

# Resolution

**Interim Results  
17 August 2010**

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# **Introduction**

## **Mike Biggs - RSL Chairman**

# Summary

- UK Life Project now well advanced
  - agreed second transaction to acquire majority of AXA's UK life business announced in June
  - estimated blended acquisition price for Friends Provident and AXA's UK life business of 68.8% of net MCEV<sup>(1)</sup>
- Early but clear improvements in Friends Provident
  - strong cash management and improved operational cashflow
  - UK focus on delivering higher IRRs and VNB
  - International delivering strong VNB growth and higher returns
- Consolidation strategy expected to create further value
- Interim dividend of 5.46 pence per new ordinary share, following the rights issue and share consolidation

(1) Determined by dividing (i) the aggregate consideration paid for Friends Provident on the Friends Provident Completion Date, and the aggregate consideration to be paid for the AXA UK Life Business, less the face value of the debt financing (including the Deferred Consideration Notes) for the Acquisition; by (ii) the acquired Net MCEV of Friends Provident at the Friends Provident Completion Date (as set out in the Company's annual report and accounts for the financial year ended 31 December 2009) and the pro forma Net MCEV of the AXA UK Life Business as at 31 December 2009 (as set out in the prospectus).

# **Business Review**

**John Tiner – ROL CEO**

# Resolution UK Life Project

**Resolution Limited <sup>(1)</sup>**

- Capital markets expertise / M&A capability
- Project oversight
- Oversight of integration / synergy extraction

**Friends Provident Holdings (FPH)**

- Group Board
- Focus on day-to-day operations
- Involvement in integration and consolidation
- Prepare for re-listing

**Friends Life**



## Update on AXA Transaction

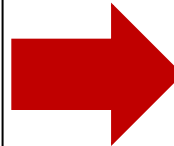
- Shareholder approval received on 20 July 2010
- Rights issue closed on 5 August 2010 with 95.5% acceptances and remaining rump successfully placed at an average price of 252p
- FSA change in control process fully on track
- Expected completion in September
- Continued progress on separation and integration preparation – no surprises
- FPH management team strengthened

1. Resolution Limited has an agreement with Resolution Operations LLP ("ROL"), under which ROL provides services to it in these areas

# Consolidation Update

## Friends Provident & AXA

- Approaching scale in Embedded Value terms – achieved at attractive acquisition multiples
- £75m p.a. cost synergies
- Target of £400m p.a. of aggregate cash emergence at FPH after interest costs
- Focus on key new business product areas
  - scale in protection, corporate pensions
  - strategic gap in annuities
  - underpinned by value focus/financial discipline



## Expected Opportunities

- Standalone synergy upsides
  - costs
  - revenue
  - financial
  - asset management
- Reattributed inherited estate release
- Establish market leading franchise across key areas
- Wide optionality for next transaction

