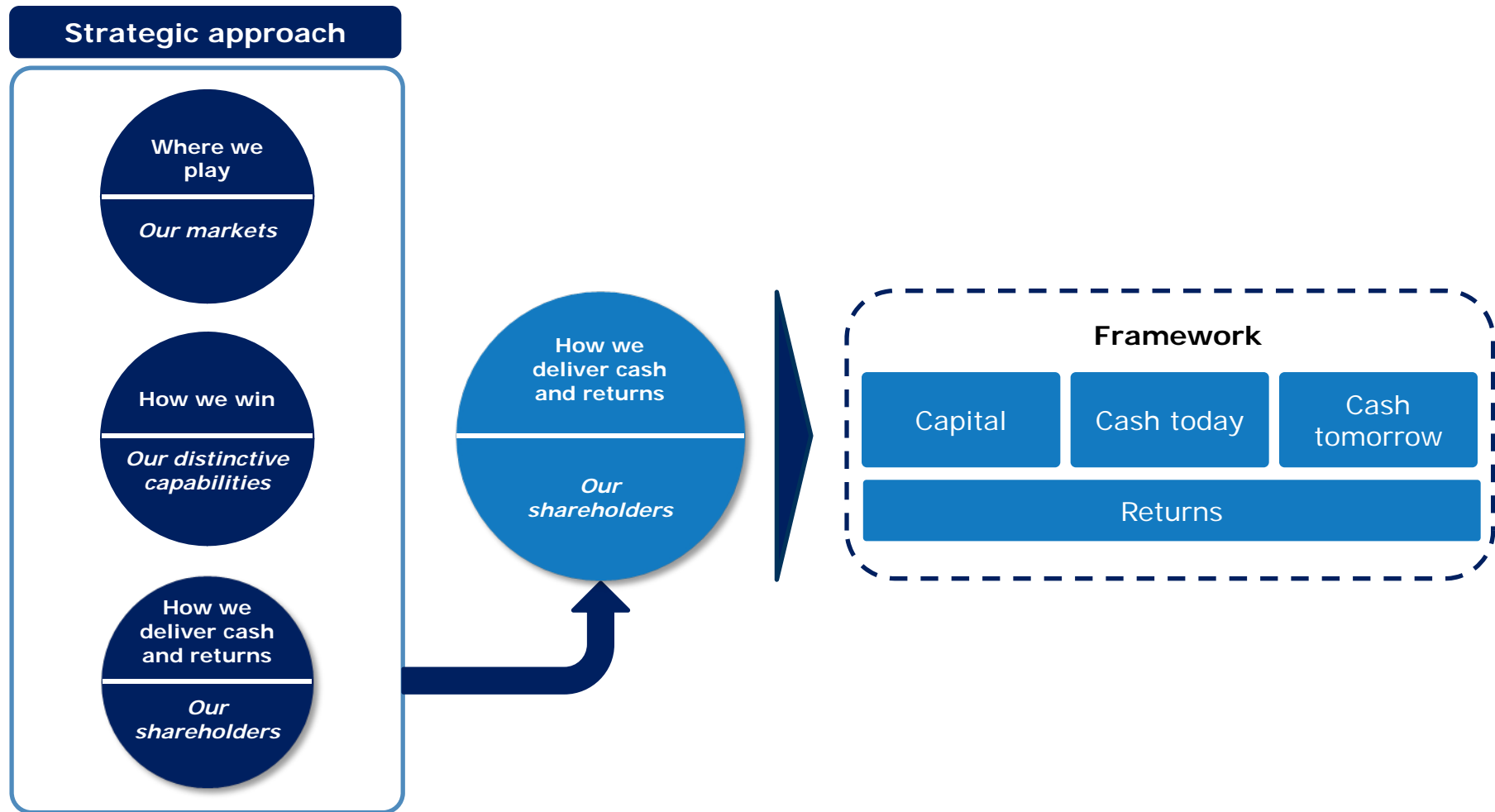
- How we deliver cash and returns:**

## **Financial Framework**

**Tim Tookey**



# Using our framework to measure cash and returns



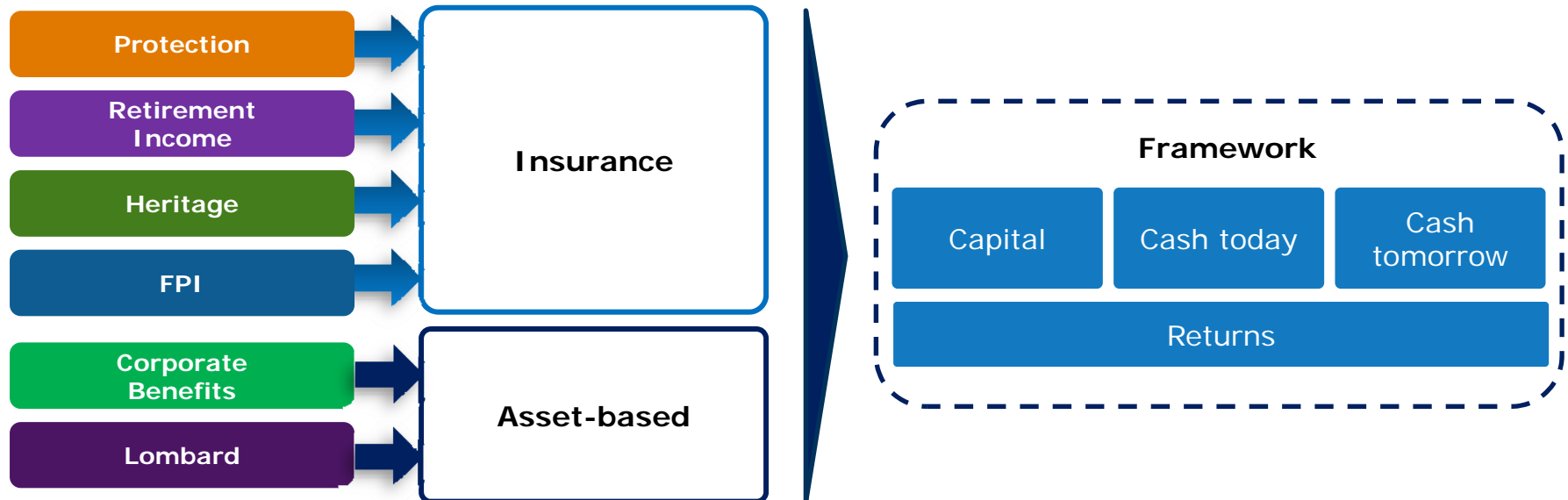
# Presenting our business increasingly as we manage it

Developing clearer links between business drivers and performance

Our businesses...

