Friends Life Group Limited

Half Year 2014 Results

6 August 2014

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Key messages
Strong execution of our strategy

Cash today – building towards 1.3x coverage

- Lombard disposal and increased share buy-back improves 2013 pro forma dividend coverage ratio to 1.17x[(1)]
- SFS up 15% in H1 2014. On track for low double digit percentage FY 2014 SFS growth

Cash tomorrow – growing to support progressive dividend

- Revenue optimisation initiatives to add a further £10m p.a. from 2015, more to come
- Corporate Benefits – strong net fund flows and underlying cash growth from £11m in FY 2013 to £14m in H1 2014
- Retirement Income – strong customer engagement driving good annuity sales
  – further developing our market leading platform

1. *The pro forma SFS to dividend coverage ratio is restated assuming: Lombard is excluded from the 2013 Group results; 2013 interim and final dividends have been recalculated excluding the shares bought back; the share buy-back is assumed to have happened immediately at a share price of 332.1 pence, the 10 day rolling average share price as at 4 August 2014, which equates to 95 million shares.*

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Lombard disposal

Demonstrating commitment to returning cash when appropriate

Increased share buy-back

- PRA approval to return the full initial consideration of £317m to shareholders
- Demonstrating confidence in our resilient capital base and strong balance sheet
- Demonstrates our commitment to delivering value, through rigorous financial discipline and maximising value from each part of the Group

Deal terms(1)

- Initial consideration of £317m
  - £254m upfront consideration and £7m interest equivalent to be paid in cash
  - £56m deferred payment
- Total consideration of up to £356m based on additional contingent element

Rationale for disposal

- Limited strategic and operational synergies with the rest of the Group
- 2013 pro forma SFS to ordinary dividend coverage ratio is improved to 1.17x from 1.10x
- Pro forma capital coverage remains strong

1. *All values based on the €/£ exchange rate as at 10 July 2014 of 1.26 being the forward rate at the time of signing.*

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Agenda

Interim 2014 results trading update	**Tim Tookey**
Execution of our strategy	**Andy Briggs**
Q&A	

Interim 2014 results trading update

Basis of preparation

Lombard

- Reported as “discontinued operations”
- Excluded from operating results
- Remains within the Group’s capital measures

OLAB business

- Transferred to Heritage division from International division
- Comparatives restated accordingly

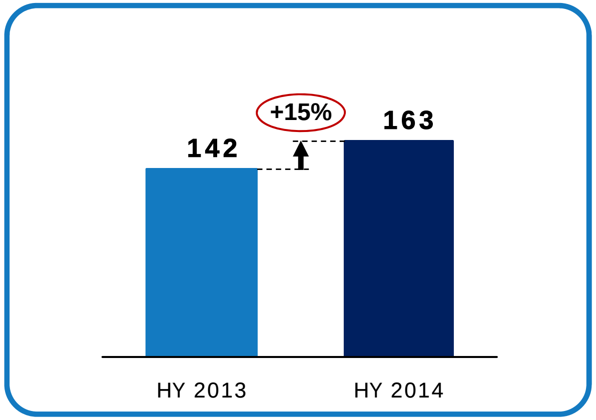
Results presented using reporting framework set out in March 2014

- Asset business vs. Insurance businesses
- Cash return ratio

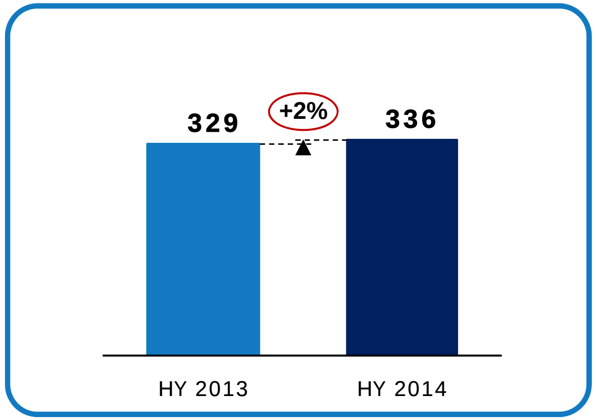
Interim 2014 financial highlights

Strategy delivering strong cash growth

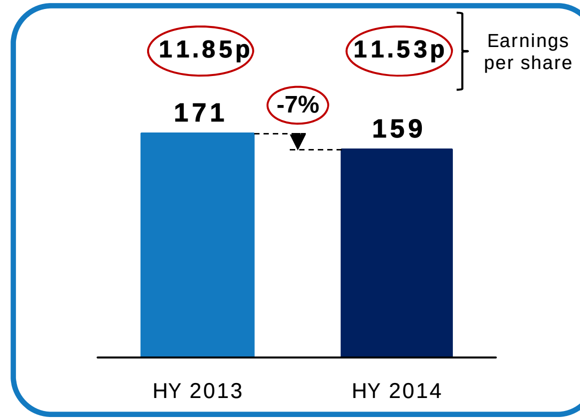
Sustainable free surplus, £m



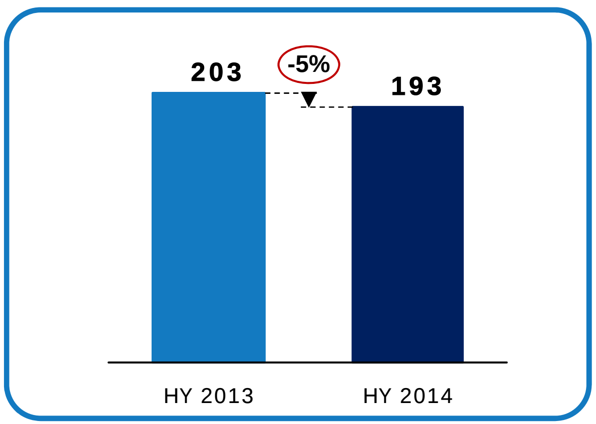
Free surplus expected return, £m



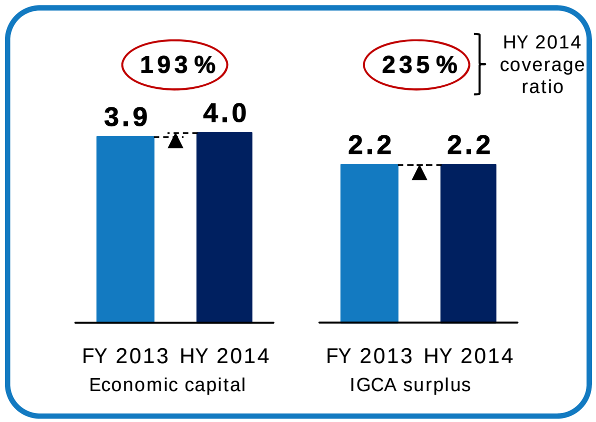
IFRS based operating profit, £m



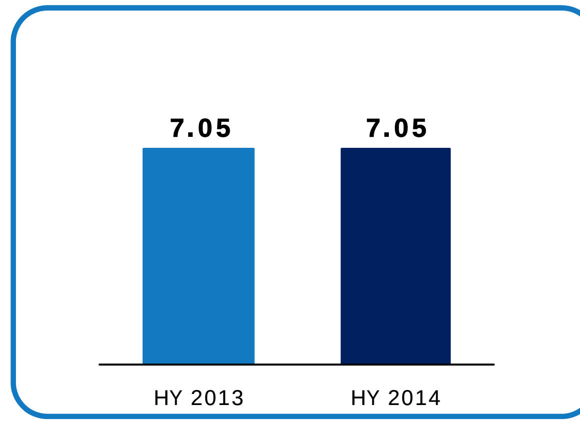
MCEV operating profit, £m



Group capital base, £bn



Dividend, pence per share



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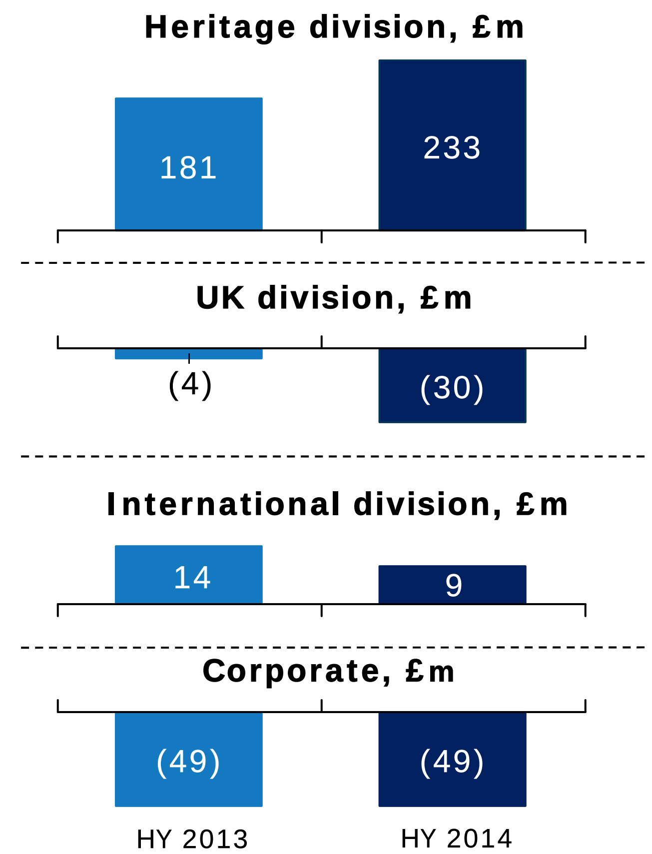
Sustainable free surplus

