Q1 2012 Earnings Call

Company Participants

- David Barral, CEO Aviva UK & Ireland Life Assurance
- David McMillan, CEO Aviva UK & Ireland General Insurance
- John McFarlane, Executive Deputy Chairman
- Patrick Regan, CFO
- Unidentified Speaker, Unknown

Other Participants

- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- James Pearce, Analyst
- Jon Hocking, Analyst
- Marcus Barnard, Analyst
- Marcus Rivaldi, Analyst
- Nick Holmes, Analyst
- Raghu Hariharan, Analyst
- William Elderkin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And welcome to the Aviva announcement of quarter one results 2012 analyst update. (Operator Instructions) Just to remind you, this conference call is being recorded.

I would now like to hand over to the Executive Deputy Chairman, Mr. John McFarlane. And the Chief Financial Officer, Mr. Patrick Regan. Please begin your meeting and I will be standing by.

Patrick Regan {BIO 15131018 <GO>}

(technical difficulty) joining us on the call, everyone. It's Pat Regan here. With me on the call are John, who's dialing in from Australia; he's at the Westfield AGM; Trevor Matthews, David Barral, David McMillan and Philippe Maso from France.

Before I go through the Q1 numbers I'll just hand over to John first.

John McFarlane {BIO 1509370 <GO>}

Thank you, Pat. Good morning, everyone. Welcome to Aviva's IMS from my standpoint. Of course, this is the first time I've addressed you. And so I'd like to add a few comments before I hand over to Pat.

I said the other day that we've begun the process of identifying a new CEO for the Group internally and externally. Clearly, we don't know how long that's going to take. But we should bank on it taking the rest of the year. And we need to appoint the best person in the world available to us.

In the interim, of course, I will act in an executive capacity, initially as Executive Deputy Chairman and then Executive Chairman to ensure we take the necessary actions and decisions to improve the standing and performance of the Group and to accelerate these actions.

Of course, I'm excited to be playing a pivotal role in what is clearly an important time for Aviva. My first task is to make an improvement in the capital and financial strength of the Group, as well as an improvement in their financial performance. While I don't underestimate the significance of this challenge, I'm optimistic of the outcome. To this end, last week I announced a new set of priorities for Aviva.

Firstly, a strategic review of all our businesses to ensure we're focused on the right segments, that we put in place plans to advance the performance and position of our businesses strategically. And to exit sensibly those that are not part of our future. These will all be reviewed by me and subsequently the Board in June. And we will provide an update to you in July.

To perhaps avoid a question on the subject, this is a deeper dive than the reviews that have taken place prior to this. There are roughly 45 material profit centers in the Group as businesses. And we will be reviewing each of them in depth.

The second priority is to build the capital base and, of course, to reduce its volatility. And at the same time, we need to improve the balance sheet strength of the Group.

Our third priority is a profit; and value-improvement program, firstly involving the dynamic reallocation of capital across our businesses, by identifying sources of segmental revenue growth and, of course, then improving operating margin and return on capital.

Then finally, it's a kind of business as usual thing. But we really need to continuously advance the foundation of the Group and our position with all our stakeholders, particularly our customers.

Now, as shareholders and the market, what I can promise you is a frank and open communication with you, going forward. Now, in seeing what I've announced and what I've just said, I do realize that all of you have heard a lot of this before. And from comments over the week some of you remain skeptical.

Now, that's fine. You really should form your own opinion on this. What you shouldn't doubt is how serious I am about it. I've never said it will be easy. But I have said it will be done. And many of you know this is not the first time I've faced such a challenge and come out the other end.

Now, I've not met many of you. And therefore I look forward to seeing you in the coming weeks and months. I'll leave it there and I'll hand over to Patrick who will take you through the update.

Patrick Regan {BIO 15131018 <GO>}

Great. Thanks, John. As John just said, it's is an important time for the business. I'm obviously very much looking forward to working closely with him.

The priorities set now which will take us to the next stage of the development (technical difficulty) include an acceleration of some of the things such as cash generation and capital strength that I've focused on since I joined Aviva. I'll say a few words obviously about the results and then we'll be more than happy to take your questions.

The economic backdrop continues to be challenging, particularly in the euro zone. In spite of this, however, our new business profitability is jointly ahead of our targets with IRR for the Life new business at 13.3% and our combined ratio at 96%. We also generated GBP0.5 billion of operating capital in the First Quarter.

Both our in-force Life business and the General Insurance business continue to be predictable cash generators. Operating profits for the quarter were solid. Overall operating profits were marginally down following the consolidation -- deconsolidation of Delta Lloyd and the sale of the RAC. But it's slightly up on last year once these disposals are taken into account.

Capital discipline remains key to the management of the Group. As we heard from John, we will be even more focused on this in the future. We continue to allocate capital to our more profitable businesses and business lines, particularly lines within the UK, Canada and some of our higher-growth markets. And obviously we're going to be really disciplined in allocating less capital to our lower-margin projects -- products within the eurozone countries.

Turning to the results in a little more detail, firstly the Life business. Long-term savings sales were down about 5% at GBP7.5b, driven really through a combination of that focus on capital allocation and operating-capital generation and somewhat subdued market conditions in Europe.

In the UK long-term sales increased by 1%, group personal pension sales were up 18%. And protection sales were up 20%, both reflecting the quality of our proposition, the strength of the brand and the excellent relationship we have with our distributors. Individual annuity sales were broadly flat. But we did significantly reduce old-purchase [ph] annuities, as we're not getting the prices we want in that sector of the market.

Predictably, given the combination of our focus on capital allocation and the current market conditions, we have seen new business fall in France, Spain, Italy and Ireland. Profitability remains in -- of new business remains high in Spain. But elsewhere we have looked to reduce lower-margin sales. And in particular, the with-profits business in Italy is down another 23% on top of the 44% fall this time last year. Additionally, our focus remains on the effective management of the in-force books in these markets, where overall operating results have been resilient.

