

Friends Life Group Limited

Full Year 2014 Results

5 March 2015

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Any decision in relation to the proposed acquisition of Friends Life Group Limited by Aviva plc should only be made by reference to the information set out in the scheme document published by Friends Life Group Limited and the prospectus and shareholder circular published by Aviva, which is available at <http://www.friendslifegroup.com/investor-relations/possible-offer/yr-2014.aspx#2014>.

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Agenda

2014 full year results update

Tim Tookey

CEO update

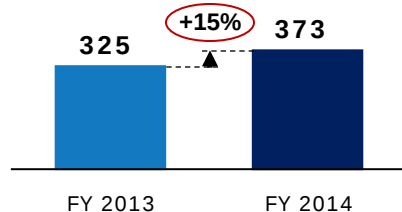
Andy Briggs

Q&A

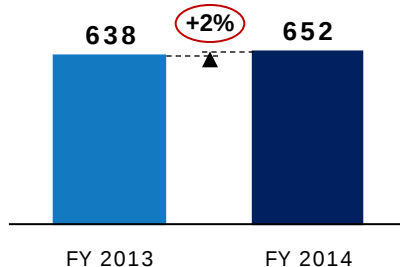
2014 financial highlights

Strong cash growth delivered

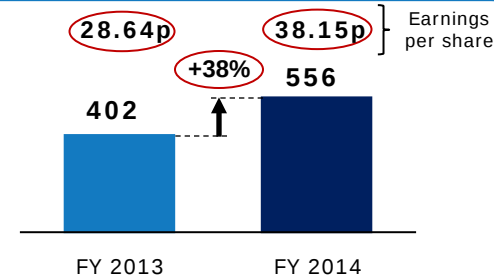
Sustainable free surplus, £m



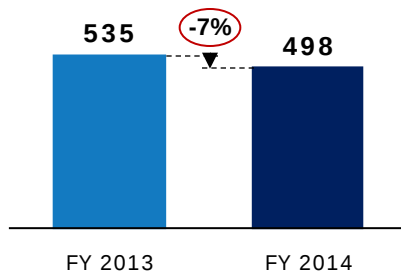
Free surplus expected return, £m



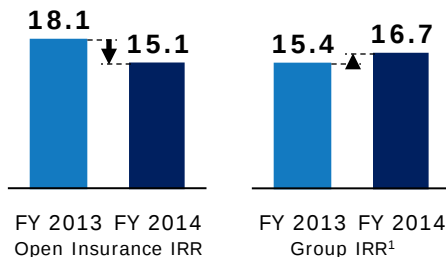
IFRS based operating profit, £m



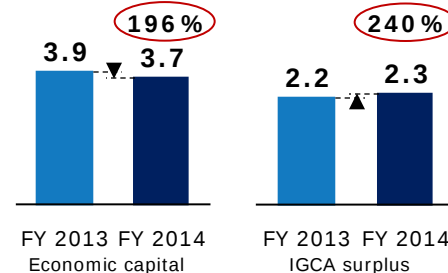
MCEV operating profit, £m



IRR, %



Group capital base, £bn



1. 2014 Group IRR includes the benefit of discretionary investment of shareholder assets in the with-profits annuity reallocation and recapture of assets backing annuities.

Sustainable free surplus

SFS growth built on strong foundations

Sustainable free surplus

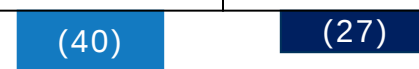
£m	FY 2013	FY 2014	
Expected return from in-force business	638	652	+ 2 %
Investment in new business	(189)	(169)	
Underlying free surplus	449	483	+ 8 %
Development costs	(39)	(34)	
Coupon on debt	(92)	(94)	
Operating variances and other	7	18	
Sustainable free surplus	325	373	+ 15 %
Cash return¹	24 %	25 %	

Divisional performance

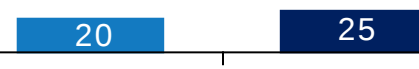
Heritage division, £m



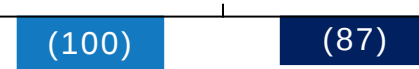
UK division, £m



International division, £m



Corporate, £m



FY 2013

FY 2014

1. Sustainable free surplus/Shareholders Net Worth ("SNW"), where SNW is free surplus and required capital (net of external debt), i.e. MCEV excluding VIF. The SNW is adjusted to exclude Lombard and to reflect the in-period impact of dividend payments and other capital movements.

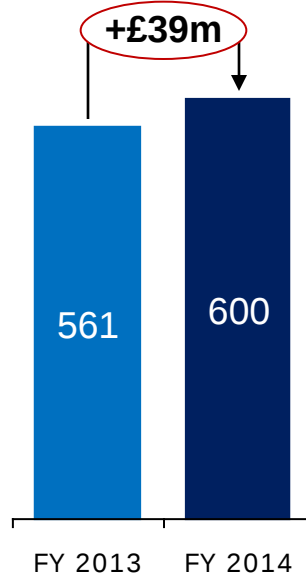
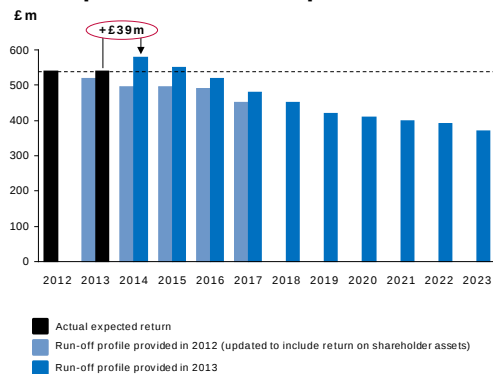
UK & Heritage expected return

£39m uplift delivered

Free surplus emergence

UK & Heritage emergence, £m

Recap: March 2014 presentation¹



Drivers of 2014 growth

- As expected, natural run-off of the in-force books has been more than offset by:
- Heritage initiatives completed in 2013, including:
 - Phase 1 of the with-profits annuity reallocation
 - FLI asset recaptures
- UK division 2013 new business growth
- Improved 2014 start of year economic conditions over 2013

1. Chart as published on 18 March 2014 and not restated here for transfer of non-core OLAB business.

Insurance businesses: Heritage

Initiatives drive strong Heritage underlying cash growth

Heritage

Underlying free surplus, £m

	FY 2013	FY 2014
Expected return	462	481
INB	(52)	(35)
Underlying free surplus	410	446

Non-core OLAB contribution, £m

£m	FY 2013	FY 2014
Expected return	20	15
INB	(22)	(2)
Underlying free surplus	(2)	13

2014 performance drivers

- Initiatives completed in 2013 drive £16m p.a. benefit in expected return
- Investment in new business is down 33%, reflecting the closure of the non-core OLAB business to new business in 2013

Completed initiatives generate c.£28m p.a. benefit from 2015; helping mitigate book run-off

