

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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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 variances¹

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 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

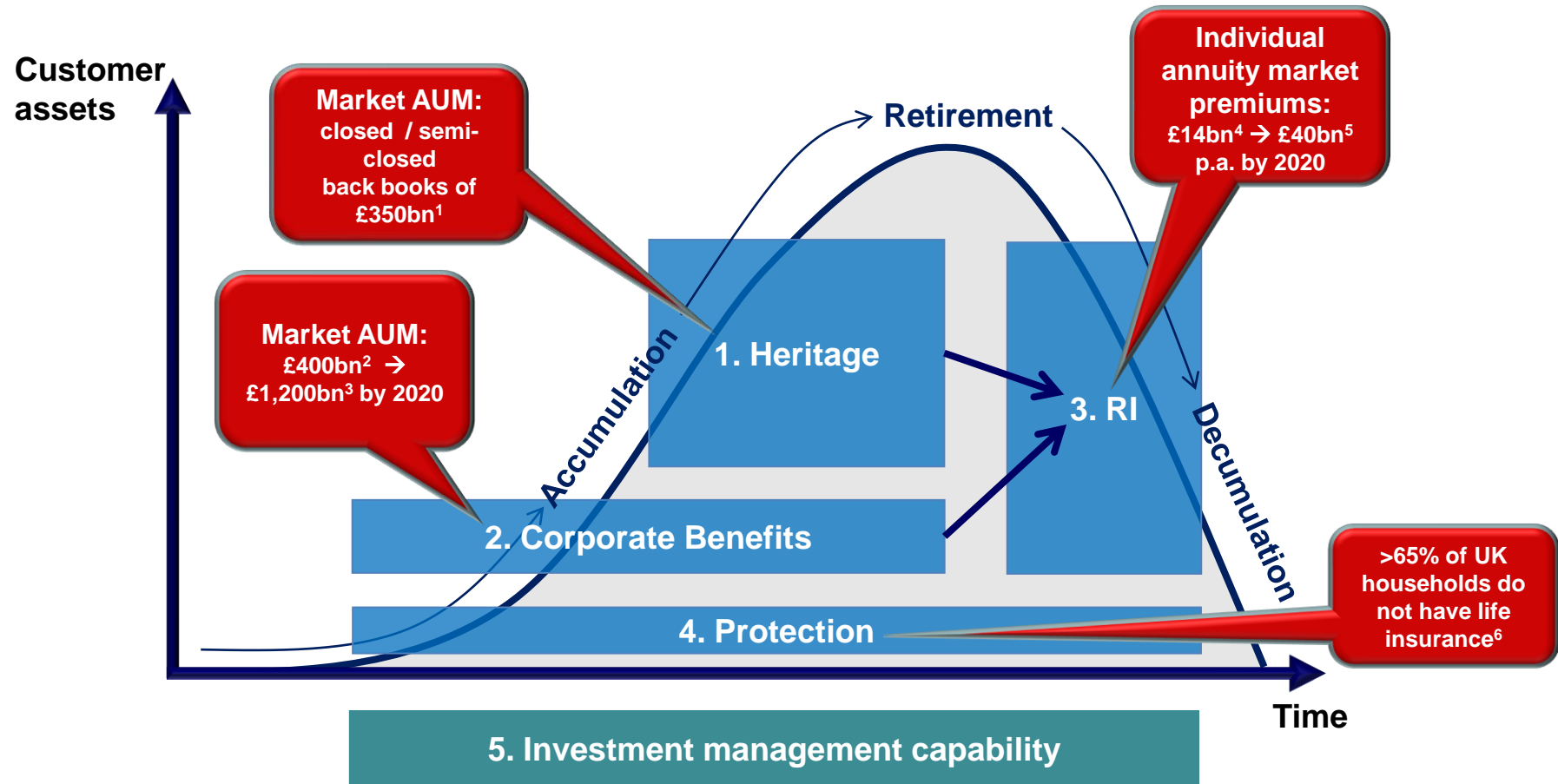
2. Protection – by 2012 new business, based on company reports

3. FPI – in Hong Kong/Middle East IFA markets (NMG Consulting Wealth Management Programme, Asia and Middle East)

4. Lombard – in European private bancassurance

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

£350bn¹ 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 2014² 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 £400bn¹ to £1,200bn² 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

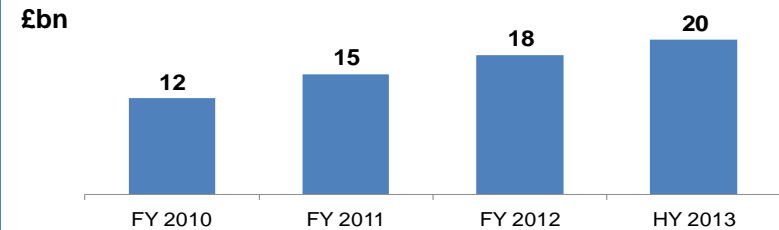
New scheme wins

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

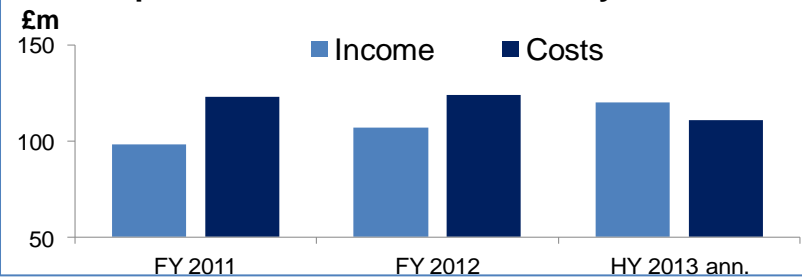
Our strategic positioning

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 income³ above fully loaded costs⁴



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 £14bn¹ in 2012 to £40bn² p.a. by 2020

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

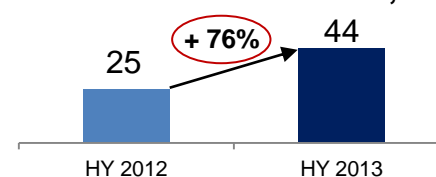
Our strategic positioning

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

Results and opportunities

Strong growth in HY VNB

Retirement Income VNB, £m



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

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

Competitive advantage and value drivers

High quality CI / IP offers

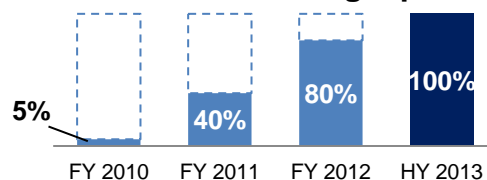
- Further recognition of products and service¹