Continued strong cash generation

Sustainable free surplus

£m	HY 2013	**HY 2014**	
Expected return from in-force business	329	**336**	
Investment in new business	(98)	**(88)**	
Underlying free surplus	231	**248**	**+7%**
Development costs	(19)	**(21)**	
Coupon on debt	(45)	**(47)**	
Operating experience variances	(14)	**(17)**	
Other operating variances	(1)	**4**	
Other income and charges	(10)	**(4)**	
Sustainable free surplus	142	**163**	**+15%**
Cash return[1]	19.5%	**21.1%**	

Divisional performance



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

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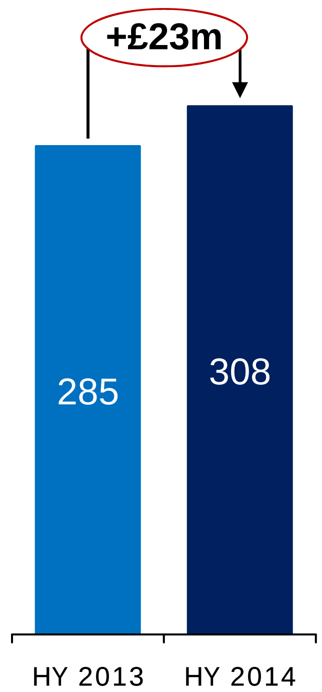
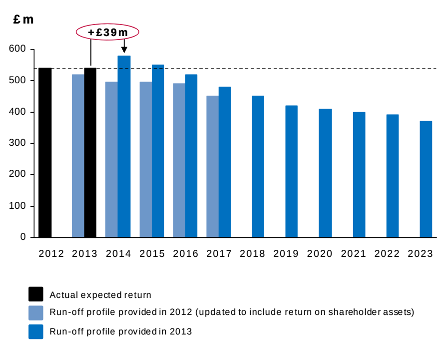
UK & Heritage expected return
Free surplus emergence in line with 2014 expectations

Free surplus emergence

UK & Heritage emergence, £m



Recap: March presentation[1]



Initiatives delivered

- As expected the run-off of the in-force book has been more than offset by:
  - Heritage initiatives
    - Phase 1 of with-profits annuity reallocation
    - FLI asset recaptures
  - UK division 2013 new business growth

Update on future plans

- Agreement on Phase 2 of with-profits annuity reallocation has been reached, subject to regulatory non-objection
- Preparations for the 2014 Schroders and FLI asset transfers are progressing well
- Combined free surplus expected return benefits of c.£10m from 2015 onwards

1. *Chart as published on 18 March 2014 and not restated here for transfer of non-core OLAB business.*

Insurance businesses: Heritage
Heritage activities deliver strong underlying free surplus growth

Heritage

Underlying free surplus, £m

	HY 2013	HY 2014
Expected return	236	**252**
INB	(36)	**(19)**
Underlying free surplus	200	**233**

+£17m

Non-core OLAB contribution, £m

£m	HY 2013	HY 2014
Expected return	13	**13**
INB	(16)	**(1)**
Underlying free surplus	(3)	**12**

+£15m

H1 2014 performance drivers

- Expected return up 7% driven by:
  - Delivery of phase 1 with-profit annuity reallocation
  - FLI asset recaptures
  - Positive 2013 economic factors
- The non-core OLAB business is not a material factor in the emergence of H1 2014 Heritage free surplus
- Investment in new business is down 47%, reflecting the closure of the non-core OLAB business to new business in Q3 2013

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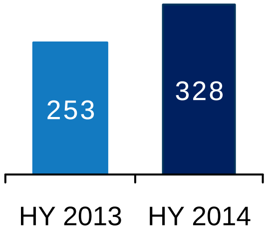
Asset-based businesses: Corporate Benefits
New business growth driving positive operating leverage

Corporate Benefits

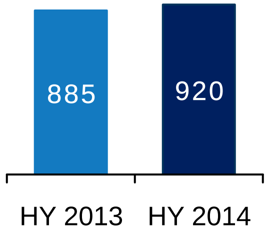
Underlying free surplus, £m

	H1 2013		H2 2013		**H1 2014**	
Income	55	*62 bps*	55	*62 bps*	**60**	***60 bps***
Outgoings	(47)	*(53) bps*	(47)	*(53) bps*	**(47)**	***(47) bps***
Other[1]	2		(7)		**1**	
Underlying free surplus	10		1		**14**	

APE, £m

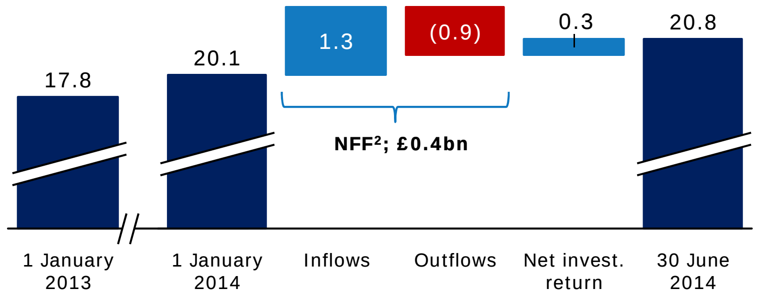


Regular premiums, £m



Drivers of performance

Assets under administration, £bn



- Income growth driven by higher AuA
- Positive net fund flows of £0.4bn in H1, 542 employers across 648 schemes enrolling in H1, a net increase of 108,000 new members
- Strong auto-enrolment sales growth with APE up 30% and regular premiums received of £920m, up 4%
- VNB £1m lower reflecting expected margin compression on auto-enrolment business

1. *Other principally includes movements on required capital, non-unit reserves and tax.*
2. *Net fund flows is the net of all cash inflows and outflows in assets under administration.*

Insurance businesses: Protection

Strong sales growth; satisfactory cash performance

Protection

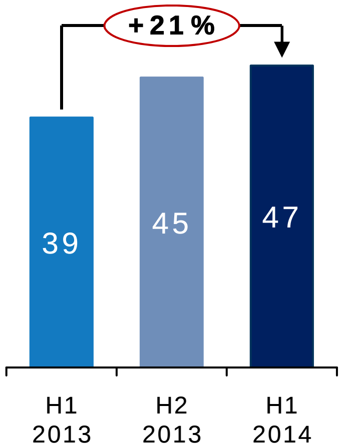
Underlying free surplus, £m

	H1 2013	H2 2013	**H1 2014**
Expected return	14	16	**15**
INB	(21)	(23)	**(22)**
Underlying free surplus	(7)	(7)	**(7)**

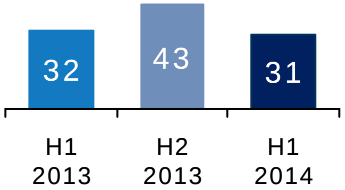
- Stable performance delivered across all periods
- Marginal increase in INB since H1 2013 achieved through targeted financial reinsurance

New business

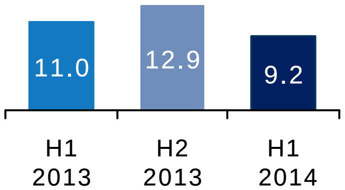
APE, £m



VNB, £m



PVNBP margin, %



- Strong Protection sales, up 21%, driven by individual protection proposition
- Increased mix of group life business and increased competitive pressure in the individual protection market leave VNB in line with H1 2013
- H2 2013 included benefit of restructured reinsurance treaties

Insurance businesses: Retirement Income
Volumes maintained; a more competitive proposition

Retirement Income

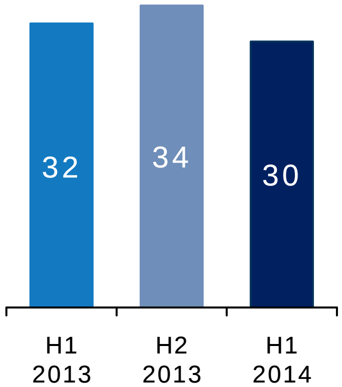
Underlying free surplus, £m

	H1 2013	H2 2013	**H1 2014**
Expected return	5	5	**6**
INB	3	(9)	**(12)**
Underlying free surplus	8	(4)	**(6)**

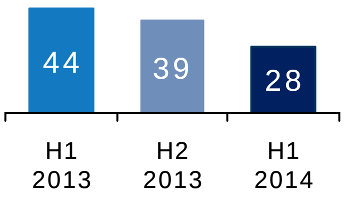
- Underlying free surplus reduction reflecting continued pricing activity in 2013 to improve competitiveness
- Developing and investing in new retirement income model to drive longer-term growth in cash generation

