

# Friends Provident plc

8 August 2007

2007 Interim Results

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Certain statements contained in this announcement constitute "forward-looking statements". Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements, from time to time, of Friends Provident plc, its subsidiaries and subsidiary undertakings or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, adverse changes to laws or regulations; risks in respect of taxation; unforeseen liabilities from product reviews; asset shortfalls against product liabilities; changes in the general economic environment; levels and trends in mortality, morbidity and persistency; restrictions on access to product distribution channels; increased competition; changes in customer attitudes and trends in distribution; and the ability to attract and retain personnel. These forward-looking statements are made only as at the date of this announcement and, save where required in order to comply with the Listing Rules, there is no obligation on Friends Provident plc to update such forward-looking statements.

Sir Adrian Montague

Chairman

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# Agenda

Introduction

Sir Adrian Montague

Chairman

Group highlights

Philip Moore

Group Chief Executive

Financial results

Jim Smart

Group Finance Director

Outlook

Philip Moore

Group Chief Executive

Questions & Answers

Team

Philip Moore

Group Chief Executive

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## Group highlights



Profitable growth maintained



UK new business up 12% to £2,257m



International new business up 16% to £1,171m



F&C: satisfactory progress on 3 year plan



Two profitable acquisitions completed



Continued rebalancing of risk profile



Merger agreement announced



Continued growth and diversification

Jim Smart

Group Finance Director

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## Group Financial highlights

	H1 2007	H1 2006	
<b>EEV Basis</b>	<b>£m</b>	<b>£m</b>	
<b>Life &amp; Pensions new business (PVNBP)</b>	<b>3,428</b>	3,032	+13%
<b>Contribution from new business</b>	<b>95</b>	89	+7%
<b>Life &amp; Pensions underlying profit</b>	<b>239</b>	202	+18%
<b>Asset Management underlying profit</b>	<b>32</b>	51	-37%
<b>Group underlying profit before tax</b>	<b>264</b>	247	+7%
<b>IFRS Basis</b>	<b>£m</b>	<b>£m</b>	
<b>Group underlying profit before tax</b>	<b>111</b>	120	-8%
<b>Group profit before tax</b>	<b>102</b>	48	+113%
<b>Basic EPS</b>	<b>2.2p</b>	(0.6)p	
<b>Dividend per share</b>	<b>2.70p</b>	2.65p	+2%

## UK Life & Pensions new business

	Sales		Contribution	
	H1 2007 £m	H1 2006 £m	H1 2007 £m	H1 2006 £m
<b>Protection</b>	<b>202</b>	199	<b>14</b>	18
<b>Investment</b>	<b>268</b>	364	<b>1</b>	6
<b>Group pensions</b>	<b>1,298</b>	1,167	<b>23</b>	19
<b>Individual pensions</b>	<b>256</b>	137	<b>5</b>	2
<b>DWP rebates</b>	<b>87</b>	34	<b>8</b>	2
<b>Annuities</b>	<b>146</b>	119	<b>9</b>	6
	<b>2,257</b>	2,020	<b>62</b>	53

<b>Margin</b>	<b>2.7%</b>	2.6%
<b>IRR</b>	<b>11.9%</b>	10.2%
<b>Payback (discounted)</b>	<b>11 yrs</b>	13 yrs

## The economics of group pensions in the UK

### Current economics

- ▶ 618,000 scheme members - up 25% (30 June 2006: 495,000)
- ▶ £6.7 billion assets on platform – up 56% (30 June 2006: £4.3 bn)
- ▶ £28m in assets per customer service employee – up 30% (30 June 2006: £22m)
- ▶ net cash outflow of £40 million in half year
- ▶ IRR 9.4 % (full year 2006: 8.9%) excluding annuities

### Future economics

- ▶ incremental business and commission trends = strain down
- ▶ more scheme members, more assets per member = income up
- ▶ expected to be self-financing around 2011
- ▶ improving IRR and reducing payback

## International Life & Pensions new business

PVNBP	H1 2007	H1 2006	
	£m	£m	
FPI	523	466	+12%
Lombard	648	546	+19%
	1,171	1,012	+16%

New business profits	Contribution		Margin	
	H1 2007 £m	H1 2006 £m	H1 2007 %	H1 2006 %
FPI	16	16	3.1	3.5
Lombard	17	20	2.7	3.6
	33	36	2.8	3.6