Migration to low cost platforms complete

- Market-leading cost efficiency²

% new business on target platforms



Distribution partnerships



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

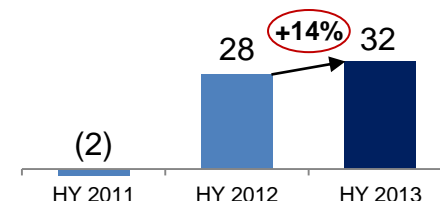
Our strategic positioning

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

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

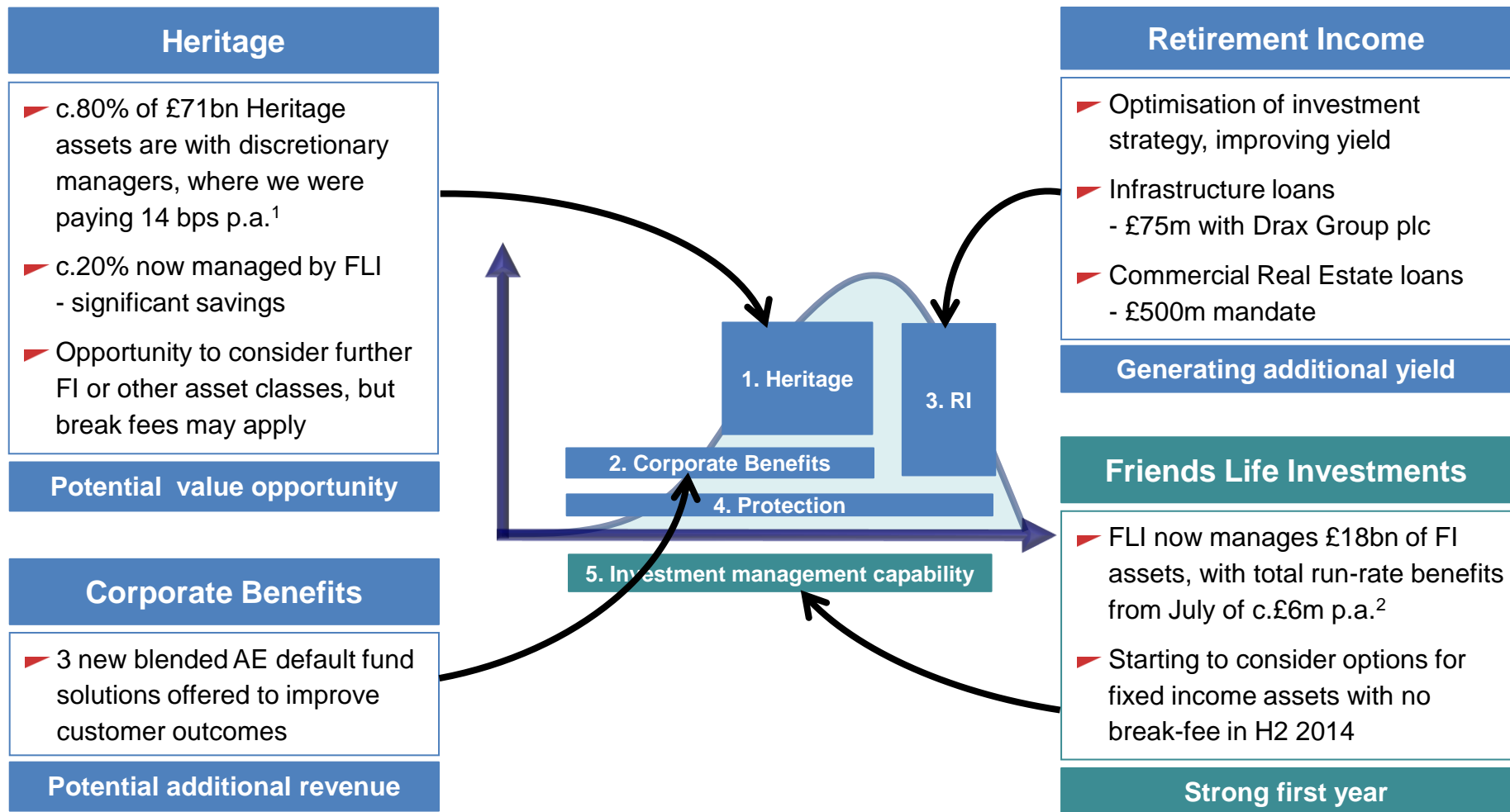


- Distribution of a suite of high-quality simple protection products in-store, over the phone and online

2. Oliver Wyman, November 2011

5. Investment management capability

Building broad capability and growing FLI to support our Retirement Businesses



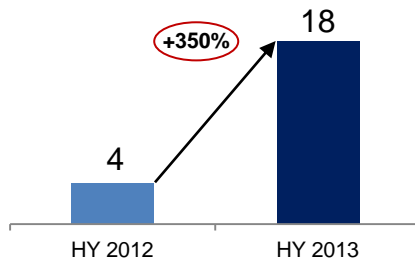
1. Assets managed by discretionary managers (FLI and external), cost evaluated in 2011 including VAT
2. Equivalent at Jan 2013 c.£1m p.a.

International division

Good progress on strategy delivery and cash generation

Improved cash generation

SFS growth, £m



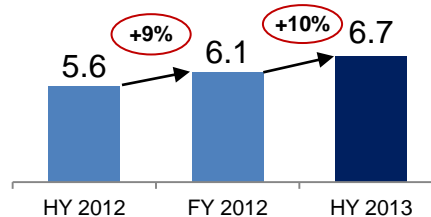
Exiting non-core markets

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

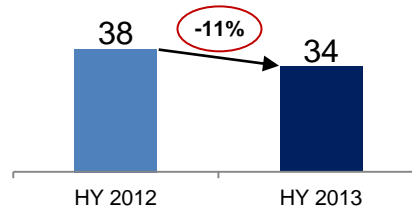
1. Total FPI operating expenses
2. Q1 unit-linked sales year-on-year in Hong Kong (source: OCI) and Singapore (source: LIA)

FPI (core markets)

FPIL AUM growth, £bn



Operating expenses¹ reduced, £m

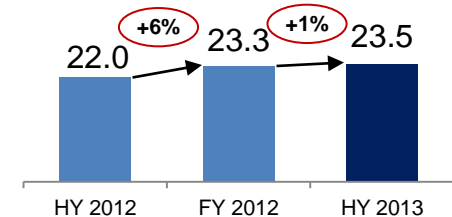


- Continued focus on Bank partnerships
- Sales steady against lower unit-linked market sales in Asia²

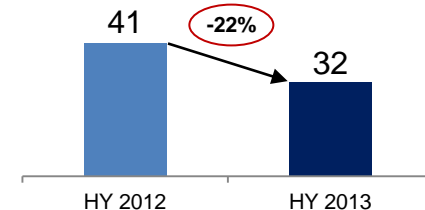
Interim dividend of £6m

Lombard

AUM growth, €bn



Operating expenses reduced, £m



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

Interim dividend of £4m

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

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2013 Half Year Financial Highlights

Operating performance

Good operating performance across all metrics

- 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%

Capital position and dividend

Robust and low-risk balance sheet

- 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

Progress toward targets

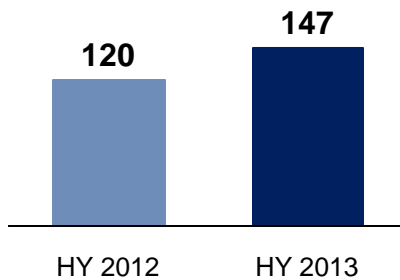
Confident in delivery of vast majority of 2013 targets

- 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

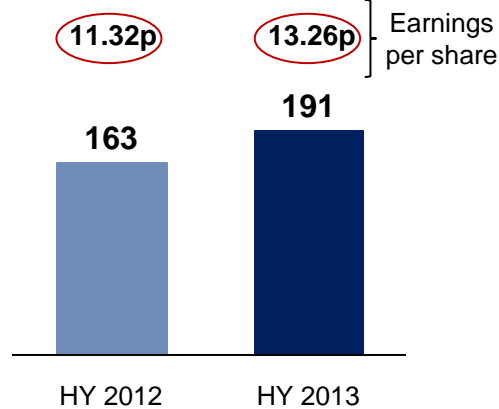
2013 Half Year Financial Highlights

Strategic execution delivering results

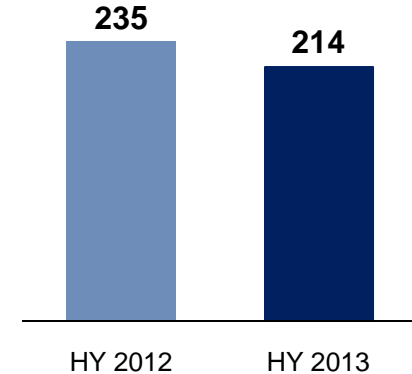
Sustainable free surplus, £m



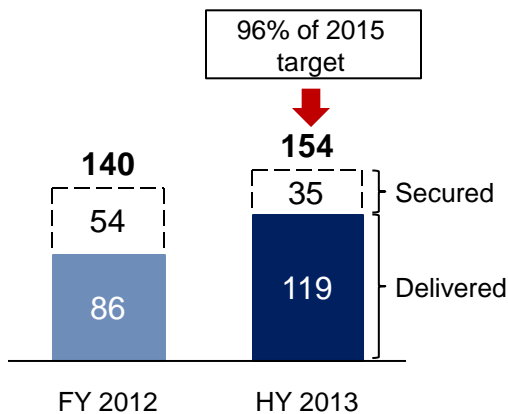
IFRS based operating profit, £m



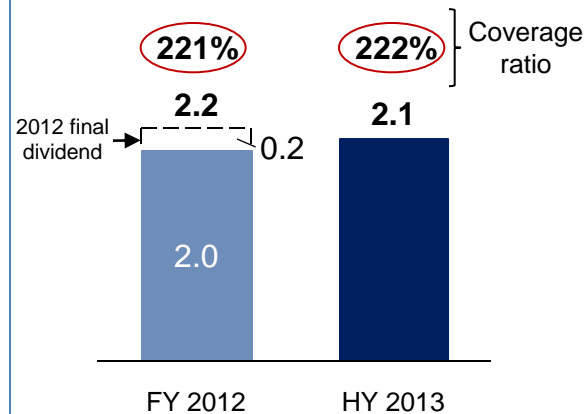
MCEV operating profit, £m



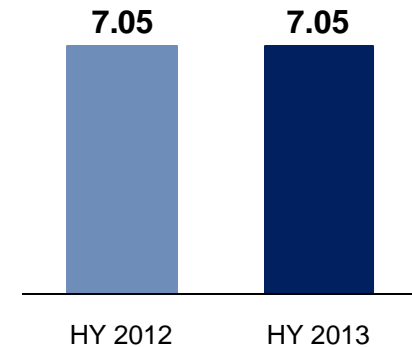
Run-rate cost savings, £m



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

Debt costs

Development
costs

Investment in new
business

**Sustainable free
surplus**

Sustainable free surplus

Improving surplus generation; higher quality

Sustainable free surplus

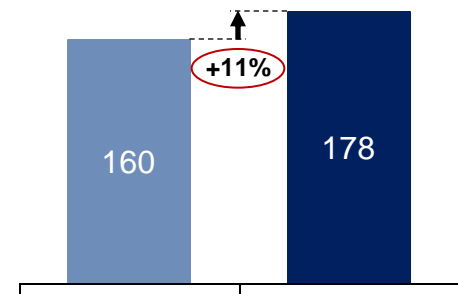
	£m	HY 2012	HY 2013
Sources	Expected return from in-force business	348	351
Uses	Investment in new business	(157)	(110)
	Development costs	(20)	(20)
	Coupon on debt	(42)	(45)
		129	176
Variances / other	Operating experience variances	(23)	(17)
	Other operating variances	16	(2)
	Other income and charges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

