Q4 2015 Earnings Call

Company Participants

- Andy D. Briggs, Executive Director
- John Lister, Group Chief Risk Officer
- Mark Andrew Wilson, Group Chief Executive Officer & Executive Director
- Maurice Tulloch, Chairman Global General Insurance and Chief Executive Officer, Aviva UK & Ireland General Insurance
- Thomas D. Stoddard, Group Chief Financial Officer & Executive Director

Other Participants

- Abid Hussain, Analyst
- Alan G. Devlin, Analyst
- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Fahad U. Changazi, Analyst
- Farooq Hanif, Analyst
- Gordon Aitken, Analyst
- James A. Shuck, Analyst
- Jon M. Hocking, Analyst
- Oliver George Nigel Steel, Analyst
- Trevor D. Moss, Analyst

MANAGEMENT DISCUSSION SECTION

Mark Andrew Wilson {BIO 7102576 <GO>}

Well, good morning, everyone, and welcome to our 2015 Results Presentation. It's good to see all the familiar faces back. The last 12 months, I think, have seen it all for Aviva. We've had equity market volatility that we've seen. We've had, I think, unprecedented regulatory change. We had Solvency II, that little issue. We've had some of the worst floods in the UK in the past 100 years. We had FX headwinds. We've had pension reforms, and we've had the minor issue of integrating Friends Life at the same time.

So, there are plenty of reasons or even excuses for non-delivery. But as you have seen today, I think our results have exceeded most expectations and shown the consistent improvement that I hope we're starting to get a name for.

Now I'm also well aware that there's a lot of interest in today's results from all of you in the market, and we've had a lot of calls already this morning and, in particular, on three important pieces of information: Solvency II, of course, which I think has been quite a major overhang in the European insurance industry for some time; Friends Life integration; and obviously, the operating performance numbers. So, we will focus on these three things today, and at a later date in the near future, we'll have a day outlining a range of new information on our strategy, but I won't cover too much of that today.

2015 was a year of important milestones for us. We have clearly made a successful transition to Solvency II. Our coverage ratio was what I would characterize as strong at 180%, and we have very little sensitivity to investment market volatility.

Now, I guess it seems a long way from just a few years ago when we had one of the weaker balance sheets in the UK to now certainly having one of the strongest and certainly least volatile balance sheets.

And also, I think we are delivering on our major promises. We've completed our internal loan reduction program. It has fallen to £1.5 billion. That's well below our £2.2 billion target. And this is an issue that thankfully I never have to discuss again because we're finished.

And we're also well ahead of schedule, as you've seen from the numbers, for those of you who had a good chance to read them, in the integration of Friends Life. We've secured £168 million of run-rate savings in 2015, and we'll deliver the £225 million synergy target by the end of 2016. That's one full year ahead of schedule, and we'll give you a little bit more information on this later.

We've also quantified, for the first time, the capital synergies from Friends Life integration at £1.2 billion. And as a result of a range of actions over the next two years that Tom will take you through, we expect this business to upstream about £1 billion that's over and above its normal remittances.

So, despite all the distractions provided by Solvency II and the Friends Life integration, I think we maintained our focus on delivering a pretty handy set of results and getting some pretty decent growth through them. So, operating EPS per share increased to £0.492 per share. That's despite the foreign exchange headwinds and also despite the potential dilution from the Friends acquisition with that increased share count.

We maintained tight cost control, so reducing expenses by 1%, excluding Friends, of course. And our 94.6% combined ratio delivered by our General Insurance business was, in fact, the best result in nine years despite the floods in the UK. And the strong VNB growth, we've now had 12 consecutive quarters of growth in value of new business. And I think that is a very acceptable trend.

We've increased the dividend by 15% to £0.208 earnings per share. Now, that actually takes the increase over the past two years to 38%. And we thought about where we should put this dividend, and I'm confident that this is at the right level. It allows for future growth and noting we still have some ways to go to get to the 2 times cover. But what we want is consistent and improving dividends year after year after year after year. We want to be able to be a stock that you have to hold.

And the 2 times cover also gives us a nice balance of paying out, but also it allows us to invest in the business for future earnings growth. It's like a sugarcane machine. If you want sugar at the bottom, you need to invest sugarcane in the top. And I make no apologies for that whatsoever.

When you look at the numbers, I hope you agree, though, when you have a look at all the numbers, I think it's a highly satisfactory - highly's a big word in terms of satisfactory, so, it's a highly satisfactory set of results. But despite these numbers and the underlying fundamentals and the trend lines we've had now for some time, clearly, we need more quarters for some of that historical market sentiment to catch up.

But let's go into the numbers in a little more detail. First, Solvency II, which was probably I expect the first number that everyone turned to this morning. So let's have a closer look. It's a topic that everyone seems to have been - or the market in general and even the sort of generalist investor seems to be obsessing about.

We have disclosed - we've been disclosing on the capital on an economic basis for some years now. So, the transition to Solvency II has been smooth, albeit it's been a huge distraction with its voracious appetite for consuming resources and, indeed, all of our senior management time.

And I must compare, so I find it a major source of irritation that Solvency II has cost us a total of about £500 million. I think that's a figure that just is outrageous, frankly. And I note from your comments made this morning, though, that we have surprised on the upside with our 180% number, and I think we stack up very, very favorably with our peers in the UK market. We have a ratio of 180% and a surplus of £9.7 billion, which is at the top end of our range. And if you think back just a few years, we've basically tripled our capital surplus over that time.

A key feature of our Solvency II ratio, though, is its resilience. We have low sensitivity to investment market volatility, and we certainly think this differentiates us for most of our peers. And it also gives us important options.

Now, to provide some context for this, at the worst point in the market turmoil, let's assume say mid February, our ratio fell only 6 percentage points, and Tom will take you through the sensitivities of this in a bit more detail later.

Now, a lot of people think that the reason for our strong solvency position was Friends Life. And although it certainly had a positive impact, as Tom will show you, there was a host of a lot of other management actions combined with some pretty good set of operating results that gives us our current position.

Now, there's still plenty of work to do on Solvency II. We can do a lot more on optimization on a business-by-business basis and particularly to improve the capital generation from those businesses.

And I should also just point out that there will also be some future refinements in the rules in the UK that we believe will benefit Aviva. For those of you that have been following the regulators, the PRA's Sam Woods has outlined their focus areas in recent speeches, and we are keeping a very close and somewhat favorable eye, I guess, on those developments.

It's also very clear that's it's difficult to compare the UK solvency approach with other solvency approaches around Europe. They are significantly different. The UK has, shall we say, a somewhat more prudent approach to some other European regulators.

And as you can see, we are at the top end of our working range. Our working range is 150% to 180%, and clearly at the 180%, we are at the top end of that range. But please, look at this range as a guide only. Just because we go outside the top of that side of the bottom, it's not purely a mathematical or prescriptive approach. Obviously, the floor where the regulator starts getting involved is 100%, and so this basis is nothing like the capital basis of banks.

Nevertheless, when saying all that, having a strong and resilient solvency position provides a stable platform from which we can execute our business plans and run the business in a normal way. I must compare this really is unchartered territory for Aviva over the past decade.

It also provides us with a range of options as we move beyond the top end of our range, and Tom will talk a little bit about how we do that later. But these sort of options could include investing in the business, investing in the business organically for growth. It could include reducing or restructuring debt, although we're pretty happy with our debt levels, and I guess debt rates are pretty cheap at the moment. It could include technical bolt-on acquisitions, such as what we saw with the accretive Canadian deal. Or, of course, it could include returning capital to shareholders through buybacks or other distributions.

So, moving on to Friends Life, the second sort of major topic for this morning. The acquisition is delivering everything we had hoped it would and more. And at the end of 2015, we've secured run-rate savings of £168 million. So, if you think about it, we're nearly three quarters of the way towards our £225 million synergy target within nine months of the acquisition completion.

Now, I think Andy and the integration team, including Nick and the others, I think have achieved this by addressing some of the hard issues in getting this integration done as fast as we possibly can. For example, we've accelerated reductions in the real estate footprint faster than we thought we would, and we've transferred, of course, £45 billion in assets under management to Aviva investors, although you really haven't seen that come through in the numbers yet.

We've also been robust in the resourcing decisions, and particularly the systems decisions, choosing the systems that we wanted to go on with right up front and we've made some pretty good progress with that.

Now, the remainder of this synergy target will be delivered by the end of this year, one full year ahead of schedule. And this morning I've already been asked a question, well, given you're well ahead, well, why didn't you increase the target? And it's a simple reason. I think we have increased the target, firstly, we brought it one year forward. But secondly, the business is already operating as one business, so it's a bit spurious for us to come up with an additional figure of what those increased savings may be. But I can tell you we're still very focused on expenses throughout the group, and we would expect to make further strength savings as we go on.

Now, whilst it's early in the delivery of this target, I think everyone would agree it's highly satisfactory. But arguably, in the second part of this year, it probably gets a bit harder, but we're pretty confident.

Today we have also quantified the capital and liquidity synergies that we expect the Friends Life integration to deliver, and this is something I've been asked to do, I think, pretty much in every investor meeting ever since we announced this transaction. Now, we expect the total capital synergies to exceed £1.2 billion. And to be clear, of which £400 million of that, we have taken in capital synergies, mainly diversifications benefits, in 2015. Now this should, in turn, facilitate additional remittances of £1 billion from the UK Life business over the next three years.

And also, I just want to pause for a moment and just recognize that particularly in that UK Life business, but also in the group, 2015 was a very challenging and uncertain year for many of our people here in the UK. When you do an acquisition of this size, it always results in decisions around role reductions. And make no mistake, these savings were hard-earned and they were done in the context, I guess, where many UK integrations historically haven't worked. But despite the uncertainty of the roles and the role reductions and redundancies, the UK Life business and their people certainly have exceeded all of our expectations.

Now, Tom will take you through the detail of our financial performance, but I wanted to highlight the consistency of our results in areas where I think we have made notable progress. In the Life Insurance business, for example, we increased VNB, value of new business, by 24%. We have now delivered 12 consecutive quarters of strong VNB growth, yet we're not seen as a growth company yet. But I think it's an impressive level of consistency considering some of the changes we've had to deal with, particularly in our home market here in the UK.

