

# News Release

31 January 2006

## Buoyant final quarter drives strong UK and International growth for Friends Provident

Total life and pensions new business (on a PVNBP<sup>1</sup> basis) for 2005 increased by 70% to £5,397 million (2004: £3,178m).

UK life and pensions:

- Total UK new business up 21% to £3,192 million (2004: £2,641m)
- Group pensions up 48% to £1,577 million (2004: £1,065m)<sup>2</sup>
- Investment up 15% to £672 million (2004: £582m)
- Protection down 8% to £400 million (2004: £437m)
- Individual pensions (excluding DWP rebate premiums) up 36% to £193 million (2004: £142m)

International life and pensions:

- Total International new business up 311% to £2,205 million (2004: £537m) following the acquisition of Lombard International (Lombard) in January 2005
- Friends Provident International (FPI) business up 32% to £708 million (2004: £537m)
- Lombard business up 15% (on a pro forma basis<sup>3</sup>) to £1,497 million (2004: £1,300m)

Ben Gunn, chief executive of Friends Provident Life and Pensions, said:

“These excellent results reflect the new shape of Friends Provident, with international sales growing strongly and exceeding 40% of the total, even though our UK sales will have outstripped the market.

### Friends Provident plc

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**FRIENDS PROVIDENT**

"In the UK, excellent service and a comprehensive choice of funds allowed us to win a greater share of the group pensions market, alongside strong increases in individual pensions and investment sales. The subdued housing market through most of 2005 and increasing competition have continued to constrain protection sales.

"The highly successful group pensions sales in the last quarter moved the mix towards inherently lower margin products in the UK last year. In 2006, we expect to maintain our strong volume momentum and, along side some pick up in protection sales, anticipate stable margins within product segments.

"FPI and Lombard made very strong progress. FPI has seen strong growth in all its main markets and Lombard enjoyed solid growth in all its key territories with the exception of Germany, which, as previously stated, benefited from one-off exceptional sales in 2004. It is likely that the maximum amount under the Lombard acquisition earn-out will be payable for 2005.

"Both core businesses, UK and International, are very well positioned for next year and our distribution arrangements, in the UK and overseas, will have a positive impact to support future profitable growth."

**Notes to editors:**

1. Except where noted otherwise, all new business figures in this announcement are on a Present Value of New Business Premiums (PVNBP) basis, in line with our statement at Q3 2005. PVNBP equals new single premiums plus the expected present value of new regular premiums. This change has been made due to the introduction of European Embedded Value (EEV) reporting. Previous announcements have given results on the Annual Premium Equivalent (APE) basis, and for convenience APE figures and further details on the PVNBP basis are shown in the tables at the end of this announcement.
2. In our Q3 2005 announcement we stated that there would be a change to the definition of new group pensions business from Q4 2005 onwards. We no longer anticipate new entrants partially replacing leavers and treat them instead as new entrants when they arrive. All results and comparatives in this announcement include the impact of this change.

3. The pro forma basis takes account of Lombard's 2004 new business, achieved before Friends Provident acquired the company in January 2005.

4. Financial reporting dates

2005 Friends Provident plc preliminary results 23 March 2006

2006 Quarter 1 life and pensions new business 28 April 2006

2006 Friends Provident plc AGM 25 May 2006

- Ends -

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### **Commentary and tables**

Total new life and pensions business in 2005 increased 70% to £5,397 million (2004: £3,178m) and by 147% to £2,071 million for the fourth quarter of 2005 (2004: £839m), mainly reflecting the concentration of Lombard sales in the fourth quarter.

### **UK life and pensions**

New UK life and pensions business in 2005 increased by 21% to £3,192 million (2004: £2,641m), and by 33% to £918 million for the fourth quarter of 2005 (2004: £691m).

### **Life business**

New life business for 2005 increased by 5% to £1,072 million (2004: £1,019m). Total fourth quarter sales were up 10% at £293 million (2004: £267m).

