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S2 2013 Earnings Call

Company Participants

- David Barral, CEO, Aviva UK & Ireland Life Insurance
- David McMillan, CEO, Aviva Europe
- Mark Wilson, Group CEO
- Maurice Tulloch, President
- Patrick Regan, CFO
- Unidentified Speaker, Unknown

Other Participants

- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Fahad Changazi, Analyst
- Farooq Hanif, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- John Hocking, Analyst
- Marcus Barnard, Analyst
- Oliver Steel, Analyst
- Unidentified Participant, Analyst
- William Elderkin, Analyst

Presentation

Mark Wilson {BIO 7102576 <GO>}

Well. Good morning everyone and welcome to this, the 2013 results. Now before we get started I just wanted to give a few thoughts on, I guess, a few reflections of the last 12 months.

12 months ago I was in this very room with my Chairman for what I think was quite a painful set of results. Of course, we just announced a GBP3 billion loss, the dividend being cut and, of course, the scrip being eliminated and I guess indeed it was a delightful way to be introduced to you.

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Today we have a different set of results. And by now I know you've all had a chance to have a look at the numbers and the main points of those are on the screen behind me.

Now clearly we have made some progress and we've ticked off a few of the major balance sheet issues. The trends and the numbers are in the right direction, but I'm very aware that this is only a 12-month result and I don't measure a business in a 12-month result.

However, as you can see, the numbers are all going in the right direction and I think the turnaround at Aviva is certainly intensifying.

Aviva remains a self-help story. And we're delivering what we said we would despite a number of issues that we had to contend with in 2013. Now what these results signify is that we are back in the game, but from my perspective we are certainly nowhere near the top of our game.

I want to give you a brief overview of the results and I want to dig a little deeper into some of the key achievements, highlight as we always do the key issues and certainly talk about what is next for Aviva.

Now, by now I know you're all very familiar with our five key metrics. This is what our people live and breathe. And you can see from the slide we're reporting improvements in all of these key metrics, except for COR, where there's a very modest deterioration.

Cash is up 40%; that's important. Operating profit up 6%, expenses down 7% and the value of new business, the key measure of growth, is up 13%. Our post-tax bottom line, as you know, has reversed from a GBP3 billion loss last year to a little over GBP2b, or GBP2.1 billion after-tax profit.

Now, in light of the progress in cash flow and earnings as well as the improved financial position of the Group the Board has recommended a 4% increase in the final dividend, to take our 2013 total dividend to 15p per share.

Now, as a reminder, we all know this, but the scrip was obviously eliminated at this time last year and in my view that makes us a much cleaner investment proposition without dilution.

Now I want Aviva to get a reputation for doing what we said, or at least what we said we would do, so let's have a recap of the key issues I presented to you at the interims. Now these, I might add, are an exact repeat -- on the left-hand side of the slide they're an exact repeat from the slide at the interims.

So firstly, improve cash remittances. Now the key to our investment proposition is the cash flow to the Group, we all know that. This gives us balance sheet and dividend flexibility. And we needed to improve the 2012 remittance ratio of 49%, which was well below peers.

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In 2013 we increased remittances 40%, to just under GBP1.3b, and that's a ratio of 72%. Now, this is still some way off our medium-term aspiration of being in the 80s.

Second, we said we needed to turn around Italy, Spain, Ireland and Aviva Investors, my so-called problem children. Now, that process is very much ongoing, but I do note that all of these businesses paid a dividend in 2013 and I believe there's a sign of some tangible progress. Italy in particular was ahead of expectation, with its first dividend in three years.

Now, the completion of the US sale was a focus for us. And I guess it's easy to forget. It seems like a long time ago. But that was a focus for us. This was a complex and incredibly time-consuming transaction.

But in October 2013 we announced the completion of the sale and received proceeds higher than we announced in December 2012. Now, this was clearly helpful for both liquidity and helpful for our financial position, our economic capital for the Group.

I said we needed to reduce the inter-company loan and the progress in 2013 has clearly been much faster than we anticipated. And today, after I think an extraordinary amount of work from my team and the PRA, I believe we've taken this issue off the table. And we'll discus this in a fair bit more detail shortly.

Now, we'd like to reduce external leverage in the medium term to give us more capital flexibility, but we'll do this in a controlled fashion. And to this end last week we announced our intention to call GBP240 million of very expensive hybrid debt in April, I should add, without refinancing. I've had a lot of questions on that, and just to be clear, that's without refinancing.

Our sixth focus was to ensure GBP400 million of expense savings flow through to the P&L in 2014. More on that later, but with GBP360 million of earned expense savings clearly we were a little bit ahead of plan on that. Our run rate is at least at the GBP400 million that we set out to do.

And finally, we needed to reduce restructuring costs in 2014. Now, although this is definitely in line with our guidance and almost GBP100 million lower, the GBP363 million in my view was unacceptable and in 2014 you should expect significant improvement in this figure.

Now to the next slide, our investment thesis. You will recall this slide or a very similar slide on our investment thesis of cash flow plus growth. And I want to look at the sum parts. So let's look at, I guess, the first part first, which is cash flow.

Now, this slide shows progression of our operating capital generation, or OCG, and the relative cash remittances to that. You can see that OCG has grown from GBP1.6 billion in 2011. And far more importantly the improvement in the remittance ratio is from 45% to 72%. Over the year we have increased cash to the Group by 40%.

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Now, as I've said before, getting the remittance ratio into the 80s over the next few years is important to our investment thesis. This will involve reducing our restructuring expenses. It will involve better expense efficiency. There are further structural simplification in company -- in countries such as, particularly, Italy and Ireland.

There'll be greater business unit resilience to macro and market shocks. We need do a bit more there. And better management of our substantial back book. We're managing the back book as a separate cell and I think we can do a far better job there. And execution of our internal leverage plans is the last point.

Now on the point we now move to, I think, a key slide, and Pat will take us through much more detail on this later, but on the inter-company loan. Over the last 12 months I've met exactly 289 investors and in every one of the investor meetings I've had since joining Aviva this issue has been raised.

It was clear the internal loan, the internal leverage has been an overhang on the stock and that we needed to take it off the table. Today we're doing just that.

We started 2013, as you know, with GBP5.8 billion of inter-company loan. We've paid down GBP450 million of cash and we've executed other non-cash measures of GBP1.25b. That gets us to our current position of GBP4.1b. So just to be clear, we've reduced our loan by GBP1.7 billion over the last 12 months.

Now, I think that's quite satisfactory progress compared to our original commitment that we spoke about 12 months ago to reduce that loan by GBP600 million in cash over the next three years. Now, as we have said before, the level of this loan is too high and I've committed previously to articulate to you what that appropriate level is and why.

Now, the appropriate level of the loan is such that the general insurance subsidiary, this is AIL, does not have to rely on the internal loan for capital support following a 100-year and 200-year stress event. Now I should point out this is our view from all our modeling and this is entirely consistent with the view of the PRA.

Now, incidentally, the 100-year and 200-year stress relates more to weather events than economic stresses as the asset portfolio of the GI business is invested primarily in low-risk assets. It's primarily gilts.

Now, our modeling suggests this requires an internal loan of no greater than GBP2.5 billion by the end of 2015. And we have agreed a plan with the POA to get us down to GBP2.2b, which gives us an appropriate buffer.

Now, over the next two years our plans will require a further GBP450 million of direct cash that replaces the GBP600m, principally from existing liquidity and other actions of GBP1.45b. Now, importantly, the inter-company loan is not going to absorb future cash generation from the business.

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Now Pat's going to take you through each of those individual steps to achieve our plan. Of course, we need to execute our plans, but I would hope you'd agree that we've built up a track record from our progress on the internal loan in 2013. And I think that should give you some comfort.

So onto expenses, which clearly helps our cash flow. The Chairman before me put an expense target in 2012 of GBP400 million and today our expense reduction puts us a little ahead of where we need to be to achieve that 2014 target.

We've committed to reducing our operating expenses by GBP400m. And in 2013, despite what I thought was a relatively slow start, we have achieved GBP360 million in actual expense savings in 2013. Now, the cuts had to be a little deeper because we faced a currency headwind and, of course, inflation, so we had to cut a little deeper to still achieve that.

Now, I know some of you are keen for us to put out a new target, and I've yet to make up my mind on that. There remains, I might add, plenty of opportunity to reduce expenses further. I just want to make sure that we demonstrate we're not sacrificing greater efficiency for an absolute cost target.

So today to that end we're introducing a new metric, a Group expense ratio. And the exact definition of that is in the appendix that you can have a look at. I want us to reduce our expense ratio every year, year after year, either through growing revenues or shrinking expenses, or both. And one shouldn't take priority over the other.

And the final point, I guess, on this slide is restructuring costs, which for the first time were included, I might add, in the remuneration of our people. I'm an investor myself, as you know, and I don't care what expenses are called. You can put them under whatever line you like, put them above the line, below the line. Actually, I don't care. It's all cash and it all counts.

Now, our integration and restructuring costs remained high this year, at GBP363m. There was still a lot of heavy lifting to be done in the year and I trust that this was quite adequately signposted. We spent GBP79 million on Solvency II in 2013 and I'd expect us to spend a similar amount on Solvency II in 2014 as we get closer to that transition.

So now onto growth. Now, growth, of course, is the second part of our investment thesis. We want to grow where it makes sense. And let me be clear. This is not at the expense of cash flow. It's not at the expense of dividend. Our investment thesis is cash flow plus growth, in that order. So how do we measure growth?

On life this means value of new business, which I think is a pretty good proxy for future cash flows. In general insurance it's the growth in the underwriting profit and in asset management it's net fund flows, which I think is a pretty good indicator of how we're doing in that business.

Now, different opportunities exist to grow in our different types of businesses. And 2013 showed signs of promise in this respect. In our growth markets value of new business was up 49%. In the more mature cash generators we were up 12%.

