Q2 2017 Earnings Call

Company Participants

- Andrew David Briggs, Executive Director & CEO of UK Insurance
- Christopher Esson, Group IR Director
- Colm J. Holmes, Chief Executive of UK General Insurance
- Mark Andrew Wilson, Group CEO & Executive Director
- Maurice Tulloch, CEO of International Insurance & Executive Director
- Thomas D. Stoddard, CFO & Executive Director

Other Participants

- Andrew Hughes, Insurance Analyst
- Andrew John Crean, Managing Partner, Insurance
- Andrew Sinclair, VP
- Ashik Musaddi, Executive Director and Co
- Colm Kelly, Associate Director and Equity Research Insurance Analyst
- Gordon Aitken, Analyst
- Greig N. Paterson, MD, SVP and U.K. Analyst
- James Austin Shuck, Director
- Oliver George Nigel Steel, MD
- Ravi Tanna, Equity Analyst

Presentation

Christopher Esson {BIO 16208369 <GO>}

(technical difficulty)

Aviva, just a few housekeeping things to get through first. There are no fire alarm tests that are scheduled for this morning. If an alarm does go off, please exit through the doors on my left and up to the ground level. And secondly, please, we'd like to draw your attention to the disclaimer regarding forward-looking statements.

And with that, I'd like to invite Mark Wilson, our CEO, to kick off the presentation.

Mark Andrew Wilson {BIO 7102576 <GO>}

Yes, I believe that is the start. Well. Good morning, everyone. Welcome back to the auditorium for our first half 2017 results. Today, I think the numbers really tell their own story. We're seeing growth in top line sales driving growth in bottom line operating profit.

And the interesting thing about today's results is that it's broad-based, it's broad-based geographically and it's broad-based by product. And I think that's a pretty good place to be. And I think what you're seeing is the result of the foundation we put in place over the last few years. What you're seeing is some delivery from our quality franchises and you're seeing growth in market share as well as customers, we think, are showing a greater propensity to buy, in these uncertain sort of environments, from our brand. You're seeing some good progress on building our digital intellectual property, which I might add has moved on a huge amount since you saw it last time. And maybe it's time to show you a bit more of that later in the year.

What we have here is also a very clean, clear, set of results. And that's just the way you and we like it. I think we've developed a bit of a rhythm here, we've developed a regular pulse and strong numbers. And this consistency shows that the group, as a whole, is in pretty good health. And thankfully, we do keep delivering. Aviva is a show-me story. And I'm a fairly hard judge of our numbers. But even I can see this is a pretty strong set.

We've grown operating profit 11%, up to GBP 1.47 billion. And operating EPS is 15% higher at 25.8p per share. Our Solvency cover ratio, something we all watch closely, of course, has increased to 193%. And so over this period, we have delivered another robust period of capital generation. And cash remittances in the group, of course, rose 56% as well. Now put all that together and we've declared an interim dividend of 8.4p per share, that's an increase of 13%.

So if you step back, I think we're delivering good progress financially, we're delivering operationally. And we're delivering strategically. And I'll just take you through a few of the highlights that I see in the results.

Now we've done a lot of work simplifying the group, we've sold off the lower-quality franchises. And you can see this coming through in the quality of the operating profit. Now I am getting much happier with what we have left in the group. And as these results show, our diverse quality franchises are delivering. We said we wanted some diversity, we said we wanted quality franchises and we've shaped the group into that. Now if you have a look, we've actually extended our track record of growth in operating profit to four years now. And as I said, operating profit is up 11% and EPS up, I think, a very healthy 15%.

Now I should point out, though, that the 11% increase in operating profits included 5% from FX. And the way I look at FX, it's a strategic benefit from our geographic diversity. And we now have nearly half of our operating profit coming from outside the U.K. and that gives us some balance in a Brexit environment and uncertain economies around parts of the world. And certainly, that diversity is certainly part of our investment thesis. On a constant currency basis, 6% growth is still at the upper end of our mid-single-digit target range. And I would view this as highly satisfactory.

Looking at divisional highlights. Aviva Investors, well, we said it was on a good growth trajectory. And again, it's delivered, operating profit up 45%. And of course, I would expect more in the second half, more growth to come, haven't we, Euan? And this, I might add, is a core strategic business for Aviva. It's taken a few years to get it where we wanted. And now it is delivering. Europe is also showing considerable improvement, led by Poland and France. Now I indicated at our full-year results that I thought Poland and France were disappointing, they were. So -- in '16. And it's great to see them stepping up. We made some changes, we made some changes to the management there in France and it's great to see them improving. And of course, Turkey is also performing well. Turkey has been this hidden jewel, I think, this consistent performer and it's performed well again this year.

Now notwithstanding in the U.K., the political uncertainty that we have and we live with, our U.K. business has grown operating profit by a very creditable 8%. On the other hand, Canada. Canada had a challenging half year. We had elevated weather costs and prior year development. And that overshadowed some quite good improving accident year margins. But frankly, I find Canada a bit of a disappointing result. And it's fair to say the local teams are well aware of my views and they've taken us through their plans and I am sure they are on top of it for the second half.

Turning to capital and cash. Now we've got an equally robust and consistent growth picture here. The Solvency II cover ratio, as I said, is increased to 193%. It's fair to say, we are well above our target working range of 150% to 180%. Tom will add more color on this. And this excess remains a very high-quality problem.

Now we have maintained operating capital generation at the strong level achieved last year. I think part of the story here, though, is within this, we've delivered a GBP 100 million improvement in the underlying capital generation. And as I highlighted earlier, cash remittances increased to just shy of GBP 1.2 billion. And you know, this is good progress. We are pleased to see, for example, another GBP 315 million of specials from the U.K. insurance business, more to come there. They'll pass the halfway mark on their target of GBP 1 billion of specials by the end of 2018. And I would expect us to be north of that.

Another benefit, I guess, the specials they are paying in our capital position is another benefit of what is looking like a pretty good acquisition of Friends Life. It's delivered everything we thought we would and more.

Put all that together, it brings us onto dividends. We've increased our interim dividend to 8.4p per share. This, of course, you can do the math. So it's a growth rate of 13%. Now I know there will be some questions about operating EPS and dividend trajectory, inevitable. On one hand, of course, we have the very strong growth in operating EPS, up 15%. And on the other, we have the impact of the impending sale of FPI on operating profit. Now Tom will cover this in more detail. But suffice to say, there are clearly pluses and minuses. And all in all, I wouldn't want you to either increase or decrease your forecast based on either factor. We had a pretty good idea where we were moving when we set our targets. We had planned to also sell FPI and we got it out the door for what we think is a pretty good price.

Now turning to our other franchises. Our franchises are pretty much around the world, on the front foot and delivering growth. We picked up market share across many of our businesses, in fact, most of our product lines. But just to be clear, just so I'm really clear here, market share is not an objective. It is simply the outcome of some pretty good execution of a pretty good strategy. And that's resulted in increase to market share. In our life business, we're seeing increased new business production across just about all of our markets. In the U.K., we've grown annuities and equity release volumes by 75%. And we've had strong gains in both the individual, that's up 49%. And BPA, where we saw a fivefold increase, to be fair, against a pretty weak prior year. But we did tell you at the beginning of the year we thought we'd see that grow. That's gone pretty well and looks set to continue. Our pensions are also up 29%. And we've seen very positive trends here, both in the workplace area and in pensions -- sorry. And on the platforms.

Now this shows that our True Customer Composite strategy is working. And it's not just about the retail customers. It's fair to say we've had faster traction than we expected in the corporate market, where these growth figures in the U.K. include a number of mandates we have won with existing corporate customers. And so what's happening, you're seeing across general insurance, life insurance and asset management, where we have existing relationships, we seem to be getting an outsized portion of that new business. And what that is, is our TC strategy coming together. It's just come together in this sector a little bit quicker than we had been anticipating. But just as importantly, across the board, we're seeing favorable trends in mix. In Asia, if you look at China, our value of new business has, in fact, doubled, which again, is a good result, due in a large part towards the shift towards protection products that have higher margins, of course.

