Q4 2016 Earnings Call

Company Participants

- Andy D. Briggs, Chief Executive Officer - Aviva UK Life & Chairman - Global Life
- Chris J. Esson, Director-Group Investor Relations
- Euan George Munro, Chief Executive Officer
- Mark Andrew Wilson, Group Chief Executive Officer & Executive Director
- Maurice Tulloch, Chief Executive Officer-International Insurance
- Thomas D. Stoddard, Group Chief Financial Officer & Executive Director

Other Participants

- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Gordon Aitken, Analyst
- Greig N. Paterson, Analyst
- Jon M. Hocking, Analyst
- Oliver Steel, Analyst
- Ravi Tanna, Analyst

MANAGEMENT DISCUSSION SECTION

Chris J. Esson {BIO 6194371 <GO>}

Good morning, everybody, and welcome to Aviva. Now, before we get started, just a few housekeeping items. Firstly, there are no alarms planned this morning or tests, so if an alarm does sound, please make your way out the doors, up the stairs and into the building forecourt. Secondly, just wanted to remind you about disclaimers and forward-looking statements. I expected you read that in two seconds.

With that, I'd like to start by handing over to our CEO, Mark Wilson, to kick the presentation off.

Mark Andrew Wilson {BIO 7102576 <GO>}

Thank you, Chris, and good morning, everyone, and welcome to our 2016 results. As you know, 2016 has been a rather eventful year particularly politically. But I think the message for us this morning is very measured, it's very simple and it's very clear cut. As a management team, we think of it as just doing exactly what we said we would and hopefully a little bit more.

So, when you think about it, we're delivering more profit, more cash, more capital, more dividend, and we believe there's more of all of those to come. So, today, we're going to let the numbers speak for themselves. We'll give you time for Q&A later. But I would think we're now well past the fixed phase of the business, and now we have a business that's in good financial shape. We can start managing it the way it meant to be managed. And for the position where we are, we can now - it's time to give something back to shareholders.

So, you can see that all of the financial metrics when you've all, no doubt, had a chance to have a look at the numbers this morning. All of the financial metrics are all moving in the right direction. There's been upward arrows in consecutive years, and we want it to be upward arrows in future years.

So, operating profits have increased 12% to £3 billion, while operating EPS was up 3% to £0.511 per share. I know there's going to be a lot of focus on capital this morning, and our Solvency II coverage ratio has increased 9 percentage points to 189%. And that's as a result of exceptionally strong capital generation of £3.5 billion. Now cash remittances, they're up as well, they're up to £1.8 billion, that's an increase of 20%. And lastly but by no means least, our dividend is up 12% to £0.233 per share and, of course, that's a payout ratio of 46%. So, there's still some room to move that forward as planned later in the year.

Now just for clarity, I should point out that operating profit excludes the impact of Ogden, the Ogden discount rate change. We're pretty closely involved with that. There's still considerable uncertainty about the methodology and the eventual rate and we've treated this as an exceptional below-the-line item. Now, this approach has the important alignment and the benefit of aligning with our operating EPS because that's what we based our dividend trajectory on, whilst putting it below the line, we've taken, I guess, the worst possible outcome and provided clarity on the maximum downside impact. I believe sense will prevail in that rate and the only question is when.

So, moving to the highlights and numbers. So, first, looking at operating profit. Now, I've stated on a number of occasions, I want Aviva to build a track record of delivering consistent reliable growth year after year after year. And I think as you can see here on these slides, we're starting to do that. Now, over the past three years, we've grown operating profits at a compound rate of 14% and EPS at a compound rate of 6%, and that's despite the quite significant dilution, I guess, from the Friends Life transaction.

Operating EPS figure, and this is an important figure, I know you should rightly focus on it. I think this figure was telling, as it demonstrates, we've maintained a positive trajectory despite the dramatic action we've had to take over the years in strengthening our balance sheet. If you have a look at our balance sheet just four years ago to now, it's almost unrecognizable.

Now, now that the balance sheet fixed base is well and truly in the past and we also has, as you can see, for example, surpluses in addition to that on the pension funds, we are able to manage our business as it should be managed with much fewer constraints. And that in itself gives us options for future growth, and we'll come on to bit of that later.

Now, at the Investor Day in this very room, we gave you clear guidance on where we thought growth would come from. Now, while we're not suggesting for a moment that all in the garden is rosy, I think there are some areas in the business I was still disappointed with. We're getting good growth from our key operating franchises.

Now, a few highlights I'll cover now. So, Canada, we increased Canada as pretty core to the group. We've increased operating profit there by 26%. The Royal Bank of Canada acquisition, we thought at the time and I know you thought at the time was a good acquisition, is proving to be better than we thought. And it's a prime example of disciplined capital reallocation. We're going to continue to do that.

In UK General Insurance, higher premium volumes and some benign weather helped us achieve a 23% increase in operating profit. That's acceptable.

Aviva Investors. I've been fairly harsh over the years on Aviva Investors and we did have a lot of work to do. But this business is really starting to hit its straps, and that increased operating profit by 32%. Now, whilst AI is 5% of operating profits today, that's up from 3% I might add last year, it is clearly making an outsized contribution to the group growth and we're doing it organically.

Now, let's look at the major business lines starting with life. This slide shows a similar trend of consistent growth, new business and operating profit both continued to move upwards in the right direction. VNB increased 13% to £1.35 billion. But rather than going through the various moving parts, I'm sure we can have a look at the analyst pack and see those result to ask some questions.

I want to just to use VNB result as an example to highlight the benefit of diversity. For example, in 2016, it was a weak year for us in the BPA market, although I might add the pipeline has improved this year. However, we were able to get growth from other business lines like individual annuities, protection, long-term savings, all of those moving in the right direction. So, diversity counts. Diversity also counts when you see regulatory changes like pension reform or the Ogden rate discount. And insurance is about diversity. It's not about mono lines. It's not about single countries.

Now, looking at the operating profit here, the trends are also positive. I should point out here just for clarity, we've also benefited from additional quarter of Friends Life. But excluding it, it also looks good.

Moving to general insurance. So, it's been a few years since we had decent GI growth, many of you have kept undermining us of that. But as you can see, the premiums and the profit grew strongly. Now, normally, the team and I would be uncomfortable with 15% growth in top line. We don't pay people for top-line growth. But there are a number of factors behind this, such as new distribution partnerships with HomeServe and TSB. Royal Bank of Canada, even though it's only been a couple of months, had a positive impact. And also it's important to note the relative competitive position of ours has also improved in general insurance as a result of Solvency II as now finally, everyone's had to price on a similar basis. So, where others had to move their pricing, we didn't, we were already on a base that's very close to Solvency II.

Our underwriting results, they've also remained strong with a combined ratio of 95.2%, that's about right, that's in the right sort of zip code, and that shows a pleasing level of consistency. So, what about fund management and fund management seems to, from investors, get a real focus. Well, at the Investor Day, I think – Euan, I think I called your business an acorn, which Euan rightly took and reject. I should acknowledge, I guess, to balance that with results like these, Euan, you might become this mighty Scottish oak.

And really they're delivering the sort of results we thought they could after a lot of restructuring. We replaced the entire management team four years ago. We've put in a new system. We changed the product range and it's starting to show those benefits. Assets under management are growing strongly. Net flows are some of the best in the market. And also our fund flow mix have shifted towards higher margin products, particularly like AIMS, where we saw the assets under management triple to £9 billion, and it's continued to go since then.

But the trends in AI go further than AIMS. We also saw some very good flows into fixed income, which is one of our specialties, of course. And Aviva Investors also saw some strong flows into infrastructure debt, and that's something we'd like to build out more.

