Y 2017 Earnings Call

Company Participants

- Andrew David Briggs, Executive Director
- Euan George Munro, CEO of Aviva Investors
- Mark Andrew Wilson, Group CEO & Director
- Thomas D. Stoddard, CFO & Director
- Unidentified Speaker, Unknown

Other Participants

- Andrew Hughes, Insurance Analyst
- Andrew Sinclair, VP
- Angel Parasotam Kansagra, Analyst
- Ashik Musaddi, Executive Director and Co
- Gordon Aitken, Analyst
- Greig N. Paterson, MD, SVP and U.K. Analyst
- Jonathan Michael Hocking, MD
- Maurice Ewen Tulloch, Executive Director
- Ravi Tanna, Equity Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Aviva's 2017 Results. Before we make a start, I'll just draw your attention to the forward-looking statements disclaimer.

And with that I'll hand over to our Chief Executive Officer, Mark Wilson, to start the presentation.

Mark Andrew Wilson {BIO 7102576 <GO>}

Well thanks, Chris. Good morning. Well we have a very full room. It's nice to have you back, as always. So this is our 2017 results presentation. Now believe it or not, this is always one of my favorite days of the year and we have a very full room this morning. And each year, as I was reflecting last night with Tom. And each year we seem to make some progress, we seem to tick off some problems, we seem to strengthen the balance sheet. And -- but I think the key is about improving the franchises, the underlying growth in the business because these results I think are a little bit special, because this is really the first set of results of Aviva that's being dominated by the countries and franchises and businesses that I expect to stay part of the group. For the last few years been selling and restructuring. The businesses we have left are the businesses we expect to stay. And these are the 8 core businesses and the strategic investments and that's the way we are thinking about our company.

And in these results we are seeing some strong signs of growth, nearly everywhere you look. Yes. It's enough to put, I guess -- I mean, needed in the cold winter of London. But enough to put a bit of a spring in your step, or as one of my English colleagues said to me last night, enough to warm the cockles of your heart. And after the frigid freezing cold weather we've had here in the last couple of weeks, that is certainly no bad thing.

So what are the key themes for this year's results? Well first, I think it's important, is broad-based growth across the key franchises, with the key notable exception of Canada. But other than that the earnings growth is translated into very strong dividend growth as well. Second, our EPS, which is our key measure of profit, is showing a marked improvement, a marked tick-up this year. Third, the composite and digital strategies are now specifically positively impacting results. I will take you through that later. And fourth, we are deploying GBP 2 billion of surplus capital in 2018.

So let's look at the numbers. We grew EPS by 7% and operating profit by 2% or underlying operating profit by 6%. And Tom will take you through that later. Now we will cover in more detail. But the key takeaway here is that most of our markets have reported highly satisfactory profit results, ahead of and earlier than what we promised. Capital generation, that remained strong at GBP 2.6 billion and we increased our solvency cover ratio to 198%. Cash remittances were also up 33% to GBP 2.4 billion and we are expecting another decent year of cash remittances in 2018. And ladies and gentlemen, you have heard me say it before. But when it comes to the world of insurance cash is king. So I'm pretty happy where we are as a group on cash right now. Now we've also increased the dividend to 27.4p per share. That's, as I'm sure you've seen -- and that's an increase of 18% that delivers on our 50% payout ratio for '17 as we had promised.

And the next slide here shows we're getting a pretty decent track record of growing EPS and growing dividends, we need them both, although this year you can see that the rate of growth has certainly accelerated. We delivered 54.8p per share in EPS in 2017, that's up 7%. And importantly, we're targeting better than 5% growth from 2018 and beyond. Now this is an upgrade, as we're now saying better than 5% of a higher baseline and we've also brought this forward by 12 months from what we told you at the Investor Day. Quite simply, we've done better than we thought we were going to. And we can see in 2017, stronger growth in earnings has translated to higher growth in dividend, which is up 18%. Now this is the fourth consecutive year of double-digit growth in the dividend and I think a lot of people probably forget that. And given our increased ambition on the earnings growth and our target of a 55% to 60% payout ratio by 2020, we would expect that our dividend growth will continue to be strong going forward. Now I guess while we're also on the dividend, it's important to also, I guess, reflect on the fact that we are back above the 26p per share, which of course was the level, which was a cut back in the dark days of 2013. But that's different now because it's different, because there is also no dilutive scrip element. So it's a real dividend, it's fully covered by sustainable cash flows. So therefore, the dividend is sustainable and growing. But I guess, of course, you would expect that (inaudible) the balance sheet and the franchises and the quality of the earnings is frankly in a fundamentally different position.

Now I think one of the most pleasing aspects of our performance in 2017 was that our growth was broad-based. And this is probably the most we've seen, it's a diversity of growth across many of our businesses. There are plenty of green on the slide and I think this is a key slide. And the figures clearly show it's possible to deliver attractive growth in developed markets, if and only if you target the right segments of those markets. Now this is a strong set of numbers. Now that being said, there are clearly a few things we need to call out. Canada had a terrible year, there is no hiding from that. Profits declined by over GBP 220 million year-on-year. Now in the past, we prided ourselves in outperforming the market in Canada. Clearly this time we haven't and we made some mistakes. And in the Q&A (I'll also) take you through the detailed recovery plan that is underway. But Canada, importantly, does highlight a key part of our overall investment thesis and that is one of the strengths that comes with our diversity, now diversity both geographically and in our product as a composite, is that we can overcome setbacks like Canada and still deliver and meet our targets and deliver some pretty good set of results. In 6 out of 8 of our core markets, of our major 8 markets, delivered double-digit growth in earnings as you can see on the slide. They have increased profit and they have also increased sales and market share.

Now we had a strong year from our U.K. business. That's a pretty good example. Profit up 13%. And this was driven by increased sales across the major U.K. product lines, specifically helped by the composite and digital strategies. The U.K. result did benefit from slightly higher levels of assumption changes, which contributed a net GBP 139 million increase in profit. And even excluding this, profit growth from our core product segments in the U.K. still increased 7%. And we have no reason to think that this won't continue. So whether you call out 13% or 7% from the U.K., it's still a good performance from Andy and the team and that demonstrates that the U.K. is a dependable and growing market for Aviva. And this is a trend.

Now Brexit is interesting, isn't it? Despite the doom and the gloom that was predicted by many commentators in the market, we have significantly increased sales and increased market share and increased profit in the U.K. There -- we think -- there are number of reasons, as I said. But this has partly been a flight to quality and the flight to the big brands and we've clearly been a beneficiary of that.

There was good news from our other markets as well, though. Aviva Investors kept up its momentum, growing profit 21%. France, Poland, Ireland. And Singapore were all comfortably in double-digit territory. And as you can see, these 4 markets are now starting to give meaningful profit contributions. Now Italy lagged a little. They were a victim in some ways of their own success. They had very strong growth in sales, which did lead to a near-term P&L strength.

So what's driving this growth across our markets in '17? Well for start, as a group, a key point is we only really have the franchises left that we want and can grow. We've sold the others. Quite simply, our remaining franchises are competing, they're growing sales, they're growing market share and more importantly, they're growing profits and cash.

That's what we're aiming for, that's what we pay out people for. For example, in the U.K., long-term savings net inflows were up 2x. We increased our BPA volumes more than 3x. The U.K. GI businesses also continued their strong run, growing share and profits. And I would highlight here that our Digital Direct business contributed to that, as our digital business now passed the GBP 1 billion premium mark. That's a pretty nice milestone.

Aviva Investors has grown revenues up 14% and that's a result of high assets under management, on one hand, strong growth over AIMS for the year, on the other. And also something that became more apparent as the year went on, our success in our external businesses outside AIMS.

In Europe, we doubled VNB in Italy. We also grew in France and Poland. And in Singapore, the disrupted financial advisor model, which is certainly disrupting the market, that helped grow VNB 29% and contributed meaningfully to the profit.

