

# *2009 Interim Results*

Friends Provident Group plc  
11 August 2009



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# *Trevor Matthews*

## *Chief Executive Officer*

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# Agenda

- Business update Trevor Matthews
- Financial review Evelyn Bourke
- Concluding remarks Trevor Matthews
- Questions & Answers Team

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# Turnaround on track

— FTSE:UKX



- Tough markets
- Will take time to restore investor confidence
- Turnaround on track - profitability will follow

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# Good progress

- Strengthened management team
- Reduced expenses significantly
- Demerged F&C
- Expanded distribution
- Improved cash generation
- Maintained strong and robust solvency
- Maintained dividend

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# Results reflect stage of turnaround

	H1 2009	H1 2008
Life & pensions gross cash	<b>£35m</b>	£(19)m
Internal rate of return on new business	<b>10.7%</b>	12.6%
Contribution from new business (CNB)	<b>£30m</b>	£67m
EEV underlying profit before tax <sup>1</sup>	<b>£122m</b>	£184m
IFRS underlying profit before tax <sup>1</sup>	<b>£29m</b>	£(14)m
IGD surplus	<b>£0.9bn<sup>2</sup></b>	£0.85bn <sup>3</sup>
Interim dividend	<b>1.3p</b>	1.3p

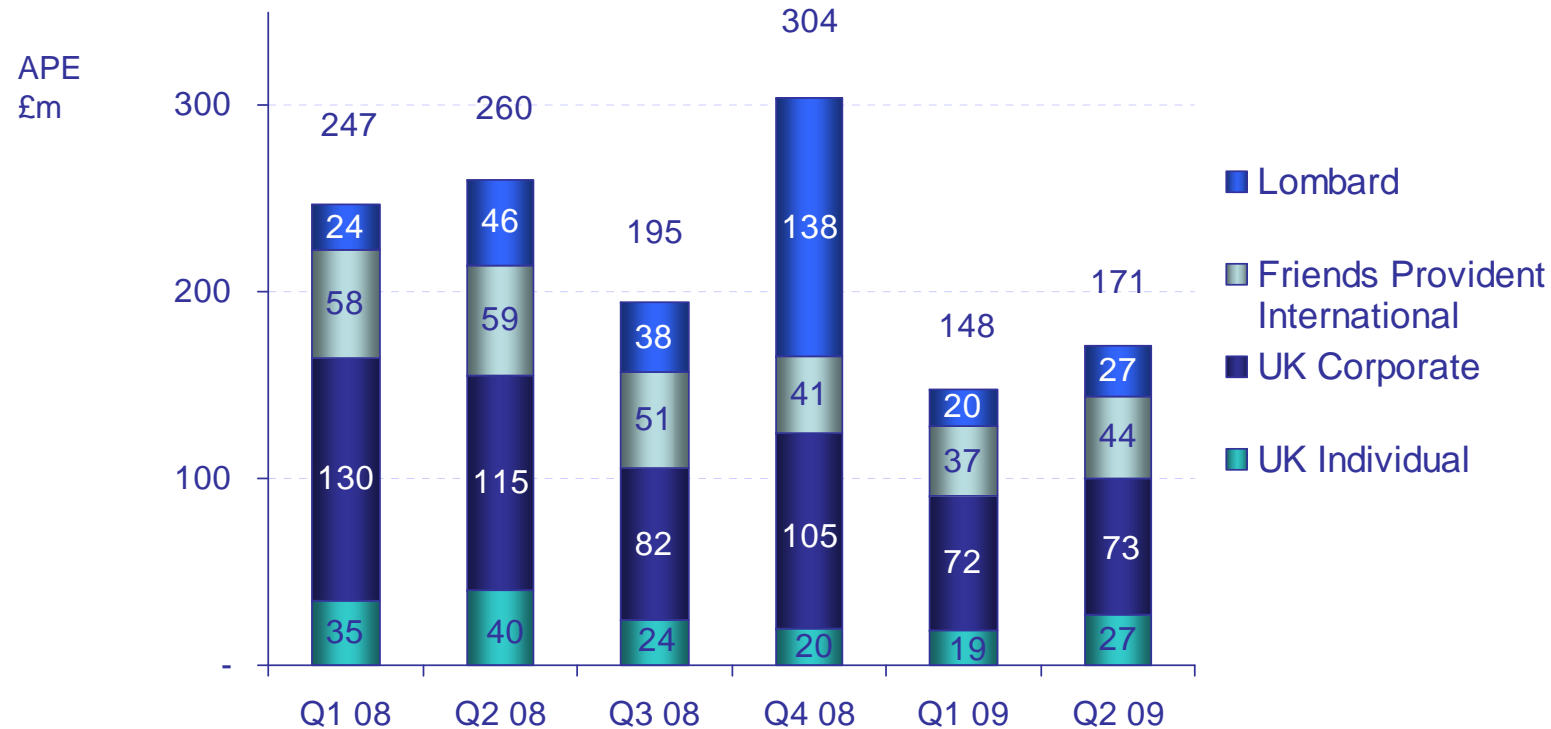
1. Excluding F&C
2. Estimated as at 31 July 2009
3. As at 31 December 2008

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# New business sales start to recover in Q2



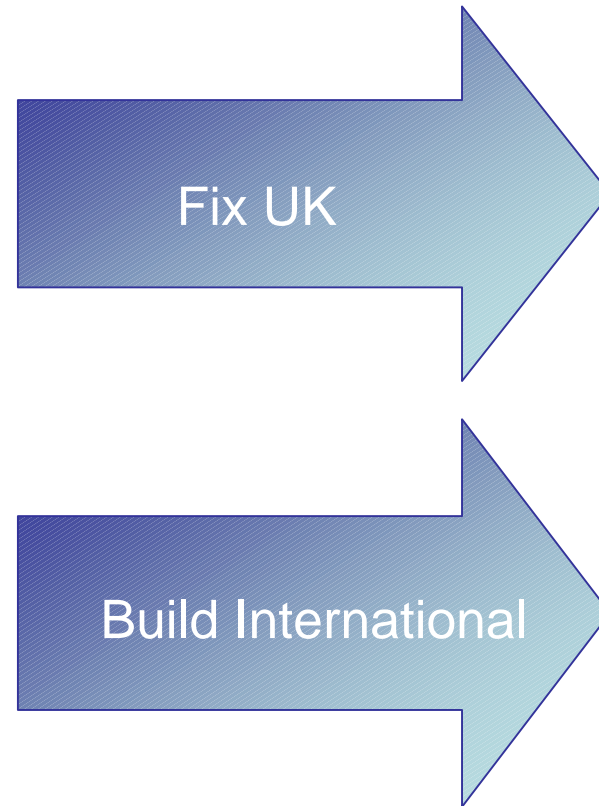
- Impacted by economic downturn
- UK progression reflects withdrawal from non-core products – benefits of new strategy subject to time lag
- Lombard typically has very strong Q4 sales
- FRIENDS® 30% interest in AmLife generated additional £3m APE in H1 2009

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# Simple core organic strategy



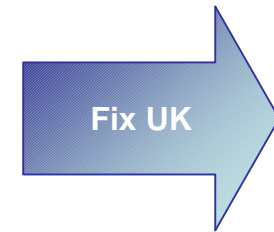
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# UK turnaround delivering to plan

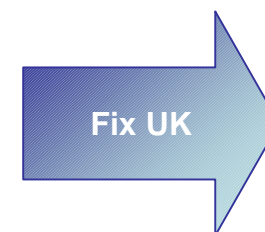
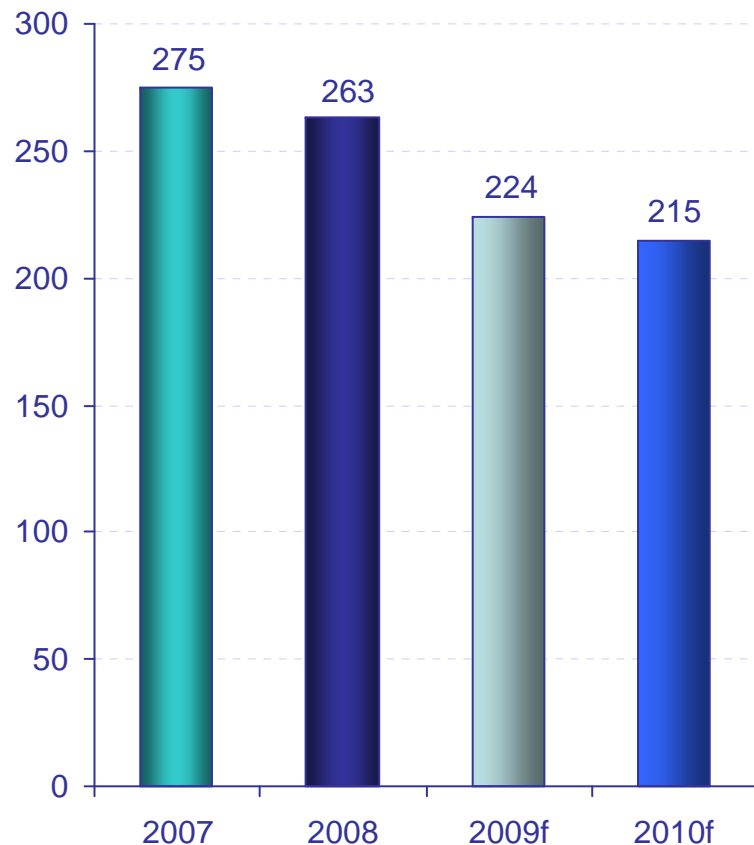
- Reducing expenses significantly
- Focusing on core products
- Expanding distribution



