

# News Release

12 November 2009

## Friends Provident – third quarter 2009 update

### Turnaround continues with encouraging sales results

#### Highlights

- Strong estimated IGD surplus maintained at £0.9 billion as at 31 October 2009 after payment of dividend of £30 million.
- Sales (measured as APE<sup>1</sup>) in the third quarter amounted to £183 million (Q2: £173 million, Q1: £149 million). Sales for the year to date were £505 million, compared to £701 million for the same period last year.
- Distribution capability to be further enhanced through new arrangements with Tesco Bank and Virgin Money.
- Expenses savings remain on target to deliver a UK expense base of £215 million in 2010.

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

“We are making good progress with the turnaround of Friends Provident. This is an encouraging set of results. We have delivered increased quarter-on-quarter sales across the board of UK corporate, UK protection and our International businesses. We are fully focused on winning new business based on product and service capabilities that continue to attract awards and industry accolades. In 2010 we will be moving forward with our corporate platform development. We will be expanding our distribution, with new partnerships including Tesco Bank and Virgin Money coming on stream.”

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 third quarter 2009 were £183 million maintaining a quarter on quarter increase throughout this year, both for total UK and overseas sales. For the first nine months of the year, sales on the APE basis were £505 million, compared to £701 million for the same period last year, reflecting the difficult market conditions experienced by the life insurance industry and the actions taken by Friends Provident to improve margins.

## UK Sales

UK corporate sales mainly relate to pensions business and at £81 million for the quarter on an APE basis are up £8 million on the second quarter of 2009 and £1 million on the third quarter of 2008. The new business is derived mainly from increments on existing schemes as shown in the table below. The results have benefited from conversion of a significant amount of pipeline business but a number of new mandates have also been won.

<b>Group pensions new business APE</b>	<b>Q3 2009 £m</b>	<b>Q3 2008 £m</b>
Transfers in and lump sum contributions	<b>18</b>	8
Regular contributions		
- from increments to existing schemes	<b>50</b>	61
- from new schemes with unfunded commission	-	2
- from new schemes in target segment	<b>11</b>	6
<b>Total</b>	<b>79</b>	77

Funds under management (including unit-linked individual and group pensions) were £9.1 billion at 30 September, up from £7.7 billion at 30 June with the benefit of a strong contribution from investment returns.

UK individual business at £24 million for the quarter on an APE basis is down £4 million on the preceding quarter. Protection business has shown a small increase throughout the year. Friends Provident are looking to new distribution arrangements such as those recently announced with Tesco Bank and Virgin Money for future growth as well as to an improvement in the housing market. Friends Provident has increased its market share of the individual protection IFA market from 7% to 7.6% based on market data for this business in the second quarter.

## International Sales

International business is written mainly through Friends Provident International (FPI) and Lombard. Both businesses have shown positive quarter on quarter sales growth this year but in aggregate new business at £209 million (FPI: £129 million, Lombard £75 million, AmLife £5 million) is down 24% compared to the year to date figures for 2008, all measured on an APE basis.

For FPI, quarter on quarter growth in 2009 is driven by sales in Asia, predominantly in Hong Kong where third quarter sales at £26 million were up £4 million on the second quarter.

For Lombard, the international estate planning life assurer, business has been affected by volatile investment markets and their impact on client confidence. The number of large cases (each greater than 10 million Euros) is down by two thirds on a year to date basis. Furthermore, the German and Spanish markets have been adversely impacted by taxation related issues. However, a number of markets have held up in the third quarter including Belgium, France and the UK (resident non-domiciled business).

Lombard's business is traditionally weighted towards the fourth quarter. Opportunities exist particularly in Italy where a recently announced tax amnesty is now in force, and the tax related issues in Germany have been clarified.

### **IFA Businesses**

On 15 October, Sesame, FP's wholly-owned IFA subsidiary, acquired the Bankhall Group. This acquisition will increase FP's distribution capability and position Sesame as the number one player in each of its chosen markets – IFA networks, IFA regulatory services and mortgage clubs.

### **Capital**

As at 31 October 2009, Friends Provident maintained a strong IGD surplus estimated at £0.9 billion after payment of the £30 million interim dividend. This has remained stable, notwithstanding the strong performance of equities over the period, to which shareholder funds have limited exposure.