However, there is much more work to be done in our turnaround businesses, with the value of new business 30% lower. We would expect better results from those businesses in 2014.

Now, I demand growth from all of our businesses and this slide here on the screen shows how we're able to get it. In cash generated it's about pricing and product mix. It's about predictive analytics in general insurance. It's about maximizing our back books in life -- in the life businesses. And it's about getting our cost/income ratio down across all of our businesses.

Being big or operating in developed markets does not preclude growth. And I think anyone who believes that is operating in the wrong business. And I think this was demonstrated quite adequately by our French business. They had good growth, improvements in cash flow, improvements across the board.

Now, we're investing more in digital. And my hypothesis is with growth, which is yet to be proven, I might add, is that being a composite insurer is a major advantage in a digital world.

In the UK, for example, this week for the first time, believe it or not in our history, we are able to look at a single view of our customer with all their products in one place. And this is just being rolled out to customers. I'll say the initial results are encouraging. We have one customer login, one phone number, better service and far more cross-sell opportunity, particularly online.

Our turnaround businesses, moving to them, our turnaround businesses they require more structural work to streamline the business, take out the capital traps in there, take out the cash flow traps. We need to pull capital away from some of these cells and we need to allocate it to others.

And finally, there is much more work to be done on pricing and product mix. We want more capital-efficient products. We've started that journey. We certainly are nowhere near finishing it. We want higher-value unit-linked policies and more protection. This is where we want to focus. And countries like France and some others have made good strides in that in 2013.

Now, Aviva Investors is a slightly longer-term growth opportunity. At 3% of our earnings, this is inadequate. We need to embed our new strategic focus now that Euan Munro has arrived, and he's with us here today. We need to grow external fund flows through improved product offering. And also we need to still make significant improvements in our cost/income ratio in this business.

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Now, simplifying the Aviva Investors business is key and, as an example of that, over the past six months we have closed exactly 1,346 funds in this business. And there's more to go. Now, I'm not going to talk too much about the strategy of that business today. Euan will present this himself, the detail of the strategy, to you at a later date.

And finally to our growth markets, which collectively grew at 49% VNB, value of new business, in 2013. Now, as we demonstrated within Indonesia, we can grow in emerging markets. It's about finding the right strategic partnerships. And I think in Indonesia we certainly found the right one with a market-leading business, the largest conglomerate in Indonesia, being the Astra Group.

This has given us substantial distribution clout in Indonesia, which is one of the highest-margin markets in the world, with a relatively modest capital impact.

Now, we'll cover much more about our strategy in more detail and we'll also showcase some of our businesses at an Investor Day later in July. Today we want to just give you a brief overview, a brief teaser.

Now, the other part of having appropriate opportunities to grow is allocating the appropriate level of capital to these businesses. We've substantially refined our capital allocation process at Aviva. Allocation can be tactical during the year, led from one cell to another, or can be strategic in terms of divestments or, in fact, investments.

For example, at a tactical level in 2013 personal motor rates softened particularly in the UK in the middle of the year. So we pulled back from that market and we reallocated capital to large commercial lines, I might add, with some success.

We've also made major divestments, as you know, in places like the US and the Netherlands, and further investments into places such as Indonesia and Polish bancassurance. We write fewer capital-intensive guaranteed products, that's a deliberate choice, and significantly more protection and unit-linked products, again, a strategic capital allocation choice.

We look at capital by cell. We have, I think I'm right in saying, 46 cells now. And we look at it through three main strategic filters. We look at it through strategic, execution and financial filters.

So strategic; where does it fit in the overall Group strategy and the geographic Group strategy? Execution; what's the ability of the local management team to execute? Some are stronger than others in execution ability. In financial; what are the returns on that capital and the cash flow payback, amongst other things? And what we're striving to achieve is a higher return on capital.

Now, you can see from this table on the bottom of the slide there our 2013 return on equity was almost 18%. Now, obviously, some of this is due to our level of leverage, but

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stripping leverage out and un-levered return on capital has improved from under 9% in 2011 to 12% in 2013. That's competitive in our industry with any of our peers.

Now, the sustainability of our double-digit ROCE is attributable to our diversified business mix and what I believe are very high-quality franchises. Now, I know I still have some work in convincing some of you in the room about that latter point, but I guess the best way to do this is to keep delivering the numbers and, of course, we intend to do that.

And of course the consequence, though, of a more clinical capital allocation program is that some businesses will be capital-constrained by us at the Group, while others will be allocated more capital to grow.

In addition, some businesses that do not meet our hurdle rate or operate in geographies that aren't strategic to us, some of these less-attractive businesses will still be exited. And we have exits in the hundreds of millions that we still intend to complete.

Go onto my last slide. Now, my first six months were devoted almost entirely to corporate finance, cash flow, capital structures, internal leverage, balance sheet, all the fun stuff, but these were the burning issues. Now, as we have ticked off more of these balance sheet issues in the second half of the year my team and I turned our attention to strategic, people and cultural issues.

What is the purpose in our value set? Where is the world going? How sustainable is our business model on a 10-year horizon? How do we want to -- our employees to act? Now, believe it or not, this is all encapsulated on the slide and this is a slide we use internally with our people.

Now, I'm not going into too much detail today; that can come later, but -- as I'm sure you will be much more focused on the results today. But to get a lasting turnaround we need to be clear about the values. And this is the framework on which we make our decisions.

It's consistency with that value set that determines if someone can be a leader in my organization or not. It's this value set along with the skill set that determines who we will hire and who we will let go.

What are our values? Well they are create legacy, care more, never rest and kill complexity. These are designed to be edgy, they're designed to be thought-provoking and they're designed to make a difference.

Create legacy or, as I say, be a good ancestor means making decisions that benefit the long term of the business not just the short term. Care more for staff, customers and shareholders. Never rest. I want Aviva to be dissatisfied with the status quo. I want us to be edgy. I want a situation where the very best is almost good enough.

And kill complexity. Complexity is our enemy at Aviva. Although it's fair to say we have simplified our investment proposition I think substantially, and we've simplified our

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structures a lot, we're a much simpler business than we were two, or three, or four years ago. We still have a long way to go to live up to this value, a long way to go, but this is all part of the new Aviva that my team and I want.

So that's my overview. But before I hand over to Pat I want to thank him for what I think has been a significant contribution to the Group. Pat has been incredibly supportive of the changes and the new direction we're taking Aviva.

And Pat, I'd like to personally thank you for your support to me. And I know people here will join me in wishing you well in Australia. So Pat, for your last results and the numbers, Pat, I'll hand over to you.

Patrick Regan {BIO 15131018 <GO>}

Great, thank you, Mark. Good morning everybody. Nice to see you all today. I'm going to take you through the performance of some of our bigger businesses, dig into some of the detail behind the key metrics, talk about the balance sheet a little bit and then finish on the inter-company loan.

Starting with the very big picture today, we're reporting a 6% increase in operating profit. As you can see, that was very much driven by the GBP228 million reduction in operating expenses in 2013 hitting the bottom line. And these then more than offset the worse weather in 2013 and the loss of earnings from the disposal of our Spanish Aseval business.

On the bottom line, after a GBP3 billion loss after tax last year the profit after tax increased to just over GBP2 billion as a result of both a solid operating result in 2013 and the recycling of foreign currency reserves relating to the US disposal in 2013 versus a write-down on Aviva USA in 2012.

Moving onto our bigger businesses, or, as we like to call them, the cash generators, starting with our largest business, the UK life business, which has delivered a pretty solid set of results for 2013, operating profit was up 5%, expenses down 16%, remittances to the Group doubled and VNB was up 4%.

I think the business has adapted pretty well to the post-RDR world, with some strong net flows in our platform and SME-focused corporate pension business. Protection VNB also increased despite the fact that there was a reduction in sales through banks who very much pulled back through advised sales over the year. And annuity VNB grew 8% despite a deliberate reduction in volumes of 27% as we focused on value over volume.

Approximately 60% of our new individual annuity business comes via the open market. And we firmly believe that people should shop around before committing to annuities, a view obviously shared by the FCA.

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Going forward we do expect to capitalize on our market-leading position in annuities and, hopefully, the favorable demographics in that area, and benefit from a partial rebound in protection sales.

Despite that reduction in annuity volumes, which are obviously very rich in year-one IFRS profits, the operating profit increased by GBP43m, driven very much by that GBP106 million reduction in expenses.

Remittances to the Group are what we said they would be, doubling to GBP300m. And this has been achieved through a combination of cost reductions, pricing actions, withdrawal from certain product lines and then some asset allocation decisions which led to an improved economic capital position in UK life and, hence, an improved dividend from UK life.

Onto the UK general insurance business, which saw a GBP28 million decline in operating profit which was entirely due to GBP78 million lower investment income related to the inter-company loan, with the underwriting result increasing to GBP117m.

Now, as you're aware, the GI business earned just over 4% on the inter-company loan, down from 6% previously, which has reduced investment income by GBP78 million in the year. Now, this probably will come down a bit further in 2014 and 2015 as we reduce the inter-company loan further. But at consolidated level, obviously, that reduction in GI investment income is offset by reduction in internal interest costs and so is net neutral at a Group level.

The underwriting result increased from GBP48 million to GBP117m, primarily due to some better weather we had in the year, but also due to lower large losses and some improvement in the underlying loss ratios. As you can see from the table, the personal motor combined ratio remained pretty healthy, at 96%, despite what's been obviously a very competitive rate environment during the year. And we very much focused on retaining profitability versus volume and have been prepared to lose volume as a result.

Across the year the rate on our motor books averaged about 3% compared to about 10% reduction for the market overall, about a 3% reduction compared to about a 10% reduction for the market overall.