Aviva Investors continues to work closely with the UK Life business. It's probably the first time in our history that those two parts of the organization have worked closely together. And UK Life is both getting fund closed for them, nice tied distribution. They're gaining up from platforms as well. And UK Life is originating illiquid assets for – sorry, AI is getting illiquid assets for our annuity book. So, it all seems to be working much better together. But are we happy with it? Well, of course, we're not. There's a lot more to go.

So, clearly, in this market, we're also battling some of the challenging trend we're seeing across the fund management industry. And we believe with these results, we are well-positioned in the current environment, particularly with our cost ratios which are certainly amongst the best in the market.

Now, what about digitals? The story on digital, our full-year results I believe is really about our IP. Our Digital Garage has become a bit of a tourist attraction we've ever done, in government ministers, to investors, to tech firms out of the U.S. visiting it. But it's much more than that.

Some of our partnerships, partnerships such as our Tencent and Hillhouse deal in Hong Kong were predicated on the uniqueness of our digital IP. And we believe it makes us the partner of choice. And I think the people we're talking to, they seem to be saying that to us.

Where do we want it to go? Well, we want, in the digital space, Aviva to be a 320-year-old digital insurance disruptor. And what we've achieved in the last 12 months makes this interesting.

Now, what we've done, so we build our critical digital infrastructure. We now have, as we said we would, we have all of our customer systems in the UK now talking to each other. I think that's pretty unique for any global insurance business, and it gives us - flows into MyAviva, which gives us a significant advantage and transforms how we not only interact - the customer interacts with us, but how we service them. We are now starting to roll out in our call centers, single screens that have all the products on. It really does simplify our business, take out costs, and make a pretty simple customer experience.

We've also made good progress on increasing our user numbers. We said that was a focus for last year. And the number of registration to MyAviva have doubled to 5 million, and we are seeing this drive increased sales through our digital direct channel, which grew to £1.1 million sales last year.

Now, the other interesting element is our pricing, where we have developed our IP to enable us to price across our products, so across multiple products together in different business lines, in many cases without asking any underwriting questions, sort of three clicks and it's yours. And that's through a combination of MyAviva, which is all our IP, and big data, and our pricing algorithms. This is the future.

So, moving on to capital. Now, I know capital is inevitably going to be a focus from those of you I was talking to out there and from the media we've spoken to this morning. Capital is a focus. I think the numbers sort of speak for themselves. I don't want anyone to get ahead of themselves, though. But we're in this position on the balance sheet in capital because of work we've done not just last year, but over last few years. At £3.5 billion, capital generation can be characterized, I think, as very strong. That was a good result. And our Solvency II ratio is well above the working range despite being appropriately prudent and conservative.

The question is what are we going to do with it? And I'm sure you will agree that having surplus capital like this is a very high-quality problem. First, I'll say there is - and this is important. There's no shortage of organic growth opportunities and we make no excuses here. We will continue to invest in our business, invest capital in terms of what I think we're starting to prove as some very high-quality franchises.

But the factors even after that, we have significant capital surplus and this is likely to continue to grow. So, as such, it's entirely consistent with the priorities we set out at our Investor Day. We're going to use some of the tools in our capital management tool kit. And have started to actively plan now for additional capital returns to our shareholders, and also to pay down some very expensive hybrid debt in 2017, both those actions in 2017. And you know what, we'll dip into our tool bag each year as we see fit and we're in this nice position of being able to do both, best in the business and good bag.

Which leads onto capital reallocation. Because really we don't care in our capital position, our job is also to reallocate capital across the businesses, and we've been doing that for a while and it's a key part of our capital management framework. But the fact is that some of our businesses and some of our markets will perform better than others.

Now, we've previously introduced this, it's a strategic lens in which we look at our businesses, our oaks, acorns and apple trees, and you can see them on the slide here. We've been active across all of these three categories in 2016. In our oak tree, we've been investing to drive growth, you can see that. The accretive RBC acquisition is already making a positive contribution to the bottom line and I might add, I think the team in Canada has done a first-class job in integration. Execution, integration and getting efficient is one of our core skill sets and that'll be.

In the UK, we're moving to a combined insurance business with Andy Briggs at the helm and we can certainly get better customer service and more efficiencies out of that. Now, this aligns with our composite business model and will pave the way for further improvements in efficiency, but also importantly for cross sell. We would like to run that as one single insurance business and that makes us unique.

And as you have seen, we recently announced the sale of Antarius in France and I might add a very good price for our shareholders and that's another action they paid.

In the acorn markets, I'm also comfortable with the progress. We've already spoken about the good performance from Aviva Investors and the progress we've made in digital.

There's also Asia, we've embarked on our disruption strategy. The recently announced JV in Hong Kong with Tencent and Hillhouse to develop digital insurance is a key part of that. And with margins and distribution cost in Asia, particularly Hong Kong and Singapore amongst the highest in the world, and you also have regulators in that part of the world becoming increasingly active, they are now openly talking about commission disclosure in Hong Kong, which I never thought we'd see happen. We believe disruption has plenty of room to go. And frankly, we think we're in a pretty good place to do it.

And finally, our apple trees. Well, apple trees, like any orchard, there're some good apples and some apples we need to prune and look at what we're doing. And we've made some very pleasing progress in our Italian business, they've got a good strategy, a good plan, and that's been delivering some pretty solid growth in operating profit and new business.

But as you would expect, some of our other businesses are still under review. In Spain, we're actively now looking at further withdrawal of capital. For FPI and Taiwan, we'll say we're in the midst of a strategic review to consider their future role within the group.

Now, capital reallocation involved a joint capital from some areas and then investing it in others or returning it to the group. And we expect to do - or returning it to shareholders, I might add. And we expect to do some of each. Now, to do that, you obviously need cash as well. And it's a key part of our investment pieces.

Cash remittances, they increased 20% to £1.8 billion. And this is precisely where we thought would be in our plans. Now, I guess, this has dampened a little bit. This included - although this included the first £250 million tranche of special remittances from UK Life, there's obviously much more to come there.

And it's also notable that we diverted a couple of hundred million pound or so from UK GI to an internal reinsurance vehicle. We could have otherwise upstream that to group. And we also said the Canada (19:25) that, we want you to invest that in the RBC deal. And that's what they did for that. But for the avoidance of any doubt, we believe the £7 billion remittance target is eminently achievable by 2018.

Now, the dividend. In 2016, we increased our dividend per share by 12% to £0.233. And the payout ratio relative to operating EPS - actually, the payout ratio is a little bit lower than consensus. The dividend is actually a bit higher. The obvious reason for that is our EPS was a pivot higher than consensus. But we've moved the payout ratio to 46% up from 42% in 2015. So, we've made progress towards our 50% payout ratio. We've kept that even, and we expect to reach this level as planned at the end of 2017.

So, to conclude - I don't want to talk for too long this morning. So, to conclude, I think the numbers sort of speak for themselves. It's clean, it's clear. It's, I think, a pretty simple set of numbers. Operating profit and EPS continue to grow. We have significantly strengthened our capital position. And now, we have this wonderful high-quality problem of deploying it productively and giving it back to shareholders, and we want to do both.

We've increased our dividend and we've moved the payout ratio upwards. And remember, you've seen this slide before. We've just updated it. The Friends Life integration is now complete, and we are focused on getting the remainder of the capital synergies and the special remittances paid up to the group. And you'll see more of that this year. And on digital, we've made considerable progress on the structural build and have begun to scale up the user numbers.

And on that note, ladies and gentlemen, I will hand you over to Tom Stoddard, our CFO, who will take you through our numbers in more detail and then, we will have plenty of time for Q&A. So, Tom?

Thomas D. Stoddard {BIO 15071280 <GO>}

Thank you, Mark, and good morning, everyone. We've made pretty quick progress at Aviva here in 2016 finishing the year in an excess capital position. A lot of this progress has come together toward the end of the year, so today we're actively planning how we will redeploy and return some of that excess to investors.