During the last quarter, Moody's, Standard & Poor's and Fitch have reaffirmed their insurer financial strength ratings for Friends Provident Life & Pensions. These remain in the A range for each of the three rating agencies.

- Ends -

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Ref: J101

### **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		
	9m 2009 £m	9m 2008 £m	Change %	9m 2009 £m	9m 2008 £m	Change %
UK Corporate						
- pensions	187.1	280.1	(33)	316.0	389.8	(19)
- protection	6.7	5.9	14	0.0	0.0	-
<b>Total UK Corporate</b>	<b>193.8</b>	<b>286.0</b>	<b>(32)</b>	<b>316.0</b>	<b>389.8</b>	<b>(19)</b>
UK Individual						
- protection	31.1	34.8	(11)	0.0	0.0	-
- annuities	0.0	0.0	-	187.8	205.5	(9)
- pensions	4.3	9.3	(54)	140.8	281.4	(50)
- investments	0.1	0.6	(84)	20.7	63.3	(67)
<b>Total UK Individual</b>	<b>35.5</b>	<b>44.7</b>	<b>(21)</b>	<b>349.3</b>	<b>550.2</b>	<b>(37)</b>
<b>Total UK Life &amp; Pensions</b>	<b>229.3</b>	<b>330.7</b>	<b>(31)</b>	<b>665.3</b>	<b>940.0</b>	<b>(29)</b>
FPI	108.1	134.1	(19)	207.4	343.0	(40)
Lombard	-	-	-	749.4	1,082.2	(31)
AmLife (30% share)	4.6	N/a	-	8.7	-	-
<b>Total International Life &amp; Pensions</b>	<b>112.7</b>	<b>134.1</b>	<b>(16)</b>	<b>965.5</b>	<b>1,425.2</b>	<b>(32)</b>
<b>Total Life &amp; Pensions</b>	<b>342.0</b>	<b>464.8</b>	<b>(26)</b>	<b>1,630.8</b>	<b>2,365.2</b>	<b>(31)</b>

## New Business - Annual Premium Equivalent

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

	<b>9m 2009 £m</b>	9m 2008 £m	Change %	<b>Q3 2009 £m</b>	Q3 2008 £m	Change %
UK Corporate						
- pensions	<b>218.7</b>	319.1	(31)	<b>78.5</b>	77.9	1
- protection	<b>6.7</b>	5.9	14	<b>2.4</b>	1.7	41
<b>Total UK Corporate</b>	<b>225.4</b>	325.0	(31)	<b>80.9</b>	79.6	2
UK Individual						
- protection	<b>31.1</b>	34.8	(11)	<b>11.5</b>	10.2	13
- annuities	<b>18.8</b>	20.5	(8)	<b>6.3</b>	6.6	(5)
- pensions	<b>18.4</b>	37.4	(51)	<b>5.4</b>	7.7	(30)
- investments	<b>2.2</b>	7.0	(69)	<b>0.9</b>	1.0	(10)
<b>Total UK Individual</b>	<b>70.5</b>	99.7	(29)	<b>24.1</b>	25.5	(5)
<b>Total UK Life &amp; Pensions</b>	<b>295.9</b>	424.7	(30)	<b>105.0</b>	105.1	0
FPI	<b>128.8</b>	168.4	(24)	<b>47.8</b>	51.2	(7)
Lombard	<b>74.9</b>	108.2	(31)	<b>28.3</b>	38.0	(26)
AmLife (30% share)	<b>5.4</b>	-	-	<b>2.3</b>	-	-
<b>Total International Life &amp; Pensions</b>	<b>209.1</b>	276.6	(24)	<b>78.4</b>	89.2	(12)
<b>Total Life &amp; Pensions</b>	<b>505.0</b>	701.3	(28)	<b>183.4</b>	194.3	(6)

