Q1 2015 Sales and Revenue Call - Interim Management Statement

Company Participants

- Andy D. Briggs
- Christopher B. Wei
- Clifford Abrahams
- David McMillan
- Euan G. Munro
- Mark Andrew Wilson
- Maurice Tulloch
- Thomas D. Stoddard

Other Participants

- Abid Hussain
- Alan G. Devlin
- Andrew J. Crean
- Ashik Musaddi
- Blair T. Stewart
- Chris J. Esson
- Fahad U. Changazi
- Gordon Aitken
- Greig N. Paterson
- James A. Shuck
- Jon M. Hocking
- Ming Zhu

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Aviva Plc's Q1 2015 Financial Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mark Wilson, Aviva Group CEO. Please go ahead, sir.

Mark Andrew Wilson {BIO 6409810 <GO>}

Thank you, operator, and good morning, everyone, and welcome, as usual, to our first – this is our Q1 trading update. I do know it's a very busy day for all of us and indeed in the UK and the rest of the country for that matter, so I'll try and keep my comments brief and therefore give us plenty of time for Q&A.

With me in the room as usual are Tom Stoddard, our Group CFO; as well as I've got a number of the senior members of my management team, particularly the main business line heads, Maurice Tulloch from GI; Euan Munro, Asset Management; David McMillan, of course the Rest of Europe and Health Insurance; and of course, Andy Briggs in his new role as the CEO of UK Life; Chris Wei is also on the line from Singapore.

So if we step back and have a look, I guess I've got three key messages for you today. First, I think this is a very satisfactory set of numbers for Q1. In particular, the improvements in the UK. The UK despite all the regulatory change and all that continues to be a pretty resilient market for us.

Second, we now have completed as you know the Friends Life acquisition, and we've started the integration of pace. We can cover more of that in some more detail, but our plans were well advanced obviously before we got the final approval. So that is moving fast. And third, we continue I think to demonstrate some pretty good financial resilience, which is important when you look at markets and regulatory conditions globally.

Now let's turn to the numbers, and I should point out that all the numbers that I'm going to talk about here and, indeed, as you see we've laid out in the packs, excludes Friends Life, as of course they weren't with us in that quarter. But we'll cover Friends Life a little bit separately later as well.

Value of new business, VNB, is up 14% to £247 million constant currency. Within this, UK Life in France grew 15%, which I think is not too bad for developed markets, so-called developed markets, while our ex-turnaround business of Italy was up 44%. I think I really have to drop the turnaround tag for Italy as that business continues to improve. David is shaking his head. He thinks if we don't drop the turnaround tag, it'll keep him under more pressure for longer; and maybe that's accurate.

Poland grew 24% after stripping out the impact of pension changes in Lithuania. Turkey was only up 4%. That was impacted by a reduction in our ownership, that's with a partial IPO. And also, had quite a big impact from a higher assumed withholding tax. And so that will normalize in the next quarter. Asia VNB was 16% higher. That's a little bit lower than recent trends. So it was a bit of a quieter quarter for Asia.

In our German insurance business, the COR has improved to 96.4%, with a sub-90% COR in our European businesses. The Canada COR of 98.1%, that still experienced higher than normal claims frequency, albeit this is 4.6 percentage points better than last year. So improvement in the right direction.

The UK general insurance appears to have turned the corner with premiums actually up 1%. And whilst this may not seem significant, remember this was a business that had nine consecutive quarters of year-on-year premium decline as we exited businesses and exited segments from market we didn't like. And of course the third quarter, that business had really started turning around.

Just to be clear though we do not focus and we don't award any of the senior management on volume. But you do need scale to make general insurance work. And so we've kicked up pricing discipline, because we've exited the businesses. Now we're seeing that turnaround, and we believe that trend will at least continue.

In asset management we continue to focus on building our third-party franchise and in particular there's a lot of work being done on integrating the Friends Life assets. The infrastructure for the Virtus agreement, which is a large distribution agreement, should be ready in the coming months. And at that stage AIMS will also have a 12-month track record in July, which as you know is important for many of the employee benefit consultants. We've already on-boarded the assets managed directly by Friends Life, which is about £20 billion of funds under management. And we would expect more assets to come over this year in due course.

As we have said many times before though, and I keep on emphasizing this, the turnaround in asset management will take some time. I'm delighted with the team we have in place. I'm happy with the progress. And we're seeing some positive signs, but we need to see the fund flows increase substantially.

Finally, onto the balance sheet and capital position, which is particularly important as we transition to Solvency II. Our IFRS net per share is up £0.08 to £3.48 as profits and a small gain in the pension surplus more than offset the negative impact from the foreign exchange moves. And of course this is without Friends Life acquisition, which will add a further £0.55 per share. So if you go back I mean our NAV is up about 20%-odd excluding that over the last 12 months. So the NAV is certainly moving in the right direction.

Our economic surplus increased from £8 billion to £8.1 billion. That's despite the lower interest rates and the adverse ForEx movements. Our coverage ratio is pretty stable at 177%. And to be clear this also excludes the Friends Life surplus.

Our external ratio is 40% of tangible equity on an IFRS basis and 28% on the S&P basis. I've been clear for some time that S&P is the basis I'd like to use going forward. I recognize there's no perfect basis for leverage, but at least this gives you something you can compare versus peers. I should also add there that this basis isn't perfect in that we don't deduct all this excess liquidity that we have at the group center, which is, what, another £1.8 billion as well. So I guess really the results are slightly better than that.

Now after consolidating Friends Life we'd expect these debt ratios to drop to 36% and 27% respectively, which is well within our targeted range of being consistent with an S&P AA rating. Of course as I said that's the glow stick, which excludes the liquidity at the holding company.

Now between Aviva and Friends Life we do have debt falling due or available for call in the next two years. And when the markets are good we will take the opportunity to structure our total debt to lower our cost of capital. Therefore also lowers our cash that we spend up on that debt as well. So it's when the markets are good, we should take those opportunities.

On Solvency II I'm just going to say that we continue to make progress in our discussions with the regulator. We are due to submit our formal application for partial internal model approval in June. And we will work hard to ensure a smooth transition to Solvency II. Operating under an economic capital framework, as we have done for a number of years, and we're being pretty transparent in all that, has positioned well. And we remain right in the range I thought we'd be. In addition over the 2016 and 2017 years, we will see the benefit as yet unquantified of Friends Life to improve our capital position further.