At the same time, we think we can build on the momentum achieved in 2016 to deliver more growth and better returns in the future. This is our investment thesis of cash flow plus growth with share repurchases becoming an increasingly important part of the story.

In 2016, Aviva grew operating profit by 12% before the impact of Ogden to just over £3 billion. Our results were boosted by strong growth in general insurance and Aviva Investors, as well as the impact of acquisitions. GI and health in the UK and Ireland was up 23% as the new HomeServe relationship drove volumes and weather was benign. Likewise, Canada was up 26% benefiting from a half year of the RBC General acquisition, which closed on the 1st of July.

Aviva Investors was up 32% with profitable net inflows and life insurance in the UK and Ireland was up 7% with a stronger underlying trend. Europe benefited from favorable foreign currency translation this year and Asia was down slightly as we reposition the business and invested more in Indonesia and Vietnam.

After accounting for the remaining 8% weighted average share dilution from the Friends Life transaction, operating EPS was up 3% to £0.511 per share. And to put that in context, back in July at our Capital Markets Day, in the immediate aftermath of the Brexit vote, we said that the growth outlook for 2016 was uncertain. But thereafter, we've put our heads down and ground out a pretty decent result. And this growth in 2016 gives us confidence on continuing to deliver on our target of mid-single-digits operating EPS growth over the medium term.

And before I leave this slide, I should also point out that we've linked our dividend policy to operating EPS growth and a payout ratio increasing from 42% in 2015 to 50% in 2017. This is important. It means that operating EPS growth year-to-year should be a good guide to what we intend to be a progressive dividend. Consequently for 2016, we did not want a big, unusual post-year-end event like the Ogden discount rate change to distort our year-on-year comparisons, especially since there's some likelihood that the rate will be revised back upward again in 2017.

So, rather than confuse our operating results and dividend trajectory, we decided to treat the Ogden discount rate change as an exceptional item. We think this aligns best with the way we're managing Aviva and makes it easier for you to understand our results.

Having said all that, you can clearly see the Ogden impact here on this slide, looking at the net asset value walk. Going all the way down to the bottom line and into equity, our book value per share was up 6% on the year, with operating profit and foreign exchange overcoming the Ogden impact and other factors. This is the after, after, after point, which we're not losing sight of. Including Ogden, basic EPS was £0.153 per share, down 34%.

One other point to highlight here is that integration restructuring costs were down 44% to £212 million. That trend of declining restructuring cost should continue as we put the Friends Life and RBC integration projects behind us. We still have some more restructuring costs in 2017 as we complete the RBC process and the Part VII transfer, but we're holding a tighter line to improve overall quality of earnings. So, if you look at operating EPS after integration restructuring, as I do, we increased profitability by 10% from £0.428 per share in 2015 to £0.469 in 2016.

So, moving to a review of our businesses. In UK Life, we're doing exactly what we said we'd do, with profit, VNB and remittances all increasing in 2016. Operating profits benefited from another quarter of Friends, but we had less benefit from other actions.

Excluding these two items, underlying earnings growth has been driven by cost synergies and positive trends in individual annuities, long-term savings and protection. This more than compensated for lower volumes in the bulk purchase annuity market, where there was less activity in the small to mid-sized segment of the market, which is our sweet spot.

Cash remittances were up 64% to £1.1 billion, including £250 million of specials. And in addition to the underlying remittances, we expect a further £750 million of specials from UK Life spread over 2017 and 2018.

Now, looking at profit drivers. Our major businesses in UK Life performed well, delivering good margins across the board. Platform flows of £3.9 billion and workplace flows of £2 billion were highlighted in the long-term savings business. Together with strong market returns, these drove managed assets up 19% to £105 billion.

Individual annuity sales were £1.2 billion, showing double-digit growth, but BPA sales declined to £620 million versus £2 billion in the prior year. However, we have appetite for greater volume and hope to drive growth here in the future. In addition, we have more opportunity to optimize our investment asset strategies, backing annuities in the front and back book.

Finally, in protection, we saw strong growth in the individual business and margins improved through the synergies and migration onto a new digital platform. So, full credit to Andy Briggs and his team for driving another year of profit growth, expense efficiencies, cash remittances and business improvements in UK Life.

So, today, we're now closing the final chapter on the Friends Life acquisition, as Mark said, having delivered £270 million of the run rate synergies against our target of £225 million. Our attention will now turn towards rationalizing our combined UK business consisting of Life, GI, Health, and elements of the center.

From a capital perspective, the acquisition has been very favorable, although Friends was a lower-ROE business and blending it together with Aviva has temporarily reduced our overall ROE. We've already generated £1 billion of capital synergies with a bit more to come. That, in turn, will provide an extra £750 million of cash to the center over this year and next. So, from here, our task shifts to redeployments to boost return on capital in future years.

Aviva Investors. Now, as Euan Munro likes to say, Aviva Investors has become the one to watch. 2016 was a breakout year for us with Aviva Investors contributing £139 million to operating profit, up 32% from the prior year. We tripled assets under management of our flagship AIMS product, which gives us good momentum going into 2017. Total AUM were up 19% to £345 billion as we brought in Friends Life assets and bucked industry trends by recording net inflows.

Profits benefited from fees on the AIMS assets, changes in our transfer pricing on internal assets, and the Friends Life assets onboarded. We also improved our distribution significantly in 2016, and we expect to keep spending in AI to maintain the momentum Euan and the team have created. So, keep watching Aviva Investors, the one to watch.

And next, we go to our GI businesses, first in the UK. Net written premiums were up 7% in the UK due to new distribution relationships with Homeserve and TSB, while Ireland grew premiums 34% due to rate increases and FX benefits. Colm Holmes and the team must be pleased with the momentum from the new distribution. And with the strength of our brand and capabilities in Digital, we think we should be powering more partnerships like this.

Now, excluding Ogden, underwriting profits in the UK and Ireland were also up 59%, with the reported calendar year combined operating ratio flat at 94.9%, and a normalized accident year core up a half a point after adjusting for the impact of the Flood Re levy and the expense strength from Homeserve.

Now, looking at this slide, I'm sure some of you will be asking why cash remittances are down when the business is performing so well. Now, this is really all a bit of an anomaly this year as our UK GI subsidiary paid cash premiums to the internal reinsurance vehicle we use for cash and capital management rather than remit those payments up to the center. This is a onetime effect, and we will be back to normal for remittances here in 2017.

Now, in Canada, for a slightly different reason, cash remittances were also a little bit depressed in 2015 and, to some extent, in 2016 as we've chosen to retain and invest more capital to support growth. In particular, we acquired RBC's general insurance business on July 1. Now, the six-month contribution from this deal has resulted in a 14% increase in net written premiums and higher operating profits.

Our reported calendar year combined operating ratio in Canada was 94.6%, and once again, benefiting from favorable prior-year development. The integration of RBC has exceeded our expectations so far in terms of fit and financial performance, with Greg Somerville's team executing very, very well. This is a great example of us taking one of our strong core franchises and making it stronger.

I should also recognize Maurice Tulloch for our recent GI successes in Canada and the UK. But going forward, Maurice will change his focus to Canada and our European businesses outside the UK. So more air miles and more challenges for Maurice.

And speaking of Europe, in Europe, operating conditions were tough again in 2016. But this year, we benefited from favorable foreign exchange movements. Going a little bit deeper, in France, we've been disappointed by lack of progress on expense efficiency and some delays in cash remittances. So, we moved Patrick Dixneuf in as the new CEO there of this business in November. As you may recall, Patrick led the successful turnaround of our business in Italy.

Italy, meanwhile, has maintained its momentum under new CEO, Phil Willcock, with strong growth in VNB, up 39%, and operating profits up 9% in local currency. Poland experienced underlying growth, but a new government levy on assets held back operating profits. And Spain delivered yet another year of consistent performance, but we may withdraw further capital from Spain for redeployment elsewhere, consistent with our priorities, as we've done in the past.

