

# **Resolution Limited**

**2012 Interim Results**  
**15 August 2012**

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# 2012 Half Year Results Agenda

**Introduction**

**Mike Biggs**

**Business Review**

**Andy Briggs**

**Financial Review**

**Tim Tookey**

**Cash and Capital**

**Jim Newman**

**UK Life Project**

**Clive Cowdery**

**Outlook**

**Mike Biggs**

# Value creation

## Resolution's value agenda

- Rationalising new business to deliver returns and cash flow for investors
- Driving cost reductions and efficiencies
- De-risking of the balance sheet and operational risks in the Company
- Identifying and delivering capital synergies, realising value and returning excess capital to shareholders



## Shareholder delivery

- Strong momentum in restructuring of Friends Life: New business turnaround continues
- Robust cash and capital position allows increase in interim dividend
- Clear agenda to create long term value
- Simplification of governance and operating structure

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# Business Highlights

## Good business momentum driven by strong UK performance

1. **Clear business strategy, underpinned by rigorous financial discipline**
2. **Execution of strategy on track**
3. **Creating a sustainable, profitable and cash generative business**
  - **Heritage:** Significant activity underway to drive cash and value
  - **UK Go to Market:** Profitable growth, on track to meet market targets
  - **International:** Strategic review; rebalancing value, volume and risk
4. **Driving cash and returns**

# Business Highlights

## Good business momentum driven by strong UK performance

### Friends Life Group

#### 'Transforming the business'

- Robust capital base; IGCA coverage ratio<sup>1</sup> of 204%, economic capital coverage ratio<sup>1</sup> of 174%
- UK turnaround on track
- Economic environment continues to impact returns

### UK Heritage

#### 'Significant activity underway to drive cash and value'

- Reduced and variabilised cost base; outsourcing service commenced March 2012
- Capital Optimisation Programme progressing well
- FLI launched with £6bn of assets under management

### UK Go to Market

#### 'Profitable growth, on track to meet market targets'

- Half year UK VNB exceeds full year 2011
- 92%<sup>2</sup> of targeted £200m UK new business strain reduction already achieved

### International

#### 'Strategic review; rebalancing value, volume and risk'

- New management team hires almost complete
- FPI focus on value over volume
- Lombard sales resilient in challenging economic environment

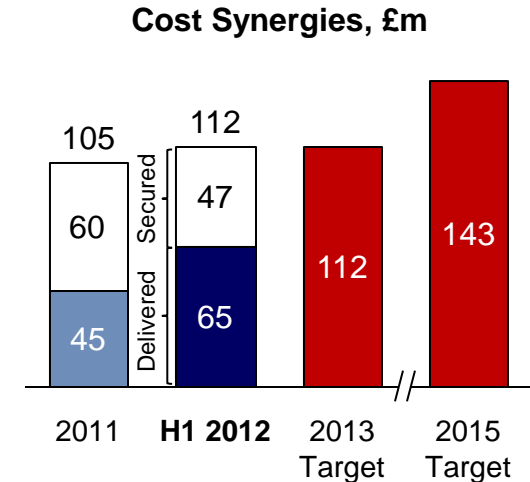
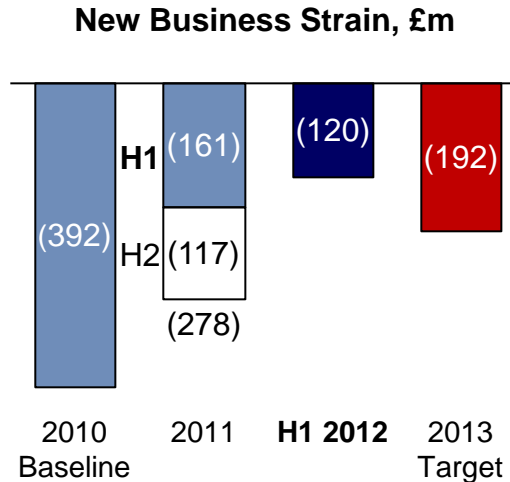
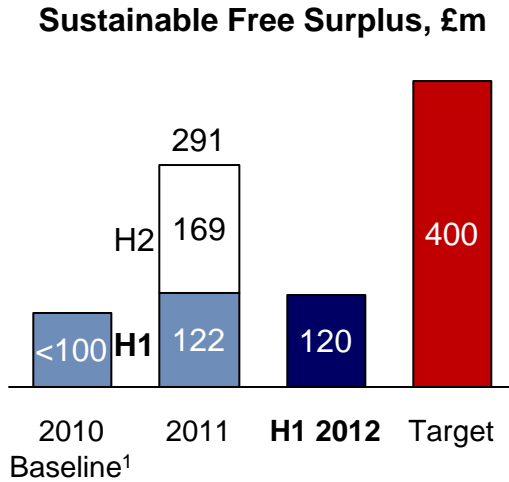
1. Estimated as at 30 June 2012 and unaudited.

2. Based on annualised H1 2012 UK new business strain.

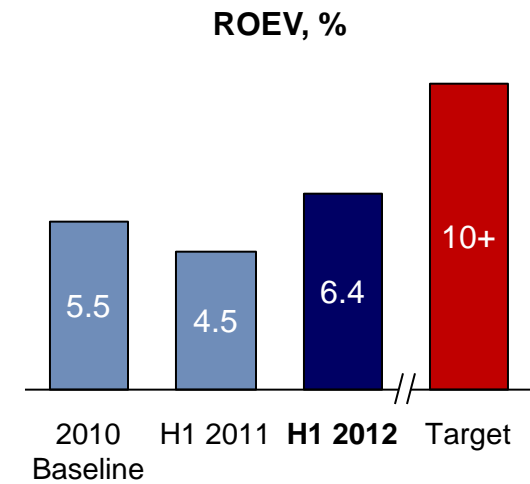
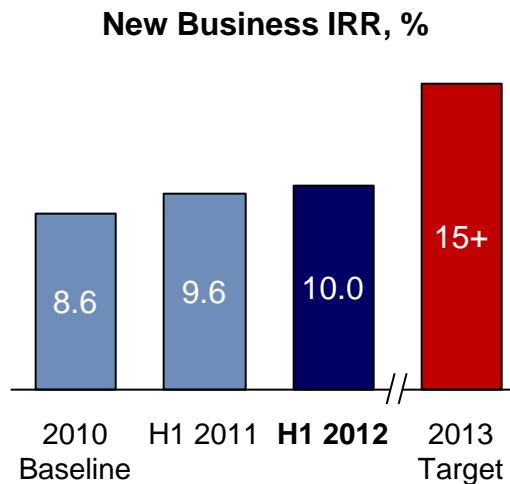
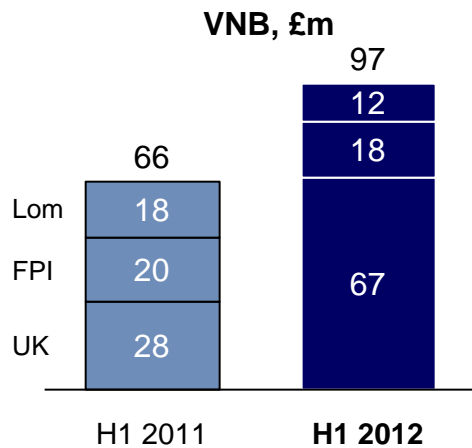
# Overview of 2012 Interim Results

## Further progress towards market targets

Cash



Returns



1. 2010 actual in-force cash surplus less new business cash strain of £159m adjusted for other 2010 operating movements in free surplus.



# UK Heritage

## Realising embedded value to maximise cash and returns

### Business Performance

- ▶ Continued delivery of outsourcing arrangement
  - initial transfer of 1,900 staff in March 2012
  - smooth transition of work of c.600 FTE in May 2012
  - expense risk reduced due to more variable cost base
- ▶ FLI went live in early July 2012
  - £6bn of fixed interest assets under management
  - £9m MCEV operating benefit in first half of 2012
- ▶ Lower new business strain as a result of the decision to discontinue bond sales in 2011
- ▶ Persistency within assumptions

### Key Priorities

- ▶ Outsourcing arrangement delivering
- ▶ In-house asset management
  - FLI looking to recapture a further c.£3bn – £5bn in 2012
- ▶ Capital Optimisation Programme (COP)
  - COP 2012 underway and expected to be complete by year end
- ▶ With Profits Fund Management
  - progress towards consistent capital management framework for six WP funds
- ▶ Customer Value Management and Fund Rationalisation initiatives transitioned to BAU

# UK Go to Market

Profitable growth through selectively focused, low cost businesses

Corporate Benefits

Protection

Retirement Income

## Focus

- Scale markets
- Good margins
- Strong market positions

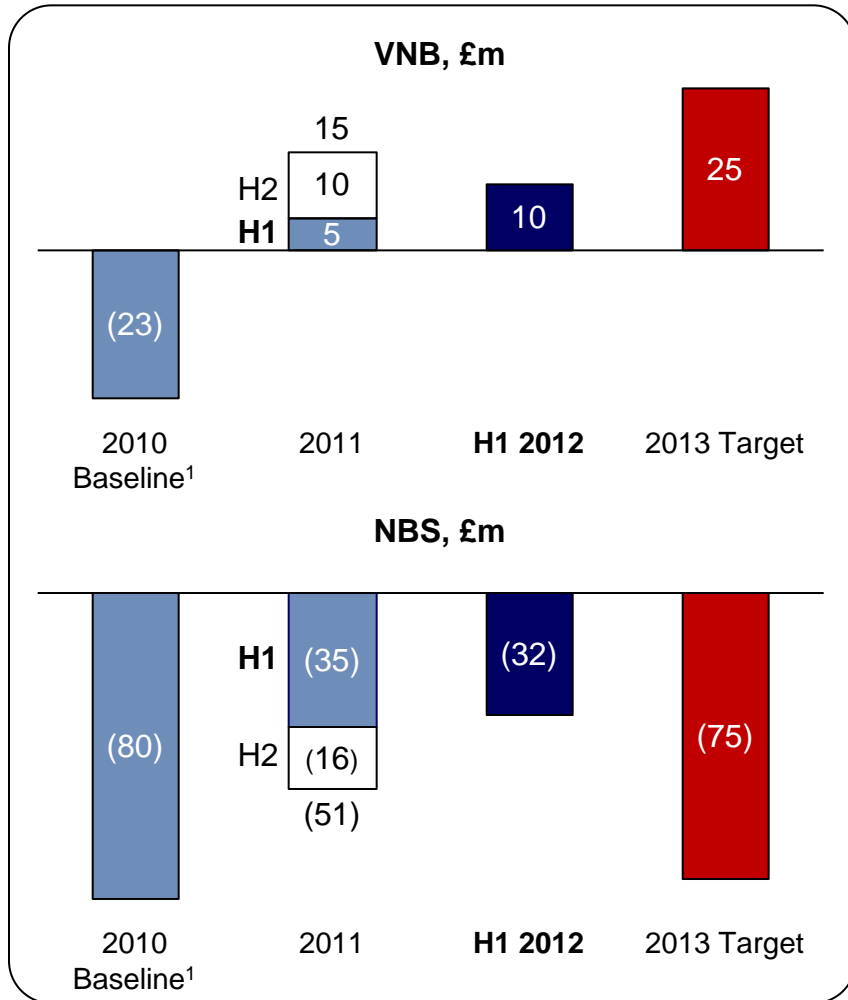
## Approach

- Selective participation focused on value not volume
- Low cost, 21<sup>st</sup> Century businesses
- Exit unprofitable products, removing all costs

Underpinned by rigorous financial discipline

# UK Go to Market – Corporate Benefits

## Strong, low cost propositions delivering towards targets



### Business Performance

- VNB up 100%
  - pricing discipline
  - benefits of actions to reduce cost base
  - increased volumes
- Lower rate of NBS for volume of sales
  - 79% of new business written on target platforms; outsourcing benefit continues
- Persistency within assumptions
- IRR increased to 6.8% (H1 2011: 6.6%)

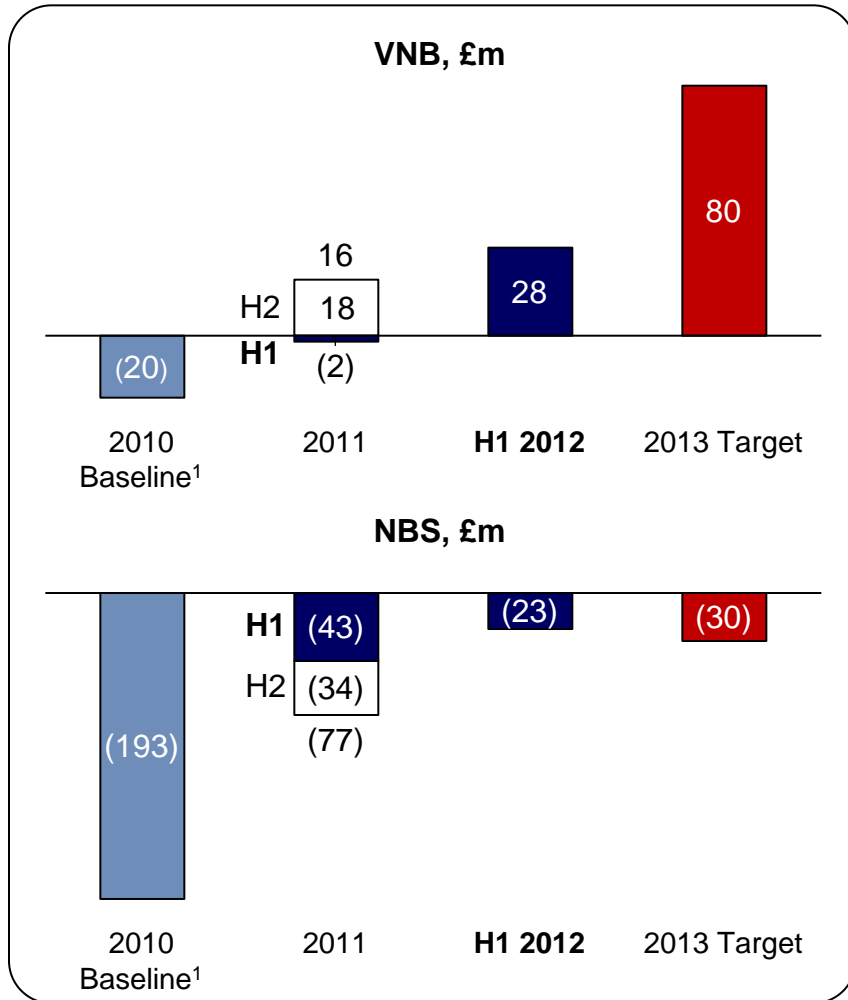
### Key Priorities

- Ensure business readiness for auto enrolment and commence staging from January 2013
- Maintain pricing discipline
- Further develop Corporate Platform to enhance proposition
- Complete business and system readiness for RDR

1. This is Corporate Pensions product figure, as business unit only created in 2011.

# UK Go to Market – Protection

## Execution of strategic plan delivering value



### Business Performance

- VNB and NBS improvements driven by
  - 81% of new business written on target platforms
  - focus on value over volume – improved CIC and IP mix
  - strong contribution from Group Protection – early integration and focus on EBC relationships
- IRR increased to 9.8% (H1 2011: 3.9%)

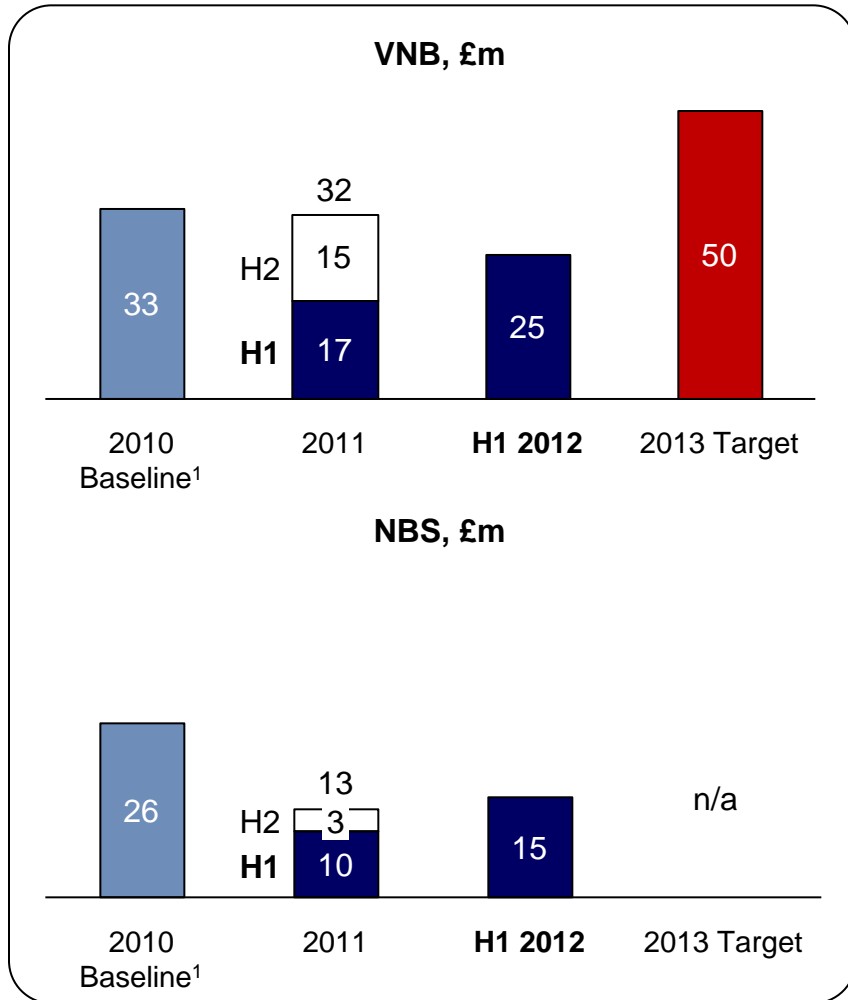
### Key Priorities

- Complete the migration of distribution partners to target, high quality propositions
- Continue to grow profitable new business
- Optimise the impact of regulatory, legislative and tax changes