# Progress at Friends Provident

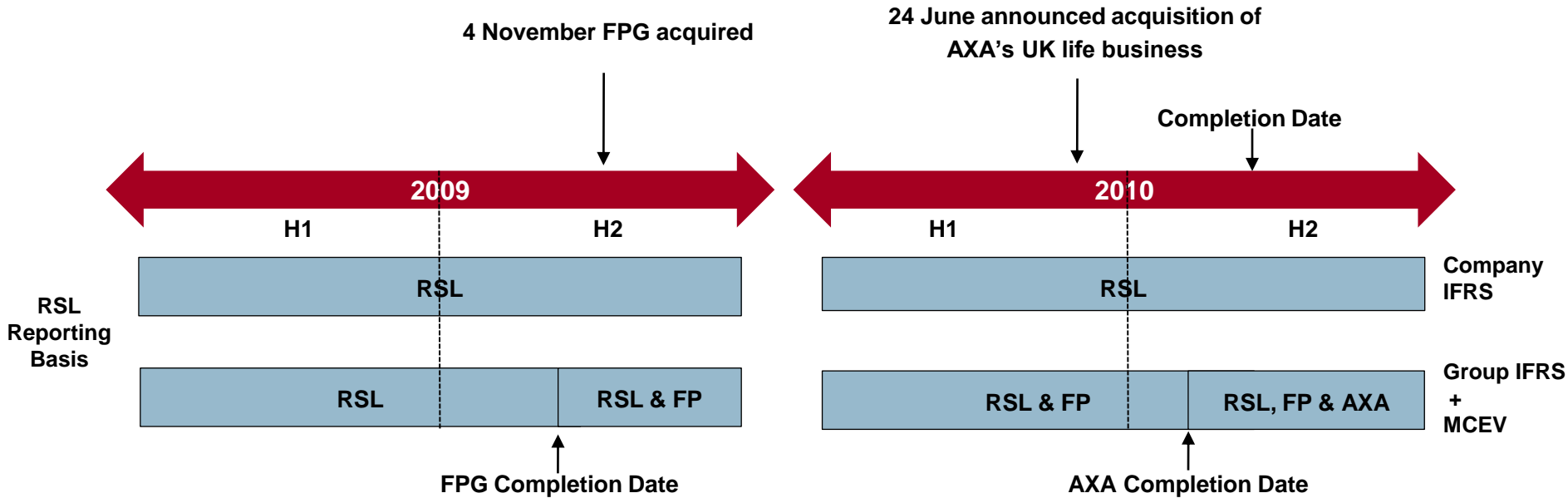
- Strong growth in cash available to shareholders
  - £605m of cash available to shareholders after dividend of £61m
  - improved operating cash generation
- Improved operational performance driven by new business profitability, cost reductions, capital management and avoidance of adverse variances
  - MCEV operating profit before tax up 55% to £188m
  - IFRS operating profit before tax up materially to £211m
  - VNB up 153% to £81m
  - IRRs on new business up from 10.7% to 15.1%
- VNB growth driven by strong International and Lombard sales with a financially disciplined approach to UK sales
  - International sales up 43%
  - Lombard sales up 187%
  - UK sales up 6%



# **2009 Financial Results**

**Jim Newman – ROL CFO**

# 2010 Basis of Reporting



- Acquired AXA businesses IFRS will be produced for full year 2010
- MCEV for acquired AXA businesses will only reflect completion profits