Now turning to Asia, this slide really doesn't tell the story very well for Asia. In Asia, our strategy is disruption under the leadership of Chris Wei, who also oversees our global digital activities. So, not surprisingly, we're looking to inspire change in each of our Asian markets. In Singapore, for example, while we have a strong position, we're changing the game through our new advisor's distribution platform, which went from nothing to 450 agents.

In Hong Kong, we announced the joint venture with Hillhouse and Tencent to transform our business there into a leading digital insurer. And we're further strengthening our positions in China, Indonesia and Vietnam, while reviewing our strategic options for FPI and Taiwan. So, 2016 has been a year of repositioning for our business in Asia, which will continue in 2017. We're really excited by our prospects here, but remains early days.

So, when I joined Aviva back in 2014, which seems like a long time ago now, the board asked me to demonstrate how we might improve results and get to £10 billion of capital surplus. Today, nearly three years later, after strengthening our models and transitioning to Solvency II, I'm very pleased to say that our surplus has now reached £11.3 billion, up 16% from last year. Our 2016 operating capital generation of £3.5 billion was very strong, fueled by underlying capital generation of £1.7 billion and other capital actions of £1.8 billion.

Our finance and risk teams have more to do on capital actions. For example, we still do not have dynamic volatility adjuster, or DVA for short, in our French model, but we don't expect to have this level of capital actions every year.

And perhaps, more importantly, since we are in excess capital position, we will be looking to invest in 2017 for organic growth in the future. This may cause temporary strain on our underlying capital generation in the short term, while improving our prospects for the longer term. So, the £1.7 billion number for underlying capital generation in 2016 is something we'll look to improve on over several years and not necessarily every year.

You're probably familiar with this next slide by now. As before, we remain relatively insensitive to market stresses, maintaining a defensive position. And as illustrated here, we remain at or above the top end of our working range even with these levels of stress.

So, clearly, over time, we'll look to get back into our working range. It's not a rush, however, as we're looking to prioritize organic growth and partnership opportunities. Thereafter, we'll consider bolt-on acquisitions to strengthen our core markets like the deal we did in Canada. And also, capital return to investors. Ideally, we'll do a little bit of all of this to get back into our working range and eventually operate more consistently near to the middle of the range.

So, this new found road of abundance gives us more choices. We have excess capital and the prospect of additional capital actions to create more, as well as areas where we may withdraw capital for redeployment.

Meanwhile, as Mark said, cash remittances were up 20% for 2016, and should be boosted further in 2017 and 2018 by special remittances. Our center liquidity has now reached £1.8 billion. So, to put that in context, we generally try to hold at least £1 billion of liquidity at the center, so we have more than we need at the moment. Hence, our focus is shifting more towards balance sheet optimization and strategic redeployment of capital. And with about £800 million of excess cash in capital, we have sufficient flexibility to do so. So, the question is, what exactly will we do?

Well, you can see from the box on the lower left of this slide that some of the recent investments we've made have paid off quite well in terms of GI growth. We want more of that. In the other box, you can see that we also have some relatively expensive debt coming up for repayment or refinancing, and we need less of that. So, the answer should be pretty clear.

We'll continue to invest for the future, but the same time, we're planning to return some capital, both paying down hybrid debt and buying back shares. This should improve our center cash flow and give an extra boost to future earnings per share.

Now, in terms of timing, you can see that the approximately £500 million of 8.25% debt comes up in November. And while we don't have specifics of a share buyback program to announce quite yet, that should be something we'd pursue during the middle part of the year, all of which brings me back to some simple conclusions.

We've delivered operating EPS growth, more Solvency II capital, increased cash and a higher dividend. In 2017, we're targeting a 50% dividend payout ratio. And that, by itself, would mean another 10% dividend increase. But on top of that, we're still targeting mid single-digits growth in operating EPS. So, let's see what we can do next. So far, we've done just about everything we said we'd do.

And with that, I'll hand it back to Mark to wrap up and take questions. Mark?

Mark Andrew Wilson {BIO 7102576 <GO>}

So, thanks, Tom. I think it was actually, exactly four years ago, upstairs here on the 23rd floor, that I set out our investment thesis of cash flow and growth. And it does seem like a long time ago, there's been a lot happened since then. But our 2016 result, I think, is probably the most tangible evidence so far that we can and are delivering both.

What we want is to build a track record of operating EPS and DPS growth. And one of the cornerstones of this, you can't actually do this if you don't have the balance sheet. And what we have seen is significant improvement in the balance sheet that allows all this to happen. It's not good luck, it's a deliberate strategy to get to that place.

Now, equally, the management team is very aware that we are only as good as our last set of results. You guys seem to have a very long memory on some things and a very short memory on others. But I think you can see that the team and I have every confidence that we can continue to deliver, and that's all we want. We just want to deliver that mid-single-digit growth consistently year after year after year, and then it's up to you and investors, what you do with that.

But on that note, I'd like to open it up for Q&A. We're going to get - we don't use mics here, we use balls, actually. So, we're going to continue to - we're going to have the session like that. We'll see if you guys can catch the ball or not. And so, Chris, if you can probably facilitate the Q&A.

Q&A

A - Chris J. Esson {BIO 6194371 <GO>}

(38:59). Let's start with Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks (39:06).

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

And, by the way, Gordon, you speak into the black dot.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, yeah. Gordon Aitken from RBC. Just (39:13) rugby guy. Now, just a couple of questions, one on asset management. And Euan has talked before about AIMS, and you start off getting the retail flows and then you build the track record, and then institutional flows come in. I just wondered to what extent are you now seeing those institutional mandates come in. And maybe you can talk about consultants and buy ratings. And there's been, obviously, a bit of disruption in the asset management market announced this week. I was just wondering, would you expect to benefit from that?

And the second question on the annuity book. You've re-risked some of the assets there, I'm just wondering what more can be done in this area.

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

(39:50) we've got you sitting in the front row, so I'm going to hand over. There is a lot of questions today on that. So, Euan, you want to kick it off?

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

Yeah, sure, happy to. Hi, Gordon. The answer to the first one in terms of are we starting to see the institutional flows, yes, including in areas like Canada, where the Aviva brand is recognized. And so, we've got a bit of traction there. Our biggest client, institutional client in AIMS actually is a Canadian client. But we're starting to pick up a number of institutional mandates. There's three of the consultants added to the buy ratings. So, we've seen further progress in the last year in terms of the number of consultants that rate our AIMS product as a buy.

And in answer to the question around do we expect to benefit from consolidation in the industry, I don't think it's any secret that when investment management companies are going through integration, the consultant measures, Terry Watson (40:56) and so on, often competing products on hold, while they see how things emerge. So, I do think it will benefit us because we are having a smoother organic journey at the present time.

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

And, Euan, something you mentioned this morning was - there's another important point. Our cost income ratios and the asset management business are amongst the best in the market. So, we're already at where others may be trying to get to.

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

Yeah. I think it's our cost to assets under management ratio.

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

Yeah. Cost...

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

So, in terms of it, cost relative to assets under management, we're around 11 basis points, which is - cost income, we've still got some room to go because we were largely a captive business. So, we didn't have the same high revenue margin.

But in terms of the cost we run, the cost we take to run our assets, we are incredibly efficient. And a lot of the mergers that we've seen, the big objective - they've often been losing assets, and the big objective is to try and make the asset management platform more efficient and drive down that cost per unit AUM. And so, we're not under the same pressure. Our pressure is to try to add to higher margin products and increase our revenue by increasing third-party assets.

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

If you're saying you're not under pressure, we can...

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

Not under the same pressure.

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

Tom, you want to take the annuity bit?

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

Sure. On the annuity side, we still have pretty significant room to go in terms of more optimization there. At Aviva Investors, they originated a little bit more than £3 billion of infrastructure and other illiquid assets this year.