Now this chart, when you have a look at the chart, it's an important chart. And we haven't shown it this way before. But I think it shows a pretty good picture. Now it may surprise you that one of the bars on this chart I'm most comfortable with is the Friends savings business on the right-hand side of the green chart there, which shows it has shrunk 28% in local currency terms. Now shrinking guaranteed business is an entirely deliberate strategy as we chose not to chase volume at unattractive margins in the first half. And instead increased sales in unit-linked savings and protection, that's where the money is.

Now this is despite us having substantial excess capital. It's about maximizing the return on the capital and we're going to be ruthless in terms of allocating it, both in geographies and towards products. And it illustrates we are really being quite active in terms of our business mix as well as our volume growth. Now to sum up the picture in our general insurance business, it's on the right-hand side. While Canada's 25% growth, obviously, stands out, that's in a large part due to the RBC deal. Our real story in this chart is the steady progress in the targeted areas that we want to focus on. For example, our solid growth in U.K. personal lines, digital direct premiums increased 13%. But you saw solid growth across it. And I think this is sort of the right sort of level of growth in general insurance. As we saw organic growth also in the SME market and global corporate, where we are -- on global corporate, we're focused only on a narrow range of segments. But that seems to be growing well as well.

In contrast, we have continued to deliberately reduce premium volumes in commercial motor. And commercial motor for the industry hasn't been a great source of profit over a long time. And we are determined to reduce this book to a level that it gets profitable. It's about profit. But up there, you can see when you have a look around the GI book, we're actually growing our top line as well. So we seem to be doing both.

Now I guess some news just off the press. I don't think our press release has gone out. But we did talk about it, just on the news wires this morning. Today, we are going to announce that we have won the HSBC insurance partnership in the U.K. This is a big deal. It is hundreds of millions of premium, hundreds of millions of pounds of premium. They're a fine bank, they have formidable distribution. And what they've done is consolidate all their general insurance business, both commercial and personal, with us. That's a good win. We won it for a whole lot of reasons, one of them was our digital IP. And just like RBC and Tencent, our digital IP is gaining traction and it's actually helping us in ways that we probably didn't anticipate with the big partnership deals. I think a deal of that size, again, helps secure our growth for the next year. So we seem to be in, again, on this regular treadmill of growth. But even though we don't target the top line, we're getting that and it's driving the bottom line.

Aviva Investors, on the other franchises, Aviva Investors is another business which is delivering. Assets are up and revenue margins are also up as we draw more external funds in at higher margins. And obviously, scale helps because other than distribution, we have been keeping the expenses pretty stable there. Profit margins have expanded and this is despite the additional investments in the distribution. And we made those investments last year, we've continued this year and that's paying off in fund flows, which I think you will also see continue. We've seen further progress with AIMS, with assets under management increasing from GBP 9 billion to GBP 12 billion over the past six months. So again, that's a steady, regular increase. But it's been probably equally pleasing, again, it was part of Euan's strategy to see progress in other products. And I think this is some sort of halo effect, maybe from AIMS, maybe from the brand as a whole at Aviva. But we're seeing a halo effect. And that's bringing in funds into other areas. For example, we've seen significant flows into other strategies like high-yield and fixed income and there's been some pretty big wins just in very recent times that should flow through in the second half. So that's a nice position.

Aviva Investors is playing an important part of our TCC strategy. And Euan and Andy's team are working very closely and some of our recent mandate wins have been due to the pension and health businesses and happiness with the clients on there. So they've been giving us the fund flows into this. And we'd expect this to help in future results.

Now we believe the world of asset management is undergoing significant change. You're seeing that with some of the mergers and things we're seeing in the market. And we believe that having aligned distribution is now critical for future scale and success and you're starting to see that in our results.

What about digital? Well I think the real story of the first half in digital is our IP, our intellectual property. And one example is our Ask It Never proposition, which uses external and proprietary data and a whole lot of work on algorithms, hundreds of people working on algorithms, to price products without asking any questions and without lowering our underwriting standards. And in an industry that ask hundreds and hundreds of questions, that's quite a feat. And it means we can preunderwrite, preapprove, prepopulate quotes for customers. As it turns out, not even just our existing customers. And we think it's possible to buy insurance, like most other products you buy in the world, without the usual inquisition we've seen from the start and the birth of insurance a long time ago.

Now we also continue to expand user numbers. UK Digital registrations increased by 1 million to 6 million, that was about what we had planned for the first half. We would expect a higher number than that in the second half as we engage with more than 4 million Friends Life customers as we do the Part VII transfer, which follows on from that.

Now what's interesting is that our IP is providing new opportunities and partnerships. There's a lot of inbound interest from banks and you've seen some of them in our announcement today. But also, the thing that's surprised, at least me a little, is we're getting a lot of inbound interest from large global tech firms. So our garage seems to be the tourist attraction, which is sort of an interesting outcome.

People seem to. And the large players and tech firms like our vision of the future, they like the fact that it's disruptive. And you know what, let's just see how it develops. We're very aware we've got to put numbers on it, it's going to take some time, let's see how it develops. But it's looking interesting.

Now for the Oaks, Acorns and Apple trees. We spent a bit of time in the orchard this half. And we've made some significant progress on our strategic agenda. The objective, as we set out, was to simplify the group, we wanted to improve focus, we wanted to reallocate capital more productively. And we've done that. We've simplified our portfolio: We've sold the majority of our Spanish business; we've exited Friends Provident International in the last couple of weeks. But it's important to note we've also invested. We've increased our interest in our Vietnamese joint venture to 100%. And we restruck a new long-term contract with Vietinbank and it's got much more improved alignment. I know my friend here, Tom, has just come back from a recent visit to Vietnam fizzing about the opportunity. And fizzing is not something I'm used to seeing from Tom. But it is again, an exciting long-term proposition and what we're saying, we're here to make long-term decisions. And that looks like a very interesting growth market.

Aviva Investors, as I said before, keeps on going as well. And we need to look at how we use the technology in there, too. But we're getting significant flows from the platforms into Aviva Investors as well. On technology, we've also announced the digital JV in Hong Kong, that was since our last results, I think. And Hillhouse, we're still currently awaiting regulatory approval. It's taken some time, we expected it would, we haven't got it yet. So at the moment, we're just working on the propositions and the systems and building the thing. So that we can start when we get regulatory approval. In Italy, we're having a look. There may be some opportunity for us to be more disruptive in that market, based on our tech and our IP and our experiences in other markets. So we're having a look.

And as for India, now India is a market where I've previously said I wasn't a big fan. I've probably been consistent on that for about 15 years. But when the facts change. And it has under Modi, when the facts change, it's wise to reevaluate your position. Now innovations in India, such as the digital ID and demonetization, we believe, could fundamentally change that market. You've also had IPOs trading at 4x EV. And so we are taking a fresh look at our strategy. We also have now got a greater degree of control of that JV, as it passed a key term at 15 years. So we are taking a fresh look at that market.

And what about capital? With our organic capital generation, that I think you'd agree has been going pretty well, you can see the ins and the outs on the slide. We've had proceeds from disposals on top of that, we've had special dividends from U.K. insurance. We are clearly in a very good place in terms of our surplus cash and our surplus capital position. Now we haven't had Q&A yet. But I know this will inevitably give rise to the questions about deployment.

So let me just talk a little bit about our policy. First, let me be clear about the dividend, this is funded by operating profit generation and remittances. And you need remittances, you need the operating profit, operating profit. And we're very clear in our definition. Because I don't want to return to the bad old days, we want this dividend policy set at a level that's sustainable. You've also seen that we have a substantial surplus. And as you would expect, this means we will need to consider a whole range of options.