New business

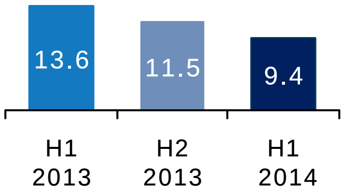
APE, £m



VNB, £m



PVNBP margin, %



- Limited immediate impact from March Budget:
  - 53% of annuity volumes from GAO product
  - Non-GAO experience remains better than expectations
- Margin trend expected from increased competitiveness; modest further ongoing compression

Insurance businesses: FPI

Continuing challenging markets but re-platforming on track

FPI

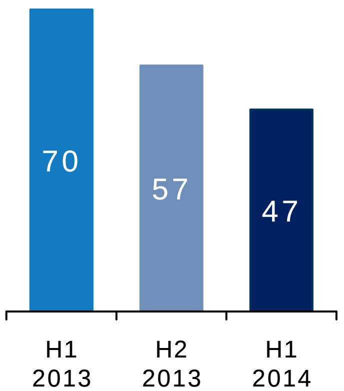
Underlying free surplus, £m

	H1 2013	H2 2013	**H1 2014**
Expected return	44	33	**28**
INB	(24)	(15)	**(14)**
Underlying free surplus	20	18	**14**

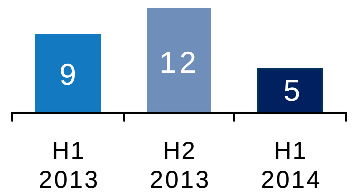
- Expected return reduction driven by lower new business volumes in 2013
- Lower surplus emergence partially offset by reduced INB as 2014 volumes reduce
- In light of recent trading performance, foreign exchange and the potential change in biting capital constraint, the interim dividend has been passed and full year dividend remains under review

New business

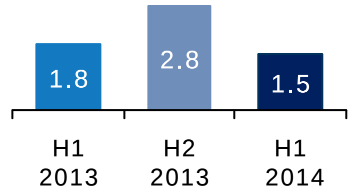
APE, £m



VNB, £m



PVNBP margin, %



- APE down 33% due to continuing difficult market conditions; Q2 up 4% on Q1
- VNB lower at £5m reflecting competitive environment across Asia and the Middle East and challenging markets, particularly in Hong Kong, where the unit-linked market is down by c.50%[1]
- Platform development progressing well; expected re-platforming of new business in Q3 2014

1. Q1 2014 v Q1 2013.

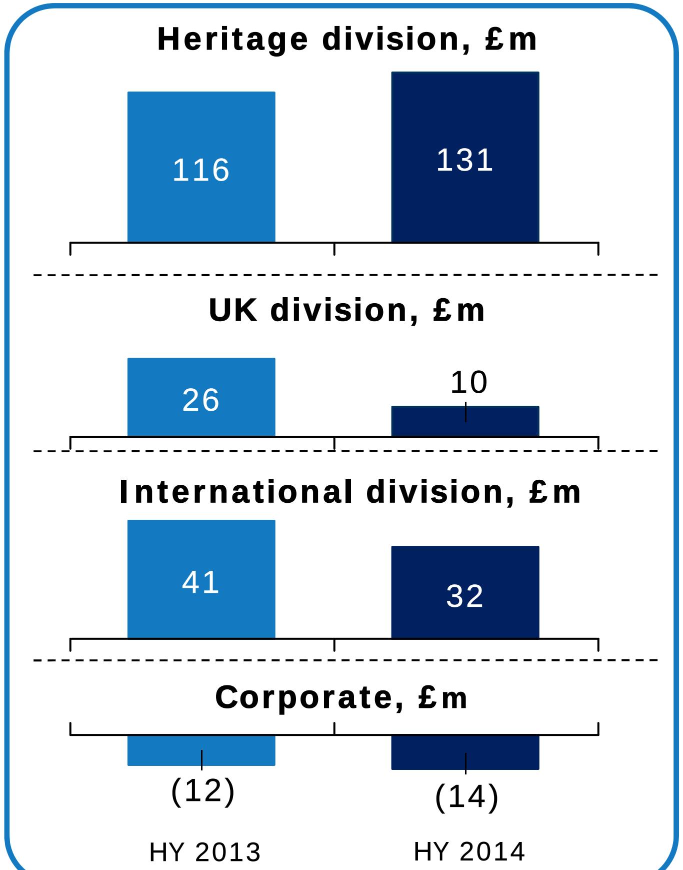
IFRS based operating profit

Results in line excluding one-offs

Group IFRS based operating profit

£m	HY 2013	HY 2014	
In-force surplus	282	**275**	
Expected return on shareholder assets[1]	29	**41**	
Finance costs[1]	(60)	**(60)**	
New business strain	(39)	**(41)**	
Development costs	(25)	**(26)**	
Principal reserving changes & one-offs	2	**(13)**	
Other income and charges	(18)	**(17)**	
IFRS based operating profit before tax	171	**159**	**-7%**

IFRS based operating profit contribution



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

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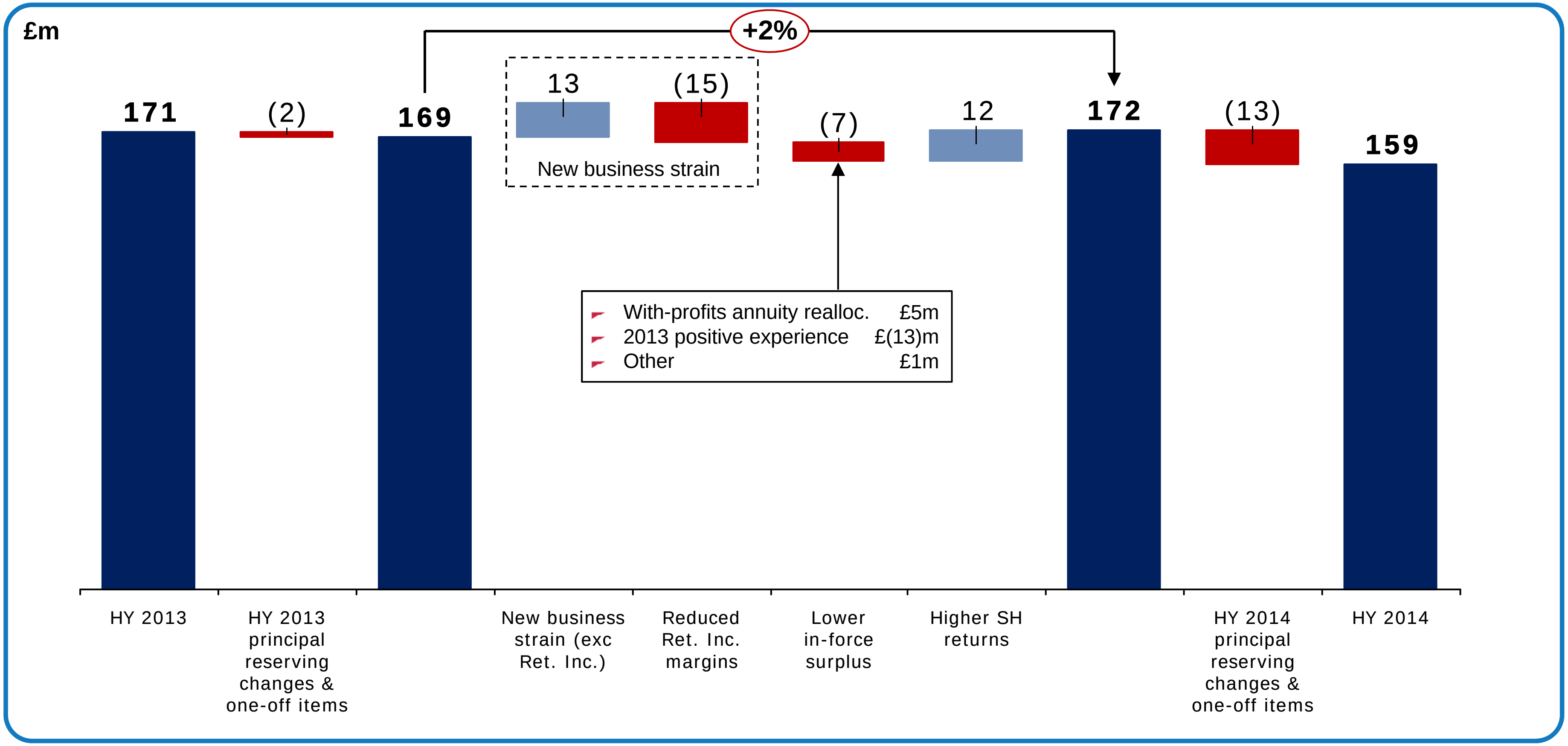
IFRS based operating profit

