

News Release

28 April 2009

Friends Provident plc – Interim Management Statement including first quarter 2009 Life & Pensions new business

Maintaining our strong financial position

Corporate highlights

- Strong Insurance Groups Directive (IGD) surplus, estimated at £0.8 billion at 31 March 2009 (31 December 2008: £0.85bn)
- Further progress on cost savings, with £31 million run-rate of annualised savings at 31 March 2009 (31 Dec 2008: £25m)
- Agreement in principle to provide protection products in conjunction with Tesco Personal Finance, part of one of the world's leading retailers

Trading highlights

- Total sales were down 40% reflecting the new strategy and tough economic environment
- UK individual protection sales strengthened in March with improvements in application counts through the quarter, but 8% lower than fourth quarter 2008 reflecting challenging housing market conditions
- UK corporate sales from new group pensions schemes resuming well, while overall sales of £72 million reflect impact of economic conditions on new business from existing schemes
- FPI sales 11% lower than fourth quarter at £37 million, continuing to develop presence in the Middle East while Hong Kong market is slow
- Lombard down 16% year-on-year as fewer large cases fall within first quarter result

Friends Provident plc

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FRIENDS PROVIDENT

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

“In the current economic environment, trading continues to be tough. I am delighted to announce that in line with our strategy, we have significantly broadened our distribution capabilities with an agreement in principle to provide protection products with Tesco Personal Finance, a very exciting development. We are very much back in business in group pensions, winning 20 schemes in the quarter, and our capabilities have been recognised by a number of awards.

“Our capital position is strong, despite further adverse movements in credit markets this year, and our reserves for corporate bond defaults are the most prudent among our peer group. We are focused on improving the cash characteristics of our business, with further good progress on our cost reduction programme. I am confident that the actions we are taking will stand Friends Provident in good stead for the future.”

- Ends -

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Ref: J041

Notes to editors

1. There will be a conference call for investors and analysts at 9.00am BST hosted by Trevor Matthews, CEO and Charles Bellringer, CFO. Dial in telephone number 020 3037 9157. A recording of this call will be available for 7 days by dialling: 020 8196 1998 (access code: 3849752#).
2. Headline new business figures are presented on the Annualised Premium Equivalent (APE) basis, representing annualised new regular premiums plus 10% of single premiums. The Present Value of New Business Premiums (PVNBP) basis represents new single premiums plus the expected present value of new business regular premiums.

3. **Financial Reporting Calendar:**

Friends Provident plc Annual General Meeting & General Meeting	21 May 2009
Friends Provident Group plc 2009 Interim Results	11 August 2009
Friends Provident Group plc Interim Management Statement and Quarter 3 2009 New Business Announcement	27 October 2009
Friends Provident Group plc Quarter 4 New Business	28 January 2010
Friends Provident Group plc 2009 Prelim Results	16 March 2010
Friends Provident Group plc Interim Management Statement and Quarter 1 2010 New Business	28 April 2010
Friends Provident Group plc 2010 Interim Results	10 August 2010
Friends Provident Group plc Interim Management Statement and Quarter 3 2010 New Business	28 October 2010

4. Certain statements contained in this announcement constitute 'forward-looking statements'. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements, from time to time, of Friends Provident plc, its subsidiaries and subsidiary undertakings or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, adverse changes to laws or regulations; risks in respect of taxation; unforeseen liabilities from product reviews; asset shortfalls against product liabilities; changes in the general economic environment; levels and trends in mortality, morbidity and persistency; restrictions on access to product distribution channels; increased competition; and the ability to attract and retain personnel. These forward-looking statements are made only as at the date of this announcement and, save where required in order to comply with the Listing Rules, there is no obligation on Friends Provident plc to update such forward-looking statements.

5. For more information on Friends Provident including, photos, awards, fast facts, presentations, and media contacts please visit the media section at www.friendsprovident.com/media

6. Awards won by Friends Provident so far in 2009:

SimplyBiz Awards 2009

Best Overall Service

Financial Technology Research Centre e-Excellence ratings

Triple-E awards:

- Group Personal Pensions (Including Stakeholder)
- Group SIPP
- CIMP
- Life Protection
- Critical Illness
- Income Protection
- Menu

Professional Pensions UK Pensions Awards 2009

Defined Contribution Provider of the Year

Interim Management Statement

Overview

Volatile investment markets, together with the wider economic slowdown have constrained new life and pensions business in the first quarter of this year. In line with our new strategy, we withdrew from less financially attractive product lines during the course of 2008. Together these drivers have led to a 40% reduction in life and pensions new business compared to first quarter 2008. Full details are given in the appendix to this statement. Against this backdrop, we have maintained both our financial strength and our conservative reserving approach. We continue to focus on reducing the operating cost base of the business, in line with the strategic aims that we set out at the start of 2008.

