Aviva PLC Capital Markets Day 2017

Company Participants

- Andrew David Briggs, Executive Director & CEO of UK Insurance
- Christopher Esson, Group IR Director
- Euan George Munro, CEO of Aviva Investors
- Mark Andrew Wilson, Group CEO & Executive Director
- Maurice Tulloch, CEO of International Insurance & Executive Director
- Thomas D. Stoddard, CFO & Executive Director
- Unidentified Speaker, Unknown

Other Participants

- Abid Hussain, Research Analyst
- Andrew Hughes, Insurance Analyst
- Andrew John Crean, Managing Partner, Insurance
- Benjamin Edward Bathurst, Equity Analyst
- Blair Thomson Stewart, Head of the UK and European Insurance
- Colm Kelly, Associate Director and Equity Research Insurance Analyst
- Jonathan Michael Hocking, MD
- Oliver George Nigel Steel, MD
- Ravi Tanna, Equity Analyst
- Unidentified Participant, Analyst

Presentation

Christopher Esson {BIO 16208369 <GO>}

Good morning, everyone. Welcome to Warsaw for our Capital Markets Day 2017. Thank you, all for making the journey across to snowy Warsaw. To get the day started, I'd like to invite Mark Wilson to the stage. Before I do, I'll just do the usual disclaimer.

Mark, please, kick us off.

Mark Andrew Wilson {BIO 7102576 <GO>}

Well morning, everyone. Morning, Chris. I thought you were going to read through it for a second, I'm glad you didn't. We promised you snow, we delivered. Then we're promising a few more things today. And we'll deliver those as well.

So we've called this session Cash Flow Plus Growth Upgraded. And you have seen this morning, we have upgraded pretty much all of our targets. And that was a good night last night. It was good to see you so focused on the activities in Poland last night. There was a couple of (inaudible) but you're all, obviously, looking pretty chirpy this morning. So I guess, you are used to that sort of activity. And I'm glad you've got clear heads, because there's a lot to go through today. Essentially, we will be answering the questions that you and the buyer side have been asking. Where will our growth come from? We're going to spend a lot of time on that. What are we doing with debt? We're going to be crystal clear on that. And what are we going to do with all that surplus capital and cash we've built up, our cash pile? And lastly, where is the dividend going? So those are the key questions that have been asked. And we're going to answer them. And if you go away with nothing else but 4 messages today, I want you to take these 4 messages. First, we are upgrading our growth and cash targets. And these are very achievable. We haven't missed a target yet, just to make that point. Second, our earnings quality has improved, markedly. We'll take you through the details of that. And as such, we are increasing our payout ratio. And Tom will spend a fair bit of time on that. Third, we have a very large pile of cash to deploy, GBP 3 billion to be precise. And that will reduce debt and increase earnings. Fourth, the quality of our remaining franchises is top drawer. We've done a lot of disposals. And it's top drawer both in the U.K. and internationally. And you'll see some of that today. That's the reason we're actually in Poland. We want to show you that.

Now, of course, what happened? We had all these disposals. We had this group that was a bit of a mess. And we've had all these disposals and now what we have left is what I believe is great franchises that are on good markets and sometimes, I think, just how good they are, historically, has got lost and all the noise that surrounds results. But the other thing is that our results are also much, much simpler. I know a lot of you have commented on that. And they're clean and simple results. And so you can see it without the noise. Now, we've dragged you all the way to Poland, looking outside into white snowy Poland, because we want you to get to meet the team. There was a lot of good noise and discussion last night. As you saw, we brought lot of our CEOs and some of our key team members. And we want you to get to know the depth of our team, because frankly, the franchises are only as good as our team. I'm hoping you like what you see.

And -- but today, it's about shining the spotlight on a few things. It's about looking at the strength of these international businesses, because a lot of you haven't seen them. Remember, 42% of our earnings now are outside UK Insurance, 42%, which gives us a nice hedge. And it gives us a lot of diversity. And we think we're in the right place with our perimeter.

Said today's presentations, they'll cover 4 topics. I'll start by updating you on our ambitions and our strategy. That's first. Tom will take you through the financials, particularly, focusing on capital management and the strength there. On the international businesses we've got Maurice, somewhere in front of me. Oh, there he is, right in front of me. And he'll provide you with an overview. And we'll have breakout sessions with our leadership teams in Poland, Canada and France. And we'll finish the day updating you on some tangible progress, proof points with digital. Now, I know everyone has a digital strategy. Yes, I get that. So today, this will be a show-you day on digital, not a tell-you today. You will see our new IP, you will see our live products, that have just gone live a couple of weeks ago. I'll leave it to you to judge. Tell me what you think later on.

So where are we? Well we've delivered the FX. And I think we have delivered the FX and then some. We've exceeded every target we put out over the last few years. And now we have somewhat of an embarrassment of riches, I guess, on our balance sheet. It was hard. It took the vast majority of my team's time and my own time over a number of years. But now we are much leaner and much effective. We have got much focus -- much more focused on what we think are the leading franchises. And we'll show you that today. So what I am saying is the pruning of our orchard is complete. The pruning of the apple trees is complete. We're now entirely focused on growing and strengthening the businesses. We have upgraded our growth forecast. So on growth, our ambition is to do better than mid-single-digit. And we'll cover -- Tom will cover that in a bit more depth later. And it's very achievable. Our markets and large segments within those markets are growing well. And the fact is, you can see the results, you can see the market. The fact is. And particularly in the large markets, we have picked up market share. We picked up market share in most of the segments in the U.K., for example. But it goes much wider than that. Now just to be clear, market share isn't how we measure. But the market share on the growth and revenue is just a function of the fact of where we are as a group. We also have the capacity. We got the appetite, we got the balance sheet. And we were restricting our growth for a long -- many years, because we didn't have the balance sheet. We have the balance sheet, we have the capability, we have the team. And more importantly, in uncertain times, particularly in places like the U.K., we have the brand. And when the times are a bit tough but that's the big brands that attract customer numbers, you can see that. And I think we have now a bit of the innovation to also to capitalize on the market opportunities. And we're doing that. Now, capital optimization is a lever to also drive higher growth and also drive higher cash returns for shareholders.

And as we were going through the fix phase, it was quite hard to be specific on the numbers. It was hard because we didn't know exactly. There was always so much uncertainty. And we built in a lot of extra contingencies to make sure we delivered. Now we are at the stage where our confidence levels are much higher. We've had Solvency II for a few years. We're pretty confident in what's happening. Every time we go through a set of numbers, we seem to get more than we thought we would, that's a good problem. But what we're doing today is, we're going to be much more specific on the numbers for you. Then, again, you be the judge. We are telling you today how much cash is available. And we are putting numbers specifically around paying down debt, about investing in our businesses, organically. And on returning capital. On earnings, the quality has improved markedly. And as such, as you read this morning, we are upgrading our dividend payout ratio target. Now digital is also a key enabler of our increased growth ambition. And in fact, has been the key enabler of our growth this year and in some areas it surprised us. And we'll talk about that later. But the fact is we got leading market IP. And we're now bringing all these together in some pretty cool propositions. And what we're doing with that, we're particularly in the early days of that, would be winning some big partnerships, like HSBC. Put that as a tick in the digital column. But of course, digital isn't just about innovation and cool IP and products and distribution, it's also about efficiency and it's also about the customer service in particularly, in the back office. And I've been in Bristol and Sheffield, recently and seen what they're doing with the TCC and digital and that's actually what's driving the business. And maybe a trip in the future would be worthwhile for some of our investors to see as well.

Later today, we've got Chris Wei and the team here. And later today, he'll take you through some of the propositions; we'll bring it to life. And we're going to be a little bit judicious what we say, as some of the stuff is not market censored. But certainly, commercially sensitive. But again, have a look, tell us what you think.

Now this slide here, composites win in a digital world. Over the past 10 years or so, undoubtedly the best performers in the insurance sector, have a look at their prices, have been -- have a look at their multiples, they have been specialists and monoline, single country monolines, that's just a fact. My thesis is we're now entering a period of generational change. I believe the next decade will be the decade where composites come to the fore. Now digital is the key catalyst for this. But there's also scale, which is more necessary than ever, regulation, brand, disintermediation and the right -- and also balance of product mix and big data, they're also key ingredients. So why do I believe in the thesis? Well in the digital world, particularly where we have a disintermediated world. And our industry is not immune. We have large composite insureds with strong brands that have 4 key structural advantages, you can see on the slide here. The first of those is more data. If you're a monoline with single country, you just do not have that. But it's not just more data, it's better data, it's the ability to cross analyze the data between product categories and underwriting. This gives us a major advantage in how we price risk. You'll see some of that today. We don't have to ask questions of customers over and over again. This reduces what we call the repellent factor for customers, many of whom, in fact, most of whom, I expect customers in the room to test the inquisition each time they want to buy a product. That's the whole reason that an intermediaries have been forced into the equation. And it allows us to target customers and effectively underwrite them at really good margins, much more effectively. That's the first benefit of a composite.

The second one is lower cost. We don't have to spend a fortune on acquiring the customer. And what we do is spread the cost across a greater number of customers. By the way, digital also helps the broker journey and other journeys. So that we can still make that simpler and cheaper as well. So the price actually at all channels. And like just a few of our peers, not too many. But a few, digital is allowing us to improve efficiency in settling claims and administering the policies and serving the customers. And this is something our UK Insurance team is already doing very effectively. Part of -- a big part of the composite, since we put those businesses together. And I've done a few trips in the last month, I was surprised how quickly they've taken it on. And Andy, I guess, may be able to talk about that throughout today.

The third thing, it's more capital efficient by a big margin. The fact is, Solvency II was a game changer. And it's one of the reason we've picked up market share in places like the U.K. and France and Italy and others. Solvency II was a game changer. It enshrined into regulation what we already knew and that is that insurance is about diversification, it's fundamentally about spreading the risk. And finally, Solvency II recognized that and that helped us. It gives us a more effective balance sheet. For the first time, with the introduction of Solvency II, diversification is locked into those capital standards. And it give us -- gives us a significant pricing benefit over the monolines or over single country insurance companies. And it makes sense. We only have one monoline of scale and that's actually Canada. And the fact is that's our most volatile business. Interesting, isn't it? So we want to be composite.

The fourth thing is deeper relationships across the composites. But particularly in life and savings, there is an element of trust in the relationship. The lower you are down the trust curve, it's more like more than chance, it's more of a transactional arrangement. The higher up that trust curve, that's a longer-term relationship. And the more products you can sell, the fact is that they stay longer and it's basically less of a commodities trade. And our research shows that clearly. As a result, composites in the disintermediated world are uniquely positioned to serve more of the customer needs, which leads in turn to staying longer and leads in turn to much higher margins. One of the biggest factors in margins is the retention. That is very clear. You know the fact is that the composite model works well for customers. It's simpler, it's quicker, it's easier and cheaper. It works well for us. And with our digital, brand and balance sheet, we're pretty well positioned.