In General Insurance, our combined ratio of 94.6% was the best result in nine years, and we've now delivered a number of years of pretty consistent performance in General

Insurance. And just as importantly, we're seeing consistency across all of our markets with each of our major General Insurance businesses delivering a combined ratio below 96% in 2015.

And I'm pretty excited about the outlook for the General Insurance business. It is a business that we want to grow organically. And this is key to our investment thesis as General Insurance does provide the diversification and, therefore, the consistency in the results that I think the market craves.

The acquisition, though, of Royal Bank of Canada General Insurance will increase the scale in our high-quality Canadian business by 20% and diversify our distribution in the core market. And I think RBC, we know them well, we've known them for quite some time, they are a fabulous partner. They're obviously, by far, the largest bank in that market. And it means our number two position in Canada for that franchise is secure.

Meanwhile in the UK, the business will be strengthened by the new partnerships with Homeserve and TSB, adding some further growth in 2016 as they come on line.

And another highlight actually for me was Aviva Investors. It increased its operating profit by 33% to, I think, a very creditable £105 million, which is an important milestone for that business and, of course, I demand further gains this year and we expect some more gains in that business in 2016.

And we're seeing some exceptional performance from the AIMS fund for those of you that are following that closely. And those AIMS funds have translated into increased flows, and the 2016 results should also benefit, I think, from the transfer of Friends Life. AIMS, you would've seen now has £3 billion in assets under management and has certainly outperformed its peers in that segment.

I was just reflecting, it was only a couple of years ago that I described our Italian and our Irish businesses in rather unflattering terms. I think perhaps problem children or maybe an unflattering comparison with our canine friends was mentioned somewhere in my description.

Well, I think this year they have certainly proved me wrong. They've had good results pretty much across the board. In Ireland, profit was up about, I think, a bit over 38%, and we picked up market share in that market. We're back to a number one position in that market. Italy grew VNB by 40%. Now, one year, I agree, does not yet prove consistency for those businesses, but that's a pretty good start, and I think I can take them out of that turnaround category.

Now before I hand over to Tom, I thought I'd just be good to reflect on this slide here on the progress over the past three years. And if you look at the slide on each one of these graphs, it shows a story, I think, of delivery. We fundamentally transformed our balance sheet. I think today shows that. We've tripled our economic capital surplus, and we have substantially improved liquidity. We've also delivered a big improvement in our operating performance, key targets like core that I set out, I think, in my first results presentation three years ago, VNB, expense ratio, and we've increased operating EPS.

Now, this is not a declaration of victory, far from it. That really is, as you know, not my style and it certainly isn't Aviva's style. One of our values that we try and live by is never rest, and that basically means we're never satisfied with our results. So, although results are certainly going the right way, we'd never be satisfied no matter what the numbers are.

But while our balance sheet is now far more secure, we have only just started realizing the benefits from Friends Life, and we intend to prove that our businesses can deliver the consistent growth and profits and cash and shareholder returns; and we want that year after year after year.

Now, we've come a long way in three years in building a track record of – I think of achieving and certainly exceeding our targets and objectives we've put out. But I really think we can travel just as far over the next three years.

So on that note, I'll hand over to Tom who will take you through the numbers. I'll come back with some summary comments and then, as usual open up, and I think this morning have plenty of time for Q&A.

Thomas D. Stoddard {BIO 15071280 <GO>}

Thanks, Mark. Good morning, everyone. So, Mark is taking you through the highlights, and there certainly have been a lot of highlights this year. So, that leaves me to take you through the details on our results and our financial position, as well as some of the long-awaited information on Solvency II.

And what I want you to take away from today is three conclusions: first, we fixed the balance sheet beyond the shadow of a doubt; second, we have good businesses and they're performing well; and third, we'll keep delivering performance improvements and growth.

As you can see from my overview slide, we've been doing everything we said we'd do. In terms of execution, we've hit all our targets. We're ahead of schedule on hitting them. Our balance sheet is secure. Aviva ended the year with Solvency II cover ratio of 180%, at the top end of our working range.

But we went much further than that in cleaning house. We sold £2.2 billion of non-core commercial mortgages, removing a legacy UK Life portfolio and improving the LTVs of our remaining book by 24 points. We also transferred £700 million of Life and UKGI exposures to a third party, improving our risk profile and freeing up a little capital, so we have less to worry about. When markets were conducive in the spring and in the fall, we did some extra hedging, which turned out to be smart. Market volatility is something that Aviva can handle.

Now Solvency II is finally here, hooray. And we can actually begin operating under the new rules. Last year fell at the goalpost. We were moving all of the time. So, looking backward at all the changes, it's hard to be precise. However, based on unaudited figures, we estimate that in 2015, Aviva generated about £2.7 billion of Solvency II capital surplus primarily from management actions and operating activity, partly offset by adverse economic variances. So, going forward, we're focused on optimizing surplus generation under the new rules.

And that means after paying a progressive dividend, we should be able to add 5 points to 10 points to our Solvency cover ratio in 2016 before the impact of economic variances and any actions we might take to redeploy capital. This provides us with more choices, and our flexibility will be further enhanced by the £1 billion of additional cash remittances expected from UK Life over the next few years. We will continue to invest and withdraw capital across our suite of businesses, as exemplified by the box on the lower right-hand side of this slide.

So, let's get into the results. Operating EPS is up to £0.492, overcoming the dilutive impact of having 27% more shares outstanding during the year on a weighted-average basis as a result of the Friends Life acquisition. As you can see from the table, integration and restructuring weighed against operating profit which, even after those costs, was still up 10% on the year. We've gone hard and fast on the integration and other UK restructuring. This won't continue at the same pace in 2016, but we still have some integration and restructuring costs, including Solvency II costs.

At the bottom line for 2015, total EPS at £0.226 also reflects the impact of the Friends Life acquisition with a further £498 million of noncash EBIT amortization expense, as well as some negative non-operating economy variances. For 2016, I would expect operating profit after integration and restructuring costs to increase faster than operating EPS, as we reduce what we need to spend on Solvency II and integrating Friends.

Now, this year, we've added a new slide to try to simplify the profit story for 2015. As you can see, our perimeter started a little smaller by £30 million as a result of previous disposals. Foreign exchange was a drag against this, again, by £117 million, as sterling was stronger than euro and Canadian dollar for most of last year. We also had a lower relative contribution from non-recurring items this year amounting to a net reduction of £58 million. Some of this is from comparatively less UK back book impacts. Now, in 2014 we had £282 million of longevity and expense reserve releases, while in 2015 we had £259 million of expense reserve releases, all of which were related to the heritage Aviva book.

So, none of this year's expense reserve release relates to Friends synergies. Otherwise, operating profit increased £103 million or about 5% prior to the addition of Friends Life, which added £554 million, including synergies of £92 million.

Now, expense discipline continues to be a big part of our delivery. This is never easy on our people, but they've responded well. Excluding Friends Life, we cut expenses 5% in UK Life, 8% in UK and Ireland GI, and 1% overall on a constant currency basis. We spent more on Aviva Investors, Asia and digital. Overall, we hit our group expense ratio target of 50% a year early.

And going forward, I want you to please recognize that if we shift our business mix towards more GI, accident and health, and fund management, the group ratio may increase. So to keep our discipline, we will emphasize the business segment expense ratios more in the future.

On the UK, we still clearly have more room to achieve greater efficiencies. And to that end, I'm currently working with Nick Amin, Monique Shivanandan and our business leaders to consider how we can further rationalize our infrastructure and IT estate here in the UK.

So, turning now to our business units. Andy Briggs has done a great job moving quickly to integrate UK Life and pull the team together. Operating profit is up 37% to £1.4 billion. Excluding the impact of Friends and the lower levels of one-offs, operating profit increased 6%, driven by a combination of revenue growth and expense efficiencies.

Cash remittances increased 53% to £667 million. Within this, the heritage Aviva business led the remittances 30% to £566 million. As an aside, since we now operate UK Life all as a single business, we won't make these Aviva Friends distinctions in future periods. Value of new business was up 29% overall. Our more capital-light offerings, such as platforms and protection, have been a big part of this growth. So, our focus in 2016 in UK Life will be on accelerating existing momentum while adapting to any changes in the market.

I'm turning to Aviva Investors next, partly because Andy and Euan Munro are working more closely together these days. At AI, the big story is the growing success of AIMS, Euan's flagship product. As you can see from the yellow line in the chart, AIMS is performing best during times of market volatility and has recently opened up a significant gap over its nearest competitors. This is getting noticed and starting to turn into better fund flows. We now have £3 billion in the AIMS range of funds, up from £1 billion a year ago.

Operating profit was up 33% to £105 million, and we've moved £45 billion of assets into our fund management business as a result of the Friends transaction. This should contribute further to earnings in 2016.

UK GI, our team led by Maurice Tulloch, has been there when it comes for customers, promoting regulatory reform on whiplash and getting out quickly into communities in response to the December flooding. Financially, we maintained our combined operating ratio at 95% despite £132 million of cost from the December floods. We've controlled expenses and benefited from favorable prior year development. Net written premiums were stable at just under £3.7 billion, with gains in motor and other personal lines offset by weaker trends in home and commercial property. Looking ahead, scale of our UK GI business should expand as our relationships with HomeServe and TSB come online.

Our Canadian General Insurance business delivered a strong rebound in 2015. Operating profits were £214 million, up 21% after adjusting for the impact of foreign exchange. This is underpinned by a 2.3-percentage-point improvement combined ratio, which benefited from relatively benign weather.

The big news in Canada actually came after year-end when we announced the acquisition of RBC General Insurance together with the 15-year distribution deal. This will increase the scale of our Canadian business by around 20% and will play an important role on expanding our distribution capability, complementing our strong relationships in the broker channel.

In Europe, David McMillan's teams delivered a solid underlying performance, though, headline results have been affected by adverse foreign exchange movements, disposals and the non-recurrence of a one-off regulatory item that boosted profits from Poland in 2014. So looking through these items, operating profits grew by 6%, while value of new business grew by 14%.

In Life, business mix continues to shift to our protection, which represents just under half of our VNB in Europe. Meanwhile, Italy is going from strength to strength following the changes we made to the savings product that substantially reduced capital intensity.