1. This is Individual Protection figure, as business unit only created in 2011.

# UK Go to Market – Retirement Income

## Good strategic progress with encouraging initial results



### Business Performance

- VNB and NBS improvements driven by
  - higher margins from prudent pricing
  - higher volumes with sales up 19%
- Profitability remains strong with IRR over 25%
- Enhanced annuity product launched, rolling out over H2 2012

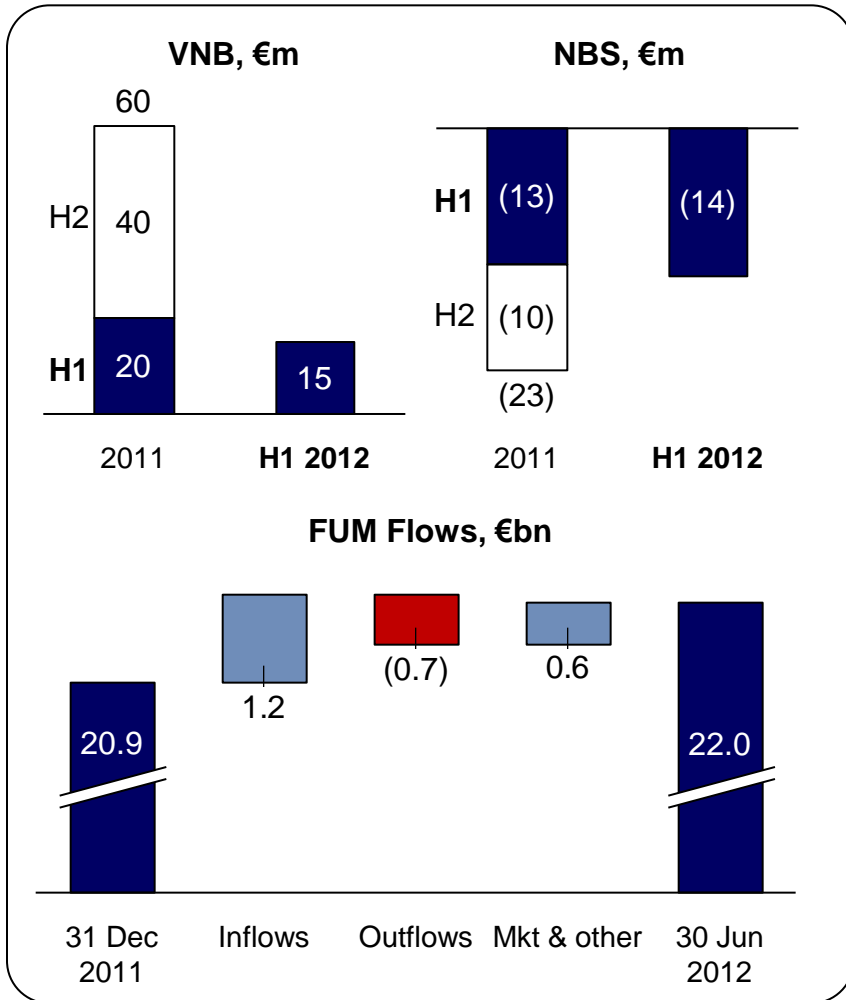
### Key Priorities

- Raise customer awareness of enhanced annuity option
- Leverage FLI expertise to optimise annuity investment performance
- Build technological and operational capability to support
  - improved customer engagement
  - operational efficiency and increased volume

1. This is Annuities product figure, as business unit only created in 2011.

# International – Lombard

## Sales resilient in challenging economic environment



### Business Performance

- Sales profile inherently seasonal, skew to Q4
- Sales up 4% in challenging market conditions
  - despite client 'inertia', strong performances in Southern Europe, UK and Belgium (private banks)
- Short term mix and profitability impacted by shift in new business origin from IFA towards private banks
- Increased market share from 19% to 24%<sup>1</sup>

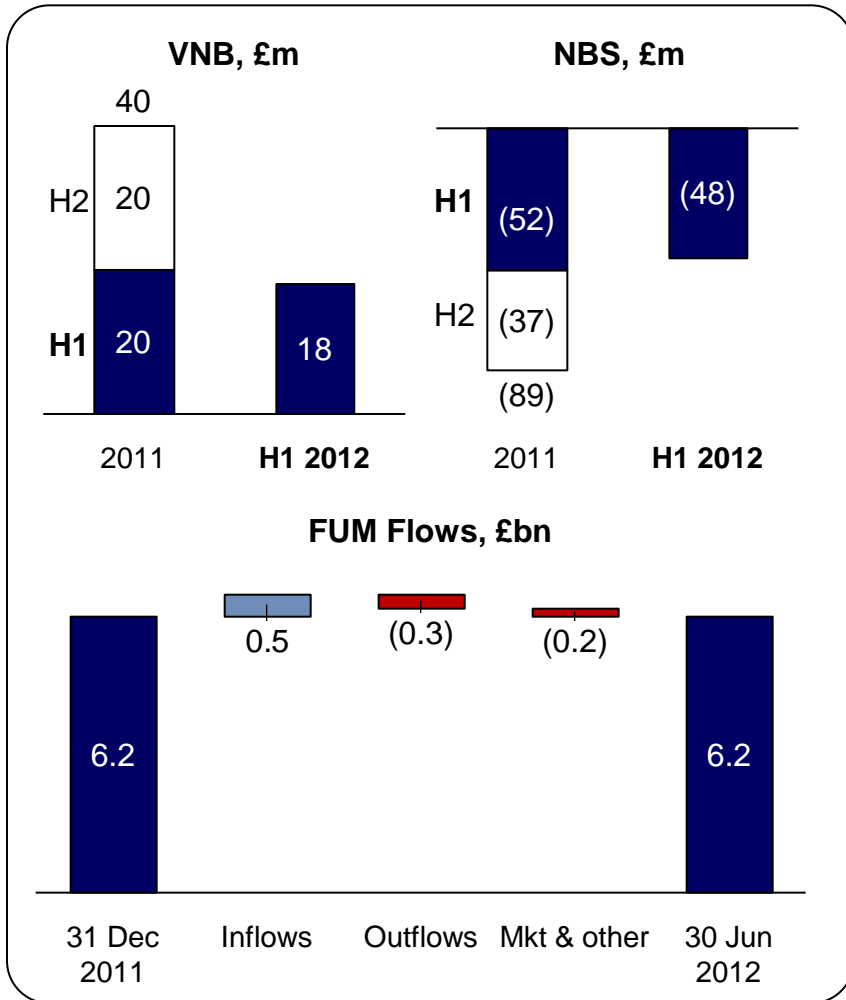
### Key Priorities

- Focus on Private Bancassurance which offers wider and stable opportunities
- Maximise sales through established key partners
- Leverage competitive advantage in a market with strong growth potential
- Improving cost efficiency

1. Reflects increase from FY 2011 to Q1 2012. Statistics sourced from Luxembourg Regulator.

# International – FPI

## Focus on value over volume



### Business Performance

- Improved margins despite volume falls
- Investment in risk and controls
- Lower strain despite cost of investment
- Launch of more capital efficient Premier product

### Key Priorities

- Complete strategic review
  - narrow the focus of the business to profitable areas
  - reduce cash strain and costs
  - build sustainable portfolio with lower risk profiles
- Roll out of revised product structures with enhanced profitability

# Friends Life financial targets

## Cash flow, product and returns focused

	Metric	FY2010 (baseline)	H1 2012	Target	
Cash	Distributable Cash Generation	£746m <sup>1</sup>	£43m	£400m from sustainable resources in the medium term	
	New business strain	£392m <sup>2</sup> annualised	£120m	£200m UK reduction by 2013	
	UK cost base	£476m 2010 cost base including BHA	£65m synergies £112m secured	£112m of synergies by 2013 £143m of synergies by 2015	
	Cash dividends from non UK business	£2m	nil	£20m by 2013 (FPI) £30m from 2014 (Lombard)	
Returns	FLG operating ROEV	5.5% <sup>2</sup>	6.4%	10%+ in the medium term	
	New business: VNB, (£m) IRR, (%)	Protection	£(20)m 3.3% <sup>2</sup>	£28m 9.8%	} by 2013
		Corporate Benefits	£(23)m 4.2% <sup>2</sup>	£10m 6.8%	
		Retirement Income	£33m 16.5%	£25m >25%	
		Group total	8.6%	10.0%	
				£80m 20% £25m 10%+ £50m 15%+ 15%+	

1. Includes £467m distribution of the FLC re-attributed inherited estate.

2. 2010 full year baseline includes an estimate of 12 months BHA and AXA UK Life Business results.



# Summary

1. **Clear business strategy, underpinned by rigorous financial discipline**
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4. **Driving cash and returns**

**Halfway through the business transformation**

**Good progress towards targets; but still more to do**

**10%+ ROEV and sustainable £400m DCT remain medium term targets**

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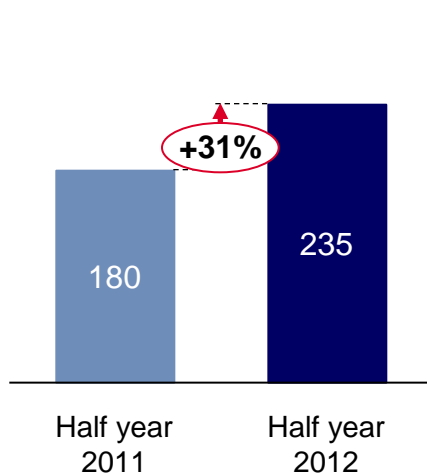
Mike Biggs

# Half Year 2012 Financial Highlights

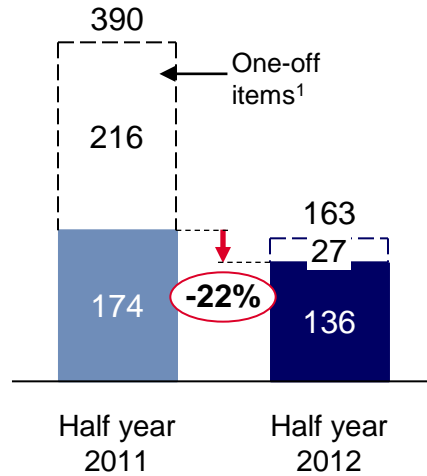
## Resilient profits and cash generation whilst maintaining a robust capital position

