

9 November 2011

## Friends Life – third quarter 2011 business update and UK Life Project update

### Summary

- UK Life Project remains on track to deliver its 2013 financial targets. The focus remains on the execution of Friends Life's strategy;
- Friends Life Group plc ("FLG") has entered into a new 15 year outsourcing arrangement with Diligenta that is expected to deliver significant additional synergies in the coming years:
  - previous targeted synergies of £112 million by end of 2013 on track and further de-risked by the outsourcing agreement. Total cost synergies now expected to rise to £143 million by end of 2015;
  - minor positive impact on IFRS profit before tax in 2011;
- intention to create an in-house asset management capability in the second half of 2012 to support strategic UK business units with:
  - potential fee recapture through immediate activities of £10 million per annum;
  - further potential to expand asset management capability over time;
- robust balance sheet:
  - Group available shareholder cash held in Friends Life holding companies totalled £352 million at the 30 September 2011 (30 June 2011: £362 million) reflecting interest costs in the period;
  - robust capital position maintained at the Group with an estimated Insurance Group Capital Adequacy ("IGCA") surplus as at 30 September 2011 of £1.85 billion (30 June 2011: £2.0 billion);
  - sovereign debt exposure to the higher risk European economies (of Portugal, Ireland, Italy, Greece and Spain) remains minimal with exposure of £7 million in respect of Italy. The Group's corporate bond exposure remains stable and highly rated and is further detailed in Appendix 3.
- strengthened senior management team at Friends Life with the appointments of Tim Tookey as Chief Financial Officer and John van der Wielen as Managing Director International (encompassing International and Lombard);

- Friends Life sets out in Appendix 1 the new business sales for the third quarter of 2011. Total sales measured on an annualised premium equivalent ('APE') basis for the nine months to 30 September 2011 were £880 million (30 September 2010: £705 million). UK sales amounted to £547 million (30 September 2010: £316 million) reflecting both the increased scale of the UK business and incremental premium growth in existing corporate pension schemes. International sales momentum continued with volumes up 11% to £195 million whilst Lombard sales, at £138 million, are down 35% on the exceptional sales level achieved in the comparative period in 2010.

Andy Briggs, chief executive officer of Friends Life Group plc, said:

"Today marks a significant step in the development of a sustainable long term business for Friends Life. We have reaffirmed our strategy for the UK, across our 'Go to Market' businesses in protection, corporate benefits and retirement income, and our UK Heritage business unit. Our partnership with Diligenta will secure ongoing service enhancements, reduce the risks to our business and deliver increased cost synergies over time. Going forwards, our new in-house asset management business will bring further opportunities.

"The UK businesses have delivered a robust performance in the period and we remain committed to our core UK markets, having already launched new propositions for the protection market. International sales have shown strong growth particularly in Asia whilst Lombard has performed well against the backdrop of European financial concerns but has not benefited from the exceptional opportunities which were available in 2010."

## **Overview**

### **1. Outsourcing**

On 8 of November 2011 Friends Life Group plc entered into a substantial outsourcing arrangement with Diligenta. This arrangement will be transformational for the Group and will deliver significant synergies in the coming years. The new 15 year contract will see approximately 1,900 Friends Life employees transferred to Diligenta with the policy administration and IT services for With-profits, Annuity, Legacy protection and UK Wealth business lines being outsourced. As a result of entering into this contract and taking account of those services already outsourced within the Group, the newly established Heritage business unit will be essentially outsourced for business administration and IT services. The scope of the IT service outsourcing also covers the go to market Corporate Benefits, Protection and International businesses.

#### **Savings**

The outsourcing arrangement is expected to generate annual cost savings of £60 million by 2015 split evenly between acquisition and maintenance expenses. Included in these expected savings is an amount of £29 million of IT and Customer Service integration synergies that would otherwise have been delivered as part of the previously announced £112 million cost savings target. The contract therefore delivers additional expected cost savings of £31 million allowing the Group to increase the cost savings target to £143 million. The previously committed element of the savings will still be delivered by end 2013 with the additional £31 million to be delivered by the end of 2015. The outsourcing arrangement contractualises these savings so that together with the slightly increased expected run-rate cost savings by year end 2011 of £40 million a total of £100 million of our targeted £143 million will have been delivered or de-risked by the end of the year.

#### **Costs**

The one-off costs of delivering these savings, principally related to the transitioning of these business lines to the Diligenta platform, are expected to be £250 million; although £20 million of previously expected one-off costs will now be avoided, resulting in net additional one-off costs of £230 million.