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# Expense savings secured and actioned

UK Expenses  
£m



- On track to spend no more than £215m in 2010 compared to £275m in 2007 (-22%)
- Staff numbers reduced by 22% from end 2007 to end June 2009
- Outsourced IT infrastructure and development

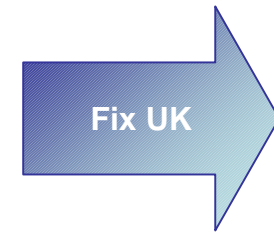
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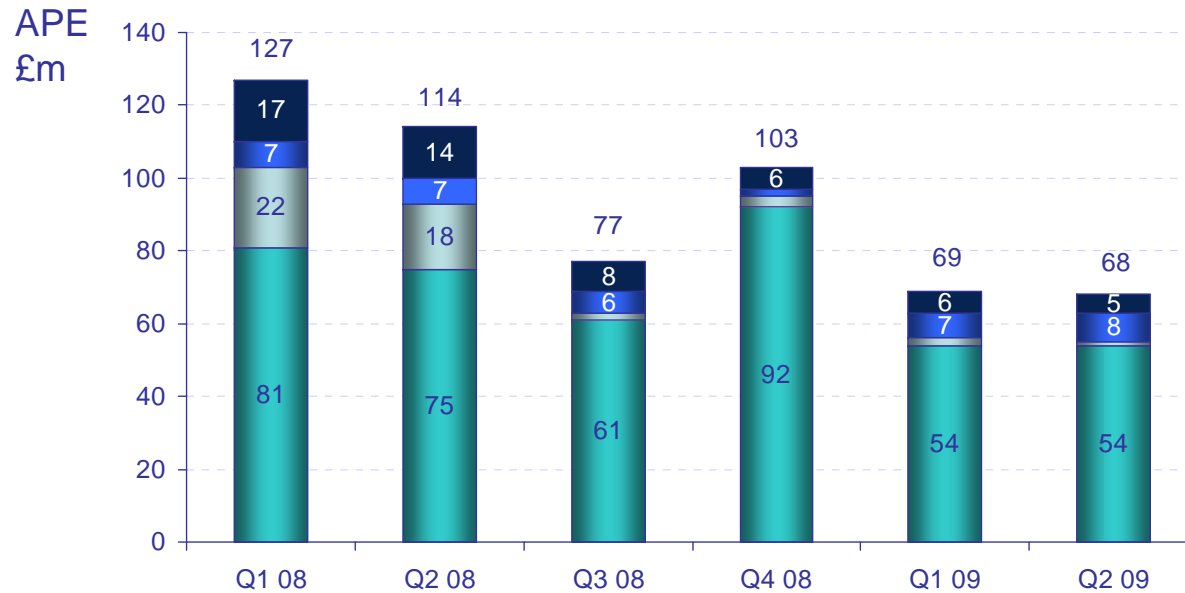
# Focus on core products with competitive advantage

- Now centred on corporate pensions and protection ✓
  - Withdrawn from less profitable market segments
- New terms introduced ✓
  - Focus on value
  - Withdrawn from unfunded initial commissions on new pensions
  - Improved critical illness terms and tactical pricing for protection
- Reorganised internally to align with new trading focus ✓



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# UK pension sales show impact of recession and new scheme timelags



## New Regular premium

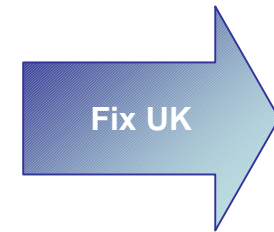
■ New schemes – funded commission

■ New schemes – unfunded initial commission

■ Existing schemes – increments

## 10% of single premium

■ Transfers in and lump sums



- Lower additional business from existing schemes due to recession
- Unfunded initial commission business has reduced
- Tender activity has increased
- Won 58 new mandates in H109 – but increased timelags
- Strong pipeline of new business

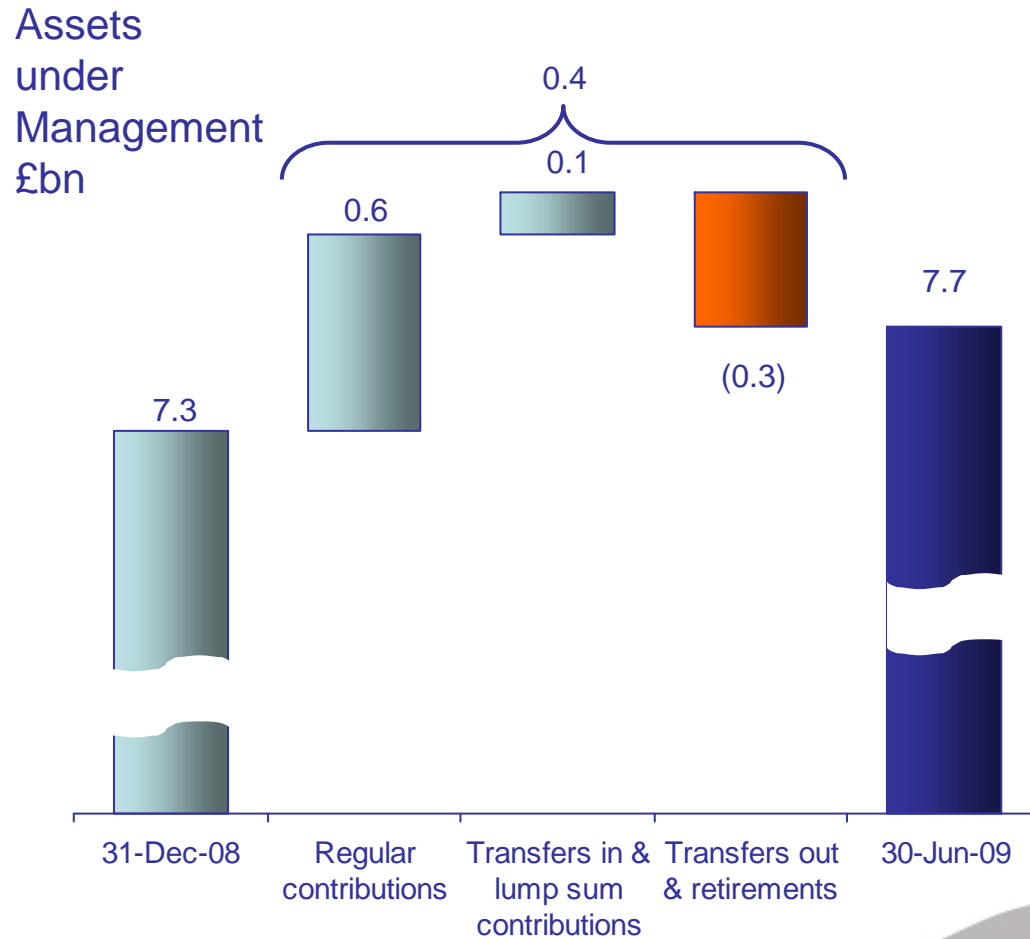
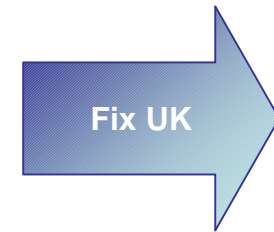
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# Growth in UK pensions assets from strong regular contribution flows