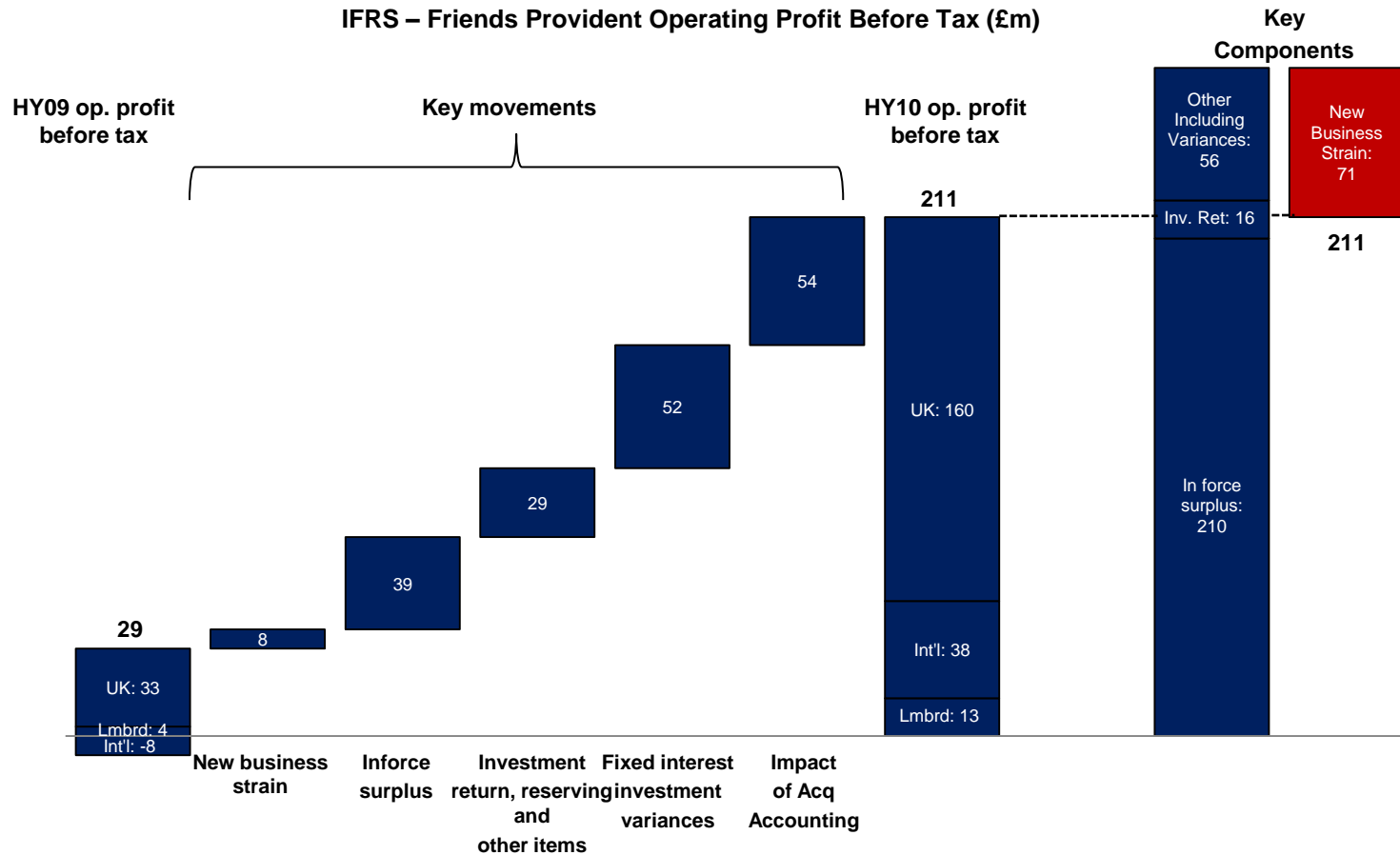
# Financial Highlights

		Resolution group			Friends Provident Holdings Operating Performance		
		Half Year 2010	Half Year 2009	Change	Half Year 2010	Half Year 2009	Change
<b>Earnings</b>	IFRS based operating profit/(loss) before tax (£m)	203	(7)	210↑	211	29	182↑
	IFRS profit/(loss) after tax for the period (£m)	72	(7)	79↑			
	MCEV operating profit/(loss) (£m)	180	(7)	187↑	188	121	67↑
	MCEV profit/(loss) after tax for the period (£m)	148	(7)	155↑	162	(71)	233↑
	Value of New Business (£m)	81	n/a		81	32	49↑
	Shareholder available cash generated in period (£m)	156	n/a		170	n/a	
	Interim dividend declared (pence per new ordinary share)	5.46	n/a				
		Resolution group			Friends Provident Holdings Operating Performance		
		30 June 2010	31 Dec 2009	Variance	30 June 2010	31 Dec 2009	Variance
<b>Capital</b>	IFRS equity attributable to equity holders (£m)	3,423	3,536	(113)↓			
	MCEV embedded value (£m)	3,489	3,488	1↑			
	IGD capital (estimated £bn)	n/a	n/a	n/a	1.0	1.0	-
	Cash available to shareholders (£m)	605	510	95↑	308	203	105↑

# IFRS Profit After Tax - Resolution Group

	Half Year 2010 £m	Half Year 2009 £m	
Friends Provident IFRS operating profit before tax	211	-	
Resolution corporate operating profits	(8)	(7)	
IFRS based operating profit before tax	203	(7)	
Non operating income	96	-	<div style="border: 1px solid black; padding: 5px;">                     Short term fluctuation in investment returns 12                      Return on F&amp;C CPT 23                      Policyholder tax 61                 </div>
Acquisition accounting adjustments	(167)	-	
Non recurring items	(9)	-	<div style="border: 1px solid black; padding: 5px;">                     Amortisation of AVIF (142)                      Amortisation of other intangibles (25)                 </div>
STICS interest adjustment to reflect IFRS accounting for STICS as equity	16		
<b>IFRS profit before tax</b>	<b>139</b>	<b>(7)</b>	
Total tax charge	(67)	-	<div style="border: 1px solid black; padding: 5px;">                     Policyholder tax (61)                      Shareholder tax (6)                 </div>
<b>IFRS profit/loss for the period</b>	<b>72</b>	<b>(7)</b>	