- Recapture of £1.6bn assets backing annuities for day 1 costs of £4m: **c.£13m benefit p.a.**
- Phase 2 of with-profits annuity reallocation has been completed for day 1 costs of £11m: **c.£7m benefit p.a.**
- Phase 3 of with-profits annuity reallocation completed in January 2015 for day 1 costs of c.£25m: **c.£5m benefit p.a.**
- 2014 Schroders and FLI asset transfers completed: **c.£3m benefit p.a.**

Asset-based businesses: Corporate Benefits

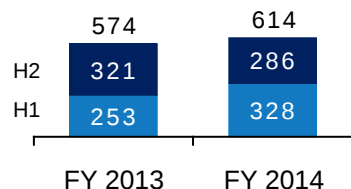
Benefits of scale driving free surplus growth

Corporate Benefits

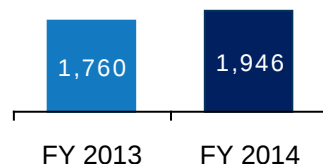
Underlying free surplus, £m

	FY 2013		HY 2014		FY 2014	
Income	110	62 bps	60	60 bps	122	61 bps
Outgoings	(94)	(53) bps	(47)	(47) bps	(92)	(46) bps
Other¹	(5)		1		(1)	
Underlying free surplus	11		14		29	

APE, £m

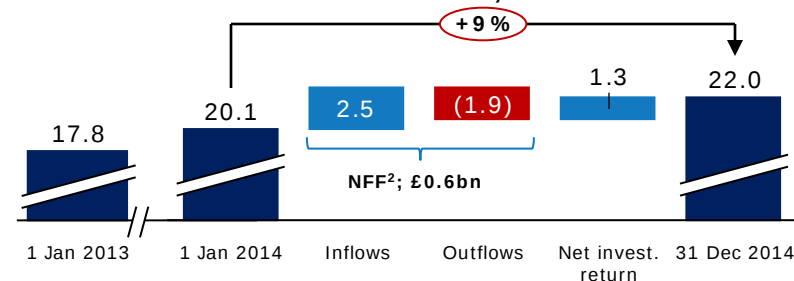


Regular premiums, £m



Drivers of performance

Assets under administration, £bn



- Positive net fund flows of £0.6bn, 750 employers across 957 schemes enrolling in the year, a net increase of 169,000 members
- Strong auto-enrolment sales growth with APE up 7% and regular premiums received of £1,946m, up 11%
- Margin compression principally relating to cost and pricing pressure on new scheme wins driving lower VNB (2014: £21m, 2013: £26m)

1. Other principally includes movements on required capital, non-unit reserves and tax.
 2. NFF is Net Fund Flows in assets under administration.

Insurance businesses: Protection

Financially disciplined performance despite competitive pressures

Protection

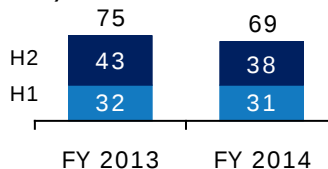
Underlying free surplus, £m

	FY 2013	HY 2014	FY 2014
Expected return	30	15	31
INB	(44)	(22)	(37)
Underlying free surplus	(14)	(7)	(6)

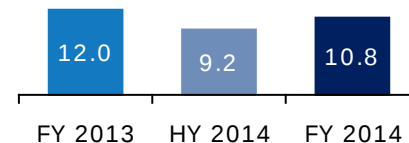
- Expected return in line with 2013
- INB is 16% lower reflecting mix, pricing discipline and costs control, as well as targeted financial reinsurance

New business

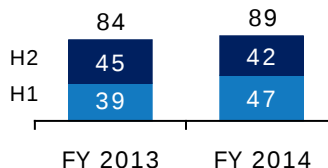
VNB, £m



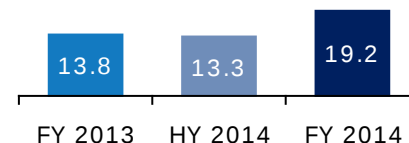
PVNB margin, %



APE, £m



IRR, %



- Protection sales up 6% driven by individual protection proposition
- VNB performance in line with previous guidance
- IRR growth reflecting actions taken to control INB

Insurance businesses: Retirement Income

Market changes impact cash generation

Retirement Income

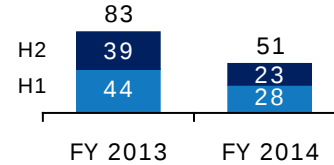
Underlying free surplus, £m

	FY 2013	HY 2014	FY 2014
Expected return	10	6	15
INB	(6)	(12)	(24)
Underlying free surplus	4	(6)	(9)

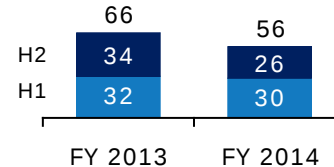
- Increase in expected return reflecting contribution from 2013 new business
- Investment in new business in line with HY 2014 run-rate following improved competitiveness of annuity proposition in Q4 2013

New business

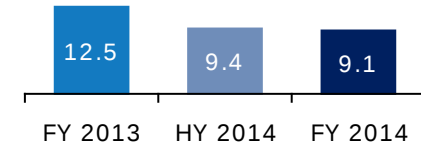
VNB, £m



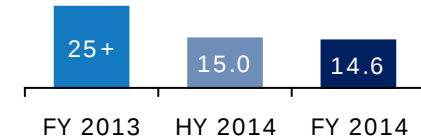
APE, £m



PVNB margin, %



IRR, %



- Annuity sales down 15%; ahead of wider market trends
- GAO business a significant contributor, 51% of annuity sales

Insurance businesses: International

A year of difficult trading

International

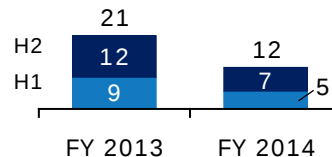
Underlying free surplus, £m

	FY 2013	HY 2014	FY 2014
Expected return	77	28	52
INB	(39)	(14)	(29)
Underlying free surplus	38	14	23

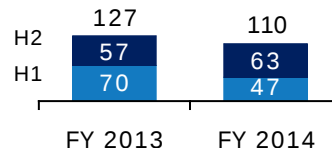
- Underlying free surplus lower reflecting reduced new business volumes in recent years
- International dividend passed given adverse trading and market factors
- Overall SFS has improved, reflecting non-recurrence of 2013 adverse operating variances

New business

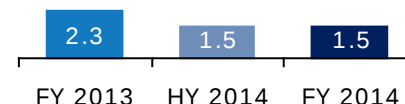
VNB, £m



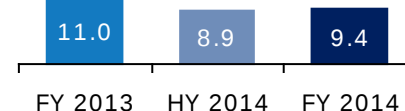
APE, £m



PVNB margin, %



IRR, %



- H2 performance showing improved growth in APE; H2 APE up 34% on H1, driven by regulatory factors in Middle East and Hong Kong
- VNB lower at £12m reflecting challenging markets and lower volumes; replatforming now focused on migration of in-force book
- Regulatory changes, particularly in the Middle East, will help strengthen International's position in 2015

