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Q2 2014 Earnings Call

Company Participants

- David Barral, Chief Executive Officer-UK & Ireland Life
- Mark Andrew Wilson, Group Chief Executive Officer & Director
- Maurice Tulloch, CEO-United Kingdom & Ireland General Insurance
- Tom Stoddard, Chief Financial Officer & Director

Other Participants

- Abid Hussain, Analyst
- Alan G. Devlin, Analyst
- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair T. Stewart, Analyst
- Chris J. Esson, Analyst
- Gordon Aitken, Analyst
- Jon M. Hocking, Analyst
- Oliver G. Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Mark Andrew Wilson {BIO 7102576 <GO>}

Well, good morning, everyone, and it's good to have you here again, and welcome to this – our 2014 interim results. And I appreciate that today is a very busy day for all of you. It's a busy day certainly with results scheduled. And you were also recently at our offices for our marathon nine-hour investor day session. So we will try and keep our remarks today short.

Now, by now, you've hopefully had a chance to have a look at our results. There've been some notable improvements in the EPS expenses, bottom line profit, and book value. In the first half, we have also had a number of external issues to deal with, and we have very much taken these issues in our stride.

For example, you had the UK budget that caused disruption to individual annuities. We had significant weather events in UK and Canada. Interest rates remain low and recovery in Europe is very much divergent. The pound has strengthened, depressing the earnings of our international business. But you know what, I don't like excuses, and we need to manage our business through all of these environments. And I think the numbers reflect that.

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Today, we are seeing improvement in all five of our key metrics, and I view this as entirely satisfactory. Cash flow is up 7%, but this in isolation is very much an incomplete picture as most businesses still have to pay their remittances in the second half of the year. And I'm afraid you're going to have to wait until the full year results to judge our true progress on cash flow.

Operating profit - in the first half, operating profit is up 4% and operating EPS is up by 16%. That's not too bad. We are working, as you know, we spoke a lot about this in the Analyst Day, we are working to restore the link between operating profit, profit after tax, and book value growth.

And in the first half, operating profit is up 4%. Operating profit after restructuring expenses is up 20%. And IFRS profit after tax is up 113%. And consequently, you have a look at that book value grew 7%. Now, as Tom will show you, the further down the P&L you go, the better the story gets. Operating expenses were down £129 million or 8%, and a little bit more on that later.

Value of new business. VNB was up 9% with good contributions from our growth markets of Poland and Asia as well as the European turnaround markets. And finally, the combined operating ratio for the group, and we already had questions on this, this morning, but that has improved to 95.5%. Our biggest market, the UK, had a COR of 94.3%. Now, that's the best since 2006 despite the floods in January and February.

Today, we're announcing an interim dividend of £.0585, a growth rate that is very much mechanical and identical to that declared at the 2013 final dividend. Now, there's not a lot you can read into this dividend decision because information on our cash flows will only be known at year-end when all the businesses have paid their remittances. At year-end, we will make a decision on how quickly we want to transition to a normalized payout ratio. We know what we need to do in this regard, and we are moving in the right direction.

So now on to our progress on the key issues. Aviva, in my view, still remains a turnaround because we have key issues to address. And we presented these key issues at last month's Investor Day. And today, what I intend to do is give you an update, a so-called progress report. So take these one by one on the screen.

So, first to efficiency. Our operating expense ratio I've said before is too high. We plan to get this below 50% by the end of 2016 from the 54% reported in full year 2013. Now, I think you would agree that the 52% we are reporting today is adequate progress towards that target.

The second issue, of course, is that our holding company's unencumbered cash flow, we believe is too low relative to the substantial earnings power of the group. And as we announced last month, we are seeking to more than double the annual run rate to £0.8 billion. Now in the first half, remittances were 5% higher at £612 million. And the group restructuring expenses, the core percent on finance cost were all down by a collective 24%. So that's remittance is up, group center cost down 24%. This is just good business, and it's certainly needs to continue in that trend.

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The third issue we highlighted and you know I highlight our issues, was our back books, we believe are inefficient and capital-intensive. Now, due to our improved efficiency and our work on cost savings, we were able to extract a further £100 million from our UK Life back book in the first half. Now, the obvious question is how biggest can that number be. And we still haven't fully quantified that number. We have done a lot of due diligence. But what I can say today is that the size of the price here is significant, and this is simply early tangible progress.

The fourth issue, our external leverage, in my view, is too high, at least over the medium to long term. In the first half, we paid down £240 million of a very expensive hybrid debt, but far more meaningfully, we grew our book value by 7%. And our first half leverage ratio of 46% of IFRS tangible capital. That's down from 50% as you know a year ago and it's down to 30% on a Standard & Poor's basis. This is broadly consistent now with the AA rating.

Now, this is an interesting result. As I note that a number of you have suggested on a number of occasions that we would struggle to make progress here without devoting a lot of cash. Today, you may suggest otherwise. So on to our key issues that we need to address the second part of the key issues, which is about growth and therefore future cash flow.

Our growth, whilst important, cannot come at the cost of dividends. But in the first half, VNB in our growth markets of Poland, Turkey and Asia was up 54%. And in our so-called developed European markets of France and Spain and Italy and Ireland, VNB was up 54%. Now, this growth has come through - well it's quite simple, it has come through improved distribution and product mix. We've cleaned up our Byzantine structure in Italy. We're using our French distribution far more effectively selling the Life products, and we have definitely improved our product mix in Asia.

Our sixth issue is that our third-party net fund flows have historically been weak. While Aviva investors will take time to turn the corner, you are well aware that our AIMS Fund launched that we are now marketing, that's looking interesting. And in the first half, net flows however in Aviva Investors were still, in my view, unsatisfactory. And this will be an important key metric to focus on going forward as fund management becomes a bigger part of our group and a bigger part of our business.

Conversely, however on the asset side, our UK fund platform has had a very strong six months with in excess of £1 billion of net inflows, making it one of the strongest performers in this key growth sector. And the last two issues there relate to our cross-sell rate and growing our digital and direct distribution.

Now, hopefully, most of you were at our Analyst Day, and I think you probably got a sense of our capability from that day and I look forward to reporting progress on our digital and cross-sell initiatives as we progress.

Now, I've had a lot of questions already this morning about expenses and let me talk a little bit more about that. But more precisely, on efficiency and expense ratios, as I think it is clear these are a little ahead of expectations. Now, as I stressed in the Investor Day, anyone can cut expenses. The key to future success, in my view, is improving the ratios. Now, in 2012, we set out a target to reduce the 2011 cost base by £400 million by the end of 2014.

Now when I arrived at a little time later, it was not clear that that was going to be achieved. We were asking of all our businesses, no exceptions, but not everyone was onboard. Now, obviously, compensation had a role in driving home that message. And at the end of 2013, we reported £360 million of earned cost saves.

And I think it was pretty clear then, and I gave some very strong hints that the £400 million cost target was in the bag for 2014. But, obviously, we haven't let up. In the first six months of the year, our cost base has reduced a further £129 million to just under £1.4 billion. Now, that's a run rate of £2.8 billion, nearly £600 million below our 2011 cost base target for this year.

