Q4 2010 Earnings Call

Company Participants

- Andrew Moss, CEO
- Igal Mayer, Chief Executive, Aviva Europe
- Mark Hodges, Chief Executive, Aviva UK
- Patrick Regan, CFO
- Simon Machell, Chief Executive, Asia Pacific

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ashish Patel, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Colin Simpson, Analyst
- Craig Bourke, Analyst
- James Pearce, Analyst
- Jon Hocking, Analyst
- Kevin Ryan, Analyst
- Marcus Barnard, Analyst
- Mitchell Todd, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Pat Regan, Analyst
- Raghu Hariharan, Analyst
- Tony Silverman, Analyst
- Unidentified Participant, Analyst

Presentation

Andrew Moss {BIO 3628034 <GO>}

Okay. Good morning, everybody. Thanks very much for coming to be with us today to talk about our 2010 results. We're on the other side of the building today you might have noticed. I know for one or two of you I was just talking to, it's complete confusion. But we'll try and make things a little clearer on the numbers as we go forward the next half an hour, 45 minutes or so.

What we're going to do is I'm going to say some things about how the business performs, some themes in the regions, and why that's come together in a strong result. Then I'm going to ask Pat to go into some more details on the numbers themselves, profit drivers, which again we think sales are a pretty good story for 2010, but most importantly in a sense then come back and talk about how we see prospects for 2011 and going forward and the reasons why we think we have justified confidence in the near-term outlook.

So let's get right on with that. First of all, this slide clearly just summarizes some of the key metrics, IFRS operating profit up 26% GBP2.55b. The net operating capital generation, a figure which, of course, has become very important to the market for obvious reasons, up to GBP1.7 billion in 2010. You know that we gave guidance from last -- in the middle of last year that were around GBP1.3b. We upped the guidance to GBP1.5b. It's encouraging to see the actual number coming through higher than that at over GBP1.7b.

IFRS return on equity nearly 15% in 2010, so I think that's a good result almost by any measure I think relative not only to insurance peers but to other industries in an external environment which, of course, has been tough in the course of the last 12 months. Quite a significant movement in funds under management, so the balance sheet including third-party funds under management going above GBP400 billion for the first time. I don't have to tell you there are knock-on effects to future earnings from that growth.

Through the financial crisis, of course, we saw two or three years when with markets doing what they were doing, that was being suppressed. But I hesitate to say all of that is over. But certainly in 2010, as well as gaining funds under management, we've given you some net flow disclosures as well this year. You can see the gross numbers growing.

The dividend on the back of all of that up 6% to 25.5p, up towards the top of the cover range or just outside it actually. As the balance sheet has strengthened in 2010 further, we've seen the earnings grow. We see the dividend grow on the back of it. You can expect it probably to stay towards the top of that cover range, around the two times IFRS plus tax operating profit cover.

And the balance sheet, another very strong year, and the actual equity shareholders under the Company back above pre-financial crisis levels, so moving up some GBP2.5 billion to GBP13 billion at the end of 2010.

That's a significant move. And it's been fueled in quite large part by a virtual elimination of the pension fund deficit. That was a deficit of GBP1.7 billion at the end of 2009. It is flat at the end of 2010. That's because we've put a lot of money into the pension fund, nearly GBP600 million in the course of 2010. We've also closed the UK final salary scheme to future accrual. So that's had a benefit. Mortality changes have helped us. Markets have helped us as well. And we've taken action to reduce the volatility of the number going forward. So Pat will talk about that in a little bit more detail.

But I do think it's a very significant change for the Company. It's something which has overhung the Company for a number of years, like a lot of large UK employers who have had large, historical final salary pension schemes.

Lastly on that slide, I think that's realistically embedded value number. We think that's a comparable number with our UK peers. That's coming in at GBP6.21 at the end of 2010. Pat will talk to you in more detail around that.

Now as always, we look across the business. And we just want to be sure that all parts of the business are performing. Well in general, I would say there's encouraging news on that, although I'll point out one or two areas where I think we still have more to do as we go along.

The life profits have been growing strongly now for the last two years. And we saw life operating profit up 23% again in 2010, so an encouraging performance. And that's on the back of life sales up 4%. The focus on the balance between value and volume in life sales has probably never been stronger possibly across the industry, certainly I think as far as Aviva is concerned.

But we have stepped back in the second half. You can see volumes in one or two European markets down in the second half. That's intentional, where we've made decisions to focus on the value part of the equation rather than the volume part. As a result of that, you can see the internal rates of return on new business coming through with a very strong increase in the year, up to 12.5%, above the short-term targets that we set ourselves of achieving a 12% IRR.

Now, what about general insurance? A 9% increase in operating profit, taking us back up above the GBP1 billion mark in 2010 and growth in the top line. Two years ago, we were walking away from some unprofitable business, particularly here in the UK. That's changed. We've been able quarter on quarter to grow premium volumes here in the UK market in 2010 and to do that profitably.

So looking back over those two years, I'm very pleased I have to say with that progression because the current-year profitability is coming through. And again, Pat will talk about that in more detail.

Combined operating ratio group wise down just below 97%. I think a creditable performance right across the group, I think particularly creditable here in the UK. We did suffer some weather claims here in the UK. That's been absorbed in the 96% result in our UK business.

So I guess just underlining in a sense the simplicity of the message around the results, we are in the happy and intentional position that income's going up and cost is still going down. And the result of that clearly flows through to the bottom line. The income's going up. Yes. It's coming a little bit from asset management and investment returns. But it's primarily coming from the underwriting side of the business and the pricing of the business that we're writing.

We're doing that in general insurance. But we're doing it in protection business. We're doing it in annuity business. All of that is flowing through into the results. And meanwhile, the expenses, which three years ago were about GBP5.75b, have gone down below GBP5b. So those operational jaws, which obviously this graph is intended to demonstrate for you, have opened again in 2010.

Let's go to the regions and just talk about what's happening in a little bit more detail on a regional basis. We'll start in the UK with the UK life business. First of all, the top line, sales up 16% in 2010. So against the economic backdrop that we're seeing in the UK, demonstrating again I think that you cannot correlate economic growth and growth in the life and pensions market. They are two different things.

16% growth overall, but within that the mix changing quite substantially, some terrific work being done on teams in the UK on, for example, the protection market. We're certainly aiming to be number one in that market. When we see the numbers, it'll come out in the next few weeks, I think we may well be. I think by the time we put Santander on stream in the middle of this year, we definitely will be. The team has done, I think, a fantastic job. And meanwhile, in the individual annuity market, we've seen profitable sales growing substantially as well.

The results of that comes through in that new business in total rates of return, a 15% return on new business being written here in the UK market, obviously a well-regulated, very reliable market, where we are gaining share.

The result on net operating capital generation is perhaps even more pronounced than you might think it would be. And that is about business mix. But it's also about the effects of the reattribution of the inherited estate coming through because that is the advantage that we now have. And that will last for a number of years in terms of the capital usage on new business. And again, Pat will talk in more detail on that.

The net result is a record profit in the UK Life business of GBP850m. So we feel that in doubling the profits from the UK Life business, which is what we've done over the last four years, and now building a sustainable base for the future; and we do think that these numbers are at least sustainable; in a sense, I think we've proved not only that can we outperform in the UK market but the market itself actually can be an attractive place to operate relative to a number of other markets around the world.

Let's move to UK General Insurance. You can see there that premium growth that I was talking about, up 6%, rising quarter on quarter throughout the year, combined operating ratio, as I said, coming down to 96%, net operating capital generation healthy at GBP0.6b. And Pat will talk to you about the effects of some of the lag on the capital numbers we've been -- that's helped that. But essentially, of course, those general insurance profits come through on a pound-for-pound basis into the capital generation numbers.

8% increase in profits, and I think all of that is about action that we've taken in the business over the course of the last two years, GBP400 million of costs coming out of the UK General Insurance business. And if you take the UK region as a whole, more than

30,000 people employed in the business 2.5 years ago, that's down to about 23,000. 7,500 people have left our UK business as we've made it more efficient and created an efficient platform for further growth.

In terms of the market environment and how we're feeling about that, well, I think it's well known that motor rates have been going up strongly. Household rates, too, have been moving up. Interestingly, in the last few months, commercial fleet, commercial motor rates have been moving up. We're quoting a 7% increase number for the year 2010. The rest of the commercial book still a little bit stubborn, still rather competitive, but we've been gaining business in that market.

Let's move to Europe. It's a slightly different story, as you might expect, because some of our markets in Europe, clearly in economic terms, are facing some fairly challenging times. But overall, in local currency terms, we've got a 3% growth in sales across Europe. That translates in sterling terms to a flat GBP13.5 billion of sales. But again, within that, there is a mix story. We're seeing unit linked and protection business; and we're writing much more more-profitable protection business through our bank assurance partners now than we have historically. You can see that beginning to come through the numbers.

The unit linked story I think is just starting. And that's important to us because, particularly in markets like France, when you see the shift away from fixed income products into unit linked, the capital uses falls. Internal rates with return on new business rises.

A 13% internal rate of return across the European region, above our 12% target, so that's encouraging, and flat net operating capital generation. That's an area I think that we can focus on as we come through 2011.

But overall, in the face of clearly what's been a difficult environment, a 17% increase in profit across Europe, despite economic difficulties of real severity in places like Ireland and Spain. And it's true to say that at the back end of 2010, we didn't see quite the surge, for example, of pension business that we have traditionally seen in Spain in December of each year.

So I think as we go through this year, in terms of the volumes coming through the European business, I suspect we'll have a few more months where things look a little more challenging. But in earnings terms, I think there are many reasons for us to feel optimistic.

The General Insurance, relatively small business in Europe, but it's had two years when actually both in Ireland and France, we've seen quite significant weather losses, flooding in Ireland again in 2010, wind storms in France again in 2010 as well, the result 103% combined operating ratio and a downward move in profits. This is an area where I think, as we focus on underwriting discipline and pricing in the course of the next year or so, we will be aiming to improve. And we need to.

North America, a strong story, more than doubling our profits in the Life business, and Canada also having a very strong year in the General Insurance side of the business. Let's talk about the US Life business. We've been very careful about the amount of annuity business that we've written, overall sales up 4% in mix terms, an increase in the life side of the business, a 15% increase. You can see it there, so overall a small increase in sales.

But remember what our strategic statements were about this business. We wanted it to stop absorbing capital from the center. We wanted it to remit capital back to London. It's done that, paying dividends in 2010.

The new business story a strong one, the internal rate of return doubling to 14%, and that's a real-world internal rate of return. It actually judges the return on what we're actually going to earn on the assets in which we invest, on the credit assets. The margin doesn't. I'm sure you're going to ask that question a little later on an MCEV basis.