Bolt-on acquisitions. We are active, looking in existing markets. Debt repayments, we've already given you some guidance of what we think we will do later this year and we need to look forward to next year. And obviously, also capital returns to shareholders. Now the actual mix of capital deployment depends entirely on the economics. Now with our capital position, these options are not mutually exclusive. And I think we are very likely to have the capacity to do a bit of everything. And if you just look at the debt we've got coming up and what we'll be doing this year, I think we've shown over the past 12 months this is exactly what we have been doing and we are likely to continue to do.

Now we will update you more on this fully at our Capital Markets Day. Watch this space. That Capital Markets Day will be in the end of November. And by that point, we'll have good visibility on timing of remittances and the cash and the position as we head into next year. But you know what, this is a very high-quality problem.

So to summarize. We've clearly made a strong start to the year. This is a very clean, clear set of numbers. Now historically, we've been asked by investors. And many of you in the room, how we'll deliver growth. We outlined our thoughts on growth at the Capital Markets Day last year, though to a bit of skepticism, it was fair to say. And this set of results. But frankly, also the previous set of results, I think do back up our words for numbers -- our words with numbers. And it's very clear that we just need to keep on delivering. We now have a high-quality, competitive and profitable franchises. And we are managing the business to deliver consistent and reliable growth, that's what we're after period after period. Our focus will be on sustaining that operating profit growth. And just getting the basics right. And on top of that, by disrupting the way the industry works, because I don't see any other players in a better position than us to do that. This means simply serving customers well, it means maintaining discipline on price and underwriting. It does mean making further improvement in cost efficiency in the digital world. And it means developing. And we're going to invest more money into our groundbreaking disruptive IP. And we are investing to grow. I think we've got some great foundations. I think the balance sheet is something you and I could probably only have dreamed about a few years ago. We have a strong balance sheet, we've got an engaged workforce, we know that, we've got excellent franchises, we got a great brand. And if I could be so bold, I think I have a top management sitting here. And that team and I are simply focused on delivery, that's all. And on that note, I'll hand over to Tom to take you through some of the detail of that delivery.

Thomas D. Stoddard {BIO 15071280 <GO>}

Well thanks, Mark. Good morning, everyone. As usual, Mark has hit a lot of the best highlights. So without fizzing too much, Mark, I'll try to take you through more of the details and provide you some of my perspectives on how we're progressing. So for me, there's 3 main themes today: Number one being organic growth; two, the benefits of increased business focus; and three, prospects for more capital management. We typically get lots of questions about growth and where it will come from. So it's great to be able to stand in front of a slide like this one, showing operating profit up 11% overall, or 6% on a constant currency basis. And operating EPS up 15% to 25.8p per share. And what I find most encouraging is that our profit story is no longer just about expense control, our top line is growing, too. Life sales overall were up 21% to GBP 20 billion, they were up 16% in constant currency. And general insurance net written premiums were up over 17% to GBP 4.7 billion, with a little help from FX and the RBC acquisition, on top of solid organic growth.

As this slide demonstrates, this growth is broad-based across our businesses. And shows the benefits of focusing on a handful of markets while also being diverse. As an aside, I note that Canada is one of our less diversified markets. And suffered some setbacks in the half. And I'll come back and cover that in a later slide.

Finally, you should also recognize that we're investing heavily to support future growth, including spending on innovative digital development, which is one of the drivers for an increase in the corporate and other costs shown here.

Now NAV. There's not a lot to say on this slide, book value is about flat, as the year-end dividend offset the majority of operating profit. Integration restructuring costs are down 50%. And running well below historical averages. And I plan on trying to drive them to 0 in 2018, with a possible exception of any new M&A activity. You should also note that the sale of Friends Provident International will reduce our AVIF amortization by about 1/3 once that deal closes. So the gap between operating profit and the bottom line is narrowing. And basic earnings per share was up sixfold to 14.9p per share.

So turning now to the businesses. U.K. life delivered impressive double-digit growth in its 3 core product lines. Sales were up 36%, driven in part by a 76% increase in annuity and equity release. Bulk annuity sales were GBP 320 million in the first half of 2017 versus just GBP 64 million in the prior half year. We're competing more effectively in this market and seeking to develop a sharper, competitive edge while also maintaining discipline on margins and capital usage.

So another highlight you can see here is the cash remittances, which in the first half totaled GBP 922 million, included GBP 350 million of specials, with a possibility of more to follow after the successful completion of the Part VII merger of our life insurance subsidiaries later this year.

So if we look in more detail, you can see how growth in our 3 core segments is carrying U.K. life forward. Long-term savings profit was up 39% on the back of higher assets and consistent margins within our target range. Annuities and equity release operating profit was up 26% on much higher sales and margins returning to within the target range on new business. So last year, our annuity margins were unusually high, as volumes were lower and we were allocating attractive investment assets across that lower volume.

Now in protection, operating profit this year was up 17%, with higher sales and new business margins once again exceeding our target range. And we had modest runoff in profit from our legacy business and relied less on other actions during the half. So all together, a very solid performance.

Now Aviva Investors built on the momentum it created last year, with operating profit up 45% to GBP 71 million. The operating margin increased from 20% to 26%, with revenue growth once again outpacing increases in expenses. Revenue from external clients increased to 35% of the total, up from 30%. As Mark said, the AIMS range of funds continues to grow, with AUM now up to GBP 12 billion at the half year. Profit also benefited from more success in our growing infrastructure asset origination business. So all in all, another very solid performance from one of my favorite businesses here at Aviva.

Next, we move to U.K. and Ireland general insurance, which also delivered very solid performance, with broad-based organic growth across home, digital motor, SME property and liability and global corporate and specialty lines. Along with this growth, we also improved the normalized accident year combined ratio. So weather remained benign and we had a bit less favorable development than last year. But it all in all resulted in a reported combined ratio of 92.5% for the half year. Together, all of this drove a healthy increase in operating profit, up to GBP 251 million.

Over in Canada, we had some good progress in terms of growth and improvement in the underlying combined ratio, marred somewhat by a big swing in prior year reserve development, which was 3.8% positive in the first half of last year and 1.6% negative this year. As a result, the reported combined ratio deteriorated to 98.9% and operating profit dropped to GBP 71 million, which has been one of the weakest results for us in a number of years. Now looking more closely at this result, we've seen cat experience at about the same unusually high levels as last year, an improvement in large losses and slightly higher loss frequency. However, the main story is prior year development, where we've seen less benefit from Ontario auto reform in the past periods, combined with some adverse development on a few property cases. We're obviously looking at all this very closely, including some potential improvements in our claims handling practices. None of us are satisfied with this result, nor do we expect to repeat it.

Otherwise, we've been very pleased with the integration of the RBC acquisition and premiums were up about 25% on a constant currency basis, largely reflecting the addition of RBC. Excluding RBC, organic growth was about 3% in Canada. So let's just see how we do for the rest of the year here.

Moving to Europe. Last year, I would say that by and large, we were underwhelmed with our performance in Europe. So we made a couple of management changes. And I'm pleased to say now that our performance has been picking up accordingly. Operating profit was up 9% in constant currency, with growth in all markets. We also completed the Antarius divestiture in France, announced the sale of most of our remaining business in Spain, as well as the end of a distribution relationship through Banco Popolare in Italy. So we're pleased with the growth and expense discipline demonstrated this period, however, we believe we still have more work to do to deliver more growth out of operations in France, Poland, Italy and Turkey. Nevertheless, good performance so far.

