Acquisition of Friends Life Group Ltd by Aviva Plc

Company Participants

- Andy D. Briggs
- Christopher B. Wei
- George Malcolm Williamson
- John McFarlane
- Mark Andrew Wilson
- Thomas D. Stoddard

Other Participants

- Andrew J. Crean
- Andrew J. Sinclair
- Andy Hughes
- Ashik Musaddi
- Chris J. Esson
- Edward L. Houghton
- Fahad U. Changazi
- Jon M. Hocking
- Marcus W. Barnard

MANAGEMENT DISCUSSION SECTION

John McFarlane {BIO 1509370 <GO>}

Well, good morning, everyone, and welcome to the announcement of the acquisition of Friends Life by Aviva. Also joining us today is Sir Malcolm Williamson here and Andy Briggs from Friends Life.

On joining Aviva, I articulated clearly to shareholders that following a long period of underperformance, Aviva faced a number of entrenched strategic issues. And we set in motion a programme then to transform the company. You wouldn't believe it's actually only two and a half years ago.

I think most would now agree that the transformation has gone as well as could have been expected and shareholders are experiencing the benefits. Aviva today has a stronger strategic foundation, board, and management team, as well as an investment proposition that's resonating with shareholders.

Now given that our organic prospects are sound, it may therefore have come as a surprise to many of you that we're now prepared to undertake a transformational move sooner than many of you might have expected. A number of factors contributed to this decision. As a result of the strengthening of the management team and the speed and success of the transformation programme, the board feels comfortable that management is ready for an additional challenge.

An opportunity in core markets that substantially increases our cash flow, builds liquidity and brings down leverage would be very attractive to us at this point in time. At the same time, we're putting greater energy and drive into our True Customer Composite agenda and a significant expansion of our customer base would allow us to add considerable leverage to this particular initiative.

Now, there's a lot of speculation about wouldn't it be nice if Aviva was able to harness the faster-growing markets very quickly. But the reality of the situation is that we're largely concentrated in developed markets. Essentially, the United Kingdom, Canada, and France add up to most of the company. And so, transforming, therefore, Aviva and our business mix towards fast-growing markets can only be a medium term proposition. And, therefore, for the near future, we need to enhance our position in core mature markets.

And then, finally, we did need to find an effective, strategic and earnings enhancing response in the UK Life sector following the Chancellor's decision on annuities. And so, the opportunity presented by Friends Life not only consolidates Aviva's leading position, it enables a much stronger dividend flow and balance sheet position than would otherwise have been possible over the next few years.

It also offers Friends Life shareholders an attractive outcome that Malcolm will expand on. I therefore commend this transaction to shareholders. And it's my pleasure to introduce Sir Malcolm Williamson to you.

George Malcolm Williamson {BIO 17580627 <GO>}

Well, thanks, John, and good morning, ladies and gentlemen. I think, before we get into the meat of the presentation, I want to say a few words on behalf of Friends Life Group board and to our shareholders.

We've come a long way over the last four years, bringing together three businesses to create a strong and successful Friends Life Group that you see today, delivering both cash today, in the form of cost and capital synergies and growing cash generation to support our dividend, and cash tomorrow in the form of focused new business propositions in markets where we have the scale and expertise to grow profitably.

All that has come from a lot of hard work and inspirational leadership by Andy over here with Tim Tookey and (sic) [Jonathan] Moss and many others – Jonathan Moss, I'm sorry. And I strongly believe that on a standalone basis, Friends Life would have an attractive and growing future, targeting the opportunities in back book management and in the fast-changing retirement market.

However, our philosophy has always been one of maximizing shareholder value from each part of the group. And we've always been explicit that we saw further consolidation in the UK Life market as both necessary and potentially attractive for our shareholders. So, we're delighted today to be announcing this transaction with Aviva. It produces an excellent opportunity to accelerate our existing strategy and to generate value for shareholders faster.

It also gives our shareholders and our customers the opportunity to be part of the UK's leading insurance, savings, asset management business, delivering additional scale and efficiency, and a broader range of attractive customer propositions. So, I'm personally delighted to have been nominated to join the board of the Enlarged Aviva Group as SID upon completion. And I look forward to working with my new director colleagues to take forward the group's focus on cash and growth.

And on that note, I'll hand over to Mark, the Group CEO.

Mark Andrew Wilson {BIO 6409810 <GO>}

Well, thank you, Sir Malcolm. Good morning, everyone, and thank you for joining us here. I know it was extremely short notice this morning. And to those of you that are in Singapore, good afternoon or good evening. I know Chris Wei is with you there, so I'm sure him and the team can look after you and host you there. And, of course, a very special welcome, as John said, to Sir Malcolm, to Andy, and our friends from the Friends Life team.

10 days ago, we announced some terms of this transaction obviously because of the leak. Now it's always a little bit irritating when you have to announce early as you can't fill in the numbers. But, today, we are filling in the numbers, the synergies, the impact on the future cash flows and the new dividend policy for the enlarged group. Now, Tom will then go into more detail on the financials and Andy will talk about the rest now for the Friends group, for the Friends shareholders and, of course, the larger UK Life opportunity.

First, I want to take you back a couple of years, to January 2013, when I started here. It was clear to all of you and to me that Aviva had issues. I think we've come a long way since then but we still have quite some way to go to reach anywhere near our potential. We have a simpler group. We've got a more focused group. And I would accept that we have certainly delivered more than what we said we would.

Now, I understand that the announcement was a surprise to many and indeed the best transactions often are. But let me be clear. This transaction is absolutely consistent with our investment thesis of cash flow plus growth. Cash flow is what our investors signed up to. And if an opportunity comes up that delivers cash flow, then we should consider it. Indeed, not to do so, I believe, would be imprudent.

Now, one of the questions that I've been asked is, will this transaction be a distraction to the organization? I believe it's not a distraction. Indeed, it's quite the opposite. I see this as a catalyst for the next phase of our transformation. So, think of it like this. If you were growing a garden and you go to the well each day with a bucket of – to get a bucket of water, the garden can still be bountiful and green with the water you get from the well. However, if you come across a garden hose that has all the water you need and you can get the water faster with less risk, you would have to be foolish not to turn on the tap.

So, this slide here – I think this slide here shows the best summary of the financial and strategic rationale. Now, I wouldn't do any large transaction purely for strategic reasons. I think those are the transactions that often disappoint. It's got to work financially and the financial rationale has to be compelling on both sides.

I've been clear and consistent with the market about the outstanding balance sheet issues I wanted to address in the medium term. And, frankly, this transaction means we can tick off those boxes quicker. To start, we expect this transaction to add around £600 million of cash flow to the group. Liquidity at the group's centre will also be substantially higher at £2.4 billion. Leverage will be down. And that's another one of our targets to be consistent with the Standard & Poor's AA range.

I also note that last week, as an aside, that Friends has been put on a positive credit watch by S&P because of this transaction. There are significant synergies at £225 million. And we'll cover that in a little bit more depth later. And we also anticipate capital and other revenue synergies. But we're not quantifying these today because, frankly, our work there is not complete. We still have a lot of modeling to do. But I think you can be assured that the impact is positive.

And, lastly, on this part, to give our shareholders clarity on our progress this year, our board is proposing a 30% increase in our final 2014 dividend, taking our full year dividend to £0.181 per share. This is ahead of consensus. Now we also are announcing our intention to formally change our dividend policy to two times cover. That's on IFRS operating earnings. So the deal stacks up financially clearly, but the transaction is also aligned with the three parts of our strategic anchor that we spoke about in the investment day, namely, True Customer Composite, Digital First and Not Everywhere.