-30%

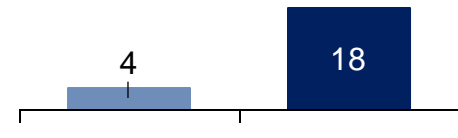
+23%

Sustainable free surplus contribution

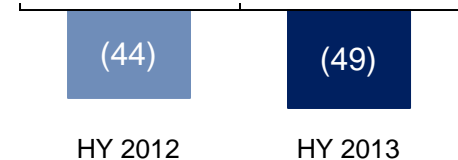
UK & Heritage divisions, £m



International division, £m



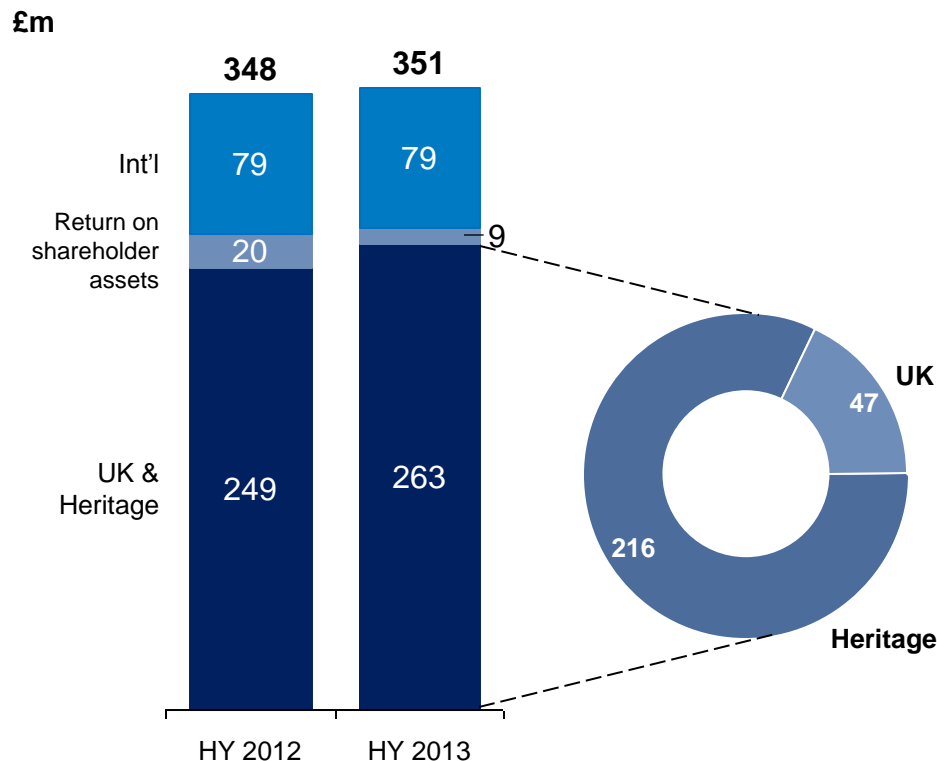
Corporate, £m



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

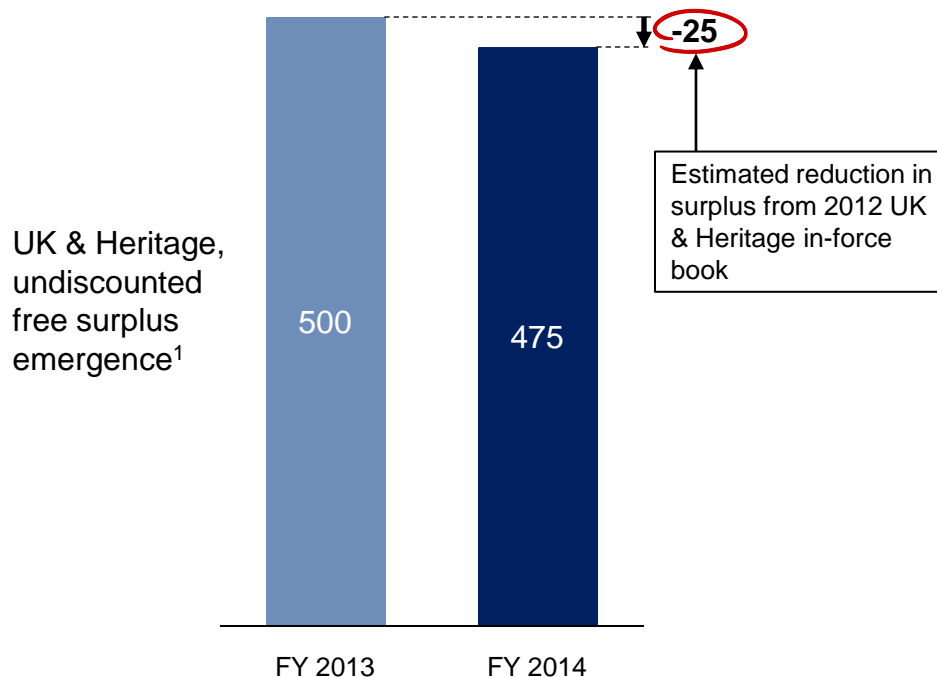
- FPI surplus lower by £8m principally reflecting reduced volumes of higher charge new business in 2012. Further reduction expected in H2
- Growth in Lombard, up £8m, driven by higher opening funds under management

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 transfer² (£10m p.a. from 2014)
- Sustainable benefits from asset recaptures in FLI (additional £5m p.a.)

Driving increased confidence in replenishing future run-off

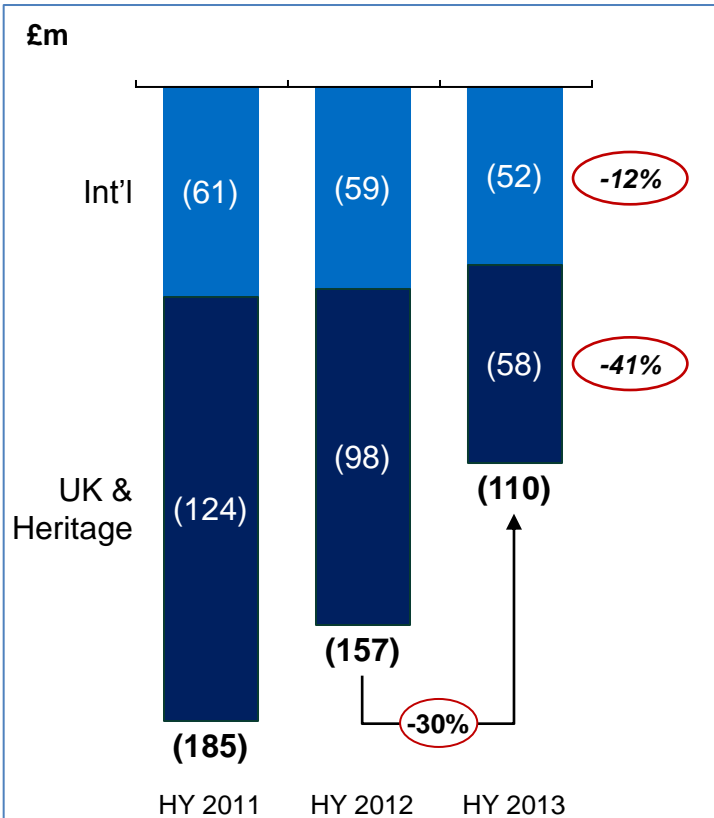
1. Based on management estimates and expectations at 31 December 2012 (unaudited), relates specifically to the in-force book as at 31 December 2012 and is consistent with that reported in full year 2012 results. Excludes return on shareholder assets and new business written in 2013.

2. With-profits annuities transfer subject to regulatory approval

Investment in new business

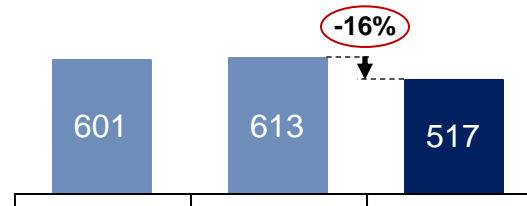
New business acquired with increasing efficiency

Group investment in new business



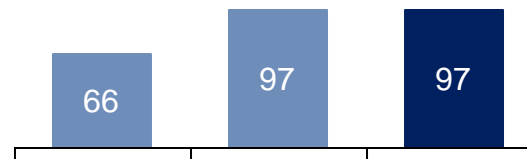
Group new business metrics

APE, £m



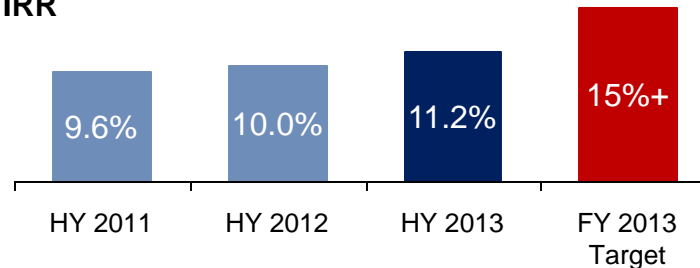
	£m	chg
UK	324	-8%
Heritage	27	-55%
Int'l core	157	-7%
Int'l non-core	9	-70%