So now looking forward to the next few years. So we are aiming higher in terms of our EPS growth. We're no longer looking to shrink our geographic perimeter, that's finished. And we are now left with our base businesses, only our strong businesses, with what we think as the strongest growth prospects. And our growth drivers across these businesses, they're not rocket science. It's the same thing that it (wound up winning us) business. So -- winning us business in the last 12 months. We will continue to target corporate and institutional business. We had a lot of success there last year. And it's the composite model that is winning here, particularly in the U.K. And we expect to see continued growth in areas like Aviva Investors, long-term savings and GI businesses across Europe. You can see, we put the key drivers of growth country-by-country on the slide.

France, it's gaining momentum for us. Partly that's a new team that's making the tough decisions. And we expect more efficiencies in France and we expect the mix to continue to contribute to the profit growth. Canada, (inaudible), it may take some time. But we are confident to get back to where they belong over the next two years. Digital has now also been affecting the results with significant contributions, particularly winning the large insurance mandates. But also positively impacting underwriting results and costs in the U.K., in addition to what's becoming some quite significant consumer sales.

Now on top of the baseline from our major markets, there is also the prospect of higher long-term growth from our strategic investments that we have on this slide. I was in Asia a few weeks ago and a Chinese investor noted to me an interesting fact that I'd sort of overlooked. He said that we are in the 4 most populous countries in emerging Asia, namely China, India, Indonesia. And Vietnam. And we also have, as he said, some of the strongest local partners in each of those markets. So the potential was clearly there. But I look at that as potential for disruption and potential for long-term growth. Now at present, you will note, we already have attractive profits in some markets like China and Turkey. And I think it's entirely appropriate to think long term and invest a little this way for long-term shareholders. But despite the track record and the recent track record and despite the EPS growth, one of the questions we are often asked is still (growth) in the long term. Now investors are now saying, yes, we see the growth in the next few years, we get that. But what about after that? And I think that's fair enough as a question. You see, I believe the insurance world has fundamentally changed and reached an inflection point. For a start, the macro environment has changed and GDP growth rates in emerging and mature markets are converging.

For example, there is now little difference between the U.S., Singapore, Hong Kong, Turkey and Europe on GDP growth. And the point here is, growth is no longer region-based or even necessarily market-specific based. I believe growth in our industry is now segment-based and the key is to be operating in those growth segments and be positioned for the changes in those markets. And while our major businesses are concentrated in developed markets, as we have seen in 2017, this certainly does not equate to being ex growth. We are seeing growth, we're seeing growth across the board. And in fact, we are also seeing that margins in our more developed markets are very robust, simply because the more irrational players have exited, there's fewer competitors.

Now in each of our markets, there are also structural drivers of growth. Some of them are demographic and you will see some of them up here, some of it is government policy, like auto-enrollment or pensions in Turkey. And some of it is margin with increased scale through our initiatives and also consolidation in the market. And the key is positioning our business for all these trends and I think we're in a pretty good spot. But it's also why we are investing heavily in capability, not just the things you know about, like digital, which is important. But also in terms of the people as well.

For example, we have hired David Cumming as the head of equities, to build out our equities franchise in Aviva Investors. We hired Tom Ground to lead out BPA business, which is proving to be very successful. And we've been hiring talent in global corporate and specialty. We have relationships and industry experience, allow us to selectively expand in this market.

Now we have a number of structural and deliberate competitive advantages to grow, which you can also see in the slide. Scale and expense ratio is important. Brand is critically important, particularly in digital. And our investments in data analytics and artificial intelligence, I believe, is industry leading. We now have 550 -- 550 data scientists and that's this capability that won us a number of large insurance mandates in the last year.

Turning now to capital. Now at our Investor Day in November, we outlined our intention to deploy GBP 2 billion in '18 and a further GBP 1 billion in 2019. And today I want to add some specific guidance about the use of that capital. Now as you've heard in the previous slides, our first priority is organic growth. Frankly, that doesn't take too much capital. We indicated that we would also -- and by the way. And that's included in that GBP 2 billion, just to be clear. We indicated that we would allocate GBP 900 million for debt deleveraging. That remains our intention and we are advanced with our plans as the debt comes due. When you think about it, you can do the math, it's a no-brainer, as it adds -- this debt reduction alone adds GBP 16 million annualized cash benefit at the group level each year.

Now we intend to use around GBP 600 million of surplus capital for bolt-on acquisitions and use at least GBP 500 million for capital returns to shareholders. Now Tom will provide the detail on that in a moment. But just a few comments of context from me. First on M&A

and quite a topical subject in the insurance world right now. Now we have used just over GBP 100 million on the accretive Friends First deal in Ireland. So there is about GBP 500 million left this year. Now M&A by its nature is opportunistic. And we won't chase deals just because we have the cash. But these specific numbers give you a clear sense of scale and our priorities. Of the GBP 500 million-plus earmarked for capital returns, we're working through our plans. But we are not yet ready to announce the dates or the exact mechanisms today. To be very clear, though, it is our intention to return at least GBP 500 million of capital to shareholders this year. We intend to do this through a combination of preference and ordinary shares.

Now for the prefs. You should note that we have the ability to cancel these prefs at par with shareholder approval. These prefs carry very high coupons and will no longer account for regulatory capital from 2026. In addition, we are in a very fortunate position with our cash and capital that we'll now have the ability to do something about it. So we intend to. Tom will take you through the detail of this in a moment.

So to conclude, I'm not going to speak for too long this morning, as I think the numbers speak for themselves. We are all very aware that a track record for consistency and dependability is only ever built over time. But we are now heading to I think that track record each year. We haven't missed a target. Each year our EPS has grown. But this year the growth has accelerated and is much more broad-based. We have another upgrade as we expect stronger growth in earnings earlier than we were expecting before from our businesses. It's another year where we have strength in capital and cash and we now have the very high quality problem of deploying it productively. It's another year where we have increased our dividend double digits and that's on the back of earnings and increase in the earnings, both in quantum. But also into their translation into cash, which to me is equally as important. It's clear that our composite and digital strategy is helping our businesses to compete and win in their respective markets and you have seen that coming finally through the numbers.

And speaking of those numbers, I know Tom wants to get up here to talk to you. So I hand over to Tom, our Chief Financial Officer.

Thomas D. Stoddard {BIO 15071280 <GO>}

Thank you. Good morning. As Mark said, we believe Aviva passed a fundamental inflection point in 2017, with our core businesses now driving attractive, sustainable growth in both earnings and dividends. Our operating EPS was up 7%. This is the sort of standard we want to keep repeating. As the slide shows, our 8 major markets delivered 6% operating profit growth in 2017, up over GBP 200 million year-on-year and would have delivered even more if it had not been from the setback in Canada.

At the top, you can see that our flagship U.K. insurance business is leading the way with operating profit up 13% to GBP 2.2 billion. It is Aviva's biggest and most fully developed business. And in many ways serves as a model for what we want to achieve across our group. A trusted brand, becoming a partner of choice and satisfying customers across their insurance and savings needs. We believe Aviva has unique advantages in our home U.K. market and can extend these advantages in our other countries.

So in my remarks today, I've set myself 3 tasks. The first is try to bring out more detail on the results for each of our 8 major markets. The second is to weave them together relative to our U.K. business, joining up the common threads that connect our Aviva strategy. And third, I'll conclude with a more forward-looking outlook on 2018, explaining how we bridge from growth in 2017 into further growth in 2018 and beyond.

Now before I move on from this overview slide, I want to make a few more general observations. Scanning down the rows, you'll see that we've had double-digit profit growth in sterling terms in 6 of the 8 businesses. A seventh, Italy, is also growing strongly in terms of sales and value of new business, VNB. But first year strength from those sales has temporarily dampened profit growth. So the fact that Italy more than doubled VNB in 2017 should show up in future profits. Canada, of course, had a difficult year in 2017 as we indicated back in November, with many years of favorable reserve development abruptly coming to a halt, as the benefit of past performance dissipated and current conditions deteriorated. I'll talk more about this later.

But I want to use Canada and make a bigger point. Unlike others, our strategy is to be both diversified and at the same time, very focused, not everywhere, just the 8 major markets in a portfolio of strategic investments. Diversity means that when one business encounters challenges, others can still carry us forward. And focus means that we can identify performance issues quickly, figure out what needs to change and then make it happen. In this case that includes moving Colm Holmes, who was a success in our U.K. GI business, to join our team in Canada as CEO. We did something similar in France about 14 months ago, moving Patrick Dixneuf to leave that business with good results, as you can see here. And we've just moved (inaudible) in Italy about three months ago, after his many years of success in Spain. So we have the right team on the field now, with proven operators in all 8 of our major markets and an acute focus on delivering results.