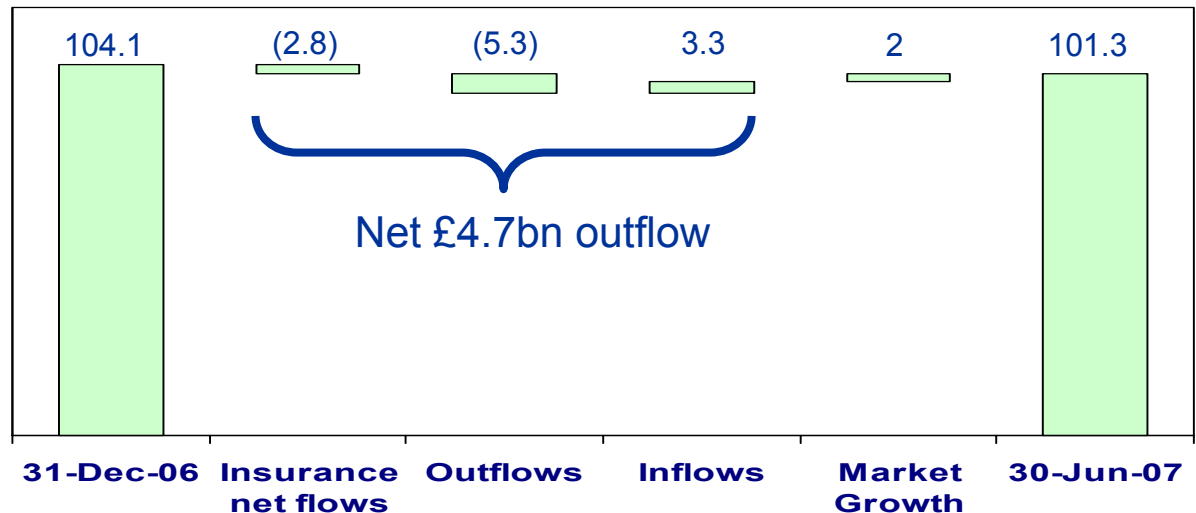
IRR	23.1%	26.5%
Payback (discounted)	4	4

# Asset Management

## Financial highlights

	H1 2007	H1 2006
<b>Net revenues</b>	£119m	£126m
<b>Average fee rate</b>	23.5bps	22bps
<b>Operating expenses</b>	£84m	£75m
<b>Operating margin</b>	30%	41%
<b>Underlying profit</b>	£32m	£51m
<b>Underlying EPS</b>	4.2p	7.4p

## Funds under management, £bn



## Interim Results

## EEV result

£m	H1 2007	H1 2006	
Contribution from new business	95	89	+7%
Contribution from in-force business			
- expected return	108	106	
- experience variances	20	(8)	
- operating assumption changes	-	-	
Development costs	(19)	(12)	
Other net income	1	-	
Expected return on shareholders' net assets	34	27	
<b>Life &amp; Pensions underlying profit</b>	<b>239</b>	202	+18%
Asset management underlying profit	32	51	-37%
Corporate items	(7)	(6)	
<b>EEV underlying profit before tax</b>	<b>264</b>	247	+7%
Investment return variances and economic basis changes	114	(108)	
Other non-underlying items	(15)	(79)	
<b>Profit before tax</b>	<b>363</b>	60	+505%

Positive variances from cost of burnthrough and reinsurance of FPP annuity business, offset by a number of items including persistency experience

Total persistency charge of £7m could lead to an operating assumption charge at full year. Total cost may be around £70m, in line with 2006

Impact of rising fixed interest yields, and equity gains

H1 2006 included £45m intangible asset impairment charge

## IFRS result

£m	H1 2007	H1 2006	
New business strain	(65)	(86)	
In-force surplus	112	135	
Investment return	38	26	
Life & Pensions underlying profit	85	75	+27%
Asset Management	32	51	-37%
Corporate items	(6)	(6)	
<b>Underlying profit before tax</b>	<b>111</b>	<b>120</b>	<b>-2%</b>
Investment return variances	(52)	(60)	
Other non-underlying items	43	(12)	
<b>Profit before tax</b>	<b>102</b>	<b>48</b>	<b>+125%</b>

New business strain, £m	H1 2007	H1 2006
UK	44	75
International	21	11
<b>Total</b>	<b>65</b>	<b>86</b>

UK surplus reduced to £83 million (2006: £105m) by impact of PS06/14

## Dividend and Balance sheet

	H1 2007	H1 2006
Underlying earnings per share	4.6p	3.8p
Dividend	2.7p	2.65p
Cover (Full year implied)	1.1x	1.0x

Pro forma net assets on the EEV basis £m	30 June 2007	31 Dec 2006
Pro-forma EEV	3,808	3,660
Pro-forma EEV per share	£1.77	£1.73

	30 June 2007	31 Dec 2006
Gearing	29.4%	31.6%
Credit rating FP plc (Standard & Poor's)	A-	A-
Excess group solvency capital resources	£1.0bn	£1.0bn

## Shareholder cash generation and financing

£m	H1 2007	H1 2006
UK new business strain	(126)	(175)
UK in-force surplus	127	159
UK inflow/(outflow)	1	(16)
One-off items	56	-
International	7	9
F&C Dividend	18	18
Investment return / other	81	34
Tax	12	(2)
<b>Cash generated before financing</b>	<b>175</b>	<b>43</b>
Dividend	(110)	(108)
Securitisation	(38)	(37)
Fin Re	-	(12)
Investment in subs. (net of assets acquired)	(48)	(59)
Other (mainly issue of shares)	4	12
<b>Net outflow</b>	<b>(17)</b>	<b>(161)</b>