VNB, £m



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

IRR



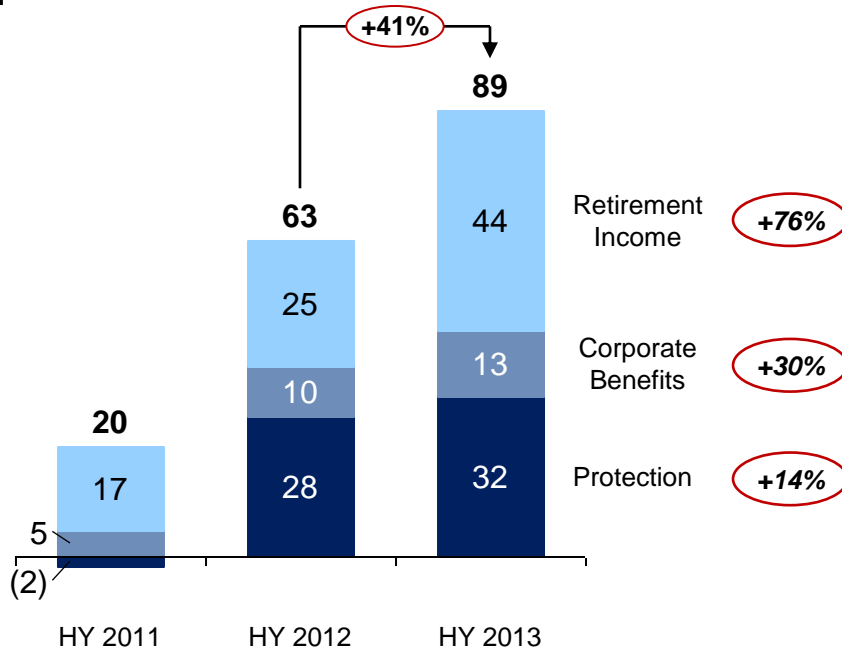
**IRR of 15.4%
for core new
business
franchises**

UK division new business profitability

Strong growth in new business contribution

Growth in UK division VNB

£m



New business margin %¹

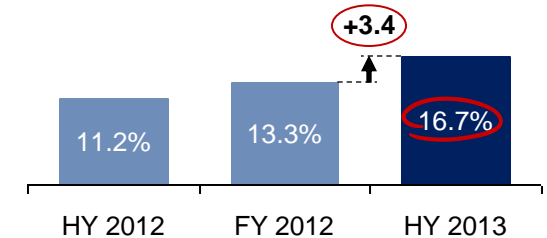
3.1%



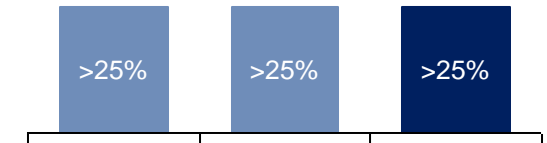
4.9%

New business IRR

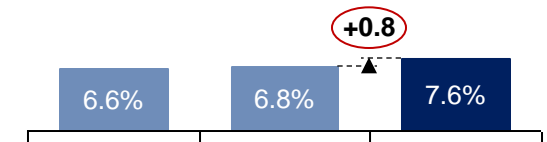
UK division



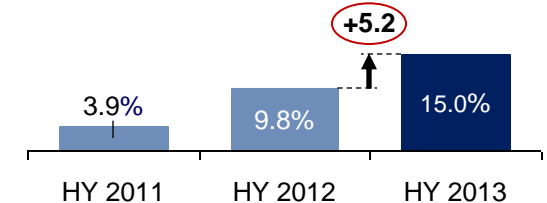
Retirement Income



Corporate Benefits



Protection

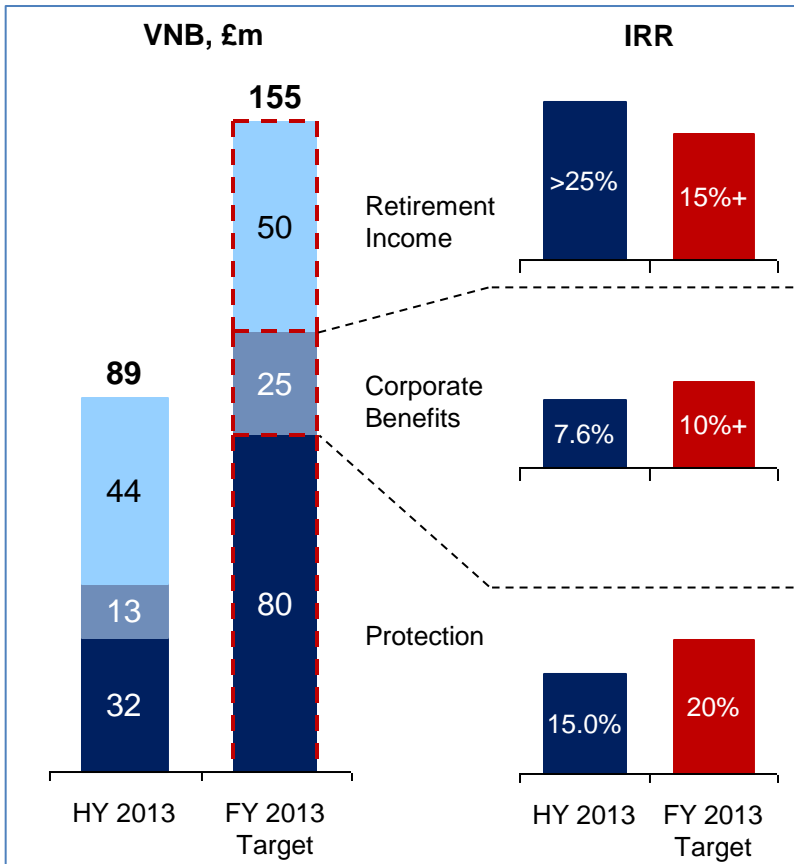


1. Pre-tax VNB / PVNBP

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

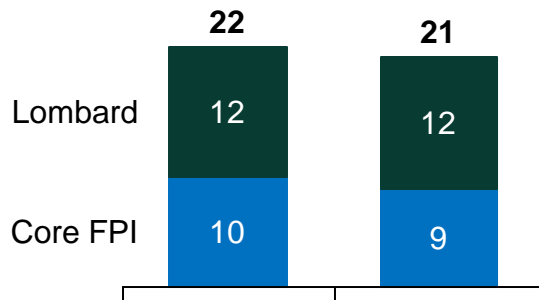
Good progress; competitive challenges remain

International: Core new business

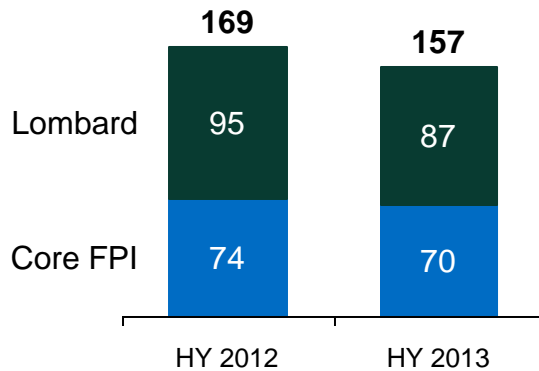
Resilient performance in difficult market environment

Core International new business

VNB, £m

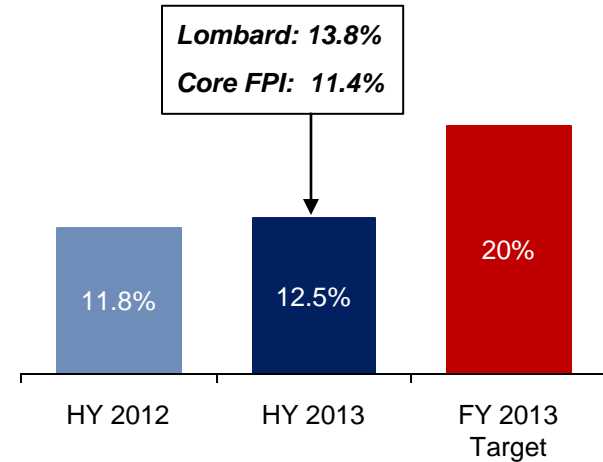


APE, £m



Core International new business IRR

IRR

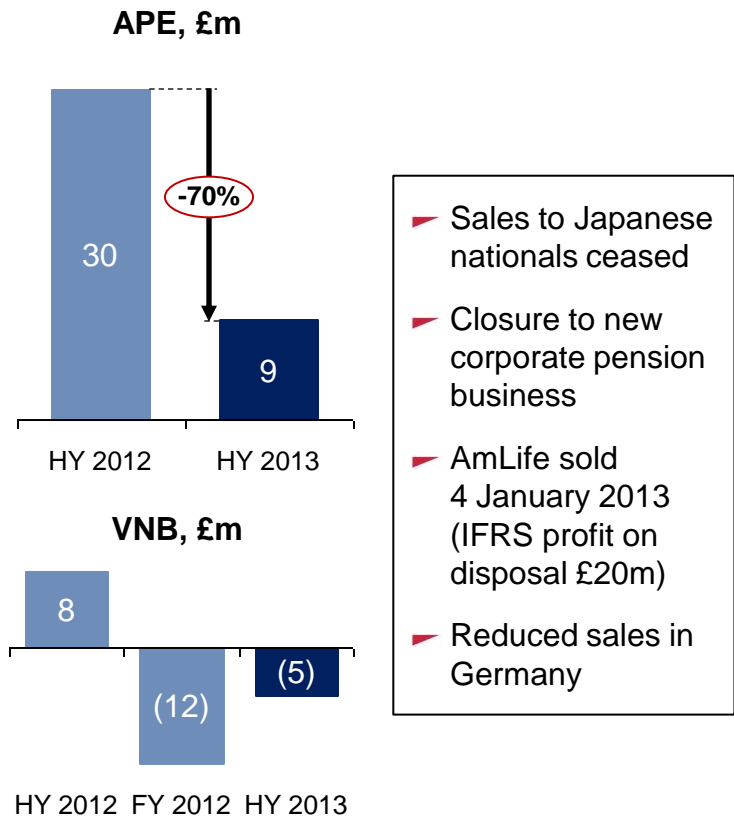


- ▶ Lombard profitability and IRR are geared to fourth quarter volumes; acquisition costs largely fixed
- ▶ Core FPI business resilient in challenging markets