Net operating capital generation tripling in the year, so that of course fuels an ability to repay cash back to the center of the Group, and overall in the region, a 54% increase in operating profit.

In Canada, record profits, I think changes in underwriting disciplines again in the last couple of years, actually some good weather conditions in Canada, unlike some other parts of the country -- sorry, of the world. But at the same time, in late 2010, we took quite a lot of action to take costs out of the Canadian business, a benefit that'll earn through in 2011 and beyond.

The Asian Pacific business has also had a strong year, just under 40% sales growth in local currency terms, translating into 48% sterling growth, as Asian currencies have continued to strengthen in the year. But I think the real story here is the one on the bottom left. You look at the sales growing but the expenses barely growing. And of course, once you spread that expense base over the higher sales, then we look at the margin and the internal rate of return on new business, you see a dramatic improvement. You see nearly a doubling there of the internal rate of return on new business. And that is a function of the maturity of our businesses in Asia Pacific.

What is also a function of the maturity of the business is that you see those young businesses swinging from loss into profit in 2010. And that trajectory is something that we expect to continue.

Let's move to the fund management side. Of course, we have Aviva investors, which is our global fund manager, and Delta Lloyd, which operates as a separate fund manager in the Netherlands. And Delta Lloyd had what only can be described I think as a stonking [ph] year on the back of the performance fees that we earned in some of its funds. So I absolutely congratulate the Delta Lloyd fund manager and team, who are actually consistently very good performances.

Aviva Investors, the story's a little more complex. Profits are down this year as we continue to invest in the business. We've continued to invest in people. We've continued to invest in technology. And that costs money. And it shows through in those numbers. At the same time, performance fees in one particular part of the business have been lower in 2010. And right now, that business is quite concentrated in terms of its earnings stream.

Our objective, of course, is to make that revenue stream more broadly based, more diverse, therefore more reliable, and do that by growing third-party funds under management.

Investment performance in 2010 still strong in Aviva Investors, and I think the most encouraging graph for us in the business is the one there on the bottom left. You can see net third-party outflows in 2008 and in 2009 but swinging into net third-party in flows in 2010. And that's continuing this year I have to say. Just in the last few weeks, we've had funded mandates for more than GBP1 billion from two large Dutch pension funds for our real estate multi-manager portfolio. So that momentum is absolutely what we need to see in 2011. But the evidence at the moment is that we can be quite encouraged that that can happen.

So let's talk about Delta Lloyd. I've talked about their fund management business. Clearly, they've reported their numbers today as well. An interesting story I think because, since their listing; and as a member of the supervisory board, clearly, I've been observing this closely; I think they have refocused their business to some extent.

That fall in life sales I think is quite significant. There's some business probably they have chosen not to write in 2010 that they may previously have written. And you can see the internal rate of return on new business just beginning to improve as a result. And we've always been clear that we view the Dutch market as a low new business return market. And that, of course, has underpinned our strategy of partial exit.

On the general insurance side, a good solid result, the core coming in at 95%, all of that works through with the fund management numbers into a 34% increase in operating profit. So that I think as a shareholder is exactly what we want to see. We believe that the scope for continuing operational improvements in Delta Lloyd is very real. And so that evidence is there.

The balance sheet, too, stronger, 13% increase in net assets. Some of you were quite rightly focused on the below-the-line number there, a significant increase in longevity reserving in the Dutch market. And I think at the end of the day, you're going to look at Delta Lloyd's balance sheet. I think you'll see it clearly as a result significantly stronger at the end of 2010 and I think unlike what we're seeing at the moment in terms of the Dutch peer group, they've taken that through earnings. And they've taken a large hit through earnings, nevertheless, in their asset value still very, very strong.

Okay. That's enough from me. At this point, I'm going to hand over to Pat. And we'll go from there.

Pat Regan {BIO 18417953 <GO>}

Great. Thank you, Andrew. Good morning, everybody. My section as usual, we're going to talk about capital generation and capital efficiency, then talk about the IFRS profits using -- primarily using the IFRS profit drivers, some of the below-the-line items, going through those in a little bit of detail, balance sheet, and then finishing off with our net asset values and return on equity.

Starting then with capital generation, as Andrew highlighted, 70% increase in capital generation, actually just -- it's actually just over 70%. The real number is just actually GBP1.74b, up from GBP1 billion in 2009. There are obviously, two big elements to that, the generated we talked quite a bit last year about the resilience of the life generated. In total, we went up from GBP2.5 billion to GBP2.7 billion of capital generated. The life element going up from, as you remember, going up over a number of years, increased from GBP1.9 billion to GBP2.1 billion in 2010, driven off those 30 million customers on long-term contracts, driven off that GBP33 billion of undiscounted real-world cash flows that I'll come back to later.

So life up to GBP2.1b, general insurance at GBP600m, obviously, we believe as we go forward I think we'll -- and hopefully we increase the profitability of that business, that number has the ability to grow as well.

So generated up to GBP2.7b, the capital usage down by GBP500 million to GBP1b, three elements of that, you'll remember from the half year we had a GBP200 million benefit from the lower capital requirements and general insurance following all of the portfolio actions we've done over the last two to three years. So that item lowered general insurance capital requirements, probably more kind of one-off in nature in 2010 and probably most of that not really recurring in 2011.

The two other items, though, lower new business strain in the US, that's basically reflecting the way we run that business now, changes to product features, things like redemption features, lower guarantee levels, and things like the AXXX reinsurance charge are all helping that capital efficiency, and the benefit of the reattributed estate in the UK again with about GBP100 million to capital usage.

Just with a slightly different angle then on those capital efficiencies, in total we reduced our capital efficiency level. So this is capital usage for the Life business divided by sales, down from 4.8% to 3.8%, so 20% reduction in capital usage, 4% increase in sales.

Region by region, in the UK, we've now got a 1% capital efficiency level, down from about 2.2% in the year before. Again, product mix is a feature of that, but also, the reattributed estate really helping that number down to a 1% level.

In addition, obviously, we've seen significant pricing changes with significant product mix changes, 60% increase in the overall level of annuity sales with IRRs up to 15% now. It is worth highlighting that that number doesn't include the benefit of the reattribution here. The number -- but if we included the benefit reattribution in the IRR, it's an almost infinite number for the UK business.

In Europe, capital efficiency was just under 4% in 2009 and in 2010, so broadly flat capital efficiency levels. IRR's at 13%. There is a little bit of tale of two halves within there. The second half, capital efficiency did improve. We consumed about 30% less capital in the second half, again, as we talk a number of kind of product-related actions, more unit linked, higher levels of protection. For example, Italy, we increased protection sales by about 15%. We lowered guarantee levels in Italy. We talked to you I think a little bit about that before, changed the guarantee structures in France and the affair [ph] relationship, lowered interest rates on things like the SATA products to Unicaja in Spain.

IRRs in the second half in Europe were 14%. You remember about 12% in the first half, so getting us back to 13% for the full year. And places like Italy had a much strong IRR in the second half.

North America, big increase in the IRR, up from 7% to 14%. Capital efficiency, you remember you have that C4 capital included in capital consumption in the US. But withstanding that, that capital efficiency coming down from 11% down to 8% overall for the year, again, product changes, reinsurance structures, pricing changes, all of those helping on that capital efficiency.

Asia, again, as Andrew said, 6% to 11% on IRRs, clearly volume played a big part of that, but also a real focus on the types of products that we were selling in Asia and the capital efficiency of those products as well.

Delta Lloyd, we've talked before about them closing some new business in Germany. That again helped capital efficiency and capital consumption reducing in Delta Lloyd as well.

The other bit I think is an interesting feature, so big reduction in capital consumption, increase in IRRs overall from 10% to 12.5%. But we also had a big increase in our undiscounted real-world cash flow, a figure now to GBP36 billion for the full year, obviously contributed from new business adding on there, the RBS life book coming 100% onto our balance sheet also helping in that number.

Turning then to the operating profits, the IFRS operating profits, so the GBP530 million increase in operating profits or 26%, really three big drops driving that, the big increase again in the life business, now GBP2.3 billion of profitability in our life businesses, and return to growth of both premiums and more importantly operating profits in general insurance, and fund management up 50% as well. More on all of those in a moment.

In terms of the other items here below the Life and GI result, other non-insurance, that's primarily the regional cost and the group center costs at Delta Lloyd, broadly flat year on year. First half, if you remember, included a one-time benefit in the Delta Lloyd health business. Corporate costs slightly up, reflecting higher project costs to do with risk and the successful brand campaign in the second half of the year. Group debt costs broadly flat, and pension costs slightly higher, reflecting the higher opening deficit for the pension scheme. Obviously, with the most lower ending deficit of the pension scheme, that should help that number in 2011.

Turning then to the profit drivers, and I'm spending a little bit of time with the increase in life profitability, so 23% increase in life profits. Why? Mainly incomes up, incomes up 15%, expenses up 4%, income up 15%. The way I think about -- why's our income gone up 15%? And what's driving that? And what more can we get out of that? New business income, our pricing up 26%. More on that in a moment and what we're doing. That really is reflecting, as we refer through the presentation to pricing actions. That's one of the best manifestations of that, over GBP1 billion now of new business income.

Underwriting now up 13% to over GBP800m. And the Group in total, if you take our total underwriting, including general insurance, that's now GBP1.1 billion of underwriting profits, up some 30% from 2009. And investment returns up 13%, as you'll see in a moment, largely driven by credit, our ability to manage credit, so pricing, insurance, and credit really coming through very strongly and driving our income levels. I'll be coming back to some of the expense ratios in a moment.

New business income, as at the half year, kind of good increases across the board, both in terms of volumes, particularly in the UK. Worth noting in the UK are assets under management up some 15% on the non-with profits side. And really, that's flowing through both in terms of, as you'll see in a moment, in the unit linked and in some of the volumes of new business sales as well, 15% growth in APEs, very large increases in -- 60% increases in annuities, and the margin up 38% on new business income.

In Europe is kind of an interesting story. Again, based on those pricing actions we took in the second half, you remember maybe at the half year, our margin percentage was some 20%, so a really significant increase in the second half of the year based on all of those pricing actions I talked to a moment ago.

Rest of the world, again, good pricing action in Asia, but particularly all those new business actions we took in North America flowing through and increasing the margin percentage up to 13% now.

On underwriting, when we first kind of started talk about profit drivers, we said there were eight countries generating more than GBP50 million a year of underwriting profits, so very consistent by tight expenses, mortality, persistency, but also the big buckets being generated right across our major underwriting business.

Continued large number, nearly GBP900 million now, 13% growth, we continue to deliver expenses better than we price into our protection products, so maybe GBP440 million now. Our persistency profits, again, emerging in a positive sense, the uplift there mainly coming through in the UK business.

