S1 2012 Earnings Call

Company Participants

- David Barral, CEO, Aviva UK & Ireland Life Insurance
- John Lister, Group Chief Risk and Capital Officer
- John McFarlane, Chairman
- Mark Wilson, Group CEO
- Maurice Tulloch, President and CEO, Aviva Canada
- Patrick Regan, CFO

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Blair Stewart, Merrill Lynch
- Chris Esson, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- James Pearce, Analyst
- Jon Hocking, Analyst
- Marcus Rivaldi, Analyst

Presentation

John McFarlane {BIO 1509370 <GO>}

Good morning, everyone and welcome to our 2012 results announcement and particularly I'd like to welcome our new CEO, Mark Wilson, who's going to lead this results presentation for the first time. Mark will then be followed by Pat Regan, our CFO, who will take you through the financials.

Now I've been in the Chair now for eight months and Mark for two. We're here to deal with the issues of the Group and to take it to a new future. Naturally we're going to make some decisions that shareholders are going to admire and we're going to make others that they're going to dispute, and I'm sure today is one of those decisions.

I know many of you are going to be preoccupied by the decision to reduce the dividend. It's not surprising. But while it may be difficult today, I would encourage you to stand back from the situation and see it from the viewpoint of the Board and the management who are trying to remedy the legacy of the past and take us to a much better future. And also please do not overlook the considerable steps that have been taken to mitigate these historical issues of the Group and the improvement in the future outlook.

Now it's only a few months since I told you of the need to reappraise considerably the situation in the Group. Firstly, the need for a strategic reappraisal, it led to the conclusion that we had 16 businesses that were destroying value that should be exited and 27 that required action to improve. The need to rebuild the capital position from an unacceptable base, to reduce our exposure to volatile and capital hungry segments and to build a stronger, more liquid balance sheet. The need to improve operating earnings and return on equity. And the need to have a new approach to communication that was full and frank and combined with credible plans and actions that were clearly understood.

In doing so, while we couldn't commit to hold the dividend we genuinely said we would try and do so. Unfortunately things have changed. Instead it's become clear we do need a dividend level that is sustainable, can grow progressively and one that will allow us to achieve other objectives, in this case reduction in internal and external debt and leverage.

Now leverage is not a new priority, but it's come to the fore with a substantial decline in our net asset value following the sale of the US and the build up of the internal debt balance. These have both reached a level that we need to bring them down. This is the trade-off, a high historical dividend that would deplete resources and sustain a high leverage or a more manageable dividend and a safer financial condition. Frankly it isn't really a dilemma. There is only one realistic option.

Now, as I said, I know people are going to focus on the dividend decision, but it's only one step in preparing us for the future. In thinking about this, it is worth stepping back as to what has been achieved here in a very short period of time, and probably faster and at better prices than even many thought possible. In that respect boosting capital has always been our main priority and I'm pleased that we were able to increase the economic capital by GBP3.5 billion to a pro forma level of GBP7.1 billion over the year post the completion of the US.

Initially we had 16 red cells and have since exited seven of them, including the most material, and action's being taken on the balance. We announced the disposal of the US business, which illustrated, with hindsight, that Amerus was not an acquisition we should have made. We sold our stake in Delta Lloyd as well as a number of smaller interests around the world, we settled a dispute with Bankia in Spain, we reduced our exposure to Italy and Spain, and exited large bulk purchase annuities in the UK.

We also targeted improvement in what we call amber cells, there were 27 of them, through revenue increase, cost reduction, loss mitigation or capital withdrawal. Seven of these have been brought to green status. So as we stand now we have nine red cells, 20 amber cells and 22 green cells.

And it's also clear that we've reshaped our management team, particularly with the appointment of a strong and decisive CEO, and substantially renewed the Board in line with some announcements that we made yesterday.

So turning to the dividend, what has changed? And the answer is, a great deal. Firstly, the sale of the US, although it was strategically imperative, it resulted in a 36% reduction in net assets per share over the year from 435p to 278p and a consequent increase in tangible leverage from 40% to 50%, which is high relative to the sector. We need to bring this back to 40% as soon as we can and lower through time.

Also in January we began to simplify the Group's legal structure to improve governance of the UK general insurance business. This will complete at the end of May and formalize the existing interdivisional balance that we called it, into a new name which is a collateralized loan of about GBP5.8b.

Now hitherto, why we called it an interdivisional balance, it was essentially an arrangement between two parts of the same legal entity. But it's now taken the form of a loan agreement to a separate entity in the Group, a different insurance holding company. So again it's increased from the last time. It was GBP4.8 billion before. It's GBP5.8 billion now. We need to bring this down to a more prudent and sustainable level.

So as the new team considered and approved this particular arrangement, there was considerable due diligence on this and what led to such a sizeable interdivisional balance and subsequently collateralized loan. It became much clearer when we looked at it the extent to which we've been operating beyond our ability to generate cash and have avoided in the past coming to terms with this. So we need a clear position on this going forward and on dividends as this has become more critical in the light of the need to pay down some of this external debt, but also of the internal debt between the entities. And so management, as you'd expect, has applied considerable due diligence on our forward plans and the cash position in the light of this.

So now faced with the dividend decision, there's always shareholder pressure for it to be maintained and to grow. And of course there's always a natural management bias to respond to this positively, as we've done in the past. For example, at the half-year we did decide we would cover it. But at the same time we did make people aware there was uncertainty around it and that things were tight. Looking forward though, we did conclude that operating cash flows in 2013 would again be short of our cash needs and going forward we need the reverse to be true.

Now the good news is that central liquidity balances are likely to improve significantly with the settlement with Bankia and the completion of the sale of the US business. The good news also is that cash generation improves significantly in 2014 as a result of the performance initiatives we've instituted, but not to a level that can sustain the past dividend, or to generate capacity to pay down debt. The bad news is that we could only sustain historical dividend levels by depleting current and future liquidity balances. And frankly we need to retain these for known and unknown risks and the capacity to pay down internal and external debt.

We've therefore come to the difficult decision to reduce the dividend to a level that can be cash covered in 2014 and beyond, and to preserve these liquid resources for important long-term structure requirements. Now I regret this decision's become necessary and I know it's a surprise to many. But I can assure shareholders that this is the right call and we took it only after examining all alternatives scrupulously.

So going forward we end up in a position where we can cover the new dividend levels from 2014 as well as modest reductions in debt. And management is also articulating a credible investment thesis for the future, which Mark will cover today, and is building credible plans and demonstrating professional execution of this quite complex agenda. And so I end up for the first time in recent memory where I believe there are realistic grounds for optimism about the future of Aviva. And on that note I'd like to thank you and pass you to Mark who will begin the results presentation.

Mark Wilson {BIO 7102576 <GO>}

Thank you, Chairman. Good morning, everyone and welcome to this results presentation. Over the past two months I've met with many investors and key stakeholders in Aviva and they all ask about my impressions.

Now my impression of this Company is that it's a Company with an unbelievably rich history. It's got some very strong businesses, it has a distinctive brand and it really does have, some of them with me today, some very talented people. I think the underlying insurance businesses are very sound indeed and I guess that's really a legacy of three hundred years of history of insurance in our DNA; that's what leaves that history with us. On the customer side I think that's also an area where the business certainly excels. I've sat in our call centers and I've listened to the staff and I've seen that front line stuff, that's where we really are good.

But however, from an investment perspective, we need to be frank about the facts that in recent years Aviva has not lived up to its potential. The strategy has proved to be wrong and the share price has certainly lagged peers. This is rightly disappointed and even angered some shareholders and as an investor personally I understand that frustration. How does an iconic business, how does something with such undoubted upside potential, how does it underperform?