Generation

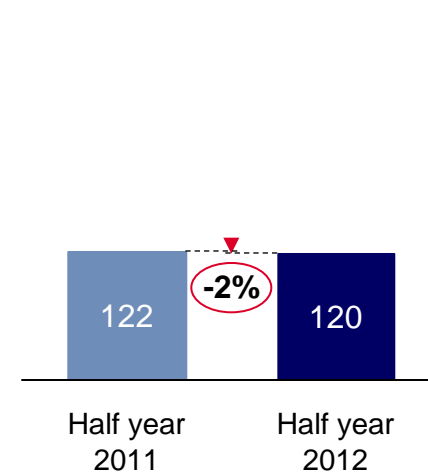
MCEV operating profit, £m



IFRS based operating profit, £m

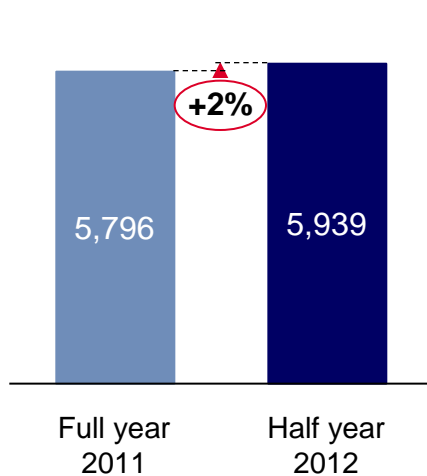


Sustainable free surplus<sup>2</sup>, £m

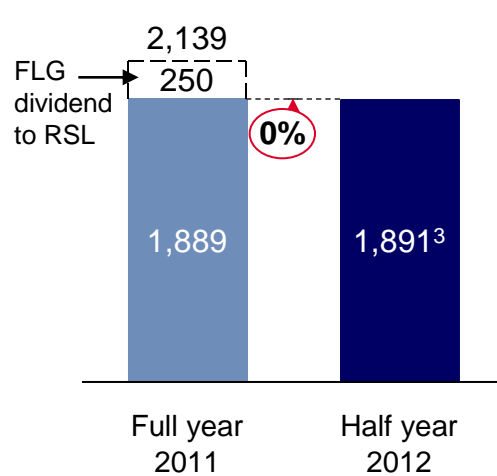


Value

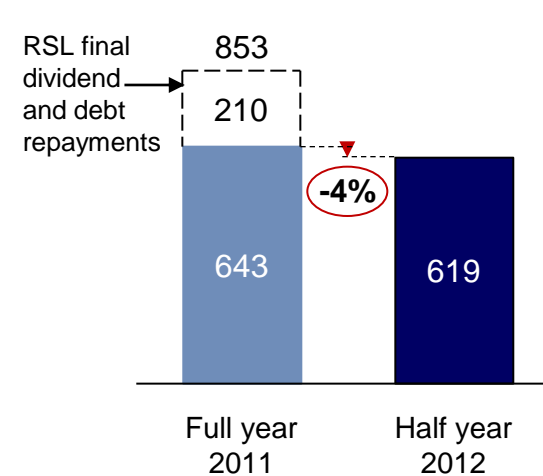
Group net MCEV, £m



Group IGCA surplus<sup>2</sup>, £m



Group available shareholder cash, £m

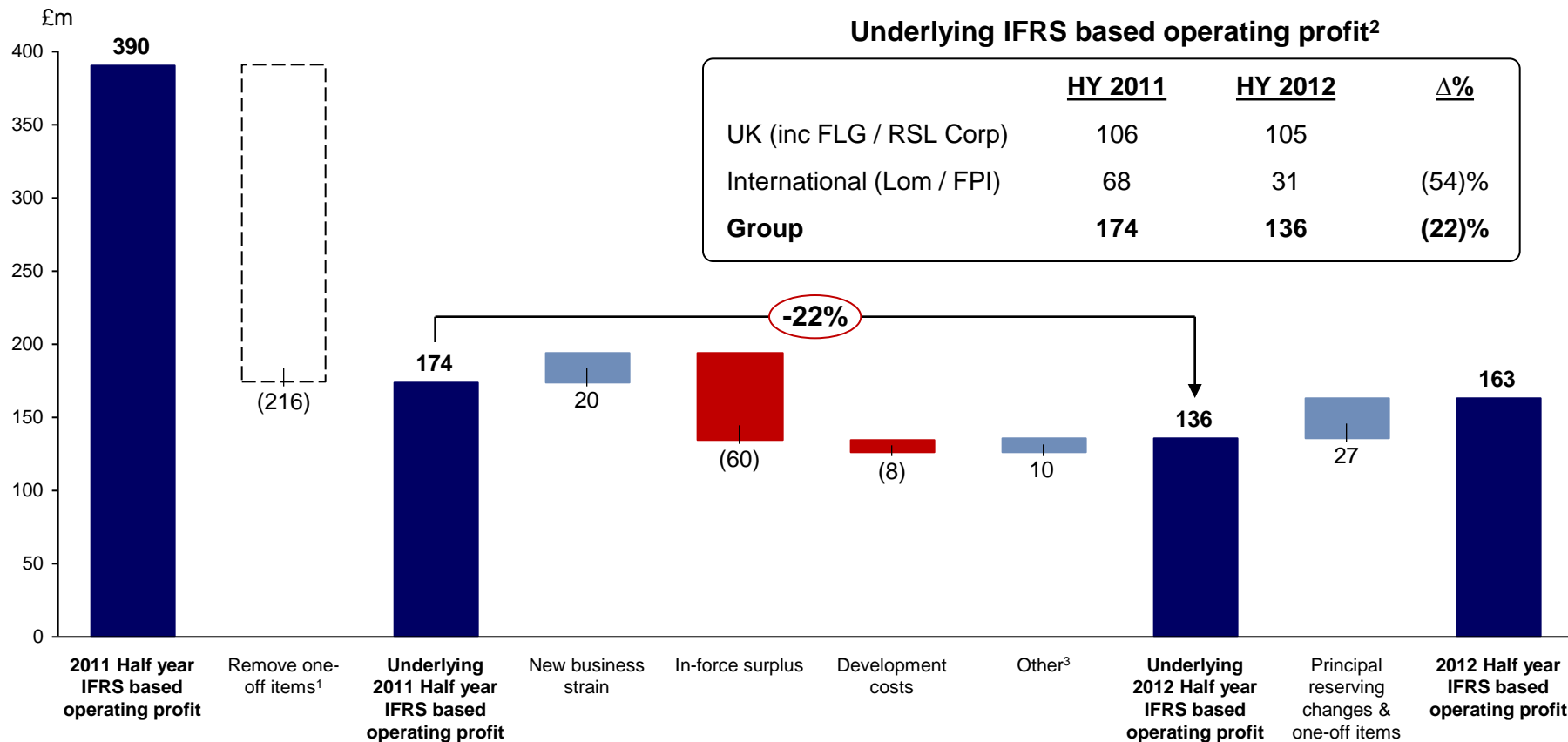


1. Principal reserving changes & one-off items.
2. At FLG level.
3. Estimated at 30 June 2012 and unaudited.

# IFRS based operating profit

## Lower profits impacted by reduced in-force surplus and weaker International businesses

### Half on half comparison of Group IFRS based operating profit

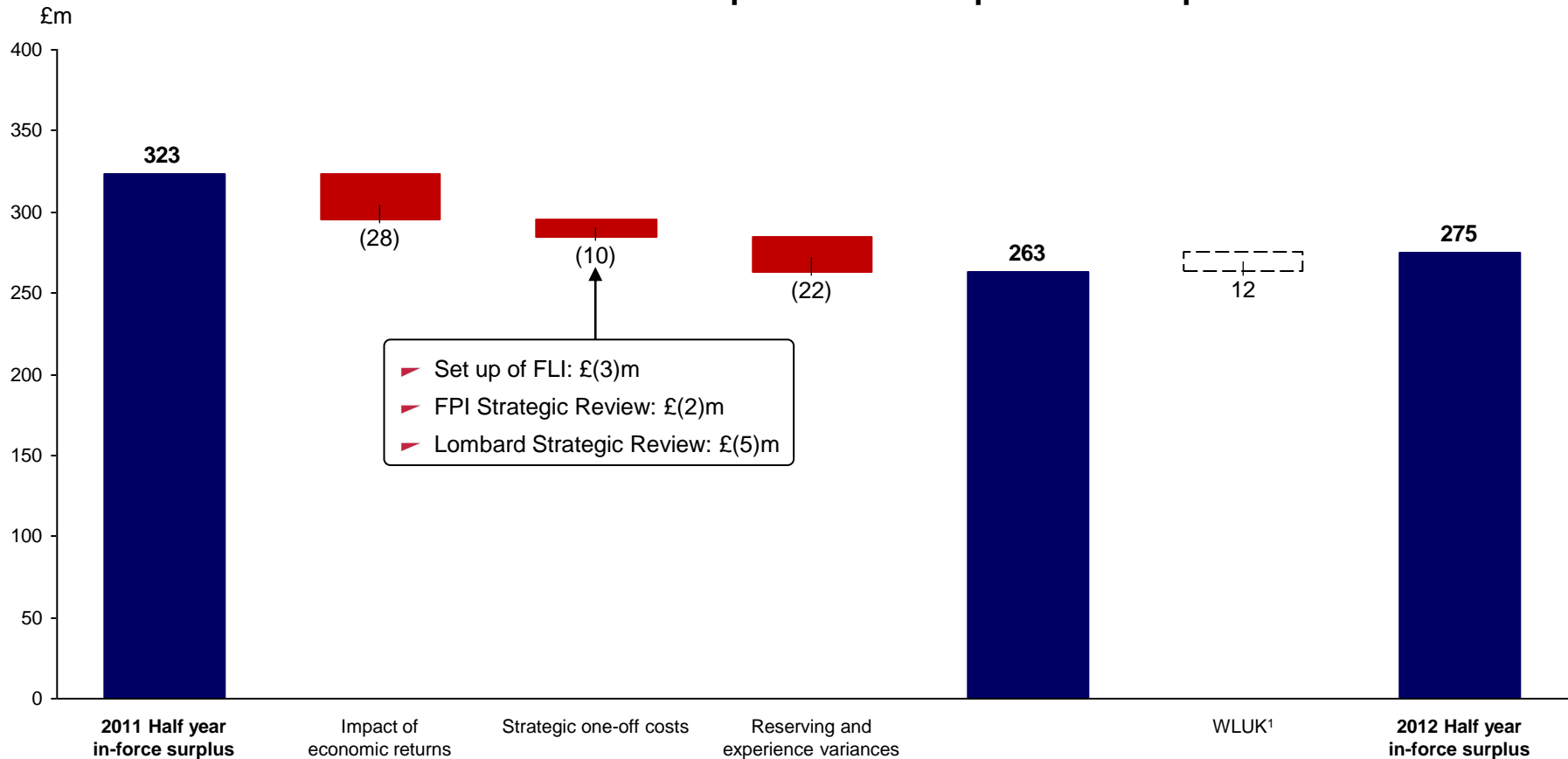


1. Principally capital synergies arising from the implementation of PS06/14.
2. Excludes impact of principal reserving changes and one-off items.
3. Other includes Winterthur Life UK (WLUK) in-force surplus contribution of £12m.

# IFRS based operating profit – In-force surplus

## Reflects negative economic impacts and one-offs

Half on half comparison of Group in-force surplus

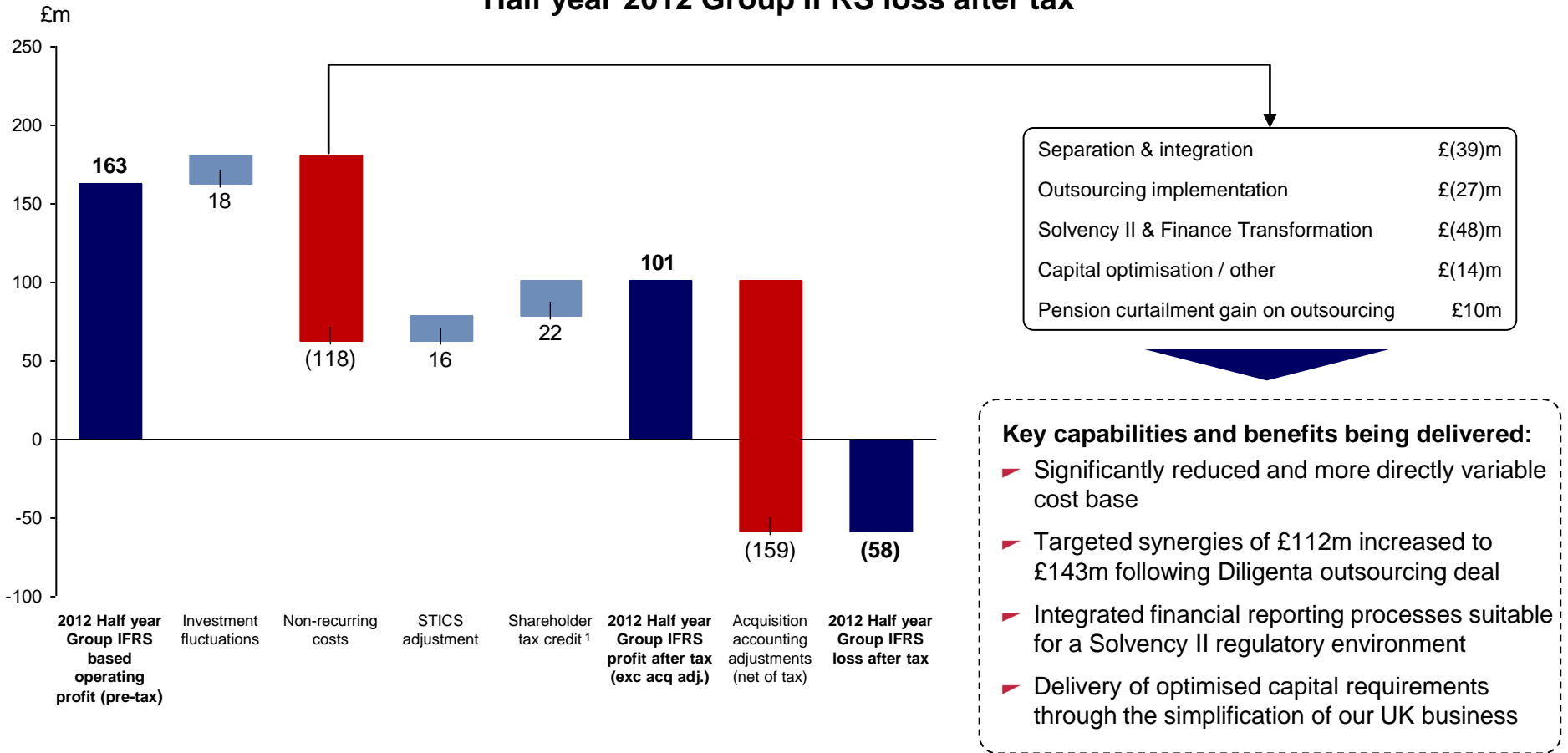


1. Acquisition of Winterthur Life UK (WLUK) completed in November 2011.

# IFRS profit after tax

## Reflects investment in business improvement

Half year 2012 Group IFRS loss after tax

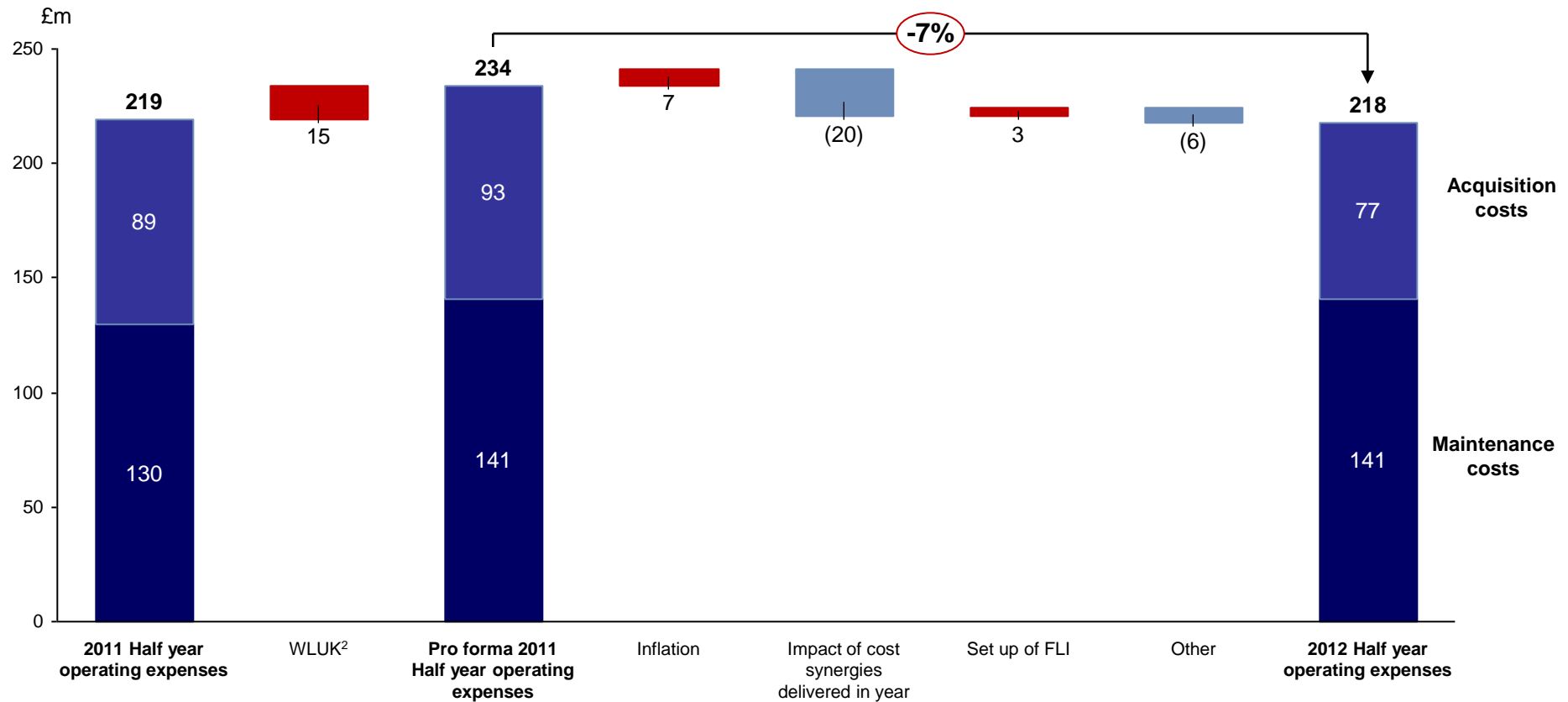


1. Excluding deferred tax credit on acquisition accounting adjustments of £87m.

# UK operating expenses

## Delivering targeted reductions in the operating cost base

Half on half UK operating expenses<sup>1</sup> movement

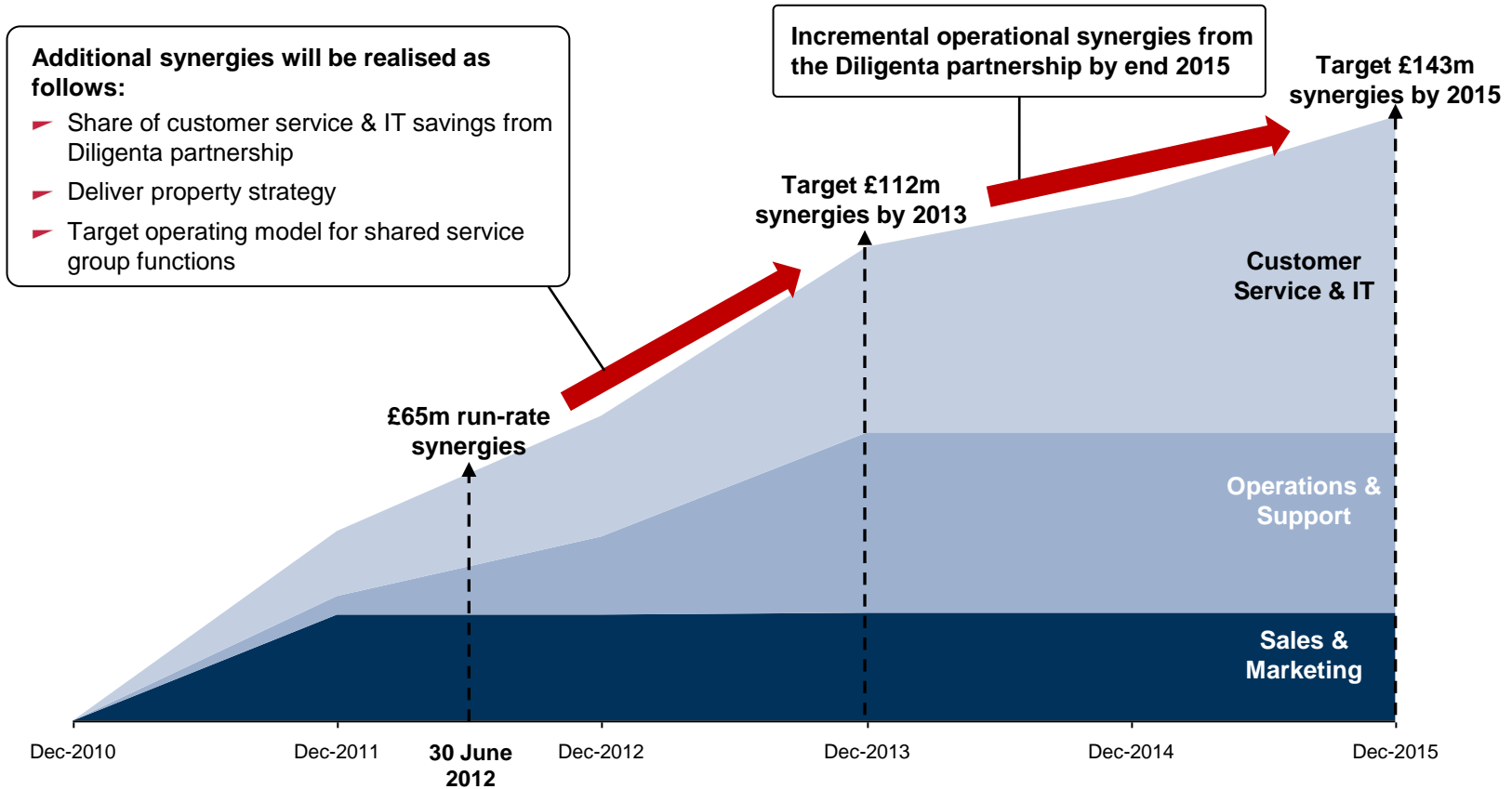


1. Excludes development costs for six months ended 30 June 2012 of £18m (six months ended 30 June 2011: £10m).  
 2. Acquisition of Winterthur Life UK (WLUK) completed in November 2011.

