

# Friends Life Group Limited

## Third quarter 2014

### Interim Management Statement

**Strong sales momentum in the UK and improving operating environment in the International division**

#### **Strong sales performance**

- Corporate Benefits APE of £465 million, up 14%
- Protection APE of £70 million, up 11%
- Retirement Income outperforms the market with sales volumes down 12%, exceeding expectations and reflecting strong customer engagement
- Improving operating backdrop in FPI, with third quarter APE of £32 million up more than a third on the run-rate of the first two quarters of 2014
- Corporate Benefits positive net fund flows of £0.6 billion driving assets under administration to £21.4 billion
- Group VNB of £94 million is down £29 million, of which £24 million is the reduction in Retirement Income VNB
- Group APE of £690 million (30 September 2013: £670 million)
- Group PVNBP<sup>1</sup> margin 2.4% (30 September 2013: 3.1%)

#### **Strong capital position maintained**

- IGCA<sup>2</sup> of £2.2 billion, representing a coverage ratio of 233% (30 June 2014: 235%)
- Group available shareholder assets ("ASA") of £911 million

#### **Operational highlights**

- Disposal of Lombard completed and £317 million share buyback commenced
- Completion of the £760 million reallocation of annuities from with-profits funds, which will generate £7 million of sustainable free surplus ("SFS") p.a. from 2015
- Agreement to reallocate a further circa £650 million of annuities from with-profits funds, subject to regulatory non-objection, resulting in a SFS benefit of circa £5 million p.a. from 2015
- Good progress made towards preparing the launch of new retirement propositions in April 2015
- International IT platform project delivery is on track with the majority of new policies now being written on the new platform
- Application of enhanced investment strategy progressing well with further funds invested in syndicated loans and private placements

Andy Briggs, Group Chief Executive said:

"The Group has continued to make good operating progress during the third quarter. I am particularly pleased with the sales momentum in the UK division fuelled by our Corporate Benefits and Protection businesses. Development of our new retirement proposition is on track, we have further enhanced our customer engagement, and I look forward with confidence to the launch of the new propositions and the new retail platform in April next year. I am also encouraged by the progress we are making in our International division, with the benefits of the roll out of the new platform and product and sales initiatives coming through.

Last but not least, the disposal of Lombard is now complete and we have commenced the associated £317 million share buyback. With the improvement in dividend coverage from this return of capital along with the encouraging sales momentum, we remain well placed to continue to generate cash and make progress towards 1.3 times dividend cover."

**Notes**

1. PVNBP margin represents VNB over the present value of new business premiums ("PVNBP").
2. Representing estimated Insurance Groups Capital Adequacy ("IGCA") surplus at the Friends Life holding company level as at 30 September 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.

**Analyst/Investors**

There will be a conference call today for analysts and investors at 9am (GMT) hosted by Tim Tookey, Group Chief Financial Officer. Dial in telephone numbers: 020 3059 8125, UK Standard International + 44 20 3059 8125. The participant password when joining the call is Friends Life and this must be quoted to the Operator in order for participants to gain access to the conference.

A replay facility will also be available. If you are dialling from the United Kingdom please dial 0121 260 4861, from the United States please dial 1 866 268 1947 and from all other locations + 44 121 260 4861. When prompted by the replay system please enter 5398718 followed by #.

**Financial calendar**

Full year 2014 results	10 March 2015
Half year 2015 results	6 August 2015

Website: [www.friendslifegroup.com](http://www.friendslifegroup.com)

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

## 1. Group financial summary

VNB	9 months	Restated <sup>1</sup>	Change	Half year
	2014	9 months		2014
	£m	2013	%	£m
Protection	46	50	(8)	31
Retirement Income	40	64	(38)	28
Corporate Benefits	17	19	(11)	12
<b>UK division</b>	<b>103</b>	133	(23)	71
<b>Heritage</b>	<b>(18)</b>	(22)	18	(11)
<b>International</b>	<b>9</b>	12	(25)	5
<b>Total Group – continuing operations<sup>2</sup></b>	<b>94</b>	123	(24)	65
<i>Total open insurance business</i>	95	126	(25)	64
<i>Total asset-based business</i>	17	19	(11)	12
<i>Heritage</i>	(18)	(22)	18	(11)
<b>APE</b>				
Protection	70	63	11	47
Retirement Income	44	50	(12)	30
Corporate Benefits	465	408	14	328
<b>UK division</b>	<b>579</b>	521	11	405
<b>Heritage</b>	<b>32</b>	53	(40)	23
<b>International</b>	<b>79</b>	96	(18)	47
<b>Total Group – continuing operations<sup>2</sup></b>	<b>690</b>	670	3	475
<i>Total open insurance business</i>	193	209	(8)	124
<i>Total asset-based business</i>	465	408	14	328
<i>Heritage</i>	32	53	(40)	23