Financial strength

The estimated IGD surplus continued to be strong at the end of March at £0.8bn. There continues to be no material sensitivity to a fall of 30% in equity markets from the end of March level, and we estimate that a further 100 basis points of bond spread widening would reduce estimated IGD surplus by no more than £0.1 billion.

Our approach to reserving for corporate bond defaults is more prudent than our peers. Further widening of bond spreads in the first quarter means our already prudent reserves for corporate bond defaults are now estimated to be in excess of £550 million on £1.9 billion (by market value) of corporate bonds backing annuity business.

Standard and Poor's reaffirmed its A- Insurer Financial Strength Rating and stable outlook for Friends Provident Life and Pensions in February 2009. Our financial strength ratings with each of Fitch, Moody's and Standard and Poor's are in the A range.

Cost savings programme

We continue to press forward our cost savings programme. Our annualised operating cost savings increased to £31 million at the end of March from £25 million at the end of December, against our target of £40 million by the end of the year.

During the quarter we implemented two significant IT initiatives. The first was the IT services outsourcing arrangement with IBM signed in 2008, and the second was to extend our existing relationship with Wipro, which contains costs while increasing development flexibility.

Distribution

We have agreed in principle to provide protection products for Tesco Personal Finance. This deal will significantly extend the reach of our protection distribution, and we are looking forward to applying our technology capabilities in partnership with one of the UK's best-known brands. Further details will be released in due course.

In April Sesame announced an agreement with Bluefin Advisory Services to offer members of its Thinc Networks a fast-track process to join the Sesame Network, following Bluefin's decision to close its network operations. The Thinc Networks comprise 290 individual advisors within 149 independent firms.

Corporate reorganisation

The Board of Friends Provident plc has approved the proposed reorganisation of the group and formation of a new holding company to be known as Friends Provident Group plc. Full documentation will be published shortly, with a view to shareholders voting on the related proposals at a General Meeting following the Annual General Meeting on 21 May. Preparations for the demerger of F&C are well advanced and we expect to post the relevant documents to shareholders shortly.

F&C Asset Management plc

F&C reported its first quarter results on 27 April, with assets under management at 31 March of £92.7 billion (31 Dec 2008: £98.6bn).

Appendix: Life & Pensions new business

We now provide new business commentary in line with the new operational structure of the Friends Provident UK business, comprising UK Corporate (group pensions and protection) and UK Individual (individual protection, annuities, individual pensions and savings).

UK Corporate

Group pensions

We are now back on the vast majority of provider panels for major distributors in our target market, winning 20 schemes in the first quarter. We have previously indicated that we expect around £37 million of APE from these schemes and those won in fourth quarter 2008. We have received around £10 million of this to date, and we expect to receive the remainder over the next six months. These schemes have come from a wide range of distributors and we continue to be very active in tendering for new schemes.

Group pensions new business of £70 million APE (Q108: £127m) comprises annualised new regular contributions established in the quarter, together with £58 million of lump sum contributions. Regular contributions already in place, which are not counted as new business, provide the majority of new money added to our pensions platform. We reported £1.3 billion of total regular contributions added to our funds under management in 2008.

Group pensions new business APE	Q1 2009	Q1 2008
	£m	£m
Transfers in and lump sum contributions	6	17
Regular contributions		
- from increments to existing schemes	54	81
- from new schemes with unfunded commission	-	22
- from new schemes in target segment	10	7
Total	70	127

Incremental new business from schemes already on our books was lower than first quarter 2008. We believe this is a result of the economic slowdown leading to pay constraints and fewer new staff joining schemes, which will be a general factor across the group pensions market. In the longer term, we would expect incremental new business to strengthen again.

Sales through the first half of 2008 included a significant amount of business from new schemes with unfunded initial commission, a market segment that we exited as part of our strategy implementation.

Group protection

Group protection sales of £2 million (Q408: £1m) show a return to more normal levels from depressed levels in fourth quarter 2008. This is the result of effective competition within a market that remains tough.

UK Individual

Individual protection

Individual protection sales were £9.1 million (Q408: £9.9m). This market remains difficult as housing transactions, which are a key driver of term assurance sales, have yet to pick up significantly from historic lows in late 2008. We have also acted to align our critical illness offering to be more competitive within the market. Overall application counts are an important lead indicator for sales. We are seeing signs of a pick-up from depressed levels in late 2008, with March figures up 17% on February, boosted in particular by key distributors such as estate agency business Countrywide Financial.