In GI, the combined ratio for Europe improved to 95.4%, reflecting better weather in France and favorable prior-year development in Italy. And overall, the region maintained discipline on expenses, which declined slightly after adjusting for FX and disposals.

In Asia, I must congratulate Chris Wei and colleagues for their willingness to walk away from the DBS relationship rather than chasing options to an uneconomic price. While we weren't successful in renewing the relationship, we have demonstrated that we will maintain discipline in allocating capital across the group.

Now, the best thing about DBS has been the inspired thinking that's followed. Our Singapore business has adapted quickly to the loss, pushing harder into the IFA channel and exploring opportunities in D2C.

In spite the potential distraction of the DBS process, our Asia team has delivered sound results. Value of new business increased 22% to £151 million, driven by strong gains in protection sales in both Singapore and our Mainland China joint venture.

Now, within this VNB figure, DBS accounted for £28 million. So in effect, by dialing out on DBS, we've retained over £750 million and given up less than one year's worth of growth at an Asia regional level. We should overcome that quickly, too.

Moving on to the balance sheet. Net asset value per share is up on the year on an IFRS basis, largely because of the Friends acquisition. This had less impact on an MCEV basis. The only other point I'd highlight on this slide is that the amortization of AVIF has no impact on MCEV nor will it affect Solvency II capital.

Internal loan. This is an interesting slide which largely speaks for itself. The internal loan was a concern three years ago, but we've now completed and exceeded our plan, reducing the balance to £1.5 billion, below the £2.2 billion we were targeting. So, we're done on this now.

Moving on to Solvency II. At year-end, we had £21.8 billion of own funds and £9.7 billion of surplus, resulting in an SII cover ratio of 180%. As you can see from the chart on the right, we delivered a smooth transition to the new regime with no surprises or sudden changes. Also note that we strengthened the methodology of our ICA models over the course of 2015, resulting in what we believe to be a conservative position under both the former basis and the new Solvency II rules.

So perhaps more interesting than the 180% cover ratio itself is how we think about it. As you can see from the illustrative stresses, our capital position is very resilient now, even to extreme shocks such as the financial crisis in 2008 and 2011.

Now back when Mark joined Aviva, he asked for help building a fortress balance sheet. I think now he's got it, much to the credit of John Lister, Jason Windsor and Angela Darlington and our other finance and risk professionals. The 180% ratio is at the top end of our working range, which is a great place for us to start Solvency II.

Now going forward, we need to live with and get used to Solvency II before we get too excited about any particular ratio, especially in an uncertain economic environment. So, what I should clarify here is that our working range represents our normal risk appetite. Our positioning relative to the range will influence the choices we make on capital management, but the range is simply a guide. It's not prescriptive. In other words, we will exercise judgment on capital decisions depending upon where we are relative to the range and what's going on in the markets and in our businesses.

And there are a few more slides in the appendix to give you a bit more on the sensitivities and how we're positioned for interest rates, spreads and equities. As we said before, we try to avoid interest rate risk.

Now, in addition to Solvency II, I know you're all interested in the capital road map in UK Life showing the impacts of Friends Life. We can confirm today that we expect to derive £1.2 billion of total capital synergies as a result of the integration. At the end of 2015, we'd achieved £400 million of this amount consisting of diversification benefits. And looking forward, we expect £200 million more of diversification benefits following the Part VII transfers plus £400 million of capital optimization and £200 million from maintenance expense reductions.

Now, the cash benefits of these capital synergies will follow as liquidity and remittances lag the actions. As a result, we expect £1 billion of extra cash remittances from UK Life over the next few years, over and above its normal remittance levels.

Now, capital generation will be key going forward. And having just implemented Solvency II, our attention now shifts towards getting better at generating economic surplus under the new regime. So this slide provides a conceptual illustration of how capital generation will turn into cash at the group level and ultimately into dividends to shareholders. This is largely consistent with what we've described before, with capital generation giving rise to remittances and ultimately excess center cash from which dividends can be paid.

As I said earlier, in 2015, we estimate the capital generation on a Solvency II basis totaled about £2.7 billion after adverse economic variances. Now, the majority of the positives came from management actions on top of normal operating activity. This £2.7 billion figure is before dividends, before centre costs and before interest on external debt. It also excludes the impact of the Friends Life acquisition and the £400 million of diversification benefits. It further excludes the net impact of hybrid debt issued during the year.

So, looking at 2016, after paying a progressive dividend, we should be able to add 5 points to 10 points to our Solvency cover ratio before the impact of economic variances and any actions we might take to redeploy capital.

And my final slide shows our trajectory on excess centre cash, which was stable during 2015. As you can see from the slide, we've illustrated a couple of pro forma adjustments to better reflect the trend. To give you some context, our centre liquidity is £1.3 billion and is expected to increase over the next few years. This has enabled us to think more about retaining or reinvesting cash into our businesses to fund growth.

So, for example, in 2015, we retained in Canada a planned dividend of CAD 230 million to partly fund the acquisition of RBC General Insurance. There was also £150 million paid by Friends Life UK to its parent prior to acquisition. So, adding this back, excess centre cash flow would have been just under £1 billion, comfortably covering the group dividend of about £800 million. As we complete the realization of synergies from Friends Life, excess centre cash should grow still further consistent with prior guidance.

The dividend is up 15% after increasing 21% the year before. We continue to target approximately a 2:1 cover ratio of operating EPS to dividends and have more work to do on increasing our payout ratio. Once we get closer in the neighborhood of this target payout ratio, we will manage for long-term sustainable dividend growth at a level consistent with our earnings growth.

So, I hope this gives you a better picture where Aviva is and is going from a financial perspective. But before I turn back to Mark, let me go back to my three conclusions. We fixed the balance sheet beyond a shadow of a doubt, we have had good businesses that are performing well, and we will keep delivering performance improvements and growth.

Now back to you, Mark.

Mark Andrew Wilson {BIO 7102576 <GO>}

Well, thank you, Tom. So, I hope that's provided you at least with some of the data and clarity you need for those usual aspect. There'll be many more requests for a lot more data in the Q&A, and we'll try and do as much of that as we can.

I wanted to finish up before questions just by outlining where these results put us versus our strategic ambition, in particular our capital allocation because that I think is one of the key things that Tom and I need to do.

Now, many of you have seen this slide before. It outlines what we called our three strategic anchors: the true customer composite, digital first, and not everywhere. This is our vision for the business. Now, the anchors also drive where we make our capital allocation decisions.

And it's worth revisiting, given we have come a long way since I guess the old Aviva balance sheet where we really couldn't do some of the stuff. We recognize the debate, however, is now likely to shift from how we strengthen the balance sheet to how we demonstrate that we have high-quality businesses and franchises and we certainly do, I think, as these results show. And my view our franchises are technically up there with the best. Certainly the best technical insurance expertise I've ever worked with. And hopefully, the consistency of our operating results is also starting to prove this thesis.

Now, there are plenty of levers we can pull to achieve cash flow and indeed growth, such as enhancing the product, and that's what we did in UK Life and Italy and Asia, and further improvement in expense efficiency. We're not done with that one yet either. But also on reallocating capital.

And as you can see on this slide, if you just think back over the three years, we have been very active on capital reallocation over that period. We have made quite a number of disposals of businesses where we were subscale or we were too volatile or businesses that simply consumed too much capital or not positioned to win in their markets.

And there's still some work to do on this. We have a number of initiatives under way that will reduce capital allocated to certain countries and to certain cells. And a pretty good example of this was actually released yesterday, which was our decision to exit the Irish health business. That business under the new government regime and changes just wasn't economic in our view, and we're focused on the other parts of the business and you've seen the outstanding results this morning.

But having achieved our objective of securing that balance sheet, we're moving closer to a situation where we now have a full range of choices on capital management, and we plan to take a very balanced and pragmatic approach to this. One element that will remain key is will be investing to drive growth and keep strengthening our core existing businesses. We want to rebalance when we have our capital in the group with more GI, more asset management and moving to a more capital-light approach in UK Life. And when it comes to capital, it certainly is nice to have these options. And as I said before, this isn't something Aviva has had for about a decade, so it really is uncharted territory.

And another area we continue to prioritize is our investment in digital, and here we're making some excellent progress. The infrastructure is largely in place. We've developed a full range of composite products on our digital platforms. And we're trying to make it simple, transparent and convenient for customers, particularly existing customers of Aviva to buy Aviva products anytime, anywhere at some pretty good prices.

And unusually, for an insurance company, by the end of this year, all of our core customer systems will talk to each other in the UK. That's a competitive advantage that allows us to leverage that digital platform We have a lot of information on this, and there's too much of that information. I've other things to give you today, so I'm not going to dwell on digital today.

But I would say that one important element for your future analysis is that our work today shows that our margins selling through digital business will be significantly higher than our existing margins that we sell through our other channels because of the elements on this chart highlighted on the left. It makes a real sustainable difference, but I think this is something for a later Analyst Day.

So what's next? Well, we are aware that without capital disclosures today, questions will be asked about how we prioritize the two parts of our investment thesis, mainly cash flow and growth. And the answer is it'll be a little bit of both. Because as the benefits emerge from our actions on capital and liquidity over the next few years, we do have a wide range of options at our disposal.

Now, to be clear, we will unashamedly invest in our businesses to improve their profit and competitiveness and to get net growth and earnings. Canada is a good example on that. And we will make choices though on product geographic mix, best exits as well as sales in geographies if we don't get the required return on capital we need.

We'll make choices on our level of risk appetite. We have that luxury to do that and we will examine modest bolt-ons, incremental bolt-ons to existing businesses, like the recent RBC acquisition in Canada. And we will balance this investment, of course, with returning capital to our shareholders.

Now we will maintain a growing dividend profile and reiterate our intention to gradually move towards a two to one capital ratio, a level that will still leave us plenty of flexibility to invest in the business. And I repeat, if conditions allow, we would consider additional capital returns through buybacks or other mechanisms.

But, to be clear, we're not at this point today, and we still have plenty of work to do on Friends Life integration and on Solvency II optimization amongst around the businesses that these issues are certainly now on our radar with our capital position.