We said we wanted to have scale in our key markets and then wanted to secure our position as the British champion. Not because of any burning desire to be big or number one. I mean, frankly, I couldn't care less. But the factors that every successful international financial firm has a preeminent position in its home market. That gives you longevity and it gives you security. And it gives us a strong base that we can then use to fund other growth operations in our other growth markets.

UK is a good insurance market. It's our home base. We are proud to be a British organization. We've been here for 319 years. And we will have leading positions in the key growth segments here in this market. And, of course, we'll have a further 5 million customers that we can use in our digital and composite strategies. And our new Digital Head, Andrew Brem, it's actually, I think, your first or second day here today, so welcome. Now, I've got a present for you.

We've previously given you an indication of the size of the prize also for optimizing our back book. And you saw that, I think, at our half year results. And our back book - we want to increase cash flow here. And the Friends' expertise that have been on this journey for some time will be invaluable. We'll be able to do that quicker with them than without them.

So, now to asset management and we also have Euan in the room today. In-sourcing the majority of the Friends Life £100 billion under management, we will produce a step change in the scale of our assets under management for Aviva Investors.

And, lastly, on the side on the strategic part. Over recent years, it's fair to say that some of our growth markets and growth businesses and growth segments in operations have been constrained in their activity. This transaction certainly gives us the platform and flexibility and cash flow to fund our required organic growth in those markets. I'm talking about markets such as Turkey and Poland and Southeast Asia and China and also general insurance markets, such as the UK and Canada. This transaction certainly helps there, too.

Now, here are the terms of the transaction on this slide, which you, I'm sure, - I'm not so sure about this, but I'm sure you've now all had a chance to read. I'm not going to labor the slide, but I'd like to focus on a couple of things, if I may.

Social issues become problematic often when two large organizations are brought together. But, as you can see from today's announcements, we are aligned and we're privileged to have Sir Malcolm joining our board as the SID with his experience and acumen, a great addition to our board. Indeed, also, I'm delighted to have Andy up and co-hosting with me today who is joining us as CEO of UK Life and as an Executive Director on our plc board. Indeed, it was Andy and his team that were one of the attractions to me personally of the Friends Life Group.

You'll also see in our 2.7, Nick Amin, who, I think, you all know by now, will take up the role as Director of Transformation and Integration, a key role when we talked about synergies. And Jonathan Moss from Friends has agreed to join the enlarged group as Director of our back book businesses. He's got extraordinary experience in that field.

So, what will these businesses look like when they're brought together? When we bring these businesses together, what will they look like? Well, these two groups are obviously in respective stages of their own journeys. And I think they are a fantastic fit. An investor I was talking to last week told me that they fit with almost surgical precision. And I think this is probably so when you look strategically and financially. The combined businesses build on the respective strength of each business whilst addressing each other's weaknesses, I think that's unusual. But let's have a look, I guess, at a little bit more detail.

Now, everyone in the room has heard me say before that the primary role of our UK Life business is to be a cash generator. However, the combination of Aviva and Friends Life shifts the dynamic of our UK operations to be more of a balance between cash flow and growth. But make no mistake, for our investors, it is in that order. Now, it becomes a cash-generating machine, but we'll need to continue to feed and grow that machine. We are creating UK's leading insurance and savings business with access to up to 15 million customers. And that gives us real scale and a competitive cost advantage. And Andy will talk to you about that in some more depth.

Now, at our Analyst Day, you heard me talk about our message of driving a True Customer Composite through the organization. And this really works here in the UK, where, according to research, we are the most valued insurance brand. I think there was some press about that the other day. And we also have an attractive digital proposition with MyAviva. And Andy will cover more about the UK proposition in his section a little bit later.

And now, to synergies of the transaction. Today, we are announcing £225 million of synergies. And these are obviously substantial. The integration is large by numbers, but relatively modest by complexity. Now, there are three major areas to get synergies where they arise, namely, the UK Life company. Now this is both the back book and the front book to be clear. And we will use a best-of-breed approach. And we have a lot of duplicate systems. We can take the best-of-breed approach in these systems. Investment in management that I touched on as we in-source the majority of the Friends Life assets that they have. And then the central spend, such as group head office. We have two of those, that is the third area of duplication.

Now, I'll leave you to build your own models and do the analysis. But I think you should walk away from here with the sense that these numbers are well within our depth to achieve. So, I guess, the question will be, and I've been asked this question a number of times already, why are we confident that we can extract these synergies when, historically, there have been some issues and the synergies have, sometimes, proved elusive?

I think that's an entirely fair question, but that's also got a very clear answer. Well, for start, both companies have a recent track record of getting success in getting the costs out. And I would hope that with our results over the past two years that you'd give us the benefit of the doubt. And I think this slide shows it as clearly as I can talk to it. At Aviva, you can see on the left-hand side, we set ourselves a target to reduce our overall operating expenses by £400 million by the end of 2014 – the end of this year. This year, at our half year, we announced we were on track to achieve £568 million of cost reductions, significant outperformance.

Now, if we look at our rationalization programme that Friends Life has been on, it has been, I think, a little more finessed, particularly in the back book, where they have collapsed funds, they have collapsed systems, they have outsourced where appropriate. And the result of this has been almost £300 million of free surplus released between 2011 and 2013. So, we are experienced. We have the expertise, the experience and a track record. But now, of course, we still have to deliver. I think I've said those same words two years ago.

Now, you've heard me talk a lot about our ambitions in asset management. This transaction provides serious scale to our asset management business with little cost. Just to give you numbers, Friends Life has roughly £100 billion of assets and we would anticipate in-sourcing up to £70 billion into Aviva Investors. And our somewhat conservative numbers, this should add approximately £40 million to earnings at Aviva Investors. Again, I'll leave it to you to do your maths. Strategically, it's a significant step towards our ambition of making asset management earnings a more meaningful part of the group, but we still have much to do.

Now, I'll hand over to Tom in a moment. But before I do that, I thought it useful to summarize the key financial impacts, I guess, of the transaction. We have talked a number of times about our external leverage which is above our medium term target to be consistent with the S&P AA rating. Quite frankly, our current leverage restricts our financial flexibility. Now, standalone, we have a plan in place to get our leverage down to more comfortable levels. And this year, as we've shown, we have made meaningful progress. But it gets us there to our target on completion.

Now, the combination with Friends Life with this lower leverage takes us to 28% on an S&P basis. And we see no further need to delever from there. Central liquidity would be increased. And, together, we would have high economic capital surplus. You can see this on the slide too. Now, Andy will cover efficiency in more detail. But suffice it to say this combination gives us a competitive pricing advantage in the UK. I think that's hard for others to match.

And, of course, cash flow. This has been the most important focus of the group. I've said many times earnings hasn't been the issue at Aviva, cash flow has. And we expect this transaction to add about £600 million to our holding company cash flows. So, what does all this mean in about our dividend? Well, it means a number of things. Well, today, we are announcing a 30% increase in our final dividend, implying a full year 2014 dividend of £0.181 per share. And we are also moving our dividend cover to two times operating EPS over the medium term.

So, let me sum up what it means in very simplistic terms. It means a high dividend. It means a 50% payout ratio. It means a stronger balance sheet with more growth options. And I think when you look at it in that context, it sounds like a pretty good opportunity to me. It ticks all the boxes to deliver cash flow plus growth.

And I think with that, to take you through more the financials, I will hand over to our group CFO, Tom Stoddard.

Thomas D. Stoddard {BIO 15071280 <GO>}

Thank you, Mark. Let me start by saying that I try to avoid using the word compelling, which, I think, is overused. But rarely have I seen a business combination that is more financially compelling for both sides than this one. The impact on Aviva is profound. It improves our return on capital in our largest business. It reduces risk. It gives us more funds to invest in growth and it accelerates dividends to shareholders.