...two business characteristics...

...one financial framework

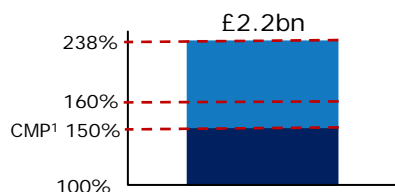


# Strong capital base – a prerequisite for high performance

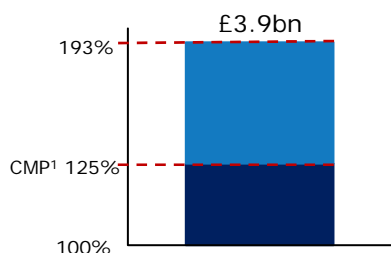
Strength to be maintained across all measures, at all times

## Current reporting

### IGCA surplus



### Economic capital



### ASA

£917m

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

## Transitioning to Solvency II

Solvency II

IGCA

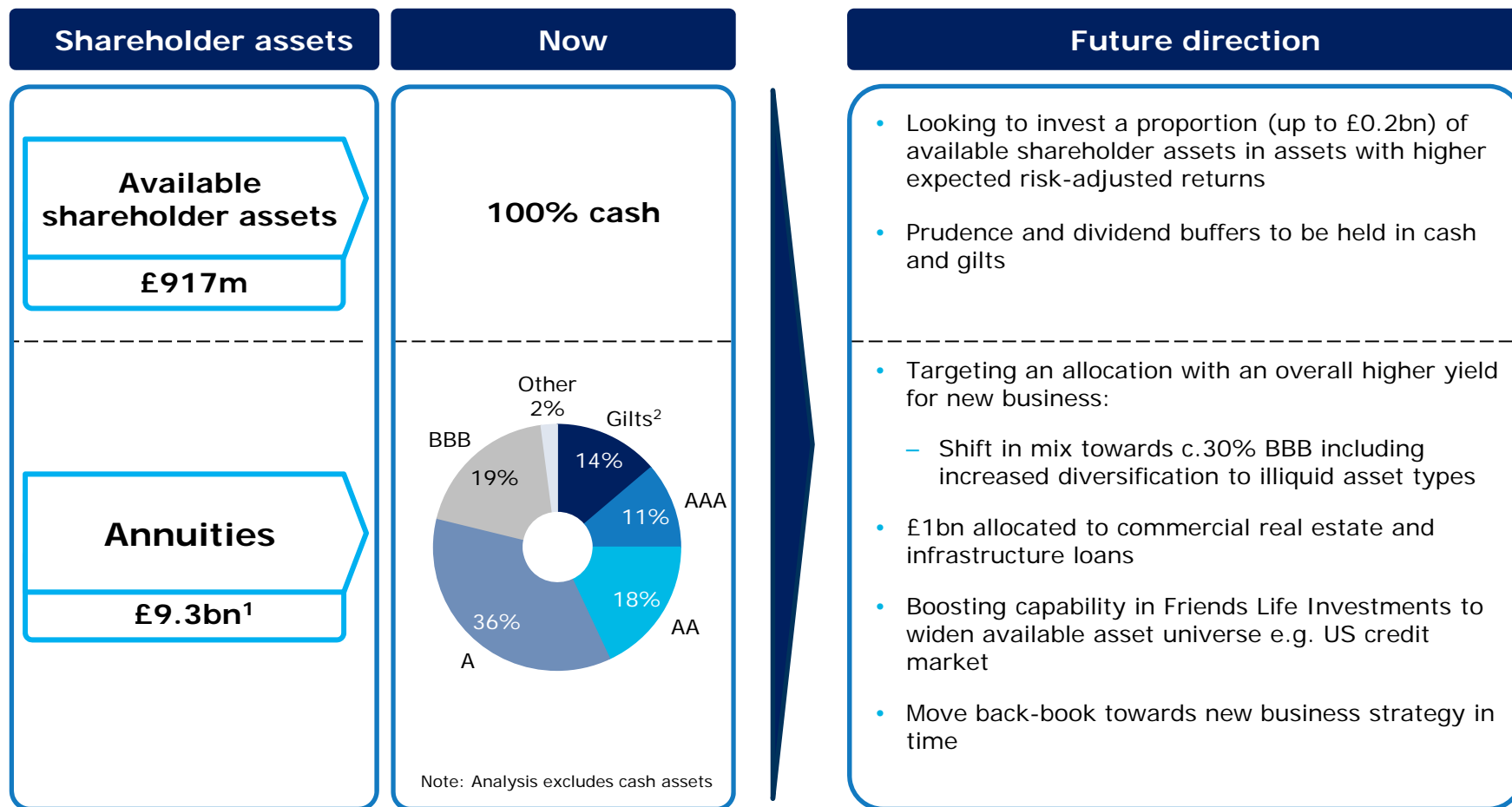
Economic capital

- Solvency II founded on economic capital
- Commencing migration to Solvency II from a strong capital position
- Preparations for Solvency II well advanced
- Expect IMAP submission during 2016 for approval by end 2016