Shareholder cash resources		
£m	30 June 2007	31 Dec 2006
SINA	1,233	1,164
Less: intangible assets acquired	(48)	-
Securitisation	55	93
	<b>1,240</b>	<b>1,257</b>

## Funding our growth plans



### Current cash position

- ▶ UK new business growth causes strain
- ▶ short term: funded with reserve releases and increasing debt
- ▶ medium term: close gap and open up positive gap
- ▶ PS06/14 to deliver around £150m surplus release in H2
- ▶ underlying UK cash flow approx. £80m per annum outflow



### Future cash position

- ▶ new business strain depends on market rates and speed of growth
- ▶ in force surplus expected to increase by £20-30m per annum
- ▶ aggregate cash shortfall up to £400m
- ▶ standalone plan to fund with up to £500m Tier 2 debt

## Conclusion





### Life & Pensions

-  steady sales growth
-  returns in UK continue to improve
-  international leverages on UK and continues to be very profitable



### Asset Management

-  £3.3bn of retail and institutional inflows
-  revenue margin increased



### Balance sheet

-  capital position remains strong
-  longevity risk managed down



### Cash

-  cash flow carefully managed and under control
-  adequate debt capacity to fund organic growth plans

Philip Moore

Group Chief Executive

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## UK Life & Pensions - Outlook



### Protection

- ▶ strong position
- ▶ developing group life

▶ efficient high-margin operator



### Investment

- ▶ redeveloping products

▶ low cost development of wrap



### Group Pensions

- ▶ attractive opportunity
- ▶ sound economics

▶ well placed



### Annuities

- ▶ disciplined approach
- ▶ growing opportunity

▶ good margin

## International Life & Pensions - Outlook



Markets of high growth and margin potential



'Hub and spoke' approach remains effective



Advancing in Germany, Singapore, Dubai and Switzerland



FPI advancing territorially; Lombard's focus on existing relationships



International's long-term growth trend on track



Excellent prospects for sales and profits

## Asset Management - Outlook



2006 priority was to improve investment performance and we continue to build on this



H1 focus was on new product launches and people to support the initiatives; this will continue



H2 attention shifts to expanding = distribution



We continue to target an increase in underlying EPS of 50% from 2007 to 2009

## Summary - A strong forward-looking standalone business

**FRIENDS PROVIDENT**

Well capitalised – no additional equity needed for growth plans

Opportunities for high growth and value creation

- ▶ Protection – cash generative and barriers to entry
- ▶ Investment – Wrap a new opportunity to take profitable market share
- ▶ Group pensions – a future goldmine for a few
- ▶ International – sustainable growth and margin; diversification
- ▶ Asset management – a real turnaround

