Y 2018 Earnings Call

Company Participants

- Chris Knight, Chief Executive Officer, Legal & General Retirement, Retail
- Jeff Davies, Chief Financial Officer
- Kerrigan Procter, Chief Executive Officer, Legal & General Capital
- Laura Mason, Chief Executive Officer, Legal & General Retirement, Institutional
- Mark Zinkula, Chief Executive Officer, Legal & General Investment Management
- Nigel Wilson, Group Chief Executive
- Simon Gadd, Group Chief Risk Officer

Other Participants

- Abid Hussain, Analyst
- Andrew Baker, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Colm Kelly, Analyst
- Dominic O'Mahony, Analyst
- Fahad Changazi, Analyst
- Gordon Aitken, Analyst
- Greg Patterson, Analyst
- Johnny Vo, Analyst
- Jon Hocking, Analyst
- Oliver Steel, Analyst
- Unidentified Participant

Presentation

Nigel Wilson {BIO 1535703 <GO>}

Good morning. Welcome to 2018 Full Year Results. As our title suggests, we are delivering inclusive capitalism, and inclusive capitalism is delivering for our shareholders and for our customers. A couple of minutes of housekeeping. Here are the usual forward-looking statements. Please switch off mobile phones, and if there is a fire alarm, the home team will shepherd you downstairs.

First of all, a big thank you to all of my colleagues, another year when they delivered. 2018 was a year, when political risk increased everywhere, economic growth slowed everywhere, markets underperformed everywhere. But it was yet again another year of strong financial performance, based around our consistent strategy and consistent delivery. Our long-term macro drivers of growth, like demographic change, digital technology and globalization of asset markets are so self-evidently long-term and so well established that our resilient businesses relentlessly keep moving forward. We can and (technical difficulty) our success through excellent execution. The capability of our people will complement and support our market leading businesses.

In terms of financial highlights. Operating profit for our divisions rose 10% to GBP2.23 billion, EPS was up 7%, to 24.74 pence. We had a GBP200 million negative investment variance, which reduced EPS by 2.7 pence, much of which occurred in December under (technical difficulty).

Our return on equity was 22.7%. Our full-year dividend increased by 7% to 16.42 pence. And our book value per share increased by 13% to 143 pence. Our SII operational surplus generation also increased by 14% to GBP1.4 billion.

Legal & General was formed in 1836, it took us 175 years until 2011 before our operating divisions delivered over GBP1 billion in annual operating profit. But in the next seven years, we accelerated our evolution and added another GBP1.1 billion of operating profit. This resulted in the GBP2.2 billion shown on the slide.

The bar charts for operating profit and EPS exclude the mortality release for 2017 and 2018 and the positive impact from US tax in 2017. The tax effect was a one-off. The mortality impact is multi-year, it is more of a trend than a blip. Our growth in EPS from 2011 to 2018 is 10% per annum, an absolute increase of 100% from 12.42p to 24.7p.

Consistent delivery has also been the watchword for dividend per share. For the third year running, we've increased this by 7%. Our dividend policy remains consistent, progressive and sustainable. The quality of earnings is also demonstrated in this slide. We have consistently grown EPS and whilst our DPS has been growing at 7%, we've increased the growth in our book value per share, last year it was 13%.

L&G is a long-term business that is creating shareholder returns for the present and growth for the future. So in summary, we've been delivering double-digit growth in operating profit and EPS, dividend per share has grown to 7% per annum in the last three years, book value per share 11% compound three years and our ROE is over 20% again.

Laura and Kerrigan are going to discuss LGRI and LGC in some detail. However, it is worth noting that our investing and annuities businesses grew operating profit between 16% and 42% and delivered a combined GBP1.437 billion towards our GBP2.2 billion continuing divisional operating profit.

We are the only PRT player competing in all global markets. Our UK share was once again 30%-plus, whilst our US share is only 3%. In lifetime mortgages, we've created a 30% market share in a market which could quadruple in size over a 10-year period since our entry three to four years ago.

In individual annuities, historically, when sales from insurer back books dominated, we had a market share below 10%. The market has opened up. The playing field is leveling and our market share has risen to 19%. These are all relevant, important businesses, which are economically and socially useful. They are aligned to our main growth drivers, notably, the need to create predictive real assets and the necessity to produce tomorrow's capital.