And so, we have very significant appetite, both for our front book and our back book. And with Friends Life acquisition, we picked up an annuity portfolio that was not optimized for Solvency II. And we still have several billion pounds of asset re-risking to go there.

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

And just on that, when you have – when you're in a good capital position, that allows options. So another area we will look at throughout the year is the yield of our General Insurance book in both Canada and here is lower than peers. We take this versus now, you could look at that in terms of duration and other things. And these are the sort of choices we can now make because we are in just a good capital position. All right?

A - Chris J. Esson {BIO 6194371 <GO>}

I'll keep going (43:23).

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

He could go, yeah. Sure.

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

Morning, everybody. It's Jon Hocking from Morgan Stanley. I've got three questions, please. On Ogden, I wonder if you could talk about what your expectations are from the review of the methodology and what you're doing in terms of the pricing of the change.

Second question, on the leverage, it's clear one of the four options you've got in terms of deployment of capital is leverage reduction. Do you have any sort of target metrics in mind there in terms of leverage ratio interest cover? How should we sort of size the amount of capital that might go towards leverage reduction?

And then, finally, back on the bulk annuity question, historically, the focus I think has been on sort of smaller end of the market. Given the capital position now, what AI is doing in terms of asset origination, is there opportunity to go into the sort of bigger super bulk market? Thank you.

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

Okay. Let's take them in order. So, firstly, on Ogden, and I have been involved in discussions. Look, Ogden was disjointed (44:19) policymaking. And we've looked all around the world, we can't find any one that - some have a (44:26) rate, we can't find anyone that has a single negative rate. That's because it doesn't make sense. I haven't looked at Colombia and Tanzania, but we can't find any one that really has it in any mature market.

I think the government has recognized this. The announcements by the Chancellor that it is under urgent review is helpful. And I believe that common sense will prevail. Now, as to what the methodology - and I've got some idea - but what methodology will be in the late (44:58), I won't speculate yet, except I believe it's going to improve. The real question is when. I don't - it won't be in the next few months because you've got to go through a consultation period, which is actually, actively happening right now, we're involved in it. But I believe you will see an upward revision of that rate because anything else just doesn't make sense.

Second there is funnel (45:24), and I'll let Tom for comment, but I would say this, we're not changing our targets. We are very happy with our leverage position. What we've said before is we're going to restructure that debt. And when you have £500 million at 8.25%, well, it's pretty hard to see a better and more simple return than just paying that down. And if you think about growth, you pay that down and we're a quarter of our growth target in the bag for next year. I mean, you can see how the math works. And we can do that because we're in the capital position we're in.

You want to add anything?

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

Yeah. I mean that pretty much says it. I'm not uncomfortable with our debt leverage where it is. But if we're buying back stock, we also want to have a balanced approach and look at bringing down debt a little bit as well. For me, it's really much more about our after tax cost of debt and being efficient there, thinking about cash flow. So, it's not so much the quantum of debt that we have, it's really the cost. And so, when I look at some of the expense of hybrid debt that we have and our capital position, we just don't need that in our capital structure. I'd rather have cheaper senior funding.

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

And, Andy, you want to pass a comment on bulks?

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

Sure. Yeah. So, good morning, Jon. The - I mean overall, we had a quarter year last year on bulks, as you know, wrote just over £600 million. In spite of that, our annuity and equity release profits were still up 26% year-on-year. So, the strength across the individual annuities and equity release side and the back book actions might've made a big difference there.

Consistent with the guidance we said before, we will continue to be probably the market leader at the smaller end, there was less of that last year. Most of what we did last year happened in the fourth quarter, and the pipeline coming into this year is strong. We are moving into the midrange size of bulks. I wouldn't rule out going to reasonable size there, our bulks. But don't expect us to be writing £10 billion chunks in one go.

But the other observation I'd make is bulks is less than 10% of our profits in UK Life, so less than 5% of the group's profits. It's an attractive line, it's an attractive market, we want to play there, but we have real strength across - our growth in long-term savings and protection was stronger last year than annuities and equity release. So, we got strong across a broad range of areas.

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

Thanks. I mean, our strategy is very much to have - is about diversity, isn't it? So, we'll - if something happened, we can pull another lever. And now, Maurice, I should have said the other question, Jon, was on the pricing net market. You want to just pass a - in terms of - because of Ogden. Do you want to pass a comment?

A - Maurice Tulloch {BIO 17683736 <GO>}

Good morning, Jon. Competition level, allow me to give you specifics, but let me give you enough to help out. So, this was well sort of signposted going back to last November. So, we started to move our motor rates, both personal and commercial, in December. Clearly, we didn't expect it to go as low as minus 0.75%. So, that comes into effect, March 20. So, on the primary pricing impact, you'll continue to see probably a mid-single-digit movement on our pricing.

The bigger impact for the industry, but not so much for Aviva, is the secondary pricing. So, if you look at our casualty program, we take the first £10 million. That's our attention in motor, both personal and commercial. So, if you look at our reinsurance cost per vehicle, it's £4.83. Now, I'm not a reinsurer, but certainly, what I'm hearing in the market is we could see increases at 1/1/18, anywhere from 40% to 60%. So, you can do the math on £4.83. Most of the market has retentions in the £1 million to £3 million range, so the cost of reinsurance per vehicle can go anywhere from £40,000 to £70,000.

A - Chris J. Esson {BIO 6194371 <GO>}

Oliver, please.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. So, three questions. First, FPI in particular, I guess, is quite a big profit generator at the moment. So, if you are looking to potentially sell that, I guess, there's quite a lot of money coming in. So, what's your intention with disposal proceeds? Is it more of the same in terms of share repurchases, debt reductions and so on? Secondly, the new business strain look to be a surprisingly low figure against the new business. Perhaps just a comment on that.

And then finally, when you bought Friends Life, one of the rationales you gave was the improvement in the competitive position, the cost-to-income ratio in the UK Life business.

So, I'm just wondering if you could sort of talk about the benefits that, that is now bringing you in terms of ability to fight for more new business.

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

Sure. Do you want to take the first two?

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

Sure. So on FPI, I want to be clear about a couple of things. FPI contributes a lot to our operating profit above the line, but the amortization of AVIF that's attributed to FPI takes that down pretty significantly. So, the overall contribution in terms of bottom line profitability and cash flow to the group isn't that strong.

But then, sort of going on to what would we do with proceeds if we were to divest it, you're exactly right. The answer is that we'd look at that as a one-off source of cash. And rather than put that into our permanent dividend, we'd look at redeploying that either into further investment in growth or paying down debt or buying back stock.

Q - Oliver Steel {BIO 6068696 <GO>}

And new business strain?

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

Yeah. And new business strain, I think as we were clear on our Capital Markets Day, under Solvency II, there's a fair amount of new business that actually can be self-funding. So, we'd like to continue to drive efficiency there.

Having said that, where our capital position is, I think there are more seeds we'd like to plant for future growth. So, if that number ends up being higher next year because we're trying to drive future capital generation in later years, that wouldn't concern me.

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

And just on new business. I mean, given the Solvency II, it'd be fair to say we're still not optimized. And a lot of our businesses are learning sort of the best way to optimize your product mix and how to price. And this is going to be an evolution over a couple of years. I don't think we're anywhere near optimized where we should be.

And Friends Life benefits. You've seen the savings come through a year earlier, they will drop more to the bottom line this year. And obviously, in terms of benefits, you're seeing much, much higher capital synergies and much higher capital returns than we planned. I think part of the story going forward for UK, there was also the benefits and efficiencies that we can get out when we put those businesses together, both for the customer and for us.