New protection business continued the trend established in the first nine months of the year, declining by 8% for the whole year, to £400 million (2004: £ 437m), and by 5% for the fourth quarter, to £103 million (2004: £108m). Levels of activity in the housing market through most of the year were below those seen in 2004 and there was increasingly strong pricing competition between protection providers in 2005.

Investment business increased by 15% to £672m in the whole of 2005 (2004: £582m) and by 19% to £190 million in the fourth quarter (2004: £159m). Over 80% of sales were of our Investment Portfolio Bond, allowing a wide choice of funds, including 52 external funds.

### **Pensions business**

2005 total new pensions business was 31% up on last year at £2,120 million (2004: £1,622m) with a very strong fourth quarter increase of 47% to £625 million (2004: £424m).

New group pensions business was 48% up over the year at £1,577 million (2004: £1,065), and the fourth quarter sales of £462 million (2004: £273m) were 69% up on last year. Our excellent reputation for service with intermediaries and flexibility in fund offerings were key factors in winning a number of large schemes in the fourth quarter.

New individual pensions business (excluding DWP rebates) was up by 36% for the full year at £193 million (2004: £142m) and by 51% for the fourth quarter at £53 million (2004: £35m). Our new product range, launched in April, has yielded an increase of over 50% compared to 2004 in more profitable single premium business. DWP rebate business was 20% down at £108 million (2004: £135m), with the fourth quarter 7% up on 2004 at £64 million (2004: £60m). Following a delay in the receipt of premiums earlier in the year, the majority of the DWP payments outstanding at Q3 2005 have now been received. New annuity business was down 14% to £242 million (2004: £280m) in line with our selective approach to this market.

### **UK outlook**

In 2005 we continued to establish a strong position with mortgage-related distributors, including a considerable number of distribution deals with new partners, as a result of our market leading on-line processing capability. This should flow through into our figures as we progress through 2006. We expect demand for both individual and group pensions to continue to be stimulated by the many and well documented regulatory and market factors. Our flexible processing platform and independently assessed 5 Star customer service record should ensure we are competitive in the group pensions market. Overall, we expect to maintain our volume momentum in the UK market, and, alongside an increase in protection sales, stable margins within product segments.

### **International life and pensions**

New International life and pensions business increased 311% (20% on a pro-forma basis) for 2005 to £2,205 million (2004: £1,837m) and by 23% on a pro-forma basis for the fourth quarter of 2005 to £1,153 million (2004: £936m).

### **Friends Provident International (FPI)**

New FPI business increased over the full year by 32% to £708 million (2004: £537m) and by 52% to £225 million for the fourth quarter (2004: £148m). Single premium bond sales, mainly in the lower margin UK market, were the strongest drivers of growth. Regular premiums rose by around 25% against 2004, bolstered by a new product aimed at high net worth customers and by marketing campaigns in Asia and the Middle East. We expect to see continued growth across all our key markets as we increase our emphasis on Asia and seek more distribution agreements with strategic partners.

### **Lombard International (Lombard)**

Lombard achieved £1,497 million of new business in 2005, an increase on a pro-forma basis of 15% (2004: £1,300m). Sales continue to be heavily weighted to the fourth quarter, with strong growth in new business, up on a pro-forma basis that quarter by 18% at £928 million (2004: £788m). There were strong gains across a number of markets, particularly Belgium and the UK. The German market remains important, despite no longer benefiting from the exceptional fourth quarter performance experienced in 2004. Sales were more geographically diverse than in 2004, with new business in Belgium, Germany and Spain approximately equal. This geographical diversity will provide a strong platform for further growth in 2006 and beyond.