It's probably also worth noting we've had a bit of a change in business mix, more business on the Quotemehappy [ph] brand, which has a lower average premium, which has obviously then brought down our overall average premium and, hence, overall premium volumes.

The home book remains extremely profitable, at 87% combined. However, the results in commercial and, in particular, commercial motor, which is about 15% of our business, were a bit disappointing and we saw the need to add to our commercial motor prior-year reserves.

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We're actively addressing the commercial motor performance via risk profile changes, price increases and some targeted withdrawals from cases with very high bodily injury propensity. Finally in UK GI, remittances to the Group again more than doubled, which I'll talk about a little bit later.

Onto what I think is one of our success stories for 2013, our French business, and the value of the new business in France is up 39%, operating profit up 6%. Our remittances of GBP235 million were up 16%.

Now, although our market share in France is relatively modest in aggregate we do have some attractive distribution offerings, where we have a large owned sales network and we also have some existing key partnerships, including AFER, which is the largest saving association in Europe.

And the team in France were very much concentrated on ensuring that distribution network focused on capital-light unit-linked savings business as well as more protection business in 2013. And this resulted in very good results, with protection VNB up 35% and unit-linked VNB up 130%.

The business now has some scale, with over EUR80 billion of assets under management and saw both positive net flows in the year and an increase in overall assets under management of EUR5b.

The French GI business combined ratio deteriorated slightly, to 97%, after a few large losses, but overall had a pretty solid result on premium income of around EUR1b.

The Canadian result in 2013 wasn't quite as good as 2012 for obvious weather-related reasons. Operating profit was impacted by both the Alberta and Toronto floods, both estimated to be around 1-in-100 year events.

And that cost the Canadian business GBP62 million and the Group overall GBP129 million over the year. And that made about a 2.8% difference to the Canadian combined ratio. Premium growth is pretty good, at 3% or 5% in local currency, and even more so perhaps when you consider that expenses were coming down.

On the different business lines, given the weather unsurprisingly the home combined ratio stands out, at 100%, but it was encouraging to see a continuation of the strong result on personal lines. And in Ontario motor we have continued to see some positive prior-year development. Having said that, we do expect to see some reduction in rates in Ontario motor in 2014, hopefully, offset by reduced claims costs.

We've also seen the early stages of the predictive analytics techniques we've used on personal lines being brought into commercial lines and starting to reduce the combined ratios there.

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And all of that leads us nicely onto the overall Group combined ratio slide. As you can see, the underlying combined ratio fell by 50 basis points and that trend we've primarily seen in the UK and France.

Weather overall was 80 basis points worse, obviously, worse in Canada with Alberta and Toronto. In the UK overall, despite the weather in December, which cost us around GBP60m, the overall weather losses for the year were under 2012.

The January and February floods in the UK resulted in losses of approximately GBP60m, which is in line with the long-term average for January and February -- with our long-term average for January and February.

That might seem a little lower than you expected, but the general insurance team's done a lot of work over a number of years on flood mapping. And our market share in those high-risk flood zones is about half what it is for the country overall.

As we discussed at the half year, reserve movements shouldn't be a big feature of our result with the [ph] relatively short-tail nature of our overall book and products and a consistent reserving policy. And the 90 basis points of reserve releases are in line with both last year and broadly in line with our overall expectations.

Expense ratio is flat despite the absolute of -- level of expenses coming down, obviously, due to the reduction in net written premiums and improving this efficiency ratio is clearly something the team is focused on going forward. And overall the combined, at 97.3%, a deterioration of 30 basis points, probably has got a little room for improvement for the future.

As you know, VNB is an important measure for us as the measure of growth for our life business. The overall result was up 13%, or 17% net of tax and MI, with some mixed results by business units.

The UK I've talked about. In addition to the 39% growth in France I mentioned earlier, our growth markets of Poland, Turkey and Asia collectively grew by 49% and now make up 21% of Group VNB, up from 16% a year ago. And Asia's growth again was partly due to a change in business mix towards protection.

It wasn't 100% positive in VNB, though, as we saw declines in Italy and Spain. The team is worked hard in Italy to address some of the structural issues there and we've reduced the volume of lower-margin with-profit savings business. And this will be further helped by the disposal we announced in November of the Eurovita business.

In Spain it's really been a case of two things, firstly, the macroeconomic environment reducing credit there, which is very much linked to the level of protection sales and, secondly, the sales of our Aseval business, which reduced VNB by about 29%.

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As you can see on the right-hand slide, what I think is interesting is the change in capital efficiency. So this is measuring pound of VNB to pound of capital strain on new business.

As you can see, in 2010 that ratio was only 73% and by 2013, based on all the product changes, guarantee changes, capital allocation changes that we've been working on that's improved to 185%.

In fact, five years ago the amount of capital we spent on new business was GBP1.9b, and in 2013 that reduced to just over GBP300m, despite having higher VNB in 2013 than we had back in 2009.

Onto our cash remittances, where, obviously, a lot of work's been done, this has been a pretty complex and multi-year process and you can see that the ratio's now improved from under 50% to 72% for 2013. And we've received higher dividends from UK life, UK GI, France, Poland, Ireland and Italy.

As you'd expect, the cash generators have all improved their remittances over the year, with both UK businesses doubling. In UK GI this was primarily due to the simplified legal entity structure and the restructure of the inter-company loan. And in the turnaround businesses we've now received remittances from all turnaround businesses, albeit at lower levels than we'd hope for the future.

And Italy's achievement -- Italy's dividend is a particularly pleasing achievement considering how complex that business is and the macroeconomic backdrop it's been working under.

As I think you'd expect, the remittance ratios in the growth countries are lower than they are for the Group average as these countries have attractive growth opportunities and delivering cash isn't their primary objective.

Moving then onto expenses, progress on expenses has been pretty good. All of the numbers by business unit are set in constant currency and you can see we've overcome a negative GBP33 million effect movement to post GBP360 million of expense made at savings to the P&L versus the 2011 baseline.

So it essentially means the GBP400 million run rate's pretty much been done and the GBP360 million of expense saves have been earned into the P&L.

As you can see, UK life led the way with GBP100 million of savings. Ireland also made significant progress, both life and GI. And Canada has improved its result from its GBP3 million at the half year up to GBP18 million for the full year.

Onto our balance sheet and the financial strength of the Group, on the economic capital position our full-year economic capital surplus is GBP8.3b, or 182% coverage. And that's up from GBP5.3 billion last year, or pro-forma'd, as we had it last year, of GBP7.1b.

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Now, it doesn't completely tell the full story, though, because obviously during the year we strengthened the calculation. We've moved the pension scheme onto a fully-funded basis in the calculation and that's reduced the surplus by about GBP700m, so it otherwise would have been, if you like, GBP9b.

Now, the increase in surplus during the year has been driven by a number of things, obviously, the profits we're earned, positive market movements, product mix changes, asset optimization, some hedges we've taken out, changes to the pension scheme funding basis and the disposals we've completed. Our IGD surplus remained satisfactory at GBP3.6b.

And on external leverage, as we've talked about, we've announced our intention to call both the GBP200 million and the EUR50 million hybrid calls on the respective April 2014 call dates. And these will be repaid without refinancing.

Now, obviously, the foundation of our available economic capital is our MCEV net asset value and this grew by 5% over the year to GBP4.45 a share. Part of this, obviously, was from VNB and profits obviously also are benefiting from positive investment variances as spreads tightened and equity markets improved during the year, partially offset by the accounting movement in the pension scheme.

On an IFRS basis we didn't manage to grow the book value over the year, for a few reasons. You'll remember the increase in provisions in commercial mortgages at the half year and the IFRS movement on the pension scheme I just mentioned.

We also had the below-the-line expenses of 14p and modest negative FX movements. And these, together with the 18p of dividends and appropriations, more than offset the 53p of operating earnings per share to leave our book value slightly down on the year.

And finally, then, onto the inter-company loan. Now, before I get into the movements let me just recap to start with.

As you remember, at the start of last year we did a structural reorganization of the Group and we moved a number of businesses out of the UK GI legal entity, AIL, and into Aviva Group Holdings, AGH. And Aviva Group Holdings paid for those businesses by way of this loan balance, which meant AGH owed AIL GBP5.8b.

Since we put that in place we've communicated that we want to bring that loan balance down. And we work to do that by both cash means and by reducing the capital requirements of AIL, or, as we've called them, non-cash means.

So the couple of things we're telling you today, firstly, that is over the last 12 months we've already reduced the balance by GBP1.7b, down to GBP4.1b. And that's been by way of GBP450 million directly of cash. We've also executed GBP1.25 billion of non-cash measures.

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As you can see on the slide here, that's GBP600 million of the removal of the guarantees for the commercial paper program and just under GBP500 million benefit from changing the funding basis within the pension scheme which gave us almost GBP500 million economic capital benefit. So down to GBP4.1 billion to start with.

Second point today is that we've agreed with the PRA an appropriate methodology for determining the sustainable long-term level of the loan. This involves stressing the insurance liabilities of AIL for a 1-in-200 year event and then removing any reliance on the loan to pay out those insurance -- stressed insurance liabilities.

And based on that methodology the level of the loan comes out at approximately GBP2.5b. To build in a bit of headroom our plans take us down to GBP2.2b. We've also agreed a plan to get to the GBP2.2 billion with the PRA, and I've outlined a summary of that plan on the slide here.

From the starting point of GBP4.1 billion we'll pay in another GBP450 million directly of cash and this will be paid from our existing central cash pool. And the other actions we'll take are pension contributions of GBP400m. And this is primarily money paid in from the UK general insurance business.

This is in line with our existing funding arrangements and is already factored into our remittance forecasts. It's not new money. And this then obviously reduces the pension liabilities.

Secondly, because of all the work we've done on the pension scheme over, not just this year, but going back the last two or three years, the scheme itself is now close to being fully funded.