So, in summary, I think we've made some pretty strong progress. But our task is far from complete. And if we continue – we have continued today to see some significant upside in the business, but we think, there's a lot of upside still to go.

So, having secured the balance sheet and made strong progress in the integration of Friends Life, I think the reality is the destiny is entirely in our own hands rather than market volatility and fluctuations. And we can continue to focus on doing what we do which is transforming our business and indeed maintaining this consistency of our results. But given what's being done on delivery to-date, ladies and gentlemen, I wouldn't bet against us.

So, on that note, if we can perhaps open up for questions, and we've got a mic in the room here. How are you?

Q&A

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

Good morning. It's Andrew Crean of Autonomous. Two questions, please. Can you talk a little bit about free capital generation in Solvency II versus the old world and particularly the capital intensity of writing new business under Solvency II?

And secondly, just in your property/casualty businesses. If you look at the current year attritional ratios, the loss ratio has deteriorated by 2.4 points. Could you talk a little bit about what the outlook there is having seen deterioration this year?

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

Hey, thanks, Andrew. Now I'll just start then I'll pass over to Tom and to Maurice who's here in front of us. We've been operating under economic capital. So we've already sort of taken out some of the guaranteed and interest rate-sensitive products. So a good example of that would be in Italy which is all of a sudden or where all of a sudden has become so competitive in Italy because people there under Solvency II have had to stop writing those sort of products.

We are pushing more toward risk products, of course. I can't remember in the figures, do we actually give a breakdown of the capital intensity of the products, Tom?

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

To some extent, yes.

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

And maybe the guys can take you through on a product-by-product basis. What we haven't done, Andrew, though, is optimize how we get the capital out of those businesses yet. So, just like Solvency II and internal loan, that's our next focus, is to turn our attention to the actions we can take to bring that forward. Do you want to personally add a comment on that?

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

Sure. On Solvency II, I'd say looking at the back book, we'll continue to get cash flow out of that and basically as we had been anticipating. Going forward on the front book, it's clear that annuities have become more capital intense, so we'll be looking at strategies around longevity reinsurance or otherwise on the front book to try to moderate that. And we're looking at pricing conditions in the market, which to us don't seem like they fully reflected the cost of Solvency II going forward. So that's something we're keeping a close eye on. And otherwise, we're trying to move more towards protection, unit-linked and sort of other products that are capital light and equity light.

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

And we're getting some of them. And we had £3 billion inflows in the fund management platform in UK Life. Also, I should also point out we're not as sensitive as most to interest rate movements, and you can see that in the deck. That's because our back book is probably – it's been a mess than I've ever seen before and the front book we don't have the high guarantee. So we're probably less volatile than most on that.

Now, Maurice, there's some questions on GI as well

A - Maurice Tulloch {BIO 17683736 <GO>}

Sure. Andrew, on the attritional side, the loss ratio moved the two biggest driver, one being large losses. Every P&C company in the world had seen a trend in large losses, largely driven by natural perils and movement there, but also on sort of broader events, particularly being the weather. And what we've actually done is start to increase our large loading factors, both here in the UK and Canada.

Another bit is the motor. The motor is at the bottom of this cycle here in the UK. And we finally saw it start to harden here in Q4 as the rate's moving up 7%. And in our Canadian motor market, the reforms come in on June 16, which we think will be worth 6 points to 7 points favorable in terms of the loss cost.

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

Thank you. It's James Shuck from UBS. I had three questions, please. So, firstly, can you help me bridge from the 5 points to 10 points that you talk about in terms of the addition to the Solvency II ratio each year that's equivalent to about £0.6 billion to £1.2 billion a year. If I gross up for the dividend costs and essential and debt costs, which are kind of £800 million and £600 million, respectively, I get a number about to £2.2 billion, which is obviously pre-remittance. I'm struggling to see how it bridged from that to the £2.7 billion number that you mentioned as the Solvency II number, especially given that, that £2.7 billion is reflecting negative operational variances. So how do I get to a £3 billion number or so? I guess another way of asking that question is what is that £2.7 billion excluding one-offs? That's my first question.

Secondly, could you just give me some insight into your local entity Solvency II ratios, please? And then thirdly, I appreciate you're going to give an update on the strategy and things later in the year with some interesting stuff around digital. I'm just interested in the concept of a true customer composite and how that applies to Canada, please?

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

Sure.

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

Okay. I'll start with the first two. So, I think the easiest thing to do is to look backward and talk more about the £2.7 billion. So you're right. There were negative economic variances. So, if you just look at operating activity and management actions, the number is actually quite a bit higher than that. I'd say there were a number of things that we did to optimize during the course of the year. You can debate whether they're management actions or whether it's part of our sort of ongoing trading activity, but I'd highlight three things. So first is hedging. We did a fair amount of hedging during the year, which had a very significant benefit to our capital generation.

Secondly, we restructured the equity release mortgage portfolio internally. So that's sort of a one-off that you wouldn't expect to repeat. And thirdly, we did some optimization around the investment portfolio. So we talked a little bit about what we did with the commercial mortgages, but we also did further investment optimization in the annuity book. So all those factors together helped push that number up. And I'd say the number for 2015 was a very, very strong number. I'd like to think that would repeat in 2016, but I wouldn't count on that, which is why we've given you the guidance more along the lines of 5 points to 10 points of cover ratio increase in 2016.

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

On TCC, on True Customer Composite, that's a good question, one that we have debated quite a bit. I would expect our main business is all about main businesses to have a wider composition. And you can do that in a number of ways. You can white label things. You can do some partnerships with others. And we have a 15-year deal on the general insurance side with Royal Bank of Canada, and undoubtedly, we'll share some of their products as well on the life insurance side and take a margin on that.

Additionally, though, in Canada, there's A&H products. A&H we do see as a key part of our portfolio. It's something that we haven't really emphasized at group much before. It's something we're spending a lot of time on. The margin's high, it's good for Solvency II. We have the ability to do it and we have the distribution. So you would see us doing some of that in Canada as well. So you'll see us moving towards that TCC sort of proposition across a lot of our markets.

In Asia, for example, we already have it, and I think we're one of the few players in Asia that can give life insurance, general insurance, asset management. And the fact is, probably more for another day, but the margins when we do that are considerably higher and really is an attractive growth proposition. But for today I'm just giving a bit of a teaser on that and we'll probably give you – we will give you some more data later.

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

Let me come back, we missed your second question on the subsidiary cover ratio. So the way we run the group is to focus on the group-wide cover ratio, so we keep the strength here at the group center. At the subsidiary level, we run with slightly lower green ranges or for the cover ratio. It differs market by market. We don't have sort of a single formula. It also depends on some of the local regulatory capital rules. But I would say that all of our subsidiaries are in good shape. If you look at our UK Life business in particular, it's well capitalized.

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

Hello. Good morning. Fahad Changazi from Nomura. Could I just chase up on the capital return? And you mentioned buybacks, how would you make that decision? What metrics would you look at? And for example, if the share price was £4.80 this time next year, would you do buybacks? That's one thing.

The second thing is for Maurice. RSA recently came out with some new ambition ratios for the UK and Canada. Could you perhaps comment on where would you like to be going forward as well? Thank you.

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

Thanks for the easy one. Well, I mean, I think you've already answered some of your own question. If we were in the stage where we thought we had too much excess capital and we couldn't invest organically in the business. With organic lease, probably number one thing I take off there, then we would look at things like buybacks. When you have a yield about where we are, if you're not getting credit in the market, becomes a pretty attractive option at that time, doesn't it?

But to be clear, we're not at the stage of doing that back yet. We accept that we're top end of the range. We accept that we're going to get more capital in, and we would look at that, would look at the price, would look at the yield, would look at where our solvency is, would look at the investment markets at the time, all the same things that I think you would look at. And we balance everything off.

So what we've said today, we want a steadily growing dividend year after year after year, haven't we? So, 15%, that's a fairly significant number. I think 38% over two years is a significant number. But I don't think anyone would expect us to grow every two years by 38%. If that's the case, we need a whole lot higher price, don't we? And so we'll consider all of those things at once. What we want is long-term sustainable growth in the dividend so that I don't leave a problem for whoever follows me in hopefully quite a few years' time. We want to do it every single year consistently. And if we do that, I think investors are going to appreciate it. Do you want to add anything?

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

No, I think that covers it, Mark.

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

Now the second question, Maurice, you're a popular guy today in Canada.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah, morning. And thank you for the questions. Generally, I don't comment on competitors, but given, I think their ambition was to get to where we are in the UK, perhaps I should comment. Expect us to continue to improve. I mean, I'm pleased with where we're at 95%, given we absorbed £132 million of floods which was 3 points of our COR. Every single event, I learn something. So I'm learning from the event both personal and commercial in the UK. My cost ratio, I still think can get more efficient in the UK business.

If I turn to the Canadian business, certainly at 93.8%, that's a strong performance. But if you look behind the various lines, the motor book actually went backwards slightly and we're at the bottom of the cycle on Ontario motor. And as I said that the reforms will come June 2016. So I'm comfortable with where in operating range, but there's always sort of room to improve and I'll be looking to do that.

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

(54:31)

A - Maurice Tulloch {BIO 17683736 <GO>}

I'm not going to give forward guidance.

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

Thanks. Jon?

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

Morning. Jon Hocking from Morgan Stanley. I got three questions, please. On the dividend, the ambition to bring the cover down, can you talk a little bit about, in a normal market, how long that might take and what we should look for externally into this cover coming down? That's the first question.

Second question, just looking at the 5 points to 10 points guidance for the growth in the capital ratio post dividend. Is that including the £1 billion or so benefit from the Friends Life restructuring in the UK? And is that ongoing guidance not just for 2016?

And just finally on the GI business growth selectively, is that something UK mostly, is that commercial in Canada? Where do you see opportunities to realistically grow the top line in the sort of one- to two-year view? Thank you.

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

Okay.

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

Yeah. Let me start with some of this. So, on the dividend, on the payout ratio, one of the things that's holding us back is we've had a high level of integration restructuring cost. So, if you look at that, that's extra cash that's being paid out. So we need to bring that down.