## About Friends Provident

- **One of the UK's leading financial services groups**
  - A FTSE 100 company comprising three core businesses:
    - Friends Provident Life and Pensions Limited, a top ten UK life and pensions company and a leading international cross-border player
    - F&C Asset Management plc (51% ownership), a top five UK asset manager with a growing European presence
- **Emphasis on service**
  - Five Star service awards for Life and Pensions and for Investments. Winner of Life and Pensions - Electronic award. (source: 2005 Financial Adviser Practiv Service Awards)
  - Best E-Commerce Provider (source: 2005 LifeSearch Protection Awards)
  - F&C voted 'Best Investment Trust Provider' in the 2005 Personal Finance Magazine Readership Awards
- **Leading-edge systems**
  - Single-platform system capable of accommodating high volumes, cost effectively
  - Automated interface with back-office IFA and third party systems with over 50% of business transacted online
  - Winner of Life Insurance Company of the Year at the Professional Pensions UK Pensions Awards 2005
  - Friends Provident is the only company to receive triple 'e' e-Excellence ratings for individual protection, individual personal pensions and group pensions awarded by the Financial Technology Research Centre in association with Money Marketing 2005
- **Fast-growing**
  - Market share (UK life and pensions) increased by a quarter since listing in 2001
  - Funds managed by Friends Provident plc since it listed in 2001, have grown four-fold from c£30 billion to more than £130 billion
- **Financially strong**
  - Financial strength credit ratings categorised 'strong' (Standard & Poor's A+ with stable outlook, Moody's A2 with positive outlook)
  - Risk Capital Margin covered over seven times (30 June 2005)
  - Free Asset Ratio 14.3% (30 June 2005)
- **A diversified provider of investment solutions**
  - F&C is a market leader in the investment trust market. The flagship Foreign & Colonial Investment Trust was the first such trust, launched in 1868, and remains the largest of its kind
  - F&C's private equity partner, ISIS Equity Partners, was winner of the 2004 BVCA/Real Deals Private Equity House of the Year Award
  - F&C is a top five manager of UK commercial property
  - F&C Amethyst was winner of its category in the 2005 EuroHedge Awards
- **Renowned ethical heritage**
  - Founded by Quakers in 1832 to address social needs
  - Pioneered linking investments with ethical principles (Stewardship - 1984; Responsible Engagement Overlay - *reo*® - 2000)
  - Rated as one of the Top 100 Companies that Count and a member of the FTSE4Good and Dow Jones World Sustainability Indices
  - Stewardship Income Fund winner of the 2005 Lipper Funds Awards, ethical category
  - F&C (ISIS) overall winner of the Corporation of London's Liveable Cities Awards, 2004 and 2003.

More 'at a glance' information available at [www.friendsprovident.com/fastfacts](http://www.friendsprovident.com/fastfacts)  
Friends Provident media image library is available at [www.friendsprovident.com/imagelibrary](http://www.friendsprovident.com/imagelibrary) a Newscast login is required.