Now, back at our Capital Markets Day in July, I said I was taking a hard look at our UK businesses and was trying to raise sense of urgency around unlocking value in our back books. We need to do better here. The synergies we achieved by consolidating with Friends Life will improve the return on capital in our UK Life business, where we've had underperforming sales, and will enhance the prospects for Aviva Investors. This will unequivocally improve our business and make us more competitive.

At the same time, we strengthened our financial flexibility in exactly the places where we were weakest. Debt leverage is no longer an issue. An improved cash flow and liquidity will now better match our earnings power. All other things equal, I would expect this transaction to reduce our cost of capital going forward.

Furthermore, what may be less apparent from the outside will be the opportunities to create balance sheet synergies on top of the operating synergies Mark outlined. These should be significant. And I'll try to give you a better sense of how they can improve our capital and cash flow later in my remarks. The overall impact is that the transaction will benefit both sets of shareholders. On its own, Aviva is strong enough now to raise its final dividend for 2014 by 30% to £0.1225 or £0.181 for the full year.

Let me just pause for a moment to underscore that that's not conditional on the transaction. But with the benefits of this transaction, we will be able to accelerate future dividends and growth. As Mark said, we'll move over the medium term to a dividend cover of approximately two times based on IFRS operating earnings per share as we realize synergies from the transaction.

Moving to this next slide, the transaction brings our external debt leverage down to 28% on an S&P basis within the AA range. While we may repay certain outstanding debt issues from time to time, there is no longer an imperative to reduce debt further. The left side of this slide shows the deleveraging impact on an IFRS accounting basis, including AVIF and capital.

Following the transaction, we will measure ourselves relative to the S&P leverage ratio. And post-Solvency II implementation, we expect to consider debt relative to our overall economic capital. My final point here is this transaction has no impact on our plans to reduce internal loan, which we previously agreed to reduce to £2.2 billion by the end of 2015. So, debt deleveraging will no longer be a drag on dividend capacity or reinvestment in growth.

Combined group will be both larger and better capitalized overall. For historical reasons, Friends Life has maintained relatively conservative capital and liquidity positions at its insurance subsidiaries and holding company. In our due diligence, we concluded that Friends Life's capital position is even more resilient than we had estimated from the outside and its risk profile complements ours.

As you can see from this slide, the combination will give us more surplus with which to withstand stress. And to illustrate, we've shown here a few of the previously published economic capital sensitivities around interest rates and spreads, which will give you some sense of our relative exposures, some of which are partly offsetting.

You should also note that consistent with prior plans, Aviva will apply for Solvency II internal model approval next year, while Friends Life remains on a standard formula basis. So, on 2016, we will be running on a partial internal model with Friends to follow.

Over time, we will transition Friends Life subsidiaries toward Aviva's capital management policies and risk appetite thresholds. This may ultimately involve Part VII transfers to rationalize operations. So, together, we'll avoid some significant costs simply by having Friends Life transition onto the Aviva Solvency II internal model in the future.

As I mentioned at the outset, this transaction should create significant capital benefits from several different sources. Some of these benefits occur naturally as a result of our complementary risk profile and some take effort for management to achieve.

This slide should give you a feel for the potential diversification benefits, even within two UK Life insurance businesses. Aviva has relatively less lapse risk, for example, and more some other risks. Together, our balance sheet will benefit simply from the combined spread of risk and increased diversification.

In addition, Aviva's further ahead than Friends Life in optimizing its capital management policies under Solvency II. We've identified several areas where we believe we can achieve capital benefits by adapting Friends Life to our approach. And, finally, as we've demonstrated in the past, when we realize expense savings from the combination, there likely will be opportunities to capitalize those benefits in the form of reduced future expense reserves. Andy will speak more to these back book actions in his remarks.

So, my expectation is with capital synergies we should be able to achieve by combining Friends Life with Aviva's larger UK Life operation should be significant, but there's more work to be done here. And we're not quantifying them for you today. Over time, I would also expect that we would look to rebalance the group by reinvesting capital generated by UK Life into Aviva Investors, digital initiatives, GI, and other growth markets.

Moving on to the targets we set out on our Capital Markets Day back in July. You can see that this transaction gets us there and then some. It will help us improve our operating expense ratio with the benefit of synergies by approximately 2 percentage points over time. It will add approximately £600 million of incremental cash flows once the £225 million of run rate synergies are fully realized. That brings our debt leverage back into the range we want, as I mentioned previously.

So, our focus would be on integrating this transaction quickly and successfully. And as we do so, we will develop new targets, shifting our emphasis toward reinvesting into organic growth from our most promising businesses but we need to deliver the benefits of this deal first.

Financial impact is positive overall for both companies. Once we realize the run rate cost synergies of £225 million by the end of 2017, the deal should be accretive to cash flows and broadly neutral to operating EPS. This does not give any effect to expected capital and related benefits of the transaction. We simply have better opportunities to reinvest excess cash flows and we'll do so.

I should note that because of the amount of acquired value of in-force or AVIF, there will be some accounting changes Aviva needs to make in order to better reflect the impact of this transaction on our results. Unfortunately, for me, this will complicate my life in trying to manage towards my mantra of after, after, after. So, in operating profit and operating EPS, we will exclude the amortization of AVIF, as Friends Life does, so that operating EPS tracks cash and our dividend payments more closely. But I'll also watch how we grow NAV, which will suffer from the amortization of AVIF.

The point is that I'm after the same results our shareholders want in terms of operating performance, real distributable cash, and growth in book value. We will remain disciplined. This transaction is clearly good for Friends Life, especially in terms of credit ratings and growth. S&P has already made positive statements in that regard. And, over time, we expect the transaction to be ratings positive for the combined group. And, as you can see from the bottom of this slide, value of new business will continue to be a key performance indicator for us as well and as a significant figure for both companies.

Now we've been considering the Friends Life opportunity as an acquisition candidate since June and have now completed a detailed due diligence review. This has involved dedicated teams of senior professionals complemented by outside advisors. I'm obviously entirely satisfied with the results of that diligence process.

However, at the same time, I'd like to acknowledge that the Aviva of years past did not go far enough in integrating mergers of General Accident, Norwich Union, and Commercial Union. We're still affected by that legacy and continue to work today on rationalizing those operations further. In fact, I should be clear that Aviva has pre-existing plans to cut cost and improve the operations of its UK Life business without this transaction.

On its own, our UK Life business has become a star in improving its operating expense ratio quarter-after-quarter. So it's important to recognize that the £225 million of synergies we're announcing with Friends Life are incremental savings over and above what we think we can get on our own from UK Life. We want to do better than the £225 million, of course. And we expect this transaction to serve as a catalyst for more ambitious improvements of our UK Life operations. There's ample room to upgrade or replace legacy systems and processes, while providing better service and outcomes for customers.

We have a strong team to lead and a clear plan in place to integrate our respective businesses. As Mark said earlier, Andy will lead the combined UK Life operations as the business unit CEO. Nick Amin, our Transformation Director will be appointed as Integration Director, also reporting to Mark. And Jonathan Moss will support Andy as Director of the back book and Heritage businesses.

Andy will talk a little bit more about the integration, how we plan to bring out the best of both organizations. But you should note that we've assumed approximately £350 million of integration costs with the costs and synergies spaced in over the course of 2015, 2016 and 2017. Nick Amin will bring his considerable project management skills to that effort, coordinating with UK Life and Aviva Investors.

So, I'm confident of our ability to execute. The plan is not premised on a complicated new IT programme or migration. The asset management synergies and certain other benefits are straightforward to achieve. We've identified key risks and established contingency plans. So, this is a great opportunity for us to take Aviva forward.