We aim to secure new distribution deals. In the first quarter, we signed an agreement that positions us on the Sesame Select protection provider panel, giving access to the 1,600 adviser IFA network operation of Sesame. Together with our 28 existing arrangements, these relationships give us a diverse spread of single- and multi-tie distribution partners. The agreement in principle with Tesco Personal Finance will significantly broaden our distribution base. Our strong technology capabilities are shown by a number of 'Triple-e' awards from the Financial Technology Research Centre.

Annuities

Annuity sales were slightly lower than previous quarters at around £6 million APE. We continue to market our products to existing pensions customers as they reach retirement. The take-up rate for these customers remains above 40%. We have also implemented the Options system for customers who take the Open Market Option.

Individual pensions

Individual pensions sales were in line with fourth quarter 2008 at £3.5 million APE. DWP rebate premiums are included in this line. They were modest at £0.2m in the first quarter, in line with the pattern in previous years of concentration of premiums around the mid-year.

Investments

Investment sales remained modest in the quarter at £0.5 million APE (Q408: £0.6m), reflecting our tactical approach to this market.

Friends Provident International (FPI)

APE by region	Q1 2009	Q1 2008
	£m	£m
Asia	16.7	32.5
UK	1.1	3.6
Middle East	9.1	9.3
Europe (excluding UK)	7.2	8.3
Rest of World	2.8	4.3
Total FPI	36.9	58.0

FPI sales are down 11% on fourth quarter 2008. Due to investment market volatility, investor demand reduced through second half 2008 in a number of markets and has yet to recover. First quarter 2008 sales were also exceptionally strong in Hong Kong as FPI took the opportunity to write significant volumes of business, followed by slower sales in the second half of 2008 as the market weakened and terms were adjusted.

Sales in Asia include Hong Kong, FPI's largest market. The Hong Kong market contracted by 75% year-on-year in fourth quarter 2008 (source: Hong Kong Office of the Commissioner of Insurance). The Asia result also includes our Singapore office, where sales of £2.3 million (Q108: £1.7m) benefited from extending the product range during 2008.

Sales in the UK represent lower single premium sales. Within the Europe result, our sales in Germany were up by over half on first quarter 2008. Sales in other territories slowed as a result of reduced demand for investment products.

Middle East sales have held up reasonably well, supported by our bancassurance agreements for investment products and our increased presence in the UAE. The result does not yet reflect confirmed schemes under our new Optus group savings product, which are expected to start feeding through to results later in the year. This product utilises many of the capabilities developed for our UK group pensions business.

The outlook for the remainder of the year will depend to some extent on recovery in markets where demand for investment products is currently reduced. In the medium term, prospects remain good as we continue to develop our product offerings and distribution arrangements using our low cost hub-and-spoke model to extend our capabilities to International markets.

Lombard International (Lombard)

APE by region	Q1 2009	Q1 2009 (constant f/x rates)	Q1 2008
	£m	£m	£m
UK and Nordic	5.8	4.9	5.0
Northern Europe	5.2	4.3	9.1
Southern Europe	9.1	7.7	8.8
Rest of World	0.3	0.3	1.4
Total including large cases	20.4	17.2	24.3
Of which: Large cases (greater than €10m)	2.0	1.7	6.2
Total excluding large cases	18.4	15.5	18.1

First quarter results for Lombard, our international estate-planning life assurance provider based in Luxembourg, reflect delays in client decisions due to the current volatility in investment markets. Lombard's business is heavily weighted towards the fourth quarter of the year, with further considerable variation in results in any quarter due to large cases. In the first quarter, there were fewer large cases than in first quarter 2008. Excluding large cases, sales were slightly up in Sterling terms.

UK and Nordic business is up by 16% in Sterling terms as a result of strong UK sales, continuing the strong performance of 2008.

Northern Europe includes the significant German market. As previously indicated, new tax legislation published late in 2008 has reduced Lombard's sales in this market in the short term. We are confident that Lombard will be able to redevelop its product offerings in line with the new requirements, and resume higher levels of sales in the second half of the year. Importantly, we have not seen any major lapse activity in German in-force business in 2009.

Southern Europe benefited from a number of large cases in the first quarter of 2008. Excluding these, on a constant currency basis sales were over 50% higher than in 2008. The first quarter 2008 result for the rest of the world also reflected a number of large cases which have not been repeated in first quarter 2009.

We expect the current difficult trading conditions to continue. Despite this, Lombard's prospects for the latter part of the year and beyond remain good with wider geographical diversity of prospects than at this stage of 2008.

