9 May 2014

Friends Life Group Limited
First quarter 2014
Interim Management Statement

Continued strong UK performance; cash emergence reconfirmed

Q1 2014 trading update

- UK division VNB maintained at £35 million, with strong APE growth of 42% to £201 million:
  - Good performance in Corporate Benefits business with positive net inflows of £0.2 billion and VNB growth of 33% to £4 million. Good auto-enrolment experience, with 187 schemes enrolling in the quarter contributing to 70,000 net increase in scheme members, regular premiums received up 6% to £468 million;
  - Strong performance in Protection with a 33% growth in both VNB and APE to £16 million and £24 million respectively;
  - Retirement Income volumes maintained at £15 million reflecting continued strong customer engagement and limited immediate Budget[1] impact. VNB of £15 million (31 March 2013: £20 million) reflects expected margin pressure.
- Heritage is making good progress in preparations for the £12 billion asset transfer to Schroders and on the second phase of the with-profits reallocation programme.
- Discussions regarding potential sale of Lombard are ongoing, although uncertainties surrounding the potential sale have resulted in lower sales and net fund outflows.
- FPI's performance has been adversely impacted by continuing difficult market conditions for regular premium unit-linked insurance business throughout its regions. Re-platforming of new business on track for the third quarter of 2014, with the related delay in new product development constraining performance.
- Strong capital base with IGCA[2] surplus of £2.3 billion, representing a coverage ratio of 239%.
- Group available shareholder assets of £897 million.

Recent market developments

- Significant impacts from Budget expected in the medium-term:
  - Retirement Income: 50-70% reduction expected in annuity sales, excluding sales of annuities from vesting pensions with guaranteed annuity options, which are expected to reduce by c20%. We are refocusing Retirement Income on existing mass affluent customers from both Heritage and Corporate Benefits, with further enhancement of customer engagement and development of new propositions underway;
  - Corporate Benefits: favourable impact expected. As the number 2 player in workplace defined contribution ("DC") pensions, with over £20 billion of assets under administration and around 2 million DC pension customers across the Group (estimated to hold 1 in 7 policies in the market), Friends Life is well placed to win in the retirement savings market; and
  - no impacts on our strategy or customer centric approach in either the Heritage or Protection businesses.
- Pension charge cap proposals by DWP are not expected to have a significant financial impact on the Group's SFS as the negative impact of reduction in AMCs is expected to be significantly offset by the ban of commission from 2016. We estimate a circa £50 million one-off reduction in non-operating pre-tax MCEV profits in 2014, representing less than 1% of total Group MCEV.

- Friends Life is well placed to respond to the FCA legacy product review with the dedicated Heritage management team ensuring customers are treated fairly and provided with good outcomes.

Impact on guidance

- VNB will be adversely affected due to the implications of the Budget; therefore the VNB growth target of 10% per annum will not be achievable in 2014.
- Overall Group new business margin for 2014 expected to be broadly similar to that achieved in the first quarter.
- Cash generation is not impacted with £39 million uplift in UK and Heritage combined expected return in 2014 unaffected.
- Dividend policy is unchanged and we remain confident in achieving 1.3x SFS coverage, following which the Board will consider moving to a progressive dividend.
- The Group is taking proactive actions to capture the opportunities created by the regulatory and market developments to support its financial performance going forward.

Change of name

- Following shareholder approval received at the Company's AGM held on 8 May 2014, the Company has changed its name from Resolution Limited to Friends Life Group Limited. Accordingly the London stock exchange ticker has changed from RSL to FLG.

Andy Briggs, Group Chief Executive said:

"Our first quarter performance has been robust, driven by increased profitability and volumes in Protection and Corporate Benefits – with net fund inflows into Corporate Benefits.

The recent Budget announcement will give customers more flexibility around their retirement savings. Whilst some of these changes will have longer-term implications for our business and the industry as a whole, they will also create new opportunities. As the number two player in the Corporate Benefits market and with one in nine maturing pensions, we remain well positioned to develop and provide innovative new solutions to meet customers' retirement needs.