1. CMP is the Capital Management Policy

# Shareholder assets

Increased investment risk appetite allows generation of higher returns



1. Excludes £1.6bn reinsurance asset 2. Gilts include supranational bond exposures

# Cash today – SFS remains a principal measure

## Enhanced analysis of asset-based businesses

Greater analysis to be provided across business lines

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

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

1. Other principally includes movements on required capital, non-unit reserves and regulatory DAC (in Lombard)

# Cash tomorrow

Improving the relevance of our performance metrics

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

✓ Primary reporting metric    ✓ Secondary reporting metric

Improved transparency on the levers of value

# Cash tomorrow

Clear ambitions for future growth established

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

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

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

Performance ambitions
+ve and growing
Growing
+ve operating leverage

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

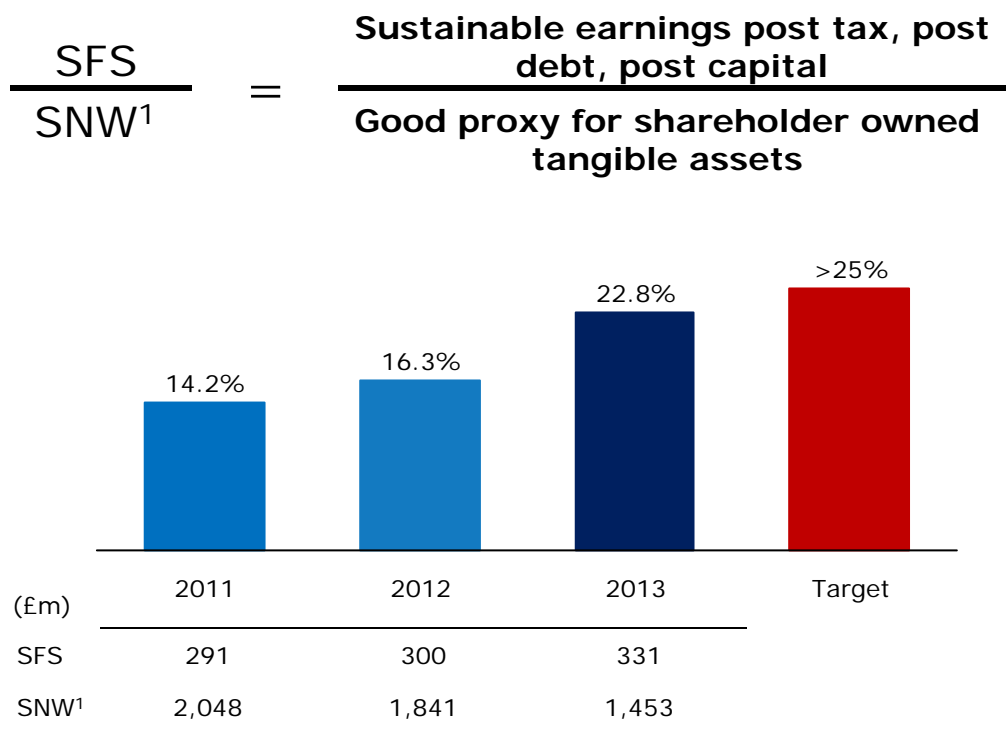
# Returns metrics – now includes a 'cash returns' lens

A stronger indicator of financial discipline and cash focus

## Return on embedded value

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

## Cash return



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

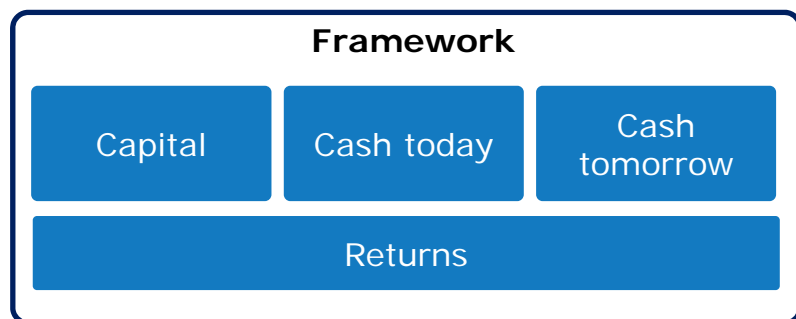


# Dividend policy

Existing £400m 'distributable cash generation' target for considering a move towards a progressive dividend is replaced by:

"Our ordinary dividend policy is to pay 21.14 pence per share per annum, with the expectation that a progressive dividend would be considered once the coverage ratio of SFS : Dividend cost exceeds 1.3x"