I wouldn't - we're not putting a target out today, the numbers are going to be fairly large, but I'm not going to put any target out because we do intend to redeploy a large chunk of that. We're going to be spending more on Digital, we're spending more. So, redeployment of these synergies are important. We'd expect to get more synergies out of the group as well, just to be clear. And we're in the midst of a program there as well, so we'll get more synergies. But we are going to be balanced. We make no excuses for reinvesting in the business as well. Remember, what we're targeting is mid-single-digit operating earnings, and we know we can get there.

A - Chris J. Esson {BIO 6194371 <GO>}

I'll start on this side of the room. Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Ashik Musaddi from JPMorgan. Clearly, I mean, your capital position is 189%. As Tom highlighted, you want to be somewhere in the midrange of your working range, 150%, 180%. So, there's quite a bit of gap between that. I mean, where do you think you can deploy capital organically? I mean, because if I think about your business now, it's massive pension, massive asset management growth. Non-life, which should – I'm not sure how much capital it needs. The only capital-intensive business I see is annuities. And in that, you're saying you are doing more of a capital-light business. So, any thoughts on like capital deployment organically, not inorganically?

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

Yes. Yeah. So, organically – so, if we write more bulks, it takes more capital is one example. You would expect if we do – Asia won't take a huge amount organically, but (53:22) there. Canada, for quite a few years, Canada, we constrained Canada. It's like being on a horse. And that said, we want to go fast and we're pulling on the reins saying, no, slow down because I don't want you to use the capital. Well, we don't have those sort of restrictions now. We have been growing GI quite a bit, and I'd expect more in there. Digital, we've got – it's a big Digital organization now. And we are spending a lot of money on Digital, and we're going to continue to invest in that. So, that's another use. So, we've got no shortage of high-quality opportunities.

But after saying that, what we're saying to our people is, or the mantra that we're using, we're saying, no new money, no free money. So, we're saying our preference is to reallocate capital first. That's our preference. We have a huge expense base. Including commissions, it' £5.5 billion, it's about £3.5 billion excluding commissions. And we're saying that's enough operating expenses for the group and we want to redeploy. So, we're going to be pretty ruthless on that.

Basically, the methodology we use is actually something we stole from Amazon called PR FAQ. And it's basically saying if you want capital, rather than two pages like with a press release, you can say very simply – PR FAQ, press release, frequently asked questions – tell us what the underlying rationale is, why it's strategically the line, what return you're going to get on it, when you're going to give it back and how certain are you, and answer the questions on that.

And we want capital and resource fluidity to be one of the core processes in Aviva. Now, we're getting better at that. You've seen that last year. But it's something that we're spending quite a bit of time, but particularly what the board focusing on, where do we want to put our capital. So, you're going to see more of this, not less, in the next 12 months.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And just one more short question. On your French disposal, I mean, I think you'll have some sort of headwinds from that because of loss of earnings, too. In your mid-single-digit earnings growth, do you look to absorb that or is that on top of it?

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

Yeah. We'll look to absorb that. I mean, there are, obviously, some headwinds out there, there's a little bit of the Ogden pricing that's got to flow through into 2017. There's changes in the perimeters. But those are things that we'll look to absorb and try to overcome as we get to our mid-single-digit operating EPS growth target.

A - Chris J. Esson {BIO 6194371 <GO>}

Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes from Macquarie. Three questions, if I could. The first one is on the current GI business remittances and dividends generally. So, the fact you're not sort of signaling a special dividend or capital return today, is that because of the holding company repatriations? Just want to kind of run through how they might get better during the course of the year, if that's possible.

So, I can see that solvency surplus is really good, but does that mean you have to wait for things at the Part VII transfer and Friends Life to happen for the – and I presume you haven't got the £500 million from (56:24) in the holding company yet. Are they the main reasons for the delay?

And on the Ogden change, obviously, is that going to impact the GI dividend this year? It sounds like it's not from what you're saying.

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

Thank you. Okay. Tom will take (56:38). Just on the delay, I didn't know that there was a delay. I didn't realize we had announced we were going to do it so quick. But I don't think there's a delay. You've got to go through a process of doing it. And we, I knew, would be under a bit of pressure as soon as you last saw the capital ratios. But you got to go through a process, and you got to do it well. You can assume that we keep the regulator abreast of our thinking in this regard, but you have to go through a process. You have to get the text, and there's no delay. We just said we're going to do it this year. You want to talk about the first?

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

Yeah. So, just on that, I'd say the answers to both those questions are no. I mean, we have cash at the center right now. So, it's not like we're waiting on cash. And, frankly, because I've got cash at the center, I'm not pushing as hard on the businesses in terms of getting cash out of the center.

And as we go into this year, Andy Briggs and I are going to be having a conversation about the pace and timing of the special dividends that we're looking to come out. So, we're going to try to accelerate the flow of that cash up to the center.

The UK Life business is similar to the group. It's in an excess capital position right now. So, again, there's a little bit of timing there, but that's not what's slowing anything down. We think we're actually going pretty fast.

Q - Andy Hughes {BIO 15036395 <GO>}

So, I think I probably should rephrase the question, it's not contingent on any special dividends coming out from the (57:53) that you've clarified?

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

Well, not contingent, we look at our cash flow all the way along, but we don't have it linked to anything specific in terms of a specific divestiture or a specific special dividend or anything else. We're looking at everything in the round. And specifically, on the GI side, Ogden has not caused a problem there in terms of dividend capacity. We still will get to expect the dividends there in 2017.

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

I mean that's the point on Ogden. It really doesn't impact us. What I would say, we do expect special dividends to come up. And so, our capital planning still has that in. What Tom's saying is we're in a pretty good position with or without it. That makes sense?

A - Chris J. Esson {BIO 6194371 <GO>}

Pass the ball to Colm.

Q - Colm Kelly {BIO 19140684 <GO>}

Colm Kelly, UBS. In terms of the capital redeployment, at the Capital Markets Day, you flagged that the dividend was paramount equally in terms of the capital redeployment. Is there a priority order on the different tools that you have, i.e., debt optimization, reinvestment buyback, bolt-on M&A? And not just for 2017, but beyond, is there a specific priority order?

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

Yeah. The priority order was it all depends. And I know that's not the answer you want for the models. But if you look at it now, what we're saying is whatever makes sense for shareholders. And what we're saying now is for shareholders, particularly with the sort of yields we got and appears we've got, it's sort of – it's a bit of a no-brainer on the buyback, right? When you've got debt at 8.25%, it's a bit of a no-brainer. Next year, it may or may not be the same, but we've got this token and we're saying we're going to use it.

What's another – you say versus M&A. Well, I guess that all depends. Unless you've got an accretive deal and a modest amount of money, you wouldn't do that either. But if I could do another deal like RBC, I'd do it in a heartbeat because it was immediately accretive, you've got some great results out of them, it's delivering more than we said. So, it really does all depend. And I'm not trying to be evasive, it's just we don't know, and we said we'll dip into our toolkit, and the board is very aligned with this, and use it as we see fit.

But I think we've shown this year – I think when we said this last year, there's a lot of skepticism saying, we'll start out the motion, go out and buy something big. We said we wouldn't do that. What we said we'd do is act in the interest of shareholders. And hopefully, today, the people who own our stock will see that.

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

I don't disagree with Mark, but I would say it a little bit differently in terms of how we think about priorities. And I think right now, we're in a position we've got relative abundance, which has caused us to be thinking much more seriously about the return of capital. But if you think about what we say in our press release, what we said at the Capital Markets last year, first priority is investing in organic growth. That's what we're in business to do. We want to look for more insurance risk. That gives us the highest return on capital, so that's where we go first. But we're realistic, too, about what we can do out of the business.

And so, if we're still generating excess capital beyond that, we'll look at partnerships, we'll look at bolt-on acquisitions, and then still further, if there's excess capital, we'll look at capital return. But we're also holding all those investments against the benchmark of what will we get from a share repurchase. And so it's got to deliver good economic value-add. It's got to be better than returning capital for shareholders.

Q - Colm Kelly {BIO 19140684 <GO>}

That's clear. Thank you.