1. 2013 results have been restated to reflect the transfer of Overseas Life Assurance Business ("OLAB") from the International to Heritage division.

2. Excludes the results of Lombard, which has been classified as a discontinued operation during the period.

£m	9 months	9 months	Change	Half year
	2014	2013		2014
	£m	£m	%	£m
<b>Total regular premiums received</b>	<b>1,327</b>	1,273	4	920

Assets under administration (£bn)	1 Jan	Inflows	Outflows	Net fund flows	Net	30 Sep
	2014				investment return	2014
<b>Corporate Benefits</b>	<b>20.1</b>	1.8	(1.2)	<b>0.6</b>	0.7	<b>21.4</b>

## 1.1 Group summary

The Group's year to date performance reflects good progression from the half year, with sales volumes up 3% to £690 million.

The UK division has continued to deliver strongly, with sales up 11% to £579 million, driven by the Corporate Benefits and Protection businesses where sales grew by 14% and 11% respectively. The Group's asset-based business, Corporate Benefits, delivered positive net fund flows of £0.6 billion, building on the auto-enrolment experience achieved in the first half of the year and driving assets under administration up to £21.4 billion.

Retirement Income business volumes are down on the first three quarters of 2013, but by only 12% despite the changes announced in the Chancellor of the Exchequer's March 2014 Budget ("Budget"). This performance compares well with that of the wider annuity market which was down 32% in the first half of 2014. This pleasing business performance has been due to both the continued strong engagement with customers and the Group's exposure to policies with valuable guarantees which remain attractive for customers.

FPI, whilst reporting lower nine month sales, has delivered good third quarter trading with £32 million APE. This represents an improvement of more than a third on the run-rate of the first two quarters of 2014, with profitable growth being driven by sales initiatives and new products launched earlier in the year.

Notwithstanding the good progress to date, and as expected, open insurance business VNB of £95 million (30 September 2013: £126 million) is 25% down on the same period in 2013. This reduction principally reflects lower annuity sales and the expected year-on-year annuity margin reductions as planned improvements to the competitiveness of the annuity proposition towards the end of 2013 were put in place.

## 1.2 Capital

The Group maintained a strong capital position in the third quarter of 2014 with an estimated IGCA surplus of £2.2 billion, representing a coverage ratio of 233% (30 June 2014: £2.2 billion, coverage ratio 235%).

Group ASA at 30 September 2014 totalled £911 million (30 June 2014: £917 million) with the £200 million syndicated loan mandate now fully invested.

As announced on 30 October 2014, the Group successfully completed the sale of the Lombard business to funds managed by Blackstone. As expected, the £317 million share buyback programme commenced on the 31 October 2014.

Both the estimated IGCA surplus and ASA are quoted before the payment of the Company's interim dividend of £100 million on 6 October 2014, and before the impacts of the sale of Lombard and subsequent share buyback programme.

## 2. UK division – business review

The UK division has delivered a strong sales performance in the period across each of its businesses. This has been achieved despite the changes announced in the Budget, with VNB broadly consistent with the run-rate achieved in the first half of the year.

The focus of the division remains on developing products and services to meet the changing retirement needs of its customers. In addition to the significant changes made within the Budget, the Group welcomes the enhancement to tax treatment announced on 29 September 2014. In particular, the removal of the 55% tax on pension funds at death further increases the attractiveness of saving into a pension, whilst also being a positive development for drawdown and annuity products. The Group is well positioned to help customers understand their new options in the lead up to and during retirement, as it has extensive experience as a scale player in pensions, savings and retirement income.

Customer engagement is critical to the Group's future success, with the immediate focus being on supporting customers by explaining the impact of the rule changes in April 2015. Looking beyond this, the UK division has taken steps to realign its internal structure in order to further develop our engagement with customers, enhance its approach for dealing with intermediaries and accelerate profitable growth.