Now John McFarlane, he highlighted these issues last year and him and the Board set out a clear plan to sharpen the Group's focus, build on the financial strength and improve the overall business performance. These were the right actions. And this morning I want to talk you through the progress in 2012, the investment thesis for Aviva, and I will cover the rebasing of the dividend and the elimination of the scrip. I'll then hand over to Pat and he will talk us through the 2012 results, then we'll have plenty of time for the questions.

Now it is clear to me, turning to slide one, it is clear to me that Aviva has made substantial progress in the Group over 2012, and we do have clear evidence of delivery. In 2012 we narrowed the Group's focus and this was through exiting our most significant non-core assets of US, Delta-Lloyd, Sri Lanka, Malaysia and last week the small Russian business.

Now let's be clear, in 2012 capital was our focus and the capital position has improved markedly. In fact the economic capital surplus has strengthened from GBP3.6 billion to

GBP7.1 billion and that now gives a cover ratio of 172% on a pro forma basis. Now this is well within our target range of 160% to 175%. Now in addition to the headline improvement, our sensitivity to the credit spreads and interest rate movements has considerably reduced by about one third. That's obviously good from a risk perspective. Our risk exposure to the eurozone has been reduced in the shareholder funds, particularly with respect to Italian sovereign bonds.

Now while these disposals and the actions have been significant from an economic capital perspective, as John said, our leverage ratios have increased. This is suboptimal and it must be addressed.

Pat will take us through the 2012 results and the results are dominated by the final GBP3.3 billion write-down of the sale of the US. Now there does seem to be some confusion over that figure, so just to clarify, this was made up of the circa GBP900 million we announced at the half-year and the GBP2.3 billion we announced on the sale in December. That's trued up to give the final number we have today.

Now in 2012 we also delivered run-rate savings. That's GBP275 million of the GBP400 million target. Again I think that's a positive delivery. So in summary, we achieved a great deal in 2012, but clearly much more needs to be done.

Now as I met with investors, the most consistent question I had, other than the obvious question on the dividend, was why Aviva? What's our investment thesis? What are the compelling reasons why you would hold or buy the stock? It is very clear to me that historically we have not articulated this or at least haven't articulated it clearly.

Now when I look at insurance companies I understand how many generalist investors globally are confused. The insurance industry makes a whole industry out of complexity when in my view there is no need to be so complex. I think it's fundamentally a simple industry that over these generations we've made complex. Now I believe there's a clear space in the market for a simple proposition, cash flow plus growth, a diversified insurer that can provide sustainable and growing cash flows and one that has good options for future upside growth potential. The investment thesis is about cash flow and growth in that order.

Now whilst valuation methodologies like MCEV and others, and I could debate them all with actuaries for hours I guess, but while those methodologies are a very useful tool, particularly when looking at book value, I don't believe they're sufficient or simple enough, and I do believe they're overly reliant on assumptions.

Therefore Aviva will focus its business on a very simple metric of progressive cash flow generation. When I'm talking about cash flow, I'm talking about real cash flow up to the Group that can be dividended [ph] out. So I mean real cash flow. My intention is that Aviva will have a robust balance sheet, strong and predictable cash flows, a diversified earnings and capital, and lower leverage from where we are today. We need to be simple. We need to be understandable. We need to be as predictable as a Swiss clock.

Now our investment thesis is also about having three core scalable businesses, businesses of life insurance, general insurance and funds management. We do have the scale. We have gross written premiums of around GBP23 billion and over GBP300 billion in funds under management. That gives us the scale.

Now the majority of the businesses are also concentrated, as you know, in UK and Europe and over the past 12 months we've spent considerable time improving our risk profile. That was another priority of the Group last year, particularly with John Lister and his team, and Pat and the other, the rest of the team, there's been a lot of work done on this particular area. As a result we are positioned to benefit from the gradual increase and the gradual recovery in the UK and Europe. I believe every market goes in cycles. The only question is the timeframe of that cycle and I guess you're in some of the best positions of anyone to judge that.

From this perspective I guess we become a somewhat de-risked value play on Europe. We also have a number of businesses which offer excellent growth potential in markets such as Poland, markets such as Turkey and selected markets in Asia. These businesses will be managed with a view to growing value of new business.

Now for anyone to buy into our investment thesis of cash flow and growth, I think you'd need to believe a number of things. You'd need to believe that firstly we can deliver our progressive cash flows, and I believe we have many years of progressive cash flows that we can get out of these businesses. You would need to believe we can execute our strategy, and we'll take you on to that in a minute. You need to believe we can structure the Group with a lot more simplicity and transparency, and hopefully we go someway towards that today, as Pat will show. And fourth, you need to believe that we can deliver our plans to get a robust balance sheet with reduced leverage.

If we can do that, we will have de-risked the investment proposition. And if you can believe those four things you would believe our investment thesis.

Now one of the key influences on cash flow in my view is diversity of earnings. And for some I guess critiquing our investment thesis, the first question may be the one of being a value of being a composite versus a monoline [ph] insurer. And this question keeps on being asked of me. And I must say the origins of this question have somewhat perplexed me, as it appears to be mainly a UK phenomenon. In my view insurance by its very definition is about diversity. It's about taking the risk off one and spreading it over the many. And that same view applies to insurance companies, the need for diversity. Now we can achieve this in a number of ways, can't we? We can achieve it through geographic diversity, product diversity or of course a mixture of both.

So if someone asks me, are we a composite, then I think they're asking the wrong question. The question is can we operate and get scale and skill in the three core businesses of life insurance, general insurance and funds management. We are not a composite. We're an insurance company with scale operations in those three core business lines. We will operate these businesses in a small number of selected markets where we have a competitive advantage and where we can get scale. That means that we might be in any selected market with one, two or three of those business lines depending on the market dynamics and depending on our skill set in that market.

But diversity also brings with it a number of financial benefits, both for cash flow and capital, as this slide on screen shows. And here you can see that general insurance and life insurance, as we all know, are cyclical when it comes to earnings, and this does give us an advantage for consistency of our cash flows. In fact the correlation between the two is very low. In terms of economic capital the diversity of our businesses allows us to hold GBP21 billion less capital than on an undiversified risk basis. That's a big capital advantage. Just to be clear, we target three core business lines in few selected countries. This is what I'll as the tripod of Aviva's business and all these three areas are core.

So moving on to financial simplicity, our investment thesis is also about simplicity and one of the key questions that we had to address was our corporate structure. I know that because many of you were saying that to me. Now Aviva's corporate structure was overly complex, and the new structure shown here, that Pat will take you through, is more straightforward and has been designed to reduce liquidity traps and to improve the cash remittances to the Group. So the cash remittance ratios become very important.

Now part of this past complexity was I wanted a visual balance or internal leverage. And although some degree of inter-company balance is normal and acceptable, ours is just too high. I think of it a bit like this, it's a bit like borrowing money from your parents to buy a house. Now you may never have to pay it back, but you don't want to get that debt level too high. That's how I think of it.

Now Pat will explain the change to our corporate structure in more detail shortly and explain what that means from a financial perspective. However, to be clear, we plan to reduce our internal leverage by GBP600 million over the next three years and GBP300 million of this will be paid in 2013 from the proceeds of the asset sales. So just to be clear, GBP600 million over the next three years; GBP300 million this year from the proceeds of the asset sales.

Now in addition, as we've said, from our disposals our external leverage is simply too high and we plan to bring that down to below 40% over the medium-term. Now to give you an approximate quantum of that, that would be a reduction of around GBP500 million over the medium term. Now we've discussed this with the FSA. They're aligned with our thinking in relation to these issues and they are supportive of our actions.

So turning to slide five, cash flows, our investment thesis is about cash flow. Now for analysts covering the stock on cognizant there has been two schools of thought. On one hand we have those who would suggest that with our successful disposal program we had plenty of liquidity to pay dividends at the stock rate. Others would suggest that the business underlying earnings are not sufficient to cover the current level of dividend and therefore the cash flow was too tight. The reality is that both of these arguments are correct.