Robust underlying earnings despite lower annuity margins

Group IFRS based operating profit



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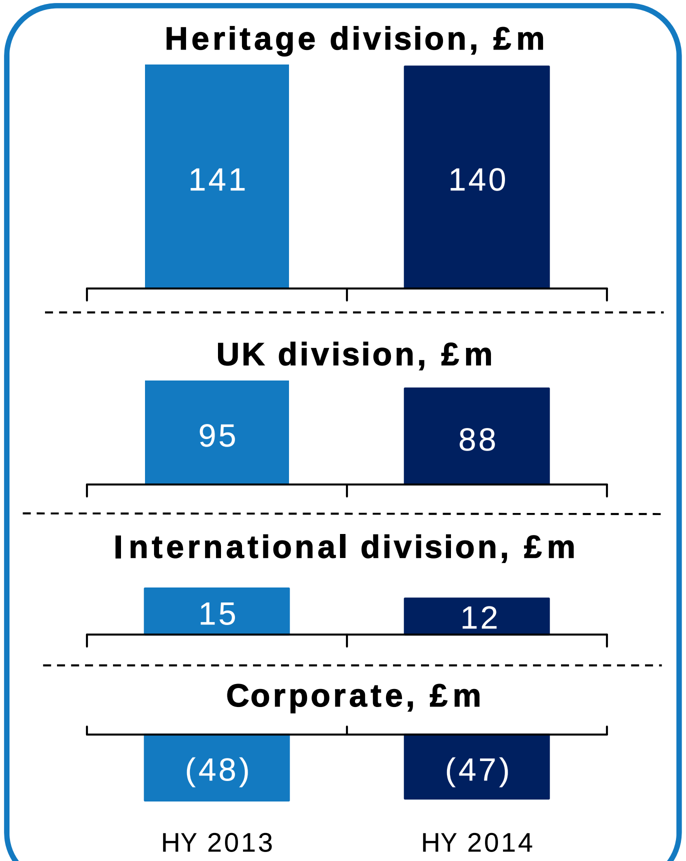
MCEV operating profit
Improving economics constrained by lower VNB

Group MCEV operating profit

£m	HY 2013	HY 2014	
Expected existing business contribution	108	**124**	+15%
Value of new business	85	**65**	-24%
Development costs	(25)	**(22)**	
Operating experience variances	(13)	**-**	
Other operating variances	30	**3**	
Operating assumption changes	34	**43**	
Other income and charges	(16)	**(20)**	
MCEV operating profit before tax	203	**193**	-5%
ROEV	6.5%	**6.4%**	

MCEV operating profit contribution



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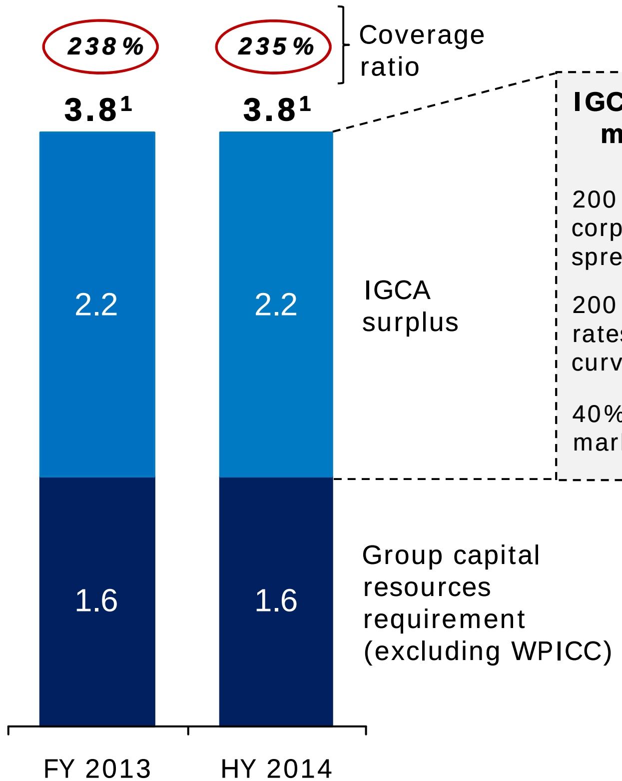
Capital and cash
Strong capital position supporting cash return

IGCA surplus and sensitivities to market movements

£bn



IGCA surplus sensitivities to market movements, £bn

200 bps increase in corporate bond spreads[2]	**(0.6)**
200 bps rise in interest rates across the yield curve	**0.2**
40% fall in equity markets[3]	**(0.2)**

Strong capital position

- Estimated IGCA surplus of £2.2bn
- Capital base remains resilient to market movements
- Estimated economic capital surplus of £4.0bn[4] (coverage ratio of 193%)

Cash and dividends

- £200m new syndicated loans mandate agreed in May 2014 of which £139m invested by 30 June 2014
- Available shareholder assets of £917m
- Total H1 2014 dividends from subsidiaries up to Group holding companies of £120m
- Interim 2014 dividend maintained at 7.05 pence per share

1. *Total capital is the sum of IGCA surplus and Group capital resource requirements (excluding WPICC); coverage ratio also excludes WPICC; HY 2014 WPICC: £4.3bn (FY 2013: £4.2bn). FY 2013 surplus is before payment of £200 million dividend to shareholders. Surplus position includes Lombard.*
2. *Of which one third is assumed to be defaults.*
3. *Includes a 30% fall in property markets.*
4. *Estimated position and including Lombard.*

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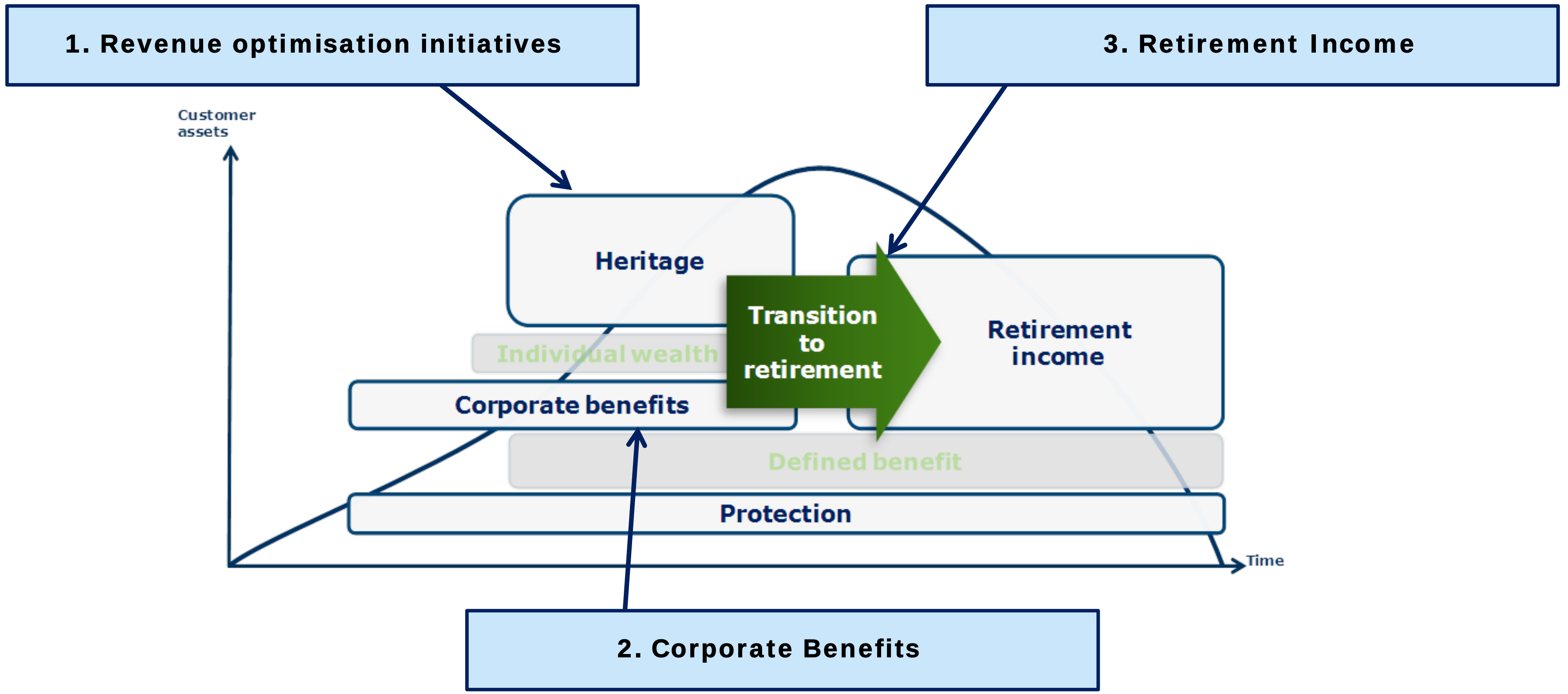
Agenda

Interim 2014 results trading update	Tim Tookey
Execution of our strategy	Andy Briggs
Q&A	

Strong execution of our strategy

Excellent market positions to drive growing cash, and hence support progressive dividend