Building assets on our New Generation Pensions platform



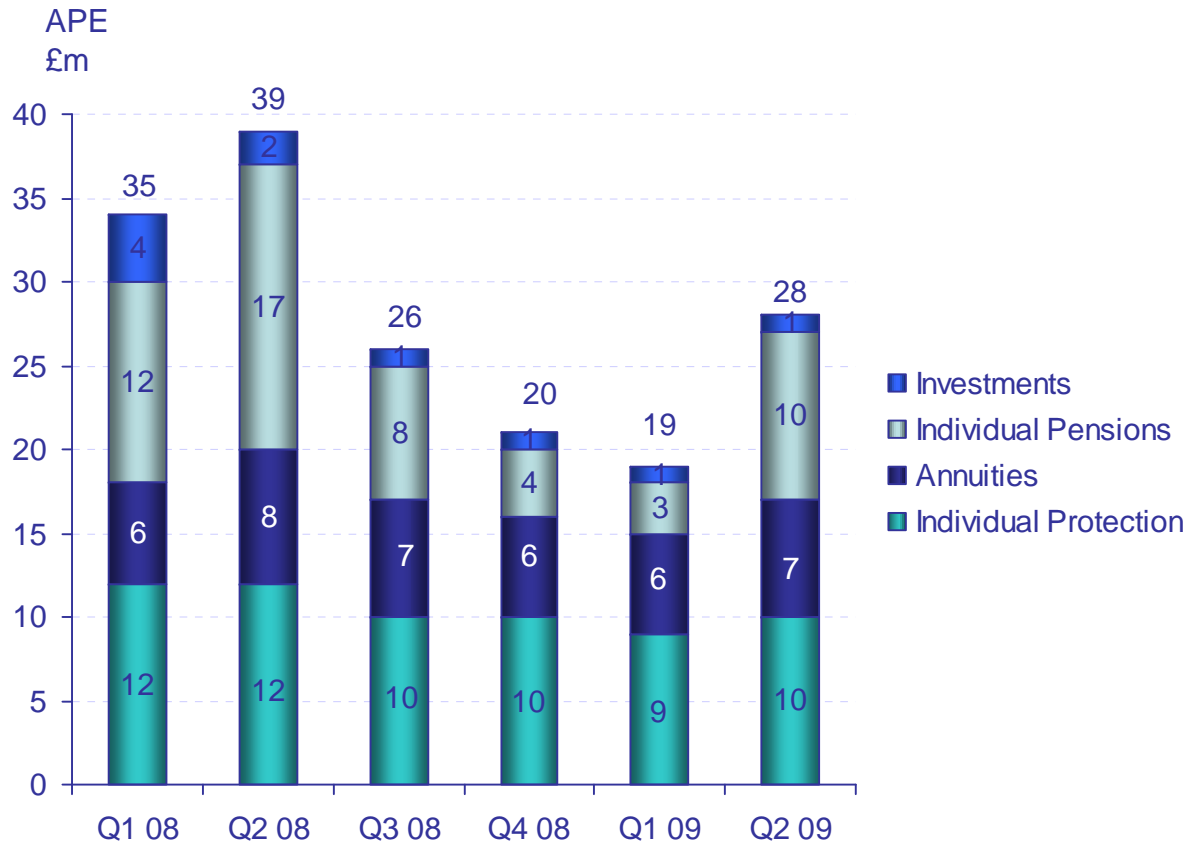
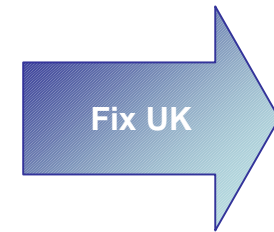
- Regular contributions of over £1.2bn per annum
- Net client cash inflows of £0.4bn in H1 09
- Total number of members up to approximately 765,000

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# UK individual new business increased in Q2 09



- Individual pensions boosted by seasonal Department of Work and Pensions rebates
- Protection sales improving
  - Countrywide sales £2.2m in Q2 vs £1.6m in Q1 (+38%)
  - Total sales up 11% in Q2 vs Q1
- Tesco
  - Developing innovative product and customer solutions
  - Sales due to start at end of year

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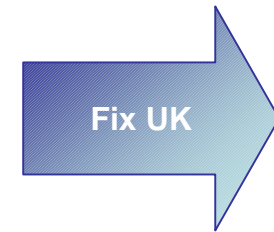
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# Making progress in expanding distribution

## Corporate pensions

- Restored to main Employee Benefit Consultant and Consulting Actuary panels
- Active discussions with major firms about future business models
- Will maintain leadership position and introduce corporate platform in 2010
  - Online trading facility
  - Corporate ISA
  - Share save and share incentive plans
  - Group and Individual SIPP



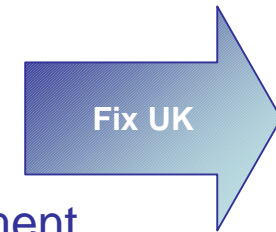
## Protection

- Increasing focus on Independent Financial Advisers
- Actively exploring other distribution opportunities

**TESCO** Personal Finance

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# Well positioned for the post-Retail Distribution Review world



- FRIENDS® has effectively already withdrawn from retail investment products that are mostly affected by RDR
- RDR will lead to the emergence of new adviser models
- Sesame provides strategic options

## Sesame

- A strong, well run business
- Proposed Bankhall acquisition will produce
  - Largest network – with over 3,000 appointed representatives
  - Largest service provider – supporting over 1,500 firms
  - Largest mortgage distributor – generated over £45bn of applications in 2008

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# International business offers higher returns and faster payback

Build  
International



FPI - distribution led, leveraging operating capabilities of UK and Isle of Man

- 'Hub & Spoke' model is efficient and effective
  - Hong Kong (1989)
  - Dubai (2004)
  - Germany (2006)
  - Singapore (2007)
- Distribution key to market entry

AmLife – an appropriate gateway into Malaysia

- Brings additional profitable growth prospects

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# International business offers higher returns and faster payback



Build  
International

Lombard – a unique, well-diversified business with great prospects

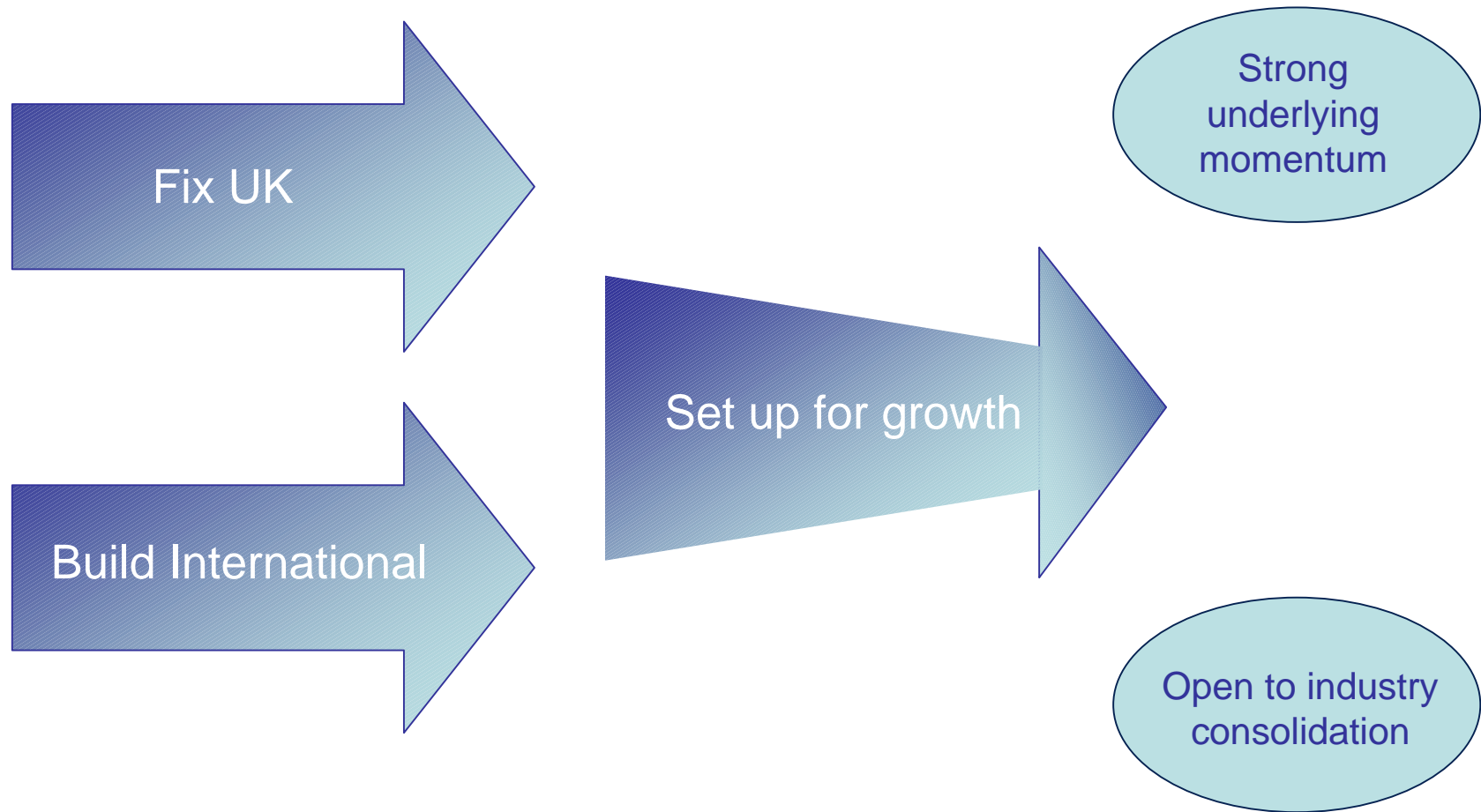
- 
- Innovative high end wealth management solutions
  - Distribution partnerships with private banks and advisers
  - Rapid product renewal cycle in response to tax regime changes around the world
  - Prospects strong – cases under discussion at record levels