IFRS based operating profit

Strong IFRS performance

Group IFRS based operating profit

£m	FY 2013	FY 2014	
In-force surplus	473	504	
Expected return on shareholder assets ¹	51	78	
Finance costs ¹	(120)	(120)	
New business strain	(66)	(73)	
Development costs	(47)	(46)	
Other income and charges	(53)	(22)	
	238	321	+ 35 %
Principal reserving changes & one-offs	164	235	
IFRS based operating profit before tax	402	556	+ 38 %

Drivers of in-force surplus

- Phase 1 with-profit annuity reallocation
- New business and positive economics offsetting book run-off

Principal reserving changes & one-offs

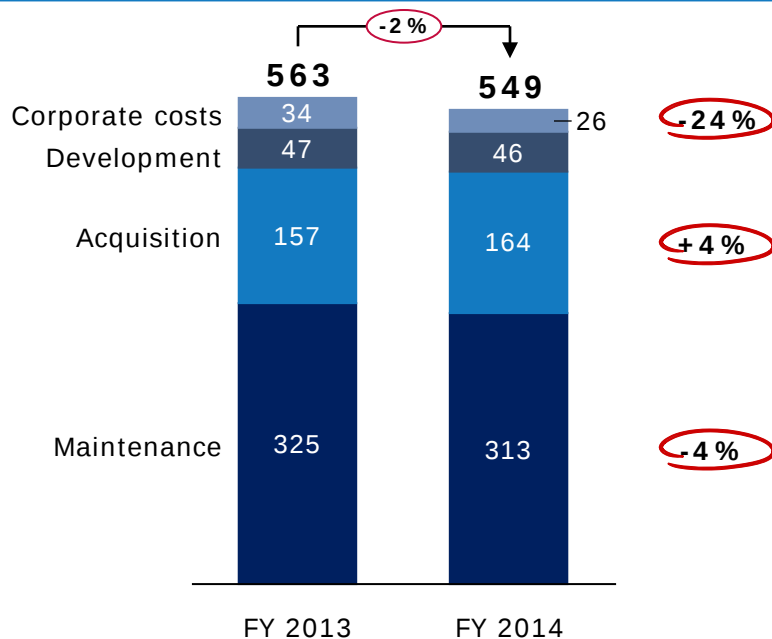
- Longevity basis change: **£103m**
- Recapture of assets backing annuities: **£90m**
- Phase 2 with-profit annuity reallocation: **£19m**
- Other: **£23m**

1. Expected return on shareholder assets and finance costs is equivalent to long-term investment return.

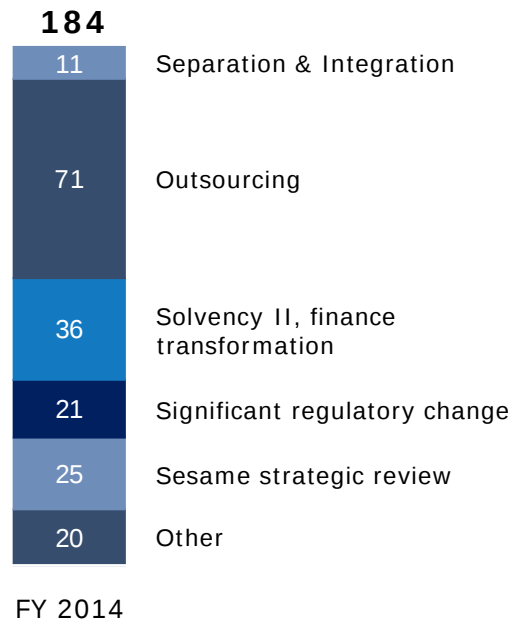
Group expenses

Efficient cost management

Operating expenses, £m



Non-recurring costs, £m



MCEV operating profit

Lower VNB contribution offsetting improved in-force returns

Group MCEV operating profit

£m	FY 2013	FY 2014
Expected existing business contribution	215	241
Value of new business	179	132
Development costs	(47)	(35)
Operating experience variances	(32)	(65)
Other operating variances	172	219
Operating assumption changes	101	29
Other income and charges	(53)	(23)
MCEV operating profit before tax	535	498 - 7 %
ROEV	8.8%	8.4 %

Other operating variances

- Phase 2 of with-profits annuity reallocation: **£68m**
- Recapture of £1.6bn assets backing annuities: **£97m**
- Other modelling benefits including time value of options and guarantees: **£54m**

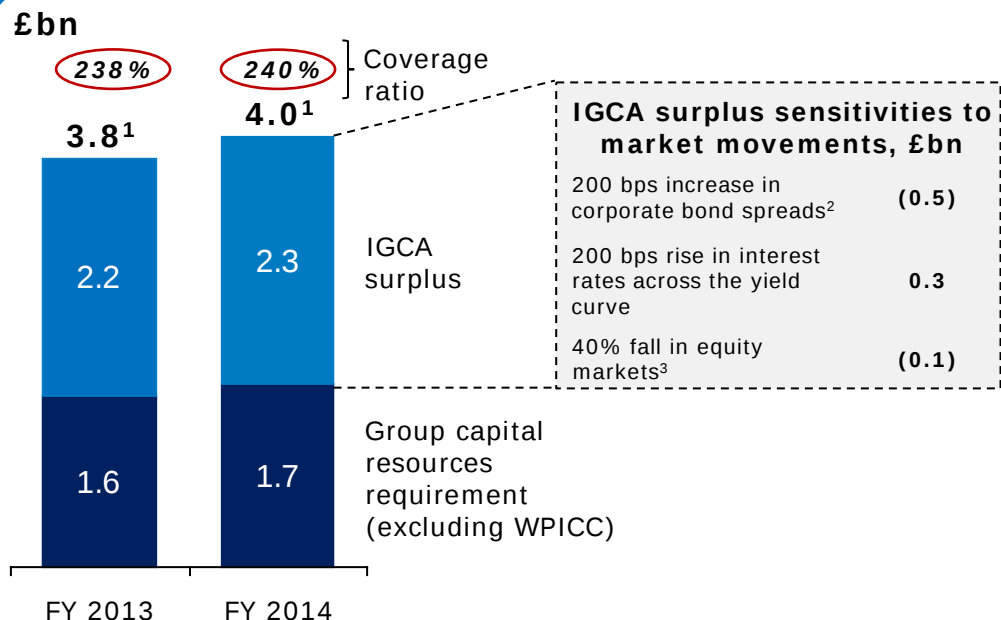
Operating experience variances

- Includes adverse persistency and mortality experience in UK (£27m) and International (£8m)
- Heritage experience (£17m) principally includes some temporary expenses

Capital and cash

Strong capital position maintained

IGCA surplus and sensitivities to market movements



Strong capital position

- Estimated IGCA surplus of £2.3bn
- Capital base remains resilient to market movements
- Estimated economic capital surplus of £3.7bn (coverage ratio of 196%)