#### **Impact**

On an IFRS basis a reserving benefit from reduced ongoing maintenance expenses is expected to be recognised in 2011 operating profit, with an offsetting impact of one-off costs included within non-operating items. Overall, a minor positive impact is expected in IFRS profit before tax in 2011.

Appendix 4 shows the impact of the outsourcing agreement on the costs of the Heritage and go to market business units.

The IRR of the cash flows from today's announced outsourcing is projected to be 24% over the contract term.

## 2. Asset Management

Friends Life will begin the development of internal asset management capabilities with the business creating a new asset management company in the second half of 2012. This in-house asset manager is expected to support the UK business units, particularly Retirement Income, and will look to recruit and add to the current 30-strong in-house team of investment professionals. The estimated one-off costs associated with the setup of this capability are £5 million with ongoing running costs of £4 million per annum.

The Group has £61 billion of externally managed assets which will reach the end of their contractual terms within the next nine years. Currently fees of £87 million per annum, including VAT, are paid on the management of these assets.

Analysis of assets currently managed externally shown below:

	<b>Assets currently externally managed</b>	<b>Assets under management £bn</b>	<b>Potential fee recapture £m</b>
<b>Immediate focus</b>	Fixed income assets backing annuities and in shareholder funds	12	10
<b>Potential phase 2</b>	Other fixed income assets	28	24
<b>Further opportunity</b>	Equity and other assets	21	53
<b>Total</b>		<b>61</b>	<b>87</b>

The initial focus of the business will be on the development of fixed income management capability in order to bring the management of this strategically important asset class in-house. Beyond this Friends Life will review, on a cost/benefit basis, the attractiveness of expanding capability into other asset classes.

Analysis of fixed income assets currently managed externally:

<b>Notice period</b>	<b>Immediate focus</b>	<b>Potential phase 2</b>	<b>Total</b>
£bn (unless otherwise stated)			
Less than three months	8	-	8
Three months - one year	2	6	8
One year – three years	2	3	5
Three years – nine years	-	19	19
<b>Total assets</b>	<b>12</b>	<b>28</b>	<b>40</b>
Fees (exc VAT) (£m)	8	20	28
VAT (£m)	2	4	6

### **3. Cash and capital**

#### **Available Shareholder Cash ("ASC")**

ASC of £352 million was held in the Friends Life holding companies at 30 September 2011 (30 June 2011: £362 million) with the decrease reflecting interest costs in the period.

ASC does not reflect the free surplus generated by the life operating companies in the period as any surplus paid out as a dividend is normally declared following the annual actuarial valuations. No dividends have been paid to Resolution holding companies in the period.

#### **Capital and balance sheet**

The period to 30 September has seen volatile conditions in investment markets with the continuing sovereign debt crisis and concern around low economic growth creating uncertainty across the wider market. Despite this volatility, the Group's capital position remains robust with the Group's slight reduction in estimated IGCA surplus of £1.85 billion down from £2.0 billion at 30 June 2011 principally reflecting the significant widening of corporate bond spreads.

As announced at the June investor day, the plan to improve the capital efficiency of the Group continues to progress with the aim of generating £135 million of efficiencies by the end of 2011. These capital efficiencies will be realised through Part VII transfers and result in the transfer of some business from a number of smaller life companies to Friends Provident Life and Pensions Limited ("FPLP"). Further similar transactions are expected to take place in 2012 as part of the ongoing focus on capital management and efficiency.

Exposure to the higher risk European governments remains low with the only sovereign debt exposure being a £7 million exposure to Italian sovereign debt at the end of the quarter (30 June 2011: £8 million). Corporate bond exposure remains stable and manageable and the Group has provided additional disclosure of the total exposure across both financial and non-financial companies in Appendix 3 to this release.

### **4. Business leadership**

The structure and composition of Friends Life's senior management team has been further strengthened with the Group confirming the appointment of Tim Tookey, as Chief Financial Officer, and John van der Wielen, as Managing Director International. Both Tim and John have extensive experience in the financial services sector, with John expected to join on 21 November of this year and Tim expected to join on 5 March 2012.

## 5. Persistency

Friends Life's regular reviews of business performance and the appropriateness of demographic assumptions across all major product lines have identified adverse persistency experience in relation to certain products. This is due in part to some products no longer being actively marketed, primarily single premium investment bonds and individual pensions in the heritage AXA UK Life business, as well as some experience relating to broker activity in the run-up to the introduction of the Retail Distribution Review impacting corporate benefits business in both the heritage AXA and Friends Provident business units. Providing a partial offset is favourable morbidity experience on income protection business in the heritage Friends Provident book.

Investigations are continuing as part of normal governance processes, but early indications are that there is not expected to be a material impact on the 2011 IFRS results.