Neither the Budget nor the recent regulatory and market developments will impact on our short term ability to generate cash, but the Budget will impact on the delivery of our value of new business target this year. By keeping customers at the heart of everything we do, we will develop flexible new retirement propositions and, together with continued growth in areas not affected by the Budget, this will enhance our ability to generate cash in the future."

Notes

1. The Chancellor of the Exchequer's Budget announcement on 19 March 2014.
2. Representing estimated Insurance Groups Capital Adequacy ("IGCA") surplus as at 31 March 2014.

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Forward-looking statements

This announcement may contain certain "forward-looking statements" with respect to certain of Friends Life'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, Friends Life'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. Friends Life 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, Group Chief Executive. Dial in telephone numbers: 0208 515 2313, UK Standard International +44 208 515 2313.

Analyst/Investors
A presentation to investors and analysts will commence via webcast at 08:30 BST. The registration link is available on our website www.friendslifegroup.com or via Friends Life Q1 IMS Webcast. Slides will be available via the link and on the website from 08:00 BST. Dial in telephone number: 0203 059 8125 (UK), +44 203 059 8125 (all other locations), Participant password*: "Friends Life / Resolution".

A webcast playback facility will be available on Friends Life's website from 14:00 BST at www.friendslifegroup.com.

Financial calendar

Half year 2014 results	6 August 2014
Third quarter 2014 interim management statement	11 November 2014

Website: www.friendslifegroup.com

*Password must be quoted to operator to gain access to the conference.

1. Recent market developments

The first quarter of 2014 has been an unusually news-heavy quarter for life and pensions businesses. Announcements in the period have changed both the regulatory and market backdrop and have understandably added a level of uncertainty for those invested in this market. The principal and highest profile change was that made in the Budget, with the Chancellor announcing the decision to remove the requirement for individuals to annuitise on retirement. This news was followed by the conclusion of a review by the Department for Work and Pensions ("DWP") into pension charges on 27 March 2014 and in addition, the announcement by the FCA to review legacy products. The three announcements have potential implications for a number of the Group's businesses, however, and notwithstanding some of the challenges presented, we believe we are well positioned to respond. These changes are discussed in the sections that follow.

1.1 Liberalisation of the annuity market

The proposals in the Budget for increased choice within the pensions market were the most significant we have seen for a generation. This has materially changed the markets that we operate in and we are supportive of the intention to give customers increased choice in their provision for income in retirement.

The implications of the change will be borne out over time, with the new flexibility available to retirees expected to result in a sustained reduction in non-GAO individual annuity new business volumes of around 50-70%, from 2013 levels. However, our immediate customer experience following the announcement has been better than this. Post Budget pipeline experience, for non-GAO business, shows 48% of customers are proceeding with the purchase of an annuity with 15% cancelling and 37% remaining undecided.

The immediate beneficiaries from a market perspective are those with strong customer bases, providers with existing income drawdown propositions and those well placed to innovate in the medium term, leading to new products being developed, e.g. flexible asset-based platforms offering a suite of insurance (including annuities) and investment product benefits. We believe this opportunity plays to our strengths and given our significant customer base, we are refocusing efforts on our existing mass affluent customers. There is a significant opportunity to help these customers, as we estimate this segment represents more than two thirds of our vesting pensions, and generates more than 90% of the Group's annuity sales. As a result we will be further developing our customer engagement and leveraging our existing propositions to meet this new need and develop scale in this rapidly expanding market.

Looking at the short term factors in more detail, the contraction in the immediate annuity market will be significantly less acute where customers have guaranteed annuity options ("GAOs"). In 2013, £340 million (51%) of our premium income in Retirement Income related to maturing pensions where the customer exercised a GAO with Friends Life. Before the impact of the recent Budget announcement, we were estimating that future GAO related annuity sales volumes would have been slightly higher in 2014, with these then falling back in 2015-2018 to circa £300 million of premium income per annum. Based on our current core assumption of a 20% reduction in customer propensity to exercise their GAOs, it is likely that premium income on this business will reduce to circa £250 million in the medium term. As a result, and due to the relatively high proportion of our business generated from internal pension vestings with GAOs, we anticipate that we will be less impacted by the wider expected market fall in new immediate annuity volumes.