Service and technology build differentiation and barriers to entry



**FRIENDS PROVIDENT**



**FRIENDS PROVIDENT  
INTERNATIONAL**



LOMBARD

**F&C**  
Investments

**Friends Financial**

Scottish   
Provident

**Resolution**  
Asset Management

**Growth + Cash = Value**

## How the value builds



**EEV**



Dividend uplift



Potential for buybacks

## How the value builds

**EEV**

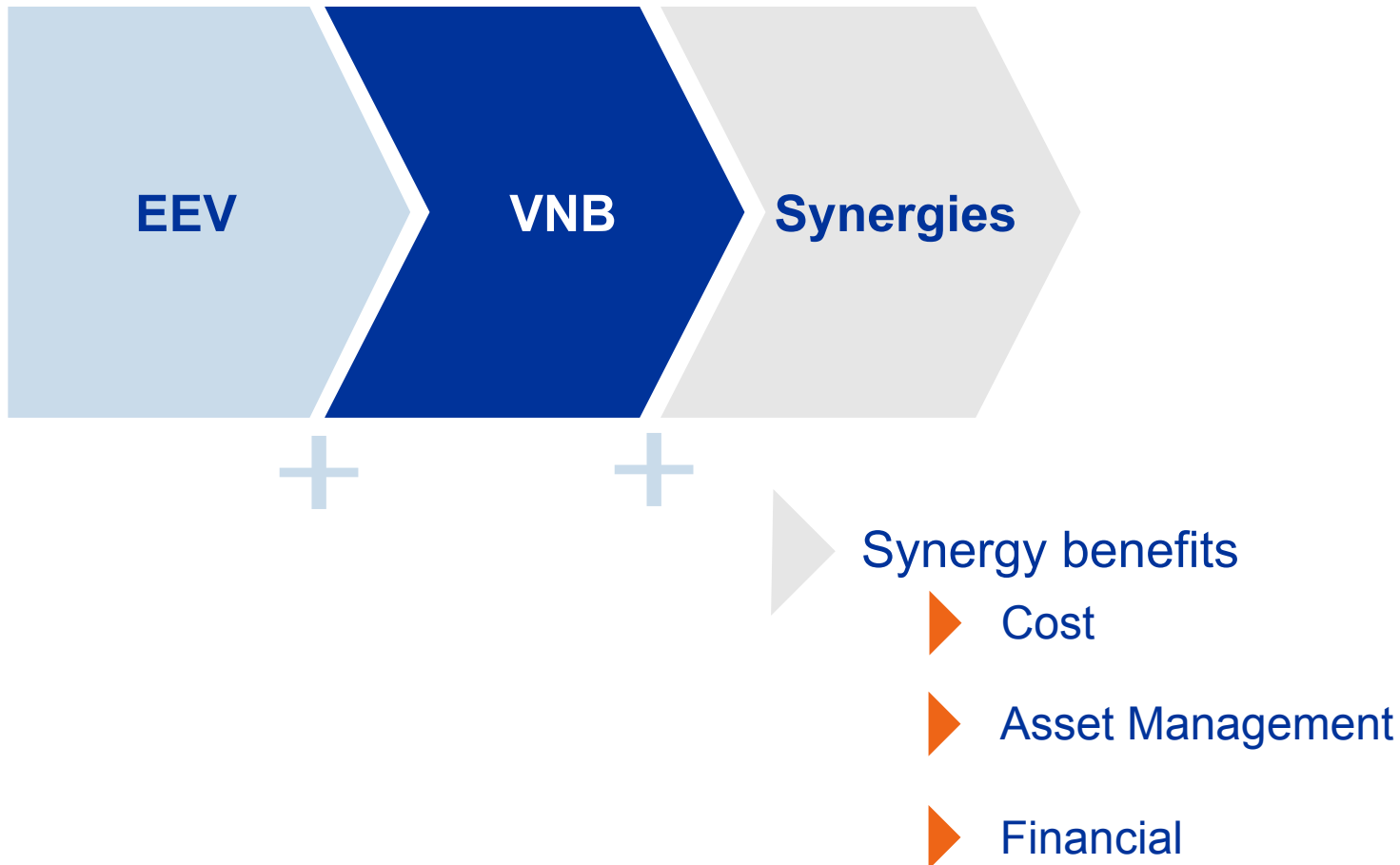
**VNB**



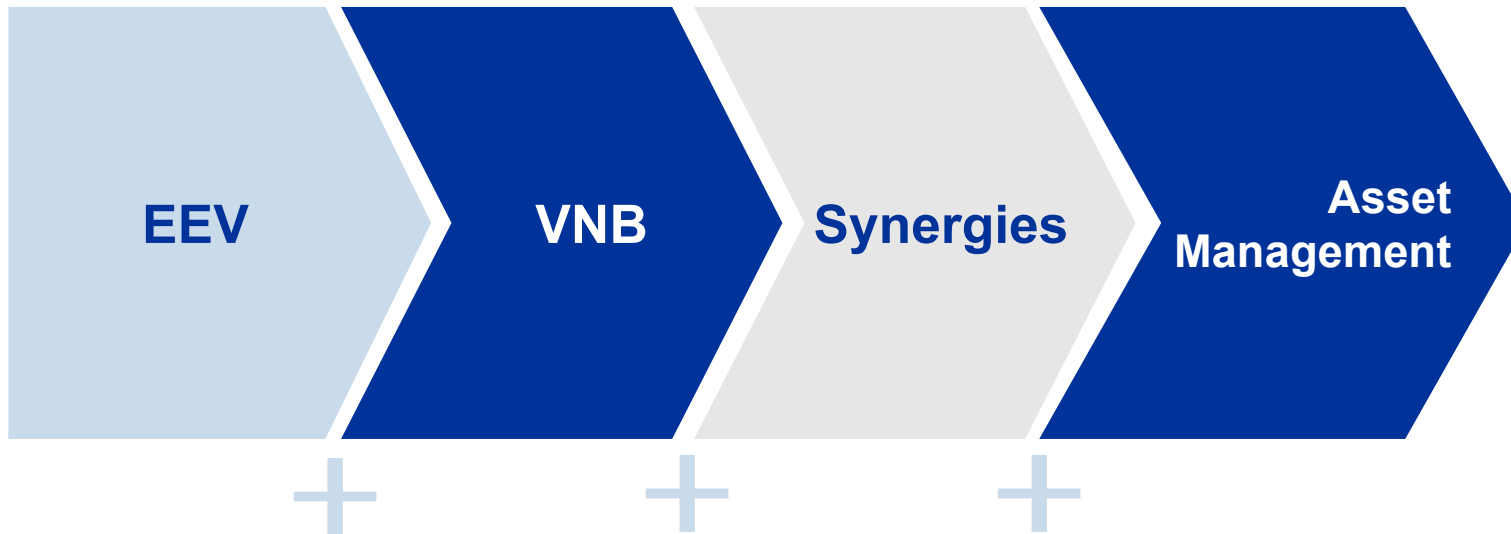
**Stronger growth in core UK business**

-  Bank distribution
-  Annuities – (significant increase in vesting pensions)
-  Cross selling opportunities
-  Powerful protection brands