And on that note, let me turn the stage over to Andy Briggs to talk more specifically about our opportunity together and the benefits for Friends Life.

Andy D. Briggs {BIO 4311809 <GO>}

Thank you, Tom, and good morning here in London. Good afternoon to those of you in Singapore. First, let me start by saying what an exciting opportunity, I think, this combination represents. You've already heard from Mark and Tom about a number of the benefits that this transaction brings to the enlarged group, creating the market leader in the UK Life market. And I'll talk more about that in a moment.

But, first, I'd like to touch on the compelling financial and strategic rationale for Friends Life shareholders. From a financial perspective, for Friends Life shareholders, at the time of our original announcement, the terms represented a 27% premium to our three-month average share price. On top of that premium, our shareholders will also get a 2014 second interim dividend of £0.241 per share which is £0.10 per share more than last year.

And on top of that, the value share will be crystallized and settled which is a further circa £220 million, thus removing this overhang for our shareholders. Going forward from here, the strength of the combined organization would enable an attractive, progressive dividend policy with the significant increase in the Aviva dividend announced today and a target to move to two times IFRS operating earnings cover in the medium term.

Let me now look at this from a strategic perspective. We have consistently said that standalone, we are confident at driving cash today through efficient back book management and attractive growth through writing profitable new business. Delivering this is key to supporting a progressive dividend policy. We've also consistently said that there is potential for greater value for our shareholders through inorganic activity.

This combination provides the opportunity to accelerate the delivery of value to our shareholders and accelerate growth from an enlarged platform to unlocking value from the combined back book and cost synergies. Strategically, the benefits of the combination are clearly strong. All in all, I believe this is an attractive deal for our shareholders.

But I want to focus today on the attractive opportunity for the combined group in the UK Life market. It won't surprise you that my focus here is on cash flow and growth, consistent with the focus of both Aviva and Friends Life. And as I'll talk through this, I want to cover not only where we plan to play in the market, but, more importantly, what I believe we will have significant competitive advantage and, hence, we'll win in our chosen markets.

In terms of cash flow, our first key area of focus is on the back book. Suffice to say, we're really excited of the prospect of the substantial value that can be delivered to shareholders from combining these back books, including capital synergies. Secondly, we will have a significant scale advantage and, hence, post the delivery of synergies, significant cost advantage, which I will evidence in a few moments. This will benefit both cash today, but also support growth in the future.

Moving on to growth, I'm particularly excited by the attractive growth opportunity that the combination offers. The deal creates the UK's leading insurance, savings and asset management business, number one in corporate pensions, number one in protection, and one in four retiring DC pension customers, all underpinned by an in-house asset manager with a broad product set and an established track record.

Yes, scale, but not scale for scale's sake. Scales drive better profitability. While that alone will deliver significant benefits to shareholders, there's a further opportunity, from a customer perspective, to deliver True Customer Composite and Digital First propositions across the 12 million UK Life customers and 16 million overall UK customers.

So, what I plan to do now is to cover each of these four areas in turn, starting, first of all, with superior back book management. We will have a dedicated focus on the back book, which will be the largest in the UK. We have a proven track record in driving value for shareholders from the back book. And I'm delighted that Jonathan Moss will play a key role in the business going forward, together with the expertise that Aviva have been building in back book management under Mark's leadership.

This is a well-trodden path for us. And there are three key areas of focus for driving improvement on the right-hand side of this slide. Firstly, costs, where process simplification and cost synergies are the key areas of focus. Secondly, capital. While we haven't quantified specific figures today, there are significant potential benefits, including diversification of economic capital with general insurance and international businesses and optimized reinsurance arrangements.

Just to give you a simple example. The biggest driver of the four elements of cost synergies that Mark just covered will come from the back book operations. In an economic capital world, a good proportion of these will be capitalized and added to the balance sheet once the synergies have delivered. So, our cost advantage, which I'll come on to, also delivers a material advantage in capital efficiency which our competitors do not have. And, finally, there'll be revenue optimization benefits, in particular, the migration of assets to Aviva Investors, which Mark has already covered and is clearly significant.

Moving on to our second area of focus, scale and cost advantage. The chart on the left here shows the UK Life assets under administration of the enlarged group compared with our peers. As you can see, we have a significant scale advantage with £215 billion of UK Life assets. But like Mark, I'm not interested in scale for the sake of it. I want it to lead to material competitive advantage. The chart in the middle here shows the UK Life cost base as a percentage of assets under administration for Aviva, Friends Life, the combined group compared to our peer group.

So, the peer group is currently on an average of just over 50 basis points. The combined group post the delivery of synergies will be at just over 40 basis points. And this takes no account of cost benefits from asset management. And the synergies, as Tom just said, do not include the cost efficiencies embedded in our current plans.

I'll leave you to do the sums. The 10 basis points of cost advantage on £215 billion of assets is a material competitive advantage. However, clearly, that requires delivery of the synergies. Fortunately, both businesses have a demonstrable track record of delivering cost efficiencies over the last few years, with Friends Life Group delivering cost synergies and other efficiencies equivalent to one-third of its combined operating cost base and Aviva reducing its UK Life cost base by 28%. All in all, the combined business is exceptionally well-placed to drive strong cash flow.

So, let me now move onto growth and start with the scale leadership positions the combined business will have across the core UK Life growth markets. What I particularly liked here is the complementary fit of the two businesses. I'll start with corporate pensions. Friends Life focus has been on mid to large corporates with strong employee benefit consultant relationships. And Aviva's has been on SMEs. We will base the new business proposition on the Friends Life market-leading scale platform. We've always said that scale is critical in this market and there is substantial benefits from operational gearing, grow assets and hold costs.

The combined group will be the number one player, with £39 billion of assets under administration, more than twice the size of the number three player. Add to this the fact that we expect this market to more than triple in size over the next decade which will drive further benefits of operational gearing. And this will be a key driver of growing cash and profitability for the group going forward.

Similarly, on protection, we have complementary product strengths with Friends Life more focused on a premium proposition in critical illness and income protection with estate agency partnerships, while Aviva has been more focused on term and healthcare with bancassurance partnerships. The combined group will be the number one player in the protection market by value of new business, which, of course, is what matters rather than just market share.

Finally, in the retirement income market, the combined group will have one in four maturing DC pension customers in the UK and will have a leading At-Retirement proposition, leveraging the Aviva brand and the combined product suite and solutions, again, a scale position, where the funds coming up to retirements in this market are expected to triple in size over the next decade. To summarize, strong propositions in the most attractive areas of the UK Life markets.

The final area I'd like to talk about is the improved customer proposition for our 12 million UK Life customers and 16 million overall UK customers. And I'm going to use the retirement income market as an example to illustrate this. Following the budget, the retirement income market will change significantly. In particular, I believe there will no longer be a specific point of retirement, more of an extended transition.

Given the scale of our existing customer base, we are better able to understand how that transition is going to take place and what's important to our customers. Some of our customer research is shown on the right of this slide. As a result, we can deliver a leading proposition in the middle of this slide.

Not only would this have a broader products offering, covering drawdown, annuities, equity release, and a broad fund choice, including Aviva Investors, but perhaps, more importantly, the multi-channel distribution approach, Digital First and leveraging the combined strengths on customer engagement, which have been a key focus for both groups, and then also working closely with corporates through the market-leading My Money platform and advisers through the Aviva for Advisers platform.

And that's before we even start to think about leveraging the full benefits of True Customer Composite and make general insurance offers to our customers in their 50s and 60s, which particularly attracts me, given my years in the general insurance sector. In addition, there is the opportunity to sell AIMS and other investment management propositions to our existing wealth customers.

