

Resolution Limited

2012 Preliminary Results
26 March 2013

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2012 Full Year Results Agenda

Introduction

Mike Biggs

Business Review

Andy Briggs

Financial Review

Tim Tookey

UK Life Project

Clive Cowdery

Questions

Mike Biggs

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2012 Full Year Results Key Messages

Strategic outlook attractive

Scale businesses, with competitive advantage, well placed for key market trends



Sustainable dividend

Delivered by cash generation today

Strong growth in profitable new business

Driving cash generation tomorrow

Strong underlying operating performance

International strategic review delivered within guidance

Cash and Capital

- Sustainable free surplus £300m, in excess of cost of dividend
- Run-rate cost savings increased by £41m to £86m
- Strong capital base – IGCA surplus of £2.0bn (coverage ratio of 214%)

Profitable New Business

- UK division Value of New Business up 125% to £142m
- Strong Q4 for Lombard; FPI in line with guidance

Earnings

- Good progress in underlying operating profit before International strategic review¹
 - IFRS up 12% to £309m
 - MCEV up 11% to £420m

**Full-year dividend up 6.3%, 117% covered by normal dividends to holding companies.
Scrip dividend discontinued and replaced with DRIP option**

1. Before impact of International strategic review, IFRS principal reserving changes and one-offs and MCEV operating assumption changes

Strategic outlook attractive

Scale businesses, with competitive advantage, well placed for key market trends

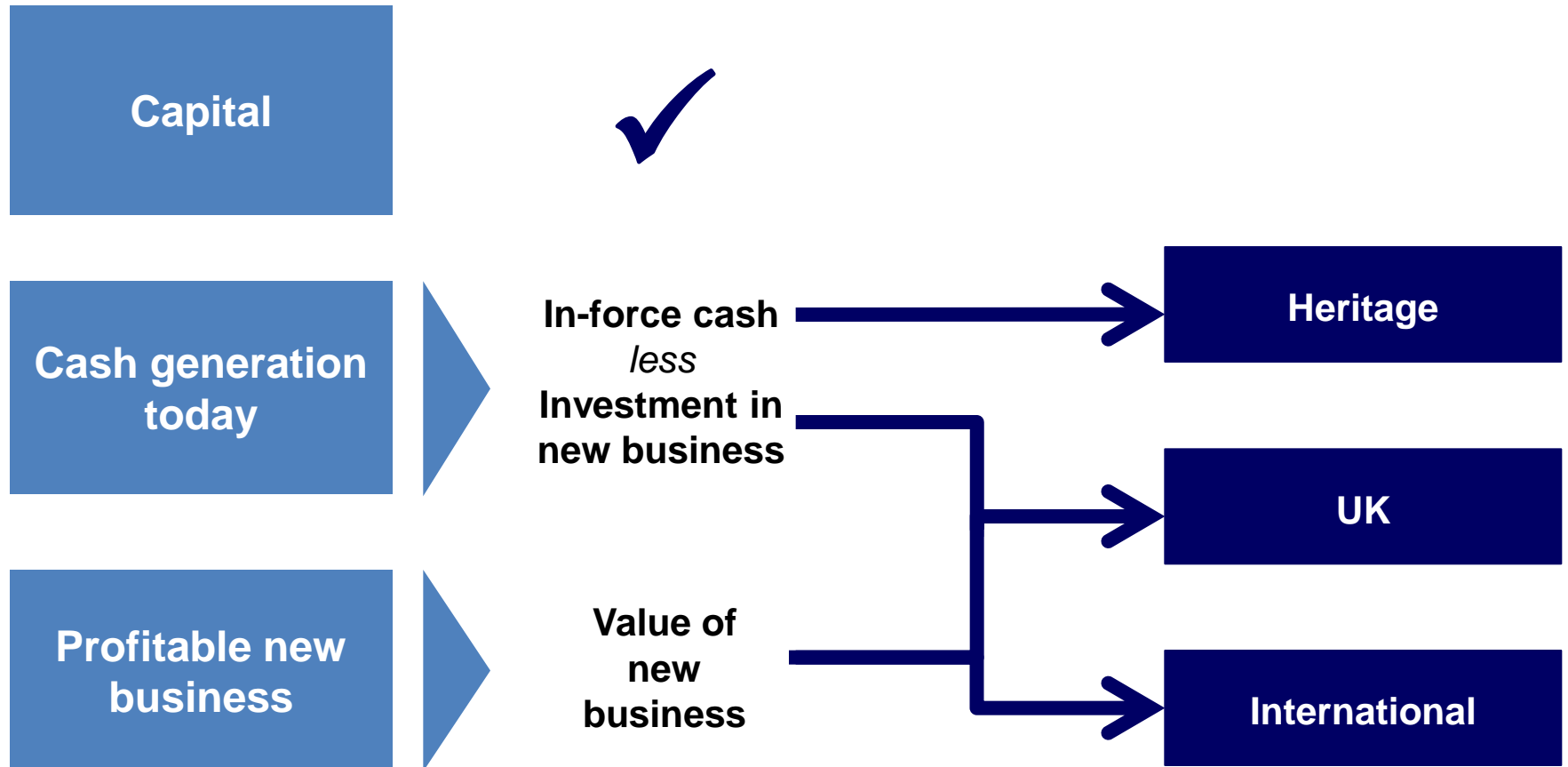
Key market trends						
	Substantial EV in closed products	DB → DC, auto-enrolment Ageing population, reducing state support			Strong growth in global wealth, especially Asia	
	Heritage	UK			International	
		Corporate Benefits	Retirement Income	Protection	FPI	Lombard
Market position ¹	Unique, dedicated division	No. 2	11% of maturing pension market	No. 4	Top 3 IFA player	No. 1
Scale	£69bn AUM	£18bn AUM	£2bn p.a. maturing pensions	2m customers	£6bn AUM	€23bn AUM

Sustainable dividend and strong growth in profitable new business

1. Corporate Benefits – by DC assets; Protection – by 2011 new business, individual and group; FPI – in Hong Kong/Middle East IFA markets (NMG Consulting Wealth Management Programme, Asia and Middle East; Lombard – in European privatbancassurance

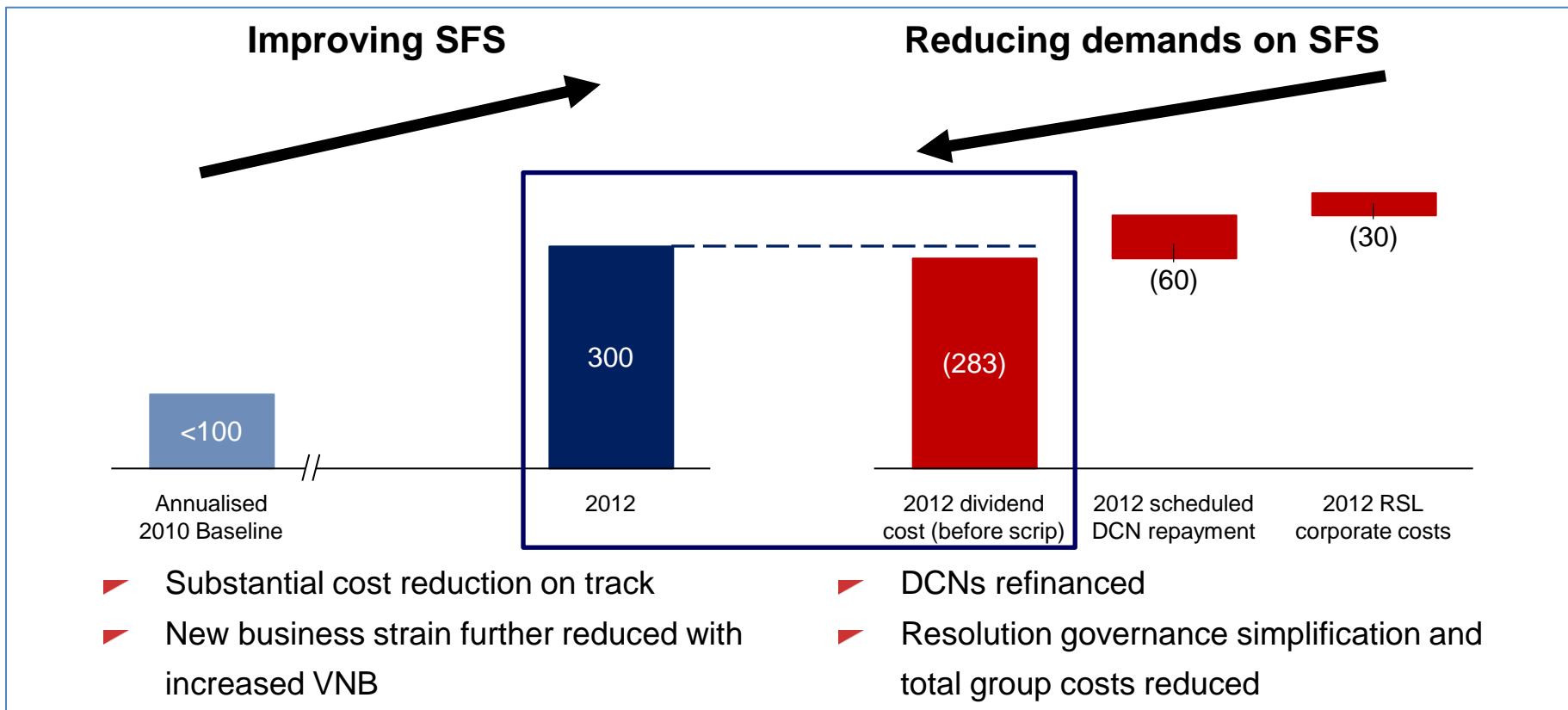
Sustainable dividend and strong growth in profitable new business

Significant investment in transformation is delivering results



Cash generation today

We have driven up sustainable cash flow and reduced financing commitments



Dividend is covered from sustainable sources, despite economic headwinds

Heritage division

Cash generation supported by cost reductions, asset transfers and capital optimisation initiatives

Market Outlook

Substantial EV in closed products, which needs active, skilled management

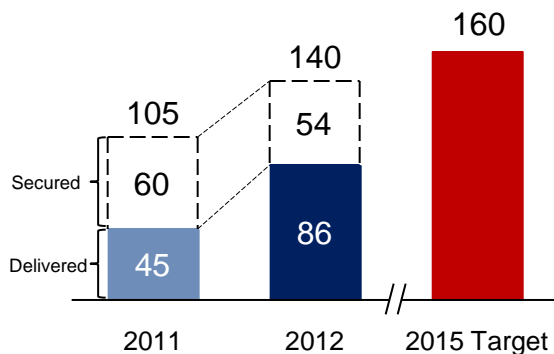
Our strategic positioning

Unique, dedicated, highly skilled Heritage division focused on turning EV into cash. £69bn AUM.

Cost efficiency

- Cost savings on track to meet increased target; Diligenta outsourcing delivered

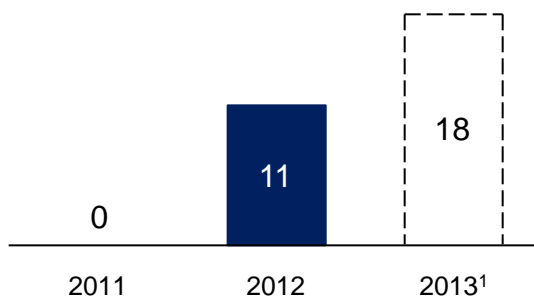
Cost savings achieved, £m



Asset management

- Friends Life Investments launched
- £7bn of assets will be captured in 2013; nearly £1bn already done

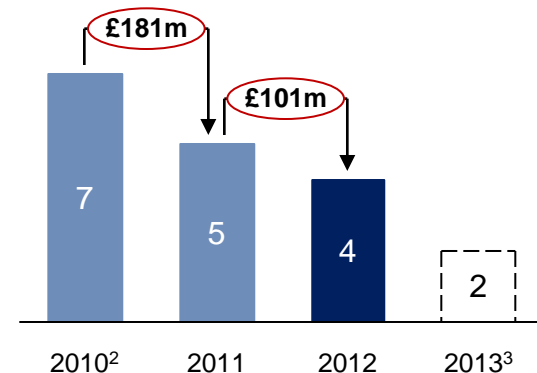
AUM, £bn



Capital Optimisation

- 2012 programme delivered £101m of free surplus

UK life operating companies and free surplus released



1. As at January 2013, assuming recapture of fixed interest assets on which notice already served

2. 2010 figure includes BHA and WLUK entities not acquired until 2011

3. Assumes completion of additional Part VII transfers

Profitable new business

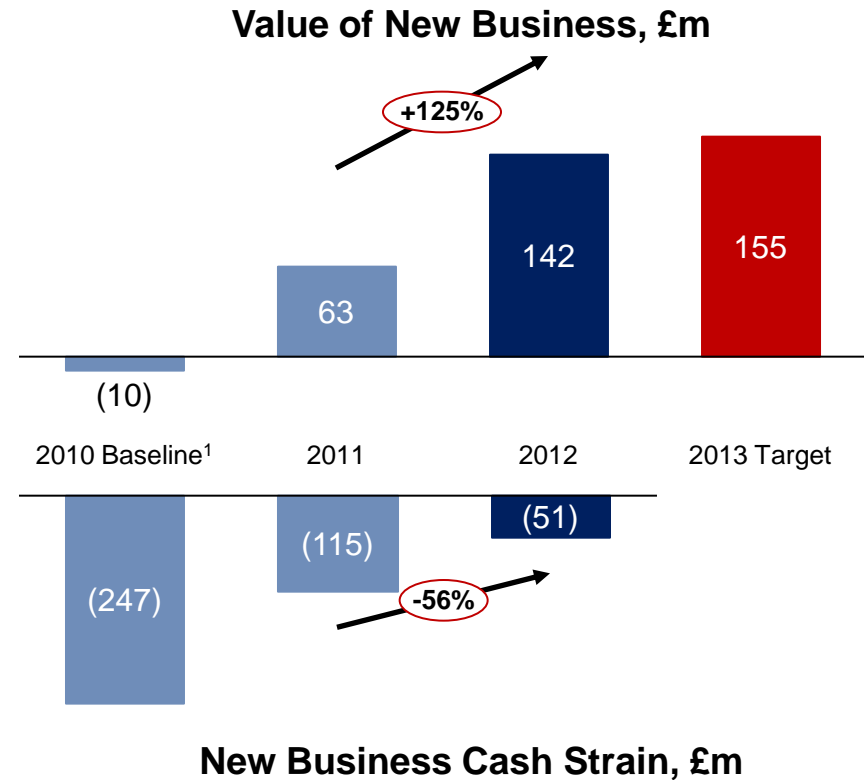
UK division on track to meet 2013 targets