On the investment return, two --- I'd like to think this slide has two kind of two sides to it. On the left-hand side, bigger balance sheet. And you talked about we've now got over GBP400 million of assets under management, up from GBP20b-plus from the previous year. We've also put in net flows for the first time, as I'm sure you'll have noticed in the pack. We've got net flows information. And you can see the positive net flows coming in ex-the with profits in the UK, again, giving a bigger balance sheet to earn in the future.

On the unit linked side, real manifestation of that, some 15% higher assets in the management in the UK, driving that increase in unit linked margin up to nearly GBP1 billion now. And participating a slight reduction in profits from the UK with profits businesses, as we've expected, more than offset by about a GBP70 million increase in the participating income in Europe, particularly in Italy, and particularly in France.

And on the spread margin, again, the credit-based income we're driving, big increase really coming through in the US business, slightly higher volumes but particularly much, much, much higher credit spreads based on all the pricing we've done on the existing book of business within the US.

Lastly then on the return on shareholder assets, as you'll remember, the big increase here coming through from the reattributed estate, some GBP130 million additional profits in that bucket in 2010, although the last quarter of 2010, that's GBP70 million in benefit from the reattribution in 2009 results for giving that GBP60 million Delta 2009 versus 2010.

On expenses, couple of things here, good story on expense, acquisition expenses across the board, lower ratio in the UK, broadly flat ratio in the rest of the world, slightly higher in Europe. The reason it's slightly higher in Europe is the Italian commissions you may remember are not stacked. They flow directly through to that number, so giving a slightly higher current acquisition expense ratio, and then a very good story on the admin ratios, reductions in all three big buckets, so rest of the world down significantly, Europe down and particularly the UK down in terms of both absolute dollars and ratio of admin expenses.

On general insurance, growth in profits really entirely being driven by the underwriting result there. As Andrew mentioned, we have taken weather within that result. We've also had GBP160 million lower benefit from prior results, so still a positive prior year development within that number, but GBP160 million lower benefits in that underwriting result, so in other words about a GBP300 million benefit improvement in the current year underwriting results in 2010.

So clearly seeing that flowing through in the claims ratio, also good to see a slight kind of improvement still in the expense ratio down to 12.4%. And again, most notably in the UK, we're now down to about 11% expense ratio, which I think gives us a pretty decent competitive advantage there.

On the portfolio, slight reduction in the average assets, also a slight reduction on the average rate. You can't quite see it in the roundings there. New money yield is just over 4%. And again, we've got some slight shifts in the portfolio there with basically slightly more on preference shares, for example, in Canada.

Just giving a little bit more color then on the combined ratio performance, you can see there the GBP160 million or equivalent to 1.3% of the core, lower positive prior-year reserves. Again, you can see from all the triangles we've included, there's still positive prior-year developments. We've still got a conservative and consistent reserving policy.

But as over time we said we would do, we're relying less on positive prior-year reserve development.

A little bit of impact from the weather, about GBP40 million above long-term average in the UK, so about GBP60 million in Europe, good weather over the year in Canada, and then that GBP300 million or that 3.3% of underlying current year improvement.

Business by business, a really big improvement in the current year profitability of UK motor, also better performance flowing through on the creditor book there. In North America, particularly strong performance on the property book in Canada.

Fund management, Andrew's going to hit the highlights here. Still strong performance of our Aviva Investors assets versus benchmark, so overall slightly higher performance fees. But as Andrew highlighted, we've taken the decision to invest in people and capabilities within that business.

Then extremely strong performance fees in Delta Lloyd coming from some of their equity funds, driving up to GBP103 million of total profitability and again helping to again increase our average basis points to nearly 19 basis points across those businesses.

Just turning then to kind of an MCEV look at the world, sales we've already spoken about. In terms of the new business margin and the kind of the reduction from 2.4% to 1.9%, UK was up. We're now at 3.4% margin in the UK business, up from 2.8%. Europe was 3.7%, so still a very strong margin in Europe.

The US was down. We talked to the IRRs a moment ago. IRRs are up in the US, reflecting those credit spread earnings coming through. But the risk-free rates at the start of the Third Quarter and the start of the Fourth Quarter were much lower in the US environment, giving the change in the economics on an MCEV star measure and giving that lower margin in particularly in the second half of the year.

Risk-free rates have come back now at the start of 2011, so by about 90 basis points. That will help the MCEV margin in that business in 2011.

In terms of operating profits, about 30%-plus increase in the UK, MCEV operating profits, about 18% increase in the European operating profits. As you remember, the CFO Forum guidelines somewhat oddly tell us to take the entire longevity impact in Delta Lloyd into operating profit. So that flows through into their MCEV operating profit decrease.

70p increase in the NAV under MCEV, and I'll come back to that in a little bit more detail in a moment.

Okay. So let's talk through a little bit more then on the below-the-line items. Restructuring costs coming down by some GBP40m, it is still our intention to continue to reduce that line towards zero over the period to 2012. In 2010, we had some of the costs coming through from our cost-cutting programs, including places like the US and Canada, where we're carrying out those cost-reduction programs.

I'll talk to exceptionals and investment variances in the next couple of slides. The profit on disposals was mainly driven by the restructure of the RBS agreement, where we took onto our balance sheet the RBS life business and disposed of our interest in the RBS collectives business, giving a total GBP128 million overall profit.

On the exceptionals, you've got the two things we've talked about before showing up here, the nearly GBP300 million gain on the closure of the UK staff pension scheme, then offset by the longevity reserve increase in Delta Lloyd. So Delta Lloyd adopted the new Dutch Central Bureau of Statistics' 2010 table. And that gave that GBP483 million equivalent impact.

As Andrew said, I think Delta Lloyd is the only Dutch company that's taken the full impact into their IFRS earnings as opposed to kind of absorbing it, if you like, within their lat [ph] reserves. So it's kind of once and done, if you like, and take it as a full reserve. Nets down to the GBP273 million impact in exceptionals.

On investment variances, then a couple of things going on here, you remember within Delta Lloyd we have the Delta Lloyd curve impact. So this is the difference between the yield curve impact on assets and liabilities. They use the collateralized AAA curve for valuing liabilities. And that's moved by about 80 basis points in the year, which has given about that GBP800 million impact. They've also had other positive investment variances about GBP210m.

On the rest of Aviva, overall relatively small investment variances, broadly consistent with how we described the balance sheet a few weeks ago on January 20th. So within the life business, about GBP200m, again primarily driven by the slightly increased sovereign spreads in Europe in the second half of the year.

On the non-life, it says general insurance. It's actually non-life is a better description because they're almost all to do with kind of central. So there's a negative variance on the equities held at Group center and also the mark to market of the equity hedging program held at Group center as well.

All of that adding up to about GBP600m, GBP630 million increase in profit before tax and some GBP400 million or 37% increase in our total return. Obviously, within there, you've got the higher minority interest, reflecting the full-year post-IPO of Delta Lloyd at 58%. All that coming down to overall a 50p earnings per share.

Again, also worth highlighting, that doesn't include the positive investment variances from the available-for-sale securities, which were about some GBP500 million or so. You'll see that coming in, in a minute.

Hopefully this slide's pretty familiar stuff. Now this is our shareholder balance sheet, very similar shape to what we talked about on January 20th, no real big movements to highlight, government bonds still kind of GBP19b. A slight reduction in our exposure to PIIGS, so we -- I think we quantified that at GBP900 million when we last got together. That's now down to GBP700 million for those countries.

Corporate bonds continued high performance of corporate bonds, as you'll see in a moment, continued strong performance on our major portfolios, minimal losses, and minimal exposures to financial institutions in those PIIGS countries.

On the mortgages, some of the stats around that, we have continued to grow the book as we've grown our annuity book, particularly in the UK and in the US. Some of the stats about that in terms of arrears are actually even better than they were at end of 2009. The block of value in arrears in the UK, for example, is about GBP350 million at the end of '09 is only GBP250 million at the end of 2010.

In Dutch residential as you remember is 40% guaranteed by the Dutch government, still has incredibly low levels of arrears and losses.

On the equity portfolio, as we've described before, most of that, some GBP4 billion or so of that sits in Delta Lloyd. That's their 5% or more concentrated holdings, small amount here. And we continue to have our equity protection program in place with some GBP5.9 billion of notional protection.

Really very much a continuation of what we talked about a couple of weeks ago on the level of losses, just 5 basis points on UK corporate bonds. In the US, 30 basis points, you'll remember maybe that the market for our type of portfolio runs at about 130 basis points in the US. In the UK, we've averaged about 25 basis points over the last five years on the UK mortgage portfolio, 36 here. That's about half of what we reserve for on that portfolio, and the Delta Lloyd mortgage portfolio, incredibly low levels of the losses and impairments.

Just on the pension scheme then, obviously, we're very happy with both the actions we've taken and the market movements, reducing the deficit from GBP1.7 billion down to zero. Just running through that for the sake of completeness, service costs, as you would expect, a slight negative, reflecting the opening deficit position, GBP600 million of contributions in the year, including the one-time special contributions we put into the schemes, the GBP300 million benefit, reflecting the closure of the UK scheme.

Scheme experience is really updating the role of scheme membership deferreds and actives, and reflecting the change of that managed -- positive change in that scheme membership. Mortality is updating for scheme-specific data, we have some 60,000 or plus overall scheme members so we are now modeling that onto scheme-specific data. Then about GBP500 million of positive economic movements.

We are not stopping there. We are very much focused on continued de-risking of this. We've taken equities down, for example, from just before the end of '09 from about

GBP4.4 billion -- sorry, 44% of equity exposures down to about 22% of equity exposures, and we'll continue to look to decrease that. We'll continue to look to increase our inflation protection, continue to match assets and liabilities more closely. And probably actively look at taking out a longevity hedge as well.

Lastly then from me on the net asset value increase, and the return on equity, fairly simple story if you like on the net asset value increase. We've generated 68p IFRS profit and investment variances. That's where you see the rest of the investment variances coming in that other GBP500 million or so, adding to 68p of profit investment variances, including those available for sale investment variances, payment of the dividend and then the positive benefits of the pension scheme revaluation coming in, giving a total increase of IFRS net asset value of 80p to GBP4.54.

It's a very story on MCEV, 62p of profits and investment variances. A couple of other items to just note quickly within the profit, obviously we took a small impact from pension legislation change in Poland that knocked about a couple of hundred million off the embedded value there.

On the EEV that really is a direct flow from that GBP36 billion of real world undiscounted future cash flows. Obviously we've discounted that to get to our GBP6.21. Even using a slightly higher discount rate at the end of the year, we upped it to about 7.8% discount rate at the end of the year, just to be on the prudent side, compared to about 7.5% discount rate if you remember when we updated you before. Like for like actually, if we'd left that unchanged it would be about GBP6.35.