# On track to deliver £143m synergies by 2015

## Annualised £65m run-rate achieved to date

### Integration and Outsourcing synergy delivery

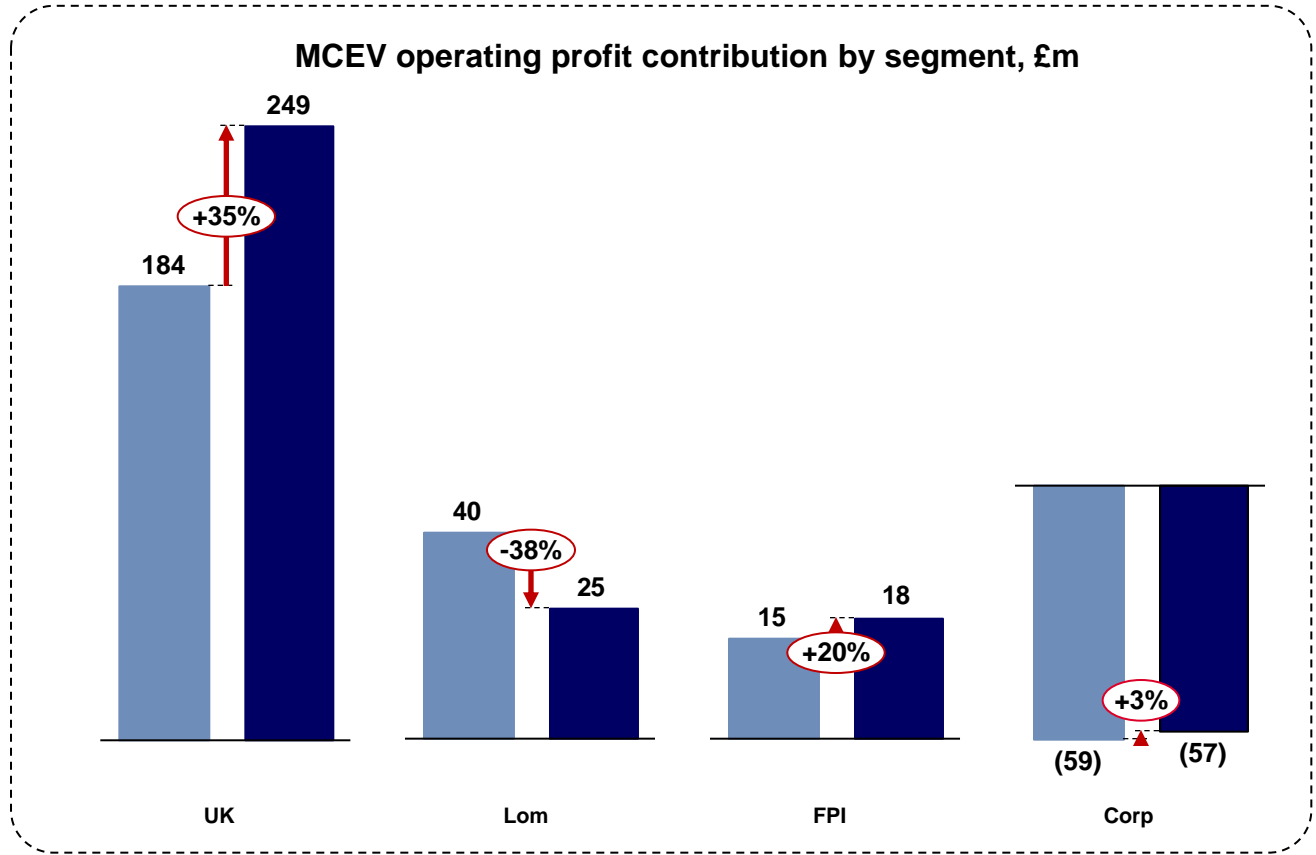
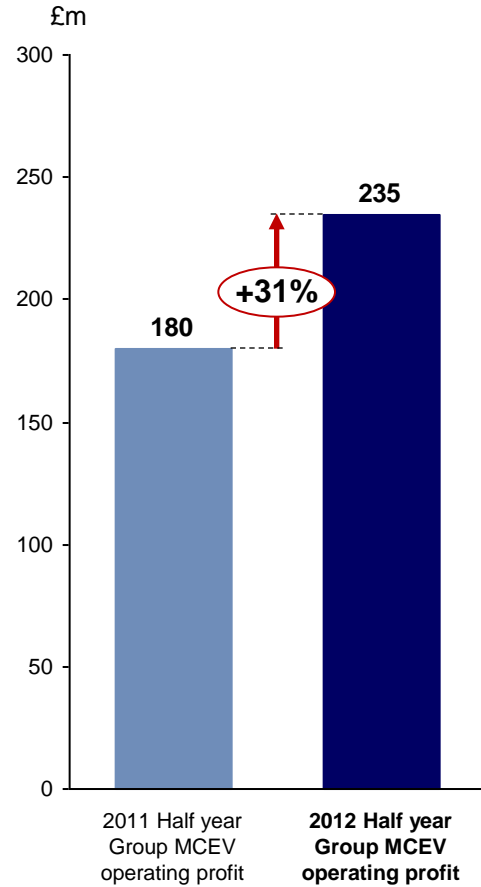




# MCEV operating profit

## Profit growth driven principally by UK segment

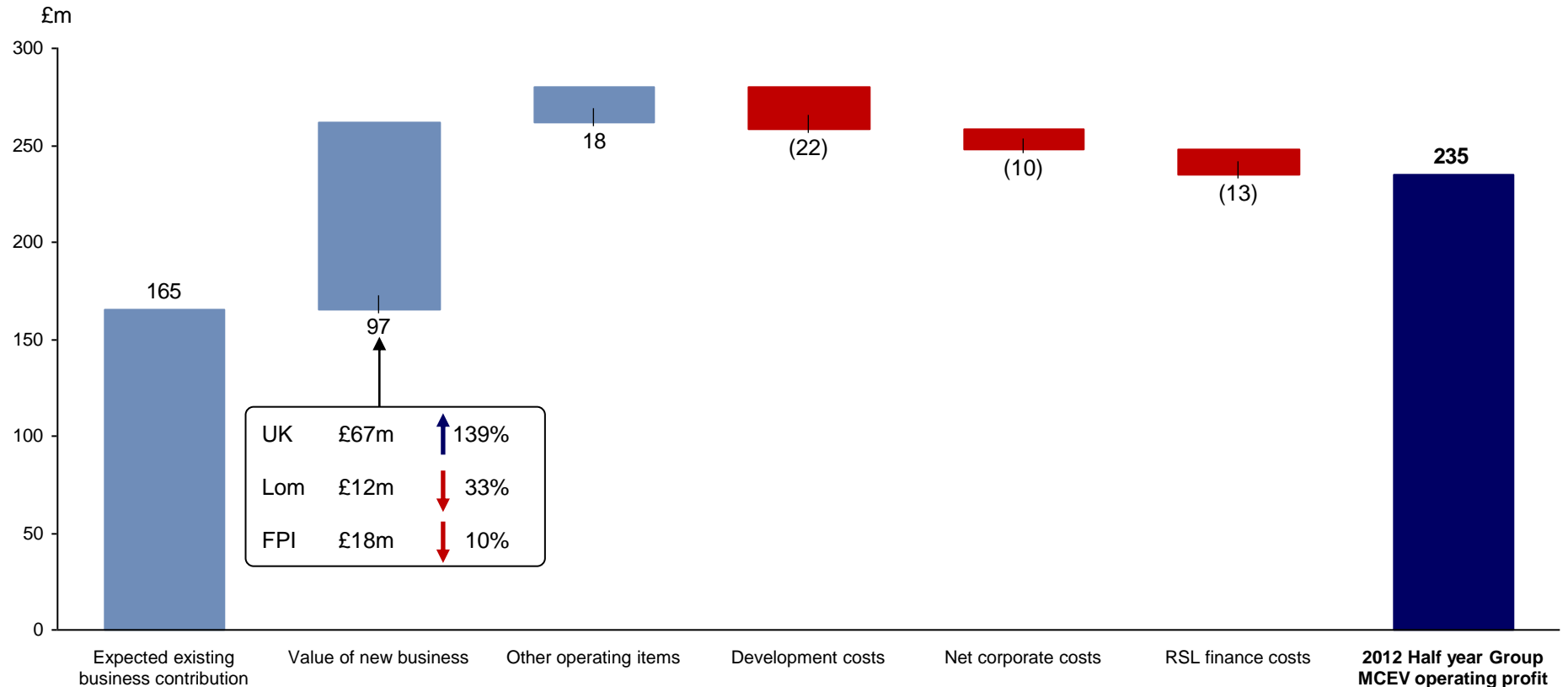
Half year 2012 Group MCEV operating profit



# MCEV operating profit

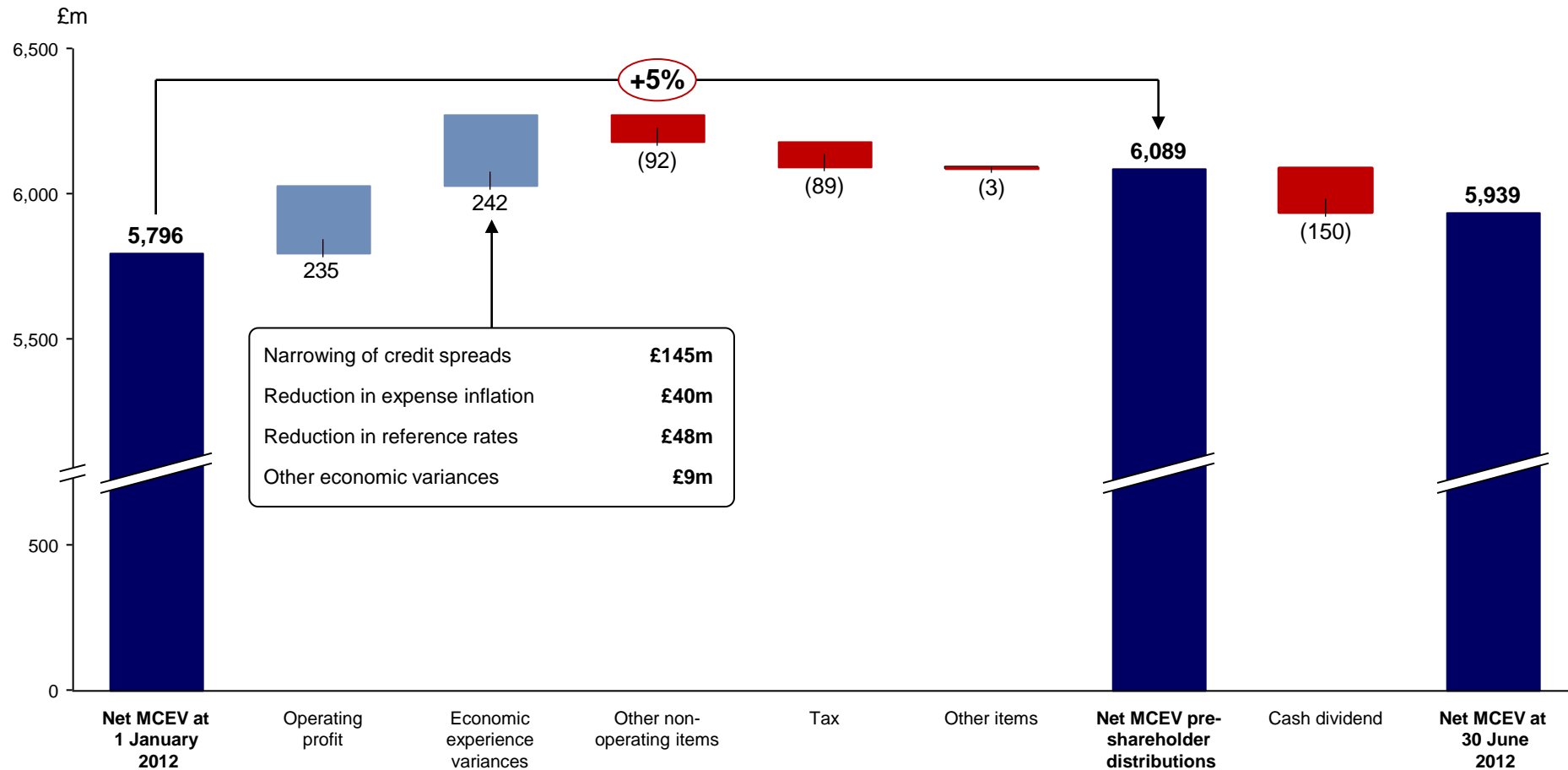
## Profit growth reflects increased UK new business contribution

Half year 2012 Group MCEV operating profit



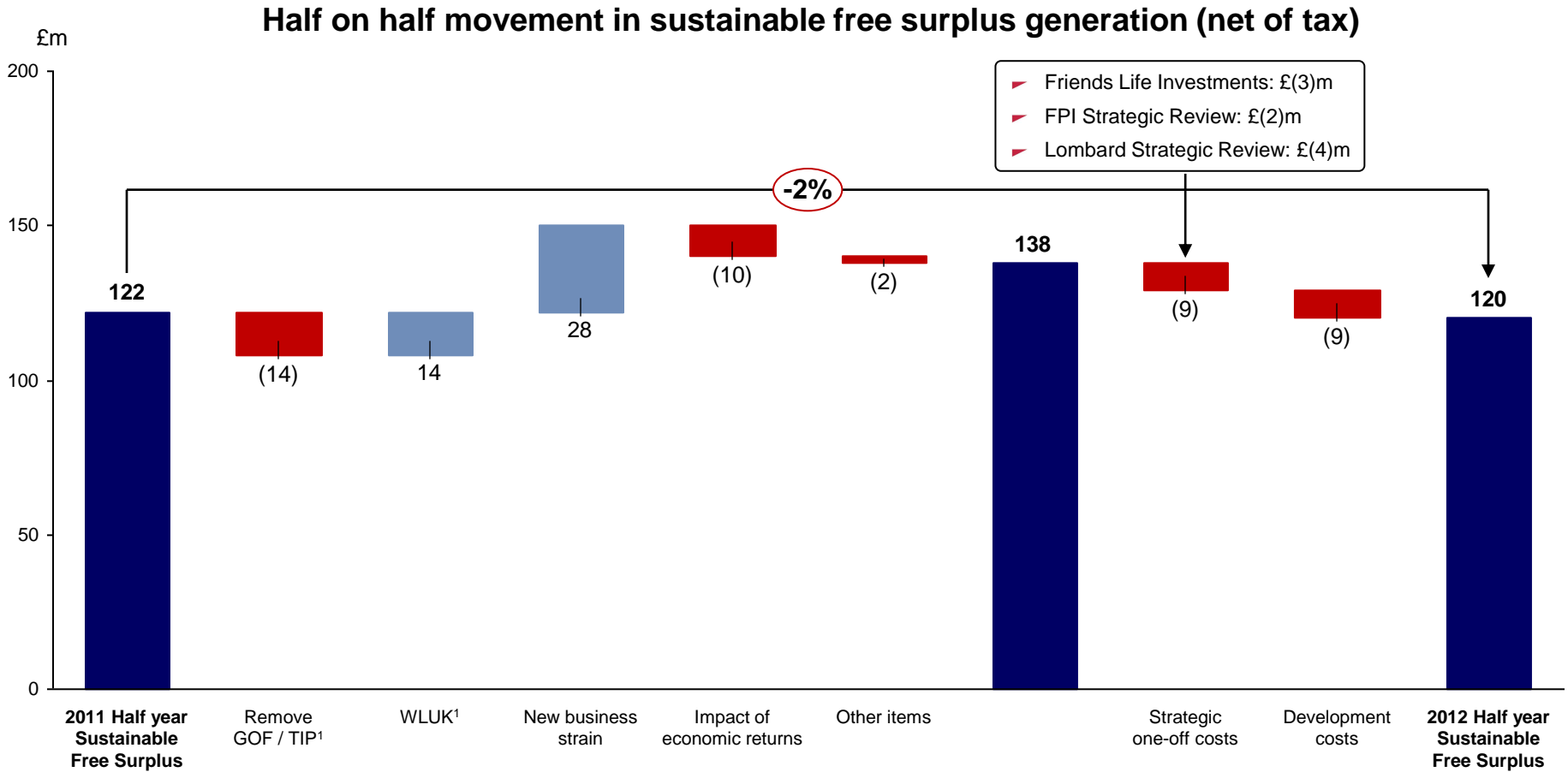
# MCEV development in 2012

## Strong operating performance in volatile markets



# Sustainable free surplus generation

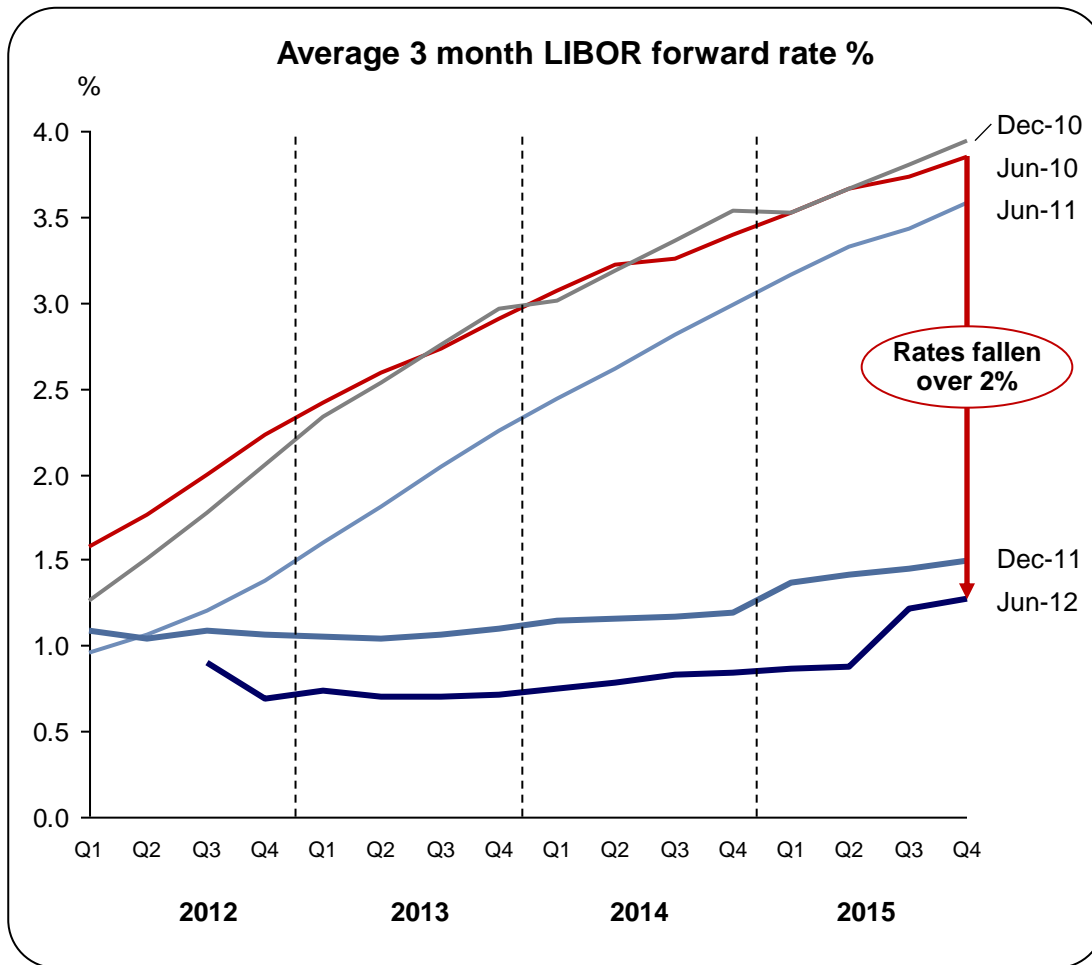
## Improving surplus generation offset by targeted investment costs



1. The final phase of the AXA UK Life Business transaction resulted in the acquisition of Winterthur Life UK (WLUK) and the pre-agreed disposal back to AXA UK of the Guaranteed Over Fifty and Trustee Investment Plan (GOF / TIP) portfolios.