# Confidence in our returns generating capabilities



## Performance ambitions

### Capital

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

### Cash today

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

### Cash tomorrow

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

### Returns

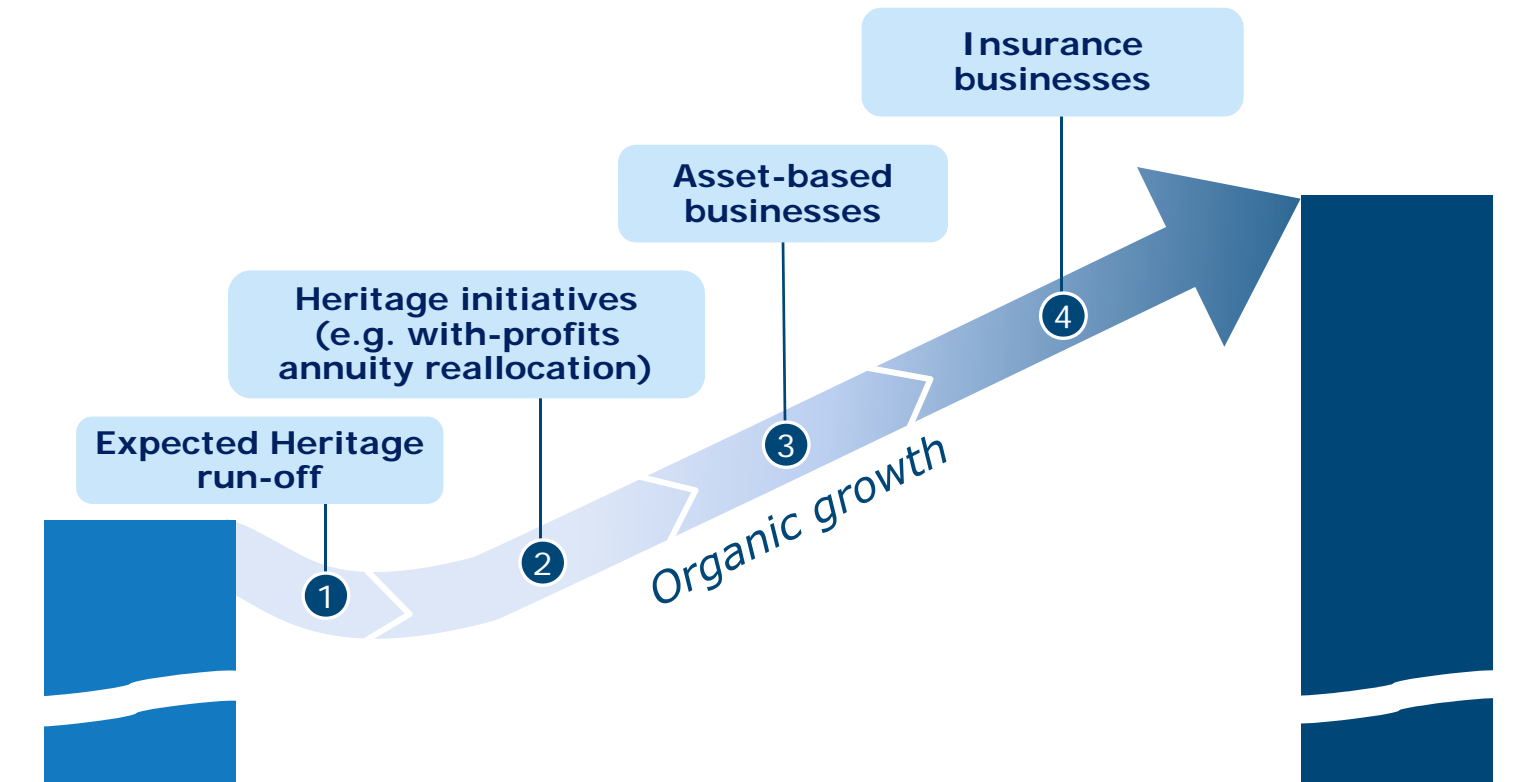
- 'Cash return' above 25%

# Summary

Andy Briggs

# How we deliver cash and returns

Growing our cash generation



*Delivery evidenced by c.£40m increase in UK and Heritage estimated in force return in 2014*

# Today's key messages

## Friends Life strategy



Friends Life is a leading scale player in the UK Life & Pensions market, primarily focused on:

- Legacy products
- Fast growing retirement market



Strong financially disciplined team building distinctive capabilities and competitive advantage

- Strategic partnership with Schroders



Growing cash generation demonstrates sustainable and growing franchise

- UK and Heritage in force return in 2014 estimated to be c.£40m higher than 2013

***Attractive growth markets, with scale and competitive advantage, to drive cash and returns for shareholders***

# Friends Life – A sustainable business with an exciting future

Q&A

## Appendices

# With-profits annuity reallocation

## Summary of impacts

Impact			Highlights
£m	2013	2014	
<b>SFS</b>	(16)	+10	<ul style="list-style-type: none"> <li>Developing a uniform capital management framework to ensure WP funds are suitably invested</li> </ul>
<b>IFRS</b>	76	+5	<ul style="list-style-type: none"> <li>c.£2bn of annuity liabilities and backing assets transferred to NP funds</li> </ul>
<b>MCEV</b>	96	+5	<ul style="list-style-type: none"> <li>This transaction de-risks the management of with-profits fund</li> <li>First and largest of a potential series of WP transfers</li> </ul>

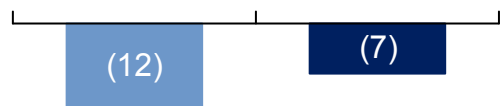


# Non-core International

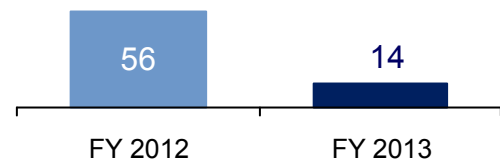
## Market exits completed as planned

### New business

VNB, £m



APE, £m



### Sustainable free surplus

£m	FY 2012	FY 2013	FY 2014
Expected return from in-force business	15	20	↓
Investment in new business	(62)	(22)	↓
Development costs	(1)	(2)	↓
Operating experience variances and other	(6)	18	↓
<b>Sustainable free surplus</b>	<b>(54)</b>	<b>14</b>	↔

### IFRS based operating profit

£m	FY 2012	FY 2013	FY 2014
New business strain	(30)	(16)	↓
In-force surplus	13	40	↓
Principal reserving changes and one-off items	(74)	18	↓
Development costs	(1)	(3)	↔
Other income	(3)	-	↔
<b>IFRS operating profit</b>	<b>(95)</b>	<b>39</b>	↓