All of that then flows through to the return on equity increase, it's up to over 10% now on our life business, almost 16% return on equity for GI, adding up with the benefit of our capital structures held at the Group to a 15% overall return on equity for the Group.

That's me done. I shall, with that, hand back to Andrew.

Andrew Moss {BIO 3628034 <GO>}

Thanks, Pat. Okay, now I wanted to just spend a few minutes at the end talking about prospects as we look forward. Let's just track back to November when we were talking to you about the step back that we did last year, and looked at strategy.

And what we said to you then was that we are going to refocus and increase focus on deepening our businesses in 12 key countries, so eight of those in Europe, including the UK, the US, Canada and in Asia primarily focusing on the larger markets of China and India. And we are very, very focused on that. There is no news today that we are reporting on it, but you can expect in the course of the next six to 12 months to see some meaningful movement around that.

Now we also talked about operational excellence that day. And the message we were trying to get across really clearly was we need to be excellent in life insurance, excellent in general insurance and then on top of that reap the benefits of running those two businesses under one roof.

I think if you look at the results in 2010, I talked about the consistent improvement in life profits, another 23% increase in 2010, we are well on the way, I think, on the life side to being able to be satisfied, although there is more to come.

On the general insurance side we've taken a lot of cost out of the business. But growth I think in the business is the priority going forward. And I'll talk in a little bit in a minute about where I think that's going to come from.

And in terms of the composite value of the business, whether it will be synergies in terms of running these two businesses in the same premises for example and the cost benefits that come from that, but also of course as we move into the Solvency II world, and it is finally going to happen I think, the real tangible capital benefits of that for the big diverse insurers, then that day is getting closer and already we are running with, under Pillar II rules, capital in the general insurance business some 30% to 40% less than we would need if we were not a composite insurer.

But let's just talk about growth and where it's going to come from just region by region. First of all, let's look at the UK, what was the strategy that we told you about in the UK? And it was to be an undisputed leader. And I think the progress that we've made in 2010 continues to foster my belief that in two years time we will be the undisputed leader across the UK insurance space. We already have 19 million customers in the UK. We have an insurance relationship with one in three households in the UK. The brand change that we've made has seen us build on that customer base, the 200,000 new direct motor customers in 2010 alone.

We are pushing forward on the protection space. I talked about Santander coming on stream in the course of the next few months. Those bancassurance relationships we are seeing growth across the UK, across Europe and in Asia Pacific, in fact, in our bancassurance space. And it is that leadership in marketing and distribution, and we were voted recently number one here in the IFA market here in the UK, that is going to continue to drive our growth in the UK market.

So we see it as a growth market. We see it as a market where there will be further consolidation. We see it as a market where our market position will continue to strengthen.

In Europe, I talked about challenges in some of the economies. Of course, there are challenges in Ireland. Of course, there are challenges in Spain. Let's think about Spain. You know that we work with a number of different cajas [ph] in Spain, the regional deposit taking banks. You also know that the Spanish government has now taken decisive action to strengthen the capital requirements in the Spanish banking system. And that will lead to change not only at the solvency levels, but potentially in the nature of ownership of those banks.

We see that as an opportunity. The reason being we have very strong contractual protection in terms of the relationships that we have. And there will winners and losers in that process. And we think that will present us with opportunities in the course of the next 18 months. And that will be one of Igal's main strategic focuses on a market by market basis in the course of that period.

But that bancassurance distribution in Europe continues to grow. We have been selling more protection business through it as well as more traditional savings type products. That's more capital efficient business, it flows through to profits. So that marketing and distribution strength across the European region is going to continue to fuel growth for us.

In North America, you've seen that we have tempered growth on the annuities side. We've done that because we want that business to be a provider of capital back to the center. A more than doubling of profits in the US Life business has clearly helped that.

You are not going to see another doubling of profits I think it's fair to say in 2011 in that business, because the step change in pricing, and I mean of the new business and the existing book, took place in 2010. But during that period assets under management in the US life business went up by something like $7b.

That flows through into further future earnings as we move forward. And you will see us growing in the life business. And actually that's quite simple, more distribution, equals more sales, equals more profit in the US life part of the business, not the annuities part of the business. And that will happen I am confident of that in 2011.

In Canada, all of the benefits of the costs that we've taken out, the underwriting improvements that we've made I expect that to continue to flow thorough. And they've had a good start to the year in the Canadian business I am pleased to say.

Asia Pacific, our bancassurance relationships in Asia have strengthened again in 2010. So for example, the DBS relationship in Singapore, I would say after quite a rocky 2009 actually right back on track. And a major fuel to our growth in the Asia Pacific region.

But over and above that, our Chinese business, for example, continues to go from strength to strength. We are in 11 provinces now, nearly 50 cities. I expect us to continue to grow that. It's a multi-distribution business. And it's continuing, I think, to grow value very, very quickly in that market. So in Asia Pacific, yes, to some extent in some markets, in some markets, the economic growth that we are seeing will be the fuel of the business.

Now I've talked about Aviva Investors, the focus on increasing external assets under management, absolutely key. Now that's a region by region review, but I'd rather in a way if we just step back and thought about it in slightly different terms, perhaps looking at it through a slightly different lens.

What we said back in November is that to fulfill our strategic aims we need to be very good at certain things. And the first thing is marketing and distribution. And we are. We work with more than 3,000 brokers here in the UK. We have a very strong position in the IFA market. We have an almost dominant position in the UK bancassurance market. That's because we are good at managing those relationships, providing products at cost-efficient rates to our banking partners. Santander coming on stream is another example of that here in the UK.

That marketing and distribution strength works through Europe, 55 banks that we work with through Europe, more to come. And you know what, the nature of those relationships are changing. The days necessarily of making big up-front payments to get bancassurance relationships I think that's beginning to change. Santander is a prime example here in the UK as well as the restructuring of the RBS relationship. You saw the profit that we took out of that relationship as a result. But we have a seven-year exclusive distribution agreement with the largest bank in the UK still.

So that is going to go on fueling growth across the company. And that's not even to mention the strength we have in retail distribution across Europe in places like Poland, where our sales forces are highly effective. In places like France where the Affair distribution continues to give us what I always describe as a large niche, but very profitable business.

So that's one side of it marketing and distribution. But let's talk about underwriting excellence, let's talk about technical excellence in the business. Pat talked to you about GBP1.1 billion of profit coming through the underwriting. And I think what you've got to think about on a three-year view is a shift of risk and risk appetite in this company. Because three years ago you looked at the investment risk profile of the company, and you might have said that it was high.

Now, we've de-risked the equity part of the business. The performance in actual credit defaults is there for all of you to see over the last three years. It's been very good relative to our markets.

We do take credit risk. We think we are good at it. And we think the track record in the last three years proves that. But the big shift is moving capital into insurance risk where we have a definite competitive advantage.

We can't guarantee to make investment returns better than the thousands of other people who operate in investment markets around the world. But in most of our major markets, where we operate in the insurance space, we have four or five competitors in the insurance risk market. And in many places we are in relatively leading positions. And we are exploiting that whether it's in protection business, annuity business in some markets, whether it's in household or motor or small business insurance.

And that growth, through our own efforts on the general insurance side taking so much cost out of the business, improving underwriting disciplines I think is set to continue.

If the market improves, and I think there are some early, somewhat latent signs in the corporate market that might happen, that's icing on the cake. That's a bonus. That's not what we are counting on.

But there are other areas in general insurance where that risk appetite extension is real. You've seen in 2010 we did extend our reach into the larger corporate risk market in the UK. We wrote just GBP50 million of premium. We are careful about what we are writing. The combined operating ratio was 81% on that book.

The distribution in that space wants to do business with us. It's a market that they like. The Aviva brand works in that space. And we've hired some very good people to take us forward in that space. It will be in a controlled way, but that number will move, and it will move upwards and I expect it to be profitable as we move through the next two years.

And lastly, we are talking about growth, we are talking about earnings growth, the cost commitments that we made back in November; GBP200 million of savings by the end of 2012, another GBP200 million of efficiency savings coming through to the bottom line. That's GBP400 million not in these numbers, which we are very confident about delivering on. When you put all of that together, I think, on an organic basis you have a strong story in terms of growth prospects in the company.

That's the slightly longer term, let's come back to the short term, we set some financial targets back in November as well for 2011. Three out of the four we've actually beaten in 2010.

So we'll be taking a look at these targets as we go through the year. It's only early March so I think it's a bit early for us to give any further guidance at this point. But the first three we hit those numbers in '10, so clearly that gives us confidence as we move into '11. The cost savings, very much still to come, and it will remain a focus of the company to make sure that we are operating just as efficiently as we can.

So let me summarize, you've been very patient, thank you for listening. The heading there I do think says it all, strong results but I think we've got to think about the future. We think about them as paving the way for further growth.

Yes, profits up 26%, capital generation beating our targets, the balance sheet very significantly stronger again in the course of the year. Good growth across life and general insurance, I think more to come on the general insurance side, encouraging signs.

But I think what we've got now is that platform where we can allocate capital across our businesses, and point it towards the profitable growth that we need. Some of that's in-built already. Let's look at the growth in the balance sheet. That's going to -- through to a degree.

The pension deficit, Pat talked to you about the charge that went through the accounts because of the negative pension deficits at the beginning of the year. Well it won't be going through.

In terms of the restructuring costs, yes, they came down in 2010. But we said to you before their going to come down much closer to zero over the course of the next couple of years.

And the balance sheet much stronger. So the base is there, and we are able I think in the course of the next year or two to put together all of the power that we have in marketing and distribution in our markets, and drive that through to increased earnings.

All right. Thank you for listening. I am going to ask Pat and Mark and Igal to join me up the front for the Q&A. And always we'll make time to answer any questions that you've got.

Questions And Answers

A - Andrew Moss {BIO 3628034 <GO>}

Shall we start here, yes.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thanks. It's Kevin Ryan, Investec.

A - Andrew Moss {BIO 3628034 <GO>}

Morning, Kevin.

Q - Kevin Ryan {BIO 1814771 <GO>}

Very simple question, you talked about underwriting excellence and I noticed in the UK personal motor that the combined has slipped, the underwriting loss has had a huge swing, premiums are up. Could you give us a bit of background behind that in terms of what you're doing on rate increases? What's happening with bodily injury reserving and that sort of thing?

A - Andrew Moss {BIO 3628034 <GO>}

Yes, for sure. It's well known of course that the UK motor market has been a challenging market over the last two or three years. But let me ask Mark to talk to it in more detail.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Thank you. Thanks, Kevin. We talked a bit about this in November in terms of rates increases, so if you think back to 2009 we were increasing our rates, we saw some volume losses because of that in 2010, 25% increases across the year.

