

Resolution Limited

First quarter 2013

Interim Management Statement

Further strong growth in new business value

New business profitability continues to grow

- Group value of new business ("VNB") up 9% to £38 million (31 March 2012: £35 million).
 - UK division VNB increased by 30% to £35 million.
 - Core International VNB up 11% to £10 million.
- New business cash strain improved by 33% to £(45) million (31 March 2012: £(67) million).
- Group PVNBP¹ margin increased to 2.3% (31 March 2012: 1.8%), notwithstanding lower APE at £242 million (31 March 2012: £292 million).
- Five pension schemes auto-enrolled in the first quarter; further 18 schemes enrolled to date. Pipeline of new scheme wins more than double that at the same point in 2012.

Delivery of target cost savings on track

- Run-rate cost savings of £103 million delivered by 31 March 2013; 94% of 2015 £160 million target secured (31 December 2012: 88%).

Strong capital position maintained and continued focus on cash generation

- Insurance Groups Capital Adequacy surplus² of £2.2 billion, representing a coverage ratio of 224% (31 December 2012: £2.2 billion, coverage 221%).
- Group available shareholder cash of £839 million (31 December 2012: £850 million), before payment of the £200 million final dividend to shareholders.

Andy Briggs, Group Chief Executive said:

"The Group has continued to make good operational progress during the first quarter of 2013 achieving record value of new business written at a lower cash cost with further delivery of targeted cost savings.

This performance has been led by the UK division with strong growth in the Retirement Income and Protection businesses with Corporate Benefits in line with our expectations. I am pleased with the progress made with the implementation of our International strategic review. Lombard and the core FPI business have had good starts to the year and we have made excellent progress exiting our non-core markets.

The underlying trends in our chosen markets are encouraging and our strategy is delivering results. We remain optimistic about the opportunities for profitable and cash generative growth going forwards."

Notes

1. Present value of new business premiums
2. Represents estimated Insurance Groups Capital Adequacy ("IGCA") at the Resolution holding company level.

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Forward-looking statements

This announcement may contain certain "forward-looking statements" with respect to certain of Resolution's (and its subsidiaries) plans and current goals and expectations relating to future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks", "aims", "may", "could", "outlook", "estimates" and "anticipates", and words of similar meanings, are forward-looking statements. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, Resolution's (and its subsidiaries) actual future financial condition, performance or other indicated results may differ materially from those indicated in any forward-looking statement.

Any forward-looking statements contained in this announcement are made only as of the date hereof. Resolution undertakes no obligation to update the forward-looking statements contained in this announcement or any other forward-looking statements it may make.

No statement contained in this announcement should be construed as a profit forecast.

Media

There will be a conference call today for wire services at 07.30 (BST) hosted by Andy Briggs, CEO. Dial in telephone numbers: UK freephone 0808 238 0673, UK Standard International +44 (0)1452 569335, Conference ID: 56226564.

Analyst/Investors

There will be a conference call today for analysts and investors at 8:30 (BST) hosted by Andy Briggs, CEO. Dial in telephone numbers: UK free call 0808 238 0673, UK Standard International +44 (0)1452 569335, Conference ID: 56220680.

Financial calendar

Interim results 2013 13 August 2013

Q3 2013 Interim Management Statement 12 November 2013

1. Group summary

1.1 Friends Life Group new business

The new business results reported here include the value of new business ("VNB") and new business cash strain ("NBS") associated with the reported annualised premium equivalent ("APE") volumes.

	Q1 2013 £m	Q1 2012 £m	<i>Change %</i>	Full year 2012 £m
Value of new business				
UK division	35	27	30	142
Heritage division	(4)	(5)	20	2
International division	7	13	(46)	50
Total Group	38	35	9	194
New business cash strain				
UK division	(4)	(21)	81	(51)
Heritage division	(9)	(12)	25	(40)
International division	(32)	(34)	6	(123)
Total Group	(45)	(67)	33	(214)
APE				
UK division	142	173	(18)	669
Heritage division	13	24	(46)	102
International division	87	95	(8)	440
Total Group	242	292	(17)	1,211

The contribution from Group new business increased 9% to £38 million in the three month period to 31 March 2013. The improvement highlights the continued focus on profitable growth with new business written delivering higher returns at a lower cost.