Analysis of Life and Pensions New Business

In classifying new business premiums the following basis of recognition is adopted:

- Single new business premiums consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals;
- Regular new business premiums consist of those contracts under which there is an expectation of continuing premiums being paid at regular intervals, including repeated or recurrent single premiums where the level of premiums is defined, or where a regular pattern in the receipt of premiums has been established;
- Non-contractual increments under existing group pensions schemes are classified as new business premiums;
- Transfers between products where open market options are available are included as new business; and
- Regular new business premiums are included on an annualised basis.

Life & Pensions New Business – Regular and Single Premiums:

	Regular premiums			Single premiums		
	3 months 2009 £m	3 months 2008 £m	Change %	3 months 2009 £m	3 months 2008 £m	Change %
UK Corporate						
- pensions	63.8	110.4	(42)	57.7	168.8	(66)
- protection	2.2	2.5	(12)	0.0	0.0	-
Total UK Corporate	66.0	112.9	(42)	57.7	168.8	(66)
UK Individual						
- protection	9.1	12.4	(27)	0.0	0.0	-
- annuities	0.0	0.0	-	56.7	64.5	(12)
- pensions	1.7	4.3	(61)	18.0	80.4	(78)
- investments	0.0	0.3	(87)	4.4	35.5	(88)
Total UK Individual	10.8	17.0	(36)	79.1	180.4	(56)
Total UK Life & Pensions	76.8	129.9	(41)	136.8	349.2	(61)
FPI	32.1	46.7	(31)	48.4	113.0	(57)
Lombard	0.0	0.0	-	204.0	243.2	(16)
Total International Life & Pensions	32.1	46.7	(31)	252.4	356.2	(29)
Total Life & Pensions	108.9	176.6	(38)	389.2	705.4	(45)

New Business - Annual Premium Equivalent (APE):

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

First quarter 2009 vs first quarter 2008

	Q1 2009 £m	Q1 2008 £m	Change %
UK Corporate			
- pensions	69.6	127.3	(45)
- protection	2.2	2.5	(12)
Total UK Corporate	71.8	129.8	(45)
UK Individual			
- protection	9.1	12.4	(27)
- annuities	5.7	6.4	(11)
- pensions	3.5	12.3	(72)
- investments	0.5	3.9	(88)
Total UK Individual	18.8	35.0	(46)
Total UK Life & Pensions	90.6	164.8	(45)
FPI	36.9	58.0	(36)
Lombard	20.4	24.3	(16)
Total International Life & Pensions	57.3	82.3	(30)
Total Life & Pensions	147.9	247.1	(40)

First quarter 2009 vs fourth quarter 2008

	Q1 2009 £m	Q4 2008 £m	Change %
UK Corporate			
- pensions	69.6	103.5	(33)
- protection	2.2	1.1	100
Total UK Corporate	71.8	104.6	(31)
UK Individual			
- protection	9.1	9.9	(8)
- annuities	5.7	5.9	(7)
- pensions	3.5	3.6	(3)
- investments	0.5	0.7	(17)
Total UK Individual	18.8	20.1	(8)
Total UK Life & Pensions	90.6	124.7	(27)
FPI	36.9	41.4	(11)
Lombard	20.4	138.5	(85)
Total International Life & Pensions	57.3	179.9	(68)
Total Life & Pensions	147.9	304.6	(51)

New business APE at constant exchange rates

All amounts in currency in the tables above other than sterling are translated into sterling at a monthly average exchange rate. The estimated new business assuming constant currency rates would be as follows:

	Q1 2009	Q1 2008 (as reported)	Change
	£m	£m	%
FPI	29.0	58.0	(50)
Lombard	17.2	24.3	(29)
Total International Life & Pensions	46.2	82.3	(44)

New Business – Present Value of New Business Premiums (PVNBP):

PVNBP equals new single premiums plus the expected present value of new regular premiums. Premium values are calculated on a consistent basis with the EEV contribution to profits from new business. Start of period assumptions are used for the economic basis and end of period assumptions are used for the operating basis. A risk free rate is used to discount expected premiums in future years. The impact of operating assumption changes across a whole reporting period will normally be reflected in the PVNBP figures for the final quarter of the period that the basis changes relate to. No change in operating assumptions will be reflected in the PVNBP for the first and third quarters, when the contribution to profits from new business is not published. All amounts in currency other than sterling are translated into sterling at a monthly average exchange rate.

	Q1 2009	Q1 2008
	£m	£m
UK Corporate		
- pensions	319	620
- protection	8	9
Total UK Corporate	327	629
UK Individual		
- protection	59	78
- annuities	57	64
- pensions	24	98
- investments	5	37
Total UK Individual	145	277
Total UK Life & Pensions	472	906
FPI	219	357
Lombard	204	243
Total International Life & Pensions	423	600
Total Life & Pensions	895	1,506