S1 2018 Earnings Call

Company Participants

- Andy Briggs, Chief Executive Officer, UK Insurance
- Chris Esson, Aviva Plc
- Mark Wilson, Chief Executive Officer
- Thomas Stoddard, Chief financial Officer
- Unidentified Speaker

Other Participants

- Abid Hussain, Analyst
- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Dominic O'Mahony, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Johnny Vo, Analyst
- Unidentified Participant

Presentation

Mark Wilson {BIO 7102576 <GO>}

(Starts Abruptly) for our half-year results, our interiems. And I guess, we've been here for few years now, and but this year has been, we come here at a time, where there has been quite an interesting sort of summer so far. And I think it was Charles Dickens, who said that was the best of times, that was the worst of times, and I guess in the UK, its the best of the times if you like a beautiful hot summer, we've seen, so first time I've seen that in five years, if you like heroic footballing experience [ph], it's the first time, I've seen that since 1966 or if you like Love Island, and I'm sure some of you have taped it. But the worst of times, well, what can I say don't you just love politics and the closer we seem to get to brexit, the less any one seems to know what is going to look like and the less certainty there is in the market, which is far from hopeful.

We have trade wars looming on the horizon, and with all of that backdrop, I guess the investment markets have unsurprisingly been pretty choppy, and despite all those choppy waters in the highs and lows, I think the Aviva results remain reassuringly robust. We have had EPS growing, our balance sheet still in great shape, and I think the results are pretty respectable. And I'd say this three -- three key messages for us to emphasize today. First, we have continued our recent track record of EPS growth. Second, we remain on track to deliver our target of greater than 5% EPS growth this year. And third, our dividend increase signals our confidence in the outlook for the full year and indeed beyond that.

So turning to the numbers in a little bit more detail. Operating earnings per share, EPS, which is of course as key metric as we keep on reminding us that's up 4%. Our capital position was as planned down slightly at the half, mainly due to our capital management actions and the few other things including debt reduction and the buyback and debt remains pretty strong and that gives us good further opportunities for deployment, Tom will take you through that in a little time.

Cash written remittances have again grown strongly. And whilst it's customary to focus on remittance at the full year stage is worth highlighting that our UK business paid another 500 million special at the first half and this takes the total special from the UK to 1.25 billion since 2016. And as you know, we put a target out there of 1 billion, so we're in excess of that and growing. And the interim dividend is of course up by 10% to 9.25 pence per share.

Looking underneath the headline numbers, as you can see here on the slide, the breadth of our performance shows the quality of the businesses we have left and there's been some good execution from our team to turn the whole, I'm reasonably satisfied with. For example, we have seven of our eight major markets and in those, we have delivered attractive growth that ranges from 17% to 14%. And our performance in 2018, I should say and 2017 for that matter, it demonstrates a couple of key points. First, greater than 5% growth is a credible target that most of our core businesses are delivering or in fact exceeding. Second there is real value and our diversity because that diversity, it helps move the short-term variability in growth and the short-term variability and one-offs that naturally will occur across businesses.

So let's look more closely at what's driving our major market growth. As you can see on this slide, the UK is our largest market. It continues to make solid progress. Growth here is driven by long-term savings, which saw net inflows in the period of GBP2.5 billion, and annuities and equity release, where we have grown assets and sales, BPAs in particular had a five fold increase. In both segments, we are benefiting from the structural growth drivers, and we are winning market share. So we're picking up market share in those segments. We also had a good contribution from the other line and that as a result of releases and longevity reserves, which we expect to continue for some time. And despite higher weather costs, the beast from the East, as it was a beautiful name that the UK GI team has done a good job with 94.3% core, which I think after the weather is in fact an excellent result.

Outside the UK, I'm particularly pleased by the performance of our European businesses. We have kept up a good momentum in France and Poland and we're seeing an improved mix towards unit linked products, which is helpful for our profit, and Italy continues to deliver strong sales, net inflows from the new hybrid product we highlighted last year. It's been a good couple of years from Italy since I started the turnaround and the hybrid product, and then being a bit more innovative and then that market its bearing fruit.

Moving to Singapore, you can see there are similar positive trends to report. Our double-digit growth has continued with significant growth in the adviser channel again, picking up market share. The Aviva Investors it's in the green. As you've seen from others in the asset management market though they have experienced slower growth in the first half. Some of the wind has been taken out of their sales by the stalled growth in AIMS, where last year weaker performance has taken its toll. Now this has recovered, the performance of AIMS has recovered on a relative basis. And so what we're seeing now and the pipeline of asset origination has improved, and you would expect that to come through. And we're also seeing the benefits of building up our capabilities, our capabilities both in the equity side and in particularly infrastructure debt, and you would expect to see momentum pickup from that as well.

Canada remains the outlier on the slide in terms of profit with our well documented motor challenges compounded by particularly difficult half year of weather and CAT. But with our reinsurance cover, we are immunized for the second half which we see as being again helpful for the second half trends. The underlying trends in Canada are showing early signs of improvement with a GBP37 million increased in normalized accident year results compared with the second half of 2017 (sic), which is in line with where we thought it would be. Now, there's a fair bit to do in Canada, but Colm and Colm is here. Colm and his team have made some good progress and we expect improving results in Canada to be a feature of our numbers in future periods. Canada is a very good franchise.

And you'll notice that I have yet to mention digital, while we are continuing to invest in digital In the UK and particularly in the UK, but Indonesia and beyond, we are in the middle of some major -- that probably our biggest product launch ever, in fact and pretty exciting product launches based around Aviva Plus, some of you have seen it, it's new, it's exciting, it's innovative, which we will report back on at a later date.

And across all of our markets I've asked our teams to focus their spend better, I don't think that was established as it could have been in the first half and they are responding and they're focusing on expanding distribution, improving productivity, cutting out the things, we don't want, and also focusing on managing our product mix and controlling the expenses. It's not easy, but the business has remain focused on a pretty simple goal and that goal is for the core businesses, the more mature businesses greater than 5% growth and for the smaller businesses, a whole lot bigger than that and that's just simply through strong execution. It's nothing more.

Now to borrow a footballing cliche 2018 is likely to be a game of two halves, whilst 4% EPS growth is pretty respectable and certainly ahead of consensus, it's in a very choppy market environment. Our operating profit was down 2% as we -- and we had to overcome a number of pretty big headwinds. The single biggest of these was of course Canada, where we had an GBP84 million year-over-year drag on results, our closer to home the beast from the East here in the UK led to higher weather costs, and our general insurance business compared to a very benign out turn in the year before. And added to that, as I'm sure, you're aware, we had significant changes to our parameter through asset divestments and the associated loss of earnings also served as a drag.

Now taken together, these negative headwinds more outweighed, more than outweighed the positive one-offs elsewhere. And as we move into H2, most of these temporary factors will either moderate or reverse because some of them are just accounting timing and subject to all those things, I should say outside our control, we can't yet control weather and effects and so subject to those, we are very confident we can achieve better operating profit in our second half, and ultimately our target of greater than 5% growth in EPS for the full year. We are reaffirming that today.