The Group performance includes a strong improvement in VNB from the UK division with VNB up 30% to £35 million compared to the same quarter of 2012. The UK division result reflects a strong performance in the Retirement Income business, supported by continued tight cost control across the division.

The contribution from the International division has been constrained by the actions taken over the last six months to restructure this business. Underlying the reduced International division contribution, the core businesses have delivered VNB of £10 million up 11% on that delivered in the same period of 2012. The performance of the non-core business is in line with Group's expectations, with the controlled withdrawal from these business lines still expected to result in some modest operating performance drag in 2013 as reported previously.

Group NBS at £(45) million is also significantly improved with a 33% reduction compared to the same period in 2012. The reduction reflects a number of factors including the continued delivery of cost savings, the success at increasing the proportion of new business on target platforms and a strong performance in Retirement Income.

Whilst the activities undertaken to improve the efficiency of the Group's new business propositions have had a significant impact on the lower strain levels, the new business strain result also reflects the reduced volumes written in the period. New business sales volumes reduced to £242 million APE (31 March 2012: £292 million) in the quarter with this reduction largely through the Corporate Benefits business in the UK division.

Sales volumes in the International division, down 8%, reflect the actions to withdraw from certain markets with underlying volumes of the core business marginally up to £82 million APE reflecting a flat performance in core FPI and an encouraging 7% increase in Lombard.

Whilst these results are presented on the same basis as those in the 2012 full year results and there have been no operating assumption changes made in the period to 31 March 2013, comparisons with profitability in the first quarter of 2012 are difficult. This is principally the case within the International division where the prior period results do not reflect the operating assumption changes made in the fourth quarter of 2012.

1.2 Cash & capital strength

The Group maintained a strong capital position in the first quarter of 2013 with an estimated IGCA surplus¹ of £2.2 billion, at the Resolution holding company level, representing a coverage ratio of 224% (31 December 2012: £2.2 billion, coverage 221%). This position is before the £200 million dividend due to be paid to shareholders on 20 May 2013.

Group available shareholder cash at the 31 March 2013 totalled £839 million (31 December 2012: £850 million), before payment of the 2012 final dividend to shareholders.

1.3 Cost reduction programmes

Run-rate cost savings have increased in the period to £103 million (31 December 2012: £86 million) recognising actions undertaken in the first quarter to deliver cost savings in the UK and Heritage divisions and further contractualised savings arising from the Group's outsourcing contracts. In total, run-rate cost savings amounting to £150 million of the 2015 £160 million target have now been secured.

¹ At a Friends Life Group level, excluding the assets and liabilities of Resolution Limited and the other Resolution holding companies established in Guernsey, the estimated IGCA surplus was £1.8 billion representing a coverage ratio of 202% (31 December 2012: £2.0 billion, coverage 214%). The movement in the period principally reflects the £250 million dividend paid to Resolution in March.

2. UK division – business review

Summary

VNB	Q1 2013 £m	Q1 2012 £m	<i>Change</i> %	Full year 2012 £m
Corporate Benefits	3	5	(40)	21
Protection	12	9	33	62
Retirement Income	20	13	54	59
UK division	35	27	30	142
APE				
Corporate Benefits	109	146	(25)	535
Protection	18	18	-	90
Retirement Income	15	9	67	44
UK division	142	173	(18)	669

The UK division delivered improved value of new business up 30% on the first quarter of 2012, on an 18% reduction in new business volumes.

Strong growth has been achieved in the Retirement Income and Protection businesses with tight cost control across the division.

2.1 UK - Corporate Benefits

	2013 Full year target £m	Q1 2013 £m	Q1 2012 £m	<i>Change</i> %	Full year 2012 £m
VNB	25	3	5	(40)	21
APE	n/a	109	146	(25)	535

The Corporate Benefits business delivered VNB of £3 million in the first quarter of 2013, down £2 million on prior year, principally as a result of the reduced new business volumes in the period.

First quarter volumes reflect a number of factors including the decision to move away from high volume low margin business lines in the third quarter of 2012 and the reduced volumes of enhanced transfer value ("ETV") business following the introduction of the ETV code of conduct. These lines contributed £16 million APE in the first quarter of 2012.

