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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Today's Key Messages

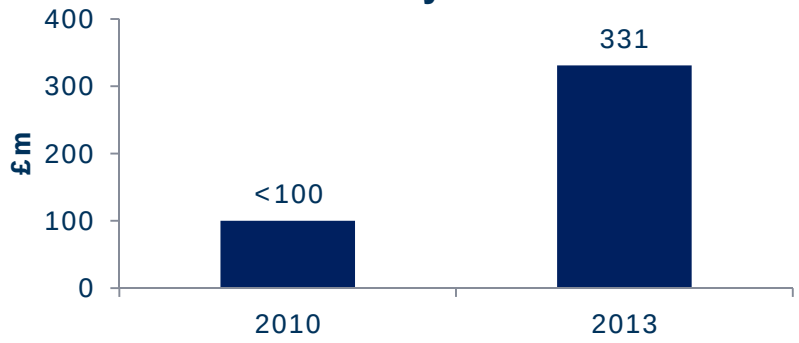
Andy Briggs

Resolution

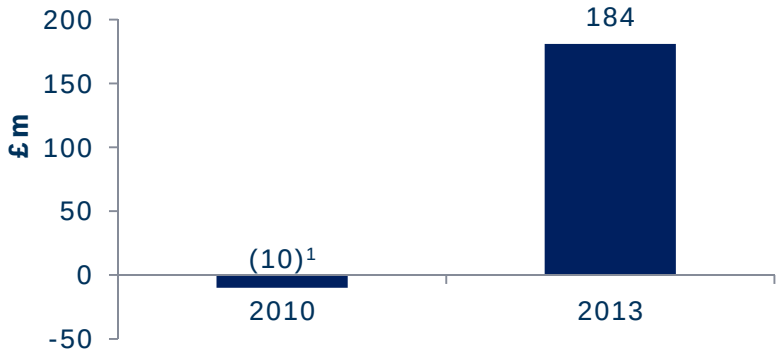
FriendsLife

Today's key messages
Restructuring and turnaround complete

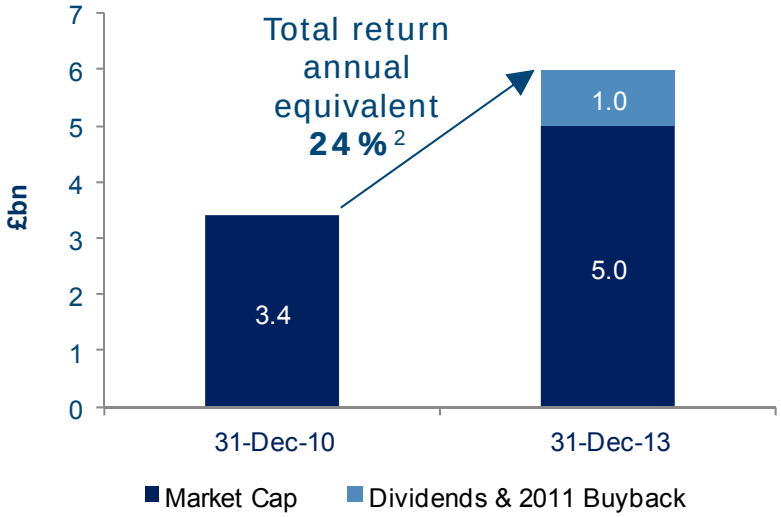
Cash today - SFS



Cash tomorrow - UK VNB



Shareholder value progression



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

Where we play
Our markets

Friends Life is a leading scale player in the UK Life & Pensions market, primarily focused on:
- Legacy products
- Fast growing retirement market

How we win
Our distinctive capabilities

Strong financially disciplined team building distinctive capabilities and competitive advantage
- Strategic partnership with Schroders

How we deliver cash and returns
Our shareholders

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
Friends Life Group strategy • Where we play • How we win: – Heritage, including investment management – UK • How we deliver cash and returns: Financial framework	Andy Briggs Jonathan Moss John Van Der Wielen Tim Tookey
Summary	Andy Briggs
Q&A	

2013 Results

Tim Tookey

Resolution

FriendsLife

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

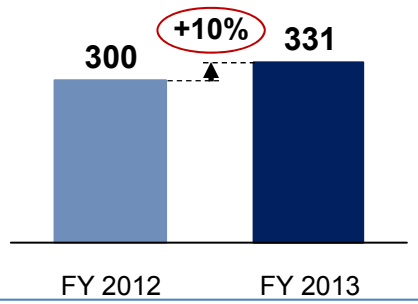
Capital position and dividend

Robust and low risk balance sheet

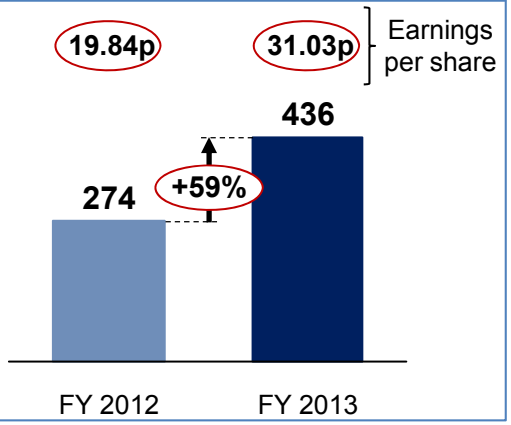
- Strong capital base maintained
- IGCA surplus of £2.2bn (coverage ratio of 238%)
- Estimated economic capital surplus of £3.9bn (coverage ratio of 193%)
- Final 2013 dividend of 14.09 pence per share (full year 21.14 pence)

2013 financial highlights
Strong profitable base for future growth

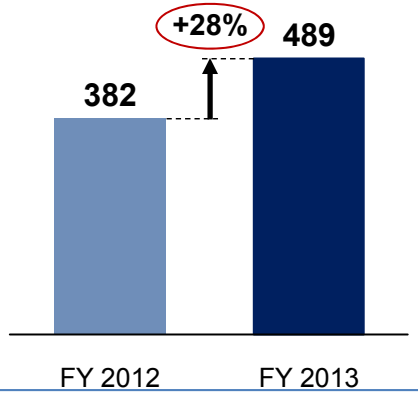
Sustainable free surplus, £m



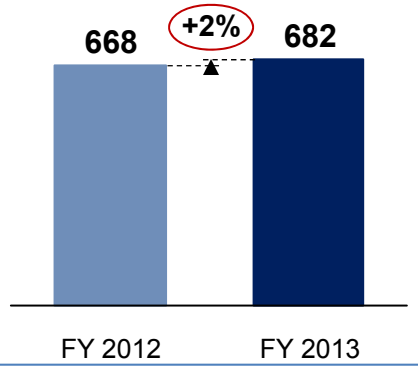
IFRS based operating profit, £m



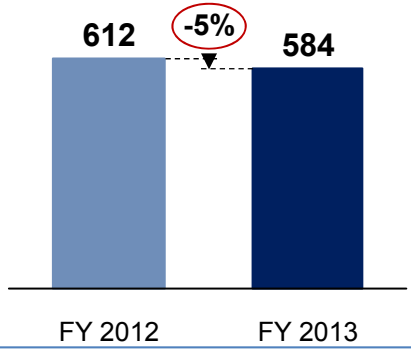
MCEV operating profit, £m



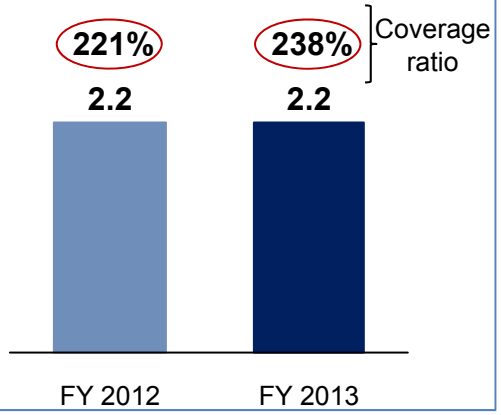
Free surplus expected return, £m



Group operating expenses[1], £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

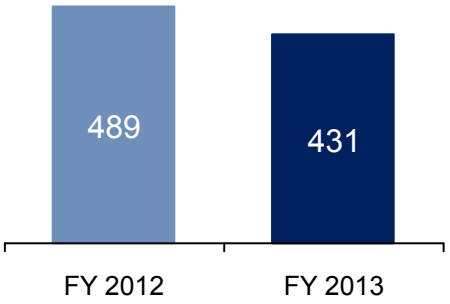
	£m	FY 2012	FY 2013	
Sources	Expected return from in-force business	668	**682**	**+2%**
Uses	Investment in new business	(285)	**(213)**	**-25%**
	Development costs	(38)	**(41)**	
	Coupon on debt	(85)	**(92)**	
		260	***336***	
Variances / other	Operating experience variances	(31)	**25**	
	Other operating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

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

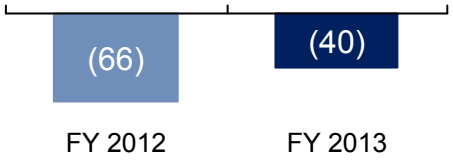
Sustainable free surplus contribution
Strong growth driven by underlying performance

Heritage division, £m



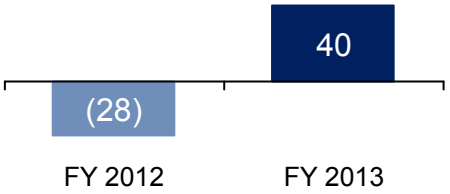
- 2% growth in free surplus emergence
- Investment in new business down 45%
- 2012 result includes +£96m variances/other items (2013: +£26m)

UK division, £m



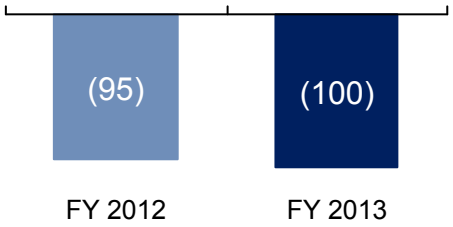
- Growing in-force book driving surplus generation
- Investment in new business down 8%
- £(22)m loss from Sesame due to remediation provision