We also came into the Solvency II, and we have pretty good understanding of where we were, because we had a lot of discussions with the regulator as we went through the Friends Life transaction. So we understood where we were pretty early on.

Nevertheless I should also be very clear we have much work to do before the end of the year. And as we have signaled previously, unfortunately there is a high cost of Solvency II implementation, just in terms of building the systems and getting ready as you saw in our results last year.

Now a few words on Friends Life if I may. The planning was well advanced before closure, which has allowed us to be quick out of the blocks on implementation. The level of planning on this, and I've been involved in a lot of integrations over my career, the level of detailed planning is more than I think we've done before. And that's why it's progressing so far so good.

For example on completion day all the signage was changed on all of the Friends buildings. So all the branding was already changed. A small thing, but quite symbolic. We've already announced the closure of the Friends Life head office, one new change. And also one of the sites next to those, we lower our overall property costs, non-people costs, sort of a no-brainer.

And in addition we have already moved the first £20 billion of assets from Friends Life to Aviva Investors, which is the first stage of the asset management transformation. And the rest would happen over time. You should expect more of this by the end of this year. And our asset management business is pretty busy at the moment just getting ready for what are some fairly large chunks of assets.

As far as Friends Life results are concerned, it's much as really we anticipated. Value of new business is £12 million lower, almost entirely due to lower annuities, which we had assumed, but not material at the group level at all. Corporate benefits are showing some good promise with assets under management or assets under administration, 7% higher, and some good positive net inflows. And Andy and the team is as I said before progressing the integration at pace.

So probably I think, operator, I'll stop there. And I've got my team with me here too, and between us we can answer questions. So let's open up for questions and from people on the call.

Q&A

Operator

Thank you. And we will now take our first question from Jon Hocking from Morgan Stanley. Please go ahead, your line is open.

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

Good morning everybody. I've got three questions, please. Firstly, wondered when you're going to be able to comment on the consolidated economic capital position for the two businesses. And related to that, when are you going to be able to communicate something more concrete on the capital synergies? That's the first question.

Second question, on the transitionals that you're going to use in the UK, I'm guessing it's related to the annuity business. Could you just comment about the discussions with the PRA there, and particularly how confident are you in terms of the ability to continue up-streaming cash? And then finally, just on the asset management business, I wonder if you could talk about the ongoing plans there, in terms of the capability with the team, products, et cetera? Is it just AIMS, or are there other products which are going to come alongside that? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. So I'll get Tom take the first two, and then I'll get Euan to take the other. Just the second part of your first question though. Jon, we're probably not going to actually disclose at least in the near future the capital synergies because, as I said, they'll come out over time. And we want to give those to you as they can. We'll just to stick to my previous comment that they are significant, but they will come out over time. Tom, you want to take the other two?

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

Yeah. I'll pick that up. So on the question of when we will report consolidated economic capital, we'll do that at the half year; and I think about Mark's comment. Again, we're very pleased with the Friends transaction. It gives us quite a lot more flexibility around our capital and our capital position. So that continues to be a good thing that we're seeing more and more. We do expect to realize significant capital synergies; and those will emerge over time. But we'll give you a better sense of those as time goes on.

In terms of transitionals, yes, you're correct, those primarily relate to our UK annuity business. And what I would say is that this is not a new issue. We've been aware of transitionals for some time. And as we've been managing our economic capital and the transition of Solvency II, we've been doing that with an eye on where we're likely to end up on a Solvency II basis. So the way we've been managing our capital position is very consistent with that.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, transitionals shouldn't be something that should keep you awake, I wouldn't have thought, for us.

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

Okay.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And, Euan, on the asset management.

A - Euan G. Munro {BIO 2307409 <GO>}

On the asset management side, we're talking about the transfer of assets on the (14:31).

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

Capabilities outside of AIMS.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Capabilities outside of AIMS.

A - Euan G. Munro {BIO 2307409 <GO>}

I think on the capabilities outside AIMS, I think we've got some very strong suites in illiquid lending, so we've obviously recently transferred from the UK Life business the real estate lending origination capability; and that combined with our capabilities in infrastructure and private replacement debt are of considerable interest to the pension fund community who are looking to expand into that area, particularly with bond yields on high-quality debt being so low and their ability to access a liquidity premium. So that's something that's very strong.

We have established capabilities in real estate and global high yield, as well as our recognized and attractive asset classes for specialist asset classes. So just in terms of our generic abilities and I mentioned recently in a press call that 86% of our funds over three years are exceeding the benchmarks that have been set. There is considerable investment expertise across a wide range of capabilities in Aviva Investors.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. Jon, I've said for a long time now, the issue with Aviva Investors was never the fund performance. The underlying fund performance has been fine. The issue was a lack of strategy; a lack of our, say, core flagship products; and a lack of senior management. Now we solved the senior management by basically replacing the entire executive team. But the underlying PMs which have been performing well, there's a lot of consistency there. So we've got to deliver, but so far so good.

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

Just a quick follow-up. The AIMS flows you've seen so far, what types of channels are those coming through?

A - Euan G. Munro {BIO 2307409 <GO>}

A variety of channels. And so they're coming from wealth channels and some of the established platforms, part of these lands down (16:38) core funds. These kinds of channels are directing assets in our direction. And we're starting to see signs now that the institutional channels are starting to work. So the major global consultants don't like us telling externally whether they've got us on a buy rating or not, but we have got a number of the global consultants of who've put the fund on the buy rating; and that is going to start telling with substantial flows. But we've seen some small institutional flows.

And our internal sources, our internal platform, wealth platforms and institutional is just really beginning. And what should start to come through in the second half of the year, as Mark mentioned earlier, is the relationship with investors should start to flow. That one isn't set up yet. It should be set up in around July. We'll be pre-selling very soon.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I think we got some of the buyers a bit earlier than we talked. Because normally, as you know, you don't really get the buyer until after 12 months performance, and clearly the performance has been pretty good. I think the first nine months of the first fund is what, 9%?

A - Euan G. Munro {BIO 2307409 <GO>}

Yes.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And it's LIBOR plus 5 as a target. I do know that because I've invested in it personally. So the 9%, so far so good, the performance is backing up more than what we said it would. So...