LGIM deserves a special shout-out, as the UK's first and only GBP1 trillion asset manager. Again, a global business with a significant US presence and an increasing capability to win mandates in Asia. We compete in an $80 trillion industry, heading to $120 trillion industry. We have a 1.6% market share. Our GBP43 billion of net flows is again a standout performance.

At this point, I would also like to thank Mark Zinkula for his leadership since 2011. Mark and I've enjoyed many, many constructive discussions. Mark has built a uniquely successful US fund manager, a UK market-leading multi-asset business and established our fixed income and LDI businesses as global leaders. He has also opened up the Chinese and Japanese opportunity to his successor, Michelle Scrimgeour, who will succeed Mark later this year.

I'm confident that Michelle, whilst bringing her own capabilities around operations and risk, will help us continue to deliver growth. Insurance under Bernie's leadership successfully turned around group protection, exceeding our sales expectations. We also experienced good growth in retail protection in the UK and the US. We have developed several market-leading technology solutions in insurance.

In summary, against complex political, economic, weather and market background, we delivered in 2018, as we have done consistently over the last 10 years.

I'll now hand over to Jeff, who will take you through the financials in more detail.

Jeff Davies {BIO 20023574 <GO>}

Thank you, Nigel. Welcome everyone. This morning, I'm going to cover our 2018 results, our performance on both a Group and divisional basis, our capital position and lastly, the strength of our liquidity and surplus cash.

Looking to our Group financial metrics, 2018 was a strong year for Legal & General, continuing to deliver value to our shareholders. Operating profit was up 10% to GBP1.9 billion, with growth in five of our six businesses, demonstrating the quality of our business model and the relevance of our focused long-term strategy. This growth rate is excluding a GBP433 million mortality release. Including this, operating profit was up 14%. We've been able to make sizable mortality releases in the past two years, because our long-term assumptions about mortality were prudent against emerging longevity trends.

Going forward, all comparisons I make to prior year metrics will be excluding these mortality releases, unless otherwise stated. As I mentioned at our half-year results, we're making measured investments into our business in order to improve efficiency, gain access to growth areas, enhance customer experience and to comply with the evolving regulatory framework. For that reason, you will notice investment project spend is up 5%. Volatile markets over the course of 2018 resulted in negative investment variance, particularly in LGC's traded equity portfolio. Despite this, we were still able to maintain profit before tax growth and an ROE of 22.7%.

Finally, as a high level summary of our capital position, the Group's Solvency II operational surplus generation was GBP1.4 billion, up 14% from last year, leading to a coverage ratio of 188%. Importantly, we expect the surplus emergence to continue growing, giving us optionality to invest in further new business. As of the 4th of March and excluding the GBP400 million of debt, which is to be redeemed on the 1st of April, our coverage ratio had increased to an estimated 190%.

Moving on to our 2018 divisional results. LGR's Institutional business, which deals with corporate pension schemes, grew 16%, excluding the mortality release and 27% when including it. This was due to record UK PRT volume and the continued stable unwind of prudent margins from the existing annuity book.

Our retail LGR business grew 42%, primarily driven by our increasing market share in individual annuities. Despite challenging markets, LGIM was up 2% and maintained a leading cost-income ratio of 52%, whilst continuing to invest in growth initiatives.

LGC grew 18%, due to the robust performance of our GBP2.4 billion direct investment portfolio and benefiting from an additional contribution from CALA Homes, following the full acquisition in March. LGI contributed GBP308 million, up 2% from the prior year, following the turnaround of group protection and continued good performance in our UK retail protection business. This was offset by adverse mortality experience in the US market.

General insurance was down due to the industry-wide adverse weather experience. In addition to our continuing operations, we had GBP79 million of operating profit from Mature Savings, which we sold in December 2017 and expect to complete in 2019, following the Part VII transfer, with a profit at that point above GBP400 million.

Our results demonstrate the diversified business model that can deal with temporary fluctuations in specific markets, while still delivering consistent returns to our shareholders and investing for growth.

LGI had a very strong year in both parts of the business, benefiting from market opportunities created by aging population. Operating profit was up 22% to GBP1.1 billion. In addition to profit from new business and our back book, we also recognized positive variances from higher than expected mortality experience in 2018 and routine assumption changes.