Now, turning to the dividend. As I've said on numerous occasions, for Aviva providing shareholders with a sustainable and growing dividend is the priority. And I think it's pretty hard to argue that out trend of dividend growth has continued for a number of years now. We've increased our interim dividend by 10% to 9.25 pence per share, and this is the fourth consecutive interim period of double-digit growth in dividends per share. I think that four years makes a trend or a track record. I don't think I need to say anymore on that.

What about capital deployment. Alongside the ordinary dividend, we remain focused on the opportunities to deploy the significant surplus capital productively to improve the balance sheet and enhance returns. Now, so far we've paid down this year high cost debt in May, and there's another tranche coming up later in the year that we have signaled will be paid down as well, more expensive debt. In May, we also announced our GBP600 million share buyback. And as of today, we are over halfway through this program, and given the current valuation, I'm more than happy to be buying back our stock whole day long. And when you add it all up, the buyback, debt reduction commitment, and the M&A initiatives so far this year that accounts for touch over GBP1.6 billion, which naturally leads to questions about our plan for the remaining 400 million.

While we have been and continue to look for interesting bolt-on M&A opportunities, but as you would expect and as you have seen, we are very disciplined, and we will not transact and as our financial and strategic criteria are fully met. It's not burning a hole in our pocket and we have looked at a lot, so we will be pragmatic here. If we can't find the right M&A, which is unlikely frankly to complete a deal in the second half of the year, we will use it to either reduce debt or roll it forward into the next year, either way, it gives us additional flexibility in terms of the timing and the scope of the options, we could consider across our three primary uses. And of course, those three primary uses are M&A, debt reduction and additional capital returns. We have a rather large pile that we expect to continue to grow.

So in summary, I've decided to keep my comments this morning very brief because it's been a feature of our recent results that the numbers have been cleaner and simpler, with less stuff below the line and that simply require less explanation, that's no accident. We've been working on this for years, and we've sold off our lower quality and sub-scale businesses, we've improved the quality of our balance sheet to have this surplus capital position, and as a result, we are delivering finally broad based EPS growth. We were on track to hit our target of better than 5% growth in operating EPS for the full year, and we continue to deliver a growing dividend. And on that very simple note, I'll turn you over to Tom, who will take you through the numbers and hopefully, we'll have plenty of time for some detailed questions. Tom?

Thomas Stoddard {BIO 15071280 <GO>}

Thank you, Mark, and good morning everyone. I want to give a special welcome and shout out to my summer interns, who are joining us here this morning. So welcome guys glad you're here to judge me, as I've been judging you this summer. As you've heard, operating EPS was up 4% and consistent with our messages from March, this result was driven by our major markets, which increased operating profit by 5%. It's a solid start to the year and would have been even better, but for the weakness in Canada.

Operating EPS after integration and restructuring cost was up 8%. We're now absorbing all change spend within operating expense, unless its so material that it makes sense for us to treat it differently. Change is just a fact of life at Aviva. As Mark summarized, seven of the eight major markets delivered increases in operating profit, and as you can see here results in Europe were notably strong. Looking beyond the major markets, we have significantly increased investment in modernizing our IT systems moving more to the cloud and we've begun spending to prepare for the implementation of IFRS 17. These are both temporary programs, but they will run for a few years. We're also doing more today to digitize our business, which you can see in the strategic investment line, all of which should make us more efficient and enable us to drive down unit costs. So the point is, we're delivering profit growth and higher returns today , while also making Aviva a better business for the future.

Operating return on equity increased from 12.4% to 12.7% over the comparable period last year. And finally, down at the bottom of the slide, you can see that we have foregone earnings from businesses we sold and this has affected operating profit, but has been neutralized in earnings per share by our capital management activities including ongoing share repurchases. I'll talk more about that with my growth outlook at the end.

In the meantime, note that the share repurchase has been dilutive to NAV, as you can see from this next slide. Book value per share is down 3% as dividends, the share buyback, AVIF amortization and investment variances offset operating profit. Integration and restructuring costs were immaterial, and were completely absorbed within operating expenses, so zero on the slide. Basic earnings per share was 7.9 pence. This was down on the prior years. We had lower gains from business disposals in the current year, but also because of a reduction from investment variances, and should remember that we managed the balance sheet including our hedging activities with economic risk management and Solvency II is our priority. This protects capital on the dividend, but also results in IFRS accounting volatility from period-to-period.

So turning now to the businesses. Since this is just a half-year, I'm going to go through some of these slides pretty quickly, but I will spend a bit more time on the UK and Canada. UK Insurance had mixed results with increased profits and long-term savings and annuities and lower profits in protection and general insurance. The biggest driver of profits was longevity reserve releases, which contributed 200 million in the first half and may contribute more later in the year, and possibly next, unless trends reverse. Together, this fueled a 10% increase in profits, which enabled us to afford the higher level of temporary change spend, I mentioned earlier.

Highlights for the UK Insurance include long-term savings, net flows up 17% to GBP2.5 billion. Bulk annuity sales quintuple to 1.5 billion, and special cash remittances from the acquisition of Friends Life now total 1.25 billion, exceeding the original GBP1 billion target. Now one thing that we did not do this period was investment re-risking, which contributed a GBP54 million benefit to operating profit in the comparable period last year, as the liquid asset generation has not kept pace with BPA, new business volumes so far in 2018. As asset generation catches up later this year, we expect to further boost the profitability both on new business and possibly on the in-force book. More about this on the next slide.

But taking a closer look at our four core segments in the UK, annuities and equity release operating profit was up 4% to 322 million on an 83% increase in sales with new business margins temporarily depressed because of timing differences and putting on liabilities and matching them with the desired asset mix. On these volumes, the difference between the asset mix we've been pricing and the assets we actually had on hand implies about a GBP70 million difference in operating profit. So as we originate our liquid assets to match with these liabilities in the second half of this year, we should have an opportunity to recognize more profit.

Long-term savings, profit was up 19% to 106 million on the back of positive net flows of 2.5 billion and consistent margins within our target range. This is a big business with assets under administration of 121 billion, of which platform assets increased 12% to 23 billion. On protection, you may recall that we experienced some large losses in our existing business last year. This is still weighing on profit in 2018, which declined to 108 million, as we put in some rate increases and written less new business.

Turning to General Insurance, our combined operating ratio remained strong at 94.3%, but it's up on last year, primarily because of comparatively worse weather. As a result, operating profit declined 6% to 195 million. Net written premiums were flat in a competitive market, but we shifted our mix with growth of 5% in commercial non-motor and a 11% in direct home offset by a 4% reduction in personal motor. We continue to emphasize underwriting discipline with the normalized core improving four tenths to 96.1%.

In addition to the four core segments, you can see on this slide, our Legacy segment contributed 188 million of profit similar to the same period last year, as market movements and back-book management offset the anticipated effect of maturing balances. As we look forward into the second half of the year, we would point out the potential for additional benefits from longevity reserve releases.