So it's interesting. Since some of the recent investor days hosted by our peers. And we had a look at them all, I'm sure some of them are having a look at us today, there seems to be alignment across the composite sector in terms of the strategic priorities. Improved focus. So less countries, a few said that, customer centricity, innovation and technology, pretty similar. These are all words you will have heard repeatedly in recent weeks. And they're right. We certainly agree with this. Aviva is moving in a similar direction. And we started the same journey four years ago. We've already trimmed down our business, we've already got to the countries we want. We started that digital journey. We got our systems together; We have improved focus in fewer countries. But I believe that composites are best place to deliver all the stuff we're talking about. And I think, we will out -- compete the monolines over the coming decade by a significant margin. Now different composites are not in the same markets, that's an important point. They don't have the same balance sheet, they don't have the same risk, they don't have the same guarantees, we don't even have the same products, not even close. And it's fair to say we're in different stages of our journeys, some are in the fixed phase, some are in the trim down phase. We're in -- we just are in different phases. So ultimately, the question is, who will be the winners? Which 1 or 2 composites will win? Which 1 or 2 can execute the digital? Which 1 or 2, it might even be 1, might be none, will have the right focus? Which ones have the courage to actually diversify their distributions separate off digital? Now the answer to that question, certainly, isn't mine. And that's for you and your investors to decide. And those questions I'll leave to you.

Now, over the past 12 months, we have delivered tangible results on our strategic capital allocation. We've drawn capital from Spain. We have announced disposal of Friends Provident International in Taiwan. We've exited some bank insurance relationships that we thought -- yes, some of them were too expensive and JVs in France and Italy. And we've taken out the businesses that were a drag on our growth. Spain, we exited. We have the ex-Spanish CEO here, because we realized we couldn't achieve our growth targets in Spain. It was that simple. He came to me and said, "We can get 2% or 3% growth, maybe a bit more." And we said, "That's not enough. If you can't get that, we'll exit you." So we did. Now what we have now is a streamlined simpler group of businesses with competitive franchises, faster growth and far better earnings quality. I'm happy with the perimeter. For now -- I'll say for now though, we are done pruning the apple trees. But as a management team, as you'd expect, we will -- this will be continually reassessed, because that's the nature of the group, that's the way we operate, it's about the numbers. Now, there's still a couple of small tendrils that we are going to tie up. But we're now left with just 2 categories. We have the Oaks and the Acorns. We have 8 Oaks, which are the major markets. These are businesses that contribute a significant portion of our operating profit and cash today. And it's these businesses that will drive the majority of the operating profit growth in the next couple of years. Then we also have 8 Acorns, which are the strategic investments for the future. Now across these Acorn markets, we are exposed to some large populations, low penetration, growing economies and, importantly, we have strong partners that will give us bit -- plenty of business potential there. And of course, we have digital that you'll see today. And digital is the icing on the cake. That is the potential to really turbocharge the growth.

Now, one of the most common questions we get from investors is "how will you grow?" So we can give a bit more detail on that today and this slide is an important slide. Let me start by saying from the businesses we have left, this is an important fact, in the businesses we have left, we already have a pretty decent track record; just look at the numbers. Though I do accept that this was a bit hard to see before, because it was shrouded in noise. Well not anymore. Over the last three years, we have grown operating EPS by 5% CAGR. Just to be clear, over the last three years, we've grown operating EPS by 5% CAGR. And this is no mean feat in a tricky environment where we also have been in the middle of restructuring and de-risking. We also had to contend with Brexit, low interest rates and economic -- challenging economic growth in some of the markets, some of the larger markets. But despite all this and despite all these headwinds. So there is no excuses, we have still managed to grow by 5% CAGR. Now, I wouldn't say inversely, because we didn't want to grow in some segments or some markets. But in all of our target areas where we wanted to grow, we have done that and more. And we have been intensely focused on margins. We have been intensely focused in terms of GI underwriting and operating expenses. So what about the future? Well the assumed was done, I guess, that's why you have a market. But the assumed was that to grow you need to be concentrated in emerging markets. But ladies and gentlemen, I believe that is the old paradigm. That was so 15 years ago. For example, growth rates in Europe now are outstripping growth rates in parts of Asia, like Hong Kong and Singapore, just as an example. And I think we need to focus on market-by-market and stop this generalist approach of saying, a region equals growth. It does not. Markets equal growth. And just because a market is well developed or well penetrated or vice versa, does not mean that it is ex growth. That's a naÃ¯ve and outdated assumption, particularly, in the digital world. I'm not going to stand here and tell you that all our markets are going to sustain and grow at many multiples of GDP, some will, others won't. But with the markets that we have left. And we chose them specifically, like the U.K., there are new and expanding profit pools that we are extraordinarily well positioned to tap into. And unlike emerging markets. And this is important, there is now far less competition in a market like the U.K. There's fewer players to compete with and getting fewer. We have the biggest brand. And we can grow and that's exactly what we've been doing. Our most recent results in the U.K. demonstrate that we have been able to do just that. And I can tell you that trend has continued. Across each of the 4 major product lines that you see on this slide here, we have, in fact, delivered double-digit growth and operating profit. We have delivered significant improvements in market share. We have delivered significant improvements in top line as well over the past 18 months. Since we got our act together and since we've pulled the businesses together in UKI, it certainly accelerated. And in a funny way, I think, Brexit's actually helped us, because people have gravitated towards the big brands. And with the expanding asset pools in the long-term savings, which you can see in the top of that slide there, this has got enormous potential, enormous opportunity in there and the annuities market. And we have got our continued implementation of digital and composite strategies, that's right across all the customer groups. We're seeing that particularly in the corporate business this year, which was earlier than we expected. So we have got plenty of confidence in the growth outlook. If you disagree, I suggest you have a chat to Andy at the break. But it's not just a U.K. growth story, it's just not. Because the fact is that 42% of our operating earnings are earnings outside UK Insurance. So we are nicely, what I call, balanced for Brexit.

In fact, if you want a safe ship in the Brexit storm, then I would suggest we may be just that. We have the balance sheet, we have the brand, we have a safe ship in a Brexit storm. And we got 42% of our earnings outside the U.K., which is a lovely hedge.

Across our international business, we have positions of strength. And you can see that in the slide, the next slide. Hopefully, you can see them in the next slide. Now you can. And we're delivering growth of margins in these respective markets as well. It's one of the reasons we're in Poland. In life, we are growing volumes and net flows. But we are also continually improving the mix of business. We are increasing the contribution of fee and protection business. Just like in the U.K., our strategy is capital-light. And that's an important point. It's part of our success in generating so much capital off our balance sheet.

In GI, we're growing premiums while maintaining a pretty attractive combined ratio. In Asia, Singapore is getting real traction with the FA model as the traditional agency model dies. We're positioned pretty well there. Of course, Aviva Investors delivering some pretty good performance. And we've targeted continued strong double-digit growth from them for the foreseeable future. Euan is nodding his head, that's good. So very strong double-digit growth.

So look, I'm not saying growth is easy to come by. Growth is never easy to come by. But I am saying that the franchises we have left have a pretty decent track record. And we see plenty of opportunities to grow. And we are moving into a new phase. And we have the capital to be able to do it. My team and I have spent far more time on innovation and growth than we do on the fix. Because the fix is done.

And what is perhaps difficult for you all to see externally is in the change in the mindset and the approach of each of our teams because we have just shifted that emphasis. It's what we talk about. I don't mean growth in top line. That comes as a result in it. I mean growth in bottom line and growth in profitable revenues. It's a fundamentally different thing. Now Maurice and the team will take you through more detail on the international businesses throughout today's event. And I think that will help to illuminate this point.

So what about digital? Insurance is one of the last frontiers for digital disruption. It's interesting, isn't it? And there's a few reasons why this has taken much longer than other industries: capital intensity, which most startups, even large tech firms can't do; regulatory interaction, even simple firms like taxis in the U.K. are finding the regulators a little bit more difficult now, it's a whole lot more difficult in insurance; supply chain management complexity; claims; the cost of customer acquisition; of course, the fact that unlike, say, banking, it is much harder to disaggregate the value chain. That's why composites are well positioned.

But digital is inevitable. And just like insurance -- and just like it has been in all other industries, our leadership role in terms of digital in the industry is a function of our intellectual property, of our IP. And we've made some progress in critical areas; we will show you that in the sessions this afternoon. We have all of our customers' systems talking to each other. That is quite a feat. We didn't understand how complex that plumbing was. I'll come back to that. As a result, we now have a single view of the customer across all their product holdings. It's convenient for the customer. It's helping to improve the cross-sell and retention and allows us to improve efficiency and service quality.

In all of these pieces of tech in our infrastructure, it's also the coming together, once it's starting to snowball. And for the first time, we have proof points. We have developed something called Ask It Never, which uses our proprietary and publicly available data to underwrite and price products without asking customers any questions, or very few. This fundamentally changes the customer experience, you're going to see it today. And removes one of the biggest barriers that have historically discouraged customers from consolidating their insurance with a single supplier and has stopped them going direct.

And we believe. And our pilot testing adds a whole lot of confidence to this, that we can develop a self-reinforcing cycle, where more service and convenience, not asking questions, plus better value for money plus entanglement tools, which you'll see a bit of today, massively improves customer retention and increases product take-up and the ultimate improvement in product and margin and pricing power. It just all sort of comes together. And we can further strengthen our customer expedition and retention through initiatives like our Digital Wallet, putting payments on our Digital Wallet. So we control the transaction flow. And that's many, many, many billions of pounds per annum. And more about that at a later date.

Importantly, this is not just a play on direct to consumer front end. As you have seen with some of our recent announcements, our digital IP is also making us the partner of choice. You can see on the slide, world-class partnerships. Now this one surprised us. Well it certainly surprised me. Some of my team were saying, "Well it didn't surprise me." Well it did me. And I think the underlying systems on the consumer side took longer than I thought. And they were more expensive. And it took us years to do the underlying plumbing and will take us years to actually finish it, frankly.

But the partnerships, on the other hand, were much quicker than we anticipated. Now we have expanded some pretty big deals, our relationship with HSBC. They tell us it was because of our IP. What about Tencent? They went into that because of our IP. What about

RBC, which is a pretty big relationship? Again, a major part of that was our IP. We have their board and their senior management come and see our digital garage for a couple of days last week. They said they've never seen anything like it. It's our IP. And so we've had -- you saying, "Where are we getting at?" Well actually, the quickest outcome was through our partnerships, which probably surprised us all.

These are all examples where the IP and not the price -- we don't pay big sums -- amounts of money for digital through banking relationships. That is old. We get those relationships because of our IP. That's just the new world, ladies and gentlemen. And I might add, what can I say, we have a number of pretty good ongoing discussions with some other large partners, more of that later but not today.