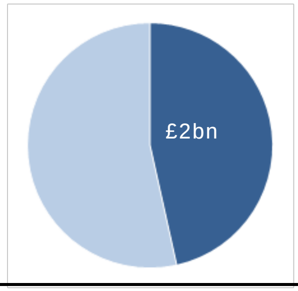
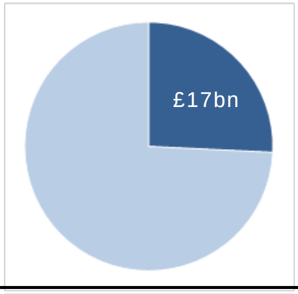
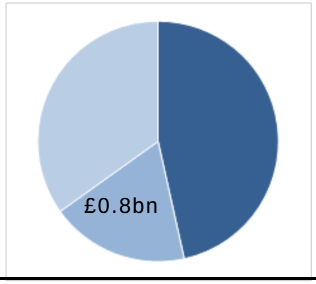
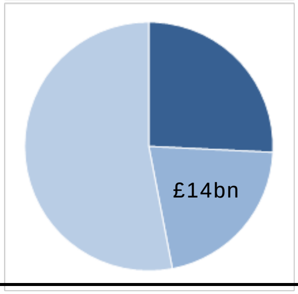
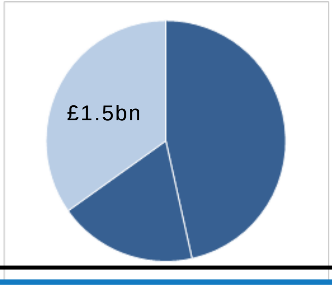
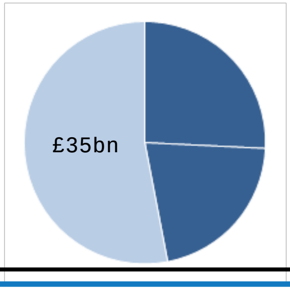
Ambition is to grow cash to more than offset in-force run off [1]:

- c. £30m p.a. in the shorter term
- c. £10m p.a. in the longer term

1. As disclosed in FY 2013 results on 17 March 2014.

Revenue optimisation initiatives

Offset the steeper run off in the shorter term

Period	Annuities in WPFs – total £4.3bn[1]	Asset Migration – total £66bn[1]		Combined impact
up to 2013			£17bn of fixed income assets transferred to FLI	**Impact on SFS: +£16m p.a. from 2014**
2014			£12bn of assets transferring to Schroders; £2bn assets transferring to FLI	**Impact on SFS: +£10m p.a. from 2015**
2015 onwards			£35bn of assets still available for review	

Completed **In progress** **Remaining**

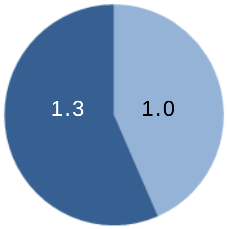
1. *This total represents the sum of the components.*

Corporate Benefits

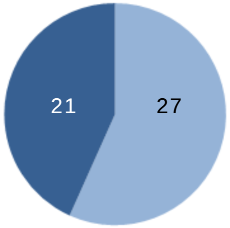
1 in 7 DC savers; Corporate market expected to triple over the next decade

Pensions customers

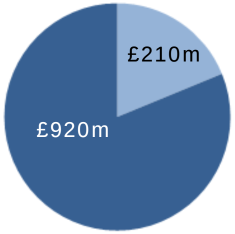
2.3m customers



£48bn AUA



£1.1bn in-force premium



Corporate Benefits
Heritage

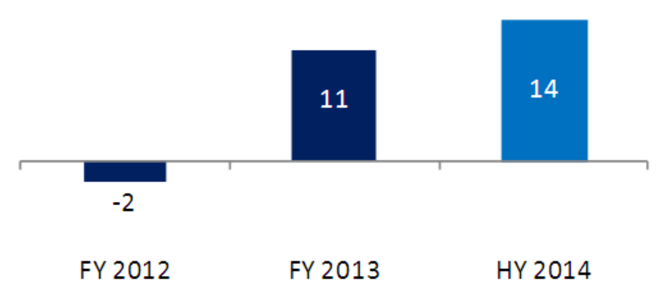
Corporate Benefits

Key Initiatives

- 648 schemes auto-enrolled
- 108,000 net increase in members
- Master Trust launched
- Direct offer transfers

Net fund flows of £0.4bn

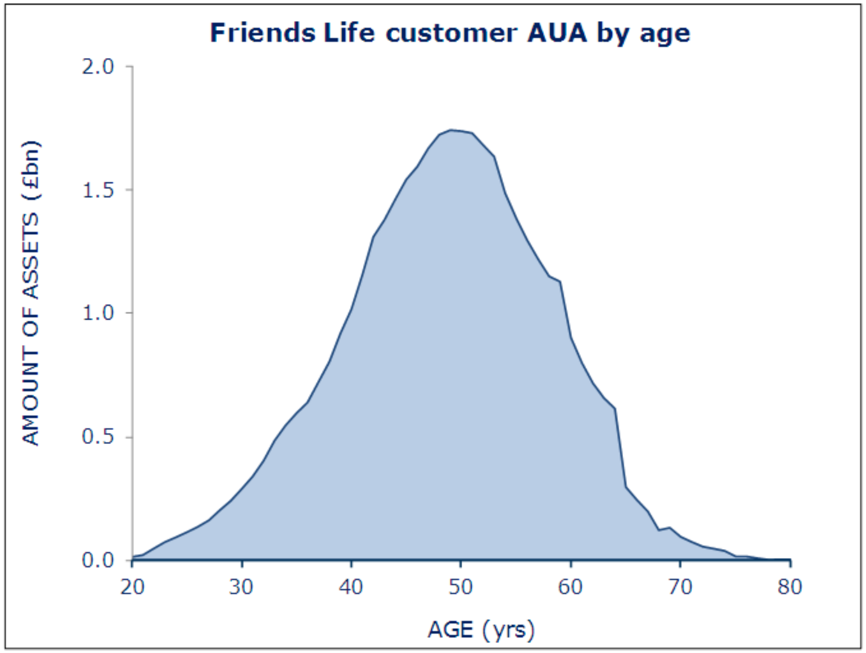
Corporate Benefits underlying SFS, £m



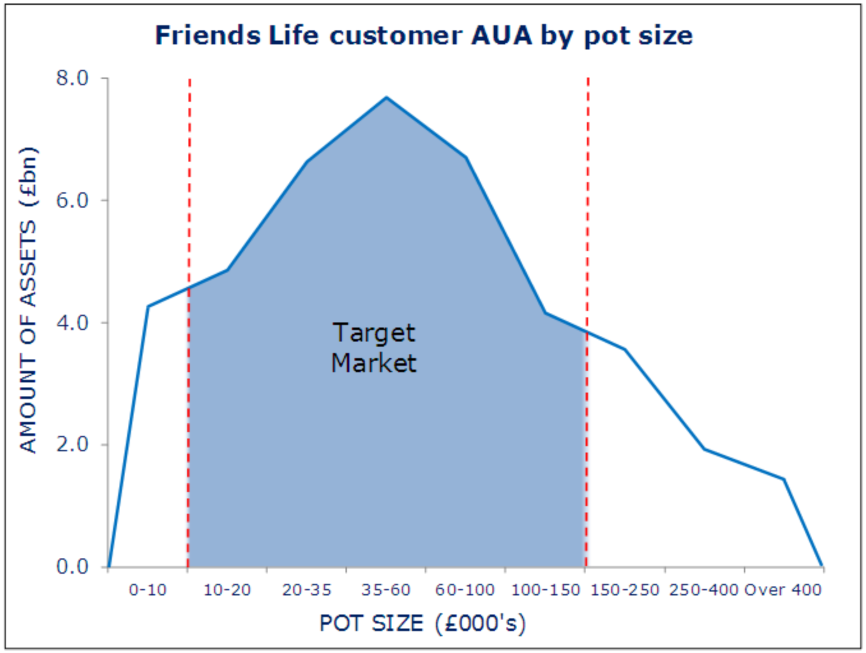
Retirement Income

1 in 9 maturing pensions, market expected to triple over the next decade

Substantial flow of FL assets coming into retirement [1]



Target existing mass affluent customer base - mostly non-IFA advised [2]



Key areas of focus: Customer Engagement; Platform / Product; Asset Management

1. *Approximation based on an estimate of the Corporate Benefits and Heritage pensions data.*
2. *Approximation based on an estimate of the group pensions data in Corporate Benefits and Heritage.*

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Retirement Income – Customer engagement

Significant activity driving good annuity sales

Customer research[1]

- Majority of mass affluent customers who do not have an advisor would not want to pay more than £500 for advice
- Two thirds not aware of the potential tax implications
- Significant majority of customers in US and Australia decumulate with their accumulation provider

Actions taken

Telephony

- Over 2,000 calls per month
- Retirement engagement teams, including QCF level 4

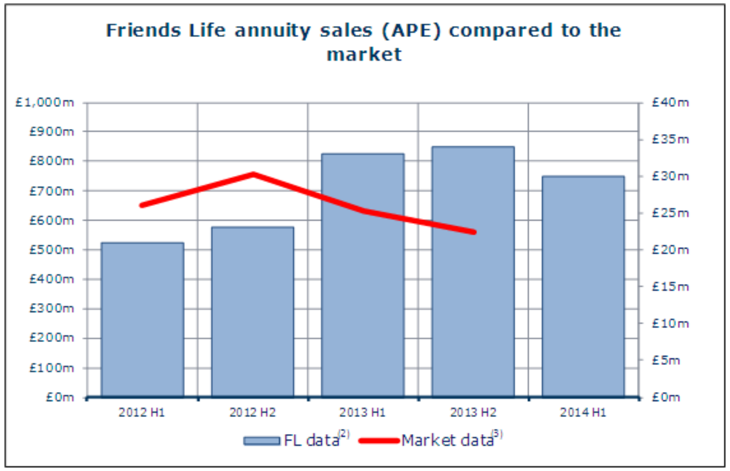
Direct Mail

- Contacted 50,000 customers through direct mail in H1 2014
- Plan to contact up to 100,000 customers in H2 2014