International: Non-core new business

Market exits to be completed by end of Q3

Non-core International new business volumes



Non-core operational drag

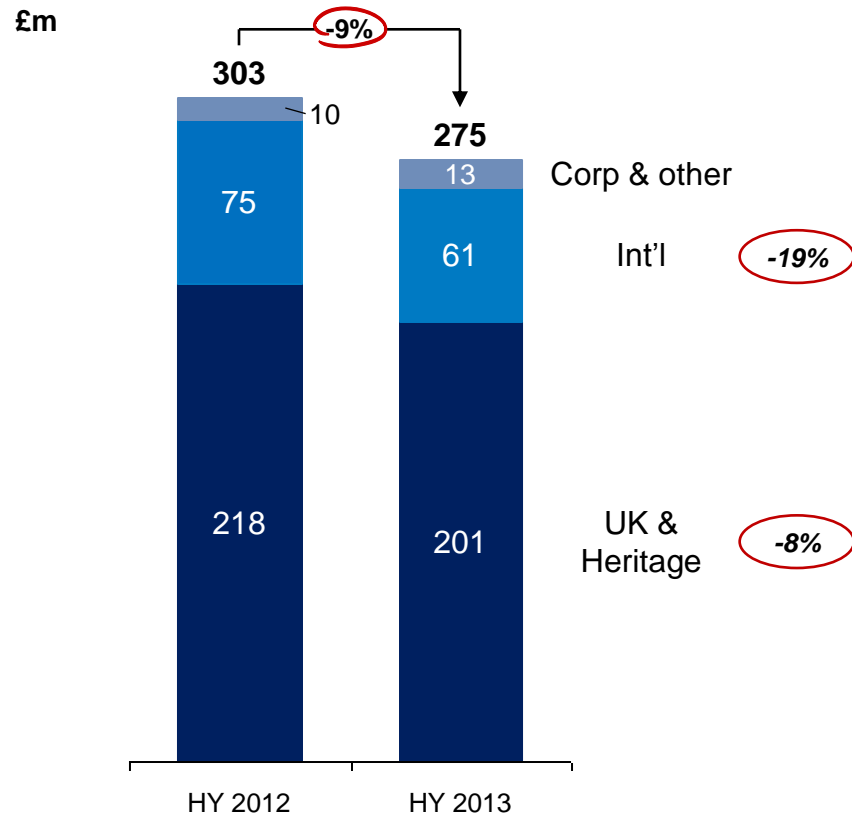
£m	HY 2012	HY 2013
Expected return from in-force business	14	13
Investment in new business	(22)	(16)
Development costs	-	(1)
Operating experience variances	(4)	1
Other operating variances	-	2
Sustainable free surplus	(12)	(1)