In addition, volumes of new business also reflect the Group's decision in 2012 to focus on securing auto-enrolment mandates from existing customers and not to pursue non-profitable new schemes in the second half of 2012 where significant activity by commission-paying providers and aggressive fee based pricing led to unattractive business propositions. In addition, continued low wage inflation has reduced the level of increments written in the period. Notwithstanding this impact on new business, the implementation of the retail distribution review ("RDR") is expected to mean this peak in commission driven scheme losses will be short term in nature.

The Corporate Benefits pipeline of new schemes at 31 March 2013 has more than doubled compared to the first quarter of last year with this reinforcing the Group's focus on not writing non-profitable commission-paying business.

The business continues to dedicate resource to optimising auto-enrolment opportunities, and has successfully worked with a number of key employers to help them to stage in the first three months of 2013 resulting in 5 schemes auto-enrolling in the period with premiums being received from the end of the quarter onwards. Since the end of March 2013 a further 18 schemes have been successfully auto-enrolled and the Group is encouraged by the strength of the pipeline for the remainder of 2013. Despite this success, the Group has seen timescales for implementation of newly won schemes increase significantly from a typical 3 months to around 6-9 months reflecting employer deliberations over auto-enrolment. Whilst this has translated into fewer than expected new schemes commencing contributions in the early part of the year, the Corporate Benefits business expects a strong flow of contributions from new schemes through the second half of 2013. As a result the business remains confident in exceeding the full year VNB target of £25 million.

Fund inflows of £0.6 billion in the quarter and strong investment returns have increased funds under management which now stand at £19.4 billion up 9% since the end of 2012. Outflows amounting to £0.5 billion continue to be driven by re-broking of schemes initiated prior to the implementation of RDR. Despite this, scheme loss experience is currently tracking broadly in line with expectations.

2.2 UK - Protection

	2013 Full year target £m	Q1 2013 £m	Q1 2012 £m	<i>Change</i> %	Full year 2012 £m
VNB	80	12	9	33	62
APE	n/a	18	18	-	90

The Protection business has delivered new business with a value of £12 million, up 33% on the first quarter of 2012, driven by the successful migration of legacy business to the target platforms over 2012 – all new business is now written on our target platforms.

Overall Protection sales are flat year on year but with different trends across the individual and group propositions. The group protection proposition continues to deliver strong volume growth, with sales up 52%, and has further developed its income protection claims management, focusing on early intervention and rehabilitation. This growth is leading to an increased market share and more frequent partnering with larger corporates as evidenced by the win of an 11,000 member scheme this quarter. The focus on more profitable lines is also delivering further positive results with Group protection VNB up significantly on the comparative period, primarily driven by higher sales of more profitable Critical Illness and Income Protection products.

This improvement has been offset by lower sales of Individual Protection products where the gender neutral pricing directive drove higher volumes of business towards the end of 2012, depleting the pipeline of applications carried into 2013. As a result, the first quarter result is not expected to be representative of new business delivery over the remainder of 2013.

2.3 UK - Retirement Income

	2013 Full year target £m	Q1 2013 £m	Q1 2012 £m	<i>Change</i> %	Full year 2012 £m
VNB	50	20	13	<i>54</i>	59
APE	n/a	15	9	<i>67</i>	44

The last 18 months has seen significant developments in the annuity platform and proposition, with these transforming the Retirement Income business and delivering good outcomes for our customers. The strategic developments are well aligned to the focus of the ABI code of conduct which aims to ensure ongoing confidence in the industry and has the full support of Friends Life.

In the first quarter of 2013 the Retirement Income business delivered £20 million of VNB, up 54% on the same period in 2012 driven by growth in volume. Performance benefited from the launch of the enhanced annuity proposition at the end of the first half of 2012. The Group continues to expect pressure on future margins as previously highlighted.

The focus in 2013 remains the continued roll-out of the improved proposition to our customers and building on the month on month improvements in the take-up of the enhanced annuity product.