We do have enough short-term liquidity to be able to pay dividend, but the current cash flows of the businesses are too tight to support this historic level and, in addition, with our desire to reduce leverage, that makes this position unrealistic. It's also clear to me that the market did not have full confidence in our cash flow position. The 7% yield in my view was at least partly attributable to the confidence in our cash flow and the risk, and of course the dilutive impact of the scrip was another major factor.

Now the information on this slide you may have seen before in our published data, but I've tried to cut the data to give you clarity over the current position. The slide is a summary of our Group center operating cash flows, our outflows and also the remittances to the Group received from the businesses that they dividend up. Now this shows it both before and after the scrip in the last two years.

The very top of the table covers operational cash generation, and you can see that this has been around GBP2 billion over the past two years. In fact, I think the first time we published this metric, Pat, I think was 2009? 2009 and the total was GBP1b. So GBP1b, so it's doubled since then. Now one of our priorities is to improve the remittance ratios from OCG to dividends. We are lower than the market, we're substantially lower than the market and that's certainly one of the things we will be focusing on going forward.

But going forward this cash flow position is too tight and we do have specific plans in place to improve it. For example, reducing restructuring costs is a quick win and turning around the amber cells, getting things out of things like Ireland, getting cash flows and dividends from those sort of countries are also things that are being worked on. In actual fact the numbers for 2013 are already moving forward and Pat will cover that as well.

And now turning to the dividend, as we have addressed capital, I need to once and for all address our remaining balance sheet issue of debt. This is entirely consistent with our investment thesis of cash flow. And when we consider our current cash flow position on the previous slide, I think of it like walking up an escalator which is going down. It is possible to climb up but eventually the escalator wins. Now the Board has agreed with management that we need to stop the escalator. The additional plans for debt reduction are also key. As such, we have only one course of action, the dividend needs to be rebased.

And as a Company we were clear we wanted to keep the dividend and as the CEO I'm disappointed we had to take this action. But keeping the status quo would -- I guess keeping the status quo would have undoubtedly have been easier today. However, managing the dividend would simply -- maintaining at the current level would simply postpone this issue, and I am not prepared to just kick the can down the road. So today we have declared a dividend of 9p per share from 16p. This brings the full-year dividend to 19p per share from 26p.

In addition, we have decided to eliminate the scrip. Now the removal of the scrip will stop shareholder dilution. It will -- given that the scrip has in fact, and you'll know this, had a diluted impact of around 16% over the past eight years, that's quite a substantial shareholder dilution and today we're eliminating it. This measure will obviously improve future growth in earnings per share and it will improve growth in net asset value per share.

These initiatives were chosen very carefully, and I know some may suggest that we should have considered other options and, as John said, indeed we did, like keeping the scrip. Keeping the scrip has been considered and we came to the conclusion it just doesn't make sense. Using the scrip to fund dividend is illogical. The cash flows from the scrip are uncertain, it confuses investors, it's not consistent with our cash flow thesis and it just doesn't make sense from a corporate finance perspective. It just would not be a clean investment story.

But looking ahead Aviva will have a progressive dividend policy with reference to growth in cash flows and reference to growth in earnings. We would, and I want to give you guidance here, we would expect the 2013 interim dividend would be rebased to a similar percentage reduction to the 2012 final dividend.

So slide seven on cash flows. Many investors have asked me for our current cash flow position by country, and this is reasonable as it helps with modeling. This table gives some clarity on where we will fund our future dividends from. The cash flow tree you see on the left hand side of the slide shows the remittance to Group in 2012 by each major business. That also shows the OCGs, you can see the ratio between OCG and remittances.

The four main cash contributors to the Group are these four, UK Life, UK General Insurance, France and Canada. These are our cash cows and these will be managed fundamentally for cash flow. Slide two, if you have a look -- sorry, the next build to the slide shows that the other businesses, principally Aviva Investors, Spain, Italy and Ireland, are cells that we can turn around and these have good upside future cash flow potential. Asia, Turkey and also Poland have good future cash flow potential as well, but these ones will be managed with a view to value of new business growth. Now Poland is already a cash contributor, as you know, and we see this as one of our key growth markets.

On the right hand side of the slide it shows what I would call our value tree and this summarizes the value of new business for the life businesses and the CORs, the combined operating ratios, for the general insurance businesses. These measures are proxies for cash. They're proxies for cash generation now and proxies for cash generation in the future, and that's how they'll be managed.

So how will we measure? This next slide shows a clear and simple measures we will use to focus the business units, manage people's performance and manage the overall business performance. I call it our matrix of metrics. There are five key measures, our cash flow, meaning remittances to the Group, so real cash; IFRS operating profit, which is a pretty robust measure; expense management; and value of new business for life businesses; and COR for the general insurance businesses.

The priority of these measures is color coded to denote either whether they're critical, significant or important. However, just to be clear, if there's a choice to be made in mature businesses between increasing cash flows or value of new business, then cash flow trumps value of new business. It's simply a question of priorities for the Group. It's simply a question of cash flows. It's simply a question of future dividends. Poland, Turkey and Asia, on the other hand, are being managed for growth rather than cash flow, so the value of new business is critical. And in the coming months we will give you more detail on this, including a cell-by-cell analysis as we further develop these plans.

So now to 2013 priorities, our investment thesis is about cash flow and growth. We will focus our businesses on remitting cash flows, therefore improving the remittance ratios to OCG is critical. And as I said before, these ratios are very low by market standards. To be able to grow that dividend progressively we must however be able to execute our plans. This includes the turnaround of the amber cells and it includes managing our huge back books.

The appointment of Nick Amin as our Group Transformation Director, and Nick is here somewhere today, helps us deliver these plans. The promotion of David McMillan and Jason Windsor also strengthens our execution capability in these businesses. The appointment of Khor Hock Seng as CEO of Aviva Asia reaffirms our commitment to selected markets in that region and gives us strong Asian leadership with deep market experience. Having a strong Asian managing Asia just makes good business sense. And the appointment of Christine Deputy, this week, who is also here today as our new Group HR Director, gives us the necessary leadership and experience for our people and our cultural change.

And let's not forget simplicity. We've made a number of positive steps in this regard with our cash flow tree, and the disclosures that Pat will show you shortly. You can see where our dividend flow will come from; the priorities are clear and simple with which we're going to manage our business.

So in summary, we'll focus our business on cash flows, on simplicities and on strength this year. And looking at the business and looking at the numbers and after two months of looking at them, I know them intimately. And I believe we can get many years of positive cash flow growth from both improving the businesses and improving the remittance ratios. As Pat will show you, we have many levers we can pull and I'm confident that we can build from 2012 as a base.

So I'll now hand over to Pat who will take you through the results and then we can take your questions.

Patrick Regan {BIO 15131018 <GO>}

Thank you, Mark and good morning everybody. I'm going to start first with the results summary. Obviously the overall loss after tax of just over GBP3 billion was primarily due to the impact of the loss on sale of the US business, both the GBP900 million goodwill impairment at the half-year and then the final write-down of around GBP2.4 billion upon the announced sale of the business. The underlying profit, so by which I mean excluding Delta Lloyd, RAC and the US so I'm really comparing what's left of the Group if you like, decreased by 4% to just under GBP1.8b, and that was primarily due to foreign exchange, the weaker euro against sterling. After restructuring costs that was just over GBP1.3b.

Value of new business came down by about 9% and that was really a result of two things going on. One is primarily the result of the actions we're taking the volume of new business was down 14%, but the pricing of that new business improved by around 6%. Assets under management increased by 4% albeit that was primarily due to market movements. That said, obviously the opening values being higher gives a higher kind of earning stream in 2013 versus 2012, all other things being equal.