Taken as a whole, we see the Chancellor's proposals as a positive driver of growth in the retirement savings market. The increased flexibility for savers means the attractiveness of placing additional contributions into a pension has now increased. As the number 2 player in workplace defined contribution ("DC") pensions, with over £20 billion of assets under administration and around 2 million

DC pension customers overall (estimated to hold 1 in 7 policies in the market), and with positive operational leverage in our Corporate Benefits business, Friends Life is well placed to benefit from these changes. Significant work is already underway to enhance both our engagement with our substantial customer base and to develop and deliver broadened retirement income and retirement savings products. This will enable us to better serve our customers who are expected to continue to delay their retirement decisions.

The changes proposed through the Budget will, despite the high barriers to entry, likely also increase the competition in the bulk annuity market with this expected to lead to some margin compression as a result. We have already communicated that we are considering whether or not to leverage our existing considerable expertise in longevity modelling and fixed interest asset management by entering the external bulk annuity market. Work on this is progressing well. In addition, we are also investigating the market for longevity swaps in order to further leverage our expertise. In both of these areas, we are assessing the merits of entering the markets, especially in the light of potential increased capital requirements under Solvency II, and will continue to apply rigorous financial discipline in making the final decisions on whether or not to enter these markets.

In summary, we anticipate considerable growth in the market for both the accumulation and decumulation phases of retirement provision in the coming years. We are well placed to be a leading player within both phases of this rapidly growing market although we acknowledge that there is much to be done. Even though the proposals announced in the Budget were far reaching, the fundamentals for growth in the retirement provision market and the strength of our competitive position within this market are both unchanged.

1.2 Pension charge cap changes

On 27 March 2014, Pensions Minister Steve Webb announced a number of proposed changes to the pensions market including:

- the introduction of a 0.75% cap on annual charges applied to default funds of all qualifying schemes to be introduced from 2015; and

- from April 2016, the banning of active member discount (“AMD”) structures and the deduction of commission payments from members’ pensions.

Friends Life fully supports these proposals and is confident we are well placed to adapt our model for these requirements. This is reflected by the fact that the vast majority of the qualifying business written in the Corporate Benefits business, is already written at levels below the cap.

Notwithstanding this, there will be financial implications from the implementation of a charge cap, with lower annual management charges (“AMC’s”) as well as the requirement to hold additional capital on a Pillar 1 basis. The loss of future AMCs is expected to have a circa £50 million pre-tax non-operating impact on MCEV profit in 2014 (which is less than a 1% reduction in Group embedded value), and have a minimal impact on SFS and IFRS operating profit due to the potentially largely offsetting benefit of commission ban.

The Group’s free surplus measures in 2014 are not expected to be materially affected, although once the cap is in force in 2015, free surplus will be temporarily reduced by approximately £0.1 billion as a result of the requirement under Solvency I to hold an additional capital requirement when the price cap is applied to existing business. This capital requirement is temporary and only applies whilst the Solvency I regime is in force and is not expected to be a requirement under Solvency II from 1 January 2016.

With regards to the application of higher charges for deferred scheme members, the Group announced on 10 April 2014 that it would be offering all its 169 AMD schemes the chance to move, immediately to a single charge at the current active member rate. The Group has a limited exposure to schemes employing AMDs and has therefore been able to offer this without a material financial impact.

1.3 FCA legacy product review

We note the recent announcement from the FCA to undertake a review of the fair treatment of long-standing customers in life insurance, covering the service received by customers with legacy products.