# Friends Provident Performance - IFRS

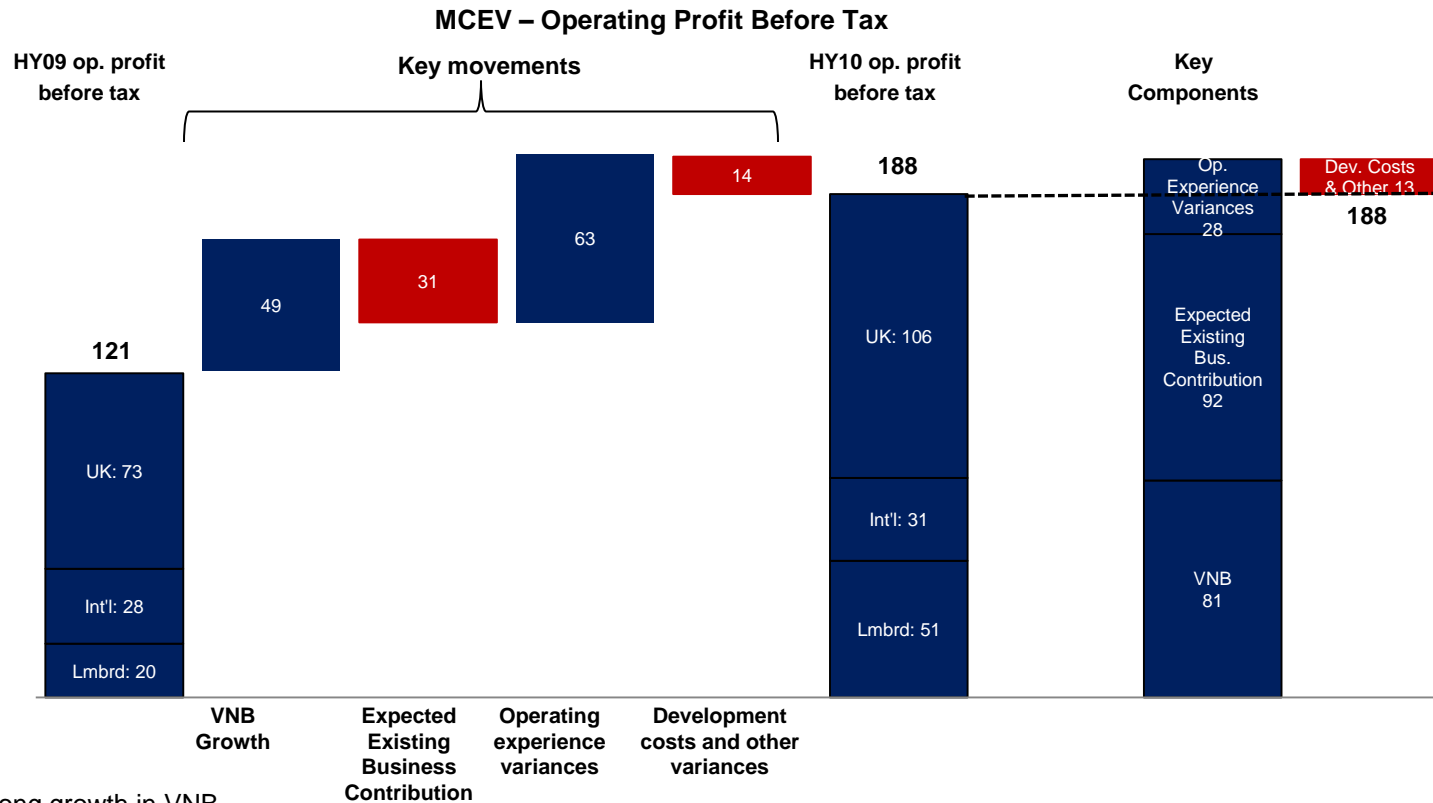


- Strong focus on cash strain management continues with all divisions generating positive operating cash flow
- Result benefited from tight cost control and avoidance of adverse experiences
- UK benefited from fixed income investment variance relating principally to the annuity book

# MCEV Operating Profit – Friends Provident

	2010 Half Yr UK £m	2010 Half Yr Int'l £m	2010 Half Yr Lombard £m	2010 Half Yr Total £m	2009 Half Yr Total £m	Change Total £m
Value of New Business	20	30	31	81	32	49
Expected existing business contribution	64	12	16	92	123	(31)
Operating experiences variances	26	(3)	5	28	(35)	63
Development costs and other	(4)	(8)	(1)	(13)	1	(14)
<b>Total operating profit before tax 2010</b>	<b>106</b>	<b>31</b>	<b>51</b>	<b>188</b>	<b>121</b>	<b>67</b>
Total operating profit before tax 2009	73	28	20	121		
Change in operating profit before tax	33	3	31	67		