UK strategy is to focus on:

- Attractive markets
- where we have a sustainable competitive advantage
- and which can deliver cash and returns to shareholders

Key drivers:

- Strong, profitable propositions
- Migrate to efficient platforms / build capability
- Strong distribution franchises



Significant investment is transforming UK division

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

UK division – Protection

Market leading proposition underpinned by low cost base and strong distribution relationships

Market Outlook

Good margins, but constrained by economy; some RDR impetus

Our strategic positioning

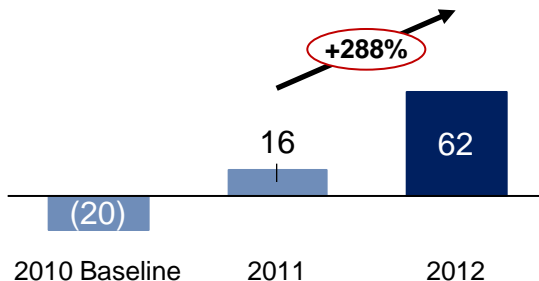
Top 4 player across individual and group protection, focused on profitable CI / IP market segments

Maintain high quality CI / IP offers

- Sustained proposition innovation in 2012, with strong pricing discipline



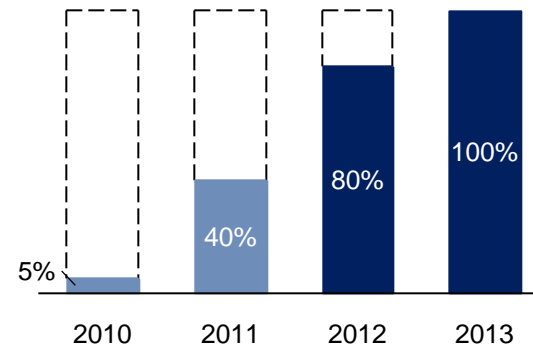
Protection VNB, £m



Migrate to low cost platforms

- Migration to target platforms complete; market-leading cost efficiency³

% new business on target platforms



Build partnership distribution

- Partnerships now form c.40% of individual protection new business

- Migrated existing partners....



- ...and winning new ones



1. Best Individual Critical Illness, Best Individual Income Protection
2. Four 5-star awards

3. Oliver Wyman, November 2011

4. Through distribution partners Clydesdale Bank, Yorkshire Bank, Co-operative Bank and West Bromwich Building Society

UK division – Corporate Benefits

Market leading proposition on cost-efficient platform with auto-enrolment growth prospects

Market Outlook

Strong growth from DB to DC and auto-enrolment;
RDR changes competition basis

Our strategic positioning

No. 2 player in market; focus on existing
customers and selective new schemes

Strong customer and distributor propositions

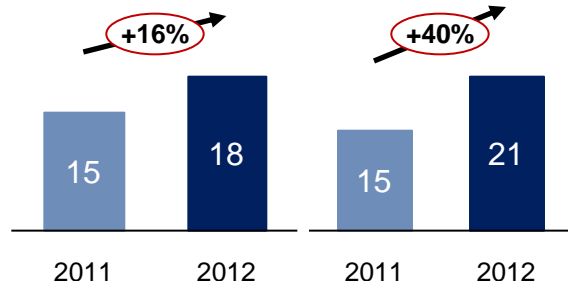
- Awarded Gold Standard for group pensions



- Strong growth

AUM, £bn

VNB, £m

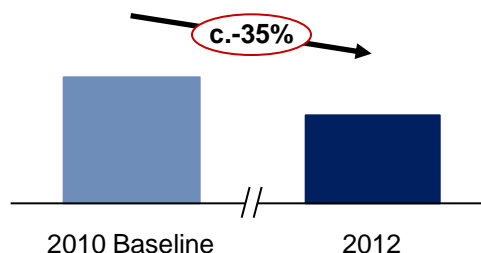


Scale on cost-efficient platforms

- 80% of assets on target platform, with cost efficiency competitive with best in market¹

- Significant reduction in sales and marketing costs

Sales and marketing costs, £m



Making the most of auto-enrolment

- We expect c.60% of our existing schemes staging in 2013 to auto-enrol with Friends Life
- Expect 150,000 new members in 2013 (mainly in H2) on top of c.1 million existing
- Profits highly geared to volumes, as costs are largely fixed or scheme related

1. Oliver Wyman, November 2011

UK division – Retirement Income

Significant growth potential through investment in propositions and customer engagement

Market Outlook

Strong growth fuelled by ageing population and growing DC assets; drive to more transparency

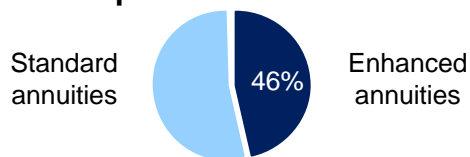
Our strategic positioning

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

Building market leading propositions

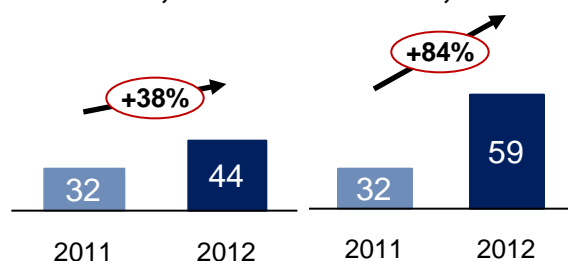
- Lifestyle annuity launched

Open market sales¹



- Strong growth APE, £m

VNB, £m



Establishing risk-based pricing and investment capabilities

- Conservative pricing strategy during uncertain fixed income markets
- Strong longevity capability supports risk-based pricing
- Building fixed interest and other asset class strategies

Developing customer engagement and OMO capability

- New online / telephony customer support centre and communications
- c.60% retention of retiring customers engaged in pilots
- OMO set for launch in H2 2013

1. ABI/MSE ©2013 Association of British Insurers

Profitable new business

International division has attractive core franchises; impact of market exits within guidance

Core markets

Lombard

- UHNW estate & succession planning

FPI

- Domestic affluent in Asia
- Global expatriates

Closed / exiting

FPI non-core

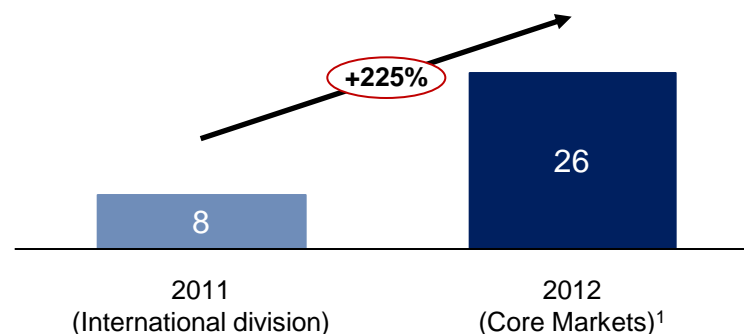
- Germany / OLAB
 - Japan
 - Corporate pensions
- } Review outcome within guidance

AmLife

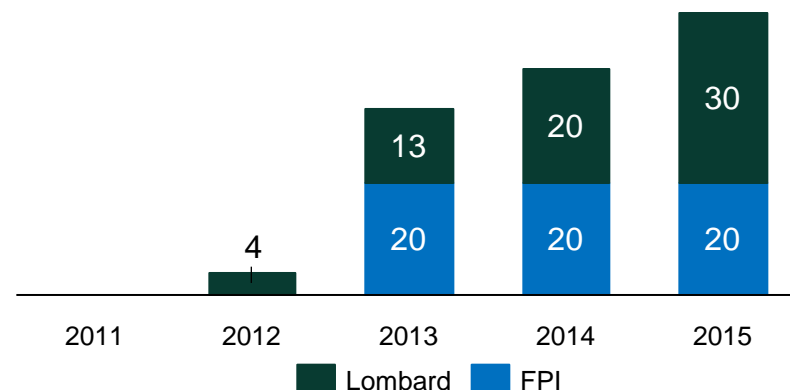
- Sold at 1.3x EV (£50m)

International SFS and target dividend profile

International division SFS, £m



International target dividend profile², £m



1. 2012 Core SFS comprises Lombard £(4)m and Core FPI £30m

2. Dividends will normally be paid to Group in following year, following subsidiary AGM approval, and subject to meeting other legal and financial requirements at the time

International division – FPI

Cash delivery through asset growth, strong propositions, cost efficiency and distribution franchises

Market Outlook

Strong growth in Asian domestic affluent and global expatriate markets

Our strategic positioning

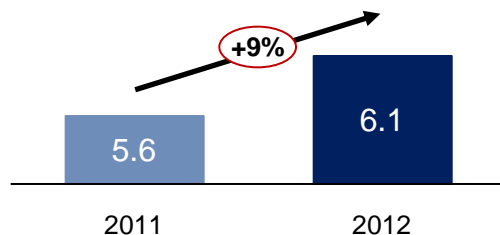
Top 3 IFA player in HK and Middle East; 20%+ market share in target markets

Strong ongoing product innovation with capital efficiency

- Rated No. 1 for products and features in Middle East and Asia in 2012¹



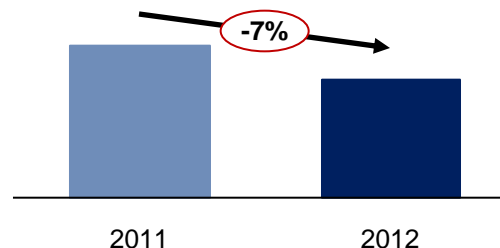
FPI AUM, £bn



Reshape operating model and reduce costs

- Implemented new 'lean' front office organisation and new service model
- Target 20% headcount reduction

FPI operational headcount



Strengthen distribution franchises in attractive, low risk markets

- Rated 1st for penetration of distributors in Asian expatriate and Middle East IFA markets²
- Building relationships with bank wealth arms



RAKBANK

1. Out of 10 providers (NMG Consulting study, 2012: Middle East 20 respondents; Asia 88 respondents)

2. Out of 10 providers (NMG Consulting study, 2012 - Relationship citations by distributors: Middle East 100% out of 20 respondents; Asia 74% out of 88 respondents)

International division – Lombard

Cash dividends delivered through strong private bank asset growth and reducing costs

Market Outlook

Growing demand for compliant and secure wealth management / estate planning solutions

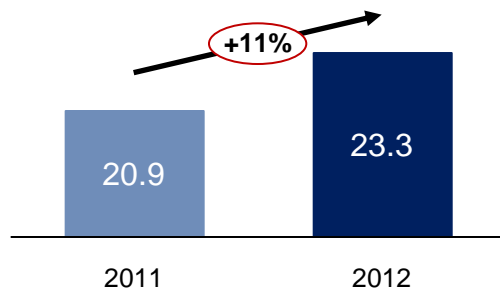
Our strategic positioning

European market leader in private bank insurance and selectively expanding in other geographies

Enhance Proposition

- Further enhanced proposition; increased client solution teams and senior technical roles in tax, legal and structuring

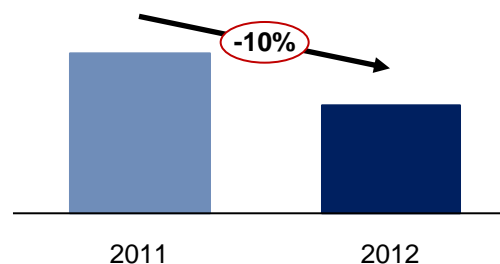
Lombard AUM, €bn



Build scalable efficient model

- Improved service levels, scalability and efficiency of business
- Material reduction in headcount and unit maintenance costs