And that allows us to take some further asset de-risking actions more closely matching assets and liabilities. And that helps both the stress liability on the funding basis, but also, by the way, helps remove some of the volatility on an accounting basis as well.

And you may have seen we also announced today that we're entering into a longevity swap in the pension scheme covering about GBP5 billion of pensions in payment within the scheme. So that collectively those actions are the pension scheme de-risking actions.

Thirdly, more internal reinsurance; we are using an internal reinsurance mixer. Ultimately, we will use that for both life and general insurance risk going forward. But in this instance it just relates to the transfer risks, general insurance risks out of AIL into the reinsurance mixer and more broadly than just cat risk that we have used previously. And all of this gets us down to our target level of GBP2.2 billion inter-company loan by the end of 2015.

All these actions are specific and planned out in some detail and our actions we have a high degree of confidence around executing. Having said that, they are still projections and the exact amount by the different type of action could change in the future.

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To give you a bit of comfort, though, we do believe we've built a bit of a track record in this area of executing this type of action and we have built in a little bit of headroom to get to the level of GBP2.2b. And as I say, the overall plan has been agreed with the PRA.

So as I hand back to Mark with what's my last, now, results presentation, my fifth one I think it is now, I just wanted to say very best of luck, very best wishes to both Mark, the whole Aviva team and to all of you for the future. And hopefully our paths will cross again some point in the future.

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Mark Wilson {BIO 7102576 <GO>}

Well thank you, Pat. So those are the numbers and I guess you could argue that we have made some good progress in 2013. My response would be, so what? I don't want to dwell on 2013 too much and we certainly don't want to measure our results just over 12 months. That is not our value set about create legacy.

So what is next? Now, I have outlined earlier on in the presentation some of our strategy. I want to now just highlight some of our key focus areas and some of our key issues that we need to address over this next period.

On this slide you have the three areas of focus. Now, this is entirely consistent with our investment thesis of cash flow growth and financial strength. Of course, we need financial strength to ensure that the cash flows are robust and predictable, and to give us some good financial flexibility. For cash flows, remittances are not yet into the 80s. We had structural work to do and we need to improve our capital allocation more.

There is still much to be done in the turnaround businesses and we have across all the businesses opportunities for great cost efficiencies with this cost income ratio. Cost efficiency opportunities, I would say, abound.

On growth, I'm very conscious that as we tip off these balance sheet issues the question will inevitably shift more to growth. And I see growth not just from emerging growth markets. I also demand it from the turnarounds. I demand it from the cash generators. That's still an imperative in the business. And particularly in VNB I would hope you'd see some value of new business growth this year.

We also want to grow our underwriting profit. We can do that through better predictive analytics. We can do that through better underwriting. We can do that also from the cost efficiencies. We want to improve the net flows in asset management. That is an important part of the business and one that has undelivered over the last few years. And we want to grow VNB again through product mix and pricing are primarily the main actions there.

And finally, on financial strength, which will always be a priority, some of the heavy lifting is certainly being done, but we still have to execute on our plans in order to achieve our desired financial position and the flexibility that brings.

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So in a nutshell have we made progress? Sure, we've made some. Is it faster than anticipated? Probably, I think it is, but I don't think we are even close to unlocking the potential of where we need to be with this Group.

So on that note, ladies and gentlemen. I think we will open to questions. I have a number of my colleagues who've got [ph] the heads of the major businesses, most of them you met before, some you wouldn't have met; Euan. And we also actually for the first time -- she hasn't started work yet, but we've got Monique, our new IT head is also in the room with us. John.

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Questions And Answers

A - Unidentified Speaker

This mike and then we'll take more questions.

Q - John Hocking {BIO 3774126 <GO>}

Morning, this is John Hocking from Morgan Stanley. I've got three questions please. On the new expense ratio targets I wonder if you comment whether you've done any benchmarking on that target relative to peers. I realize there's a new metric.

And also the shape of that cost/income ratio by business unit, are there some of the cash generators which have got opportunities on the cost/income ratios as well as the turnaround businesses? That is question one.

Second question, on slide 12, where you give the shape of returns by capital allocation, can you give some idea about the report in the capital base which is not yet at hurdle rate and what the earnings implications could be if you got to hurdle rate, and how quickly we could expect that tail to be fixed? The second question.

And on then the third question, on the external leverage, I notice you put an S&P metric on the slide as well as the tangible metric you used before. You were talking, I think, about 40% or so on the tangible metric. How does that translate into an S&P view? And what you think about the shape of the external de-leveraging? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, that's -- thanks, John. That is quite a bit of ground. Okay, relative to our peers it is mixed per business. So for example, in IT cost we are well above our peers and we have a lot or work to do and Monique has a lot of work in front of her on that. But it is mixed per. Some of the businesses we're highly efficient and some aren't.

What we are doing is looking at things like GI more on a global basis and sharing the systems. So for example, our most efficient GI business is Canada and we need to bring in some of the things we're using there in some of the systems and this will be a journey.

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You asked about the shape in various businesses and where the opportunities are. Again, we look at it business by business. I actually don't care whether a business is a mature business or a growth business. They all should -- it's one of the reasons I'm moving to a cost/income ratio, because you should be improving every business, every year.

So if you are a small business you should be growing, therefore, your cost/income ratio improves. If you are a very large business you must be getting more efficient. And frankly we could quite easily get a -- just cut GBP200 million out of our costs and put it straight to the bottom line.

As I have said before, we are reallocating quite a bit of cost in this next 12 months particularly to things like automation. Why? Because that allows us to get cost income ratios down every single year and that is our objective.

We will give more color on this at a later date. Particularly at the analyst day we will give you a bit more information on that. Just suffice to say at this stage I think we've got enough new information in the table today in that I've taken that this is a key focus.

Your second question is on the hurdle rates and the capital, which I think is on page 12. Now -- by the way, this chart is deliberately illustrated just so it didn't allow everyone to actually line up which business is where.

I can tell you we have made progress. There is still a number of the ones below where we want them to be. Thankfully, there is a number of businesses we are still selling because we don't think they will get to the hurdle rate we want them to be.

And so you will see some improvement primarily because we are going to cut out some businesses that aren't performing, or that we think the market has a systemic issue and it won't perform at least for a foreign player in some of those situations.

We have quite -- how do I describe -- robust discussions with the cells on this point. We highlight to the sale. We have quarterly cell meetings. We highlight to these cells where they are on our list, and what is acceptable and what isn't, and each of them has to have a plan to either get there or we exit. And that is what we intend to do.

Now, your last point is a good one and I didn't focus on that in my presentation. As you know, we do intend to reduce our external leverage ratio over the medium term. We're going to do that in an orderly manner. And that GBP240 million we just called is obviously helpful.

I had a lot of feedback during the year, well, from a lot of you, frankly, saying -- well, why do you use that measure? That is a much tougher measure than the market on the other measure. And I accept that. So what we are doing just to balance it out and I think add more consistency in the measure you can, I guess, test across other peers as well, we are going to use the S&P measure as well.

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I should point out that to get to a AA rating S&P requires that it's below 30% to a AA rating. We are currently about 32%, just to give some area of magnitude, and that gives you a guideline. They are not exactly comparable, those two measures, obviously, and they don't move exactly the same.

But that would give you an indication that we have said for a long time that we'd like our capital and our external leverage to be in the AA range. So that may give you a bit of help on that.

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A - Unidentified Speaker

Who's next? Yes please.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel at Deutsche. Three questions, one to follow up John's question on costs. Most of the heavy lifting on the cost reduction seems to have happened in UK Life. And I'm just wondering -- and particularly UK non-life, for instance, didn't. And there are various other places which seem to be doing less of the work. So I'm just wondering if you could give us some view on where the cost savings should be coming from next.

Secondly, are you changing your target for centrally-held cash? You used to say GBP1 billion to GBP1.5b. At the end of the year it's GBP1.6b. Do you think you can cover the GBP450 million of internal debt reduction out of that, because you've also got GBP300 million of final dividend, GBP240 million of debt pay down? So that seems to take down below your GBP1b.

Then the final question is going back to this S&P leverage ratio figure, what is their target for the interest cover, because you also look quite low on that?

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A - Mark Wilson {BIO 7102576 <GO>}

Okay, on cost, your point is well made and entirely accurate. Some businesses did better than others because they were in different shape. UK Life was a -- obviously, a star performer. Certainly, in the general insurance there's more to go. UK Life has got higher expense ratios than, say, Canada, for example. Maurice is, I would say, well on top of that. I need to be very clear, though.

I see every business must improve its cost ratio every year; there is no exceptions. The only exception might be, say, in a start-up -- first year of a start-up business or something like that. But every business must increase its cost ratio every year. That is our internal target and benchmark, although I'm not going to quote figures just yet.

So there is still more work to do. Some of that can be volume related as well that has to improve, frankly, and there is always an optimum level where you strike that balance. The other key performers in the year were Ireland, but, frankly, Ireland needed to and still has more work to do.

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The Ireland cost base was extraordinarily high and quite unacceptable for the Group. And we are doing a lot in terms of branching Ireland and using some of the resources here to reduce those costs. And that again, at GBP50m-odd, made, I would say, adequate progress.

Your second point, on liquidity, our cost targets haven't changed and I will hand it over to Pat to pass more comment on it. But the -- there is also a number of disposals. I'm not going to give too much color on that. We will announce some of those when we are good and ready.

And there are other aspects in there as well. We are giving you a high-level overview. I can tell this, that our planning on liquidity is exceptionally detailed. We have contingencies in our liquidity planning and I'm comfortable that the plans are very robust.

Do you want to add some more color to that and maybe the S&P question as well?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. Thank you.

Our steady-state number, Oliver, is probably around GBP1b, so we have been operating, obviously, in excess of that over the last little while as we've completed the disposal program. We have always said we will use some of that to do the de-leveraging and that is what we will go ahead and do.