Moving down the slide, you can also see here that we're investing for the future, spending a little more this year on our portfolio of strategic investments. Within this portfolio, our investments in China and Turkey are already profitable. And we would expect Vietnam, Indonesia, Hong Kong and India to turn the portfolio positive within a few years, probably around the 2020 time frame. As you know, thanks to Chris Wei's efforts, we're now executing an exciting joint venture with Tencent and Hillhouse in Hong Kong and Maurice Tulloch is actively working on resetting our position in India.

Finally, on this slide, the contribution from businesses we've sold or agreed to sell was lower in 2017 than in 2016 and should decline again in 2018, as we complete sales of FPI Spain and Banco Pop mid-year. We're addressing the impact of those divestitures partly through capital management. So it's not worth dwelling on here. I will, however, come back at the end of my remarks to review how we increased EPS in 2017 and more importantly, the outlook for 2018.

But the first usual stop on NAV. Book value per share is up 2%, as dividends, the share buyback, AVIF amortization and restructuring costs offset operating profit. Integration and restructuring costs declined by 1/3 and should be approximately 0 for 2018. AVIF will also be lower in the future once we complete the sale of FPI. So we should have improving prospects for NAV growth, subject to the likelihood of additional return of capital to shareholders in 2018 and 2019. Basic earnings per share more than doubled to 35p.

Okay. Turning now to the businesses. U.K. insurance delivered impressive volume and profit growth in its core segments. Long-term savings net flows nearly doubled to GBP 5.6 billion. Bulk annuity sales tripled to GBP 2 billion and protection VNB was up 21%. General insurance net written premiums were up 4% with a combined operating ratio stable at 93.9% and an improved underlying core. Andy Briggs has done a really terrific job bringing together a unified business, focused on customers and winning market share where we want to compete. Our product segments increased profits by 7% for the year. Now this includes profits from our legacy book, which stayed strong at GBP 331 million, although as previously guided, it will decline gradually over time. And the net profit contribution from other items, which include assumption and other changes, was significantly higher this year at GBP 290 million, primarily because of the release of longevity reserves, which amounted to GBP 710 million, partly offset by higher expense reserves and other provisions which totaled GBP 420 million. So let me stop and explain this.

As we've guided in the past, we normally expect this other line in U.K. Life to contribute about GBP 150 million to GBP 200 million of operating profit annually, as we take action to improve profitability and as prudence in our book unwinds. Much. But not all of this, is related to our annuity business, which has over GBP 50 billion of reserves and is growing. In 2016 and 2017, our own mortality experience, which is broadly consistent with the latest industry tables, show that we have significant prudence in our longevity reserves. We released some prudence a year ago in the 2016 results and decided to release more now on our 2017 results. We factor in our own experience on a rolling average basis over several years. so the adjustment does not happen all at once. Accordingly, unless mortality trends reverse, we could see a further release of longevity reserves in 2018 and beyond. Of course, we won't know until more time passes.

I should also point out that we try to benchmark ourselves relative to others in the U.K. industry on longevity. And based on the data we've been provided, we believe we are near the more conservative end of the spectrum and remain so even after our 2017 releases. Please note that while we're not counting on future reserve releases, we will manage our pace of spending on other improvements and investments in the business, with an eye on the net impact of this other line on our overall results. In part, this may help fund incremental transformation of our business that will increase our operating advantages in the future. What we are focusing on is growth in the product segments in the UKI business, which came in at a very satisfactory 7% in 2017 and upon which we want to build in 2018.

Speaking of underlying growth, let's get back to our 4 core segments, where we're picking our spots and winning more business. In fact, new business profits were up 13% to GBP 391 million. And looking at the 4 core segments, the long-term savings profit was up 30% on the back of higher assets and consistent margins within our target range. This is a big business with assets under administration up 13% to GBP 118 billion, of which platform assets increased 56% to GBP 20 billion.

Annuities and equity release, operating profit was up 11% on a 58% increase in sales, with margins returning to within the target range on new business. Last year, our annuity margins were unusually high as volumes were lower and we were allocating attractive investment assets across that lower volume. This year we've improved our capabilities and increased our appetite for larger BPAs, although still not chasing jumbo transactions. We remain disciplined on margins and capital usage. This is a good area for us to create value from our ability to originate private debt, which we do so as part of a balanced portfolio of business. We're not overly dependent on this line, although we do expect to grow it as long as we can get the returns we want and can manage the risks effectively.

In protection, volumes were up. But operating profit was down 6%, as we've experienced some large losses on existing business. This may weigh on profit in 2018 until rate increases work through the group protection book. On the GI side, we enjoyed very solid performance with broad-based organic growth across personal lines and commercial non-motor lines. Along with this growth, we also improved the normalized accident year combined ratio by 1.3 points on better underwriting. Weather remained benign and we had a bit less favorable prior-year development, resulting in a combined ratio of 93.9%, identical to last year. Together, all this drove a 4% increase in GI operating profit to GBP 408 million.

When considered in its entirety, the combined U.K. insurance business is demonstrating just how powerful it can be, delivering GBP 2.2 billion of operating profit and 13% growth through Aviva's emphasis on satisfying customers and becoming the distribution partner of choice.

On Ireland. Now this is a market where we think we should be able to extend the Aviva business model very easily. We have an excellent brand recognition and reasonable market share and we have the opportunity to take more share by deploying digital resources and enhancing our customer experience. Once we complete the Friends First acquisition, we will be the largest composite player in Ireland. Our results there have been good with operating profit up 18% to GBP 86 million. Our GI combined operating ratio improved again to 91.4%. Net written premiums were up 15%. And the Friends First deal should become accretive very quickly. So we expect our Irish business to carry forward good momentum on profits. We're counting on John Quinlan and team to keep delivering.

Switching over to Aviva Investors. This is a business centered in the U.K.. But serving our insurance operations and other investors all over the world and building its reputation under Euan Munro, based on outcome-oriented solutions. It's more and more becoming a partner of choice for institutions and distributors and it has enough scale to operate on a very low-cost basis. Hence the improved profit margins and growth in 2017. Aviva Investors built on the momentum it created the prior year, with operating profit up 21% to GBP 168 million. The operating margin increased from 27% to 29% with revenue growth once again outpacing increases in expenses. Revenue from external clients increased to 34% of the total, up from 32%. The AIMS range of funds grew 40% with AUM now up to GBP 12.6 billion. Although momentum stalled (for) mid-year, AIMS had a slow patch in terms of relative performance. And profit also benefited from more success in our growing infrastructure asset business with origination volume at GBP 4.1 billion, up 24%.

So a good year from Aviva Investors. But we remain thirsty for more growth here. The business remains at about 5% of our total profit in major markets. And we like to see it contribute a lot more than that. Ideally, 10% or more, which means that Euan, David Cummings and the team have to keep working hard to outpace the rest of Aviva.

And next over to France, where Patrick Dixneuf has instilled an improved culture, greater focus on efficiency. And a more strategic view of the future of the business. By way of background, France is Aviva's second-largest profit and cash generator and has a very attractive distribution footprint through 5 channels. Aviva's opportunity in France is to grow by unlocking the potential of that distribution, which we plan to do by providing an enhanced composite offering under one Aviva brand. While business conditions in France improved significantly in 2017. But this is only part of the story for us. Aviva's operating profit was up 13% in constant currency and 20% in sterling to GBP 507 million, as we outperform the overall market in terms of life premiums and GI premium growth. Our mix on the life side continues to improve toward protection in unit-linked products and we made progress on reducing crediting rates on participating business. In GI, our core improved to 94.5% on better underwriting and lower large loss experience. Overall, we're pleased with the progress in France in 2017 and believe that by focusing on expense efficiency and the productivity of our distribution channels, we can improve performance further.