## 6. Winterthur Life UK acquisition

The Group expects to complete the final element of the AXA UK Life transaction before the end of 2011. This will result in the acquisition of Winterthur Life UK Limited ("WLUK") following the transfer back to AXA UK on 1 November 2011 of certain portfolios of insurance business (the Guaranteed over Fifty, ("GOF"), and Trustee Investment Plan, ("TIP") portfolios). FSA has given its approval for the Group to acquire control of WLUK.

A significant part of the corporate benefits business Friends Life has contracted to acquire from AXA is written in WLUK. WLUK generated APE of £62 million in the year to 30 September 2011 with £57 million of this being corporate benefits business and £5 million of other business. These sales are not included in the new business figures shown in Appendix 1, as Friends Life has not yet acquired this business.

**- Ends -**

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## Notes to editors

1. Headline new business figures are presented on the Annualised Premium Equivalent (APE) basis, representing annualised new regular premiums plus 10% of single premiums. The Present Value of New Business Premiums (PVNBP) basis represents new single premiums plus the expected present value of new business regular premiums. Figures on both bases together with comparatives are shown in an appendix to this update.
2. We are winners of a large number of industry awards, showing continued recognition of the quality of our products and service. These are listed in Appendix 5 of this update.
3. This announcement contains certain forward-looking statements with respect to Friends Life and its outlook. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.
4. For more information on Friends Life including, photos, awards, fast facts, presentations, and media contacts please visit the media section at [www.friendslife.co.uk](http://www.friendslife.co.uk).

## **Appendix 1**

### **Friends Life new business**

The Group continues to build a strong integrated business with total sales for the nine months to 30 September 2011 of £880 million APE (30 September 2010: £705 million).

### **UK new business**

UK sales totalled £547 million in the period to 30 September 2011 (30 September 2010: £316 million) with robust performances in the majority of businesses. The Group has had good growth in existing corporate pension scheme increments and sustained its protection volumes as the propositions move towards the target platforms.

The results on a comparative basis continue to reflect the inclusion of the acquired AXA UK Life Business from the beginning of September 2010 and the acquisition of BHA at the end of January 2011. Given the restructuring and integration of the aggregated business units over the past 12 months, the presentation of the results for the discrete underlying acquired entities no longer presents a meaningful comparison from period to period.

The results within this announcement are presented in a format consistent with previous releases and do not reflect the changes in the UK management structure announced in August 2011. A reconciliation of sales volumes under the new management structure is covered within Appendix 2.

### **Protection**

Protection sales were £80 million in the period to 30 September 2011 and in-line with the performance in the first half of 2011. The individual protection market has remained flat and set against a challenging economic backdrop, whilst there continues to be a competitive market for group protection.

The Group's strategy for the protection business focuses on the leveraging of the acquired BHA platform to deliver a low cost and efficient proposition. In July all group protection new business was successfully migrated to the chosen strategic platform when the new integrated proposition was launched to the market. The individual protection menu proposition will now migrate to the strategic platform following the launch of the "Protect+" proposition in October.

Individual protection sales of £65 million (30 September 2010: £32 million) have performed well in the period with strong sales through all Friends Life businesses. The launch of Friends Life's single integrated individual protection proposition referred to above will impact the fourth quarter of 2011 with some reduction in total volumes expected as two, currently offered, market products are withdrawn.

The Group continues to work with key distributors with a new single tie arrangement agreed with Connells, one of the UK's largest estate agencies and property service groups, which will come into force during 2012. The arrangement also sees Sesame Bankhall Group and Connells entering into a long-term partnership involving a range of services including regulatory protection for Connells' 450 mortgage consultants operating across its UK estate agency offices.

Group protection sales amounted to £15 million in the period (30 September 2010: £3 million).

### **Corporate benefits**

The corporate benefits market remains challenging with the wider economic environment putting downward pressure on recruitment and wage growth. Despite this, the corporate benefits proposition has delivered strong growth in incremental premiums through its existing in-force schemes with corporate pension sales totalling £367 million in the period to 30 September 2011.

Work continues on the integration of the Corporate Benefits propositions with enhancements being made to the selected platform for new corporate pension business, in order to house the transfer of schemes from WLUK.

Corporate benefits funds under management total £17.0 billion (including Friends Provident New Generation Pensions ("NGP") and AXA UK Life Business corporate pensions business but excluding £2.3 billion of WLUK business). Recent market volatility has adversely affected funds under management but despite this the resilience of the corporate benefits business has seen net fund inflows of £0.2 billion in the quarter taking year to date net inflows to £0.5 billion.