Now there's -- for the past few years, our focus has been on building IP, it's been on connecting all the plumbing together. And the individual parts are now starting to come together. We're systematically turning on the taps of our individual customer groups. And you will see much more of this in the market over the next few months. We do what we call sprints. So every 6 weeks, we have got major releases of functionality. And this just happens now continually every 6 weeks. I think four years ago, it happened every six months. And now we've just fundamentally changed the way our IT works. Okay. So you'll see all that today as well.

Now what about capital and cash or more specifically excess capital and excess cash? Now it's not exactly new news that we have capital in excess of our desired range. But the size of it, I think, will surprise you a bit. And today, we're going to be a little bit more specific. At our 2016 Capital Markets Day, it seems more recent than that -- what was it? Was it about July last year, wasn't it? I think someone was telling me last night. So we probably -- maybe shared a little bit earlier.

In our 2016 Capital Markets Day, we announced a target of GBP 7 billion of remittances. I know quite a few people thought that was -- around the room probably thought that's going to be bit of a stretch. Well today, the remittance figure is going to be GBP 8 billion. This is partly due to proceeds from disposals. But it's certainly mainly due to some better than we expected capital generation, which seems to be continuing. That's partly because we were selling more capital-light products. We repriced products. We were able to cross-sell products more effective than we thought. And we just also got to understand Solvency II better. So every time we look at the capital generation, just seems to be coming along nicely.

As a result of this, we expect to have a total cash pile at the group center to deploy of GBP 3 billion over the next couple of years. That's our deployable capital above, well above the range of GBP 3 billion in the next two years with GBP 2 billion in 2018 alone. And I'll choose my words carefully. And at least GBP 1 billion, at least GBP 1 billion in 2019.

So what are our plans for deployment in 2018? We plan to use GBP 900 million, I am very specific in that number, to pay down some very expensive debt. This is a no-brainer. Now to be clear, to be really clear, I am comfortable with our current level of debt. And I fundamentally disagree with any analysis that suggests that we have a peer group for debt for any comparison. Because any comparison must be risk-adjusted. And we clearly have the lowest guarantees. We don't have the same risk on our balance sheet. We have the most stable balance sheet. So how can you compare levels of debt? And given we recently got upgraded to AA by Moody's, there's now some strong external vindication of this view. But nevertheless, we are still paying down GBP 900 million of debt. So I guess that takes that issue off the table.

But importantly and the main reason, to be frank, is this will save us a huge amount in terms of cash paid out each and every year in interest expense from the group, okay? So if you put it all together, it's over GBP 100 million actually. The remaining GBP 1.1 billion of the GBP 2 billion, that's next year alone because you've got more the following year, just to be clear, will be split between bolt-on M&A and capital returns. We do have an appetite for M&A. We just did, what was that, GBP 140 million, was that -- GBP 130 million. GBP 130 million in Ireland few weeks ago, you saw that. We do have an appetite for M&A or bolt-on M&A.

You should not expect the entire GBP 1.1 billion to be returned in the next year in 2018 or indeed the entire GBP 2 billion to be returned over the next two years. Obviously, you have the debt on top of that as well. But you should not expect the entire GBP 2 billion. We do have an appetite for some M&A. And we will continue to look for attractive deals that will strengthen our franchises and importantly be accretive to growth. That's, that word there again.

And given we have pruned, we've done a fair bit of pruning, given we have pruned our lower quality earnings, some M&A is a very legitimate way to assess growth. And we are extraordinarily good at it. Every sale we have done and every acquisition we have done in the past five years has exceeded to you what we said it would. I think that gives us a little bit of headroom to do some amount of M&A. But we do expect, to be very clear on this one, too, we do expect capital returns to form a material part of the deployment strategy as we progress through 2018 and '19. And if you listen closely to Thomas's presentation, he may provide you some more numbers.

And given we -- deploying that surplus capital will naturally be accretive to growth. But it is not just the quantum of earnings that we have improved; it is also the quality of earnings. And I accept that historically, our quality in some areas was more suspect. But now the businesses we have left, our core franchises. And this slide is important, are delivering strong earnings and delivering strong capital generation. This in turn leads to higher levels of sustainable cash flow. And one reason for focus on capital-light, which uses less capital, has generated higher capital than we have expected. So the quality of the earnings, just a normal growth, is key. You don't actually see that on the slide. But you can add that to the slide when you think about it.

Now we're also improving the earnings quality by exiting the businesses with lower growth prospects or businesses that didn't contribute cash up to the group. A pretty good example of that was the FPI disposal. So the FPI disposal contributed to us in terms of operation earnings but didn't contribute GBP 1 up to the group. So it was low-quality earnings. And I know some of you were worried about losing earnings. But it's simple that it wasn't contributing to us. We are using the proceeds on the debt. You can see on that part there. We've been using the proceeds to reduce high cost debt and strengthen our business. And so that also at the group level adds to the quality of the earnings because it's all cash.

Then the first part there, we simply -- because we finished the Friends Life integration. And we now have much lower integration and restructuring costs, again improving the very cash conversion, the quality of earnings to the group. So the reduction in debt, I should have added, also improves quality of earnings by over GBP 100 million.

So what does all this mean? Operating profit turned into net income. Net income turned it into cash at a much higher proportion. Cash accrued. So better quality earnings, higher cash conversion. So we are upgrading our dividend payout. It's pretty simple math. This makes our dividend payout affordable. And so what we've done, we spoke to the board. And it's very appropriate that we progressively increase our payout ratio to 55% to 60% of operating EPS by 2020. And ladies and gentlemen, if you look at the facts, we have grown dividends by double digit in each of the last three years. And it looks like that sort of growth will continue for quite a while longer. I think that is appropriate, given the quality of earnings increase.

Right. So let's bring it all together. At this event last year, we outlined 3 expectations. Today, we are reaffirming, we are updating and we are upgrading those expectations. On cash remittances, upgrading that to GBP 8 billion. And this gives us a very large pile of cash, GBP 3 billion to be exact, allowing us to reduce debt and improve growth. And our dividend payout ratio target has also been increased to 55% to 60%, a consequence of the improvement in earnings quality. This means our dividend shall continue to grow strongly. I don't think it's much more complicated than that.

And so that is, ladies and gentlemen, cash flow plus growth upgraded. We will have Q&A later. But for now, I'll hand you over to Mr. Tom Stoddard.

Thomas D. Stoddard {BIO 15071280 <GO>}

Very good. Thank you, Mark. Okay. As you'll have noted already, we're doing a bit of everything: growing earnings, increasing the dividend target, returning capital and seeking bolt-on acquisitions. The point of my presentation is to help simplify this mix for you and to give you a better sense of our priorities.

So to be clear, I want you to take away 3 messages. First, I'll remind you that our balance sheet is strong and getting stronger. Second, I'll outline how our business unit profitability turns into capital and cash flow and fuels a growing dividend. And third, I'll talk about how we plan to redeploy about GBP 3 billion of excess liquidity over the next two years.

So big picture, we're getting stronger across the board. Our #1 priority is to deliver growth. We've improved our quality of earnings by focusing on a narrower set of businesses. And we'll keep improving them by reducing integration and restructuring cost to a minimal amount next year. As you know, we've worked hard to rebuild the balance sheet. And so we'll continue to maintain strong capital and liquidity. But we will also redeploy some of it to grow earnings, consistent with the growth opportunities Mark outlined for you just a moment ago. And of course, we're trying to make the dividend sacrosanct while increasing it in line with our business performance.

Aviva's investment thesis remains cash flow plus growth. So my remarks today will focus on the sources of that cash flow and growth, which primarily means the middle part of this page, the green box with the Oaks. The Acorns are important to us as well. But they're bets on the future. They give us extra growth options on top of our current 8 major markets. And we'll manage them for option value over time. More important today, as you can see in the green box, is that we have a diverse portfolio of Oaks across our 8 major markets, consisting of the U.K., France, Canada, Aviva Investors, Poland, Italy, Singapore and Ireland.

In each of these markets, we're seeking scale positions, where we own 100%, or close to it, of the enterprise and can pursue a true customer composite and Digital First strategy. Today, these markets are our sources of consistent earnings growth and cash flow.

Now I'm going to focus for a moment on our 2 biggest Oaks: first the U.K. and then France. You need to understand that the financial outcomes and increased targets we are talking about today are being driven by improvements in our underlying businesses, starting in the U.K. We have very strong U.K. franchise and created a unique operating model, combining life, GI and health insurance into a single, very large and very powerful business. We've been exceeding our targets for U.K. insurance and as a result of hard work and smart risk management, we now expect to exceed our cash remittance targets from this business by about GBP 1 billion. We're ahead of the game in optimizing for Solvency II and are succeeding in making this a capital-light business. We had double-digit growth across all go-to-market segments in 2016 and again at the half year 2017. And believe we can keep growing without a lot of capital strain. Now that's an important underpin for our decision to target a higher dividend payout ratio. We also see attractive market opportunities to expand, particularly across our corporate business, by leveraging our brand strength and TCC and digital capabilities. Pension pools are just one example of where we can be opportunistic, as we've seen with some of the sharp increases in sales volumes this year.

Finally, I need to point out that, as we've said in the past, our back books can be a source of value from time to time. Longevity trends appear to be favorable against our GBP 50 billion annuity portfolio. So even while we maintain what we believe to be a prudent position relative to industry benchmarks, we may have relatively significant reserve releases this year and perhaps again in 2018 unless trends reverse.

Now moving over to France. We're also feeling more positive about this market as well. And since it's the second largest contributor to the group, this is meaningful. Back at the end of 2016, we were concerned with progress on expenses and capital optimization in France. So we put in new management. The positive change since then is palpable. And the spirit in feeling evident in that business today. And Patrick will talk later about what he and his team are doing to pursue growth.

From a financial perspective, we're now making better progress in France, especially in terms of capital management. We now expect the dynamic volatility adjuster, DVA, to be approved for use locally in France, although, that benefit would be reversed out in our consolidated group model, which is governed in the U.K. and where we cannot take credit for the DVA. So nevertheless having DVA in France would enhance the stability of our capital position there and support center liquidity and not having it at the group level is just another source of prudence in our Solvency II position.

For 2018, we're also working on a new French supplementary pension fund, FRPS, which will provide better risk management and benefit local capital. Finally, I should note that France has been a source of slightly higher interest rate sensitivity for the group, especially in a very low-rate environment. So we've been watching this closely and taking steps to limit it further. The bottom line is that we've much more confidence today in the dividend paying capacity of our French business than we did a year ago. So with our 2 biggest engines in the U.K. and France humming along, let me come back to the overall earnings outlook.