Now Canada, where I'm not going to talk about growth. Here the main story is an almost 7 point swing in prior-year reserve development, which was 5.4% positive in 2016 and 1.3% negative this year. As a result, the reported combined ratio deteriorated to 102.2% and operating profit dropped 83% to GBP 46 million, which is our weakest result in years. So the first question is why? And the second question is what are we doing about it? Okay. So why? Over the seven years through 2016, reserves developed favorably by 3.8 points per year on average, primarily driven by Ontario auto reforms in 2010 and 2012. This was bound to run out and we were expecting it to run out. But neither we nor the market anticipated it early enough and had not adjusted (inaudible) events. So we were a bit caught out when motor bodily injury claims started to spike upwards. We've had some other negatives in Alberta and the Atlantic provinces. But that's really the crux of it. It probably didn't help that we were integrating the RBC General acquisition at the same time. But that's an explanation, not an excuse. We should have done better.

So then, what are we doing about it? Well I've already mentioned that we've made a management change, bringing in Colm Holmes as CEO. Sometimes a fresh perspective is needed and Colm brings a great sense of best practices from our U.K. business and his experience elsewhere. In addition, we're pushing hard on rate. We've increased some rates, filed for other rate increases and will file for additional rate increases throughout 2018. Market cores have been elevated across Canada. So we're not alone in raising rates. This will have the biggest impact for us over time, even if it has a marginally negative impact on top line volumes. I'd rather have the underwriting profits any day. We're also taking some underwriting and business mix decisions. We're changing some claims management practices and we may exit some unprofitable distribution partners. Finally, we'll take another look at expenses and cut in some places, while reallocating in others.

So looking forward, this should mean a bounce back in 2018. But it won't be all the way. January and February have not started well with elevated claims frequency and difficult weather. And it will take time for rate increases to earn through into results. So this will be a 2018 and 2019 recovery story, with us looking to restore the business to a 94% to 96% combined operating ratio by 2020.

Let me finish this part of the story by saying that we still like our Canadian business and look forward to it getting back to market-leading cores and a mid-teens return on capital. We think the business can be further enhanced with innovative propositions and learnings from our composite model elsewhere. So Canada remains core to our strategy over the long run.

Okay, turning back to Europe. In Poland, we had good bottom-line results with operating profit up 26% to GBP 177 million. We were very efficient in Poland and earned a high return on capital. Adam Uszpolewicz and Michal Szymanski run a tight ship. We're a full composite player in this market with offerings in life, pensions, GI, health. And asset management. This is a market where we'd like to build even more scale, possibly through bolt-on acquisition. On the life side, we've doubled our market share of the profit pool over the last 10 years to 15%. And about 90% of our life business is recurring premiums, which is higher than the market average. So in 2017, we maintained a favorable sales mix, consisting of 85% protection and unit-linked business, although sales volumes in VNB did not hit our growth targets. GI profit increased significantly as the core improved 86.7% on higher volume and as we consolidated our JV with (inaudible). Overall, we are the #2 player in the Polish market, earning a very attractive return on capital and believe we can consolidate an even stronger position with customers, extending Aviva's capabilities here.

In Italy, under (inaudible) leadership, Aviva's ambition is to leverage the group's capabilities to create market-leading propositions in 4 key customer segments, delivered across all distribution channels, including banks, agents, brokers and direct. For example, we're experiencing very good sales of our capital-light hybrid product through Fineco and others with volume up 76%. This has driven very strong net inflows of GBP 2.3 billion, which are up 38%. Value of new business more than doubled to GBP 179 million. And we expect life profits to follow as we overcome the first year strain of these higher sales levels. GI COR was 94.2% with broadly stable underlying performance and we're exploring opportunities for further growth in GI, including more commercial business. So as a result of future -- excuse me, as a result of recent sales momentum, we're now moved up several places to 7th in Italy and believe we can do much better than this, generating higher levels of Aviva brand awareness and franchise value along the way.

Finally, Singapore. Operating profit in Singapore was up 10% at GBP 110 million, despite additional spending to build out the Aviva Financial Advisers network, which increased the number of advisers by 60% to 673. Our CEO in Singapore, Nishit Majmudar has done an excellent job building this innovative distribution channel from nothing over the last two years. As a result, value of new business has grown 29% to GBP 123 million, with double-digit increases in savings and protection products. Our small loss in GI and health narrowed, which is important for Aviva's customer composite strategy in this market. We consider Singapore to be an important hub for us and one of the leading wealth centers in Asia. And over time, we would target double-digit profit growth, as the Aviva Financial Advisers network generates higher volumes of sales.

Okay. Switching away from the business units back to Aviva overall. We remain very well capitalized with a Solvency II cover ratio of 198%, well in excess of our working range of 150% to 180%. Our underlying capital generation of approximately GBP 1.7 billion is similar to last year as we invest it in future growth and did not generate as much capital surplus in Canada. Other capital actions were significant again in 2017 and were driven by a GBP 700 million positive from the Friends Life Part VII transaction. This is more than we had initially expected and will enable us to remit more cash up to the group center in the form of special remittances in 2018. You can see that we paid GBP 1.1 billion of dividends and returned another GBP 800 million through share repurchases, paying down -- and paying down hybrid debt.

As we'll come onto in a couple slides, we've clearly have more room to do more of that in 2018. Our Solvency II cover ratio may trend still higher, although our capital management decision should moderate that trend as we redeploy our return on capital that we don't need in the business. This will be a multi-year process as we work to optimize the balance sheet still further.

As we anticipated, cash remittances were up strongly in the year, improving to GBP 2.4 billion. Special dividends following Friends Life capital synergies accounted for GBP 500 million and should account for more in 2018. We've secured use of a dynamic volatility adjuster or DVA for use in France, which is a positive for dividend capacity over time. We may be able to optimize our capital further in France. For example, we hope to be one of the first to implement a new French Supplementary Pension Fund, FRPS.

Central liquidity also remained strong at GBP 2 billion and we expect more cash, more divestitures of Spain and FPI as well as future remittances from our ongoing operations. So not surprisingly, we're in a good position to fund future growth as well as address our capital management objectives throughout 2018.

Our capital management priorities remain consistent with what we've stated before, with a preference for organic growth and a progressive dividend, followed by a combination of repaying expensive debt, bolt-on M&A and additional capital returns. We expect GBP 2 billion of capital redeployment in 2018 and another GBP 1 billion in 2019. Of that GBP 2 billion in 2018, approximately GBP 900 million is planned for repaying expensive hybrid debt and GBP 100 million is for the closing of the Friends First acquisition in the middle of the year. The remaining GBP 1 billion is undecided but will be redeployed or returned to investors as pictured here.

As Mark said, one of the things we're looking at is the possibility of a liability management exercise concerning one or more tranches of preferred securities issued by either our General Accident subsidiary, or Aviva plc. The rating agencies don't count them as capital anymore and they likely will not count for capital for Solvency II purposes from 2026. So they no longer serve their originally intended purpose. Essentially, they are now just the equivalent of very expensive senior debt, with coupons that are not tax deductible. So while we've not taken any decisions, we note that these securities are subject to cancellation at par upon a capital reduction approved by ordinary and preferred shareholders voting as a single class. Now that we're in an excess cash and capital position, it may make sense for the company to address these securities now or some time prior to 2026.

So as we work through the alternatives, one of the things we're considering is how best to balance the respective interests of ordinary and preferred shareholders. In any event, it should be clear that one of our priorities is deleveraging and eliminating high cost debt from our capital structure, primarily to improve ongoing cash flows and dividend capacity. And we will also look for accretive bolt-on acquisitions to strengthen our existing businesses. However, we do not count on finding them and if we do not find what we want, we will return more capital to investors, either by repaying more debt, buying back stock as we did last year or possibly through a special dividend in connection with year-end.

Now frequently we're asked where we're investing and where we're disinvesting. As we complete our divestiture program, this is now less about which countries we favor, as we see opportunities across all of our major markets. And it's more about capabilities. We are investing for the future by building data analytics and artificial intelligence capabilities, adding to our distribution capabilities and expanding in Aviva Investors, bulk purchase annuities and Global Corporate and Specialty insurance. At the same time, we're driving more efficiency from our operations by improving cash remittances, shifting more to a global shared services model, commencing a 0-based budgeting program, addressing our legacy IT systems and further optimizing our back-books. We obviously still have plenty to do. The benefits of these actions will enable us to keep investing for the future and growing the company sustainably.