# Lower rates impacting cash generation

## £40m – £50m reduction in emerging surplus in outer years



Source: Bloomberg.

- ▶ LIBOR forward rates fallen since 30 June 2010 when cash generation target of £400m set
  - 2012 rates 1% lower
  - 2013-15 rates at least 2% lower
  - Substantial movement in rates since 30 June 2011
- ▶ Persistent lower rates of return impact the ability of the business to generate free surplus
- ▶ Total invested net worth before debt at 31 December 2011 of £2.4bn
- ▶ Fall of 2% in rates of return reduces emerging surplus by £40m - £50m per annum in outer years
- ▶ Cash generation target of £400m from sustainable sources remains our medium term target

# Impact of lower returns since setting ROEV target

## Fall in rates of return reduces ROEV by up to 75bps

### Rates applying for MCEV Expected Existing Business Contribution

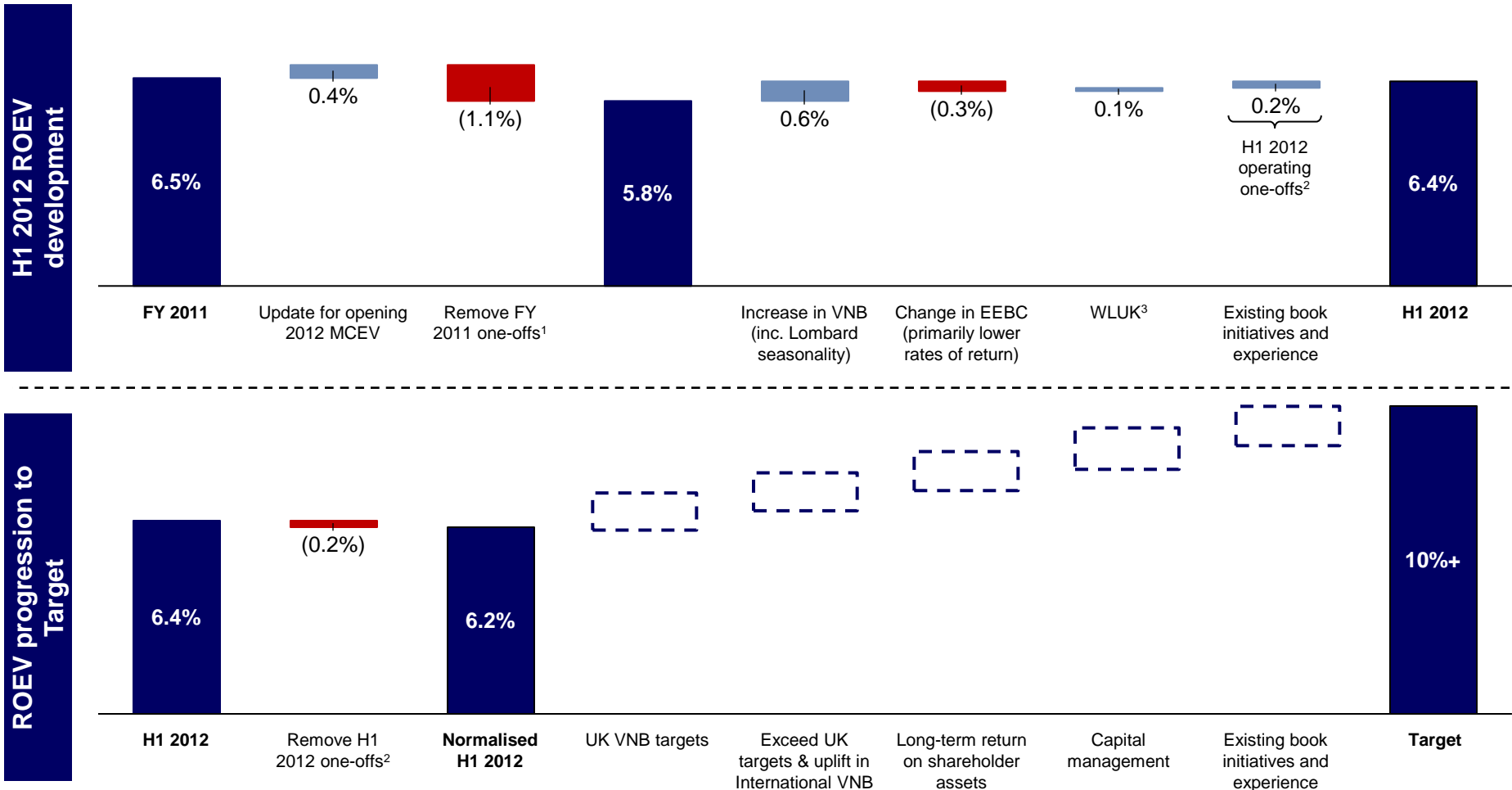
	2010	2012
Cash/Gilt returns - 1 year swap rate	1.01%	1.35%
Equity Returns - 10 year swap rate + 3%	7.30%	5.40%
Property Returns - 10 year swap rate + 2%	6.30%	4.40%
Corporate Bond Returns <sup>1</sup>	2.98%	2.98%

- The ROEV is dependent on the level of return achieved on the existing business (EEBC)
- ROEV target of 10% was set based on the rates applicable in 2010
- One year swap rate and rates applicable to corporate bonds remain largely unchanged
- The main driver of EEBC is the long term returns assumed on equity and property.
- Since 2010 these long term rates have fallen by nearly 2%, reducing EEBC.
- Impact on ROEV is 0.5% - 0.75%
- 10%+ ROEV remains our medium term target

1. The expected return for corporate bonds allows for spreads on actual portfolio, less an allowance for defaults; and for bonds matching annuity business, an illiquidity premium.

# FLG Operating Return on Embedded Value

## 10%+ remains medium term target



1. Includes Diligenta and other 2011 assumption changes, other operating variances, adjusted for change in opening MCEV.

2. Includes H1 2012 experience, assumption changes and other operating variances.

3. Acquisition of Winterthur Life UK (WLUK) completed in November 2011.

# Summary

- ▶ **IFRS operating profit**
  - impacted by difficult markets and targeted investment costs
- ▶ **Operating expenses**
  - good progress on reducing UK cost base; one-off investments to deliver future efficiencies
- ▶ **MCEV**
  - Group operating profits up 31%, led by strong UK VNB performance
- ▶ **Sustainable free surplus**
  - improving surplus generation offset by targeted investment costs
- ▶ **Balance sheet and capital**
  - robust IGCA; low-risk balance sheet with limited exposure to sovereign debt
- ▶ **Business delivering in line with expectations given economic headwinds; focused on factors under management control**

**Halfway through the business transformation**

**Good progress towards targets; but still more to do**

**10%+ ROEV and sustainable £400m DCT remain medium term targets**



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# Focus on cash and capital

## 30 June 2012 update

- ▶ Committed to the optimisation of capital and return of excess to shareholders
- ▶ Robust balance sheet at 30 June 2012 on all bases
- ▶ Dividend increased by 5%

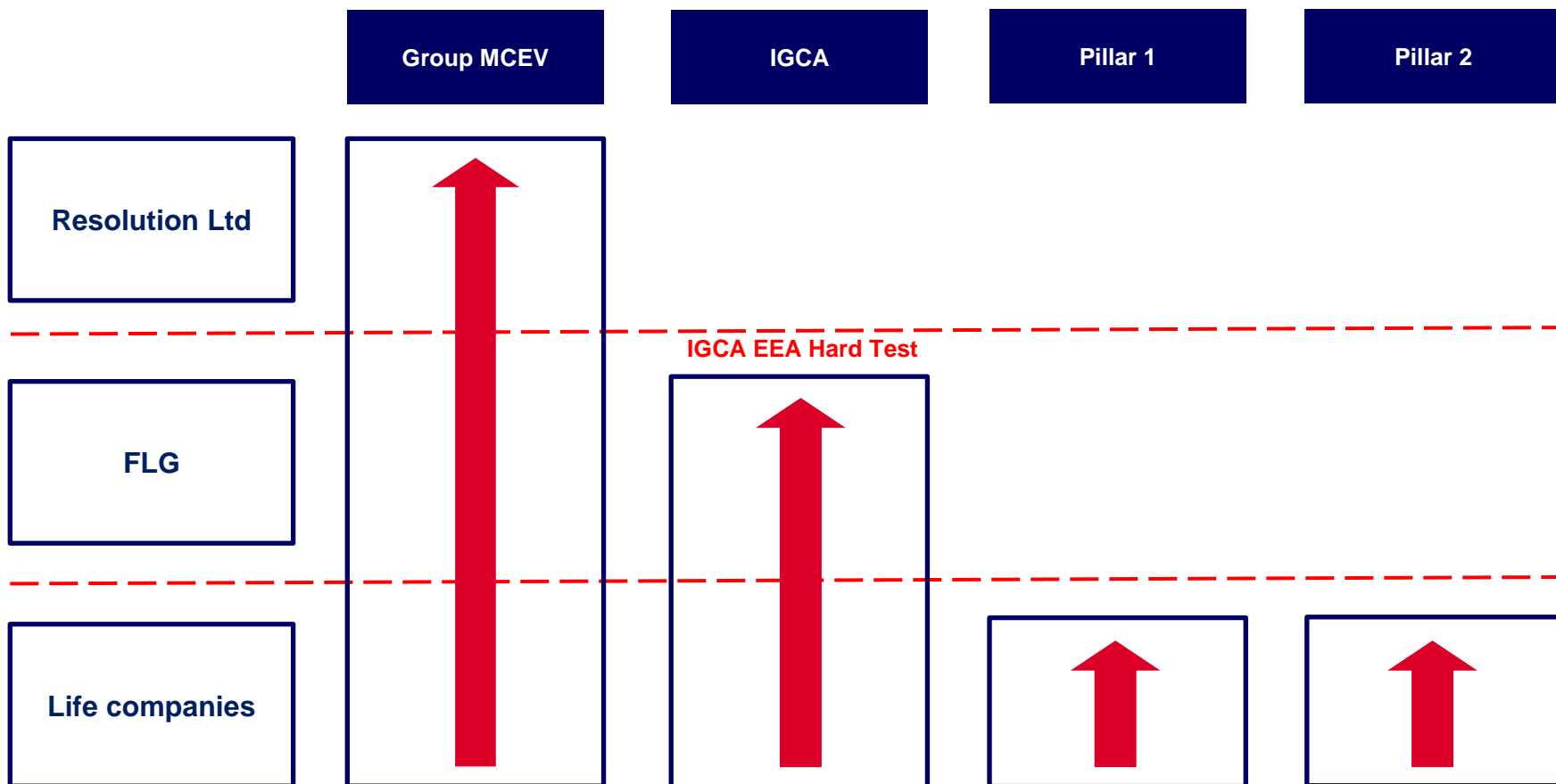
- ▶ Sensitivities in light of the challenging economic environment
- ▶ Future capital requirements and developing regulatory environment

### Today's agenda

- Set out the capital framework at 30 June 2012
- Provide sensitivities of the capital base to key economic risks
- Clarify our rationale for the decision on £250m return
- Look at the implications for the future

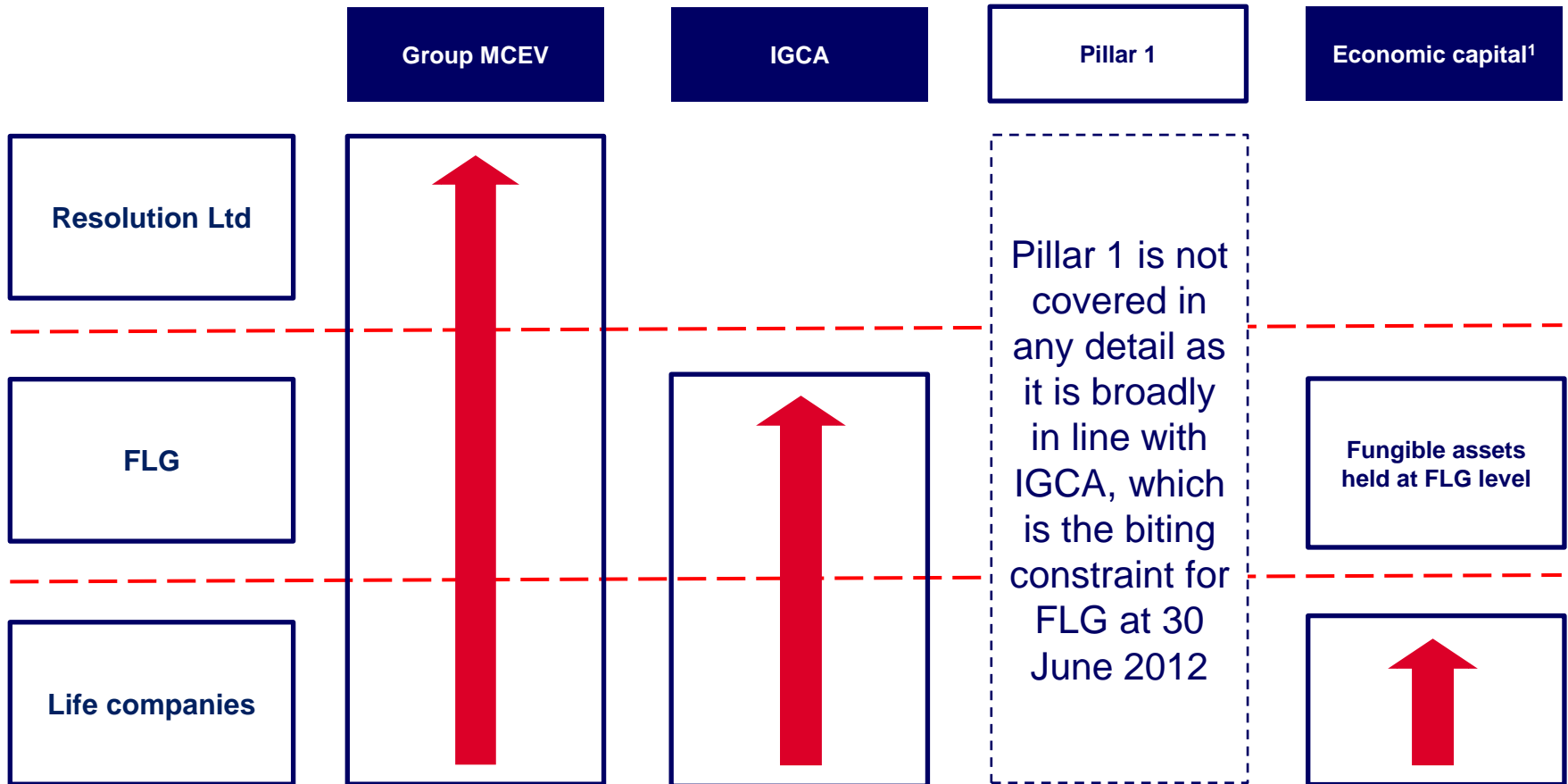
# How we manage capital

## Core considerations



Note: Capital requirements are managed on the Pillar 1/ Pillar 2 basis for FSA-regulated companies and, for non-FSA regulated companies, on the applicable local basis.