Available shareholder assets

- Available shareholder assets of £1,066m
- £200m syndicated loans mandate fully invested in H2 2014

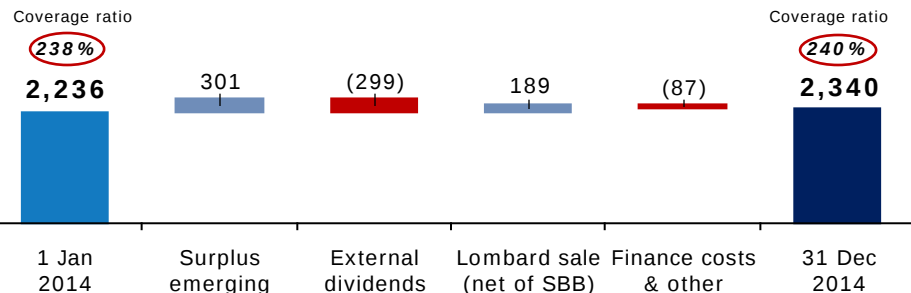
1. Total capital is the sum of IGCA surplus and Group capital resource requirements (excluding WPICC); coverage ratio also excludes WPICC; FY 2014 WPICC: £4.3bn (FY 2013: £4.2bn). FY 2014 surplus is before payment of the proposed second interim dividend to shareholders.
 2. Of which one third is assumed to be defaults. 3. Includes a 30% fall in property markets.

Capital and cash

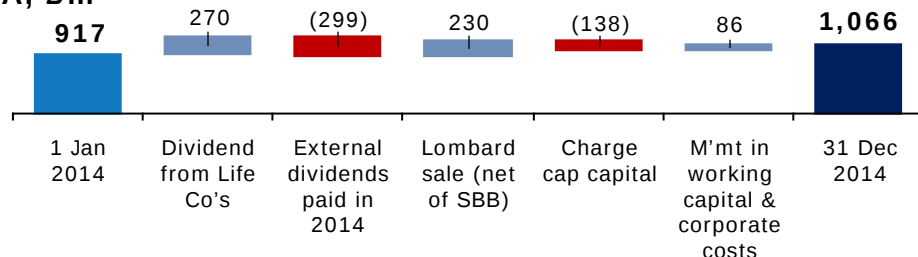
Lombard sale benefiting capital position

IGCA surplus and ASA

IGCA surplus, £m



ASA, £m



Strong capital and cash

- Lombard sale completed, enhancing capital and cash positions
- Share buy back cancelled following offer from Aviva plc; £30m completed
- ASA position reflects £138m additional capital requirement expected in relation to 'charge cap' regulatory changes
- Charge cap capital not required under Solvency II regime in 2016

Dividends

- Full year dividend of 31.15¹ pence per share
- The proposed second interim dividend² includes a 10 pence enhancement to the 2013 final dividend

1. In the event that the Proposed Acquisition does not complete, Friends Life expects that its 2014 final dividend and therefore its 2014 full year dividend would be in line with Friends Life's 2013 final dividend and 2013 full year dividend, respectively.

2. Subject to completion of the Proposed Acquisition by Aviva plc.

Key messages

Successfully delivering value

Successfully delivering Cash today & tomorrow

- Sustainable free surplus £373 million, up 15%
- Heritage initiatives driving cash tomorrow
- IFRS based operating profit before tax of £556 million, up 38%

Capital strength maintained

- IGCA surplus at £2.3 billion representing a coverage ratio of 240%
- Available shareholders assets at £1,066 million
- Full year dividend of 31.15 pence per share subject to completion of the proposed acquisition by Aviva plc¹

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Agenda

2014 full year results update

Tim Tookey

CEO update

Andy Briggs

Q&A

Key messages

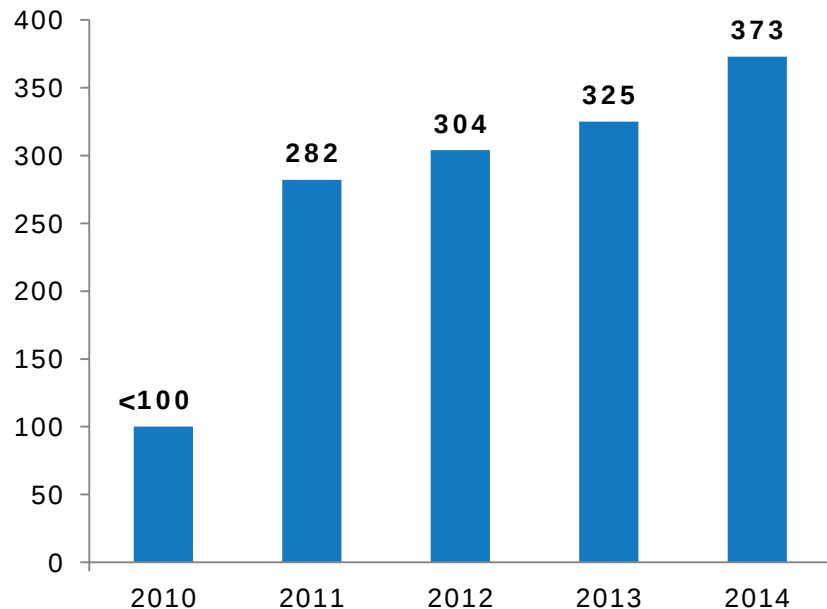
Significant transformation and value delivery achieved

- Strong cash generation and growth
- Restructured business to deliver substantial cost reductions
- Superior back book management
- Leverage scale position to drive profitable growth while responding to external change
- Strong shareholder return and well positioned for the future

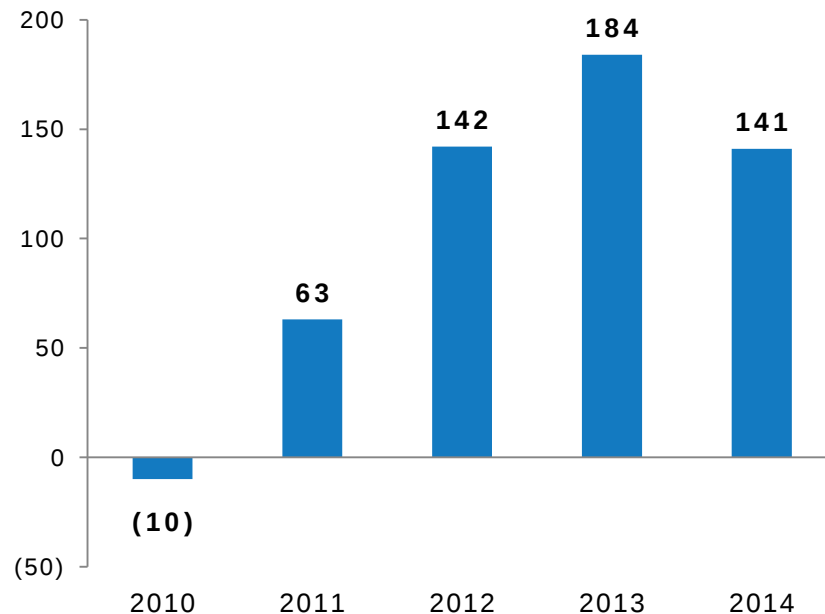
Strong cash generation and growth

Improved “cash today” and “cash tomorrow”

