

# News Release

27 January 2009

## Friends Provident 2008 trading update

### Making good progress

#### Highlights

- Strong capital position maintained, with Insurance Groups Directive excess capital at 31 December 2008 estimated at £0.85 billion and resilient to further market movements
- Total full year life and pensions new business down by 11% to £1,005 million APE<sup>2</sup> (2007: £1,135m)
- Fourth quarter total life and pensions new business down by 4% year-on-year on APE basis and up 4% on PVNBP<sup>2</sup> basis
- International life and pensions full year new business up by 19% to £456 million APE (2007: £385m), comprising Friends Provident International up by 13% and Lombard up by 24%
- Increasing momentum with key UK group pensions distributors leading to 26 scheme wins in final quarter of 2008 which are expected to deliver approximately £20 million of APE during the first half of 2009
- Annual cost savings run-rate of £25 million at 31 December 2008 reflecting continued progress in fourth quarter, remaining well on track for £40 million annual run-rate by end of 2009
- Dividend policy unchanged

Trevor Matthews, chief executive officer of Friends Provident plc, said:

“Friends Provident is in good shape despite the turmoil in financial markets and the uncertain economic environment. We have made excellent progress cutting costs, excess capital remains healthy, and our dividend policy remains unchanged.

#### Friends Provident plc

Registered and Head Office: Pixham End, Dorking, Surrey RH4 1QA  
Incorporated company limited by shares and registered in England number 4113107  
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**FRIENDS PROVIDENT**

"The business is also well diversified. Our international operations, Friends Provident International and Lombard, achieved over half of our total fourth quarter sales and around 45% of new business for the year as a whole.

"The operating environment in the UK and overseas remains tough. In UK group pensions, we continue to write good levels of new business for employers who already operate a scheme with us, and we are increasing our activity with distributors to win new schemes. We are now being invited to pitch for new schemes with almost all of our key target intermediaries, and as a result we achieved 26 successes in the quarter."

- Ends -

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Ref: J013

### Notes to editors

1. There will be a conference call for investors and analysts at 9.00am GMT hosted by Trevor Matthews, CEO and Charles Bellringer, interim CFO. Dial in telephone number +44 (0)20 7162 0025 (reference: 822787). A recording of this call will be available for 7 days by dialling: +44 (0)20 7031 4064 (access code: 822787).
2. 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.

3. **Financial Reporting Calendar:**

Friends Provident plc Preliminary Results	17 March 2009
Friends Provident plc Interim Management Statement and Quarter 1 New Business Announcement	28 April 2009
Friends Provident plc Interim Results	11 August 2009
Friends Provident plc Interim Management Statement and Quarter 3 New Business Announcement	27 October 2009

4. 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; 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.

#### **About Friends Provident:**

Friends Provident plc is a UK-listed life and pensions company, originally founded in 1832 to alleviate the hardship of Quaker families facing misfortune. Friends Provident's strategy today is to operate in markets where it can deploy its award-winning strengths in technology and service to gain competitive advantage. Since its demutualisation in 2001, the company has developed strong offerings in pensions and protection to complement its historic With Profits business, and now prioritises international growth. Friends Provident is fully committed to the principles of the FSA initiative 'Treating Customers Fairly'.

Friends Provident distributes its products through intermediaries in the UK and around the world. Its key business lines in the UK are protection and corporate pensions. Friends Provident International develops competitive savings, investment and pensions products for a broad and diverse range of markets including Hong Kong, the United Arab Emirates and Germany.

Friends Provident wholly owns the Luxembourg-based company Lombard, a leading pan-European life assurance company which specialises in the use of life assurance as a wealth management solution for high net-worth investors, and Sesame, a leading UK supplier of intermediary support services to financial advisers providing services to over 7,500 financial advisers across the UK offering life assurance, mortgages and savings arrangements.

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)

## **Financial strength**

Despite the continued uncertainty affecting financial markets, and in particular further widening of bond spreads in the fourth quarter, our business remains financially strong. We expect our financial strength ratings will remain in the single-A range for the foreseeable future.