But as Mark said, we got some ons and offs. We've got the UK Life dividend that comes in in the early part of the year. We've got a few bits and pieces of disposals, but our steady state's around GBP1b.

On the -- I think your fixed -- question was on the fixed charge cover for S&P. The -- in their note their target -- the equivalent number is around six times fixed charge cover and we are, I think, about 5.6 today (inaudible).

Q - Fahad Changazi {BIO 15216120 <GO>}

Good morning, Fahad Changazi, Nomura. In terms of the use for the cash proceeds could you remind us again how much of the cash will be used to decrease the external leverage going forward?

Also could you remind us again of your dividend policy? And a peer of yours has adopted a cash cover target for the dividend. Do you think that is sensible and do you envisage adopting something like that going forward? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. A few questions. Yes. The use of the cash in the external loan we haven't -- we are not changing our view and that [ph] we gave you a view last year. We said we have a target to get it down in the 40s or in the below 30 on the S&P. And we said we would

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reduce it by approximately GBP500 million over the medium term. I'm not going to give any more guidance by that. We are going to do this in a prudent and disciplined way.

I'm also not going to comment on whether peers get it light. Our dividend policy hasn't changed. All you have seen today in the dividend is, as said, we've have made some progress. We are in a better shape than we were.

We've ticked off some of the big issues, some of the very big issues like internal loan, and the dividend will be consistent with reference to, as our dividend policy, cash flow and earnings. Frankly, it will depend on the performance of the business. And I know everyone will want us to give a target. We're clearly not going to do that.

Anything to add?

A - Patrick Regan {BIO 15131018 <GO>}

No.

A - Mark Wilson {BIO 7102576 <GO>}

So I'll come back on this side of the room next.

Q - Greig Paterson

Yes. Good morning, Greig Paterson, KBW. Three questions, one is Indonesia. Just give some more detail there. A number of your peers when they enter into distribution deals literally spend billions upfront. And I note there seems to be an absence of payment here. I was wondering if you can explain how the cost mechanics work there and also touch on the benefits that you see in terms of top line for that.

The second question is on GC Allianz is making some comments that it sees layers and layers and layers of required capital I wonder if you can comment in terms of what Aviva's thoughts on that.

And the third thing is your cost-cutting benefits in terms of when they will be capitalized in your operating profit generation. I noted that there was a positive variance in the UK Life on the EV basis. I was wondering if on the stat basis something had come through. If not, maybe you could quantify and give us some timings on that. Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, I'll do the last one. Indonesia is [ph] somehow spending billions. We have taken a different approach. And it just shows that with the right partner that wants to create long-term value you can do things like that in a different way.

We haven't actually released the cost, but I can tell you it was modest. It was in tens of millions. And the good thing about Indonesia it doesn't require substantial upfront capital.

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For a business it's very capital efficient, assuming you sell the right products. And with my history, as you know, I understand that market pretty well.

And what does that do for us? The Astra Group is an extraordinary group. They have an extraordinary distribution. They are, in fact, the largest general insurer in Indonesia, just to put it in perspective, so they have extraordinary distribution.

It's a conglomerate. They do everything from mining to own a bank. They got a very large finance company. They make and sell over 5 million motorbikes a year; a good target market for life insurance just as an aside. Now, the way -- have you ridden a motorbike in Indonesia? Well they already do GI, but it's certainly both.

The thing to consider there, the way I would measure that business and what I would focus on, as I would with all our growth markets, is value of new business. That is what we are targeting. The reason I do that is it's a good proxy for future cash flows. And Indonesia can have faster cash flow paybacks than any market I have ever seen in the world. That's first Indonesia.

I won't comment on the competitive again, but on the capital layers, and I think there was quite a few comments around Solvency II as well. So maybe I will give that to you with -- I will preface it with a comment on the Solvency II that they came out with.

We have been operating on an economic capital basis for quite some time. I think it probably did us a bit of harm at the start. I think it also positions us probably better than most. We understand the dynamics of economic capital. I would say I think the governments and the regulators here have been appropriately prudent, but they've also negotiated the right outcome for the UK and the right outcome for companies like us.

We have sold some of our problematic businesses, like the US, which is also helpful. And Solvency II isn't definitive in a lot of areas yet. We still need to see the level-II text and we would expect it to be consistent with the views. But the level II's text will come out over coming months and then we can give more informed comment on it.

Do you want to make a pass (multiple speakers)?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. And it's a similar story for GSII [ph] really, but none of us know what the short -- at this stage really is the short answer, Greg. The IAIS is going through an exercise at the moment where they are collecting data. They are doing this field testing exercise. That will be done by the May, June time.

Then after that their job is to recommend to the FSB a basic capital requirement. It's not a back stop. It's a basic, which is a simplified version broadly based off of a MTV-style balance sheet. It's causing a bit of consternation for the US GSII, as you can imagine.

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So that -- to be honest with you, that is really what they are focused on, is just pulling to get this in beta and trying to get their heads around it. Where they will cut that basic, is it an out of the money, is it in the money capital or (inaudible) is too early to tell, to be honest with you.

A - Mark Wilson {BIO 7102576 <GO>}

And we've got a little bit of time on that year to -- and then we'll see.

A - Patrick Regan {BIO 15131018 <GO>}

On the cost-cutting stuff the -- factually, you can see where the cost cuts come through. There is 100 million out of the 228 million for the Group. There are 100 million in UK Life, a little bit in Ireland Life and a bit in Europe.

Have our actuaries capitalized that in OCG? I think you can see that from the numbers that they haven't fully capitalized that. And no doubt we will be encouraging them to do more of that going forward. So we've been quite conservative now. There is a little bit in the OCG, but not as much as you might imagine at this stage.

A - Mark Wilson {BIO 7102576 <GO>}

Move the mike along. (inaudible) a little bit, thanks.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. This is Farooq Hanif from Citi. First question is going back to economic capital. So in this GBP2.2 billion scenario for the internal debt I just want to understand what you mean by the buffer. So is the buffer going to be GBP300m, because the GBP2.5 billion basically get you to zero?

Second question related to that is how much of the GBP1.4 billion to GBP1.5 billion of non; cash initiatives are going to fall into your economic capital ratio going forward?

And the last one is turning to Italy and Spain. It seems that your strategy has been very much capital withdrawal, cost cutting. Are those ever going to be earnings growth generators for your business? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, I will take the first and third, and you take the middle one.

The GBP2.2 billion buffer, just to be clear, so our modeling suggests that the amount you need is GBP2.5b, so the way it works is you look at all your long-term liabilities, you model it about. And you don't want that business to rely on that capital and the 1-in-200 stress.

So in some ways you can look at all of it as actually a buffer -- is actually how it works, as all of it is a buffer. The amount where I would rely on it is anything above GBP2.5b, so we just want to give ourselves a bit of headroom. It's nothing more complex than that.

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But to be clear, our plans target GBP2.2 billion and we believe they are very clear and they're very detailed and we will get to the GBP2.2 billion over that time period. Frankly, we achieved almost the same amounts in the last 12 months and we are giving ourselves a bit of room over two years to get there, so I'm fairly comfortable.

Yes, you pick up the second one and I will come back to (multiple speakers).

A - Patrick Regan {BIO 15131018 <GO>}

Yes. In terms of the future actions the ones that really benefit economic capital overall are obviously the pension scheme de-risking, so further ones there impact both the internal loan and benefit economic capital.

The internal reinsurance does not directly benefit, so what is helpful is it's obviously a proof of fungibility [ph] which you need to have a -- it's a higher threshold for that under Solvency II, so that's -- an ancillary reason for doing it is proof of fungibility.

And in terms of Italy and Spain what you saw this year was, for the reasons that Pat outlined, you saw a decline in value of new business. There was still a lot of products there because of some of the arrangements that we had to restructure and get out of that were selling products that we don't like selling, frankly.

It's still -- they're still quite good-sized businesses. In fact, in the Spanish case as well they sell a very nice mix of protection business, so they can be quite good cash generators. I would argue that if you are looking for some growth over the next couple of years I have certainly been looking at those businesses that should be giving more cash back to the Group.

I think in the mid year last year -- to answer to a couple of your questions, I said I think it was pretty unlikely we will get a dividend out of Spain -- out of Italy last year. Clearly, the fact that they did is helpful. There's a lot more structural work done. And we got Patrick at the back of the room and David at the front who heads up Europe.

And I think the progress has been very satisfactory, which, from me, is probably a pretty good praise for those businesses. You haven't seen it come through in the numbers yet, but the structural movements in those businesses have been quite substantial. So yes, I would expect them to see some good growth.

Also, as I have said before, our plans don't rely on improving markets. We are assuming non-improving markets. If those markets improve it obviously helps us to execute faster and helps us get some results quicker.

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Q - Andy Hughes {BIO 15036395 <GO>}

Thanks so much. Andy Hughes, BNP Paribas. I have three questions. We'll go to the first one, on Farooq's question about economic capital improvement, doesn't this mean the 175% target is no longer 175% and should be increased?

Second question on the pension scheme de-risking. Presumably this is going to depend on market conditions when you do the de-risking, so if the market were to move between now and then this could cost a lot more in terms of shareholder cash. Could you just outline the timescales maybe and how risky it is?

And the third question was about France. Obviously, great French results, but obviously there's a lot of stories about Credit Du Nord, so could you break out the Credit Du Nord numbers from the French results please? Thank you.

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A - Mark Wilson {BIO 7102576 <GO>}

Okay, first -- actually, take the second one first and I will take the pension scheme -- I would say -- and I'll rephrase that. The economic capital, no, we are not going to put out a new target at the moment. I've said one of the key issues for the Group is we want to be financially robust and have, I would call it, financial flexibility. I'm not changing the target. We are not putting anything new out today on the pension scheme de-risking.