Operating profit in Asia was about flat at GBP 115 million. But this masks quite a lot of change in the business, as well as the benefits of focus. We stopped trying to turn Friends Provident International into an Aviva business. And after a competitive auction process, have agreed to sell it to RL360 at a price and on terms that we consider to be very good. They will run it differently from us and be a better owner of the business than we could be. So this will allow us to focus more on driving growth and value creation from our other investments in the region. And we will highlight the profitability of our business in Singapore in future results presentations.

So on a constant currency basis, the value of new business was up 14% in Singapore. And over 200% in the rest of Asia, based largely on the performance of our JV in China. Now a great example of the benefits of focus is our revised joint venture in Vietnam, which Mark mentioned earlier. Together with our partner Vietinbank, we've completely overhauled that JV, where we now have 100% ownership and control of the insurance business, have installed a terrific new management team and have revised our bancassurance agreement so that we have much more aligned incentives. This will take a few years to start paying off. But it's a very exciting example of what can happen when you focus on excellence and driving business performance.

So switching away from the business units. And back to Aviva overall, we remain very well capitalized, with a Solvency II cover ratio of 193%, still in excess of our working range of 150% to 180%. We've commence our GBP 300 million share buyback program, which will complete before year-end. And also continue to plan on paying off our 8.25% hybrid debt later this year without refinancing it. Meanwhile, our underlying capital generation of approximately GBP 900 million was consistent with the second half of last year. And about GBP 100 million ahead of the run rate in the first half of last year.

Now I can't promise we'll stay at this pace every period, as we may make investments that create short-term capital strain, or performance in the business may be better or worse. But so far so good. And looking forward at other capital actions, it's fair to say that we have a full pipeline of actions underway for the rest of 2017. Some of these actions are positive and some negative. And while we don't expect to repeat the GBP 1.8 billion of other capital actions we achieved in 2016, on balance, what we're working on now should be positive and significant. Hence, we feel good about our capital position as well as our prospects for generating capital surplus through year-end and beyond.

Central liquidity also remained strong at GBP 1.7 billion, exclusive of additional amounts we've reserved for the current share buyback program. And we expect more cash from our divestitures of Spain and FPI, as well as future remittances from our ongoing businesses. So not surprisingly, we're in a good position to fund future growth, as well as to keep capital management squarely on the agenda going into 2018.

So now before I hand it back to Mark, I want to talk a little bit more about the outlook for the future. As some of you have noted, we've made good progress on pruning our Apple trees. At the same time, we're combining our U.K. insurance operations into a singular, customer-obsessed business. So with this reshaping of the group, it will make sense for us to take a fresh look at how we're describing our businesses. Ireland, for example, now belongs with Europe. So we will move towards reporting it under our international operations rather than lumping it with the U.K. And with a narrower set of European and Asian businesses, we're likely to talk more directly to markets like France, Italy, Poland, Ireland and Singapore, in addition to the U.K. and Canada. This should underscore the benefits of a more focused business footprint, as well as make it easier for you to understand our progress. We may consider our smaller strategic growth investments in markets like Hong Kong, Indonesia and so forth, as a portfolio of bets we're making on the future.

Now the other question that arises from all this reshaping is what does this mean for our external targets, especially profit growth and dividend trajectory? Well I can't foretell the future. But I can tell you how we're thinking about it. We're sticking to our targets: Operating EPS growth in the mid-single digits over the medium-term; and dividend payout ratio of 50% by the 2017 results, with a dividend growing in line with earnings thereafter. That dividend payout ratio reflects a balance between reinvesting in the business for growth and paying out a reliably steady stream of dividends. 50% is not a cap. It's a guide. If we have an off year, say bad weather perhaps, we'll want to maintain the dividend. And hopefully its progress, all else permitting, even if that implied a temporary payout ratio in excess of 50%. We can also distribute excess capital above the regular dividend rate through special dividend or share repurchases, as we've proven this year. So as you all look at your models and forecasts, you'll be right to account for foreign exchange movements and the divestitures of Antarius, Spain and FPI. But you should also consider the strong underlying growth potential of Aviva's franchises, management's ability to drive performance, as well as the potential benefit of capital management and a more focused business footprint.

FPI, for example, delivered no cash back to the center, contributed nothing to the bottom line and in the end, was merely a distraction. So putting all that aside, we're off to a good start in 2017, we remain committed to the goal of making Aviva's dividend as dependable as a Swiss clock, to use one of Mark's metaphors. And growing the business as we -- and growing the dividend as we grow the business.

So in conclusion, we remain very much on track with operating EPS growth 15%, excess capital, plenty of cash and dividend growth of 13%.

Back over to you, Mark.

Mark Andrew Wilson {BIO 7102576 <GO>}

Swiss clock indeed. So there you have it. We have a very robust, I think a very clean set of numbers showing good growth, which goes back to back with the last set we gave you in March. Now I said the numbers would tell their own story today. And we have a number of the highlights, EPS, operating profit, cash, capital generation, as well as delivery on our strategic agenda, reallocating that capital around the group.

Now that's quite a few ticks. And not least of which, I guess, the dividend growth of 13%. But there's also a change in dynamic. As we fixed the business, it took an extraordinary amount of management time to fix the basic issues and our team no longer has to spend all that time on fixing the balance sheet or dealing with the cash flow or dealing with the internal loan issue or sorting out liquidity or being in the orchard all day pruning apples -- pruning the Apple trees. And it takes an extraordinary amount of focus and time. And this means we can now focus our attention on the next chapter of our story, which we have been, really, over the past 6 to 12 months. And to us and hopefully to our investors, that feels like a pretty good place to be.

And on that note, Chris is going to -- you've got the balls, he's going to throw them around the room. And we'll take your questions.

Questions And Answers

A - Christopher Esson {BIO 16208369 <GO>}

Colm?

Q - Colm Kelly {BIO 19140684 <GO>}

Colm Kelly, UBS. Just 3 questions, firstly on cash remittances. So there's obviously quite a significant increase in the U.K. and Ireland life cash remittance. Within that, there was an additional GBP 315 from the Friends synergies. So if we think about the GBP 1 billion from Friends Life, there's another GBP 435 million to come. Should we be expecting that in the second half, along with the Part VII transfer? Or is that more a 2018 cash remittance impact? In addition, there was GBP 115 million from the internal reinsurance entity in the first half, is that something that is nonrecurring?

Or how should I be thinking about that going forward in terms of remittances? Second question on maximizing the return on capital, if we look at the Slide 49 in the pack, it shows the operating return on capital employed and the strong progress in U.K. GI, strong progress in fund management. On the flip side, Canada and Asia, the return on capital employed has been coming down. And given they're 2 businesses, that there's a focus to grow? Maybe just some insight into the trends that you're seeing there. Then finally on digital, previously you showed a metric of the operating profit, driven by digital. Now I appreciate that profit was overlapping with other divisions. But is that a metric you're still tracking and what kind of growth have we seen in that metric for the first half of the year?