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# Turnaround on track



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# *Evelyn Bourke*

## *Chief Financial Officer*

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# Financial discipline now firmly embedded

- Focus on cash generation and returns on cash invested
- Cost effectiveness
- Conservative reporting and reserving
- Prudent capital management

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# Core financial metrics in line with expectations

	H1 2009	H1 2008
Life & pensions gross cash	£35m	£(19)m
Internal rate of return (IRR) on new business	10.7%	12.6%
Discounted payback on new business	14 years	11 years
UK operating expenses	£108m	£135m
IGD surplus	£0.9bn <sup>1</sup>	£0.85bn <sup>2</sup>

1. Estimated as at 31 July 2009

2. As at 31 December 2008

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## Profit metrics in line with expectations

	H1 2009	H1 2008
Contribution from new business (CNB)	£30m	£67m
EEV underlying profit before tax exc. F&C	£122m	£184m
EEV underlying profit before tax	£131m	£211m
IFRS underlying profit before tax exc. F&C	£29m	£(14)m
IFRS underlying profit before tax	£38m	£13m
Interim dividend per share	1.3p	1.3p

	June 2009	Dec 2008
EEV per share	124p	128p
EEV per share excluding F&C and dividend	114p	

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# Cash generation is improving

	H1 2009 £m	H1 2008 £m
New business strain (pre tax)	(134)	(179)
In-force surplus (pre tax)	169	160
L&P gross cash generated	35	(19)
Tax and other items	(12)	29
<b>L&amp;P net operating cashflow</b>	<b>23</b>	<b>10</b>
F&C (dividend)	10	10
Investment return and other items	(19)	(36)
<b>Shareholder cash flow before one-offs</b>	<b>14</b>	<b>(16)</b>
Net movement in annuities, assets & liabilities due to credit spreads	-	(70)
One-offs and non-recurring items	(21)	(35)
<b>Shareholder cash and capital generation</b>	<b>(7)</b>	<b>(121)</b>

	H1 2009		H1 2008	
	UK	Int'l	UK	Int'l
<b>NB strain</b>	<b>(63)</b>	<b>(71)</b>	(87)	(92)
<b>IF surplus</b>	<b>82</b>	<b>87</b>	81	79
	<b>19</b>	<b>16</b>	(6)	(13)

- 'Cash' movements include all mark-to-market movements on shareholder-backed business

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# Return on new business reflects stage of turnaround

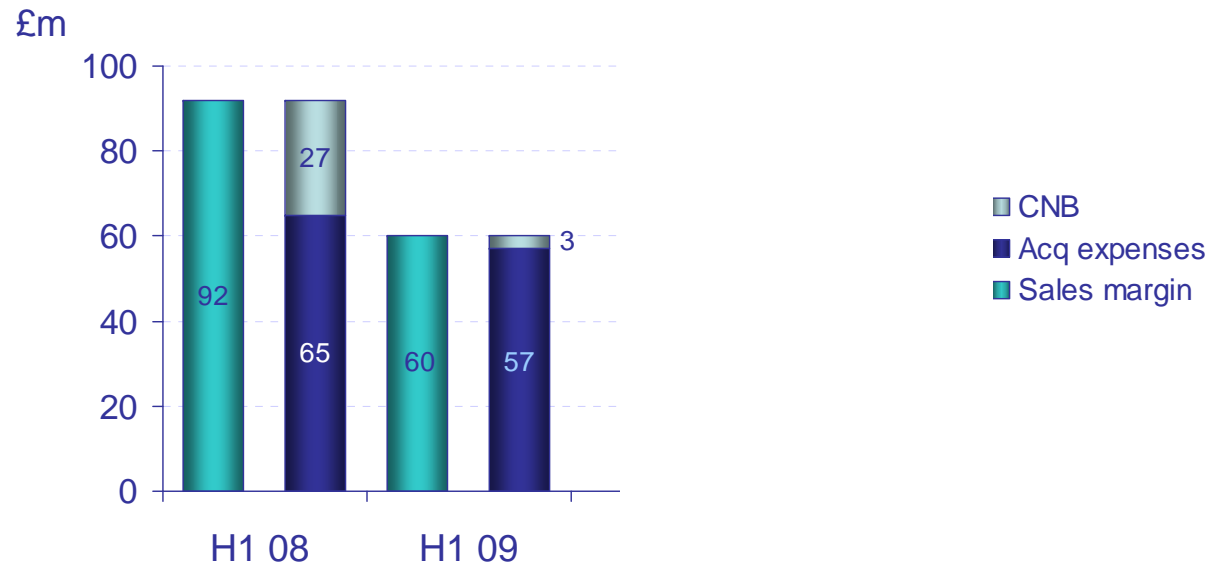
## New Business Profitability

	H1 2009			H1 2008		
	CNB £m	IRR %	Discounted payback yrs	CNB £m	IRR %	Discounted payback yrs
UK Corporate	(1)	5.4	N/a	7	7.5	23
UK Individual	4	16.3	15	20	20.2	7
<b>UK Total</b>	<b>3</b>	<b>9.9</b>	<b>25</b>	<b>27</b>	<b>10.9</b>	<b>16</b>
FPI	18	14.5	6	22	15.7	7
Lombard	9	10.0	13	18	17.4	7
<b>International Total</b>	<b>27</b>	<b>12.3</b>	<b>9</b>	<b>40</b>	<b>16.4</b>	<b>7</b>
<b>Total Group</b>	<b>30</b>	<b>10.7</b>	<b>14</b>	<b>67</b>	<b>12.6</b>	<b>11</b>

- Change in CNB, IRR and payback reflect lower volumes in H1 09
- Right sized cost base allows strong operating leverage when growth returns
- FRIENDS® 30% interest in AmLife generated additional £2m CNB (estimated) in H1 2009

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# UK CNB and new business metrics sensitive to volume



● Operational leverage will drive future value

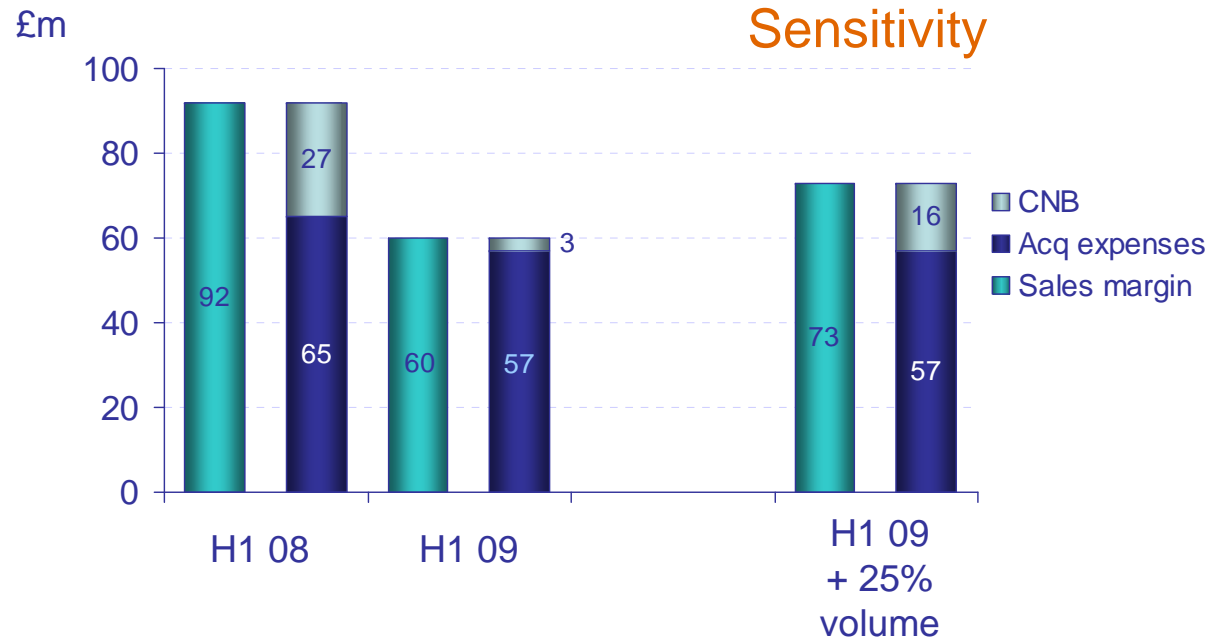
IRR	10.9%	9.9%
Payback	16	25
Sales margin/APE	29%	31%