## Friends Provident New Life and Pensions Business

12 months to 31 December 2005 vs 12 months to 31 December 2004

	12 months 2005			12 months 2004			% Change		
	Regular Prens £m	Single Prens £m	PVNB £m	Regular Prens £m	Single Prens £m	PVNB £m	Regular Prens %	Single Prens %	PVNB %
<b>UK Operations</b>									
<b>Life</b>									
Protection	65.8	0.1	400	73.9	0.0	437	(11)	0	(8)
Investment	1.8	660.3	672	1.6	574.7	582	13	15	15
	67.6	660.4	1,072	75.5	574.7	1,019	(10)	15	5
<b>Pensions</b>									
Individual Pensions	11.6	141.7	193	12.0	93.1	142	(3)	52	36
DWP Rebates	0.0	107.7	108	0.0	135.3	135	0	(20)	(20)
Group Pensions	235.0	474.9	1,577	165.9	267.5	1,065	42	78	48
Annuities	0.0	241.5	242	0.0	278.0	280	0	(13)	(14)
	246.6	965.8	2,120	177.9	773.9	1,622	39	25	31
<b>UK Life and Pensions</b>	<b>314.2</b>	<b>1,626.2</b>	<b>3,192</b>	<b>253.4</b>	<b>1,348.6</b>	<b>2,641</b>	<b>24</b>	<b>21</b>	<b>21</b>
<b>International Operations</b>									
Lombard	0.0	1,497.3	1,497	0.0	0.0	0	-	-	-
Friends Provident International	61.4	386.5	708	49.1	252.4	537	25	53	32
<b>Total International Life and Pensions</b>	<b>61.4</b>	<b>1,883.8</b>	<b>2,205</b>	<b>49.1</b>	<b>252.4</b>	<b>537</b>	<b>25</b>	<b>646</b>	<b>311</b>
<b>Total Group Life and Pensions</b>	<b>375.6</b>	<b>3,510.0</b>	<b>5,397</b>	<b>302.5</b>	<b>1,601.0</b>	<b>3,178</b>	<b>24</b>	<b>119</b>	<b>70</b>

### PVNB by channel

12 months to 31 December 2005 vs 12 months to 31 December 2004

	12 months 2005		12 months 2004 (excluding Lombard)	
	£m	%	£m	%
UK - IFA	2,885	53.4	2,112	66.5
UK - Tied	307	5.7	529	16.6
International	2,205	40.9	537	16.9

### Lombard Total PVNB

	2005		2004	
	€m	£m	€m	£m
<b>12 Months</b>	2,185	1,497	1,892	1,300

All amounts in currency other than sterling are translated into sterling at a monthly average exchange rate. Movements in exchange rates during 2005 have not had any material impact on the new business reported for Lombard.

## Friends Provident New Life and Pensions Business

3 months to 31 December 2005 vs 3 months to 31 December 2004

	Q4 2005			Q4 2004			% Change		
	Regular Prens	Single Prens	PVNBP	Regular Prens	Single Prens	PVNBP	Regular Prens	Single Prens	PVNBP
	£m	£m	£m	£m	£m	£m	%	%	%
<b>UK Operations</b>									
<b>Life</b>									
Protection	16.0	0.0	103	18.1	0.0	108	(12)	0	(5)
Investment	0.3	187.7	190	0.3	158.4	159	0	19	19
	16.3	187.7	293	18.4	158.4	267	(11)	19	10
<b>Pensions</b>									
Individual Pensions	2.6	43.4	53	2.6	24.3	35	0	79	51
DWP Rebates	0.0	64.1	64	0.0	60.1	60	0	7	7
Group Pensions	70.6	169.8	462	43.7	60.8	273	62	179	69
Annuities	0.0	46.2	46	0.0	55.6	56	0	(17)	(18)
	73.2	323.5	625	46.3	200.8	424	58	61	47
<b>UK Life and Pensions</b>	<b>89.5</b>	<b>511.2</b>	<b>918</b>	<b>64.7</b>	<b>359.2</b>	<b>691</b>	<b>38</b>	<b>42</b>	<b>33</b>
<b>International Operations</b>									
Lombard	0.0	927.9	928	0.0	0.0	0	-	-	-
Friends Provident International	20.6	117.2	225	13.2	73.9	148	56	59	52
<b>Total International Life and Pensions</b>	<b>20.6</b>	<b>1,045.1</b>	<b>1,153</b>	<b>13.2</b>	<b>73.9</b>	<b>148</b>	<b>56</b>	<b>1,314</b>	<b>679</b>
<b>Total Group Life and Pensions</b>	<b>110.1</b>	<b>1,556.3</b>	<b>2,071</b>	<b>77.9</b>	<b>433.1</b>	<b>839</b>	<b>42</b>	<b>259</b>	<b>147</b>

### PVNBP by channel

3 months to 31 December 2005 vs 3 months to 31 December 2004

	Q4 2005		Q4 2004 (excluding Lombard)	
	£m	%	£m	%
UK – IFA	829	40.0	557	66.4
UK – Tied	89	4.3	134	16.0
International	1,153	55.7	148	17.6

### Lombard Total PVNBP

	2005		2004	
	€m	£m	€m	£m
<b>Q4</b>	1,357	928	1,149	788

All amounts in currency other than sterling are translated into sterling at a monthly average exchange rate.