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

Let me try these and then Mark may have some additional comments. So on timing of cash remittances, you're right that after the Part VII transaction, there is a possibility of an additional special remittance. Whether that comes later this year, we'll try to do that. But if we can't get it in this year, that will then be on the agenda for next year. The internal reinsurance mixer, I'd sort of counsel you not to spend a lot of time looking at that. It is a device that we use internally to improve liquidity coming out of our operations. But what we're trying to do is then basically allocate that back to the businesses. So that you can see what underlying businesses are generating the cash. So I'd ask you to focus more on the capital generation than cash remittances coming out of the businesses. There may, from time to time, be timing differences from one period to the next because of the way we move business into the mixer and the way cash flows through that. But I'd ask you to try to look at this in total. In terms of return on capital, I'm pleased you're looking at that, we will start to emphasize the return on capital story more in the future. As we've gone through the transition of integrating the Friends Life transaction, that obviously, has derisked the balance sheet and diluted return on capital. But now that we've got cleaner comparisons period-to-period, we'll start to look at that and emphasize that. In terms of the negatives, obviously, Canada there just didn't have a good result this time frame. We're looking to price business at a sort of 15%, 16% or better return on capital for that business. So I would expect to see that better in future time periods. Asia, we've got a lot of restructuring going on there. We will continue to invest for growth in Asia. So whether we see as much improvement there, hard to say. But we would expect, continuing good return on capital out of Aviva Investors and really, the rest of our businesses. And we will look to focus on that as an important performance measure for us in the future. And finally on digital, we are still looking at what we should be talking about in terms of the right external metrics around digital. We hope to have more to say when we do our Capital Markets Day later in the year. I'd just comment that on an underlying basis, the profit trends we're seeing there are sort of consistent with what we've seen in the past. However, we are investing more in terms of overall digital development around the IP and trying to be more aggressive around that.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Clearly, the IP is working. So we are putting -- we're going to just keep on investing in it. It is working, what we've got is pretty special and we're going to see how that develops. The other thing I just would say in terms -- Canada, I think we've explained Canada. I think that also a bit of mea culpa on Canada. I think we actually dropped the ball on a couple of things in Canada in the last quarter as we integrated RBC. I'm confident the team's on top of that now. So I think you'll see that pick up again. But we do sit around, we sit around as an executive team and we debate where we've got our money and that's why you've seen pruning things like FPIL, when we say, "Where are we going to get the best return now. And where are we also going to get it in the next five years?" And if you do that, it puts a big -- a different lens on it. And that's why you're seeing a simpler, cleaner set of results.

A - Christopher Esson {BIO 16208369 <GO>}

Andrew?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Throw the ball, don't pass.

Q - Andrew John Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Two questions, if I can. Firstly, you said excess capital, you'll deploy on acquisition, bolt-on acquisitions, buybacks and debt reduction. What is the level of your excess capital? Is it measured against the 180% ceiling, which would be about GBP 1.5 billion, or is it measured against the middle of the range, which would be GBP 3 billion? Then secondly, we're at a fairly mature stage in the world economic cycle. Your company's got more debt leverage than any of its peers and I think one of the concerns some of the investors have is the level of that debt leverage. Would you be prepared to set a target for reducing the debt leverage?

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

Is that 3 questions? Or just 2?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

I thought it was 2.

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

So let me start with both of those. On excess capital, we look at this as a multiyear project. And there's a couple of things to think about. We've got excess capital, we also have managed the balance sheet so that it is very tightly controlled and if you continue to look at our sensitivity to different shocks, we've got that very heavily constricted. So from my perspective, it doesn't make sense for us to be carrying both a very tightly controlled balance sheet and a lot of excess capital. And so between the 2 of those, what we'll do is we'll look to manage down the excess capital, either by returning that to investors, investing into acquisitions, investing into growth or other sort of partnerships. In terms of where we'd like to see it be over a period of years, we think we ought to be operating more in the 160% to 165% range, not where we are. I mean, we're pleased to have come through Solvency II, et cetera, in a difficult economic environment, above the top end of our capital range. But that's not optimally efficient for us over a period of time. So I'd say the GBP 3 billion number that you focused on is sort of a better estimate. In terms of debt leverage, we continue to look at debt leverage. I think if I look at our overall capital position and our debt stack, it's very well spaced out over time. So I don't have big refinancing cliffs. We've been able to refinance it at lower rates as different maturities have come up. But we've said that we're planning on repaying our hybrids this year without refinancing them. We'll continue to look at that next year. We've got about another GBP 900 million. We won't make that decision until that -- we get closer to it. But certainly, I've got my eye on that. And if nothing else changed, we would look to pay that off without refinancing it. So we have not set a specific target for debt leverage. Something we're continuing to look at. But the trend here is for us to be reducing debt leverage over time.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And Andrew, I wouldn't want anyone to think that just because we have a pile of cash, that it's burning a hole in our pocket. It's taken us a long time to get there and we're going to be judicious. But clearly, we have a fair bit. But just on debt, we're also managing -- what we have said on the target is we want to be in the AA sort of range and we are. So we do not see our debt level as a problem, although there are opportunities to bring it down, like this 500. So you may see it drift down over time. But also, you say versus peers. I'm not sure what our peer group is. Because when you have -- we don't have a lot of guarantees. So we're not like the French or the Germans. I mean, the product set is totally different, we're in different countries. So I'm not sure what our peer group is. So I think we have to look at debt from an Aviva perspective, the fact that we have a balance sheet that isn't volatile. And so we're very comfortable with that level of debt. Albeit, when you've got that much cash, we're taking it down a bit this year and we'll see what we do next year.

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

Yes, I do think we want our cash to be working harder than it is right now.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes. And when you have debt stacks at 7 -- 8-and-a-bit and 7-and-a-bit, well, that seems like a pretty good way to increase earnings, too, doesn't it?

A - Christopher Esson {BIO 16208369 <GO>}

Oliver?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel at Deutsche Bank. I think you're trying to preempt my question here with your comment then. But if you have GBP 3 billion of potential excess capital, as of today, Tom talked about some further management actions, later in the second half of the year, that's potentially going to add to that. Why only a GBP 300 million share buyback? Or perhaps to ask another question around that, how quickly do you think you can get that excess capital down to the sort of long-term target levels? That's the first question. And second question is also about targets. You talk about the mid-single-digit operating earnings per share target growth rate. But you said in today's meeting that, that built-in the assumption that FPI and Spain were going to be sold. You've actually delivered more than that in these results, despite having lower-than-expected reserve releases, despite clearly investing in the business, despite seeing U.K. positive exceptionals coming down. So quite clearly, the underlying business is actually performing quite a lot better than that. So I'm wondering why you're persisting in sticking with this mid-single-digit growth target?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes, firstly. So it's 2 questions, maybe Tom will take the second. I'm (inaudible) among you why don't we do more? Because we're in the middle of a share buyback at the moment, for a start. I mean, we announced the share buyback, we're -- in what month?

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

Just in June.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Just in June. We're halfway through that, give or take. It's still got some period to run. So let's do that. Yes, I accept we're in a better position on capital than maybe most anticipated. But let's do it one step at a time. We've consistently said we're going to do this thing prudently, we're going to do it slowly. It took us a long time to build it up and we're just not going to throw it away. Now bluntly, I want to reward long-term shareholders, as well. So I guess, they'll have to stick with us a little bit longer, won't they?

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

Yes, I'd just say, look, on capital management, we don't want to pre-commit everything. I mean, part of the point of building financial flexibility and capital strength is to have it when you need it and to be able to react. So we're trying to give you a clear sense as to how we're thinking about this so you can predict what we're doing and what we're thinking about it. But we don't want to pre-commit all of that too far in advance. On the earnings momentum and the targets, you're right, we're looking at a lot of things here. The underlying businesses, in many cases, are performing at a rate that's better than mid-single digits. Frankly, that's the way Mark and I try to manage the businesses. We try to push them for a better growth than that. At the same time, we're managing expenses, our operating expense ratio is about flat relative to last year. So we're managing the pace of investment in the business. And we didn't have a lot of other changes, other actions in this half year. We will continue to look at things in the future. We've got potential improvements in our balance sheet, we've got a big balance sheet. There's longevity, persistency, expense improvements and reserves that are possibilities that we'll look at this year and next year. So there's a lot of levers that we have to manage the business. In terms of whether we should be upping those targets, I'd say look, let us get there and if we start outperforming our targets consistently, well then, that story will tell itself.

A - Christopher Esson {BIO 16208369 <GO>}

Greig?