### MCEV operating profit

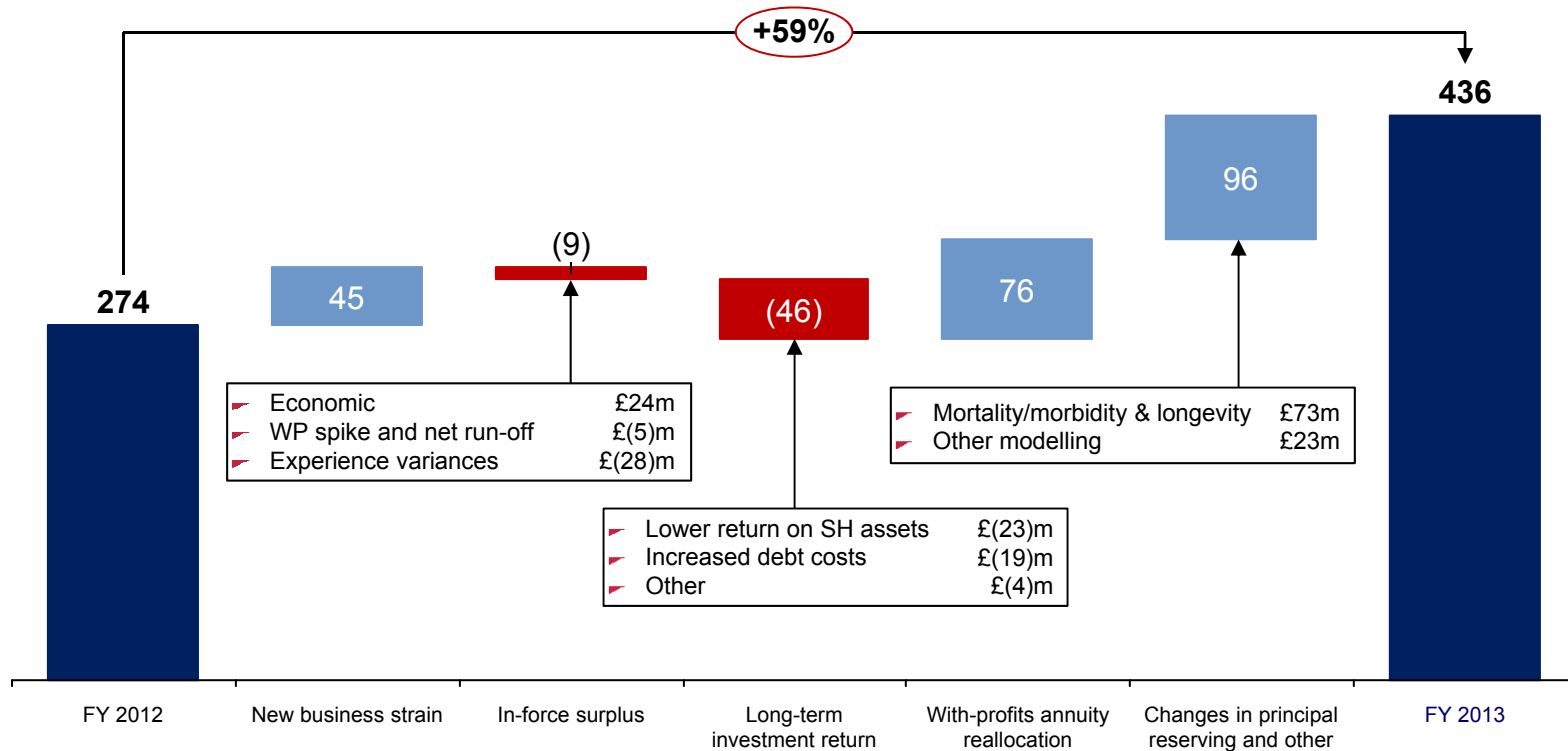
£m	FY 2012	FY 2013	FY 2014
Value of new business	(12)	(7)	↓
EEBC	5	3	↓
Operating experience, other variances and assumption changes	(93)	24	↓
Development costs	(1)	(3)	↓
<b>MCEV operating profit</b>	<b>(101)</b>	<b>17</b>	↓