Now, Forex has helped a little this year. It certainly went against us last year. But bear in mind, we've also had to absorb expense inflation over that period. I had committed to shareholders that we would substantially reduce the integration restructuring cost because I don't care, and you've heard this from me before, I don't care which lines it comes part of. All costs are a drag on cash.

Now, today, we are also delivering this, and today, we're reporting a 74% reduction in restructuring expenses, which is one of the reasons the bottom line has improved so much. Now, I would anticipate a slightly high level of restructuring costs in the second half of the year. But you can be assured that any spend in this area will have a very short payback period. In fact, most of the so called restructuring costs in the first half, almost all of them, in fact, were related to Solvency II.

As you have seen though, in summary on expenses, our group operating expense ratio has reduced to 52% at the interim stage. Now, some of you may say that we're now halfway towards our 2016 target on expenses after only six months. And there I've said, some of you may accuse me of sandbagging. However, I should remind you that our target was to achieve an operating expense ratio of below 50% by 2016. Now, am I going to change this target in light of this result? No. Well, at least not yet. But obviously, the question will be, how much below 50% can we get in 2016? And I guess time will tell.

Now, on to my last slide, which should hopefully be very familiar to you. What are we looking to achieve? The answer is quite simple. And you heard me say this many times before, it's about cash flow plus growth, in that order. Cash flow is real cash. It's not assumption driven. It's not assumption driven or embedded value free-surplus development that may or may not be trapped in subsidiaries and that may or may not find this way to you, our shareholders. This is real cash, and no one else, I think, uses this metric, but its real cash. It's after paying central expenses and financing costs, it is unencumbered, and therefore, I imagine quite interesting to shareholders.

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What is growth? Well, growth is not about top-line growth, that doesn't interest me in the slightest. Growth is about increasing value of new business in the Life business. We managed 9% in the first half despite the annuity reduction. In our first half, cash generators were up growing strongly in VNB by 54%.

Now, growth in GI. Growth in GI is about increase in underwriting profits. So, again, it's about underwriting profit that turned into cash. In the UK, we grew the underwriting result by 46% and at a group level by 11% despite the worst weather. And finally, in asset management growth, it's about net fund flows. Aviva Investors is still very early on its journey, but they have launched the products and I'm very confident now in their management team and the growth prospects. They're making some good progress.

Now, how are we going to achieve cash flow and growth? Well, we spoke about this a lot in our Investor Day, we're going to drive a true customer composite model through our organization. This is our differentiator. There is few that can match that and this is our competitive advantage, particularly in our home base, our home beachhead of the UK. We're starting to act digital first and we are investing in this area and we have invested in this area in the first half.

And finally, the third leg of that strategy is, as you know, is to be focused. We are not everywhere. And as we are demonstrating, we will be ruthless in the allocation of our capital to the sales and businesses that we think can get the returns.

Now, with that summary, I'm going to hand over to our new-ish CFO, Tom, to take you through some of these numbers in a little bit more detail. Tom?

Tom Stoddard {BIO 15071280 <GO>}

Thank you, Mark, and good morning, everyone. It's a pleasure to be standing in front of you for the second time in as many months. I think that's what they mean when they say never rest here at Aviva. So I'll walk you through the numbers in a little bit more detail, and then at the end, I'll wrap up with my views as to where we are in terms of pursuing our investment thesis of cash flow and growth.

So first half results have been encouraging. Despite facing unexpected adversity in the UK and Canada, our operating profit is up 4% to £1.05 billion. We've had to get there by overcoming some significant hurdles as we've listed on the right-hand side of this slide. As you can see, lower annuities, worse weather, a smaller Spanish business, and a stronger sterling set us back with a combined drag on operating profit of just under £200 million. That's about a 20% hole to climb out of. But our people responded really well, and we've been able to offset this drag through a combination of expense saves, back book actions, and underlying growth. We hope to pick up more on this momentum going into the second half of the year.

So let's move down the slide. You all know that operating profit growth is important in measuring our business unit performance. But as some of you heard me say a month ago, after, after, after is what I'm after here at Aviva. So in this slide, that means after operating

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expenses and importantly after restructuring expenses and after minority interests and tax. So in this respect, we've done better. With integration and restructuring expenses down 74% at £42 million, leading to a 20% increase in operating profit with all expenses included.

Looking further down the slide, you can see the story improves with profit after tax more than doubling to £863 million. And as you heard Mark say, operating EPS is up 16% to £0.236, which is not bad. So what's the bottom line? The environment's been surprisingly tough, but we still managed to grow profit both above and below the line, which has led to healthy increases in EPS and book value.

Now, growth in book value is important, so let's look at NAV next. We've got many moving parts here. Over time, what's important for us is to get operating profit to drive compound growth in book value per share. So starting at the top of this slide, we began the year with IFRS NAV of £2.70 per share. Operating profit contributed £0.24 per share with below the line expenses only knocking off £0.01 per share, which is significantly better than the £0.06 reduction last year. Positive investment variances and the pension fund contributed £0.04 and £0.11 respectively while foreign exchange went the other way by £0.09 per share.

So after dividends, we closed with IFRS book value of £2.90 per share representing growth of 7.4% for the half year. This certainly helps improve our external debt leverage, which I'll come back to later. Meanwhile, the movement in MCEV per share follows a similar pattern growing from £4.63 to £4.78 per share. Note that the £0.08 of exceptional items affecting MCEV includes £188 million hit for the charge cap and related changes announced by the Department of Work and Pensions in March.

Going forward, we need to maintain the link between operating profit and book value growth. I do worry that we'll still be subject to short-term variances, of course. But over the long term, our profit should enable us to pay a growing dividend while also increasing NAV.

So on to the businesses and starting with the biggest, UK Life. As David Barral mentioned at our Capital Markets Day, it's been a particularly disruptive period for this business unit. However, the response has been quick and the results are up. Operating profit in UK Life improved 8% to £472 million as expense actions largely offset the lower profit from annuities. Without these actions, our run rate would've been about 15% lower, but of course, we're working hard to rebuild momentum going into the second half.

So what we have is two big factors driving UK Life's positive operating result, expenses and back book. First, the expense run rate achieved in the first half is £33 million lower, which simply improves our ongoing margin. And second, in our back book, we benefited from a release of a technical provision related to expenses, which has resulted in a £100 million efficiency gain.

I've said before that this could be big and we've only just started. Put simply, our per-policy expenses are down because of savings already delivered. Therefore, we were able

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to release a provision to cover these expenses. This is what happens when you become more efficient and it should be something we can repeat as we undertake additional back book actions.

Obviously, there is a lag between the reserve actions and the expense savings that we deliver. And I'd also point out that other benefits we'll get in the back book will come from increased focus on customers, better persistency, and better capital management.

So UK Life should be one of our biggest cash generators with productivity and efficiency being key for the business. And you'll note that the unit improved its expense ratio by six percentage points, and paid a £350 million dividend to the group in the first half.

Now, the story for value of new business in UK Life is not as easy. VNB clearly suffered from changes to the annuity market with annuity VNB down 41%. But you shouldn't attribute all of this decline to the budget announcement, because we were already trending lower in the first part of the year based on favorable comparisons relative to where we were this time last year.