International division, £m



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

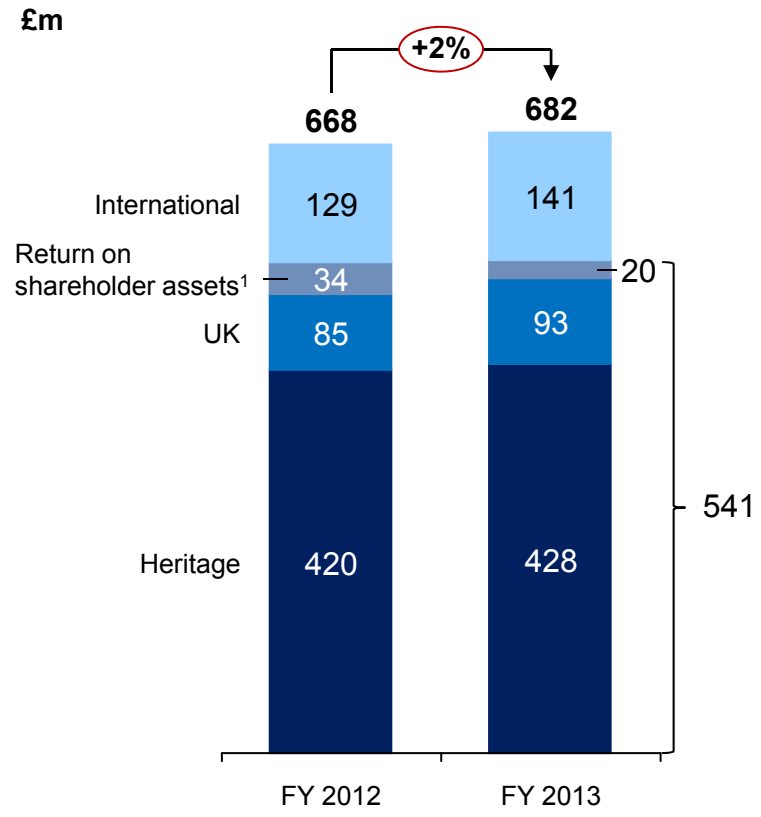
Corporate, £m



- 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

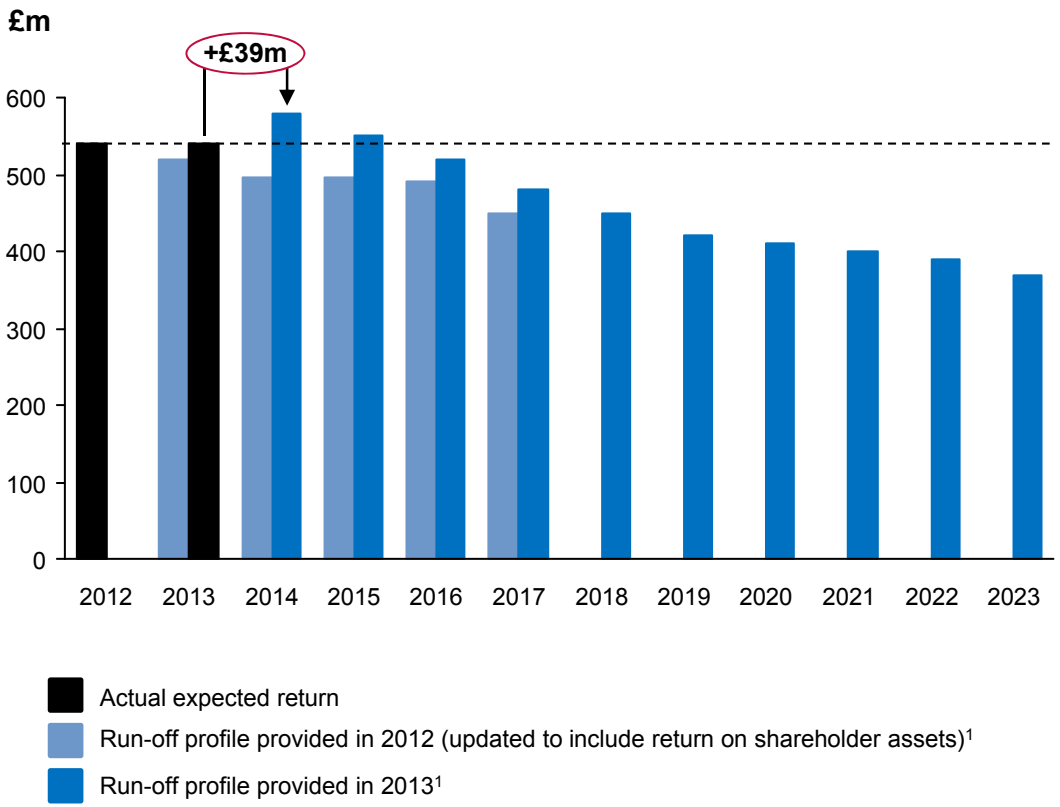
£m	2012	**2013**
Lombard	36	**44**
Core International	78	**77**
Non-core International	15	**20**

- 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



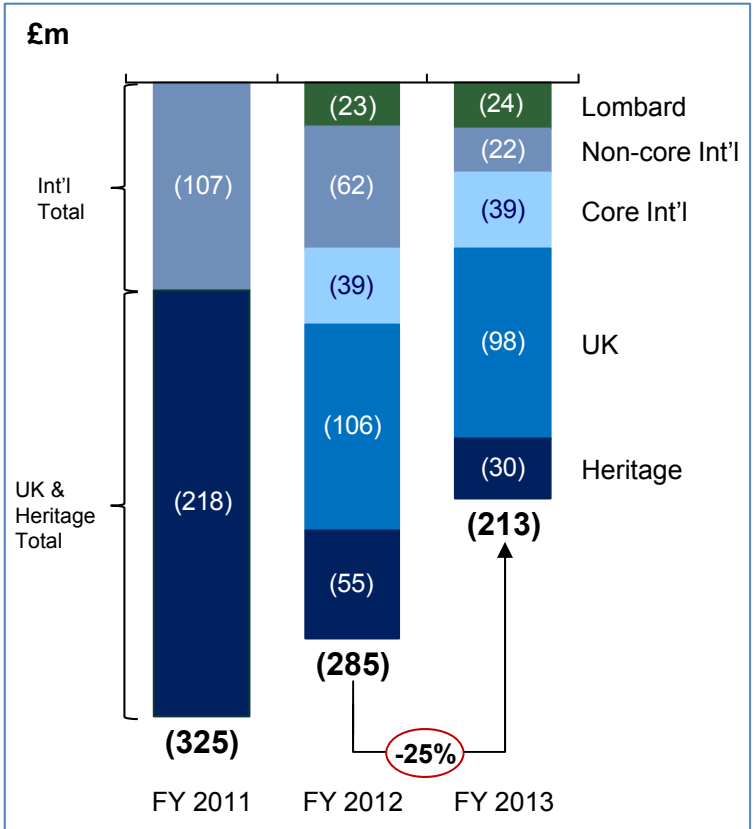
Principal drivers of increasing free surplus emergence profile

- 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

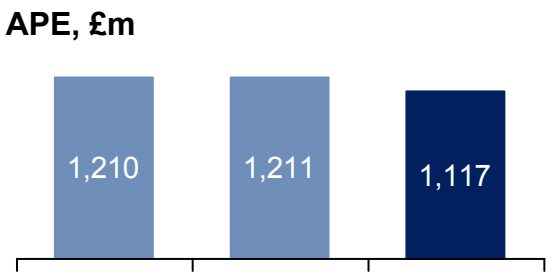
1.Based on management estimates and expectations (unaudited).

Investment in new business
Increased new business profitability at lower cost

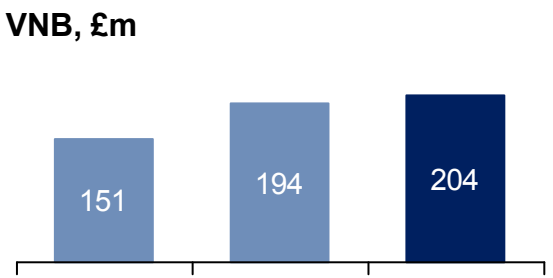
Group investment in new business



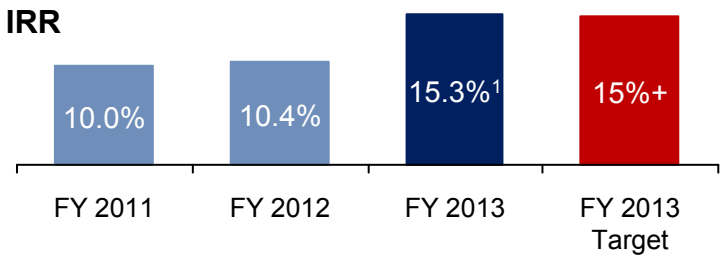
Group new business metrics



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



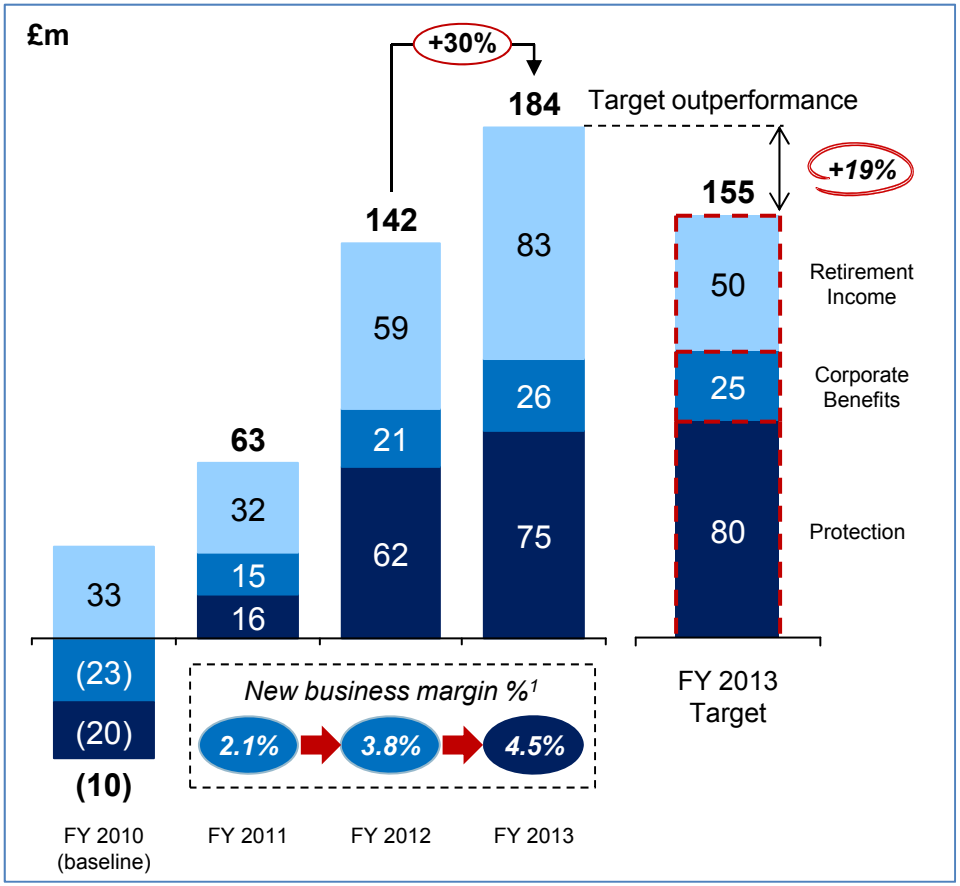
	£m	Δ
UK	*184*	*30%*
Heritage	*(19)*	*n/a*
Core Int'l	*21*	*24%*
Non-core Int'l	*(7)*	*-42%*
Lombard	*25*	*-44%*



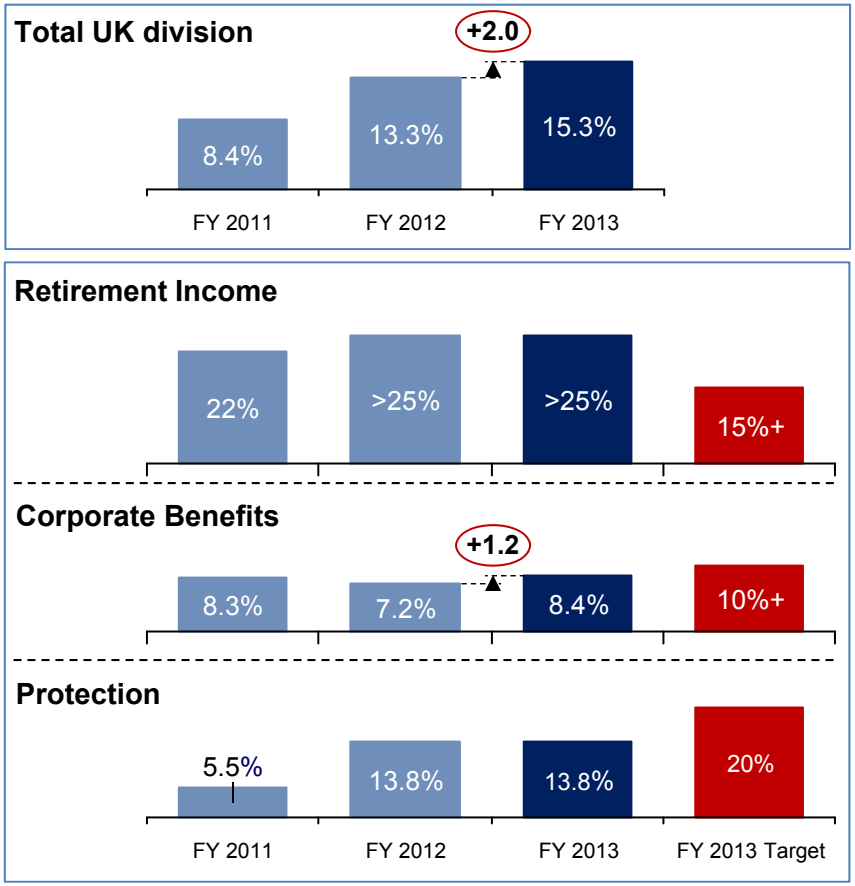
1. Includes the benefit of discretionary investment of shareholder assets in the with-profits annuity reallocation.

UK division new business profitability
Strong performance reflects financial discipline

Growth in UK division VNB



New business IRR



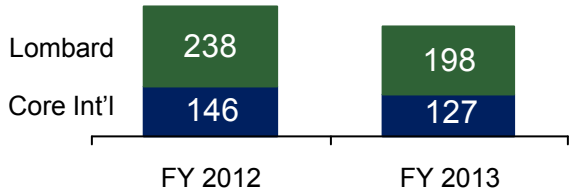
1. Pre-tax VNB / PVNBP.

