

# News Release

11 February 2010

## Friends Provident – fourth quarter 2009 new business

### Turnaround continues – Lombard drives record quarter

#### Highlights

- Sales (measured in APE\*) in the fourth quarter amounted to £368 million compared to £305 million for the same quarter of 2008 (an increase of 21%). Sales for the year were £873 million compared to £1,005 million for the previous year (a decrease of 13%)
- Lombard sales reflected the seasonal profile of previous years at £199 million for the fourth quarter, bringing the total for 2009 to £273 million. 2008 sales for Lombard were £246 million
- New protection business partnerships with Tesco Bank and Virgin Money are now on stream following successful implementation
- 33% growth in funds under management on the New Generation Pensions (NGP) platform to £9.7 billion at 31 December 2009, compared to £7.3 billion at the end of 2008
- Estimated IGD surplus maintained at £0.9 billion at 31 December 2009

\*see notes to editors

Trevor Matthews, chief executive officer of the Friends Provident Group, said:

“We continued our turnaround at Friends Provident in the fourth quarter. Thanks to Lombard’s excellent finish to the year, in particular in the Italian and Belgian markets, and a third consecutive quarter of growth in both Friends Provident International and in the UK, we delivered record fourth quarter sales results. This was a strong performance against the backdrop of a year of economic troubles and volatile financial markets. We have made steady progress with initiatives including the implementation of our new distribution arrangement with Tesco Bank and we are on track to deliver our corporate platform in 2010. We have good prospects overseas and we believe despite the tough conditions in the UK the work we have done to reshape our business and preserve our financial strength gives us a solid base on which to build in 2010.”

Friends Provident is the business name of the following companies in the Friends Provident group:

Friends Provident Life Assurance Limited Company number 782698  
Friends Provident Pensions Limited Company number 475201  
Friends Provident Life and Pensions Limited Company number 4096141  
Friends Provident Marketing Limited Company number 5059179.

Each of these companies is authorised and regulated by the Financial Services Authority.

Each company is registered in England with a registered office at Pixham End, Dorking, Surrey RH4 1QA.

[www.friendsprovident.com](http://www.friendsprovident.com)



## New Business

Sales on an annual premium equivalent (APE) basis for the fourth quarter 2009 were £368 million. Sales in Q4 were boosted by the seasonal increase in Lombard sales, combined with the sustained improvements in sales for the UK and overseas businesses. For 2009 sales on the APE basis were £873 million, compared to £1,005 million for 2008. This reflects Friends Provident's decision in 2008 to withdraw from less profitable lines of business in the UK, the continuing difficult market conditions experienced by the life insurance industry in 2009 and an ongoing focus on the value and cashflow signature of new business.

## UK sales

UK corporate sales mainly relate to pensions business which was £91 million for the quarter on an APE basis, up £12 million on the third quarter of 2009, but down £12 million compared to the fourth quarter of 2008. Q4 2008 included £14 million from a large one-off increment to an existing scheme. The significant majority of group pensions new business represents increments to existing schemes, these were depressed in 2009 due to economic conditions.

Sales in Q4 were boosted by a number of scheme wins, including some large schemes. In the period following the announcement of the proposed acquisition by Resolution, a number of consultants removed Friends Provident from their panels. Friends Provident has now been reinstated on all the major target panels, but this temporary removal in the last quarter of the year reduced the pipeline for new schemes. This is likely to be reflected in reduced new business from new schemes in the first quarter of 2010. The latest market share data available shows Friends Provident's share of the group pensions market at 8.8% for Q3 2009 compared to 6.7% for Q3 2008.

<b>Group pensions new business APE</b>	<b>12m 2009 £m</b>	12m 2008 £m	<b>Q4 2009 £m</b>	Q4 2008 £m
Transfers in and lump sum contributions	<b>47</b>	45	<b>16</b>	6
Regular contributions				
- from increments to existing schemes	<b>212</b>	309	<b>54</b>	91
- from new schemes with unfunded commission	<b>0</b>	45	<b>0</b>	3
- from new schemes in target segment	<b>51</b>	24	<b>21</b>	3
<b>Total</b>	<b>310</b>	423	<b>91</b>	103

Funds under management for unit-linked group and individual pensions on the New Generation Pensions platform increased from £7.3 billion at the end of 2008 to £9.7 billion at 31 December 2009.