And while we've guided, the other segment in UK Insurance should generally contribute a 150 to 200 million per year, last year it was above this level and it may be above that level again this year. In the first half, other contributed a net 107 million with longevity releases, partly offset by an increased product governance provision regarding historical Friends Provident Advice sales. Now, this relates to a discrete number of policies with over 90% of the cases advised between 1994 and 2002. So summing it all up, Aviva's UK Insurance business continues to grow, so far this year propelled by annuity volumes and long-term savings flows.

Now, let's go to Canada next. Unfortunately, our Canadian results continued to disappoint, although weather-related costs have not helped our turnaround here. For those of you who like a -- that might like a quick reminder, last year we went from 71 million of profits in the first half to 25 million of losses in the second half. There's a long spell of favorable reserve development dried up and revealed that we needed price increases in the business. In fact over the seven years through 2016, reserves had developed favorably by 3.8 points per year on average, primarily driven by Ontario auto reforms in 2010 and 2012.

All this good news stopped in 2016. So in response, we've been putting through price increases and changing the business under the leadership of new CEO, Colm Holmes, where we moved to Canada in January from our UK GI business. Now, rate increases take time to achieve in Canada, in many cases requiring provincial regulatory approval, and then it takes time for the policies to renew and business to be written and earned under the new rates. So this is by definition a multi-year turnaround project even if it is relatively straightforward to pursue.

You can see this in the trajectory of our results, looking at the slide. If you focus on the figures excluding the impact of weather and prior year development that is the bright green bars, you can see that over the last three years -- last three half year periods, we've dropped from a 100 million profit, down to 11 million loss and bouncing back up to 26 million profit. This bounce back in 2018 in underlying profitability should continue over the latter half of this year and 2019, and on toward our target of mid-90s combined operating ratio by 2020.

Net written premiums have increased 5% this period in Canada, primarily because of rate increases in personal lines. The overall combined operating ratio remained elevated at a 104.6% in the first half of the year coming down from 105.3% in the second half of last year. The underlying improvement was 2.5 points, but weather added 2.2 points relative to our long-term average.

Now, I should further add that the RBC book has increased our exposure to Ontario Motor, which is -- which was particularly impacted by weather in this period and which will take further time and effort to reprice. We've been converting RBC over to Aviva systems, claims practices and reserving methods and longer term we see good opportunities to diversify our footprint more broadly with RBC in terms of geography and product mix, while benefiting from our alliance with Canada's best known financial services brand. We still view this as a very good deal for us in the long term.

So the turnaround in Canada remains a work in progress, with time being one of the biggest factors in getting us back to where we want to be. Year-on-year, we probably will be about flat on operating profit, subject always to weather impacts, but with an improving trend and an expectation of making additional progress throughout 2019.

So let me touch on Aviva Investors before shifting over to our European businesses. Aviva Investors grew operating profit 7% to GBP76 million. The first half operating margin increased with revenue growth once again outpacing increases in expenses. The AIMS range funds improved its relative performance and has assets under management of 12 billion, which is down 5% from year end, albeit during a period of industry outflows. Overall, Aviva Investors experienced 3.7 billion of net outflows, the majority of which were from lower margin, internal legacy products. External clients continue to account for 35% of revenue and 21% of AUM. And looking forward, in addition to specializing a multi-asset funds and infrastructure origination, Aviva Investors is focused on building stronger capabilities in equities, and US credit.

So next over to France, and congratulations to Les Bleus for their well-earned World Cup victory. Now, Aviva's business in France has likewise put in a strong first half and we're optimistic about more wins in the future. The business environment in France has remained relatively good for us, although we would still like to see higher interest rates. Aviva's operating profit from continuing operations was up 12% to 279 million due to higher new business volumes, continued improvement in product mix and lower expenses. Within this our GI operating profit was down 8% local currency, as core increased to 95.5% as a result of less favorable prior year development. Now, we continue to be very pleased with the progress in France and believe that by focusing on expense efficiency, customer needs and the productivity of our distribution channels, we can improve performance still further.

In Poland, we made steady progress in the first half with operating profit up 4% in local currency to 95 million. Life insurance results were up 8% because of higher fee income and our emphasis on high margin protection products. GI was slightly lower due to reduced profitability of motor insurance. Core increased, but remained attractive at 89%.

In Italy, life insurance, value of new business, VNB increased 194% due to the continued success of our innovative hybrid product. This will flow into future profits. In GI, we've tightened our underwriting, which has resulted in more profit on lower premium volume. Overall, Italy grew operating profit by 7% in constant currency to 82 million. Now, I want to stress that we are continuing to support the growth momentum in Italy, despite the recent economic volatility arising from potential changes in government fiscal policies, still a lot more we can do to make this a bigger and better business.

On Ireland, operating profit increased 11% in constant currency to 50 million with stronger results in the life side more than offsetting a small decline in general insurance. We're emphasizing continued discipline in GI underwriting despite increasing competition. Aviva Ireland's combined operating ratio remained strong at 87.1% despite increased weather related claims. And we completed the acquisition of Friends First toward the end of the half, so this should add to our business here in the years to come.

And finally, Singapore. Operating profit in Singapore was up 10% in constant currency to 46 million, as life operating profit increased 22% overcoming an increase in losses from GI and health insurance businesses. As a reminder, these products are important for our overall customer footprint in Singapore. Life VNB rose 47% on higher sales and mix shift toward protection. Our Aviva Financial Advisers network has increased the number of advisers by 15% from the end of the year, last year to 772 now. This of course, should support future growth in sales and profits.

Okay. Switching away from the business units and back to Aviva overall, we remain very well capitalized with a Solvency II cover ratio of 187%, which exceeds our working range of 150 to 180. This is after returning GBP1.8 billion to investors through dividends, hybrid debt repayment and share repurchase commitments in the first half of the year. In addition, economic uncertainty in Italy contributed to adverse market movements of approximately 400 million in aggregate, as government bond spreads widened. Now, thankfully, we came into the situation carrying excess capital in Italy, and we still expect the dividend from Italy this year, even as the business undergo significant growth.

Underlying capital generation of 700 million was down relative to the first half of last year because of the loss in Canada, increased strain from higher BPA volume and disposals. Now, by the end of July, we spent GBP376 million to purchase 74 million ordinary shares at an average price of 510 pence per share. At recent prices that average would obviously come down, as we complete the GBP600 million program. In addition, we would anticipate repaying without refinancing the US$575 million denominated hybrid debt issue available for first call in November. And it's likely that the -- we will apply the unspent portion of this year's M&A budget through additional debt deleveraging for the time being and thereafter roll it forward into potential capital redeployment next year.