Lombard and Core International
Performance impacted by challenging market environment

New business

VNB, £m

APE, £m



IRR

	FY 2012	FY 2013
Lombard	22.5%	**13.3%**
Core Int'l	11.0%	**11.0%**

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

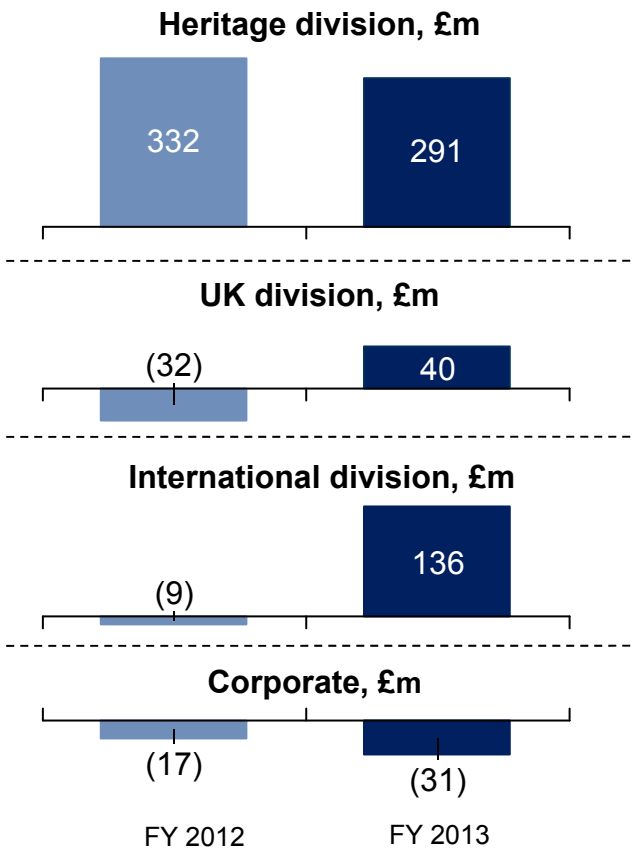
- Continued discipline on the business we write
- Improving efficiency of the back office operations
- Deploying more resources into Asia
- Challenges remain in certain markets for Lombard
- Some Lombard performance disruption due to potential disposal

IFRS based operating profit
Delivering strong growth

Group IFRS based operating profit

	£m	FY 2012	FY 2013	
Sources	In-force surplus	550	**541**	
Sources	Expected return on shareholder assets[1]	78	**51**	
Uses	Finance costs[1]	(101)	**(120)**	
Uses	New business strain	(142)	**(97)**	**-32%**
Uses	Development costs	(50)	**(50)**	
Other	Principal reserving changes & one-offs	(23)	**164**	
Other	Other income and charges	(38)	**(53)**	
	IFRS based operating profit before tax	274	**436**	**+59%**

IFRS based operating profit contribution



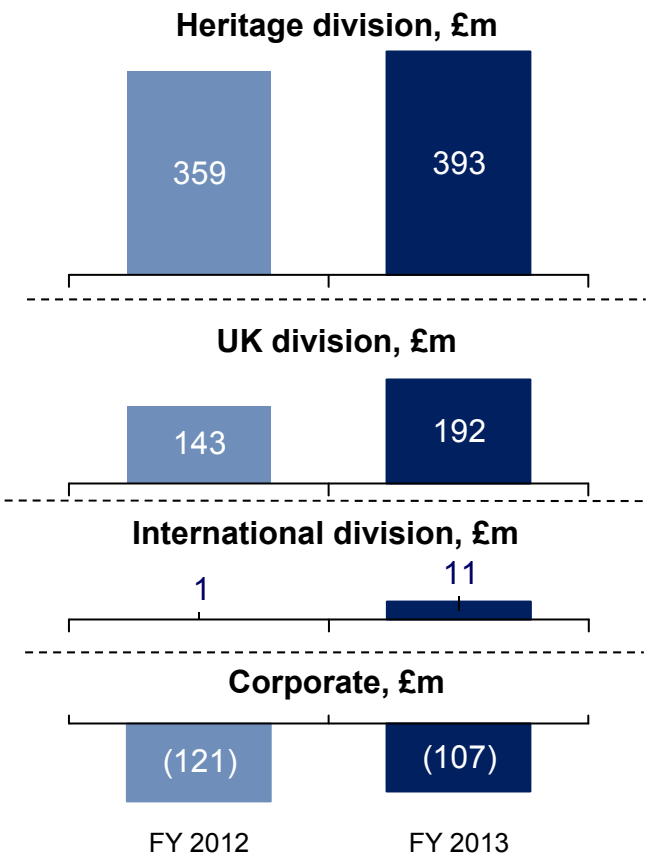
1. Expected return on shareholder assets less finance costs is equivalent to long-term investment return.

MCEV operating profit
Strong growth despite reduced economic returns

Group MCEV operating profit

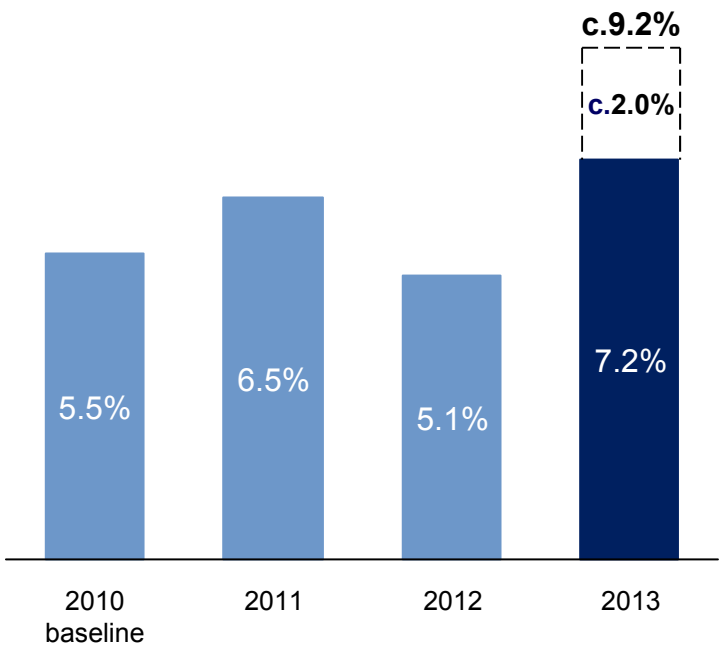
£m	FY 2012	FY 2013	
Value of new business	194	**204**	**+5%**
Expected existing business contribution	325	**248**	**-24%**
Operating experience variances	(56)	**(57)**	
Other operating variances	27	**82**	
With-profits annuity reallocation	-	**96**	
Operating assumption changes	(9)	**19**	
Development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

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[1]



Impact on operating embedded value returns

Rates (%)	Equity	Corporate bonds[2]	Cash/Gilts (Risk free)	Debt[3]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)%**

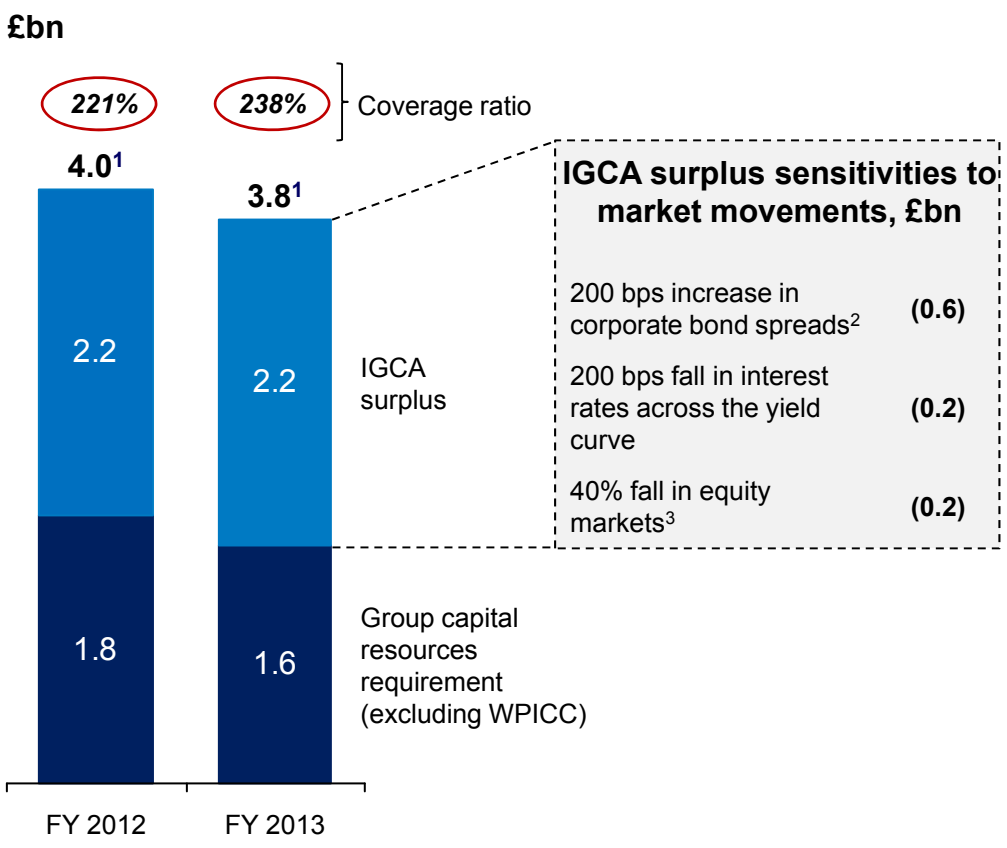
Rates (%)	Equity	Corporate bonds[2]	Cash/Gilts (Risk free)	Debt[3]Δ
2014	6.10	1.85	0.71	3.94

- 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[4]

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[4] (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
		UK – Corporate Benefits	£25m, *£(75)m*, 10%+	✓ ✓ 8.4%	IRR constrained by AE margins
		UK – Retirement Income	£50m, *n/a*, 15%+	✓ - ✓	Targets met
			£155m VNB	✓	
		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
	UK & Heritage cost reduction		£126m of cost reductions	✓	£129m reduction delivered
	Cash dividend from International		£33m for 2013 (due spring 2014)	✓	£33m paid
Medium term	FLG cash generation		£400m from sustainable sources	£331m	Timescale extended due to economic headwinds
	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

Resolution

FriendsLife

Friends Life Group strategy

Approach and philosophy unchanged

Strategic approach

Where we play — *Our markets*

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

- Legacy products
- Fast growing retirement market

How we win — *Our distinctive capabilities*

Strong financially disciplined team building distinctive capabilities and competitive advantage

- Strategic partnership with Schroders

How we deliver cash and returns — *Our shareholders*

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[1]
- 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