A - Euan G. Munro {BIO 2307409 <GO>}

If I can add one thing as well. AIMS is a suite of funds, there's the target income fund, as well as the target return; and it's quite interesting the target income fund particularly given that's a pressing client need to access diversified sources of income. That is actually quite a unique offering in the marketplace, and it is seeing nice flows.

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

Okay. Thank you very much.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Thanks, Jon.

Operator

So we will now take our next question from Chris Esson from Credit Suisse. Please go ahead. Your line is open.

Q - Chris J. Esson {BIO 16208369 <GO>}

Thank you, and good morning, everyone. So three quick questions for me, please. Firstly on UK P&C, it's only modestly better year-on-year, despite the weather being fairly benign in the UK. Just wondered if you could comment on any sort of other drivers within that result and how we should think about that in a full-year context?

Secondly, in terms of central liquidity. So given that you didn't manage to renew the DBS deal, I just wondered if you could highlight what, roughly you'd earmarked for that in terms of up-front costs? And how we should think about that in terms of your central liquidity? And lastly, following on from that, on the DBS renewal. I know you've made comments in the past about staying the course in Asia. I just wondered now that it is official and you have not managed to renew the relationship, what is the strategy in the region? Is it meaningful enough to continue to be part of the group? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks, Chris. How about let's start with the P&C, Maurice, just want to comment and give them a context?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes. Morning, Chris. I mean, your question is really about the UK. So obviously we made some progress. We did benefit from a more benign weather, but we also had less favorable development than we did in the prior. Nothing material, still within our long term trading range; and certainly not a new trend. But pleased that we made some moderate progress, and also pleased that we've seen progress in our Canadian business against the backdrop of another harsh winter, not as hard as 2014 when we had the polar vortex. And also our European GI business was off to a moderately progressively good start as well. So that's really the headline, Chris.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

On the DB, just a few comments and then I'll pass over to Chris as well. We said we're going to be disciplined. And clearly as I said before, we were in a favored position. We had a good relationship with them. But to be blunt, I would have been irritated if we had sort of lost out on this by a small way, but we weren't – in the end the numbers that were paid weren't remotely close to what we thought was economic. And just to be clear, that wasn't because we wouldn't have been able to fund it because clearly we could have. But it wasn't even remotely close. And the £1.2 billion of course which is just the upfront, noncontingent is only part of the payment you make. So it was a pretty easy decision in the end.

And in terms of – Chris, where it sits, it's about 20% of our VNB in Singapore, just to be clear. So it's only about 20% of our VNB in Asia or Singapore. And in terms of the profits in the back book and everything else, we keep it. So we've got renewal lifes and all the stuff we've got and includes all the credit and sharing some of the profitable stuff because we renew that. It's wasn't just like your distribution agreement. Because, of course, about eight years ago, whatever it was, we bought the business off them, so we had some client marketing rights and ownership rights there as well. So we can still sell on the under parts of that base which is quite helpful.

So in terms of profitability or the scale in Asia, it doesn't impact us a whole lot. We're paying that sort of price. And maybe others can do it better than we can perhaps, but we certainly couldn't get a return off it. So that's why we didn't chase it.

Asian strategy, we still have the same businesses we had. It doesn't change the Asian strategy a lot. But then China has been growing at 100% a year; and we'd expect continued strong growth. We've got what we think is the best JV partner, with Jardines, or the Astra Group, which is the largest conglomerate in Indonesia, of course. And the business is still growing. We are looking at putting in a fair bit more money into things – a lot more money into things like digital, which was on the horizon anyway, but we might speed that up a bit.

I'll pass over to Chris Wei in a second to pass some comments. Just in terms of central liquidity. Obviously, we have got a fair bit of central liquidity. We've still got to pay things out like potentially the integration costs, and so we have got a fair bit of it and we've got dividend, of course, to pay as well. So we had earmarked some money for it, but those were the figures. We would have funded some of that by debt obviously as well if we were going to do DBS. So it wouldn't have been that difficult to fund. But it wasn't a funding issue. It was more a return issue that we're worried about. Chris, do you want pass any comments on the Asian strategy? Hopefully you can...

A - Christopher B. Wei {BIO 17014406 <GO>}

Sure. Thanks, Mark. And good morning, Chris. Just to remind everybody as well, I mean, what Manulife paid was only for four markets, not for the full six that we were paying for. So more to sort of stress the point around value. I just wanted to contextualize our business in Singapore. As Mark would have said, of course, we would have liked to renew it. But we actually had very strong positions in other bits of Singapore. We have a diversified multi-distribution strategy.

We are strong in the IFA market. We're actually number one in protection via that channel. We are a majority owner of an award-winning FA, which is PIAS. We were the first to go digital direct in general insurance. We had the full range of licenses. In fact, we're the only foreign player with a full range of CPF products, that's the Central Provident Fund products which is government-run schemes. We're number one in group employee benefits with hundreds of thousands of members; and that all sets up a great affinity play for us.

And as Mark mentioned, we have fantastic joint venture partners in addition to Costco in China, which has a few hundred million consumers as customers; Astra Group which is sort of the dominant conglomerate in automotive and other industries in Indonesia. We also have First Financial in Taiwan, we have VietinBank in Vietnam, et cetera. So there is significant continued sort of organic growth that we can mine in Asia. And although a small setback, nonetheless, I think our Asian strategy is still looking very positive.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Next. Thanks. Operator, next question?

Operator

We will now take the next question from Andrew Crean from Autonomous. Please go ahead. Your line is open.

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

Good morning, all. Three questions, please. Firstly, you gave us the NAV addition from Friends Life of £0.55. Could you give us the impact of Friends Life on tangible IFRS equity and on MCEV?

Secondly, you noted that the cash at center had gone up to £1.8 billion, because of the Friends Life deal. That I assume is the liberation of the monies which were held at the Life holding company. Does that mean that you've actually – that was one of the sort of capital synergies, was liberating that money and bringing it up to the holding company. Has that been done? And then the third question is on the fungibility issue on the Aviva annuities. Does the use of transitionals mean that you cannot get dividends up from the annuity company until the transitionals are over? And have you been taking dividends up from Aviva annuities over past years?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Well morning, Andrew. I'll hand those over to Tom I think.