In the US, we saw an increase in sales of just over GBP1b. However, this particularly compares to a low quarter this time last year when we had some significant price increases put through. If you actually look at the run rate that GBP1 billion is slightly lower than it was in the third and Fourth Quarter of last year. Over the full year we expect sales growth in the US to moderate.

In the high growth markets, Singapore saw a 56% increase in sales. Whilst China sales were down, due to some pretty intensive pricing competition from bank deposits. In Poland, sales were down, partly as we see a decline in compulsory pensions new business apart from -- following on from the regulatory changes there. But that's been somewhat compensated by a shift of focus and higher sales in unit-linked and particularly term assurance.

In our General Insurance business, general insurance and health sales remained steady at GBP2.2 billion for the quarter. A combination of rating increases, risk selection and cost control means that we're slightly ahead of our combined ratio target, even without the benefit that the RAC gave us this time last year.

The motor market remains our strongest and most profitable growth area, both in the UK and Canada. And we're broadly carrying about a sixth [ph] rating increase in the UK motor market.

Commercial motor rates are also hardening. However, we remain cautious on the other commercial lines and we're allocating less capital to those products, given the relatively soft rating environment.

In Asset Management our investment performance has been good in obviously a challenging economic environment. And Aviva investors saw about GBP1 billion of net funded external sales in the First Quarter.

Turning then to the balance sheet. Obviously with that continuing, uncertain economic backdrop, solvency remains a key priority, both increasing the level of our surplus whilst also working to reduce volatility.

IFRS net asset value of GBP4.45 has increased by 10p since the year end. It was -- the increase was driven by a combination of retained profits and particularly recovery in spreads in the eurozone, partially offset by adverse movements in the Delta Lloyd yield curve which netted about a 10p negative.

IGD solvency improvement from GBP2.2 billion at the year end to GBP3.2 billion at the end of March, after allowing for the GBP400 million final dividend. And again the increase is due to a combination of earnings in the quarter and a reduction of credit spreads.

The spread surplus in early May was around GBP3.1b, taking into account both the new hybrid raise and the $300 million call that we made. Obviously, again, due to that current economic environment we will look to strengthen our solvency position where we can.

In terms of the movement or volatility of the surplus, clearly credit spread widening was a major factor last year. In addition to that, there were three areas I wanted to highlight, where I hope to see somewhat reduced volatility in the future.

Firstly, in Italy, Regolamento 28 has now been extended, both in time horizon out to the introduction of Solvency II and in application. And has been approved by parliament so that in future the Solvency I capital levels would not be impacted by movements in Italian government bond spreads. Obviously these movements were a source of volatility for us in 2011.

In the UK, the main source of volatility was the annuity book where credit spread widening led to an increase in our bad debt provisions, as you remember. We formulaically booked 25% of credit-spread movements to that provision. These provisions now stand at GBP1.6b. And I think it's pretty fair to say that any further credit spread widening is less likely to lead to further provisions in the future.

And finally with regard to Delta Lloyd, obviously we still consolidate our share of Delta Lloyd's IGD movements. Just mathematically, once our holding falls below 20% at some time in the future we would no longer consolidate IGD volatility into our calculations.

Lastly then, before we go to Q&A, I just want to make a brief comment about the recent restructuring announcement. Obviously in recognition of the fact that we now operate in fewer countries we wanted to announce a more streamlined organization.

We're now actively getting on with that and implementing the new structure, which should lead to a combination of more direct reporting lines, an even stronger focus on capital allocation, as John said. And additionally further cost savings.

So in summary, I think we've had operationally a solid First Quarter. We remain aware that economic conditions are tough and our actions reflect this. Obviously surplus is higher than at the year end. But we do continue to focus on generating capital and allocating it in a disciplined way to a more profitable business.

With that, we're happy to open the call for questions.

Questions And Answers

Operator

(Operator Instructions) The first question comes from the line of Jon Hocking. Please go ahead with your question.

Q - Jon Hocking {BIO 2163183 <GO>}

Morning, everybody. I've got three questions, please. Firstly, can you comment a little bit about what your attitude is to writing new business versus capital generation? I know you've done a lot of this over the last 18 months or so. But has your attitude changed in Q1? And has it changed on a sort of run-rate basis here, given the environments and given the desire to improve capital generation?

Second question, could you comment on the reinsurance transaction in Q1? What was driving that and is there any possibility of future transactions later in the year?

Then finally just a question for John, in terms of capital allocation he's talked about reallocating capital, a more dynamic view, improving profitability, etc. Yet how do you view capital for an insurance company? What do you think the most important metric is to try and optimize? Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

All right. Thanks, Jon. Well I'll go first and then I'll get John to comment afterwards if that's okay. I think you've seen the impetus [ph] Jon on emphasizing capital generation. I think John's areas of focus continue that trend and re-emphasize it again.

And the amount of capital consumed in new business has gone down from, what, GBP1.5 billion a couple of years ago to last year GBP900m. In the First Quarter we reduced the amount of capital we consumed in the business once again.

And but all of that has basically been about writing -- stopping writing low-return new business and trying to write more business where we get strong returns. One of John's areas of focus is to deliver that even better in the future.

We will look to take revenue opportunities were we can. There are certainly lots of good examples of that. General insurance is clearly a good example of that across the globe and a number of areas within the life business. But really good capital allocation and capital generation is important to us.

On the reinsurance transaction actually what we did there, we had a transaction that was initiated I think three or four years ago, wasn't it, David? He's nodding. And we just extended it for a year. It's a transaction within the UK Life business, as it says in there, worth around GBP100m [ph].

Then, John, do you want to take the last one?

A - John McFarlane {BIO 1509370 <GO>}

I didn't hear the -- I generally think economic capital is the more important measure. That is not inconsistent with Solvency II, in fact, because Solvency II is based on a form of economic capital.

Now, from a regulatory standpoint, we have to focus on IGD but actually it's a very approximate measure and not as sophisticated as our own calculation of economic capital. So essentially we will focus on building that. And it's not inconsistent with IGD. But actually it's a sharper measure.