# How we apply this in today's presentation



1. Life company economic capital plus fungible assets held at FLG level.

# Robust capital base

## Prudent approach in uncertain markets

Amounts available to return as at 30 June 2012 £bn	MCEV free surplus <sup>1</sup>	FLG IGCA <sup>2</sup>	Economic capital <sup>2</sup>
<b>Total surplus</b>	<b>1.2</b>	<b>1.9</b>	<b>3.0</b>

Covering:

- Capital management policies	-	0.9	1.0
- Restricted assets	0.1	-	0.4
- Monitoring buffer to ensure regulatory compliance and other working capital	0.5	0.5	0.8
- Available shareholder cash / surplus	0.6	0.5	0.8

1. MCEV free surplus is gross of RSL debt of £363m and is after MCEV required capital.
2. Estimated at 30 June 2012 and unaudited.
3. Excluding WPICC.

- Required capital
  - based on the higher of 150% of Pillar 1<sup>3</sup> and 125% of economic capital at life company level and 150% of IGCA<sup>3</sup> at FLG
- Restricted assets; essentially non-fungible capital
- Monitoring buffer and working capital
  - ensures compliance with regulatory requirements
  - supports the payment of dividend until sustainable cash generation is able to do so
  - retained to fund one-off costs
- Available shareholder cash
  - covers £400m prudence buffer including commitment to hold one year's FLG debt servicing costs in cash
  - covers RSL debt and corporate costs

# Capital restrictions and monitoring buffers

## Designed to take account of regulatory requirements

### Cash

- Limit on dividends to RSL holding companies without further FSA approval to preserve cash within the UK regulated group

### Capital

- Capital management levels:
  - set to take account of change in control conditions
  - in line with capital management policy
  - key elements: 150% IGCA at FLG and, at life company level, 150% Pillar 1, 125% economic capital

### Debt obligations

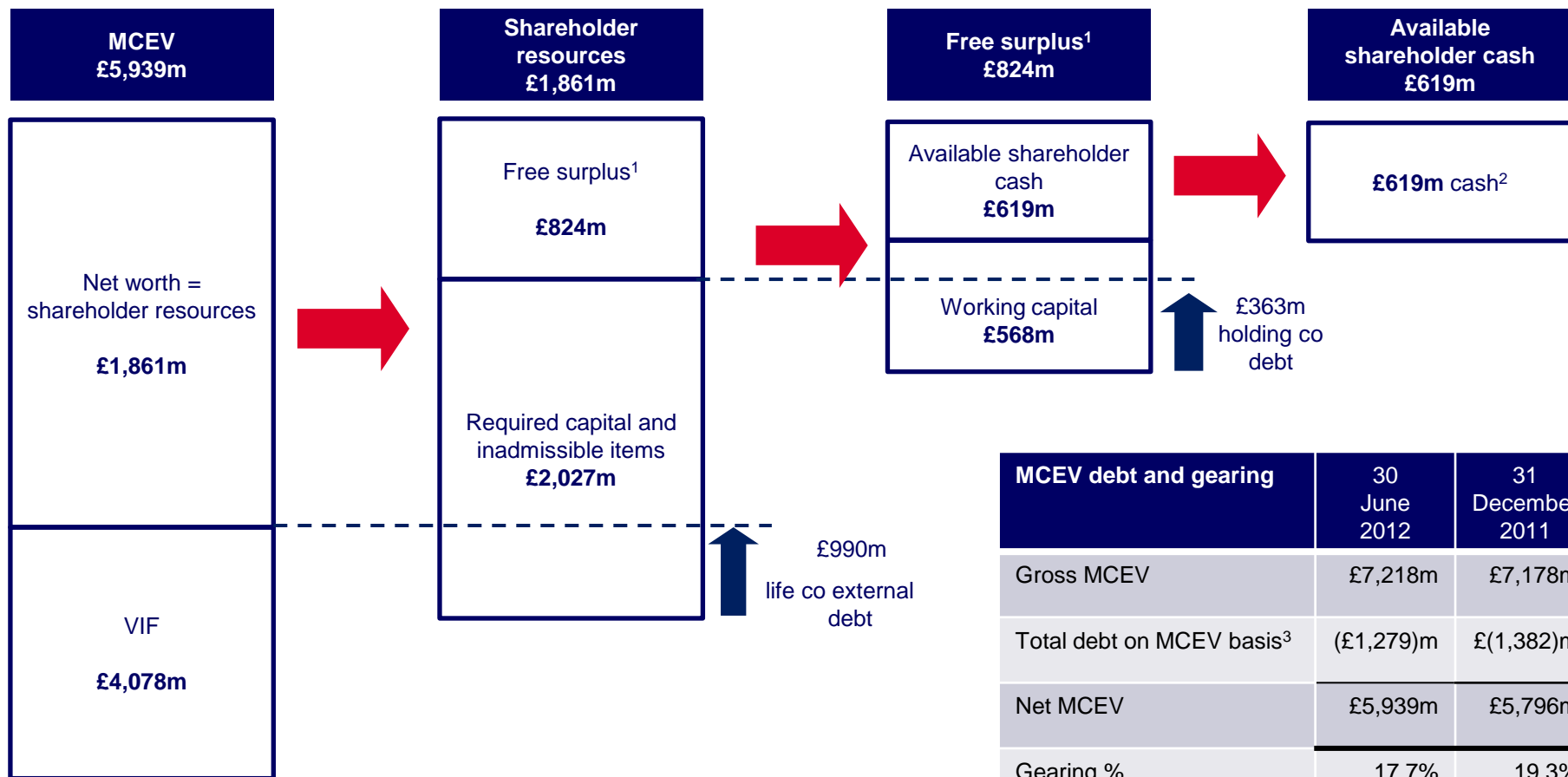
- Designed to protect the maintenance of capital management policies and the interests of debt holders
  - hold back capital at FLL to cover one year's life company debt servicing
  - hold back cash at holding company level to cover one year's FLG debt servicing

### Specific monitoring buffers established:

- IGCA: 10% to ensure regulatory compliance
- Pillar 1: 20% including life company debt obligations
- economic capital: 10% including life company debt obligations

# Cash and capital framework at 30 June 2012

## Clear allocation of MCEV to ASC



MCEV debt and gearing	30 June 2012	31 December 2011
Gross MCEV	£7,218m	£7,178m
Total debt on MCEV basis <sup>3</sup>	(£1,279)m	£(1,382)m
Net MCEV	£5,939m	£5,796m
Gearing %	17.7%	19.3%

- Free surplus gross of debt of £1,187m comprises net free surplus of £824m plus Resolution holding company debt of £363m.
- Incorporating allowance for FLG to hold one year's debt servicing costs in cash (£110m).
- Excludes £74m of accrued interest and tax on market value adjustment (31 December 2011: £82m).

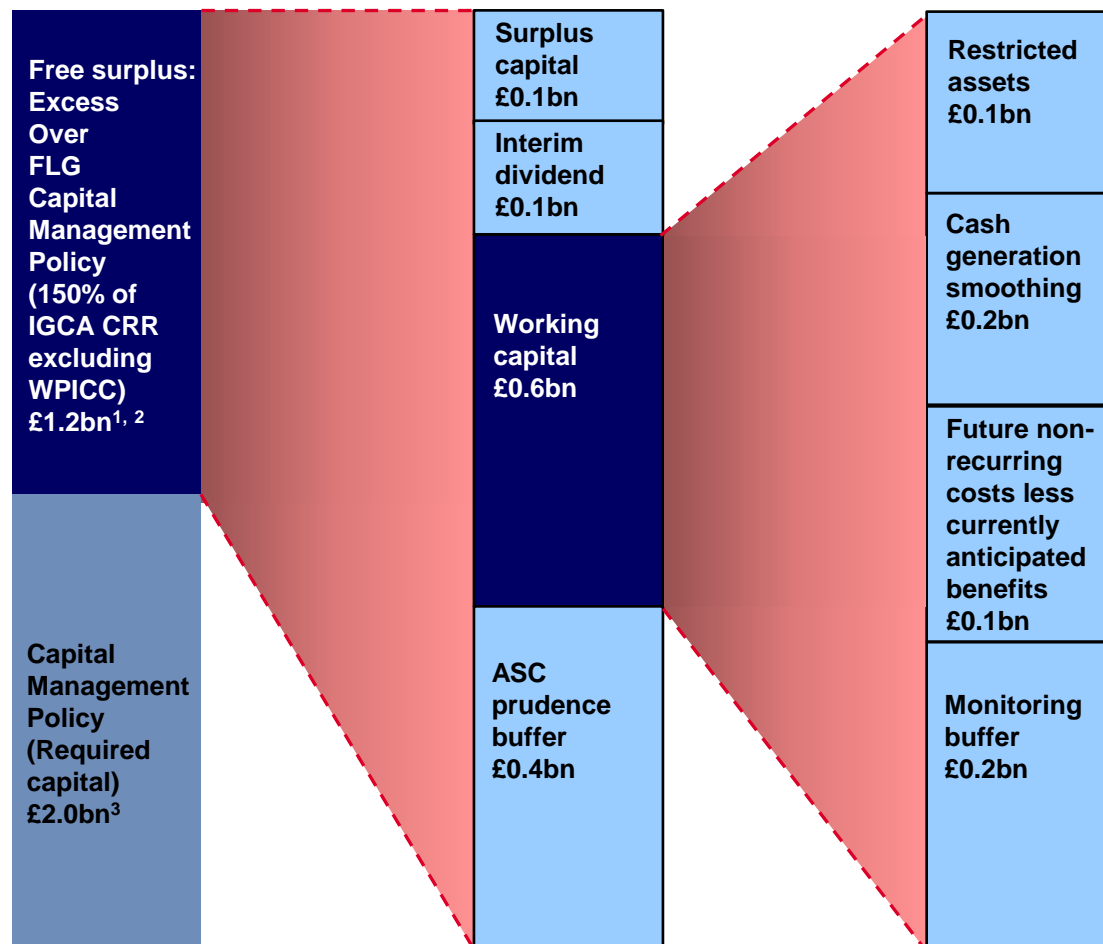
# Working capital – development of future requirements

## Increased prudence to ensure compliance with regulatory obligations

£3.2bn – gross shareholder resources

£0.6bn

Working capital



- WPF support arrangement and other inadmissibles
- Retained to smooth a temporary shortfall in expected sustainable cash generation compared to FLG's current annual cash transfer. Includes H1 2012 contribution to 2012 final dividend
- Cash required for future one-off costs net of provisions held, tax relief and currently anticipated short-term benefits
- Monitoring buffer on biting Pillar, currently IGCA

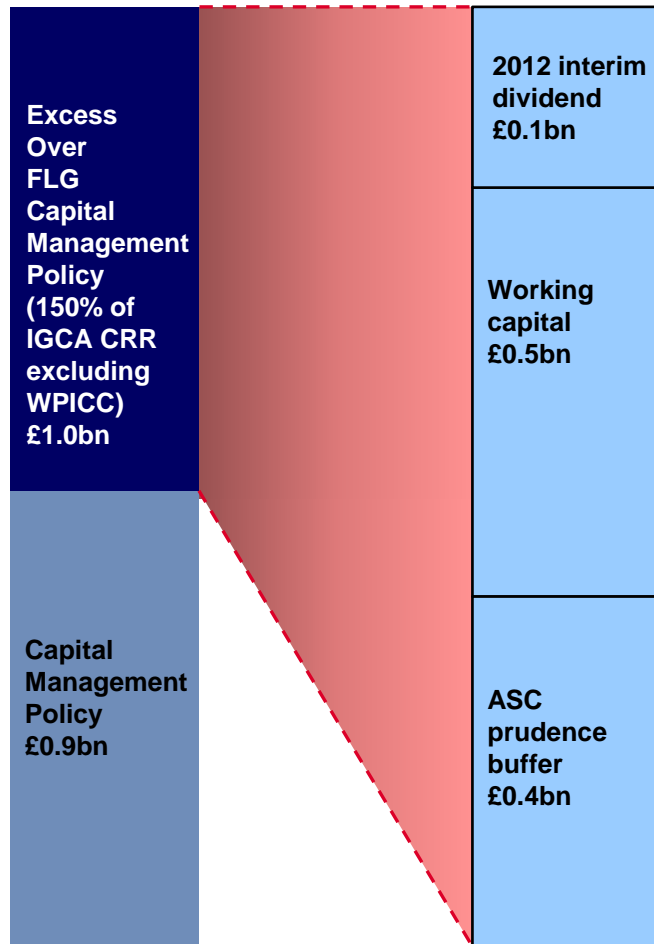
1. Includes £1.0bn per IGCA, and £0.2bn for inadmissible assets of £0.1bn (excluded from IGCA), plus £0.1bn for RSL net assets (excluding DCNs and intercompany loan).  
 2. Gross of £0.4bn RSL debt. 3. Gross of £1.0bn FLG debt



# FLG IGCA surplus at 30 June 2012

## Return of surplus limited to 2012 dividend

£1.9bn<sup>1</sup> – IGCA surplus



- £100m to be paid from FLG to Resolution holding companies to fund 2012 interim dividend
- Working capital as per MCEV basis less £0.1bn restricted assets which are excluded from the IGCA surplus
  - includes £0.2bn monitoring buffer
- Excludes capital held in Resolution holding companies

1. Estimated at 30 June 2012 and unaudited.

# FLG economic capital development

## Material improvement in surplus since year end 2011

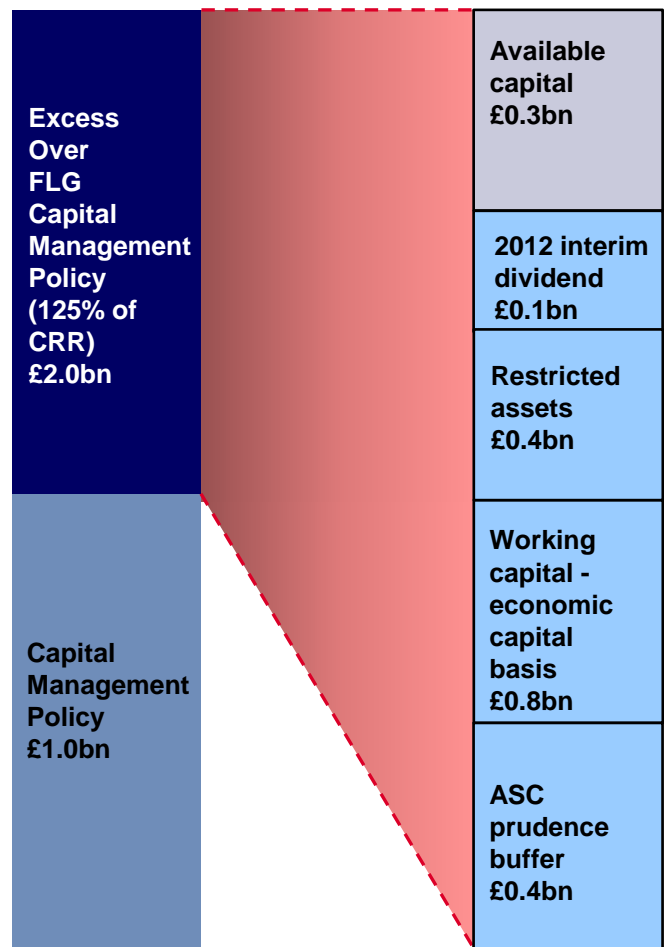
- Whilst the IGCA position was the constraining capital requirement for the Group at 31 December 2011, at the Life Company level, FLL the primary life company, was on the cusp of economic capital biting
  - economic capital position is considerably more volatile than the Pillar 1 and IGCA capital bases
- During H1 2012, management has taken actions to optimise the economic capital position of FLL, including:
  - enhanced economic capital modelling capabilities resulting in a release of prudence margins
  - implementation of equity hedges within certain with-profits funds
  - de-risking of corporate bond portfolios backing shareholder business
  - improved UK financial systems and controls resulting in a release of operational risk capital
- The FLL economic capital surplus<sup>1</sup> at 30 June 2012 has improved by £0.6bn from the 31 December 2011 estimate (before payment of dividends)
- At 30 June 2012, estimated FLG surplus on an economic capital basis was £3.0bn<sup>2</sup> equivalent to a 174% coverage ratio, compared to the estimated FLG Pillar 1 (IGCA) surplus of £1.9bn (204% coverage ratio)

1. Estimated surplus over capital management policy (125% of ICA-based requirements and any ICG) and unaudited.  
2. Comprising FLL economic capital surplus of £1.8bn and economic capital of £0.6bn for FPIL and Lombard and £0.6bn for FLG holding companies.