Online

- Retirement planning hub live
- Extending customer interface – single view of all FL holdings
- Building tax guidance

Evidenced by good annuity sales in Q2



- Annuity market declining, with more customers deferring retirement
- Good FL annuity sales with flat volumes in Q1 and Q2 as a result of strong customer engagement
- Annuity margins lower, but still attractive and profitable
- GAOs remain about half of annuity sales

Our strong customer engagement will be key in the new world of retirement and fits well with the new independent government guidance

1. *Based on in-house customer research and the Impact of the Budget syndicated study by Ignition House Ltd.*
2. *FL data includes Long Term Care.*
3. *Source for market data is the ABI, market annuity sales for Q214 are not available until August 2014.*

Retirement Income – Platform / Product

Further developing our market leading platform, alongside our annuities

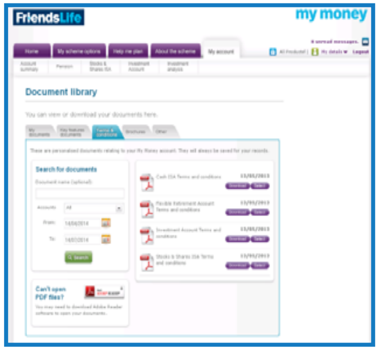
Customer research[1]

- Three quarters want the security of a fixed income but only a quarter intend to buy an annuity
- Simple product
- Need to be able to manage their income tax position

Key actions

- Extending existing corporate wrap platform to individual wrap, which will provide the following functionality:
  - Pensions with a tax free cash facility
  - New ISA
  - Flexible income drawdown
  - Cash savings account
  - Unwrapped investments

Existing corporate wrap platform



Mercer Workplace Savings

MERCER

- One of three selected partners with Mercer Workplace Savings
- A key driver of our 30% increase in Corporate Benefits H1 14 sales

Strong complementary benefits between Heritage, Corporate Benefits and Retirement Income

1. *Based on in-house customer research and the Impact of the Budget syndicated study by Ignition House Ltd.*

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Retirement Income – Asset Management model

Best of breed is a competitive advantage

Customer research[1]

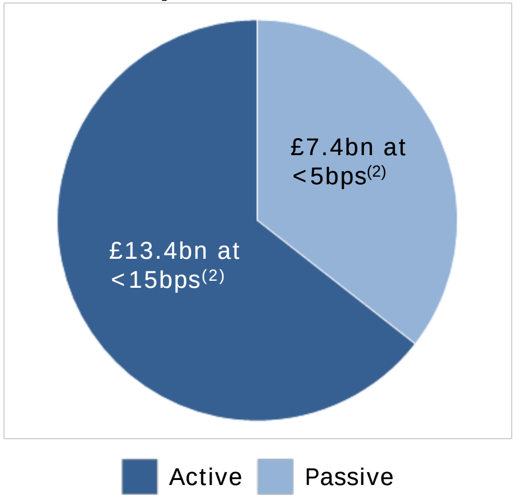
- Many customers are unaware of what their pension is invested in
- Want a safe investment choice at retirement
- No demand for high alpha funds

Key actions

- Schroders partnership – developing fund options
- Developing Friends Life default funds - 49% of schemes that have auto-enrolled with Friends Life are using My Future as their default fund

Where customers' assets are currently invested

Corporate Benefits



- Margin passed on to external asset managers is low

In-house multi-asset manager not necessary for us to capture value and succeed

1. Based on in-house customer research and the Impact of the Budget syndicated study by Ignition House Ltd.
2. Average investment charges.

Summary
Strong execution of our strategy

Cash today – building towards 1.3x coverage

- Lombard disposal and increased share buy-back improves 2013 pro forma dividend coverage ratio to 1.17x[(1)]
- SFS up 15% in H1 2014. On track for low double digit percentage FY 2014 SFS growth

Cash tomorrow – growing to support progressive dividend

- Revenue optimisation initiatives to add a further £10m p.a. from 2015, more to come
- Corporate Benefits – strong net fund flows and underlying cash growth from £11m in FY 2013 to £14m in H1 2014
- Retirement Income – strong customer engagement driving good annuity sales

  – further developing our market leading platform

Confident of attractive growth, largely from our existing customer base

1. *The pro forma SFS to dividend coverage ratio is restated assuming: Lombard is excluded from the 2013 Group results; 2013 interim and final dividends have been recalculated excluding the shares bought back; the share buy-back is assumed to have happened immediately at a share price of 332.1 pence, the 10 day rolling average share price as at 4 August 2014, which equates to 95 million shares.*

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Agenda

Interim 2014 results trading update	Tim Tookey
Execution of our strategy	Andy Briggs
Q&A	

Appendices

Group underlying free surplus

7 % growth in underlying free surplus

Group underlying free surplus

HY 2014

£m	Insurance: Prot.	Ret. Income	Heritage	FPI	Insurance total	Asset-based	Corporate Benefits	Total	
Expected return	15	6	252	28	301	Income	60		
INB	(22)	(12)	(19)	(14)	(67)	Outgoings	(47)		
						Other[1]	1		
Underlying free surplus	(7)	(6)	233	14	234	Underlying free surplus	14	248	+ 7 %

HY 2013

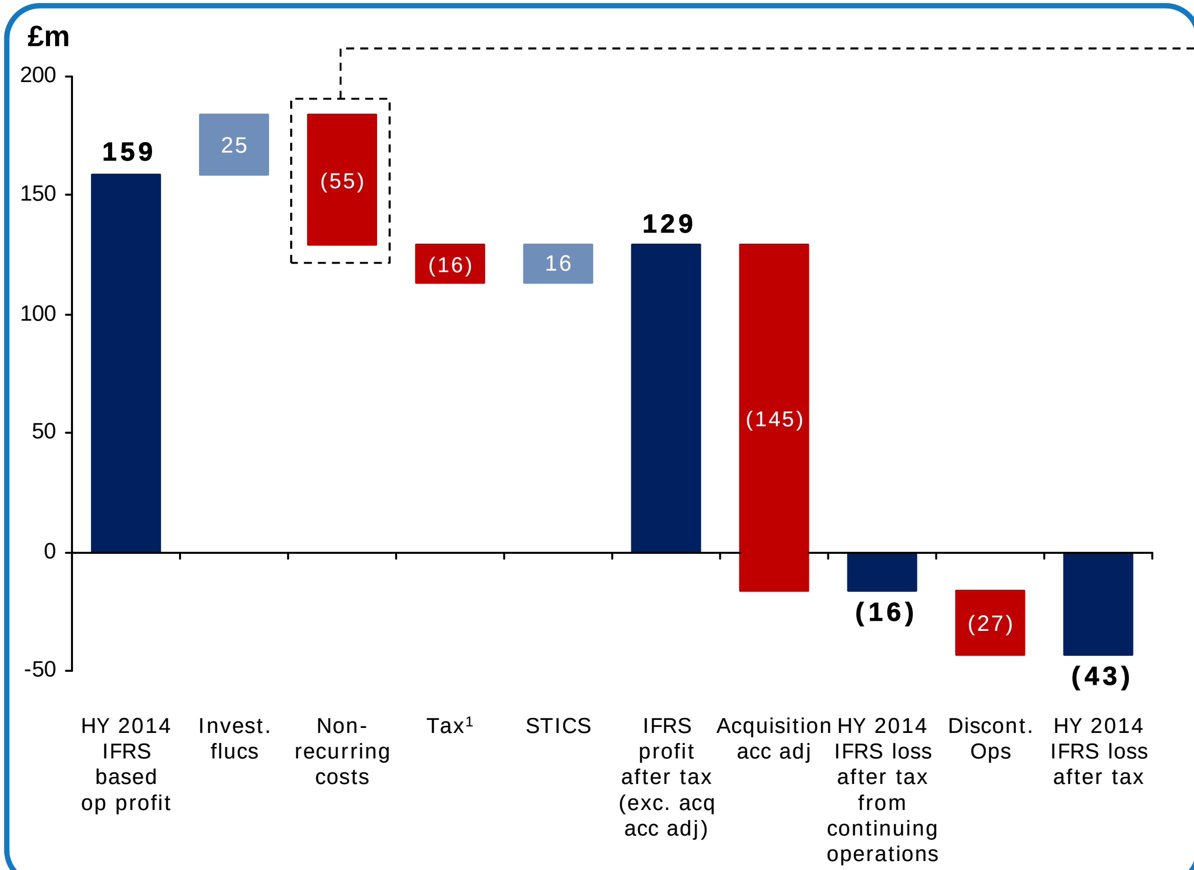
£m	Insurance: Prot.	Ret. Income	Heritage	FPI	Insurance total	Asset-based	Corporate Benefits	Total
Expected return	14	5	236	44	299	Income	55	
INB	(21)	3	(36)	(24)	(78)	Outgoings	(47)	
						Other[1]	2	
Underlying free surplus	(7)	8	200	20	221	Underlying free surplus	10	231