Do you want to cover that?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. We're -- an element of that we have already done. As I said, on the liability de-risking, we will probably look to have a little bit more of that. And the asset de-risking side, we haven't done that yet. That will be something we look to do.

There is no rush on it, Andy. We'll take our time and we've got about, in total, GBP2 billion of assets in property and equities. So what we'd like to do is move more of that. Obviously, as you get closer to fully funded you move more of that into fixed income; that makes sense.

Exactly when we will do that we will try and pick our spots, but there is no rush to do that. We've got a bit of time and, obviously, we'll try to do that in an intelligent moment.

A - Mark Wilson {BIO 7102576 <GO>}

And in terms of France Credit Du Nord is a key part of that business and I will hand over to David for some comments. What I would say is the big turnaround in the business wasn't actually from Credit Du Nord last year. It was from change in product mix and the other businesses, which was quite helpful.

Do you want to add some color?

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A - David McMillan {BIO 17298829 <GO>}

Yes, Andy, and specific on Credit Du Nord the NCR is about 7% of the French total and the VNB is about 15%. I think just to echo what Mark said, the big story in France is the fact we've got 70% plus of our distribution that is controlled. And we've used that controlled distribution to really drive the product mix. And I see that continuing over the next couple of years.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Good morning, Ashik Musaddi from JPMorgan. A couple of questions on your cash remittances. Can you give us some color? What is it mainly dependent on? Is it the economic capital, or is it IGD based on Solvency I? So what is the relevant metrics that you are looking, because we are in a transition phase from Solvency I to Solvency II?

Secondly, and basically related to that, your dividends, is it mainly related on the economic surplus basis, or IGD again, so any thoughts on that?

A - Mark Wilson {BIO 7102576 <GO>}

So you mean dividends to Group or dividends to --?

Q - Ashik Musaddi {BIO 15847584 <GO>}

To shareholders, sorry.

A - Mark Wilson {BIO 7102576 <GO>}

To shareholders, okay. Cash remittances, it actually depends on different things in different businesses, which I know is a funny answer. You still need to cover IGD. It certainly becomes less relevant the closer you get, but you've still got to be above it.

We run the business primarily, well, on an economic capital, I would say, slash Solvency II basis, because our bases aren't too far apart. And so -- but the cash remittances are still dependent on a whole lot of things, so if I can give some examples.

In Italy some of it's still structural, so we have got an incredibly complex web of businesses in Italy that we are untangling and as you do that you can get the capital out of some of those companies (inaudible) you can get the higher remittances. Because some of the companies in that group haven't got enough capital and some of the ones further down the chain have got too much. So if you collapse structures you can do things like that.

So some businesses, like Ireland, are partly structural, some is where we hold the capital and do want to hold it in the business so hold it at the Group. So it'd be wrong to suggest there's just one answer, because there isn't.

We have many dozens of projects in each country depending where they are. The internal loan is important, getting financial resilience across all the businesses is important and it's all those things we are working on. Some of them are regulatory issues, although I would suggest a lot fewer than there were 12 months ago, so it's quite complex.

Sorry, what was your second question?

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Q - Ashik Musaddi {BIO 15847584 <GO>}

Just basically related to that is the dividend to the shareholders is it mainly driver of IGD or economic capital? Because economic capital do move a bit based on markets. So that is all. Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Our dividend policy is with reference to cash flow so that is cash flow up to the Group, so what the dividends are up to the Group, and earnings, by how well the business does. But I'm not going giving any more guidance on that today.

Who's next? Blair next.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. Blair Stewart from BofA Merrill, a couple of questions. It maybe too early to say, but you have talked in the past about your IT spend being maybe 30% too high. I just wonder if you have an update on the thinking on that.

Secondly, I think you talked at Q3 about there being an additional GBP200 million of cost save that you'd identified that you were going to invest back into the business. Maybe a little bit more detail on that if possible. And what paybacks do you look at when you embark on these projects?

And thirdly, and finally, the general insurance on the expense side, the UK versus Canada equation, I think you are looking at 35% versus 28.5%. Are there any structural reasons why that difference exists? And should we be thinking about the UK coming down to the Canadian level over time? Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

IT costs, you are right, by our benchmarking -- it wasn't across all business, but a lot -- our IT spend was about 37% higher than the peers, as I said last year. That is way too high. Frankly, we have done February working and got that out. You haven't seen that flowing through to the results for the simple reason that we are reinvesting a lot of it.

We are reinvesting a lot of it in terms of things like automation and digital, so I will call it a reallocation of expense. How it's important to get our expense ratios down year after year, I'm going to be unfair and give Monique this morning as she hasn't even officially started yet, but it's one of the key issues about how we make it more effective.

We have had a history of having a mess of IT systems and through the year we're being quite ruthless on how we cut those down. Having basic things protocols over what system we use and in GI we are getting that much closer.

Now, the payback period is something that, Kameen [ph], our transformation head, has been very focused on. We don't accept long payback periods anymore. And you should

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be expecting on these costings [ph] a maximum of two years. And we'll be doing some of that this year. It's one thing we model a lot and it's one thing we track. And we approve business cases, particularly for expense reduction, but on any of these things on payback periods.

Just as an aside, we also do that by products. And the payback period in our products I don't think we have released it, so I won't this morning. But I can tell you our --

A - Patrick Regan {BIO 15131018 <GO>}

About six years.

A - Mark Wilson {BIO 7102576 <GO>}

Yes. And it was a whole lot higher than that. And so payback period for capital use in products was up to 11, was it?

A - Patrick Regan {BIO 15131018 <GO>}

It was 11 three or four years ago.

A - Mark Wilson {BIO 7102576 <GO>}

So you can see payback periods are critical. And this is how we allocate capital to cells.

Again, Maurice is holding the mike. Do you want to talk about Canada versus the UK on cost income measures?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes. Thanks, Mark. Morning, Blair. You are right, the UK business is about 35. The Canadian business is actually about 30, unless they have made some incredible strides in the three months since I haven't been there. I think if you break it down it's really got -- you got to look --

A - Patrick Regan {BIO 15131018 <GO>}

They have [ph].

A - Maurice Tulloch {BIO 17683736 <GO>}

They have, yes. I noted your point earlier, Pat.

But if you break it down between acquisition costs and OpEx and you look at the two businesses Canada is about 7.9 or 8 and the UK is about 10. So certainly there is room to improve in the UK.

One of the things that I did in Canada -- we use an external firm called Ward. We benchmarked across every single category across the industry. I have encouraged that

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firm to come to the UK; they have. And I actually have a meeting tomorrow to access [ph] the benchmarking in our business versus our peer group.

The other component, obviously, is acquisition costs. That is commissions. There's a little bit more upward pressure in this market, but certainly as a market leader I would expect that we'd have more moral suasion than others. And I just think, without giving you guidance, you should expect to see the 35 come down in the short term.

A - Mark Wilson {BIO 7102576 <GO>}

Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean with Autonomous, three questions. Do you still expect to be designated a GSII now that you have sold some of your businesses?

Secondly, in broad scope do you think that Solvency II will materially change your economic capital coverage ratio? Obviously, it's too early for detail on that?

Then, thirdly, a technical question. I notice in your embedded value that the experience variance assumption changes are broadly neutral, but there was a fall of about GBP0.6 billion in the VIF and a consequent rise in required capital and free surplus of about GBP300 million each.

Is there a sense that you are accelerating some of your cash flow forward and doing arrangement -- financial reinsurance arrangements to bring cash flow forward and into free surplus?

A - Mark Wilson {BIO 7102576 <GO>}

Thanks, Andrew. The first question on the GSII, I think the reality is we are a GSII. Do we do any systemic activities? No. We don't, which is always interesting. But I wouldn't assume that being a GSII is an entirely formulaic with our scale. And I guess we are partly an English champion, I guess. We were probably always going to be designated a GSII.

What that means for each business is undoubtedly going to be different depending on their level of, I will call them, systemic activities. Obviously, we don't do variable annuities and some of the other key classified things that are systemic, so we will see what that means, but that is what we know so far. So I would expect that we are where we are. But that will impact different businesses differently is certainly what we are being told.

Solvency II, frankly, I think we are going to fare better than most because we have been operating on an economic capital basis for a long time now? We know the high level of what it is going to look like. We were intimately involved in the negotiation of that and I was comfortable with the position that came out of that.

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Just to be clear, though, we still haven't got the level-II text, so although we got a pretty good idea we don't know exactly. So I'm not going to give any more guidance of that. And as level II comes out and we can have a look and just refine the models if they need to be refined we can become clear on it.

The last question?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. Thank you. Andrew, as you know, we -- when we put up our slide at the half year we talked about how our components of OCG worked. We put it at about GBP100 million a year for variances and acceleration of cash flows. We have done less of that this year.

We've have done a little bit of it, but a lot less than we did in 2013 -- sorry, in 2012, partly because we had written business going back a few years which was more long-dated cash flows that we wanted to bring forward a little bit.

So I think going forward you might see a bit of that, but really the free surplus emergence numbers are higher, the strain is lower and the VNB is higher and those are the things that are really going to be driving VNB -- the OCG for the future.

A - Mark Wilson {BIO 7102576 <GO>}

We'll come over here (inaudible).

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks, GordonÂ Aitken from RBC. Just looking in the first slide of your appendix, slide 31, I see the improvement in life operating profit can be explained by the improvement in DAC and AVIF amortization? Can you just explain what is going on there?

And secondly, you have had significant growth in UK pension sales in the Fourth Quarter. Can you just talk about what you attribute that to? Is it a lack of supply in certain areas of the market? Is it your superior proposition? Is it auto enrollment, DB to DC? And just can you give us the net flows for that UK pensions in the Fourth Quarter as well? Thanks.