The Retirement Income business remains focused on the mass affluent customer base existing in Heritage and Corporate Benefits. The engagement of customers much earlier in their retirement planning journey will enable the business to build strong relationships and support them with their plans. Multi-channel communication activity is already being undertaken, aimed at those customers who are approaching key decision points, and response rates are encouraging.

Alongside this, the Group's plans to provide a new range of products and services as part of a comprehensive retirement proposition are progressing well. Development of a retail platform, which will be available to customers from April 2015, is well under way and will complement the Group's current My Money corporate platform.

Our customer research programme has been extended over the last quarter which will ensure the products designed meet the needs of our existing mass affluent customers. The new platform will therefore offer a flexi-income drawdown product alongside both an ISA product (cash and investments) and a general investment account, allowing those in retirement to invest their pension pots in the most tax efficient way possible. These products will have access to a carefully-selected range of investment options, appropriate to the needs of our target customers, and leveraging our scale and best-of-breed approach to investment management.

These platform capabilities will therefore support customers in taking advantage of the new pension freedoms to access their money or invest for longer. They will be able to take a portion of their pension savings, some as a tax free cash amount, with the remainder invested in a flexi-income drawdown product. Equally, for those customers who wish to secure some guaranteed level of income they will be able to purchase an annuity. The Group will continue to engage with customers, taking their feedback, and building on these product developments as required.

## 2.1 UK – Protection

	9 months 2014 £m	9 months 2013 £m	Change %	Half year 2014 £m
<b>VNB</b>	<b>46</b>	50	(8)	31
<b>APE</b>	<b>70</b>	63	11	47

The Protection business has continued the trend seen in the first half of the year with sales up 11% on the same period of 2013, albeit at lower margins. Protection APE has been driven by growth in sales through financial advisers, partially offset by the impact of the industry wide mortgage market review. Notwithstanding the volume growth but in line with previous guidance, Protection VNB is 8% lower than in the same period of 2013. This reduction reflects the impact of both an increase in start of year long-term interest rates compared to those in 2013 (resulting in future emerging profits being worth less in today's terms), as well as changes in the new business mix and margin pressures. As reported previously, the Group expects the combined impact of these factors to result in a full year VNB that is lower than that reported in 2013.

The focus on proposition remains strong with enhancements to the core Protect+ offering made earlier in the year and further enhancements planned for the fourth quarter. The Group remains committed to delivering high quality products and ensuring the propositions continue to support customers in their time of need.

## 2.2 UK - Retirement Income

	9 months 2014 £m	9 months 2013 £m	Change %	Half year 2014 £m
<b>VNB</b>	<b>40</b>	64	(38)	28
<b>APE</b>	<b>44</b>	50	(12)	30

Retirement Income has continued to invest in good customer engagement, ensuring that for those customers approaching retirement the business can respond to questions raised by the Budget changes. Our strong sales performance, with nine month sales down 12%, reflects predicted trends in most areas but with a general outperformance of the overall market which in the first half of 2014 was 32% lower than in the same period in

2013. Our outperformance reflects that half of Retirement Income's new business in the period is from policies maturing with embedded guarantees which continue to provide valuable benefits to customers.

As expected, customers are taking advantage of the increased opportunity to take smaller funds under the revised triviality rules. As a result, whilst the number of annuities sold without embedded guarantees has declined, the average size has risen resulting in sales volumes being down by just 15%.

As anticipated, VNB has fallen compared to the third quarter of 2013 by 38%, reflecting lower volumes and planned improvements made to the competitiveness of the proposition in the latter part of 2013. Additionally, the volatility and sharp reductions in risk-free yields experienced in July and August has impacted profitability, although this has only resulted in modest margin reductions. The Group continues to see modest pressure on margins as firms respond to the changing market but a nine month PVNBP margin of 9.1% is considered very satisfactory.