Friends Life remain optimistic about the growth potential of the corporate benefits market with auto enrolment expected to significantly increase pension scheme membership, and the Retail Distribution Review ("RDR") expected to focus more business in Friends Life's target market. In the longer term, the continued flow of money from defined benefit schemes to defined contribution and strong demographics are expected to fuel continued market growth. The launch of the Corporate Platform, at the turn of the year, will expand Friends Life's proposition in the wider workplace savings market.

### **Retirement income**

Annuity sales volumes amounted to £28 million in the period to 30 September 2011 (30 September 2010: £21 million). Improvement in annuity volumes principally reflects the inclusion of the acquired AXA UK Life Business although this is against strong 2010 sales. The changes to retirement rules in April 2010, whilst principally resulting in a strong 2010 comparator, has also temporarily reduced the number of potential annuitants for future periods.

Implementation of the new retirement income strategy is ongoing, with a significant focus on building specialist capability within the business and implementation planning. The strategy will improve the retention of maturing pension funds whilst ensuring the business has the option to support a disciplined entry into the OMO market.

### **Other products**

Sales of individual pensions amounted to £43 million in the period whilst investment sales totalled £30 million principally through the AXA UK Life Business onshore bond product.

## **International**

The International business sales volumes continued the strong growth seen in the first half of 2011, with sales up 11% to £195 million (30 September 2010: £176 million). The business has seen good growth in the majority of its core markets with notable performances in North Asia and South East Asia. These markets have developed well over the period with growth in regular premium and single premium business benefiting from the local economic environment being more buoyant than Europe despite the recent financial market shocks.

Consistent with the strategic aim of the business, the third quarter also marked the beginning of the rollout of the revised regular premium contract, Premier, which will improve the product's profitability. The rollout of the new regular premium contract will continue into 2012.

The German market remains subdued, weighed down by weaker economic conditions in the rest of Europe. Whilst volumes are largely static in Germany compared to 2010 there has been a fall in the unit-linked market but the International business continues to increase its market share. The business remains confident that sustained growth is achievable in the German market and has strong ties, through fpb, with the local distributors.

Sales through the Group's Malaysian joint venture, AmLife Insurance Berhad, amounted to £5.3 million at the end of September, down from £7.7 million in the same period of 2010.

## **Lombard**

Lombard sales are significantly lower than the levels achieved in 2010, with APE at £138 million in the period to 30 September 2011 (2010: £213 million, 2009: £75 million).

Historically the Lombard sales profile, driven largely by European tax year ends, has been biased towards the final quarter of the year. In this regard, as noted in the Group's half year results, 2010 was unusual. Sales in 2010 were supported by catalysts such as the EU saving directive ("EUSD") and Italian scudo, with these driving a significant volume of sales in the earlier quarters of the year. The performance in 2011 largely reflects the absence of these drivers, albeit showing an 83% growth on 2009 comparatives.

Regionally the business has seen strong performance in a number of markets including Finland, France, Spain and Asia where performance has been good in comparison with 2010. In addition, despite the lack of specific growth drivers, such as the tax amnesty, the Italian market remains a significant driver of sales volumes for Lombard.

The fundamentals of Lombard's solution remain attractive. However, the current economic environment, with the sovereign debt crisis and investment market volatility has affected investors' confidence, resulting in inertia with respect to investment decisions. Despite this, in the market context, Lombard has performed well relative to the wider Luxembourg life insurance market where total premium income decreased by 45% compared to 2010.

Looking forward, whilst the performance in the second half of 2011 is not anticipated to fully compensate for the year to date shortfall, it is expected to be significantly stronger due to the normal seasonal drivers and improved performance expected in some regions through a range of marketing and sales initiatives.

## Analysis of Life and Pensions New Business

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

- single new business premiums consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals;
- regular new business premiums consist of those contracts under which there is an expectation of continuing premiums being paid at regular intervals, including repeated or recurrent single premiums where the level of premiums is defined, or where a regular pattern in the receipt of premiums has been established;
- non-contractual increments under existing group pensions schemes are classified as new business premiums;
- transfers between products where open market options are available are included as new business; and
- regular new business premiums are included on an annualised basis.
- the figures quoted in this announcement do not include any GOF or TIP new business written in Friends Life Company Limited ("FLC") as this business has been transferred back to AXA UK as referred to above.