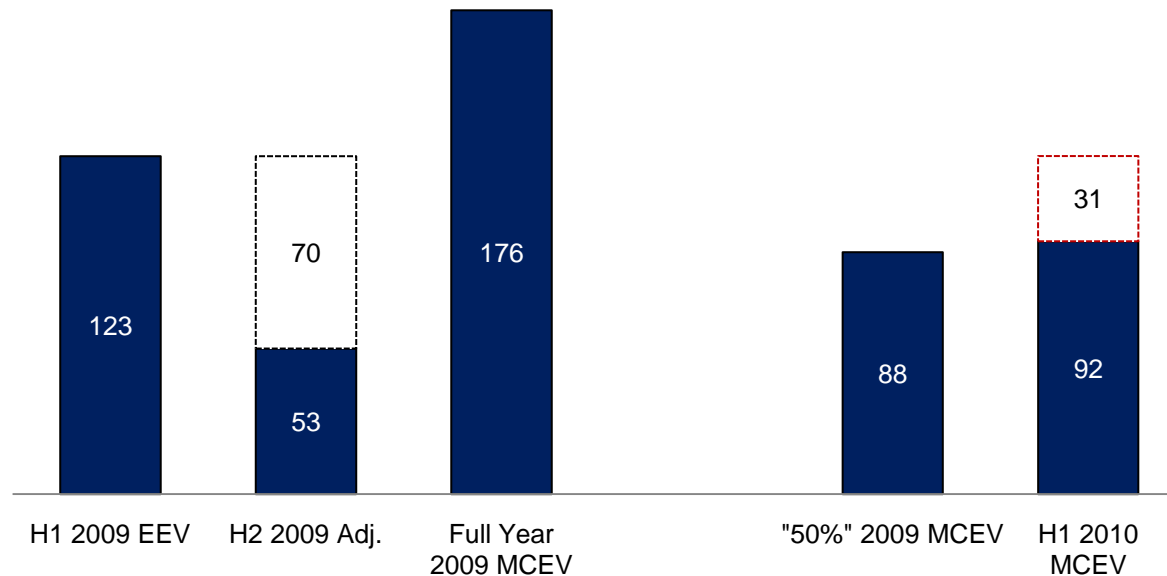
# MCEV Operating Profit – Friends Provident



- Strong growth in VNB
  - UK benefited from increased sales and reduced costs but primarily due to better pricing and changes to illiquidity assumptions in annuities
  - International benefited from lower acquisition expenses and increased sales
  - Lombard driven by higher sales volumes against a flat cost base
- Other operating items reflect:
  - £35 million of negative experience in 2009 which was not repeated
  - £28 million positive experience in 2010