We estimate that the surplus capital on the Insurance Groups Directive (IGD) basis at 31 December 2008 was £0.85 billion (30 October 2008: £1.0bn). The main drivers of movement over the last two months of 2008 included payment of the 2008 interim dividend, payment for acquisition of 30% stake in AmLife, payment of interest on STICs and investment market movements.

Based on estimated sensitivities including any impact from our main With Profits Fund, a 30% fall in equity markets from the 31 December level would have no material impact. Widening of corporate spreads by 150 basis points from 31 December levels would not reduce IGD surplus by more than £0.1 billion.

In our third quarter Interim Management Statement we indicated that our previous annuity reserving methodology was becoming increasingly conservative as corporate bond spreads widened. The IGD estimate takes account of our adoption of a revised basis to allow for risk in the calculation of liabilities for certain policies, in particular annuities. Half of the spread of bond yields above risk-free rates, as compared to 40 basis points previously, is now considered to be due to illiquidity. The result is an allowance for corporate bond defaults on annuity business in the region of £500 million on an investment portfolio of around £2.7 billion. IFRS liabilities reflect the regulatory reserving basis. We would therefore expect reduced impact on IFRS underlying profit from widening corporate bond spreads compared to the previous methodology. This change has negligible effect on embedded value under our market consistent methodology.

Our liquidity remains strong, and in December we confirmed our £300 million funding facility with a consortium of banks. This facility runs until April 2011 and provides considerable flexibility to offset liquidity risk. No funds have been drawn under this arrangement.

## **Life and pensions new business**

### **UK Life and pensions**

UK sales for the full year were down 27% to £549 million (2007: £751m), as we implemented our new strategy and focussed on key lines of business.

Our UK life and pensions operations are now structured and managed to align with our two key customer groups, corporate employers and individual customers. Therefore in future announcements we will segment UK business into 'UK Corporate' and 'UK Individual'. UK Corporate comprises group pensions and group protection products. UK Individual will comprise individual protection products, annuities, individual pensions, savings and investments, and DWP rebate premiums.

### **UK Pensions**

New group pensions business in the fourth quarter was close to a third higher than the third quarter at £104 million. The increase reflected increments to existing schemes. New business for the full year was some 20% below 2007 at £423 million.

The split of new business in the year was as follows:

<b>APE, £m</b>	Unfunded commission	Fee-based and funded commission
New schemes and lump sums	59	29
Incremental business	187	148
Totals	246	177

These figures do not reflect a number of positive developments over the fourth quarter in relationships with key distributors in the market for new schemes in the fee and funded commission-based segment. Due to corporate uncertainty in the first half of 2008, for most of the year the majority of these distributors had either removed Friends Provident from provider panels or were not considering placing schemes with us. We have made significant progress in rebuilding confidence during Q4, and we are now back on panels and actively competing for new schemes with nearly all of our targeted distributors. As a result, we have achieved 26 scheme wins in the fourth quarter of which 20 were in November and December. These schemes will come on to our books during the first half of 2009 and we expect them to contribute around £20 million APE. This is a positive development, as although the size and therefore volume of business varies by scheme, the wins are via a range of distributors including key employee benefit consultants, and are indicative of our improving momentum in this market.

Levels of individual pensions business remain well below the same period in 2007 following our withdrawal of products carrying initial commission early in 2008. DWP rebate business sales were low in the fourth quarter as the bulk of this business had been received earlier in the year.

### **UK Protection**

Protection business for the full year was down 24% at £52 million (2007: £68m) reflecting the weak housing market. Within this result, individual income protection, where we have a strong market presence, was down 12% at around £10 million. Life and critical illness business was down 27% at around £35 million, reflecting the link between sales and housing market transactions, and our critical illness terms being less competitive than for some other providers. We have enhanced our critical illness terms in January 2009. Group protection business was down 26% at around £7 million in a very competitive market.

In 2009 we expect to at least hold our position in this market, with 2008's salesforce restructuring now complete and some improvements to our product range. However the health of the protection market overall will continue broadly to reflect the housing market. We will continue to seek out opportunities to broaden our distribution.