UK individual business at £18 million for the quarter on an APE basis is down £6 million on the preceding quarter, reflecting difficult market conditions and Friends Provident's maintenance of pricing discipline. Whilst we expect market conditions in the UK to remain challenging in 2010, Friends Provident has continued to add new distribution arrangements, such as those implemented recently with Tesco Bank and Virgin Money, and Friends Provident increased its share of the IFA individual protection market to 7.8% based on market data for the third quarter of 2009 (Q3 2008: 7.1%).

## **International sales**

International sales of £465 million for the year were up 2% on 2008, with Friends Provident International (FPI) reporting sales of £183 million, Lombard £273 million and AmLife £9 million. These businesses accounted for over half of group new business sales for the year.

FPI has achieved quarter on quarter growth throughout 2009. Although demand in Hong Kong remains well below the peak level of early 2008, there are signs of improvement. FPI has significantly increased its share of linked business in this market from 6.0% for the full year 2008 to 11.2% for the first nine months of 2009.

Lombard, the international estate planning life assurer, where business is traditionally weighted towards the fourth quarter, achieved record sales, both for the quarter (£199m) and the year (£273m). Lombard had particularly strong Quarter 4 sales in the Italian market and its Swiss operations also contributed significantly as a result of relationships built up over the years. This, together with a strong contribution from Belgium, more than offset less positive results in Spain and Germany, although the recent legal and fiscal uncertainty in these markets has now been largely clarified. AmLife, Friends Provident's Malaysian Life Insurance joint venture with AmBank Group, performed strongly throughout 2009. 30% of full year APE (reflecting Friends Provident's share of the joint venture) was £9.1 million (first half 2009: £3.1m). The business has achieved strong growth in both its agency sales force and bancassurance distribution.

## **Capital**

As at 31 December 2009, Friends Provident maintained a strong IGD surplus estimated at £0.9 billion (30 September 2009: £0.9 billion). The surplus was not affected by the strong performance of equities through the later part of the year, as shareholder funds have limited exposure to movements in equity markets. Insurer financial strength ratings from each of the three rating agencies, Moody's, Standard & Poor's and Fitch remain in the A range.

- 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 holders of a large number of industry awards, showing continued recognition of the quality of our products and service. These are listed in appendix 2 of this update.
3. This announcement contains certain forward-looking statements with respect to Friends Provident 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 Provident including, photos, awards, fast facts, presentations, and media contacts please visit the media section at [www.friendsprovident.com/media](http://www.friendsprovident.com/media)

## Appendix 1

### 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.

### Life & Pensions New Business – Regular and Single Premiums

	Regular premiums			Single premiums		
	12m	12m	Change	12m	12m	Change
	2009	2008		2009	2008	
	£m	£m	%	£m	£m	%
<b>UK Corporate</b>						
- pensions	<b>262.4</b>	377.6	(31)	<b>473.7</b>	449.4	5
- protection	<b>8.7</b>	7.0	24	<b>0.0</b>	0.0	0
<b>Total UK Corporate</b>	<b>271.1</b>	384.6	(30)	<b>473.7</b>	449.4	5
<b>UK Individual</b>						
- protection	<b>40.8</b>	44.7	(9)	<b>0.0</b>	0.0	0
- annuities	<b>0.0</b>	0.0	0	<b>231.9</b>	264.6	(12)
- pensions	<b>5.6</b>	10.8	(48)	<b>163.1</b>	302.1	(46)
- investments	<b>0.2</b>	0.7	(71)	<b>27.9</b>	69.7	(60)
<b>Total UK Individual</b>	<b>46.6</b>	56.2	(17)	<b>422.9</b>	636.4	(34)
<b>Total UK Life &amp; Pensions</b>	<b>317.7</b>	440.8	(28)	<b>896.6</b>	1,085.8	(17)
FPI	<b>152.0</b>	166.8	(9)	<b>306.1</b>	430.3	(29)
Lombard	<b>0.0</b>	0.0	0	<b>2,734.7</b>	2,462.9	11
AmLife (30% share)	<b>7.6</b>	N/a	N/a	<b>15.0</b>	N/a	N/a
<b>Total International Life &amp; Pensions</b>	<b>159.6</b>	166.8	(4)	<b>3,055.8</b>	2,893.2	6
<b>Total Life &amp; Pensions</b>	<b>477.3</b>	607.6	(21)	<b>3,952.4</b>	3,979.0	(1)