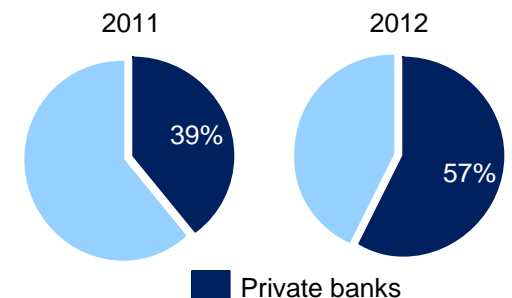
Lombard operational headcount



Deepen franchise with European private banks

- Shift in mix to lower risk, lower margin, more stable private bank business

Lombard proportion of sales through private banks



Summary

2012 – Significant progress in transforming the business

Strategic outlook attractive: scale businesses with competitive advantage, well placed for key market trends

- Strategy focused on the right markets
- Driving delivery of our financial priorities

Sustainable dividend

- Shareholder dividend is covered by SFS and well covered by normal life company dividends
- Scrip dividend discontinued and replaced with DRIP option

Strong growth in profitable new business

- Excellent growth in UK; International strategy on track

Confident of future profitable growth

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2012 Full Year Financial Highlights

Operating performance

Good operating performance despite economic headwinds and International strategic review

- Group IFRS based operating profit before tax of £274m
- Group MCEV operating profit before tax of £382m
- FLG sustainable free surplus of £300m
- Run-rate cost savings of £86m achieved

International division strategic review

International strategic review impacts within guidance

- £(94)m total MCEV operating impact *including* Germany and Japan, being £(140)m in FPI, offset by positive £46m in Lombard
- MCEV impact within £(50) – (100)m range provided in November 2012
- £(82)m impact on IFRS based operating profit before tax

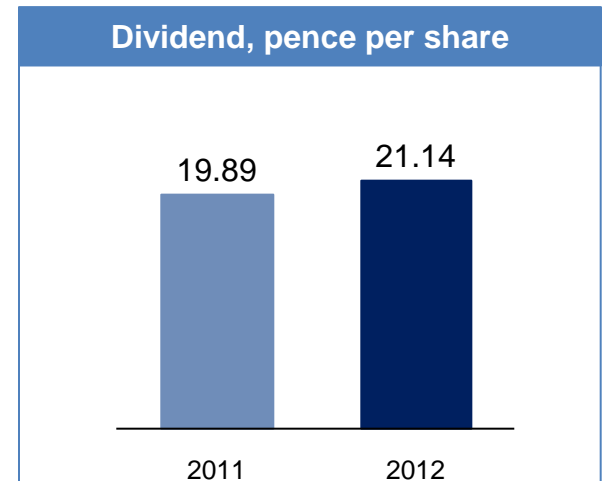
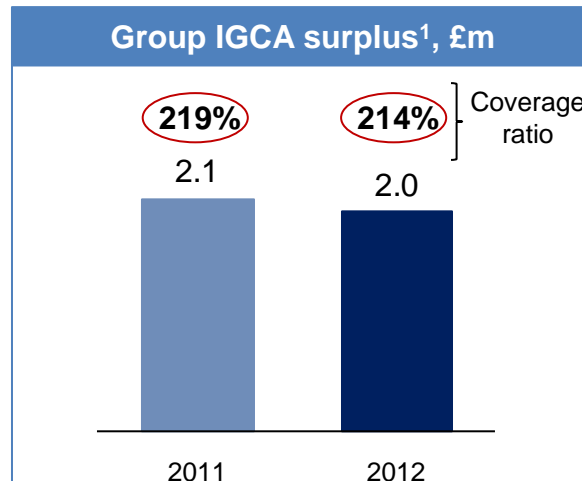
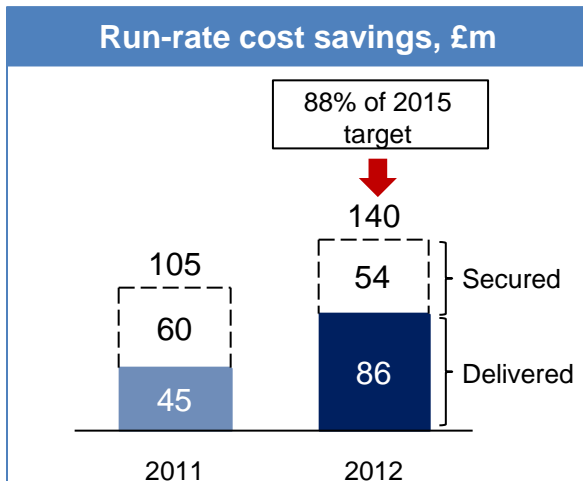
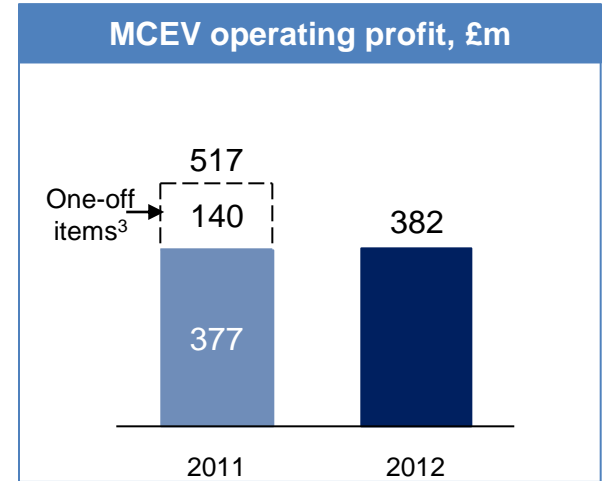
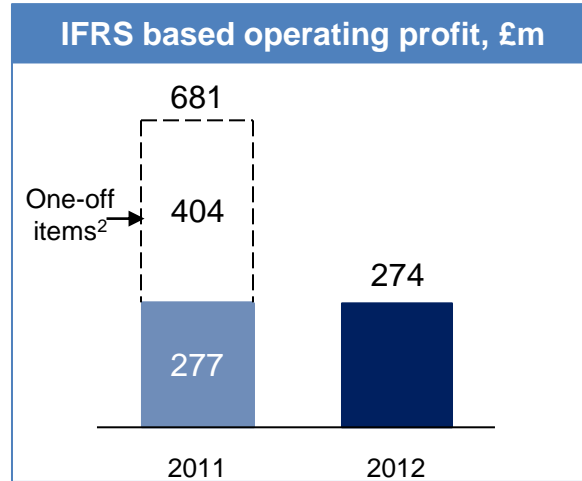
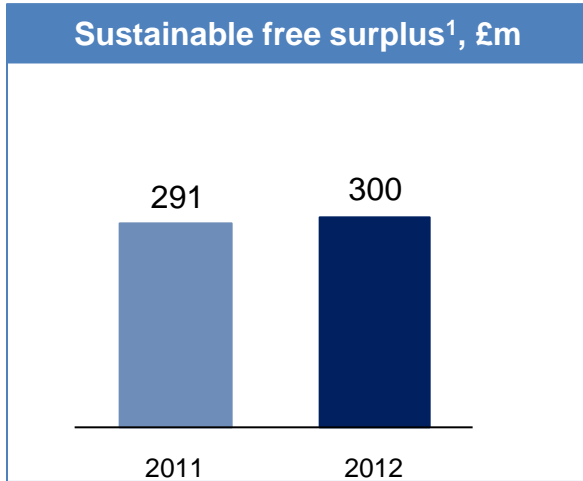
Capital position and dividend

**Robust and low-risk balance sheet;
Dividend up 6.3%;
Scrip replaced with DRIP**

- FLG IGCA surplus of £2.0bn (coverage ratio of 214%)
- Estimated FLG economic capital surplus of £3.4bn (coverage ratio of 182%)
- Full year 2012 dividend of 21.14 pence per share (2011: 19.89 pence per share)
- Full year dividend cost covered 117% by cash upstreamed to Group

2012 Full Year Financial Highlights

Good operating performance despite economic headwinds and International strategic review



1. At FLG level

2. Principal reserving changes & one-off items (largely relating to PS06/14 and Diligenta outsourcing)

3. Operating assumption changes (largely relating to Diligenta outsourcing)

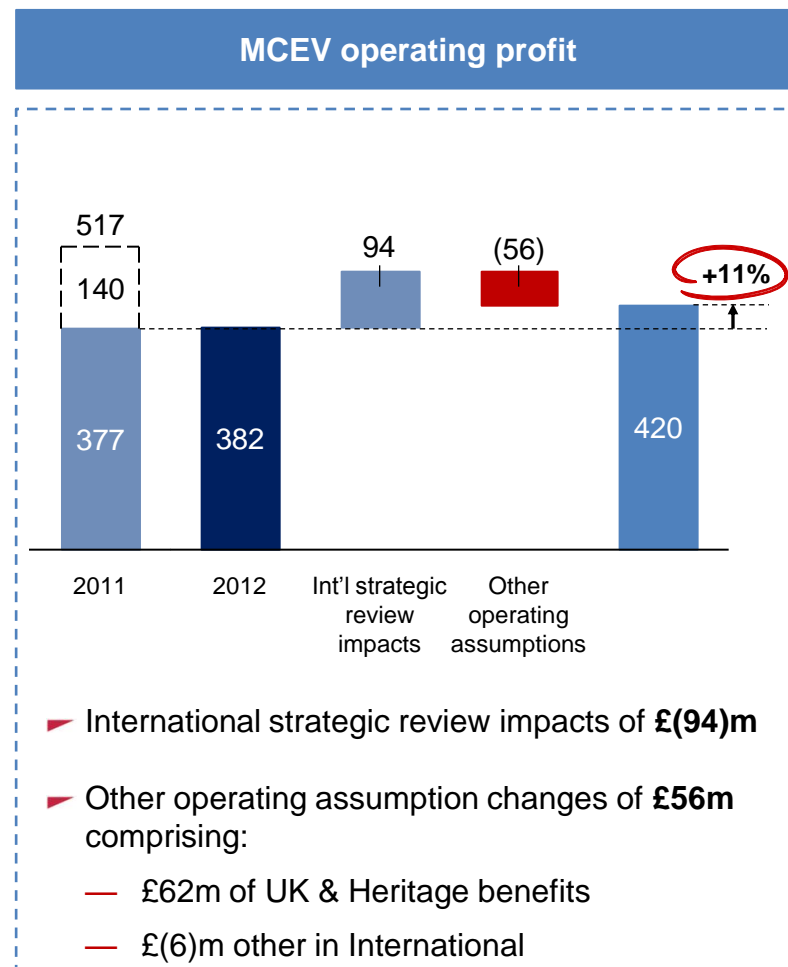
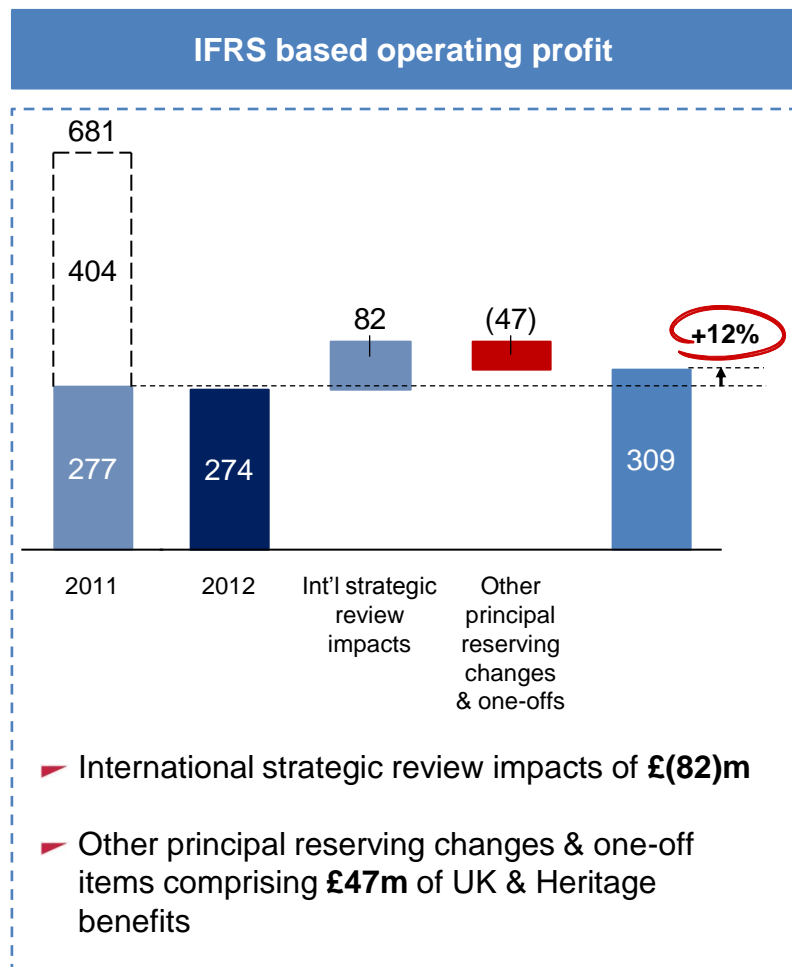
International division strategic review