## Present Value of New Business Premiums (PVNBP) basis

PVNBP equals new single premiums plus the expected present value of new regular premiums.

Premium values are calculated on a consistent basis with the contribution to profits from new business on an EEV basis, to be announced on 23 March. Start of year assumptions are used for the economic basis and end of year assumptions are used for the operating basis. A risk free rate is used to discount expected premiums in future years.

Discount rates

	2005	2004
UK	4.6%	4.8%
FPI	4.6%	4.8%

## Friends Provident New Life and Pensions Business

### 2005 quarterly sales on PVNBP basis

	3 months ending			
	31 March 2005 £m	30 June 2005 £m	30 September 2005 £m	31 December 2005 £m
<b>UK Operations</b>				
<b>Life</b>				
Protection	104	103	90	103
Investment	136	165	181	190
	240	268	271	293
<b>Pensions</b>				
Individual Pensions	41	47	52	53
DWP Rebates	6	1	37	64
Group Pensions	348	418	349	462
Annuities	63	78	55	46
	458	544	493	625
<b>UK Life and Pensions</b>	<b>698</b>	<b>812</b>	<b>764</b>	<b>918</b>
<b>International Operations</b>				
Lombard	193	157	219	928
Friends Provident International	162	162	159	225
<b>Total International Life and Pensions</b>	<b>355</b>	<b>319</b>	<b>378</b>	<b>1,153</b>
<b>Total Group Life and Pensions</b>	<b>1,053</b>	<b>1,131</b>	<b>1,142</b>	<b>2,071</b>

Under this methodology, the impact of operating basis changes over the entire year will normally be reflected in the final quarter PVNBP figures.

## Friends Provident New Life and Pensions Business

Period to 31 December 2005 vs Period to 31 December 2004

	12 months			3 months		
	APE 2005 £m	APE 2004 £m	% change	APE 2005 £m	APE 2004 £m	% change
<b>UK Operations</b>						
<b>Life</b>						
Protection	65.8	73.9	(11)	16.0	18.1	(12)
Investment	67.8	59.1	15	19.1	16.1	19
	133.6	133.0	0	35.1	34.2	3
<b>Pensions</b>						
Individual Pensions	25.8	21.3	21	6.9	5.0	38
DWP Rebates	10.8	13.5	(20)	6.4	6.0	7
Group Pensions	282.5	192.7	47	88.0	49.8	77
Annuities	24.1	27.8	(13)	4.6	5.6	(18)
	343.2	255.3	34	105.9	66.4	59
<b>UK Life and Pensions</b>	<b>476.8</b>	<b>388.3</b>	<b>23</b>	<b>141.0</b>	<b>100.6</b>	<b>40</b>
<b>International Operations</b>						
Lombard	149.7	0	-	92.8	0	-
Friends Provident International	100.1	74.3	35	32.3	20.6	57
<b>Total International Life and Pensions</b>	<b>249.8</b>	<b>74.3</b>	<b>236</b>	<b>125.1</b>	<b>20.6</b>	<b>507</b>
<b>Total Group Life and Pensions</b>	<b>726.6</b>	<b>462.6</b>	<b>57</b>	<b>266.1</b>	<b>121.2</b>	<b>120</b>

The 2004 figures for group pensions business are restated to take into account the effect of a change in the definition of new business. We no longer anticipate new entrants partially replacing leavers and treat them instead as new entrants when they arrive. This change increased 2004 APE by £29m and 2004 Q4 APE by £11m against the results previously reported for these periods.