### Regular and Single Premiums

	Regular premiums			Single premiums		
	9 mths* 2011 £m	9 mths** 2010 £m	Change %	9 mths* 2011 £m	9 mths** 2010 £m	Change %
<b>Corporate</b>						
- pensions	<b>322.4</b>	212.0	52	<b>442.0</b>	169.9	160
- protection	<b>15.1</b>	3.4	344	-	-	-
<b>Individual</b>						
- protection	<b>64.5</b>	31.5	105	-	4.2	(100)
- pensions	<b>12.1</b>	5.4	124	<b>310.3</b>	173.3	79
- investments	-	0.1	(100)	<b>299.4</b>	84.2	256
<b>Annuities</b>	-	-	-	<b>279.7</b>	204.9	37
<b>Total UK Life &amp; Pensions</b>	<b>414.1</b>	252.4	64	<b>1,331.4</b>	636.5	109
International	<b>143.5</b>	140.9	2	<b>512.6</b>	350.6	46
Lombard	-	-	-	<b>1,375.7</b>	2,130.0	(35)
<b>Total International Life &amp; Pensions</b>	<b>143.5</b>	140.9	2	<b>1,888.3</b>	2,480.6	(24)
<b>Total Life &amp; Pensions</b>	<b>557.6</b>	393.3	42	<b>3,219.7</b>	3,117.1	3

\* includes the trading results of the acquired BHA business for the period 1 February 2011 to 30 September 2011.

\*\* includes the trading results of the acquired AXA UK Life Business for the month of September 2010.

	Regular premiums			Single premiums		
	Q3	Q3	Change	Q3	Q3	Change
	2011	2010		2011	2010	
	£m	£m	%	£m	£m	%
<b>Corporate</b>						
- pensions	113.1	71.9	57	114.9	49.6	132
- protection	3.3	0.9	267	-	-	-
<b>Individual</b>						
- protection	20.5	13.5	52	-	4.2	(100)
- pensions	3.6	2.3	57	64.2	57.2	12
- investments	-	0.1	(100)	79.6	67.5	18
<b>Annuities</b>	-	-	-	91.0	69.8	30
<b>Total UK Life &amp; Pensions</b>	<b>140.5</b>	<b>88.7</b>	<b>58</b>	<b>349.7</b>	<b>248.3</b>	<b>41</b>
International	47.5	43.7	9	151.0	118.0	28
Lombard	-	-	-	407.0	781.9	(48)
<b>Total International Life &amp; Pensions</b>	<b>47.5</b>	<b>43.7</b>	<b>9</b>	<b>558.0</b>	<b>899.9</b>	<b>(38)</b>
<b>Total Life &amp; Pensions</b>	<b>188.0</b>	<b>132.4</b>	<b>42</b>	<b>907.7</b>	<b>1,148.2</b>	<b>(21)</b>

\* includes the trading results of the acquired AXA UK Life Business for the month of September 2010.

#### APE

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

	9mths*	9mths**	Change	Q3	Q3**	Change
	2011	2010		2011	2010	
	£m	£m		£m	£m	
<b>Corporate</b>						
- pensions	366.6	229.0	60	124.6	76.9	62
- protection	15.1	3.4	344	3.3	0.9	267
<b>Individual</b>						
- protection	64.5	31.9	102	20.5	13.9	47
- pensions	43.1	22.8	89	10.0	8.1	23
- investments	29.9	8.5	252	7.9	6.8	16
<b>Annuities</b>	<b>28.0</b>	<b>20.5</b>	<b>37</b>	<b>9.1</b>	<b>7.0</b>	<b>30</b>
<b>Total UK Life &amp; Pensions</b>	<b>547.2</b>	<b>316.1</b>	<b>73</b>	<b>175.4</b>	<b>113.6</b>	<b>54</b>
International	194.8	175.9	11	62.6	55.3	13
Lombard	137.6	213.1	(35)	40.7	78.2	(48)
<b>Total International Life &amp; Pensions</b>	<b>332.4</b>	<b>389.0</b>	<b>(15)</b>	<b>103.3</b>	<b>133.5</b>	<b>(23)</b>
<b>Total Life &amp; Pensions</b>	<b>879.6</b>	<b>705.1</b>	<b>25</b>	<b>278.7</b>	<b>247.1</b>	<b>13</b>

\* includes the trading results of the acquired BHA business for the period 1 February 2011 to 30 September 2011.

\*\* includes the trading results of the acquired AXA UK Life Business for the month of September 2010.