A - Patrick Regan {BIO 15131018 <GO>}

Yes. The -- thank you very much for your question on the appendices. It's purely the absence of a one-off positive we had -- sorry, one-off we had last year versus this year. So it's the absence of a one-off in 2012 flowing through to 2013. That is all.

A - Mark Wilson {BIO 7102576 <GO>}

And you want to cover the pensions?

A - Unidentified Speaker

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Yes. In terms of pensions you had the activity come in still through from pre RDR so some of that still coming through. It's a mix of auto enrolment. We don't actually get the biggest tick up for auto enrollment until this year, actually, later this year.

The total UK pension investment flows were actually up in total. I don't have it for the Fourth Quarter, but for the year it was up 11% to something like GBP51b, so pretty strong flows overall. I think that will probably modify now, now we're past the post-RDR period and it'll settle down, but we'll still get the benefit of auto enrollment, as I said, this year.

A - Mark Wilson {BIO 7102576 <GO>}

You can pass the Mike to Barry next and then Gordon after that.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you, morning. Barrie Cornes from Panmure Gordon, just a couple of questions, if I may, on general insurance. First of all, in the UK motor, the commercial motor, the fleet seems to be going from bad to worse. Can you tell me why -- what is going on there? And also is it a matter of cross-subsidizing, perhaps, package business -- large package business?

The other question I had is in terms of reinsurance. And would it be an idea to buy and have you bought more reinsurance, bearing in mind reinsurance rates are lower and you've also have been hit at the Group with the Canadian losses?

A - Mark Wilson {BIO 7102576 <GO>}

Yes, okay. I will cover those and then Maurice may want to comment. On the motor, that was clearly one of the lowlights on net fleet in the commercial motor. And you're probably are getting sick of us saying that we will improve it. And it was as somewhat irritating result. We have put it through a lot of rate. I would hope you'd see some improvement and I will ask Maurice to comment in a minute on that.

On the reinsurance, we have taken the opportunity to take some more reinsurance, so -- given some of the reinsurance was so low. And we got hit a bit more than perhaps we should have from the Canadian floods because we are holding it in Aviva Re. We have lowered that quite substantially for, I would say, a very modest amount of money, so that is quite helpful.

And that just improves -- what we are trying to get is more predictability of our cash flows. And if we've got a cash flow plus growth thesis we are looking at all these opportunities where it makes sense from a cost basis to just get some more certainty in those cash flows. And I think that has been helpful.

Do you want to just comment on any more on the commercial motor?

A - Maurice Tulloch {BIO 17683736 <GO>}

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Yes. Thanks, Mark, and thanks, Barry.

I think on the commercial motor, first thing, the results are entirely unsatisfactory, at 112 core. You have to note that that is about 15% of what we do in the UK, so let me tell you the things that we are doing.

So Mark referenced rates. We started putting through double-digit rate increases in June of last year, ended up with about 6% on the book as a whole. But I think more importantly they were sub-segments.

So taking that, circa, 600 million and then breaking it down and actually looking at various sub-segments and understanding their results we had a couple of sub-segments in taxis and mini fleets that were effectively exiting and the persistency on those two is about 30%.

We also had in the first half of last year, in accident year 2011 and 2012, about GBP50 million of development which contributed about 10 points. And obviously -- and that related to those underperforming sub-segments. So my expectation, certainly, as we look forward is certainly for some significant improvement in commercial motor.

A - Mark Wilson {BIO 7102576 <GO>}

Without giving numbers.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, thanks so much. Andy Hughes, Exane BNP Paribas. A quick follow-up question, if I could. The first one is on restructuring costs. I got the number for Solvency II, but I didn't quite get a message on what you are thinking about restructuring costs this year. It sounds like there will be some, but I don't know roughly how much it is going to be.

And the second question was -- sorry, I've forgotten what it was, but do you want to go with the first one while I try to remember?

A - Mark Wilson {BIO 7102576 <GO>}

Okay.

A - Patrick Regan {BIO 15131018 <GO>}

I'll take the second question.

A - Mark Wilson {BIO 7102576 <GO>}

There is a good reason for that. That is because I didn't give any guidance on it is the reason, exit on Solvency II. The reason is you will get some hang over. Some of it is accounting reasons, as we did quite a few redundancies in 2012. Some of that is a hang over in 2013.

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I'm just going to say today it's going to be much more modest. We are still working through what those numbers are going to be. We will have some, but it's going to be much more modest. I know that doesn't help the models and I'll get a bit clearer as we go through the year.

Q - Andy Hughes {BIO 15036395 <GO>}

But the aim is to get to zero next year if not this year?

A - Mark Wilson {BIO 7102576 <GO>}

Yes. And whether you can ever get them to zero I'm not sure. But what I can say is we manage the Group with it now in totality. So the problem historically, if I'm being candid, is I think restructuring costs didn't count in people's bonuses and so the behavior that you get it what I call throwing the rubbish over your neighbor's fence; that is a restructuring cost.

Now, now that it is all under the same banner -- we can put it under whatever line we like, frankly, and it makes no difference to the business units. It's all cost. And I see it as all cost.

And if we are getting more cash flow to the Group and improving our NAV and doing those things we need to wipe it out. Now, I won't say there won't be none from, say, 2015. I'm not saying that, because we might have bits, but it just needs to be very, very modest and it's all in as far as I'm concerned.

Q - Andy Hughes {BIO 15036395 <GO>}

And the second question was actually about leverage. I've remembered what it is now actually; the change in message on de-leveraging. So I thought last time it was about reducing towards the peer group level on a tangible NAV basis. And now it seems to be reducing to a peer group level on an S&P basis. Is that the way to think about it?

Because the problem with S&P is, obviously, it includes a lot of soft capital, whereas, the problem that you guys have had historically is the hard capital or tangible part of the S&P capital model hasn't been very high.

So is that the way we should think about it? So far you are more relaxed about the amount of tangible capital the Group needs and you are quite happy to have it in VIF to make up the difference?

A - Mark Wilson {BIO 7102576 <GO>}

Now, our guidance hasn't actually changed at all. We are still targeting both. I have introduced another one primarily because it's easier to get a bit of consistency on it, so I've introduced another one, so there's two. The other key reason is the point on the AA rating. We've said we want to manage the Group from a capital and leverage basis to get to a AA. And doing then the S&P basis just I think makes the most sense. So we still aim to get to both.

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We gave guidance last year that we aim to reduce it by GBP500 million in actual cash over the medium term. I'm not going to give any more clarity on that. We have made some progress, particularly with the price of that hybrid debt.

It was 10.6, which is extraordinarily expensive debt, so paying that down was, I think, quite adequate progress where we're meant to be. I haven't put a target on it because we manage it as we see opportunities to do it in the market.

Of more importance -- far more importance was sorting out the internal loan. It was bigger numbers, it was a more important issue from the Group, was the internal leverage, and that's what we focused on.

Yes, down the back.

Q - William Elderkin {BIO 3349136 <GO>}

It's William Elderkin from Goldman, three questions. First of all, with all this cash your dividending up to Group, other than paying dividends, paying down debt can you just give a sense of what you're thinking about doing with it?

Secondly, can you remind us what the trajectory is for improving remittances out of the UK life business?

And thirdly, just a numbers question. Can you remind me what's the asset duration on the GI business is and what your new money investment yield is on that business?

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Do you want to start with the last question first and I'll work back?

A - Patrick Regan {BIO 15131018 <GO>}

Sure. We're just over three years. The average current on the non-internal loan portfolio is about 2.9% and new money is about 2.5%.

A - Mark Wilson {BIO 7102576 <GO>}

(Inaudible).

A - Patrick Regan {BIO 15131018 <GO>}

In terms of the trajectory, upwards I think is the correct answer there. Two gents in the first are nodding along with that. So yes, the key on that really has been all the product changes we've done. It's taken a little bit of time. We're now positive strain in UK life. I don't know whether you noticed that in the numbers today.

And that, together with a lot of other changes which improve both the economic capital in absolute terms and the resilience of economic capital, have all been aimed at growing the

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dividend flow, which grew obviously in 2013 and very much hopefully will continue to grow in the future.

A - Mark Wilson {BIO 7102576 <GO>}

If you have a look at UK life obviously still it's too low on remittance ratios. It's a key focus. The team is also remunerated on that as much as they are on operating earnings, just to be clear. There's still a lot of work we need to do on product.

We've started that process, but it's still an unacceptably low level. And that is a key focus. So I'd be extremely disappointed if you didn't see a consistent upward trend from that. And I have my UK life CEO and CFO sitting there who are nodding vigorously.

What are we going to do with the cash? We've still got a lot of work to do. We still have to -- we've got -- part of it's on the internal loan. Part of it over time will be on the external loan. Part of it is investments in businesses where we see there's opportunities like Indonesia and Polish bancassurance.

But the key thing is getting that cash up to the Group first of all. And that's the key part of the equation we're focused on and we're remunerating people on, getting that cash remittance to the Group. Last year was I think -- probably surprised a bit on the upside in terms of that 40% growth. We need to continue that trajectory.

I've said before to invest in this business you need to believe that we can get these cash flows up to the Group. Cash solves everything. I, like you, can argue any assumption in our business or any actuarial model you like. And I'm sure we can have a delightful debate over three or four hours on any of the topics or assumptions. The thing you can't debate is cash. And if we keep that cash coming up that allows us to do a whole lot more things.

Yes?

Q - Marcus Barnard {BIO 2103471 <GO>}

Yes, Marcus Barnard from Oriel. I'm just trying to understand these non-cash items that have sorted out the inter-company loan a bit better.

I suppose the question is really are these things you found in the balance sheet that you didn't publicly know you had, or are there some consequences to them, like you've just moved them somewhere else in the Group, or that they've got consequences going forward, like de-risking the pension scheme might give you a lower investment return going forward and a higher funding cost?