If you look at the combined ratio it has slipped a bit from 2009 to 2010. A few factors in there, we've got some weather effects which affect motor. There's effectively some new business strain. As you grow the book there is a little strain comes through.

We are very confident though, and actually if you look at the first half, second half this is borne out by the numbers because it's come down, the combined ratio second half versus first half. We are very confidence that with the rating increases we've got on the books and will earn through into 2011. And the rating increases we are putting through again this year that that book is profitable for us and the combined ratio is attractive.

So one or two factors in there, but the trend I think is that we've been pricing for bodily injury and that's coming through and will come through in the combined ratio.

A - Andrew Moss {BIO 3628034 <GO>}

Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks very much, Andy Hughes, Exane BNP Paribas. A couple of questions, I guess the first one is obviously the banks have had a bit of a hard time in their reporting season about guidance and numbers, etc. So just wanted to pick up on the GBP1.5 billion cash flow, where you described it in here as a challenging short-term target. But everything you said on the life side sort of suggests that the earnings are getting a lot better, cash flow is getting a lot better, average funds under management at the end of the year are much higher.

What's holding back the GBP1.5 billion target going up? Is it growth in the GI that's depressing the operating cash flow generation? And if so what would it roughly look like without that growth in the GI business please?

And the second one is really a request, in terms of the yearend funds under management being higher for each of these categories and giving us an idea about where the earnings might be going, could we actually find out what the yearend numbers are for each of these categories you've shown please, Patrick? Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Pat, do you want to comment on that one first?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. We'll take that one off line, I'm sure we can kind of slice it and dice it in a way that kind of works for you on that, yes.

A - Andrew Moss {BIO 3628034 <GO>}

Yes. I mean on the target what's actually holding it back? To a certain extent the answer is natural caution, Andy. I think you've seen the actual out-turn in 2010, we think you're absolutely right, the factors on the life side should be encouraging for us, and of course the amount of business that we write is genuinely within our control.

The general insurance side of it we have to say there is a little more volatility around it as we go forward. But what we've chosen to do I think is stick with the target that we set only three months ago. And as we come through the year I would be delighted if, as we've been able to do this year, we can up the guidance. We just think it's a little early for that frankly.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions, the first is on the GBP800 million curve effect at Delta Lloyd. Is that the GBP600 million at the half year which you said was going to reverse? And in which case how sustainable is that number?

Then secondly, the new business margins within the IFRS result, and I guess this is also a new business strain question as well, has gone up quite substantially. Actually you've restated the numbers from last year, which have slightly muddled me a bit, it's gone up quite substantially. How much of that is down to annuities? And is the annuity new business profits a sustainable number?

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Well look you're right on the first point, the GBp600 million that we said was going to reverse has not reversed; it's gone in the same direction up to GBP800m. We believe at some point it probably will reverse, at least to some degree, and that's really what we are trying to flag. But Pat, you might want to comment more and on the second question.

A - Patrick Regan {BIO 15131018 <GO>}

Yes. No. I meant that, yes, it is the GBP600 million and no, it didn't reverse. Logically at some point it will do. On the new business income, certainly there was increases across the board. So certainly you saw in the US driving up the kind of rest of the world one. In Europe actually it was pricing action in all of the major countries. The UK one, I think certainly the annuity pricing is contributing to that. We obviously had much higher both annuity and volumes and strong pricing as well. And in terms of the environment, Mark, I don't know whether you --?

A - Mark Hodges {BIO 15503226 <GO>}

Yes, I showed a chart in November that showed the kind of -- the people reaching 65 the bubble over the years, kind of 2010 to 2014, and to an extent that's driving some of the volume. So we've invested a lot in the processes. We are very -- been more efficient as you know, we've invested in pricing in terms of excellence, so post code pricing on annuities. We think we've got a great proposition, so we are confident we can sustain our position.

Q - Oliver Steel {BIO 6068696 <GO>}

(inaudible) in terms of new business proposition [ph].

A - Patrick Regan {BIO 15131018 <GO>}

Well no we haven't split that out previously, no. It, as I say, I was up -- there was -- the whole volume was up about 60% and obviously very strong profitability.

A - Andrew Moss {BIO 3628034 <GO>}

Just one added comment -- a serious point, we and Delta Lloyd have been extremely open about the curve effects. So I read most of the material from you guys, it's there, it's recognized and I think it is important A, that we have been open and we'll continue to be so.

Q - Andrew Crean {BIO 16513202 <GO>}

Morning, Andrew Crean at Autonomous. Three questions, firstly, do you have an EEV new business profit as you gave in January for 2010 with the risk discounting rating? It may be in the pack, but I'm not sure I saw it.

Secondly, could you go through in a bit more detail the impact, the solvency impact on non-life? In 2010 you grew 5% but your solvency requirement fell GBP200m. I think that's because of the three-year averaging. That sort of flattens off in 2011. Does it then -- do we then start reflecting in 2010 the actual growth in your business, so that there will be an increase in the solvency? And how does that play through?

And thirdly, just look at your IRRs, you're a company which carries quite a lot of central costs both regionally and centrally, do you calculate your IRRs with a fully -- on a fully costed [ph] basis when you allow for that? And if you do could you share with what the IRRs are there?

A - Patrick Regan {BIO 15131018 <GO>}

All right thank you. Most of those were for me I think, Andy. We didn't publish, Andrew, the full embedded value margin. I think we would like to at some point in the future. It's a little bit close to January 20, to get it out at this time. But that is something we'll look to do as we go forward.

In terms of the capital consumption stuff, so I mean you are spot on in terms of the profile of GI as we've reduced the portfolio and cleaned the portfolio. That's beneficially impacted that reserve -- the capital requirement, because it's if you like, somewhat staggered. Next year I would expect it to be a broadly flat impact, so it shouldn't be positive or negative to capital consumption.

Logically as you go beyond that --

Q - Andrew Crean {BIO 16513202 <GO>}

That's this year then?

A - Patrick Regan {BIO 15131018 <GO>}

2011 yes, 2011, logically as you go beyond that you would expect some slight increase in that, hopefully, getting more than offset by our increase in profitability.

And the last also -- oh yes, sorry, in terms of the IRRs they are un-levered. They include four regional costs within them. And as I mentioned briefly, and then we actually didn't even include the benefit of the reattributed estate within there. So it includes virtually all of the costs you could think of.

A - Andrew Moss {BIO 3628034 <GO>}

James.

Q - James Pearce {BIO 16758460 <GO>}

Morning, James Pearce, from UBS. Three questions, first, you said you were going to focus on underwriting risk rather than investment risk, but in the analysis of shareholder and bonds it looks like below investment grade has gone from 10% to 12%. Can we expect that to reverse in 2011?

Second, there's a big favorable assumption change on expenses in Europe, despite the fact that the IFRS disclosure shows European maintenance costs 2% higher year on year. How should we think about that?

And thirdly, what happened to the internal debt? And what's the amount at year end please?

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Let me take the first one if I may. What I tried to say, James, was that actually in the way we've thought about it, in terms of deploying capital in risk areas, we've tried to shift it more away from investment risk into insurance risk where we think our expertise lies. And we also have an expertise in debt markets, there's no doubt about that.

And I think, as I said, if you look at the actual credit default experience in our portfolios over the last three years, which clearly have been very testing years, I think we can look anybody in the eye actually and say that we have a record of which we can be proud.

It flows, as you know that if you sell some insurance products such as annuities you have to deploy the money somewhere, and therefore investment risk and expertise within Aviva Investors is of great value to us. And it's something I think that gets forgotten sometimes.

You can focus just on the profitability of Aviva Investors to measure their contribution to the Group. In many ways their contribution to the Group is far larger in terms of the way they've outperformed in terms, particularly, of credit markets over the course of the last three years. That's been particularly true in the UK. It's been particularly true in the US as well.

There is also a team within Mark's team obviously on the commercial mortgage side, which also I think has done a great job through that period, and continues to do so today.

So I think your question is a really good one; I just like to answer it in a slightly more nuanced way. I hope I've done that.

There were a couple of other questions as well.

A - Patrick Regan {BIO 15131018 <GO>}

Yes. In terms of the expense assumption stuff, obviously Delta Lloyd had a kind of a positive, continued positive MCEV expense assumption. And we had some other kind of bits and pieces within Europe that really reflects expectations and actuals of expenses on that.

And the third question, James, was?

Q - James Pearce {BIO 16758460 <GO>}

Internal debt.

A - Andrew Moss {BIO 3628034 <GO>}

Internal debt.

A - Patrick Regan {BIO 15131018 <GO>}

Oh, internal debt, it's still there, it's about almost exactly the same number as it was previously. If you look at the capital allocation tables you can see it in the corporate line.

Q - James Pearce {BIO 16758460 <GO>}

(Inaudible)

A - Patrick Regan {BIO 15131018 <GO>}

Yes. It's pretty much exactly the same number here.

A - Andrew Moss {BIO 3628034 <GO>}

You've been waiting patiently here I think so --.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Thank you. Morning, Raghu Hariharan from Citi.

A - Andrew Moss {BIO 3628034 <GO>}

Hi, Raghu.

Q - Raghu Hariharan {BIO 15133573 <GO>}

I had three questions. The first one was on the GI investment return. In the operating profit the investment return is 4.6%. Below the line if you add in the negative investment variances it's 3%, 3.5%. I was wondering, how should we think about the sustainability of the investment returns in the operating profit line going forward.

The second question was on the pension fund deficit. Now obviously there is a 37p benefit, accounting benefit in IFRS NAV, but you have a GBP300 million hit on your capital. So I was wondering how should we think about the funding deficit as opposed to the accounting deficit, and what's happening during the year?

The third question was in the UK for Mark really. The annuities businesses has had healthy growth. There is a lot of regulatory discussion papers around which is talking about forcing insurers to have -- offer their customers more open market options. And I was wondering if you could tell us what your vesting pension rate is, or vesting annuity rate is? And do you think this -- the new regulatory papers would challenge your automatic conversion of pensions into annuities please? Thanks.

A - Andrew Moss {BIO 3628034 <GO>}

Why don't start with that one, because actually we are highly in favor of open market options I think.

A - Mark Hodges {BIO 15503226 <GO>}

Yes, without speaking [ph] too colloquially I think we -- it's a kind of bring it on frankly. We've invested a lot as I said in the capability. We are advertising in the annuity market to try and get people to shop around, because we think we are very competitive, we think we have a highly differentiated pricing basis.