A - Chris J. Esson {BIO 6194371 <GO>}

Then we go to Blair, then Greig.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning. It's Blair Stewart from BofA Merrill. Three questions, I think. Firstly, the remittances, £1.8 billion. I think your run rate needs to go up to £2.6 billion if you were to hit your £7 billion target. So, if you can give us the moving parts there, I think £750 million of additional specials is maybe halfway there, what's the other half?

Secondly, I think you gave the mid-single-digit earnings growth target before capital management was a reality. So this capital management, does that come on top? And thirdly, just on Aviva Investors, AIMS is doing fantastically well, but I guess you don't want to get into a position where it becomes too big. You don't have big margins and active equities to cannibalize. So if Euan can talk a little bit about what Aviva Investors are doing on the active equity side. What's stopping you from being a bit more aggressive there and...

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

All right. Tom will take remittances, I'll take the growth in capital management, and Euan will take AIMS.

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

Yeah. So remittances this year were about £1.8 billion. And again, our target is £7 billion over the three years, this year, next year and the following year. We always thought the first year would be a bit the lightest on those. And so, we've got £750 million of specials from UK Life. We've got other places like Spain, for example, that we've talked about potentially withdrawing capital so we may have some more, effectively, special remittances that come through there. And then we're going to look to take the run rate higher.

And so, over the this three-year timeframe, what we're trying to do is optimize our Solvency II capital generation to drive that underlying amount as high as it can be, and that will drive sustainable cash remittances.

So, if you think of the £1.8 billion with £250 million of specials from UK Life, but roughly an offsetting number not coming out of the GI business, that's a run rate that we've got to get up higher. So, we're not disappointed by where it is right now, but that run rate will increase over the next two years.

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

On the EPS growth, I don't want everyone to get ahead of themselves. The EPS growth does include any range of things. We have so many levers to pull. So, I think when we put out the target, there was a lot of skepticism, and I get that, I understand that. But if you actually think where that growth can come from, so Aviva Investors is fueling part of that, things like debt, we – obviously, we're going to account debt. If we get down to 8.25%, as I said, this quarter of the growth tagged for next year, we've blocked that position because we've done a whole lot of management work to get there, and that's normal operating, running a business. So, I would certainly include stuff like that.

I don't want people running away and saying, well, mid-single-digit means 10% because it doesn't. It might mean that we get further through the range, and otherwise, we can do. But I want to keep people unrealistic. In a low-interest-rate environment, getting mid single digit, which is certainly what we think we can really get, will set us apart from just about every other person in the market. And I think that's a pretty good place to be. I want us – I'm going to repeat. Mid-single-digit year after year after year after year, debt and capital and yield and other things off our portfolios are all part of that and all part of running the business. And if we deliver that each year, I think investors are going to be pretty happy.

And AIMS and the other questions on AI.

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

Hi, Blair. One thing to bear in mind is that the AIMS funds are a range of funds, so it's not just one strategy. So, we've got the AIMS target return, we've got the AIMS target income focusing on two important client needs. We've also recently launched an AIMS fixed income product, which is selling into liability managing solutions. So, you must not think of AIMS as being one single product.

But having said that, one of the things I always believe is if we could raise the brand profile of Aviva Investors, people would look under the hood and they would spot other things that we're good at. And one of the things that, I suppose, was a bit of a mystery to me when I took over as CEO of Aviva Investors was why even though we did have good performance in a number of areas, we hadn't really commercialized it. And part of that is just getting the brand strength so you become recognized as a good investment house.

So this year, for example, we sold a billion – now, this is in the first quarter. It's not in last year's numbers. We sold CAD 1 billion of Canadian credit. So, CAD 1 billion mandate coming in and Canadian credit. We've mentioned – mentions have been made of progress in infrastructure debt, largely for the life company, but we're building a capability there that is hugely interesting to defined benefit pension plans.

So, we're actually seeing a broadening of the capabilities that are being bought by the marketplace. And I, like everyone else, wants to see diversity within Aviva Investors' product range, but there is already quite a bit of diversity within the AIMS range. So, don't think of it as a single fund.

Q - Blair Stewart {BIO 4191309 <GO>}

What about active equity, Euan?

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

Sorry. Active equity, that's an area where as we become rehabilitated, particularly in income equity, we have some really good track records under Chris Murphy. We've got a good track record in UK Equity Income. We've also launched a longer-dated fund, the Equity Endurance Fund that I suppose is our alternative to Fundsmith. It's going to take some time before these things develop track records and become big sellers. But if we develop a track record and we have improved brand presence, then I do expect them to sell.

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

Rehabilitated is an interesting term, you know.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Hello. Greig Paterson from KBW. Three questions. One is going to be something that we think about for a while. If an investor comes to you and says, I think your stock is cheap, what methodology should I use to try and put a sort of per-share value on that sort of fair value and appraisal value? What would management's suggestion to them be? It's sort of part one.

Part two, in the context of IFRS 17 and it was IFRS changing what appears to be a market consistent regime soon to be announced but obviously in 2021, would that change your answer to the first question?

And the third question is a little mundane. I noticed that UK pension's number was significantly up. And I hadn't – there's nothing on my radar screen that signaled that in advance. Has there been some kind of product launch or some kind of theme there driving that number well in excess of expectations?

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

Greig, and I'm actually going to get Tom and Andrew answer the first one because I'm really interested to what you're going to say. My view is that, first of all, obviously, I'll be saying investors (01:08:29) think it's up to investors to evaluate. I've long given up trying to work out our market values, our stocks and particularly when we're getting this growth. So, what we're saying is that these sort of levels are buyback I think (01:08:42), right? I mean, that gives you a hint.

But the factors versus even our peer group where we would appear to be relatively cheap on peers and stuff like that, yet, we're getting the strongest growth I can see in the market. And if we can do that consistently, then the stock will rerate. As to how you value it, I think it's up to you guys in the buy side to destroy them (01:09:02) and I don't worry about it. Your thoughts?

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

Yeah. Look, I think it's not that mysterious and I think about it the same way I think about any sort of valuation of public company in any industry and we're trying to keep the story simple that way. So, we've got operating EPS growing, we're tying the dividend to that. And so, if you think about what our cost of capital is relative to that dividend and the dividend growth, you ought to be able to do a dividend discount model. That's what I did this morning when I was trying to predict what our share price would do today. And then so far, I'm pretty close.

And I think over time, our cost of capital ought to come down as people see the stability of the results. So, I'd take a pretty simple approach to valuation here no differently then I would do sort of any other company in the insurance industry or otherwise.

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

And if you have a look at our current yield – so, if we're a stable earning business with a stable balance sheet and I think we've shown in the last 12 months, yet, the sort of yield both of the sector, but us, the sort of yield we've got, it sort of doesn't makes sense, does it? But, yeah, that will resolve itself over time as far as I can see. IFRS, you're going to get me wound up and on a hobby horse, because I think it really is the answer to the question nobody is asking. And all it will do is cost the industry a huge amount of money, it won't achieve any of its objectives.

The U.S. has already said is not going to use it. Asia and many other countries will take it and (01:10:36) IFRS and have something totally different to make it fit their own regime. And I think it makes no sense for Europe and I think it makes no sense for the UK. It is inconsistent with Solvency II, so it's not helpful.

So, I think we need another whole debate on IFRS 17 and maybe all of you can help us and investors that I've been talking to happen to agree with this view that you should be more vocal on it as well, because I don't think it adds anything to you or us. Like Solvency II, isn't a single methodology either. It was brought in to have a single methodology and we have fundamental differences right across Europe. So, that one's going to get me wound up and you haven't seen me wound up yet.

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

Well, right now, we're just going to be wound up as well. So, just a few more comments on IFRS 17. So far, we haven't identified any places in the business where we would change the way we operate the fundamental business. So, if you come back to valuation, I don't think it changes the valuation at all. I think our valuation is ought to be driven off of Solvency II and cash flow.