Approximately half our Heritage business was written post 2000 and whilst we await further clarity on the scope of the review, we believe that our strength lies in our dedicated Heritage management team. This was set up in 2011 to specifically focus on meeting the ongoing needs of customers with legacy products. We work within a highly regulated industry which has undergone a series of independent reviews to ensure transparency and fair treatment of customers over a number of years. Our customers are at the heart of our business and we firmly believe that by doing right by our customers this will in turn create a strong and successful business that will support our future success.

As part of this there is significant ongoing investment within our Service Improvement Programme to migrate customer service away from the legacy systems onto modern platforms, that will deliver improved customer service and provide customers with a more consistent and reliable customer experience. All the above factors demonstrate our focus on treating customers fairly and providing good outcomes, and we therefore believe we are well prepared and look forward with confidence to working with the FCA on the review.

1.4 Impact on guidance

Whilst we are confident the Group can respond to these challenges, the impacts of the Budget will mean our ambitions to grow VNB by 10% per annum will not be achievable in 2014. Similarly these changes have also made it more difficult to deliver an open insurance business IRR of 15% and will impact on the Group’s overall new business margins. However, despite the assumed lower level of ongoing annuity sales referred to above, the different sales mix across the year for our various businesses is currently expected to result in an overall Group new business margin for 2014 broadly similar to that achieved in the first quarter.

Furthermore as a consequence of the expected shift in mix from insurance to asset-based business, insurance type metrics will become less relevant.

Notwithstanding the above, none of the challenges has a material impact on our capital position, the ability to generate cash today or the delivery of the £39 million uplift in aggregate UK and Heritage combined expected return (a key component of SFS) in 2014. This uplift is driven equally by contributions from the UK and Heritage divisions and includes £4 million from Retirement Income 2013 new business, with this £4 million split broadly evenly between GAO and other annuity business.

In the shorter term, therefore, we still expect to more than offset the run-off of our 2013 in-force book through a combination of the delivery of profitable new business in the UK division and Heritage initiatives. Similarly we are also confident that the development of broadened retirement income propositions in the medium term, combined with the contribution from those business which are unaffected by the recent announcements, will offset the longer term in-force run-off. We are therefore confirming our dividend policy.

2. Group financial summary

VNB	Q1 2014 £m	Q1 2013 (restated[1]) £m	*Change* %
Protection	**16**	12	*33*
Retirement Income	**15**	20	*(25)*
UK division - Insurance	**31**	32	*(3)*
Corporate Benefits	**4**	3	*33*
UK division - Total	**35**	35	-
Heritage	**(6)**	(7)	*14*
International division – Insurance	**3**	5	*(40)*
International division – Asset-based	**-**	5	*(100)*
International division - Total	**3**	10	*(70)*
Total Group	**32**	38	*(16)*
Total open insurance business	*34*	*37*	*(8)*
Total asset-based business	*4*	*8*	*(50)*
Heritage	*(6)*	*(7)*	*14*
APE			
Protection	**24**	18	*33*
Retirement Income	**15**	15	-
UK division - Insurance	**39**	33	*18*
Corporate Benefits	**162**	109	*49*
UK division - Total	**201**	142	*42*
Heritage	**11**	18	*(39)*
International division – Insurance	**23**	35	*(34)*
International division – Asset-based	**28**	47	*(40)*
International division - Total	**51**	82	*(38)*
Total Group	**263**	242	*9*
Total open insurance business	*62*	*68*	*(9)*
Total asset-based business	*190*	*156*	*22*
Heritage	*11*	*18*	*(39)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

	Q1 2014			Q1 2013		
Assets under administration (£bn)	**Corporate Benefits**	**Lombard**	**Total Asset-based business**	Corporate Benefits	Lombard	Total Asset-based business
1 January	**20.1**	**20.2**	**40.3**	17.8	18.9	36.7
Inflows	**0.6**	**0.3**	**0.9**	0.6	0.5	1.1
Outflows	**(0.4)**	**(0.5)**	**(0.9)**	(0.5)	(0.3)	(0.8)
Net fund flows	**0.2**	**(0.2)**	**-**	0.1	0.2	0.3
Net investment return	**(0.2)**	**0.3**	**0.1**	1.5	0.4	1.9
FX movement	**-**	**(0.1)**	**(0.1)**	-	0.7	0.7
31 March	**20.1**	**20.2**	**40.3**	19.4	20.2	39.6
Regular premiums received	***468***	***-***	***468***	*442*	-	*442*