## Quarterly new business progression - APE

	Q3 2011 £m	Q2 2011 £m	Q1* 2011 £m
<b>Corporate</b>			
- pensions	124.6	128.8	113.2
- protection	3.3	7.3	4.5
<b>Individual</b>			
- protection	20.5	21.9	22.1
- pensions	10.0	23.3	9.8
- investments	7.9	8.5	13.5
<b>Annuities</b>	9.1	10.1	8.8
<b>Total UK life and pensions</b>	<b>175.4</b>	<b>199.9</b>	<b>171.9</b>
International	62.6	68.8	63.4
Lombard	40.7	62.5	34.4
<b>Total International life and pensions</b>	<b>103.3</b>	<b>131.3</b>	<b>97.8</b>
<b>Total life and pensions</b>	<b>278.7</b>	<b>331.2</b>	<b>269.7</b>

\* includes the trading results of the acquired BHA business for the period 1 February 2011 to 31 March 2011.

## International – APE by region

£m, actual exchange rates	9mths 2011	9mths 2010	Change %
North Asia	83.5	69.7	20
South Asia	19.6	15.3	28
Middle East	34.4	33.7	2
Europe (Excl UK)	21.6	26.1	(17)
UK	13.8	7.1	94
Rest of World	16.6	16.4	1
Malaysia (AmLife)	5.3	7.7	(31)
<b>Total</b>	<b>194.8</b>	<b>176.0</b>	<b>11</b>

## Lombard – APE by region

£m, actual exchange rates	9mths 2011	9mths 2010	Change %
UK and Nordic	32.7	51.2	(36)
Northern Europe	22.2	86.8	(74)
Southern Europe	63.0	67.5	(7)
Rest of World	19.7	7.5	163
<b>Total including large cases</b>	<b>137.6</b>	<b>213.0</b>	<b>(35)</b>
Of which: Large cases (greater than €10m)	48.9	60.6	(19)
<b>Total excluding large cases</b>	<b>88.7</b>	<b>152.4</b>	<b>(42)</b>

## 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>9mths 2011 £m</b>	9mths 2010 (as reported) £m	Change %	<b>Q3 2011 £m</b>	Q3 2010 (as reported) £m	Change %
International	<b>199.9</b>	176.0	14	<b>63.4</b>	55.3	15
Lombard	<b>134.1</b>	213.0	(37)	<b>39.7</b>	78.2	(49)

## 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, when the contribution to profits from new business is not published. All amounts in currency other than Sterling are translated into Sterling at a monthly average exchange rate.

	<b>9mths<sup>(i)</sup> 2011 £m</b>	9mths <sup>(ii)</sup> 2010 £m	Change %	<b>Q3 2011 £m</b>	<b>Q2 2011 £m</b>	<b>Q1<sup>(iii)</sup> 2011 £m</b>
<b>Corporate</b>						
- pensions	<b>1,811</b>	999	81	<b>612</b>	<b>622</b>	<b>577</b>
- protection	<b>93</b>	20	365	<b>19</b>	<b>47</b>	<b>27</b>
<b>Individual</b>						
- protection	<b>418</b>	188	122	<b>131</b>	<b>145</b>	<b>142</b>
- pensions	<b>368</b>	197	87	<b>80</b>	<b>206</b>	<b>82</b>
- investments	<b>299</b>	86	248	<b>79</b>	<b>86</b>	<b>134</b>
<b>Annuities</b>	<b>280</b>	205	37	<b>91</b>	<b>101</b>	<b>88</b>
<b>Total UK life and pensions</b>	<b>3,269</b>	1,695	93	<b>1,012</b>	<b>1,207</b>	<b>1,050</b>
International	<b>1,206</b>	1,046	15	<b>378</b>	<b>432</b>	<b>396</b>
Lombard	<b>1,376</b>	2,130	(35)	<b>407</b>	<b>625</b>	<b>344</b>
<b>Total International life and pensions</b>	<b>2,582</b>	3,176	(19)	<b>785</b>	<b>1,057</b>	<b>740</b>
<b>Total life and pensions</b>	<b>5,851</b>	4,871	20	<b>1,797</b>	<b>2,264</b>	<b>1,790</b>

(i) includes the trading results of the acquired BHA business for the period 1 February 2011 to 30 September 2011.

(ii) includes the trading results of the AXA UK Life Business for the month of September 2010.

(iii) includes the trading results of the acquired BHA business for the period 1 February 2011 to 31 March 2011.

## Appendix 2 – UK management structure

### New UK management structure at Friends Life

Friends Life announced, in its interim results, the creation of the UK Heritage business unit. This new business unit will manage the requirements of customers with products that are no longer being actively marketed, alongside those with legacy products that have previously been closed to new business.

The UK Heritage business unit will collectively manage the multiple legacy platforms and no longer actively marketed products which have been acquired through Friends Provident, AXA UK Life Business and BHA over the previous 14 months. The creation of the UK Heritage business unit will ultimately allow increased focus on the management of the legacy product portfolio, the customers and the underlying platforms.