## Quarterly Progression

	<b>Q3 2009 £m</b>	Q2 2009 £m	Q1 2009 £m
UK Corporate			
- pensions	<b>78.5</b>	70.6	69.6
- protection	<b>2.4</b>	2.1	2.2
<b>Total UK Corporate</b>	<b>80.9</b>	72.7	71.8
UK Individual			
- protection	<b>11.5</b>	10.5	9.1
- annuities	<b>6.3</b>	6.8	5.7
- pensions	<b>5.4</b>	9.5	3.5
- investments	<b>0.9</b>	0.8	0.4
<b>Total UK Individual</b>	<b>24.1</b>	27.6	18.7
<b>Total UK Life &amp; Pensions</b>	<b>105.0</b>	100.3	90.5
FPI	<b>47.8</b>	44.1	36.9
Lombard	<b>28.3</b>	26.2	20.4
AmLife (30% share)	<b>2.3</b>	2.0	1.1
<b>Total International Life &amp; Pensions</b>	<b>78.4</b>	72.3	58.4
<b>Total Life &amp; Pensions</b>	<b>183.4</b>	172.6	148.9

## Friends Provident International

<b>APE by region (£m, actual exchange rates)</b>	<b>9m 2009</b>	9m 2008	<b>Q3 2009</b>	Q2 2009
Asia	<b>64.4</b>	86.1	<b>25.7</b>	22.1
Middle East	<b>30.3</b>	31.7	<b>9.4</b>	11.7
Europe (Excl UK)	<b>20.9</b>	24.7	<b>7.1</b>	6.6
UK	<b>4.1</b>	10.6	<b>2.1</b>	0.9
Rest of World	<b>9.1</b>	15.3	<b>3.5</b>	2.9
<b>Total</b>	<b>128.8</b>	168.4	<b>47.8</b>	44.2

## Lombard

<b>APE By Region (£m, actual exchange rates)</b>	<b>9m 2009</b>	9m 2008
UK and Nordic	<b>22.0</b>	32.6
Northern Europe	<b>22.0</b>	35.0
Southern Europe	<b>29.2</b>	35.7
Rest of World	<b>1.7</b>	4.9
<b>Total Including Large cases</b>	<b>74.9</b>	108.2
Of which: Large cases (greater than €10m)	<b>11.5</b>	30.0
<b>Total Excluding Large Cases</b>	<b>63.4</b>	78.2

## 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>9m 2009 £m</b>	9m 2008 (as reported) £m	Change %	<b>Q3 2009 £m</b>	Q3 2008 (as reported) £m	Change %
FPI	<b>109.2</b>	168.4	(35)	<b>43.4</b>	51.2	(15)
Lombard	<b>66.9</b>	108.2	(38)	<b>26.5</b>	38.0	(30)

## 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 EEV 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>9m 2009 £m</b>	9m 2008 £m	Change %	<b>Q3 2009 £m</b>	Q2 2009 £m	Q1 2009 £m
UK Corporate						
- pensions	<b>1,053</b>	1,537	(31)	<b>401</b>	333	319
- protection	<b>21</b>	21	0	<b>7</b>	6	8
<b>Total UK Corporate</b>	<b>1,074</b>	1,558	(31)	<b>408</b>	339	327
UK Individual						
- protection	<b>198</b>	219	(10)	<b>73</b>	66	59
- annuities	<b>188</b>	205	(8)	<b>63</b>	68	57
- pensions	<b>157</b>	315	(50)	<b>47</b>	86	24
- investments	<b>22</b>	67	(67)	<b>9</b>	8	5
<b>Total UK Individual</b>	<b>565</b>	806	(29)	<b>192</b>	228	145
<b>Total UK Life &amp; Pensions</b>	<b>1,639</b>	2,364	(31)	<b>600</b>	567	472
FPI	<b>774</b>	1,059	(27)	<b>293</b>	262	219
Lombard	<b>749</b>	1,082	(31)	<b>283</b>	262	204
AmLife (30% share)	<b>37</b>	-	-	<b>17</b>	14	6
<b>Total International Life &amp; Pensions</b>	<b>1,560</b>	2,141	(27)	<b>593</b>	538	429
<b>Total Life &amp; Pensions</b>	<b>3,199</b>	4,505	(29)	<b>1,193</b>	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

### **eBusiness**

- FTAdviser.com - Online Service Awards 2008. Friends Provident received the 5 Star award for Investment Providers and Packagers

### **International**

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

### **Pensions**

- Incisive Media - Gold Standard Awards 2008. 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**

- Online Finance Awards 2008. Friends Provident was awarded Best Online Protection Provider
- Incisive Media Gold Standard Awards 2008. Winner of Protection category
- Health Insurance Awards 2008. Friends Provident was named Best Individual Income Protection Provider
- 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