### **UK Other**

Annuity sales remain slightly below the level seen in 2007. We continue to focus on providing annuities for our pensions customers as they reach retirement. We have made a number of improvements to make this process clearer for customers, although we would not expect an immediate impact on our sales volumes. Levels of savings and investment business remain modest.

### **Sesame**

Full year results for Sesame will be reported with the 2008 preliminary results. The business continues to trade profitably despite challenging market conditions.

### Friends Provident International (FPI)

APE by region	2008	2007
	£m	£m
Asia	103	100
UK	14	20
Middle East	42	22
Europe (excluding UK)	34	29
Rest of World	17	16
<b>Total FPI</b>	<b>210</b>	<b>187</b>

FPI delivered 13% growth in sales (5% on a constant currency basis) for the full year, despite the results in the last quarter being down 26% year-on-year, affected by the global downturn and compared to the strong fourth quarter comparative in 2007. 2008 sales are more diversified by region, with less dependence on sales in Hong Kong compared to 2007. We expect the profit margin on new business for 2008 to be similar to that in 2007. The outlook for 2009 is not yet clear as it will depend on how each market reacts to developments in the global financial situation, although year-on-year performance in early 2009 will reflect very strong comparatives from the first two quarters of 2008. Beyond this, there remain good growth opportunities across FPI's markets.

Our sales in Asia are driven by the result in Hong Kong, which saw very strong sales through second half 2007 and first half 2008. We believe that this market has slowed through the second half in reaction to investment market turmoil and high profile of the issues affecting AIG. It is not yet clear how long it will take for confidence to return. Around £9 million of FPI sales are in South East Asia from our operation in Singapore, where sales have continued to grow since the branch was established. We have continued to develop the product offering there, with four products now approved. This operation provides us with diversification within Asia.

Middle East sales were up over 90% year-on-year, supported by our increased footprint of operations in the region from the establishment of a Dubai hub in the third quarter. We have seen less impact to date in this region from the current economic climate.

European new business benefited from good growth in German pensions distribution, where new business more than doubled from £8 million in 2007 to £18 million in 2008. Elsewhere in Europe sales have seen a downturn due to market conditions. Sales in the UK were below 2007 levels.

### Lombard International (Lombard)

APE by region	2008	2007
	£m	£m
UK and Nordic	58	28
Northern Europe	62	58
Southern Europe	94	98
Rest of World	32	14
<b>Total including large cases</b>	<b>246</b>	<b>198</b>
Of which: Large cases (greater than €10m)	106	78
<b>Total excluding large cases</b>	<b>140</b>	<b>120</b>

Lombard sales were up by 24% in Sterling terms, benefiting from the majority of sales being Euro-denominated. On a constant currency basis, sales were up 2% on 2007. Funds under management were down just 5% to €13.0 billion (2007: €13.7bn). These are very encouraging results in the context of a year of falling investment markets impacting funds under management and leading to a number of clients postponing investment decisions. The latter factor particularly affected core high net worth individual (HNWI) clients, and as a result the mix of business has shifted towards larger cases for ultra-HNWI clients, which typically carry lower margins. We therefore expect a margin outcome significantly below that for 2007.

UK and Nordic sales were up by 66% on a constant currency basis. The main driver of this result was increased sales in the UK, continuing the pattern seen earlier in the year, with sales focused on UK resident non-domiciled clients.

In Northern Europe sales were down by 12% on a constant currency basis. Germany accounts for around half of sales in this region. In the early part of the year, sales in Germany were strong but these slowed considerably due to life assurance legal and tax change uncertainties. The final draft of this legislation was published in December. Some clarification of the new rules remains outstanding. We are confident that Germany will remain an important market for Lombard in the future.

Sales in Southern Europe were down by 22% in constant currency terms. This region, in particular Spain, had a very strong year in 2007 and has seen fewer large cases in 2008. The French market showed good growth, Italy also performed well in the difficult market situation.

Sales in the rest of the world were up around 80% on constant currency terms. Late in the year a number of cases were written with Mexican clients. These sales resulted from work to relaunch Lombard's proposal after previous tax legislation changes at the end of 2006 meant the product was no longer suitable for this market.