Group new business profitability for the period to 31 March 2014 amounted to £32 million, of which £34 million (31 March 2013: £37 million) related to open insurance based business for which VNB is the primary metric. The decline reflects a mixed performance across the businesses, with the expected margin reduction in the Retirement Income business offset by a strong performance in Protection, up 33% in VNB and APE terms, and a lower contribution from International reflecting market drivers in FPI.

The asset-based businesses remain well positioned with positive net fund flows in the Corporate Benefits business of £0.2 billion maintaining assets under administration at £20.1 billion and reflecting the additional flows of auto-enrolment new business onto the Group's platforms. Lombard assets under administration also remain strong at £20.2 billion although the lumpy nature of first quarter volumes in the Lombard business has resulted in a lower overall VNB contribution from asset-based businesses of £4 million.

The Group maintained a strong capital position in the first quarter of 2014 with an estimated IGCA surplus of £2.3 billion representing a coverage ratio of 239% (31 December 2013: £2.2 billion, coverage 238%).

Group available shareholder assets at the 31 March 2014 totalled £897 million (31 December 2013: £917 million), before payment of the 2013 final dividend to shareholders.

3. UK division – business review

Summary

The UK division has delivered good growth in the first quarter of 2014 with APE up 42%, driven by a strong growth in new business sales volumes in the Protection and Corporate Benefits businesses, up 33% and 49% respectively.

Notwithstanding this growth, the contribution from new business in the UK division's insurance businesses is marginally down at £31 million (31 March 2013: £32 million), with the improved Protection result offset by the expected reduction in Retirement Income margins.

Corporate Benefits, the UK division's asset-based business, has also delivered good growth with net inflows of £0.2 billion in the quarter, up on the same quarter of 2013, and importantly ahead of the £(0.2) billion outflow reported in the 2013 full year results and the net nil position for the fourth quarter. As a result assets under administration have increased to £20.1 billion, offsetting movement from the fall in equity values since the beginning of the year.

3.1 UK – Protection

	Q1 2014 **£m**	Q1 2013 £m	*Change* *%*
VNB	**16**	12	*33*
APE	**24**	18	*33*

Protection VNB and sales were both up 33% in the first quarter of 2014. This growth has been driven principally by the individual protection proposition, though it is recognised that this is in the context of a depressed first quarter in 2013.

In the first quarter of 2014, and in advance of an industry wide mortgage market review, some of our estate agency partners have been going through a period of retraining. It is expected that this will lead to a short term drop in sales of individual protection products. In parallel with this, the business is undertaking a review of its propositions to ensure customers receive appropriately priced products and support, which is also anticipated to have some impact on future sales. The combined impact of these factors is currently expected to result in full year 2014 Protection VNB being marginally lower than that in 2013.

3.2 UK - Retirement Income

	Q1 2014 **£m**	Q1 2013 £m	*Change* *%*
VNB	**15**	20	*(25)*
APE	**15**	15	-

Retirement Income generated VNB of £15 million in the first quarter, £5 million lower than in the same period of 2013. This reduction has been principally driven by the expected reduction in margins following the launch of the new, more competitively priced propositions, partly offset by the change to the investment strategy.

Sales in the first quarter of 2014 totalled £15 million APE, remaining flat on the first quarter of 2013 and only marginally below that delivered in the fourth quarter of last year. This performance, in which GAO's have continued to represent circa 50% of premiums, reflects the improved competitiveness and customer engagement in this business, offset by a continuing trend for individuals to defer annuity purchases.