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# UK CNB and new business metrics sensitive to volume



- Operational leverage will drive future value

IRR	10.9%	9.9%	12.2%
Payback	16	25	16
Sales margin/ APE	29%	31%	31%

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# CNB on annuities improves by £12m with an allowance for illiquidity premium

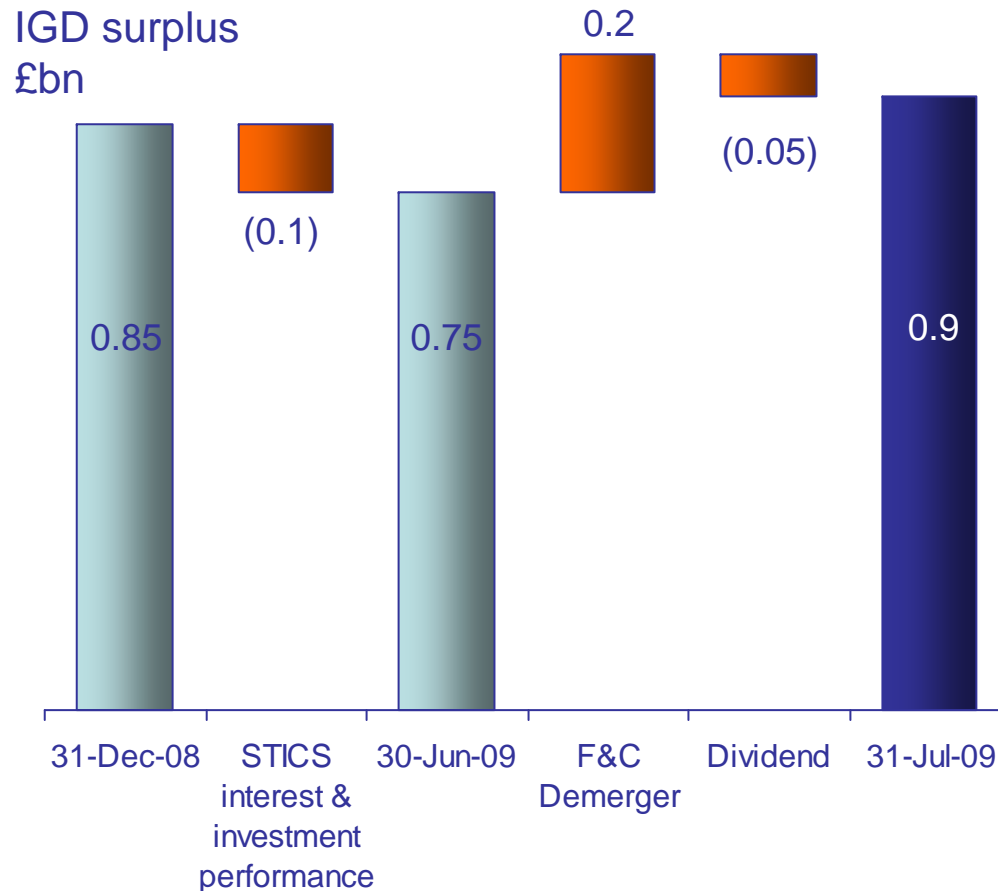
Restating new business contribution for illiquidity premium on annuities

	H1 2009		H1 2008	
	CNB with illiquidity premium	CNB as reported £m	CNB with illiquidity premium	CNB as reported £m
UK Corporate	(1)	(1)	7	7
<b>UK Individual</b>	<b>16</b>	<b>4</b>	<b>26</b>	<b>20</b>
UK Total	15	3	33	27
FPI	18	18	22	22
Lombard	9	9	18	18
International Total	27	27	40	40
<b>Total Group</b>	<b>42</b>	<b>30</b>	<b>73</b>	<b>67</b>

- Additional annuity Value of Inforce (VIF) from 100bp illiquidity premium of £159m, i.e. Adds 7p per share to 131p

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# Financially strong with stable IGD surplus



- F&C distribution on 3 July and dividend on 24 July increase IGD surplus by £0.15 billion
- IGD surplus represents 1.6 times coverage of requirements
- IGD surplus has no material sensitivity to a 30% fall in equity markets
- IGD surplus reduces by less than £0.1bn if bond spreads widen by a further 100bps

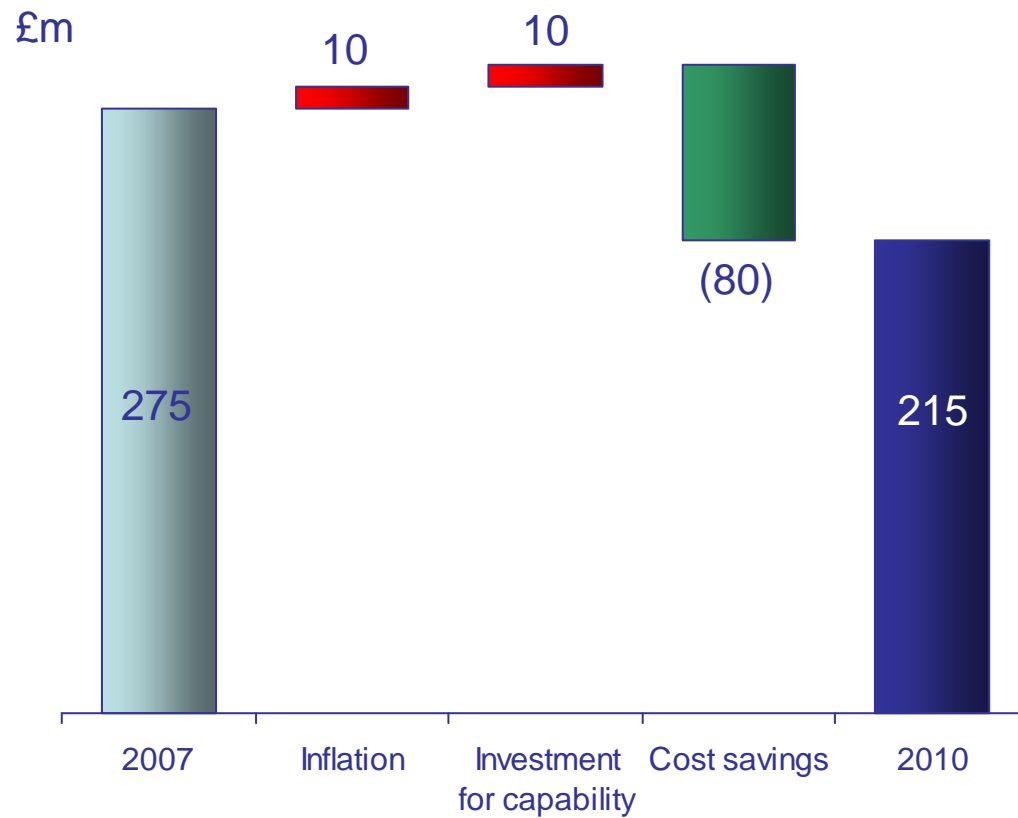
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# £60m of real expense savings secured