We expect investment market uncertainty to continue to constrain growth prospects in the short term. However Lombard's business model and prospects remain strong, and it is increasingly diversified by region and territory.

### **Cost savings**

Our cost reduction programme has positioned us well for the tough business environment. We have taken significant further steps in the fourth quarter including:

- Signing of a significant outsourcing agreement with IBM for the provision of certain IT support functions, with estimated initial annual savings of around £6 million
- Commencing consultation process with affected staff regarding the closure of a site in Manchester

The annualised run-rate of savings as at 31 December was £25 million (30 June 2008: £11m) and we are confident of meeting the targeted £40m annual savings run-rate by the end of 2009. We have reduced our staff headcount by 10% over the year.

We expect that there will be a short term impact from reduction in volumes of new business ahead of the actual reduction in acquisition expenses in the UK, which will act to reduce margins for 2008 compared to those reported for 2007.

## 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.

### New Business – Regular and Single Premiums:

	Regular premiums			Single premiums		
	12 months 2008 £m	12 months 2007 £m	Change %	12 months 2008 £m	12 months 2007 £m	Change %
Protection	<b>51.7</b>	68.3	(24)	<b>0.0</b>	0.0	-
Pensions						
- Group pensions	<b>377.6</b>	447.2	(16)	<b>449.4</b>	784.8	(43)
- Individual pensions	<b>10.8</b>	25.6	(58)	<b>165.8</b>	392.3	(58)
- DWP rebates	<b>0.0</b>	0.0	-	<b>136.3</b>	140.0	(3)
Total pensions	<b>388.4</b>	472.8	(18)	<b>751.5</b>	1,317.1	(43)
Annuities	<b>0.0</b>	0.0	-	<b>264.6</b>	273.1	(3)
Savings & Investments	<b>0.7</b>	1.4	(50)	<b>69.7</b>	493.1	(86)
<b>Total UK Life &amp; Pensions</b>	<b>440.8</b>	542.5	(19)	<b>1,085.8</b>	2,083.3	(48)
FPI	<b>166.8</b>	131.1	27	<b>430.3</b>	551.3	(22)
Lombard	<b>0.0</b>	0.0	-	<b>2,462.9</b>	1,985.3	24
<b>Total International Life &amp; Pensions</b>	<b>166.8</b>	131.1	27	<b>2,893.2</b>	2,536.6	14
<b>Total</b>	<b>607.6</b>	673.6	(10)	<b>3,979.0</b>	4,619.9	(14)

	Q4 2008 £m	Q4 2007 £m	Change %	Q4 2008 £m	Q4 2007 £m	Change %
Protection	<b>10.9</b>	15.3	(29)	<b>0.0</b>	0.0	-
Pensions						
- Group pensions	<b>97.5</b>	124.4	(22)	<b>59.6</b>	188.3	(68)
- Individual pensions	<b>1.6</b>	6.7	(76)	<b>15.8</b>	90.8	(83)
- DWP rebates	<b>0.0</b>	0.0	-	<b>4.9</b>	13.2	(63)
Total pensions	<b>99.1</b>	131.1	(24)	<b>80.3</b>	292.3	(73)
Annuities	<b>0.0</b>	0.0	-	<b>59.1</b>	63.1	(6)
Savings & Investments	<b>0.0</b>	0.4	(100)	<b>6.4</b>	98.0	(93)
<b>Total UK Life &amp; Pensions</b>	<b>110.0</b>	146.8	(25)	<b>145.8</b>	453.4	(68)
FPI	<b>32.7</b>	43.3	(24)	<b>87.3</b>	127.6	(32)
Lombard	<b>0.0</b>	0.0	-	<b>1,380.5</b>	702.3	97
<b>Total International Life &amp; Pensions</b>	<b>32.7</b>	43.3	(24)	<b>1,467.8</b>	829.9	77
<b>Total</b>	<b>142.7</b>	190.1	(25)	<b>1,613.6</b>	1,283.3	26