LGRI doubled premiums during the year. Our annuity asset portfolio is now at GBP63 billion, with a quarter in direct investments. We continue to demonstrate pricing discipline, achieving our target returns. Laura will talk about this shortly.

As I said earlier, during the second half we finalized our mortality analysis update. This resulted in us adopting an adjusted version of the next actuarial model CMI16 for our mortality improvement assumptions, leading to a release of GBP433 million from our IFRS reserve. The adjustments have been made to reflect how our annuitants differ from the broader population. This leads to only a small reduction in life expectancy, illustrating the prudence of this release.

As usual, we maintain our cautious and staged approach to the trends we are seeing, and will investigate a move to the next actuarial table CMI17 in light of our 2018 experience and the relevance to our book of life. We will provide an update on our analysis later in the year.

Moving on to LGR's retail business. We have been successful in increasing market shares in 2016 in a relatively flat individual annuity market. In 2018, our sales were up 18% to nearly GBP800 million. The lifetime mortgage market grew strongly. We were able to gather a sizable share of this growth, with advances increasing 19% to nearly GBP1.2 billion. Since 2016, we have now doubled volumes in our retail retirement business. The growth in individual annuity has benefited from new distribution agreements and product innovation. Improvements in our enhanced annuity proposition have made us number two in that market. When combining this with our expanded sales and marketing capability, we have grown total market share to 19%.

Lifetime mortgage advances have almost doubled over the past two years, driven primarily by product innovation, including the flexible drawdown LTM in 2017 and the Optional Payment LTM in 2018. Going forward, we expect to continue to benefit from recent bank partnerships, such as with NatWest and Virgin.

In LGIM, operating profit was up 2% to GBP407 million. Revenues from flows were partially offset by the impact from adverse markets for management fee growth and continued investment in the business. We've maintained a stable cost income ratio of 52%, which has increased marginally from last year, reflecting this investment. We are automating and simplifying our business using data analytics, digital client portal and optimized investment platforms, to make us easier to do business with and drive efficiency.

As guided at our LGIM Capital Markets event last year, we expect the ratio to be slightly higher in the short term. Fund performance continues to be strong. External net flows were GBP43 billion, representing 4.3% of opening AUM. This contributed to a 3% growth in AUM to over GBP1 trillion, a significant milestone reached by the team in LGIM.

In 2018, we saw positive flows from our DC, retail, and international businesses. We had GBP12 billion of positive net flows from DB, reflecting the continued structural shift from DB index to LDI strategies as clients de-risked. UK DC had a great year with total net inflows of GBP8.4 billion, and have maintained a leading position in this channel with UK DC assets now standing at GBP71 billion. We anticipate further growth as the minimum contribution for UK auto enrollment increases from 5% to 8% of earnings in April 2019.

We've also built one of the largest and fastest growing Mastertrusts in the UK, which recently surpassed GBP5 billion in assets. Total DC members have now reached 3.1 million.

In retail, we continue to see high demand for our multi-asset and index products in the UK and are broadening our distribution strategy in Europe. Total retail AUM reached GBP31 billion with net inflows of GBP2.8 billion. LGIM was ranked second in the UK retail sales in 2018. Overseas demand has continued with positive flows from the US, Gulf and Asia. International AUM now stands at GBP258 billion, making up a quarter of our assets.

To focus on the US, the business continues to show positive momentum and has almost doubled in AUM since 2014, growing at 14% on average. Total AUM now stands at $192 billion, with good flows performance of $15 billion. We see high demand for our fixed income, index and LDI strategies with increasing focus on providing more customized solutions for our US corporate DB clients. We are also accelerating our US Real Assets capability.

LGIM's long-term strategic goal is built on three fundamental themes. Firstly, we have continued to broaden our investment capabilities, building out our core strengths. This includes growing our fixed income active strategy, such as high yield, enhancing our multi-asset offerings, expanding Real Assets, which were in high demand by pension schemes and launching our European ETF range. Secondly, we are addressing the savings gap. Much of our growth in this area is in retail and in DC, where we continue to invest and have leading positions. Thirdly, we are expanding internationally as we expose our core strengths. We have had success in our carefully chosen markets within the US, Europe, Gulf and Asia, and we see a strong pipeline for 2019.