In terms of other capital actions, I'd note that these have typically been more significant for us in the second half of the year, in part because we applied for model changes once a year with the appropriate regulators and receive the results of that process towards the end of the year. Last year, we obtained approval for the use of the dynamic volatility adjuster, DVA in France, but it's backed out of our overall Group figures. This year we're looking for approval to reflect that French DVA in our overall Group Solvency II capital. In addition, we are pursuing a new supplementary pension fund structure in France called FRPS, which could also benefit our capital position. So we're both redeploying excess capital surplus and trying to optimize our Solvency II position still further.

All right. Now finishing up with our growth outlook. We are reaffirming management's guidance for operating EPS growth to exceed 5% for the full year 2018. In the first half of this year, we grew operating EPS by 4%. And as a reminder in 2017, we grew operating EPS by 15% in the first half, so comparisons this year were quite challenging , especially with the loss in Canada. So we believe, we will remain well on track and should pick up speed in the second half of 2018.

And if we simplify the story for you so far this year, you can see that the impact of capital management that is hybrid debt repayment and share repurchases, some of which took place during 2017 and more of which is taking place now in 2018 had the effect of neutralizing the foregone earnings from businesses sold. Foreign exchange and the effective tax rate had a very small contribution.

Other factors, including the impact of assumption changes, adverse weather and temporarily elevated change spend were altogether a drag of about 1% on operating EPS and underlying business growth was approximately 5%. So you can see that we're managing the rate of change spend to modernize our IT moving more to the cloud, as well as implementing IFRS 17 and other initiatives at a pace that allows us both to improve the business and hit our financial targets.

For the full year 2018, our outlook, we continue to expect our major market businesses to grow more than 5%, although Canada looks likely to be broadly comparable with the prior year given the impact of weather. We expect the other factors approximately to offset each other, enabling us to grow operating EPS by at least 5% for the year. Now, I caution that of course this outlook is subject to factors outside our control like foreign exchange movements, regulatory change and weather and I should also point out that the share repurchase and debt reduction we're doing this year, will also benefit EPS in 2019, as should the expected partial recovery in Canada.

And so our confidence in the current outlook is reflected today in our decision to increase the interim dividend by 10%. This indicates that we should be able to meet our operating EPS growth target in 2018, as well as make progress this year on increasing our dividend payout ratio toward the target range of 55% to 60% by 2020. All in all, as Mark summed up earlier, this has been another period of respectable progress for Aviva with still room to get better and to deliver more. Back to you, Mark.

Mark Wilson {BIO 7102576 <GO>}

Thank you, Tom. So as you can see from where we are EPS up 4, dividend up 10, pretty solid set of numbers, I think and that's what we were after. So on that note, let's open it up to questions. Chris, you run the questions as well.

Questions And Answers

A - Chris Esson {BIO 6194371 <GO>}

I had to start on this side anyway. Ashik?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning, Mark, Tom. Couple of questions. This is Ashik Musaddi from JP Morgan. One is French, you mentioned that there is some benefits coming on the French Solvency ratio. So first of all, what is the French Solvency ratio. What -- can we quantify the benefits? Does it mean more cash out of France? That will be the first one.

Second one is, there is a bit of noise about the Lifetime Mortgage consultation paper. Can you give some thoughts, some sort of numbers that will help us understand what could be the downside risk on Lifetime Mortgage on the back-book and on the new business? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

I'll take the first one, maybe Tom takes second. It doesn't impact liquidity so much because we already have in the French DVA and the other things because we already had that in the model. It makes quite a significant difference to the Group numbers though because it's been backed out historically, and so we are applying for it. There was, as you have seen i.e. open note on DVA and that means that we are, I'm going to say, highly likely to get that in our Solvency this year. So we can see quite significant upward movements there. We're not going to quantify it today, but I guess, if you have a look at the numbers, you'll probably be able to work it out.

A - Thomas Stoddard {BIO 15071280 <GO>}

Yeah, just to expand on that a little bit. The benefit of the French DVA is sort of already affected our cash liquidity position with France, so we already had that benefit. Now, the FRPS project that we've got going on this year would be another benefit not just to the Solvency II cover ratio, but also to our ability to get liquidity and dividends out of France in the future. So again, good work going on there.

In terms of your question on the consultation paper on equity release, expected we'll get a question on that. We're still actively involved in the consultation progress or process right now. We've got a good dialog with the PRA and others on that consultation. We have a number of differences of opinion and think that this will end up requiring us to hold their uneconomic amounts of capital that would be redundant to what we already have -- have reserved. So we continue to work on that. Now if we end up with an adverse outcome here, we'll take mitigating actions to deal with that in terms of structuring and potentially thinking about, how we structure and hold that risk or whether we rely on other parties for some of that.

And so I think in terms of worst case outcome on this, it could be several points on our Solvency II cover ratio, but remember we're a big diversified company, so it's no more than that. And I'd also remind people that two years ago, right after brexit, we took a GBP300 million effectively brexit reserve for adverse movements in property prices, we're still hanging onto that reserves and we continue to do that until we've got some clarity hopefully sometime next year. But if we ended up with a point, where we've got redundancy around equity release, and then redundancy in that brexit reserve would make sense for us to sort of double up on that, and that probably would mean that we would want to release something somewhere. So overall, I'd say that it shouldn't have a very big impact for us.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

Q - Unidentified Participant

Hi (inaudible) of HSBC. I've got two questions. First off on the annuity asset allocation in the UK, where you said, the origination of illiquids were slightly behind [ph] new business sales, what gives you confidence in 2H that you're going to catch up. And looking forward if you were to write increasing amount of BPA, does that mean, there is going to be a timing difference in terms of asset origination coming through versus sales.

And the second question is on the Solvency II capital generation, where you pointed are slightly lower at this time because of Canada and the UK. Is there anything else in there, we should take note, any one-offs et cetera in the underlying capital generation? Thanks.

A - Thomas Stoddard {BIO 15071280 <GO>}

Okay. I'll take those.

A - Mark Wilson {BIO 7102576 <GO>}

Yeah.

A - Thomas Stoddard {BIO 15071280 <GO>}

So in terms of asset origination last year, Aviva Investors originated 4 billion of infrastructure assets. So we clearly have the capability to do this. We're not chasing assets, We're being very selective in making sure that what we get is what our UK life Insurance business wants. But we are confident that we will be able to get that asset volume in the second half of this year.

In terms of the impact, I mentioned that it was about GBP70 million on operating profit. I should probably also mention that in terms of VNB, it's probably about a GBP57 million opportunity there that we would end up seeing in the full year results. So on an ongoing basis for us to be able to write BPAs in terms of the volume that we did in the first half, we should be able to do that on a consistent basis, but we're going to be careful. We're only going to write deals that make sense for us, so you may see that volume go up or down.

Likewise on Solvency II capital generation, I noted some of the -- the points there. If you go back to what I've said in past times, I think we've been pleased that underlying Solvency II capital generation has been relatively consistent, but we are looking for opportunities to grow the business. And so the additional BPA strain that we've seen in this first half is an example of that. Again, if we get the assets coming in that helps to reverse that strain. And then we've got the Canada loss, and then again, we would expect that to reverse at some point in the future. But otherwise, there is -- there's -- there is not a lot of one-offs in there.