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

Okay. Thanks, Andrew. That's a long list here. So on the tangible NAV, we will provide that information to you at the half year. We're still working out the closing balance sheet right now. As you know we closed the transaction on April 10, and so we're still working on the acquisition balance sheet at this point. So we'll give you that detail with the half year disclosures.

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

Tom, can I just say, do you not have it? Because you've given us the impact of the Friends Life acquisition on the debt leverage relative to tangible book, so you must have worked it out already?

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

We have that information, but again we're just not providing that at this point. So and again we're still working out some of the details in the acquisition balance sheet, but we're just not providing that disclosure at this time.

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

Thank you.

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

Second question was on the liquidity. Effectively this is just combining the two companies. This does not reflect the potential synergy benefit of extracting more cash from the Friends Life subsidiary. So this is really just adding across.

And then your third question on fungibility, transitionals, I guess what I'd say is that we don't expect the transitionals to restrict our ability to take dividends from our UK Life operations. On the other hand our UK annuity business has not been providing a lot of dividends to us over recent years. So again I think as you look at this overall in context, we've been managing the business to provide cash and support our financing requirements, again without relying on dividends from our UK annuity business.

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

Thank you.

Operator

We will now take our next question from Greig Paterson from KBW. Please go ahead. Your line is open.

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

Morning, gentlemen.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Morning, Greig.

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

Just at full year you were using a diversification credit on your economic capital of 37%. And in the deal literature you mentioned that at least for interest rates the two groups have opposite correlation, or opposite sensitivity to interest rate. I was wondering to what extent that diversification credit will increase on an economic capital basis, once you combine the two groups?

The second point is I noticed that the margins on Friends Life Group annuities collapsed. They've halved from the final quarter last year to this quarter. I do appreciate volumes are down, but I thought there was a GAO underpin. In other words they were sourcing a lot of their business from their GAO book, and hence the margin was protected to some extent. I was wondering if you could explain why that has dropped.

And the third thing is at least relative to my expectations, UK equity release, UK bulk, Poland and Spain seemed a bit light. I wonder if you could possibly shed some light on the reasons for that?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Well morning, Greig. So first just on the diversification credit, yes, you're right. I've got a ballpark that I'm not going to share, partly because we've still got to do – there's a lot modeling work, as you'd appreciate, to do to get that exact. And we'll share that as it comes through. But in terms of strategically or directionally, you're right, yes, there is further diversification credit.

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

But would it be material? I mean that's a fair statement given the...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yes. Yes. The answer is, yes, it is material.

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

Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Secondly, on the margins, Andy, do you want to take it?

A - Andy D. Briggs {BIO 4311809 <GO>}

Yeah, sure. So morning, Greig, it's Andy here. So we saw lots – far more customers deferring their retirement decision, but not taking the money away. So the fund flows as you can see are fine. It's they're deferring their retirement decision. We keep taking annual management charge. So I'm not at all concerned.

The reason for the impact on margin is obviously we didn't have the revenue from the sales on the one side, and yet we kept the staff on board. In fact we increased staff numbers to get ready for the pension freedoms in April. So ordinarily if we'd seen volumes go down, we'd have taken cost out. We didn't, because we wanted to retrain the staff ready for pension freedoms, which is we've managed fine.

Just on your third question on UK equity release, we had an excellent first quarter, very...

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

No, sorry, I was talking about Aviva with regard to that.

A - Andy D. Briggs {BIO 4311809 <GO>}

Yeah. And so am I.

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

I didn't know. You've gone up the curve pretty quickly, I like that.

A - Andy D. Briggs {BIO 4311809 <GO>}

We own all of it. And we had a good first quarter on equity release, very pleased and very strong performance. Bulk annuities, my attitude to that is that if we can write business profitably, we'll deploy capital and do so. In the first quarter of this year we had a very light level of bulk annuities. We actually feel quite positive about the pipeline from here. But at the end of the day we'll be disciplined and only deploy capital where we can get good returns.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

In answer to your question, Greig, by the way he has come up the curve extraordinarily.

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

No, I'm impressed; I'm impressed. I assume he's telling the truth, which is good, yes.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

He has been absorbed. Poland and Spain, David, do you want to?

A - David McMillan {BIO 17298829 <GO>}

Hi, Greg. David here. Just on Poland, last year, we had a fairly large one-off in Lithuania, which of course is consolidated in the Polish numbers. That was about £9 million. Poland at underlying level is tracking to similar levels of growth as we saw last year. So we're expecting significant growth in the Polish business for the rest of the year as that one-off first quarter benefit washes out the numbers.

Spain, we're actually starting to see the Spanish market pick up. Clearly at a macro level GDP growth is quite strong in Spain. Our VNB growth last year was in the 20s% for Spain. And this year for the first quarter we're at 14%, with a particularly strong performance in protection, which was up in the high-40s%. So I'm kind of cautiously optimistic on prospects of Spain for the rest of the year.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

It's still in the turnaround category though isn't it?

A - David McMillan {BIO 17298829 <GO>}

Yes. Very much.

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

Are we going to see seasonality there? I remember in the old days you used to have a big first and fourth quarter. Is that seasonality still going to exist with your restructured business going forward?

A - David McMillan {BIO 17298829 <GO>}

Certainly the big quarter for Spain is the fourth quarter where most of the pension business is done. So I'd imagine it will follow the same trend in 2015.

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

All right. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks, Greig.

Operator

And we will now take our next question from Abid Hussain from Société Générale. Please go ahead. Your line is open.

Q - Abid Hussain {BIO 17127644 <GO>}

Hi. Good morning, all. Three questions, if I can? The first one on equity release. I was wondering if you have ironed out what the PRA if the matching adjustment under Solvency II can be applied to this product, and if you are confident of this application going forward? That's the first question.

The second one is on Solvency II, what impact can we expect your balance sheet, if any, should you risk-weight your sovereign bond holdings? And then the final question is on your holding company liquidity. It's come in at £1.8 billion. And the first part of the question is, it looks a little bit like – going through the Friends Life acquisition presentation. I would've thought it'd be slightly higher than that. And the second part of that question is, what is the minimum that you expect to hold for the enlarged group? I think previously you've said around £1 billion for Aviva standalone. Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Just I'll take the third one and then give the other two to Tom. Just on the holding company it's £1.8 billion, of course the dividend from Friend has been paid out. So that's probably just to speak there's a difference in the calculation.