Summary of impacts across 2012 operating profit metrics

£m	MCEV operating profit			IFRS based operating profit	
	Value of new business	Other operating variances	Operating assumption changes	New business strain	Principal reserving changes & one-offs
OLAB (principally Germany)	(17)	(2)	(38)	(18)	(79)
Basis	(10)	-	(68)	6	9
Japan	-	-	(5)	-	-
Lombard	-	-	46	-	-
Total impact	(27)	(2)	(65)	(12)	(70)
	 £(94)m			 £(82)m	
	<div style="background-color: #0056b3; color: white; padding: 5px; text-align: center;"> Within guidance of £(50) – (100)m, despite including impacts of Germany and Japan </div>				

Note: International strategic review includes the impacts of the annual basis reviews in FPIL and OLAB. The annual basis reviews for Lombard and AmLife were not undertaken as part of the International strategic review

Underlying operating profits show good progression on 2011



Sources and uses of cash generation

Improving the quantity and quality of SFS

Sources

Expected return on in-force book

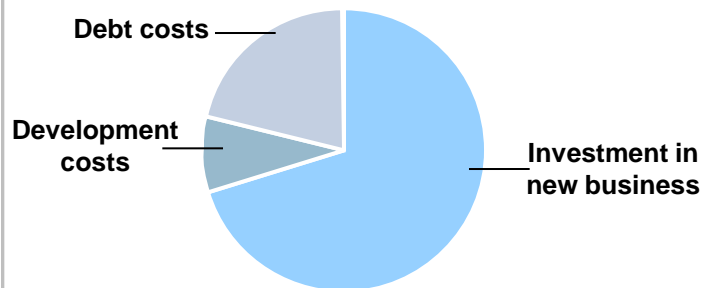
*e.g. Capital release,
AMCs / charges,
risk margin,
maintenance costs*

Expected return on shareholder assets

+/-

Variances
(non-economic)

Uses



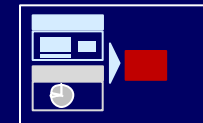
Sustainable
free surplus

Reducing the demands on SFS

- Refinanced DCNs reduced annual demands by c.£60m....but at increased interest costs within SFS of c.£7m per annum
- ROL / RSL simplification will reduce total group costs but increase costs within SFS
- Working capital retained to cover future non-recurring and transformation costs
- Year end gearing 22% (on MCEV basis) and 17% (on IFRS basis)

Sustainable free surplus

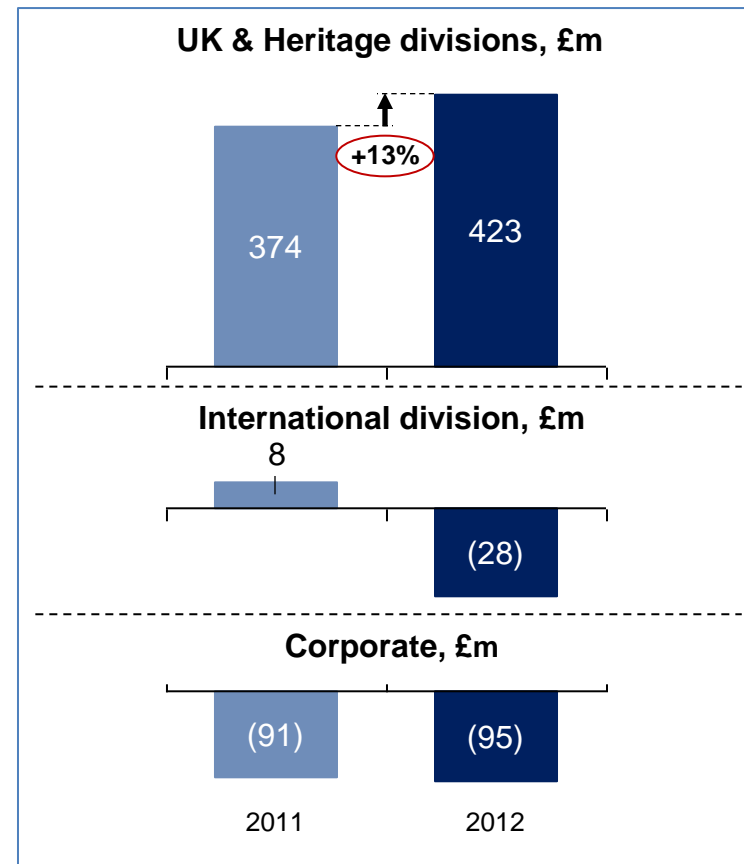
Improved UK & Heritage surplus generation offset by International



Sustainable free surplus

	£m	2011	2012
Sources	Expected return from in-force business, pre debt costs	679 ¹	668
	Investment in new business	(325)	(285)
Uses	Development costs	(28)	(38)
	Coupon on internal & external debt	(82)	(85)
Variances / other	Operating experience variances	(23)	(31)
	Other operating variances	81	86
	Other income and charges	(11)	(15)
	Sustainable free surplus	291	300 +3%

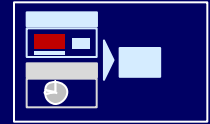
Sustainable free surplus contribution



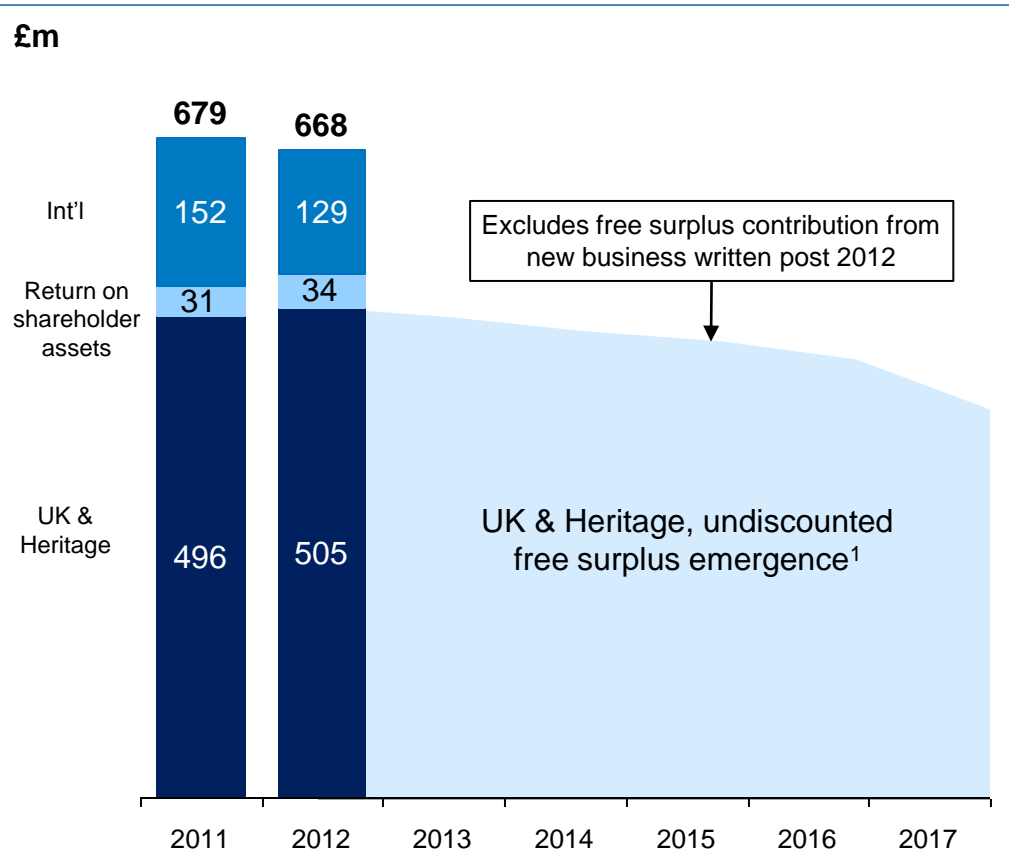
1. 2011 figure excludes £41m for GOF / TIP business sold in November 2011

Expected Return

Resilient returns in a challenging economic environment



Expected return from in-force business, pre debt costs



Key drivers of future expected return

Headwinds

- Subdued economic environment and lower opening expected investment rates of return
- Extra debt costs in 2013
- Capital efficiencies already achieved

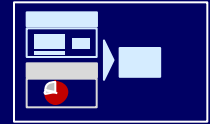
Tailwinds

- Higher opening equity markets
- Delivery of cost reduction targets
- Improved new business value from UK and International divisions

1. Based on management estimates and unaudited, relates specifically to in-force surplus only and makes no allowance for investment in new business, development costs and experience variances

Investment in new business

Focused, disciplined participations driving profitable growth

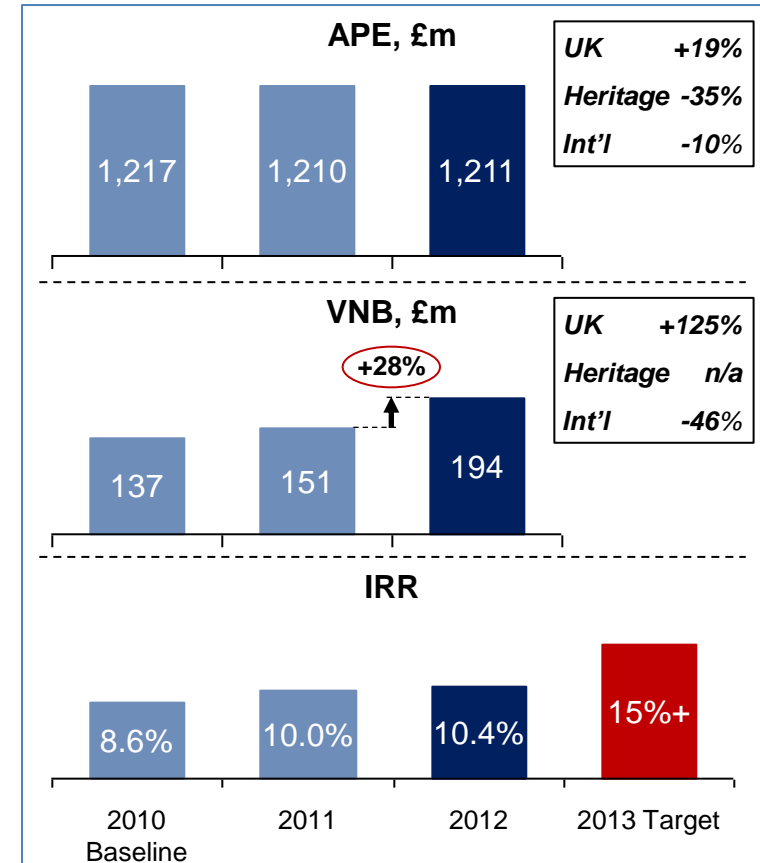


Group investment in new business

£m	New business cash strain	Movement in required capital	Tax & other items	Investment in new business
2012				
- UK & Heritage	(91)	(86)	16	(161)
- International	(123)	(11)	10	(124)
Total	(214)	(97)	26	(285)
2011				
- UK & Heritage	(169)	(69)	20	(218)
- International	(109)	(11)	13	(107)
Total	(278)	(80)	33	(325)

Annotations: -46% (change in New business cash strain), -26% (change in Investment in new business)

Group new business metrics

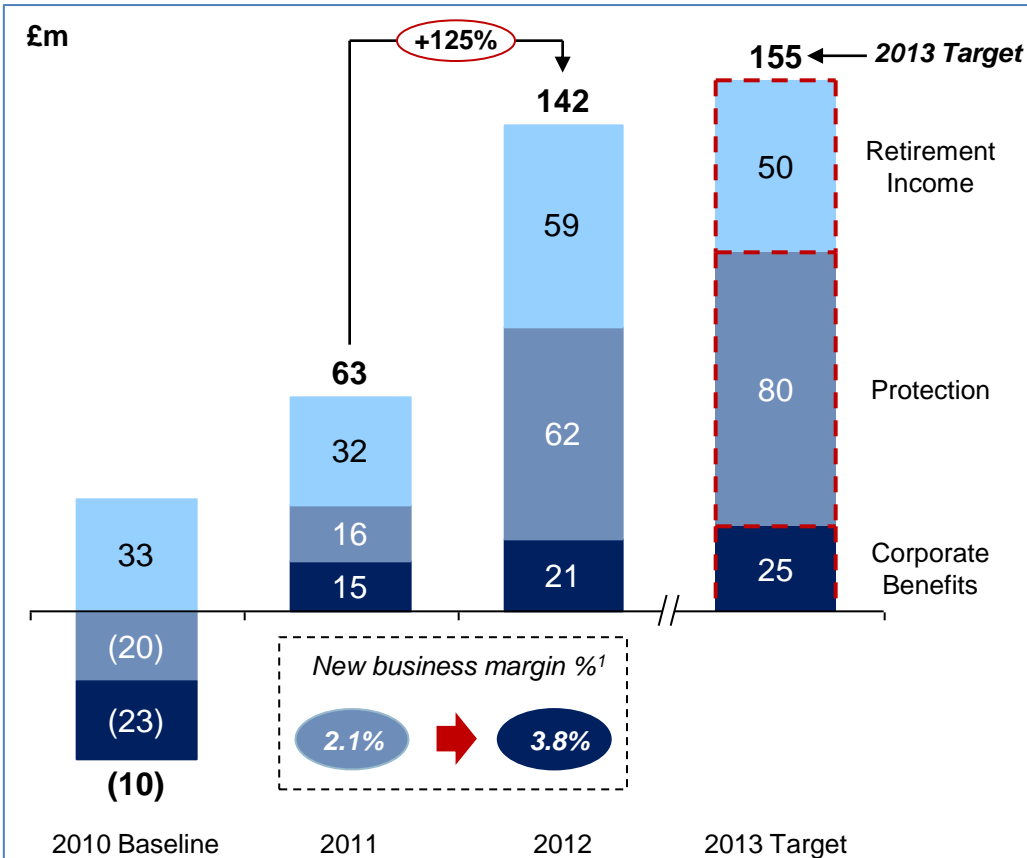


Note: Targeted £200m UK & Heritage reduction in new business cash strain achieved a year early with cash strain now at £(91)m versus 2010 Baseline of £(303)m