But in terms of the capture rate it's still around 70%, it's been like that now for a few years. It's something that we worked on maybe three or four years ago, and it's been pretty steady. But frankly, yes, we are very in favor of more customers shopping around in the open market, and very happy with the discussions going in that direction.

A - Patrick Regan {BIO 15131018 <GO>}

Yes, for the other two, on the general insurance investments, we rather unfairly actually called it general insurance investment variances, which really wasn't anything to do with them. It was Group center investment variances. Non-life would be a better term. They were Group center investment variances to do with the equities we hold here and the hedge -- and the mark to market on the hedging program at Group center. So virtually all of those really didn't applied to the general insurance business.

In terms of the assets, we are not really seeking to dramatically change the asset profile. So we hold virtually no equities. There is a little table in there showing the assets made up of -- in GI. We are not really seeking to get back into growth seeking assets, mainly in kind of fixed income as you would expect.

We have, as I mentioned, just gone a little bit more into preference shares in Canada. There are some beneficial tax advantages; my friend at the end understands better than I; of holding prefs in Canada. So we've done a little bit of that. And as I say, our new money yield is probably just over 4% overall.

On the pension scheme we have seen a significant improvement in the funding deficit as well of about the same order of magnitude. Obviously, the absolute amount isn't the same as you would expect a slightly kind of -- it's still in a deficit position from a funding perspective, as all schemes are more negative from a funding versus kind of an accounting perspective. But it has improved by about the same order of magnitude as the accounting number.

Q - Raghu Hariharan {BIO 15133573 <GO>}

So the accounting deficit is zero, and the funding deficit at the yearend would be how much?

A - Patrick Regan {BIO 15131018 <GO>}

I don't think we've published that number before have we? No. But it's more than zero.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes, Nomura. Couple of questions, the first one is on the growth outlook. Clearly in 2010 there have been a number of step changes, some one-offs. You described a number of opportunities that you see. I wondered if you could give us some sort of ranking. I mean what are you most excited about? Is it Europe? Is it cost reduction, etc., etc?

Then second question is perhaps a simpler question which is on the credit provisions in your annuity book, just really an update. You seem to be curiously silent about those with the full year results. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

All right, well, let's be conspicuously loud about it now Mark, shall we update on that first?

A - Mark Hodges {BIO 15503226 <GO>}

In terms of annuity provisions they're unchanged. You've seen the performance of the mortgage book. You've seen the performance of the credit book. In the conversations that we've had we just think it's too early to do anything with the provisions.

You'll remember that when we set them up in 2008 it was an interesting time. We are very confident, highly confident about the performance of the credit book and the mortgage book, but it's just in our view too early to change those provisions.

A - Andrew Moss {BIO 3628034 <GO>}

Do I rank them by priorities? I suppose the simple answer is no, because we have a diverse business, and when I look in different markets I think we have obviously different priorities and things we can move faster on in some places than others.

The UK, I hope it came across in what we saying, we are incredibly enthusiastic about our business in the UK right across the piece, and our customers are responding extremely well to that. And that's where the business growth comes from in the end.

Maybe I can bring Igal in and maybe share a few first thoughts on a couple of the European markets.

A - Igal Mayer {BIO 15440055 <GO>}

Yes, sure. It is only first thoughts, but I think actually if you look at the second half results you're seeing the benefits of Quantum starting to come through. And I absolutely plan on accelerating it. To me it's fundamentally driven by applying more discipline to the broad portfolio and applying it consistently.

So if you're saying where I'd see the priority right now, I think we can grow profit. Now whether you want to call that underwriting profit or investment profit, the reality is we've shown through the framework the processes and discipline that we've put in with Quantum. That we are now actively managing the portfolio across Europe far, far better than we had historically, and there is just a lot more to come on that.

There will be more to come on cost, Quantum has made some very good progress already, GBP100 million of cost savings in 2009 that sustained and carried through in '10 and there will be more of that coming through in '11.

If we get to specific markets, some of the markets are challenges as Andrew said. Ireland will be -- continue to be challenged. We've seen our Polish business drop as legislation has changed around pensions. But again I am incredibly impressed by that business and that franchise. It started over a decade ago as a purely pension business. Today, more than 70% of that business is non-pension. And they've been readying themselves for that change.

We'll probably see another quarter or so of downturn. But again momentum is building in the protection products in the unit-linked products, and even GI in Poland has got some good potential and growth ahead of it.

Spain, Andrew touched on Spain. We have incredible -- I think we've got three things going for us in Spain. We have an incredible business model in terms of how we operate bancassurance in Spain. And it is something under Quantum we are looking to expand. But if I come back to Spain, it is a model that delivers incredible profit and benefit on a line basis to both ourselves and our venture partners. That gives us a huge advantage. The relationships are very strong.

And as Andrew said the contracts were done over a decade ago but put us in a very, very good position as we move into this period of a reshuffling of frankly the decks.

So it's -- I'm not going to predict the size and shape of that business. That would be, I think, a bit presumptuous. But in terms of the advantages going in I feel very good about our business model, the contracts and our relationships that that will continue to be a very market for us in the long term. So that's some early views in terms of markets and opportunities.

A - Andrew Moss {BIO 3628034 <GO>}

There is probably one broader response as well, and I'd just like to pull it back to the strategy, if I may. I wouldn't like to leave the impression that we are not pushing forward on the focus that we talked about in November. It's just a little early to give you concrete examples of things where we are de-emphasizing. But you can expect it in the course of the next six to 12 months. Craig.

Q - Craig Bourke {BIO 1764587 <GO>}

Morning, Craig Bourke, MF Global, I thought I'd give the other lads a chance first this time. All right, three questions.

A - Andrew Moss {BIO 3628034 <GO>}

What, what I didn't hear any of that.

Q - Craig Bourke {BIO 1764587 <GO>}

You can buy me a beer later. Three questions, one is a number, a large part of your or a portion of your hybrid debt doesn't count towards the rating agencies' capital adequacy model, now what -- in other words is above the tolerance levels. I wonder if you can just give us an amount in terms of how much debt you can pay back before it starts hitting the CAR model. That's question one.

Second one US in your general account business, I was wondering if there is any more room to reduce the minimum guaranteed rates on new business furthermore or you are bouncing up against the minimum? And the discretionary crediting, maybe you can give us some idea of what they are and whether there is some capacity within your marketing plan to do that.

And the third thing, I'd just go back to a comment that the Pru made in December about there was an appetite for a number of US insurers to get into the fixed-indexed annuity market, because its providing a natural and cheaper hedge than they could get from investment banks against the -- some of the (inaudible) hedge their own books.

I was wondering whether there -- because there is a desire to buy or get hold of blocks of this business whether you'd be open minded about selling that block of business to one of the existing players if the price offered was attractive, because of those dynamics.

A - Andrew Moss {BIO 3628034 <GO>}

Well let me just take the last one first, I think there is no doubt actually that the value of our business will have gone up quite substantially in the last six months both because of the actions we've taken on profitability which will follow through to that, but actually the market, you're right, I think has got more favorable. Clearly it wasn't particularly favorable 12 or so months ago.

But our priority just remains on growing the profitability of that business. And we think there is still real scope for that as we go forward. So that's going to be our focus. And over the next 12 months we will do that under Richard's management now. He has been CFO of the business for the last 18 months, and has been really important with Igal, in driving the profitability forward.

I think the honest answer on the -- how much more can you push in term of new business and crediting rates and commission is we are probably pushing up against it.

A - Igal Mayer {BIO 15440055 <GO>}

Yes. We're close to non-forfeiture in the US, minimum guarantees are already down to 1% and that's frankly as low as you'll go without legislative changes.

A - Andrew Moss {BIO 3628034 <GO>}

What was the first one?

A - Patrick Regan {BIO 15131018 <GO>}

The first one was about the hybrids, I'll allow Igal to answer, he's clearly much more comfortable on those US questions.

A - Igal Mayer {BIO 15440055 <GO>}

I think I've (multiple speakers)

A - Patrick Regan {BIO 15131018 <GO>}

As you remember it is fully allowable for IGD, should be allowable under Solvency II, a portion isn't allowable under S&P, you're quite right. But we -- I think we can pay back the amount we've highlighted and not impact the allowable amount within the S&P capital markets if that makes sense.

Q - Craig Bourke {BIO 1764587 <GO>}

(inaudible question) just in terms of a US sale at the last presentation you refused to rule out a sale, is that still your opinion?

A - Andrew Moss {BIO 3628034 <GO>}

No. I wouldn't rule it out at some point in the future Craig. Sorry, just to be clear on that. But I really believe that we are driving value forward in that business in a very, very meaningful and there is more to come. So maximizing that value is just the logical thing for us to do whatever we want to do.

Tony?

Q - Tony Silverman {BIO 2162363 <GO>}

Tony Silverman from Standard & Poor's Equity Research. A couple of questions, I noticed I think it was slide 27 that the commission expense ratio for the GI business as a whole is virtually unchanged at between 19% and 20%. Which sort of plays rather oddly against a sort of background dynamic of moving to direct and aggregators and greater [ph] in those channels. So I was wondering how does that work and how -- what would the outlook be if you like for that ratio.

And the second question was I noticed there was lapses in the MCEV reporting a negative lapse number of minus GBP27 million for the Asian business, which is quite significant in the concept of the size of the Asian business. I do remember seeing these numbers historically, and I thought maybe it was the last we had seen of them. What can you say about their recurrence here?

A - Andrew Moss {BIO 3628034 <GO>}

Okay. I'll ask possibly all three of you to comment on the commission question. And I think lapses in the Asian business it's an interesting dynamic. And in some of the markets we are operating in, in Asia are seeing very high lapse rates, by definition from your question, higher than we expected.

So if you take the Indian market, for example, first year lapse rates are running at very, very high levels. And what's that telling you? I think it's telling you that people are being sold things that either they can't afford or in reality they don't want. And I think there is going to be a regulatory action to that, and we are already seeing it in India. Whether that spreads to other markets, I think we'll have to wait and see.

If you want my opinion on it, Tony, I think it will. I think those Asian regulatory markets have been marked by very strong prudential regulation, but less focus on consumers. And if they develop in the way that other markets have around the world then we'll see that shift over time. And that may have an effect on margins clearly.

But as we see those lapses it's just going to alert the regulator further to those issues, absolutely no doubt about that. It's one of the reasons why we don't have a large direct sales force in India, because we think there could be a penalty to that coming down the track.

On the overall costs?

A - Patrick Regan {BIO 15131018 <GO>}

Yes, on the overall commission levels most of our business is still sold through brokers, whether it be in Canada, whether it be in Ireland or whether it be in the UK personal lines and commercial lines.