## UK operating expenses



- To deliver £60m real, had to take out £80m nominal
- Cost focus embedded

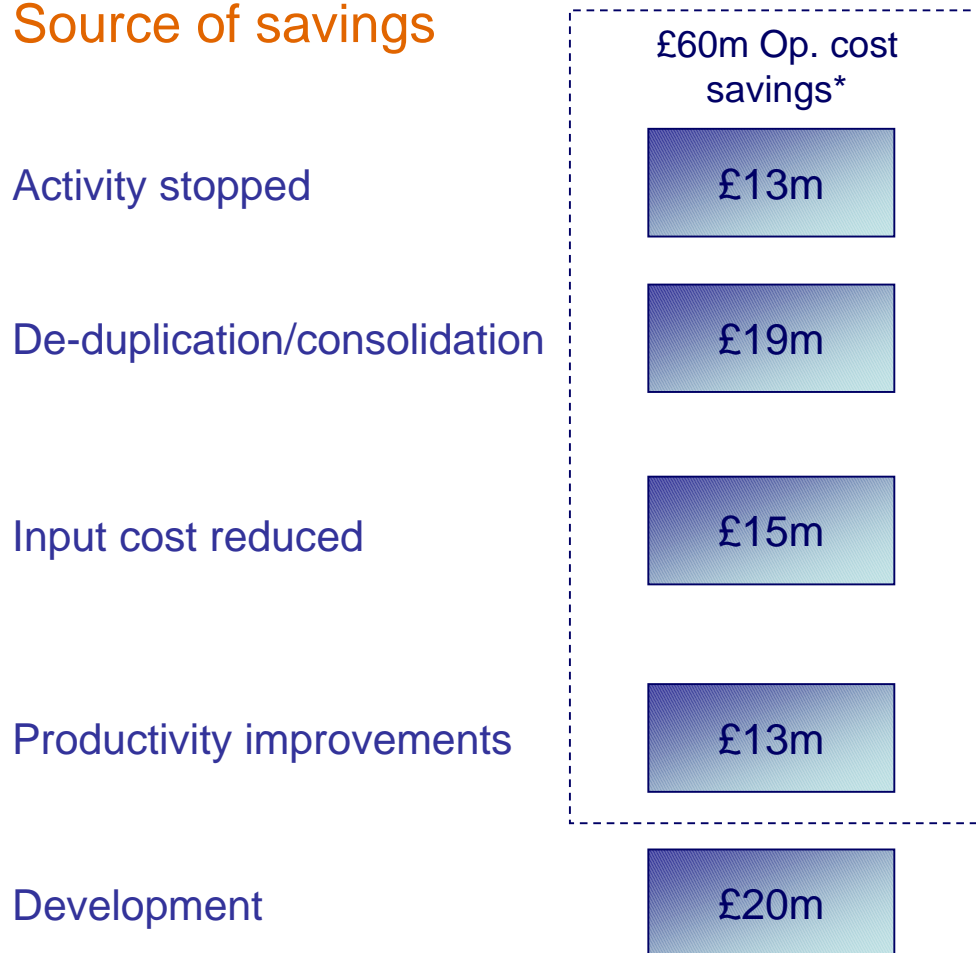
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# Wide-ranging actions taken to reduce ongoing cost base

## Source of savings



## Examples

- Closure of 10 sales offices & Manchester building
- Pulled back from UK Investment Bonds
- Sales & Marketing restructure via centralisation and improved account coverage
- Operations & overhead restructure to reduce overlaps and management layers
- Outsourcing of IT infrastructure & applications development
- Outsourcing of selective Operating functions
- Procurement efficiencies (IT, Contractors, Facilities)
- Re-engineering processes in Sales, Marketing & Customer Services
- Resizing functions in Sales & Overhead areas
- Aligning project portfolio to strategy

\* After allowing £20m for inflation and capabilities development

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## EEV profitability dampened by lower UK new business and lapse effects

	H1 2009 £m	H1 2008 £m
Contribution from new business	30	67
In-force profit	83	108
Operating assumption changes	-	-
Other life and pensions items	8	7
Corporate items	1	2
<b>EEV underlying profit before tax excluding F&amp;C</b>	<b>122</b>	<b>184</b>
F&C underlying profit before tax	9	27
<b>EEV underlying profit before tax</b>	<b>131</b>	<b>211</b>
EEV underlying earnings per share	<b>3.7p</b>	<b>6.5p</b>

- In-force profit is after a £31m adverse variance, mainly UK persistency

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# Lapse experience reflects Strategic Review decisions and recession

- UK £19m experience charge:
  - Pensions lapse and paid up experience £11m
  - Protection £5m
  - Investment bonds £3m
- Pensions experience reflects:
  - Schemes moving as a result of Strategic Review
  - Higher paid up rates due to recession
- Protection experience largely driven by recession
- 25% worsening over the average persistency and morbidity assumptions for 2 years was estimated to reduce VIF by £80m (equivalent to underlying profit of £110m over 2 years) as illustrated in the 2008 preliminary results announcement

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# IFRS underlying profitability improved

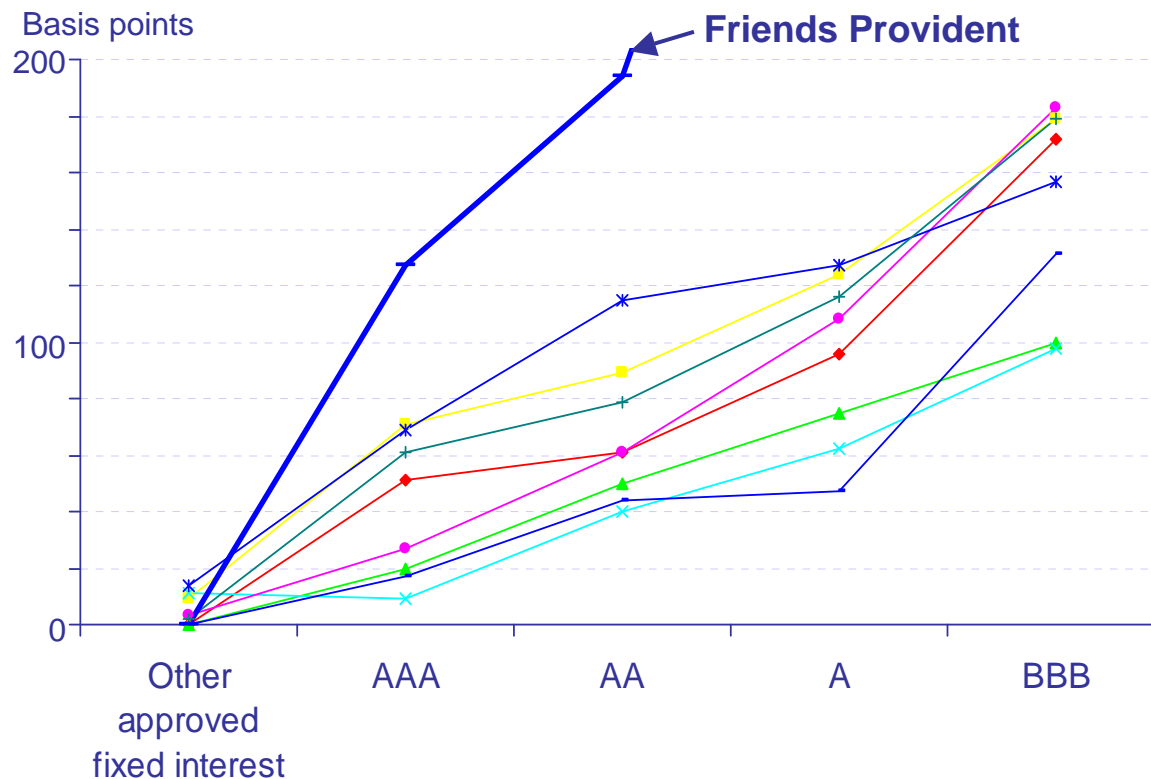
	H1 2009 £m	H1 2008 £m
New business strain	(79)	(91)
In-force surplus	117	124
Expected Inv. return	12	22
Corporate and other items	(3)	2
<b>IFRS underlying profit before one-offs</b>	<b>47</b>	<b>57</b>
Net movement in annuity assets & liabilities due to credit spreads	-	(70)
Other one-offs	(18)	(1)
<b>IFRS underlying profit before tax excluding F&amp;C</b>	<b>29</b>	<b>(14)</b>
F&C underlying profit before tax	9	27
<b>IFRS underlying profit before tax</b>	<b>38</b>	<b>13</b>
IFRS underlying earnings per share	<b>0.3p</b>	<b>1.2p</b>

- Development of IFRS results reflects same drivers as cash generation
- UK IFRS new business strain reduced

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# Credit default allowance in annuity reserves is extremely conservative

## 2008 Credit default “hair cuts”



- Current reserving basis equivalent to approx 70% of bond spread for default
- Illustrative impact of moving to 30% of spread for credit default would release £140m in cash and underlying IFRS profits and net assets

Source: RBS Insurance ALM Advisory analysis of FSA Returns

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# Balance sheet measures maintained