- 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

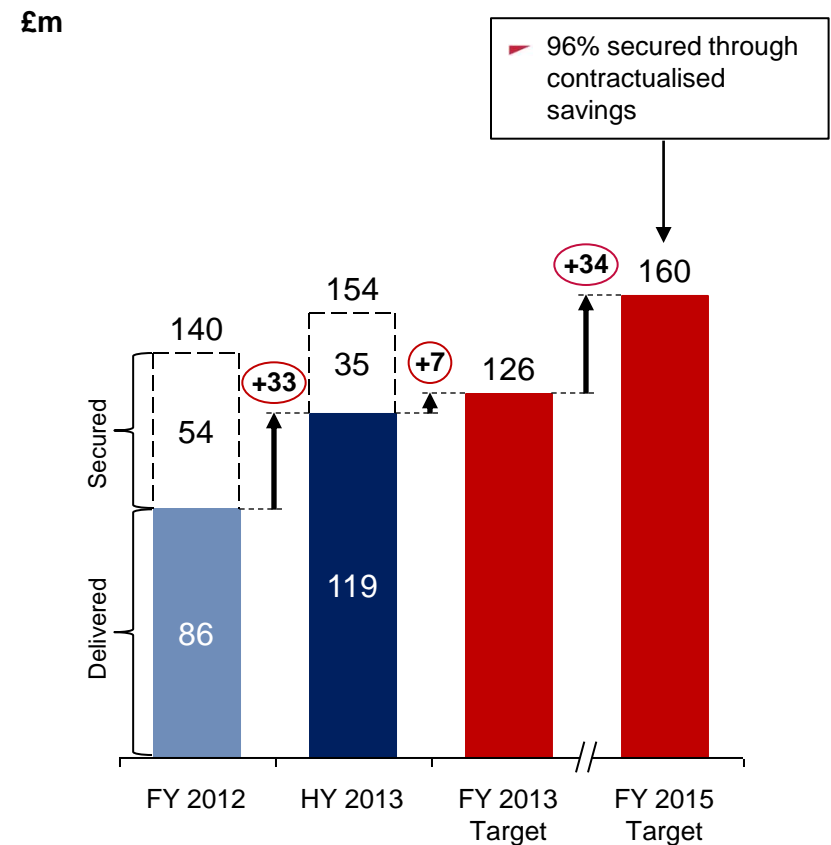
Operating expenses and cost savings

96% of 2015 cost saving target secured

Group operating expenses¹

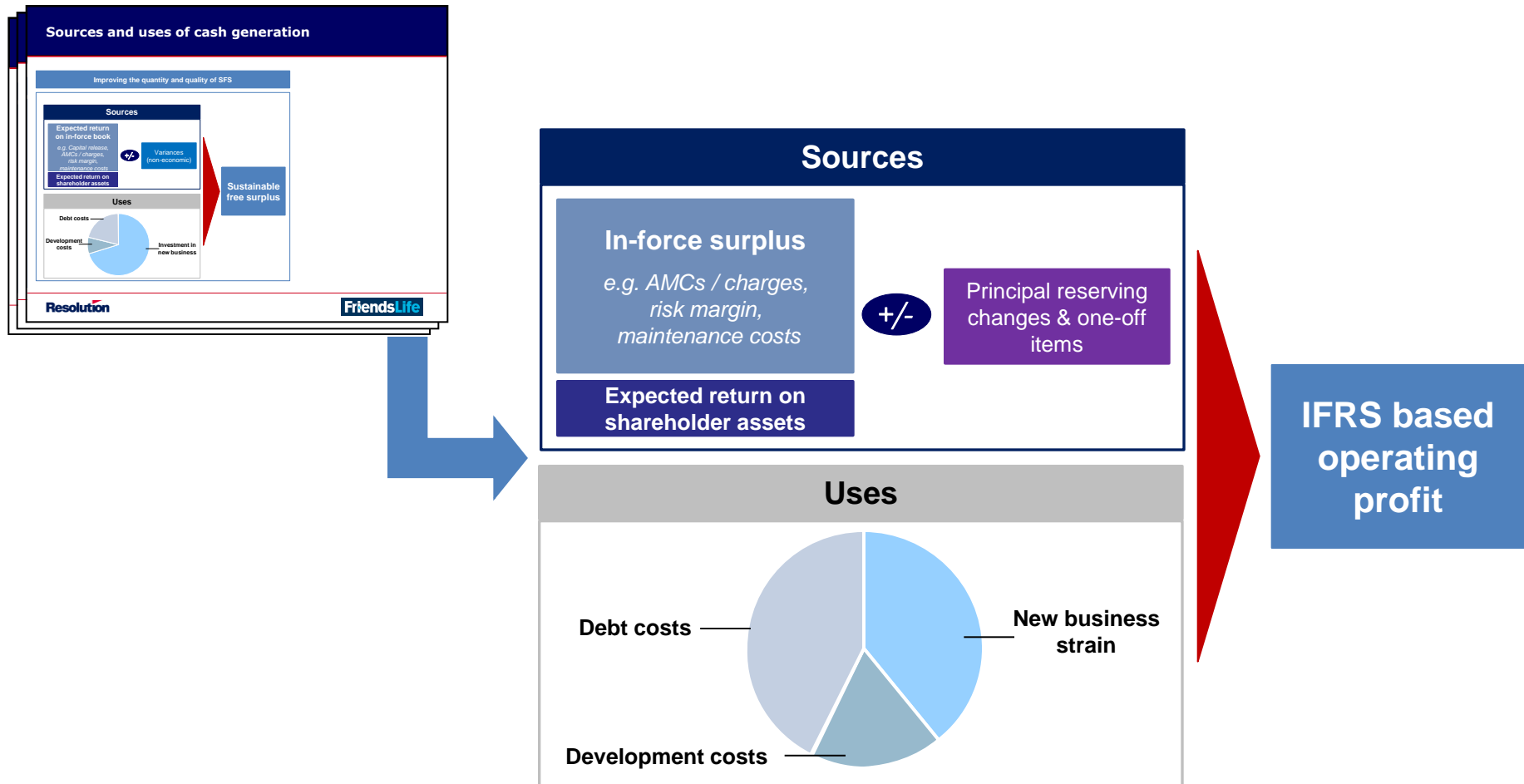


UK cost savings run-rate



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

IFRS based operating profit



IFRS based operating profit

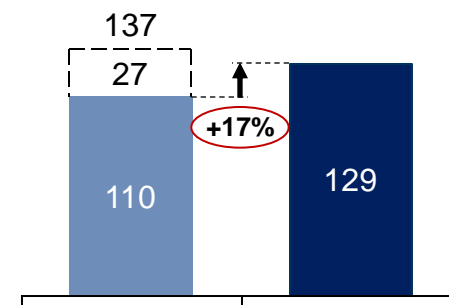
Profits up 17%

Group IFRS based operating profit

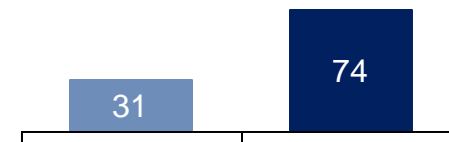
	£m	HY 2012	HY 2013	
Sources	In-force surplus	275	319	+16%
	Expected return on shareholder assets ¹	32	29	
Uses	Finance costs ¹	(49)	(60)	
	New business strain	(83)	(55)	-34%
	Development costs	(22)	(26)	
Other	Principal reserving changes & one-offs	27	2	
	Other income and charges	(17)	(18)	
IFRS based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

IFRS based operating profit contribution

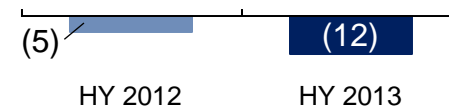
UK & Heritage divisions, £m



International division, £m



Corporate, £m

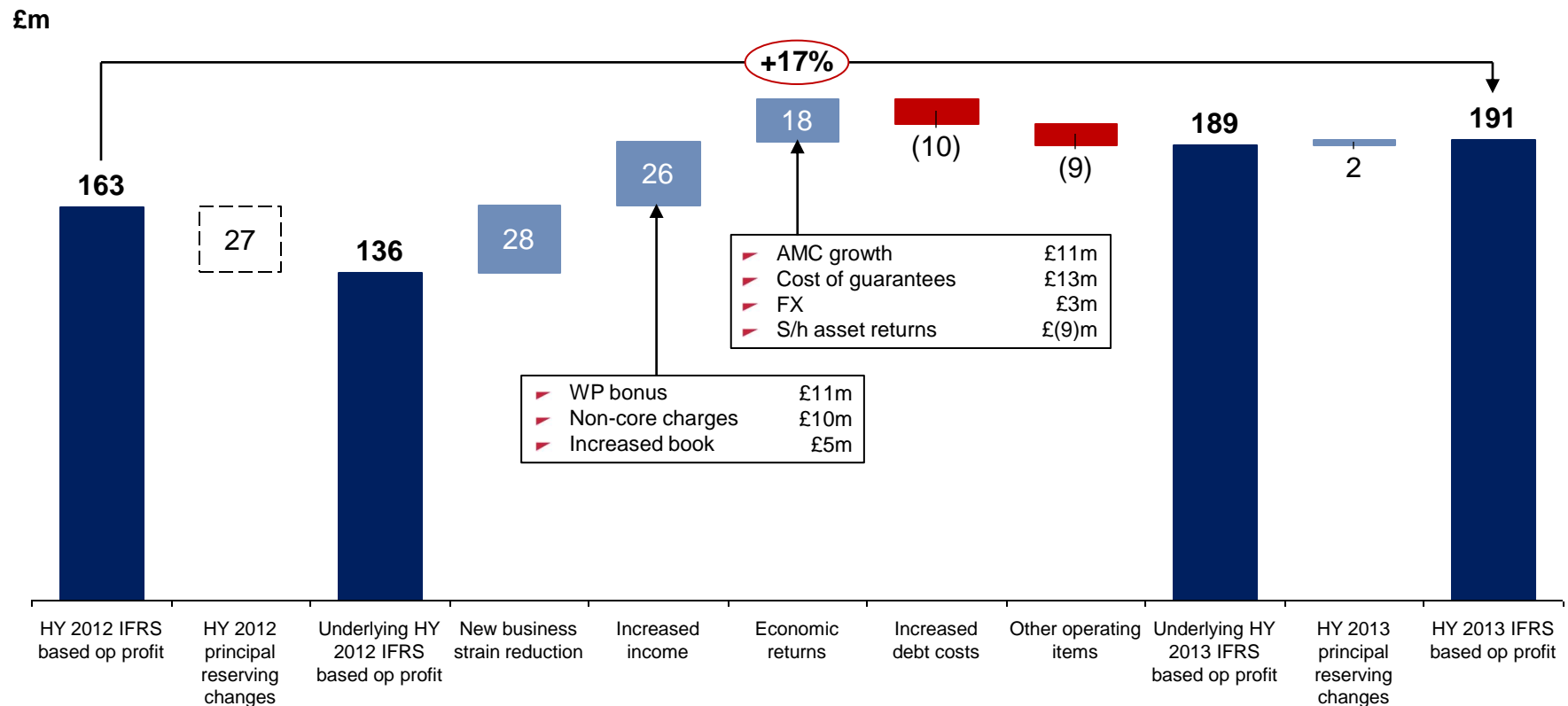


1. Expected return on shareholder assets less finance costs is equivalent to long-term investment return

Group IFRS based operating profit

Strong profit delivery

Group IFRS based operating profit



MCEV operating profit

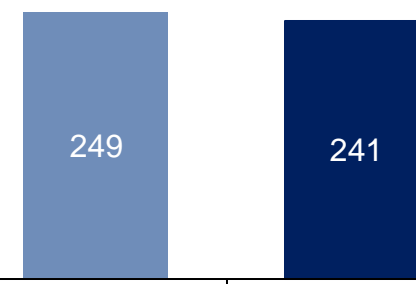
Resilient UK & Heritage performance; International result rebased

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%
ROEV¹	6.4%	6.1%

MCEV operating profit contribution

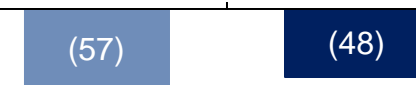
UK & Heritage divisions, £m



International division, £m



Corporate, £m



HY 2012

HY 2013

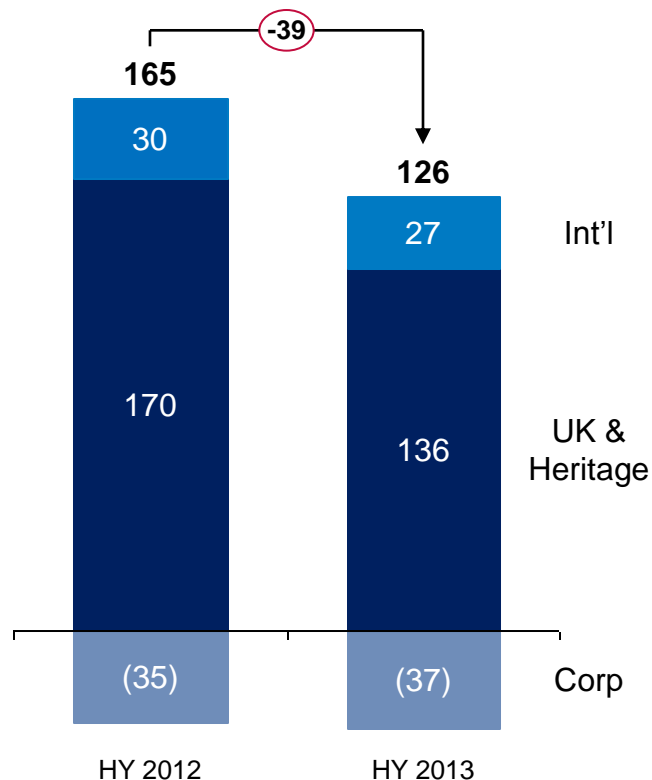
1. Measured at FLG level

MCEV expected existing business contribution

Contribution in-line with year end guidance

Movement in expected existing business contribution

£m



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)

- Return on corporate bonds varies by portfolio. The rates shown are an indicative weighted average
- Rates applied to debt commitments are equivalent to the cash/gilt return plus spread on Group debt