As we described at our recent Capital Markets Day, our response has been to accelerate strategies to offer wider range of products and more closely align our UK Life customer propositions with Aviva Investors, our fund management business.

In addition, the decline in annuity VNB has been partly offset by a 25% increase in protection, largely driven by growth in bancassurance and by increased volumes of equity release, which more than doubled VNB to £16 million (21:52). As you know, we've also reallocated resources to mid-sized bulks.

Pension VNB is down, but this is not the entire story. Part of the decline in individual pension sales is due to more platform business, while post-RDR there's less market churn, which is good for profitability and quality of business.

Our platform business has continued its trajectory of strong growth with AUMs surpassing £4 billion, benefiting from £1 billion of net inflows in the first half. So there's a lot going on in our UK Life business. It's at the heart of our transformation and its receiving plenty of focus to drive increasing cash flows while delivering better customer outcomes. It's very important for our brand and our franchise that we succeed here.

Okay. So turning to UK GI, the main point is that we're reporting a strong increase in underwriting profit, up 46% despite some bad weather here. The COR of 94.3% is the best in seven years and it's come from careful risk selection and good expense management. In fact, maybe that we've gone too far on being selective with net written premium down 6.5%.

As Maurice talked to you last month, we're refining our approach with initiatives to restore premium growth in a sensible way and we expect these steps to begin to bear fruit in the second half of 2014. The decline in volumes demand a strong focus on efficiency, so our

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team has reduced expenses faster than premiums and delivered an improved expense ratio.

And on the investment result, it's probably worth reminding you how the inter-company loan feeds into UK GI's profits. Part of UK GI's investment income comes from the 4% interest rate paid by the group on the inter-company loan. But as group reduces and repays the inter-company loan, UK GI realizes less income on the remaining balance. Of course, it all gets eliminated in consolidation.

So, overall, UK GI has achieved a better underwriting result, probably given up a bit more volume than we would like and have been disciplined on expenses. So we're pleased to see this business getting back on its front foot and we expect more improvements.

Moving over to France, it's been another solid six months for our largest European business. Profit is up 6% in constant currency and the business had another strong VNB result, up 23%. This is on the back of 39% growth last year. Growth in VNB has come from both higher volume and better margins. We've made more effective use of our distribution, in particular, UFF and implemented smart incentives to get volume where we wanted.

Margins are up as a result of more unit-linked sales and from the launch of higher margin unit-linked products such as real estate which have proved popular. It's also worth noting that unit-linked funds sold by Affaire (24:37) are almost entirely Aviva Investors' funds. But disappointingly, we've not made as much progress on protection sales and so that will be an area of strategic focus for the French business going forward.

Now, in Canada, our results were hurt by the bad winter at start of the year, which I had the misfortune of experiencing myself in North America. Weather losses for this business were CAD 75 million, worse than expected, which added roughly 4 percentage points to the combined ratio. The overall COR of 97% still shows underwriting profitability and the team was able to grow premiums by 6% in constant currency terms.

Expenses in Canada are lower, driving the operating expense ratio down to 15.1%. But please bear in mind that this includes 3.4 percentage points premium tax. So as you can see on the slide, when you take this off the expense ratio, the result of 11.7% is significantly better than the group's 14.6% and UK GI's 14.9% expense ratios. So to put Canada's result in perspective, the weather was a setback, the business still produced a return on capital employed of 13.2% in the first half. So it's got good prospects for getting back to higher returns in the second half as claims frequency normalizes under more typical conditions, which would be quite good for us overall.

So if Canada hadn't experienced so much weather, this would have been a much more exciting slide. Nevertheless, our combined operating ratio of 95.5% is an improvement year-on-year. Good underwriting results in the UK and elsewhere offset the weather loss in Canada. Reserve releases remain modest for the group at only £30 million net. This is 0.8% on the COR and due to the short-tail nature of our business and consistent

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reserving, I generally don't expect reserve movements to play a major role on our GI profits.

Also note, on the slide, that we've refined the disclosure a little. And instead of classifying some concept of total weather loss, we're now going with deviation from our long-term average. On that basis, the Canadian winter, UK floods and French hailstorms resulted in a 0.8% worse impact than what we would ordinarily expect from weather.

So the overall message here is that the COR has improved, but we'll not be satisfied unless we can get a little lower. The group has again produced growth in overall value of new business, which is up 9% in constant currency. Increases in our growth in European markets have more than offset the decline in the UK. Our growth markets, Poland, Turkey and Asia grew 54% in constant currency. Collectively, they now make up 25% of our total VNB versus just 19% a year ago.

And just a quick footnote on Turkey here. We made a methodology change to better reflect Turkish withholding taxes in VNB, which accounts for much of the decline you see here on the slide. And adjusting for that, Turkey Life is actually flat on a constant currency basis.

You can see that Europe VNB showed signs of turnaround with Spain and Italy up 67% and 49% respectively. We've already talked about France VNB, but together, the three developed European markets grew 34% in constant currency.

So stepping back a little bit, some of these VNB growth percentages, particularly in our European turnaround businesses are quite large. However, this is coming from a relatively low base and these operations are nowhere near running at their full potential. We would also expect UK Life to begin to regain ground as we respond to changes in the market here.

And Mark has already covered expenses in some detail, so I won't belabor this. We've made good progress towards getting below 50% operating expense ratio. Our Life business has been a standout with a 15% reduction in total expenses and 5% improvement in operating profit. In all our businesses, we want every cell to improve its efficiency ratio.

Although our overall group expense ratio of 52.1% has benefited this year from foreign exchange, the progress from 55% to 52% should still give you confidence that we can achieve our target by the end of 2016. And, of course, we won't stop there. The fact that we've over-delivered on our £400 million cost reduction target should also give you comfort on this point.

And then on to the last of the key operating metrics: cash flow. There are two points to note on cash flow. First, our remittances are up 7% to £612 million, but it's really too early to predict what our remittances will be for the full year. Second, I will be redefining how we will report operating capital generated, OCG, once we have final clarity on Solvency II.

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In the meantime, we'll keep reporting the existing measure, but our remittances depend more on our economic capital framework, which is just not quite the same.

So until we complete the move to Solvency II, we'll continue to report OCG and target a remittance ratio north of 80%. Most importantly, and consistent with my after, after, after theme, I'm focused most on sustainable unencumbered holding company cash generation and this is why we've recently introduced a new target of at least doubling the run rate of holding company annual excess cash flow to £800 million by the end of 2016.

So before I hand over to Mark, I just want to end on our financial position where we've made further progress and then leave you with some concluding thoughts. Our economic capital surplus remains adequate at £8 billion and this represents a coverage ratio of 180%. At this level, the ratio is above the top of our stated risk appetite, so we're now managing more with an eye on the quality and resiliency of our capital to support our business.

Holding company liquidity of £1.2 billion has reduced from the first quarter as we've paid the Plc dividend and repaid some internal and external debt. We also invested £200 million of cash downstream to capitalize our internal UK reinsurance company. Our deleveraging activity has been significant in the half with combined internal and external debt reduction of £750 million since the fiscal year 2013 results. I consider that really pretty good.