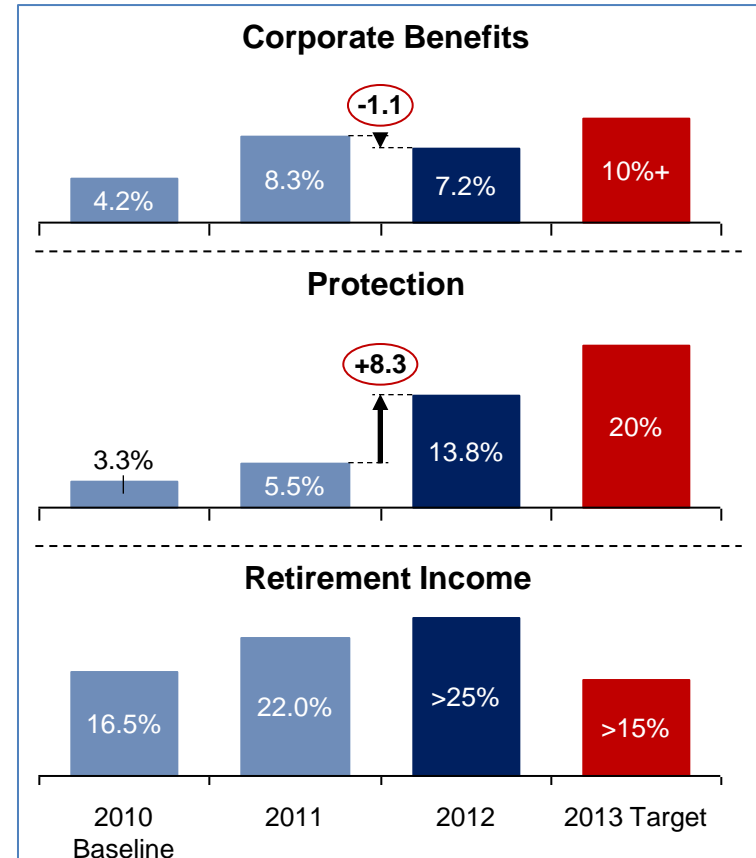
UK division new business profitability

Strong progress towards market targets

Progression to market targets - UK division VNB



New business IRR

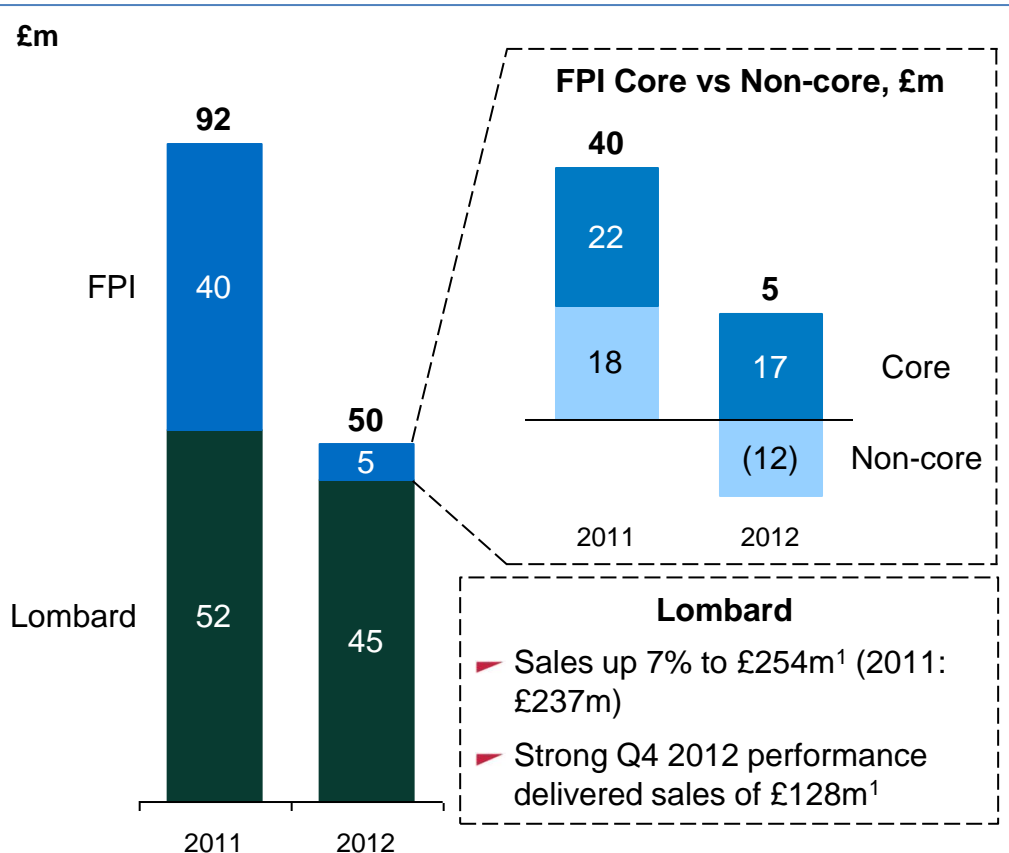


1. Pre-tax VNB / PVNBP

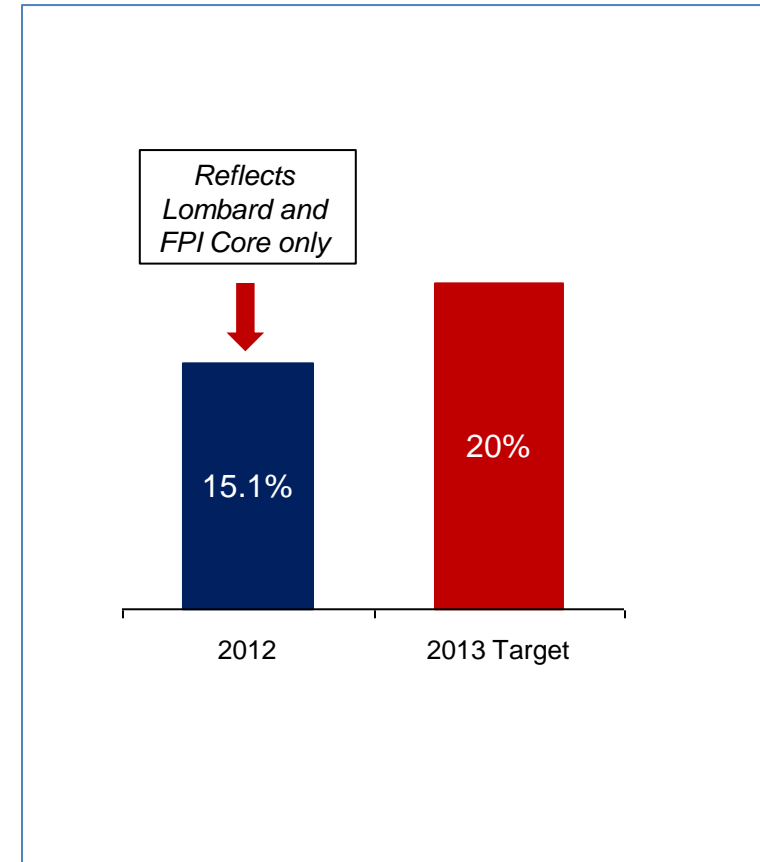
International division new business profitability

Lombard move towards private banks continues; FPI core business baselined

International division VNB



New business IRR

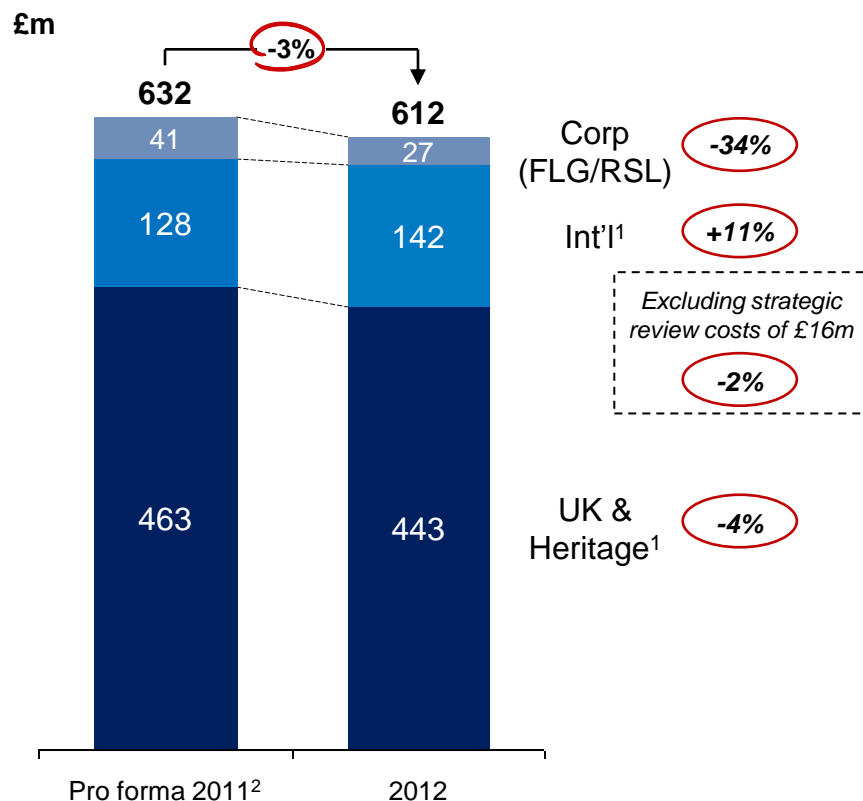


1. APE On constant currency basis

Group operating and development expenses

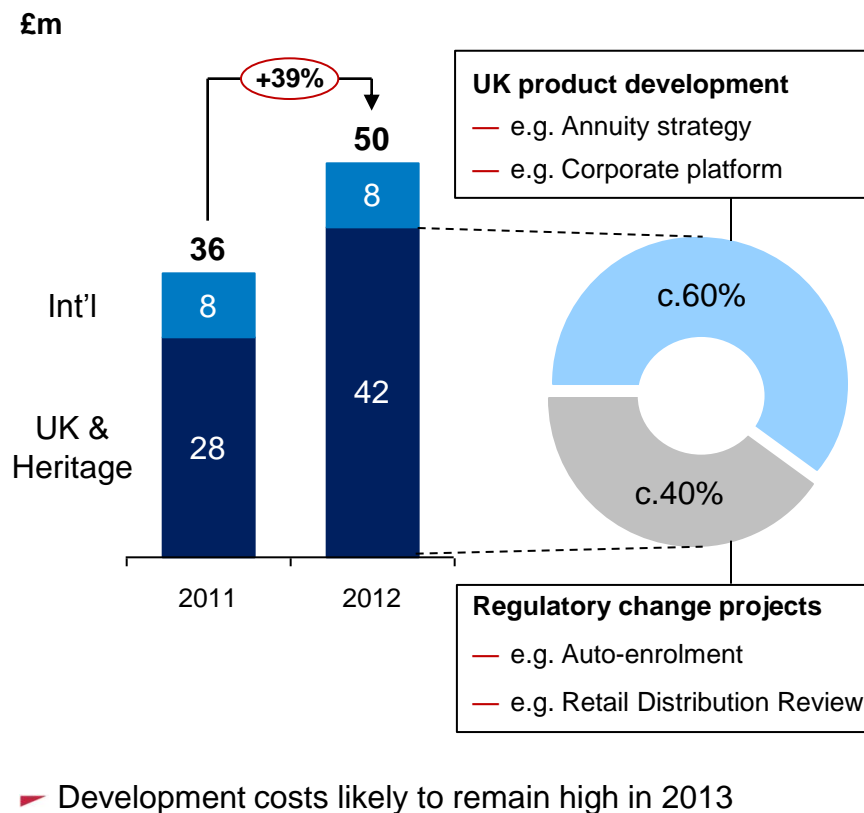
Reduced operating cost base despite impact of International strategic review costs

Group operating expenses



1. Acquisition and maintenance expenses only
2. Adjusted for the inclusion of the acquired WLUK and BHA businesses (£22m)