A - Mark Wilson {BIO 7102576 <GO>}

I mean, the fact is we are not capital constrained and with the issues particularly like France, I think you will see the trend on the growing upside rather than the downside into it as we see. The other thing in annuities is, we did have a five adds [ph] on BPAs, we did a five fold increase in the first half. Although you -- we should see they are coming from VNB and profit in the second books of issues, Tom spoke about you wouldn't expect that same level of growth in the second half. We will be tactical here and we'll take opportunities with our brand and our scale, we can do it, but that was still a very large increase in the first half. You'd expect an increase, but not that same level I wouldn't have thought.

A - Chris Esson {BIO 6194371 <GO>}

Johnny Vo .

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Hi, it's Johnny Vo from Goldman Sachs. Just a couple of questions. Just again on the BPA outlook, I mean, you said that it's quite lumpy in the first half, but clearly this is the growth strategy for you. So how do you feel that you are prepared relative to competitors and given there are so many competitors in the market, is first question. The second question is just in regards to of warehousing of assets, is that a problem of warehousing assets is that what you've not done or is it just a problem of origination? And then the third question is, just if you can talk about the competing tension of now a growth strategy in BPA versus debt reduction, capital returns and the tension between your IFRS leverage and Solvency II, because clearly you put in place hedges to protect the Solvency II, which has negatively impacted your IFRS?

A - Mark Wilson {BIO 7102576 <GO>}

Yeah. Okay. Good, good question. I'll answer some of it and Tom will answer of it. So how we're prepared. We hired Tom Ground, who has been very successful for us. We hired him from a competitor, and he did teach us a few things, and we realize that our ability to generate assets is one of the best in the markets certainly with the scale that we've done. Our brand is helpful and what we proved is our design ability to cross sell. So lot of these are coming from existing customer relationships and that does give us an advantage and that's allowed us to increase five fold.

Just to be clear though, our strategy is different from others in the market. Our strategy is saying, we will play in sectors of the market, where we see margins and as margins increase or decrease, we were coming in and out of the market, whether that's good life, BPA, pensions whatever, and at the moment we've done that quite effectively. You had some big sort of trade sales in the first half that soaked up some of the ability of others to perform. We saw margins in a pretty good space, we took account of that.

But our ability to generate our balance sheet, which I think is better than most in our brand, where we compete, I don't see much tension. I mean it is quite a capital-intensive product, but capital is not of our constraining factors. And so capitalism not constraining factor anymore, it's just as a strategy for the Group, we do want balance across more than one product because then there is rates change, there is legislation changes, we can still keep our greater than the 5% growth going on.

A - Thomas Stoddard {BIO 15071280 <GO>}

So let me pick on your second two questions on warehousing and again on leverage. So we don't have any problem with warehousing. It is a matter of fact, we've got sort of the opposite problem that we have a very big appetite for illliquid assets because it's not just the new business that we need to fund, but we also have a pool of assets that we picked up from the Friends Life acquisition that we're -- we're more run on a Solvency I basis and invested in corporate bonds. And so we have the ability to create value there even if we are not writing new business, we can still apply illliquid assets to that back-book.

if you look at our comparable period a year ago, you'd see that we had a GBP54 million benefit from doing that. So I'd encourage Goldman Sachs, all the banks out here to be showing us all the illliquid assets you can because we've got a very big appetite, not just to feed the new business, but also to feed the back-book. At the same time, we're going to be selective about what we take and it's got to meet our risk parameters and our diversification limits et cetera and so forth. So there may be times, where we run ahead or behind in terms of asset generation versus liability generation.

On the IFRS leverage point again, we're managing primarily to the Solvency II balance sheet. We look at leverage on that basis. But we are acutely aware from talking to investors that a lot of investors and a lot of analysts are benchmarking us on an IFRS basis relative to peers. We'd like it to move ourselves closer to where our peers are. The economic variances will move from time to time, period to period. So I wouldn't focus too much on that. But in terms of the overall amount of debt leverage that is something that we have our eye on right now.

A - Chris Esson {BIO 6194371 <GO>}

Dominic O'Mahony.

Q - Dominic O'Mahony

Good morning. Dominic O'Mahony from Exane BNP Paribas. Thank you very much. Two, technical questions, and then one business question. On the business question, just another follow-up on the bulk market thinking more into future years, I was very excited about the level of growth in the market, as a whole in 2018. Do you see this is the beginning of a trend or actually, is it sort of a bit of a blip corrected by present circumstances, any thoughts on that.

And then the two technical questions, you mentioned that brexit was over 300 million [ph], which you could potentially release it, you have an adverse decision on the lifetime mortgages. Is that an IFRS or Solvency or both metric, can you release that into both lines? And then a technical question also, on the -- on the spare capital if you don't complete the M&A budget, so you got 400 million available. There is some callable bonds in 2019, I don't think there are more callable bonds available in 2018, you're referring to the 2019 bonds or actually are there other measures, you can use to delever? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. On the BPAs look it's a market that you have a structural growth in, but you also have a structural growth in workplace pension.. The question on BPAs is what will happen to the margins. And you've got a number of players of which we are there and if we are there or thereabout on the price with our relationships, we tend to pick it up. If we're not there, if we're not prepared to cut our margin, we won't, so I mean it's not much more complex than that. It is -- it is a growth market. You also have a market that we could play in, as we said last time like Canada, if we want to. The question is, do we want to? And so we have the capability, we have the asset generation, we have the brand, to me it's just simply a question of margin.

And so I think the hype in the market is over-egged on the potential in that market. It's one of the levers we can pull, but we have a lot of levers, we can pull. And as rates go up, you might see more of a trend again so let's assume, I know, if the market is right, we'll see rates rise by 25 bps, if they rises another 50 or 75 bps individual annuities start looking really attractive again and clearly we were a leader there too. So as rates change, you will get different markets come to the full. So it's a market, it's key for us, I wouldn't over-egg it.

A - Thomas Stoddard {BIO 15071280 <GO>}

Okay. Picking up your two technical questions and I'm looking at my UK CFO to make sure, I get this right, but the brexit reserve is both IFRS and Solvency II. And then in terms of capital and what we're likely to do. I think at our Capital Markets Day that we do later this year, we'll talk more about capital planning for next year. I think the simplest thing for me to think about is we've got a EUR350 million two-year note that matures this fall. We can just let that mature and not refinance it. Although, the all-in cost of that note is only 11 basis points. So I'm sort of unhappy to see that funding go away. Next year, we've got 200 million of hybrid debt that comes up for maturities, obviously we would look at that. But what we do with the rest, we haven't totally decided.

A - Mark Wilson {BIO 7102576 <GO>}

But we will give you a bit more clarity later in the year, if that helps. But today, we will focus in the numbers.

A - Chris Esson {BIO 6194371 <GO>}

Greig Paterson.