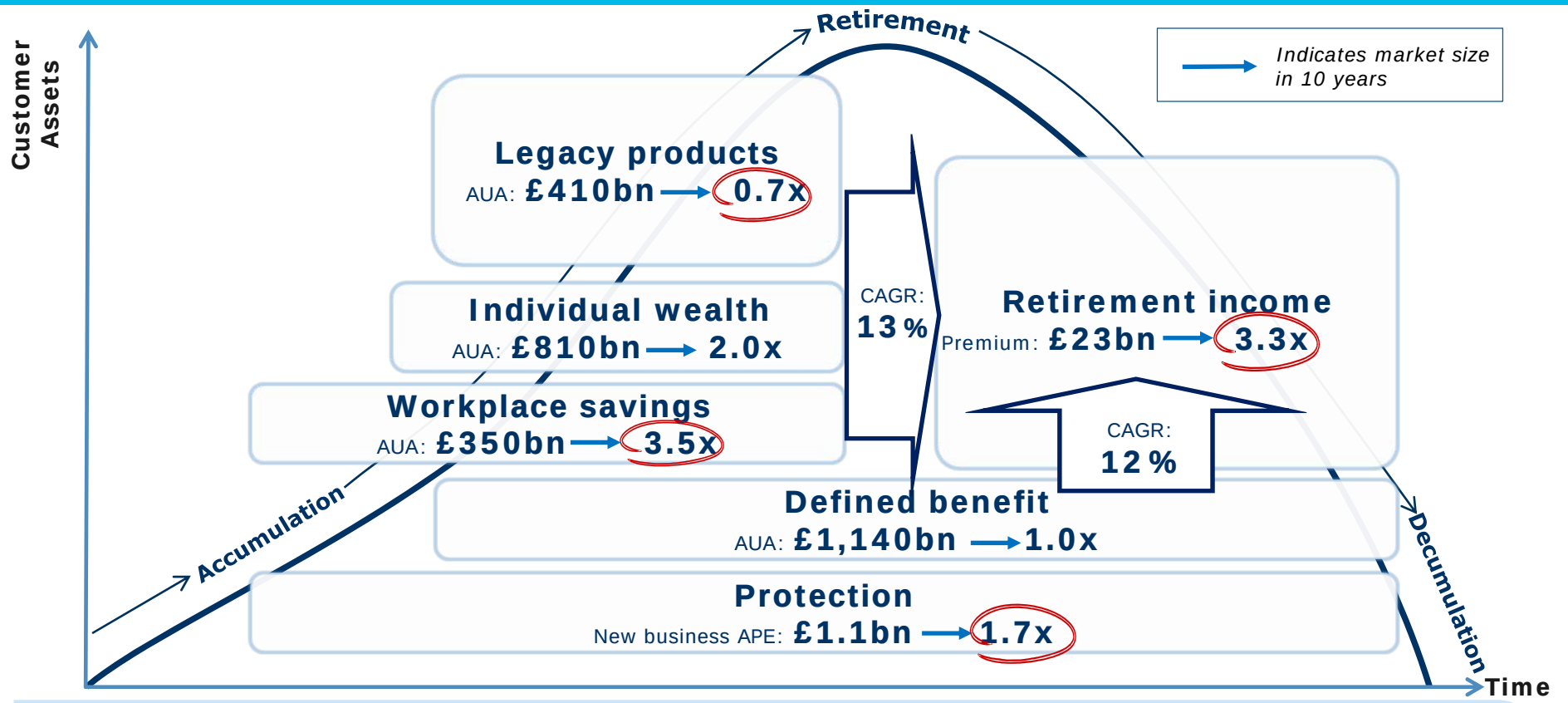
Non-core

- 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



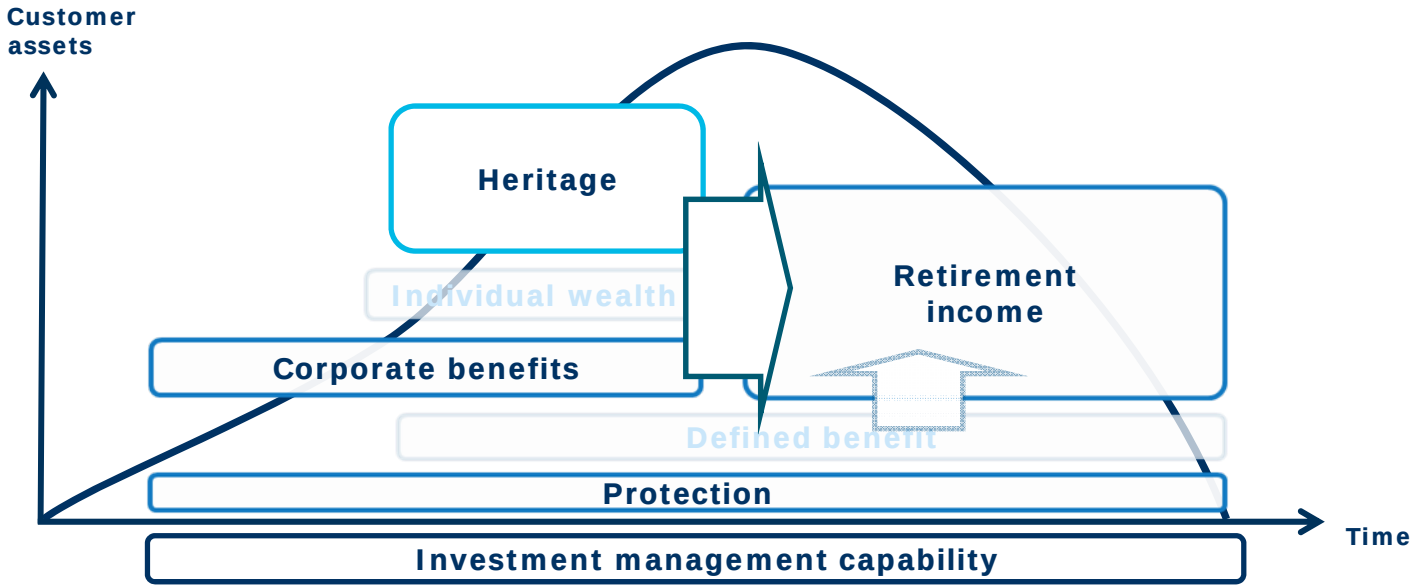
Two main parts of the UK Life and Pensions market[1]:

- ***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

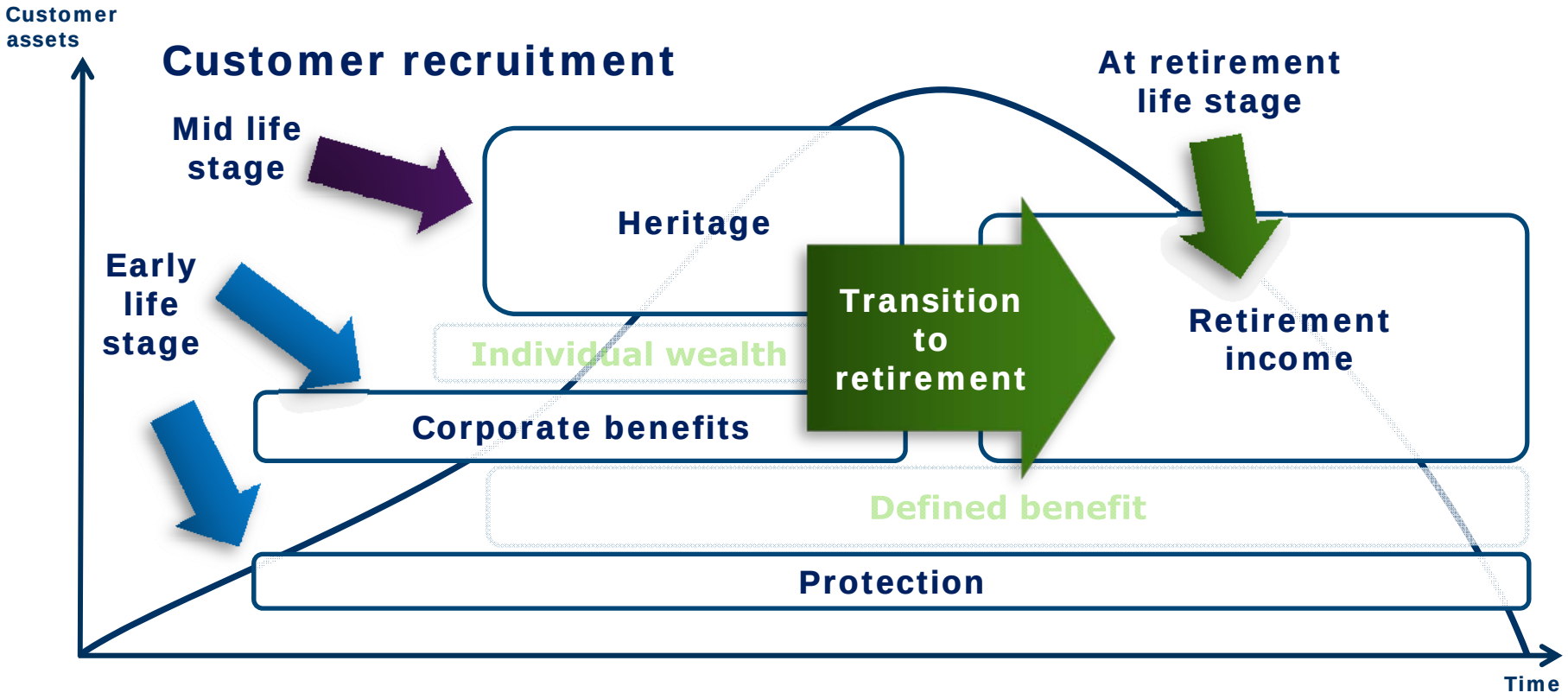


Heritage	Corporate benefits	Retirement income	Protection	Investment management
• Leading scale player with £68bn AUA • Dedicated team and management expertise	• Top 2 with £20bn AUA • Cash positive in 2013	• 1 in 9 retiring DC pension customers with us[1] • Entry to open market and considering bulks	• Top 5 by sales volume • 2 million customers with protection policies[2]	• Schroders strategic partnership • FLI £19bn AUM[3] • CRE & infrastructure mandates: £0.5bn each

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

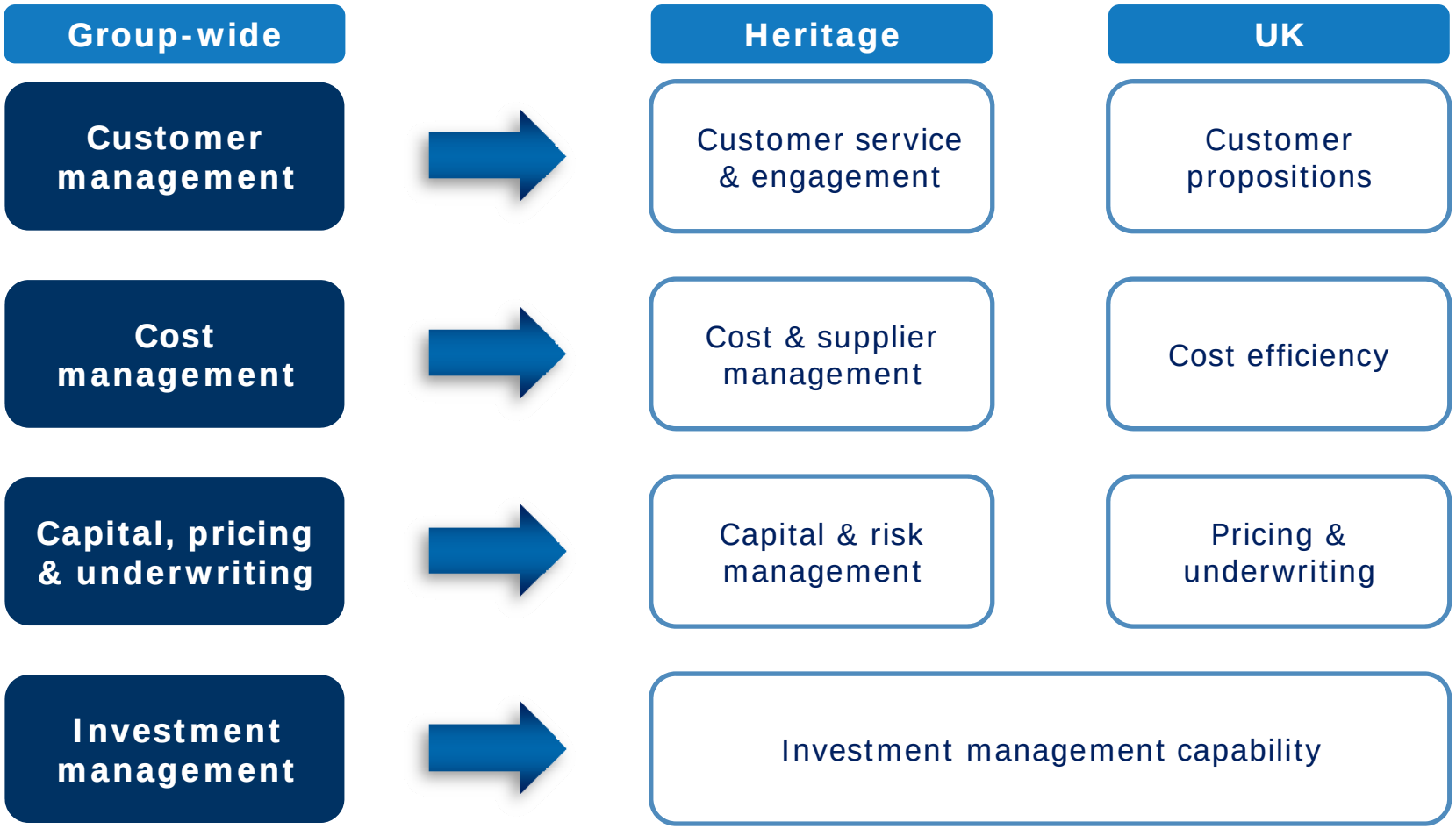
Future opportunities



- ***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

Resolution

FriendsLife

How we win: Heritage

Our strengths and track record

Capabilities	Evidence of delivery
Cost & supplier management	• Cost synergies of £160m secured
Customer service & engagement	• 3.8m Heritage customers, managed through cost-efficient outsourcers
Capital & risk management	• Delivery of £291m capital synergies
Investment management capability	• Strategic partnership with Schroders • £19bn in-house fixed income asset manager[1]

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

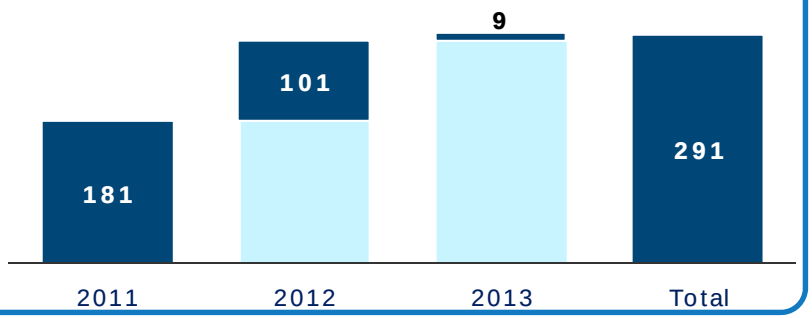
UK businesses acquired

- ASLAS
- ASL
- WLUK
- BHA
- FPLP
- FPP
- FPLAL

End 2013

- FLL — *Mainly Heritage*
- FLP — *Mainly UK division*

Additional free surplus released due to COP 2011-13[1], £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)