To put this in perspective, please bear in mind that we've had to do a lot of cleaning up and cleaning out in the process of turning Aviva around. The hard work is done. But the payoff is still to come. So as you can see from the chart, 2018 will still be a bit of a transition year for us. And we should begin hitting full stride in 2019. Now I think a lot of you like to focus on the headwinds to our performance. So let me start there and talk to you about what I see.

First, we have perimeter changes in the aftermath of divesting businesses, such as FPI, Spain and Antarius. So while our quality of earnings and growth potential goes up from a more focused footprint, there's nonetheless some foregone operating profit and we'll address that partly through capital management.

Next biggest drag is Canada where the market is having a tough year. We're taking rate and other another actions and still consider this to be a very good business. But it's not flying as high today as it has in the past. Now I also need to budget for significant change spend over the next couple of years, some of which I'm very happy to do, such as investing in our digital and IT capabilities and some of which, for example, IFRS 17, promise more, shall we say, elusive potential benefits.

Now some of this spend will show up in the corporate line. So don't be surprised if you see that increase. At the same time, we continue to drive efficiencies across the business and are reallocating resources to invest in growth, which takes me to the tailwinds listed on the slide.

First, we're expecting our major markets to keep delivering organic growth in excess of 5% per year. And in the cases of Aviva Investors, Poland and Singapore higher still. We will also benefit from continued asset re-risking in our U.K. annuity business and as I've -- I mentioned before, we may have some significant contribution from longevity in the back book. These contributions may only be short-term temporary factors. But they will help finance and pay for the change spend noted in the headwinds.

We're also benefiting from foreign exchange impacts in our non-U. K. earnings in 2017. And finally, we have capital management, including share buybacks and acquisitions, which should be EPS accretive and help us to deliver as per past guidance. Accordingly, we're maintaining the target of mid-single-digit growth in operating earnings per share for 2017 and 2018 and targeting growth above 5% beginning 2019. But I know you're all wondering how to convert profits into capital and cash flow. Unfortunately, there is not a straight line from one to the other, nor do Solvency II accounting make it easy to predict future growth. And all the optimization work we've been doing, part 7s, model changes and such, doesn't make it any easier to follow. So we spent some time trying to strip out capital actions and look at underlying run rates implicit in our plans on a more normalized basis. From that analysis, we worked out the recipe you see on the slide. This is not an exact science but should provide a pretty good rule of thumb to compare us on future results. Now based on our existing business mix, we would generally expect to convert about 80%, give or take, of our after-tax, after minority interest, IFRS operating profit at the business unit level, into surplus capital generation or OCG. And it's a higher ratio for GI business. But U.K. Life is a little bit lower because of annuities. Around 90% or more of underlying business unit OCG should convert to cash remittances paid up to the center. We have some financing and other costs to pay at the center, which will be reducing as we pay down debt, with the rest of the cash flow ample to cover the external dividend to shareholders. Much of our business, especially on the life side, is self-funding on a Solvency II basis. So we don't need to retain a lot of OCG in order to support growth of 5% or better. Now on a steady state, OCG and financing costs including the cash dividend payable to shareholders, should offset and the Solvency II cover ratio be stable. But we're not in a steady state yet, in fact, we're doing better than that. Over the course of 2016, '17, '18 and '19, we have had and will have significant other capital actions on top of the underlying result, which enhance our capital position overall. But distort the simple picture I've painted on this slide.

Typically, we might get a big model change approved late in the year and then need to convert that into liquidity and a cash remittance from the subsidiary in a following year. This is one of the reasons why we're now building up excess liquidity for redeployment over the next couple of years. Our pipeline of capital actions is also one of the reasons why I expect that our Solvency II cover ratio will tend to trend up above 200%, all else equal, over the next year and possibly longer. At some point, it should stabilize. But our OCG has been exceeding our dividend and capital return. So we will have to work actively to convert it into cash and redeploy it through acquisitions or additional capital returns.

Now coming back to the slide and ignoring the other capital actions, you should be able to take further comfort in our sustainability of the dividend and our ability to grow it over time.

Nevertheless, some of you may still be wondering why we are increasing the payout ratio target. Now 3 simple reasons. First, our underlying business, particularly in U.K. insurance, is outperforming our prior plans. It's ahead on becoming a capital-light business and that alone justifies the higher payout. Second, our quality of earnings has approved. As you can see from the chart on the left, we're eliminating the cash drain of paying integration and restructuring cost below the line. Now if you deducted these from operating EPS as if they were dividends, our effective payout ratio would already have been above 50%. So as we save this cash, we're better positioned to deliver it to shareholders instead. And we focused the business and divested cash-poor FPIL earnings. Third, we expect to save over GBP 100 million of debt interest costs. So we can add this amount to the amount we pay shareholders. That makes us happier, frankly. So we intend to keep the dividend growing as the business grows and enhance it further, grading up toward a 55% to 60% payout ratio by 2020.

Now moving on to the balance sheet. I'll go a little bit faster through these final few slides, this is just a reminder. We've been on an improving trend on ratings and welcome the Moody's upgrade to AA last month as recognition of the hard work that we've done. We've returned an extra GBP 800 million to investors this year and still, our Solvency II cover ratio grows.

Now, this next slide is another reminder that our capital position is resilient to stress. We are tightly matched and have a high-quality investment portfolio. If we were to hit -- if we were hit today with another crisis like the 2008 global financial crisis or the 2011 sovereign debt crisis, we would still be in a solid surplus capital position. Also, recall that right after the Brexit vote, we set aside another extra GBP 300 for commercial and residential property exposures. So we've done the prudent thing there. This effectively captured about a 10% one-time fall in property prices. If anything property price indices held up better than this. But we're happy to leave this prudence in place now. Any way you look at it we're resilient to a whole range of stresses. Now I think our capital investment risk team's rate up there as good or better than any in the industry. Over the last five years, we've created plenty of capital, while cleaning up the balance sheet and protecting against potential stresses. We've exited the wrong kinds of exposures, such as problem commercial mortgages and latent GI risks, while putting ourselves in a position to grow both organically and inorganically.

Our hedging and investing activities served us well. So as a result, our center liquidity is growing significantly. As you can see here before redeployment, liquid assets at the center would have trended up to over GBP 4 billion over the next two years. We returned GBP 800 million in 2017 and expect to redeploy another GBP 2 billion-or-so in 2018 with more to follow in 2019. From a risk management perspective, we try to maintain at least GBP 1 billion at the center at all times and we calculated 2-year forward look at ins and outs under a stress scenario to make sure that we carry sufficient liquidity. So the question is what are we going to do with the cash?

Well flipping to the next slide, you can see that our current expectation is that we would repay without refinancing the 2 tranches of hybrid debt available for first call in 2018, this totals GBP 900 million. I'd also expect at least GBP 500 million of additional capital returns, either through liability management or share repurchase activity. And we could do both. The swing factor is M&A. We don't depend on it. But certainly, would like to find more bolt-on acquisitions, such as Friends First in Ireland and RBC General in Canada. Our focus for M&A is in our 8 major markets. And our appetite has increased. But if we don't make acquisitions, we will have more to return to investors. In 2019, I'd expect more of the same. We're being a little less specific the further out in time we look. But the thought process is very similar. We prioritize steady growth in the dividend first. We repeatedly look to reduce the cost of our debt and we take a disciplined approach to evaluating acquisitions, choosing to return capital to shareholders unless we find deals that: one, fit strategically; two, are more financially attractive; and three, we can execute well.

Now before I close, let me try to preempt one of your questions. The answer is, no. I don't think our capital redeployment over the next two years will get us to 165% Solvency II cover ratio. Matter of fact, I don't even think it will get us below 180%, the top end of our working range. We'll have even more work to do on investment or reallocation to get there. And we're working on it. In the meantime, our cover ratio is trending higher. So that brings me back to our expectations and ends my messages with Aviva, aiming higher on EPS growth, delivering more cash and boosting the dividend payout ratio.

Thank you. Maurice? Over to you.

Maurice Tulloch {BIO 17683736 <GO>}

Thanks, Tom. Hi. Good morning, everyone. I think in our last Capital Markets Day presentation, I stood in front of you as Chairman of Global General Insurance for Aviva. Since then, Aviva has strengthened our international focus, bringing together operations in France, Canada, Poland, Italy, Ireland and Turkey. And it's my pleasure to stand here today as CEO of Aviva's international businesses. Today, I want my presentation answer the following 3 questions. Why does Aviva's international footprint look the way it does? What is our competitive advantage in each of these markets? And how will we exceed groups' target of mid-single-digit growth? Think of my session as an introduction into high-quality international franchises. And you know what, later this morning, you will have a chance to deep dive in Canada, France and Poland with our market CEOs who are here today. So why I am so confident about growth in these markets? Well first, we've significantly reduced, as Mark said, the number of markets we operate in and our footprint, I believe, is now compelling. We have 13 million customers and access to 300 million people. Our businesses provide exposure to some of the world's largest insurance markets. They are mix of attractive business units that offer both cash flow and growth in emerging markets such as Poland and Turkey. Secondly, we have recent macroeconomic tailwinds in a number of our markets, such as a pro-business reform agenda in France, high-economic growth rates in Ireland, Poland and Turkey, the easing of a banking crisis in Italy. Thirdly, we have some first-class distribution and partners. This is one of the areas where I think people underestimate the Aviva International story. We have unique competitive advantages, designed to win in each of our chosen markets, let me come back to this later. And ultimately, they are all tasked with the same objective of delivering controlled, calculated and well-managed growth. So let me highlight the relevance and size of international businesses, excluding Asia. GBP 1.3 billion of operating profit was generated from international businesses. This represents 36% of the group's total. Life VNB is a third of the group's total. Over half of the group's general insurance premiums sit outside the U.K, diversifying our GI business. This split is weighted heavily in favor of Canada, which represents 30% of the group's net written premiums, having grown nicely since the acquisition of RBC in 2016. From a capital and cash perspective, the international businesses over a third of group. And recent modeling changes, which Tom alluded to, in France have allowed us to reduce the volatility in the capital position and improve the Solvency ratio. I expect dividends to increase consistently over time. Now at Aviva, we focus on capital allocation, not shrinking, deploying resources only in markets and segments we believe we can win. And occasionally, we choose to hold back dividends just as we did in Canada with the acquisition of RBC, the deal which has proven to be excellent. These figures show that international is a very important contributor to the group's overall growth ambitions.

Let me tell you a bit about our markets. And specifically why I'm excited about their prospects. France is the fifth largest insurance market in the world. I think we can all agree that the agenda of the new government is positive for business too. We have world-class diversified distribution with leadership positions in 5 distribution channels. We have the fourth largest agent network of almost 1,000 tied agents. And are 1 of only 2 players that continue to grow their agent network. We are the number 2 direct player in the market with Eurofil. The direct market in France continues to grow attractively. We also own UFF, the leading wealth management network. In France, our competitive advantage is clearly our owned and diversified distribution, part of our challenge is to optimize these assets to fuel further growth. And I'm very excited about Patrick's plans. And he'll tell you more later this morning. Canada. Canada is the eighth largest insurance market in the world and benefits from a stable economy and political system. You know, over the past decade, our Canadian business has outperformed the market by being a leader in pricing, underwriting and indemnity management, all competitive advantages for our business. It has consistently been one of the better performers in the Aviva group.