We've reduced inter-company loan from £4.1 billion to £3.6 billion through a cash repayment of £150 million and non-cash measures of £360 million. We're on track to achieve our target of a £2.2 billion balance by the end of 2015. The external debt leverage ratio has moved down to 46% of tangible capital following the repayment of £240 million of debt in April combined with growth in book value. On an S&P basis, the leverage ratio is now at 30%.

So where does this leave us at the midway point of the year? I'll conclude with what I consider the most important takeaways from all this. So three points. First, we've delivered operating profit growth, both operating and bottom line in the face of adversity. Second, we continue to get our housing order with a tremendous amount of deleveraging in a short period of time without straining our cash. And third, we remain intensely focused on our investment thesis of cash flow plus growth with the objective of restoring our dividend capacity to a level more consistent with our size and profitability. So there's still more to do.

Back to you, Mark.

Mark Andrew Wilson {BIO 7102576 <GO>}

Thank you, Tom. And so that's the first half results. Some progress, but you'd expect me to say that we still remain some distance from our potential. Now, as usual, I have a number of people - my senior colleagues in the room with me who can also perhaps take some questions.

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So let's now move on to Q&A. Please wait for the – where's the mics? Please wait for the mics. If you can say your name and the company you work with for the benefit of those live on the webcast.

Q&A

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. Andy Hughes, Exane BNP Paribas. So the first question I'm afraid is a techy numbers question on page 17. I think you mentioned that the £100 million of management actions benefits the margins. So I'm looking at the Life business profit drivers' percentages in here. Could you restate those ex-management actions for the UK business? Because I can't believe that the unit-linked margin has gone up from 90% to 91% year-on-year given the amount you're charging for things like the wrap platform, et cetera. So it'd be quite good to get those numbers, ex-management actions to see the underlying trend, please.

Second question. I've described one of your competitor's economic capital model as a bit fluffy this morning, so I'm quite keen to know the differences between your economic capital model and Solvency II. And maybe if I could ask the same question I asked them yesterday, how would it compare, for example, to the ABI letter today?

And on that note, I notice that Solvency II might have a different interpretation to your economic capital model on pension schemes, particularly using IAS19 and what does that do for the internal debt? So presumably, your internal debt number on Solvency II may be lower than it currently is?

And I guess on the recapitalization of the intra-group reinsurance company, given that the intra-group reinsurance company was a non-cash action in reducing the internal loan, is the recapitalization of that included in your cash target to pay down the internal loan or not, or is it on top? Thank you.

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

Okay. Andy, there's more than one question, there's a few.

Q - Andy Hughes {BIO 15036395 <GO>}

Sorry.

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

And I'll just give it to Tom to find the numbers. But, just – if I can just say a general comment first on Solvency II. We're still some distance away from Solvency II. So we're not going to – I'm not going to get into – trying to answer that when we haven't got all the answers. I've been intimately involved in the negotiation of Solvency II across Europe and we don't have all the final answers. We know what some of it is. Remember, we have been working on an economic capital basis for quite some times, we're probably closer to

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most, but we're not going to add these results, get into that, because I think we need a bit more detail on that.

Just on the £100 million, just before I hand over to Tom on that. Just a – I'm going to, I guess, answer the question that I think is probably behind part of yours also, and I've had it a couple of times this morning. Is it repeatable? Because I've already seen some notes this morning, or there's been one that say, well, it's a one-off. I wouldn't call it a one-off at all.

And a lot of you guys keep on asking that every quarter. Well, are management actions one-off and whether we keep on doing it. I'm happy to have that discussion this time next year as well.

And we've said before in the back book, we highlighted the back book as a fundamental issue in our business. We have a long way to go. We have a lot of hundred millions to go in the back book actions and they won't be linear, but they will certainly evolve over time. And we've said that we have a big upside there. I'm not going to quantify it today, because we still need to do, and I may not able to quantify it, by the way, but we're still going through our due diligence, but I can tell you it is substantial. So I'm just going to preface Tom's comments with that.

A - Tom Stoddard {BIO 15071280 <GO>}

Okay. Andy, I think you had four questions, so I'll try to get through them all here, so that others have a chance to ask their questions as well. First on management actions around the margins, I'd focus you on the £100 million of back book actions and that shows up primarily in the DAC, AVIF and others. So I think that's where you should look for that and think about the margins and Life profit drivers overall relative to that number.

In terms of Solvency II overall and how we think about that, I think we are still waiting for final calibrations and we're still working through the Solvency II project. So as we said at our Capital Markets Day, we don't know exactly where we're going to land. That's a process that we continue to work through. I think now that our capital ratio, our coverage is sort of above our risk appetite, we're focused on trying to sort of continue to improve our methodology so that we're moving closer to where we think we'll end up on a Solvency II basis. But it's at this point impossible for me to predict exactly what that ratio would be. I would reiterate, though, that we feel comfortable with our economic capital at this point.

In terms of pension schemes, that obviously is an issue that we've noted as well in the recent letter. And so we are continuing to work with the regulators as to what the final outcome will be on that, but I consider that a work in progress.

And finally, your question was, I think about the capitalization of the inter-group reinsurance entity and how we think about that relative to our deleveraging plans. There, what I would say is that, that's all part of our deleveraging plans. And so this is an integrated plan to bring down both internal and external leverage. And we do use cash for other purposes around the group from time to time. We also realize liquidity around the group. So you should recognize that all of this is an integrated plan and that our objective of reaching £800 million of excess cash flow in 2016 takes into account all the things we need to do around the inter-company loan internal and external debt leverage.

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

Jon.

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

Good morning. Jon Hocking from Morgan Stanley. I got three questions, please. On GI, you mentioned that you might have sort of turned it down a little bit too much towards margin versus volume. I just wondered what sort of combined ratios do you think you can sustain as you grow so you get a benefit on the expense ratio but probably get something up on the underwriting. I wonder if you could give some color there, please.

Second question on sort of European Life product. Are you at the point now where you've got the products you want on the shelf and it's a question of getting the incentives right for distribution or there's still remedial actions you need to put into place to get more profitable product on the shelf?

And the third point on the expense ratio, to what extent is the expense ratio in the first half flattered by sort of any phasing of investment spend? You've talked a lot of about digital, I'm wondering whether that number is flattered to any degree by costs coming through in the second half versus first half? Thank you.

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

Okay. Margin versus volume – I mean, I think everyone knows my view. I don't chase volume at all. I'm actually not interested volume. The key is getting the optimum level between volume and margin to maximize the profit. Now, really the key thing we need to do there is more on the packaging. And we've got a bit of advantage that we can package across businesses, and we don't even really do that effectively in the GI business. I've got Maurice here nodding.

And so I wouldn't assume that there's going to be any negative impact on margin. I think at a group level, we would expect the COR to improve, not go the other way. Now, that's not – not need to be exclusive from increasing margin, but we're going to do that mainly by packaging and that's how you can increase the volume as well as keeping the margin high.