# IFRS based operating profit

## Result driven by financial discipline and Heritage activities

### Group IFRS based operating profit

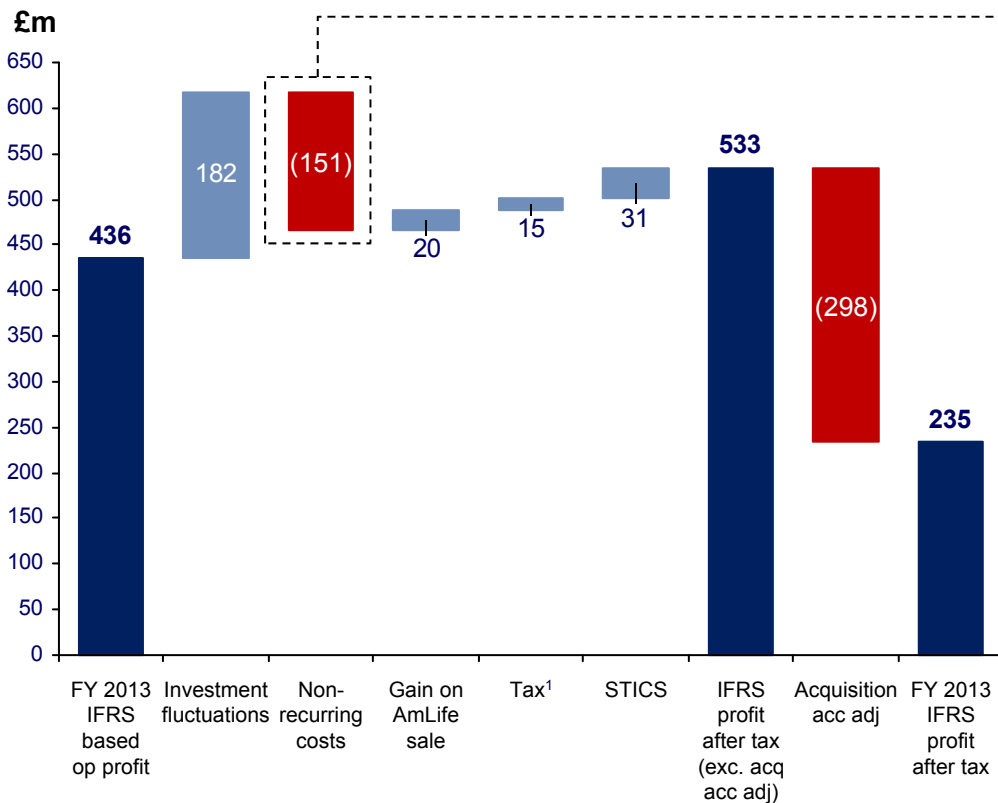
£m



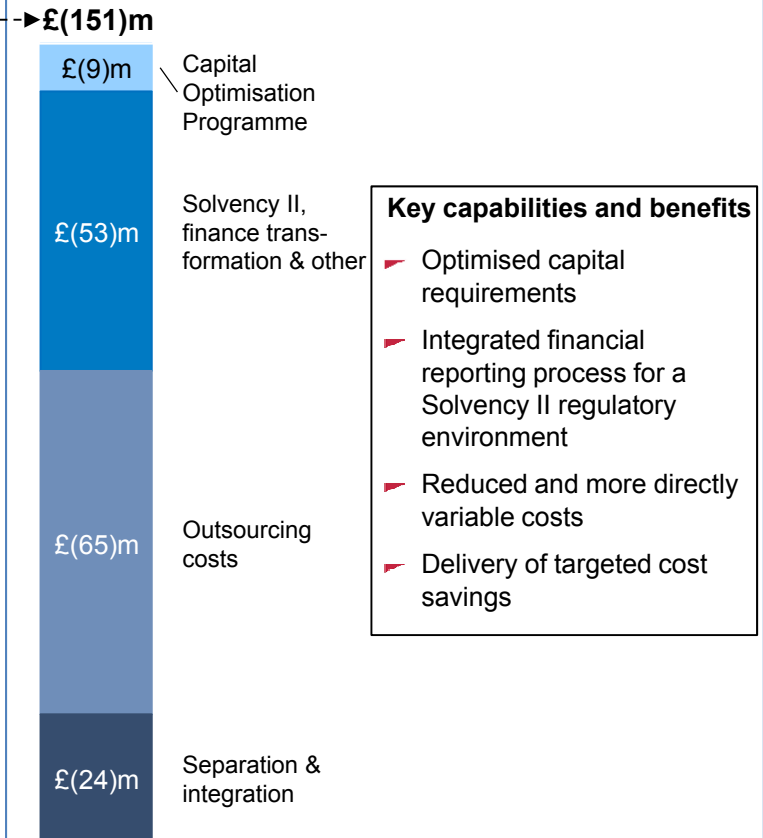
# IFRS result after tax

## Reflects positive investment variances

### Group IFRS result after tax



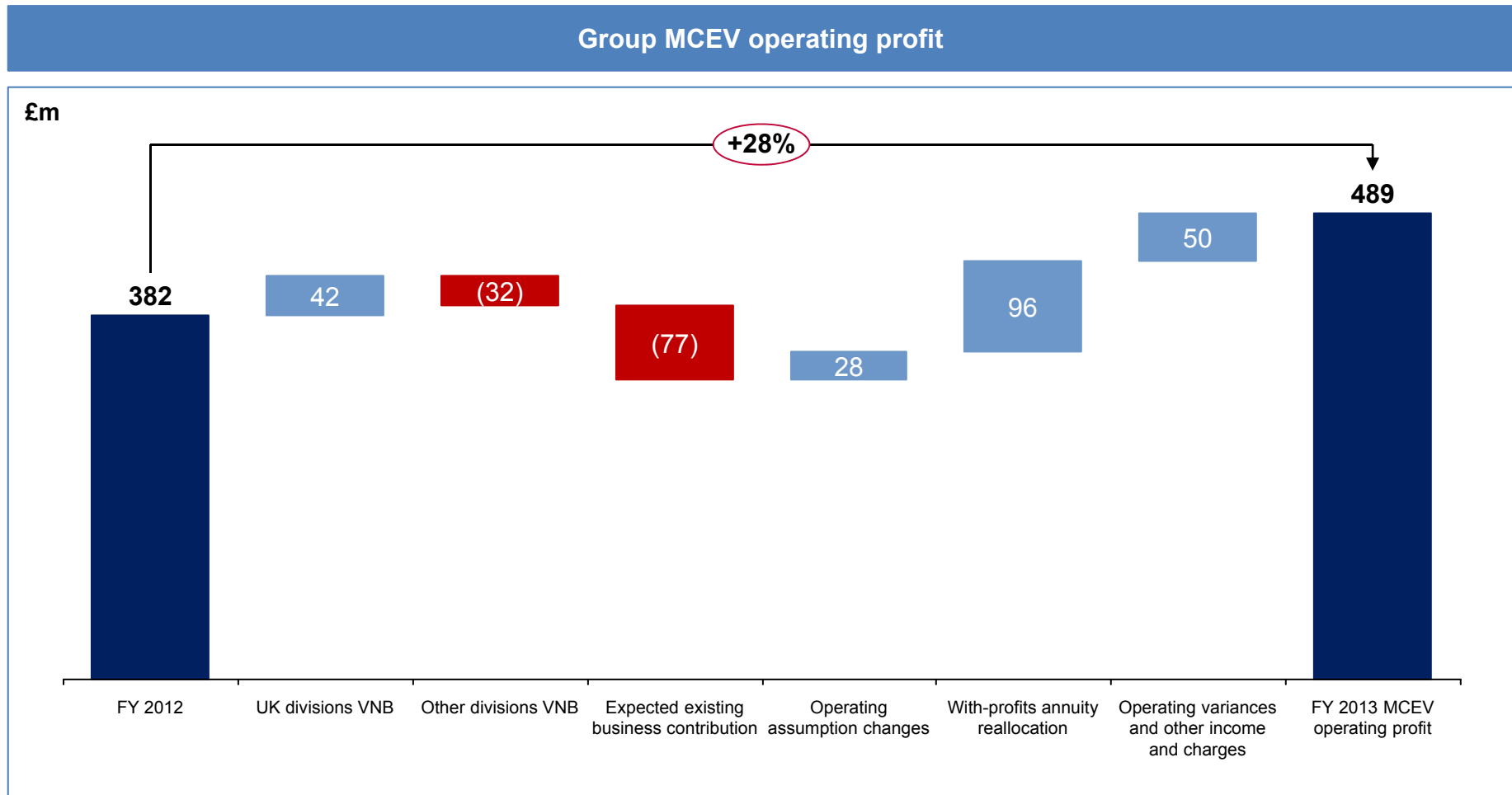
### Group non-recurring costs



1. Excluding deferred tax on amortisation of acquisition accounting adjustments

# Group MCEV operating profit

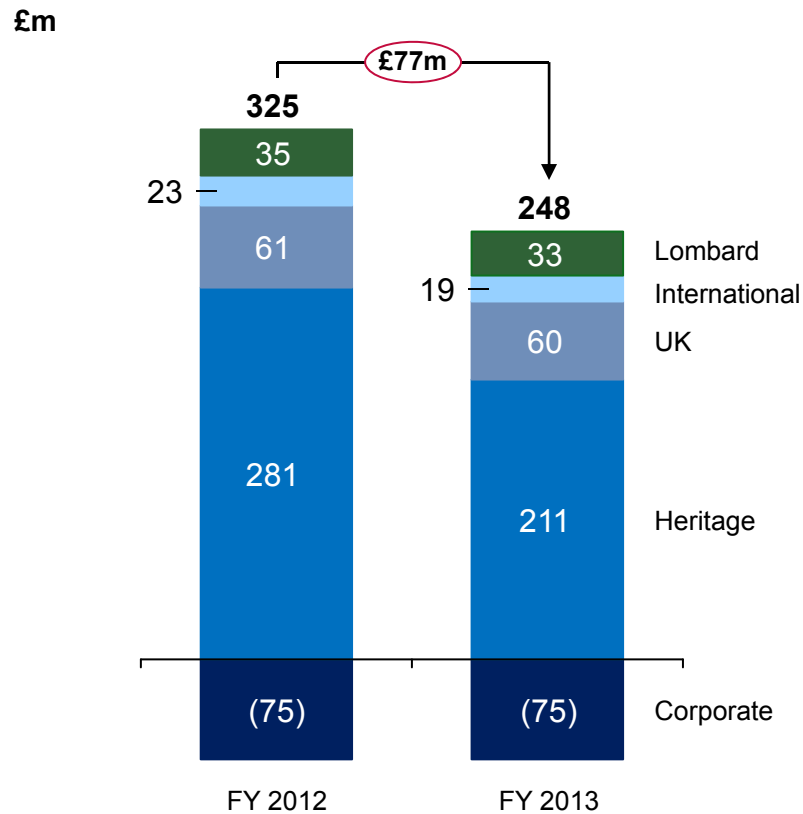
## Improvement driven by UK and Heritage divisions



# MCEV expected existing business contribution

## Lower