We should get part of the way here in 2016. We've still got some Solvency II cost, which I wish they were done but they seem to be dragging on. So we need to reduce those amounts first. So I think we'll stick with our continued guidance that this will be over the medium-term. We're not pegging it to a particular year, but something we're very focused on in terms of improving that ratio.

Your second question about the 5 points to 10 points of guidance. Look, we're trying to get those capital benefits as soon as we can. But we're looking at that over a three-year timeframe, so that's through 2018. It's possible that some of that could come into 2016, but I'm not really counting on that. In terms of guidance going forward, I think I'd be more general and say that we are very focused right now on trying to improve our Solvency II capital generation. We've just landed this. The rules have just finally settled, and so now we're very focused in our businesses in terms of looking at product redesign, looking at changing the mix, looking at expense efficiencies, everything we can do to increase that Solvency II capital generation going forward. And so I'm reluctant to give you a target on that sort of for the long term because I think we can improve from where we are right now.

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

You would expect improvement though on that ratio over the next period of years. There's other things coming through like (56:52), the SocGen, the disposal we're doing. There's plenty of other actions coming through that we just need to manage our way through. The growth in GI, I do want to see a higher percentage of earnings coming out of GI and there are several ways of doing that. One that moves through things like HomeServe. And I think of that, things like HomeServe and TSB partnership, that's almost like sort of a, somewhat like a mini acquisition because you still have to put capital behind as you increase those sales. So it's still tying up capital, so that's nice organic growth. And we've proven we can deliver the results there.

And we do see it depending on the business. You're going to get I think an uplift over the next years on the digital side in the UK as you cross-sell to the huge pension book that we have. So you're going to get organic growth here in the UK. I see the UK GI as a growth story, as good as anywhere in the world, frankly. And then in Canada, you've got the RBC deal. Tom, talk a bit more about the specific lines and in particular where you don't want to go.

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

Yeah. No. Thanks, Mark. The couple areas I would certainly add, I mean, I think right now motor remains challenging here in the UK. If you look, behind the detail of our numbers, we actually shrank our broker motor book but grew our direct book, which benefits from higher margins. Property right now, in both the UK and Canada is very attractive, that being commercial and personal, so we like that. I think we often also don't talk about our French GI business. In the French GI market, the fourth largest in the world and we have a terrific franchise particularly in the SME space so we're also looking to grow in SME.

The one area right now that we're cautious on is the corporate market. The corporate market right now, any piece of new business is someone else's renewal less 10% to 20%.

So, right now, I don't like the conditions in the corporate markets and they may change as we look to 2017 but certainly for this year and we'll be cautious on that market.

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

And with other geographic areas. Ireland's been picking up very strongly. Ironically, we've re-rated our product base. We've increased our rates and we've picked up market share into back to number one. Now that's a function of the competitive position in the market, and we have a very nice brand there. So, geographically, you are seeing that business pick up, and I would like to re-balance it a bit more organically. Yeah? And then you can pass onto Oliver after, straight after.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. Andy Hughes from Macquarie. A couple of questions about the slide 23, the capital roadmap for Friends Life. I guess, I thought these numbers were maybe a little bit small compared to what you may be able to achieve. Just given the capital diversification part, there's additional £200 million to achieve. Is this £200 million from the Friends Life moving to internal model or is it £200 million from diversification when you move Friends Life into Aviva Group or is there another element of capital on top of this that we don't see here?

And also on the cost reduction numbers, I guess this £200 million of cost benefit to capital, is that kind of like a £20 million net of tax per annum benefit in renewal costs that you should multiply up 10 times to get to £200 million or is it - am I looking at this the wrong way?

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

Let me start, and I'll ask John Lister to comment as well. So, with everything we do, we try to be careful in terms of putting numbers out here. And so we're always trying to do better than what we show. In terms of the diversification benefits, the capital diversification benefits that we've achieved so far are largely group diversification benefits. Some of them have also occurred at the subsidiary level. And John can talk more about exactly how we're achieving more, but part of that will be through the Part VII transfers.

In terms of the cost reduction, I've got the same question. I would like to see our business here becoming more and more efficient, would like to see that flowing through more in terms of capital benefits. But we're very focused here on the maintenance expense reductions and how that flows through. So, John, I don't know if you want to give any comment on...

A - John Lister {BIO 15438517 <GO>}

Just to reiterate the point that you just made, actually, Tom, the £200 million is just as a result of the integration. Your factor should be nearer 7 rather than 10 and it's net. So there's more to go on top of that. And in relation to the capital benefit, there is the Part VII benefit, Andy, that's already captured at the group level from a standard formula perspective but the move to the internal model will give you benefits on top of that.

And then the other area that we're looking at is re-risking our annuity portfolio, looking at hedging, et cetera, et cetera. That's the makeup of the totality.

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

And we don't know exactly the timing of that. So, for example, Part VII, we can do it but the timing is quite just takes a bit of time to work to it.

Q - Andy Hughes {BIO 15036395 <GO>}

So many things will flow through after the Part VII sometime in 2017, is that...

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

I think what we've said today, what was the guidance we said today? Over the next couple of years.

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

Yeah, we said over the next three years. So – and again, we're trying to do that sooner rather than later.

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

Some will be this year; some will be this year. It's just – we haven't put out; we haven't been definitive just because we can't actually be definitive on the period year. We just don't know. We know we can do it, the question is how long.

Oliver, you also had a question?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Yes. Oliver Steel, Deutsche Bank. Three questions. The first is, I'm sort of trying to go back to the original Aviva restructuring you've been putting through, because I think that's actually quite an important part of the whole story. So you've done a huge amount on the VNB shifting, the mix towards protection. But it's very unclear to us when we translate that into our press earnings whether that's coming through or not. You don't actually give us enough detail. So I wonder if you can either now or some future date give us a bit more guidance on that and actually sort of help us to project forward on the IFRS side, vis-à-vis protection?

And secondly, can you update us on the hundreds of millions of special releases that you, I think, talked about from Aviva UK Life, the original one. I'm a bit unclear – perhaps as an adjunct to that question, do the – does the extra £1 billion of capital remittances from Friends Life, does that also go through the P&L, or is that separate?

And then, finally, small question. You've done a lot to reduce the internal loan further than expected. Are there any sort of side effects that we should be aware of in terms of, sort of, drag on future profits?

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

Okay. There's a few there. This internal loan will be – the key impact of that, of course, is if you just look at headline numbers, you will see lower earnings – investment earnings in the General Insurance company, obviously, but that nets out at group. So, someone did say the obvious point to me the other day, why do you even show it? And you should show it like-for-like. But I think anyone here can do that math pretty easily.

The VNB guidance, I think, point taken. We'll come back to you on that with a bit more and just probably the profit synergies and stuff.

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

Sure.

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

I think, on that, we'll come back to you. On the Friends Life, it doesn't flow through the P&L on the £1 billion. My preference is wherever it is is not to, but there are some things. For example, the expense changes that, when you release that, that does flow through the P&L. My objective is to have as cleaner set of results as possible with not too many ups and downs. But the reality is that some of that will also flow through the P&L because we just sort of have to.

You want to – either of you two want to comment?

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

Just to add a little bit more than just sort of talking about back book actions, generally, even pre Friends, the expense reserve release that we got this year was all part of the heritage Aviva book. So, that's the kind of thing that you will continue to see us do. And most of these capital synergies here are more about our Solvency II capital efficiency, not so much about IFRS earnings.

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

Yeah, I kind of think about this as there's three things to think about. There's – what's actually going on in the capital surplus, and that's the £1.2 billion number and back away key drivers of the £2.7 billion were things like the commercial mortgage reorganization we did, the preparing equity release and the kind of internal securitization of that.

So, the £1.2 billion there is specifically related to the deal – synergies from the deal. We'll continue to do a range of other capital management actions over time because that's sensible to do. You then got actually pound notes coming up, up to the group level, to improve the group's £1.3 billion of liquidity. And ultimately, you're only going to pay the higher dividends if you generate the capital surplus in the first place.

The third thing to think about is earnings. So, things like diversification benefits won't go into earnings. Things like risking – re-risking, improving the illiquid assets and annuity funds and cost reductions will go into earnings. What you saw in the 2015 numbers was £260 million of earnings benefit from the previous cost reductions. So, that's not integration-related. That's historical in the Aviva entities prior to integration £260 million of earnings benefit from that.

So, that's – although it certainly is kind of one-off in its nature, that's kind of genuine management action that cut costs then generated that £260 million. And clearly, we continue to have aspirations to take further action on cost going forward, irrespective of integration.

Yeah?

Q - Abid Hussain {BIO 20229932 <GO>}

Good morning. It's Abid Hussain from SocGen. I've got a couple of questions, if can. Firstly, on remittances. I was just wondering what would be a normalized level of cash flow remittances you suggest £1 billion for 2015. But what is an underlying range going forward over the next three years? I asked really because the holding company excess cash flow target seems to have disappeared, so that's where I'm coming from on that question.

The second question is on TCC. Could you update us on the cross-sell ratio? I think it was 1.7 times policies on average and you're targeting 3 times.

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

Yeah. Okay. So, to start with remittances. In the past, pre-Friends, we had an £800 million excess cash flow target or sort of a run rate end of 2016. And we talked about with the synergies from Friends coming in this 2017 that ought to add another £600 million, so sort of £1.4 billion.

Cash flow is going to a little bit more lumpier and bigger than that in part because of these extra remittances coming out, but we're still trying to get to that same level roughly in terms of excess cash flow remittance on an ongoing basis.

Now, having said that, because our liquidity position is stronger, we are going to be looking to retain more in the businesses as we did in Canada to fund growth. And so, we may come back to you with more situations like we did in Canada this year where we said that we intentionally made a decision to keep cash in the business rather than bringing it up.

So, I think, ultimately, over time, we'll continue to look at that, but we'll also start focusing more on the economic surplus generation, sort of, a Solvency II version of OCG as the other measure that we'll ask you to look at. We don't have that for you yet today. But as we generate that over time, we'll report that as well.

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

I mean, if you go back to that date, there's a number of binding constraints before. There was liquidity at group level, there was earnings and there was capital, capital being one of the main ones. So, we've sort of taken away a few of those in terms of the binding constraints. And so, now, we could sort of manage it more normally. Because the capital position is so strong, it gives us a bit more flexibility.