You've had predictive analytics have had an impact, particularly here in the UK. I mean, we've been incredibly active on that in the last period, I guess, the last couple of years. We're still not finished, but I think what you're seeing here is some of the benefits of predictive analytics. That was the main reason why we avoided the worst of the floods. We've said that publicly before. We did avoid the worst of the floods because our predictive analytics worked.

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So I would expect, in answering to your question, that margin to improve and, Maurice, I know, made a commitment to you at the Analyst Day that I thought was very bold, Maurice, but that the...

A - Maurice Tulloch {BIO 17683736 <GO>}

It remains.

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

It remains that the second half we'll see some growth in the business but not at the expense of margin, not interested in growth at the expense of margin.

The European Life product, we're still only part way through that. So you've had some good mix improvements in places like France, you've had some improvements in places like Ireland. Italy, we've only just recently completed the restructure, and so now we've got control of that business, we can do more; and I know you've seen it improve a lot, but we haven't finished on that.

Spain, we still have a fair bit to do as well, but Spain is more of a market issue and a distribution issue that we sort of have a fair bit to do. And also if you add that into the fact that there's still expense ratio improvements you'd expect from all those businesses, you've still got some upside. So we're still - okay - again, it'll be a bit tough for me to say the businesses, they haven't made some good progress, those turnaround businesses; clearly, they have, but it's still part way through.

The expense ratio - there's a couple of things. Although it's outside of the expense ratio, I'd expect there to be some restructuring cost in the second half. I mean, outside Solvency II. I think, we're saying £4 million or £6 million or something, the first - I think it was £4 million, actually, restructuring cost. You might have a little bit of that. But frankly, we included that in everyone's targets and everyone's bonuses and it needs to have a really short payback. So we'll be well within any of the guidance we gave you.

We are - what we're doing on direct is about reallocation. So we're allocating quite a bit of expense from our IT costs and putting that through into direct. We've separated direct off the digital direct I'm talking about it in the separate business. We have hired really a heavyweight to head our global direct not from the insurance industry. There's a bit of a teaser.

Now everyone's going to ask me who it is and I'll tell you very shortly, but we are putting some investment there. Think of that investment as reallocation of cost, not new cost. We are having businesses say we're stopping something to do something else. That's what I mean by ruthless reallocation of capital and that's very much how we're doing it.

So you can expect the expense ratio to continue to improve. I mean, you'll see some FX fluctuations and things as you go through for sure, but you can expect that underlying expense ratio to absolutely improve.

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Did that answer all those questions, Jon? Chris? I'm sorry, you're next Oliver. Chris first, then Oliver next.

Q - Chris J. Esson {BIO 6194371 <GO>}

Good morning. Chris Esson from Credit Suisse. Just a couple of questions on P&C if I can. Firstly, in Canada, can you talk about how the market has responded to some of the losses? And what that might mean in terms of potential on the combined ratio?

Secondly, in the UK, expectations for pricing. It seems that wide expectations are for motor in particular to bottom given that you're doing 94% combined. Everyone else seems to be in the similar range and Admiral is still sub-90%. I'd just be interested in your - in what you're baking into your base case for that?

And lastly, more on numbers. The investment income in the UK excluding the internal loan went up. I just wondered what the key drivers of that. I would've thought with the shrinking topline your float would be coming down and yields on a rolling basis shouldn't really be moving at either. So I was just interested in what's driving that?

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

Okay. I've got Maurice here. So, Maurice, you want to take that?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Absolutely, Mark. Morning, Chris. Start with the Canadian question. So as you know and Tom alluded to, we had the worst winter on record and the polar vortex. So if you looked at the Q1 results for our Canadian business, we were at CAD 102.7 million. In pounds it was about £40 million of storm losses. The business is now sitting at a 96.8% and it was rounded to 97%. We've seen frequency normalize. The discrete second quarter ran to CAD 92.5 million. I know that business pretty well, if I look back over the last four years, that's what I expect to see in that business.

If you look at the events from last year which were largely property events both in Toronto but the worse one being out in Alberta. We're seeing high-single to double-digit increases in property. So I think it actually shapes up - that business has had some bad luck in terms of large weather events. Last year the first - largest and third largest in Canadian history and this year being the worst winter. So the results and the return on capital of 13.2% show its resiliency and its natural diversification. So I think that's - I would expect that business as we've seen in the second quarter to continue to improve.

UK motor, the ABI came out with something, I believe it was either Tuesday or Wednesday this week. A little bit of hints of optimism in there. The average premium actually in the discrete second quarter was up £2. I think to 363 or 365 (46:07). Year-on-year, it's down 5%. So perhaps that's starting to show signs of bottoming out.

If you look at our overall volume, we're down 10% at Q1, 6% at the half year. So the discrete Q2, we're down 4% and actually starting to grow our customer count already, but we continue to be soft in motor of our reduction of circa £120 million, £130 million, £75 million of that is motor. There was another question, I think it was on the yield on the...

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

(46:42)

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah, I would have to get back to you on that. I think it's gone from 45 to 55, I don't have the...

A - Tom Stoddard {BIO 15071280 <GO>}

Yeah, I don't have that precisely. I mean, we are very focused on trying to get better return out of that portfolio to support the business, but we'll come back to you on precisely what the driver is.

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

I mean, if you have a look at the asset side, the supplies in GI particularly, we have been so conservative on it. And partly that was a function of capital. Now, we are certainly taking and I don't mean taking – we're just being tactical in how we do it. We got a very narrow range of assets which you operate in and small changes can make quite a big difference. But we need to come back to you. I just don't have that data on top of my head either. Oliver?

Q - Oliver G. Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Coming back to management actions this time on the OCG where I think you've got about £260 million (47:37). I'm sort of seeing at the headline level what's driving that COE reinsurance contract. Perhaps you could just talk a little bit more about that and again how sustainable are these sort of management actions? You also seem to have done something in terms of releasing capital from the estate or something, the free surplus online seems to have changed a bit.

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

All good questions. Tom?

A - Tom Stoddard {BIO 15071280 <GO>}

Okay. So there are several things here. Two big actions driving OCG in the UK. The first is related to the £100 million of back book actions we've talked about, and so that has a net after tax impact of £80 million on OCG. The other impact is £184 million, and that's related to a capital management transaction that we undertook in UK Life.

Essentially, what we wanted to do was to hedge our future with profit bonuses on an economic basis against market risks. And so we concluded that the best place to hedge those risks was in the new with-profit sub fund and so we move those future cash flows there. In doing that, the new with-profit sub fund made a £184 million cash payment to the

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non-profit sub-fund, and that's the OCG. So you take those two elements together, that's what's going on with OCG.

Now, separately, there was a third transaction, or a second of two capital management transactions, which we undertook for Solvency I purposes. And it really is just sort of a one pocket to the other pocket transfer where we moved £864 million of VIF from the reserve to the new with-profit sub funds. That doesn't change total MCEV at all, and it doesn't change the emergence of cash flows, so that transaction is just net-neutral.

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

And it is – a follow up on the detail, we can give that (49:38)

Q - Oliver G. Steel {BIO 6068696 <GO>}

Just one follow up. This £184 million payment, I guess that's all remittable.