Q - Greig N. Paterson {BIO 6587493 <GO>}

Greig Paterson, KBW. Three questions. One is, you don't have triangles in the half year, which is usual. But usually, we can sort of reverse out to see how much margin you're reinvesting in your reserves. I wonder if you could just give us some kind of statement on where the margin in the GI reserves has changed over the period? Second question, I wonder, if it's possible, if you could split out motor and home, because it's topical. Just tell us where the combined ratios have gone, on either of those 2, year-on-year. And the third one. And I'll ask the second question of RSA: Do you think there's something gone wrong with your underwriting, your underwriting mechanism, that Canada is persistently producing higher large losses? Maybe it's not just random and it's something to do with the underlying business. I wonder if you might give some comments there.

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

Yes. So on margins, I don't think we're doing anything fundamentally different this period relative to other periods. In terms of the split on motor and home, maybe Colm or someone wants to talk a little bit about that. But actually, we've seen, in terms of the overall performance there, we've seen good performance on both. We've actually seen home net premiums written turn up and get some good positive growth there for the first time in a number of years. So we're happy with the performance on both the motor and the home side. I'm sorry? In terms of combined ratio? So again, I'll ask Colm to talk about that a little bit.

A - Colm J. Holmes {BIO 18456463 <GO>}

Yes. What we've seen is the combined ratios have actually improved in motor and home. In motor, it's predominantly driven by the mix of business. But the market has continued to harden. So we've dialed down in the broker direct -- the broker channel into our direct channel. So you're seeing 13% increase in motor in the digital direct channel, that's what's driven the improvement in core. In household, what we see in this new improvement is actually growth in the business and we haven't seen the same issues with regards to escape of water that others have seen. But we did see it back in '15 and '16 and have been rating for that. So our inflation expectations for 2017 were actually in line with the -- what had actually happened in the markets. So we haven't seen what other insurers have spoke about in terms of escape of water this year, because we dealt with it last year. But we had an increase in our attritional loss ratio.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Maurice, on Canada?

A - Maurice Tulloch {BIO 17683736 <GO>}

Well I think I'd -- probably, the first thing I'd say is I'd start talking about our overall GI results. So actually, I'm quite pleased, our core is down 94.5, we grew our volume at 11% on a constant currency basis. And operating profit up 25%. Let me give you a little bit more color into Canada, I know Tom and Mark have both talked about it.

So certainly, accident years improved to 96.9 from 98.8. But clearly, this story is prior year development and you've seen the swing from 3.8 favorable to 1.6 adverse. There's actually 4 underlying points. So the main point, which we actually expected, was the motor reforms in Ontario auto, which I should say the entire industry has seen. They came in 2010, that's effectively now running out. There was a couple of other factors. There was a mea culpa on some losses on the December 16 storm. Our teams are certainly working on Fort McMurray and also the RBC integration. So there's a little bit of adverse that spilled over one month. And the other point is, the accident years 2013, 2014, we saw the plaintiff bar effectively stacking physical and psych injuries, which allowed them to get to the threshold. So you get a little bit of adverse in those years. That is now gone, because we've had the definition, what's referred to as the cat injury definition change. That was changed in 2016. So that's no longer prevalent going forward. And I think most importantly, that business we have priced for years at a 16% return on capital. So when factors change, we make those changes and we already started making those pricing changes. We actually started making them in March. So we have some momentum, about 3.5 flowing through Ontario auto. We have another filing pending and we've also moved up Alberta by 6.5%. So I'm very confident in our Canadian business going forward.

A - Christopher Esson {BIO 16208369 <GO>}

Gordon?

Q - Gordon Aitken {BIO 3846728 <GO>}

Yes. It's Gordon Aitken from RBC. Three questions, please. First, on buying closed life books and when you acquired Friends, you acquired expertise as part of that deal and guys who have done deals, because of the history of that business. I mean, there's GBP 300 billion of closed life books out there. It's essentially a duopoly. There's obvious catalysts, Brexit and Solvency II. It's not part of your published strategy now. And I just wonder why and maybe that's one of the reasons why you're holding all this excess capital. And second question on bulks. Can you just talk a bit about the relative competition between the small end, which you've been operating in for years; the middle end, which you are sort of pushing into; and the large end, which you seem keen to stay out of, for the time being. And third, on -- this was the potential for asset rerisking in that annuity portfolio. What proportion of annuity assets would you ideally target? And would you go as high as the 40% the regulator has said they would like to see in terms of illiquid assets?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

I'll hand over to Andy. But I'll just say a couple of, few comments, if I can. What we said on bulks, we said we still wanted to do the medium-sized, not the large ones. And you'll recall, we've probably discussed this almost every meeting. And we did move our position a bit, that we said we'd do the medium ones. So you've seen that come through. What you've seen is a change in the way we have originated the assets as well. So before, we were trying to get the bulk and then find asset. Now we're just on the constant stream of assets out of Aviva Investors, because we can use them in the rest of our annuity book. Then when we get the bulks, we can put it across. And that's what you're seeing coming through and should continue to see. We're still sort of saying, mid-size, we see up to about GBP 1 billion-ish. We don't like the jumbos, we think it's too much concentration risk for us as well. Andy, do you want to talk about that and the -- also the asset mix behind it?

A - Andrew David Briggs {BIO 16330585 <GO>}

Yes. So smaller bulks, we continue to be a major player and that's going very well for us. We've moved to the mid-size segment. We found we can do that profitably, hence, the results we've had. The outlook for the second half is very good. One of the reasons we can compete so well is because we get the capital diversification as a multi-line player. So many of our competitors are monolines. In an economic capital world, they don't get the same diversification that we do between, say, the life and GI businesses. We work very closely with Euan and his guys and Aviva Investors. So they are very strong in terms of originating the illiquid assets, that's a key driver. But to the point you make on the back book is particularly important. So about GPB 60-odd billion of annuities, we've got circa GBP 20 billion in illiquids at the moment. We would have over half of that in illiquids out of choice. So there's over GBP 10 billion to go at. We get typically, a 50 to 100 basis point uplift. So you see in our results at the half year, we got a reasonable profit benefit from rerisking the back book. We've only done a fraction of what's available, this will be a long-term or medium-term source of profits for us as we drive that through. It will also keep us disciplined on the new business side, because if I can make more money putting illiquid assets against the back book, I'll do that rather than originate new business. So I mean, ideally I can do both. But so -- and hence, the annuity profits up 26% in the first half.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And your question on M&A, I said we'll do bolt-ons. And I can tell you we're very happy on that segment of the market with our organic growth strategy. And the Friends transaction, as you know, was done with a very specific purpose. It certainly more than achieved that. It helped fix our balance sheet; it gave us capital and cash and all the things we wanted. So that is not an area we're focused on.

A - Christopher Esson {BIO 16208369 <GO>}

Ashik?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, Ashik Musaddi from JPMorgan. Just a couple of questions. One, with respect to your M&A expectation, what should we be expecting? Which markets? Which size? Any thoughts on that? And what are the returns you're expecting on those M&A that you look to do? The second is, with respect to non-life, can you give us some color about how the market is progressing in terms of commercial, the growth you're seeing in U.K. personal, as well as commercial? And some color on your European markets as well. Because clearly, it has been a step-change that you've started growing in the top line. But should we be expecting continuous growth in top line with stable margins?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Okay, in a minute, I'll hand over to maybe Colm on the GI. Just a point on the top line, though, well, we just announced a fairly large deal today. It's going to drive some growth. So we would expect to keep seeing it. Look M&A -- M&A is interesting. Hopefully, we're getting a track record for delivering in M&A and not being frivolous and being aligned with strategy. Now the areas that we are interested in at the moment, there are several things. I would say you may see us look in the digital space in terms of getting skills we need to build out our proposition. I'm not going to elaborate too much on that. But if there's a skill set we need building out our digital IP, well we might buy that. And build that in. So that's one. Secondly, a geographically, of being open before, places like Poland if we can find the right deal, we would. Turkey, if we could find the right deal, we would. Canada, I think one of the strategic weakness of our Canadian business is the fact they're not TCC. Now I don't want anyone running away thinking we're going to do any big acquisition there, we're not. But if we could do something that gave us the right license (inaudible) we need and in segments of the business, well, we might look there, too. So it's got to be strategic. So I wouldn't rule anything out or in, because it all comes down to, does it match the strategy. And do the maths work? You saw RBC. RBC has been a really good deal, it's got more sales than we thought, if you include diversity benefits, that was a ROCE of over 20%, excluding it, it was about 15%. So it just stood up in terms of the numbers. And remember, I do want also more GI. If you're looking at product, I do want more GI. One of the reasons for that is it diversifies well. One of our strengths is our capital position diversifies better than most, which gives us a competitive advantage. I don't think the market really appreciates that yet. But as we do acquisitions, it might. So it's really all of the above. We look at deals all the time. And as you can see, we're pretty disciplined in our approach. So that's the way it goes. Now your second one was a comment on the GI market. Colm do you just want to talk about where it's going, add some color?