Now, your second point on TCC, the ratio before if I remember right was 1.73 and moved up to what, 1.8. Now it hasn't moved materially, and I wouldn't expect that to materially move this year. We've got a few things we have to do and this is again for the strategy day.

First of all, we have to build the infrastructure. So, all the systems talk to each other. And everyone says that's impossible to do, well, we've done it. And by the end of this year, we'll have them all talking to each other. At the same time as doing that, we need to get our customer onto MyAviva, so that they can actually buy these products and that's the big task for this year. So, the lead indicator for this year, the key to focus on as we go through now we're built to the infrastructure is how many customers can we get onboard using MyAviva.

Now, from the pilots we do there, we now have to run MyAviva there three times more likely to buy two, three, four or five products. The results are quite extraordinary, and we know it's much more profitable. So, I'd rather hold that for today, because there's a whole lot today and we want to give you the later date. That's, I think, you'll find quite interesting especially for your models.

Yeah? The mic's going here and then...

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Farooq Hanif from Citigroup. I just want to clarify a little bit again on the 5% point of Solvency Capital generation. So, looking at Aviva, your management actions are part of what you do. We've seen them flowing through just about every year and you get questions for a number of years. So, just to clarify, in that 5% to 10%, you're kind of assuming normalized management actions or do you think you could sort of beat that as you transition more and more into Solvency II going forward and make other changes? That's question one.

Question two is, can you update us on progress with the institutional kind of mandates and...

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

Yes, sure.

Q - Farooq Hanif {BIO 4780978 <GO>}

And external fund growth on the institutional side that you have invested? Thanks.

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

Well, first, to start with the question about the 5% to 10%, you're really asking me to take my crystal ball and look out in the future and sort of predict how effective we're going to be with all the management actions. Hopefully, you can see from our results in 2015 that we've been very busy. We've got a lot more work that we're doing in 2016. And I think you would expect that, having just moved into Solvency II, that there's a lot more work that we can do around optimizing it, right? So, this has been a very big complicated process, a long journey.

Now that we're here, we can see opportunities where we think we can do better to refine the business. And as we do that, we'll also start increasing the level of sort of organic operating levels and surplus generation over time. And so, that's sort of the task. But I think it will be natural for you to expect a fair amount of management actions over the course of the year. I can't give you sort of a good projection as to what the components of that 5% to 10% would be though.

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

Now, on the investment, and just a quick comment on that. There's really two parts that we think we can see some growth in funds under management. And, yeah, the fund flows in Aviva Investors have broadly been, I think it's down a couple of hundred million or something, so it's pretty much flat. But the inflows are much higher-margin product than the outflows, and we're seeing that. Now, on top of that, this year, we've got to put more flows from the Friends Life transaction as well or boost it.

And the other thing that has been working quite well is on the fund management platforms and managed out of (01:11:51) UK Life business. So, you've seen £3 billion net inflows into that. And you have seen the percentage of the Aviva product on that has increased quite significantly as well. I'm right at 25% on that? So, you've seen that increased from, I think, about 12% to 25%. So, you're getting - as those flow increase, we're getting some really nice margin on that as well.

Ian (01:12:15) do you want to talk about the broader mandate?

Yes, I can talk about that. The other thing is - just is worth noting, the direct platform, the percentage is much, much higher than that and to Aviva Investors' product. I think the specific question was around the difference between institutional wins and perhaps money coming into retail and advice platforms. The fact is, to win institutional business, you need to have the backing of the major investment consultants (01:12:42-01-12:47) and so on. And we are now getting that, but we're at very early stages.

What they wanted to do was, first of all, we were off their radar for some time because we've had a series of interim CEOs. And there were some question marks pre Mark's arrival about the seriousness with which Aviva Investors are approaching the asset management market, but we really see this as a growth opportunity where we're going to invest in it. And for as long as those question mark remain, these people didn't even come to better us.

So, we now have these guys coming into our office. They're rating our product. We're on the buy rating list for products like AIMS for a number of the world's global investment advisors. And we're starting to see that perhaps turned on. The flow we're seeing at the moment is coming from wealth platforms, including our own platform. And so, it's actually quite high quality because we're seeing it coming in from a whole lot of different advisors. We haven't seen the big lumpy institutional wins yet, but I'm absolutely confident we're going to because we've got these buy ratings now.

So, we've kind of moved the needle without winning the institutional business. The bits and pieces of institutional business that we have been winning tend to relate to other propositions are more historic than AIMS. So, it's money coming into areas like our infrastructure investment capabilities and so on, which is an important part for our business. We're really focusing on scale and judgment propositions, which are the likes of AIMS and liquidity premium opportunities like real estate, debt and infrastructure. Those are the two big strategic thrusts for Aviva Investors.

Yeah?

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. Gordon Aitken from RBC. A couple of questions, please. One on reconciliations. You're getting some help for reconciliations on – I think it's on page 32 of the release. I mean, the – so, IFRS and group equity have to share Solvency II and funds, and that's a big number change. But I mean, the liability of valuation difference is sort of essentially £20.5 billion. Now, I'm imagining most of that is in-force. But on the MCEV to Solvency II is also a big number liability valuation difference of £5.2 billion. I just wondered if you could explain what that relates to.

And the second question on the Solvency II ratio, and I see you've excluded the, with profit surplus and the – and your pension scheme for the denominator and the numerator. Now I have seen of the two life companies that reported in the UK to-date, one has done that and one has included them. I mean, I think your ratio at 180% would be about 163% if you'd included both. I'm just wondering, what sort of rules on that or – you can do what you want to think and also is there any change there from when you were reporting under an economic capital basis? Thank you.

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

Sure. So, let me take the second one first. It's a bit easier to answer. The way we're treating it now is very consistent with the way we run our economic capital models before. And in terms of – you're exactly right. This is consistent with what a number of competitors have done. I'd also make the point that our target range, the 150% to 180% is also calibrated in the same way. So, effectively, the with-profits funds and the pension funds are in surplus. They're not really, sort of, going to the shareholder account. Only if they were in deficit, would it be a deduction from our ratio. So, to the extent that they're in surplus, they're just not counted in this ratio.

The other question about the liability valuation difference is there's a lot in it when you look at on an IFRS basis. Part of that is looking at the in-force book and the present value of future profits flowing through. So, that's one of the big reasons. We've got a very, very big balance sheet and a big book, and that's why that number changes so large that way.

So, when you look at the overall migration from our – in particular, our economic capital to our Solvency II Capital, the end result is actually not a very, very big difference. And if you look at the cover ratio that we had, it's actually very, very similar in terms of the overall strength of our cover ratio.

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

Thank you. Alan Devlin from Barclays. I have just one question on the dividend. What actually is the binding constraint or driver on the dividend? Is it the earnings cover 2 times or is it the Solvency II Capital generation or is it the after-after cash number? I think Mr. McFarlane (01:17:21) suggests there's no reason why you couldn't pay out your after-after number after all your organic investments in organic business. And is that still the case? Thank you.

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

I'd say there is no simple single binding constraint. As Mark said, this is something that we consider in the round, and we're looking at our dividend growth path over a long period. We want to be able to have a steady progressive growing dividend for a very, very long period of time. So, you need to make choices in terms of the present versus the future. So, there is not a single statistic, whether it's the cash flow, the capital or otherwise. It's really us looking at management business for the long term.

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

I mean, I'd look at it this way, and it would be all very easy for Tom and I to sit here when we know our capital position, we know we got more capital coming and we got £1 billion of remittances and other management actions. It'll be all very easy for us to sit here and say, well, we're getting outside the top end of the range and we're just going to increase dividend by a really high percentage, but I think that would be really short-term thinking from us.

And if we're saying we want to be a stock that people want to hold, they know we're going to keep on increasing the dividends at a good rate. And when you look at all those fee – and if we go too far out of the range and it makes sense to give it back to shareholders, we'll do it through another mechanism.

And we're not there yet. So, what we want on dividend, though, is just a steady growth, accepting this as a new dynamic. So before, everyone was just focused on perhaps obsessively, on the dividend. Now, we've got this new dynamic and we got plenty of capital. And so, we need to look at both those things together. But I don't really want to go and just because we don't have a bit of surplus capital just say, well, we're going to do that and just give a few years of extraordinary dividend growth because I think that's really short term.

And that might keep people happy for a month or two or a year or two. But then, eventually, we would have to cut them. I just think it's dumb. I think it's dumb business. So, that's sort of the thinking that we're thinking about and the board is very aligned in that thinking. As I said before, we've now got a high-quality problem, haven't we? It's a bit unique.

Yeah?

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes from Macquarie. A couple of follow-up questions. So, going back to slide 23 again. I'm sorry, guys. So, if I understand it correctly, the group benefit from the £400 million you show there at the bottom, the capital diversification, so when you do the Part VII transfer that then turns into repatriations. Is that the way to think about it? So, if there are £1 billion additional repatriations, that sort of flows through when you've done the fund merger or that £600 million asset will be at the end?

And I'm just wondering, in terms of the kind of £1 billion additional repatriations from the UK, are you relying any money flowing back from the RISA? And at what point should we be thinking about that flow starting to happen? Because presumably, as you highlighted, there's already excess capital in the UK Life business. Thanks.

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

(01:20:19)

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

Okay. I'm not sure if I got all four parts of that question...

Q - Andy Hughes {BIO 15036395 <GO>}

No, that was the first question, actually.

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

That was only the first? Okay.

Q - Andy Hughes {BIO 15036395 <GO>}

It's really pretty simple. I just wondered why AIMS had outperformed versus the two peers. Is there any specific reason for that? Thanks.

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

We can give you a sales pitch now in a minute but...

Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

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

All right. So, let's start with this. What I would say is that we need to distinguish between capital benefits and liquidity coming through. So the liquidity will lag. It won't always be entirely aligned with actually the realization of the capital benefits even when we get the Part VII to come through.

So, I think, with all these capital benefits, you should expect there to be some lag in terms of liquidity and the cash flow coming up to the group. In terms of the RISA, no, there's really nothing new here with the RISA. We continue to benefit from the capital in RISA and that helps us in terms of writing new business. So, it's not really actually creating additional liquidity.

Hey, John, is there anything else you would add to that?