3. Heritage division – business review

In the first quarter of 2013, the Heritage division has continued to employ the Group's expertise in delivering shareholder value through ongoing activities to improve the structure and efficiency of the division. While it remains early in the year, good progress has been made on the capital optimisation programme aimed at reducing the number of UK life companies from four to two. In addition, the focus of the programme is evolving from delivery of capital efficiency through reducing inefficient legal structures, to a focus on the potential initiatives that will provide an opportunity for with-profit policyholders and shareholders to benefit from further de-risking of the with-profit funds, creating a modern approach to with-profit risk management. This approach is highlighted by redirection of maturing customers from the with-profit funds to the modern product set in Retirement Income, capping the growth in credit and longevity risk within the with-profit funds.

The Heritage division has maintained its focus on better and more efficient customer service, through better working with Diligenta, while continuing to deliver good returns to many of our with-profit policyholders through increased bonuses.

Friends Life Investments ("FLI") has made excellent progress growing the scale of this business with £0.7 billion additional funds being recaptured since the end of 2012 from the Group's outsourced investment manager. Further recaptures are also being evaluated taking total expected recaptures in 2013 to £7 billion. In addition, early progress is being made on new investments such as the infrastructure loan to Drax Group plc, delivering increased yield for the annuity portfolios while managing credit risk prudently.

	Q1 2013	Q1 2012	<i>Change</i>	Full year 2012
	£m	£m	%	£m
VNB	(4)	(5)	20	2
APE	13	24	(46)	102

Heritage VNB in the first quarter of 2013 of £(4) million is marginally improved on the same period in 2012. The reduction in APE to £13 million reflects the expected run-off of volumes over time for the Heritage division, with most new business now being written in the UK division.

This reduction is also apparent in comparison with the full year 2012 result which included the final year of Department of Work and Pensions ("DWP") rebate new business, following regulatory changes. The 2012 full year VNB for DWP business was £13 million and mostly arose in the second quarter of 2012.

4. International division - business review

	Q1 2013	Q1 2012	<i>Change</i>	Full year 2012
	£m	£m	%	£m
VNB				
- Core ⁽ⁱ⁾	10	9	11	62
- Non-core	(3)	4	n/a	(12)
Total VNB	7	13	(46)	50
APE				
- Core ⁽ⁱ⁾	82	79	4	384
- Non-core	5	16	(69)	56
Total APE	87	95	(8)	440

(i) The core International division includes Lombard and the core FPI business lines

International new business sales volumes and contribution in the first quarter of 2013 are below those reported in the same period of 2012 reflecting the actions taken as part of the strategic review announced in November 2012. The trends principally highlight the closure to new business in markets that are unprofitable, sub-scale or which do not fit with its risk and value focused strategy as well as the impact of the basis review undertaken as part of the review.

The Group believes that these businesses are now focused on attractive, growth markets where we have competitive advantage and hence profitable growth can be achieved. Despite the impacts on the new business result, the International division funds under management have increased by £1.8 billion to £27.4 billion at the end of the period, reflecting net fund inflows of £0.3 billion and strong investment returns.

Funds under management

	Q1 2013	Full Year 2012
	£bn	£bn
Lombard	20.2	18.9
FPI	7.2	6.7
International division	27.4	25.6

4.1 Lombard

	Q1 2013	Q1 2012	<i>Change</i>	Full year 2012
	£m	£m	%	£m
VNB	5	4	25	45
APE	47	44	7	238

Lombard sales results in the first quarter of 2013 have been encouraging, especially given the prevailing difficult macroeconomic conditions, and exceeded the results delivered in the same period in 2012. There has been a continuation of the strategic move to privatbancassurance in the quarter with 54% of sales coming from banks (31 March 2012: 40%).

First quarter trading is traditionally low in comparison to the previous fourth quarter reflecting the seasonal nature of Lombard's sales. Quarterly results can therefore be subject to some volatility, reflecting the lumpy nature of the business written, and as previously advised the first quarter results should not be extrapolated for the full year.

In the period to 31 March 2013, the contribution of Lombard new business, at £5 million, is up from the £4 million reported in the first quarter of 2012. The improvement, whilst small compared to the 2012 full year run-rate reflects the combined effects of sales volume growth in the period, up 7% (5% in constant currencies), as well as some overall margin improvement as a result of a lower proportion of large cases and the benefits of expense reduction work last year.