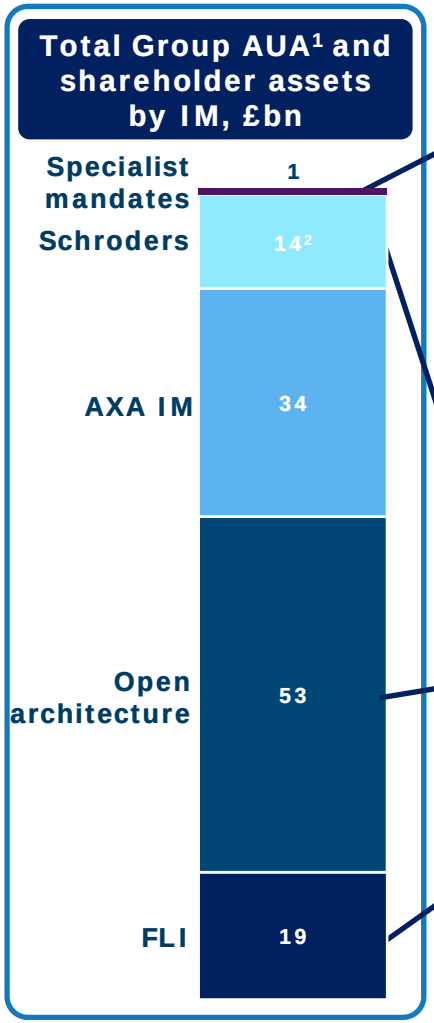
c.£2bn	**Reallocation completed in 2013**
c.£0.7bn	**Reallocation planned for 2014**
c.£1.6bn	**Potential future reallocations**

- 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



- Specialist asset managers benefiting annuity customers
- Commercial Real Estate[3] and Infrastructure mandates and £75m Drax loan

MetLife Private Capital Investors

Pramerica

- Major new strategic partnership
- Customer access to leading asset management brand
- Significant competitive advantage, and future potential

Schroders

- Open architecture supports customer propositions
- Broad customer choice – c.100 managers

BLACKROCK

Aberdeen

- In-house fixed interest expertise, core skills in rates and credit
- FLI recaptures additional £2bn of assets bringing pro-forma total to £19bn

FriendsLife Investments

1. Pro-forma AUA as at 1 January 2014, post-implementation of planned Schroders, FLI, CRE and infrastructure asset transfers; 2. £2bn assets already placed with Schroders 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

Resolution

FriendsLife

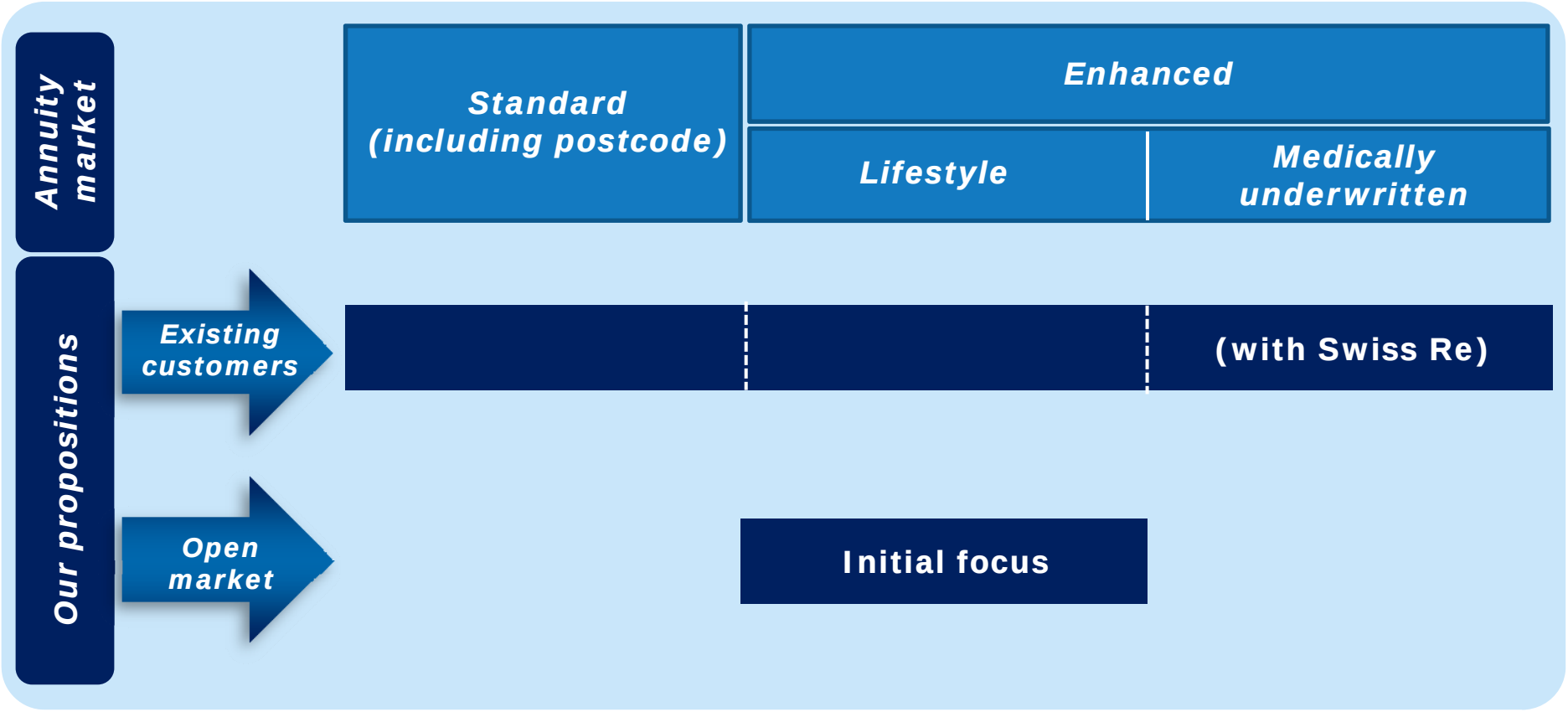
How we win: UK

Deploying key capabilities in attractive growth markets

	Protection	Corporate benefits	Retirement income
Customer propositions **Cost efficiency** **Pricing & underwriting** **Investment management capability**	10-year growth **1.7x** • Cost-efficient platform • Value over volume • Strong ties with IFAs and estate agents • Top 5 by sales volume	10-year growth **3.5x** • Auto enrolment drives AUA growth • Well placed as number 2 by size • Strong investment proposition • Largely fixed, efficient cost base	10-year growth **3.3x** • 1 in 9 retiring DC pensions customers • Significant capability built • Positive open market launch • Considering bulk annuity market opportunity
Evidence of delivery	**Strong VNB growth** • £75m in 2013 from £16m in 2011	**Strong cash growth** • c.£10m p.a. over last 2 years	**Strong VNB growth** • VNB growth of 150% since 2010

How we win: UK

Our proposition in the annuity market

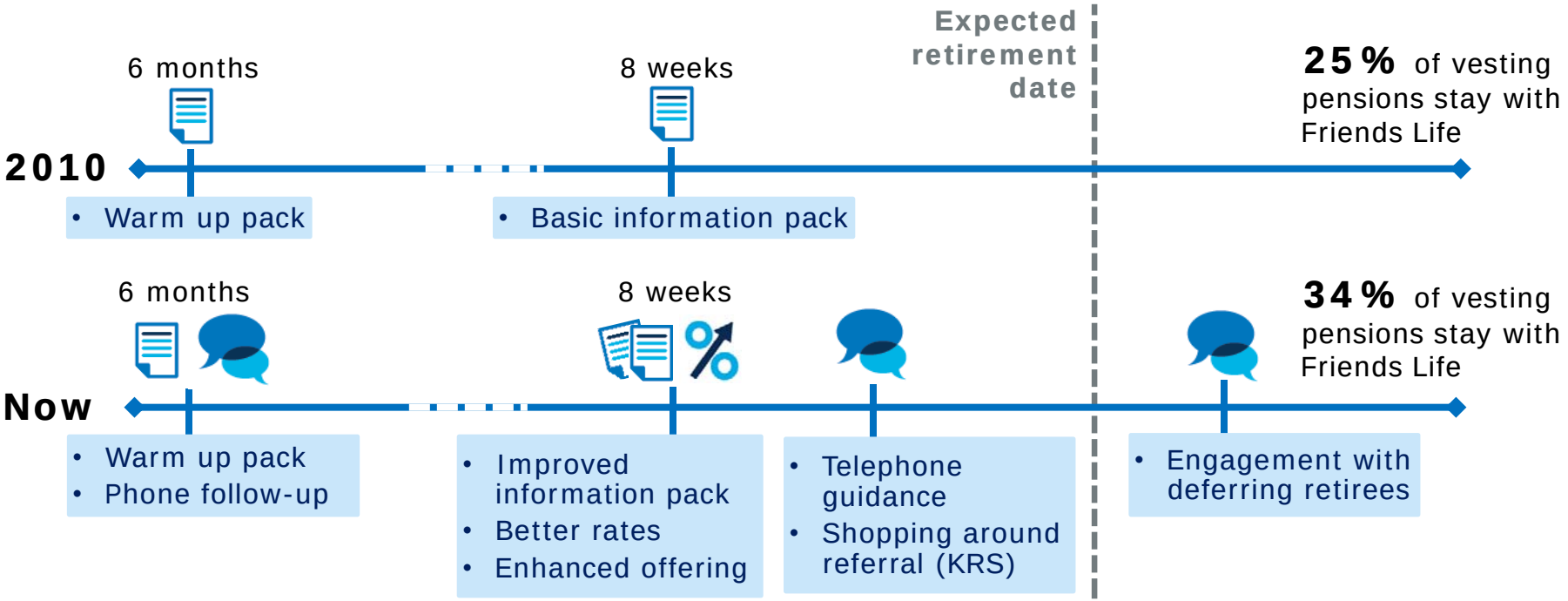


- Lifestyle pricing model developed based on in-house data and research
- Full range offered for existing pensions customers
- Open market launch focused on lifestyle pricing

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

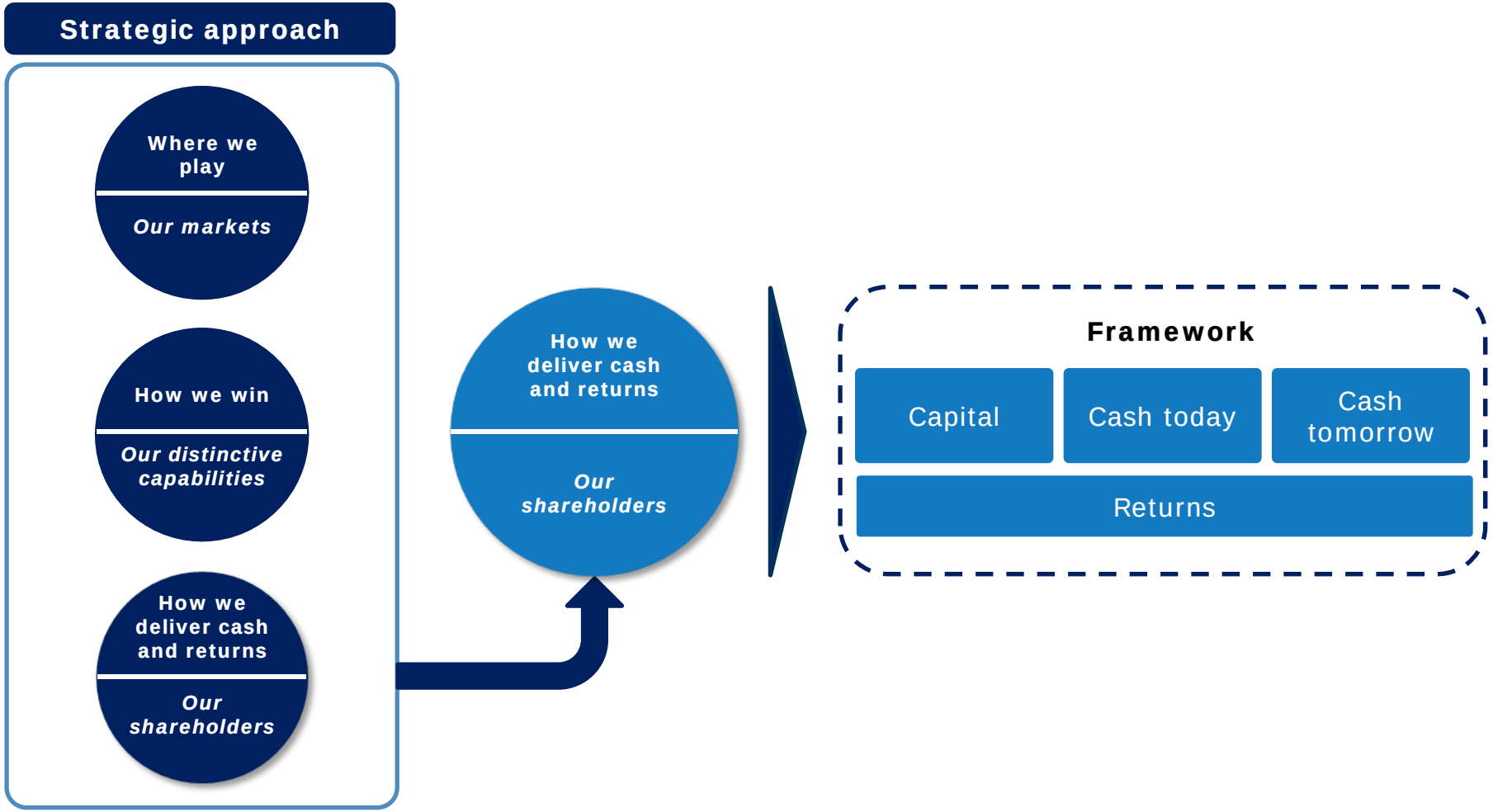
Friends Life Group strategy
- How we deliver cash and returns: Financial Framework