Q - Abid Hussain {BIO 17127644 <GO>}

Okay. Yeah.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Which I'd suspect. Tom, do you want to take the first one?

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

Sure. On equity release, that's still a work in progress, but we're confident that we'll get matching adjustment for equity release. We're feeling quite good about that work stream right now.

On Solvency II, let me come back to that. On the holding company liquidity, we have not yet set sort of a new benchmark in terms of where we're going to try to manage that. That's something we're still working out now as we pull the two companies together and look at the pro forma balance sheets. And I'm sorry, the question on Solvency II again was?

A - Euan G. Munro {BIO 2307409 <GO>}

Own risk for sovereign bonds?

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

Own risk for sovereign bonds. Yeah. That's something that we had already baked in during the course of the year last year on our own as we were trying to anticipate where things were going to go. So as we look at our economic capital ratios, the own risk for sovereign bonds is already included in that.

Q - Abid Hussain {BIO 17127644 <GO>}

Can I just come back on the equity release point? So you said that you feel confident that the PRA is going to approve the matching adjustment. I mean you need to be fairly confident I guess, because if this is a product that you're pushing into 2016, how confident are you?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Very.

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

We're very confident.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Maybe if I may add a little bit of color on that. Clearly, there's a funding gap in the UK, because of that the government is very keen on equity release. I've said that before. They're very keen. The regulator likes equity releases of product as well; and they've been working well with us to get it through. So it's fair to say we are confident. Is that helpful?

Q - Abid Hussain {BIO 17127644 <GO>}

That's very helpful. Thanks.

Operator

We will now take our next question from Gordon Aitken from RBC. Please go ahead. Your line is open.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah. Thank you. Three questions, please. First on annuities, and these are off a lot, perhaps we expected that. The pensions that was off an awful lot in both Aviva and Friend's. I know consultants get particularly unsettled when there's any sort of corporate activity. Just wondering to what extent do you think the business was affected during the first quarter, and to what extent that's running on now?

And second question on the decline in volume in the guaranteed annuity option book that would be great, on Q1 versus Q4. And the third question on cash. And so you've reported £0.5 billion of OCG, and it's the same in the first quarter, that's the same as you reported two years' ago. Just wondering why this number isn't progressing when various other metrics of the group seem to be. And maybe you can in the answer to the question just touch on the shape of the cash flows of the back book. Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Gordon, if I could just take the cash one for a second, just a couple of comments. I mean, the annuities have had an impact on the OCG, but as I – bluntly on OCG, I would have preferred not putting it out because I think the matrix becomes a bit irrelevant. I was persuaded that by IR appropriately that if I didn't, you guys would think there was something hidden on there, so we put out just to show there wasn't.

But the reality is OCG is becoming a bit of a meaningless metric as you move towards Solvency II. And so I'd suggest that people focus on two things. The key thing is the actual cash that comes up to group, OCG is a Pillar 1 metric that's a precursor to that. So I'd focus on the cash coming up to group. The problem with that, of course, is you only really get to see that figure once a year, and I agree with that.

And secondly, obviously, earnings. So it's the cash up to the group is the first focus, that's key. That's what we pay dividends out of. And the earnings, but we don't have any shortage of earnings anyway. So that's what I'd say on OCG. On the annuities point and the pensions, let me pass it over to Andy.

A - Andy D. Briggs {BIO 4311809 <GO>}

Sure, very happy to. Good morning, Gordon. I hope you're well. So on annuities, yes, we are down significantly both on the heritage Aviva and heritage Friends side. But that customer is deferring their retirement decision. So it's not that the money is going out the door, and will continue given the scale of our book. And the fact we've got one in four maturing pensions in the UK. We'll continue to take the annual management charges. Actually, pensions businesses has performed very well on both sides of the house in the first quarter. So we don't disclose individual product splits on the Aviva side of the house. But we have said that although annuities are off 60%, the protection is broadly flat. The two growth areas have been pensions and the equity release.

On the Friends of the house, although the VNB is down slightly, as I've long said to you and I know you agree, VNB isn't the best measure on these product lines anyway. You want to look at the cash generation and the net fund flows and we've had another quarter of good positive net fund flows on the Friends side. So, all in all, consultants are very comfortable with what we're doing; and I'm positive about the pipeline on the pensions' book.

Specifically on the GAOs, yes, we have seen that fall off. But, again, it's customers deferring their retirement decision. It's not that they're taking the money away from us. So, again, we'll continue to take the annual management charges, and that bodes well in terms of cash generation, which is our kind of primary focus.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

We have seen people in the first quarter, there's no doubt, defer decisions and we've sort of assumed that was going to be the case. The other point that, Andy, that he said this morning, of course, is that auto enrollment. Aviva hasn't really benefited from auto enrolment yet because Aviva was very much the SMEs. Friends was the large scheme, so now we've got both I guess. But the SMEs we haven't really benefited from that. As you know, the auto enrolment happen to the large schemes and progressively gets down to smaller schemes. So it's the next year or two that we will start benefiting from that. We haven't yet; and that will be helpful, and that's a key focus for us.

Q - Gordon Aitken {BIO 3846728 <GO>}

Can I just follow up on the pensions question? I mean you're down quite a bit from Q4. I'm just wondering what happened in Q4? I mean the seasonality used to always be round about in your strong quarter in Q1. Obviously, we've got pensions freedoms, but what happened in Q4 that hasn't happened in Q1?

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

Is this on the heritage Aviva or heritage Friends side, Gordon?

Q - Gordon Aitken {BIO 3846728 <GO>}

Well, let's talk Aviva.

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

Yeah. So, I mean, you get kind of lumps and chunks on the pensions' market just generally. I'm not at all concerned in terms of the trend at the time.

A - Clifford Abrahams {BIO 7425676 <GO>}

That's right. I mean, Q4 was strong last year. This is Clifford Abrahams CFO of UK Life. The run rate was reasonable in Q1. We did see this time last year some benefit of auto enrolment which is why it's come down modestly, but we're confident in the pipeline going forward in this area.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

There's no trend, Gordon, we're concerned about on.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thank you very much.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

(41:15).

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

Operator

And we will now take our next question from Ming Zhu from Canaccord. Please go ahead. Your line is open.