Immediately following the announcement of the Budget, the business temporarily suspended processing applications for new annuities. All customers who were in the process of applying for an annuity or who were within their cancellation period were contacted to ensure they were given the opportunity to obtain the right advice to help them make an informed decision. These activities have only contributed to a modest impact on sales in the quarter. Further details on the Budget proposal, including the potential impact to the business and its competitive position, are discussed in section 1.

3.3 UK - Corporate Benefits

Assets under administration (£bn)	**1 January**	Inflows	Outflows	**Net fund flows**	Net investment return	**31 March**
Q1 2014	**20.1**	0.6	(0.4)	**0.2**	(0.2)	**20.1**
Q1 2013	**17.8**	0.6	(0.5)	**0.1**	1.5	**19.4**

	Q1 2014 **£m**	Q1 2013 £m	*Change* *%*
VNB	**4**	3	*33*
APE	**162**	109	*49*
Regular premiums received	**468**	442	*6*

The Corporate Benefits business has returned to positive inflows of £0.2 billion in the quarter, which compares favourably with a net outflows position of £(0.2) billion in full year 2013 and the £0.1 billion net inflow in the first quarter of 2013.

There has been further strong growth from premiums from existing schemes. The principal driver is auto-enrolment, itself front-end loaded in the current year, with 152 employers spanning 187 schemes enrolling in the quarter. This compares to 106 employers spanning 128 schemes auto-enrolling in the fourth quarter of 2013. This has contributed to a net increase in overall membership of 70,000 over the quarter.

Inflows are further bolstered by strong growth in new sales, with particular success in on-boarding assets from trust based schemes with a number of wins implemented in the quarter.

The launch of the Master Trust proposition, as referenced in our 2013 full year results, has been well received and, as a result of this, new business volumes are expected to grow later in the year. The Corporate Benefits business anticipates driving future growth from its existing book by capitalising on the opportunities afforded by the recent Budget announcement, with increased flexibility making retirement savings a more attractive investment proposition. Further details on this are discussed in section 1.

4. Heritage division – business review

The Heritage division has continued to make good progress on its key programme deliveries whilst also continuing to apply its closed book management expertise to meet the ongoing needs of customers with legacy products.

Preparations continue for the asset transfers to Schroders with £12 billion of equity and multi-asset funds to be transferred from F&C in the fourth quarter of 2014. As part of this transaction a further £2 billion of fixed interest assets will be transferred to Friends Life Investments ("FLI") increasing its funds under management from the £17.5 billion as at 31 March 2014.

Good progress has been made on the second phase of the with-profits annuity reallocation programme which involves a potential further reallocation of circa £700 million of annuities from a with-profits fund to FLL non-profit fund. Although the potential financial impacts are not yet certain, if transacted this is currently expected to require a 2014 sustainable free surplus investment of around £(20) million, which is expected to result in a benefit of circa £5 million per annum from 2015.

Following the cessation of sales of new business in September 2013, International's predominantly German Overseas Life Assurance Business ("OLAB"), has been transferred to Heritage from 1 January 2014, with the comparative periods in 2013 now restated. The transfer leverages Heritage's expertise in managing closed books of business and will ensure the continued fair treatment of these long standing customers.

	Q1 2014 £m	Q1 2013 (restated)[1] £m	*Change %*
VNB	**(6)**	(7)	*14*
APE	**11**	18	*(39)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

The (39)% reduction in sales volumes to £11 million APE principally reflects the cessation of new business sales within the transferred OLAB business.

5. International division - business review

Summary

The first quarter of 2014 has been a difficult trading period for the International businesses, with challenging market conditions and significant regulatory changes. Sales from FPIL, the insurance business, have fallen by 34% from the first quarter of 2013, with these reductions similarly impacting VNB. The asset-based business, Lombard, has seen lower sales and net fund outflows from uncertainties surrounding its potential sale. Trading for both businesses is expected to remain challenging in 2014.