Q - Greig Paterson

I heard someone asked what about the Brits. (Technical Difficulty) The -- three questions. One is, could you just update on the platform migration, there has been a lot negative press already that in the UK. Second point, UK GI prior year development, there's a big swing there. Wondered could you -- if you could just talk about the sustainability or sort of what sort of level we should think about in terms of UK prior year development? And the third thing, your loans, I think you've got sort of circa GBP25 million of loans. Could you talk about to what degree, they are internally rated. What their average rating is, and what the PRA thinks about that. I'm alluding to the fact that one of your competitors, the Just Group was forced to move a whole bunch of its internal rating from AA to A trying to understand the potential for the risk that you might have to do that may hit your Solvency II?

A - Mark Wilson {BIO 7102576 <GO>}

I mean, I wouldn't -- I'm not going to comment on them. We -- it's we will take different degrees of prudence in our assumption. So I won't comment on the others. Maybe Andy or where is Andy, if Andy can maybe comment on the platform and what's happening. I do note we still had some pretty strong inflows. So we've had some significant issues, but clearly the market still likes what that platform does.

A - Andy Briggs {BIO 4311809 <GO>}

So our platforms part of our long-term savings business, where profits were up 19% to GBP106 million. The overall net -- net fund flow in -- in the long-term savings, up 17% from 2.1 billion to 2.5 billion. If you kind of break that down between the different parts on the platform side, we saw net fund flows fall from 3 billion last year to 2.2 billion in the first half of this year, so that was lower. We had very strong performance in workplace pensions, and also stronger kind of retention of the personal pension books. The net effect was overall they were up.

In terms of the platform issues, we have had significant issues, as -- as it's been well-documented. We basically needed to migrate the platform to much more modern technology given the rate of growth in this market. We continue to grow assets in the platform space now for us 20 billion -- 23 billion. We've dealt with many of those issues. We still got a few residual ones we're working through over the next few weeks, but we expect to be kind of fully back in shape later this year and back to the historical levels of growth there.

Q - Greig Paterson

Got you.

A - Thomas Stoddard {BIO 15071280 <GO>}

Picking up your, your next two questions on prior development in UK GI. I think if you're just looking at that over multiple periods, I'd say that that's a relatively short-tail book, and although actuaries tried to get their best estimates, my experience is, they are typically conservative. And so I would naturally expect to see a small amount of favorable development year-after-year-after-year on average, but it will move around. There will be some years, where there maybe a little bit of strengthening and other years, where there will be releases.

In terms of the loans, my understanding is that that is an industry issue that the PRA's has been looking at. It's something that we are doing a lot of work on ourselves right now. I don't think, I can quantify the impact that you're looking for. I'd say more generally that we always have regulatory risk, and sometimes things go our way, sometimes they go against us, but that's just part of the business and it's something that we manage every day.

Andrew Crean.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. It's Andrew Crean from Autonomous. A couple of questions. I thought it right in thinking there was negative PYD in France. Could you give us a bit more detail around that? And secondly, could you give us a bit more detail on the CP13/18 issue, you've said several points, it was quite difficult to magnify that. There is three issues, there is whether the matching adjustment is too great, whether your house price assumptions are not strong enough, and particularly important, the level of transitionals coverage and the PRA's view that you -- that should be wind back. Can you give us a bit more accuracy around what the impact would be, if the CP goes through as is?

A - Mark Wilson {BIO 7102576 <GO>}

Just to correct some of it, you didn't actually say seven. We said sort of worst case would be a few points.

Q - Andrew Crean {BIO 16513202 <GO>}

I said several points.

A - Mark Wilson {BIO 7102576 <GO>}

Several points.

Q - Andrew Crean {BIO 16513202 <GO>}

Yeah.

A - Thomas Stoddard {BIO 15071280 <GO>}

Well, why don't I start with that one then. Look I can't decompose that for you. What I can say is that sort of the biggest impact is, is whether transitionals apply, whether this is effectively retroactive on the existing business or whether it would be treated as something new. So that is one of the issues under discussion. Otherwise, I can't give you specifics in terms of decomposing the rest. And I'd also say that there's a lot of ongoing work that we're doing looking at various interactions et cetera. So it may had different results by the time, we actually get into applying it.

A - Mark Wilson {BIO 7102576 <GO>}

There is also, you can do things to mitigate it as well as Tom said before you can change, where you put the risk and who carries it, it's not quite that simple. We'll come back to you. But for us with the size of our book and our diversity, it's not as big an issue, we can say that.

Q - Andrew Crean {BIO 16513202 <GO>}

And on the French development, you want Patrick or Maurice [ph].

A - Mark Wilson {BIO 7102576 <GO>}

Go ahead [ph] Thomas.

A - Unidentified Speaker

Yeah. Good morning, Andrew. Yeah, we had very marginal adverse development on our French CI book, we went from 17 million positive last year to 8 million adverse. When we actually looked at it one loss was 10 million of that. But when we looked at the whole book, we have no discomfort with our French reserves are fine. It was one of them.

A - Chris Esson {BIO 6194371 <GO>}

Gordon Aitken.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah. Thanks. Gordon Aitken from RBC. Three questions, please. First on the longevity, the 200 million reserve release for longevity. Just if you talk about what that equates in terms of table NIMs? Second, let me say, you can buy back stock, all day long at these levels 150% to 180% range. you're above that 187. And my sense from you is that you'll be very happy not to be anywhere near the top of that range, I'm sure the regulator will be happy for you to be as low as 150. So why not buy stock all way down to 150? And third, on this PRA consultation and equity release mortgages. I mean, first I'd love to know, what your deferment rate is. I mean, the PRA's obviously put some numbers out there and -- but -- and you talk about mitigating, what you could do to mitigate this, but presuming you could just offload to reinsurance the risk of the new neck writing and just as you did the longevity risk, when -- when that hit because of the -- the risk margin Solvency II? Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

We should get you in the working team, Gordon. The -- I'll take the buyback and Tom can take the other ones. At these sort of levels obviously it's looking for the attractive in the buyback. So we're sort of pretty happy doing that now. But as you say, we are outside the top of our range, we get that. The constraints isn't regulatory at all, but we are not going to provide any more guidance on that today. What we've said is, we will provide some more guidance at the Investor Day later this year, as we do our planning, we are only halfway through our current buyback, we're paying down 900 million of debt this year, we're returning fair bit of capital and yes, next year, there will be another -- another chuck there as well and but we are not providing any more guidance on that today.

Just a word on the tables, on longevity release, we are signaling there is more there. We continue to be at the conservative end. The trends are continuing. So obviously as you would expect, unless there is any sort of dramatic reversal of those change, we've got a fair bit more to go. But we're trying to be prudent and we are trying to do it slowly, there's always a bit of order to pressure to do it as well because you got to be prudent, but not overly prudent. So these all the tensions we face.