In terms of allocating capital, whilst there is a process for allocating capital in the Group, I think we can sharpen it up a bit in that each of -- the way I think about this is that each of the businesses will hold a certain amount of capital during the year. Now, that amount of capital may or may not be appropriate. In other words, some of the businesses will have too much capital for the return they're able to generate. And others will have a need for more.

At the same time, the businesses will generate excess capital. And traditionally the businesses retain what they produce other than that which feeds then into the parent.

But from a management-account standpoint, any excess capital generated by businesses is not for them. It's actually for the Group and the Group should then decide where that capital goes. So basically if a business is using too much capital we'll take it out and then we'll have a pool of capital at the center.

That capital, we'll then look for the opportunities. We'll rank the opportunities from best to worst. And we'll draw a line once it's used up from the best downwards. That's the principle behind what we're doing.

And of course, managing capital more tightly. And we've just had a question on that. But essentially economic capital is a more important measure.

Q - Jon Hocking {BIO 2163183 <GO>}

Excellent. Thank you very much.

Operator

Our next question comes from the line of Gordon Aitken. Please go ahead with your question.

Q - Gordon Aitken {BIO 3846728 <GO>}

Morning. Three questions, please. First of all, you didn't write any bulk annuities in the First Quarter. Was this increased discipline on your part and/or a lower number of schemes being brought into the market? And if you could talk about your appetite, going forward, on bulks?

Secondly, I'd expected your UK pension sales to grow from the Q4 level, just given the seasonality we see in the UK pension market. But also the fact that we're another three months closer to the RDR and you are one of the last commission payers in the UK. Now, pension sales were down 5%. Just if you could add some color here.

And finally a question for John. John, you've announced a strategic review. Will a new CEO be expected to accept all the proposals which come out of the review? Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

All right, Gordon. Thank you for those. Well myself and David Barral will have a crack at the first two.

On BPAs I think it's a bit of both, truthfully. Certainly we have pretty high thresholds for return which -- the schemes that we did see in the First Quarter didn't meet those thresholds and hence we didn't write them.

Clearly there's a factor of you've still got the uncertainty of Solvency II which affects what, well, directly returns [ph] as you define what your best estimate on that is. But there's still a fair bit of uncertainty around that, as well.

But David, do you want to give us a bit more color on the BPA and the pensions one, please?

A - David Barral {BIO 17035123 <GO>}

Sure. Hi, Gordon. Bulk purchase, that's absolutely right. It's a combination of both. The market was absolutely quieter in the First Quarter. And of the ones that were available we did write a few small ones but we chose not to participate in a couple that were there. We just couldn't get the returns that we wanted. There is actually quite a decent pipeline there. But we have decided to be very disciplined on our approach.

And we're trying to balance out what we can write in the bulk purchase market versus the individual annuity market, where the returns are very strong. And we continue to be the outright market leader there, even although individual annuity sales were flat in the First Quarter.

As far as pensions are concerned, pensions in the UK, the total pensions were up 12%. And in fact group personal pensions, which we see as a primary route to acquiring assets going forward, we're up 18% in the First Quarter off what was off the back of a very strong 2011, actually.

And your point about the fact we're one of a few that are still paying commission, that's true. But some -- over 50% of our business now is on a fee basis and we continue to improve our market position there.

So we're going to see, I think, a very active market in group personal pensions right -- in the run up to the end of the year pre RDR. Then, of course, as we move into 2013 we expect sales to be cooler there on new business. But of course, we're going to have the benefit of auto-enrollment. And the continual drip from defined-benefit schemes into group personal pensions continues and we expect to be a beneficiary of that.

A - Patrick Regan {BIO 15131018 <GO>}

Great, thank you, David. John, do you want to pick up the last question?

A - John McFarlane {BIO 1509370 <GO>}

Yes, I might amplify the answer a little bit here. I've read some of the early analysts' reports and some of them have made a comment that we've changed the timeframe for the new CEO, which is not correct. We haven't done that. It was just a reflection of how long these things take.

You have to understand that the only people who are available today are the people who are already work for us and the people who don't have a job. We -- there are people who do have jobs who might be very attractive to us. But we have to identify who they are. We then have to negotiate with them, if we were to appoint an outsider. Then they have to release themselves.

And we've also got the Olympics in the summer in between. Then -- so realistically that process will take some time. For example, if we were able to identify and offer somebody either internally or externally by October we would move very fast in that process.

And so it's just trying to get a realistic assessment out there. It could be before the year end. It could be after the year end. We just don't know. It just depends.

Of course, the other important factor in that is that it does give me a good chance to get to know the inside people very well during that period. And so I'll have a richer tapestry that I can regard than perhaps my first impressions. And of course, I will spend quite -- a great deal of time coaching them and improving their chances, going forward.

So it's really it's not right that there's any change in timing. There isn't. It's exactly what it is and it hasn't changed.

Now, your question related to a new CEO, you have to assume that we are likely to have made a considerable number of decisions well before the appointment of a CEO. And we'll probably have executed many of them, as well. And so we're not holding back here. I'm doing what any rational, good CEO would do and deciding how we're going to take this business forward. One would then assume that the result is an improvement from where we are, in which case we hand a stronger base to the CEO.

The tenure of a CEO generally is at least four or five and sometimes six years. During that timeframe a lot of things happen. And it's how they emerge at the end of that period, not what they start with that's the critical point. So the fact that we make decisions before doesn't mean to say that the job is not attractive. In fact, it should be more attractive. And if the CEO just want more hanging fruit there won't be any left.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, John. Thanks, Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

Operator

The next question comes from the line of James Pearce. Please go ahead with your question.

Q - James Pearce {BIO 16758460 <GO>}

Morning, everybody. Two questions, please. John, you said that your priority is capital strength. The obvious things you can change are the amount of equity, the amount of dividend, disposals and de-risking. What sort of mix of those parameters should we expect?

And second, on disposals, there's a tradeoff between selling good businesses at good prices and leaving a weaker business, going forwards. And selling weak businesses at bad prices and having a better quality portfolio subsequently. Which way do you want to go? Or is capital the absolute priority that dominates any decisions on disposals?