Tim Tookey

Resolution

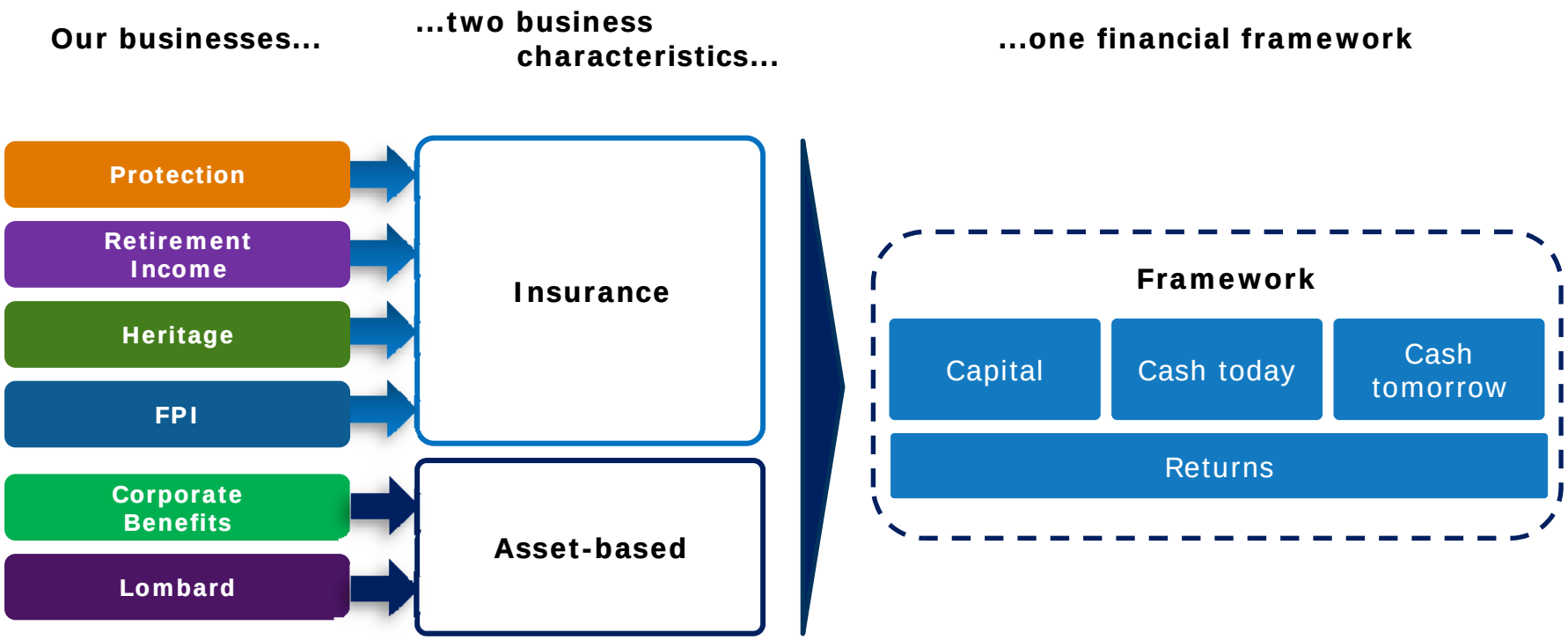
FriendsLife

Using our framework to measure cash and returns



Presenting our business increasingly as we manage it

Developing clearer links between business drivers and performance

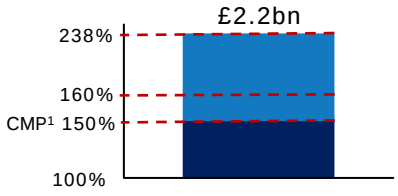


Strong capital base – a prerequisite for high performance

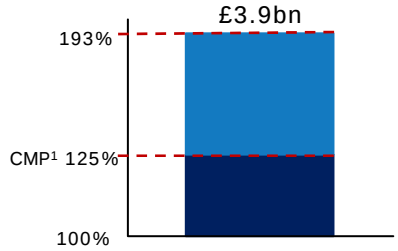
Strength to be maintained across all measures, at all times

Current reporting

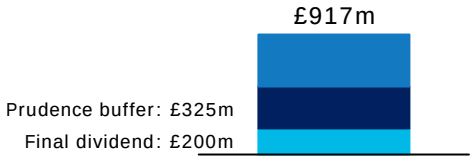
IGCA surplus



Economic capital



ASA



Transitioning to Solvency II

Solvency II

IGCA

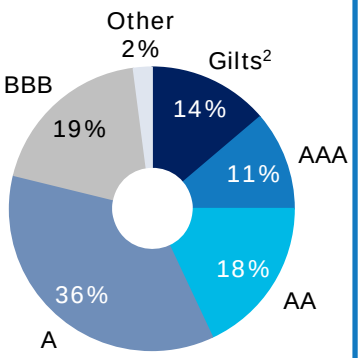
Economic capital

- 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

Shareholder assets	Now	Future direction
Available shareholder assets **£917m**	**100% cash**	• Looking to invest a proportion (up to £0.2bn) of available shareholder assets in assets with higher expected risk-adjusted returns • Prudence and dividend buffers to be held in cash and gilts
Annuities **£9.3bn[1]**	 Note: Analysis excludes cash assets	• Targeting an allocation with an overall higher yield for new business: – Shift in mix towards c.30% BBB including increased diversification to illiquid asset types • £1bn allocated to commercial real estate and infrastructure loans • Boosting capability in Friends Life Investments to widen available asset universe e.g. US credit market • Move back-book towards new business strategy in time

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

	Prot.	Ret. Income	Heritage	FPI	
Expected return	30	10	442	97	579
INB	(44)	(6)	(30)	(61)	(141)
Subtotal	(14)	4	412	36	438

Asset-based

	Corporate Benefits	Lombard	
Income	110	139	249
Outgoings	(94)	(110)	(204)
Other[1]	(5)	(9)	(14)
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[1]	9.7	15.3[2]	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

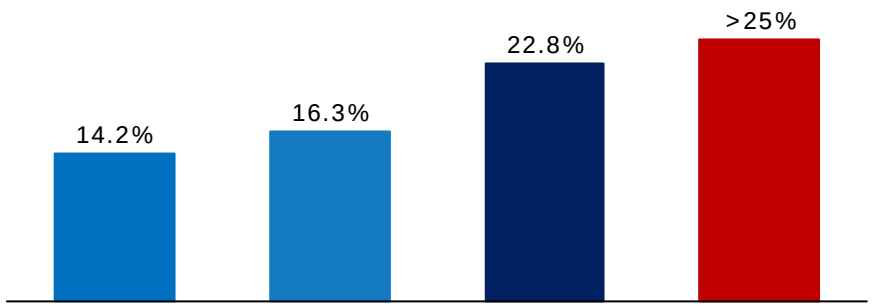
A stronger indicator of financial discipline and cash focus

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

$$\frac{\text{SFS}}{\text{SNW}^1} = \frac{\textbf{Sustainable earnings post tax, post debt, post capital}}{\textbf{Good proxy for shareholder owned tangible assets}}$$



(£m)	2011	2012	2013
SFS	291	300	331
SNW[1]	2,048	1,841	1,453

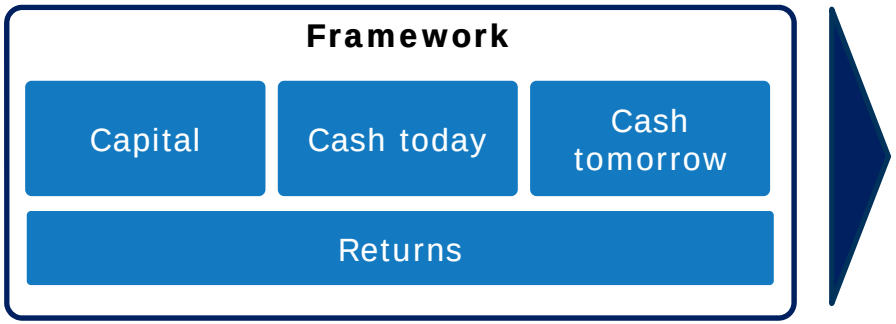
1. *Shareholders Net Worth ("SNW") is free surplus and required capital (net of external debt), i.e. MCEV excluding VIF . The SNW is adjusted to reflect the in-period impacts of dividend payments and other capital movements.*

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

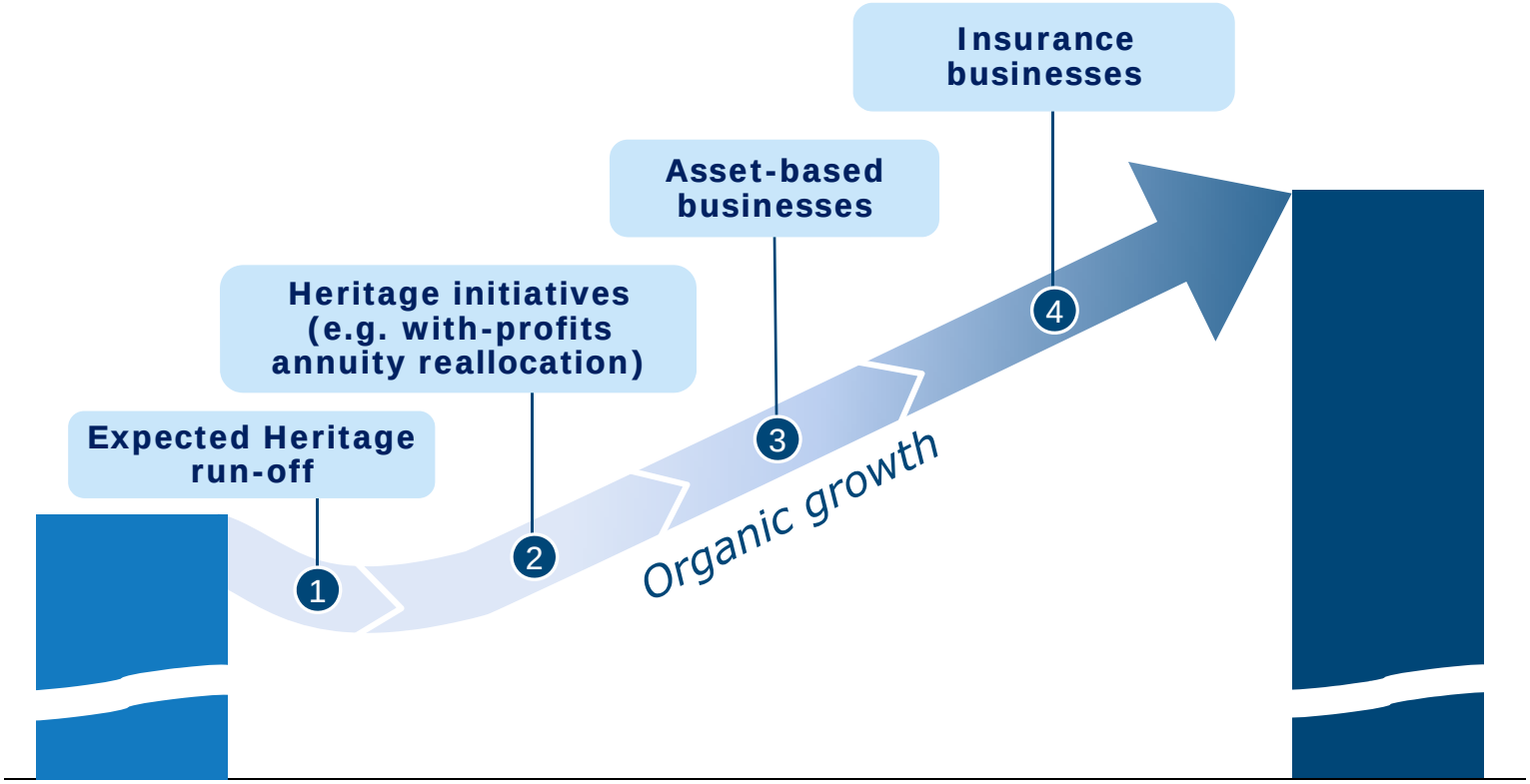
Andy Briggs

Resolution

FriendsLife

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

Where we play

Our markets

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

- Legacy products
- Fast growing retirement market

How we win

Our distinctive capabilities

Strong financially disciplined team building distinctive capabilities and competitive advantage