Cash – SFS, £m



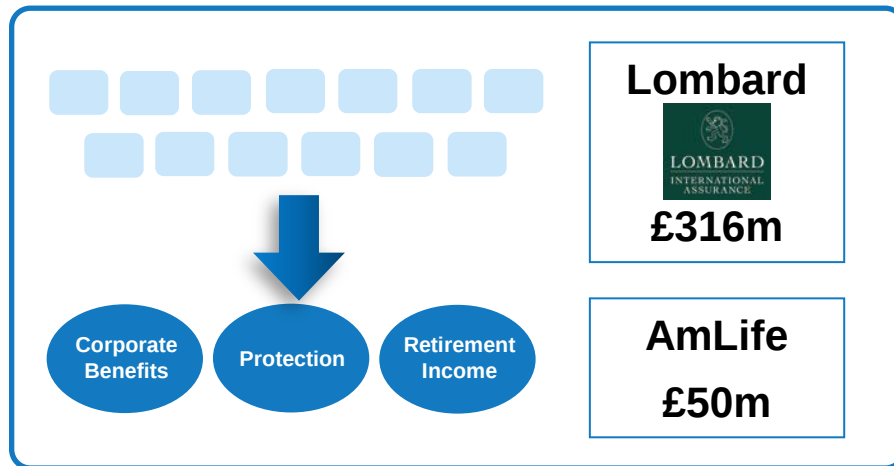
Growth – UK VNB, £m



Restructured business to deliver substantial cost reductions

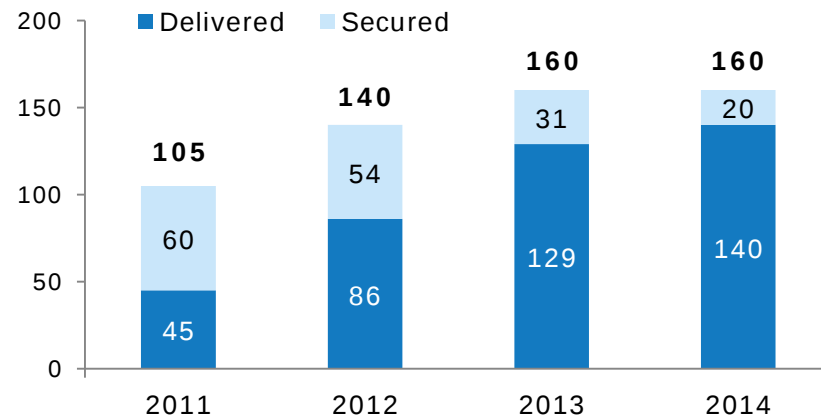
Consistent strategy delivered underpinned by rigorous financial discipline

Rationalisation of new business and platforms Disposal of Lombard



- Embassy platform migration completed in 2014
- Disposal of the Lombard business completed in October 2014

Cost savings achieved 2011-14, £m



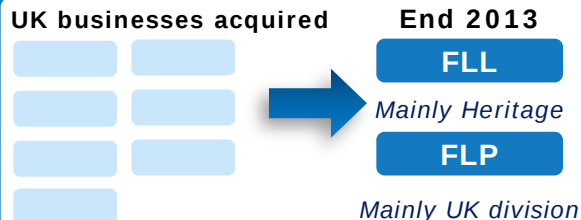
- One third of 2010 cost base⁽¹⁾ achieved as cost synergies
- Further reduction of operating costs in 2014

1. 2010 cost base relates to the 2010 full year baseline of UK and Heritage acquisition and maintenance expenses as set out in August 2011

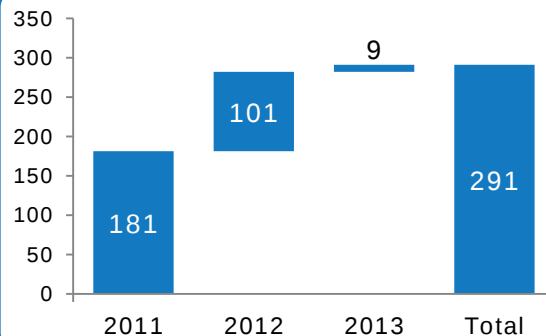
Superior back book management

Delivered enhanced cash generation from back book businesses

Capital and liability optimisation programme (COP) 2011-13 complete

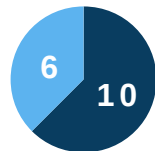


Additional free surplus released due to COP 2011-13¹, £m



Revenue Optimisation – Generating cash from the back book

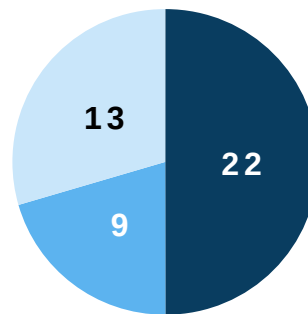
Initiatives to 2013



+ £16m SFS pa⁽³⁾

Additional
+ £28m SFS pa⁽³⁾
from 2014
initiatives

Initiatives to 2014⁽²⁾



+ £44m SFS pa⁽³⁾

Further Initiatives Available

- Asset transfer from AXA
- Economic Capital Optimisation

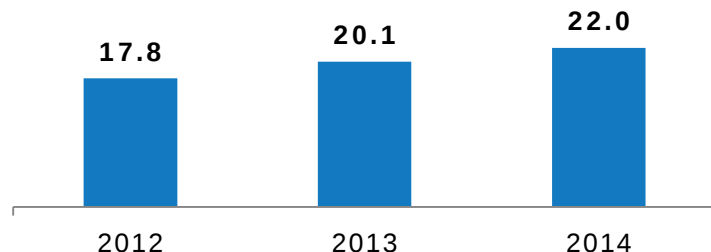
1. Includes benefit of deauthorisation of FLWL and FLC in Feb 2014 in 2013
 2. Includes SFS benefits of the third tranche of the annuity transfers from the with profits funds, completed in January 2015
 3. Excludes one-off costs of initiatives (2013:£16m 2014:£15m 2015:c£25m)

Leverage scale position to drive profitable growth

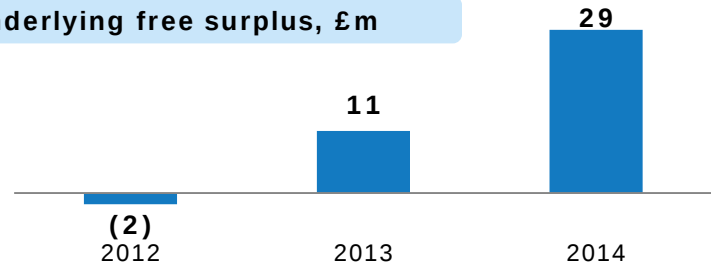
Turnaround in performances of UK open businesses