The scale of the UK Heritage business is significant and forms the bulk of the UK business in terms of customers, assets under management, with this scale requiring focused management resource to deliver the required quality of service to customers as well as the overall value to the Group. The announcement today to enter into a long term outsourcing arrangement will enable the business to manage the inherent complexity as well as control the cost associated with these platforms, whilst also allowing the go to market businesses to operate low cost platforms and improve cash generation.

The UK Heritage business represents the bulk of the UK business as shown below:

	<b>Heritage</b>	<b>Go to market</b>	<b>Total UK</b>
Assets under management	£68bn	£15bn	£83bn

### Protection

The business is progressing well with the transfer of new business capability of the Friends Provident and AXA UK Life Business to the chosen BHA platform. The protection business will have a new business product range that includes both individual and group protection, with both of these business lines being written on the target platform.

The Protection business is made up of the open IFA and controlled protection businesses and the group protection business. The protection business lines that are no longer actively marketed to new customers have been transferred to UK Heritage and immediate needs annuities have been transferred to Retirement income.

### Corporate benefits

The Friends Provident New Generation Pensions ("NGP") platform, the corporate and individual pension platform for the Friends Provident business since 2001, has been chosen as the strategic platform for the Corporate benefits business.

The Corporate benefits business, as re-presented, consists of corporate and individual pension business written on the NGP platform, business written on the AXA UK Life Embassy platform and the new workplace savings platform. The UK Heritage business will have responsibility for the remaining legacy platforms, with both Friends Provident and AXA UK Life platforms continuing to generate incremental new business.

## Retirement income

The retirement income business will capture the vesting annuities on the AXA UK Life and Friends Provident platforms and the NGP platform. In addition the business will capture the relatively small amount of immediate needs annuity business previously reported as protection. The UK Heritage business will manage the annuity business currently written in the with-profits fund.

## UK Heritage

The UK Heritage business will collectively manage the multiple legacy platforms and products that are no longer actively marketed. The impact on reported sales volumes is presented below and will include the legacy pensions, protection and annuity business lines as well as the investment bond business which the Group announced would no longer be marketed in February 2011.

A reconciliation from the historic presentation of sales into the new business unit structure is shown below for the nine months to 30 September 2011 and the 2011 half year APE sales volumes.

APE (£m)	New UK management structure				
	Protection	Corporate benefits	Retirement income	Heritage	Total UK
Half year to 30 June 2011					
<b>Corporate</b>					
- pensions	-	208	-	34	<b>242</b>
- protection	12	-	-	-	<b>12</b>
<b>Individual</b>					
- protection	38	-	2	4	<b>44</b>
- pensions	-	11	-	22	<b>33</b>
- investments	-	-	-	22	<b>22</b>
<b>Annuities</b>	-	-	14	5	<b>19</b>
<b>Sales across new UK management structure</b>	<b>50</b>	<b>219</b>	<b>16</b>	<b>87</b>	<b>372</b>

**APE (£m)****New UK management structure**

<b>Nine months to 30 September 2011</b>	<b>Protection</b>	<b>Corporate benefits</b>	<b>Retirement income</b>	<b>Heritage</b>	<b>Total UK</b>
<b>Corporate</b>					
- pensions	-	314	-	53	<b>367</b>
- protection	15	-	-	-	<b>15</b>
<b>Individual</b>					
- protection	57	-	3	4	<b>64</b>
- pensions	-	14	-	29	<b>43</b>
- investments	-	-	-	30	<b>30</b>
<b>Annuities</b>	-	-	22	6	<b>28</b>
<b>Sales across new UK management structure</b>	<b>72</b>	<b>328</b>	<b>25</b>	<b>122</b>	<b>547</b>

### Appendix 3 – Shareholder exposure to higher risk European debts and banks

	<b>Total £m</b>	Spain £m	Portugal £m	Italy £m	Ireland £m	Greece £m
Sovereign debt	<b>7</b>	-	-	7	-	-
Corporate exposure						
- Domestic banks	<b>98</b>	30	-	65	3	-
- Domestic non-bank financials	<b>35</b>	-	-	13	22	-
- Non-domestic banks	<b>43</b>	39	-	4	-	-
- Domestic non-financials	<b>195</b>	64	11	109	11	-
- Non-domestic non-financials	<b>34</b>	34	-	-	-	-
<b>Total 30 September 2011</b>	<b>412</b>	<b>167</b>	<b>11</b>	<b>198</b>	<b>36</b>	<b>-</b>
Total 30 June 2011	447	172	12	225	38	-
Total 31 December 2010	451	159	14	228	50	-