So, to summarize, as I said upfront, I believe the rationale for Friends Life shareholders is compelling: the financial rationale, the premium, plus the dividend, plus the value share being settled; and the strategic rationales, the attractions of the combined group. The combined UK Life business will be all about cash and growth, cash through superior back book management and leveraging the benefits of scale to deliver significant cost advantage, and profitable growth through scale leadership positions across the core UK Life growth markets together with a strong customer focus across our broad range of propositions.

Suffice to say, I'm very excited of the prospects of creating value through leading the combined UK Life business and I look forward to joining the board of the enlarged group on completion. In particular, a key integration principle is very much best of both. And I'm confident that with the best of both teams, we will have the strongest team in the market. I look forward to working with my new colleagues as we work towards achieving our joint ambition to create the UK's leading insurance, savings and asset management business.

And with that, I'll hand you back to Mark.

Mark Andrew Wilson {BIO 6409810 <GO>}

So, that's the detail. You've heard about the rationale. You've heard about the financials. You now know the opportunity we have, I think, in the UK Life. So, in summary, if you put it all together, we believe this transaction accelerate the strategies of both Aviva and the

Friends Group. And it's the right strategy for that group. In my vernacular, I'd call it a highly satisfactory transaction. But, for Friends, that gives an attractive premium, as well as additional special completion dividend. And it really does provide a compelling strategic future.

There are substantial synergies we spoke about this morning and that we'd been able to quantify into which we expect to deliver with a high degree of certainty. You can see, upsides exist from future revenue and capital synergies which we have not included in the numbers today and that will take some more time to work through.

This accelerates our financial transaction of the Aviva Group. And it also creates an important foundation for growth in our growth sectors of our business. And, of course, add all that together and that it results in an enhanced dividend trajectory or what I like to call it, cash flow plus growth.

So, with that, I should open up, I think, to questions. Now, it's going to be a little bit more logistically challenging this morning as we have people in Singapore and here. Hopefully, the Singapore logistics will work quickly and we can get them onto the screen.

There you go. It works. Okay. That's a good start. And with Chris Wei hosting it, maybe we'll start with you, Chris, let's see if we can take a question or two there and then I'll come back and take them down and we'll see how this evolves.

Christopher B. Wei {BIO 17014406 <GO>}

Okay, Mark. First hand up is Jon Hocking. If I can ask, actually not just Jon, but if you can do me the favor of standing, quick introduction, where you're from, and speak into the mic for the benefit of London, that would be great. Thank you.

Q&A

Q - Jon M. Hocking {BIO 2163183 <GO>}

It's Jon Hocking from Morgan Stanley. I've got three questions, please. Firstly, on the back book plan for the UK Life business, you've got five funds, I think, you mentioned on one of the slides.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah.

Q - Jon M. Hocking {BIO 2163183 <GO>}

I know it's early days. I wonder if you could give us some idea of how many funds you ultimately expect to have or whether there's any opportunity here to accelerate the cash flow release from the RISA (00:47:38) which I know has been an ongoing issue.

Secondly, on the asset management synergies, you've also got some existing relationships there. I wonder if you could give us some color about how quickly you expect to onboard those assets and the extent to which there were break fees you have to pay and whether that's – I presume that's included in, I think, the £350 million number that you mentioned.

And then, thirdly, given the better capital position you seem to be hinting at on an economic basis, I wonder if you can run through some of the potential uses of excess capital, I'm thinking maybe re-risking the investment portfolio, maybe shareholders' funds, et cetera. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Maybe to start the asset management back book. (00:48:22).

A - Andy D. Briggs {BIO 4311809 <GO>}

I'll take the first two. So, it's too early to comment on plans in terms of number of life companies in the UK. But what I would say is that the focus will be very much on our economic capital approach to this. So, you're going to get diversification benefits bringing two UK Life companies together. Tom's slide earlier on showed you where the risks are different. That basically means diversification benefits as you bring them together. You then can diversify the Friends' capital position against the general insurance and international businesses as well.

And then the specific example I gave, in an economic capital world, as we save maintenance costs, that capitalizes through into the capital base and is a capital advantage. The cost advantage I covered earlier on, a material cost advantage over our peers, also translates in terms of expense to which there's maintenance cost into a capital advantage that we have over our peers as well and greater capital efficiency.

On your second question, £100 billion of assets in Friends Life Group, just under £70 billion of that is what I call discretionary assets where we decide where that money goes. Three key elements to that. There's £19 billion in Friends Life Investments, our own in-house asset management we set up a couple of years ago, clearly logical as an early step to combine that up with Aviva Investors. The second sort of logical area to look is the £35 billion of assets we have with AXA Investment Managers. We've historically said that the break fee on that money halves in September of next year. So that's the next logical step to look at. And then there's about £12 billion of assets with Schroders which we will also give some thought to in due course.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah, so just to pick up from there, filling a couple of blanks, Jon. We're not seeing anything new on the RISA today. Again, we continually look at that. On the break fees, they are included in the £350 million estimate on integration costs. And then in terms of better capital management, again, we think it's significant. We're not quantifying the amount. And I think what I'd also say is we're maintaining our discipline here. I've got a lot of colleagues that want me to invest that business in their own initiatives, but we're not going to spend the money before we've realized it. So that will come over time.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, Jon, it does give us flexibility. And just on the capital, the thing with RISA, we still have a lot of modeling to do right through the back books. And so we're not being evasive this morning. There's just frankly a lot of work to do. What we do know, it's not negative. Okay. So, we know that much. And we're not trying to fill in all the blanks in the models today, but I think we've given a far bit of data that hopefully can help. Chris, can I maybe take one more question there and then we'll come back to the room here for a couple?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Ashik Musaddi from JPMorgan.

A - Christopher B. Wei {BIO 17014406 <GO>}

Ashik?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just a couple of questions. Hi. Good morning, everyone there. Just a couple of questions. First of all, with respect to your liquidity, I mean, clearly, you are getting Friends Life, which has much lower risk, but you're getting similar liquidity to your current position. So, net-net, you're adding a lot of liquidity in your balance sheet. So, where are you comfortable with in terms of liquidity going forward? That would be the first thing.

Second thing, I thought – I mean if you're buying Friends, which is valued at low-risk fee kind of business model, you would be getting a lot of diversification benefit with your credit book, et cetera. But you haven't touched base a lot on the bulk annuity market or annuities market, per se. So what are your plans on that? Because that's one growth area which was not really focused? I can clearly see the opportunity in protection and corporate pension. What about annuities as well, individual or deeper?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Ashik, if I can maybe start with annuities, we don't anticipate any change in our strategy on annuities. As I've said many times before, for any particular price point, we seem to be able to pick up as much annuities as we want because our brand carries a lot of weight in that market. Clearly, we've signaled before our desire to reduce overall exposure to annuities. And we said we have plenty of room for growth in the UK Life business. I think that was shown pretty adequately in our third quarter where the UK Life business was up 19% despite the annuities.

So, you can see we clearly have avenues to turn on the growth where we want to. We're pretty comfortable with where we are. We've said before we don't want to be in the jumbo end of the market. We'll leave that to some other people. That's fine. We said we will do bulks in the small to medium part of the market where we believe there's healthy margins. And that doesn't change. Okay. That provides a bit of color. Tom?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. So, on liquidity, you're absolutely right that our liquidity position does improve pretty substantially as a result of this transaction. And I think as you think about that going forward, it has multiple elements for us. So, on the one hand, I'm working with John Lister and Jason Windsor and thinking about strengthening our liquidity risk appetite, so that we continue to maintain appropriate buffers. That means that our dividends going forward will be much more resilient and stronger. So that's a good thing for us.