So on the topic of growth, before I hand back to Mark, I want to talk a little bit more specifically about the outlook for the future. To do so, I'll start with the bridge showing how our operating EPS progressed from 2016 to 2017 and use that as a basis for helping you think about how 2018 may turn out. The key figure on the left is an underlying growth rate of 6% in operating profit, which underpins the overall operating EPS growth rate of 7%. Yes. We benefited from FX. But the growth of our businesses in constant currency was still strong. Foreign exchange and perimeter changes basically offset each other. As you can see, the balance sheet was actually a negative contributor to growth with the incremental positives in U.K. Life more than offset by the less favorable reserve development in Canada and U.K. GI. We had some weather and other nonrecurring negatives, primarily hedging activity, as well as some positives from a lower effective operating tax rate.

So with all that background on 2017, we can then look forward to the outlook for 2018 on the right side of the slide. Our businesses will perform as they will. But Mark and I are asking each of the major markets to hit an earnings growth target, which is higher than 5%. And in some cases considerably higher. We think Canada will take time to bounce back and so we're expecting at least some progress in 2018 and more in 2019. Now also keep in mind that last year's buyback and debt deleveraging happened late in the year. So only had a partial impact on 2017 with more to follow in 2018. And the additional capital management to come will benefit us some this year and more in 2019. This is helpful because we've had a series of business unit sales, which affected us in 2017 and will affect us again in 2018 as sales complete in the middle of the year with some residual effect in 2019. So debt deleveraging and buybacks are neutralizing the dilutive impact of asset sales. Now tax helped us in 2017. But our effective operating tax rate is likely to be a little higher in 2018, depending on the business mix of our profits.

So now for the punch line. Taken all together, you can simplify this and just say that our EPS growth in 2018 really depends on how much organic growth we get from our major markets. At least that's the way I see it. And since we have a lot of conviction around those businesses, we're bringing forward management's target for operating EPS growth to exceed 5%.

So on conclusion, Aviva has moved past an inflection point with operating EPS growth of 7%, excess capital, plenty of cash and dividend growth of 18%. I'll remind you, in addition to growing EPS, we also expect to increase the dividend payout ratio to our new target payout ratio of 55% to 60% by 2020. Cash dividends have increased 83% during my tenure over the last four years and we want to keep them growing sustainably for years to come.

Back over to you Mark.

Mark Andrew Wilson {BIO 7102576 <GO>}

Thank you, Tom. Well I think we should just get straight into questions actually. So if you can maybe facilitate that, hopefully you have the microphone bowls there. And I have got all the operating heads up here too. So we can probably pass the questions around a little.

Questions And Answers

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

Greig Paterson, KBW. Three questions. One is just in terms of sterling millions. The management actions that you did this year, which are ahead of expectations, what's the sort of headwind -- obviously that's capitalizing future profit -- what is the sort of headwind does that produce for 2018? This is question one. The second one is in terms of the IFRS GI reserves. What is your percentage margin, a best estimate and how's that changed year-on-year? And the third question is, I saw in the press you've had some issues with your platform migration in the U.K. When we have the case study, we (obviously) ended up paying GBP 0.5 billion when things went wrong. I just wonder if you could update, then tell us if there's going to be some fallout in terms of net current cash flow costs from (inaudible)?

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

(inaudible) to capital. And Andy if you can talk about that one.

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

Yes. So I'm assuming by talking about management actions, you're effectively talking about the other line in U.K. Life where we were up about GBP 139 million year-over-year. Is that right?

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

(inaudible)

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

Well I don't know that we will. Again, one of the things that I tried to say was that as we look at our experience and longevity, effectively we're at the conservative end of the spectrum and as it appears that trends are showing less improvement in longevity over time, that's causing us to need to release reserves there. So we did some of that in 2016; some of that again in 2017. And I think my guidance for you around that other line is, although we've said that we would expect it to be GBP 150 million to GBP 200 million, we would expect it actually to be elevated over the next few years, we probably will be over that (200 point). So I don't know that there's going to be a drag there. Your second question was around the amount of margin in our IFRS -- IFRS reserves on the GI side. We don't disclose exactly what that number is. But I would tell you the way we look at it is at a specific point. We don't have much of a range around that and all of our businesses are reserved at that level right now. So we haven't had any decrease in that margin.

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

So on the platform, very successful year last year. We saw our long-term saving net fund flows double to GBP 5.6 billion. Total assets there up to GBP 118 billion. Within that, the platform is GBP 20 billion. Because of the success and our commitment to that market, we decided we needed to upgrade to more modern technology that would be scalable. We have had issues with that as has been well publicized, we're working hard with advisers and our clients to resolve those issues. But in terms of potential financial impact of that, not material in the context of a GBP 2.2 billion U.K. P&L.

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

Just, Greig, if I can just add something on the longevity release. So we had a couple of notes that are suggesting (it was) conservative or not. And by looking a bit to (specifically), the issue is not whether you use tables from '15 or '16 or '17. The primary factor there is your calibration against those tables. You don't just take the tables and plug them in. It's not that simple. It's your calibration. And we are at the very conservative end of that, which is a far bigger issue.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JPMorgan. I've got three questions. Slide #6 looks pretty interesting, I mean you're flagging that 6 markets out of your 8 has delivered double-digit growth. Having said that, if I look at your 2018 plan, you're still flagging around 5% organic growth. So which markets do you think will continue to do double-digit and where you would be a bit cautious on double-digit, what you delivered this year? So that would be my first one.

The second one would be, can you give us some color about your protection business in U.K.? What went wrong and what would be the recovery path for that? And same on Canada. I mean you're guiding for 94%-96% by 2020. But will it be back-end loaded, front-end loaded, any thoughts on that would be great?

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

Okay. So the markets, (inaudible) so tell you what we are promising to the market, what our targets are and that's the greater than 5%. And to do that, you need a mix. And clearly, you've seen higher than that in those markets and different markets from different positions. We're not going to give any more guidance on that today. We need a little bit of wriggle room. It's one of the benefits of our diversity, rather you can pull various levers, frankly. But we would expect greater than 5%, we're not going to give any more guidance. You can see, though, all of these markets, on a couple of slides later than that, all of these markets have different advantages and you have some tailwinds. The U.K. is pretty strong for us at the moment, pretty much across the board. France is very much -- France has got some -- just a new impetus, a new momentum and a clearer strategy and you're seeing that happen. France is going to have efficiencies (in that). But I'm not going to give any more guidance on that today. On the protection book, Andy you want to cover. And then Morris, where is Morris?.

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

So I think the key point I'd make is, in the U.K. we are unique in being a composite player across all the major markets. So that strategy is working really well for us. We're finding particularly corporates meeting multiple needs with us across different lines of business. So protection is one line of business in that. We're seeing much stronger growth from the structural drivers in long-term savings and (inaudible). But in terms of protection, basically 2 drivers on the back-book. You can see the new business profits on protection still grew 11%. The back-book, we just had a number of larger claims, just as you get in insurance businesses from time to time. Then we have seen that the claims experience in some parts of our income protection book has been higher than we were assuming. We will address that through rate going forward. But to me, it's a great example of the benefits of the composite model. We delivered underlying profit growth in the U.K. of 7% before you consider all the assumption changes. And so we can absorb that impact on existing business in protection and still deliver strong growth.

