

RNS Number : 2578G
 Friends Life Holdings plc
 04 August 2016

**INFORMATION FOR FRIENDS LIFE HOLDINGS PLC
 SUBORDINATED DEBT HOLDERS**

**FRIENDS LIFE HOLDINGS PLC
 Unaudited results for the six months ended 30 June 2016**

These results are published for the benefit of the subordinated debt holders of Friends Life Holdings plc ("the Company") for the six months ended 30 June 2016. The Company has three debt instruments, subordinated debt due in 2021 (LT2, £162 million principal), subordinated debt due 2022 (LT2, £500 million principal) and reset perpetual subordinated debt (UT2, \$575 million) listed on the London Stock Exchange.

On 19 January 2015, Friends Life Group Limited (FLGL), the ultimate parent company of the Company at that time, published details of the proposed acquisition by Aviva plc of the entire ordinary share capital of FLGL by way of a Scheme of Arrangement in accordance with Guernsey company law. Following approval by FLGL's shareholders, Aviva's shareholders and the Guernsey Court, the Scheme became effective on 10 April 2015 and at that point the Company became part of the Aviva Group. FLGL became a wholly-owned subsidiary of Aviva plc. This resulted in a restructuring of the former Friends Life Group companies within the Aviva group of companies, which involved the Company's interests in its principal subsidiaries being transferred to other Aviva Group companies. Details of the transactions were included in the Company's Financial Statements for the year ended 31 December 2015.

The principal risks and uncertainties facing the Company are (1) interest rate risk, as the net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates; and (2) foreign exchange risk through the Company's issuance of US\$575 million reset perpetual subordinated notes and EUR & USD denominated syndicated loans which have been fully settled as at 30 June 2016. Exposure to interest rate risk is managed through the monitoring of several risk measures. Exposure to foreign exchange risk in respect of the USD loan has been fully hedged.

Equity shareholders' funds of the Aviva Group, prepared using accounting policies under IFRS, increased during the period by £911 million from £16,002 million restated at 31 December 2015 to £16,913 million at 30 June 2016. Operating profit of the Aviva Group at £1,325 million was 13% higher than for the six months to 30 June 2015 (£1,170 million) and net operating cash inflow for the six months to 30 June 2016 were £1,128 million (six months to 30 June 2015: £2,822 million).

Consolidated Income Statement

For the half year ended 30 June 2016	Notes	Unaudited results 6 months to 30 June 2016 £m	Unaudited results 6 months to 30 June 2015 £m
Revenue			
Investment return		112	83
Total revenue		112	83
Administrative and other expenses		-	(20)
Finance costs		(93)	(46)
Foreign exchange loss		(10)	-
Total expenses		(103)	(66)
Profit before tax from continuing operations		9	17
Tax charge from continuing operations		(2)	(1)
Profit after tax from continuing operations		7	16
Profit after tax from discontinued operations	1(a)(ii)	-	4
Profit for the period		7	20
Attributable to:			
Equity holders of the Company:			
- From continuing operations		7	1
- From discontinued operations	1(a)(ii)	-	4
Step-up Tier one Insurance Capital Securities ("STICS") holders		-	15
Profit for the period		7	20

Consolidated Statement of Comprehensive Income

For the half year ended 30 June 2016	Note	Unaudited results 6 months to 30 June 2016 £m	Unaudited results 6 months to 30 June 2015 £m
Profit from continuing operations⁽ⁱ⁾		7	16
Profit from discontinued operations		-	4
Profit for the period		7	20
Items that may be reclassified to profit and loss:			
Investments classified as available for sale - fair value losses		(17)	(48)
Tax relating to items that may be reclassified to profit or loss		3	10
Total items that may be reclassified to profit and loss		(14)	(38)
Other comprehensive loss, net of tax, from continuing operations		(14)	(38)
Other comprehensive loss, net of tax, from discontinued operations		-	(17)
Total other comprehensive loss, net of tax		(14)	(55)
Total comprehensive loss, net of tax, from continuing	1(a)(ii)	(7)	(22)

operations		
Total comprehensive loss, net of tax, from discontinued operations	-	(13)
Total comprehensive loss, net of tax	(7)	(35)

- (i) The profit from continuing operations includes £nil (30 June 2015: £15 million) attributable to STICS holders. There are no amounts included in other comprehensive income which are attributable to STICS holders in either 2016 or 2015.