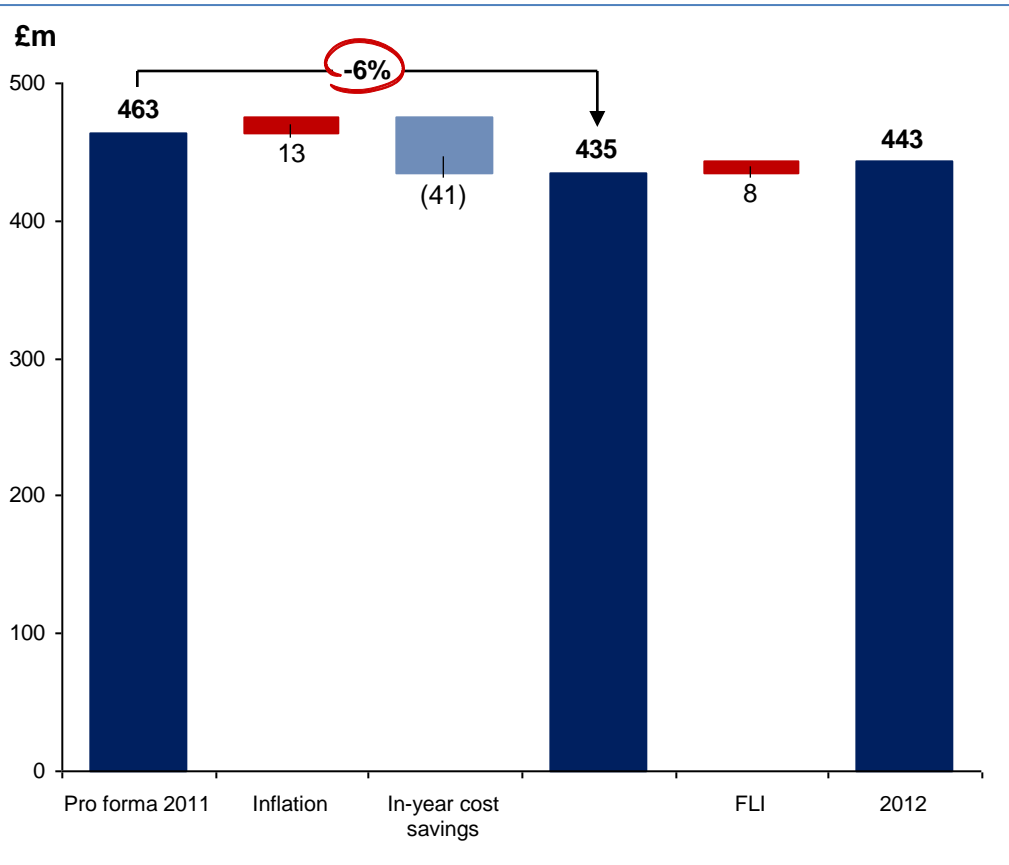
Group development costs



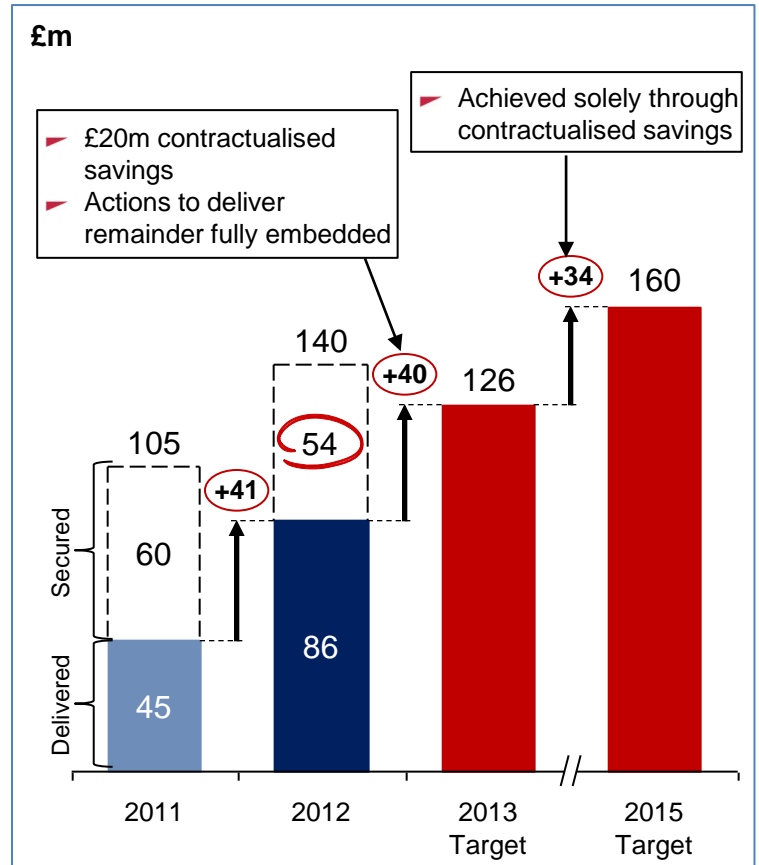
UK & Heritage divisions cost savings

Continued operating cost reductions, actions to complete program fully embedded

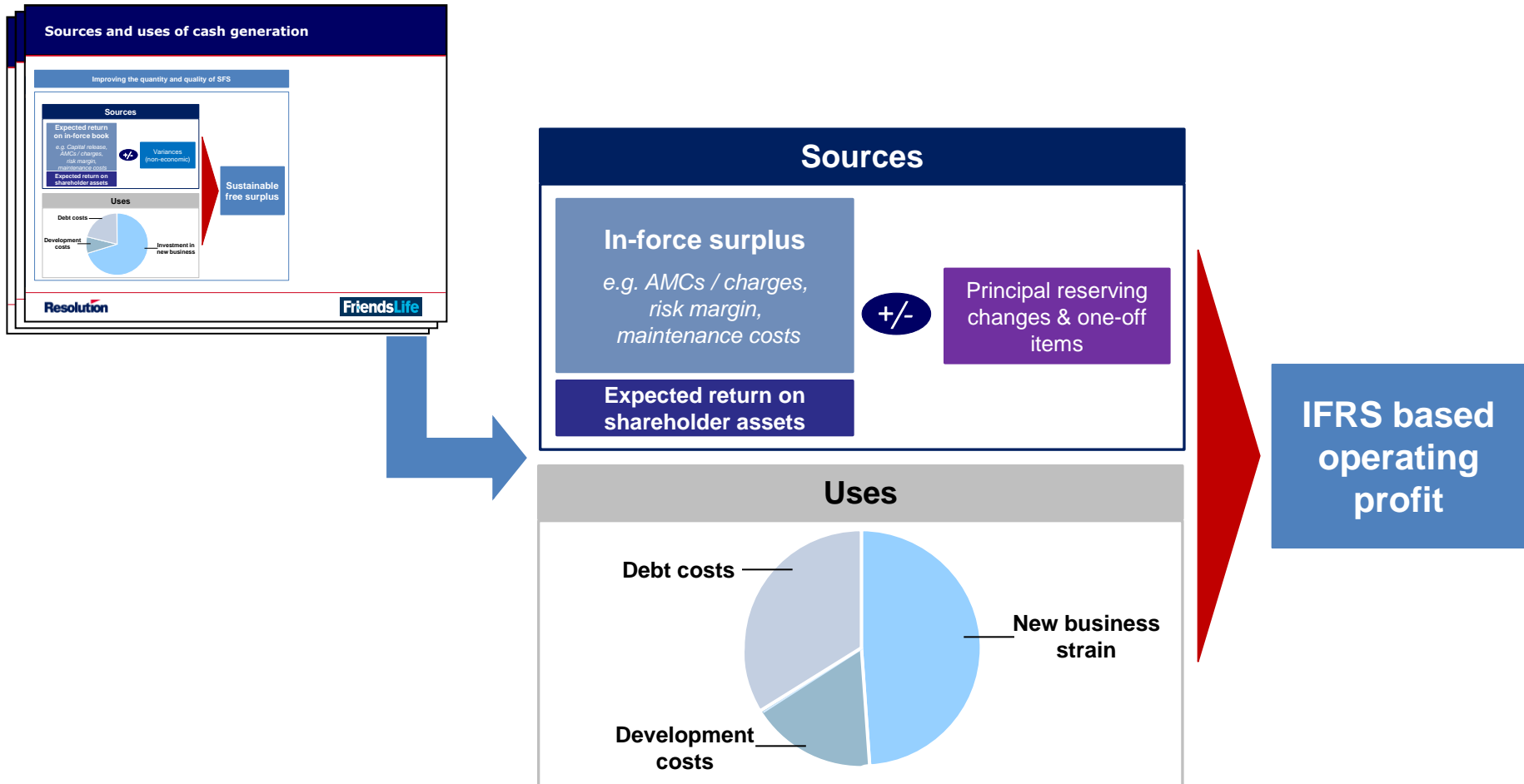
Movement in UK & Heritage operating expenses



Cost savings run-rate

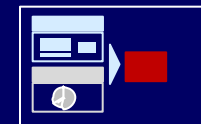


IFRS based operating profit



IFRS based operating profit

Higher profits in UK & Heritage divisions offset by International strategic review

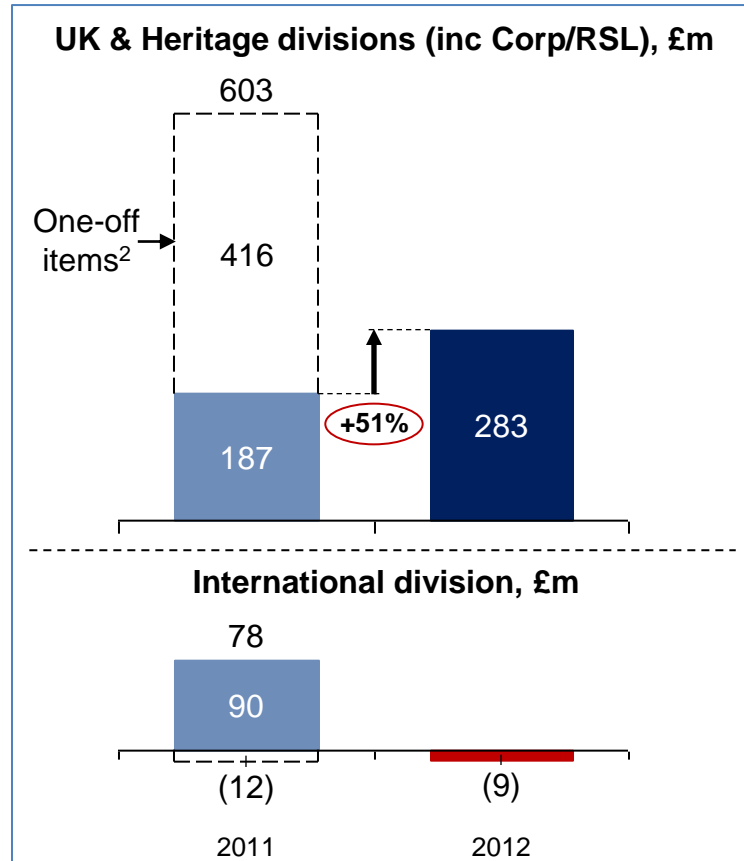


Group IFRS based operating profit

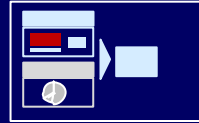
	£m	2011	2012
Sources	In-force surplus	572	550
	Expected return on shareholder assets ¹	86	78
Uses	Finance costs ¹	(112)	(101)
	New business strain	(181)	(142)
	Development costs	(36)	(50)
Other	Principal reserving changes & one-offs	404	(23)
	Other income and charges	(52)	(38)
IFRS based operating profit before tax		681	274

- Expected return on shareholder assets less finance costs is equivalent to long-term investment return
- Principal reserving changes & one-off items (largely relating to PS06/14 and Diligenta outsourcing)

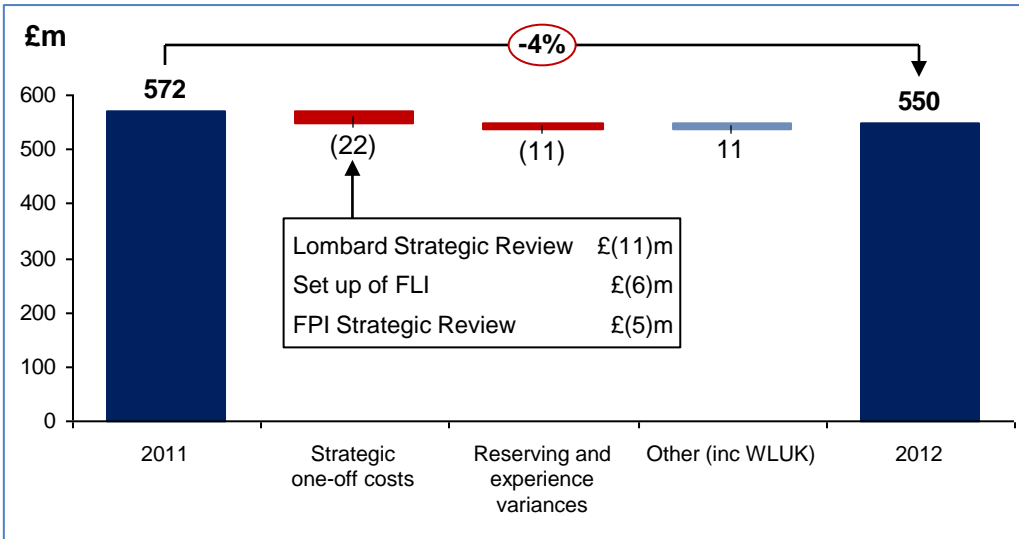
IFRS based operating profit contribution