## New Business - Annual Premium Equivalent

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

	<b>12m 2009 £m</b>	12m 2008 £m	Change %	<b>Q4 2009 £m</b>	Q4 2008 £m	Change %
<b>UK Corporate</b>						
- pensions	<b>309.8</b>	422.5	(27)	<b>91.1</b>	103.5	(12)
- protection	<b>8.7</b>	7.0	24	<b>2.0</b>	1.0	100
Total UK Corporate	<b>318.5</b>	429.5	(26)	<b>93.1</b>	104.5	(11)
<b>UK Individual</b>						
- protection	<b>40.8</b>	44.7	(9)	<b>9.7</b>	9.9	(2)
- annuities	<b>23.2</b>	26.5	(12)	<b>4.4</b>	5.9	(25)
- pensions	<b>21.9</b>	41.0	(47)	<b>3.6</b>	3.7	(3)
- investments	<b>3.0</b>	7.6	(61)	<b>0.7</b>	0.7	-
Total UK Individual	<b>88.9</b>	119.8	(26)	<b>18.4</b>	20.2	(9)
<b>Total UK Life &amp; Pensions</b>	<b>407.4</b>	549.3	(26)	<b>111.5</b>	124.7	(11)
FPI	<b>182.6</b>	209.8	(13)	<b>53.8</b>	41.4	30
Lombard	<b>273.5</b>	246.3	11	<b>198.6</b>	138.5	43
AmLife (30% share)	<b>9.1</b>	N/a	N/a	<b>3.7</b>	N/a	N/a
<b>Total International Life &amp; Pensions</b>	<b>465.2</b>	456.1	2	<b>256.1</b>	179.9	42
<b>Total Life &amp; Pensions</b>	<b>872.6</b>	1,005.4	(13)	<b>367.6</b>	304.6	21

**New Business - Annual Premium Equivalent  
Quarterly Progression**

	<b>Q4 2009 £m</b>	Q3 2009 £m	Q2 2009 £m	Q1 2009 £m
<b>UK Corporate</b>				
- pensions	<b>91.1</b>	78.5	70.6	69.6
- protection	<b>2.0</b>	2.4	2.1	2.2
Total UK Corporate	<b>93.1</b>	80.9	72.7	71.8
<b>UK Individual</b>				
- protection	<b>9.7</b>	11.5	10.5	9.1
- annuities	<b>4.4</b>	6.3	6.8	5.7
- pensions	<b>3.6</b>	5.4	9.4	3.5
- investments	<b>0.7</b>	0.9	0.9	0.5
Total UK Individual	<b>18.4</b>	24.1	27.6	18.8
<b>Total UK Life &amp; Pensions</b>	<b>111.5</b>	105.0	100.3	90.6
FPI	<b>53.8</b>	47.8	44.1	36.9
Lombard	<b>198.6</b>	28.3	26.2	20.4
AmLife (30% share)	<b>3.7</b>	2.3	2.0	1.1
<b>Total International Life &amp; Pensions</b>	<b>256.1</b>	78.4	72.3	58.4
<b>Total Life &amp; Pensions</b>	<b>367.6</b>	183.4	172.6	149.0

**Friends Provident International**

<b>APE by region (£m, actual exchange rates)</b>	<b>12m 2009</b>	12m 2008	<b>Q4 2009</b>	Q3 2009
Asia	<b>94.4</b>	103.2	<b>30.0</b>	25.7
Middle East	<b>38.2</b>	41.8	<b>7.9</b>	9.4
Europe (Excl UK)	<b>28.3</b>	34.4	<b>7.4</b>	7.1
UK	<b>6.7</b>	13.5	<b>2.6</b>	2.1
Rest of World	<b>15.0</b>	16.9	<b>5.9</b>	3.5
<b>Total</b>	<b>182.6</b>	209.8	<b>53.8</b>	47.8

**Lombard**

<b>APE By Region (£m, actual exchange rates)</b>	<b>12m 2009</b>	12m 2008
UK and Nordic	<b>41.1</b>	57.6
Northern Europe	<b>85.4</b>	62.8
Southern Europe	<b>128.8</b>	93.8
Rest of World	<b>18.2</b>	32.1
<b>Total Including Large cases</b>	<b>273.5</b>	246.3
Of which: Large cases (greater than €10m)	<b>61.0</b>	105.4
<b>Total Excluding Large Cases</b>	<b>212.5</b>	140.9