## How the value builds

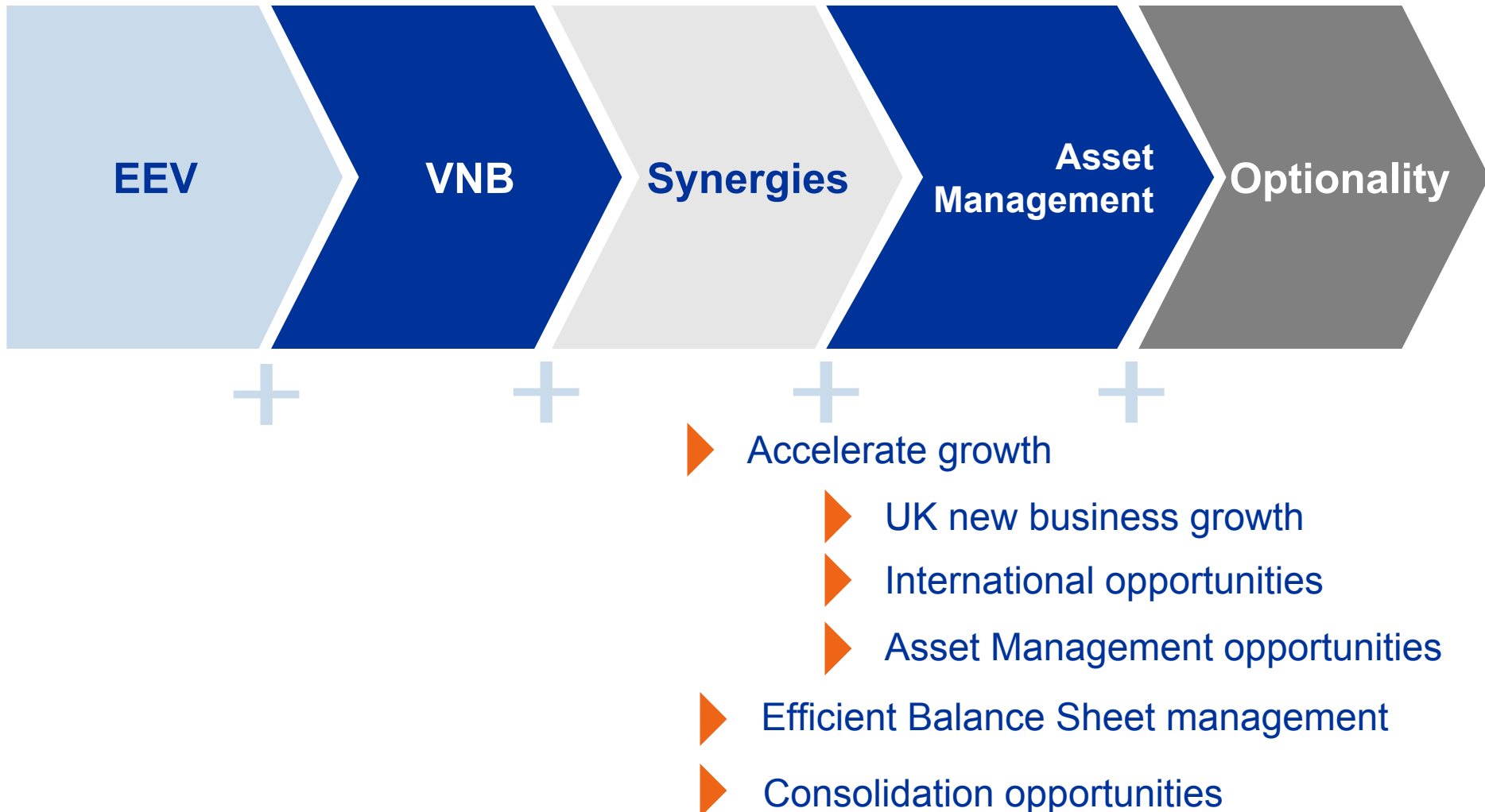


## How the value builds



- ▶ Scale and opportunities
- ▶ Additional boutiques

## How the value builds



## To Friends Provident's strengths add:

 **700 Abbey branches** **Flow of vesting pensions** **7m customers, many unintermediated** **Scottish Provident brand** **Funding for growth opportunities** **Extensive back book to benefit from capital and risk management** **Added scale and distribution to F&C** **Increased, progressive dividend** **Financial and operational muscle****Friends Financial**