- Strategic partnership with Schroders

How we deliver cash and returns

Our shareholders

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

Resolution

FriendsLife

Appendices

With-profits annuity reallocation
Summary of impacts

Impact

£m	2013	2014
SFS	(16)	+10
IFRS	76	+5
MCEV	96	+5

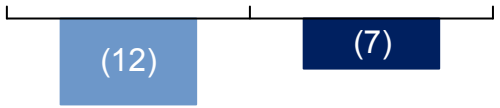
Highlights

- Developing a uniform capital management framework to ensure WP funds are suitably invested
- c.£2bn of annuity liabilities and backing assets transferred to NP funds
- This transaction de-risks the management of with-profits fund
- First and largest of a potential series of WP transfers

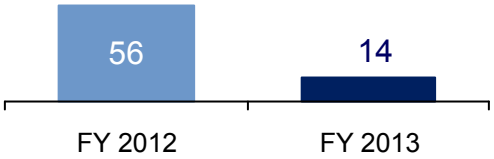
Non-core International
Market exits completed as planned

New business

VNB, £m



APE, £m



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)	**-**	↔
IFRS operating profit	(95)	**39**	↓

Sustainable free surplus

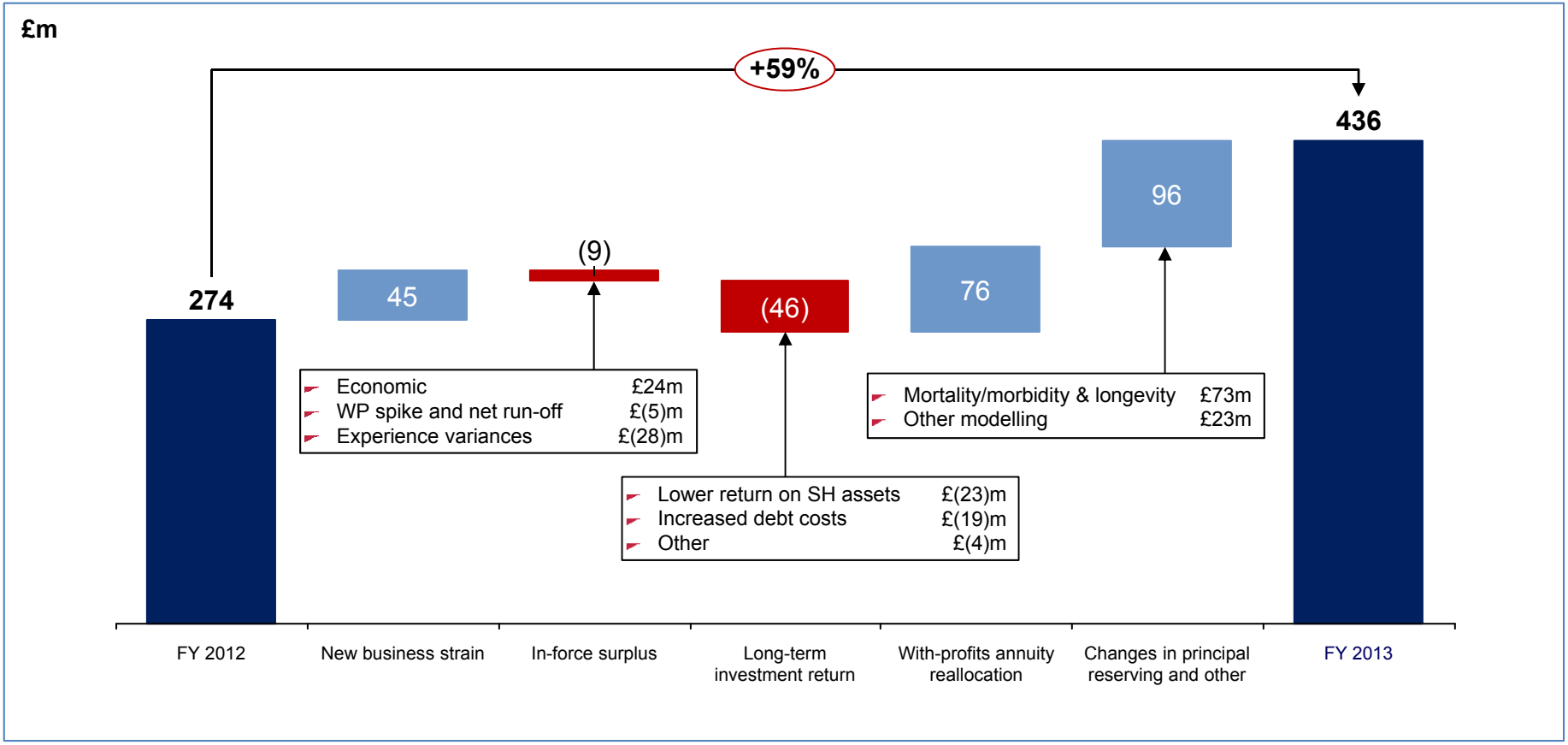
£m	FY 2012	FY 2013	FY 2014
Expected return from in-force business	15	**20**	↓
Investment in new business	(62)	**(22)**	↓
Development costs	(1)	**(2)**	↓
Operating experience variances and other	(6)	**18**	↓
Sustainable free surplus	(54)	**14**	↔

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)**	↓
MCEV operating profit	(101)	**17**	↓

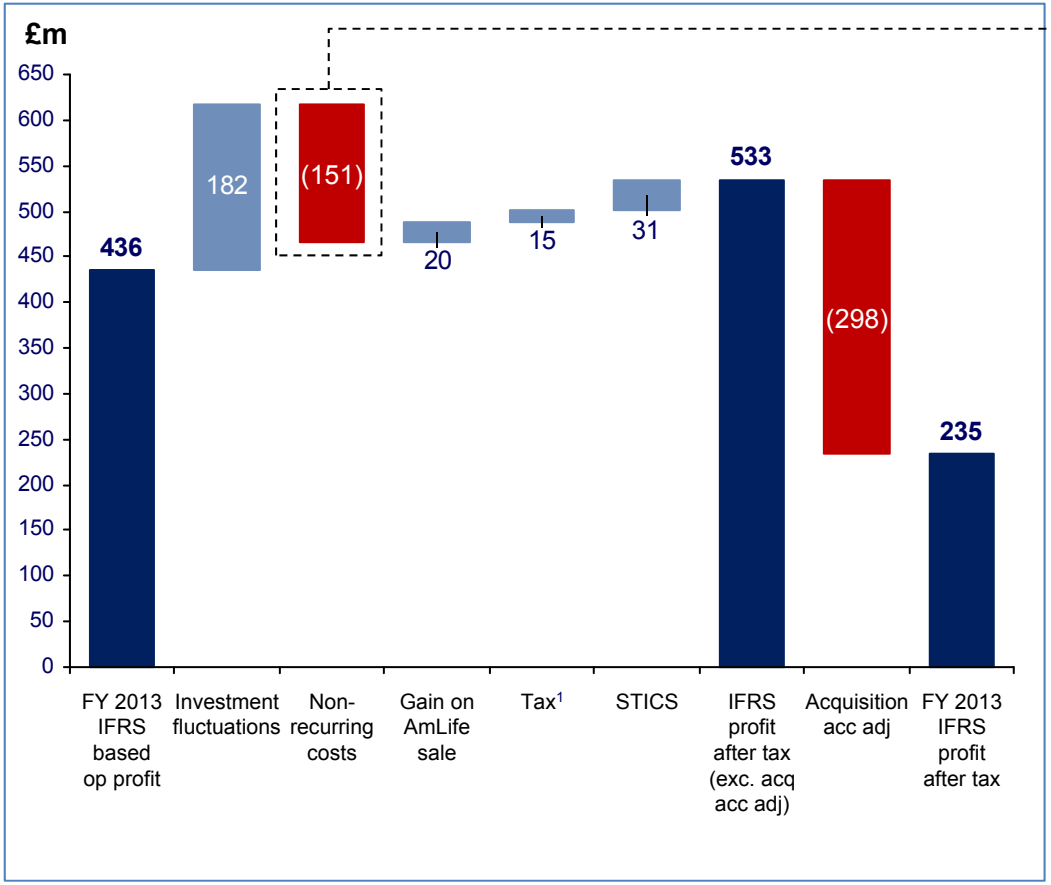
IFRS based operating profit
Result driven by financial discipline and Heritage activities