A - John McFarlane {BIO 1509370 <GO>}

That's a really good question. I don't really want to get drawn onto dividend but I'll make one point that we do need to improve the capital materially to give us a lot more flexibility than we've got. And also to handle volatility, just in case it arises.

We do intend to change the portfolio such that the volatility will reduce. So we are going to take action on volatility in and of itself. But it would be good to have a decent capital surplus for difficult times because we don't know what the economy is going to be like going forward. But I think it would be naive to assume that there's going to be a very optimistic turnaround. So I think we need to be prepared for the worst should that happen. And so capital's a very, very important priority.

Now, in that context, the dividend is not a material amount of money in the scale of things. And so that wouldn't be one of the main factors that we would immediately jump to, to do that.

But we don't rule anything in. We don't rule anything out. But we also don't want you to jump to conclusions that the first thing we're going to do is something that you won't like. I don't want you to draw that conclusion. We're not trying to cause you any anguish here.

Now, of course, what we would prefer to end up with is the best possible portfolio of material businesses and high-growth businesses that we can. And therefore a very difficult decision would be selling either attractive businesses for today or attractive businesses for the future. That should -- that will be very much a last resort.

But I think capital is very important. It's not necessarily the only thing that's important. But it's probably the thing that's causing our stock price to languish more than anything else. And so making the corporation safe is a good first step.

But we don't want to do that by limiting our strategic future. And so it's a very difficult balancing act, this. And essentially the first thing would -- to do would be to take capital away from weaker performing or less attractive activities, looking at non-core businesses. And seeing if we can execute -- sell them or execute them at reasonable prices.

They would be the first things that we'd want to do. If that's enough -- and, of course, lowering the volatility, if we can engineer a decline in our beta, a decline in our cost of debt, a decline in our cost of equity, then all that those things are done and helping anyway.

And so next we're going to do what is sensible within the sense of all our best franchises, going forward. And were there to be more difficult circumstances than we envisage it may be we'd have to take some decisions we wouldn't welcome. But it's not on the critical path.

Q - James Pearce {BIO 16758460 <GO>}

Okay. Thank you.

Operator

The next question comes from the line of Blair Stewart. Please go ahead with your question.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. Good morning, everyone. Good evening, John. A couple of questions. Firstly on your capital position, the headline numbers look okay with an IGD of over GBP3 billion economic capital. 50% higher than it, I guess, needs to be at minimum. But you're saying volatility is the issue. And I just wonder if you want to comment on where that volatility exists as you see it.

Secondly. And related to that, Pat you talked about the deconsolidation of Delta Lloyd from a capital perspective at lower holding levels. Could you just comment on what the economic and IGD capital position would be ex-Delta Lloyd?

And the final question is relating to some of the feedback you've had from shareholders, particularly with regards to the scrip element of the dividend. I take the point on building capital. But of course, having a scrip element. And quite a significant one over the last year or two, is quite highly dilutive, as well. I just wonder what the view is on scrip dividend as a notion, going forwards.

A - Patrick Regan {BIO 15131018 <GO>}

All right. Thanks, Blair. I'll tackle the first couple and then I'll let John jump in. When it comes to the capital volatility point, there were some -- I talked to some of the areas that gave us volatility last year. Obviously we had almost an unprecedented movement in government bond spreads, particularly in Southern European countries. And so Italy in particular was an area of capital volatility. So I outlined before that I think the new regulations when they're adopted will counter that or will eliminate that in the future.

Delta Lloyd itself, the UK annuity revisions [ph]. But obviously corporate -- particularly corporate bond spread movements in the second half of last year. We hold precious little in terms of (technical difficulty) now other than the that's held in Delta Lloyd. And we have an (technical difficulty) in addition to that, as well. So it's the areas in addition to the specific ones I talked about were general corporate bond spread movements.

In terms of the Delta Lloyd impact, once you get below 20% holding then you no longer consolidate our share of Delta Lloyd's capital. So we'd rather give you the precise numbers at the point that we no longer held that share. So our strategic direction on that is clear. I won't give any more direction on timing of that today. But at the point that we hold zero it is positive in both IGD and economic terms.

John, are you -- I don't know whether you wanted to say anything in terms of scrip dividend thoughts?

A - John McFarlane {BIO 1509370 <GO>}

Clearly we don't like it and we'd love to get it off as quickly as we can. It only had a small pull-back [ph] in the last dividend. So its impact is lessening. But clearly it's one of those things in the mix that we'd want to do, because we really need accretion not dilution, going forward. And so as soon as we can intelligently cancel that then I think the better.

Obviously we don't want to do anything if we feel that our debt [ph] security would be preferable. But we've got time because we've got the first half and then we've got the second-half dividend. We'll walk a knife edge and think about it carefully. And we won't do anything rash. We'll make an intelligent decision. But you can rest assured that we would prefer not to have it. And so if we can safely remove it we will.

Obviously one of the things on capital that we will look at is people are quite unnerved by holding some of their country's government bonds in Europe. And we'll look at opportunities to see whether or not it is necessary to hold as many of those as we've been holding.

And so we'll do things like that, as well, to look at the capital to try and limit the volatility. But not just the volatility, just the perception of risk in the Group rather than the substance of it. Because obviously I think it's people are unnerved by the holdings in certain countries and we've just got to be conscious of that.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. If I could just come back, actually, on a couple of your points? I didn't quite hear the last part of your answer on Delta Lloyd when you said a point where you hold zero.

And I come back to your first point, the capital volatility. You're talking very generally about spread movements and having a business in Italy. It's difficult to see what you can do about that, frankly.

A - Patrick Regan {BIO 15131018 <GO>}

The last point I said on Delta Lloyd there was that at the point we held zero, rather than give you specific numbers, it's positive to IGD and economic capital.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

On the final one, I think as we've talked, as we've gone through, there's a number of things that we have done and continue to do. As John said, we'll look at asset allocations specifically, some of the holdings of government bonds in certain countries, that may include Italy certainly, if we do that. So there are some rule changes that might be helpful. Obviously our holding of Delta Lloyd is a source in and of itself. And over a period of time that would likely change as well.