### 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>12m 2009 £m</b>	12m 2008 (as reported) £m	Change %	<b>Q4 2009 £m</b>	Q4 2008 (as reported) £m	Change %
FPI	<b>165.0</b>	209.7	(21)	<b>55.8</b>	41.5	34
Lombard	<b>261.1</b>	246.3	6	<b>194.2</b>	138.5	40

### 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>12m 2009 £m</b>	12m 2008 £m	Change %	<b>Q4 2009 £m</b>	Q3 2009 £m	Q2 2009 £m	Q1 2009 £m
<b>UK Corporate</b>							
- pensions	<b>1,544</b>	1,964	(21)	<b>491</b>	401	333	319
- protection	<b>26</b>	25	4	<b>5</b>	7	6	8
Total UK Corporate	<b>1,570</b>	1,989	(21)	<b>496</b>	408	339	327
<b>UK Individual</b>							
- protection	<b>253</b>	272	(7)	<b>55</b>	73	66	59
- annuities	<b>232</b>	265	(12)	<b>44</b>	63	68	57
- pensions	<b>185</b>	343	(46)	<b>28</b>	47	86	24
- investments	<b>29</b>	74	(61)	<b>7</b>	9	8	5
Total UK Individual	<b>699</b>	954	(27)	<b>134</b>	192	228	145
<b>Total UK Life &amp; Pensions</b>							
<b>Pensions</b>	<b>2,269</b>	2,943	(23)	<b>630</b>	600	567	472
FPI	<b>1,032</b>	1,273	(19)	<b>258</b>	293	262	219
Lombard	<b>2,735</b>	2,463	11	<b>1,986</b>	283	262	204
AmLife (30% share)	<b>59</b>	N/a	N/a	<b>22</b>	17	14	6
<b>Total International Life &amp; Pensions</b>	<b>3,826</b>	3,736	2	<b>2,266</b>	593	538	429
<b>Total Life &amp; Pensions</b>	<b>6,095</b>	6,679	(9)	<b>2,896</b>	1,193	1,105	901

## Appendix 2

### Recent awards

#### Service

- SimplyBiz Awards 2009. Best Overall Service
- FTAdviser.com - Online Service Awards 2008. Friends Provident received the 4 Star award for Life & Pensions Provider
- FTSE First Impressions Index (rated 2<sup>nd</sup> out of 100)
- Maintained Status as Investor in People

#### Pensions

- Incisive Media - Gold Standard Awards 2009. Friends Provident won the Group Pensions category
- European Pensions Awards 2009. Friends Provident was awarded Pension Provider of the Year
- Professional Pensions UK Pensions Awards 2009. Friends Provident won DC Provider of the Year
- Financial Technology Research Centre - e-Excellence Ratings 2009. Friends Provident received numerous Triple E ratings: Individual Pensions, Group SIPP, CIMP and Group Personal Pensions including Stakeholder for both new and existing business

#### Protection

- Incisive Media Gold Standard Awards 2008. Winner of Protection category
- Financial Technology Research Centre - e-Excellence Ratings 2009. Friends Provident received numerous Triple E ratings: Life Protection, Critical Illness, Income Protection and Protection Menu

#### Investments

- Investment Life & Pensions Moneyfacts 2009 Awards. Best Ethical Investment Provider - Friends Provident was highly commended

#### International

- Best Practice - Financial Management Awards 2009. Friends Provident awarded Outstanding Achievement Award for Best Fund Platform
- Gulf Insurance awards - Life insurer of the year
- International Adviser Awards 2009. Friends Provident won 10 out of 24 awards:
  - Best Adviser Support and Customer Service – Middle East
  - Best Adviser Support and Customer Service - Far East
  - Best Regular Premium Investment Product - Middle East (for Premier Ultra)
  - Best Regular Premium Investment Product - Far East (for Premier)
  - Best Trust and Estate Planning Product - Far East (for Discounted Gift Trust)
  - Best Online Proposition - Middle East
  - Best New Product - Middle East (for Optus)
  - Best Single Premium Investment Product - Middle East (for Reserve)
  - Best Single Premium Investment Product - Far East (for Global Portfolio Bond)
  - Best Overall Product Range - Far East