# FLG economic capital surplus at 30 June 2012

## £0.3bn headroom over IGCA

### £3.0bn<sup>1</sup> – FLG economic capital surplus



- Economic capital basis available capital of £0.3bn
  - surplus over CMP improved by £0.6bn since 31 December 2011
  - offset by increased working capital
- £0.1bn to be paid from FLG to RSL to fund 2012 interim dividend
- Restricted assets are in relation to International businesses as their surplus is not fungible
- Working capital of £0.8bn includes:
  - monitoring buffer held at life company level. Additional 10% on economic capital basis (including one year of debt servicing costs)
  - cash required for future one-off costs on an economic capital basis
  - cash generation smoothing as per MCEV and IGCA

1. Estimated before £100m interim dividend to RSL and unaudited.

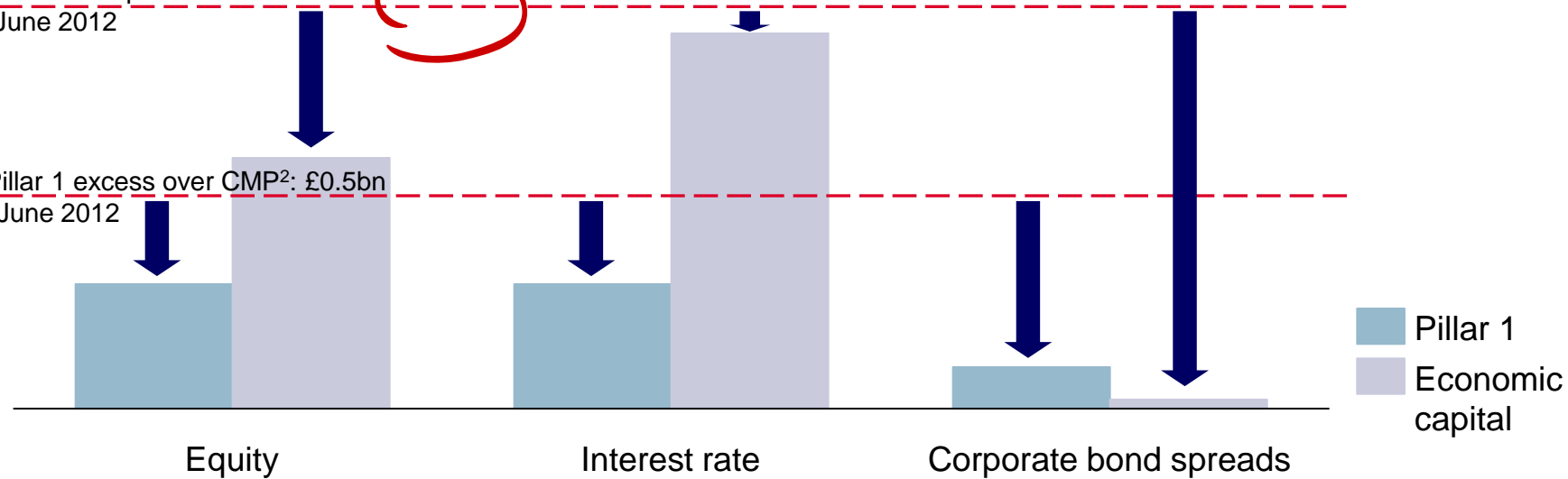
# Comparing sensitivities of economic capital to Pillar 1

## Relative sensitivity of economic capital to corporate bond spread widening

### FLL excess over CMP after stress

FLL economic capital excess over CMP<sup>1</sup>: £1bn  
At 30 June 2012

FLL Pillar 1 excess over CMP<sup>2</sup>: £0.5bn  
At 30 June 2012



	P1 impact	EC impact		P1 impact	EC impact		P1 impact	EC impact
40% fall	£(0.2)bn	£(0.4)bn	200 bps fall	£(0.2)bn	£(0.1)bn	200 bps wider	£(0.4)bn	£(1.0)bn
Post-diversification risk capital <sup>3</sup>		21%	Post-diversification risk capital <sup>3</sup>		9%	Post-diversification risk capital <sup>3</sup>		31%

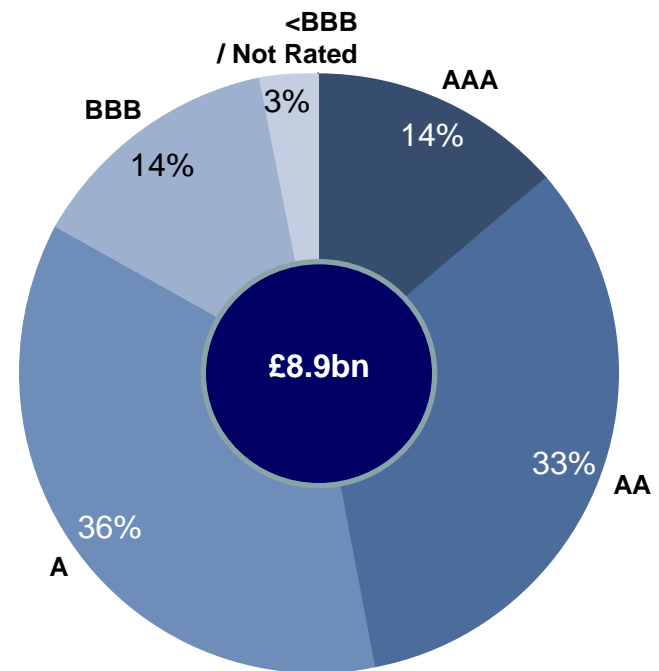
1. Estimated excess over capital management policy of 125%.
2. Estimated excess over capital management policy of 150%.
3. Proportion of economic capital resource requirements, post-diversification, allocated to this risk.

# Focus on corporate bonds

## Strong portfolio maintained with minimal sovereign debt risk

- Over 80% of the sensitivity relates to corporate bonds in non-profit and shareholder funds
- High quality portfolio with marginally improved rating profile but is sensitive to credit spread widening
- Current default allowance is £0.6bn, representing a 36% haircut of the overall corporate bond spreads over gilts of equivalent term
- Negligible default experience, with none in the last six months
- Limited exposure to PIIGS: including £7m of sovereign debt, £365m corporate exposure

Shareholder and non-profit: corporate bonds analysis by rating



# Returning capital

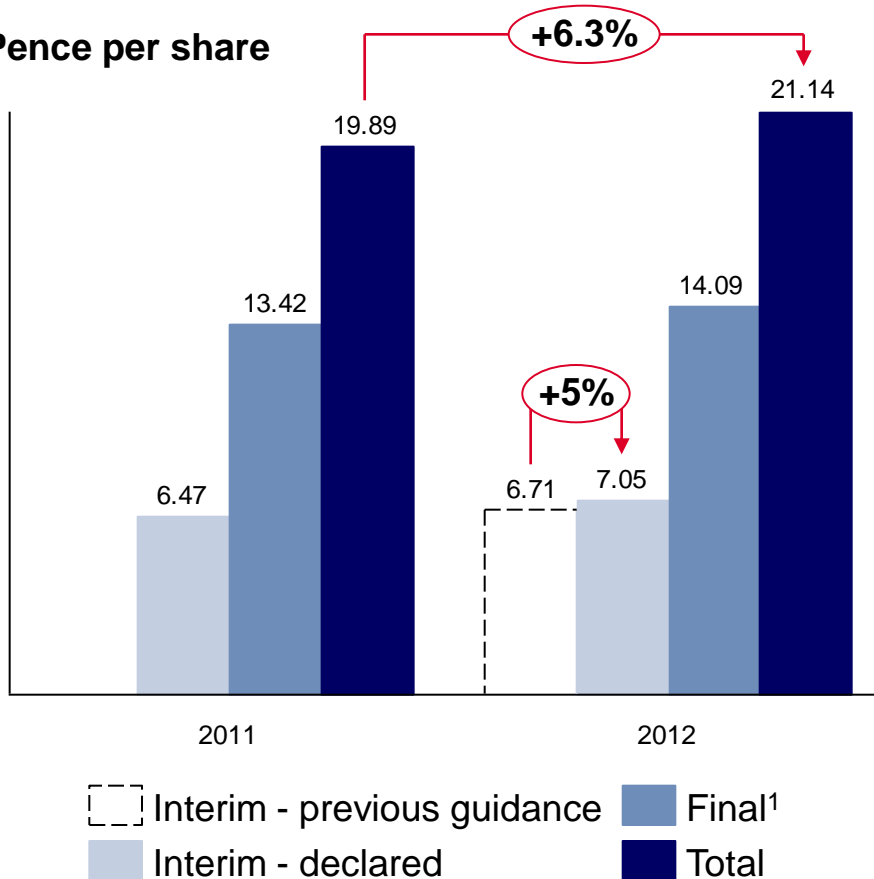
## Overall considerations

- Accounted for future capital needs, including institution of specific monitoring buffers to ensure our capital management framework and regulatory requirements are met
- Considered the impact of the current weak and uncertain economic environment and the impact on capital requirements
- Focused on the evolving regulatory requirements including Solvency II

# Dividend

## Continued development of dividend

Pence per share



- 5% increase to 2012 interim dividend over existing guidance (i.e. 6.71 pence to 7.05 pence)
- Expect to propose equivalent uplift to full year guidance
- Underpinned by confidence in cash delivery and receipt of £350m per annum from FLG
- Progressive dividend to be considered once sustainable cash generation reaches £400m p.a. DCT

1. 2012 final dividend will be subject to Board and shareholder approval.

# Summary

## Robust capital position supports increased dividend

- Robust capital position
  - IGCA surplus £1.9bn<sup>1</sup>, coverage ratio 204%
  - economic capital surplus £3.0bn<sup>1</sup>, coverage ratio 174%
  - highly rated corporate bond portfolio
  - minimal direct exposure to higher risk sovereign debt
  
- Prudent cash and capital management
  - working capital provides cover for one-off costs, short term cash generation and capital management policy monitoring buffers
  - additional £400m prudence buffer held at Group
  
- Improving cash generation
  
- 5% increase in dividend to 7.05 pence per share
  
- Committed to a sustainable dividend and return of excess capital

1. Estimated at 30 June 2012 and unaudited.



# 2012 Half Year Results Agenda

Introduction

Mike Biggs

Business Review

Andy Briggs

Financial Review

Tim Tookey

Cash and Capital

Jim Newman

**UK Life Project**

**Clive Cowdery**

Outlook

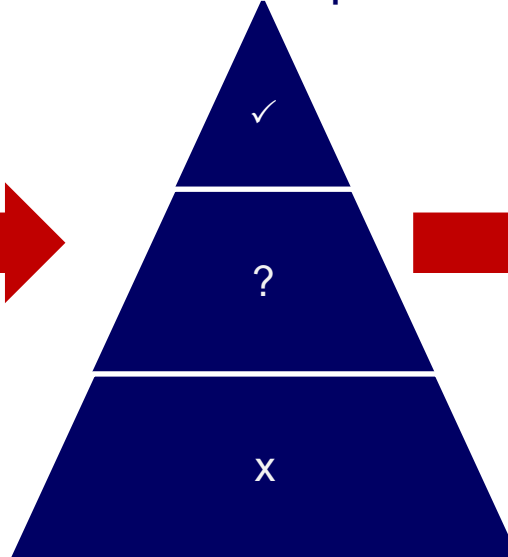
Mike Biggs

# UK life project – investment thesis 2009

## Value from consolidation

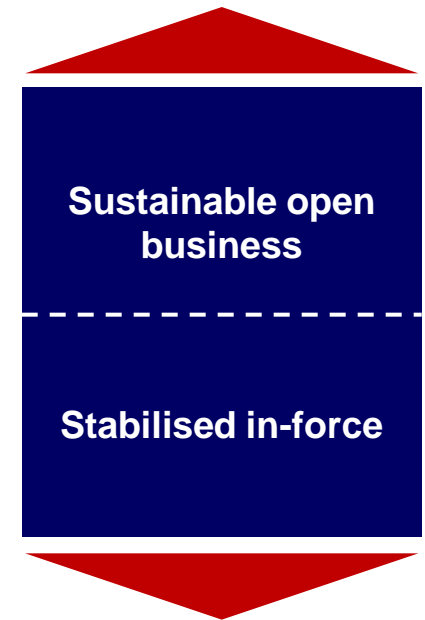
- Focus on cash flow
- Synergies
  - expense
  - capital
  - tax
- New business
  - product lines reduced
  - scale in chosen segments
  - acceptable payback periods
- Diversification
  - capital effect
  - existing customers
- Asset management

## New Businesses Franchises Acquired



## Value from investor clarity

Higher ROEV / lower cash  
return / capital growth



Predictable yield with duration

# UK life focused – what happened since 2010?

- Market backdrop has offset operational gains
  - Scale new business platforms not available at acceptable prices
  - Market condition and volatility
  - Regulatory uncertainty / Solvency II
- Mid-size acquisitions provided synergies and build opportunity
  - Acquired EV of £6.5bn for average price of 66.9% of net EV
  - Synergies of £143m to be delivered by 2015
  - New business rationalisation – UK cash strain reduced by £180m p.a.
- New team sourced: Focus on securing maximum value from each part of the Group
- No longer optimal to target a specific “exit” event

**Resolution**

**FRIENDS  
PROVIDENT**



**Bupa**



**AXA**  
LIFE INSURANCE

**FriendsLife**

# Delivering the Resolution value agenda

- No longer seeking acquisitions
- Continue operational value delivery
  - Synergy delivery
  - Sustainable cash flow
  - Delivery of targets
- Organic new business growth with focus on cash and financial discipline
- Consider moving to progressive dividend when sustainable cash generation reaches £400m DCT
- Resume returns of capital when market conditions allow
- Focus on securing maximum value from each part of the group

Replace “project” structure with standard operating and governance model

# 2012 Half Year Results Agenda

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**Outlook**

**Mike Biggs**

# Simplification of governance and operating structure

- ▶ Detailed work underway
  - Streamline board and governance model
  - Transfer of ROL resources into RSL
  - Operating agreement with ROL will come to an end
- ▶ Finalisation of commercial arrangements and implementation of new structure to be completed within six months
- ▶ ROL to remain as a supportive shareholder

# Summary

- Strong momentum in restructuring of Friends Life: New business turnaround continues
- Improving cash and robust capital position allows increase in interim dividend
- Clear agenda to create long term value in RSL
- Expected simplification of governance and operating structure

# Appendices



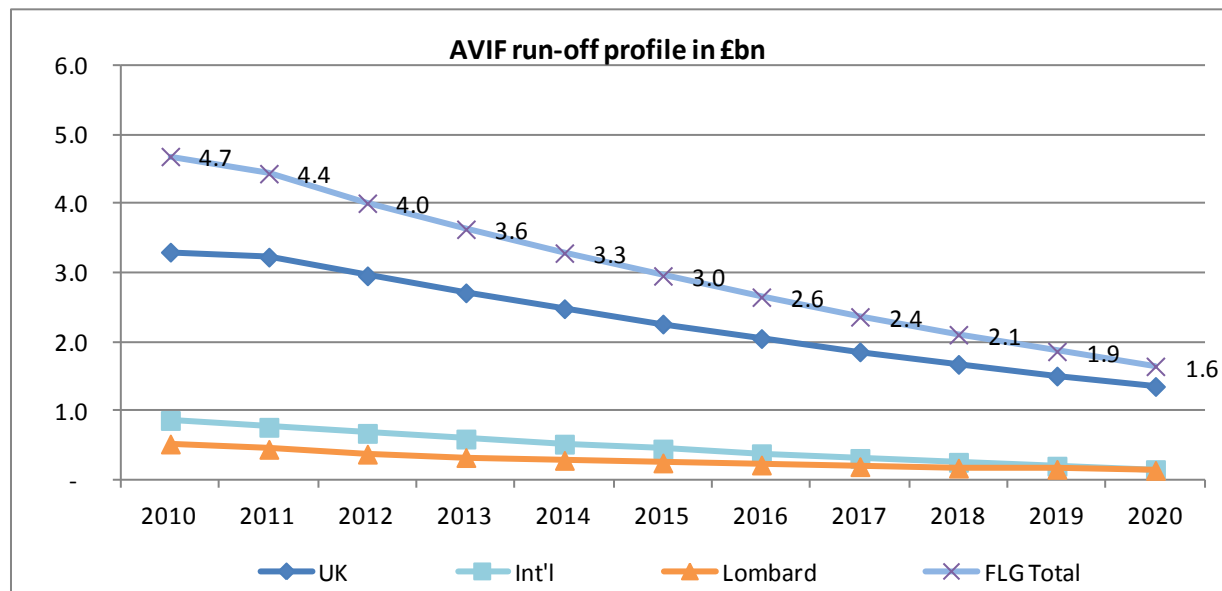
# IFRS AVIF amortisation profile

## AVIF at end of year (£m)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
UK	3,300	3,228	2,957	2,711	2,481	2,259	2,049	1,856	1,675	1,506	1,355
Int'l	863	764	676	594	520	449	381	313	257	201	151
Lombard	522	445	375	326	285	248	218	194	173	155	140
<b>FLG Total</b>	<b>4,685</b>	<b>4,437</b>	<b>4,008</b>	<b>3,631</b>	<b>3,286</b>	<b>2,956</b>	<b>2,648</b>	<b>2,363</b>	<b>2,105</b>	<b>1,862</b>	<b>1,646</b>

## Amortisation for the period

	364	675	429	377	345	330	308	285	258	243	216
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- The table and graph show the expected AVIF run off for ten years from 2010 to 2020
- this projection includes the impact in 2011 of the implementation of certain elements of PS06/14, resulting in:
  - an acceleration of AVIF amortisation of £130m in h-AXA
  - an impairment charge against AVIF of £71m in h-BHA; and
  - a reduced gradient of the UK profile
- International future AVIF run off profile has been revised to reflect current and expected future experience
- The Lombard AVIF is held in Euros and the closing position for 2012 and beyond reflects current exchange rates