Now, as Tom alluded to, 2017 has been a difficult year for the Canadian market. And for Aviva Canada. We've seen increased frequency in the monoline, an increase in nat cat losses above our long-term average from floods to wildfires, to windstorms. And most notably the elimination of favorable development. Our response to 2017 is multi-pronged and underway. And you'll hear more from Greg on those details later today. I should add, however, that the integration of RBC was textbook. We've grown the written premiums by 25% at the half year. And we expect to continue to outperform the market in the future. Poland. It's easy to be positive about Poland and not just because we're here on this snowy day. As we heard last evening, the economy is growing strongly. We are nearing full employment. And insurance penetration is still relatively low. Hopefully, over the course of the day, you'll get a real sense of the ambition that we have here in this market. We are a composite player. We have strong positions in each segment. We're the second largest life insurance provider, a leading protection player and have a growing GI business. And we benefit from a highly recognized brand in this important market. Our competitive advantage is being technically sound at insurance. We have one of the lowest-cost income ratios in the market and consequently some of the strongest returns in Aviva with ROEs consistently in the mid-30s.

The business has enjoyed a strong track record of growth, being one of the most advanced in Europe on its digital agenda and having recently announced a new bancassurance deal with ING, Aviva Poland is set for future growth. I'll let Adam share some of the excitement of his plans with you later today. Italy. 7th largest insurance market in the world. This is also a market where the asset flows are extremely positive, perhaps, arguably, the best in Europe at the moment. And we've seen net inflows north of GBP 2 billion. We've grown strongly in this market in the past 12 months. In fact, our market position has improved from 12th to seventh in those past 7 -- 12 months. We are a composite player with life, general insurance and our asset management business. Our unique competitive advantage has been a -- has been product innovation and leveraging liability management skills from the group. The distribution model at the moment is dominated by bancassurance partnerships in the life business and by a large multi-agent network in general insurance. We started to diversify our model and have grown through the IFA channel, notably through Fineco over the past 12 months. Turkey, Turkey is an emerging market. We like the demographics of the market, a population of 80 million people with half of those being under the age of 30. We've seen rapid growth in Turkey and have a tremendous partner in the Sabanci group. The market is changing rapidly. And we are well placed to capitalize. The market cap of our Turkish business currently stands at $600 million. We make no secret about our ambition for this to be a $2 billion business. We have great digital capabilities. When Turkey announced auto-enrollment earlier this year, we were ready with our market-leading platform, both in terms of functionality and cross-sell capability.

And lastly. But not least, Ireland. Ireland has some of the highest GDP growth rates in Europe. John Quinlan, our Irish CEO, is growing the business strongly. We announced 12% constant currency operating profit growth at half year 2017 to GBP 42 million. And a record core of just under 85%. We also have high ambitions for the future and the prospects for a continued growth are excellent. Our competitive advantages are scale, our strong brand, our technical insurance skills. And we benefit from leveraging U.K. GI and also Canada. Growth prospects are even stronger, now that we've just announced an attractive deal for the business, Friends First. So let me talk a little bit about Friends First. I think this acquisition epitomizes both on M&A and Aviva. It is absolutely consistent with our smart deployment of capital to boost key markets. For consideration of EUR 130 million, which is 0.8x embedded value, we have 250,000 more customers and a market-leading group risk and protection offering. We will become the market-leading composite insurer, with 1.1 million customers, roughly 1 in every 5 people in Ireland. We will maintain, of course, our #1 position, which is growing handsomely in general insurance. And our ambition in life is to grow from #4 today to #3. The deal will be accretive from year 1. And we will significantly exceed our hurdle rates thereafter.

Let me talk a little bit about our partnerships. The success of international business is built on diversified distribution and strong partnerships, which you can see on this slide. As CEO of the U.K. General Insurance previously, I built a strong pipeline of partnership opportunities from HomeServe to Carphone Warehouse, or the deal announced early this year with HSBC in the U.K. And I am determined to do the same in this new role. Each of our markets adapts to find the best solution for its market, with the customer at the forefront of what we do. The best model for France was a strong proprietary distribution isn't the best model for Canada, which has a tremendous broker network and partnerships with RBC.

Here in Poland, we have great partners in Santander and a new exciting partnership with ING, which we expect to grow strongly. Italy is a market where I want our new CEO, Ignacio, to take time to develop his own thoughts around strategy. We have partnerships with 2 of the largest banks. And the IFA channel is growing. But the Owned channel is not yet fully developed. Ireland is a market that we've talked a lot about already. But with a brand recognition second only to Guinness it's no surprise that our direct GI business is doing well. And in Turkey,

(technical difficulty)

with a strengthened relationship with the Sabanci Group bodes well for our future. Across markets has not just established financial services that we have strong relationships with, we also have arrangements with innovators and disruptors, such as Tesla in Canada, to provide insurance on new models, which helps us understand how future trends can become future opportunities. And hopefully you'd agree that the breadth and strength of our owned channels and distribution partners positions us favorably to capitalize on the growth prospects prevalent in our international markets. And our funnel of deals is strong, very strong. So stay tuned. We've seen that international is a relevant contributor to the group's results. We have a strong and experienced management team, a compelling footprint, great distribution assets and partners. And as you can see from our slide, the business already has a track record for growth. And I want to increase the pace. The numbers in the charts are in constant currency; let me highlight a couple of figures for you. I-Life VNB: France is obviously the largest contributor. Italy has recorded some tremendous growth in its life business with VNB growing from GBP 63 million in 2014 to GBP 124 million two years later in 2016. And we did this by improving the quality of our products. We reduced the guarantees to close to 0 and have a selection of high-performing assets that we can use to back our products. On Poland, the life numbers have been impacted by regulatory changes including the asset levy. But the returns remain spectacular. And in terms of net written premiums, our international markets have seen good growth. But I still believe there's more to go at. The GI business in Europe is working closely with Canada, the U.K. and Ireland, where we have world-class pricing, underwriting and data analytic skills. So our life and GI premiums are growing. It's all well and good. But you may be thinking, are we growing by increasing risk for Aviva? And how are we managing our reserves?

I want to focus here on 2 markets where comments are often made about the nature of the life product sold and about the high level of guarantees. And as you can see from the slide, we've taken positive actions in both markets to review the guarantees being offered to customers. Patrick will spend more time on the product mix in France. So let me give a little bit of color for you on Italy. We've reviewed our products and adopted our offering -- adapted our offerings, I should say. Overall, we do see average guarantees from 1.8% in 2014 to 0.8% in 2017. This is a trend that I expect to continue. 98% of our business in Italy is now sold with no or 0% guarantee. And notably, the hybrid product is selling very strongly through both our IFA and bancassurance network. The hybrid acts as one product with a combination of with profit, unit-linked and protection features, thereby reducing the risk and improving the profitability. Roughly 65% of our hybrid premiums are invested in unit-linked funds. In both France and Italy, we are able to achieve the trick of reducing guarantees while broadly maintaining portfolio yield. This is exactly what we should be targeting to secure healthy margins and to continue to grow our profits.

So let me sum up. I believe I've shown the collective strength of international businesses. But let me come back to my 3 opening questions, Aviva's footprint. We are now in selected markets, both large and emerging, where we have a competitive advantage. And I believe we can win. I've spoken about the competitive advantages of our markets. But to sum this up, it's about strong underwriting. It's about technically sound pricing. It's about the power of distribution. It's about working with the U.K. and international colleagues to source skills that we don't have. We are focused on growing the top-line profitability, acquiring new customers, increasing our multiproduct holdings and developing new partnerships. We have delivered sustainable profit growth. And our major cash contributor to the group. I look forward to delivering my parts of these upgraded targets. And I certainly believe we will be able to deliver a growth higher than the mid-single-digit target. Thank you.

Questions And Answers

A - Christopher Esson {BIO 16208369 <GO>}

Thanks very much, everyone. So we're going to move into questions and answers. Please, in the interest of sharing, can we limit to 2 questions per person? We do have plenty of time. So we will get around if there are things to follow up on. So any questions?

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

I don't think you're going to reach 2 (inaudible) questions so..

Q - Andrew Hughes {BIO 1540569 <GO>}

Chris, it's Andy Hughes from Macquarie. I'm not sure if the beach ball really works quite as well in Poland, to be honest.

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

It's a snowball.

Q - Andrew Hughes {BIO 1540569 <GO>}

A yellow snowball. Thanks, guys.

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

Your lucky day, Andy.

Q - Andrew Hughes {BIO 1540569 <GO>}

A couple of questions on the M&A side of things, really. So if we've understood what you are saying correctly, you don't think you have to pay up for bancassurance partnership because you've got the sort of technology. So I don't -- that doesn't sound like that's part of the M&A budget to buy distributions in bancassurance. And the second point you made was there's no huge increase in restructuring costs, which also suggests that obviously, if you did a bolt-on M&A would normally associate increase in restructuring costs with the M&A. What am I missing in the kind of -- how do you spend the M&A budget without increasing the restructuring costs or spending on distribution? Because it sounds like you need to spend on distribution to get the growth in the core markets.

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

Maybe I'll answer just the first bit of that. So I think bancassurance agreements, particularly in Asia, gotten totally out of control. And we signaled our intent with EBS. Looks like we made a pretty good decision. We -- then we focused on RBC. So the RBC, basically, was a good deal for both parties. They are delighted with it. So are we. And remember, we basically bought their business at a fair price. And I think like any 15-year exclusive bancassurance deal being thrown in for nothing, it sounds like a good use of capital. You're saying HSBC. That deal was about tech. Now I'm not saying we wouldn't pay anything. I wouldn't rule that out. But the sort of money that is being paid, particularly in Asia, I'm not interested, fundamentally because the new paradigm isn't about bancassurance. The new paradigm is about digital anyway, or at least doing bancassurance in a digital way. And that's what HSBC wanted. That's what some of our other partners wanted as well. And it's doing the digital way. So no one wants to move on and pay anything. But the focus for us is, while we're winning them. So far, it's just on tech. I mean, it's that simple. Do you want to talk about restructuring? Well there will be some restructuring in some of these, for sure, right?

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

I think the fundamental point there is that Aviva, in past years, lived with too much integration restructuring cost below the line. So Solvency II was below the line. There were lots of other things. And effectively, there was an incentive to try to throw things over the line and hope nobody would notice. And of course, in the real world, it's actually all expense. It's all cash out the door. So effectively, what we're trying to do is absorb that above the line. So it doesn't mean that there couldn't be integration and restructuring costs. But we're trying to absorb more of that above the line. And so the quality of our earnings growth going forward should be much stronger as a result.