### New Business - Annual Premium Equivalent (APE):

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

	<b>12 months 2008 £m</b>	12 months 2007 £m	Change %
Protection	<b>51.7</b>	68.3	(24)
Pensions			
- Group pensions	<b>422.5</b>	525.7	(20)
- Individual pensions	<b>27.4</b>	64.8	(58)
- DWP rebates	<b>13.6</b>	14.0	(3)
Total pensions	<b>463.5</b>	604.5	(23)
Annuities	<b>26.5</b>	27.3	(3)
Savings & Investments	<b>7.6</b>	50.7	(85)
<b>Total UK Life &amp; Pensions</b>	<b>549.3</b>	750.8	(27)
FPI	<b>209.8</b>	186.2	13
Lombard	<b>246.3</b>	198.5	24
<b>Total International Life &amp; Pensions</b>	<b>456.1</b>	384.7	19
<b>Total</b>	<b>1,005.4</b>	1,135.5	(11)

	<b>Q4 2008 £m</b>	Q4 2007 £m	Change %
Protection	<b>10.9</b>	15.3	(29)
Pensions			
- Group pensions	<b>103.5</b>	143.2	(28)
- Individual pensions	<b>3.2</b>	15.8	(80)
- DWP rebates	<b>0.5</b>	1.3	(63)
Total pensions	<b>107.2</b>	160.3	(33)
Annuities	<b>5.9</b>	6.3	(6)
Savings & Investments	<b>0.7</b>	10.2	(93)
<b>Total UK Life &amp; Pensions</b>	<b>124.7</b>	192.1	(35)
FPI	<b>41.4</b>	56.1	(26)
Lombard	<b>138.5</b>	70.2	97
<b>Total International Life &amp; Pensions</b>	<b>179.9</b>	126.3	42
<b>Total</b>	<b>304.6</b>	318.4	(4)

### 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>12 months 2008 £m</b>	12 months 2007 (as reported) £m	Change %
FPI	<b>196.1</b>	186.2	5
Lombard	<b>201.7</b>	198.5	2
<b>Total International Life &amp; Pensions</b>	<b>397.8</b>	384.7	3
	<b>Q4 2008 £m</b>	Q4 2007 (as reported) £m	Change %
FPI	<b>33.0</b>	56.1	(41)
Lombard	<b>102.5</b>	70.2	46
<b>Total International Life &amp; Pensions</b>	<b>135.5</b>	126.3	7

**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>12 months 2008 £m</b>	12 months 2007 £m	Change  %
Protection	<b>297</b>	413	(28)
Pensions			
- Group pensions	<b>1,964</b>	2,611	(25)
- Individual pensions	<b>207</b>	504	(59)
- DWP rebates	<b>136</b>	140	(3)
Total pensions	<b>2,307</b>	3,255	(29)
Annuities	<b>265</b>	273	(3)
Savings & Investments	<b>74</b>	501	(85)
<b>Total UK Life &amp; Pensions</b>	<b>2,943</b>	4,442	(34)
FPI	<b>1,273</b>	1,235	3
Lombard	<b>2,463</b>	1,985	24
<b>Total International Life &amp; Pensions</b>	<b>3,736</b>	3,220	16
<b>Total</b>	<b>6,679</b>	7,662	(13)

	<b>Q4 2008 £m</b>	Q4 2007 £m	Change  %
Protection	<b>58</b>	102	(43)
Pensions			
- Group pensions	<b>427</b>	623	(31)
- Individual pensions	<b>22</b>	117	(81)
- DWP rebates	<b>5</b>	13	(62)
Total pensions	<b>454</b>	753	(40)
Annuities	<b>59</b>	63	(6)
Savings & Investments	<b>7</b>	100	(93)
<b>Total UK Life &amp; Pensions</b>	<b>578</b>	1,018	(43)
FPI	<b>214</b>	360	(41)
Lombard	<b>1,381</b>	702	97
<b>Total International Life &amp; Pensions</b>	<b>1,595</b>	1,062	50
<b>Total</b>	<b>2,173</b>	2,080	4