Drivers of in-force surplus and future finance costs



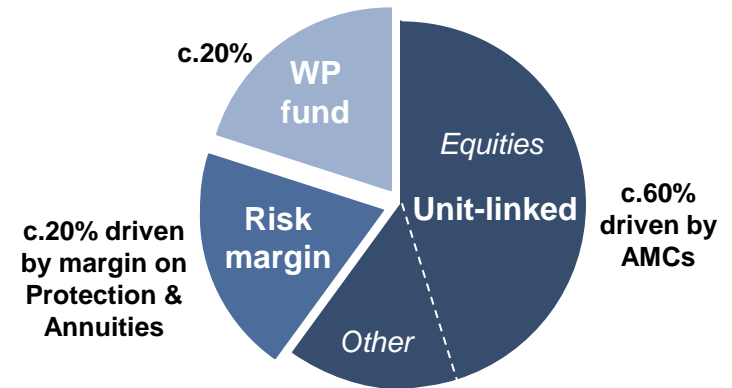
Movement in Group in-force surplus



Finance costs will rise in 2013

- Increase will be driven by higher market values of our debt c.£25m (non-cash impact)
- Net interest impact of Nov'12 debt issue and AXA DCNs broadly offset

Key drivers of in-force surplus

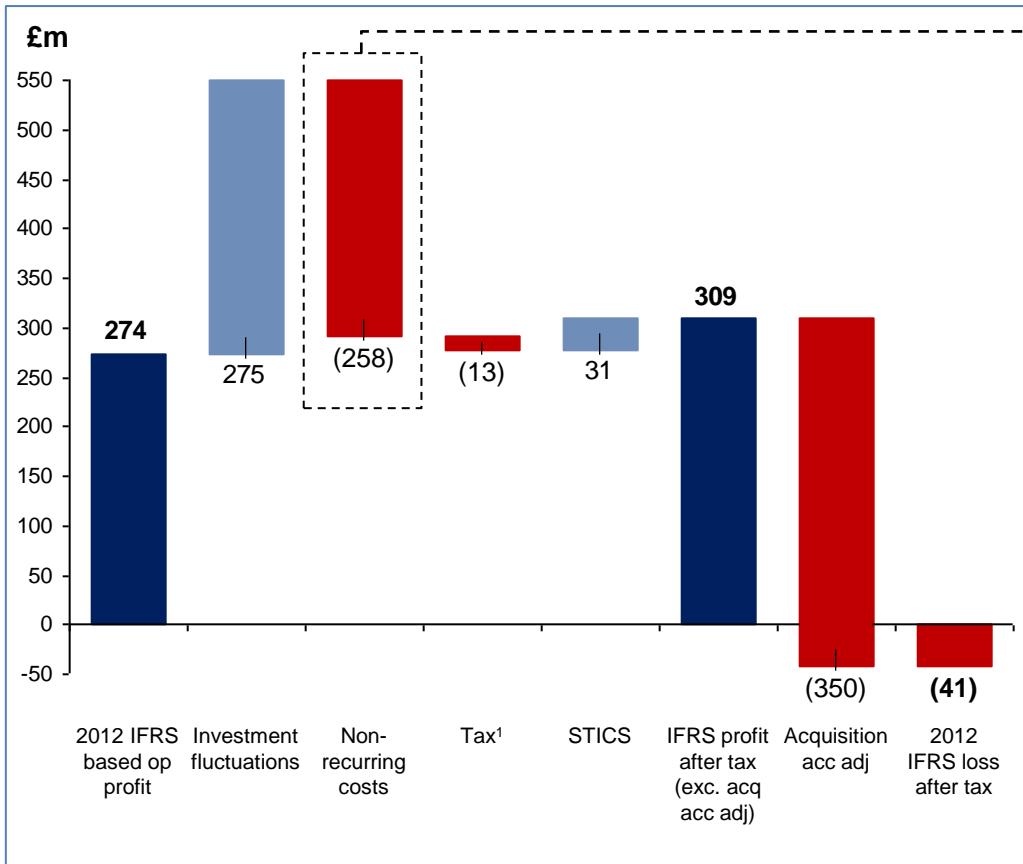


- Unit-linked funds under management £77bn, up 4%
 - UK division (Corporate Benefits) +16%; Lombard +9%; FPI +8%; Heritage (4)%
- Risk margin is spread income on annuity book plus insurance risk margin (mortality, morbidity, persistency, longevity)
- WP fund contribution is shareholder share of WP fund bonus plus surplus from legacy NP business written in the WP fund

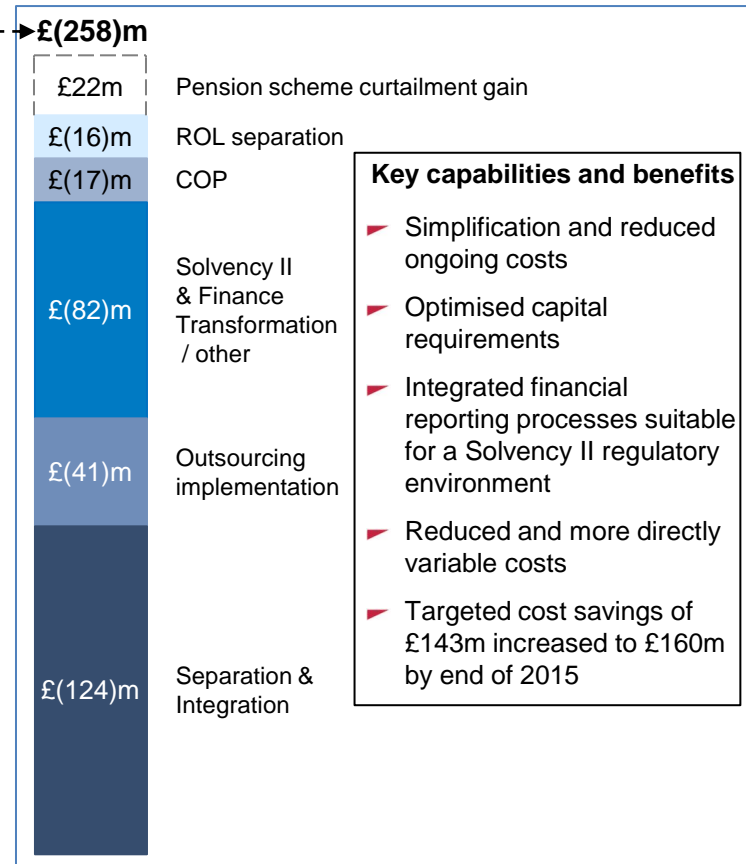
IFRS result after tax

Reflects the impact of market conditions and business restructuring

Group IFRS result after tax



Group non-recurring costs



1. Excluding deferred tax on amortisation of acquisition accounting adjustments

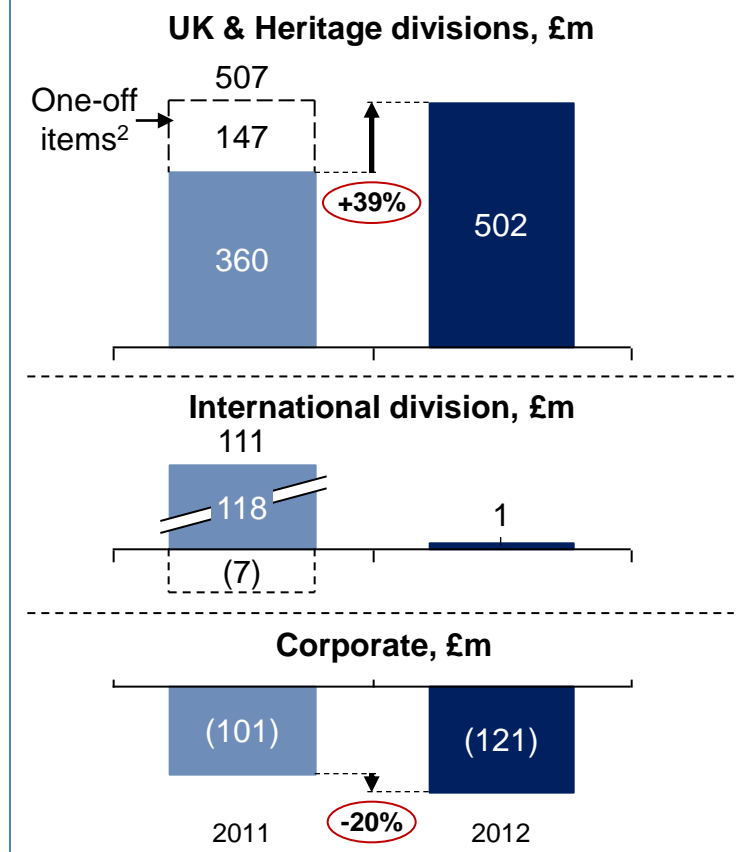
MCEV operating profit

Higher profits in UK & Heritage divisions offset by International strategic review

Group MCEV operating profit

£m	2011	2012
Value of new business	151	194
Expected existing business contribution ¹	360	325
Operating experience variances	(28)	(56)
Other operating variances	6	27
Operating assumption changes	140 ²	(9)
Development costs	(36)	(50)
Other income and charges	(76)	(49)
MCEV operating profit before tax	517	382
ROEV	6.5%	5.1%

MCEV operating profit contribution

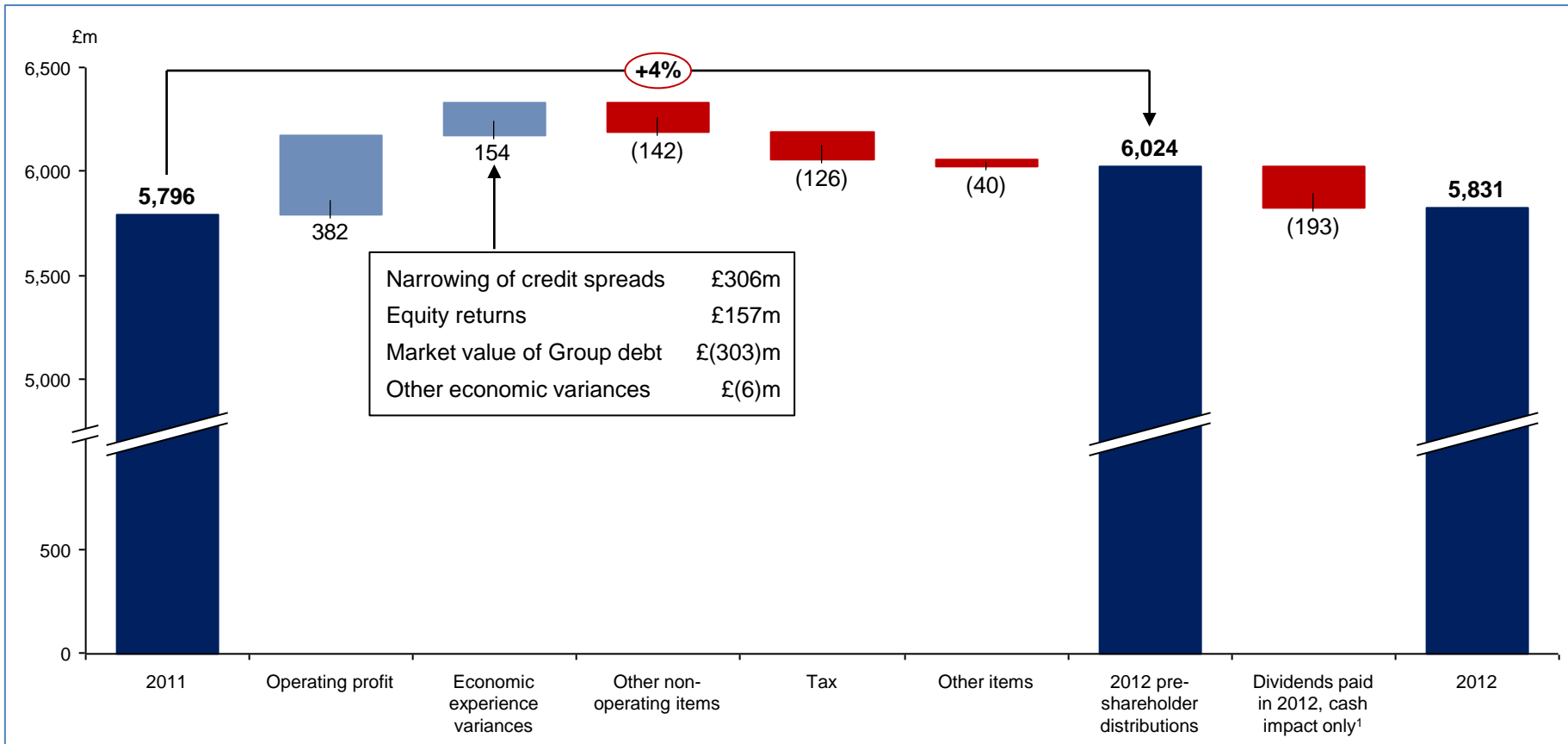


1. Of the £(35)m reduction in EEBC from 2011 to 2012, £(17)m is due to debt restructuring in 2011 which resulted in a movement from Other income and charges to EEBC (net nil impact)
2. Operating assumption changes largely relating to Diligenta outsourcing