## Questions & Answers

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## Appendices

UK Life & Pensions PVNBP

International Life & Pensions PVNBP

F&C Assets under Management by source and asset type

Definitions of margin, IRR and payback period

EEV derived risk discount rates by product type

FPLP fund structure

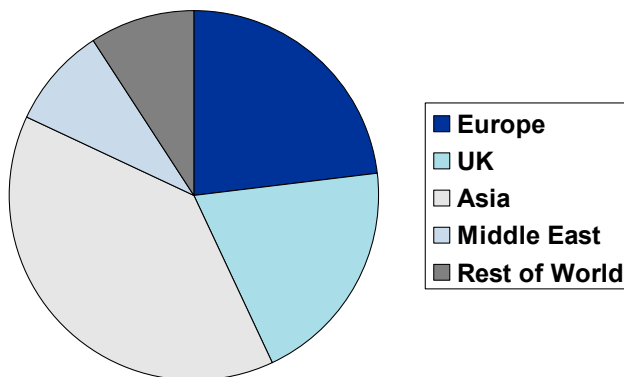
## UK Life & Pensions PVNBP

<b>PVNBP</b>	<b>H1 2007</b>	<b>H1 2006</b>	
	<b>£m</b>	<b>£m</b>	
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<b>Total</b>	<b>2,257</b>	2,020	<b>+12%</b>

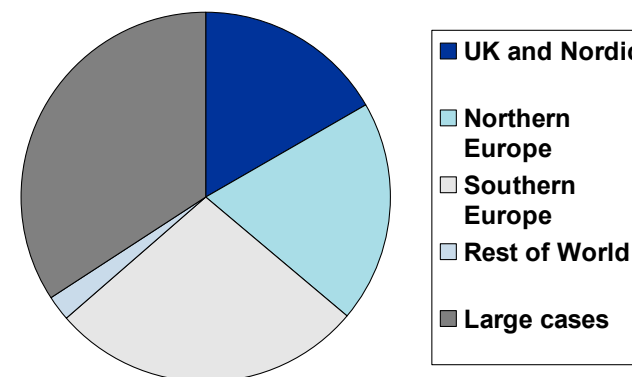
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<b>Total</b>	<b>1,171</b>	<b>1,012</b>	<b>+16%</b>