4.2 FPI

	Q1 2013	Q1 ⁽ⁱ⁾ 2012	<i>Change</i>	Full year ⁽ⁱ⁾ 2012
	£m	£m	%	£m
VNB				
- Core	5	5	-	17
- Non-core	(3)	4	<i>n/a</i>	(12)
Total VNB	2	9	(78)	5
APE				
- Core	35	35	-	146
- Non-core	5	16	(69)	56
Total APE	40	51	(22)	202

(i) Prior year FPI and non-core results include the contribution from the AmLife business sold on the 4 January 2013.

FPI's strategy, as highlighted in the 2012 full year results announcement, reflects the division's focus on core markets whilst exiting other non-profitable markets. These actions to reshape the business have resulted in lower sales volumes and VNB compared to the same period last year, however the new business strain is down 7% to £(26) million (31 March 2012: £(28) million) as a result of the actions taken. FPI continues to focus on derisking its portfolio and is seeking to leverage its existing bancassurance arrangements as well as explore new bancassurance opportunities.

FPI core business

FPI's core business is now focused on the global expatriate market in addition to the domestic affluent customers in selected markets (principally Hong Kong, Singapore and Dubai).

The VNB of the core business, at £5 million, is in line with 2012 after reflecting the operating assumption changes implemented in the 2012 full year results relating to persistency and expenses.

Core new business APE also remains in line with the same period last year and includes a change in mix reflecting the move towards lower strain single premium savings business.

FPI non-core business

The International strategic review announced in 2012 has resulted in the exit or controlled withdrawal from a number of un-profitable and/or higher risk markets. These included the decision to no longer accept business from Japanese nationals, the closure to new corporate pensions business and the exit of product manufacture in Germany. The sale of the 30% stake in the joint venture, Amlife, was also completed in January 2013 with this completing the exit from the Malaysian market.

Implementing these decisions has resulted in a 69% decrease in non-core new business volumes compared to the same period in 2012. This reduction in volumes, in addition to the operational basis changes and increased guarantee costs which were reflected in the 2012 year end results, have driven a £7 million period on period reduction in non-core VNB although the results are not directly comparable as the prior period result does not reflect the significant impact of the necessary operating assumption changes implemented in the fourth quarter of 2012.

As reported in the 2012 full year results, the Group expects a modest amount of operating performance drag in 2013 as the business undertakes the orderly withdrawal from manufacturing products for distribution in Germany. Since year end, FpB AG (the Group's German distribution business) has extended its distribution agreement with Cardea (operating brand of Prisma Life AG), which had previously covered protection products, to replace FPIs regular premium pensions products. The process of transitioning in Cardea's pension products will start in the second quarter of 2013 and is expected to complete in the third quarter of 2013.

5. Analysis of life and pensions new business

In classifying new business premiums the following basis of recognition is adopted:

- single new business premiums consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals;
- regular new business premiums consist of those contracts under which there is an expectation of continuing premiums being paid at regular intervals, including repeated or recurrent single premiums where the level of premiums is defined, or where a regular pattern in the receipt of premiums has been established;
- non-contractual increments under existing group pensions schemes are classified as new business premiums;
- transfers between products where open market options are available are included as new business; and
- regular new business premiums are included on an annualised basis.

5.1 Regular and single premiums

	Regular premiums			Single premiums		
	Q1 2013 £m	Q1 2012 £m	Change %	Q1 2013 £m	Q1 2012 £m	Change %
UK division						
- Corporate Benefits	95	116	(18)	145	294	(51)
- Protection	18	18	(1)	-	-	-
- Retirement Income	-	-	-	145	91	59
Heritage division	8	14	(43)	55	106	(48)
Total UK & Heritage	121	148	(18)	345	491	(30)
FPI	24	37	(35)	159	136	17
Lombard	-	-	-	467	443	5
Total International division	24	37	(35)	626	579	8
Total Life and Pensions	145	185	(22)	971	1,070	(9)