A - Thomas Stoddard {BIO 15071280 <GO>}

Yeah. Just to pick up on that, I would say that we continue to think we're at the prudent end, and so if you look at the two components of the reserve release we took, one of it was something that we could have done last year. So I think I talked at the full year remarks about how 2016 mortality experience was particularly heavy. We've treated it effectively as an outlier and so we didn't give full weighting to it, when we went in averaging our experience over a period of years. Continuing to look at that experience, we concluded that it actually is a fair data point and so it's gone back into the average. So that's what the GBP55 million release, which related to. The other 145 million was also related to experience and some of the data sources that we use in our BPA pricing and having confirmed some of the modeling that we're using there, we've also now translated that pricing basis into our reporting basis as well.

We have not done anything with the CMI 2017 table in the first half that was just published in March. We continue to work on that. But my expectation is by the time we work through that, unless we find something that we haven't seen yet likely that would be one of the things that we would look at that could have another positive longevity benefit for us in the second half of the year, and there may be other factors as well.

And then finally, coming back on the -- on the equity release consultation paper, we're not providing our deferment rate today. On your point on offloading this through reinsurance, those are the kinds of things that we would have to work through. This would be effectively a new market and whether it's more financially motivated investors that we're looking to take that better on prices of real estate overtime or whether it would be reinsurance, I don't know yet, but that's the kind of work that we certainly will be doing.

A - Mark Wilson {BIO 7102576 <GO>}

The other thing, I would say is that PRA is certainly open to consultation. They are genuinely consulting on it for the whole market. The government does have a policy of encouraging equity release and has to be prudent and part of their issue was, there was a significant range of assumptions in the market, and they are clearly trying to get that into a narrower range, I think that would be a fair statement. And you've got issues with what you do with the back-book and what you do with new business, how they're treated and they may come up with different options for both of those. Let's work through it and see.

A - Chris Esson {BIO 6194371 <GO>}

Blair Stewart.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. It's Blair Stewart from BAML. Three questions. I think, I wonder if you could give us an update on the pipeline for illliquids and also sentiment at the moment towards -- towards AIMS. Second question just related to the -- potentially the 1.4 billion of excess liquidity you have next year and related to the share buyback question, I guess debt leverage might be one of the constraints, why you wouldn't just continuing to buy your shares back. So I just wonder if you could outline perhaps some of the possibilities, I know you will return to it later, but what are the possibilities open to you in terms of reducing debt leverage, there is not a great deal up for call in the next year or so? And finally, you have got an 8 billion cumulative cash remittance target running out this year, are you on track to hit that, I think it implies a fairly substantial amount in the second half of the year? Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

Yeah. I'm going to start with you. (Technical Difficulty).

A - Unidentified Speaker

Thanks. The -- I think one of the things is, when you are trying to source transactions of that nature, they don't need to be fall into six months time windows. And so we actually have quite a -- range of activity we are working on, and we really expect that we will have some interesting transactions in the second half of the year. So it may not quite be the 4 billion that we did last year, but I think we are not looking for something materially less than that. So there is a lot of activity that I think we'll see coming through into -- into the second half. I think it's important to know, for you to know that the origination, we're -- we're paid for originations, so that has a -- the fact that that's a second half activity that has a slightly depressing pricing impact on Aviva Investors results in the first half. And so we do expect that to bounce back in the second half.

I think -- I think the other thing to note is that the pipeline, the flow pipeline you mentioned, you mentioned AIMS. AIMS has a range of products, it's not just one product. You've got target -- return target income, you've got the AIMS fixed income fund. The AIMS fixed income fund is hitting its return target year-to-date and is quite an attractive proposition, and I think it's fairly well known that some competing absolute return bond funds are in some difficulty at the moment. And so I'm pretty optimistic that we will be able to sell more there.

AIMS is positive this year. Many of the funds run on an absolute return basis or not, and so we are getting some institutional interest in the second half of the year. It's fair to say, retail investors are not so impressed with the returns from AIMS because simple strategies like passive or balance funds are doing much better. And AIMS as a retail proposition awaits a bit more market disruption, and people actually losing money on simpler investment strategies. Institutional flows though have remained -- remains robust. So -- sorry, they have been flat, but second half, I think we're quite excited.

We have a strategy of diversified excellence of Aviva Investors. We're we're trying to build out other areas of growth. And our investment in North American distribution, I expect to bear fruit in the second half of the year. So we are very close to some mandates there that will validate the investment spend that we've incurred in the first half bearing fruit as quickly as the second half. So I think like the results we have been hearing more generally don't judge -- don't judge us by six months numbers.

A - Mark Wilson {BIO 7102576 <GO>}

So you asked about the possibilities on the 1 to 1.4 billion of capital redeployment for next year and what I'd say is that we're taking a balanced approach to this, and as we've guided before, as we think about capital, we're trying to protect the dividend and grow the dividend. We want to invest organically in the business going beyond that we'll look at additional partnerships and bolt-on M&A and pass that its capital returns to investors and we've been trying to look at that in a balanced way. So it has been a mix of debt reduction and buying back shares.

And we'll continue to look at that balance in part depending upon what the capital markets are telling us and what investors are looking for. So we've got a number of investors that would like to see us reduce debt leverage, we've got a number of investors that would like us to continue buying back stock at prices below 5, it's hard not to want to buy back stock and with interest rates low again, it's hard not to want to just continue to finance in the capital markets. On the other hand, I'd like to see us on a relative basis, look more consistent with others in terms of overall debt leverage. So that's a balancing act that we're just going to have to keep working our way through.

In terms of the 8 billion of remittances, we should get there. We've got some risks to it. We're getting less out of Canada and Italy in terms of dividends and the divestiture of FPI is taking longer. So those are some things we're working through, but we should get there pretty darn close, if we don't get there.

A - Thomas Stoddard {BIO 15071280 <GO>}

I'd also say Blair, on the debt leverage, I mean, I look at debt maybe different -- little bit differently than some others, and then, I think that as risk adjusted debt leverage. Our balance sheet has less sensitivity to movement, to spreads, to rates. It's just -- it's more resilient. So what's the optimum level of debt, well that's a little bit unclear.

The second thing I would say is, you can only do what you can do on debt. We paid back all of the hybrid that's come up this year. We only have one tranche of 200. I don't know (inaudible) this year, yeah 200 coming up next year. We're not going to do anything early, are we. I mean that doesn't make sense. So as it comes up, we've been paying it down and there's not a whole lot more we can do on that. It does mean we still have a fairly big pile of cash. So what do you do?

A - Andy Briggs {BIO 4311809 <GO>}

Yeah. And I would add that we are expecting more cash coming out of our UK life insurance business, UKI generally, we've got excess capital there and we're working on continuing to upstream that.

A - Mark Wilson {BIO 7102576 <GO>}

So what we've done in the subs, we have actually built up quite a bit of excess cash, and you would expect to see some of that coming up to the Group and at some fairly significant numbers. We will look at when we quantify that, but we're just working on that now.