Importantly, and I'll obviously talk more to this later, our operating capital generation at GBP2 billion beat our target for the year. The OCG for the ongoing businesses, so those same group of businesses ex Delta Lloyd, US and RAC, was GBP1.8 billion up from GBP1.6 billion in 2011. And that was again driven by lower capital usage. Cash remittances from the subsids [ph] grew by about 20% to just under GBP950 million and I'll talk more about that in some detail later.

Now clearly our primary focus to 2012 was to grow our capital surpluses and in particular our economic capital surplus. Primarily as a result of the actions that we took, our economic capital surplus doubled over the course of the year to just over GBP7 billion or 172% coverage on a pro forma basis. And that's after changing the pension scheme basis to allow more conservative basis and again I'll talk to that later. IGD also increased from 130% to 170% coverage during 2012. The one area that did not improve, in fact increased, was the leverage ratio, both internal and external. As a result of the reduction in net asset values following that US disposal, external leverage increased to 50% on a tangible capital basis.

Finally, following the impact of the US and other movements, the IFRS net asset value decreased to GBP2.78.

Turning then to the operating profit, in terms of an overall reconciliation of the operating profit, and again this is just for the ongoing businesses I'm talking about here, you can see that GBP1.8b; you add GBP344 million if you want to compare against consensus. Firstly, the euro weakened, euro weakened about 7% against sterling average rate, the zloty about 8%, giving about a reduction in operating profit of some GBP65m. Secondly, we had higher weather costs in 2012 versus 2011 of around GBP64m, and that was primarily in the UK, albeit the weather was broadly in line with our long-term averages.

And I've picked out Ireland, which remains a work in progress for us both on the life and the general insurance side. But we do have plans in place for, in particular, significant expense reduction. A number of steps have already been taken on that and most notably including the completion of the UK branch for the general insurance business. The remaining profit increase of GBP109 million is primarily coming from those general insurance businesses.

If you look at a similar reconciliation for the life business, there's probably a couple of big picture themes I'd pick out. Firstly, in Europe you can see obviously we had lower volumes in Europe, both because of lower demand, consumer demand for savings products, and the pricing and product actions that we've taken, and that's led to a lower overall new business income. Against this we've had strong growth and pricing actions in the UK, and in particular on our UK individual annuity book that led to strong increase in the IFRS new business income coming through there.

The other couple of themes are obviously we started 2012 with lower asset values following market movements at the end of '11 and obviously with a lower interest rate environment as well. And that fed through to the lower investment return, particularly on the unit-linked business. As I mentioned earlier, worth noting, we ended 2012 with GBP12 billion higher assets under management. Somewhat offsetting that is the actions we've taken on expense reduction to offset that lower interest rate environment and this is really ahead of our expense save targets -- in addition, I should say.

Looking at that really then by business unit, I'll talk to UK and France in a moment. But I think first worth noting that we've now got five businesses, the ones I've picked out here, that make up about 96% of our life business. Similarly on GI we've got three businesses that make up a similar percentage. And the portfolio is much simpler and more focused compared to just two or three years ago when we had 30 countries and five regions.

Talk in a couple of minutes about the other businesses. Poland has got a high returning, in-force block of pensions business, generates strong returns, consistent operating profits, consistent OCG and pays a regular dividend.

Spain has seen a subdued demand for savings products and for protection products given the economic environment, but the retention levels have been high, the in-force is stable and with the efficient business model we have there, that allows again consistent capital generation and now payment of a dividend in 2012. Obviously going forward that business is going to be about 40% smaller following the settlement with Bankia and will be accordingly right-sized.

Italy's a business that's been in turnaround. We've taken a series of actions on guarantee levels on the back book, new business guarantees, crediting rates, expense levels and holdings of Italian government bonds. As a result of all these actions in 2012 we moved from negative OCG to GBP82 million positive. As you can see, we've received no dividends from Italy for the last two years, but the positive OCG means we can now move into a positive dividend flow in the future.

In the UK life business we've seen good growth in our target areas of group personal pensions, protection and individual annuities. We've seen positive inflows against those three new products -- those three products of about GBP3 billion in 2012 offset by outflows on the old legacy endowments and bond products.

Group personal pensions grew by about 10% really in the run-up to auto-enrollment and then that was offset by, as you would expect, a reduction in individual pensions. Protection value of new business grew double-digits, with the partnership with Tesco coming on-stream and now a full year of our partnership with Santander, together with a number of pricing actions we've taken and better reinsurance terms. And again, the volume of individual annuities grew by about 10%, but the real focus we had on the pricing of that business meant the new business value grew by 35%. Overall giving a GBP40 million increase in value of new business.

Offsetting this, as I mentioned earlier, we had a reduction in investment income from lower opening assets, and against this we've reduced operating expenses in the UK business, as you can see, by around GBP50m. Overall then, operating profits were slightly down to GBP887m, but you need to remember 2011 included a one-time profit of GBP93 million from the recapture of the RBS joint venture.

Now the one area we do need to do better on UK life is the conversion of profits to cash dividends. Historically, if you look back the business produced dividends of around GBP150 million to GBP200 million and this is too low. This is primarily because of the historically low production of operating capital generation pre 2010. And we've taken actions on that really over the last 24 months to increase OCG in the UK business from GBP120 million in 2009 up to, as you saw earlier, over GBP600 million in 2012. This has grown economic capital levels within that business and has allowed us to pay a bigger dividend.

And as you'll see in a moment, we're declaring a dividend in the next couple of weeks of GBP300m. That's better, but again still lower than we can do on that and again continuing work on a number of areas of capital usage, the exit of BPAs, expense levels, retention levels, all helps this. I think the last thing that's worth noting obviously is we're not yet accessing the dividends from the reattributed estate, which contributes about GBP150 million of OCG there. So that obviously will come on-stream in the future.

Just a couple of comments on France. Sales were low, as you'd expect, as they were across the whole market and as we took actions to reduce both guarantee rates and crediting rate. But our -- despite the lower new business sales, the in-force was pretty stable and again our in-force assets under management were just over GBP60b. Our business model is pretty efficient there. And we earn about net about 50 basis points on that GBP60b, turning into that GBP300 million or so of operating profit. And that gives us a stable stream of earnings and converting that into OCG.

On dividend flows we had to -- in 2010 and 2011 our team fixed what was essentially a double leverage structure in France that has now freed up the dividend flows and our conversion of OCG, as you can see, into a GBP200 million dividend flow.

Turning then to General Insurance, and again just worth noting, all of these numbers exclude RAC and Delta Lloyd. Again in the big picture, what we've seen is high weather costs, as I mentioned, lower investment returns, again particularly in Canada and France, more than offset then by the profit growth in the business. And again that includes some positive prior-year development particularly in Canada following the Ontario motor reforms.

On the UK general insurance business, overall we're very much focused on price and value over volumes. In UK motor we've further enhanced our rating engine, the ARi index.

We now include even more granularity around things like postcode inclusion within those rating engines. We also launched our second brand, Quote Me Happy, and that successfully gathered some 200,000-plus policies in the year, bringing our total to about 2.5m. And profitability on that book remains strong at 97%. Despite the higher weather cost, profitability on the home book again remains low -- sorry, remains strong, with a low combined ratio in the low 90s,

On commercial, we took a number of pricing and risk selection actions on commercial motor, particularly on things like vans. And the average rate across our book was about 6%. And overall premiums were flat as we exited a number of accounts. Now we saw some good increase -- good improvement in profitability on commercial motor, but there's more to do and we expect those actions that we've taken to continue to earn through in 2013.

Lastly, as you're aware, the GI business historically has been a division of a legal entity, the other part of the division being the holding company. And that's naturally placed a cap, if you like, on the amount of surplus cash we can pay across from the GI -- of the GI profits across to the center. The change in our Group structure does formalize that and essentially free up those dividend flows, and I'll talk more about that in a moment.