In LGC, we continue to diversify and expand our asset portfolio. Operating profit increased 18% to GBP322 million, driven by a 63% increase in our direct investment portfolio to GBP2.4 billion. The DI portfolio delivered GBP143 million profit before tax. The existing assets performed well. Our net portfolio return of 7.4% reflects the continued new investments in the portfolio, which Kerrigan will cover in depth shortly. The traded portfolio of mostly equity was especially impacted by market falls over 2018, resulting in a loss before tax of GBP94 million. In keeping with our strategy, we are continuing to reduce our exposure to traded equities and invest in new direct investments.

Now moving into our Insurance division. On the Life side, in LGI, operating profit increased 2% to GBP308 million. However, there are some moving parts to highlight. In the UK, as previously guided, group protection's profitability improved, following management actions taken to address adverse claims experience in prior periods. Additionally, we made some modelling refinements in retail protection, as discussed at half year. This offset higher new business strain due to writing more group protection business and slightly lower product margins in a competitive retail protection market. However, we have seen UK retail protection margin start to improve towards the end of the year.

UK gross premiums increased 3% to GBP1.6 billion and total LGI new business premiums were up an impressive 14%, at GBP343 million. In the US, operating profit was down $38 million, largely due to higher-than-expected claims in the year, compared to favorable mortality experience in the prior year. This adverse experience included elevated cases of flu, in line with a wider market, but still within our tolerances of expected volatility. Assuming constant FX rate, US premiums grew 4% and the business is the largest provider of US term life by number of policies through the brokerage channel.

GI operating profit was nil in 2018, as a result of adverse weather experienced in line with the market, primarily relating to the Q1 freeze and a subsidence surge due to prolonged dry weather over the summer. Excluding both these impacts, operating profit would have been GBP26 million and the combined operating ratio 97%.

Gross premiums increased 11% to GBP410 million, of which 36% now comes from our direct channel, demonstrating the returns on our investments in technology, SmartQuote and SmartClaim. Since the start in 2016, GI has established nine distribution agreements with major UK financial institutions, with three new partnerships going live in 2018.

Moving onto our capital position, the Group maintained a healthy Solvency II surplus of GBP6.9 billion at the year end. Our Solvency II coverage ratio, as calculated on shareholder basis, was 188%. As I mentioned earlier, our coverage ratio as of 4th of March, excluding the debt to be redeemed, was estimated 190%.

Looking at our Solvency II surplus bridge, operational surplus generation has increased 14% to GBP1.4 billion. The impact of writing new business in the year was GBP0.5 billion. This includes using some of our surplus capital to write record UK annuity volume with strain remaining below 4%. This resulted in net surplus generation of GBP0.9 billion. Operating variances of GBP0.1 billion included the mortality release on annuity, which was partly offset by some strengthening elsewhere.

Market movements for the year were minus GBP0.5 billion, reflecting weaker asset markets at year end, predominantly in equities, as well as a number of other smaller variances. As can be seen by the 190% ratio, we have now regained most of this. And finally on Solvency II, our usual slide gives you our estimates of the present value of Solvency II surface emergence from the key elements of the new business we wrote. As we have previously flagged, these metrics are influenced by changes in business mix and that was true of payouts paid this year. Overall, our margins continue to be robust, whilst we maintain pricing discipline.

At half year, I mentioned we will give more detail about our liquidity and cash position at the full year results. The Group's cash is split between our treasury assets and our traded portfolio holdings of cash and short-dated Gilts and currently stands at GBP4.4 billion.

On the right hand side, we have set out liquidity requirements over 2019. Prudently, we allow for dividends and coupon payments, stress collateral requirements and an OpEx reserve, but we have not founded (ph) in the benefit of surplus emerging over the year. Conservatively, this leaves us with GBP1.5 billion of surplus liquidity, which we can use for investments in our businesses to drive further growth. The investments we are making achieve three objectives; improve operational efficiency through technology investments, access growing and adjacent markets through bolt-on M&A and fund profitable organic growth.

So to conclude, for me, despite market volatility in 2018, our resilient business model and today's set of results, prove we are well placed to continue growing in our chosen markets in 2019 and beyond. Even without the mortality release, our business produced excellent growth with operating profit up 10% and EPS up 7%. Since 2015, our EPS has grown by 11% compound. This is in line with our previous EPS guidance and an indication of our ongoing ambition. All our businesses have great growth opportunities and are backed by a strong balance sheet and surplus liquidity position, whilst delivering excellent ROE.