Then I think the other thing you can look at, as well as continuing to have the hedging programs we've got in place the balance of risks we hold on our overall Group balance sheet and how you weigh the amount of insurance risks you're taking, we hold as I say little equity risk at the moment but a reasonably large amount of credit risk so it's just balancing those and the amount of credit risk you hold versus other types of risks. And that's something we'll (technical difficulty).

Q - Blair Stewart {BIO 4191309 <GO>}

And just to be clear, Pat, the regulatory changes in Italy don't affect economic capital, it's just the IGD. Is that correct?

A - Patrick Regan {BIO 15131018 <GO>}

That's correct yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

Operator

Our next question comes from the line of Nick Holmes. Please go ahead with your question.

Q - Nick Holmes {BIO 3387435 <GO>}

Oh hi there. Thank you very much. Just a couple of questions. First coming back to solvency and IGD, I wondered can you tell us what the ratio was at the end of April with the GBP650 million debt issue included?

And secondly, what exactly were the items in March that offset the GBP400 million dividend?

Then moving on to something different, in the US I wondered if you could just remind us what your strategy is again? I thought your focus was on life insurance but you seem to be selling a lot of annuities which seems a bit surprising in the current low interest rate environment and I just wondered if you're rethinking your strategy there? Thank you very much.

A - Patrick Regan {BIO 15131018 <GO>}

Thank you. Just on the (inaudible) at the end of April was also GBP3.2 billion IGD surplus. And that's factoring in both the GBP300 million call and the issuance of a new hybrid.

In terms of March (technical difficulty), essentially it's the accretion of profits and moderate market movements there wasn't an awful lot of net movement in the month of March.

In terms of US, really I reference you back to the comments I made as we go through. The overall strategy in the US has been to run it for profitability both the back book and the new business as well as our cash generation profile in the US and there's certainly no change to any of those things.

We've been working very hard on profitability of the back book increasing our credit spreads and that's something we've talked to you about over a number of periods. In terms of new business profitability, similarly and we've been doing quite regular pricing changes through that book, we've booked quite significant pricing changes through before the First Quarter so the end of 2010 that had an impact on early sales in 2011 so you see a compressed comparator if you like.

We have put some price changes through in the early part of 2012. So a slight spike in (technical difficulty) the product before the changes were through but over the year's period I wouldn't expect us to be selling larger amounts of annuities but we are targeting increased life sales versus increased annuities.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you for that. Just coming back to the IGD solvency, I wonder perhaps if you could actually give us a breakdown of the movement in March item by item?

A - Patrick Regan {BIO 15131018 <GO>}

The net movement in March was very little so there isn't an awful lot more detail I can give you. I can get Charles to give you exact numbers afterwards but I think the -- obviously you had GBP400 million retained -- GBP400 million dividend. In terms of the positives, we had an improvement of investment variances and retained profits in a number of countries, certainly including European countries and North America as well that came to almost exactly GBP400 million of positive and probably about a third of that is profits and the rest of it investment variances.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay, because the investment variances just seem to be reasonably high, I mean April, sorry March was not a particularly good month and it just seems strange that it was positive basically?

A - Patrick Regan {BIO 15131018 <GO>}

Not really. Obviously (inaudible) post March really.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes.

A - Patrick Regan {BIO 15131018 <GO>}

So there's nothing particularly unusual in any of that.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay, that's great. Thank you very much.

Operator

Your next question comes from the line of Ashik Musaddi. Please go ahead with your question.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, hi, Ashik Musaddi from JP Morgan. Just a couple of questions. First thing, Pat, you mentioned that the most important factor for your solvency is the credit spread. Now can you give us some color on your hedging on credit spread and at what level of credit spreads will your hedges trigger? I know you have mentioned this before as well and you have not given any numbers so is it possible to get some numbers on that?

That's the first. And second, can you give us some more color on your personal motor pricing in the UK? So it increased by 6% in First Quarter, how have you seen that over the last two months and can you give us some outlook on that? Thanks.

A - Patrick Regan {BIO 15131018 <GO>}

Ashik, thank you. Just taking the first one first, no, I'm not going to give you too much details on that. We've got about in notional terms nearly GBP4 billion of credit hedging programs in place. And they're a mixture really in terms of -- as John said the primary thing you want to manage really is your economic capital. So what we're looking to do is protect against extreme credit events and that's -- quite a bit of the hedging program is structured in that manner. And some of it is structured so that it gives better IGD protection but I won't give you any more detail on that. You can always follow up with Charles afterwards on that one.

On motor pricing, I'll get David McMillan to give you some more color on that.

A - David McMillan {BIO 17298829 <GO>}

Morning everyone, David McMillan here. With regards to personal motor pricing, as we said in the release up around about 6% year on year. We've seen a degree of softening of motor pricing from the very, very high levels we saw for most of 2011 although underlying it's still quite volatile so we're seeing -- month by month we're seeing people taking rates down and putting rates up. So the position looking forward in terms of pricing looks reasonably volatile.

I'd just remind you that our personal lines result for 2011 was extremely strong, low 90s combined ratio. And we're really seeing that profitability continuing into 2012 and looking strong for the foreseeable future based both on the rating environment but also based on the fact that we've got some real strengths in that business in terms of underlying pricing sophistication, risk selection and claims handling.

A - Patrick Regan {BIO 15131018 <GO>}

Just to echo that point, we've had -- we really have got a strong growth record there and we're happy to allocate capital to that. The rating environment, the cumulative rating now has been significant over the last two years and we've made as David says good profits in that line of business.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Thanks a lot.

A - Patrick Regan {BIO 15131018 <GO>}

Thank you.

Operator

The next question comes from the line of Raghu Hariharan. Please go ahead with your question.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Morning, it's Raghu Hariharan from Citi. I have three questions please, all three on capital. The first one was do you mind giving us your initial thoughts on what a safe level of capital is whether it be in terms of ratio or an absolute level. So we can factor in the scale of the change that you're contemplating?

The second one was really on debt or leverage. Clearly debt leverage is going up and this I guess is a source of volatility as well. I was wondering whether you foresee any rating changes coming down the pipe from S&P and they will be looking at it?