## 2.3 UK - Corporate Benefits

<b>Assets under administration (£bn)</b>	<b>1 Jan</b>	<b>Inflows</b>	<b>Outflows</b>	<b>Net fund flows</b>	<b>Net investment return</b>	<b>30 Sep</b>
<b>2014</b>	<b>20.1</b>	1.8	(1.2)	<b>0.6</b>	0.7	<b>21.4</b>
2013	<b>17.8</b>	1.6	(1.8)	<b>(0.2)</b>	1.8	<b>19.4</b>

  

	<b>9 months 2014</b>	9 months 2013	<i>Change</i>	Half year 2014
	<b>£m</b>	£m	%	£m
VNB	<b>17</b>	19	<i>(11)</i>	12
APE	<b>465</b>	408	<i>14</i>	328
Regular premiums received	<b>1,327</b>	1,273	<i>4</i>	920

The Corporate Benefits business has delivered positive fund flows in the period of £0.6 billion with assets under administration growing to £21.4 billion. As reported in the Group's 2014 interim results, the business anticipates fourth quarter fund flows to be impacted by the loss of one very large scheme (circa £0.35 billion) which is leaving to pursue an investment only proposition.

Regular premiums have shown good growth from strong new business performance and activity focused on retention of the existing book. Auto-enrolment activity which peaked in the first half of 2014, has contributed to a net increase in members this year of 153,000 taking the total to over 1.29 million, with 925 schemes of 718 employers having auto-enrolled.

## 3. Heritage division – business review

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

The second phase of the with-profits annuity reallocation programme has been completed. This has resulted in the reallocation of £760 million of annuities from the with-profits funds to the non-profit fund and has de-risked future returns for with-profits policyholders. As reported in the 2014 half year results, the transaction is expected to generate a benefit to SFS of £7 million per annum from 2015, for an upfront free surplus cost in 2014 of £(11) million. In addition, this transaction is expected to result in an MCEV operating profit benefit of circa £65 million and IFRS operating profit benefit of circa £15 million in the full year 2014 results.

An agreement has been reached, subject to regulatory non-objection, for the third phase of the with-profits annuity reallocation programme to reallocate circa £650 million of annuities from the with-profits funds to the non-profit fund. This transaction is expected to be effective and completed at the beginning of 2015, and is currently expected to generate a benefit of circa £5 million per annum for an upfront cost of circa £(25) million.

Preparations continue for the previously announced £14 billion asset transfer; £12 billion to Schroders and £2 billion to Friends Life Investments (“FLI”), with these expected to be completed in the fourth quarter of 2014. Communications have been sent to all impacted customers informing them of the change in Investment Manager.

Good progress has been made in a number of different asset classes to increase yield within the annuity portfolio and shareholder funds across the group. During the third quarter of 2014, the £200 million syndicated loans mandate awarded to Ares Management was fully invested and we expect that the mandate will be increased to £250 million before the end of 2014. A further £125 million was invested in private placements during the third quarter bringing the total invested in illiquid assets over 2014 to £280 million, with further investments being considered.

Earlier in 2014, the FCA announced plans to incorporate a legacy product review within its 2014 business plan; the review now underway will assess a number of areas connected to the operation of legacy business, including back book strategy and governance, how products have performed and the quality of customer communications. The business is fully engaged with the FCA on the review, responding to their requests and is looking forward with confidence to the next steps of the review.

	9 months	Restated <sup>1</sup>	Change	Half year
	2014	9 months		
	£m	2013	%	2014
		£m		£m
VNB	(18)	(22)	18	(11)
APE	32	53	(40)	23

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

The 40% reduction in sales volumes to £32 million APE principally reflects the cessation of new business sales within the transferred OLAB business.

#### 4. International division - business review

	9 months	Restated <sup>1</sup>	Change	Half year
	2014	9 months		
	£m	2013	%	2014
		£m		£m
VNB	9	12	(25)	5
APE	79	96	(18)	47

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

After a difficult first half to the year, the performance of FPI in the third quarter of 2014 improved with APE of £32 million. This represents an improvement of more than a third on the run-rate of the first two quarters of the year, as sales initiatives and new products launched earlier in the year are generating profitable growth. As a result of the higher volumes, FPI delivered a VNB of £4 million in the third quarter, compared with £5 million in the first half of the year.

Notwithstanding this, FPI’s performance in the first nine months of 2014 continues to reflect the difficult market conditions throughout the businesses’ regions in the first half of the year. Despite the stronger third quarter, nine month sales volumes are down by 18% to £79 million with VNB lower at £9 million compared with the same period in 2013.