A - Tom Stoddard {BIO 15071280 <GO>}

That is cash, so that improves liquidity. We also had – we did this to benefit our economic capital. So we did have a release of economic capital as well. So you can consider that sort of good remittable OCG.

Q - Oliver G. Steel {BIO 6068696 <GO>}

And future delivery of these sorts of actions?

A - Tom Stoddard {BIO 15071280 <GO>}

I think you should continue to expect us to take a variety of management actions, in particular as we manage the closed book. They will be in different sorts and varieties, but – and it's sort of hard to predict the timing and the size, but we are actively managing that back book, and more actively managing it than we had in the past. So you should expect these kinds of actions to repeat in the future.

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

I would look at them in three categories. I'd look them as expense because as you can see, quite minor reductions in policy costs, and they're quite big impacts especially on the book that big. Secondly, on persistency on that book, so if you can manage that book better and frankly we haven't managed that book much at all, you can improve that. I guess there's actually four. The third one is cross-selling, which you can do and we haven't really much at all.

And the last one that Tom was talking about is capital management type actions. So I guess you can think about it actually in four categories if you want to think it that way. We have developed plans in all of those, and this is just the fruition of some of them. It's – think of it a little bit like what we did on the internal loan. When you start focusing on something, you realize the size and price is a little bit bigger than you thought it was. And

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when you put a bit of intellectual horsepower behind it, you can get quite a few highly-satisfactory outcomes. So I'll leave it there if I can. Blair?

Q - Blair T. Stewart {BIO 4191309 <GO>}

Thanks very much. Blair Stewart from BofA Merrill. Just focusing in on the OCG. I think without the management actions, you would've been down year-on-year. So can you talk about some of the regions where that dropped, Asia for example, some of the European countries. And just really to Oliver's question, the £184 million that you've received, is that a future profit impact of that - do you receive lower profits in the future for that? Is it a cost anywhere would be just the follow-up?

And secondly, on cost, you've gone from the £400 million targets to a 5%, 6%, 8% (52:11) run rate. Just wondered if you can give a bit of detail how you got there. And you've talked about your IT costs in the past. How much is that coming down? And just give us a feeling for how much more there is to do? That's it. Thank you.

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

Okay. I'll answer a couple of those and Tom can answer. Just firstly on OCG in Asia, part of that was a one-off last year on the like-for-like. I mean Asia, is actually going - I'm very comfortable with where Asia is going. Just to be clear on the roles of the business. So - and I've been very clear on this and very consistent. In a group - in a diversified group like us, which is one of the reasons we weren't impacted much by the annuities, each business has a different role. The UK's role is to give us cash and a growing amount of cash. And in business like Asia or Turkey, and to some extent, Poland, their role is to grow for future cash. And that's the way we're managing Asia. But just to be clear, the OCG in Asia was because of one-off last year. There is nothing really much underlying that.

On the expenses and I'll give the other questions to Tom. So basically that's the net run rate, is the 5%, 6%, 8% (53:20) so we were doing the £400 million on the net run rate as well. We did make some quite substantial cost saves. As I said, it was helped a bit by FX as well. So I guess - but FX went against us and every other metric, so it still went up. So I guess you take the good and the bad on it, don't you?

Where we've made the big gains and not so much in people. We've hardly had - we've had very few redundancies, all those sort of costs this year. We have reduced our workforce tactically in some areas just by natural attrition in held positions. UK General Insurance would be a place for that. We have reduced IT costs. We have also reallocated a fair bit more of the IT costs and there's more reallocation to go. Its other things like leases on our property. We've only started to actively manage those. And Nick Amin and his team have been very robust in managing those and managing contracts with suppliers. We just did a contract with Vodafone. So there's a lot of that sort of underlying work to go on and there's still more to do. It's a very, very long list.

And it's about an individual level of the businesses taking those sort of actions. And frankly, some of the businesses are still a little further ahead than others. And I'm not

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going to name and shame here today, but I might on the internal staff call later because some are a little bit closer than others.

Do you want to take this?

Yeah. Let me just come back to your additional question around the OCG of £184 million. That relates in total to £233 million. So, effectively, this is almost like an internal securitization where we've brought forward £184 million of that. We will continue to get the other £49 million. And then the increased liquidity that we have here will also help us with the RISA. And so it gets a step closer and allows us to accelerate and sort of bring forward the cash flows from the RISA. So in terms of when you think about the cost, this isn't an external securitization, so there's no cost there, but it is allowing us to bring forward a lot of cash flows sooner.

Don't change your models on the RISA just yet, but we're working on it as you can see. Yeah. In the back and then...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Thank you. Ashik Musaddi from JPMorgan. Couple of questions. First on, Poland. Your Poland earnings have gone up significantly this half year. So can you remind us if the Polish pension impact is already absorbed in that or when is it going to come? And secondly, on your bulk annuities, in past you mentioned that you will try to step up a bit more on the mid-size or small-size bulk annuities. So can you give us some timeline on that which will help us to get some thoughts on your profits from annuities in the future?

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

Tom will take Poland, I'll take bulks.

A - Tom Stoddard {BIO 15071280 <GO>}

Sure. So our Poland – our Polish business includes Lithuania. And our Lithuanian unit had a very strong first half because of some changes there that we won't see repeating in the same way, so that's sort of the big spike that you see in sales and volume there. In terms of the pension implications longer term, most of that is reflected in our results, but we'll continue to see a little bit of that going forward as well.

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

It was mainly a bit of impact, as you know, previously on that.

On the bulks, so as this – I think some confusion at the Analyst Day which hopefully we cleared up over what was said in the bulks previously, and we've been entirely consistent. We've said previously we're out of the jumbo bulks just simply because we don't see the margin. And maybe others can do it better than we can in the jumbos and that's fine.

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Our core market is – midmarkets or small corporates, those sort of things. Now, we had less capacity, and that's actually investment capacity as anything else at the beginning of the year. With the budget changes, we have, as we said, we would have more capacity in the bulks, particularly in the mid-sized stuff. We, therefore – there was a bit of a lead time for that. We have seen that increasing. What isn't in these numbers, but it is now public is I don't know this was going to be released, but one of the counterparties to a bulk released some yesterday (57:50). And that was about £300 million that isn't in these numbers. So, frankly, it's a bit like annuities. We can sort of write a bit what we want there.

The issue isn't how much we can write. The issue was, for me, is quite simple. Its two things. How much capital do we want to put behind it? And that will change depending on the returns and the margins. The margins on annuities have generally come down this year frankly. And the second issue is, what's our ability to invest to? And I guess that's related a bit to the first as well. So what's our ability to invest in the assets that we think give us an adequate return?