A - Colm J. Holmes {BIO 18456463 <GO>}

In terms of the growth, I think what we're pleased about this year is where the growth actually come from. So it's been organic growth and it's come in a mixture of areas. So we've had 13% increase top line in digital; we've had 5% increase in home; we've had 6% increase in commercial, non-motor; and we've had 5% increase in our global corporate and specialty business. They're all in the higher-margin businesses. What we also do is in terms of the underwriting result, it's actually improved by 19% year-on-year, compared to last year. Some of that is large losses, had less of an impact this year, sort of in line with our long-term average. The reason for that is we've been dialing down commercial motor by 4%. And a lot of the large loss we had in prior years was predominantly driven by van and the haulage business. So we've actually been dialing down that business. So you've seen the knock-on impact this year of less large losses in the GI number.

A - Christopher Esson {BIO 16208369 <GO>}

Andy?

Q - Andrew Hughes {BIO 1540569 <GO>}

Andy Hughes from Macquarie. Three questions, if I could. The first one, back to the M&A. So you mentioned before that people shouldn't be really dialing down their consensus forecasts, as results of the disposals. But consensus is something like 56p of earnings next year. And you're saying you'll convert 50% of that into dividends. So if you balance the options for M&A, I'm not sure where you're going to get a better deal than 10%, 10x P/E with such a high dividend yield. And on the sub-debt side, I think the sub-debt, that yield has come down as well. So doesn't the current stock price make buying back stock the most attractive option by quite some margin at the moment? And the second question was on France. Obviously, you talked about the products changing in France, the Antarius sale as well. Have you -- how are you progressing with the DVA and the solvency improvement in France? Are we going to get a special dividend from France towards the end of the year?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

So I mean, what I actually said, Andy, was I wouldn't put your forecasts up or down on either of the factors, is what I actually said. And I think we are trying to give you a degree of confidence that we'll meet our mid-single-digit targets there and that's the way we look at it. On the M&A, buying it, M&A versus buybacks versus debt, what I actually said, just to be clear, is it all depends on the economics. You said buybacks are attractive. Now maybe they are. I mean, buying back debt, 500 debt at over 8 is also pretty attractive, frankly. So we look at it in the round and that's why we're not trying to forecast what we do next year. What we do know is we have a large amount of excess and that we need to deploy some of that. That's actually what we're saying, that's the only message we're trying to give. So just talk about France and DVA and...

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

Yes, let me -- just a little bit more flavor around M&A. As we look at the best uses of capital for us, it's actually writing more insurance business. So that's where we get the best return on capital and the best value for shareholders. So as we're looking at M&A, we really look through 3 screens: We look at strategic fit; we look at our ability to execute; and then we look at the value that we add for shareholders. And so there are some potential transactions, like the RBC deal in Canada, that we think are going to be better than a share purchase. Having said that, we've got plenty of capital and so, as Mark always says, we'll be looking at all of these tools in complement. In terms of France, we are making progress there. We've got ongoing conversations, a number of moving pieces, the benefit of DVA is very strong for us in terms of limiting volatility and stress scenarios. So again, it will be a good enhancement to the overall flexibility and safety and soundness of the balance sheet. I wouldn't go predicting a special dividend there now in the short term. We'll continue to look at that business over a longer period of time. But unlike U.K. life, I would not predict a special dividend out of France.

A - Christopher Esson {BIO 16208369 <GO>}

James?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

But we do expect we'll get it, if that helps. But there's a lot of moving parts there.

Q - James Austin Shuck {BIO 3680082 <GO>}

It's James Shuck from Citigroup. I had 3 questions, please. Just looking through the governance disclosure in the annual reports, there is some very interesting disclosure around some of your targets there, in the LTIPs in particular. I had 2 questions relating to that. One is that there's a net remittance target for your managers that seems to be on a net basis rather than a gross basis. So the number that you communicate to us, I think is the gross remittances from the operating units upstreams. But then there's other capital flowing back down to the operating units. So I'm wondering whether when I look at the liquidity movement in the first half of the year, there's no actual increase in the central cash pool, even though you've had GBP 1.1 billion of upstream. So I appreciate there's a dividend to pay; there's something around the buyback. But there's just a slight disconnect into how I think about capital upstreams versus how much you need to pay straight back down in order to fund that growth. Can you just explain that a little bit to me? Secondly, the LTIP ROE target, you have a cumulative target across three years, which doesn't look particularly challenging. It seems to be that you're already making that ROE. And therefore, when I think about your capital generation and what you might do with it going forward, there doesn't seem to be much incentivization to manage that equity base. If you could just square that with your own thoughts, that would be helpful, please. Then my final question, slightly tongue-in-cheek. But I just wondered if you had a view about your mix of profit and where you might want that to get to by 2020 or beyond?

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

So on LTIPs, there's a provision around the definition of net remittances that basically tries to prevent exactly what I think you're worried about, which is sort of over-dividending and then turning around and putting that capital back in and then counting only the one side. So effectively, the LTIP would net that. So we do have uses for cash around the group. We get plenty of cash that comes up out of the operating units. We use that to pay debt, we use that to pay some center costs. From time to time, we use that to make acquisitions or investments. So the acquisition or the restructuring that we just did in Vietnam was funded from cash out of the center. So there are ins and outs. But the LTIP essentially tries to make sure that there's no gamesmanship around remittances that are coming out from a cash flow perspective. Then do you want to talk about the ROE or...?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes, okay. So the other point on cash flow, just I'm not quite sure I understood your question. But for example, you're (interested) about funding, just funding the business normally. You don't put it up and then put it back down again, that's not a remittance then, is it? So U.K. life gives it up, we don't then put money back down. That's after they've funded their growth. So they fund their growth first, then they pay the remittances up. So it's effectively net. So we are talking about the same thing. ROE, we do -- for a whole lot of reasons, we do -- ROE and our target seems to be different from everyone else. And it's after, after, after. If I can -- what's an example? We made a book loss on FPIL. That actually hits your ROE, okay. So it's after, after, after, because we made a book loss on that just because of the vagaries of accounting about where it was set at the start when we bought it from Friends and that actually hits it. Our targets aren't an operating error, really, like everyone else's are. I've thought going forward -- and I've had this feedback from a lot of investors around the room -- I've thought going forward, maybe we should just use the similar sort of ROE targets (of everyone else) but I can't remember what the calculation is now. We'll have to come back to you afterwards, what it would be on the like-for-like basis. And it's quite a bit higher. So what you're seeing isn't the way everyone else does it.

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

I think the way Mark and I try to manage the company is to focus on shareholders and what's good for shareholders. And so we're focused on things that over the long term, we think are going to drive shareholder value that will show up in the share price. Whether we've got the optimal LTIP design, I don't know. That's something I think we'll take a look at.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes. And we've got actually, there's (Sara) and then the head of our (MCO) is also sitting about 3 feet away from you as well. So maybe have a chat with then afterwards.