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

And so, your last, Greig, was – that was pension?

Q - Greig N. Paterson {BIO 6587493 <GO>}

(01:11:44-01:11:49)

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

Right. Andy?

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

Yeah. So, long-term savings, profits are up 39%, £142 million. Basically, what you need to do there is grow assets and assets are up 19% to £105 billion. And then, you need to cut cost at the same time and you can see the strong trajectory on cost. So, that's what's causing the (01:12:07).

Q - Chris J. Esson {BIO 6194371 <GO>}

(01:12:08)

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

Yeah. So, the volume basically is the strength of our proposition. So, our net fund flows on the platform side were just under £4 billion last year, particularly strong fourth quarter there and that momentum is carried into this year. And on the workplace saving side, the net fund flows were £2 billion, again, up well on the prior year and again very strong momentum coming in to this year.

And I guess, if I sort of look at UK Life in the round, a couple of years ago, I was worrying about fixing balance sheets and I was worrying about doing integration. We've done those now. We've actually got really strong franchises across long-term savings, protection annuities and equity release, and that's what gives us the confidence in driving the growth across those. I'm also looking forward to getting stuck into the excellent momentum we've got in general insurance and health as well.

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

I mean, if you have a look at our business and you go back a few years and people may have questioned the quality of their franchise. As you can see this year, we're leading the market in a whole lot of areas. Perhaps, we don't talk about it, just simply nothing. At the last better day, we've simplified it all down. If you have a look at that segment for example, we're doing really well.

You can't really - I've said this before, but the key thing that our predecessors left - or left us a few things clearly we didn't like, but the brand is really good. And if you get the proposition and then the pension space, Friends had a better platform than we did. You add that and that's helped.

Our platform is really going well. When you say £4 billion net, I think, £4 billion net comes first. You can see we are getting this growth. You can see Aviva Investors, UK, Canada, digital disruption, GI, you can see where we can get some growth.

A - Chris J. Esson {BIO 6194371 <GO>}

Last two questions with Andrew and then Ravi.

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

It's Andrew Crean with Autonomous. Three questions if I can. Firstly, can we talk about the margins on the general insurance business going forward? Because the attritional combined ratios deteriorated in both UK and Canada slightly, and you were reliant on very heavy prior year releases in both markets. So, if you can talk a little bit about that.

Coming back to IFRS accounting, if I may, you're carrying about a £1.9 billion net of tax asset, which is the DB (01:14:22) pension surplus. Do you think shareholders will ever benefit from that? And then, finally, just talking about your apple trees, could you explain in a little bit more about this term, examining capital withdrawal in Spain and whether the Indian JV is under strategic review as well?

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

Thank you for the nice easy ones. Maurice, do you want to start just on the margins? Tom will talk about - they're very observant - pension. And I'll talk about apple trees.

A - Maurice Tulloch {BIO 17683736 <GO>}

Happy to do that. Morning, Andrew. I'll probably turn you to the schedule five (01:15:18). So, I think what you'll see in terms of the underlying performance in the general insurance business, there's a little bit of noise this year with suspect to Flood Re and HomeServe. But if you look at the underlying normalized X in your (01:15:12) loss ratio, actually in our biggest GI business, it's actually improved by 1 point, went from 67 to 60.

Now, there's a couple of stories in there. That benefited from benign weather, so that was obviously a positive. On the other side, slightly negative was large losses. So large losses (01:15:28) as a percentage of our loss ratio, up 1.7 point, something that we've seen coming and actually globally we've seen that amongst our peers and we've started to rate for it. If we take our other big GI business and you look at the underlying loss ratio, it, too, is pretty flat, so I should say.

If your second question comment was prior year, prior year releases, in our UK GI business, it's 2% this year, it's 2% last year. If I took a 10-year view on that, it's been a very tight range from sort of minus 2% to plus 2%.

If you look at the Canadian business, this year, the payable amount was 5.4%, was 4.4% last year, so it's a little bit more beneficial. Historically, that's been in a 4- to 6-point range. If I compare the 5.4%, which is a little bit higher to the other large player in the market in tech (01:16:15), they were 5%.

How would I look at that going forward? I think once we do get motor reform in Ontario, the volatility will come out of that product, so I wouldn't expect post motor reform, those sort favorable development figure is to be seen going forward. So, that's how I would look at our margin on the GI businesses.

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

Look, on the pension surplus, on an IFRS 19 basis, yes, there is a big pension surplus there. On an economic basis, the way it's funded, we think about it as being more closely matched, so it's fully funded on an economic basis. But is there a huge surplus on an economic basis? No. Is it possible that over time, given prudent assumptions, et cetera, that there could be some value that comes out to shareholders, yes, but I wouldn't want to oversell that number.

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

In an IFRS 19 basis, just to be clear, that surplus isn't in Solvency II, I think that's why (01:17:09). So, we don't include that in Solvency II. And also, it does move around a lot, too, so yeah. But after saying that we're in a fundamental difference from this a few years ago, I think you asked the same question about the big deficit we had, but it's moving in the right direction.

Okay. The apple trees, I don't want to say too much here, but you can assume we are actively considering capital withdrawal from Spain, but I'm not going to elaborate any more than that at the moment. On India, look, India has been disappointing, frankly, and it's a tough market, a slow margins. I don't think that's one of the businesses - and I said, it's not all those in the (01:17:53) around the business, but I don't think it delivered very well, frankly.

And we've got a lot of work to do to get that business where I would see us being anywhere near acceptable. So, we're looking at that. Maurice is going to be on the plane to India very shortly. It's one of the balls he's been passed. And we expect some changes in that business strategically. But we're looking at that now and we're actively looking at that - and maybe I could've mentioned that as well. It is under review what our strategy is and what we do, and that business hasn't been great.

Is this the last question? Is it or, well maybe - maybe we can have some more questions outside if people want to talk more. Yeah?

Q - Ravi Tanna {BIO 16926941 <GO>}

Thanks. It's Ravi Tanna from Goldman Sachs. A couple of questions, please. The first one was in relation to your planned debt repayments. And some of the instruments that you've listed, I think, on slide 29 are trading quite significantly above par. And so, I was just wondering presumably it comes with a cash cost. And so, I was hoping you could elaborate a little bit on kind of trade-offs and, again, going back to the prioritization question, how you think about cash versus debt leverage.

And the second one was more a point of clarification on the £1.8 billion of central liquidity. How much of that is effectively risen as a result of senior debt issued last year? And kind of in relation to that on referenced senior debt or the kind of preferred instrument, how you - is that already an anticipation of some debt repayment this year? Thanks.

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

Sure. Mark, let me take both of those. So, in terms of liability management, that's something we'll look at over time. But what we've tended to do is look at different issues as they come up for other call dates, and that's what we're continuing to do right now. Will we always do that? Maybe not. But, in general, that's what we're doing. And, frankly, as our credit continues to improve, you would expect those securities to be trading at even bigger premiums. So, again, that makes it harder to really do active management there. So, again, we'll tend to look at those at their call dates.

In terms of central liquidity, you're right. The central liquidity does benefit from some of the financing activity that we did last year. When rates were at their bottom back in sort of the September timeframe, we looked at it strategically and said, gee, we may never see rates this low again here. So, we went out and did a little bit of senior financing, so we raised a few hundred million pounds worth of euros, seven-year money at 72 basis points, sort of all-in annual cost, which we thought was pretty smart at the time.

And we didn't know rates were going to back up after that, but they had. So, we're glad we did that. That just gives us more flexibility as we look at things in the future. And so, again, thinking about that relative to what we've got coming up in November makes sense.

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you.

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

Okay. So, I think we can probably wrap it, isn't it? Thank you as always for your attendance. The team is here for more clarification as Tom and I and the team.