	Regular premiums			Single premiums		
	Q1 2013 £m	Q4 2012 £m	Change %	Q1 2013 £m	Q4 2012 £m	Change %
UK division						
- Corporate Benefits	95	106	(10)	145	92	58
- Protection	18	25	(28)	-	-	-
- Retirement Income	-	-	-	145	157	(8)
Heritage division	8	10	(20)	55	71	(23)
Total UK & Heritage	121	141	(14)	345	320	8
FPI	24	31	(23)	159	179	(11)
Lombard	-	-	-	467	1,189	(61)
Total International division	24	31	(23)	626	1,368	(54)
Total Life and Pensions	145	172	(16)	971	1,688	(42)

5.2 Group new business – APE

Annualised Premium Equivalent (“APE”) represents annualised new regular premiums plus 10% of single premiums.

	Q1 2013 £m	Q1 2012 £m	Change %	Q1 2013 £m	Q4 2012 £m	Change %
	UK division					
- Corporate Benefits	109	146	(25)	109	115	(5)
- Protection	18	18	-	18	25	(28)
- Retirement Income	15	9	67	15	16	(6)
Heritage division	13	24	(46)	13	17	(24)
Total UK & Heritage	155	197	(21)	155	173	(10)
FPI	40	51	(22)	40	49	(18)
Lombard	47	44	7	47	119	(61)
Total International division	87	95	(8)	87	168	(48)
Total Life and Pensions	242	292	(17)	242	341	(29)

FPI

	Q1 2013 £m	Q1 2012 £m	Change %
APE by region (actual exchange rates)			
North Asia	9	17	(47)
South Asia	5	6	(17)
Middle East	9	11	(18)
Europe (Excl UK)	6	6	-
UK	5	5	-
Rest of World	6	5	20
Malaysia (AmLife) ⁽ⁱ⁾	-	1	(100)
Total	40	51	(22)

(i) AmLife joint venture sold on 4 January 2013

Lombard

	Q1 2013 £m	Q1 2012 £m	Change %
APE by region (actual exchange rates)			
UK and Nordic	17	11	55
Northern Europe	1	1	-
Southern Europe	27	23	17
Rest of World	2	9	(78)
Total including large cases	47	44	7
Of which: Large cases (greater than €10m)	18	22	(18)
Total excluding large cases	29	22	32

5.3 New business APE at constant exchange rates

All amounts in currency in the tables above other than Sterling are translated into Sterling at a monthly average exchange rate. The estimated new business assuming constant currency rates would be as follows:

	Q1 2013 £m	Q1 2012 (as reported) £m	change %
FPI	40	51	(22)
Lombard	46	44	5

5.4 New Business - Present value of new business premiums ("PVNBP")

PVNBP equals new single premiums plus the expected present value of new regular premiums. Premium values are calculated on a consistent basis with the EV contribution to profits from new business. Start of period assumptions are used for the economic basis and end of period assumptions are used for the operating basis. A risk-free rate is used to discount expected premiums in future years. The impact of operating assumption changes across a whole reporting period will normally be reflected in the PVNBP figures for the final quarter of the period that the basis changes relate to. No change in operating assumptions will be reflected in the PVNBP for the first and third quarters. All amounts in currency other than Sterling are translated into Sterling at a monthly average exchange rate.

	Q1 2013 £m	Q1 2012 £m	Change %	Q1 2013 £m	Q4 2012 £m	Change %
UK division						
- Corporate Benefits	545	776	(30)	545	550	(1)
- Protection	119	118	1	119	167	(29)
- Retirement Income	145	91	59	145	157	(8)
Heritage division	90	169	(47)	90	118	(24)
Total UK & Heritage	899	1,154	(22)	899	992	(9)
FPI	293	341	(14)	293	275	7
Lombard	467	443	5	467	1,189	(61)
Total International division	760	784	(3)	760	1,464	(48)
Total Life and Pensions	1,659	1,938	(14)	1,659	2,456	(32)

6. Update on Value Share

The Group provided, as part of the 2012 full year disclosure, an update on the latest position of the Value Share. This position has not changed significantly in the first quarter of 2013 with the accumulated value of net equity deployed (at 4% per annum) at 31 March 2013 amounting to £3,538 million (31 December 2012: £3,752 million), reflecting the FLG dividends paid in the period.