1. *Other principally includes movements on required capital, non-unit reserves and tax.*

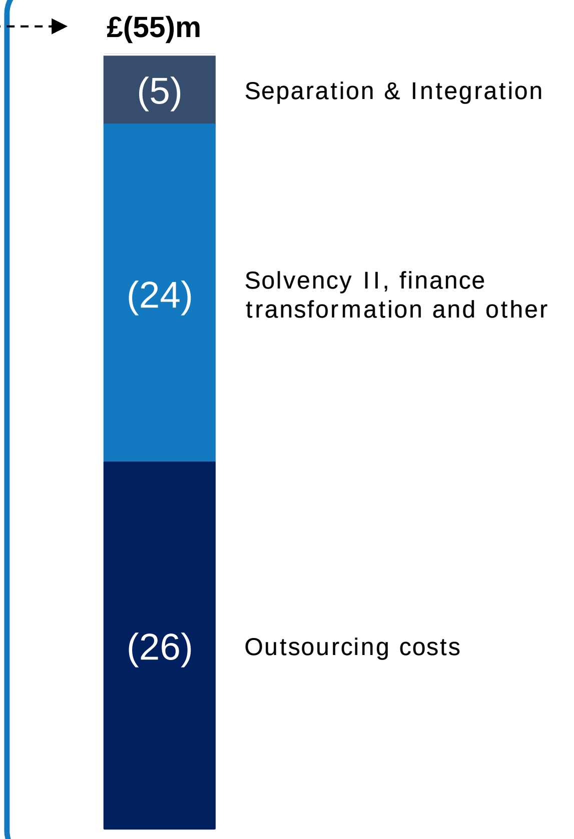
IFRS result after tax

Reflects expected outsourcing investment and Solvency II costs

Group IFRS result after tax



Group non-recurring costs

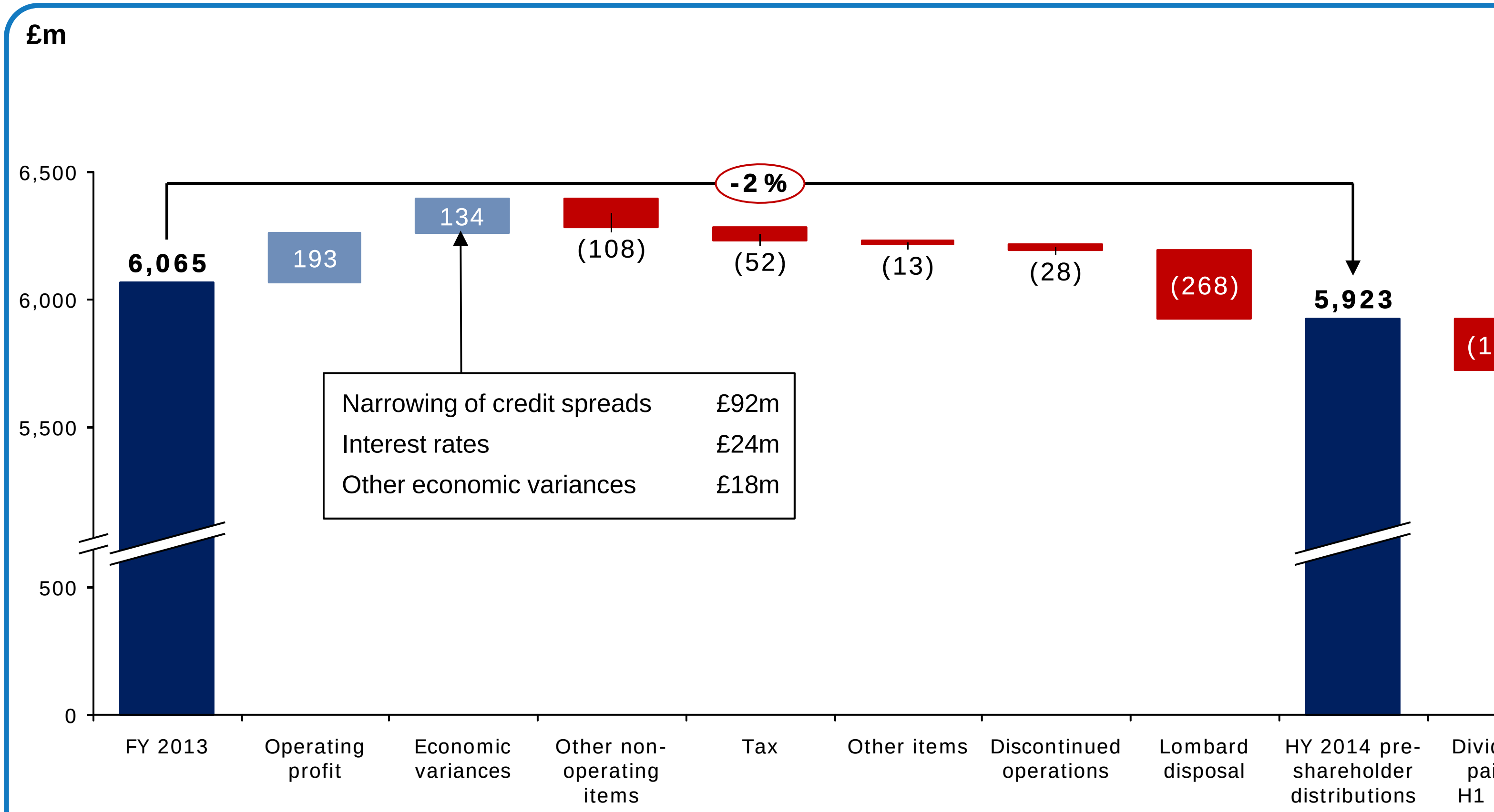


1. *Excluding deferred tax on amortisation of acquisition accounting adjustments.*

MCEV development to 30 June 2014

Dividend cost offset by operating earnings

Change in net Group MCEV

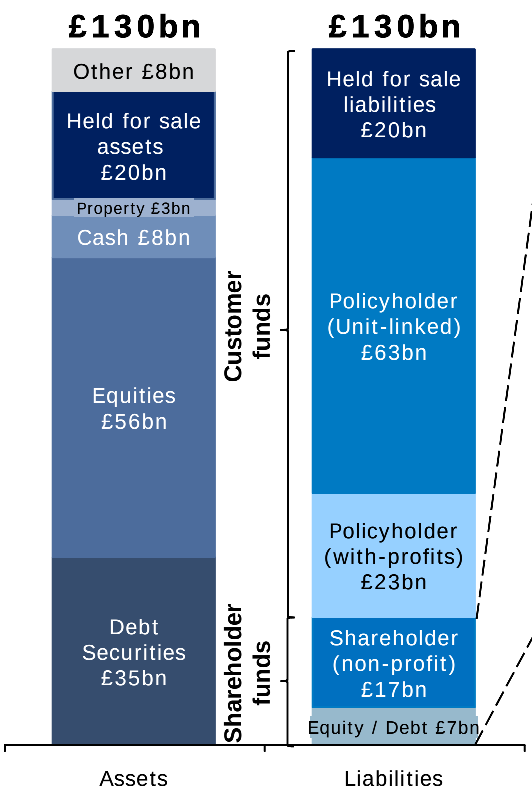


£m	HY 2014
UK	1,485
Heritage	4,098
FPIL	494
Lombard	310
Corp.	(663)
Total	5,724

Balance sheet
Continued high asset quality

Overview of balance sheet

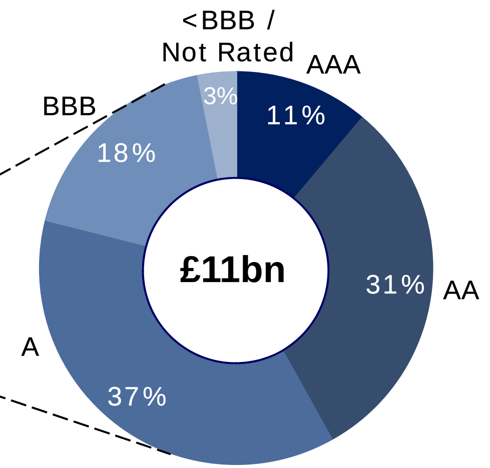
HY 2014 IFRS balance sheet



Shareholder assets and assets backing non-profit business

	£bn	%
Cash	3	19%
Government bonds	2	13%
Corporate bonds	11	68%
Total investments	**16**	**100%**
Intangible assets	3	
Reinsurance assets	3	
Other net receivables	2	
Total shareholder asset exposure	**24**	

Rating of £11bn corporate bond assets



- 97% of corporate bond assets at investment grade
- No credit defaults in 2014
- c.£440m shareholder share of default provisions; a haircut equivalent to 50% of spread over risk free