And I suppose, following on from that, if there are no consequences could you do more of these? Why did you leave it at the GBP2.2 billion level? Why didn't you take it down to zero? And also why didn't you do these things earlier? None of them look that secret that you couldn't have told us about them last year.

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A - Mark Wilson {BIO 7102576 <GO>}

Well if it was that easy and obvious I'm sure it would have been done. And I wouldn't want to give the impression today that it was easy to do. If you'd seen them earlier I'd be delighted to have you as one of my team, actually, if they were that obvious.

Frankly, how we came about this is as we realized the internal loan was a key issue we started looking at how we addressed it and it was pretty obvious as I came in that I recognized it was a key overhang in the stock. It was -- the internal leverage was too high.

Remember this issue built up over 30 years or 40 years. So we fixed in a couple of years what took 30 years or 40 years to build up. So it's like boiling a frog. I guess it got a bit worse each year and no-one recognized it is probably how I'd characterize it.

The issues; I wouldn't want to give the impression it was easy. The work in particular that John Lister, who's with us, and Pat and the team did took an extraordinary amount of work. And it was complex and time-consuming.

So basically we started one day, sometime after the First Quarter, I think it was, and we came in and we had what I call a BFO, a blinding flash of the obvious, that this isn't about cash necessarily. It's about non-cash. It's about reducing the capital requirements or the liabilities in that business to reduce the capital and then forgive [ph] the loan.

I think I said at this time last year it was like borrowing money off your parents or, in this case, off your children. You may never have to pay it back. And once we realized that we put a project team together and came up with a whole number of issues. Now a lot -- a whole number of fixes. Now, a lot of them needed regulatory approval. They were complex. So I don't want to give the impression they were easy or obvious, because they weren't.

Now, they do have -- some had consequences and some have costs, but the ones we've come up with have pretty modest costs associated with them. It's not about putting the -- it's not about putting it in another part of the Group.

So by fixing the pension scheme and doing what we've done with the pension scheme allowed us to reduce the capital. As we said, the pension scheme's moved to a more conservative basis. It's very close to being fully funded. That's given us flexibility that we can do there.

The guarantees on the CP; we didn't require guarantees on the CP. You could refinance that at very small basis points' difference. So it was -- and that might have been a no-brainer, but it's only when you focus on things -- and that's the art of a turnaround. It's about getting relentless and ruthless focus on the key issues affecting the business and then fixing them. I think you've seen that [ph] in today's results.

Have I missed anything?

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A - Patrick Regan {BIO 15131018 <GO>}

I was just going to say, in terms of the why not earlier point just two things really. One, until we'd done the formal split and the formalization of the loan you couldn't and, secondly, the key to it was agreeing the methodology, so around the stress liabilities. Once you got that then you can work through reducing the stress liabilities.

So it was really once we'd agreed the methodology we're allowed to work through what are the big things we can get at. Obviously, the levers you can pull are pensions. That's one of the ones we then went too look at, and obviously the normal insurance liabilities within it, and that's why we've gone through a program that's tough [ph].

So far, actually, it's not been incremental cost to us. It's been things that have been net neutral. And the go-forward ones broadly similarly as well. The pension de-risking, because we're close to being fully funded, it doesn't really impact any of the core funding. It'll help economic capital, doesn't really impact on IFRS.

Q - Marcus Barnard {BIO 2103471 <GO>}

(Inaudible).

A - Patrick Regan {BIO 15131018 <GO>}

Why not move to zero? Well we've taken it down by GBP4b, so I guess we won't stop looking for similar ideas is the short answer. If we can do something that's -- we don't need to. We've got it to its long-term sustainable level, but if there are smart things we can do we'll look to do them.

A - Mark Wilson {BIO 7102576 <GO>}

It can be a cheap source of capital as well, of course, for the Group is the answer why it might not be. But I'd say it's constantly under review. We'll see. I think the focus over the next -- to the end of 2015 is executing what we've said we're going to execute and I think that's adequate progress.

Q - Unidentified Participant

Hi, it's (inaudible), two quick questions, one on annuities. Could you just comment upon pricing and competitive behavior in Q1 and if you have an outlook for the growth of the market potentially this year?

Secondly, an outlook for UK motor rates, please. Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. I'll take part of that and I'll get David to comment. Annuities is interesting, isn't it? So -- and you've got a lot of annuity providers springing up. I take the strategic view. Annuities is the second-largest purchase decision most people make in their life after their house. That's a fact.

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So if you're buying car insurance you will just shop around for the cheapest price in all situations pretty much, unless it's easy, unless you can get simplicity. If you're buying an annuity it's quite different. So would you come to a large brand like Aviva, or would you come to a smaller brand?

Now, the only way you'd really go to a smaller brand is if they had a major, not a small, but a major cost advantage. So we have a natural advantage in annuities. We clearly have a natural advantage. Because with our named annuities, we're the largest in the market and we've got the brand that clearly gives us an advantage.

You want me to comment on where the rates have gone. They went -- throughout the year sometimes we pulled back from the market and other times we went in and, basically, we can turn the tap on as we require it in annuities. Do you want to comment on where the markets going?

A - David Barral {BIO 17035123 <GO>}

Yes. If you think -- if you look to last year it was quite strongly affected earlier on because of the run up to the gender pricing. So that obviously caused a spike at the start of last year and just before the end of the previous year. This -- since then it's settled down, really second half, I would say, last year.

And I think once -- companies tend to get their quotas and then it changes a bit. And I think we had a very strong Fourth Quarter. We expect it to be reasonably benign this year. As Mark says, our focus is on maximizing that -- or optimizing the return on capital and, hence, why we still managed to grow our business last year by 8% even though volumes were down.

I think looking long term the fundamentals of this market are very attractive in terms of the economics and the demographic changes, so we're looking to the long term and we'll play it as we can get those returns, including the appropriate mix between individual and BPing [ph].

A - Mark Wilson {BIO 7102576 <GO>}

Yes, I think Alan had his hand up over there as well.

Q - Alan Devlin {BIO 5936254 <GO>}

Hello, Alan Devlin at Barclays, a couple of questions. First on the UK GI your underwriting profit tripled while your combined ratio improved by 100 basis points. I wonder if you could just reconcile what's going on there.

And also you mentioned you had better weather in 2013 and less large losses. Is 2013 a normal year for the UK GI, or is 2012 a normal year in terms of those metrics?

Then secondly, on dividend remittances, you've said in the past this is going to be a multi-year complex to get the remittances higher, but you got two-thirds of the way to your

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target within the first 12 months. Is the remittances this year -- are there any one-offs in that, or is that a clean number, the 72%? Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Is it a clean number, the 72%? Yes. It's a clean number. Frankly, we're not where we need to be yet. I accept that we made faster progress on that than most expected, but we're still not up to where we need to be in this. We're still looking for a trajectory. I'd expect that to go up year after year.

On your question on weather -- and Maurice also wanted to pass a comment on motor rates as well. But on the question on weather, what's a normal year, who knows? If you have a look at the UK in the first three quarters of the year it was actually better than our price in the long-term average. December was clearly worse.

And also now we have obviously done a little bit better than the market in terms of the first two months of this year as well, as we've shown you today. That's primarily due to our underwriting that our share of the losses is clearly a fair bit lower than our market share, because our flood mapping is better than anyone else's, frankly.

But why -- nevertheless, it was still higher on floods than what we would normally expect. Why it's reached our long-term average is in the UK you didn't have the snow events and the frost events and pipes bursting, because we've had a delightfully warm but wet winter, and so there's a bit of trade-off there. So weather is up and down.

The key thing I'd say about where we've come out to on these weather results in the Group, insurance is -- I've got a strong view here that insurance is about diversity. I don't like single-country or single-product insurance companies, because I think there's too much volatility in results.

And I know it's been very much in fashion, particularly in the UK. We like the focus, but insurance is about diverse and I think some of our diverse general [ph] product range and geography has helped us over this last 12 months, particularly with weather.

You don't want to be so large and so diverse you're complex. But what we're saying, we've got much fewer businesses, we've got three product lines and that diversity and the fact we're a composite I believe is a competitive advantage. Now, to prove that we need to keep getting results and proving that to you. And I've said that. But that's -- you wanted to pass a comment too on that didn't you?

A - Maurice Tulloch {BIO 17683736 <GO>}

Sure. Yes. Thanks for the question. I think on the improvement in underwriting result I think Pat put up the numbers earlier. I know they were rounded. The actual UK discrete business improved about a point and a half, as Mark's just alluded, largely because of the weather improvement, albeit December was above the expectation. So that point and a half on, circa, GBP4 billion is the GBP60m. And I think it went up GBP66m, if I remember on Pat's slide correctly.

On the UK motor rates, last year the rates overall for the year were down between 12 and 14. AA had them down 12. I think CompareTheMarket [ph] had them down 14. We did see a slight positive trend in some markets [ph] in December. They were actually up 0.2. Our market can't harden until the rate of -- falls, actually, decelerates, which it did. As we look into early trading in this year it's still very much a pretty benign market.

It'll be a function of what we continue to get in reforms and, certainly, the Competition Commission, other things are there, so I'm not expecting rates to rocket up in the UK, but they have leveled off, which is a good thing.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, maybe last -- sorry.

A - Patrick Regan {BIO 15131018 <GO>}

It was just a technical point, Alan, I had on -- one of Colin's many telling contributions since he joined was to say to me we need to make it easier to recalculate our combined ratio. So on page 20 of the pack we put in some new disclosures on GI. The short answer is it's a combination of the earned loss ratio and the written expense ratio. But hopefully the stuff on page 20 is -- can let you recalculate it.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, Colin tells me I'm over time. We have got our IR guys and several other people around if you want to ask more questions outside. But I think we'll close the major session there. So thank you for your attendance and thank you for your questions.

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