expected returns in line with 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 <sup>1</sup>	3.30	2.25	-1.05
Cash/Gilts (Risk free)	1.35	0.67	-0.68
Debt <sup>2</sup>	7.42	4.70	-2.72

Portfolio	£bn	Principal driver	Rate (%) Δ	FY 2013 indicative impact (£m)
VIF	4.2	Risk free	-0.68	(29)
Shareholder assets	2.3	Risk free	-0.68	(16)
Corporate bonds backing annuities	5.5	Return over risk free <sup>3</sup>	-0.22	(12)
Debt, tax and other				(20)
				<b>(77)</b>

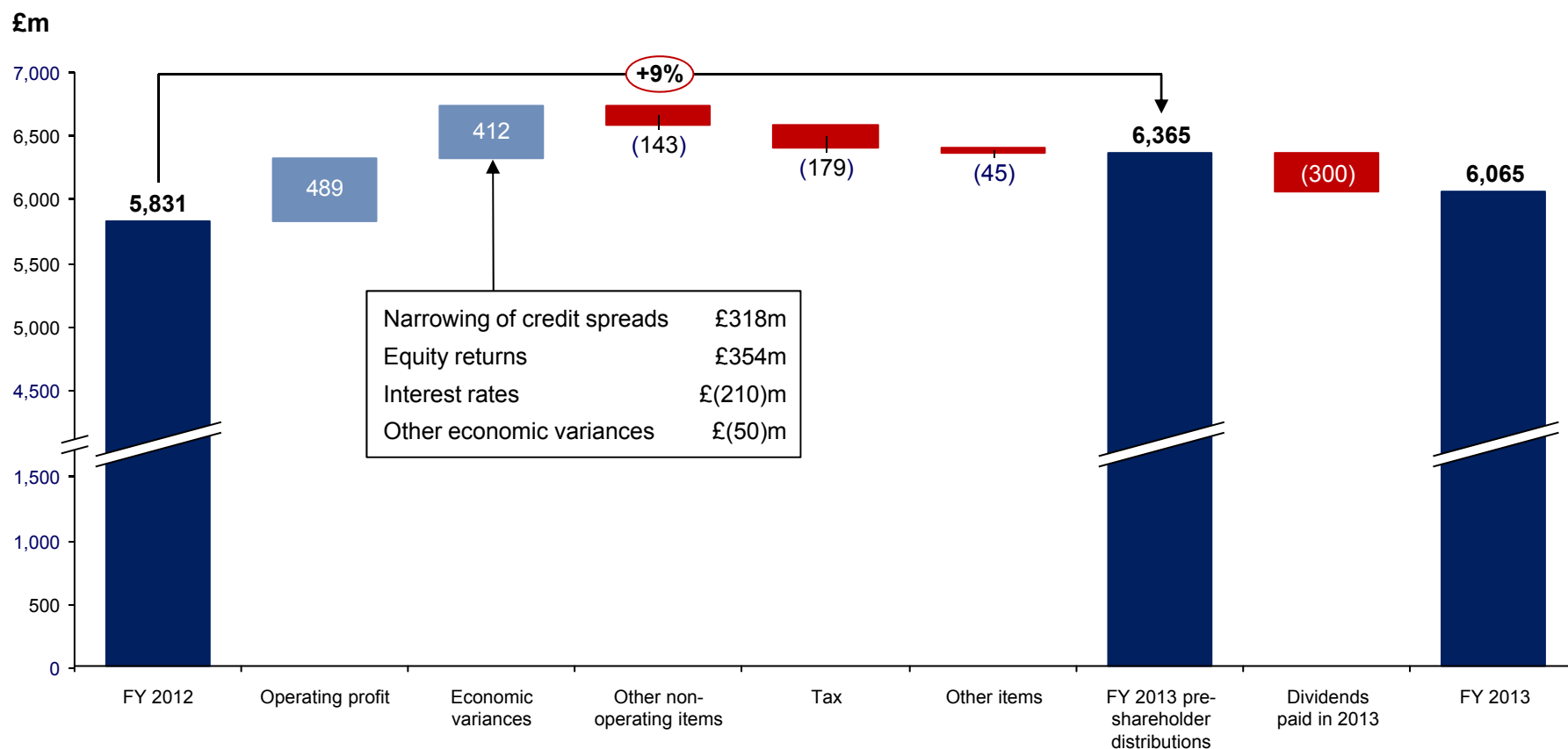
1. Return on corporate bonds varies by portfolio. The rates shown are an indicative weighted average.  
3. Excludes the impact of changes in illiquidity premium.