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

I mean, bluntly, the half year results, what you didn't see so clearly, some of the stuff that would historically have been below the line, Tom threw it above the line. And we still had really good growth, as you saw. So we had just been pulling out enough because part of our thesis is the simplicity of that.

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

And we still will have integration and restructuring cost below the line this year. But basically, I'm trying to put a moratorium on that so that we're the minimal amount from next year onward.

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

I noticed the very polite way that Chris is giving the ball. I would just throw it. But...

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

I'd probably drop it. It's Blair from Merrill. Two questions. Tom, you talked about liability management. I think you mentioned GBP 200 million in debt savings. Maybe I got that wrong.

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

GBP 100 million in interest savings.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Yes. I thought it was GBP 100 million. That answers that question. But could you maybe just expand a little bit on at least GBP 500 million of liability actions that you'd talked about? That would be interesting. Then just on the capital ratio. You didn't say too much about that. But presumably, still building it, the 5 to 10 points that you've talked about previously. So hence the comment that it was going to go up to above 200%?

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

Yes. Let me give more color on both of those. So what we said was that, of the capital management, at least GBP 500 million would be capital return in 2018. So that either will be liability management or share-repurchase activity, or it could be both. And I think from my perspective, we did a share repurchase this year. It'd be very easy to flip that switch and do another one. Question would be, when to do that? What size? But actually, we've seen some interesting ideas on liability management. And in addition to the GBP 900 million of debt that we have in 2018 and another GBP 200 million in 2019, we still have some other expensive securities in our capital structure. And I've seen some interesting ideas on how to potentially repay some of those and reduce our interest expense still further. So my priority is to work through some of those ideas. And if we can do them on an economic basis, that's probably what I would try to figure out first before just simply defaulting to another share repurchase. Then in terms of what's driving the capital ratio up, some of it is sort of that natural increase that we talked about before. Now as we increase the dividend payout target, that will start to use up some of that natural growth in the cover ratio. But on top of it, I referred to the fact that we've got a pipeline of other capital actions. So we have other things that we're doing that will add to capital over and above the natural run rate. And so that'll continue to have us up higher at each of the next several year ends, everything else equal.

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

We don't want to be there, of course, though, do we? Yes. As Tom said...

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

We'd rather be going that way than the other way. But it means then we have to redeploy it.

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

Yes.

Q - Andrew John Crean {BIO 16513202 <GO>}

It's Andrew Crean with Autonomous. Two questions. The difference between the GBP 7 billion and the GBP 8 billion cash remittance, could you tell us how much disposal proceeds you had factored into the GBP 7 billion relative to the GBP 1.5 billion disposal of proceeds that you've actually achieved? And secondly, could you talk a bit about -- you talked about increased corporate costs related to our first half '17. And you talked about them being offset by increased longevity reserve releases. Could you put some numbers around those 2 things?

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

Let me take the second one first. We're not putting numbers around -- on longevity releases or the IFRS spend. But again, I just want you to be aware that we've got some offsetting factors there. And so as you think about our -- they're going to be different magnitudes, in terms of how you look at all of this. But that will be one of the factors that we need to work through. And again, we've got lots of actuaries and external accountants debating this right now. So you will just have to take a look at it in our results. But frankly, the trends against the GBP 50 billion book suggest they could be pretty significant.

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

And I'm sure you can work that out yourself. But we're not going to give it all today to you to make it that easy. But the -- I mean, one is of a different magnitude to the other.

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

And I'd say on the divestiture proceeds, we've done better than what we've planned. Chetan Singh and the team have done a great job in terms of divestitures. So we've realized better prices than we were planning on. But we're also getting better capital generation and more capital actions, in particular, out of our U.K. insurance business. And so it's a combination of both higher proceeds and greater special remittances out of the UKI.

Q - Andrew John Crean {BIO 16513202 <GO>}

Is that 50-50?

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

No. I don't think it's 50-50. And again, we had sort of a range of estimates on this. So it's probably more on the UKI being more capital efficient and bigger capital actions in the UKI than it is on better divestiture proceeds. But again, Chetan's team has executed very well on the M&A side.

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

I mean, you can work it out from the disposals with a better head. But...

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

And again, we work in ranges as opposed to point estimates. So when you're running a divestiture program, you're not counting on a specific number. I know it's been several divestitures. So it's -- that's why it's sort of hard to say, is it x hundred million or y hundred million.

Q - Jonathan Michael Hocking

It's Jon from Morgan Stanley. Just 2 questions, please. So on Slide 26, where you've got the liquidity buffer sort of building out. And this is not to scale. But that seems to suggest there's something beyond the numbers that you're talking about today. I wonder if you could sort of talk about that. Then secondly, just on the U.K. I know it's not the subject for today. But looking at annuity business as being sort of step change there in terms of growth, particularly in bulks, what is the size of appetite? I know you've always held prices at the small end and the middle end. Can you actually step up into the larger schemes?

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

Let me just take the first one first. And I'll also ask Andy to comment there, too. So we have got a bigger appetite. And if you look in other areas of growth, actually, we hired a really talented guy called Tom Ground, who has broadened and, I guess, showed us our competitive advantages now. And that is effectively we have a great balance sheet, which you need. And that we have a -- I think a market-leading asset origination program now. And we also have a brand. And one of the things we've talked about in Canada here, we do have a desire to move into bulks in Canada as well. And we've got the brand to do it. So you'd expect us to see more in bulks than we've done in the past. We've shown that recently, with some we've got, we're getting some decent margins in it. And so we're going to use the advantages we've got. Now we're still not going to do the big jumbos, although we'll look at stuff in the market. Andy, you've been looking at this closer. Do you want to...

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

Yes. I'm conscious that -- and the buildup to those people, they're interested to hear about how are we going to grow. And also capital actions. We've covered the capital actions. We're covering the international, how are we going to grow. Let's just give you a 2 minutes on the U.K. So we're -- basically, in the U.K., we're benefiting from both the structural growth across the market as a whole. And we're gaining share at the same time. I'll give you 3 specific examples. If I take long-term savings. So workplace pensions and platform. Last year, our net fund flows were GBP 2.8 billion. This year, we're looking at approaching GBP 5 billion of positive net fund flows in long-term savings. So strong growth there. If I take bulk annuities, to each of your question, last year, we did GBP 600 million. This year, we're approaching GBP 2 billion for the year end, assuming everything comes in that we're expecting to come in by year end. So again, strong growth there. If I take corporate GI and the U.K. market. So over the last six months or so, our growth there has been double-digit. But in particular, what we're focused on there is the profitability of that business. We're not going to go at it hell for leather. So our core for corporate G.I. is 3 or 4 points better this year than it was last year. So it's a strong improvement in profitability. But I think what I get excited about when I look at all of that strong growth is actually the sustainability of it as a result of the composite model. So not only do we have the cost in capital efficiency of being a composite player, which means that we can be competitive and generate decent margins at the same time as we grow. But in particular, it's the composite model in terms of relationships. If I just take the corporate market as an example, over 70% of our revenue and profit in the corporate market is coming from corporates that are meeting multiple needs with us. So effectively, what it means is whenever they are doing something, we will almost always get the opportunity to pitch our competitors. One, because they tend to be monolines. The relationships means we almost always get the chance to pitch. Then we've got to be good enough to win. But if we are good enough, if we're on a par with the competitors, we will tend to win far more because those corporates would rather concentrate with fewer players. So I believe those are structural advantages that gives us a sustainable competitive advantage. It means that, in the U.K., we can significant outgrow the market profitably over time.

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

First time ever, we have been able to give you proof points of the composite. And -- but frankly, it's the first time ever where we're actually running it as one U.K. business now. And that was incredibly difficult to put those businesses together. It was quite painful from a regulatory perspective, politically, everything else. But that is now starting to work. And that's what you see.

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

Picking up on the question on liquidity. You're right. The chart isn't drawn to scale. So you shouldn't take your ruler out and try to figure out exactly what's implied there.

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

You know they would.

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

And in my remarks, I've said that we're trending over GBP 4 billion in terms of liquidity. As we look at this, my team's trying to build in conservatism and contingencies et cetera. And as I've mentioned, we managed liquidity looking at a 2-year forward look of the ins and outs that we have under a stress scenario so that we are trying to manage liquidity very carefully. So again, I've been pleasantly surprised and pleased with how well we're doing. But again, I think that's a reflection of good work done by the team and sort of a natural bias towards conservatism and our financial management right now.

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

Oliver Steel, Deutsche Bank. So I'm looking at Slide 21. Am I right in thinking that a 55% to 60% payout ratio is implicitly as full as you can go, that you'll -- you're not actually generating any excess capital on top of that? Because that's what it seems to suggest.

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

Yes. The way I think you should look at this is that what we're trying to reflect is a fully normalized basis. So if you were seeing cash significantly above the dividend at that point, then you would expect cash forever to sort of build up into an infinite amount. And we don't need those kind of buffers. We have buffers in the business. We have contingencies. And so this would be reflecting a fully normalized basis, trying to pay full amounts of cash out to shareholders. Now I think as I'm looking now at our capital position building up over time and a lot of that capital accumulating in the subsidiaries, I think effectively, we're holding too much at our subsidiary levels right now. So I'm looking at trying to revisit that and to see whether we can't get more efficient with our remittances and try to drive that conversion of OCG into cash higher than what we're reflecting here. And that would allow us to have even more capacity in the future.

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

Oliver, you remember when we announced the 50% power ratio target. I think you might have asked the same question. And I said then, well, let us get to that first. And then we'll see what the quality of earnings is in it. Let's get to this. You -- we've given you the last three years a double-digit growth. You're going to get, in the foreseeable future now, more double-digit growth. And I think that's a fairly satisfactory position. But let us get there.

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

Higher than 90?

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

I'm sorry? Yes, higher. It should be 90 or potentially above. And again, I'd caution everyone, these are rough rules of thumb. So this is not a precise, exact science. This depends a bit on business mix. But this will allow us to talk to you a little bit about what's happening on an underlying basis and work from there. We may actually be a little bit better than that here. But as we've tried to model it out over a longer period of time, we think this is a decent estimation.

Q - Ravi Tanna {BIO 16926941 <GO>}

It's Ravi Tanna from Goldman Sachs. Just a couple of questions, please. The first one was on your internal reinsurance optimization activities. And I guess following on from your comments that you just made, it looks like you've stepped up to quite a large extent, the amount that you've reinsured internally between GI, life, France et cetera. I was just wondering what the progress you've made on that is? And how much more you can seed from those entities? And to what extent that enables more extraction of surplus from subs?

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

Yes. We've made some progress. So we used that basically to create liquidity out of diversification benefits, primarily in the U.K. with our life in G.I. business. We do a little bit in France. But we haven't extended that reinsurance vehicle to Canada or to other parts of our business. So I would say there's -- that's still a fraction of the theoretical diversification benefit that we have in the group. So that contributes some of the liquidity. But not an enormous amount.