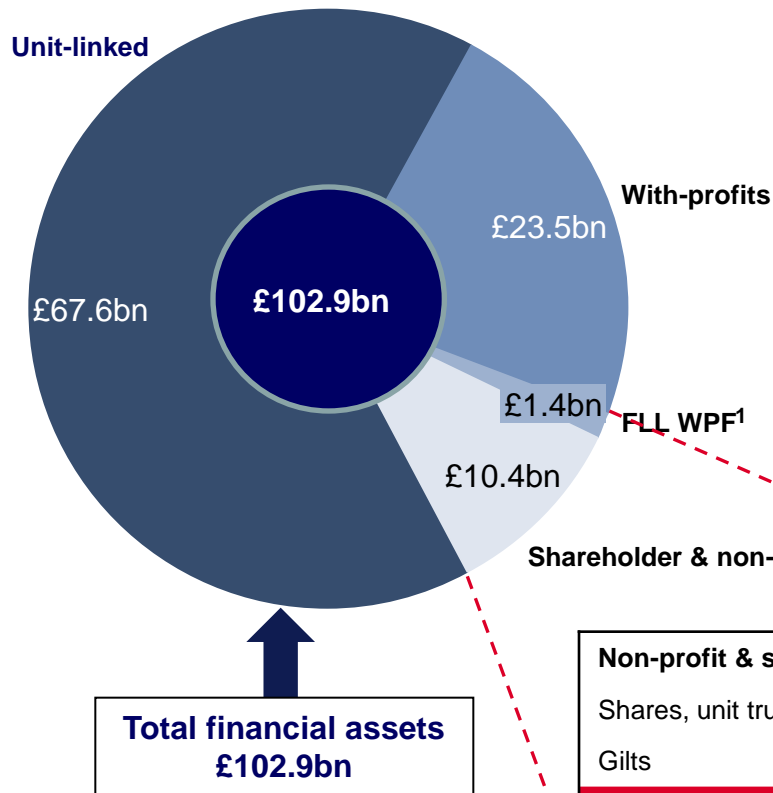
# FLG operating ROEV

£m MCEV operating returns and % ROEV	2010 Baseline <sup>1</sup>		2011 Full year		2012 Half year	
	£m	%	£m	%	£m	%
Value of new business	153	2.0%	151	2.0%	97	2.8%
Expected existing business contribution <sup>2</sup>	416	5.5%	406	5.3%	200	5.7%
Development & corporate costs <sup>3</sup>	(21)	(0.3%)	(38)	(0.4%)	(21)	(0.6%)
<b>Operating profit before variances</b>	<b>548</b>	<b>7.2%</b>	<b>519</b>	<b>6.9%</b>	<b>276</b>	<b>7.9%</b>
Operating variances & assumption changes	-	-	118	1.5%	17	0.5%
Impact of financing	(87)	0.1%	(79)	0.5%	(44)	0.2%
<b>MCEV operating profit (excluding RSL costs)</b>	<b>461</b>	<b>7.3%</b>	<b>558</b>	<b>8.9%</b>	<b>249</b>	<b>8.6%</b>
Tax on operating profit	(111)	(1.8%)	(150)	(2.4%)	(62)	(2.2%)
<b>MCEV operating return after tax</b>	<b>350</b>	<b>5.5%</b>	<b>408</b>	<b>6.5%</b>	<b>187</b>	<b>6.4%</b>

1. Assumes h-AXA contributes 12/4 of the actual YE10 result. Assumes BHA contributes 12/5 of the actual HY11 result. Assumes no impact of operating variances and assumption changes.
2. Gross of financing costs
3. Also includes other income and charges gross of financing costs

- Baseline impact reflects BHA/ AXA UK Life Business on full year basis
- Target is 10%+ operating return on EV in the medium term

# Financial assets



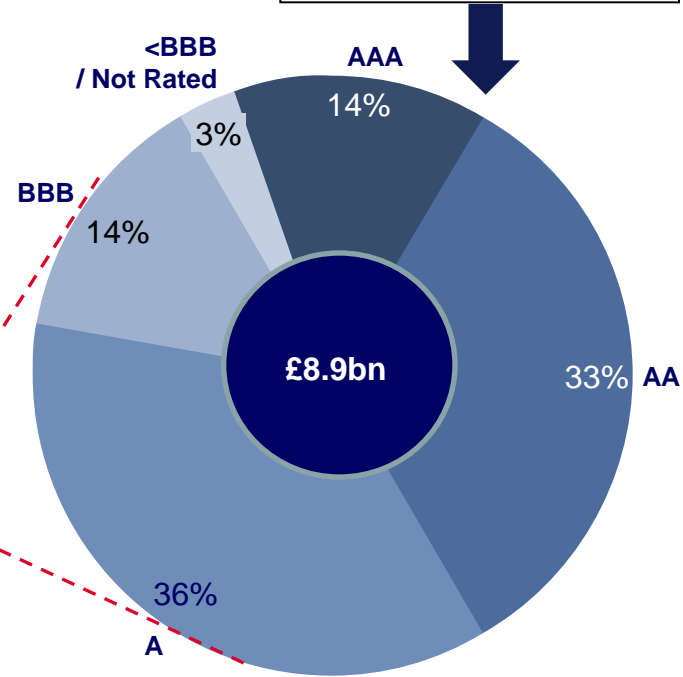
PIIGS exposure:

- Government debt: £7m
- Corporate debt:
  - Greece: <£1m
  - Portugal/ Ireland both immaterial
  - Italy/ Spain: £320m

**Shareholder and Non-profit: Corporate bonds and ABS**  
£8.9bn

**Non-profit & shareholder<sup>2</sup> analysis:**

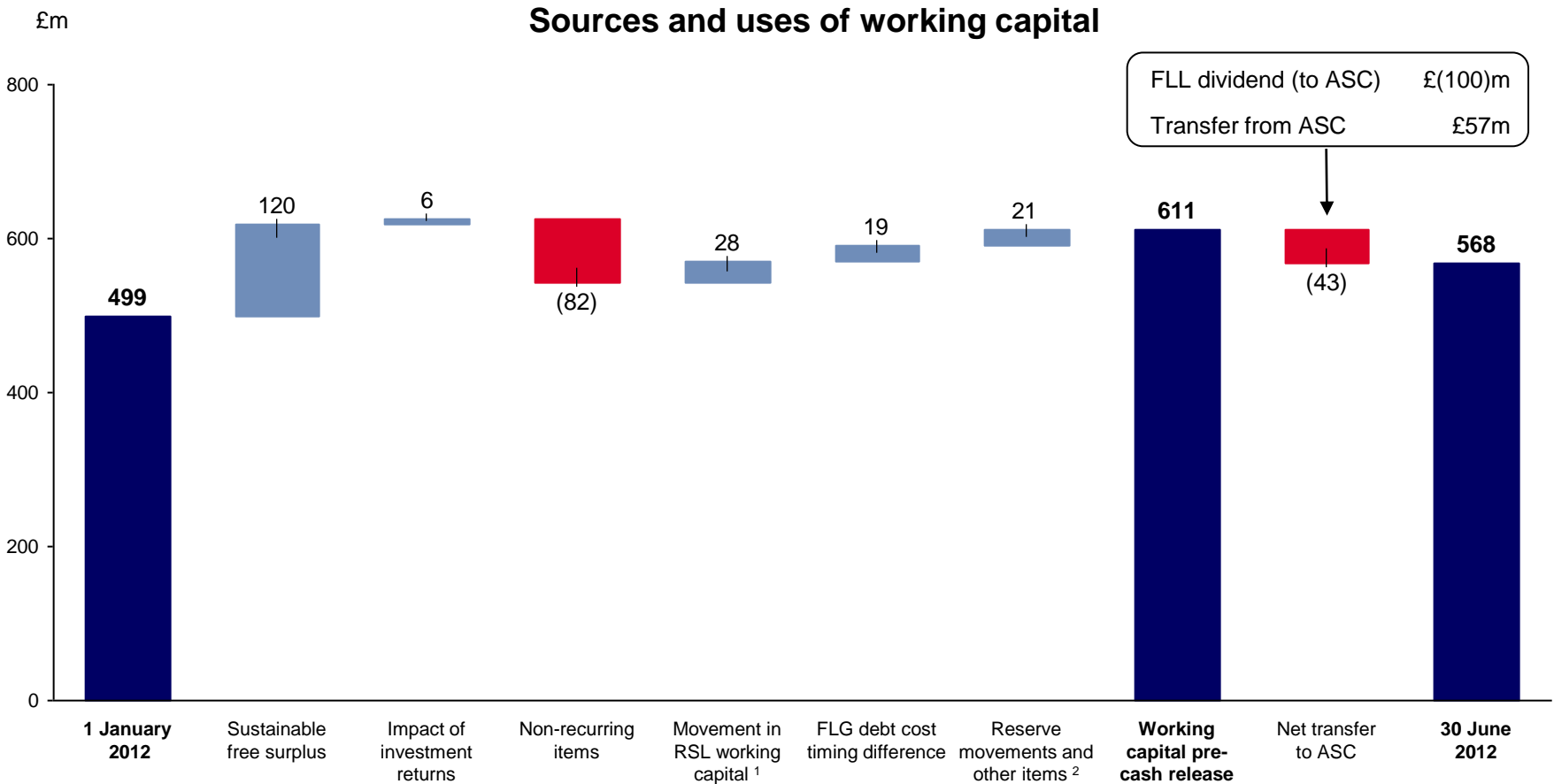
Shares, unit trusts & other	£0.2bn
Gilts	£2.7bn
<b>Corporate bonds &amp; ABS</b>	<b>£8.9bn</b>
<b>Total</b>	<b>£11.8bn</b>



1. Represents the maximum asset exposure which could fall to shareholders in relation to defined book with FLL  
 2. Includes the shareholder exposure in relation to FLL WPF (see 1. above)

# Working capital

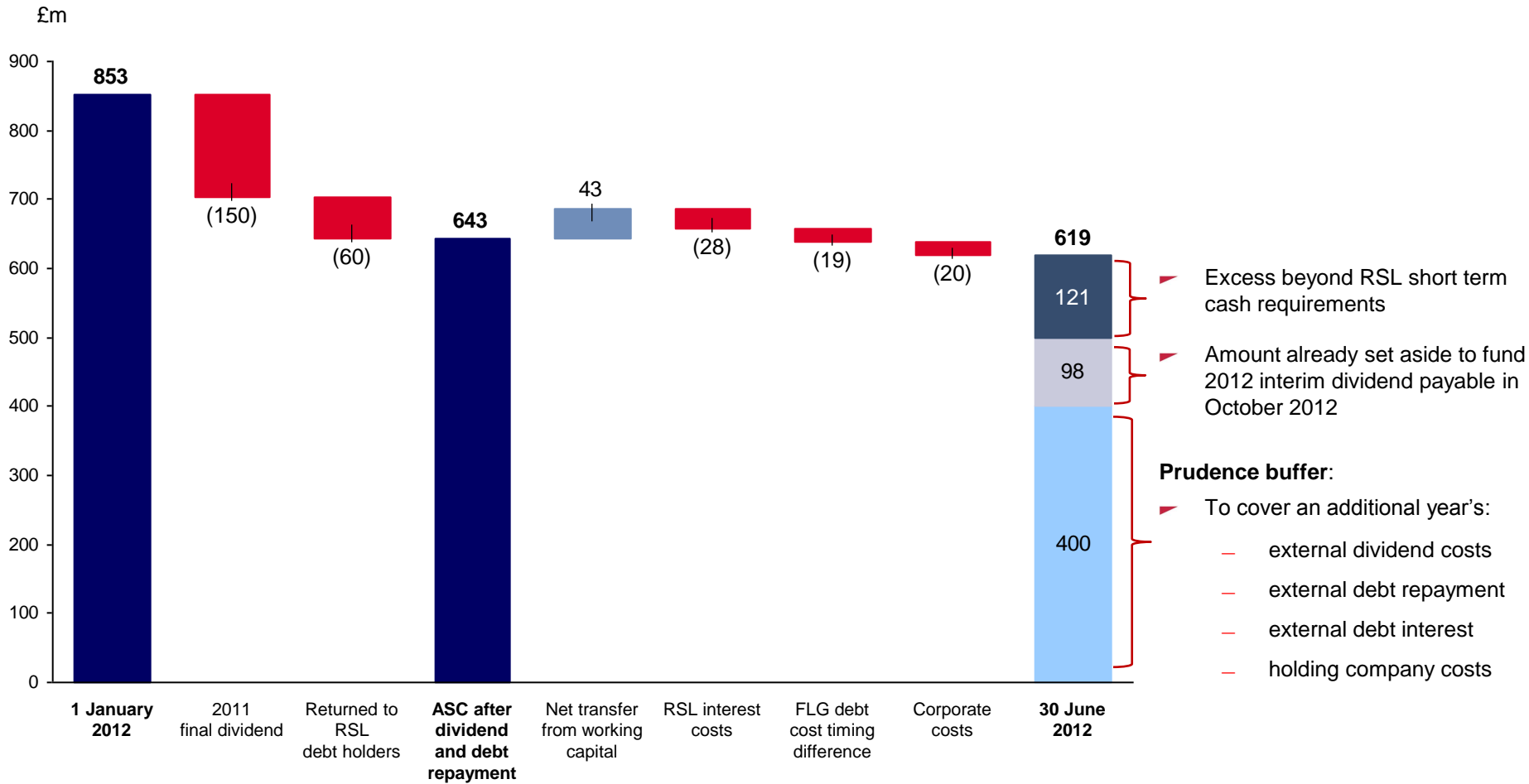
## Improving surplus generation offset by one-off investments



1. Represents the difference between cash payments settled out of ASC and RSL finance and corporate costs incurred during the period plus the sale of RSL shares held by subsidiaries, previously a deduction from working capital.

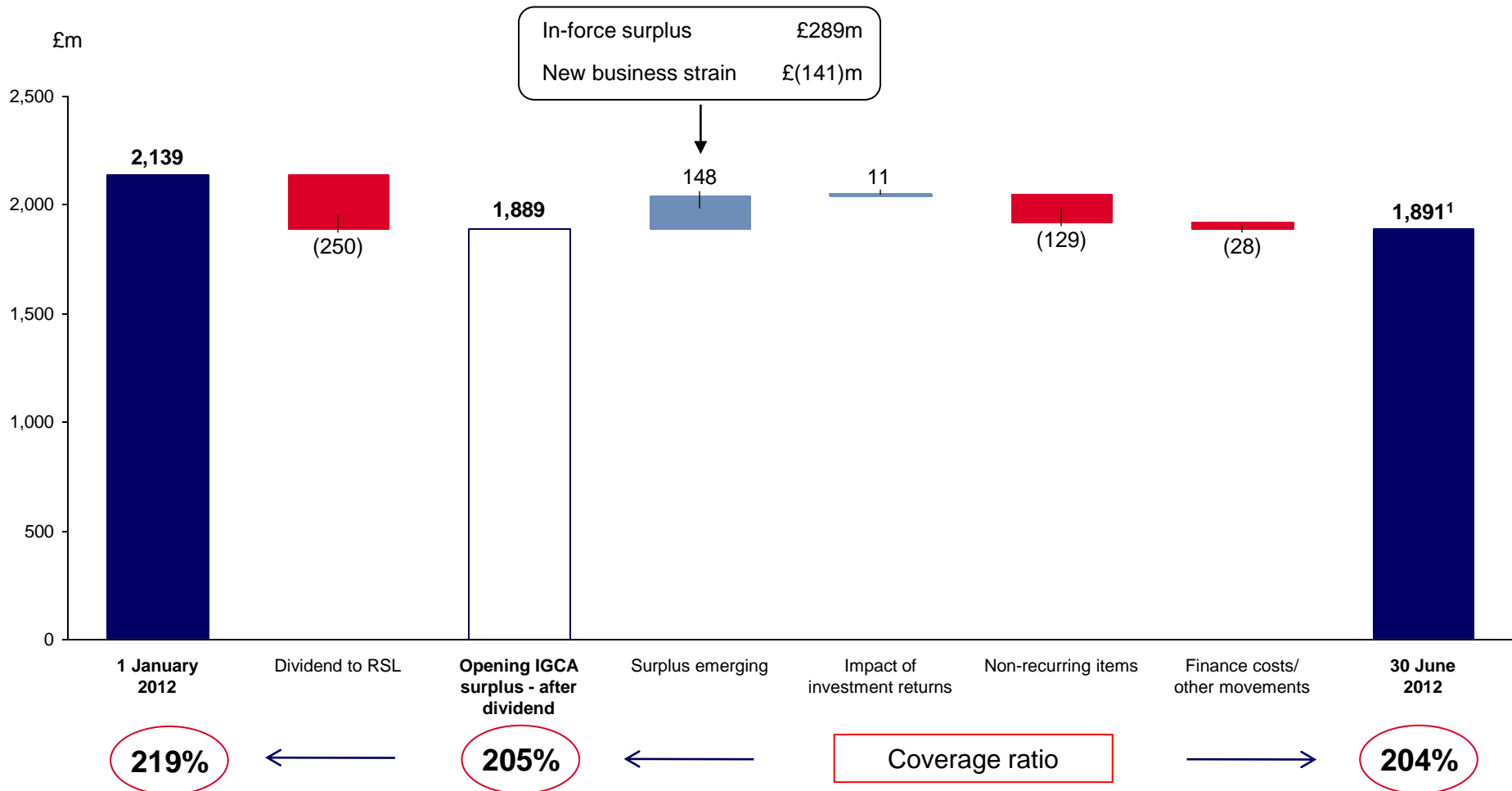
2. Including reserve movements for actuarial gains and LTIPs plus elimination of £9m intercompany interest in sustainable free surplus.

# Available Shareholder Cash Reflects dividends and debt costs



# FLG IGCA surplus

## Robust surplus for biting constraint



1. Estimated at 30 June 2012 and unaudited.