Canada delivered a strong result for the year, with 4% growth in premiums and a 93% combined ratio. Over the last few years we've built what we believe are market-leading predictive analytics for pricing there. We have a bespoke team of some 50 or so actuaries based out of Quebec who take our normal rating data we collect from customers. And they triangulate that with lots of other publicly available data, the length of your driveway, how far you are from the bank or the cinema, how far you are from the train station, to come up with a more sophisticated series of risk and loss indicators.

You can see the result of that in our personal lines results on motor and home. And we reckon they're 500 or 600 basis points better than the market. We're now in the process of transferring those same techniques to the commercial lines business in Canada and hopefully we'll see similar improvements flow through in the future.

All of those underwriting improvements together with some positive prior-year development contributed to a GBP40 million increase in the underwriting result, offsetting a GBP20 million reduction in investment income. Obviously Canada's been a consistent payer of dividends.

I thought it'd be worth spending a little bit of time on how operating profit turns to OCG and how OCG then turns to cash remittances, and I'll talk to that in a moment.

Firstly on OCG, at a really big-picture level the GBP2,571 million is our business unit profitability. You can go back to slide three and see that number. And if you take that, post about a normal tax rate, post MI, that gives you about GBP1.7 million (sic; see presentation "GBP1.7b") post tax/post MI. And that's now a pretty good proxy for operating capital generation both in total and, you can see, broadly speaking by business unit. That wasn't always true. To go back to 2009, the equivalent numbers are a broadly similar number of post-tax/post-MI operating profit of GBP1.7b, GBP1.8b, and GBP1 billion of OCG.

So what have we changed? Obviously our overall capital usage. In 2009 we consumed something like GBP1.5 billion of capital in new business. And for the businesses that get left, the ongoing businesses, that's now less than GBP400m. In the UK, as I talked to you earlier, as a result of pricing and product mix changes we've now improved OCG from GBP120 million to GBP650 million in 2012. Italy, as I spoke to you earlier, has turned from a negative OCG contributor now to being a positive OCG contributor. And lastly, things like the sale of the US, which historically has been a poor contributor of OCG and was just GBP30 million for 2012.

Now where we've got more work to do is converting that OCG into cash remittance percentages. I think before I get into that it is worth remembering 2012 is a year in transition. So we did increase remittances, the GBP944m, by 20%. The UK life number we're getting in is essentially the 2012 number paid very early in 2013, so that's now up another GBP150m. But we've got nothing from the US because we're selling it. If we hadn't been selling it we'd have probably got GBP150 million or so. Obviously we're down a bit short of, what, GBP100m, from selling Delta Lloyd. And our whole transition plan is to replace those earnings and dividends over the period to 2014. So obviously 2012, whilst increased now with the UK dividend over GBP1b, is still a year in transition.

Now typically there's a one-year lag from creating dividend capacity with your OCG and the actual payment of the dividend, subject to, obviously that's restricted if you have any restructuring cost outside OCG or if there are any local capital or regulatory restrictions. So as you know, we improved OCG firstly really in 2010 and that should start to flow through to high remittances in '11 and '12.

And what you can see in 2011 is a couple of things. Really the eurozone obviously towards the end of '11 coming through and impacting dividends in France, Spain, Italy and Ireland. Remittances have improved significantly in 2012 as a result of UK life, and again the 2012 dividend, if you like, being paid now. Changes in business mix, exiting BPAs, significantly re-pricing the individual annuity business, lowering expenses, and again all of that has led to a dividend of now GBP300m. More to do in that one. Fixing the capital structure in France now frees up a GBP200 million dividend flow. Reducing capital-intensive businesses in France and in Spain. And obviously increasing local capital levels in all of those legal entities.

Having said all of that, there's further work to do in a number of areas that will lead to other improvements as we go forward. Overall, as I mentioned, we're in the midst of the transition plan so as we replace those earnings from the US and Delta Lloyd, which was always our plan, that leads to higher dividends as we get into '13 and particularly in 2014. Obviously the elimination of restructuring costs from 2014 onwards. Further work on capital efficiency; that's a big focus, as Mark said, in terms of the focus on cash.

And a little bit more specifically, in UK life we're still working on improving that ratio of OCG to dividends that increases the economic capital surplus in the business. The exit of

BPAs, the further improvement we've already done on capital intensity for individual annuities and lower expenses will further improve that remittance ratio beyond the GBP300 million dividend going forward. As I said, it's also important to remember that in a few years' time that GBP1.3 billion value of the reattributed estate in the UK will be available for dividend. So currently we get some GBP150 million of OCG and in the future we'll be able to access that as a dividend.

In UK GI the remittances have been subdued because of the nature of that intra-divisional balance and I'll talk to you in a moment how the new corporate structure will normalize that going forward. And lastly obviously in areas like Italy and Ireland we've increased OCG now and local capital levels and that should allow us to pay dividends from those going forward.

Combination of all those actions that we've taken and will continue to take, our focus on cash production you very much heard from Mark, will continue to improve this ratio going forward. And again obviously we'd like to move that much more in line with the peer group remittance ratios.

On earnings per share I've already talked to the operating profit line. On restructuring costs, the restructuring costs are primarily the cost of implementing our transformation program, including the cost of delayering, removal of the regions, reduction of head office costs. As we mentioned earlier, we're on track -- we hit GBP275 million run rate. We've taken out, what, about 2,500-plus headcount already and on track for the full GBP400m.

The investment variances I'm going to pick up on my next slide on net asset values. Unfortunately, as a natural but necessary consequence of the disposals, we have seen -- that have been made to increase economic capital, we have seen a reduction of IFRS net asset value from GBP4.35 to GBP2.78. This was particularly impacted by the write-down following the announcement of the sale of the US business, which had a total impact of over GBP1 on those numbers.

Just picking up a couple of other items. Obviously as previously talked about at the half year, Delta Lloyd was a result of curve movements within Delta Lloyd.

We also thought it was prudent to make some additional provisions on the UK commercial mortgage book, something like GBP250m. Overall the stats on that book have actually improved. Loan to value has decreased from 103% to 95%. Interest service cover's up from 1.3 to 1.4 times. The amount of interest in capital in arrears continues to be at a low level. But having said that, given that the overall environment for commercial property's a bit higher risk now than a year ago, we're mindful of this and have decided to top up the provision to around GBP1 billion against an overall book, excluding doctors, dentists, of around GBP8b.

We also saw a negative actuarial movement of 23p on the pension scheme, reflecting the reduction in AA, 10-year AA corporate bond rates. The MCEV net asset value fell by 19p, primarily equivalent to the pension fund movement as obviously the US was sold at a surplus value to MCEV.

Obviously our focus last year was very much on increasing our economic capital surplus and we successfully doubled the pro forma surplus to GBP7.1 billion or 172% coverage, well within our target range. Most of this movement came from management actions and included obviously most notably the sale of the US, the sale of the remainder of Delta Lloyd, the settlement with Bankia as well as a number of more tactical risk management actions, such as product features, product breaks, hedging actions etc.

This increase is after including the pension scheme on a more prudent 10-year stressed funding basis versus, as you may remember, a previous version of five years stress funding basis. That impact makes a little less than GBP1 billion difference and, as I say, we've absorbed that into the surplus.

Also worth noting I think is the reduction in sensitivities post all of those actions, in particular the reduction in credit sensitivity, down by about 30%, and as an individual sensitivity would still be within our target range.

As I noted earlier, the one area that deteriorated as a ratio over 2012 was our external leverage ratio. As a consequence of the reduction of IFRS net asset value, the ratio of debt to tangible total capital increased from 40% to 50%. Obviously, as we've talked about, we'd like to reduce this over time to below 40% and more in line with our peer group. We'll look to do this by both a pay-down of actual debt amount and retaining a higher proportion of earnings.