A - John Lister {BIO 15438517 <GO>}

(01:21:46)

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

Does somebody want to pass the mic to Ian (1:21:51), please.

I mean, in terms of why it's done better than the competition, I think you need to explore what's in their portfolios. But one of the things I would say is when I came to Aviva Investors, well, one of the things I was aware of was it was a bad business with good investors. We actually had really good investment track records across a range of asset classes.

And that was a foundation I knew I could build something like AIMS on. So, to build a proposition like AIMS, what you need to do is you need to have really high quality people in rates and credit and equities and FX, understanding some of the embedded elements that we use all the time in our bed and breakfast capabilities give us the hedge. So, we've got trades in areas like equity volatility for example, which we've been using to hedge our balance sheet.

Now, we're using, if you like, an anchor, to make money within portfolios. So, I knew we had the skill sets. It was just a question of organizing them into a portfolio process that would put those ideas together into the kind of outcome-orientated investment solution that AIMS is.

So, I mean, I think, there is going to be a big battleground in asset management for building high-quality solutions that deliver outcomes that people find important, like making a decent return and making a decent income. And I think we're massively well set up just to execute better than anyone else. And that the proof of that pudding is going to be in the eating, and we're just 18 months into proving that we are the best. And I think we will just need to see how it unfolds over the coming period.

I asked you a few months ago, because I have money in his fund. So, my pension is in it so – and I asked in a month ago why it was outperforming and he said, because we have a wider range of asset classes where we're performing. And I think that grid, that's something that Aviva Investors has always had. What they had was no strategy and no leadership. And we need to have some herald products to make it work. And we've got a range of products and names. And so far, so good. But you know what? We need more – we've got £3 billion in it. That's a really good start, but I think we need much more than that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Ashik Musaddi from JPMorgan. Just one question. In your comment, you did mention that you have – you think that there is a lot of flexibility in terms of capital now. You're like at the north of – at the top end of the range. Now, if I remember, there used to be a chart in the past where you used to show that these are the businesses you run for cash, these are the businesses you run for growth.

Do you think that you would try to move around some of those cash businesses into growth, i.e., do you think there is a lot of appetite, if you can send capital, you can get growth out of some of those cash-managed businesses and what will be those businesses? Thank you.

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

I mean, it's a good question. You recall that chart I had where I had the cash generated ones in the stars and I don't call them dogs, so it wasn't a pure BCG metric; actually, I might have on a couple. But really, what we're thinking is, to have credibility as a management team, you need to be able to reallocate capital and not just spend capital. The business generates a lot, but it is about making some of those choices.

Now, I'm not going to talk specifically about any sells or areas today because that would be difficult. But a good example was what we announced today with Ireland Health. Now, we are committed to the Irish market, but the Ireland Health business was a big drag in our earnings and we just couldn't see that market going anywhere. And we released some capital and thankfully released a lot of expenses out of it that actually could reallocate to other sells.

It might be countries, but it's more likely sells. We do see UK Life as a big – and I'll get Andy to comment, but we see UK Life as a big cash generation machine and moving more to a capital-light model of that allows us to reallocate capital. So, you've got – some of what you'll see is capital reallocated from one to another, so it's self-funding. Some of it's just normal organic business.

We have been over a number of years now holding some of the businesses back just by way of normal business. In Canada, for example, we've been holding the bank over a few years because we feel now we don't want more capital. Our balance sheet isn't where we want it yet.

Now, with all this work we've done, we've got the balance sheet. As Tom said, I think it's pretty much a fortress balance sheet now. We can just run the business in a normal manner. In a normal manner, you should expect some pretty good growth in earnings. Do you want to talk about particularly UK Life?

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

Yeah. I mean, because I think that you heard me talk before about the fact we have a significant cost advantage over our peers and a significant capital efficiency advantage, particularly, because we diversify across the composite. What that means is that as we come into Solvency II, the new business we write in UK Life will not require a net capital contribution. So, effectively, we can bring the cash flow plus growth pieces, really, to Life in UK Life.

Get the cash flow off the back book, continue to drive that, and we expect the growth in the ordinary remittances together with the £1billion on top that we've talked about. But then we can grow as fast as we want, because it's not going to be consuming capital and reducing our dividend paying capability on the – effectively, from the back book.

When you couple that with some of the strong demographic trends and some of the regulatory trends and, generally, shifts to capital light, and then overlay on top of that the TCC opportunity through digital, and the fact that more GI business again diversifies well against the Life side, you start to get really excited about the potential for cash flow plus growth through the business.

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

I mean, I'd also – I'll give you some hints. Part of what we said, I do want more GI. And then if we could grow GI organically in France – There's Poland. We still have some capital there. Poland's got an extraordinary return on equity. And if we can grow that business, I'll be delighted to.

Canada, I think – I'm not saying that – including diversification benefits is about a 20% ROE, so that makes a lot of sense. And because we're a composite, we can get diversification benefits that monoline or single-country insurance companies can't, so we can be more efficient on the pricing perspective. So, I think that's really a competitive advantage for us.

Q - Barrie Cornes {BIO 2389115 <GO>}

Good morning. It's Barrie Cornes from Panmure Gordon. A couple of questions, if I may. First of all, without stealing your thunder for the strategy day coming up, can you give us an idea what sort of expense base in terms of size that the digital could impact and have a positive effect on, please?

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

Yeah. You mean, in terms of reduction of expenses?

Q - Barrie Cornes {BIO 2389115 <GO>}

Yeah, how big the expense base is that could be attacked, if you like.

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

First of all, I love these meetings because now we're getting a big tip to the balance sheet and now it's moved on to that, which is good. We will give you more. I'm not going to give it by size, but I can tell you that with the expense base - I'll give you some areas where it's lower, things like commissions. If we take out - let's say, home insurance, if you take out 15% commission and you're cross-selling into an existing customer, you can pretty much take that off, because the only thing you need is to get the traffic on that MyAviva, and then we know the sales will be at least three times higher. So, that's one example.

I'll give you a couple of others. We know, even from an underwriting perspective, that if you have a huge base of customers, as we do, particularly, in the UK - if you're a pension customer, remember we've got one in four pensions in the UK, your claims ratio on your house insurance is 6% lower. That's an average. It does vary quite a bit. It can be up to 23% lower actually, but on average, it's 6% lower. And so, you can target the customers that you want. And you can give them a pretty meaningful discount.

If you've got pensions and then home insurance, and they want to buy other, like pet insurance, let's say, both of those, for some reason, the claims is lower as well. And you don't even necessarily have to understand why it is, you just have to have a huge base that you can build your algorithms around it. That's how it works.

But that's just sort of a taste. We're going to show you - we're going to make a decision how much of the stuff's competitively sensitive, but we'll will show you probably some high-level data on the margins that will help you build your models without giving my competitors too much.

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

Okay. And, Mark, if I can just add, one of the thing to keep in mind here is that it's not just the expense and the margin improvement, too, but the customer's got a better experience. So, if we can share some of that with the customer, this ought to also turn into better persistency, better volumes, et cetera, to really drive profits.

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

And so there's actually an opportunity for an efficient frontier on that. So, it's how much discount you give a customer which, frankly, I don't think others can compete on the discount that maximizes your return on capital, so the customer wins and we win. It's a wonderful market proposition.

Q - Barrie Cornes {BIO 2389115 <GO>}

(01:30:28)

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

Yup, yup. As long as you have a pension and a home, then we'll think about that, okay?

Q - Barrie Cornes {BIO 2389115 <GO>}

I have, don't worry. The other question - sorry, the other question I have, in terms of your surplus cash going forward, you mentioned a range of some things you might consider doing with it, obviously, including the dividend. You talked possibly about share buybacks as well, but you didn't mention special dividend. Is that something which you're particularly in favor of perhaps?

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

I turn to my CFO here.

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

No. We'll work at a range of options here. So, I think if you think of the hierarchy, the first thing we want to do is look at organic growth. So, we really don't want to be operating above the 180% range. So, if we can actually create those additional 5 points to 10 points, we actually don't want the ratio going up to 190%. We want to be able to actually write more insurance business and generate more growth from there. So, that's the first priority.

Sort of as an extension of that, we'll look at additional distribution deals, which may be something like TSB or maybe something like Expander in Poland. And thirdly, we'll then look to the dividend. And as Mark said, we want long-term sustainable dividend. And if we've got additional capital cash above that, we'll consider other possibilities. And so, that could be a special dividend, it could be a share repurchase. I think some of our capital may come in lumps, which will, I think, cause us to think about that mix.

And the other factor coming back to one of your earlier questions is just where our share price is. Our share price is in the £4 range. We're going to be buying back stock, and if it's up higher, maybe it's a special dividend at that point.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you.

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

Blair. Blair then Oliver.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. It's Blair Stewart from BofA Merrill. I think I've got three questions, unbelievably, after all this time. You talked about in the past, Mark, about an embarrassment of opportunities with the Aviva legacy business with the - in terms of costs. I just wonder what is left still to do, notwithstanding everything you've done already.

Secondly, the £1.8 billion of ongoing remittances that you indicated for this year in underlying terms, is that a good run rate, or are there still areas of improvement versus what could be remitted from some of the businesses, and that's both on an ongoing basis and any lumps of capital that may still be trapped? I've got another one, but I'll ask that later.

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

Okay. I'll take the first, and Tom can have the second. I still don't think we're efficient. I know we've kind of favored out, but if you actually have a look, there's more opportunities. Areas I'd focus on, we are looking at our group cost now, which I still think are too high. I think, General Insurance, and I think I saw Colm in here somewhere, right behind there. So, Colm was just appointed as the UK General Insurance Head today or yesterday. Don't know when the announcement went out, Colm. And one of the things he's focused on is we need to prepare that business more for the digital world. And so, we will be looking to reduce expenses in that business going forward. And that's just a natural part of that business.

So, there's - UK Life has still got a lot. Now, we did - frankly, I'd speak to the question, I'm surprised no one's asked it, but we did toy with the idea of putting out a new cost target on the Friends integration, because, clearly, we're doing better than what we said we were going to do.