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

# MCEV development to 31 December 2013

Reflects good operating performance and positive investment returns

## Change in net Group MCEV

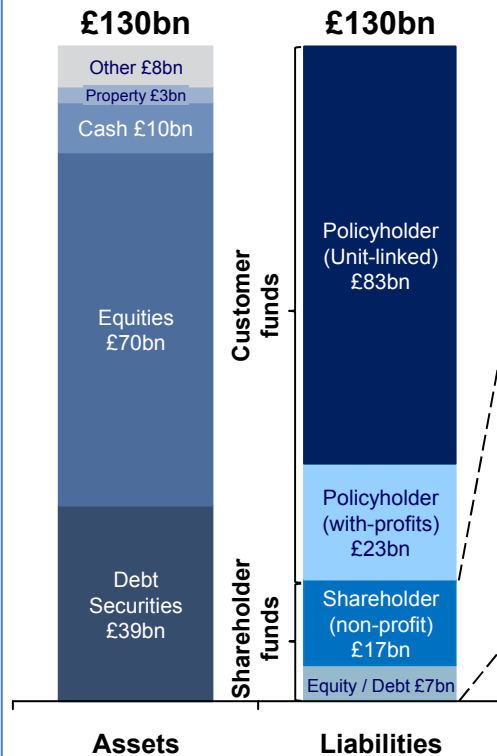


# Balance sheet

## Continued high asset quality

### Overview of balance sheet

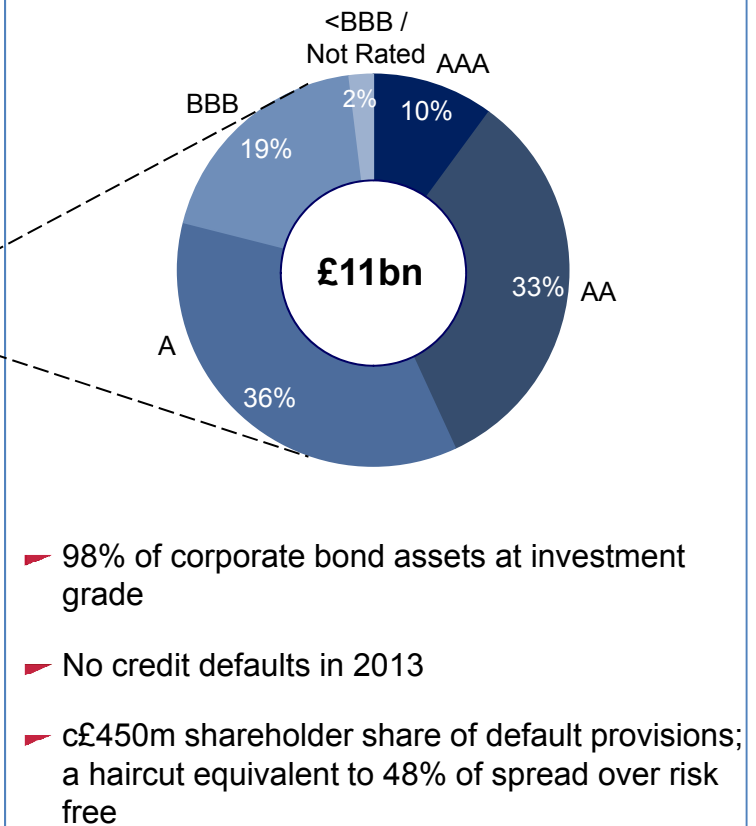
#### FY 2013 IFRS balance sheet



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

	£bn	%
Cash	3	19%
Government bonds	2	12%
Corporate bonds	11	69%
<b>Total investments</b>	<b>16</b>	<b>100%</b>
Intangible assets	4	
Reinsurance assets	3	
Other net receivables	1	
<b>Total shareholder asset exposure</b>	<b>24</b>	

### Rating of £11bn corporate bond assets



# Analysis of underlying free surplus by business type

## Greater analysis to be provided across business lines

2013

£m

	Retirement				
<u>Insurance business split</u>	Protection	Income	FPI	Heritage	Total
Expected return from in-force business	30	10	97	442	579
Investment in new business	(44)	(6)	(61)	(30)	(141)
Total	(14)	4	36	412	438 A

	Corporate benefits	Lombard	Total
<u>Asset-based split</u>			
Income	110	139	249
Outgoings	(94)	(110)	(204)
Other <sup>1</sup>	(5)	(9)	(14)
	11	20	31 B

Total underlying free surplus **469** A + B

2012<sup>2</sup>

£m

	Protection <sup>3</sup> and RI	FPI	Heritage	Total
<u>Insurance business split</u>				
Expected return from in-force business	38	93	453	584
Investment in new business	(56)	(101)	(55)	(212)
Total	(18)	(8)	398	372 A

	Corporate benefits	Lombard	Total
<u>Asset-based split</u>			
Income	98	125	223
Outgoings	(103)	(99)	(202)
Other <sup>1</sup>	3	(13)	(10)
	(2)	13	11 B

Total underlying free surplus **383** A + B

1. Other principally includes movements on required capital, non-unit reserves and regulatory DAC (in Lombard)
2. 2012 analysis is unaudited and includes management estimates.
3. 2012 Investment in new business for Protection and Retirement income are £(65) million and £9 million respectively.