Q - Ravi Tanna {BIO 16926941 <GO>}

The second one was kind of related to that. But in terms of the U.K. cash remittance uplift, obviously, some will have come from what you've just referenced. But also, I guess the Friends Life synergies and asset optimization on the back book, could you give us a feel for the rough split of where the sources of cash are coming from?

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

Yes. I would say, if you think about the additional cash that we're getting here, it's much more fundamentally about capital synergies and capital efficiency in the UKI business. It's much less about our internal reinsurance vehicle. And it's more about fundamental improvement, either on a one-time basis because of capital efficiencies and model improvements or based on moving to a more capital-light model in the U.K. insurance business.

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

Because it's just generating more, right? So you've got generation. I mean, it's fair to say, Friends continues to give us more than we expected. It looks like it was a good deal. But the -- I would focus on the capital generation of business, which has been strong. And it sort of continues.

Q - Unidentified Participant

(Angel Consagra), HSBC. Two questions, please. First one is given your comments on the leverage for the group that it will go down and you're comfortable, is there any possibility that you would be raising some more debt to have more excess cash or capital at the group to use for M&A or maybe capital returns in the future? And the second one was around the U.K. bulk strategy. Given this chart here, it seems that you have zero capital strain across all your businesses, including the bulk sales. What's actually -- so from your excess capital, do you expect more to deploy to bulk annuities if you get a chance? And what's stopping you from doing GBP 5 billion of sales in a year?

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

Do you want this one or me?

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

No. I'll take the first one. Look, our basic plan right now is to reduce leverage, especially to the extent that it's expensive debt. And by the same token, I look at where rates are today. And in the past we've done a little bit of senior debt funding. As I look further out on our capital structure, if we found an interesting acquisition or something else to do and I wanted to finance it with some low-cost senior debt before rates start to rise up ahead, I wouldn't rule that out. But that's not sort of the basic plan right now. I've got plenty of liquidity. And I don't really need to do that. But if I felt the world was starting to look scary and thought it was better to have more resources in the organization, again, I wouldn't rule that out. Then in terms of capacity for more bulks, we certainly have capacity in the balance sheet. So the balance sheet is not really constraining us. And it's more what's happening in the business.

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

Yes. So I always think about the bulks in 3 bits. You've got the smaller end. We've been a market leader there for a number of years. You've got the midsize. That's the bit we're actively moving into, such the Pearson GBP 600 million case. And you don't got that kind of jumbo side. We're not particularly targeting the jumbo side. But as Mark said earlier, we wouldn't completely rule it out. But the 2 things I'd say: First of all, we have a stock of GBP 60 billion annuities already. And about GBP 3 billion of that pays out each year in terms of annuity payments. So we write GBP 1 billion to GBP 1.5 billion of individual annuities. Then I've just said, we'll approach GBP 2 billion this year of bulks. So basically, even at GBP 2 billion year of bulks, our stock of annuities is broadly -- is growing marginally but not significantly. So we could do more than that quite easily. And we wouldn't be changing our risk profile. On the capital side of it, that's the whole point of the composite. Because the risks diversify with the general insurance risks, with protection, with long-term savings across the business as a whole and with our international businesses, it's pretty capital-efficient for us. So even if we did write materially more bulks there as we have done this year, written materially more bulks, yes, there is a capital strain. But it's relatively marginal in the size and scale of the business and diversifies well. It's not going to materially hold back our dividend-paying capability because we're a composite and we have the multi-lines to get the diversification.

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

I mean, fundamentally, we have a structural advantage from both capital and underwriting and a structural advantage on the TCC, which is why it's one where we've been seeing increased sales. It's structural. It's structural because you don't get composite businesses anymore. So we have a structural advantage as the markets move. It's that simple. Yes?

Q - Abid Hussain {BIO 20229932 <GO>}

It's Abid Hussain from Credit Suisse. Just a follow-up question from the last one. Can you just talk about the asset re-risking in annuities and how quickly you can achieve that? And what's the follow-on impact on group earnings growth?

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

(inaudible) that?

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

Yes. You go. Yes. You go.

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

Yes. It's -- we've got a significant appetite for liquid assets right now. They work quite well with our annuity business. And so that re-risking is going on naturally over time. Some of it is affecting the new business. And some of it is also in our existing book of business. So the Friends Life annuity portfolio that we picked up was heavily in bond. It was not really optimized for Solvency II. So we can do some work there but also do some work on new business as well. And so some of it just depends on our ability to source high-quality liquid assets. So that would be something that will happen over the next 2, three years as we move up.

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

I'll tell you where we're going. We're...

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

Maybe we could comment on the liquid assets.

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

Yes. Go for it, yes. Good prompt, Andy.

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

Just on the assets. We're building an origination engine and it's actually -- there's a benefit for third-party business as well because some of the assets that we can originate are brilliant assets. But it doesn't work on their Solvency II capital. So matching rules. But they're really appropriate for pension funds. So we are building a third-party business and infrastructure there to liquid landing opportunities at the same time as meeting Andy's demands. So it's one of these benefits and synergies you get. So we expect -- we probably originate in total across third party and for Andy's business about GBP 4 billion this year of -- this is gross infrastructure private placement debt, structure credit and real estate debt, for example. But we're planning to ramp up to a very significant in the next few years moving GBP 5 billion, GBP 6 billion, eventually GBP 7 billion origination. We don't expect that necessarily that's going to be met with demand from the Life business. But we are building a third-party business. And obviously, defined-benefit pension plans love this. So this is a great opportunity for me and the investment management business to build a leading franchise on the back of something that we have to do anyway corporately.

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

Just to be clear, you guys recall a few years ago, we identified this as a weakness. And it's taken a few years build it up. We now believe, in terms of scale, we have the capability of -- to generate the most assets than anyone and the liquids, that's particularly helpful in the bulks. So it's just turned from a relative weakness to relative strength. And we invested a fair bit of money in doing it. And that allows us to (inaudible) annuities. But the realization we had, bluntly, was because we needed those liquids in the rest of our bulk, which increases the yield of (inaudible) and increases better diversification as well because we needed it. Basically, the realization was we said to Euan just go and build it and keep going. Because we have such an appetite, we will either take it internally or we'll take it with new bulks. And that's one of the reasons it's working. So it was a change of realization the way we were doing it, it was not that effective and that was a few years ago. Then Andy after that.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Just maybe a question for Andy, coming back to the U.K. you talked fairly optimistically about growth. You've seen a lot of margin expansion, helped of course, by the stuff Euan's doing. You've talked about the annuity side, basically small amount of growth you got the legacy book running off, quite a lot of growth on the saving side but it is low margin. So my question is where is the growth going to -- do expect to come from, is it volume? Or is there still some margin to come? Because you haven't touched on end-year margin targets. You are at the top end.

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

(inaudible)

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

I know that but it's half of your business. You are at the top-end of some of your margin range targets already.

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

Yes. So I am going -- I have kept comments to volume rather than margin today. But the margin guidance we've given historically kind of holds good. So in long-term savings, 25 to 30 basis points, I'm not expecting to grow there. But I'm expecting to be in that range. Annuities, the new business range we gave I think was 7.5% to 8.5%. Again, we'd expect to be in that range on annuities next release for new business. What we basically saw, Blair, was that a lot of the margin expansion came about as a result of the cost and capital efficiency benefits of bringing the U.K. business together. That will play-through and most of the growth going forward will be driving the volumes in those margin ranges. The one kind of variable in that is how much back book and liquids that we do on the annuity side. So if we do more of that, then that is upside beyond the range. The range is kind of more -- excuse me, a relatively lower level of that, that we receive. But it is the structural growth and then a lot of people think about the U.K. market as ex-growth. It just isn't the case because of the shift from DB to DC, the aging population all to enrollment. There are strong flows coming in to the both annuities and long-term saving markets as a result of that. And we're well placed to take advantage.

Q - Unidentified Participant

(inaudible)

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

Yes. Strongly in 3 areas. So we're seeing increasingly employers are stopping ongoing accrual in their DB pension scheme and putting those existing people into a high contributing DC scheme. So for example, we secured the scheme for a major steel manufacturer earlier this year that did that, we've got a number of examples of that. We're seeing a lot of money coming to platform space where individuals are choosing to surrender their DB pension and transfer across to DC. Then we're seeing a strong flow in pipeline of business in bulk annuity. So we've got 3 drivers, some into long-term saving some into annuities. Because that GBP 1.5 trillion of assets that are in. The U.K. Life market is GBP 1.75 trillion of assets, DB is GBP 1.5 trillion. Life players don't play in that GBP 1.5 billion of DB. As that shifts across into the U.K. Life sector that is going to drive that GBP 1.75 trillion that we do play in, up significantly. And the back book is only GBP 300 billion, GBP 350 billion of that. So the back book legacy bit is an element of drag there. But it's relatively modest.

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

There's one other overlay to that as well. It's not just margin of volume, the third one is which part of the value chain that we're taking. So what we're seeing is that Aviva investor, for example, is getting much more. So let's for example, your platform is getting really very strong inflows. Was only two years ago was getting 12%, now we're getting what 28%? Give or take of the flows again to the Aviva investors. So we're are picking up much more the value chain as we move into the digital wallet on payments, we're going to pick up that bit of the value chain as well.

So it's actually margin, volume -- systemic volume and picking up more of the value chain. And you can only do that with the infrastructure we built. Real important not to miss it, it's going to be quite simple. I think Andy's next, it's in your...

Q - Andrew Hughes {BIO 1540569 <GO>}

This is Andrew Hughes from Macquarie. I've quick question on DVA in France, is that in the GBP 7 billion or GBP 8 billion, the local DVA agreement. And even if you get it, I'm just wondering how big it is? Then I seem to remember in France there was a delay of a year because of the intermediate holding company get dividends the holding company. So even if you got the DVA local agreement today, it would kind of be touch and go for 2018 so.

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

Yes. We can talk about that little bit more in some of the break-out sessions later. But what I would say is that we've got a model application in now, pending approval, we don't have approval for it yet. So it's not in any of our numbers. But we would anticipate getting it at a local level, which again helps with our stability of capital here and our dividend paying capacity from France at a group level, it gets reversed out. So it won't affect our overall cover ratio.

Q - Andrew Hughes {BIO 1540569 <GO>}

It is not in the GBP 8 million -- GBP 8 billion remittance as you're talking about.

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

We haven't changed the numbers because of that.

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

Yes, exactly. We haven't counted on that -- in that number.

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

Because we haven't done it yet, right?

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

And you are right. There will be a lag, there will be a delay. We're not looking on trying to strip capital out of subsidiaries.