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2016	Attributable to equity holders of the Company			STICS holders £m	Non-controlling interests £m	Total £m
	Share capital £m	Other reserves £m	Total £m			
At 1 January 2016	515	46	561	-	-	561
Profit for the period	-	7	7	-	-	7
Other comprehensive loss	-	(14)	(14)	-	-	(14)
Total comprehensive loss	-	(7)	(7)	-	-	(7)
At 30 June 2016	515	39	554	-	-	554

For the half year ended 30 June 2015	Attributable to equity holders of the Company			STICS holders £m	Non-controlling interests £m	Total £m
	Share capital £m	Other reserves £m	Total £m			
At 1 January 2015	515	3,860	4,375	318	1	4,694
Profit for the period	-	5	5	15	-	20
Other comprehensive income	-	(55)	(55)	-	-	(55)
Total comprehensive (loss)/income	-	(50)	(50)	15	-	(35)
Dividends paid	-	(3,547)	(3,547)	-	-	(3,547)
Interest paid on STICS	-	-	-	(7)	-	(7)
Appropriations of profit	-	(3,547)	(3,547)	(7)	-	(3,554)
Capital contribution ⁽ⁱ⁾	-	1,229	1,229	-	-	1,229
Reclassification of STICS as a financial liability ⁽ⁱⁱ⁾	-	(94)	(94)	(191)	-	(285)
Tax on reclassification of STICS as a financial liability	-	18	18	-	-	18
Tax relief on STICS interest	-	1	1	-	-	1
Share-based payments, net of settlement ⁽ⁱⁱⁱ⁾	-	(3)	(3)	-	-	(3)
Funding of Employee Benefit Trust ^(iv)	-	8	8	-	-	8
Attributable to non-controlling interest	-	-	-	-	(1)	(1)
At 30 June 2015	515	1,422	1,937	135	-	2,072

- (i) The profit on disposal arising from the group reorganisation is recognised as a capital transaction. Refer to note 1(a)(i).
- (ii) Loss on reclassification of 2005 STICS as a financial liability, as a result of the Company giving notice to the STICS holders on 29 May 2015 of intent to redeem on 1 July 2015.
- (iii) The movement in other reserves for share-based payment schemes of £(3) million for the year represents an expense of £1 million for all schemes that vested early on the acquisition of the Group by Aviva and £(4) million for the reclassification of the FLG LTIP from an equity-settled scheme to a cash-settled scheme as rewards will now be paid in cash.
- (iv) In April 2015, the EBT repaid cash of £8 million to the Company.

Consolidated Statement of Financial Position

	Unaudited 30 June 2016 £m	31 December 2015 £m
Assets		
Financial assets	1,407	1,539
Current tax assets	-	14
Deferred tax assets	12	9
Insurance and other receivables	37	65
Cash and cash equivalents	263	95
Total assets	1,719	1,722
Liabilities		
Loans and borrowings	1,100	1,054
Insurance payables, other payables and deferred income	63	107
Current tax liability	2	-
Total liabilities	1,165	1,161
Equity attributable to equity holders of the Company		
Share capital	515	515
Other reserves	39	46
Total equity	554	561
Total equity and liabilities	1,719	1,722

Consolidated Statement of Cash Flows

	Unaudited 30 June 2016	Unaudited 30 June 2015
Note	£m	£m
Operating activities		
Net cash inflow from operating activities	80	63
Income tax receipt	10	-
Net cash inflow from operating activities	90	63
Investing activities		
Disposal of held for sale assets, net of cash transferred	1(a)(iii) -	(6,954)
Net disposal of financial investments	164	-
Net cash inflow/(outflow) from investing activities	164	(6,954)
Financing activities		
Receipt of repayment of loan to AGH	-	145
Funding of EBT	-	8
Finance costs	(76)	(73)
STICS interest	-	(7)
Net movement in other borrowings, net of expenses	-	(13)
Dividends paid	-	(250)
Net cash outflow from financing activities	(76)	(190)
Increase/(decrease) in cash and cash equivalents	178	(7,081)
Balance at beginning of the period	95	7,503
Effect of exchange rate movement on cash and cash equivalents	(10)	-
Exchange adjustments on the translation of foreign operations	-	3
Balance at end of the period	263	425