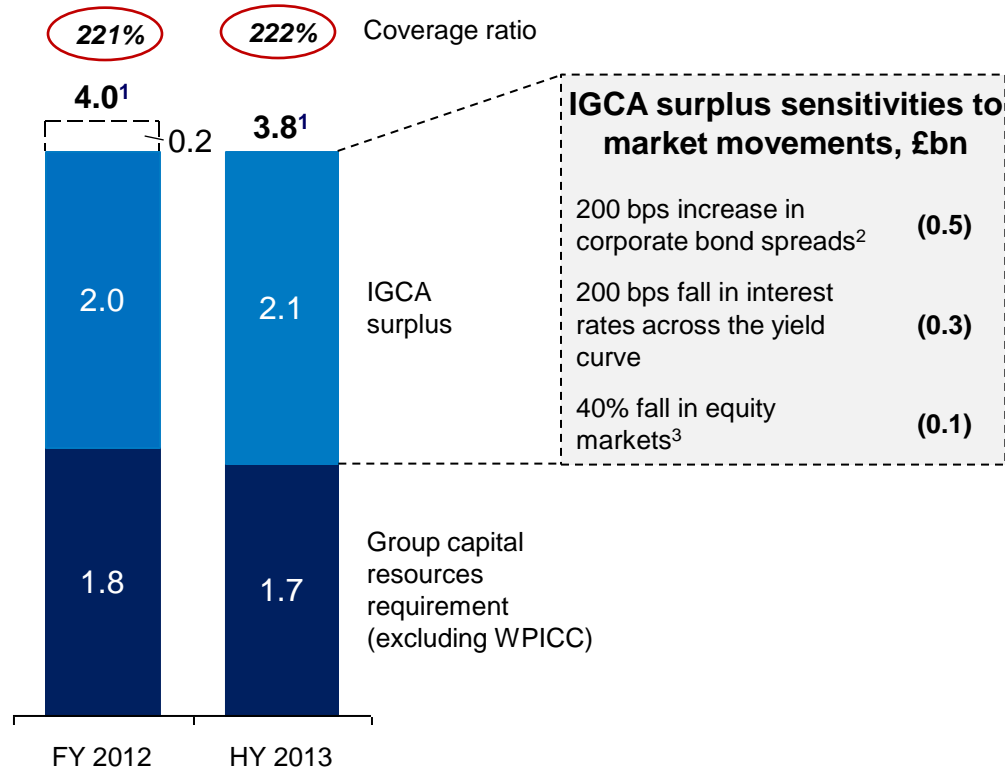
- Excludes the impact of changes in illiquidity premium

Capital and cash

Strong capital position maintained

IGCA surplus and sensitivities to market movements

£bn



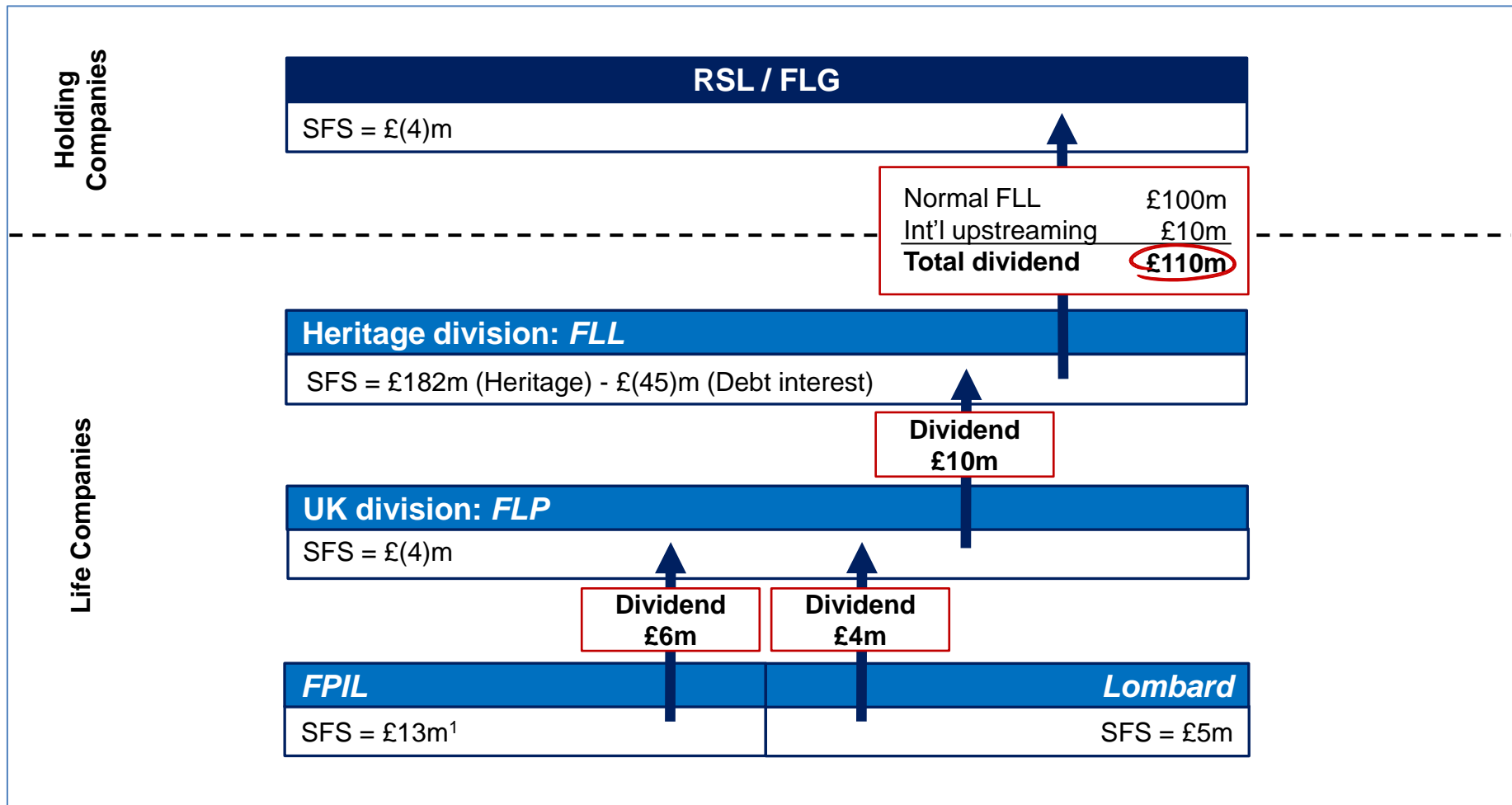
IGCA remains the biting constraint

- 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 £3.7bn⁴ (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)

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	<ul style="list-style-type: none"> £400m from sustainable sources in medium term 	●	<ul style="list-style-type: none"> Timescale extended due to economic headwinds
	UK & Heritage new business strain	<ul style="list-style-type: none"> £200m reduction by 2013 	✓	<ul style="list-style-type: none"> Delivered 2012
	UK & Heritage cost reductions	<ul style="list-style-type: none"> £126m of cost reductions by 2013 £160m of cost reductions by 2015 	●	<ul style="list-style-type: none"> Fully embedded
	Cash dividends from International businesses	<ul style="list-style-type: none"> FPI: £20m for 2013 (due spring 2014) Lombard: cumulative £37m by spring 2015; £30m pa thereafter 	●	<ul style="list-style-type: none"> On track
Returns	FLG operating ROEV	<ul style="list-style-type: none"> 10%+ in medium term 	●	<ul style="list-style-type: none"> Timescale extended due to economic headwinds
	New business: VNB & (NBS), (£m) IRR, (%)	UK <ul style="list-style-type: none"> Protection: £80m, £(30)m, 20% Corporate Benefits: £25m, £(75)m, 10%+ Retirement Income: £50m, 15%+ 	● } ● } ✓ }	<ul style="list-style-type: none"> Strong second half delivery expected
		International <ul style="list-style-type: none"> FPI Lombard 	} } }	<ul style="list-style-type: none"> Steady progress made following strategic review
		Group total	} } }	<ul style="list-style-type: none"> On track
		by 2013	} } }	
		£155m VNB	} } }	
		20%	} } }	
		15%+	} } }	