And the third thing was really going back to an earlier discussion John on building capital either through earnings retention or deleveraging. And since you said that earnings retention would be a smaller factor I was wondering how much does the urgency of fixing the capital base overcome any issues of selling assets arguably at (inaudible) valuations? Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thank you, Raghu. Perhaps I'll just say a couple of things then obviously I'll ask John to jump in. On the debt leverage point, as you remember we set an ambition or a target to reduce debt leverage by about GBP700 million in absolute terms whilst also growing our core equity at the same time to reduce our debt leverage over a two to three time period -- two to three-year time period. We talked about that a year ago and I think that ambition still remains. I'll be candid and say that might be a delayed -- we may have delayed that for a year but I think that sense of direction on debt leverage is the right one.

In terms of what the right amount of capital for us is, obviously John will add comments on this, I think it's to have a demonstrably strong capital level. I don't think we're going to give you a precise number on that, Raghu, in terms of a coverage percentage. But John, do you want to give us your thoughts?

A - John McFarlane {BIO 1509370 <GO>}

Yes, I think our capital is adequate at present but from my standpoint and from that of the Board we'd like a bit more flexibility in that. And so we're looking for a substantive change in capital. I won't put a number on it and in fact we're still discussing it. But definitely northwards.

Now you're absolutely correct, we're walking a bit of a balancing act here and it's very difficult to be quite prescriptive today and tell you exactly how this is going to work out.

However, our initial assumption subject to being able to execute them sensibly was if we are able to exit non-core businesses intelligently that will break the back of it considerably. And -- because remember if we're relying on excess capital production in our -- from our operating position it would take quite a long time to make a difference to the capital base. If we really want to get that done quickly then identifying non-core businesses and executing them at a reasonable price. Because obviously you wouldn't want to sell something if you think it's going to be more valuable in the future with a high degree of comfort.

So we'll take everything into account but all things being equal were that to be possible, which we actually think it is, that's the thing that would at least get us up a few steps. Whether it takes us all the way or not we won't know until then but a combination of that and other actions will actually take us forward. There are some actions that are -- most of the actions we first look to are shareholder-friendly in any event, none of them really capital positive and they wouldn't eliminate attractive core businesses. But we just have to suck it and see once we've done that and see where we're placed.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay, fair enough. Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, Raghu.

Operator

Your next question comes from the line of Marcus Barnard. Please go ahead with your question.

Q - Marcus Barnard {BIO 2103471 <GO>}

Yes, morning all. I suppose a lot of my questions have been answered really. I was going to ask about what level of capital you thought was appropriate. But I suppose as a general comment you and your predecessors have been de-risking the balance sheet for most of the last 10 years and it hasn't really helped your share price very much. It strikes me looking across the sector at a number of insurance companies, the ones that have performed best are the ones that have had a proper top line growth strategy and when I look at your strategy you're laying out here, sources of segmental revenue growth appears quite low down the list. Anyway, maybe you could comment on that, maybe you could just put it in the pot but any thoughts you've got would be helpful?

A - Patrick Regan {BIO 15131018 <GO>}

Thank you, Marcus, I presume you meant John's predecessor (technical difficulty).

Q - Marcus Barnard {BIO 2103471 <GO>}

I was thinking of various management people that have come and gone.

A - John McFarlane {BIO 1509370 <GO>}

Do you want me to do that, Pat?

A - Patrick Regan {BIO 15131018 <GO>}

Please John.

A - John McFarlane {BIO 1509370 <GO>}

Yes. You're absolutely correct that top line revenue growth translates to bottom line earnings growth. It is obviously very important. But it can be overrated as well. Remember -- the model I carry in my head is the value of the enterprise, the Company is the value that is the capital that we've put in plus the present value of future excess returns. And if you look at the shape of that curve of future excess returns essentially it rises, it peaks and it falls and there are four factors essentially that influence that, all of which are relevant. And you trade these off and find the sweet spot between them.

The first is the absolute level of return that you produce. So driving up your return is value enhancing -- your excess returns is value enhancing. The second is how fast you get there, in other words how fast your revenue and earnings are growing. The third factor is the volatility of those excess returns and that's where the emphasis on de-risking comes in. And of course while there's been de-risking in the past over a number of years we saw the effect of the volatility just on our earnings and our capital, particularly on our capital, in the last 12 months. We saw our excess capital being knocked around by over GBP4b.

And so you can't say growth is the only thing in town because eliminating some of that is clearly going to be a factor. Then the final thing is how -- over what time do you generate the excess returns which is essentially a function of the sustainability of the excess returns and their ability to be competed away which is another way of saying do you have a competitive advantage. And obviously we want to -- and competitive advantage in excess returns tends to come with market leadership. So if you dominate a segment you generally are able to generate higher returns than if you don't.

And so when we're looking at the reviews we're doing obviously leadership will play quite an important part in that. Now there are sources of revenue growth available to us but that's only valuable ultimately if it's translated into superior earnings growth. And there are -- given that the Western economies are relatively subdued we're essentially searching for low -- predominantly low capital investment opportunities with good revenue growth. And there are some but they're not universal.

Clearly if we were positioned in the emerging markets that would give us a better figure on the revenue line, it would probably be an anticipation of future earnings rather than actual earnings simply because you tend to get a premium for expected earnings rather than actual earnings when you're in that rapid growth situation. And in fact in most cases you tend to find that its capital negative in that you actually have to put the capital and expenses in first. You have to drive your earnings down before you actually get earnings afterwards.

So I think your statement is not correct. It might be a good observation on what's happened [ph] so far but I don't think it's the best way of thinking about it. Clearly it's important but it's not the only game in town. And our job is to find the optimization of these factors.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay. Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, Marcus.

Operator

Our next question comes from the line of Andy Hughes. Please go ahead with your question.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. A couple of questions if I could. The first one is on the economic capital surplus at the start of May because I know you said it was the most important metric. So can you just update on what that is?

The second question was on the IGD surplus and I'm just wondering how much of it relates to unrealized gains in France?