Q - Benjamin Edward Bathurst

It's Ben Bathurst from Societe Gen. My question relates to Slide 21 up on the screen there. Do you have a view yet on whether the 80% is still going to apply on an IFRS '17 basis, or is it safe to assume that, that's going to go down?

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

Yes. What I would say is that we don't have a view on what IFRS '17 will look like when that goes live, whenever it does go live. What I would say is that you ought to concentrate on the capital generation and the cash that drives the dividend and whether the IFRS number goes up or down. We'd effectively adjust the payout ratio at that point in time. It's really the underlying capital generation that's driving the dividend, it's not the IFRS number. We've just tried to give you an IFRS bridge here to give you a rough rule of thumb.

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

And just to be on the hobby horse, I think IFRS is nonsense. And...

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

You think accounting is nonsense.

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

Yes. It is. And we'll manage the business on a Solvency II basis. I think there's a lot of water to flow under the IFRS bridge. And I know a lot of investors share that view. There's been a couples of instant papers out later. It's something I'm pretty active in, I don't know, I'd expect to see it delayed frankly. Just to be a little bit controversial to help the day.

Q - Unidentified Participant

And since Blair has opened you up asking about targets in other operations, I'm just wondering, if I can ask Euan about his targets. I mean the aims -- the absolute return market's been a little bit more difficult this year. So just wondering in view of that, how comfortable you are that you can achieve your pretty punchy targets?

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

I think the only targets have disclosed their double-digit growth in earnings, which we're pretty confident about for the foreseeable future. I accept AIMS returns haven't been particularly exciting this year. But matter of fact this of -- as of strategy, in a multi-strat funds haven't done particularly well. And in terms of a marketplace where simply owning the market, beta has performed very well. Those kind of strategies aren't doing so well in retail space. But what we are finding is an institutional marketplace is where particularly for big insurers, big pension funds where they can't really countenance just buying S&P SPDR and relying on that with the market going up. We've got liabilities, we've got to have responsible investment strategy plus the advice by consultants. We've got tremendous loyalty. And we're still seeing flows in from the big consultancies for large corporate pension plans. So we have seen some outflows from retail wholesale investors, who not surprisingly are looking at the performance seeing that they'd have done much better with a simpler balance fund structure or something of that nature. Where we have the opportunity to explain to skilled investors, CIOs, consultants, the investment philosophy and why it is and what we're worried about that we've been protecting against that hasn't really materialized in the year we've been in. Those are good conversations. And we're still seeing flow.

So this year, you can expect to see good solid flow into AIMS despite the performance. But I think if you remember the progress chart IPO up for my business about a year ago, we talked about 2016 being a year of a really the ambition for Aviva Investors was to be the one to watch to get ourselves onto the map as a respectable fund manager. This year, it was all about consolidating that position and winning mandates. And 2018, the strapline was diversified excellence. And what we are seeing is we're started to win in number of other areas so we've had some quite big institutional wins in areas like global high yield, a good pipeline and alternative income strategies. And so I'm kind of encouraged to -- by the end of 2018, you won't just be talking to me about AIMS, I hope AIMS is still a (hero) Proposition. And I'm doing all I can to make sure that the investment performance is more exciting than it's been in the last 18 months. But it won't -- Aviva Investors won't be defined by AIMS.

Q - Colm Kelly {BIO 19140684 <GO>}

Colm Kelly, UBS. First question just on the remittances, obviously the 90% of remittance from business units to group is quite a high number. It's how you view the progression going forward. Does that include an expectation to more thinly capitalize subsidiaries to a greater extent from here? And secondly, confidence around those remittance ratios in the context of, as you mentioned, the annuity business will be lower given capital intensity where also some of the international businesses like Canada and Poland has quite strict regulators. And in the past, there's been issues around drop capital and some of those subsidiaries. So just confidence around achieving these levels of remittances albeit they're estimated numbers rather than (inaudible).

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

Firstly, what Tom's alluding to before, we've actually been building up a lot of both capital liquidity in those businesses. So what you're seeing in the projections doesn't naturally take account of it. That's what Tom was saying before, that he got further what we can do, we think it's probably building up too much as well. And -- but that actually wasn't the reason for the upgrades in the targets, we can go there as well. So that's why we just got to a whole lot more confidence. We had been building it up. One of the reason bluntly is when you bought in Solvency II, when you have -- I don't know how many actuaries you've got, about 1,500 of them, probably a few too many. When you have so many layers upon layer upon layer of actuaries, you build up conservatism in the business. And that means the business have been building it up. We can go there, we haven't yet. Does that -- so that helps you make sense?

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

Yes, I'd simply confirm that, that the way we drive these figures was not by trying to squeeze more out of subsidiaries but actually I think that's an area of potential upside in those numbers. Then in terms of your other question around trapped capital, I mean, you'll hear more about Poland and Canada today, you can talk about that. Actually we've made progress here in Poland. So we don't have a whole lot of trap capital in a number of places. So again, we feel pretty good about that number.

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

I think, as Andy's point before on France, for example, DVA isn't built in these figures, although we know, we got it. And that will be -- that will come later.

Q - Colm Kelly {BIO 19140684 <GO>}

Just the second question, then following up on your comment on IFRS and speaking to a number of you yesterday evening, I mean, given the lack of relevance of IFRS for a life insurance business, given IFRS '17 is on the way, given Solvency II disclosures and the ability to build out that, is that an opportunity to move away? Obviously, you still have to report IFRS. But is it an opportunity to move away? Or is there appetite to move business metrics away from IFRS more toward capital and cash flow as you run your business, given IFRS is creating nothing more than constraints that are not necessary?

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

That's a tough one because the generalist investor that maybe investing across sectors, not just insurance or financial services, is used to looking at IFRS. So that's one of the reasons why we're trying to tell a simplified story here because we do want to be attractive to generalist investors without a lot of the complexity. In terms of how we run the business, we primarily are focusing on sort of Solvency II metrics in terms of we're valuing -- internally we look at an economically value-added model. So we're running based on sort of the real cash and capital internally and then translating that into the external reporting that you're seeing here. So as much as we might love to deal with only one set of accounts, we're going to continue to have to run with multiple sets of accounts for the foreseeable future.

Q - Andrew John Crean {BIO 16513202 <GO>}

It's Andrew Crean, again. I think you meant to achieve what no horticulturist can do, which is turn an apple tree, one into an oak, another one into an acorn, for now, I think were the operative words. Could you explain, where you are with India? I think you are 23rd out of the 24th private companies, what is -- what's your thinking there? And particularly in Italy, I think in the past, you've just said you don't control the brand, you don't control the distribution. And that was the reason it was an apple. I don't think either of those things have changed. So why is it an oak?

A - Unidentified Speaker

Let me start with India. So India is currently under strategic review. But rather than you automatically determine those 2 words means something, let me add a little bit more color. We actually like the market dynamics. I mean what's happened with the (Andahar) system and 98% of the population being in the digital ecosystem either by ocular or by fingerprint. We think actually bodes really well. Our challenge in India is frankly, we don't have the right distribution. So it's under strategic view. And obviously, if we can find the sort of partners that we like then it's probably an attractive market for all the fundaments that I speak about. And if not, then it's probably we'll have further decision to be taken.

Q - Unidentified Participant

Could you be a bit more definitive?

A - Unidentified Speaker

I think we'll exit if we don't get the right partnership model.

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

But we would expect -- you can assume we're active in that market. And you can assume, we think the market has potential. So for the life deal, we'll do it. The other key element, of course, that we have seen before, we've hinted before is that the 15-year path, the contractual arrangements in that joint venture changed in the 15-year timeframe. So we now have much more ability to choose -- influence the outcome of discussions in that market. And the market has changed. So when the environment changes, you reassess. I don't think we said it was an oak, I think we said it was an acorn, didn't we? What did we say it was? It used to be an apple tree. So we've turned an apple tree into an acorn. Pretty clever.

A - Unidentified Speaker

Let me comment on the Italian business. So on the Italian business, we had a strong year last year. Our operating profit before (inaudible) interest was GBP 250 million, we saw strong growth as I alluded to, we have gone from 12th-in-the-market to seventh-the-market. That's on the back of strong sales, largely coming from a hybrid product, which is 30% with profit out of par guarantee and 70% unit-link. There's a small protection wrapper in that. It isn't -- the assumption is it's all from the 3 bank insurance partners, now 2 as you know. A big part of those sales are also coming from IFA channel Fineco. The reason we put a new CEO in is to distribute, we like the market. But the distribution strategy is not sound. So obviously, we want to grow our IFA channel, we want to grow our own distribution. The comments, because I should comment on Banco Popolare, listen that was the deal where they came to us. We didn't like the terms. And quite frankly, we had a strong contract. So we played the put option. What we actually lost there was general insurance. We lost about GBP 40-odd million of operating profit, it was general insurance. So if I was to look at what I can replace quite easily through IGI brokers, it was the Banco Popolare deal. So we're committed. But it's the same as France. We put a new CEO in France. And you got to give them time to build the right strategy. But it's a market with fundamentals that we like, it's the 7th largest insurance market in the word. But we are going to reset our strategy, that's why it's now there as an oak.

Q - Unidentified Participant

(inaudible) Another question for international. You mentioned about this ambition of traveling the market GAAP of Turkey. Could you talk about the capital requirement that you would need to achieve that? And what's a realistic timeframe for that to be done at like as part of our thought process?

A - Unidentified Speaker

I'm not going to go into the specific capital requirements today. But let me give you a little bit of the ambition. Our partner in Turkey is the Sabanci Group. So they also own Akbank. And we look at that market, 51% of the population is under the age of 30. Auto enrollment went in on January 1. And like most jurisdictions, it's a thinly margined product. But we're well positioned to probably acquire a new million customers. And with our platform that then gives us the chance to look at cross-sell opportunities. So the business has been growing strongly. The CAGR at the half year was 20%. And what I will say is, it's accelerated from there. So it's a market with our partner that we're quite comfortable with that target and that's the target we've actually shared publicly in the Turkish market.

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

Maybe there is -- I could feel another analyst day coming on in Turkey, which is pretty interesting market. Turkey is -- Turkey in market side, thus I think it's like Asia was 15 years ago. You don't have the same level of competition. Distribution in brand is important here. we're #2 in this market, we are #2 in that market as well. That's the market I really, really like. 80 million people, fast growth of government, that's earned some pretty interesting stuff across the board, I guess. But pretty interesting stuff in terms of particularly savings. And with -- all I am saying, I think we signed up over (1 million) customers in last 12 months. So I mean it's a big, big growth at big, big numbers.

A - Unidentified Speaker

The government needs to fix the opt ratio for us but that's their concern as well.

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

Time for one of 2 last questions.

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

Okay. So we've got coffee. We've got some of it. The afternoon is focused on these other growth markets. So I think Blair said, your half the businesses is in U.K. so now we'll focus on the other half after lunch. And give us your feedback, tell us what you think.