A - Thomas Stoddard {BIO 15071280 <GO>}

Yeah. We could -- we could tender for the debt. And again, we'll look at a variety of different things. So we've started with some of the easier things and maybe we'll look at tendering for some debt.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks. Colm Kelly, UBS. Just a question on the returns on capital. So showing good expansion of return on capital employed across the business. In saying that, I suppose the quantum of capital is reducing given the debt reduction, share buybacks, so there is an increasing need for those returns to keep expanding. So how confident are you and where can we get to vis-a-vis the returns on capital employed, particularly in the UK because with the equity release consultation, while it's manageable for Solvency, it potentially would have a much bigger impact in terms of returns on capital for new business and bearing in mind the other business lines, the new business margins are largely at the top are certainly hitting the target ranges for them.

The second question is, just on the cash remittances again, good growth 28% year-on-year, quite a bit ahead of the capital generation. So correctly Solvency is not a constraint, but it clearly there is a need to continue to optimize balance sheets locally to expand the capital generation to continue the sustainability of those remittances? Can you just update on the bit of progress around those actions at local level and confidence on that -- the continuation of that? Thanks.

A - Thomas Stoddard {BIO 15071280 <GO>}

Do you want to talk about it?

A - Mark Wilson {BIO 7102576 <GO>}

Yeah, I'll talk about [ph] the first one because hey, you're right, you could be in some of our strategy sessions because we want to award our CEOs, our CEOs are holding too much capital we think in general, we would like to focus them on returning. And frankly, I'd rather hold it here. And we have a fair bit of room in our ranges in the number of subs right now, I won't go into any more detail than that. And I would like to award them for the capital, they hold and the return on that, and you would expect us to do that. So we have a fair bit of room. As Tom said, we're holding a fair bit of excess in the UK, for example. I think we can still move that return on equity up more and simply as you say, and we are giving some equity back by reducing debt that's sort of the objective of what we're trying to do. I'm not going to give any more guidance on the numbers of that. The only numbers we're giving guidance or targets on is the greater than 5% growth in earnings, and you can work out the numbers from that. Do you want to take the second?

A - Thomas Stoddard {BIO 15071280 <GO>}

Let me just give you a little bit more color on some of the things that we're doing. We've been using an economic value added analysis, so an EVA methodology for a few years now. We're actually using it internally on a reporting basis, as well to measure our business. So we're looking it on a Solvency II basis effectively what returns we're generating over and above our cost of capital over a multi-year time period. So that's an internal tool that we're using. Maybe someday, we'll get to a point, where we can disclose that, but that's probably several years off at best.

And then in terms of the subsidiaries, I think I've said before that when we've looked at where excess capital is building up, it's clear that it's in the subsidiaries, it's in part because of the transition of Solvency II, setting risk appetites and the natural conservativism of local risk officers and boards sort of adding buffers. And as we've gone and looked at that we've realized, we have an opportunity to upstream some of the stock of capital that's there, but also to set better boundaries in terms of what remittance ratio should be on an ongoing basis.

And that's a process of getting local boards comfortable that the Group is really there to protect them and that they actually can pay down to the buffers that we're looking for, but that should improve not only sort of the one-time cash that's coming up, but also the run rate of cash going forward, and that's part of the work that we're doing in terms of moving the payout ratio up over time, just to see how far we can get that. So you're correct, we use to talk about how capital generation was exceeding cash. Now, we're in a position, where the cash is caught up above the capital generation and then at some point, we'll be in more of a steady state, looking at a few years from now.

A - Mark Wilson {BIO 7102576 <GO>}

I think cash will exceed it for all that. Yeah, we're set to train regulators too. If we're trying to make it sound easy, we can just get a lot, it's not that easy because in each market, the regulators are like a -- like an animal in the nicest possible way.

A - Thomas Stoddard {BIO 15071280 <GO>}

You realize, there are regulators in the room.

A - Mark Wilson {BIO 7102576 <GO>}

Yeah. I know. Yeah, I know. And but -- but regulators in this countries behave in different ways with capital and cash, and you have to go through a lot of discussions on an individual regulator basis to get to -- getting to understand your strategy and getting to bring it up and that we've been pretty successful there and that's why it's a multi-year strategy. We don't go in and take out massive amounts of capital. We do it over time, and I think we've got quite a nice amount of cash in the store.

A - Chris Esson {BIO 6194371 <GO>}

Final question, Abid.

Q - Abid Hussain {BIO 20229932 <GO>}

Good morning. It's Abid Hussain from Credit Suisse. Just two questions, if I can. Firstly, apologies for this, but just coming back on the liquid assets. Are you seeing any yield compression versus corporate bonds and does that explain partly why you need to be more selective in your origination approach? And secondly, could you just briefly describe the trends that you're seeing in the UK motor and home pricing and claims inflation and what is the outlook there in your view?

A - Thomas Stoddard {BIO 15071280 <GO>}

Sure. On illliquid assets, I would say for us, it's more -- for us, it's a question about finding assets in the right categories more from a risk perspective than it is really the difference in terms of spreads between the liquid assets and corporates. There is lots of competition. So there are some deals that we like that we don't get. But for us, I think it's more around -- around risk selection and portfolio management than anything else.

A - Mark Wilson {BIO 7102576 <GO>}

On the UK, you want to add some color?

A - Andy Briggs {BIO 4311809 <GO>}

So in terms of pricing in the market, we're basically seeing rates in motor is down circa 10%, it's a quite significant reductions. Home is -- is up slightly. Claims inflation is in line with broadly what we would expect. And what we are kind of doing across, so it's a soft market particularly in motor at the moment, but what we're doing across the UK business is, as Mark said a moment ago allocating capital to the areas, where we can get the stronger returns. And on the GI side, in particular, we had a very strong performance in commercial particularly property and liability and commercial was up 5%. So we're -- we're focusing our efforts on the areas, where we get the stronger returns. And as a composite player across multiple markets, we're able to do that.

A - Mark Wilson {BIO 7102576 <GO>}

Yeah. I think we have had quite a bit success in this -- in the direct business in the first half and we're sort of not saying too much about it today, as we have the big Aviva Plus launch going on. But we added on a lot of home, I think I was saying 200,000 people in home and direct and 190,000 in motor. Home obviously has got some pretty good margins in it as well. And in terms of the direct relationship, we're up in a -- quite a few millions now. So that's -- it's growing quite encouragingly.

A - Chris Esson {BIO 6194371 <GO>}

That completes the Q&A. So, Mark back to you.

A - Mark Wilson {BIO 7102576 <GO>}

Thank you. Well, I'm not going to say anything more this morning. So you might be pleased on that. But because I think the numbers speak for themselves, I think it's a much simpler set of results. Tom, and the team have done a lot to just push stuff above the line, probably even we didn't have to. We just because we wanted to make the point about how clean they are. But in this market 4% growth, reaffirming the outlook 10% growth in dividend, we've got a pretty good forward yield right now, and the rest is up to you guys, not up to us. On that note, I'll close it.