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

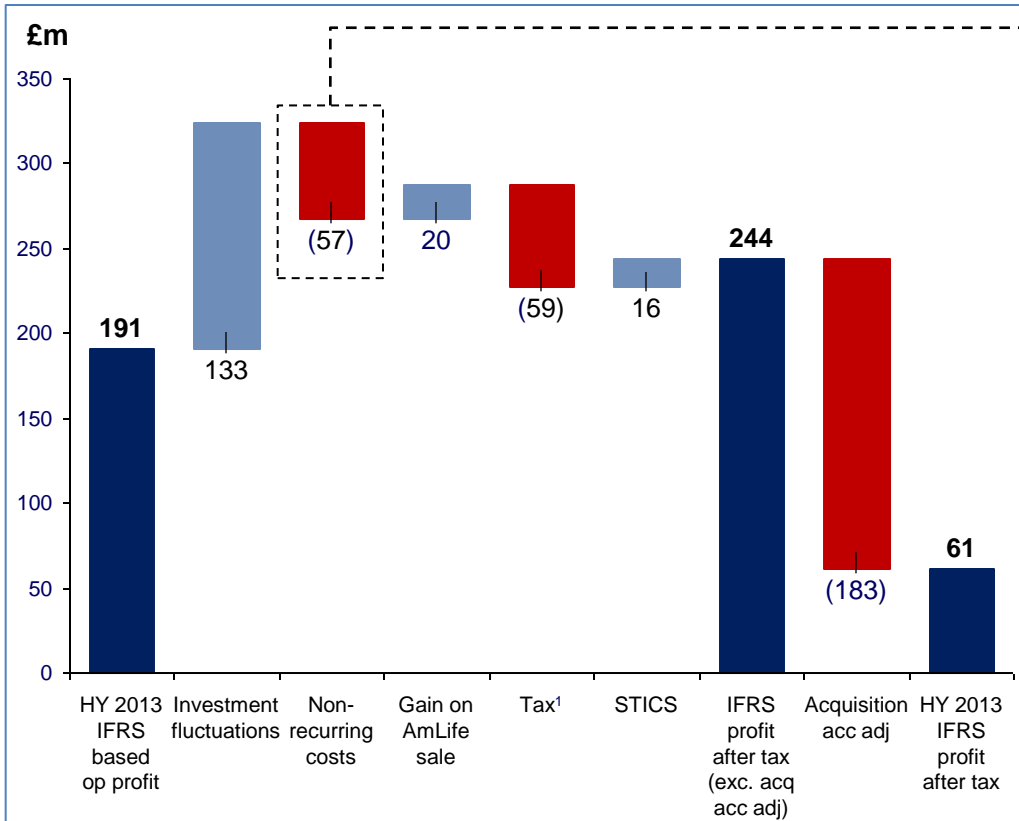
Questions

Appendix

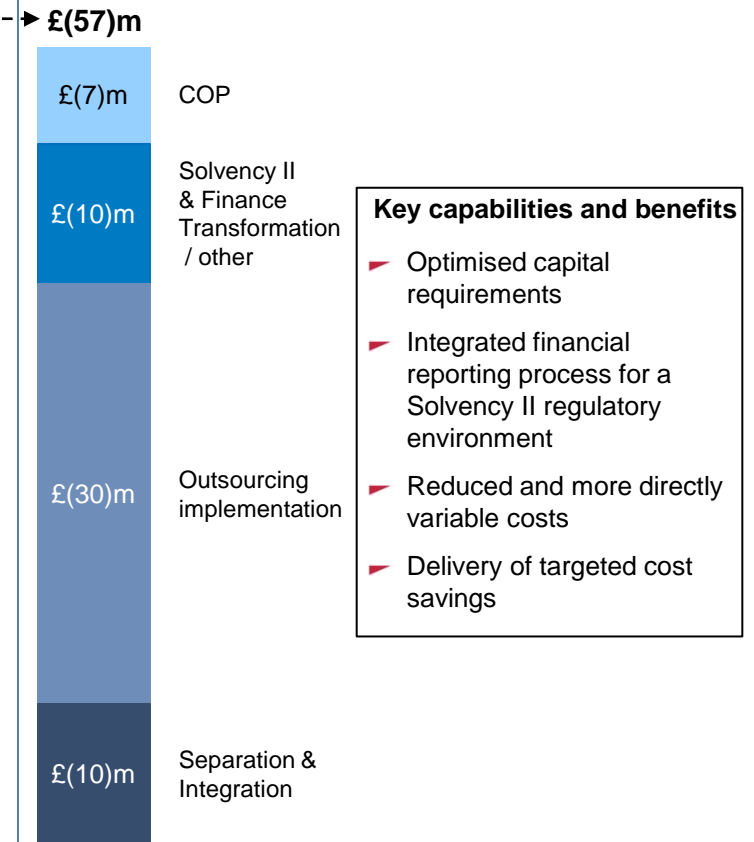
IFRS result after tax

Reflects positive investment variances

Group IFRS result after tax



Group non-recurring costs

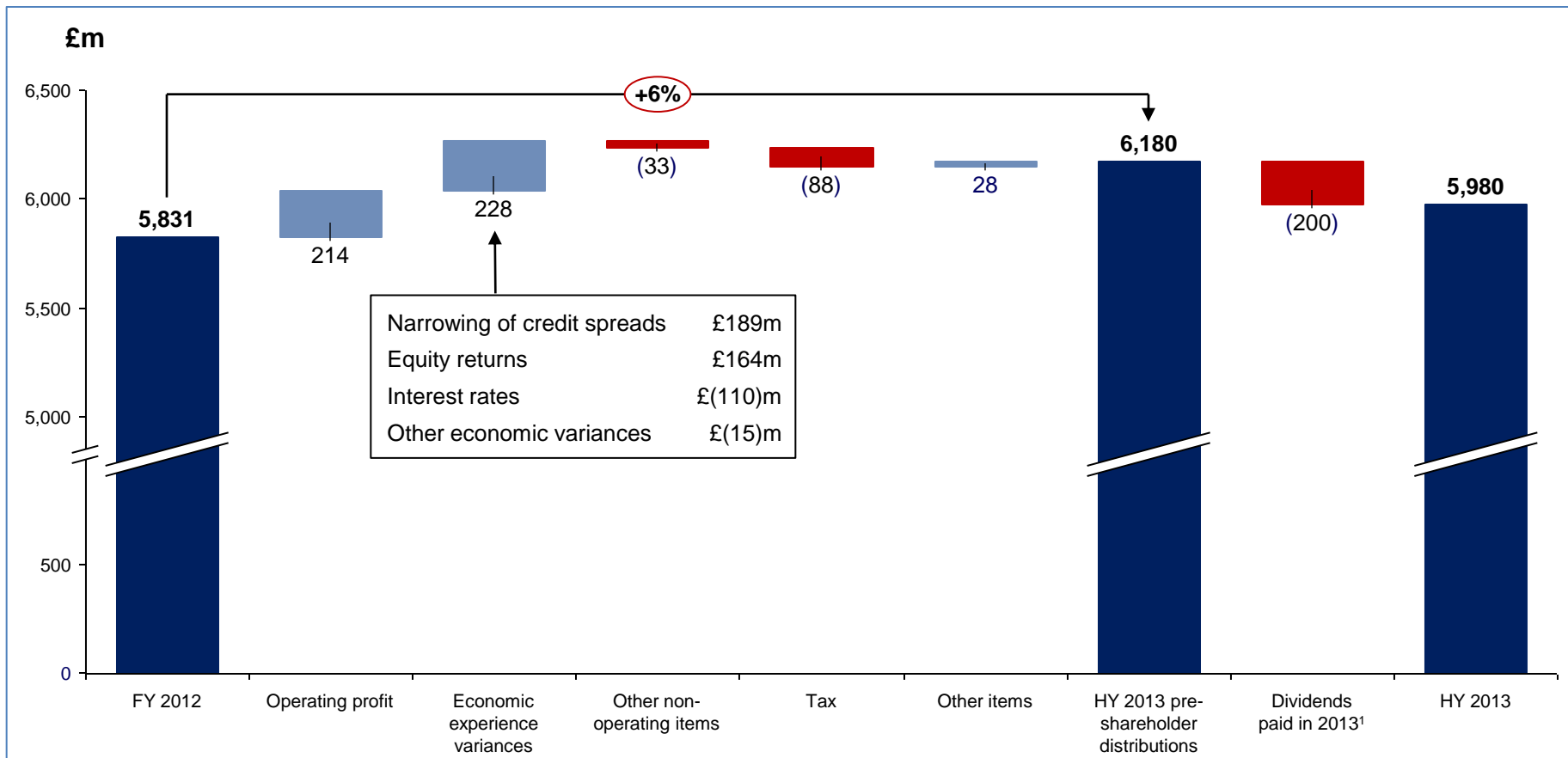


1. Excluding deferred tax on amortisation of acquisition accounting adjustments

MCEV development to 30 June 2013

Reflects good operating performance and positive investment returns

Change in Net Group MCEV

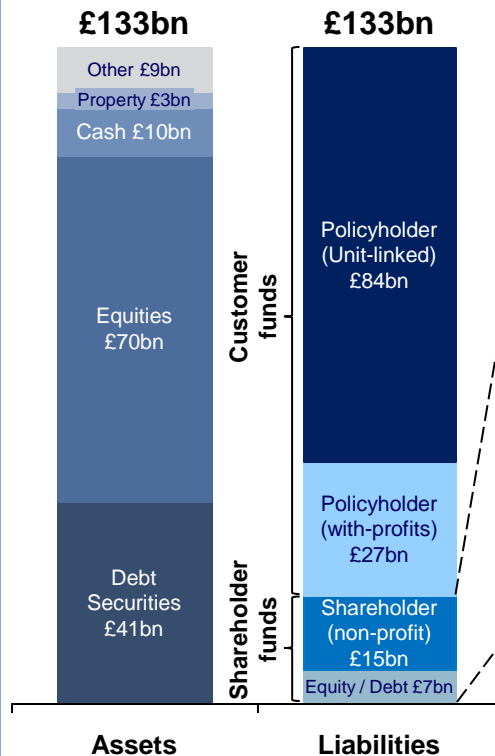


Balance sheet

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