So we are seeing bulks. You will see more in the second half as well. Obviously, the VNB is down more than the actual volume. The volume and total annuities in the first half was actually down 23%. So we seem to be, but down a bit less than everyone. I'm not sure why, except maybe people, if they're not forced to buy this stuff, come to big brands maybe, I don't know. But the bulks, we are seeing some good momentum. And we'll be very judicious.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

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

Mr. Devlin.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Alan Devlin from Barclays. A couple of questions in general insurance, just to follow up from John's question. You said you'd give out some, maybe too much volume. Is there any particular – and you mentioned packaging? Is there any particular lines of business that you could start to grow it without impacting margins? And then secondly on the expense ratio, and you just touched on it that, will it be driven by mostly by the commission ratio coming down. I was wondering if you could touch on what's going on there. And just the final question on restructuring cost, which you said will come down significantly. Are they just down in absolute terms or you're forcing each division to take them through their own P&L or actually in the operating numbers or they're just falling down significantly? Thanks.

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

Okay, you take the first one.

A - Tom Stoddard {BIO 15071280 <GO>}

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Sure. On the first question, with respect to the growth, and balance in the margin, I'll make a couple of general comments and I'll make a specific one. I'm actually not even been here a year yet, so the seeds that I planted across sort of pricing, underwriting, indemnity management, cost control, they certainly haven't all started to germinate. So I actually think there's room to improve the business on just a like-for-like basis.

Secondly, specific areas, well, I can tell you if you breakdown our number, that our large commercial businesses are growing 4% at the half year, and it's actually up 7% and 8% the last two months. So good progress there. And certainly in the mid-market commercial we have about 16% market share. We've been growing above the border line since mid-April now. So we feel pretty good in those spots.

On the expense comment, so the commission shift is a mix change. That's how we've gotten out of some really expensive MGA commercial schemes, which had a high commission rate. And on the management cost as Tom showed, we've come from 15.1% to 14.9%. If you normalize that for our direct business which has marketing cost embedded in it, it's at 14%, but still compare and contrast that to our Canadian business at 11.7% if you take out the premium tax. And as I said at the Analyst Day, I think there's lots of room to improve there. So I think there's some positives.

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

I mean, the actions here have simply come from good management actions and this stuff isn't rocket science, it's a very simple business. You've asked a question, Alan, on restructuring cost. Now, we report those separately, so they got rolled up. Doesn't matter which business they're in, they get rolled up. But and there's a big but on that, I keep on saying I don't care what line they are below. To me, they're all costs. And to me, restructuring costs, when you're in a business like ours, so it's just are all simply costs.

So, yeah, you've seen the whole lot that I think of them still as just all costs. So, you've seen a real reduction there. You can see that coming through, particularly in the operating EPS of 16%. That's having a big impact on that you're seeing. So this is a decline in the run rate of the cost. My view historically, I've said this before, my view was that Aviva very much had a bucket of restructuring costs and people used to throw them over their neighbor's fence. I don't like those costs. We'll put them in the restructuring bucket, and we've basically stopped all that by aligning compensation. And so – but it is a real reduction and you've seen that at group as well, which is I think helpful. I think we said we'll come back here first and then – and Andrew next.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Gordon Aitken from RBC. And first one on OCG. We're increasingly moving to a world, especially on the Life side, which is, I mean, profit equals revenue minus costs. You've not – I mean significant cost-cutting out of the business, so £0.5 billion over the last couple of years. However, the OCG is flat versus two years ago. So just we know the FX and weather but when does that cost-cutting come through to the bottom line? And the second thing is could you just give us what your net flows are in the UK Pensions business please?

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

Okay. So, just on OCG, a couple of comments. Of course, if you have a look at OCG, we've also sold some businesses that, if you have a look over the years we've sold some businesses and we've certainly replaced all that earnings with reducing cost and stuff. So the underlying business has improved quite a bit.

The other comment, as we've got more and Tom frankly has been leading this discussion to me. OCG is very much an imprecise measure. I mean, it's a Pillar 1 metric. We're still leaving it there because I know when we sort of raised the prospect of changing at the Analyst Day, a lot of you have said, but we used it in all our models. And so we've left it there. But we are going to replace it. We're going to replace it with something that's more relevant going forward. And every day that moves on Solvency II becomes more relevant, doesn't it?

So, it's a bit of an imprecise measure. Use it as a guide, but as I keep on saying, what I'm really interested in is cash flow to the group. And so cash flow, and if you have a look at the cash flow to the group versus our operating income or if you have a look for that matter at our dividend versus our operating income or bottom line, we've got a fair bit of cover, haven't we?

So that's really to think about it. The net flows?

A - Tom Stoddard {BIO 15071280 <GO>}

Yeah. Well, again it's just my focus again on cash flow here, it's again focused on cash remittances. And so, again, we've got this divergent between our economic capital models and OCG that we've reporting, but all the emphasis is on pushing remittance - remittances upwards. And then on fund flows, overall fund flows have been negative. We've been seeing good results from platform business. I don't know, David, is there anything else you want to add to that?

A - David Barral {BIO 17035123 <GO>}

Overall, I mean, just Pensions as a total is marginally positive. But that said, taken into account with one large disinvestment in the first quarter, but the momentum is actually strongly positive for the reason that Tom has saying. GPP platform, our combined individual personal pension and SIPP sales now are higher than they were at the half year last year. So you know this thing about new platform products as opposed to traditional individual personal pension is now moving forward really positively. So it's a positive momentum.

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

Does that answer those, Gordon? Yeah. Andrew.

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

Good morning. It's Andrew Crean. Three questions, if I may. Firstly, you've talked a lot about after, after, after on cash but actually I don't think you've given the after, after, after.

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So cash remittances, should we take off central expenses and debt interest pre-tax or post-tax to get to the final figure? Secondly, while you've given us a sense of weather losses relative to normal, large losses is the other issue, which is a volatile element. Could you give us a sense in the first half 2014 as to what your large loss experience was relative to first half 2013 and what you'd normally expect?

And then finally, a question on your OCG. To the extent that you're including in OCG, I'm interested about your thinking on this. To the extent you're including in OCG management actions where you're not actually creating value, you're merely accelerating the recognition of cash flow. Is that something which really you ought to be thought about within the OCG and taking into account in terms of the dividend-paying capability? Because you're – it's kind of you're stealing from Peter to pay Paul as it were now versus the future.

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

Can you take the first one?

A - Tom Stoddard {BIO 15071280 <GO>}

Sure. So several questions there. We are making improvements. So if you look at some of our center costs and debt, et cetera, there are improvements there. I won't comment on precisely how to think about sort of the tax efficiency there, but if you look at our center costs, you will see that there is improvement there. We'll obviously have updates for that at the end of the year.

On the second one...

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

The answer's post that.

A - Tom Stoddard {BIO 15071280 <GO>}

Yeah. It's post.

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

I think to answer your question, the answer is post, if that's your question?

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

(01:07:15)

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

Well, it's never been anything on that menu metric because we see that's unencumbered cash flow, didn't we? So we haven't had that target before. If that's your question, that's how I would've think it was.

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A - Tom Stoddard {BIO 15071280 <GO>}

On whether our large - what our large loss experience has been relative to last year, it's - and Maurice can correct me if I'm wrong here, but it's been relatively better than last year. I don't think we're disclosing the precise number, but it has been better than last year.