A - Unidentified Speaker

Let me respond to your Canadian question. I mean, it's a great business. As Tom and Mark have said, it's had a disappointing year. So first, let me give you some market context and that will actually help then explain why I believe and why I'm confident that we'll get back to our target operating range in the period that's been mentioned. So I think the most important part of the market context, first, you've got to understand that 48% of our Canadian business is personal motor. Now if you look at the last seven years, that served us incredibly well. So what actually specifically happened to the motor market in 2017? So you've heard us talk about frequency and that was part of the issue. But that wasn't the real underlying issue. The real underlying issue was the increase in frequency in injury claims. Now why did that happen? Why did we get to see more injury claims? What we've had across Canada is discussions about regulatory reform. And it's no different than we -- when we talk about regulatory reform here in the U.K. when we had Whiplash when I was running our U.K. business, or if I look at our Irish business and we talked about motor reform and the COR was (114) I reflect on it, at (91) today. What happens then is the actors in the system, namely the claims farmers and the plaintiff bar look to rehash, recycle their files. We saw an incredible increase in injury costs. We also saw, albeit a more minor point, some increases in claims inflation on the back of physical damage. So these factors have actually coupled to see the motor market actually move north of 100% combined operating ratio in Canada. So on that, am I disappointed? Absolutely I am disappointed. Am I confident that the actions that I'll walk you through are going to get us back to our combined operational target of between 94% and 96%? Absolutely. So let me highlight a few of those actions. There's a whole series of actions. But let me give you 3 sort of key thematics. We've got actions underway in rate, we've got actions underway in underwriting. And we've got actions underway in indemnity management. Let's start with indemnity management. That's how we manage the claims. So when you are having an increased flow on older files, the 2 things that you have to do. And actually things that Aviva is very good at and we've demonstrated that both here in the U.K. and Ireland. And historically also in Canada, it's managing defensible programs and it's also managing fraud. Second thing, underwriting, things that we can do. Look at your mix of business, right, you look at your selection of business, you look at your filters and you look at your deviations and you tighten those up. And most importantly is rate. So what's happening right now? We started to respond in Q4 of last year. We currently have about 5 points of rate moving through the entire Canadian book. I expect the rate to accelerate, particularly in the regular lines. And if we take these 3 actions in combination, that's what gives me confidence that our Canadian business will go from 102.2%, back to the target operating range of 94% to 96% over the next two years.

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

Just to finish that off, though, specifically in terms of whether it will be back-end loaded or not, it will tend to be back-end loaded because as Maurice says, those rate changes take time to flow through. So I would expect this to start benefiting us more in the latter half of '18 and into '19, as opposed to right now.

A - Unidentified Speaker

We have a question from Andy Hughes, please.

Q - Andrew Hughes {BIO 1540569 <GO>}

I have a couple of questions, if I could. And the first one was on the Friends Life cash generation remittances. I think you said you are well ahead of the plan on the underlying cash generation, you are showing GBP 750 million out of a GBP 1 billion-plus remittances from Friends Life. Just wondering how far ahead of plan are you versus the original plan, the GBP 1 billion? And I can see, in France, you got the DVA locally, which pieces the solvency in France. Does that improve the dividend flows going forward from France? I understand it gets consolidated at the group level. And the third question is in terms of the liability management, obviously, you said sometime before 2020. But if you -- is there a timeline on that? So for example, on the M&A budget that if it is not used by the end of the year, you'll do some sort of special dividend. I'm just wondering if you don't do the liability management by the end of the year, is that also directed to buyback. Thank you.

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

So first on how far ahead we are on the Friends Life capital and cash. We're not giving a specific number on that. Again, we set a target of getting GBP 1 billion. We're going to be ahead of that. By how far, we'll just have to see as we get through 2018 and 2019.

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

Fair to say significant.

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

Yes. But we -- and we will keep reporting that separately. So again, that is one of the things that will help us get to our cash remittance target. And DVA, yes?

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

DVA has been an ongoing pain of life. And that -- it was a key part under Solvency II. It wasn't recognized at the group because how regulated -- the PRA didn't recognize it. And we then got it recognized in France, which does help, gives you a fair bit more headroom to help dividends coming out from France. The instant thing you would have seen, though -- well, some of you may have picked up, was (inaudible) put out a report on DVA, specifically saying that it was part of Solvency II and needed to be implemented. I would expect that to cause a rethink in the PRA. It is meaningful to us. Regulators tend to take -- give with one hand and take with the other. So who knows what the net impact would be. But it will be positive for us at the group level. And in France, it is certainly helpful for securing dividends. Does that actually make sense?

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

Then on your question on liability management. That's a good question. So let me try to address a number of things there around that. We think it's an interesting question because the -- these are very expensive securities that don't count for capital for us anymore. So it's important that we take a look at them. At the same time, we want to be very deliberate and careful in terms of how we approach them. And so we've been taking our time to work through what the possibilities are there and we're continuing to do that work now. So we haven't concluded on a specific action. But we would expect to come back to that in a relatively short time frame. To the extent that we don't do anything with those securities, yes, we still have our capital redeployment budget for this year and so that would imply a higher buyback. Now last year, at this time, we said that we were going to do a buyback, we weren't totally specific on timing or size. We ended up buying back (300 million) over the course of the summer. It would be natural for us to do something similar to that this year, possibly with some liability management. But it may be that we end up doing more in terms of a share buyback over time. And so again, one of the things we're working through is, should we go ahead and launch a program now and then extend it, increase it later, or should we wait a little while and figure out what we're trying to do with the liability management before concluding that. So all that's very actively under consideration and I'd expect us to be able to come to conclusions relatively soon.

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

And on M&A, if we don't use that, as Tom said in this remarks, we need to deploy capital. We are a long way out of the range and so we would be looking to use that somewhere as well.

Q - Ravi Tanna {BIO 16926941 <GO>}

It's Ravi Tanna, Goldman Sachs. I've three questions please. And the first was just a follow-up on the cash, in relation to Canada. Obviously, you've guided to kind of lower levels of remittances going forward. You had in the past talked a bit about potentially moving some of the Canadian business into the internal reinsurance mixer and that might ease the flow. So I was wondering if you could give us an update there, please. The second was just on the (NI) optimization progress you've made on the U.K. annuity book and how much of the book has been shifted into liquid assets versus the numbers you've talked to previously, if you could give us some information there, please. And the third was just on Aviva Investors. Obviously, the GBP 4 billion of infrastructure that you referenced is a quite sizable figure. I was wondering if you could just elaborate a little bit more about the plans there and where that could potentially get to? Thank you.

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

Okay. So on the use of the mixer in Canada, that's something that we're still working on, something that we would like to do. I can't give you specifics in terms of timing because we've got to work through the regulatory environment in the way that works. But that still is a possibility for us, which would improve our overall liquidity. I'd say that's not a must-do though. I mean, again, this is a temporary phenomenon in Canada. They should come back and we've got enough cash and liquidity right now. But it doesn't really change any of our capital planning.

A - Unidentified Speaker

I'll pick up on the annuity side. So we did (GBP 2 billion) of bulks new business and GBP 1.5 billion of individual annuity new business last year. We also moved GBP 650 million of the back-book of annuities into liquid assets. So GBP 650 million moved, giving an GBP 86 million profit from that. We're now in a position that GBP 25 billion of our GBP 57 billion is in liquid assets. So that's 44%. We previously said we'd happily have over half in liquid assets. So -- and I think the key point for me here is if we can't originate new business at attractive rates, we'll just use the assets on the back book on hindsight, there's a pretty good check-in balance to be confident of the P&L growth and progress in the P&L and being disciplined on new business pricing.

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

Euan on the liquid.

A - Euan George Munro {BIO 2307409 <GO>}

Just on -- there's a great alignment of our businesses here and I'm having the opportunity with Aviva Investors to build on our liquid asset business on the back of the demand from the U.K. Life business. So the GBP 4 billion, just for your information, the GBP 4 billion that we originated in liquid assets last year, around GBP 3 billion went to the Aviva business and about GBP 1 billion went to third-party investors. And in the very long term, we anticipate that that mix will change because obviously there is excessive, there is a greater demand at the minute from the U.K. Life business. So we would intend to keep cranking up our origination capability. One big part of the investment in Aviva Investors is in that liquid origination theme because it's also an ideal asset class for defined benefit pension plans. And obviously, if they're already invested in those kind of assets, we know they've appropriated assets for moving into the bulk marketplace. So we are already in conversation with managing their pension assets. There's a natural conveyor belt into the U.K. Life business.