5.1 FPI

	Q1 2014 £m	Q1 2013 (restated)[1] £m	*Change %*
VNB	**3**	5	*(40)*
APE	**23**	35	*(34)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

In line with difficult market conditions for regular premium unit-linked insurance business throughout the regions, APE fell by 34% to £23 million in the first quarter of 2014. As a result of the lower volumes, VNB decreased by 40% to £3 million compared to the first quarter of 2013.

In North Asia, volumes in the first quarter of the year have principally been impacted by the regulatory changes applied during 2013, resulting in the whole unit-linked insurance market falling by approximately a third over 2013. In addition, volumes in South Asia dropped by 20% and Middle East fell by 18% compared to the first quarter in 2013 due to aggressive competitor activity.

Despite the difficult trading, assets under administration have remained stable at £6.6 billion, supported by our base of over 100,000 customers. The 2014 trading outlook remains challenging, however the prospects for long term growth in these markets continue to be positive.

The focus of the business continues to be on investing in a new International IT platform to support future growth and product development. Re-platforming of new business is on track for the third quarter of 2014 with the in-force book expected to be re-platformed in 2015, although as a result business performance reflects that no new products have been launched in the quarter.

5.2 Lombard

Assets under administration (£bn)	**1 January**	Inflows	Outflows	**Net fund flows**	Net investment return	FX mvmt	**31 March**
Q1 2014	**20.2**	0.3	(0.5)	**(0.2)**	0.3	(0.1)	**20.2**
Q1 2013	**18.9**	0.5	(0.3)	**0.2**	0.4	0.7	**20.2**

	Q1 2014 £m	Q1 2013 £m	*Change %*
VNB	**-**	5	*(100)*
APE	**28**	47	*(40)*

Lombard’s markets continue to be heavily impacted by macroeconomic and regulatory pressures as well as the uncertainty around the potential sale of the business. As a result, profits and volumes for the first quarter of 2014 are below that achieved in the same period in 2013.

Lombard’s strategy remains unchanged with this business continuing to be a leading pan-European specialist in estate and succession planning solutions for high and ultra-high net worth individuals.

Assets under administration were stable over the quarter, as negative net fund flows caused by lower premium income and higher lapses were offset by positive net investment return. First quarter trading is traditionally low in comparison to the previous fourth quarter reflecting the seasonal nature of Lombard’s sales. Quarterly results are expected to continue to be volatile and as previously advised the first quarter results should not be extrapolated for the full year.

6. 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;
- the Group does not take credit for the future contractual increments on auto-enrolment business; instead, these will emerge in reported new business figures as they occur;
- 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.

6.1 Regular and single premiums

	Regular premiums			Single premiums		
	Q1 2014 £m	Q1 2013[1] £m	Change %	**Q1 2014 £m**	Q1 2013[1] £m	Change %
UK division						
– Corporate Benefits	**147**	95	*55*	**153**	145	*6*
– Protection	**24**	18	*33*	**-**	-	-
– Retirement Income	**-**	-	-	**147**	145	*1*
Total UK division	**171**	113	*51*	**300**	290	*3*
Heritage division	**7**	12	*(42)*	**41**	60	*(32)*
International division						
– FPI	**12**	20	*(40)*	**107**	154	*(31)*
– Lombard	**-**	-	-	**279**	467	*(40)*
Total International division	**12**	20	*(40)*	**386**	621	*(38)*
Total life and pensions	**190**	145	*31*	**727**	971	*(25)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

	Regular premiums			Single premiums		
	Q1 2014 £m	Q4 2013[1] £m	Change %	**Q1 2014 £m**	Q4 2013[1] £m	Change %
UK division						
– Corporate Benefits	**147**	145	*1*	**153**	209	*(27)*
– Protection	**24**	21	*14*	**-**	-	-
– Retirement Income	**-**	-	-	**147**	164	*(10)*
Total UK division	**171**	166	*3*	**300**	373	*(20)*
Heritage division	**7**	10	*(30)*	**41**	47	*(13)*
International division						
– FPI	**12**	15	*(20)*	**107**	164	*(35)*
– Lombard	**-**	-	-	**279**	829	*(66)*
Total International division	**12**	15	*(20)*	**386**	993	*(61)*
Total life and pensions	**190**	191	*(1)*	**727**	1,413	*(49)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