Notes

1. Business disposals

(a) Disposal of discontinued operations

On 13 April 2015 the former Friends Life Group companies were restructured within the Aviva group of companies. As part of this restructuring the Company disposed of its interests in FPG, FLI and FLFL. The Company's shareholdings in FLI and FLFL plus 68% of the Company's interest in FPG were transferred to the Company's parent undertaking, FLG Holdings Limited, by way of a dividend in specie of £3,297 million. The Company's remaining 32% shareholding in FPG was transferred to Aviva Group Holdings Limited ("AGH") in exchange for consideration of £1,544 million in the form of a loan payable by AGH. The loan was fully settled as at 31 December 2015.

The Company retained its interest in £500 million of STICS of Friends Life Limited ("FLL") ("internal STICS"), an insurance undertaking of the disposal Group.

(i) The profit on the restructure is recognised as a capital contribution:

	13 April 2015 £m
Disposal group equity attributable to shareholders	(3,612)
Dividend in specie	3,297
Residual equity attributable to shareholders	(315)
Loan consideration	1,544
Capital contribution	1,229

The results of FPG, FLI and FLFL and their subsidiary undertakings are classified as results from discontinued operations in the Group's results for 2015.

(ii) Results of discontinued operations

	2015 Period to 13 April FPG, FLI FLFL £m
Revenue	
Gross earned premiums	380
Premiums ceded to reinsurers	(170)
Net earned premiums	210
Fee and commission income and income from service activities	164
Investment return	6,109
Total revenue	6,483
Claims, benefits and expenses	

Gross claims and benefits paid	(998)
Amounts receivable from reinsurers	168
Net claims and benefits paid	(830)
Change in insurance contract liabilities	(352)
Change in investment contract liabilities	(4,526)
Movement in net asset value attributable to unit-holders	(36)
Movement in policyholder liabilities	(4,914)
Acquisition expenses	(129)
Administrative and other expenses	(299)
Finance costs	(15)
Total claims, benefits and expenses	(6,187)
Profit before tax from discontinued operations	296
Policyholder tax	(279)
Profit before shareholder tax from discontinued operations	17
Shareholder tax	(13)
Profit after tax from discontinued operations	4
Other comprehensive loss, net of tax	(17)
Total comprehensive loss, net of tax	(13)

(iii) Major classes of assets and liabilities at disposal date (FPG, FLI and FLFL in aggregate)

	13 April 2015
	£m
Intangible assets	3,026
Property, plant and equipment	42
Investment properties	2,685
Investment in associates	4
Financial assets	97,359
Deferred acquisition costs	849
Reinsurance assets	1,269
Insurance and other receivables	1,653
Cash and cash equivalents	6,954
Assets	113,841
Insurance contracts	36,081
Unallocated surplus	693
Financial liabilities	
- Investment contracts	68,789
- Loans and Borrowings	868
Net asset value attributable to unit-holders	212
Provisions	135
Pension deficits	26
Deferred tax liabilities	1,125
Current tax liabilities	51
Insurance payables, other payables and deferred income	1,724
Liabilities	109,704
Equity attributable to shareholders	3,612
Equity attributable to STICS holders	524
Total equity attributable to equity holders of the parent	4,136
Equity attributable to non-controlling interest	1
Total equity	4,137
Total equity and liabilities	113,841

(b) Disposal of Friends ASLH Limited

On 30 June 2015 the Group transferred 100% of its holding in Friends ASLH Limited to another Aviva Group company for consideration of £7 million, resulting in a £nil profit or loss on the disposal.

Basis of preparation

The results for the six months to 30 June 2016 have been prepared on the basis of the accounting policies set out in the Company's 2015 Annual Report and Accounts. The interim accounts do not constitute statutory accounts as defined by section 434 of the Companies Act 2006. The auditor has reported on the 2015 accounts and the report was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Company's 2015 Report and Accounts have been filed with the Registrar of Companies.

During the period, there have been no changes in the nature of related party transactions from those described in the Company's 2015 accounts.

The results for the six months are unaudited.

The unaudited results of Aviva plc for the six months ended 30 June 2016 are available on application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ. A copy can also be found on the Aviva plc website at www.aviva.com.

Responsibility statement

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and as issued by the IASB and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

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