Group IFRS based operating profit

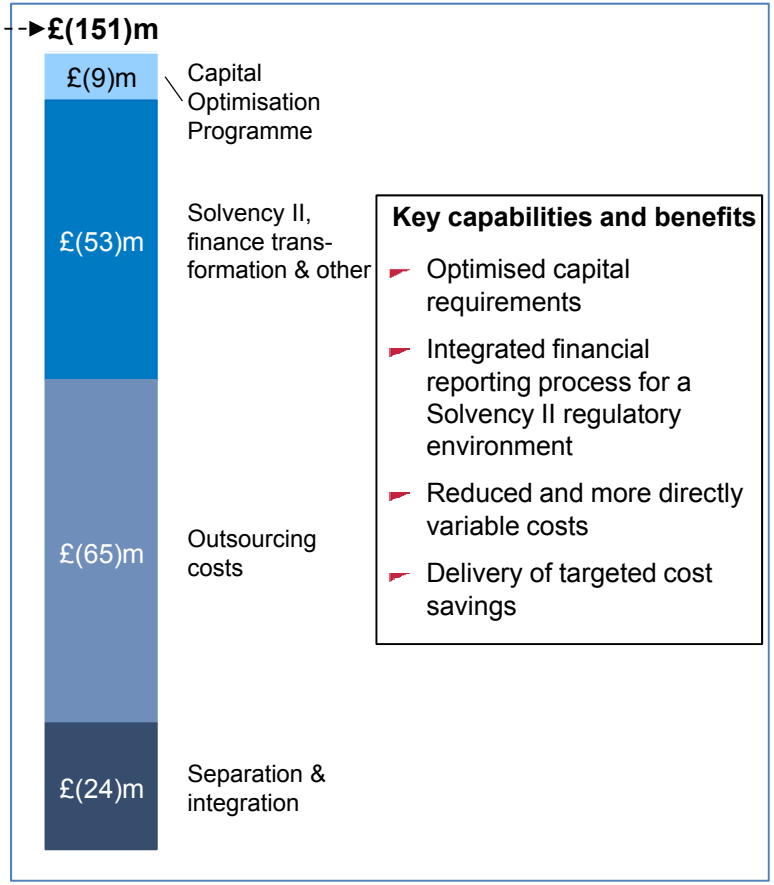


IFRS result after tax
Reflects positive investment variances

Group IFRS result after tax



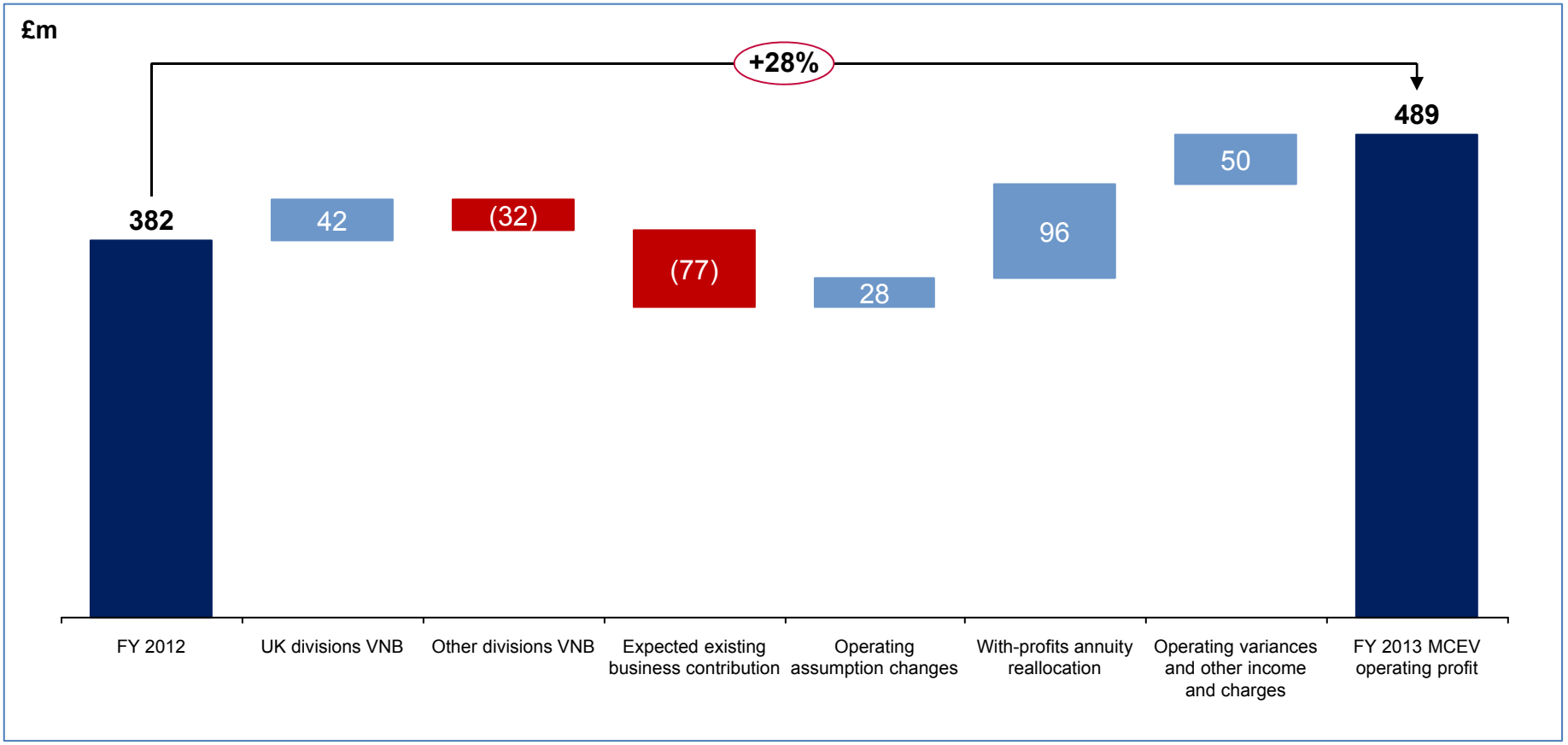
Group non-recurring costs



1. Excluding deferred tax on amortisation of acquisition accounting adjustments

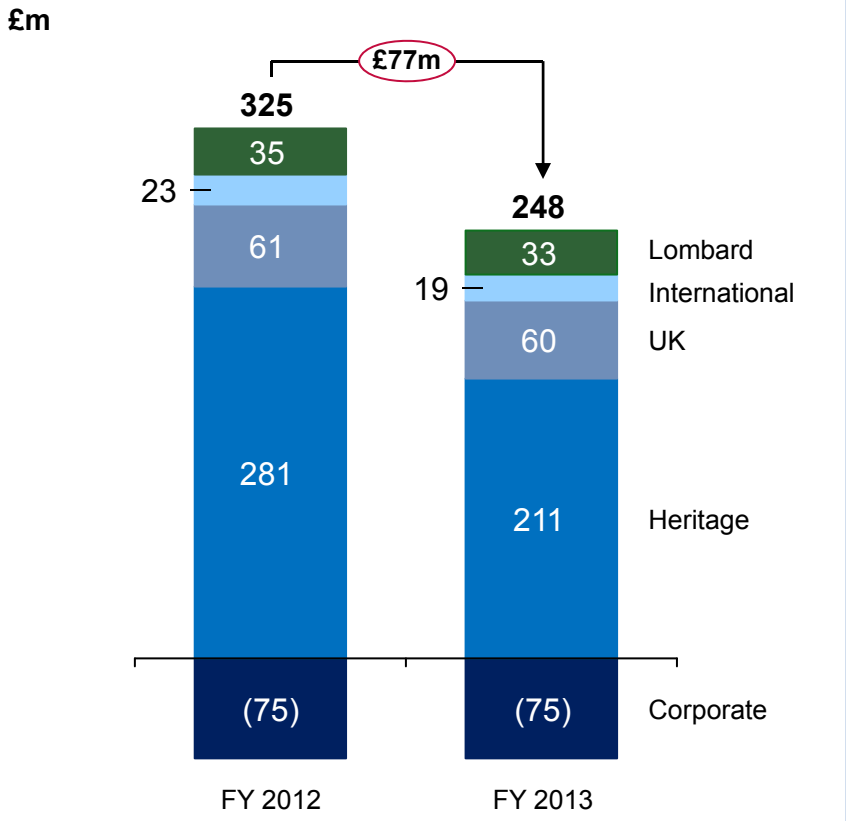
Group MCEV operating profit
Improvement driven by UK and Heritage divisions

Group MCEV operating profit



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[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	↓

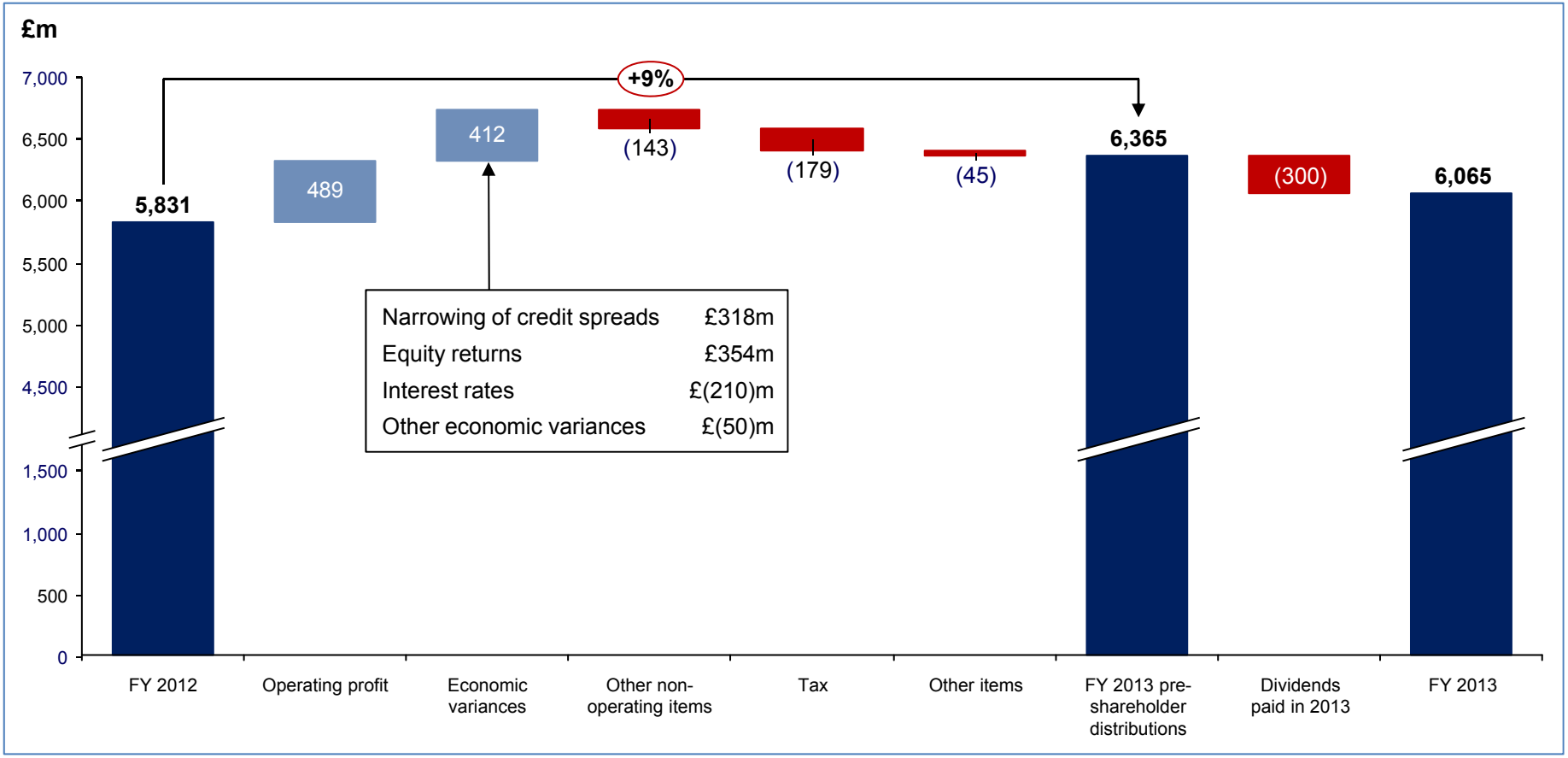
Portfolio	£bn	Principal driver	Rate (%) Δ	FY 2013 indicative impact (£m)
VIF	4.2	Risk free	-0.68	**(29)**
Shareholder assets	2.3	Risk free	-0.68	**(16)**
Corporate bonds backing annuities	5.5	Return over risk free[3]	-0.22	**(12)**
Debt, tax and other				**(20)**
				(77)

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.

MCEV development to 31 December 2013

Reflects good operating performance and positive investment returns

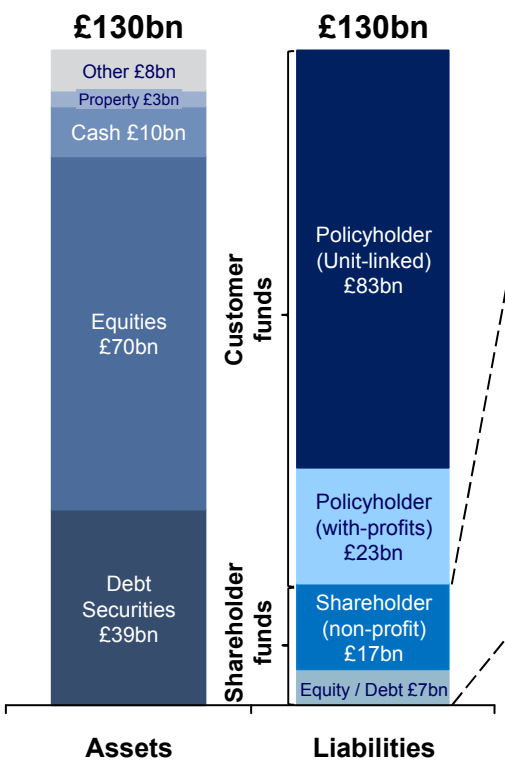
Change in net Group MCEV



Balance sheet
Continued high asset quality

Overview of balance sheet

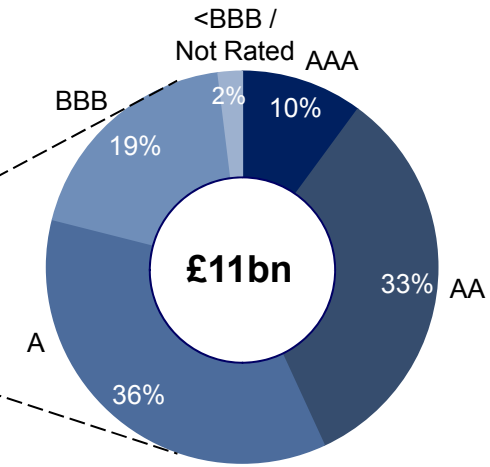
FY 2013 IFRS balance sheet



Shareholder assets and assets backing non-profit business

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

Rating of £11bn corporate bond assets



- 98% of corporate bond assets at investment grade
- No credit defaults in 2013
- c£450m shareholder share of default provisions; a haircut equivalent to 48% of spread over risk free

Analysis of underlying free surplus by business type

Greater analysis to be provided across business lines

2013

£m

Insurance business split	Protection	Retirement 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

Asset-based split	Corporate benefits	Lombard	Total
Income	110	139	249
Outgoings	(94)	(110)	(204)
Other[1]	(5)	(9)	(14)
	11	20	**31** B

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

2012[2]

£m

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

Asset-based split	Corporate benefits	Lombard	Total
Income	98	125	223
Outgoings	(103)	(99)	(202)
Other[1]	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.*