## Current reported basis

	June 2009	Dec 2008
EEV per share	124p	128p
IFRS net asset value per share (excluding goodwill)	75p	77p

## Illiquidity premium/credit default assumption changed

	June 2009
EEV per share <sup>1</sup>	131p
IFRS net asset value per share (excluding goodwill) <sup>2</sup>	81p

1 Including 100bp illiquidity premium in annuity Value of In-force

2 Assuming 30% of spread for credit default in annuity reserving

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# Financial discipline – now embedded and driving long term profit growth

- Focus on cash generation and returns on cash invested
- Cost effectiveness
- Conservative reporting and reserving
- Prudent capital management
- Dividend maintained at 1.3p per share

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# *Trevor Matthews*

## *Chief Executive Officer*

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# Turnaround takes time but is on track

- Financially strong
- Our Company turnaround is on track, with significant achievements behind us
- Restoring new business flows – gaining momentum
- Platform to participate in consolidation
- International well positioned with exciting growth prospects
- Trading conditions should improve, slowly, and we are optimistic about our future prospects

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# *QUESTIONS & ANSWERS*

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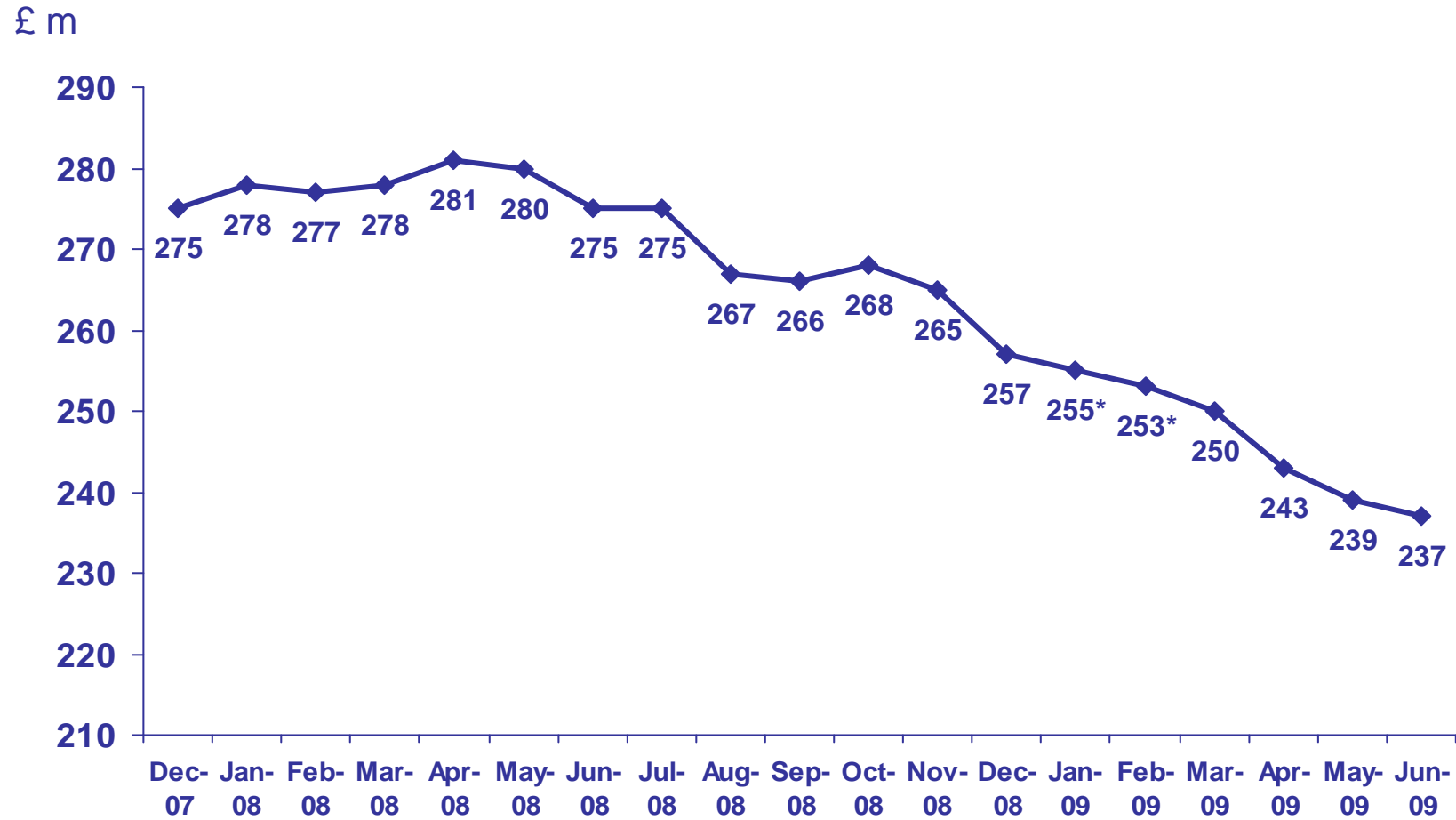


# Appendices

- 12 month rolling UK expenses
- Financial assets by fund
- Corporate Bond holdings by fund
- Split of main corporate bond portfolio by credit rating
- Asset Backed Securities (ABS) by type
- Asset Backed Securities (ABS) by fund
- Value of In-Force run-off excluding liquidity premium
- UK Life & Pensions new business annual premium equivalent
- EEV loss before tax driven by adverse investment variances and one-offs
- IFRS profit affected by significant one-offs
- Asset management (F&C) impact on IFRS and EEV profits
- Current awards

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# 12 month rolling UK expenses



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## Financial assets by fund

	Unit linked	With Profits Funds	Non- profit	Share- holder	June 2009 Total	Dec 2008 Total
	£bn	£bn	£bn	£bn	£bn	£bn
Shares, unit trusts & OEICs	23.1	2.5	0.1	-	25.7	26.2
Gilts	1.9	3.4	0.7	0.1	6.1	6.7
Corporate bonds & ABS	2.8	4.2	2.6	0.4	10.0	10.3
Derivatives	-	0.3	-	-	0.3	0.6
Deposits	0.4	-	-	-	0.4	0.5
<b>Total</b>	<b>28.2</b>	<b>10.4</b>	<b>3.4</b>	<b>0.5</b>	<b>42.5</b>	<b>44.3</b>

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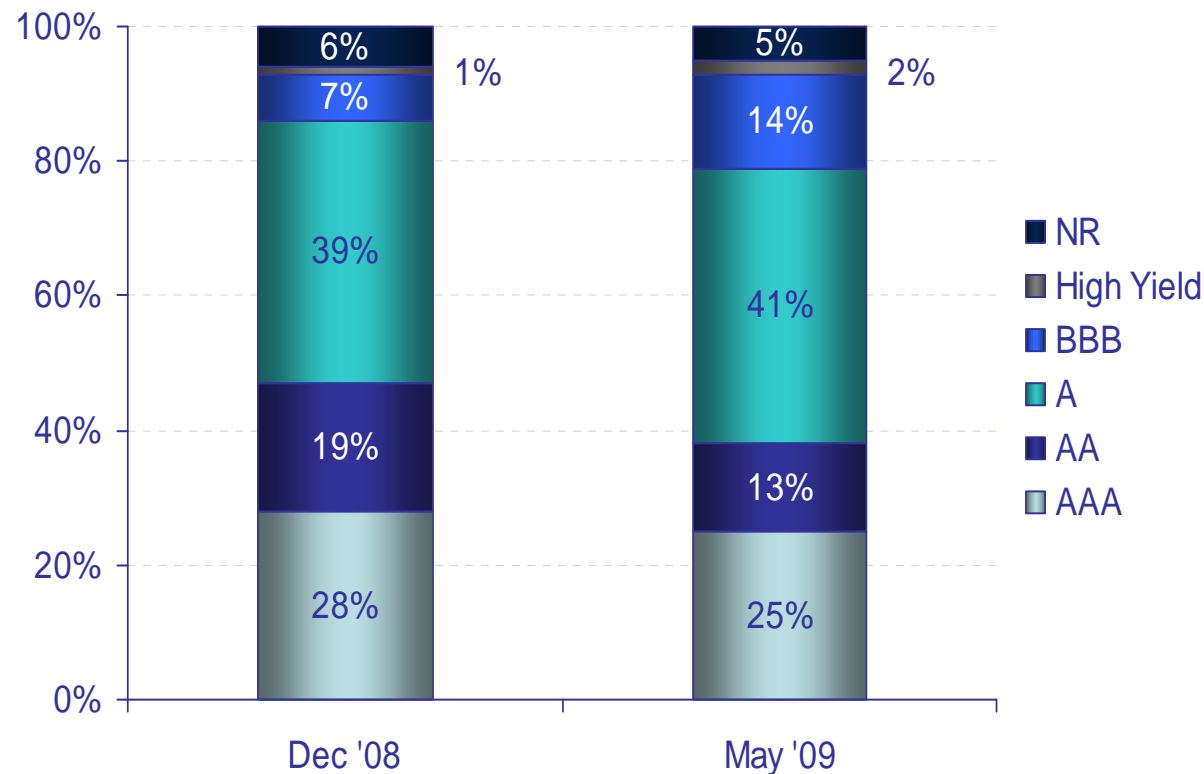
## Corporate bond holdings by fund