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

just a further addition on the liquidity point before. None of our plans and none of our of capital return plans are impacted by Canada. In fact, as we've realized, we've actually built up quite a buffer in a number of subsidiaries in terms of capital and cash and over the next period of time, we'll look to bring a bit more of that up that. But it's not the top of our priority list right now. But we have plenty of capital and cash at the group. So it's just not really a key issue for us.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. Three questions, first a follow-up on the re-risking of the annuity assets. Just maybe give us some numbers around that. So what was the blended yield on the annuity assets maybe in '16 and that's obviously improved in '17. If you do push to 50% illiquid, where could it get to? The second point on mortality and if you could comment on the 2017 CMI tables that were released last week. And I know you say the tables are less important, it's all about the calibration. But -- and you were more conservative there. I'm just wondering, looking forward, have you got the calibration right now? And the third point on M&A. I mean, Aviva and Standard Life, really for the last 20 years have been the 2 big U.K. Life businesses by market share. That Standard Life business was for sale at a relatively attractive price. Just wondering why that business wasn't appealing to you, especially since you still have the expertise to manage heritage businesses from the Friends deal? Thanks.

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

On the asset yield on the annuity business, I don't think we actually disclose that, I don't know if you want to comment any further. But I don't think we provide that detail.

A - Unidentified Speaker

The way to think about it, Gordon, we talk on the existing book of annuities of a margin in the range of 55 basis points to 70 basis points. We were at 69 basis points IFRS profit margin last year. If you kind of work it through, basically if we hadn't done any back-book re-risking, we would have been at 55 basis points, if you kind of take that GBP 86 million off in your models. So the back-book re-risking is the opportunity. I mean, if we've got GBP 25 billion of GBP 57 billion in our liquids. And we're happy to have over half, I think you can kind of do the math yourself. And last year, we did GBP 650 million, got GBP 86 million of profit from it. So you can see the potential profit over a number of years that we can generate here. I mean, the other observation I'd make is that we've got here one of the key structural growth drivers in the U.K. One of the reasons we like the U.K. market is the structural growth from the DB to DC shift, the aging population and auto-enrollment. So our expectation is the volume of assets coming out of DB into DC or bulk annuities is going to grow significantly. And that's why we're confident that our 7% underlying growth we delivered this year, we can sustain strong growth in the U.K. going forward.

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

Okay. So on mortality, let me take this as an opportunity to be a little bit more expansive and talk about the 3 elements of mortality that we had because I'm sure others have got questions around this. So there were 3 things that we did. The first was around anti-selection where we've got GBP 170 million release. That actually is related to a calculation we put in the prior year, in 2016. We had some benefit in 2016. But we wanted to be again careful and prudent. And so all of that didn't flow through 2016. We allowed that to have some more testing and seasoning. And as we go through the year, again, we find out that our calculations proved out. So you sort of don't have any choice and need to release that. So again that's an example of sort of how we're managing period-to-period. I'd also comment, again just generally that because we believe we're at the conservative end of the spectrum in terms of longevity, when we are presented with new evidence that suggests that our reserves are even more prudent, we actually don't have that much latitude. We can't get to a point where we're unreasonably prudent and have sort of excess upon excess in terms of longevity. So effectively, we've got to take that evidence and act on it. So if you go then to our mortality experience where we had a GBP 200 million release this year, what we do is we look at that over a number of years and we've got a rolling average looking at experience and how that ought to affect our assumptions going forward. 2016, if you talk to the actuaries, looking at our book, was very heavy. And so as we factored that in, we've actually reduced how much weighting we put that in, in terms of the averaging. So again there is another element of prudence that we factored in, even though we've got a release that could have been more if we adjust on a straight rolling average. And again, we're going to have to look at that experience going forward. And again that may be another one of the reasons why you see this continue to develop favorably in the future. Then finally, we've moved to the CMI '16 table. We're always trying to use the latest information that we have time to rolling that and (perimeterize) properly. Here as we've looked at that translation and looked at the parameters, we've actually made those a bit more conservative in terms of how we translate from the actual table to our underlying assumptions. So all through that, yes, there are releases. But there is also a bit of prudence. And as I said in my remarks, unless trends reverse, if we continue to see confirmation of these trends, it means we're going to have more excess prudence that we're going to have to go ahead and release. And so if you look at CMI 2017, we haven't analyzed that yet. But sort of the quick read suggests that it's confirming the trends that we've been seeing. So we may be having this conversation again next year.

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

We won't have a choice. And going on your last point on M&A. I'm not going to comment on our competitors or their evaluations. I'm not going to go there. But I can tell you it was on our radar. And we've spoken to a lot of investors and investors are saying to us, giving us very clear message. They're saying keep the strategy, keep the script and that's what we intend to do. Now keeping this strategy and keeping the script is they're saying -- quoting one; go out and find treasure. But find treasure chest not sunken galleons. If you know what I mean. And so we are doing bolt-on acquisitions. We have a target this year for GBP 600 million. Now could we use (them)? I guess we could. I am not going to tie my hands totally on that. But it's bolt-on acquisitions. We're sticking to the script. I want a consistent message. Actually one has to be boring. I just want us to grow EPS by greater than 5% and I'm going to grow dividend by more than that. It's not that complicated.

Q - Jonathan Michael Hocking

This is Jon Hocking, Morgan Stanley. I have got three questions, please. First on Canada. Could you give a little bit of color please in terms of where the rate increases you're putting through the book sit versus claims inflation? You mentioned issues in motor. Are you putting through more than 5% in motor? And what do you expect to see in terms of claims inflation given the actions you're putting through in terms of selection, et cetera? That's the first question. Then second, I'm assuming that the guidance you're giving for the Canadian combined ratio doesn't assume any regulatory reform and I think at the Investor Day in Poland, you were talking about potential regulatory reform. Can you talk about what the timeline on that is now (inaudible) may not be? Then just finally on Italy and the IFRS earnings. You called out the strain as being the major driver for why the earnings were pretty much flat. The hybrid product -- I just wondered if you could talk a little bit about whether that's unusual, given you had very high volume or in a normal year, is the strength of that product is such, you should be able to grow the earnings and the volume?

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

Do you want to take the Italy one first and then we will hand over to (Maurice).

A - Unidentified Speaker

Sure. Then Maurice, do you want to add on Italy as well. So on the hybrid strength, there's nothing unusual about this. This is more just due to the volume we've got this year. So we may see more strain in the future, if we continue to have high levels of growth. We don't DAC this product consistent with the way the Italian regulatory environment works. So there may be similar strain issues in the future. But we're sort of being long-term greedy here in terms of looking at the overall amount of profit that we can generate from this business. On more -- on sort of slower sales levels, this ought to sort of work its way out and then you'd see actually that future profitability being enhanced and enhanced growth rates on more normal sales volumes.

Q - Maurice Ewen Tulloch {BIO 17683736 <GO>}

Just a follow-on on Italy. So the hybrid product which you alluded to. So first -- and the composition of that is actually 30% with product, with a par guarantee and 70% you know, like -- and if you look at what's happened in Italy on the back of recovery, you've got a huge savings propensity. So we currently have some of the best flows, savings flows in Europe or in Italy. So we had EUR 2.7 billion of net flows last year. The year before that we had EUR 2.3 billion flows. As Tom said, we don't DAC the associated costs. And those flows were accelerating. So I think we're feeling pretty good about (Italy) also moving forward. So again, really three questions. So one is a comment on frequency; a comment on how do I look at the current 5 points across major lines. And let me talk a bit about (inaudible). So certainly on frequency, I think the one thing I'd probably -- I'll add a little bit more color. Motor frequency across the world has been following each of the last nine years and we've had a little bit of blip in the last 12 to 18 months, which is due to distracted driving. The problem here is that of claims management or claims farming and so it's the injury frequency. Now that's driven by the lawyers and the third-parties on the fear of government reform. So clearly on rates, listen, if you take the rating environment in Canada, 2 things you ought to know. In Ontario and Alberta, it's regulated motor. So we have to follow and wait for approval. In Quebec, It's not. So they are different slightly. Clearly, we need to take more rates in the 2 regulated lines because you have a lag between the time you file and the time it gets approved. But we're also looking at our property lines and taking excess rate. We have a very strong property book. So we're taking rate there. In commercial lines, across the country run regulated. So we're looking at the overall expected loss costs in our overall premium pool and we're taking rate where necessary and we'll make the trade-off as need be from volume and profit. The 102.2% and the recovery plan doesn't factor in a definitive date on when we'll get regulatory reform. If we get regulatory reform, certainly that actually probably accelerates recoveries. The biggest regulatory reform that we're looking at is in Ontario auto. So the government released something called the Marshall report. And effectively without going through the 300 pages of that Marshall report, the finding was that if you look at the claim spend, 50% of the claim spend does not go to the injured person. It goes to all the players in the system, from report writing, for administrative costs, all of these sort of costs, which actually don't go there. What they've actually recommended in the Marshall report is to put caps and limits on different types of disabilities. It's no different than taking the Whiplash abuse and saying, you know what, we're going to go (carrying) on cash and get rid of sort of all of these sort of practitioners. Listen, I'd love to say that's going to come in at some -- at a certain point in time. We have a government that's just about to go into election. But what's driving, it's no different than what we did in other jurisdictions. We're saying we need this, for consumers are paying too much for motor insurance. Every government we talk to agrees. When it gets enacted, when it goes to the stakeholder engagement and when it finally changes, that's an additional lift that we don't have.