# Impact on Existing Business of Change to MCEV Methodology

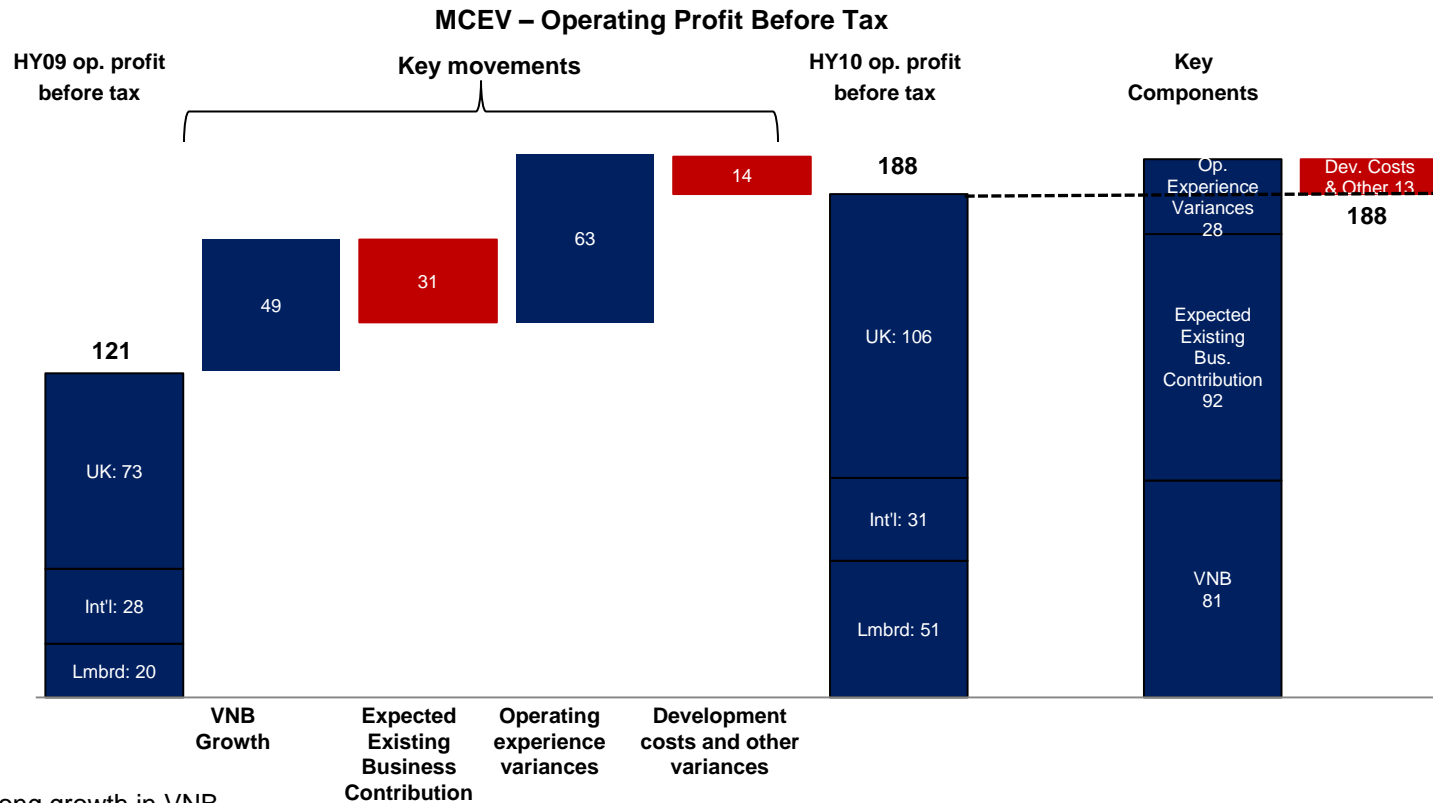
Friends Provident Expected Existing Business Contribution



- Expected existing business contribution reduced from £123 million in H1 2009 to £92 million H1 2010 due to:
  - MCEV requirement to use one year swap return rather than gilt yield curve
  - MCEV unwind of the cost of non-hedgeable risk
- 2010 “unwind” broadly in line with full year 2009 MCEV



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# Resolution– MCEV Earnings

	Half Year 2010 £m	Half Year 2009 £m
Friends Provident MCEV Operating	188	-
Profit before tax		
Resolution corporate income and charges	(8)	(7)
Operating profit before tax	<u>180</u>	<u>(7)</u>
Economic variances	16	-
Acquisition accounting adjustments	(1)	-
Non-recurring items	(9)	-
<b>Profit/(loss) from continuing operations before tax</b>	<b><u>186</u></b>	<b><u>(7)</u></b>
Tax	(38)	
Profit/(loss) for the period	<u>148</u>	<u>(7)</u>
Other comprehensive loss for the period	(86)	(1)
<b>Total comprehensive income/loss for the period</b>	<b><u>62</u></b>	<b><u>(8)</u></b>

Actuarial loss on defined benefit pension scheme net of tax	(54)
Foreign exchange adjustments	<u>(32)</u>
	(86)

# Resolution – Capital and Liquidity

- FPH, as the ultimate EEA entity, is required to maintain an IGD surplus
  - IGD surplus at 30 June 2010 is estimated at £1.0 billion and excludes £297 million of funds held by RSL
  - estimated coverage of 213% of group CRR excluding WPICC compared to target of 150%
- Individual UK entities subject to higher of statutory (Pillar I) test or economic (Pillar II) capital requirement
  - capital policy established to manage to the higher of 150% of Pillar I (excl WPICC) or 125% of Pillar II
- Group liquidity remains strong with a significant undrawn funding facility
- Market value of debt at 30 June 2010 of £541 million equivalent to 13.4% of Resolution gross MCEV
- Dividend policy maintained: interim dividend declared at 5.46 pence per new ordinary share