In North Asia, volumes in the first half of the year were principally impacted by the regulatory changes applied during 2013, resulting in the whole unit-linked insurance market falling by approximately a third in the first half of 2014 compared to the first half of 2013. In addition, aggressive competitor activity has caused volumes in South Asia to drop by 14% and Middle East by 10% compared to the first three quarters of 2013.

Whilst the majority of product development has been slowed ahead of implementing the new platform, a decreasing term assurance product in the Middle East and a flexible future benefit trust for UK offshore were launched earlier in the year. It is very pleasing to see that these products are selling well. The re-platforming project has made good progress, in line with planned timescales and budget, and the majority of new policies are now being written on the new platform. In-force policies are due to be migrated during 2015.

Despite a slow start to 2014, the focus on turning around the FPI business continues and management remains confident that the division will make an increasing contribution towards value for the future. Recent regulatory changes in the Middle East to prevent sales by unlicensed companies will strengthen FPI's competitive position in that region. Furthermore, the regulator in Hong Kong has initiated changes to the unit-linked market which will see a move away from upfront commission. In the longer-term, this signals a positive move for the industry and clients, leading to robust distribution models, better customer outcomes and more sustainable economics for providers. In the shorter-term, whilst we anticipate a challenging transition period as the regulation currently applies only to unit-linked products, the impact is not expected to be material to the Group as FPI's onshore Hong Kong sales account for only circa 2% of Group sales.

## 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;
- 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.

### 5.1 Regular and single premiums

	Regular premiums			Single premiums		
	9 months 2014 £m	9 months 2013 <sup>1</sup> £m	Change %	9 months 2014 £m	9 months 2013 <sup>1</sup> £m	Change %
UK division						
– Protection	70	63	11	-	-	-
– Retirement Income	-	-	-	440	500	(12)
– Corporate Benefits	421	375	12	442	333	33
<b>UK division</b>	<b>491</b>	<b>438</b>	<b>12</b>	<b>882</b>	<b>833</b>	<b>6</b>
<b>Heritage division</b>	<b>20</b>	<b>37</b>	<b>(46)</b>	<b>122</b>	<b>154</b>	<b>(21)</b>
<b>International division</b>	<b>40</b>	<b>53</b>	<b>(25)</b>	<b>387</b>	<b>431</b>	<b>(10)</b>
<b>Total Group – continuing operations</b>	<b>551</b>	<b>528</b>	<b>4</b>	<b>1,391</b>	<b>1,418</b>	<b>(2)</b>

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division

	Regular premiums			Single premiums		
	Q3 2014 £m	Q3 2013 <sup>1</sup> £m	Change %	Q3 2014 £m	Q3 2013 <sup>1</sup> £m	Change %
UK division						
– Protection	23	24	(4)	-	-	-
– Retirement Income	-	-	-	141	176	(20)
– Corporate Benefits	129	147	(12)	85	82	4
<b>UK division</b>	<b>152</b>	<b>171</b>	<b>(11)</b>	<b>226</b>	<b>258</b>	<b>(12)</b>
<b>Heritage division</b>	<b>6</b>	<b>12</b>	<b>(50)</b>	<b>32</b>	<b>43</b>	<b>(26)</b>
<b>International division</b>	<b>15</b>	<b>15</b>	<b>-</b>	<b>163</b>	<b>119</b>	<b>37</b>
<b>Total Group – continuing operations</b>	<b>173</b>	<b>198</b>	<b>(13)</b>	<b>421</b>	<b>420</b>	<b>-</b>

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

## 5.2 Group new business – APE

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

	9 months	9 months	Change %	Q3	Q3	Change %
	2014 £m	2013 <sup>1</sup> £m		2014 £m	2013 <sup>1</sup> £m	
UK division						
– Protection	70	63	11	23	24	(4)
– Retirement Income	44	50	(12)	14	18	(22)
– Corporate Benefits	465	408	14	137	155	(12)
<b>UK division</b>	<b>579</b>	<b>521</b>	<b>11</b>	<b>174</b>	<b>197</b>	<b>(12)</b>
<b>Heritage division</b>	<b>32</b>	<b>53</b>	<b>(40)</b>	<b>9</b>	<b>17</b>	<b>(47)</b>
<b>International division</b>	<b>79</b>	<b>96</b>	<b>(18)</b>	<b>32</b>	<b>26</b>	<b>23</b>
<b>Total Group – continuing operations</b>	<b>690</b>	<b>670</b>	<b>3</b>	<b>215</b>	<b>240</b>	<b>(10)</b>