Q - Ming Zhu {BIO 17001429 <GO>}

Hello. Good morning. Just three questions, please. First question on the – you've mentioned after the pension reform you've seen quite a lot of customers deferring their decisions. Could you just provide a bit more detailed color? And have you seen smaller pots maybe cashing in?

And my second question is on asset management. There's a comment in the statement that saying you are unprepared to receive Friends Life funds managed by external parties. And are these external parties you're referring to Schroders and AXA? I thought for AXA there was a break clause between Friends Life and AXA coming up some time in 2015. Could you please clarify on that? And my third question is on the Canada GI. There's a comment of higher claim frequency in Q1 than the long-term average. Could you please provide a bit more color on that and what you've seen in terms of the ulterior motor rate reform reduction, please? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Ming, Andy will answer the customer behavior question first.

A - Andy D. Briggs {BIO 4311809 <GO>}

Sure. So the comment amount deferring decisions was very much geared around Q1, so this is a Q1 trading update. Just to give you a bit of color what's happened since April 6. So we have seen initially a big spike up in the level of calls in line with what we expected, probably double the level of calls coming in; although, generally April is a busier time. That's tailed back off again. But in terms of - those customers, they're choosing to take action, tending to be the much smaller pots and taking the money, but it's not significant in terms of the volumes involved. So all gone pretty much as we would have expected.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And I am right in saying, I think, Andy, it's well less than 1% of those that are eligible, right? It's not a material number at all yet, which is quite interesting. It could change throughout the year though, of course. So it's a bit early to tell, but so far the number hasn't been material and the calls have dropped off. So we'll give you an update as we give it maybe at the half-year.

The second question is on investments and if I can pass a comment and hand over to Euan. And so what we've said, there's three pots - well, there's really four pots to money. So step back, there's about £100 billion assets that Friends have. £30 billion of that was client-directed and historically Friends didn't have the internal capability to get that. So we will try and get that over time as well.

Then there's £70 billion that is really company-directed effectively. Of that, there was £20 billion, roughly £20 billion, that was managed by Friends. So we've already bought at a cost. Then there's another £35 billion managed by AXA. And you're entirely right, there was a break clause in September of this year and we have assumed - we have budgeted for that break clause. There's a whole lot of process you need to go through and get ready for it and stuff because £35 billion is a large sum of money and we are going through that and we're entirely on track as we expected to be.

We've got good systems and things. So we're entirely on track with that. Then on the Schroders piece, which is the last piece of that puzzle. We've said we're not going to do that this year and we'll discuss that with Schroders next year as we progress. Euan, do you want to add to all that?

A - Euan G. Munro {BIO 2307409 <GO>}

Yeah. I am a bit disconcerted that the message has got out we're where unprepared. I mean, I think what I did say was that we would not take assets that we were unprepared to take; and nor would I expect some to be pushed in our direction. So I think we are ready to take these assets. And we are essentially waiting on the decisions being made to pass them in our direction.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Canada. So it was a fair question.

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

Sure. Morning, Ming. I mean, the first thing I would say is the Canadian business is a seasonal business. So if you look at last year at 102.7%, I just guided to where we ended the year last year at 96.1%. So the comment that I talked about, frequency still above the long-term average. We look at our business in terms of 15-year movements. But 98.1% while significantly better than last year, it's still above our long-term average. And 2014 was the worst winter on record for the northeast in the U.S. and for most to Canada. 2015, while better, was still worse than our long-term average.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So it's what, it's 4 percentage points better, but the frequency is still high. Does that make sense?

Q - Ming Zhu {BIO 17001429 <GO>}

Yeah. Okay. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks.

Operator

And we will now take our next question from Alan Devlin from Barclays. Please go ahead. Your line is open.

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

Hi, guys. Thank you very much. Just a couple of questions. The first one on general insurance. I wonder if you'd give us what the underlying combined ratio did. You mentioned the impact of reserve releases, but I wonder if you'd give the movement in the weather and impact of the weather over the quarter as well?

And then secondly on the economic capital, you mentioned interest rates and FX worked against you. I was just wondering what the moving parts were which then worked in your favor to offset both of them. And also, you mentioned the capital synergies emerge over time. When do you expect to see the capital synergies starting to merge? Do you think we'll see any movement over the course of this year or do we have to wait until 2016/2017? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Good morning, Alan. I'll just take the third one. The other two on the capital synergies, going to ask to emerge (47:06). I am not going to give that out. I know that's the key point for modeling and everyone's - I mean, you guys have to take a position on that, I guess. And partly it's because we just haven't finished the modeling, and there are some choices we need to make where we want it to - when and where we want it to emerge as well. On the first one on GI, Maurice, just want to talk about the underlying trend?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. I mean there's a number of moving parts, Alan. I mean, certainly in the UK, the weather was certainly more benign than last year. So that was certainly a benefit. But the other moving factor would have been prior developments. We were less favorable than we were this time last year. We actually do note that we were at 0.7% overall favorable development in our GI business as a whole, and last year it was 1.4%. So broadly the underlying is broadly similar to what it was this time last year.

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

And then, Alan, I think Mark addressed some of the questions on economic capital. We have been increasing our hedging activity over the course of the year to protect ourselves. Some of the benefits that we've realized in the first quarter have been more related to foreign exchange hedging than other kinds of hedging. And again in terms of the capital synergies, we'll continue to update you on those as we realize those over time, but we're not proving a lot of information on them in advance.

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

Cool. Thanks. And just a follow-up on the general insurance question. So ex weather and ex the reserve releases, the underlying combined ratio was relatively flat, is that what you're saying?

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

Correct. Correct.

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

Cool. Thanks.

Operator

And we will now take our next question from Fahad Changazi from Nomura. Please go ahead. Your line is open.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning guys. Just two questions. First, on the FL integration, it's good that you're out of the blocks very quickly. You did have a 90-day detailed program. Are we at some point going to get an update where you say, this was our detailed plan, this is what we achieved, tick, tick, tick? Or do we have to wait till the H1 results for that?

And secondly, just trying to get head around the strong VNB performance. UK VNB's up 14%. And Q1 is supposed to be the worst quarter, given all that's happening with annuities. So it should only get better from here. Is that right? Or is there something I'm missing?