6.2 Group new business – APE

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

	Q1 2014 £m	Q1 2013[1] £m	Change %	**Q1 2014 £m**	Q4 2013[1] £m	Change %
UK division						
– Corporate Benefits	**162**	109	*49*	**162**	166	*(2)*
– Protection	**24**	18	*33*	**24**	21	*14*
– Retirement Income	**15**	15	-	**15**	16	*(6)*
Total UK division	**201**	142	*42*	**201**	203	*(1)*
Heritage division	**11**	18	*(39)*	**11**	15	*(27)*
International division						
– FPI	**23**	35	*(34)*	**23**	31	*(26)*
– Lombard	**28**	47	*(40)*	**28**	83	*(66)*
Total International division	**51**	82	*(38)*	**51**	114	*(55)*
Total life and pensions	**263**	242	*9*	**263**	332	*(21)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

FPI

APE by region (actual exchange rates)	Q1 2014 £m	Q1 2013[1] £m	Change %
North Asia	**4**	9	*(56)*
South Asia	**4**	5	*(20)*
Middle East	**9**	11	*(18)*
UK & Rest of World	**6**	10	*(40)*
Total	**23**	35	*(34)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

Lombard

APE by region (actual exchange rates)	Q1 2014 £m	Q1 2013 £m	Change %
UK and Nordic	9	17	*(47)*
Northern Europe	1	1	-
Southern Europe	17	27	*(37)*
Rest of World	1	2	*(50)*
Total including large cases	**28**	47	*(40)*
Of which: Large cases (greater than €10m)	8	18	*(56)*
Total excluding large cases	**20**	29	*(31)*

6.3 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 2014 £m	Q1 2013 (as reported)[1] £m	change %
FPI	**23**	35	*(34)*
Lombard	**29**	47	*(38)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

6.4 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 2014 £m	Q1 2013[1] £m	Change %	**Q1 2014 £m**	Q4 2013[1] £m	Change %
UK division						
– Corporate Benefits	**741**	545	*36*	**741**	836	*(11)*
– Protection	**173**	119	*45*	**173**	158	*9*
– Retirement Income	**147**	145	*1*	**147**	164	*(10)*
Total UK division	**1,061**	809	*31*	**1,061**	1,158	*(8)*
Heritage division	**63**	135	*(53)*	**63**	95	*(34)*
International division						
– FPI	**167**	248	*(33)*	**167**	237	*(30)*
– Lombard	**279**	467	*(40)*	**279**	829	*(66)*
Total International division	**446**	715	*(38)*	**446**	1,066	*(58)*
Total life and pensions	**1,570**	1,659	*(5)*	**1,570**	2,319	*(32)*

1. 2013 results have been restated to reflect the transfer of OLAB (non-core International) from the International to Heritage division

7. Transfer of non-core International business

	Heritage (as reported)	**FPI (as reported)**	***Non-core International***	**Heritage (restated)**	**FPI (restated)**
Q1 2013					
VNB	(4)	2	*(3)*	(7)	5
APE	13	40	*5*	18	35
HY 2013					
VNB	(8)	4	*(5)*	(13)	9
APE	27	79	*9*	36	70
Q3 2013 (YTD)					
VNB	(13)	3	*(9)*	(22)	12
APE	41	108	*12*	53	96
FY 2013					
VNB	(19)	14	*(7)*	(26)	21
APE	54	141	*14*	68	127

8. Value Share

The Group provided, as part of the 2013 full year disclosure, an update on the latest position of the Value Share. This position has not changed significantly in the first quarter of 2014 with the accumulated value of net equity deployed (at 4% per annum) at 31 March 2014 amounting to £3,328 million (31 December 2013: £3,543 million), reflecting distributions from Resolution Holdco No.1 LP paid in the period.