Q - James Austin Shuck {BIO 3680082 <GO>}

I guess my point is, as far as I can tell, even making those adjustments, it seems like you're already hitting that target. There doesn't seem to be any stretch here.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

No. I wouldn't be assuming that.

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

Again, if you go all the way to the bottom line. And subtract sort of all the after, after, after, as Mark is saying, it's just not the same as the operating return on capital. So the slides you see here don't match to that. And again, that's -- again, also an issue.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And so, you might be surprised at the number. We can take you through how it's worked out. I think you might be surprised.

Q - James Austin Shuck {BIO 3680082 <GO>}

And the profit mix by 2020?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Sorry, what was the last question?

Q - James Austin Shuck {BIO 3680082 <GO>}

And the profit mix by 2020?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Okay, by 2020, I would expect you're going to see, the simplistics of product lever, you're going to see higher through asset management. It's already starting to contribute more. You're going to see also higher from GI. So we want to grow both of those. And what happens geographically, well, Brexit and the government sort of balance that chart out quite a bit for us. And you're seeing, obviously, some of the international business growing pretty well as well. We do see Canada remaining core as well. So what you have in our group, you've got less segments on the chart and it's getting a bit more balanced and that's a very deliberate strategy.

A - Christopher Esson {BIO 16208369 <GO>}

We'll do Andy. And then Ravi, please. Andy?

Q - Andrew Sinclair {BIO 17749036 <GO>}

It's Andy Sinclair from BofA, Merrill Lynch. Just 2 questions. Firstly, on the HSBC deal that you've just signed, I just wondered if you could give us any more color on that and what your expectations are from that deal? And secondly, just 2 questions today, on the dividend, you mentioned that 50% payout ratio is not a cap. But is it safe to say it is a floor for 2017, at least?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

The, I mean, HSBC has been quite a long process, by the way. And it was -- someone asked me this morning, was it a competitive process? Yes. It was a very competitive process. Andy, you want to talk about your expectations? I've got quite a few.

A - Andrew David Briggs {BIO 16330585 <GO>}

Yes, I mean, it's a 10-year extension. But also an expansion. So previously, we had some products in some parts of their franchise, we've kind of expanded the range of products and expanded the parts of the franchise we're operating through. One of the key drivers in that was actually the MyAviva digital capabilities. So effectively, we'll plug-in a skinned version of that into the HSBC systems and so that digital investment is having a big impact for us in other parts of the business as well. But beyond that, I'm afraid I can't say more, because the kind of contract we've done is we're clear on what we can and cannot say. But you'll enjoy the numbers as they come through.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Can you tell us, at least, what do you mean by expansion as well as that extension?

A - Andrew David Briggs {BIO 16330585 <GO>}

A broader range of products and broader parts. If you think across HSBC, there's a number of sub-brands within there, other brands within there. But I'm afraid I'm not able to be more specific there, apologies.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

It's significant. We got to be careful. Now on your -- I think your second question was payout ratio. We said 50%. To my knowledge, we haven't missed a target for quite some time, I'll say that. And I'd expect that we wouldn't miss that one either.

A - Christopher Esson {BIO 16208369 <GO>}

We'll finish up with Ravi and then take other questions outside.

Q - Ravi Tanna {BIO 16926941 <GO>}

It's Ravi Tanna from Goldman Sachs. I have 3 questions, please. So the first one was on liquidity. And the holdco liquidity has moved to GBP 1.7 billion. But I note that there's -- you've referenced the fact that the buyback will be funded separately with a further GBP 300 million earmarked. So can you just walk us through the moving parts in terms of what's moved in terms of liquidity in the first half of the year, since the 1.8 at full year? The second question was on the buyback again. Clearly, on the dividend policy, there's a very prescriptive way in which that's reached, with operating EPS being the basis. Is the sole determinant when you come to considering the buyback, your Solvency ratio, or do other factors come into play? And the third question was actually on the France DVA. And it was just kind of a fact check, really. In your planning assumptions for reaching your GBP 7 billion cash remittances, is there an assumption of attaining that France dynamic volatility adjustment benefit at any point?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

So there's a few there. We'll probably both have a go. So liquidity, (I think my take) -- so that's 1.7. And there's another 200 on top of that aside for the buyback. We sort of stripped that out because it's...

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

Yes. We've already spent some.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

We've already spent some of it. So that's why it's 200 less. So we've just taken that out. Arguably, you could have said it was 1.9, I guess. So that's first. Tom might have more comment on the moving parts. On the buyback, the things we consider. So it all depends. So first of all, you look at how much is our excess. We all know it's a fairly large number. So that's why I don't actually see it at this stage as an either-or scenario. I think we may be able to do a bit of each. Secondly, you look at economically, what makes sense. And I think it was someone else said that at the moment, the buyback looks attractive. Well at these sorts of yields, of course, it does. And where the stock price is at the moment, well, the buyback -- you've got to believe in your own stock. It looks an attractive proposition, doesn't it? So that's there. Then when you look at an acquisition, again, I don't think it's mutually exclusive. But if we saw another RBC. And that sort of size and that sort of return and that sort of ROCE. And that sort of accretion, very, very quickly, I'd do that in a heartbeat. And that sort of makes sense. And I think investors and you guys would expect us to as well. But the reason -- we're not trying to be evasive, the fact is, we don't know until we see it. And we look at the economics and we look at the stock price and we look at the debt that's coming up in the debt stack. And yes, we have hypothesis, of course we have. But it would be a bit imprudent for us to share that today. We're just going to -- give us a bit of time as you think we would.

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

And I think as a topic for the Capital Markets Day in November, I may do a little bit more for you on liquidity in terms of how we think about that. As you might suspect, internally, we've got a lot more metrics. We sort of look at monthly cash flow forecasts over a multiyear time frame. We have a liquidity coverage ratio. We're looking at the ins and the outs and trying to make sure that we stay within a healthy liquidity range. So we always have ins and outs in terms of dividends coming up from the subs, et cetera. And interest payments out and other expense. So we keep a good look on that. And it would be fair to say that with the special dividends and divestitures of Spain and FPI, et cetera, we've got a healthy flow of cash coming into the center and so we do need to be active around redeploying that. Around buybacks and the 50% payout ratio, I'd caution people not to use the 50% payout ratio as just a tight mathematical formula. That's intended to be a guide showing balance as we grow the business. We want to be growing the business for the long term and effectively reinvesting half of our excess capital generation into future growth and distributing the other half in terms of the regular dividend rate, with excess capital being managed through the different requirements that we've talked about. So when we look at the buyback, we're looking at again, multiple things, we are looking at capital generation, we are looking at overall capital position, we're looking at liquidity. We're looking at all the alternatives and thinking about what we should do there. But again, given the capital liquidity we're generating, we going to have enough to be able to fund bolt-ons, buybacks, debt repayment, organic growth. It's just a question of how much in each and when. Then finally on DVA and the GBP 7 billion cash remittances, we have some room to hit that GBP 7 billion target. So we've got some of the divestiture proceeds coming up, we've got special dividends coming up, in particular, from the U.K. life business. We're not expecting a special dividend from France. We're not trying to squeeze France particularly hard on cash at the moment. We've got a new CEO who's been in there since last November and we're trying to be patient around the development of that business over time. But I think we're in good shape for the GBP 7 billion remittance target.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Not too patient.

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

Yes, I know you're not patient. I have to kind of hold you back once in a while. So.

A - Christopher Esson {BIO 16208369 <GO>}

Thanks, very much. I'll hand it back to you, Mark.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Okay. So that's it. Thank you for joining us. I know the IR team is around. We'll be around for a bit as well. As always, we look forward to reading the insights and to engage in the next few days. Thank you.

A - Christopher Esson {BIO 16208369 <GO>}

Good.