Our overall liquidity levels will be higher. We'll obviously apply some of that to fund some of the transaction cost and integration cost here over the interim. And then we'll have substantial additional liquidity and cash flow generation that we can reinvest in growth.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I think you'll agree with that level of liquidity, it certainly gives much more flexibility, doesn't it, which I know some of you had concerns about before. Let's turn it over for questions here first and we've got a couple of mics. Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

All right. Thanks so much. Andy Hughes, Exane BNP Paribas. The first on the expense synergies. So, I'm a bit confused about what's the expense synergy and what's the hidden cost saving that would have been coming out from two businesses had they continued on a standalone basis. So, can we touch on what the expense saving pounds were at Aviva and Friends Life to add on to the expense synergies because these expense synergies presumably are not eroded by inflation? And as you've seen, they're coming through as cash as the fee levels drop in these businesses. So, for example, Aviva's UK and Ireland was 91 basis points.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah.

Q - Andy Hughes {BIO 15036395 <GO>}

You're not charging 91 basis points on new inflows. In fact, if you look at the wrap platform, it's substantially less than the cost savings after this plan is achieved. So, it's clear, I think, with the expense that is coming in on the new business side, you need to do something extra on costs. So, can you give us some idea about the cost?

Also on the capitalization of these. Obviously, you're showing it as an ongoing benefit to cash. But a big chunk of it is capitalized, so could we find out about that as well? On the TNAV calculation, I find it a bit odd that you've dropped the TNAV and saying the TNAV has improved materially because, obviously, if Aviva was to go out and buy Aviva today, it would report AVIF on the balance sheet and its TNAV will look perfectly fine. Just because Friends Life has AVIF from acquisitions doesn't mean the leverage ratio is much better than Aviva's was historically. It just means that they're reporting much more AVIF in tangible equity.

And relying on the kind of S&P leverage ratio makes a group a bit more vulnerable to market conditions because it's what's called soft capital, i.e., VIF and hybrid equity. I'm just wondering what your view on that is as well going forward? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. It's quite a list, Andy, for someone that was confused. And maybe if I can just start, first of all. So, we haven't gone out with any additional cost target simply. But what we are saying very clearly and we'll evidence it to you later that we're saying the £225 million is this transaction specifically. Now, it also does help us, in addition to that, do some cost savings that we were going to do anyway that we can do quickly because – look at it like this. You know I do turnarounds.

And when you do a turnaround, you need a catalyst to get things done quickly. So, it's very easy to look at a particular life company and see what needs to be done. You don't have to be that good to work that out. The tricky part is getting people to do it. Now, last year, we had a bit of a burning platform. And, obviously, we executed, I think, prior to the - probably most people thought we would.

And this year, you see now it's obviously going pretty well. This provides us the impetus to do it. But it provides us the impetus not just to do this transaction. It provides us the impetus to do rest of the stuff in business we wanted to do at the same time. So, looking at group, I've been very clear that though group costs were too high, I was clear at that at the half year. And I'm simply going to address those. This allows us to do that in a faster way and a more rigorous way than we could have done before. So, that's the way to think about these synergies. I'm not going to give any more detail today about further numbers. You have to make your own assumptions on that. Tom?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. So, just to pick up on that and to confirm what I've said before. We've got existing plans to take our cost down and the £225 million is incremental to that. So, we're maintaining our discipline there. In terms of capitalization of expense savings, we haven't done any of that. So, again, our numbers don't reflect any capital benefits. We're looking only at the operating impacts and any capital benefits would be to come and would be an additional. And then, finally, on the TNAV and the quality of capital, what I'd say is the value of in-force effectively counts as regulatory capital and is driving how we manage the business and ultimately the cash flows and the dividends that we deliver to shareholders. So, we think it's perfectly appropriate to consider the AVIF as good balance sheet assets.

A - Andy D. Briggs {BIO 4311809 <GO>}

Just to pick up the point about the fees in the market falling. One of the key drivers of that is generally some of the new business numbers you're quoting don't include the asset management fees and some of the back book has commissioned on the back book which is kind of on both the income and the cost side. So, it's not a like-for-like comparison. And I think the key point I was trying to make is that we expect to have that 10 basis points cost advantage. That's before the plans we already had. So, it's the extent that others are going to bring cost down through efficiencies, we would look to do that as well, as well as achieving the synergies on top of that.

A key driver of that is by taking the best of both platforms. So, if I look at my own experience over the last three years at Friends Life, as we brought the businesses together, we took a third out of the cost base. That was a key driver of the cash generation going from less than £100 million to over £300 million. But, in particular, at the same time as that, we led to substantially increases in the value of new business as well, because basically you then got those lower cost as you're starting to drive the growth. So, we've done this before. We know what we're doing. And we're confident we can do it again.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And then that market is all about scale. I mean, it's a scale advantage. You cannot beat a scale advantage in that particular market. Andrew?

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning. It's Andrew Crean with Autonomous. Three questions. Firstly, the cost synergies from bringing the two life companies together, I think, represent about 14% of the two cost basis, which looks relatively unambitious in terms of that. Can you go through some of the thinking which got you to that number?

Secondly, in orders of magnitude, obviously, you won't be able to do this absolutely accurately. But if you took the £1.4 billion of free cash generation, which you are aiming at by 2017, what proportion of that would be, I suppose, UK Heritage in Friends Life terminology?

And then, thirdly, can you give us some sense of the potential capital synergies which you've yet to bring through on the UK cost base? Because what you're doing is drip-feeding profit through as you bring down to the current cost base. Can you give us some sense for, say, 10 basis points of cost what potential synergies or capitalized synergies would be?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Maybe I'll take the synergies and hand over the capital and the other one. When you look at the transaction and you've finally seen the numbers this morning, you don't have to be overly-heroic on cost synergies to make it work. I think that's the first point I'll make. And I think we have a history of more than achieving our results. It's about somewhat saying 23% of what we saw is the addressable cost base, okay. So, think of it like that – is to be more specific rather than a total cost base. So, again, you would argue that is within our gift to achieve, but that gives you a bit of scale. I think, that's probably helpful. The Heritage book and the capital, who wants that (01:01:16)?

A - Andy D. Briggs {BIO 4311809 <GO>}

I'll just touch on the capital synergy point. So, one of Mark's slides showed the £225 million of synergies split between the four areas. The biggest one of those areas, so over a quarter, was the back book synergies, which is basically the maintenance costs on the existing back books. So, you kind of take that and apply capitalization factor. And that's how you start to think about the capital benefit as a result of the cost reduction, which, I think, is what your question was. And, Tom, do you want to -

A - Mark Andrew Wilson {BIO 6409810 <GO>}

You saw some of that at our half year as well, by the way, as you know, right?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

So, only just to pick up on two points. In terms of the savings here as a percentage of the addressable cost base, there's a number of adjustments that you need to make. Friends, it does a lot of outsourcing of some of their operations. So if you look at the addressable cost base, the savings number of £225 million equates to roughly 25% of the addressable cost base. That includes some of the asset management that's been outsourced, but doesn't include some of the insurance operations that have been outsourced in terms of costs.

And then your other question about the excess cash flows and sort of how much of that comes from the UK Life business. That's actually hard to estimate because as we look at our sort of £800 million target for excess cash flows, that is coming from business unit dividends that is a number of higher than that. And then we subtract interest expense and centre cost against that. So, it's sort of hard to track exactly how much that is.

But you can look and see what we've been paying historically from our UK Life business in terms of remittances. And then look at this – again, some of these benefits are coming on the asset management side that would benefit Aviva Investors as opposed to Life. But, again, that incremental £600 million is really coming here in the UK.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Maybe if we can turn it back to Singapore for a question or two and then bring it back to the room here. Chris?

A - Christopher B. Wei {BIO 17014406 <GO>}

Anything from here? We have one here.