Lastly then from me is the subject of internal leverage and our corporate structures. This is probably the most simplified version I've ever seen of our old corporate structures. But you can see within that you've got many of our international businesses under AIL here in what's called a stacked structure, and Aviva International itself forming a dual purpose and Aviva Insurance Limited forming a dual purpose. As you'll remember, Aviva Insurance Limited had a holding company side to the business, a legal entity, and a general insurance part of legal entity, and that was a complex structure for us and an unusual structure for us. We've been working on plans for some time to simplify the overall corporate organization chart and, in particular, the AIL legal entity.

Obviously more recently with the regulatory focus on things like resolution plans, we've agreed to do the following. Firstly, split the holding company and the general insurance company activities into two separate legal entities, as you can see there, Aviva Group Holdings and Aviva Insurance Limited. AGH will become our new holding company and that's where we'll hold our central liquidity. We'll leave some of the existing central liquidity in AIL and that will be available for future dividend flows.

AIL will be the general insurance underwriting entity and, as I said earlier, now able to upstream dividends in a normal manner. The consequent loan balance between the two will be formalized at an interest rate of just over 4%. That's a different rate from the old intra-divisional balance and that will reduce investment income flowing into GI by about

GBP70 million and there'll be an equal and opposite offset of that in interest costs of GBP70m, nets to zero impact on operating profit obviously.

Lastly we will then reduce the size of the loan receivable on the GI balance sheet. As Mark said, having the inter-divisional balance itself is relatively normal. The question is the size of it. And with a view to that, over the next few years -- next three years we will reduce the balance by GBP600m. We've discussed these plans with the FSA and they are in agreement with them.

The result of all of that is a more normal, much simplified Group structure. Obviously now you can see virtually all of those individual businesses not stacked any more, horizontally owned directly by AGH, and a more formalized arrangement for the loan balance and a separate legal entity for the general insurance business. I'm confident, as a result of that and the OCG productions and the other actions we've taken, we've laid the foundations for a much improved cash remittance in the future.

With that I shall hand back to Mark.

Mark Wilson {BIO 7102576 <GO>}

Thanks, Pat. Before I came into Aviva I spent over 40 hours of discussion with the Chairman and the Board and key members in the Group and I guess this was my due diligence. I came in very much with my eyes wide open about what the issues were that the Group was facing. And after two months in the job I realized there's a lot of work to do, but also realized that the Group has made substantial progress and that the work we did last year as a Group was the right work, particularly on the capital. Now I'm optimistic about the future but I'm realistic about the journey we have. But I do know that we now have a compelling investment thesis and it's something we now have a platform or a base with which we can take it forward.

And with that, I'll open up to questions. There are roving mics. Please also state your name and where you're from. Jon?

Questions And Answers

Q - Jon Hocking {BIO 2163183 <GO>}

Morning. Jon Hocking from Morgan Stanley. Two questions please. Can you talk about why the inter-divisional loan balance is up GBP1 billion from the last disclosure, what's driving that?

And secondly, given where we are now with the external leverage and the internal leverage, do you regret not raising equity rather than going down the disposal route? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. So two questions. On inter-divisional balance, the issue with that balance was the way it was structured that it held assets, and obviously as those assets go up obviously the inter-divisional balance goes up and that's net-net on a balance sheet perspective. And the value of the underlying assets went up so hence you've got a higher level. Now in the new structure that's set. So you know what it is and we said we're going to bring it down. Do you want to add anything further?

A - Patrick Regan {BIO 15131018 <GO>}

It's purely a function, as we went through the mechanics of the legal entity reorganization, one of the determinants is you leave the same amount of economic capital in AIL after as you do before and as a result of that it mechanically increases the IDB and increases economic capital. There's no cash, additional cash transfers involved. It's a mechanic of leaving the same economic capital before and after.

A - Mark Wilson {BIO 7102576 <GO>}

And on your point -- sorry.

A - Patrick Regan {BIO 15131018 <GO>}

Sorry. If you've got any follow-ups on that, we have John Lister who's with us who you can chat to afterwards.

A - Mark Wilson {BIO 7102576 <GO>}

Who is our expert. Maybe you could speak to John after if you wish as well.

Now on the second question of equity, John was very clear last year that we didn't want to raise equity. And I've come in I think with a fresh set of eyes and looked at the plans and looked what I would have done. And frankly I wouldn't have joined the Group unless I was supportive of it. Raising equity would have been the wrong way to do it. Selling those businesses, they had low returns on equity. They weren't giving cash flow and they were tying up a lot of capital. It doesn't make sense. And as an insurance group that's under UK solvency and you've got Solvency 2 coming in, having the US in particular doesn't make a whole lot of sense. So those calls were absolute the right ones.

The businesses we've got now are the cash-generating ones. They're the ones that give us the return on equity. They're the ones that give us cash flow, so it was absolutely the right call.

Yes. In the front here.

Q - Greig Paterson

It's Greig Paterson, KBW. I'm a little confused. That internal loan, GBP4.6 billion of it is inadmissible according to statutory returns, i.e. it doesn't contribute to the solvency of the GI business. Why didn't you just write that off if it wasn't actually contributing to the solvency?

The second point is your GI business, I see it paid 44% of its operating capital generation as a dividend. Does that dividend definition include internal loans? And if it doesn't, isn't it fair to say that it actually paid its full amount up to the holding company?

And the third question is given that you have said that your 160% to 175% target is akin to the rating agencies' models, and I assume that takes into account that S&P is changing its models in June, it implies that you potentially could have an upgrade. If that happens, would you use -- would you pull your capitalization back into the AA range, i.e. pay back more debt than you have planned, i.e. pay back more than GBP500m?

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Thanks. There's three questions. Maybe if, Pat, you can talk to the GI dividend. And we have John Lister who can talk to the capital questions and the inter-divisional balance question.

A - Patrick Regan {BIO 15131018 <GO>}

Yes. Perhaps I'll pick up the last one as well on rating. As you remember, Greig, S&P downgraded us to A-plus a little while ago, really as we go through the transition of the plans. I think in terms of capital terms we've executed what we had laid out for them on that. So we'll see in the future what that means in terms of the rating. I guess they'll look at that as we execute the remainder of the plan.

In terms of the GI business, if you look at my charts on remittance ratio, the 44% is literally the cash that came via the intra-divisional balance. So it is restricted simply because it's in a normal corporate dividend. As I said earlier, now we're -- when we complete the reorganization in May, that will allow a higher dividend and essentially more normal dividend flow to flow in the future. So yes, that could be, that could and should be a bigger number as we go forward.

Q - Greig Paterson

Why don't you just write it off if that internal loan (inaudible).

A - John Lister {BIO 15438517 <GO>}

I think, Greig, the GBP4.6 billion that we were talking about earlier, that's the IGD contribution. So that was the restriction. The loan has been set so that the economic capital position of the AIL is in exactly the same position pre and post. As Pat explained, that's around GBP5.8 billion contribution at the end of 2012.

A - Patrick Regan {BIO 15131018 <GO>}

So it is an asset on the general insurance businesses' books.

Q - Greig Paterson

So fully implicit GBP5 billion regulated to allow GBP5 billion to be admissible, it's like --

A - John Lister {BIO 15438517 <GO>}

There's an admissibility from an economic capital perspective, which is the GBP5.8b. On the IGD, that -- you look through into what's the -- that -- what's the IGD contribution sitting beneath that loan. So the IGD position pre and post the restructure is exactly the same and the economic capital position is exactly the same pre and post the restructure.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes, Exane BNP Paribas. Sorry, another question about this IDB thing. The attraction of the IDB in the past, as I understand it, was exactly that. You've got subsidiaries which have got excess capital and maybe France and other things. So when you looked at the Group as a whole in terms of the IGD solvency surplus, you could have 130% solvency surplus but actually some of it was 200% was sitting in France. So unraveling the IDB structure, doesn't that mean that the binding constraint for the IGD in terms of percentage levels goes up because you can't count the locked-in surplus in some of the subsidiaries in the way you did in the past? Is that a correct way of thinking about it now because --

A - Patrick Regan {BIO 15131018 <GO>}

No. I don't -- I think what we've moved to, Andy, is a more normalized structure, as we've said. So there's no impact per se into the target levels of IGD that you should hold. From that in fact as well, I haven't really talked about this today, alongside this we've done a lot of work to improve the capital levels over the last couple of years in all of our legal entities, whether it be France, I think you commented on it yourself, Italy, Spain. And you can start to see that on the individual dividend flow. So no, there's no impact on our target IGD levels in the reorganization.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. It's Gordon Aitken from RBC. You set out the businesses which are going to be managed for growth. You talk about Poland, Turkey and Asia. And most of the time in our sector in the life side certainly, not always, but most of the time it's difficult to show rise in cash and growing top line. Are you saying the rest of the businesses are essentially going to be run down? That's the first question.