And then finally, your question on management actions, what I would say is that, for example, take the £184 million of OCG. What we were trying to do there was to hedge market risks. So, again, we were trying to sort of improve our capital efficiency there. And so I think of those actions as creating economic value. You'll have to make your own decision as to how you think about that over time, but we're not borrowing from Peter to pay Paul in that circumstance.

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

And as to repeatability, I think I've answered that part already. As always, you're left to make your judgment and debate it each year. Yeah, Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. If - coming back to my question, the first question. If the unit-linked margin improvement from 90 bps to 91 bps in the UK isn't due to management actions, and I think it was - from memory I think of 86 bps at the year-end. I might be wrong. Could you explain why it's improved and how it gets to 90 bps?

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

We're seeing a lot better performance in Ireland. So that figure includes Ireland. We can pick up some of the detail after, Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

(01:09:10)

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

That's actually a good point because UK and Ireland and I probably should have mentioned that, Ireland actually made as one of the turnaround markets, has made some good progress. VNB is up, albeit from a small base. It's up from I think about nothing to eight (01:09:25). So I think it might be from one to eight (01:09:29), so that's an 800% improvement, but it all helps around the margin, right? So you're seeing a small difference there.

Q - Andy Hughes {BIO 15036395 <GO>}

And on the £100 million, which I guess you say is sustainable and there's lots more to do, can we - maybe we know what the UK service company profit is for the half year before you made the change to the expense assumptions, so we can basically get an idea about how much is baked in the £100 million, and how much you might have left? Thanks.

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

No, we're not disclosing that.

A - Tom Stoddard {BIO 15071280 <GO>}

Really, we're not disclosing that detail.

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

Okay. Down a bit (01:09:57). Thanks.

Q - Abid Hussain {BIO 20229932 <GO>}

Hi. Morning. It's Abid Hussain from SocGen. Can I just return to the question on cash? Can you just talk about your cash remittances, and how they actually relate to the holding company excess cash flow that you now define? And can you just talk a little bit how that actual metric is tracking versus your £800 million target? Thanks.

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

Okay, I mean there's two sides to that, of course, certainly. There's the – remittances up, so that's 7% up. And as I said, that's not really indicative of the full year, so we have to wait on that. Another key metric – I'm not going to give you too much more detail, but the other key metric you should focus on is group center costs are down 24%. So if you take those, so you think remittances up, group center costs down, debt costs down because we're refinancing debt at much cheaper rates, et cetera, so that's helpful. I'm not going to give you exact calculation. We'll show that as we get later on in the year, but you can assume it's tracking in the right direction, that in turn and give you a sense rather than giving you any new data that we haven't put out. Is that it?

Q - Abid Hussain {BIO 20229932 <GO>}

I guess I get a general sense but I was just sort of looking for an actual number given that you've put out a target.

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

Yeah. We did that.

A - Tom Stoddard {BIO 15071280 <GO>}

Yeah. We just put out the target a month ago. So we put out that target with some sense as to where we are, so we haven't deviated a whole lot from the path. I would say if you look at the remittances, there's variability in terms of when we get remittances and so you'll see that last year, we've got a remittance from Canada in the first half of the year. We were expecting them to remit in the second half of the year. So there's not a lot that you can read from the first half remittances. We really need to look at it over the full 12 months.

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

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What we have – I'm giving you some sense at how we're looking at this. So what we have is basically a full project plan. I've got a whole lot of projects we're going through. We're ticking them off one by one and that's a whole lot of actions and a whole lot of businesses. I wouldn't want to give you the impression that it's simple because it's not. But yeah, on the cost side, it's pretty obvious, on the remittance side, it's pretty obvious. It's all the stuff in between. It's a whole lot of work. And we're not there yet.

Q - Abid Hussain {BIO 20229932 <GO>}

Can I just ask another follow-up question?

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

Yeah.

Q - Abid Hussain {BIO 20229932 <GO>}

In terms of the dividend, how should we think about that relative to the £800 million in terms of a payout ratio on the £800 million? Is it one-to-one or...

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

What do you want to say there, Tom?

A - Tom Stoddard {BIO 15071280 <GO>}

Okay. I'm just going to say what I said before which is that we are trying to normalize our dividend payout ratio over time. Now, it's interesting that our operating EPS has increased 16% for this first half year, but I think over time, we'll expect to see that our dividends will outpace the growth in operating EPS. The point of the £800 million unencumbered target is to create dividend capacity. We're not declaring a dividend today. We're not setting that as a dividend policy, but that's the point of what we we're trying to get to.

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

In fact, let me now give you a bit of help. You have a look but not too much. If you have a look at our earnings versus our dividend cover from earnings is obviously high. We've still got work to do. We know where we're going. You have to give me a little bit of wiggle room. I'm not going to put the target out, totally fully today but obviously, we want the same thing as shareholders do, and I'll leave it at that. Okay.

Nice. Just from follow-up, what's Chris Wei's role in the company going to be? You've appointed a global head of Life. The Life businesses are obviously very different, geographical differences, product differences et cetera. Why did you feel it was necessary to appoint a global head of Life, especially someone with predominantly Asian experience?

Yeah, good point. So we've actually appointed global heads of all our key businesses. So we've got Maurice as the global head of GI, David McMillan is the global head of Health; Euan, who's in the room somewhere, obviously, the global head of Aviva Investors, and I

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wanted a global head of Life. And the reason is so you can get consistency across the business.

Now, why Chris? I think some of you may know Chris. He's got a great pedigree. He was raised in the UK. It was actually a boarding school in the UK, then he was educated at a university in Canada. He's actually spent more of his life outside Asia than he has in Asia just to be very clear. He is certainly a citizen of the world.

Chris is an actuary. His key skill is really about customer propositions. Obviously, I know him. He's been the CEO of a very large company, Great Eastern, done very well with that. And he brings a level of expertise and experience that we can use. He's going to be spending a lot of his time here, and a lot of time focused on the businesses here and making sure strategies and customer propositions.

His thing is customer propositions. He is an actuary but his thing is about packaging and customer propositions. And for those of you that know him and I know there's a few here that do, he's an impressive individual. He will start in, someone help me out here, October. And I'm happy to get him in front of those of you that want to see him as soon as possible. Probably better give him a month just to get to understand the business. He's currently tending his garden, but it's a small garden.

Oliver?

Q - Oliver G. Steel {BIO 6068696 <GO>}

Can I just come back to Andrew Crean's question about tax on central debt and central costs. I mean, you were saying at the Investor Day that actually you want some tax relief on that, and bearing in mind that what we're talking about here is sort of real cash, net of everything in the holding company. Are you saying now that you are getting tax relief on those central costs and that central interest?

A - Tom Stoddard {BIO 15071280 <GO>}

No. Not changing any of my comments from Investor Day. We haven't changed our tax policy. We need to manage our capital to be more efficient. Generally, reduce our funding costs, improve liquidity, and improve other things. And so the remarks are the same.

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

Other questions? Looks like we might have exhausted them. Okay, well, on that note, let's close it there. Of course, we can have a follow-up with the Investor Relations team and with us if necessary.

Thank you. Thank you, all, for your time. I know it's a busy day, and thank you for the questions.

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