**IGD surplus estimated at £1.0bn at 30 June 2010**

# Operating and Shareholder Cashflow

	6 months to 30/6/10	12 months to 31/12/09
<b>Friends Provident – shareholder resources<sup>(1)</sup></b>	<b>£m</b>	<b>£m</b>
- In force surplus	210	309
- New business strain	(131)	(263)
	<b>79</b>	<b>46</b>
- Fixed interest investment variance	53	176
- Other operating variances	38	73
Friends Provident operating increase in shareholder resources	170	295
Investment return on S/H assets	54	49
STICS interest	(25)	(52)
Other changes in resources	(18)	4
Resolution corporate costs	(14)	(28)
<b>Movement in shareholder resources</b>	<b>167</b>	<b>260</b>
Change in capital and illiquid assets	(11)	
<b>Shareholder available cash generated<sup>(2)</sup></b>	<b>156</b>	
Dividend paid in cash	(61)	
<b>Change in shareholder retained cash</b>	<b>95</b>	

(1) Shareholder resources are a measure of the tangible assets available to the life and pensions business and attributable to shareholders

(2) Shareholder available cash is the component of shareholder resources that is not required to support the capital of the business and is not subject to any other restriction

# Resolution – Cash

- Cash available to shareholder at RSL and holding company level of £605 million

As at 30 June 2010

	RSL £m	FPH/G £m	Operating Businesses £m	2010 Total £m	2009 Total £m	Change £m
Shareholder resources						
- Resources covering capital requirements	-	172	310	482	677	(195)
- Working capital, illiquid and restricted assets	-	-	416	416	210	206
<b>Shareholder available cash</b>	<b>297</b>	<b>138</b>	<b>170</b>	<b>605</b>	<b>510</b>	<b>95</b>
<b>Total shareholder resources</b>	<b>297</b>	<b>310</b>	<b>896</b>	<b>1,503</b>	<b>1,397</b>	<b>106</b>

- Group continues to focus on cash management and capital fungibility and efficiency:
  - improved cash generation from operating businesses
  - more efficient capital resource allocation
  - continued management of operating costs
  - on-going liquidity review
- £170m dividend paid up from operating businesses to FP holding companies in August
- Shareholder resources held as working capital, illiquid and restricted assets subject to review to evaluate potential for release

# Resolution - Sum Of The Parts

	MCEV £m 30 June 2010	MCEV £m 31 Dec 2009	Change £m	New Business for 6 months to 30 Jun 10		New Business for 12 months to 31 Dec 09	
				IRR %	Pay- back Yr	IRR %	Pay- back Yr
Available cash	605	510	95				
Lombard	443	440	3	23.1	5	18.8	7
International	537	475	62	18.3	5	14.5	7
UK	2,445	2,568	(123)	10.8	10	9.3	19
Debt	(541)	(505)	(36)				
	<b>3,489</b>	<b>3,488</b>	<b>1</b>	<b>15.1</b>	<b>7</b>	<b>12.5</b>	<b>11</b>

**Summary**

**John Tiner**

# Outlook

## ➤ Operational

- build on good progress with Friends Provident
- deliver on AXA integration
- capture FP/AXA upsides
- launch of Friends Life

## ➤ Market

- regulatory and investment market environment remains uncertain
- positive signs of rationality and value/cash focus from key UK industry participants

## ➤ M&A

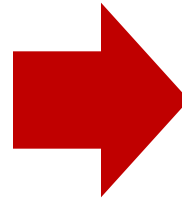
- motivated vendors with few buyers
- wide optionality for next transaction
- positive dialogues continue



# Resolution Value Potential

## Strong standalone value

- Attractive acquisition prices achieved
- Robust balance sheet
  - significant cash underpin
  - reattributed inherited estate
- Momentum in cashflow/value delivery at Friends Provident
- Synergy delivery
- International businesses with high RoEV potential
- Strong cashflow underpins high dividend yield



## with upsides

- Franchise potential, building on existing UK momentum and market positions
- Expected synergy upsides
- Further potential value enhancing transactions

# Q&A

# Resolution

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17 August 2010**