And in France again very strong growth. It looks like it's primarily driven by the changes in product mix. But could you perhaps split out the benefit of product mix versus what's happening elsewhere in terms of underlying growth? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Hi, Fahad. The detailed plans, what we should do I think is we'll give you guys a detailed look at that at the half-year, because we'll have a bit more time and then we're face-to-face. So we can take you through that. Perhaps we can get Nick Amin up there as well, and we can go through that.

I mean there's no particular sensitivity to it, except the big sense – no external sensitivity. The big internal sensitivity is obviously people, and we got to go through consultations, phases with the unions and that sort of stuff.

And so far I've got to say all the consultation bodies including the unions have been unbelievably pragmatic and supportive, because they think it's the right thing to do. And yeah. And we'll do the right thing by the people as well. So we'll aim to do that at half-year if we can.

On the VNB will it only get better from here? Well I guess us all (50:49) would rather do, rather than say. And so let's see in the next quarter and the third quarter how we do.

But it's fair to say you've heard some of the boys so far today say that there has been some good pipelines and things. We need to deliver those pipelines to reality, don't we? So we'll see. On France, David, can you just add a bit of color on why it has improved so much?

A - David McMillan {BIO 17298829 <GO>}

Yeah. I mean I think I've said it before, our French business has really excellent distribution, and we've been on the path for the last couple years of really trying to harness that distribution to deliver a strong product mix. So if you look at the numbers, PVNBP in France in local currency in euro is up 1%, but the VNB is up 15%. And that speaks to the fact that we've actually been shifting product mix.

So if you look at underlying products, our protection business quarter-on-quarter – or year-on-year rather is up 50%. Unit-linked continues to follow a strong trend. And our WIP profits business is down, as we shift the focus of the business from lower margin WIP profits to higher margin unit-linked. So largely this is a question of harnessing distribution to improve product mix.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Just something if I can also just direct everyone on the call's minds a little bit. Under Solvency II it changes the competitive dynamics of the market in Europe a lot. So the sort of products – we've been operating under an economic capital basis for years. And there has only been even a couple of people in the UK who've even been doing that. And so what's going to happen under Solvency II is it does change the product mix. And all of a sudden in a lot of these markets we become more competitive, because everyone else has to work under the same constraints that we have been working under.

And that fundamentally changes our competitive position. It also changes it for things like general insurance. We haven't been pass-porting out on general insurance to Gibraltar for example. And so our competitive position improves there.

So that's why you're starting to see a bit of growth, because everyone else is coming into line with what we've been doing. Then our brand works. I think that sort of makes sense. So that's more the competition has come to us because of Solvency II rather than the other way around.

A - Christopher B. Wei {BIO 17014406 <GO>}

It's also worth mentioning in France, our VNB in 2014 was three times the level of Allianz and Generali. They're of course larger peer group competitors.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good stuff. Thanks.

Operator

And we will now take our next question from Blair Stewart from Bank of America. Please go ahead. Your line is open.

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

Thanks very much and good morning. It's still morning. Just three quick ones actually. On Crédit du Nord SocGen buy in, could you just comment a little bit on that in terms of what you expect to happen over the timeline?

Secondly on DBS, you talked earlier about your ability to continue to harvest the customer base. So I just wonder pragmatically how you can do that? And is there a risk that DBS has - or the new distribution partner has access to the customer base in some way? How do you protect yourselves?

And then thirdly, just a clarification on your internal model with transitionals. Did you say that you already assumed the transitionals in your internal model? Or do you get an uplift if you get approval for those transitionals? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Morning, Blair. So three questions. I'll take the first two. Tom will take the transitionals. On the Crédit du Nord, so I've said now for, I don't know, I think 12 months that we didn't know whether they would use their option or not. And it's about 7% of the cash remittance. So it's - I mean it's I guess 7% is material, but not huge.

And I said I didn't really mind which way that went, either we kept it – and that being a good partner, make no mistake, they've been a good partner, or we get paid a large sum of money for it. Now they chose the second option, and that's okay. Now the process from here is we have to go through and agree the price, but a lot of that's set down contractually. There are still some things we need to agree around the edges. And then it'll be paid, I think next year, is that right?

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

Yeah. It's a 24-month process. So it may play out till early 2017 and unless we end up doing something sooner than that.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And that's really up to them. And so, we're in discussions with them now, and that will be what it will be. And so that one we're pretty relaxed about.

On the DBS and the customers, yeah, there'll always be a bit of uncertainty. I have had discussions with DBS since at the highest level, and they have absolutely committed to honoring the agreement, and I think the agreements are pretty clear. I'm sure there'll be a bit of stuff around the edges that we'll have to push on and agree and negotiate. And, frankly, we own what we've got, and we can market it to parts of that base too. But to be clear, you've got a partner, and other partners paid an enormous amount of money; and I'm sure they will expect to get a lot of business out of their client base. And that's fine. As long people live by terms of the agreements then that's fine.

Yeah. They obviously don't cover a couple of countries as well. So, for example, in India. In India, these under the new regulation that you'll all be aware about – in India, you can't have exclusive bank agreements; and this a trend that is going around Asia a bit at the moment. And so, India, it's no longer an exclusive agreement with DBS because you can't have exclusives agreements anymore. So I guess we will be in discussions with them about which part of that business we'll get business out of as well. And the third one, the transitionals comp.

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

In terms of the transitionals, the transitionals will make up part of our capital and part of our internal model of approval process. So they will be a fraction of our capital, and they're not sort of a separate add-on.

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

Sorry, I was just meaning, are they included within your economic capital numbers that you published today, or does the approval of transitionals represent upside, or is it already in there?

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

What I'd say is it's not apples-and-apples, so it's a different measure of comparison, and we are transitioning from our economic capital to the Solvency II model. And so you'll see as we say in our disclosure this year a different cover ratio, a different amount of capital, and a different composition of capital. So I can't give you a direct translation. But essentially what we are saying is that we're confident in our economic capital now and the way we've been managing the company. We're going to have to describe you a different geography when we get to Solvency II, but the basic message is that we're comfortable with our capital position now.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Transitionals really take it out from one bucket of capital and put it into another. That's probably the way of thinking about it, I think Blair. But different companies with different product mixes will have different levels of transitionals. The regulator sees it as good capital, and it is good capital, it's just capital on part of your back book really, but different companies will have different amounts; and we're comfortable with where it's at.