	Unit linked	With Profits Funds	Non- profit	Share- holder	June 2009 Total	Dec 2008 Total
	£m	£m	£m	£m	£m	£m
AAA	131	1,005	193	50	1,379	1,319
AA	136	440	1,740	48	2,364	2,667
A	346	1,377	358	141	2,222	2,190
BBB	153	461	74	31	719	605
Sub BBB or rating not available	1,316	165	19	8	1,508	1,780
<b>Total</b>	<b>2,082</b>	<b>3,448</b>	<b>2,384</b>	<b>278</b>	<b>8,192</b>	<b>8,561</b>

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# Split of main corporate bond portfolio by credit rating

## Indicative main annuity book credit ratings



- Narrowing corporate bond spreads within rating bands is largely offset by downward rating migration
- Defaults £1m in H1 on £2.1bn of corporate bonds in annuity portfolio

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## Asset Backed Securities (ABS) by type

Type of ABS	AAA £m	AA £m	A £m	BBB £m	BB £m	Sub B £m	Unrated £m	Total £m
Collateralised Debt Obligations (CDO)	-	-	10	-	-	-	7	17
Collateralised Loan Obligations (CLO)	2	-	-	-	-	-	-	2
Commercial Backed Mortgage Securities (CBMS)	185	71	44	36	-	-	-	336
Residential Backed Mortgage Securities (RBMS)	111	8	-	-	-	2	-	121
Monoline Wrapped	-	207	62	160	-	-	6	435
Other ABS	123	65	124	10	5	7	-	334
<b>June 2009 Total</b>	<b>421</b>	<b>351</b>	<b>240</b>	<b>206</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>1,245</b>
<b>Percentage of total</b>	<b>34%</b>	<b>28%</b>	<b>19%</b>	<b>17%</b>	<b>0%</b>	<b>1%</b>	<b>1%</b>	<b>100%</b>
ABS held by externally managed funds in which the shareholder has no exposure								137
Total								1,382

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# Asset Backed Securities (ABS) by fund

Exposure	AAA £m	AA £m	A £m	BBB £m	BB £m	Sub B £m	Unrated £m	Total £m
Shareholder exposure:								
30 June 2009	231	189	121	105	-	5	10	661
31 December 2008	269	162	171	20	-	2	11	635
With Profits Funds exposure:								
30 June 2009	171	143	90	76	5	2	1	488
31 December 2008	227	136	171	31	4	4	1	574
Unit linked exposure:								
30 June 2009	19	19	29	25	-	2	2	96
31 December 2008	28	25	44	11	-	1	2	111
<b>30 June 2009 Total</b>	<b>421</b>	<b>351</b>	<b>240</b>	<b>206</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>1,245</b>
31 December 2008 Total	524	323	386	62	4	7	14	1,320

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# Value of In-Force run-off excluding illiquidity premium

	Year of emergence of surplus									
	Total £m	1-5 £m	6-10 £m	11-15 £m	16-20 £m	21-25 £m	26-30 £m	31-35 £m	36-40 £m	41+ £m
<b>UK</b>										
With Profits Fund	72	(16)	39	28	14	6	1	0	0	0
Protection	155	67	42	26	14	5	1	0	0	0
Investments	103	54	28	13	5	2	1	0	0	0
Pensions	467	138	129	94	58	30	13	4	1	0
Annuities	(16)	(21)	2	2	1	0	0	0	0	0
UK other	175	128	44	3	0	0	0	0	0	0
<b>UK Total</b>	<b>956</b>	<b>350</b>	<b>284</b>	<b>166</b>	<b>92</b>	<b>43</b>	<b>16</b>	<b>4</b>	<b>1</b>	<b>0</b>
		37%	30%	17%	10%	4%	2%	0%	0%	0%
<b>International</b>										
FPI	278	155	66	35	16	5	1	0	0	0
Lombard	418	179	88	58	37	23	14	9	5	5
<b>International Total</b>	<b>696</b>	<b>334</b>	<b>154</b>	<b>93</b>	<b>53</b>	<b>28</b>	<b>15</b>	<b>9</b>	<b>5</b>	<b>5</b>
		48%	22%	13%	8%	4%	2%	1%	1%	1%
<b>Total VIF</b>	<b>1,652</b>	<b>684</b>	<b>438</b>	<b>259</b>	<b>145</b>	<b>71</b>	<b>31</b>	<b>13</b>	<b>6</b>	<b>5</b>
		41%	27%	16%	9%	4%	2%	1%	0%	0%

- The maturity profile makes no allowance for illiquidity premia on corporate bonds backing annuity business and, as such, is not a fair reflection of the cash-flows anticipated from this business

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## UK Life & Pensions new business annual premium equivalent

Annual Premium Equivalent	H1 2009 £m	H1 2008 £m	Q2 2009 £m	Q1 2009 £m
<i>UK Corporate</i>				
Pensions	140.2	241.2	70.6	69.6
Protection	4.3	4.2	2.1	2.2
<b><i>UK Corporate total</i></b>	<b>144.5</b>	<b>245.4</b>	<b>72.7</b>	<b>71.8</b>
<i>UK Individual</i>				
Protection	19.6	24.7	10.5	9.1
Annuities	12.5	13.9	6.8	5.7
Pensions	12.9	29.7	9.4	3.5
Savings & Investments	1.3	6.0	0.9	0.4
<b><i>UK Individual total</i></b>	<b>46.3</b>	<b>74.3</b>	<b>27.6</b>	<b>18.7</b>
<b>UK Total</b>	<b>190.8</b>	<b>319.7</b>	<b>100.3</b>	<b>90.5</b>

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## EEV loss before tax driven by adverse investment variances and one-offs

	H1 2009 £m	H1 2008 £m	
EEV underlying profit before tax	131	211	
Non-recurring items	(48)	(15)	Includes Strategic Review costs of £48m (2008: £15m)
L&P investment return variances and economic assumption changes	(173)	(396)	Rising interest rates, falling UK equity capital values and exchange rate losses
Corporate investment return variances	37	222	Mainly mark to market on STICS
Other	(2)	(3)	
F&C items	(36)	(24)	
<b>EEV loss before tax</b>	<b>(91)</b>	<b>(5)</b>	
<b>Basic loss per share</b>	<b>(2.9)p</b>	<b>(1.0)p</b>	

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# IFRS profit affected by significant one-offs

	H1 2009 £m	H1 2008 £m	
IFRS underlying profit before tax	38	13	Includes £9m (2008: £27m) re F&C
Non-recurring items	(48)	(15)	Includes Strategic Review costs £48m (2008: £15m)
Amortisation of acquired intangible assets	(20)	(20)	Principally Lombard
Short term fluctuations in investment return	(44)	(68)	Movements in shareholder assets and free surplus in excess of expected return
Interest payable on STICS	24	26	STICS interest lower due to refinancing in 2009
Policyholder tax	14	(81)	
Returns on Group controlled funds attributable to third parties	(30)	(52)	Group controlled funds mainly comprise F&C Commercial Property Trust which was 51% owned
F&C non underlying items	(36)	(24)	
<b>IFRS loss before tax</b>	<b>(102)</b>	<b>(221)</b>	

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# Asset management (F&C) impact on IFRS and EEV profits

	H1 2009 £m	H1 2008 £m
<b>Underlying profit</b>	<b>9</b>	<b>27</b>
Amortisation of acquired intangible assets	(25)	(22)
Demerger costs	(15)	-
Other	4	(2)
<b>Non-underlying items</b>	<b>(36)</b>	<b>(24)</b>
<b>Asset management (loss) / profit before tax</b>	<b>(27)</b>	<b>3</b>

- Other items in 2009 include £10m foreign exchange gains on forward currency contracts
- Net revenues of £13m lower on reduced AuM
- Net financing costs increased by £7m

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# Current awards



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Interim results