A - Mark Hodges {BIO 15503226 <GO>}

Yes, just a color from the UK perspective on the distribution ratio which is an expense and commission is down a percentage point. I think we've been very stable in our outlook. We have a balanced book of business. So no one channel, whether it be direct or whether it be broker or whether it be bancassurance has a disproportionate effect.

The outlook therefore is relatively stable, to answer the particular question. And certainly as we grow into areas, as Andrew already highlighted, like corporate risks we are very cautious about the nature of the relationships we are entering into, and we are very cognizant of making sure those relationships are built on profitable foundations. So I would say it's a pretty stable picture.

A - Andrew Moss {BIO 3628034 <GO>}

I think the other thing obviously we focus particularly on the UK business in terms of taking out operating expenses and frankly of tackling the commission base. And we do that both with Igal running the business and Mark has followed that through.

I think as we look at the businesses Europe there may be opportunities on that front. But that's something that I think Igal will take a hard look at in the course of the next six months.

Blair, thanks, Tony.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much, Blair Stewart from BOA Merrill, three quick questions. Just looking at the life operating profit, I think there was a couple of hundred million of non-recurring one-offs. I was just wondering to what extent did those go through into the cash flow numbers in addition to the couple of hundred million positive effect from the general insurance business, the first question.

Second question is I noticed there was an assumption change for the long-term investment return in life operating profit, using the implied risk discount rate. What effect did that have? Apologies for that.

And the last question is for the UK general insurance, what's your ambition for the current year improvements? I think you've got a 3 -- just over a 3 point improvement this year. What do you expect for the coming year? Thanks.

A - Andrew Moss {BIO 3628034 <GO>}

Well let's start with the last one, obviously we are pleased with the UK performance, but we are looking for more. But Mark, do you want to comment?

A - Mark Hodges {BIO 15503226 <GO>}

Yes. If you discount the weather, so versus long term assumptions weather was about 1percentage point of combined ratio around GBP40m. That means the underlying is around 95% combined ratio. Impact from prior years continues to be muted is around 2%. I think that's a pretty good performance.

We are looking to continue to grow the book. I've already talked about the fact that motor rates increased last year. Some of that benefit will earn through this year. We think motor rates will continue to go up.

We think fleet rates are going up, that 7% average across the year was back ended, and by the end of the year we received double digit increases across the fleet book. On homeowner it's a fairly stable situation.

And of course, because we've done a great job, I think, on cost because the cost ratio is 11% as we grow the top line, and Andrew has talked about some of the areas where we think we can grow. I can add some color to that, some of the things I was saying in November around personal lines, broker market we can still grow there. Around the RAC panel in the aggregate space we can still grow.

In the corporate and specialty lines as we grow the top line we will leverage that cost ratio. We think there is room to expand the business and not increase the cost base. In fact you'll remember we set the target for the UK of reducing absolute costs as well as becoming more operationally efficient.

You can definitely take the second question.

A - Andrew Moss {BIO 3628034 <GO>}

The first one the truth is there are some ups and downs frankly in those numbers.

A - Patrick Regan {BIO 15131018 <GO>}

Yes. I think on the run rate of OCG [ph] which is kind of what the question is about, there were -- we have the general insurance and for example special distribution in the UK in the first half. There wasn't really anything in the second half, Blair, so what I think what you should take out of that is we had about GBP900 million in the first half as you remember of operating capital generation. The second half was very close to that. It doesn't quite show through in the roundings. And that didn't really include any one-offs whether it be on the general insurance or life side.

I think from a run rate perspective that's what to look to. And it's about GBP30 million is the positive impact from with that, so out of our GBP2.3 billion it's something like GBP20 million impact.

A - Andrew Moss {BIO 3628034 <GO>}

Jon?

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking from Morgan Stanley. Two questions please, could Mark talk a little bit about what's going on in the personal lines broker market, how RAC is performing on the aggregate and how you've been [ph] with direct strategies playing out.

Then a probably an unfair question for Igal, when we had the original Quantum Leap presentation it was a sort of clear strategy, there weren't many numbers in terms of targets both on costs and revenues, etc. When do you think we might get some more color on what you can expect to do in that business operationally?

A - Andrew Moss {BIO 3628034 <GO>}

Okay, Mark, do you want to go first?

A - Mark Hodges {BIO 15503226 <GO>}

Yes, I can go first. So the policy count on the RAC panel is up to 300,000 by the end of the year, very pleased at the way that that's building. There is momentum in that number and therefore we think we can grow it further in 2011.

The personal lines broker market we talked about talked about taking Aviva risk index into the personal lines broker market, the policy count there is up around 100,000 as well over the year.

And we are only 78%, 80% of the way rolling it through the broker market and it has built as the year has gone on, so I think there is more momentum for us there as well. So we are expecting, as I say, more ratings to come through and an ability to grow.

And in terms of the direct, direct as it were, Aviva Direct, 200,000 is the number that Andrew referred to that's the growth in the policy count. Key thing there is we've made the marketing much more efficient. We've actually halved the spend. And actually we are getting the same volumes of calls through. So the integrating of the marketing campaign that we've done having a stable marketing campaign now for a year or two has really paid off for us.

A - Andrew Moss {BIO 3628034 <GO>}

Igal.

A - Igal Mayer {BIO 15440055 <GO>}

Yes, Jon, a very good question, five weeks in though I can't give you any numbers but it is exactly what we and Helon Hislop, my new CFO and I are working on. So we'll give you more guidance at the half year and certainly by the end of the year we'll be able to show you deliver against some real figures.

A - Andrew Moss {BIO 3628034 <GO>}

Yes.

Q - Mitchell Todd {BIO 15765353 <GO>}

Just a quick one, Mitchell from T. Rowe Price. Can you just give some color or outlook on the net flow development for the next couple of years in the context of GBP2 billion for 2010 and opening [ph] AUM of GBP280m?

A - Andrew Moss {BIO 3628034 <GO>}

Sure, how do we want to do that, do you want to start that and maybe bring Mark in on the UK, because UK is (multiple speakers).

A - Patrick Regan {BIO 15131018 <GO>}

We had about GBP20 billion overall increase in funds under management, obviously, we had positive market movements helped us in there. Then within that the kind of -- the big flows, we had positive in the US. And again we'd like to think that would continue. Then in the UK it was really the tale of two halves between the non-profit and with profit side.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. It's -- we put disclosures out sort of intermittently on the UK numbers. It's fairly consistent underlying, the endowment outflow which is well signaled and will carry on at around GBP1 billion a year. The non-profit side tends to be kind of plus or minus if you look over the last three years sort of GBP0.5b.

Really the new issue in the UK and why the UK number is negative is there is an awful lot of bonds reaching their 10 year NVR free period, and that's about GBP1b, GBP1.5 billion of outflows, and that will probably carry on for another year or two. But those are the moving parts in the UK.

A - Andrew Moss {BIO 3628034 <GO>}

You want to come back then -- yes.

Q - Mitchell Todd {BIO 15765353 <GO>}

So if I think about it in terms of the 70 basis points net flows that we saw this year, structurally there is no real difference to that going through to 2011?

A - Patrick Regan {BIO 15131018 <GO>}

I think it would be too early to say otherwise, let me put it like that.

A - Andrew Moss {BIO 3628034 <GO>}

Yes. Where shall we go? Colin, yes, Colin.

Q - Colin Simpson {BIO 15894636 <GO>}

Hi, it's Colin Simpson at Goldman. Just your UK life business made GBP261 million of cash, your smaller peers are -- one sort of targets GBP700m, the other has a target to be GBP400m. Are we just accepting that you are a less efficient business?

A - Patrick Regan {BIO 15131018 <GO>}

Was there something else going on? That's the improvement we've seen in this year, just to say -- so the slide that was shown from GBP100 million up to GBP400m. I think as ever that's something we are very focused on. We've reduced the capital intensity. We are reducing the expenses. When we talk about going forward it's an area that we are very, very focused on.

A - Andrew Moss {BIO 3628034 <GO>}

Yes, I think we are focused on continuing improvement. But what's the big difference, Colin, is we have a diverse business with lots of different flows in different places. So we don't have to just target one part of our business, it gives us choices. We can reinvest in different parts of the business. And that's the great strength to our business model. And it will continue to be so. So yes, do we expect the 1.7 [ph] to be important to us and to at least sustain that's what we are focused on. Doing that we'll make different choices at different times about where we'll focus effort and where we'll allocate capital.

A - Mark Hodges {BIO 15503226 <GO>}

UK (inaudible) the GI at this point.

A - Andrew Moss {BIO 3628034 <GO>}

Marcus.

Q - Marcus Barnard {BIO 2103471 <GO>}

Thanks, Marcus Barnard at Oriel. Can you comment on the ECJ ruling on sex as a rating factor and how it affects you, particularly on -- presumably unisex pricing makes you more profitable but you could face adverse selection in a competitive market.

Secondly, Delta Lloyd clearly it can stand on its own two feet. Owning it creates a minority interest in your accounts. And as an investor if I wanted to own it I can buy it direct. So question, why do you still own it? And secondly what conditions would cause you to review that ownership?

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Well let's go with the first one then I can ask -- actually it's a European issue as well as a UK issue just to be clear, although we are already operating in some unisex pricing markets in Europe, so Mark, just a UK view?

A - Mark Hodges {BIO 15503226 <GO>}

Yes. A UK view is it's early days in terms of what might happen. I think the fact that this implemented from the December 21 next year is helpful it gives everybody time to evolve into gender-neutral pricing. We were ready, had it been implemented immediately. I think it's -- as you said it's a highly competitive market, the three most affected markets in the UK will be motor, annuities and protection. They are all highly competitive. They are all becoming more price transparent.

Gender is an important fact, but it's not the only factor. We've invested a lot in our risk index in the motor book, we've invested in post code pricing in the annuity book. I think that period that we have between and implementation gives us opportunities to test the market, test new rating factors that we can bring to bear and look for those sweet spots in terms of selecting risks.

What it means for actual prices and where the market goes, again, right now there is a lot of uncertainty, but if you think about something like annuities the vast, vast bulk of annuities the price is driven by either on joint life or for males by the male component. So we are not seeing it necessarily as a huge change in prices for the consumer either. But certainly I think it's very helpful that we now have 20 months to evolve into a gender neutral world.

A - Andrew Moss {BIO 3628034 <GO>}

May I jump in [ph] sorry, just to reiterate what I said earlier really, Marcus, which is as the majority shareholder in a company where we think there are significant operating improvements still to come we think we'll be the beneficiary of that. Now, exactly when and how we wanted to change that, we'll keep it under close review.

Barrie.

Q - Barrie Cornes {BIO 2389115 <GO>}

Morning, Barrie Cornes from Panmure Gordon. A couple of questions on non-life if I may. First of all you've mentioned about commercial motor fleet increasing 7% rates. Could you comment on commercial property and liability, and given the comments from other companies about how maybe -- on the verge of actually improving fairly soon?