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

Super. Thank you.

Operator

And we will now take our next question from Ashik Musaddi from JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Good morning, Mark and Tom. Thanks for this. Just a couple of questions. Can you give us some color about what proportion of the bulk annuity stock is deferred annuities? And does the matching adjustment applies on that book or not?

And secondly is, any thoughts on bulk annuities? I mean it clearly looks like it is still one of the very attractive business as per what other peers are saying. It still remains very attractive business in terms of margins, in terms of outlook. So where are you where you guys placed into that at the moment? Because clearly it looks like in first quarter you haven't done a lot of bulk annuities, so any thought on that would be great. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Hi, Ashik. The bulks – I'm going to pass most of that to Andy, but the bulks as I've said I think I was probably the only one in the market 12 months ago who said that the bulks were going to reduce the margin. That proved to be the case. We will plan that market selectively and, I'll say, opportunistically only when the margin is right. And so you've seen that come down a bit, but that's just fine. Andy, do you want to give some color?

A - Andy D. Briggs {BIO 4311809 <GO>}

Yes. So in terms of bulks generally, exactly as Mark says, we'll play when we can do so profitably. And as I said earlier on, that means in the first quarter modest volumes, but actually feel reasonably positive about the pipeline from here. In terms of the capabilities around that, we continue to do some good work on the Aviva Investors side and hence looking at different liquid asset classes and so on. I think we're well-placed and obviously equity release plays well into this where we've got a very strong first quarter. Very small proportion of our bulks is in deferred annuities. So it's a very small proportion, but we would expect matching adjustment to apply on that not that it's relevant given its scale.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

We assess more, how big or small.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you. Thanks a lot.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. So, listen, just to put some number on it, so it's less than 10% in deferred.

A - Andy D. Briggs {BIO 4311809 <GO>}

Of the bulk annuities...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

On the bulks, yeah.

A - Andy D. Briggs {BIO 4311809 <GO>}

...which is obviously only a proportion of the total annuities.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. So it's small, very small.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

Operator

And we will now take our last question from James Shuck from UBS. Please go ahead. Your line is open.

Q - James A. Shuck {BIO 3680082 <GO>}

Thank you for taking my question. I just squeezed in at the end. I have two questions, please. One was just on the corporate benefit side that Friends Life give disclosure around, in terms of net flows. Could you just give us the numbers for Aviva standalone and comment on the net flows in the period? And then kind of more broadly, just give an update on what your strategy is around corporate pensions in terms of which platforms you're going to be using and what you're anticipating in terms of any business loss as you combine the two businesses. That's my first question.

And my second question, which I hope won't drag on for too long, but I just wanted to understand a bit more about why you see operating cash generation as being completely meaningless, because a lot of the kind of logic behind the acquisition and the outlook for improving the dividend outlook has been on growing operating cash generation. I appreciate that we're moving into a Solvency II world, but when we think about the life operating cash generation, I mean I don't really see why that isn't a useful indication when, really, what's driving cash emergence should be the free surplus emergence into cash over time; and then you can take a different view on the level of capital that is released and the level of capital that is required. But I don't see why the free surplus emergence per se should change that much.

So when we think about as you move from OCG towards whatever metric it is, is there a big divergence between where you think you're going to end up on any new metric? And what are the implications for the over £800 million that you were targeting by 2016 for standalone Aviva? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. Hi, James. That's a very long question for what's going to be a relatively short answer. The OCG – just to be clear, OCG is a Pillar 1 metric. So the actual calculation of that metric isn't relevant under Solvency II. That's really my key point. But cash generation up to global cash payment of the group is directly relevant. Tom, do you want to?

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

Yeah. I'll just comment on the OCG. And again, we've given you rounded figures here. But if you dig into it, the OCG is actually up about 50% on the quarter-to-quarter comparison. But while directionally OCG is helpful, it actually doesn't really get you directly to the cash number that you're trying to get to which is why we're trying to get people to get off this. So that final 10%, 20%, 30% difference between what OCG or the other metric maybe actually is quite important terms of really analyzing our performance. So, again, it's helpful to some extent, but really doesn't get you where you want to go. And so, we can follow-up with you on the OCG and sort of differences with Solvency II afterwards sort of offline.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. Okay. That makes sense. Just on corporate pensions when we actually announced the deal, we were very clear because we had the employee benefit consultants all over Friends to start with because they obviously like the Friends system. And you'll recall we've looked at the same systems by FNZ which we believe is the best system in the market. We've looked to that two years ago, but we couldn't justify it because we didn't have the scale at the large-end of the market. The Friends platform is an outstanding platform. And so that's our core platform that we've already confirmed to the market. And so far, so good. Andy?

A - Andy D. Briggs {BIO 4311809 <GO>}

So in terms of the corporate pension strategy, basically this is a market where we expect assets to triple over the next decade. Scale is critical in this market. We're the number one player. At year-end, we had £47 billion of combined assets. That's clearly grown with the decent net fund flows on both sides of the house in the first quarter. The Friend assets we specifically quoted 7% up. I think the number two player has got around £30 billion and then the number three player is around the low to mid-teens the last time I looked, so a huge scale advantage.

We're obviously playing in the mid to large end of the market with the heritage Friends business and then the SME market through the heritage Aviva business. So we're covering across both of those, but we'll move to a single platform infrastructure. And obviously we see much of the benefit of auto enrolment on the larger end of the market, so still have that to come over the next couple of years on the SME part of the market through the sort of heritage Aviva business. So, all in all, I feel pretty positive in terms of the market growth there. The scale and opportunity we have to compete and win and hence the great prospect in that market for us.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And, James, just maybe a follow-up as well just on the OCG point. Just to be clear, investment thesis of cash flow plus growth does not change in that order. We're committed to it. The Friends transaction certainly helps us in that. The key point, of course, is getting the cash up to the group so that we can increase dividend. I mean that's part of the key investment thesis; and that remains entirely consistent if that helps you. But we'll follow-up on that outside and just give you – we can talk you through some of the differences between OCG and Solvency II.

Q - James A. Shuck {BIO 3680082 <GO>}

Sure, excellent. Thank you very much.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks.

Okay, operator, I think we're out of time. But I know the IR team and the rest will be very happy to follow-up people later on. So we'll close it there. Thank you.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.