The second question is on the FSA returns. And if I look at the returns that I've got available from '09 to 2011, your commission in UK life is sitting just south of GBP400m. Now some of this will be protection. Some of it will be trail. Just wondering, now that the RDR's hit, how fast does this come down because presumably your charges aren't reducing, they don't seem to be, and all of this goes to boost the cash generation.

A - Mark Wilson {BIO 7102576 <GO>}

I'll take the first one. We have David Barral here from the Life business who'll take the second.

The answer to the question, no. There's a whole lot you can do within those businesses to generate cash flow, but frankly it's not that efficient. So one of the first things I did was come and have a look and have a look at the product range and see what we're doing. And it's just a difference in focus.

So for example, we have stopped some major projects that had 12-year paybacks, and things like that just don't make sense. And other examples we're saying, well the sort of business that we're going to focus on has much better cash flow profit signatures, so want to bring those profits and products forward. We will have a focus on things like risk. So it's a change of product mix, it's a change of focus and it is we're even aligning people's pay with real cash flow because at the end of the day insurance is still, in my view, about cash flow.

You talked about the other emerging markets. Now it will take some time for cash flow to emerge in some emerging markets, and that's the nature of it. So the right proxy for that is, say, value of new business in life business and I've always subscribed to that. But for mature business it isn't. More mature businesses, or not even mature, scale businesses in my view anywhere in the world, whether they're in Asia or whether they're here or whether they're in the US, mature businesses in my view should be about cash flow and how you keep on building that business for cash flow.

So should you have expense overruns in a business that has scale? The answer is of course you shouldn't. So that's the focus. So what we're talking about is a difference in focus. But is it a run-off, absolutely not.

On the commission issue and the impact of RDR, that does have an impact. And David's here. Grab the mic if you can, David.

A - David Barral {BIO 17035123 <GO>}

Firstly on commission. Are we on? Yes? Can you hear me now? That's better. On commission, you're right. So still significant amount of commission will continue to be paid on trail. From previous business written pre RDR and protection, you're right in saying that will continue to make up a significant proportion of that going forward. Having said that, we've taken our capital strain down from something like GBP350 million to GBP275 million last year, and we would expect that to halve again over the next three years. So it's pretty much transformational in terms of what it does to operational cash flow.

In terms of RDR, pleased to say we were absolutely ready, ahead of the game, ahead of -- not all our competitors made it over the line in time. 80% of our new business value is completely unaffected by RDR. And obviously the focus, as Mark has already said, is very much on value going forward. And so that you can expect us to see greater focus on pure risk, you can expect to see us focusing heavier bond managing the in-force for value, and you can expect us to continue to look at expenses.

A - Mark Wilson {BIO 7102576 <GO>}

And of course increasing that remittance ratio is a focus to us.

A - Patrick Regan {BIO 15131018 <GO>}

The way I think about it is we're not going into rundown mode. We're resetting the balance of cash versus new business. We still wrote obviously well over GBP20 billion in new business across the Group. We wrote GBP10 billion of that in the UK. So it's not like we're not writing business; we've just got to write slightly different proportions, take a bit different pricing actions and others. A lot of -- some of which, many of which we've taken and you can see that flowing through into better remittances. More still to do, as David has said. It's not per se that we're not going into rundown. We're just rebalancing as we have been over the last 18 months, two years really.

Q - Blair Stewart {BIO 4191309 <GO>}

Hi. Thanks very much. Blair Stewart from Bank of America; Merrill Lynch. Three hopefully quick questions. Firstly can you give us an idea of the phasing of cost saves and restructuring costs going forwards?

Secondly, net outflows of GBP6 billion in the Life business, where do you see that going and what impact does that have on your cost base?

And thirdly, just some quick ones on the OCG and dividend payments. Firstly any constraints from local regulators in Europe on getting cash out? Why can the non-life business not remit 80% to 90% of cash?

And you made some comments on the estate, OCG coming in as dividends. What are the conditions attaching to that, please, and how confident are you that that will happen and when?

A - Mark Wilson {BIO 7102576 <GO>}

Thanks, Blair. I'll take a couple of layers and Pat will take a couple. Just a comment on your last thing, why can't 80% or 90% come up? Well the market norm would be above 80, wouldn't it? And clearly that is an area that you would expect a lot of focus from the Group. And there's been a whole lot of reasons for that historically, strengthening the capital positions in various countries. The eurozone crisis hasn't helped us. There's a whole lot of reasons. So you would expect that to be the focus.

On cost saves, I chose my words very carefully on the slide, and in the cost saves we said we planned to save in excess of the GBP400m. And those words were carefully chosen. We have Nick Amin and the team looking closely at it. I would expect that we will save more than that. I'm not going to give you a target to that. I'm not going to give you phasing for that today for the simple reason it's going to take me and the team a little longer to get there. I've been here two months and I need to spend a little bit more time looking at that to come up with another figure and give you the phasing on that.

The outflows on the estate, Pat do you want to cover it?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. Thanks. Just on the -- picking up a couple on the restrictions point, no, the two big things that could hold you back from converting OCG into dividends are if you've got restructuring costs outside of OCG. So one of our to-dos is obviously eliminate restructuring cost. We talked about that a lot last year, and that will free up dividend flows.

The second is if you've got -- there's a local reason your capital levels are too low, there's investment variance. And we've done a lot of work on all of that, so as we sit here now there are no restrictions. The only one that's even a possibility is the Polish thing about capping the percentage of profits, but they're talking about a 75%, 80% remittance kind of number, so nothing that would surprise you.

On GI, Canada's averaged 80% over the last couple of years. So now we've got a new corporate structure for the UK GI business, that's where you'd want to see that heading.

On the flows, I think as I mentioned in my presentation, on the UK, and quite a bit of the flows are on the UK, you've got GBP3 billion positive coming in, in the products that we're targeting, protection, workplace savings and individual annuities. And that's what we want, the right balance of those. The individual annuities, we're still adding to volume of that. We're still adding to our probably GBP1.5 billion of higher assets under management, but with a lower strain because of the pricing actions we've taken.

France is actually a little down, but in constant currency not much because the retention's been high. And Italy and Spain are down because we've got, we've deliberately got lower new business levels there, and we've taken costs out in both Italy and Spain. David I'm sure will be looking to do more of that in the future.

On the reattributed estate, so the technical answer is we've got to be 110% of AAA level for three consecutive years. So when we bought the estate, if you remember we paid GBP500 million for something that's worth GBP1.3b. When it came to us it wasn't AAA, 110% and AAA status. So John and the team have worked to get it to that, so we now need to post three years at that level.

A - Mark Wilson {BIO 7102576 <GO>}

The other thing just to add on all that, Blair, the restructuring costs also impact, I should have said, on the expenses. Now all of you will be very aware, for many years we've had substantial restructuring costs below the line. Clearly that's not sustainable. We will have some this year. You can expect that figure's going to come down. It's something that clearly I want to eliminate. Just to be clear, all the businesses and groups now in terms of bonuses, that's included now in the bonus calculation because we think that just aligns better with the outcomes and the shareholders. So we're focusing very much on that restructuring cost line as well.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean at Autonomous. Three questions. Firstly, when the business settles down what sort of retention or coverage would you expect the cash to Group versus the OCG to be? Then on from there, how much of the cash to Group would you expect to pay out in dividends?