And the third question I guess is about outflows. My key concern is that maybe John could update or maybe sell the job to me if I were to apply to the job maybe he could sell it to me because it seems to me and maybe to the share price at the moment that a lot of these things are actually outside of the control of the CEO. We don't know what the outflows are going to be in Italy. We can control how we account for it through the IGD surplus but we don't know how many outflows we're going to get in France, Italy over the next coming months and so how are you going to prepare the capital on balance sheet for that? Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, Andy. I'll ask John to comment on your potential for the job in a moment. On the economic capital surplus, I'm not going to give you a monthly update on that. The coverage figure at the end of April was the same as the end of March and it moved marginally down as you'd expect, Andy, as we go into May. So at the end of April it was basically the same as it was at the end of (technical difficulty)

In terms of the IGD surplus, to the end of the year the IGD surplus has grown pretty much everywhere. That certainly would include France but would include Italy, Spain, UK, North America as well. Again similarly we have never gone out and disclosed the breakdown of that country by country and I'm not going to now. (technical difficulty) unrealized gains in

France and it did go up since the year-end but it certainly wasn't the only contributor to the IGD increase.

Q - Andy Hughes {BIO 15036395 <GO>}

I'm just thinking the unrealized gains in France are counted up to a maximum of zero and then they turn into unrealized losses so it would be good to know how much could be lost in France as part of your de-risking exercise and where you are on that scale?

A - Patrick Regan {BIO 15131018 <GO>}

I understand. I'm not going to give you specific figures country by country on IGD because there's equally a bunch of things that aren't counted in that measure, our GBP1 billion plus (inaudible) stake in the UK just taking one of them.

In terms of the outflows, I think one of the questions we talked about with you at the year-end was outflows in France. Philippe and the team have done a terrific job in striking the balance of the right credit being raised and the impacts on flows within the French business. And the good news is we've seen a much better position on that in the early months of 2012.

In Italy, there's been a slight increase in outflows but largely they're really at the margin so they're not large numbers in the context of the balance sheet in Italy. John [ph], I don't know if there's anything you'd like to add to that.

A - Unidentified Speaker

I think that's right. You've got to remember that the Italian market is largely a single premium market as opposed to a (inaudible) premium market so it's affected by (technical difficulty) very much. So you tend to see more inflow and outflow volatility in that market than you do in some of the more established markets. But obviously we're watching the position there very carefully.

A - Patrick Regan {BIO 15131018 <GO>}

John, do you want to add anything in --?

A - John McFarlane {BIO 1509370 <GO>}

Well of course you can have my e-mail address if your application's coming. But look I think the first thing is -- and again I'm not talking my own (inaudible) but Aviva did actually attract me to be the Chairman, I must have seen something reasonably meaningful here that can be achieved. Simplistically you can think of this in two ways. Clearly the Company hasn't performed as well as others and it hasn't performed as well as promised. And so to me there's a great opportunity in just fixing that. And remember I'm not looking for a quick fix here; we're looking to play this long and do it intelligently. And I think we've got enough flexibility in the situation, combined with the fact that I think things are going to be rocky outside for a while but at some point in time the major economies will turn up and we will be well positioned by that point in time for that.

And so there is -- I won't use the word turnaround but there is that element of turning around the sheer performance and basic value of the Group. Again I'd rather not promise anything, I'd rather just do something and tell you what we've done and then you can work out how you value it.

Simplistically if we can nudge up our return on equity to a relatively modest level, certainly even if we did our target level and we're able to improve our margins as part of that, if we're able to reduce the amount of capital that we need to run the business, lower the volatility of those lower our cost of equity, lower our cost of capital, you can easily see book value without much difficulty providing we can get those things done. Now if you then look at the target returns higher than that, with some revenue growth, with some earnings growth a return on equity of 13.5%, 14%. And with the volatility reduced so a lower cost of equity and debt, you could see one and a half times book theoretically.

So the challenge is to work through that but sensibly and see what the environment will offer but also what we can engineer in and of ourselves. Do I think that we will be in better shape on those dimensions than we are today? I am very confident of that.

Then there's a second aspect to this which is that we get the opportunity here to reshape the Group going forward and that is grow businesses in certain countries, particularly the UK. And we've got weaker positions in some other countries. And so what we need to do is to get right down to basics asking what is attractive, where we're going to put our money and we'll also get other opportunities in time to reshape the portfolio, give us deeper leadership positions with higher returns in good markets.

And so there's two phases to this. First, let's fix the basics and then let's take the Group somewhere is probably the way this will work out.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of William Elderkin. Please go ahead.

Q - William Elderkin {BIO 3349136 <GO>}

Good morning, everybody. It's William Elderkin from Soc Gen. Two questions. I'm totally new to looking at your Group but the tone of your press statement this morning and this conversation sounds an awful lot more cautious in respect of your capital position than certainly it seemed to me a couple of months ago. Has anything changed from a regulatory or rating agencies perspective rather than simply a change in the CEO's office?

Secondly, the key thing we've talked about this morning seems to be capital. The language used on the call I think quite surprised about. You've used terms such as making the corporation safe, capital is adequate at present, wanting to fix that quickly. Clearly you've got a number of different levers at your disposal. All I suspect involve extremely difficult choices and also a need to act quickly if I've understood you correctly. Under those circumstances would you rule out simply raising new equity to fix the capital problem?

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, William. I'll give you the factual bit first then I'll get John to talk to the broader question. No. There's been no new data, no new situation has arisen (technical difficulty) rating agencies over the last number of months. John, do you want to pick up William's broader question?

A - John McFarlane {BIO 1509370 <GO>}

Yes. On the subject of equity raising, clearly I've seen some shareholders or at least media comments or analysts' comments about being nervous about that. I wouldn't be so nervous about that. Remember if we had to raise equity it is actually quite difficult to raise very large amounts unless there's a meaningful reason which is compelling for people to subscribe. The other options available to us are able to generate large amounts of capital. And so we'd look to those first. It would be my instinct. I'm not ruling anything out but you'd clearly look to that first.