Corporate Benefits

Asset under administration, £bn



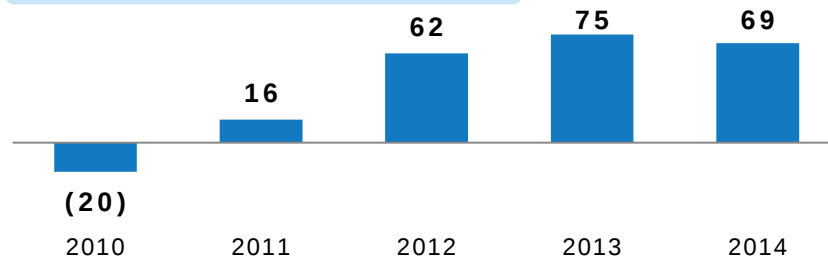
Underlying free surplus, £m



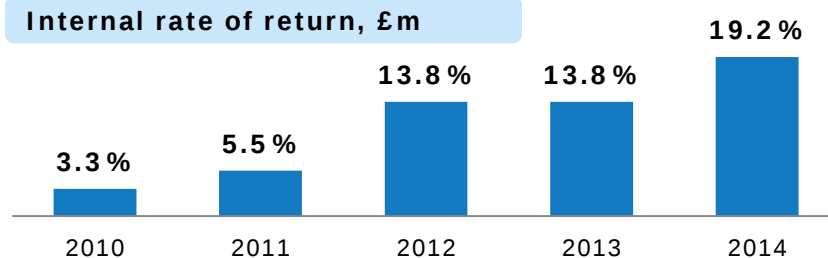
- Increasing assets whilst maintaining costs
- Strong auto-enrolment success

Protection

Value of new business, £m



Internal rate of return, %



- Market leading product innovation
- Strong distribution partnerships

Note: Corporate Benefits was established following the UK business strategic review so we were only able to track the underlying free surplus for this business from 2012 onwards.

Retirement Income: Responding to external change

Enhanced customer service and offering to help meet evolving needs

My Savings platform, tools and services

FriendsLife

Talk to a retirement specialist

What will you do with your **£35,000** at 66?

Results are in today's prices and use the following market conditions:

Weak Average Strong

What's my lifespan? How much do I need?

Lifetime Annuity Learn more	Income Drawdown Learn more	Cash sum Learn more
Take 25% as a tax-free cash sum: £8,750	Take 25% as a tax-free cash sum: £8,750	Take it all as a cash sum and receive: £30,300
Followed by an annual income guaranteed for the rest of your life: £8,360	Followed by the annual income you choose until the money runs out: £10,500 until age 73	After paying income tax of: £4,700
I like this option	I like this option	I like this option

Customer engagement

- Recognise our customers will require full support to make informed retirement decisions
- Created a significantly resourced Retirement Income Centre

Platform and propositions

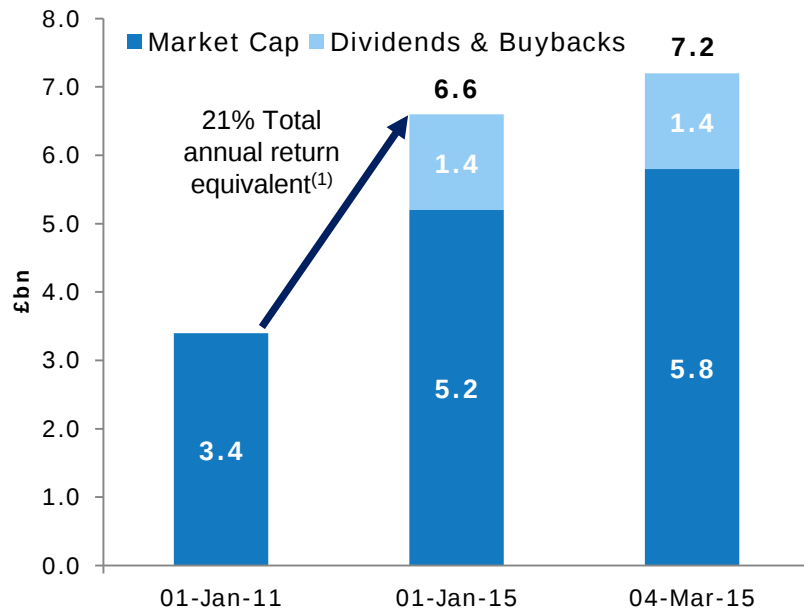
- My Savings platform will offer a suite of retirement savings options, including draw-down, annuity and lump sum, plus NISAs, share trading, etc.
- Extensive tools to help customers make informed retirement savings decisions
- Retirement planning and modelling will help our customers plan in advance

Note: Annual income for both the Annuity and Drawdown options include full state pension. Drawdown example shows the customer would only receive the state pension after age 73. All numbers shown are illustrative only and are not intended to reflect actual rates available from either Friends Life or the market in general.

Strong shareholder return, well positioned for the future

Aviva deal accelerates Friends Life's stated strategy

Friends Life shareholder value progression



Combined Friends Life / Aviva UK Life and Pensions strategic rationale

Accelerating Strategy



Cash generation

- ✓ Superior back book management
- ✓ Scale and cost advantage



Growth opportunity

- ✓ Scale leadership positions across core UK Life growth markets
- ✓ Improved customer proposition

Source: Recommended Acquisition of Friends Life Group presentation, 2nd December 2014

1. Assumes dividends reinvested in Friends Life Group Limited shares

Summary

Significant transformation and value delivery achieved

- Strong cash generation and growth
- Restructured business to deliver substantial cost reductions
- Superior back book management
- Leverage scale position to drive profitable growth while responding to external change
- Strong shareholder return and well positioned for the future

Agenda

Q&A

Appendices

Group underlying free surplus

Underlying free surplus up 8 %

Group underlying free surplus

	£ m	Insurance				Asset-based		Total	
		Prot.	Ret. Income	Heritage	FPI		Corporate Benefits		
FY 2014	Expected return	31	15	481	52	579	Income	122	
	INB	(37)	(24)	(35)	(29)	(125)	Outgoings	(92)	
							Other ¹	(1)	
	Underlying free surplus	(6)	(9)	446	23	454	Underlying free surplus	29	483
FY 2013	Expected return	30	10	462	77	579	Income	110	
	INB	(44)	(6)	(52)	(39)	(141)	Outgoings	(94)	
							Other ¹	(5)	
	Underlying free surplus	(14)	4	410	38	438	Underlying free surplus	11	449