Secondly, why do you think debt gearing of 40% is fine? It looks extremely high to me. AXA is targeting 25%.

And thirdly, where in the cash does the GBP150 million pension fund, special pension funding come within your calculations, if at all.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. The 40% number is -- what we've actually said, by the way, just for clarity, we've said below 40% rather than actually 40%. And if we looked at, round the market, looked at our peer group, most of them are in the 30s. And so we've said below 40%. We've given you guidance over the next period of time that we'd like to -- which works out to be about GBP500m, but we said below, just to be clear.

We're not, in terms of the dividend payout ratio we're actually not setting a ratio, as such. We're, what we're saying is we're going to have a progressive dividend policy with reference to earnings and cash flows. So we're not setting a particular ratio. I know that's a little bit harder on the models, but I think that's entirely appropriate for the Group.

Do you want to talk about the other one?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. On the pensions element, most of the cash funding of that comes out of the individual entities, particularly UK Life, so there's just a tiny amount in the Group center cash flows. It's in the cal but it's only a small amount.

Q - James Pearce {BIO 16758460 <GO>}

Morning. James Pearce from UBS.

A - Mark Wilson {BIO 7102576 <GO>}

Can we turn the mic on, please?

Q - James Pearce {BIO 16758460 <GO>}

Is it working?

A - Patrick Regan {BIO 15131018 <GO>}

Yes.

Q - James Pearce {BIO 16758460 <GO>}

On the debt again, cutting the dividend and eliminating the scrip means that your ability to repay the debt doesn't change that much. Are you tempted to take more drastic action to accelerate the debt repayment disposals? It sounds like you're eliminating the equity option. But how do you feel about that? And is there a timeframe that you can accelerate on the debt repayment?

A - Mark Wilson {BIO 7102576 <GO>}

We did look at all options, and the answer to your question is, yes, I absolutely think it's enough. We have a lot in place to improve the cash flows, improve remittance ratios, get the businesses working. We looked at all that. Frankly given we have to take some pain to doing it, if I thought we needed more we would have cut more. We eliminated the scrip. That makes the story much, much cleaner, so I'm very comfortable with the position we're in on that.

Sorry, what was the other question, James?

Q - James Pearce {BIO 16758460 <GO>}

Obviously what the proceeds from disposals that we can --

A - Mark Wilson {BIO 7102576 <GO>}

Yes. It's a good point because some of the debt reduction is proceeds and disposals. We still have got some more disposals to do and that can help as well, just to be clear. So you've got a number of avenues. This isn't a one answer here. The dividend is part of it. Cleaning it up with the scrip makes it simpler. We have disposals. We have increasing remittance ratios. There's a whole lot of levers here we can pull but it would be wrong to suggest that it's just one lever. But I'm comfortable with where the cash flow position will be to achieve our objectives.

Now I'm conscious we've been focusing there. Chris?

Q - Chris Esson {BIO 6194371 <GO>}

Hi. Good morning. Chris Esson from Credit Suisse. Just two questions. Firstly on the cost savings, now that you've achieved GBP275 million of the GBP400 million initial target, could you please outline where those are likely to come through? You've provided a lot of breakdown in terms of profitability by business unit, but in terms of forecasting bottom up, the way that those cost savings are likely to emerge, it's still relatively unclear. We're not even really on a life or P&C basis. So any clarity on that would be appreciated.

Secondly in Canada, peers domestically and also in RSA reported increased attendance at court for Ontario motor BI [ph] so I just wanted to get a sense of what Aviva has seen in that. Didn't really get much of an indication of trouble in terms of continued good news on releases.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Thanks, Chris. We also have Maurice here, and I'll pass over to him in a second on Canada, the CEO of Canada.

On the targets, I guess the advantage of having fresh eyes, you can see where the Group needs to be more athletic. There's a number of areas we are focusing on. Our Group costs are too high. Just to be clear, we have too much Group cost here and we are going to address that this year. IT is too high. You'd all be aware that we have over GBP800 million of IT costs. GBP800 million costs for a Group this size is unacceptable. Yes. We have a lot of complexity in the back book, but we need to prioritize that and we are in fact doing that, and Cathryn has clear plans in place.

There's other wins, like consultants. Our consultancy spend, without giving a specific number, was in the 100s of millions of pounds, and that is not sustainable. I see some of that as a quick win. And so we will be substantially reducing our use of consultants in the business, and that's important going forward. There will be more efficiencies coming out of each of the businesses. David's focusing on some of the European countries now. We will see continual cost saves and out of the businesses in the UK.

In fact no one is immune from the expense savings because we are too fat as a Company. And we've done a lot of work but we need to get the ratios down to something important. For example, IT. I did mention IT. That's substantially higher than you would expect as part of our combined expense ratios on the GI business, and that's unacceptable. So some of this is going to be quick wins. Some of it, in answer to your question, things like consultants can be quick wins. Some of it, like IT, is going to emerge over a number of years.

Maurice, on Canada. There's a mic [ph] in front of you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Is this on?

A - Mark Wilson {BIO 7102576 <GO>}

Yes.

A - Maurice Tulloch {BIO 17683736 <GO>}

Chris, as you saw from Pat's numbers, our motor results continue to improve in Canada. That's largely on the back of predictive analytics, which we put in place five years ago. The motor core was 92.

Specifically on your Ontario question, we did have a series of reforms that came in the latter part of 2010. Those reforms have had two benefits, the first benefit being a significant reduction in first party injury costs with the offset, as you noted, in third party and effectively tort. When we look prospectively we continue to benefit and outperform the market, and that's on the back of our predictive analytics.

When we look at our pricing indication, which is effectively three years of history and it's a prospective look at two years. We currently have an indication -- we price at a 16% return on our capital. We currently have an indication that's still sitting at negative 1.5, which effectively means we can lower our rates, which we're not planning on doing in the market, by 1.5 and still meet a 16% return on our capital. Our results, both motor line, outside of Ontario and in Ontario are the strongest in the Canadian market.

A - Mark Wilson {BIO 7102576 <GO>}

Now I'm conscious that many of you have another session to go to. I think, Marcus, you had your hand up for a while. No? Okay, one more question and then I think we'll need to close.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Marcus Rivaldi, Morgan Stanley fixed income. Three questions, please. On the collateral internal loan, why is GBP5.2 billion a comfortable number where GBP5.8 billion is not?

Then secondly on the external debt, can you talk about medium term? What does that mean? Does that come after the three-year period because I note clearly there's a huge amount of debt that you've got coming up to call either this year or next and what are you going to do with that?

Then finally, you mentioned the GBP500 million target. That is actually lower than the original GBP700 million target that was set previous to you joining. But why the lower total quantum?

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Fair questions. The internal, there's no magic in the GBP5.2 billion number, it's just good housekeeping. It's a judgment call about saying where do we want to get this level to over the next three years. At the end of three years we'll address it and say where do we want to get it to. But there's no magic number, and three years is quite a long time, I might add. It's just call that good housekeeping, but that's not formulaic, if that's what you're thinking. It's not formulaic at all.

The external debt, just taking that and saying we need to balance it up. If we get the disposals done in the right way, if we get more cash out of the businesses, we will. But that gives you I think a pretty good indication of where we're going.

I'm very conscious that you have another session to go to. So I think on that note we'll close the Q&A. Thank you for joining us. Pat and I and some of the team will have plenty of time over the next --- well, we probably won't have much time, but we'll have all our time dedicated over the next few weeks to having one-on-one sessions with you to answer any questions you have and giving you clarity on the areas that you need. So everyone, thanks for joining us and have a good day.