MCEV development in 2012

Reflects good operating performance and positive investment markets

Year on year movement in Net Group MCEV

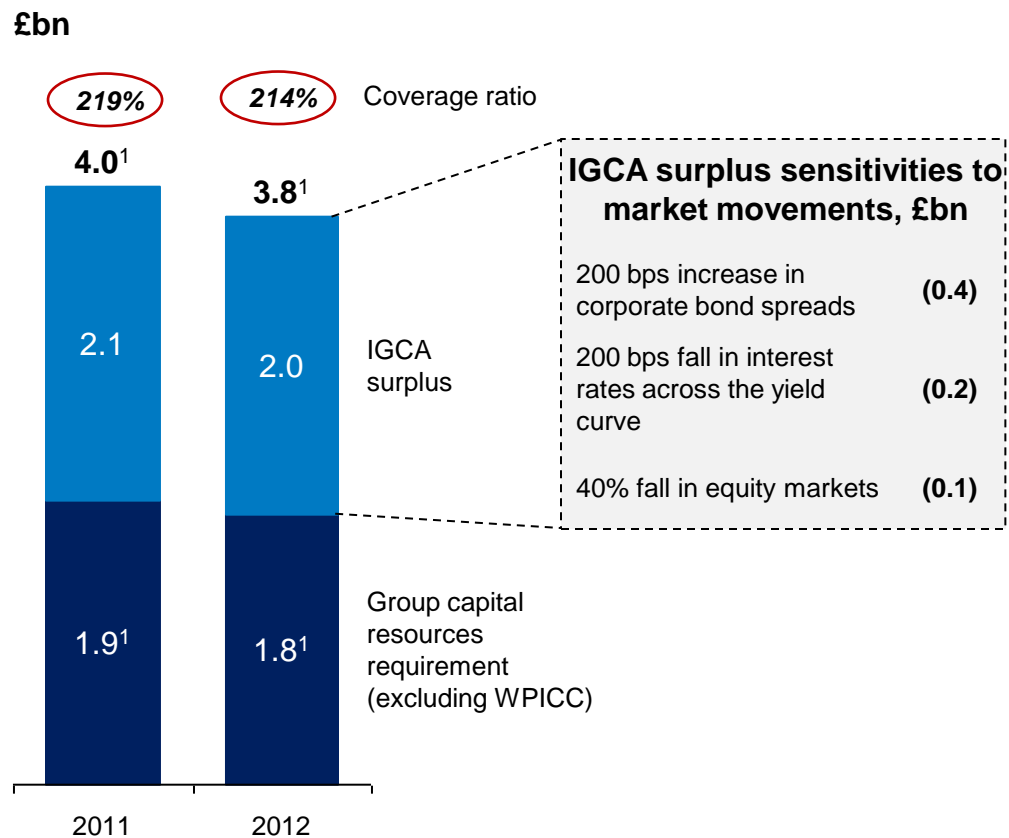


1. Being 2011 final and 2012 interim cash dividends paid

Capital and cash

Maintaining a strong capital base

IGCA surplus and sensitivities to market movements



- Total capital is the sum of IGCA surplus and Group capital resource requirements (excluding WPICC); 2012 WPICC: £3.4bn (2011: £2.9bn); coverage ratio excludes WPICC
- Estimated unaudited position

IGCA remains the biting constraint

- Capital base remains resilient to market movements
- Inclusion of Resolution Limited assets and liabilities (post simplification of governance structure) would result in a pro forma IGCA surplus of £2.2bn (coverage ratio of 221%)
- RSL Available shareholder cash of £850m (pre dividend proposed)

Economic capital surplus

- At 31 December 2012, estimated FLG surplus on an economic capital basis was £3.4bn² (coverage ratio of 182%)

Balance sheet

Maintaining a robust, low-risk balance sheet

Overview of Balance sheet

2012 IFRS balance sheet

£128bn

Other £10bn
Property £3bn
Cash £10bn

Equities
£64bn

Debt
Securities
£41bn

Assets

£128bn

Policyholder
(Unit-linked)
£77bn

Policyholder
(with-profits)
£28bn

Shareholder
(non-profit)
£17bn

Equity / Debt £6bn

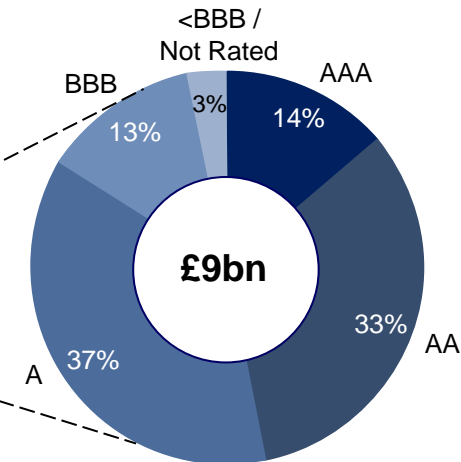
Liabilities

Customer funds
Shareholder funds

Shareholder assets and assets backing non-profit business

	£bn	%
Cash	3	20%
Government bonds	3	20%
Corporate bonds	9	60%
Total investments	15	100%
Intangible assets	4	
Reinsurance assets	3	
Other net receivables	1	
Total shareholder asset exposure	23	

Rating of £9bn corporate bond assets



- 97% of corporate bond assets at investment grade
- No credit defaults in 2012
- c.£0.5bn shareholder share of default provisions; a haircut equivalent to 43% of spread over risk free

2012 report card: making strong progress

		Commitment	Status	Commentary		
Cash	FLG Cash Generation	<ul style="list-style-type: none"> £400m from sustainable sources in medium term 	●	<ul style="list-style-type: none"> Timescale extended due to economic headwinds 		
	UK & Heritage new business strain	<ul style="list-style-type: none"> £200m reduction by 2013 	✓	<ul style="list-style-type: none"> Delivered (£303m to £91m) 		
	UK & Heritage cost reductions	<ul style="list-style-type: none"> £126m of cost reductions by 2013 £160m of cost reductions by 2015 	●	<ul style="list-style-type: none"> Fully embedded 		
	Cash dividends from International businesses	<ul style="list-style-type: none"> FPI: £20m for 2013 (due spring 2014) Lombard: cumulative £37m by spring 2015; £30m pa thereafter 	●	<ul style="list-style-type: none"> On track 		
Returns	FLG operating ROEV	<ul style="list-style-type: none"> 10%+ in medium term 	●	<ul style="list-style-type: none"> Timescale extended due to economic headwinds 		
	New business: VNB & (NBS), (£m) IRR, (%)	UK	Protection	<ul style="list-style-type: none"> £80m, £(30)m 20% 	●	<ul style="list-style-type: none"> Good progress
			Corporate Benefits	<ul style="list-style-type: none"> £25m, £(75)m 10%+ 	●	<ul style="list-style-type: none"> Good progress
			Retirement Income	<ul style="list-style-type: none"> £50m 15%+ 	✓	<ul style="list-style-type: none"> Delivered
			} by 2013		●	<ul style="list-style-type: none"> Steady progress made following strategic review
	International	FPI	} 20%	●	<ul style="list-style-type: none"> Steady progress made following strategic review 	
		Lombard		●		
	Group total		<ul style="list-style-type: none"> 15%+ 	●	<ul style="list-style-type: none"> On track 	

Summary

Significant progress in transforming the business

Strategic outlook attractive: scale businesses with competitive advantage, well placed for key market trends

- Strategy focused on the right markets
- Driving delivery of our financial priorities

Sustainable dividend

- Shareholder dividend is covered by SFS and well covered by normal life company dividends

Strong growth in profitable new business

- Excellent growth in UK; International strategy on track

Financial delivery in 2012

Sustainable free surplus

- Improving quality and quantity of surplus generation

IFRS based operating profit

- Strong UK & Heritage performance

MCEV operating profit

- Strong UK VNB performance as the strategy is delivered

Operating expenses and cost savings

- Good progress on reducing UK & Heritage cost base
- On track to deliver targeted cost savings run-rate

Balance sheet and capital

- Robust and low-risk balance sheet
- Scrip dividend discontinued and replaced with DRIP option
- Dividend 117% covered by cash remitted to Group

2012 Full Year Results Agenda

Introduction

Mike Biggs

Business Review

Andy Briggs

Financial Review

Tim Tookey

UK Life Project

Clive Cowdery

Questions

Mike Biggs

2011 Strategic review

Establish robust governance and management

- Ensure sustainable and independent governance and management

Focus new business on sustainable value

- Market strategy
- Proposition choice
- Contribution from International

Optimise operating model

- Clear product strategy
- Operating platforms established
- Outsourcing and synergies

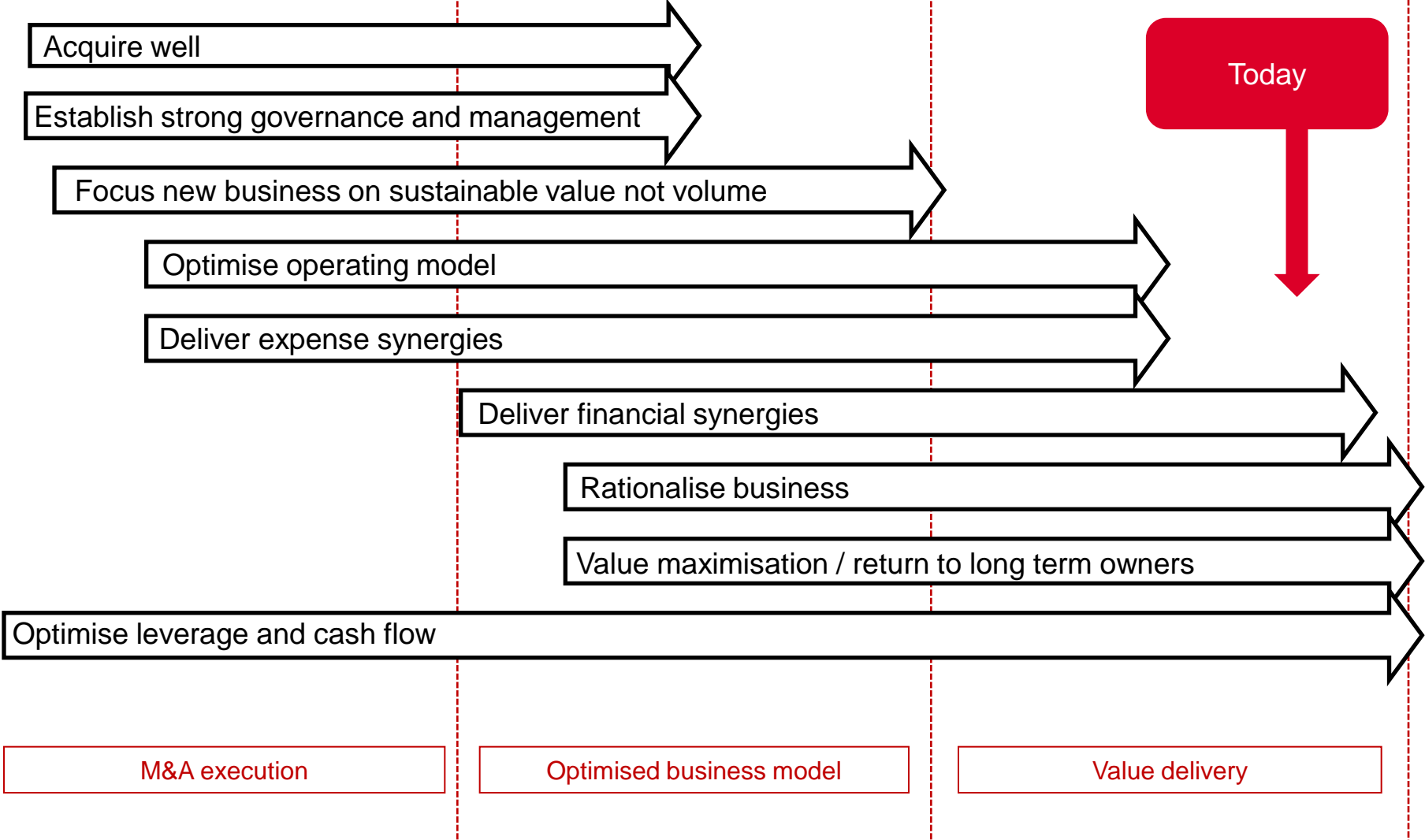
Clear financial targets

- Increase cash returns to shareholders
- Increase return on products and invested capital

As presented in 2011

Sustainable business focused on cash

Phasing for the UK Life Project



Summary

- UK Life market
 - Better cash / capital accountability
 - Defined new business profit pool
 - Back books recognised as asset class
- Resolution operating well
 - Experienced team in place
 - Normalised structure
 - Good delivery against 2011 strategy / momentum
- Board and management remain fully aligned
 - Retained focus on cash and capital
 - Selective new business where profitable
 - Securing maximum value from each part of the Group

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