The reason we didn't is a simple one. It's now impossible to differentiate between what was the old Friends and what was the old Aviva. So, it would be a bit mischievous putting out a target when it's a bit hard for us to determine, going forward, about where it's actually coming from. And so, that was sort of the reason we didn't. But make no mistake, we intend to improve and still get more cost out of that business with the real estate and systems and/or any part of the business we want to.

So, there is still a lot. I think it varies by country. Some countries, I want to get more efficient by growing, not by cutting cost. For some of the larger businesses, they need to do a bit of both. And I think, an actual fact, if we have a look at the expense ratio this year, we cut expenses by 1%, we also cut our expense ratio by 1%. The figures actually matched, broadly matched, so there's still more to go. Tom, do you want to point out?

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

Yeah. I don't think the £1.8 billion reflects everything that we can do. If you think about the French transaction, we've gotten some of the synergies by the end of 2016. We think we'll have the full run rate synergies, but that's not really flowing through into cash flow yet. So, in my mind, there ought to be room to take that number up higher.

We've also been reinvesting some of the benefits of the transaction in growth for Aviva investors. And at some point, I want to see that turning into additional cash remittances coming to us. And Mark just took you through some of the additional cost initiatives that we've got. So, all three of those factors should be positives that contribute to us, being able to take that £1.8 billion higher.

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

And you had a third question...

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. I thought just on the dividend, you've got a quite a heavy stock of capital now. You've got more capital still to come through your initiatives. You've done all the repair work you need to do, and you're still generating capital annually. Why wouldn't you move to 2 times cover in pretty short shift. I don't understand the stance of waiting, given this will never (01:36:14) in your share price?

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

I guess we should. I mean, it's the right question. And it's a question we debate between ourselves. It's about balance, isn't it? Want to leave something in the future over time. And also want to – I want to change the perception about what Aviva is. I think, as you say, we've completed the fixed phase of our balance sheet. I happen to think we've got some really good franchises. And I want our stock to be known for just increasing the dividend in a solid way year after year after year.

I don't want us to be known by just increasing it by 38%, like we did in the last three years, and then pull the rate of growth down. We just want a nice steady rate of growth going forward in it. And if we have that excess capital that – and we agree, we're in a pretty strong capital position now. Well then, we can do other things with it or give it back in other ways. And it is that balance. And so, I am deliberately trying to change the perception of where people see us a bit. I mean, it's a good news story. It's a high-quality problem, not a bad news story. That's the way I think about it.

I think Oliver was first, and then Andrew next, and then we'll have another so...

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

I apologize for the question in advance. But you have quite a few European operations. So, what are you doing, or what would you have to do in the case of Brexit?

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

I would've almost been disappointed, if it wasn't asked. I did some press this morning, and it was, I think, the second question. Our Chairman's given a pretty clear indication that we believe that UK is better in. We believe that Europe is better with UK in as well. But that's for a whole lot of other reasons to do with the UK and the economy, and those sort of things.

When you actually have a look at our business, and we're doing a lot of detailed planning work as you'd expect – when you had a look at our business, there's far less impact. So, to be blunt, there's no difference perhaps doing business in France than there is in Singapore. Even Solvency II, anyone that thinks we now have a single Solvency basis, clearly, hasn't read Solvency II, because we just don't have a single Solvency basis, it's not even close.

So, there's no - in terms of business disruption, there's - it's not a big deal for us, because every regulator looks at our business differently. And whether you're upstreaming capital from, I don't know, from Canada or anywhere else in Europe, but, really, they look at your Solvency position and all those other factors. And those discussions would continue.

So, it's not a big operational issue for us. The issue that we would have to think about is an economic issue. And - but I also think we got a pretty long levers to pull those showing over the last period of time. So, probably not a lot more to say on that one, really. Andrew?

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

I was just wondering on Solvency II, and if you could give a little bit more detail about things like transitionals, the tearing, and whether there's any ineligible capital and stuff like that? And also, there's a very big hit from the inclusion of the risk margin. I know the risk margin is something that the PRA is looking at, because it believes the UK, it's too onerous. Is there, potentially, a positive there if you can persuade Sam Woods to do something a bit more sensible?

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

I'll start and hand over to Tom. I mean, transitionals - how can I say it? So, first of all, we're very happy with our level of transitionals. It broadly offsets this margin transitionals. We would be probably lower than most, I think, on that. But I would expect that number to move around this year also and reduce. And as you say, the PRA has given some pretty strong guidance about what they think, and what they think they should be doing. I think you might find that we made progress on that sooner rather than later, actually. And if you look at Sam's speeches, he's given, I think, some pretty strong hints to the market.

Clearly, the UK, you've got UFR and other countries that - we don't have any UFR, to be clear, so - which has clearly helped. You've got risk margin that actually hasn't helped with where rates are. And I think the - probably, most people would think that with the risk margin, we, being the UK, it probably got better, but wrong. And I think Sam's being pretty open and candid about that. Do you want to add any of that?

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

Just a couple of things. Again, we think the transitionals are good capital for us, and they run off quite well with the back book in UK Life. We'd have to disclose the total amount. What I'd also say is one of the reasons why the risk margin is higher than the transitionals for us is that it only applies to UK Life. For Friends, the biting constraint was not an ICA basis, it was more on a Solvency I basis, and so, we don't have as many transitionals for Friends Life. We also don't have transitionals for any of the business outside of the UK. So, that's the reason why the risk margin is greater than the transitionals.

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

It's not a number that will constrain us, so should I say might there much. Yeah?

Q - Trevor D. Moss {BIO 1741504 <GO>}

Good morning. It's Trevor Moss of Berenberg here. Just a couple of points of clarification, please. If I look at Friends Life's numbers for 2014, excluding the one-offs they had last year, it came out to about £350 million for the full year. And you've booked £550 million for nine months in 2015, so I'm wondering if you can explain what's going on within those numbers.

The second thing is relating to some comments on reserve releases in your release. I think Tom said this before, but reserve development should be plus or minus stable across the piece. And, obviously, you had a decent amount of reserve releases this year. So, I was wondering if you could just clarify where we think we're going with that going forward.

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

Sure. Let me take that first, and I'll ask for Andrew to help talk a little about more of the – about the heritage Friends. In terms of reserve releases, we had more in the UKGI business this year, more favorable development, that's a positive. I think, as you look at our business, it should be relatively stable, but there also is a fair amount of prudence in our reserving process that there is a relatively tight constrain internally around the reserve margin that we put in when we write business and we manage to that. So, I'm not surprised that we actually have small positives in terms of reserve releases. That's what I'd like to see over time.

Now, if you look across the book, within the book, there are certain places where we've strengthened, and that's just kind of a natural process of looking at what you've got. So, I think the amount of reserve releases that we had this year is it may be higher than normal, but it actually is not really unexpected. It's kind of within the range of variability that I would consider normal.

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

I mean, the same applies with general insurance or one-offs in life insurance. If you're managing an insurance company appropriately, you've built in prudence, that's why you had actuaries. So you would expect over long term a reasonably regular flow of reserve releases, or you're pricing it too thinly.

And so, the key is to have really strong controls about those releases, and our board and Tom and Co. have made that very, very tight, and we control it all here. So, you would expect the – you'd also expect it to be one-offs in Life, because we're the big back book. Unless again, you priced it too closely, there's a level of prudence built in, so you don't expect that to boost up your reserves.

Now, the only thing about that is the timing when that happens. I'd also pointed out in terms of the GI results, you had quite a big negative in terms of the weather. One of the worst clouds in the last hundred years. So, you take that in the balance. I mean, I would suggest to you the GI was older and very high-quality result. Do you want to comment?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. I mean, as Tom said earlier it's quite hard now at one business to kind of be splitting out the Aviva and the Friend's side. And going forward, we won't be trying to do that. But you basically got three drivers in there, Trevor. So, first of all, you've got, from a trading perspective, strong progress in terms of revenue growth. So, for example, we had across that kind of combined corporate pensions businesses, nearly £2 billion of positive net fund flows. So, you've got some positive trading elements.

Secondly, we talked in the numbers about UK Life having a P&L benefit from the synergies of about £75 million. I mean, a small part of that is in the Aviva entities. The lion's share of that is going into the Friends entities, you're seeing that. And thirdly, you've got, particularly, in FPL, there's a (01:45:04) benefit, basically. So, you're seeing that come through as well. So, you've got the three elements.

The fact you kind of capitalized the future profits and then released them through. So, if you look at the FPL numbers, those, in particular, have gone up strongly. There's a particular effect there.

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

All right. Now, just in the interest of time, because, as you can appreciate, it's been a full day for me, maybe one last question. And I know the IR guys, or Tom, Maurice or Andy, whoever can follow up outside this meeting. Is there any last burning question? There you are. You're the last.

Q - Colm Kelly {BIO 19140684 <GO>}

Hi. Colm Kelly from UBS. Just a question on Solvency II disclosure. So, you've posted some very good Solvency numbers, headline numbers today. But if we look at capital generation, there's obviously a lot of question mostly around that. You have the operating capital generation under the old basis split out by division, on an underlying basis, management actions. Are we going to see that under Solvency II capital generation going forward?

And I know you've given a headline number of £2.7 billion today. And also, in terms of things like operating entity ratios. There's always a transitional capital, the volatility around MCEV-level ratios. How can we expect the disclosure around that to develop maybe through half year and probably your 2016, et cetera? Thank you.

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

I think you've actually got the answer there, which is it will develop through half year and full year. And so, the accounting team is sort of red-eyed right now having worked all night getting the numbers out. And they've got to start tomorrow working on how we're going to take our analyst pack here and then reboot that for the half year. So, we're going to be dropping the MCEV disclosure, but we're going to be coming back with more Solvency II disclosure, including capital generation...

Q - Colm Kelly {BIO 19140684 <GO>}

...quarter-on-quarter?

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

Yeah. And on a quarterly basis, you should also note that we're not going to be doing quarterly disclosures anymore. We're going to be focused on the half year, which is really much more along the line.

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

And what we'll do to supplement that, that we will have probably a couple of more like full day analyst investor meetings that will give you much more data. And we think that can be more meaningful than what was clearly superficial quarterly numbers, and so we do something like that.

So with that, everyone, thank you. It's been a fairly long session, but thanks and look forward to meeting – what you say?

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

Thank you.