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

### Quarterly APE progression

	Q3 2014 £m	Q2 2014 £m	Q1 2014 £m
UK division			
– Protection	23	23	24
– Retirement Income	14	15	15
– Corporate Benefits	137	166	162
<b>UK division</b>	<b>174</b>	<b>204</b>	<b>201</b>
<b>Heritage division</b>	<b>9</b>	<b>12</b>	<b>11</b>
<b>International division</b>	<b>32</b>	<b>24</b>	<b>23</b>
<b>Total Group – continuing operations</b>	<b>215</b>	<b>240</b>	<b>235</b>

FPI

	<b>9 months 2014 £m</b>	9 months 2013 <sup>1</sup> £m	Change %
<b>APE by region (actual exchange rates)</b>			
North Asia	<b>17</b>	25	(32)
South Asia	<b>12</b>	14	(14)
Middle East	<b>28</b>	31	(10)
UK & Rest of World	<b>22</b>	26	(15)
<b>Total</b>	<b>79</b>	96	(18)

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

### 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:

	<b>9 months 2014 £m</b>	9 months 2013 £m	Change %	<b>Q3 2014 £m</b>	As reported Q3 2013 £m	Change %
FPI <sup>1</sup>	<b>79</b>	96	(18)	<b>32</b>	26	23
Lombard - discontinued	<b>112</b>	115	(3)	<b>37</b>	28	32

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

### 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.

	<b>9 months 2014 £m</b>	9 months 2013 <sup>1</sup> £m	Change %	<b>Q3 2014 £m</b>	Q2 2014 £m	Q1 2014 £m
UK division						
– Protection	<b>497</b>	465	7	<b>161</b>	163	173
– Retirement Income	<b>440</b>	500	(12)	<b>141</b>	152	147
– Corporate Benefits	<b>2,146</b>	1,963	9	<b>617</b>	788	741
<b>UK division</b>	<b>3,083</b>	2,928	5	<b>919</b>	1,103	1,061
<b>Heritage division</b>	<b>193</b>	337	(43)	<b>55</b>	75	63
<b>International division</b>	<b>580</b>	689	(16)	<b>237</b>	176	167
<b>Total Group – continuing operations</b>	<b>3,856</b>	3,954	(2)	<b>1,211</b>	1,354	1,291

1. 2013 results have been restated to reflect the transfer of OLAB from the International to Heritage division.

## 6. Discontinued operations

	9 months 2014 £m	9 months 2013 £m	Change %	Q3 2014 £m	Q3 2013 £m	Change %
Single premiums	1,067	1,154	(8)	340	282	21
APE	107	115	(7)	34	28	21
PVNB	1,067	1,154	(8)	340	282	21

	9 months 2014 £m	9 months 2013 £m	Change %
<b>APE by region (actual exchange rates)</b>			
UK and Nordic	35	47	(26)
Northern Europe	3	1	200
Southern Europe	65	61	7
Rest of World	4	6	(33)
<b>Total including large cases</b>	<b>107</b>	<b>115</b>	<b>(7)</b>
Of which: Large cases (greater than €10m)	32	38	(16)
<b>Total excluding large cases</b>	<b>75</b>	<b>77</b>	<b>(3)</b>

## 7. Transfer of OLAB business

During the year, OLAB, which was previously reported as part of the International division, was transferred to the Heritage division. The table below shows the restatements of OLAB for all four quarters of 2013.

(£m)

	Reported Heritage	Reported FPI	OLAB	Restated Heritage	Restated FPI
<b>Q1 2013</b>					
VNB	(4)	2	(3)	(7)	5
APE	13	40	5	18	35
<b>HY 2013</b>					
VNB	(8)	4	(5)	(13)	9
APE	27	79	9	36	70
<b>Q3 2013 (YTD)</b>					
VNB	(13)	3	(9)	(22)	12
APE	41	108	12	53	96
<b>FY 2013</b>					
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 third quarter of 2014 with the accumulated value of net equity deployed (at 4% per annum) at 30 September 2014 amounting to £3,294 million (31 December 2013: £3,543 million), reflecting distributions from Resolution Holdco No.1 LP paid in the period.