FPI - PVNBP

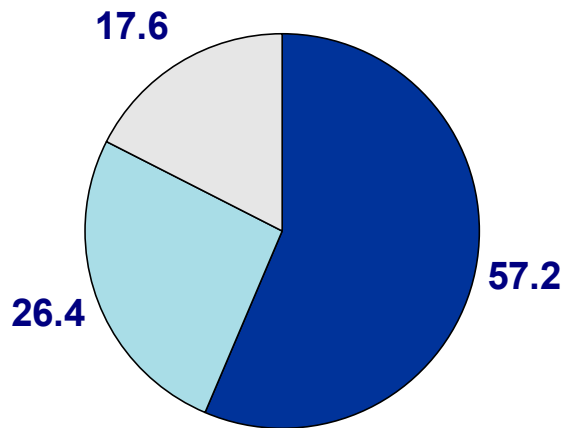


Lombard - PVNBP

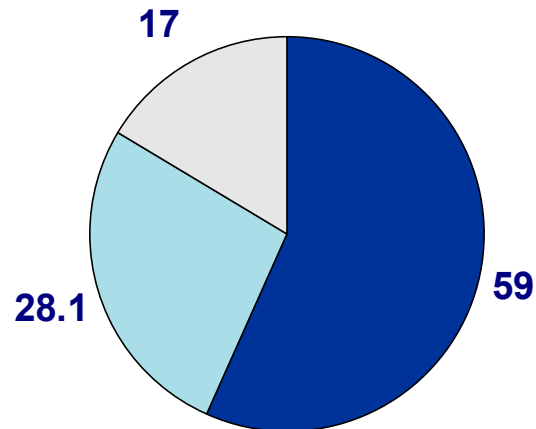


## F&C Assets under management – by source (£bn)

**30 June 2007  
£101bn**



**31 Dec 2006  
£104bn**



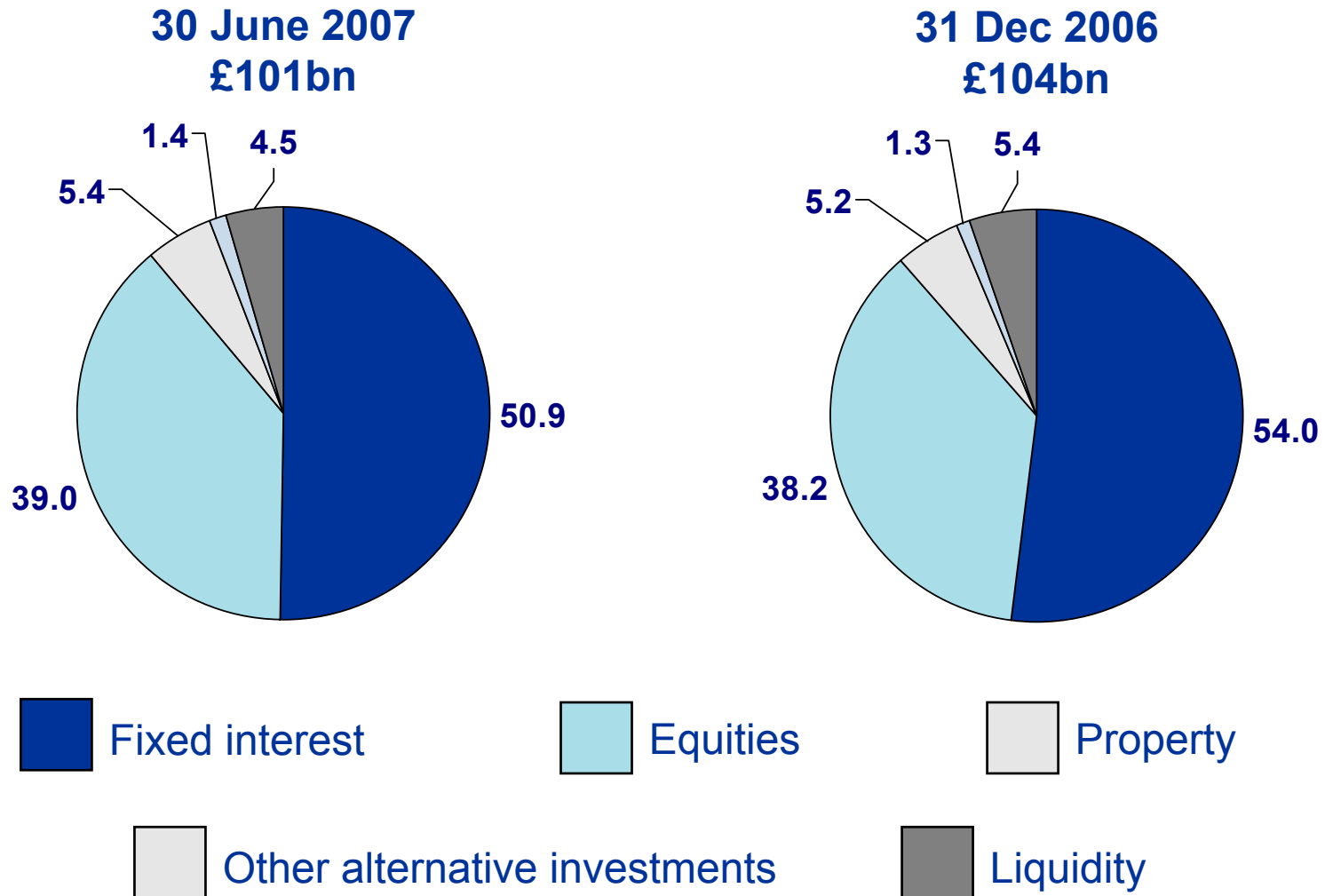
Retail	30 June 2007 £bn	31 Dec 2006 £bn
Investment trusts	6.7	6.5
Open ended products – 3 <sup>rd</sup> party	3.4	3.0
SICAV's	0.7	0.5
Sub-advisory	6.8	7.0
<b>Total</b>	<b>17.6</b>	<b>17.0</b>

 Insurance funds

 Institutional funds

 Retail

## F&C Assets under management – by asset class (£bn)



## Definitions of margin, IRR and payback period

Margins are defined as the pre tax contribution from new business generated by each product type, divided by the new business volume for that product. Contribution is calculated using economic assumptions at the beginning of the period, and is quoted after the cost of required capital, share based payments and including an apportionment of fixed acquisition expenses across products.

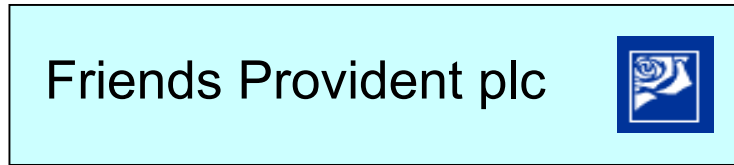
The Internal Rate of Return (IRR) is equivalent to the discount rate at which the present value of the after tax cash flows expected to be earned over the lifetime of the business written is equal to the capital invested to support the writing of the business. All assumptions and expenses in the calculation of IRR are consistent with those used for calculating the contribution from new business.

Payback Period is the time at which the value of the expected cash flows, after tax, is sufficient to have recouped the capital invested to support the writing of the business. The cash flows are discounted at the appropriate risk-discount rate and calculated on the same assumptions and expense basis as those used for the contribution from new business.