+ 8 %

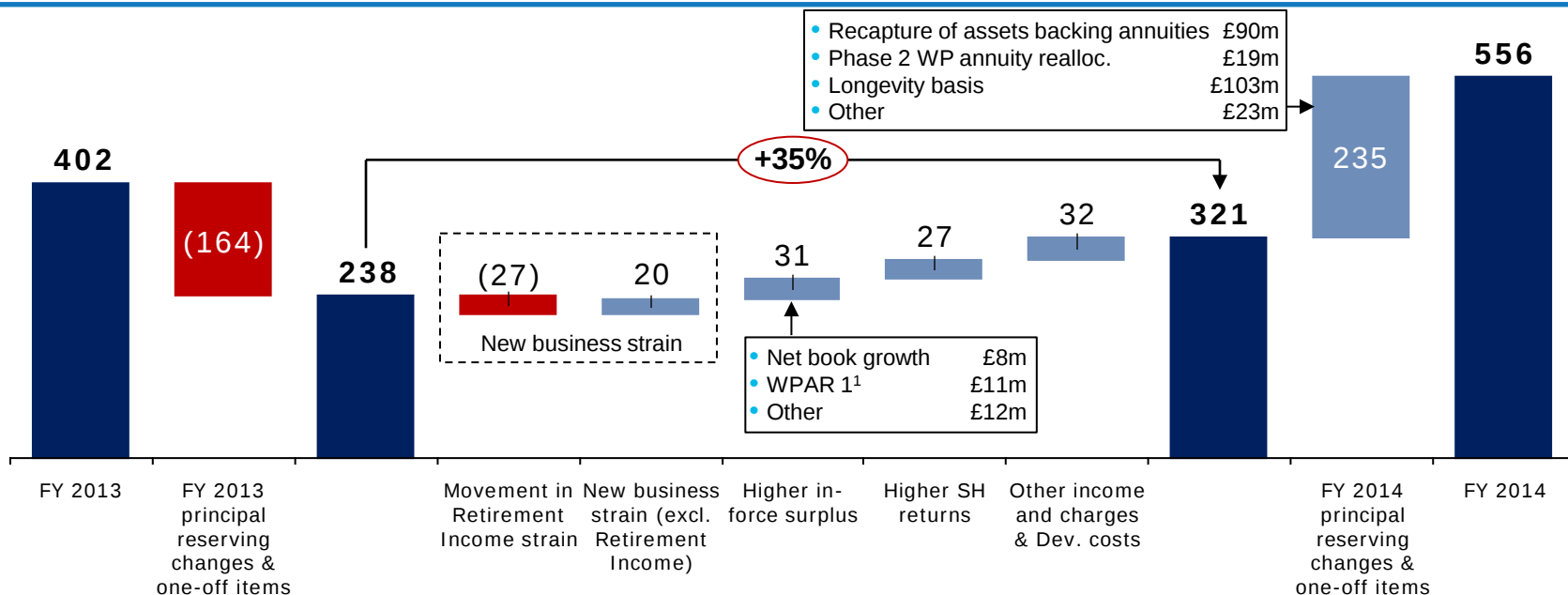
1. Other principally includes movements on required capital, non-unit reserves and tax.

IFRS based operating profit

Strong underlying growth delivered

Group IFRS based operating profit

£m



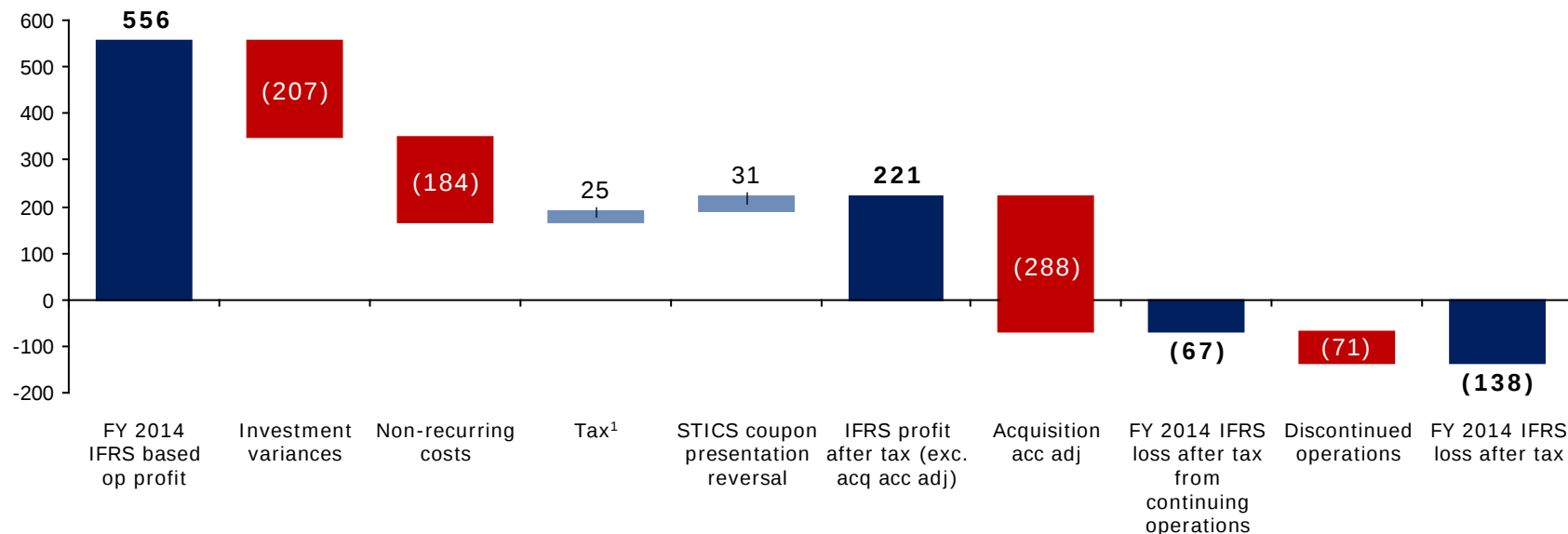
1. Phase 1 of the With-profit annuity reallocation