And secondly, in terms of your relatively new London market operation, I think, Andrew, you mentioned that in passing, could you give some more color on how you are going to maintain discipline in what it has been described as a suicidal rate environment by others. When might you move into public liability underwriting? When might you also perhaps identify the performance of that operation going forward, just so that we can have good clarity on it?

A - Andrew Moss {BIO 3628034 <GO>}

Yes. I always like our competitors complaining about us moving into their space, Barrie, I have to say. But let me -- let Mark give a bit more color.

A - Mark Hodges {BIO 15503226 <GO>}

Yes, okay. So commercial property, commercial liability from our perspective last year was pretty flat to be honest. Selective rate increases through the book rather than across the book. We'd been through, as you know because you've seen the impact on volumes, a cleansing of our book in 2008 and 2009. So we are very happy with the book of business that we've got. The retention rates were very high across commercial property and commercial liability, up in the high 80s.

And so we weren't out there having to sort of replace huge losses from a lapse perspective. But it was pretty neutral. It was kind in the 1%, 2% range of increases.

Where that's going, it's hard to predict. I hope and to take your point, Barrie, that some of the competition are right are we are seeing some upward pressure, and we certainly would welcome that.

In terms of the corporate and specialty risks book it's just worth remembering, although we are talking about the GBP50 million new we actually have a book embedded regionally in our business already. So this is -- when I talked about this it was about risk expansion and capability expansion. This isn't a completely step in the dark for us. So we had around GBP400 million of our current commercial book, if you were to reclassify it, it would fit into this space.

We basically will grow the business, so where does the discipline come from? Well hopefully some discipline from the top. I am very disciplined around profit and volume and have been I think for a long time.

But it will be around recruitment. We will grow that book of business in line with our ability to recruit. We brought around 16 specialist underwriters into the business pre-Christmas. We are already out there recruiting in the new year. We have another 15, 16 joined us in the new year. David Hall joins us from Zurich at the end of this month to be the Managing Director of that business going forward.

I think the key thing to remember is we are doing this for the long term. This isn't something we are starting on a whim or for a year or two. We are now in this business, because as Andrew said we think we've got the brand, we know we've got the distribution, we know we've got the brand as well. And we will win. We will win in this market I am convinced.

A - Andrew Moss {BIO 3628034 <GO>}

I think you've met our chief underwriter Barrie, you know exactly what he's like.

Q - Ashish Patel {BIO 21085943 <GO>}

Ashish Patel from JP Morgan. Just two questions, one on liquidity premium, I can see that you have changed the assumptions on liquidity premium for Delta Lloyd which is mainly in line with the (inaudible) and not for the Group, so why that difference, first question?

Second is on, Andy, can you give some outlook on UK and this [ph] pricing, have they changed over last year or they are the same? Thanks.

A - Andrew Moss {BIO 3628034 <GO>}

Mark, do you want to take the first one?

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Delta Lloyd wanted to and we went along with bringing them aligned with (inaudible) that makes, I don't know, GBP20 million difference something like that, it's tiny, it's c=tiny.

A - Andrew Moss {BIO 3628034 <GO>}

And UK pricing.

A - Mark Hodges {BIO 15503226 <GO>}

For UK pricing it's a bit more different, it's very dynamic market. We price -- we can change prices now on a daily basis there is a capability we didn't have. I think we -- I'd just pull you back to the earlier comment, we think it's a growth market for us, we think there are more customers looking to buy annuities, so we are positive about our outlook.

A - Andrew Moss {BIO 3628034 <GO>}

Andrew.

Q - Unidentified Participant

Couple of questions, in your slides you said in 2011 we should look for meaningful movements in terms of your strategic portfolio. You've also said there are two key ones; you'll be looking for operational improvement upside also in the US before you might review it. So what -- where possibly could the meaningful bit come in there?

And secondly, I find it confusing, how can you have GBP40 million of weather losses and a competitive who is smaller than you have GBP255 million of weather losses above normal? How does that work?

A - Andrew Moss {BIO 3628034 <GO>}

Well I guess you better ask them.

Q - Unidentified Participant

(inaudible)

A - Andrew Moss {BIO 3628034 <GO>}

On the first point the meaningful, yes, look we are in 28 countries I think it is at the moment, and we are going to focus on 12. So you're right, between 13 and 28 there are some smaller countries. So if that's how you measure meaningful then maybe it won't be that meaningful.

The fact is that in management time some of these operations sometimes take up far more time than they should, given the returns that are available. And when I look at it, and think about it in those terms I guess that's where I'm coming from.

Q - Unidentified Participant

Because -- just follow up on that I think previously you've talked potentially of selling China or saying that there is a value on China. And yet I think you were also saying today that you were going to invest in the bigger markets in China, and as you've see China as quite a big market in Asia.

A - Andrew Moss {BIO 3628034 <GO>}

Absolutely, it's one of our 12 markets, and I think we've made that clear as we've gone alone.

A - Patrick Regan {BIO 15131018 <GO>}

On the weather numbers I think GBP255m, the competitor you were referring to was a global number wasn't it, and the GBP40 million was the UK, but --

A - Mark Hodges {BIO 15503226 <GO>}

Yes, just in terms of that UK weather, Andrew, quite simply we had GBP100 million of losses back in November and December, earlier in the year in January we had around GBP50 million of losses which we reported at the half year.

But when you take February, March, April, which are in terms of our long term assumptions we allow for weather losses in September, October and the vast majority of November, they were offsets, which is why we are comfortable with our number. We've looked through it. We've already paid 40% of the household claims that happened in December.

So we are very, very confident of our ability to predict those numbers, they're very steady. I think the question is our numbers, we think, are very robust. I can't really talk about anybody else.

A - Igal Mayer {BIO 15440055 <GO>}

Andrew, to be fair if you come to our European results for the -- between France and Ireland we've got about EUR80 million of above normal weather losses coming through the results.

A - Andrew Moss {BIO 3628034 <GO>}

Which was about the same as the year before.

A - Igal Mayer {BIO 15440055 <GO>}

EUR100 million the year before actually. So it's a pretty chunky number.

A - Andrew Moss {BIO 3628034 <GO>}

Andy?

Q - Unidentified Participant

Sorry, it's a quick question on India basically, I know India was one of the markets you wanted to keep back in October, and you've made some pretty bearish comments about India generally today. Has that changed or do you still -- is it still a core market for you?

A - Andrew Moss {BIO 3628034 <GO>}

Yes. It is still a core market. And I think the thing that I was talking about today I think it will get worked through in that market. You still have an enormous population, clearly under-penetrated. If you're taking a five to 10-year view, you've got to assume I think that the market will work itself through.

That country needs a long-term savings market. For example, it's a requirement to fund infrastructure development; it isn't going to get funded all by cross-border flows. So development of a long-term savings market in India, I think, is a major policy issue for that country. I think that's appreciated.

What we are seeing at the moment I think is something that will work through over, I think, possibly still two or three years, but you've got a little longer than that I think.

Q - Unidentified Participant

Thank you. Just two quick questions, just on Group strategy, you had a target of 12% longer term on capital employed. You had a very good in-profit outcome this year and the return on capital employed for the Group is 10.5%. And the main drag is life still which is 10.2%. So I was wondering how should we think about timeframes in terms of when you want to get the Group to 12%. Is that the way we should think about it? Then --

A - Andrew Moss {BIO 3628034 <GO>}

(Multiple Speakers) We are at 15% now for the Group overall.

Q - Unidentified Participant

Okay. Are there (multiple speakers).

A - Andrew Moss {BIO 3628034 <GO>}

You're right, you're absolutely right within that there are some markets which we are committed to which we are not currently achieving that return on equity. And we are very focused on that in two or three of those cases.

Q - Unidentified Participant

Sorry, I was referring to ROCE rather than ROE because your 12% target I think at November was an ROCE which includes preference shares and hybrid debt. Because the ROE is 14.8% but I think your target was based on ROCE, so that's --

A - Patrick Regan {BIO 15131018 <GO>}

Well specifically what we said was we'd get all the countries to 12%. That was the target. And I think, as Andrew says there is a number of them now performing well above that, and some of those -- some of those core ones we are trying to get to less [ph]. Then as I said we are at 14.8% in total there [ph].

Q - Unidentified Participant

Okay. Thank you. Just a question for Mark on net inflows in the UK, you've got GBP3.2 billion net in -- sorry GBP1.4 billion net inflows of which GBP3.2 billion are annuities so that means there is about GBP1.8 billion of net outflows in the UK non-profit business. I assume that's mostly in your pensions and investment bonds.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Individual pensions. We talked again in November about the persistency, and then I went through the various categories and talked about Group pensions, individual pensions, bonds, individual pensions is the challenging area in the run up to RDR. You'll see that the persistency charge is quite small still it's something that we think is manageable. And we still think our long term assumptions post-RDR will hold or actually be conservative. But yes, that's the driver.

Q - Unidentified Participant

What are you expecting on rate change in terms of outflows (multiple speakers)?

A - Mark Hodges {BIO 15503226 <GO>}

I think if you go through '11 and '12, as we are in -- specifically around individual pensions in the run up to RDR there is some pressure on those flows. As we go post-RDR I think there will be a much more stable situation.

Q - Unidentified Participant

Okay. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

I am just conscious of the time. Time for one more I think.

Q - Unidentified Participant

This is a follow up on Andy's question on India; there has been some changes in India on the FDI rule, which is like now you can increase your stake from 26% to 49%. Would you like to do that -- would you like to increase your stake in India from 12 -- currently 26% to 49%?

A - Andrew Moss {BIO 3628034 <GO>}

Well we've always wanted to increase our stake. Simon, unless it's late breaking news, I don't think we are aware that that's the case.

A - Simon Machell {BIO 7271003 <GO>}

It's been talked about.

A - Andrew Moss {BIO 3628034 <GO>}

It's certainly been talked about; it's actually been discussed in Parliament a number of times in the last few years. But I think recently again the changes is not really -- you may want to comment Simon, please do.

A - Simon Machell {BIO 7271003 <GO>}

Yes, I mean I think it has been talked about as a possibility, but I think the pressure from local businesses to stop it from happening is still there. So I don't expect any change in the short term. I think as Andrew said we'd like to increase our share, but the opportunity is not there at the moment.

A - Andrew Moss {BIO 3628034 <GO>}

Okay, well, look, let's put it a close there. Obviously you'll all have other questions. We've given you, I think, it's 170 odd pages to claw through, so thank you. Thank you for taking the time to do that. You know where Charles is, you know where we are if you've got other questions. Thanks for all your time this morning.