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Group restatement
Lombard treated as discontinued operation

£m	HY 2013			FY 2013		
IFRS operating profit	Group As reported	Lombard	Group Restated	Group As reported	Lombard	Group Restated
New business strain	(55)	(16)	(39)	(97)	(31)	(66)
In-force surplus	319	37	282	541	68	473
Long-term investment return	(31)	-	(31)	(69)	-	(69)
Principal reserving changes and one-off items	2	-	2	164	-	164
Development costs	(26)	(1)	(25)	(50)	(3)	(47)
Other income and charges	(18)	-	(18)	(53)	-	(53)
IFRS based operating profit before tax	191	20	171	436	34	402
MCEV operating profit						
Value of new business	97	12	85	204	25	179
Expected existing business contribution	126	18	108	248	33	215
Operating experience variances	(31)	(18)	(13)	(57)	(25)	(32)
Operating assumption changes	34	-	34	19	(82)	101
Other operating variances	30	-	30	178	6	172
Development costs	(26)	(1)	(25)	(50)	(3)	(47)
Other income and charges	(16)	-	(16)	(53)	-	(53)
Operating profit/(loss) before tax	214	11	203	489	(46)	535
SFS						
Expected return from in-force business	351	22	329	682	44	638
Investment in new business	(110)	(12)	(98)	(213)	(24)	(189)
Underlying free surplus generation	241	10	231	469	20	449
Development costs	(20)	(1)	(19)	(41)	(2)	(39)
Coupon on debt	(45)	-	(45)	(92)	-	(92)
Operating experience variances	(17)	(3)	(14)	25	(9)	34
Other operating items	(2)	(1)	(1)	2	(3)	5
Other income and charges	(10)	-	(10)	(32)	-	(32)
Sustainable free surplus generation	147	5	142	331	6	325

Impact of Lombard disposal to Group financials

£m	FY 2013			HY 2013			FY 2012		
	Group (as reported)	Lombard	Group (restated)	Group (as reported)	Lombard	Group (restated)	Group (as reported)	Lombard	Group (restated)
SFS	331	6	325	147	5	142	300	(4)	304
Dividends paid to Group	NA	13	NA	NA	4	NA	NA	4	NA
VNB	204	25	179	97	12	85	194	45	149
MCEV operating profit/(loss)	489	(46)	535	214	11	203	382	104	278
MCEV operating EPS (p)[1]	26.22	(4.31)	30.53	11.28	0.10	11.38	18.83	4.93	13.90
Embedded value	6,065	603	5,462	5,980	667	5,313	5,831	620	5,211
IFRS based operating profit	436	34	402	191	20	171	274	28	246
IFRS operating EPS (p)[1]	31.01	0.63	30.38	13.26	0.68	12.58	19.84	0.90	18.94
Assets under administration (£bn)	117.6	20.2	97.4	119.9	20.1	99.8	114	18.9	95.1
IFRS net assets	5,229	347	4,882	5,233	380	4,853	5,377	367	5,010

1. *Diluted earnings per share.*

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Non-core OLAB restatement

£m	HY 2013					FY 2013				
	As reported			Restated		As reported			Restated	
IFRS operating profit	FPI	Heritage	Non-core OLAB	FPI	Heritage	FPI	Heritage	Non-core OLAB	FPI	Heritage
New business strain	(24)	(8)	(13)	(11)	(21)	(40)	(25)	(16)	(24)	(41)
In-force surplus	79	153	24	55	177	140	264	40	100	304
Long-term investment return	-	(37)	-	-	(37)	(1)	(84)	-	(1)	(84)
Principal reserving changes and one-off items	3	(3)	3	-	-	15	141	18	(3)	159
Development costs	(4)	(2)	(1)	(3)	(3)	(10)	(7)	(3)	(7)	(10)
Other income and charges	-	-	-	-	-	(2)	2	-	(2)	2
IFRS based operating profit before tax	54	103	13	41	116	102	291	39	63	330
MCEV										
Value of new business	4	(8)	(5)	9	(13)	14	(19)	(7)	21	(26)
Expected existing business contribution	9	106	1	8	107	19	211	3	16	214
Operating experience variances	1	(14)	(1)	2	(15)	13	(12)	10	3	(2)
Operating assumption changes	-	34	-	-	34	14	93	3	11	96
Other operating variances	-	30	1	(1)	31	9	127	11	(2)	138
Development costs	(4)	(2)	(1)	(3)	(3)	(10)	(7)	(3)	(7)	(10)
Other income and charges	-	-	-	-	-	(2)	-	-	(2)	-
Operating profit/(loss) before tax	10	146	(5)	15	141	57	393	17	40	410
MCEV	608	3,928	96	512	4,024	602	4,106	95	507	4,201
SFS										
Expected return from in-force business	57	223	13	44	236	97	442	20	77	462
Investment in new business	(40)	(20)	(16)	(24)	(36)	(61)	(30)	(22)	(39)	(52)
Underlying free surplus generation	17	203	(3)	20	200	36	412	(2)	38	410
Development costs	(4)	(1)	(1)	(3)	(2)	(9)	(7)	(2)	(7)	(9)
Operating experience variances	1	(18)	1	-	(17)	18	27	18	-	45
Other operating items	(1)	(2)	2	(3)	-	(9)	(1)	-	(9)	(1)
Other income and charges	-	-	-	-	-	(2)	-	-	(2)	-
Sustainable free surplus generation	13	182	(1)	14	181	34	431	14	20	445

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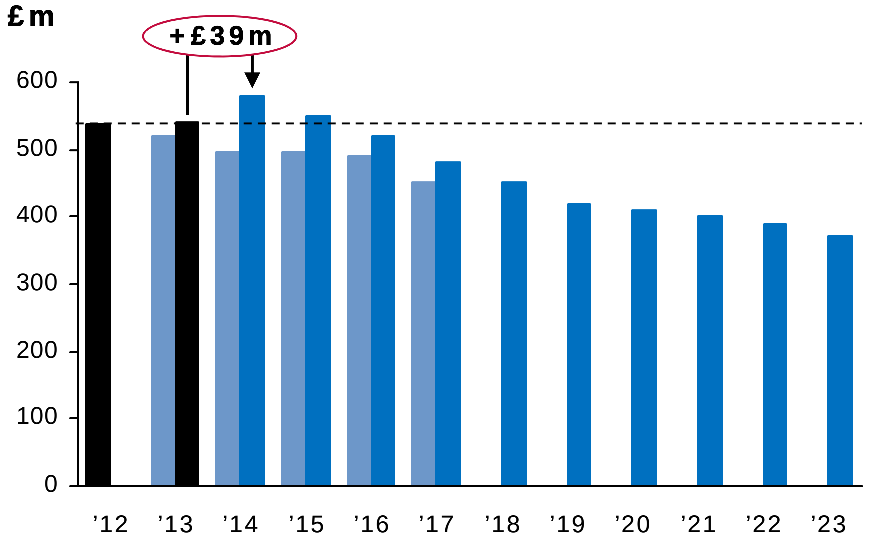
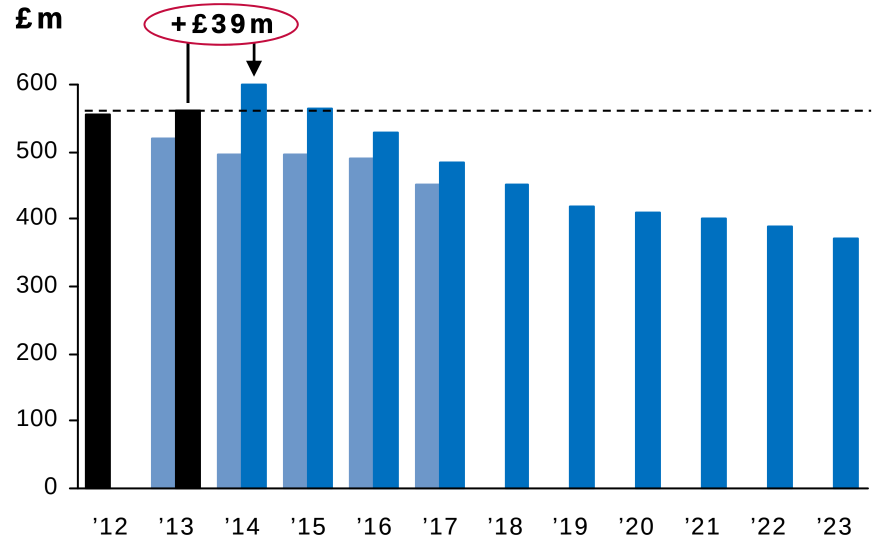
UK & Heritage expected return

Free surplus emergence run-off restated to include non-core OLAB

Free surplus emergence as reported 18 March 2014



Free surplus emergence restated for non-core OLAB business



Actual expected return

Run-off profile provided in 2012 (updated to include return on shareholder assets)[1]

Run-off profile provided in 2013[1]

£m	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
As reported	541	580	550	520	480	450	420	410	400	390	370
Non-core OLAB	20	20	15	10	5	-	-	-	-	-	-
Restated	561	600	565	530	485	450	420	410	400	390	370

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