Q - Edward L. Houghton {BIO 17612475 <GO>}

Hi. Ed Houghton from Bernstein. Could you please clarify who is liable for the value share and which set of shareholders? I'm just not quite clear. And, secondly, could you give a little bit more color around the growth opportunities that you touched on earlier? Where would you look to deploy excess capital in terms of growth and how? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I'll take the second. You take the first.

A - Andy D. Briggs {BIO 4311809 <GO>}

All right. Good afternoon, Ed. Hope you're well. We still haven't had that game of tennis yet. Ed and I are members of the same tennis club we discovered when we bumped into each other recently. So, I'll take the first one on the value share. It's a liability for Friends Life to settle.

So, the way to think about it is effectively the assets at Friends Life Group, just on the point of completion, will go a bit down by £220 million or circa £220 million which is the value share. So, it's a liability on Friends Life. So, from a Friends Life shareholder perspective, ultimately, the price being received is having settled that liability which cost circa £220 million. And so, Friends Life shareholders should view this as an additional part of the value creation on this deal.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And on the growth side, I mean, as you know, we're prepared to make the decisions about reallocating capital across the group. And just to be really clear, that will not change. We will technically reduce capital in some units if we don't think the margins are going the right way or we would do it by geography as well.

I've also been very clear. As part of our Not Everywhere strategy, we're saying where we want to be, we want scale, we want to be meaningful, we want to have a competitive advantage. And so, to be specific, some of the areas that we would like to grow more and, in fact, are growing, are areas such as Turkey where we have a leadership position. You see we IPO'ed part of that recently, which is consistent with our JV partners' business model. Poland where we have a leadership position, that's already a substantial cash cow. And if you look at those two markets, they look like Asia did to me 15 years ago in terms of insurance penetration, growth rate potential. Yet you can do things there and don't have such competition for people. I mean I think they're wonderful markets.

What about Southeast Asia and China? I've also talked about those as growth markets. And you're in the room with Chris today. Those are markets. We're very selective about where we are in Asia. We've spoken about Indonesia with our JV with Astra Group, which - it was the largest corporate entity in Indonesia with massive distribution. You look down there now, you can see the sort of opportunities we have. So we're going to be selective.

And then you have a look back at the UK. We have been very clear about the - we would like to put more of our operational expenses into digital. That's why we call it Digital First. That's where we're going to invest. We have Andrew here today. We have a significant digital operation. But I think we're in the Stone Age compared with some other industries. And with the brand and the leverage and the customers, we now have 5 million or so more Friends customers that, on the whole, aren't intermediated. And that becomes an ideal platform.

A - Andy D. Briggs {BIO 4311809 <GO>}

Absolutely. And although – I mean, it's asset base, so it's not something you need to be concerned about in terms of deploying capital into it, but the fact that the number one player in the corporate pensions market which we expect to triple in size over the next decade, scale is all important. And then having wanting for DC pension savers as our customers, again digital being critical to both of these in a market which we again expect to triple in size in terms of the assets coming up to retirement over the next decade. And I think they're both attractive growth opportunities for the group, albeit there won't be capital-intensive ones.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Our investment thesis is cash flow plus growth. I think the cash flow you can see is pretty compelling. And we need to show the growth. But I think you know we have the opportunities. And I think our results at half year in the UK and in France and in the emerging markets – you've seen our growth directory. And no doubt we'll get questions about that going forward and I welcome them.

A - Christopher B. Wei {BIO 17014406 <GO>}

Mark, we have one more coming.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

If we can just flip back here first and then I'll go back to you next, Chris, if we can.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning there. Fahad Changazi from Nomura. You did mention that this transaction gives you pricing advantage in the UK and the balance sheet is very strong and so on. I take it you'll be looking to be more competitive in the protection market in the UK or the market share is so big now that doesn't matter. You do plan to put any shares?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I'd say we have the option. I'll leave it at that.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

And the other thing is I appreciate you're going to focus your strategies still in the SME space, in bulks, but it is a very strongly growing market. Can we assume you could be more competitive there in that particular niche?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Which part?

Q - Fahad U. Changazi {BIO 15216120 <GO>}

You would be more focused on the SME side, the bulks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Right.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

And if we can expect to see more number of transactions.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. Well, I think you've already seen a large number of transactions in our last quarter. I think we gave that figure out. My view on that is we've got to be selective. It depends what happens with the pricing and the capital implications of that. And that becomes a decision where we say we want to put more capital on that, on this. And that's a tactical decision that we assess throughout the year. I think it's incredibly dangerous to go in and say right. And we're not going to do that. We're not saying that they are all in one market. The advantage of us is we can adapt it and I think we showed them in the third quarter with 19% growth in the UK.

So, we're going to be selective and we'll adapt it. It is a competitive market. The only other thing I would say on pricing is – and we've seen this. We can see this online in particular in the digital offer. For a similar price point, Aviva picks up more than its natural market share. But the obvious reason is that it's no big surprise. It's one of those legacies that we got left by our predecessors. The brand is outstanding. It's one of those strengths of the business. Yeah. We've got a few legacies I'd rather not have as well. But the brand is certainly one of them, isn't it? So, I think there's one on the other side as well. Was it Chris Esson's hand up there?

Q - Chris J. Esson {BIO 16208369 <GO>}

Hi. Good morning, everyone.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Hi, Chris.

Q - Chris J. Esson {BIO 16208369 <GO>}

Chris Esson from Credit Suisse. Just a couple of quick questions with respect to, firstly, on gearing and capital. That's clearly much better now. Does that give you a little bit more flexibility in terms of narrowing the geographic footprint of the group and taking tough decisions on businesses that perhaps haven't been as strong? And just on that, you've allocated, I think, a lot of resources to cost reduction and turnarounds. And, historically, I think, integrations are quite labor intensive. I just wanted to get a sense of the resourcing across the group to deal with, I guess, the actions on that many fronts.

And, lastly, with respect to what this does to central liquidity, central cash generation on a fully loaded basis. Does that in any way change the way that you think about capacity with respect to various investments like bancassurance, renewals?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Tom will take the last one. I'll take the first one, just in geography. It gives us clearly flexibility. You're right on that. But it wouldn't make any different decisions on the geography to what we're already doing. We said not everywhere - said if we haven't got a definable competitive advantage and we can't get scale in a reasonably short timeframe, it's not the right market for us. And so, I don't think you'll see us making too many decisions. But I think it's also fair to say that it does give us a whole lot of flexibility. I get that. I think your point is well made. On the resourcing of integration?

A - Andy D. Briggs {BIO 4311809 <GO>}

Sure. Yeah. I mean, I'll just come back to what I said before. Over the last three years at Friends Life, we've delivered a third out of the combined operating cost base done, delivered. We're confident we've got the resources and capability to deliver on this integration.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

If I may just add to that as well, so - and I think Nick's in the room here somewhere who most of you know. Nick is going to be the Director of Transformation and Integration. Nick has quite a large team that's been involved in the transformation. Some of the heavy lifting has been done. So we do have the resources we can allocate to that without much disruption, frankly. And that's been a key part of our planning and one of the reasons we announced that this morning, just to add some real clarity. I think Nick's licking his lips at the prospect.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

And just to finish off then, Mark, again, the last question on financial flexibility. Certainly, this does increase our liquidity and financial flexibility, but it does not change our appetite for bancassurance or anything else.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah?