Now I'm not saying that the Group is not safe. I just would prefer to have more capital and less volatility. And I think so would you. And so it's not a crisis and we're not even sending you that signal. Our capital levels have improved since last time so it's been the opposite. It's just that we'd rather be more prudent than we are and I think shareholders would too. That's certainly -- the feedback I've had in my conversations with individual shareholders has been about disappointment in the performance and the stock price but some concerns over the external environment, the volatility of that environment and the adequacy of our capital from their standpoint.

So I think there's a sort of general feeling that a more secure base with lower leverage would be more attractive than our current position and therefore I'd rather get to that point and then take it from there. It's not urgent but the sooner we can get there the better.

Q - William Elderkin {BIO 3349136 <GO>}

Okay. Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, William.

Operator

Our next question comes from the line of Greig Paterson. Please go ahead.

Q - Greig Paterson

Morning, gentlemen. Two questions, one for the Deputy Executive Chairman. If you had a choice between cutting the dividend or removing the scrip, which one would you go for?

That's question one.

The second one is if I take the run rate in operational capital generation and I remove the Fin re [ph] and look what that implies for the full year, that's GBP1.7b. Is it fair to say are there some funnies or seasonal factors or should I be penciling in that you're at the bottom of your targeted range for the capital generation?

And the third question is in terms of UK general insurance. And I stripped out RAC, the year-on-year net written premium growth is down 4% and it's been growing strongly for two years before that. I thought this was your growth story. What's going on? You seem to have backed off in your pricing and the growth element here. I was wondering if there's been a change in strategy or how I should interpret this.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks very much, Greig. I'll pick up the couple of first ones and I'll get David to amplify the GI question a little bit. On the OCD as you look back over the last couple of years you do have a slightly lower First Quarter typically, partly by seasonal patterns of life or partly also seasonal profitability in GI. So you couldn't just multiply by four, Greig. You're not miles away but you can't just multiply by four. Partly because we're actually -- if you look at the comparator we're quite a lot higher than we were this time last year even if we take out that reinsurance transaction.

In terms of general insurance, if you adjust for the RAC and you adjust for the one-off transactions or even just adjusting for the RAC, our motor books are up nearly double-digits. In terms of allocating capital where we're getting our better return that's a great example and we'll continue to look to add policy counts and volume growth in that motor book. We're obviously at 2.3 million policies now and we can get good profitability there.

As we mentioned earlier, we are a little more cautious on the non-commercial motor part of commercial, the rating's not as strong there. So we are being a little bit more cautious but certainly we're looking to take and are taking share in the personal motor space. But David, do you want to just add?

A - David McMillan {BIO 17298829 <GO>}

I think you've probably answered the question for me, Pat. Just to reiterate the underlying profitability growth in the GI business has been good for the last couple of years. We're seeing that continue into the First Quarter of next year -- sorry, the First Quarter of this year. In terms of where we're seeing the growth, we continue to see it in personal lines, particularly personal motor. Our corporate and specialty business which we brought together at the beginning of 2010 continues to show strong growth. We're a little bit more cautious as Pat said about SME commercial in particular where the rating environment has been relatively soft. And we also took some corrective action in the second half of last year to address some underperforming parts of the business in commercial motor which were driving a combined ratio in commercial motor that we weren't happy with. So I still see good and solid underlying growth both on the top line and also in the bottom line for the rest of this year.

A - Patrick Regan {BIO 15131018 <GO>}

John, I don't know whether you want to talk to Greig's dividend question?

A - John McFarlane {BIO 1509370 <GO>}

Yes, yes. The more important thing is to grow the capital base and that's more important than getting rid of the scrip although getting rid of the scrip is a priority if we can. In terms of dividend, cutting the dividend is a very tough call. Holding the dividend is an easier call than cutting it, a much easier call. And so we'll take account of all the factors and decide -- clearly if we're looking for a capital boost I don't think we'd expect a rapid rise in the dividend. But certainly they all play a part. But as I said before, the aggregate amount of the dividend in a particular year doesn't do a lot for our total capital. And so it's important but it's not the most important thing, there are other things that we'll do before that.

Q - Greig Paterson

But just to answer the specific question which do you see as the -- if you had a choice between cutting the dividend or removing the scrip --?

A - John McFarlane {BIO 1509370 <GO>}

Removing the scrip is positive, cutting the dividend is negative. So that's probably a (multiple speakers).

Q - Greig Paterson

No. I mean --

A - John McFarlane {BIO 1509370 <GO>}

-- the scrip or cutting the dividend then obviously keeping the scrip is an easier decision.

Q - Greig Paterson

All right, fine.

A - Patrick Regan {BIO 15131018 <GO>}

I think we've just got time for one more question, Operator, if that's okay.

Operator

The last question comes from the line of Marcus Rivaldi. Please go ahead.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Good morning, everybody. Just to come back on the debt deleveraging point. Given recent issuance if outstanding debt is retired in line with the first [ph] call date between now and January 2014 you'll be short of your original GBP700 million deleveraging target by probably around GBP400m. So are you committing today -- because I have seen those comments about committing, re-committing to deleveraging -- are you recommitting to reduce that quantum of debt outstanding by the additional say GBP400 million to bring your quantum of issuance back into line with that previous guidance? I know it's a difficult question.

My second one is what does medium term mean in this current environment? Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks, Marcus. I think both John and I have said as we've gone through the conversation that deleveraging is part of the mix of the priorities we've talked about; it remains an important one as well as the capital surplus as well as the volatility point. And so our ambitions that we described a year ago remain our ambitions today. It'll probably take us a bit longer so in other words I talked about a three-year timeframe a year ago, probably you'd look at three years from now probably is a realistic timeframe to that. So I think that's the broad answer to your question, Marcus.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Thank you. Just to be clear then. So the original GBP700 million it does require some additional debt to be taken out then beyond the original amount envisaged?

A - Patrick Regan {BIO 15131018 <GO>}

I won't go into the specific (technical difficulty) specific instruments but yes just take this as overriding ambition

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Thanks. Well thank you for that. That concludes it. Thank you, everybody, for the questions (technical difficulty). Speak to you all soon.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect your line. Thank you.