A - Unidentified Speaker

Two final questions, Angel and then across to Andy Sinclair.

Q - Angel Parasotam Kansagra {BIO 19712659 <GO>}

Angel Kansagra, HSBC. Three questions please. Firstly, on the capital generation. So you have GBP 1.7 billion of underlying capital generation, which hasn't changed from last year. What should we think about that in terms of future trajectory? And also on capital generation, there is other line, which is negative GBP 1.1 billion. Can you give some more details around what that was? The second question is around the negative, up to 2 points of impact on operating EPS going forward, tax impact, which is in your outlook. Can you give some more details, where that is coming from? And the third one is, potential bolt-ons, M&A. So you've mentioned that you would like to do something in GI in Poland. What are the other areas you're considering? Would it be Canada where you want to be a composite? Thank you.

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

Sure. So on capital generation, the GBP 1.7 billion number, I've said in the past that it could be a little higher or lower from period to period, we're looking to invest in the business.

And so if we can find opportunities that -- that may cost some short-term capital in order to generate future benefits, given our capital position, we want to keep planting those seeds. But that's been relatively stable overall. And so I would expect it to be in the same area. Ultimately, we're trying to drive that number up. So I'd like to see that progressing north of GBP 2 billion over the next few years. In terms of the other negative, we've got some diversification, some other things that work out at the group center. So there is actually a lot of detail there in terms of what some of that other negative is. I don't think we actually provide all the detail there. Lastly, let me come to the tax implications. Our tax rate this year benefited by some non-recurring items, where we've been able to use some tax attributes this year that won't recur. So that could be a little bit of a negative for next year. Then if you think about our mix of business, what really drives our tax rate is where we get the profit from. And so Canada was down quite a lot this year. That's one of our higher tax jurisdictions. If Canada is coming back up in the mix, you would expect that to be a drag on the tax rate. So that's why we've guided to something a little bit higher than where we were for this year.

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

And look, on the M&A, the answer to that, it would depend. I mean, where would I like to do it and where we can do may not be the exact same answer because it would end -- because M&A. And I think you've seen we've been pretty ruthless on the M&A, both buying and selling. The multiples we've got selling out of Spain were extraordinarily high. And the multiple we got buying in (AIMS) was extraordinary low. So I like that. Where would I like to buy? I'd like to buy more in Poland. I'd like to buy more in Turkey. And Canada, I would certainly like Canada to be a composite business. But we're not going to go and spend a whole lot of money and things like that. But we'll see what we can do. Canada, we may look at things like bulks, which we could do relatively simply, without brand there as well. So I think you can assume 2 things. You can assume existing territories that would help with scale. You can assume, it needs to be accretive in a very short space of time, Tom will tell you why. You can assume we look at dozens, for each one we actually get interested in. And you can assume that we're not going to buy something just because it's there, unless you get it at the right price. So I mean put all that together, it all depends. But we will be a bit opportunistic. And I think we got a pretty decent track record of doing this as well.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Andrew Sinclair from BofA Merrill Lynch. Three for me, please. Firstly on workplace pensions, you're probably number one competitor has effectively walked away and said, it's not really possible to make money in the administration of workplace pensions just without getting the asset management mandates as well. Just wondered if I could get your views on that. And (inaudible) feasible to make money on administration. Secondly, on Canada, just wondered if you could tell us the profitability of the RBC book over full year '17? And thirdly, just wondered if you could give us an update on AIMS flows and request for information. I know that we've had a pick-up in volatility.

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

I'm interested here on #1 competitor. But we have -- I'll get Andy to comment on this as well -- but we have an advantage, a big advantage. We do have scale across our book and we have a pretty big scale advantage that we are using. We have a balance sheet and the brand. And Andy, do you want to pass comment about it? Not versus competitors. But our position.

Q - Andrew Hughes {BIO 1540569 <GO>}

So 2 comments I'll make. Of GBP 118 billion long-term saving assets in the U.K., GBP 68 billion is workplace pensions and our margin on that book as a whole is 25 bps. So basically we are profitable, it's the majority of that long-term savings book. I mean

(technical difficulty)

I think the composite strategy comes in here, though, because what we find is, is we're growing ahead of the market, basically through the composite strategy. I mean, if I give you a good example of that would be Pearson Group, where when we actually started off with our corporate pension scheme, we went from there to win their healthcare. And then won the GBP 600 million bulk annuity from them. Morrison Supermarkets we started off with their healthcare and moved from there to win their workplace pension scheme. So we are finding that in the large corporate market, the composite strategy is really working well for us and it's why we're growing ahead of our competitors. So that coupled with the scale. And then also the digital capabilities, we've invested a lot in digital, while a lot of focus has been on the sort of the new direct sale side. It really is having a big impact across all our businesses in

(technical difficulty)

bringing our administration costs lower and hence margins higher.

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

Canada?

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

So Canada and the RBC transaction, look, we're very, very happy with that transaction. We think it's expanded our capabilities since

(technical difficulty)

good deal for us over the long run. In the short term, that's heavily an Ontario motor business. So although we're not disclosing its profitability separately, you'd expect it to be suffering from the same market issues that

(technical difficulty)

A - Unidentified Speaker

(technical difficulty)

it can look quite pedestrian. And there's no question AIMS looked like a pedestrian investment

(technical difficulty)

(6%) or so year-to-date with AIMS being up. That's a much better environment for retail customers and obviously institutional customers don't mind that either. So I can't -- I'm not going to give a forecast. My customers do assess performance over long-term periods and the AIMS performance has been disappointing for 18 months or so. So we've got the consultants and the institutional investors certainly support our investment strategy. It's a question of how attractive is the style of investing going to be and that is a function of the markets. One of the things I would say that is not understood is that if you want a simple balanced fund or a multi-asset fund, or a diversified growth fund, we do them, the multi-asset funds and Aviva Investors were up 8% last year. And AIMS is often compared with those funds. So do compare our multi-asset funds with other fund managers balanced funds and you'll find we're actually pretty good at that as well.

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

Thank you, everyone. I'll hand back to Mark to close the presentation.

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

(inaudible) Where we are as a group? We're in a pretty good place at the moment. So you can see broad-based growth. I mean the question that we've been asked a lot over the last couple of years is where is the growth coming from. I think we're sort of showing this, we are being far more specific on that this year. And the interesting thing is that the strategies, the composite by the strategy and the digital part of the strategy are working. Probably, yes, there was -- for me, there was really only 2 surprises. Most of the year went pretty much is it was meant to be. And obviously, Canada was a disappointment. I'm sure we've all learned a lot about Canada today. But the other thing was what Andy was talking about in terms of the impact of the composite and digital strategy. Frankly, the consumer side, even though we passed the GBP 1 billion mark, the consumer side took longer than we thought to get the propositions out. But that's now going pretty well. Where we outperformed and that made a significant difference to the group was on the composite and the digital strategy, particularly in the corporate side. You gave the example, Pearson. But there's actually many more. And there are things like HSBC and that partnership and others as well. That's where we've seen the traction perhaps a bit earlier than we thought. And I think the U.K. composite digital model is a pretty good blueprint to some of the other markets as well, where we are getting the traction.

So on that now, ladies and gentlemen, I'm sure we'll be follow-up discussions with the IR team. I know Tom and the team have a very big agenda. We can't get (Andy for) the next few days. But we'll do our best. And thanks for joining us.