### Shareholder exposure to bank debt securities

Seniority	Rating	UK	Euro	USA	France	PIIGS*	ROW	Shareholder Total
<b>Senior</b>	AAA	27	580	-	16	-	4	627
	AA	87	40	3	-	11	32	173
	A	112	26	261	2	12	-	413
	BBB	-	-	-	-	3	-	3
	Below BBB/NR	-	3	-	-	-	-	3
	<b>Senior Total</b>	<b>226</b>	<b>649</b>	<b>264</b>	<b>18</b>	<b>26</b>	<b>36</b>	<b>1,219</b>
<b>Secured</b>	AAA	23	-	-	37	21	-	81
	A	4	-	11	-	-	-	15
	BBB	-	-	5	-	-	-	5
	Below BBB/NR	-	-	-	-	-	-	-
	<b>Secured Total</b>	<b>27</b>	<b>-</b>	<b>16</b>	<b>37</b>	<b>21</b>	<b>-</b>	<b>101</b>
<b>Subordinated</b>	AA	-	9	-	-	16	27	52
	A	269	90	59	25	59	37	539
	BBB	110	12	5	19	19	10	175
	Below BBB/NR	81	-	-	-	-	-	81
	<b>Subordinated Total</b>	<b>460</b>	<b>111</b>	<b>64</b>	<b>44</b>	<b>94</b>	<b>74</b>	<b>847</b>
<b>Cash</b>	<b>Cash Total</b>	<b>463</b>	<b>311</b>	<b>109</b>	<b>271</b>	<b>60</b>	<b>208</b>	<b>1,422</b>
<b>Grand Total</b>		<b>1,176</b>	<b>1,071</b>	<b>453</b>	<b>370</b>	<b>201</b>	<b>318</b>	<b>3,589</b>

\*Portugal, Ireland, Italy, Greece, Spain

**Appendix 4 – Impact of outsourcing agreement on costs of Heritage and go to market business units**

	<u>2010 Baseline costs</u>		<u>Post-synergies cost base</u>	
	<u>UK total = £476m</u>		<u>UK total = £333m</u>	
	<b>Acquisition</b>	<b>Maintenance</b>	<b>Acquisition</b>	<b>Maintenance</b>
Heritage	£111m	£206m	£26m	£171m
Go to market	£109m	£50m	£92m	£44m

Note: This is not a projection but reflects anticipated savings on the baseline operating cost base.

## **Appendix 5 – Recent awards**

### **Pensions**

- FTAdviser Online Service Awards 2011 - Life & Pensions - 3 Star
- Incisive Media Gold Standard for Group Pensions – Corporate Benefits (highly commended)
- Financial Technology Research Centre - e-Excellence Ratings 2011. Triple E ratings: Group SIPP, CIMP, Group Personal Pensions including Stakeholder and Individual Pensions

### **Protection**

- Defaqto Rating 2011 - 5 Star for Income Protection Plan, Income Protection eSelect, Select Protection and Critical Illness Cover, Protect + Critical Illness Cover and Income protection.
- Financial Technology Research Centre - e-Excellence Ratings 2011. Friends Provident received numerous Triple E ratings: Life Protection, Critical Illness, Income Protection and Protection Menu
- Incisive Media Gold Standard Awards for Protection
- Financial Adviser Service Awards 2010 – Life & Pensions
- LifeSearch Protection Awards 2011. AXA Protection received numerous awards including Best Critical Illness Provider, Best Service Provider

### **Investments**

- Financial Adviser Service Awards 2010 - Investments - 4 Star
- Investment Life & Pensions Moneyfacts 2011 Awards. Ethical Investment Provider (highly commended)
- Financial Technology Research Centre - e-Excellence Ratings 2010. Friends Provident received Triple E ratings for Unit Linked Bonds

### **International**

- POLICY magazine Middle East Insurance Awards 2010 – Life Insurer of the Year
- Gulf Insurance Review MENA awards - Life insurer of the year 2011
- International Adviser Awards 2011:
  - Best Adviser Support and Customer Service - Asia
  - Best Single Premium Investment Product - Asia (for Reserve)
  - Best Protection Product - Asia (for Intl protector Asia)
  - Best Protection Product - Middle East (for Intl Protector Middle East)
  - Best Overall Product Range - Asia

### **Sesame Bankhall**

- Money Marketing Financial Services Awards 2010. Sesame won 'Best Network and Support Services' provider as well as 'Best Mortgage Network'.
- Professional Advisor Awards 2011. Sesame won 'Best IFA Network'
- Mortgage Strategy Awards 2011. Sesame won 'Best Network'