IFRS result after tax

Results reflect adverse economic variances

Group IFRS result after tax

£m

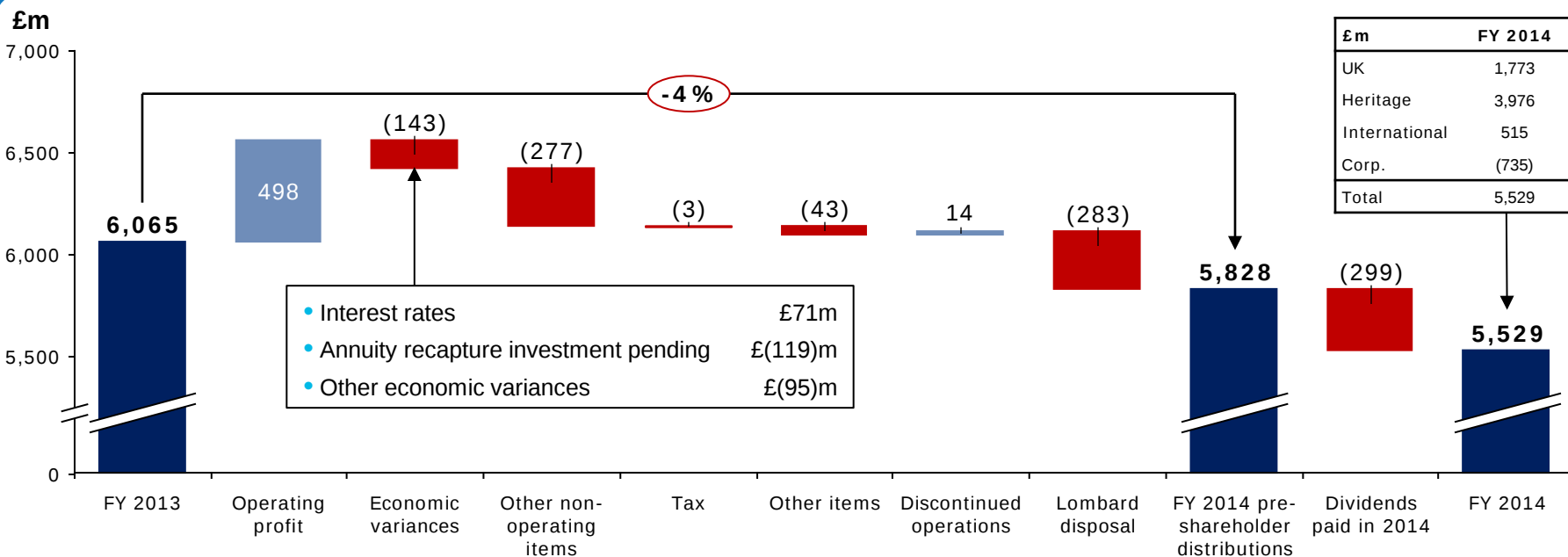


1. Excluding deferred tax on amortisation of acquisition accounting adjustments.

MCEV development to 31 December 2014

Economics and Lombard sale driving change in Group MCEV

Change in net Group MCEV

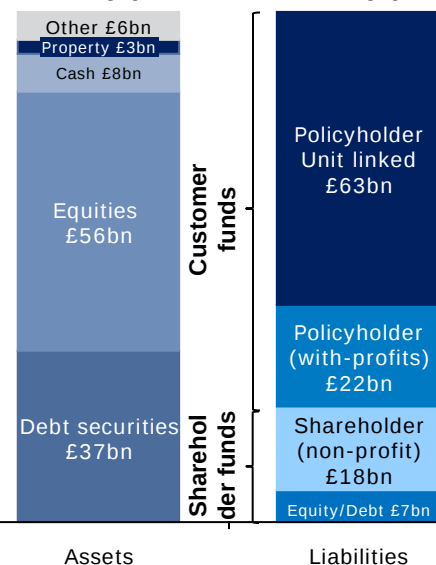


Balance sheet

Continued high asset quality

Overview of balance sheet

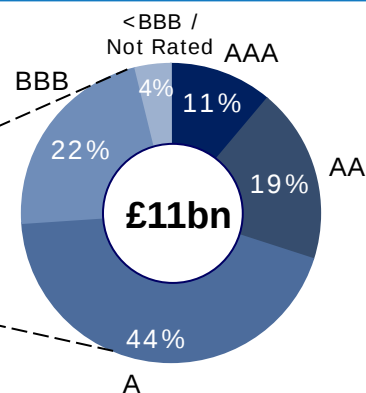
FY 2014 IFRS balance sheet £110bn



Shareholder assets and assets backing non-profit business

	£bn	%
Cash	4	21%
Government bonds	4	21%
Corporate bonds	11	58%
Total investments	19	100%
Intangible assets	3	
Reinsurance assets	1	
Other net receivables	2	
Total shareholder asset exposure	25	

Rating of £11bn corporate bond assets



- 96% of corporate bond assets at investment grade
- No credit defaults in 2014
- c.£600m shareholder share of default provisions; a haircut equivalent to 46% of spread over risk free

Group restatement & impact of Lombard disposal

Lombard sold October 2014

	FY 2013		
£m	Group (as reported)	Lombard	Group (restated)
IFRS operating profit			
New business strain	(97)	(31)	(66)
In-force surplus	541	68	473
Long-term investment return	(69)	-	(69)
Principal reserving changes and one-off items	164	-	164
Development costs	(50)	(3)	(47)
Other income and charges	(53)	-	(53)
IFRS based operating profit before tax	436	34	402
MCEV operating profit			
Value of new business	204	25	179
Expected existing business contribution	248	33	215
Operating experience variances	(57)	(25)	(32)
Operating assumption changes	19	(82)	101
Other operating variances	178	6	172
Development costs	(50)	(3)	(47)
Other income and charges	(53)	-	(53)
Operating profit/(loss) before tax	489	(46)	535

	FY 2013		
£m	Group (as reported)	Lombard	Group (restated)
SFS			
Expected return from in-force business	682	44	638
Investment in new business	(213)	(24)	(189)
Underlying free surplus generation	469	20	449
Development costs	(41)	(2)	(39)
Coupon on debt	(92)	-	(92)
Operating experience variances	25	(9)	34
Other operating items	2	(3)	5
Other income and charges	(32)	-	(32)
Sustainable free surplus generation	331	6	325
Other metrics			
Dividends paid to Group	NA	13	NA
MCEV operating EPS (p)	26.22	(4.31)	30.53
Embedded value	6,065	603	5,462
IFRS operating EPS (p)	31.01	0.63	30.38
Assets under administration (£bn)	117.6	20.2	97.4
IFRS net assets	5,229	347	4,882

Non-core OLAB restatement

OLAB transferred to Heritage from International division

£m	FY 2013				
	As reported			Restated	
	FPI	Heritage	Non-core OLAB	FPI	Heritage
IFRS operating profit					
New business strain	(40)	(25)	(16)	(24)	(41)
In-force surplus	140	264	40	100	304
Long-term investment return	(1)	(84)	-	(1)	(84)
Principal reserving changes and one-off items	15	141	18	(3)	159
Development costs	(10)	(7)	(3)	(7)	(10)
Other income and charges	(2)	2	-	(2)	2
IFRS based operating profit before tax	102	291	39	63	330
MCEV					
Value of new business	14	(19)	(7)	21	(26)
Expected existing business contribution	19	211	3	16	214
Operating experience variances	13	(12)	10	3	(2)
Operating assumption changes	14	93	3	11	96
Other operating variances	9	127	11	(2)	138
Development costs	(10)	(7)	(3)	(7)	(10)
Other income and charges	(2)	-	-	(2)	-
Operating profit/(loss) before tax	57	393	17	40	410
MCEV	602	4,106	95	507	4,201
SFS					
Expected return from in-force business	97	442	20	77	462
Investment in new business	(61)	(30)	(22)	(39)	(52)
Underlying free surplus generation	36	412	(2)	38	410
Development costs	(9)	(7)	(2)	(7)	(9)
Operating experience variances	18	27	18	-	45
Other operating items	(9)	(1)	-	(9)	(1)
Other income and charges	(2)	-	-	(2)	-
Sustainable free surplus generation	34	431	14	20	445