Q - Marcus W. Barnard {BIO 2103471 <GO>}

Yeah. Marcus Barnard from KBW. Can you just say if you anticipate any competition concerns? I'm assuming not overall across the group, but there might be some small segments within the UK protection or group pensions in the market. And, second, can you update us on what the plans are for FPI? I'm assuming you'll probably going to sell it but just if you can update us there. Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Marcus, I'm certainly not going to talk to the regulators today. That would get me in a great deal of trouble. But what I can say, you can assume we have done extensive due diligence on things such as competition. And if you have a look, one of the interesting parts of the group, it's complementary, isn't it? So, corporate pensions, as Andy pointed out, is not (1:13:25) very strong at the large end. We're very strong in the SME end. So, that would appear to, I think, cover it off, Marcus. So, what's the second part of your question?

Q - Marcus W. Barnard {BIO 2103471 <GO>}

FPI.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

FPI. I know Chris is on the other line. Chris is very keen and looking closely at FPI. It's part of the group. We weren't making any decisions on FPI yet, but Chris is very interested in parts of it because it rounds out parts of our offer in Asia. But, like always, we have some time to look at it, make the right call, see where we want to allocate capital with or without this transaction right throughout both groups. That's something you do on a day-to-day basis and that will continue. You're going to have an organization under some degree of tension and pressure when it comes to capital management internally or you're not managing it right. Okay. Andy (01:14:26)? So, no need to come over this side because I'm -

Q - John McFarlane {BIO 1509370 <GO>}

Hi. Quick question on the customer service. Obviously, Friends Life has been known for good customer service, Aviva potentially for less good customer service, if I can put it that way. So, obviously, if you – perhaps if we sort of think about the amount of cost savings you're putting through here, sort of 25% of the addressable cost base, plus the additional cost savings that both groups were planning anyway, isn't it likely that the customer service will deteriorate from the corporate pensions book and what impact will that have because obviously that was the main attraction with corporates coming to Friends Life in the first place?

A - Andy D. Briggs {BIO 4311809 <GO>}

So, let's be clear upfront. We've announced the decision today that we're going to run the corporate pensions book off the Friends Life platform. So there will be no disruption for those mid to larger employers, which, I think, is an important decision. That's why we've been explicit on that today. The point about customer service is you get a win-win through digital. So, in our industry, people don't want to spend ages doing their financial affairs. They want it to be quick, simple, easy, and done accurately.

So, the focus will be around how we can automate and make things digital by taking the best of both platforms of propositions that gives us a kick-start to do that. And, again, talking examples from both businesses, but obviously I'm better placed today to talk about the Friends Life experience. Our service standards have improved through our integration and that's because we plan these integrations well and execute them well, you end up offering the best propositions and platforms to customers in a more automated way. It's lower cost. It's better for customers. You need skill and care to get that right, but that's absolutely the goal we're set out with.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And, Andy (01:16:15), on customer service, I also think it's always good to deal in fact. I'm sure you agree with that. I'll give you a couple of facts. Our relationship Net Promoter Score, which is ours versus the competitors underpins (01:16:30) the Net Promoter Score is top quartile in the UK. Just to be absolutely clear. I accept a few years ago it wasn't, but I can assure you currently it's top quartile.

Secondly, just look at the independent awards on the digital space. We are the, according to an award, I think last week, was it, the top digital insurer in the UK. I mean, I think it's dangerous to look in the rearview mirror, isn't it? I think it's better to look in a forward on what the facts are, I would suggest. And I'd be delighted if you want to be a customer.

Q - John McFarlane {BIO 1509370 <GO>}

I am a customer. I did use the word less good.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay.

Q - John McFarlane {BIO 1509370 <GO>}

And a follow-on sort of on separating synergies versus ongoing cost savings. Obviously, the two will be going out at the same time, as you mentioned. This transaction will be a catalyst for you achieving your own cost saving goals across both businesses.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah.

Q - John McFarlane {BIO 1509370 <GO>}

So, the way you've sort of shown the synergies as being a cash benefit, should we think of the synergies as being a cash benefit and the ongoing improvements as being offsetting whatever loss come through from lower fees as the new business comes in at lower fee level? Is that the kind of thing or will you be having operating earnings improvement from the cost savings you're putting through as well on the ongoing business?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Well, I think it's a huge question depending on the segment of -

A - Andy D. Briggs {BIO 4311809 <GO>}

Yeah. I wouldn't want to speculate on what will happen to fees in different markets going forward. What I would just reiterate is if you have a material cost advantage over your peers, 10 basis points on £215 billion in UK Life assets, that is a material cost advantage. You are going to be able to operate much more successfully and profitably in your chosen segments.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Now, we had a question there from Andrew.

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

Hi. It's Andrew Sinclair from BofA Merrill. Two questions. Firstly, on tax synergies, firstly, how should we be thinking about these and where are these on top of the tax opportunities that have been previously mentioned by Tom?

Secondly, just on the True Customer Composite goal, Aviva will be increasingly life-weighted after this transaction. I just wonder if you could elaborate on thoughts here and how this compares to that 40%/40%/20% split that I think was mentioned previously. And, finally, just on the £1.4 billion of potential cash flow, how much of this will be available for dividends? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

You take the first and last and I'll take the TCC.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. Okay. So, first, on tax, there will be no change in our tax policies as a result of this transaction. We'll be looking to, again, continue to optimize capital and harmonize our tax position. Aviva has some favorable tax attributes but we're not doing anything differently as a result of this transaction. And then in terms of the excess cash flow that's coming out of this transaction, again, as I think Mark indicated, we're looking to pay some of that dividend, some of that growth. It's all available but this gives us much more flexibility in terms of how we position ourselves for growth going forward.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And your, I think, second question on True Customer Composite, by the way, internally, we now call it TCC. It's sort of become part of the abbreviations in the company. To be able to grow effectively, you must first do it from the solo platform. And our strategy, remember, was also - we said we needed to be British champions, secure our home market and I think we certainly have done that.

Let's acknowledge though. It takes us - by the way, that weighting has never been a target that I've put externally. Just as an aside, I think, there was something that was a slip of the tongue somewhere but that was not a target we've ever put out. However, it's clear we do want to over time wake the business. It's clear we do want more of the business also in digital. And what this does is allows us a very large customer base that is on the whole disintermediated that we can cross-sell our general insurance products to.

So, I can assure you that - I don't know whether Maurice Tulloch is here today. I am sure that Maurice Tulloch's targets will be going up, just to add a little bit of clarity because - and also Andy Brem and those sitting down in the office on the digital, same applies, because the business case is compelling. Now, what can we get out of it? Frankly, we don't know and I don't suggest we have all the answers today and it's going to take us some time to work through it. And it gives us flexibility.

So, for example, if we wanted to build out our general insurance proposition in Poland, I mean, pick a market, pick any market, well, you could do that. And the idea was balancing up the group and that allows us to do it from a position of strength. It allows us to do it from a position of cash flow and capital and earnings. And that just makes – gives us a whole lot of options. Now, have we decided all those options? No. We need to focus on what we're doing, which is integrate the things, get the cost out, get the dividend up, and finish our financial transformation. And that's what we're here to do.

Andrew, do you – so no? Any on the other end or over this side? I think we're almost done. Well -

A - Christopher B. Wei {BIO 17014406 <GO>}

Jon's back again.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So, Jon's back again.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Sorry. Just one last question. I just wondered whether given the extra liquidity you've got now, you might revisit the endpoint for the internal loan or the trajectory of the reductions (01:22:13).

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. I think our plans are clear on that. This, obviously gives – like we've said today, there's a whole lot of potentially positive capital benefits out of this today. There's a lot more modeling and work to go on and we'll look at all that in the fullness of time, but little early I think to be perhaps -

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah. And just to be clear. I mean, we've continued to talk to our regulator throughout this transaction. And there are no plans in doing anything differently than take it down at the £2.2 billion at the end of 2015.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So, I think, ladies and gentlemen, on that note, I thank you for coming in short notice and I thank you for the time. And, as always, I look forward to reading your notes.