## EEV derived discount rate by product type

	30 June 2007	31 Dec 2006
<b>UK</b>		
- UK With Profits	10.4	12.1
- UK annuities	11.8	12.6
- Other UK	7.5	6.6
<b>Total UK</b>	<b>8.1</b>	<b>7.7</b>
<b>International</b>		
- Sterling	7.4	6.8
- Euro	7.7	7.0

**Illustrative  
FPLP  
Fund  
Structure**



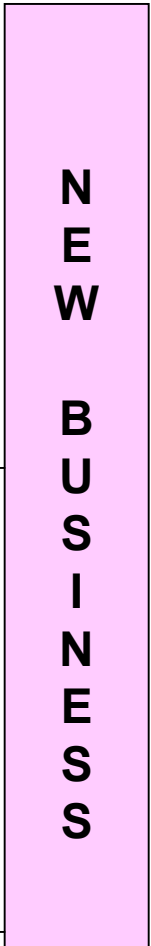
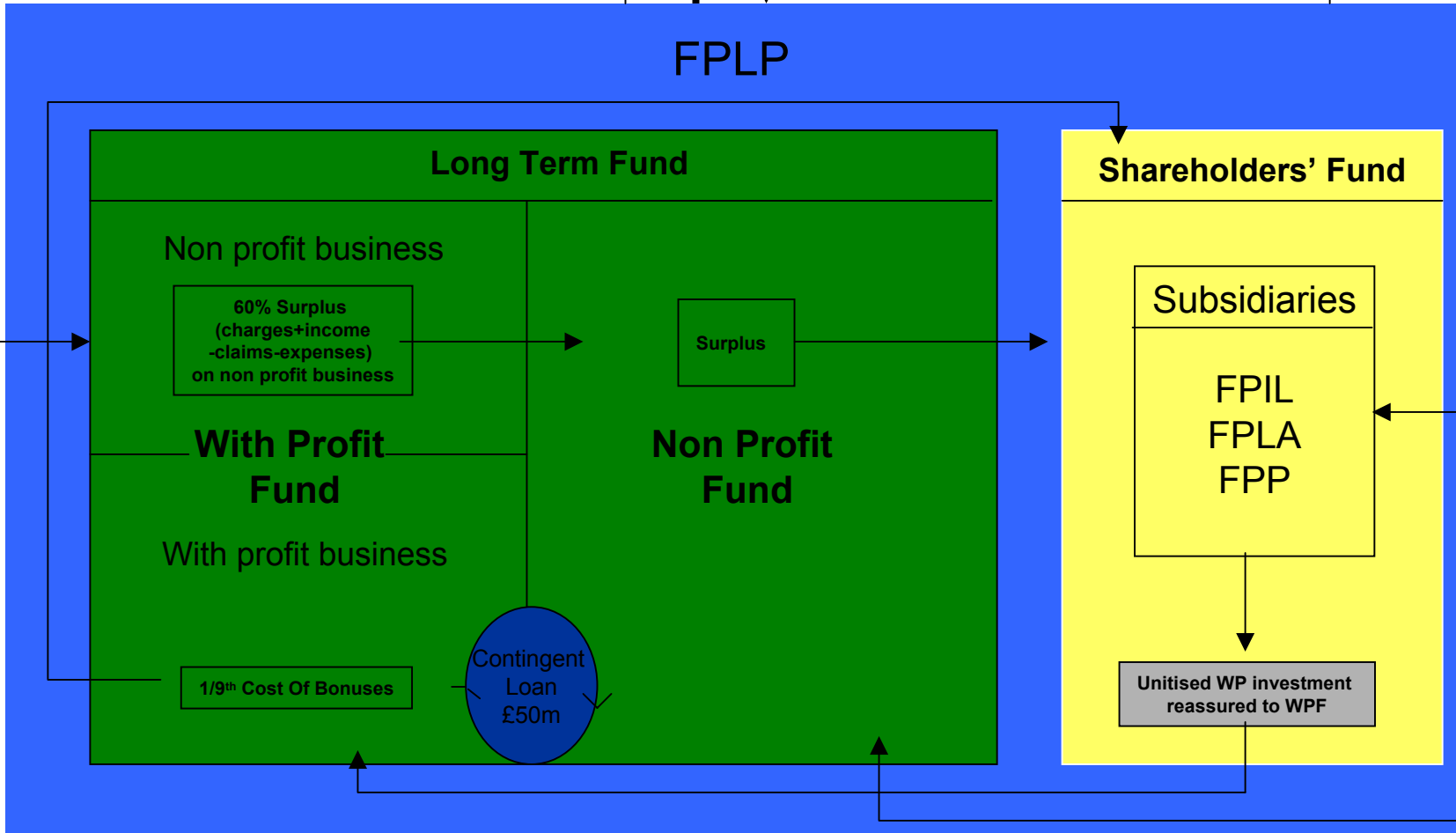
2002 Convertible Debt: £290m

2003 Tier 1 Hybrid Debt: £300m  
2005 Tier 1 Hybrid Debt: £500m

Dividends

Loan Proceeds (£1,090m)

Guarantee



2004 Securitisation: £298m