I will now hand over to Laura, to go into more detail on the opportunities in our PRT business, and the robustness of our credit portfolio.

Laura Mason {BIO 20420360 <GO>}

Thank you, Jeff. This has been a tremendous year for LGRI and the industry. It's a privilege to become CEO at this point in the evolution and I'm pleased we're able to share more about the results we achieved over 2018, and how we plan to build on them in the coming years. Our growth in PRT has been down to our strengths as Legal & General, having long-term trusted customer relationships, offering a solutions-based approach that sets us apart from competitors and having market-leading asset sourcing, through our collaboration with the LGIM and LGC teams.

As a result, we have delivered consistent growth in operating profit over the last few (ph) years, growing from GBP716 million in 2017 to GBP832 million in 2018. We have high expectations for future growth, given the strong current pipeline of GBP20 billion and the sheer scale of the potential market.

2018 was a year when our global PRT business really excelled. LGRI, a great transaction, totaling GBP9.4 billion; GBP8.4 billion in the UK and $844 million in the US, up 18% from 2017.

Our biggest sale was a GBP4.4 billion buy-in with British Airways, the UK's largest buy-in today. We also completed a GBP2.4 billion buy-out with the Nortel pension scheme, which allowed them to obtain better pension benefits to their members than with the PPF (inaudible). There are a number of other transactions that offer innovative solutions by drawing on our Group's strength. These included teaming up with LGIM to offer combined DB, DC solutions to one client, as well as structuring a debt asset with BAA, which we took on as part of the buy-in. Indeed, around a third of the UK business closed last year with existing LGIM clients.

In the US, as well as continuing to grow on the new business premiums, we have built on our reputation for excellent client services, whilst expanding our origination sourcing for direct investments. The chart shows the continuing growth in both these markets over the last three years and we expect this trend to continue.

At Legal & General, we have a market-leading model for sourcing assets for our PRT business. We work closely with both LGIM and LGC to obtain assets that match our liabilities, through traded and direct markets in both the UK and US. The LGIM Real Assets team has expanded in capability, having expertise in a wider range of asset classes and geographies. As Kerrigan has evolved LGC's strategy, LGR are working closely with his team to be their suppliers of long-term financing for their future cities and housing sectors.

The LGR asset portfolio remains of high credit quality and is well diversified by sector. 17% of the portfolio is in sovereign-like assets and the proportion of direct investments has grown from 17% to 20% over 2018. We continue to hold a substantial credit default reserve, currently at GBP2.9 billion.

We invest in a wide range of direct investment asset classes with the key feature of having high-quality cash flows to back our liabilities. These include, real estate debt, infrastructure debt, private corporate credit and property-backed leases. Our property-backed leases are long-term leases to high quality tenants with the added benefits of having ownership and control of the properties, in the unlikely event of a tenant default. Our exposure to direct property is therefore low. Around 8% of our direct investment portfolio and 2% of the total portfolio.

The table shows an updated list of our largest 10 direct investments. HMRC remains our top tenant in our property-backed leases. We've increased our portfolio with them since this time last year, by adding leases in Glasgow, Sheffield and Stratford and more recently in Salford, with deals sourced first by LGIM Real Assets, who worked closely with HMRC to structure the leases, as well as working with LGC to find a number of the sites [ph]. We continue our investments in other sectors, focusing on secure cash flows and the opportunity to have a positive impact on the daily lives of our customers and their environments.

Moving on to the US, a measured growth approach to organic growth has delivered a high success rate, in our initial target market a smaller scale (ph). We wrote 21 deals in total in 2018, compared to 15 in 2017. As we build our US business, the teams in the UK and US continue to work very closely and collaboratively, leveraging knowledge and expertise, particularly in asset sourcing and longevity. A key aim for 2019 is to increase the size of deals we can write through fully utilizing our internal and external partnerships.

LGIMA will continue to expand our expertise in a huge potential market for direct investments and as in the UK, LGIMA clients will provide a flow of potential new PRT business. We have had a strong start to 2019. We have already completed or exclusive on GBP1.3 billion of UK PRT business. We are also closing on around GBP20 billion and expect more to come. In the US, where the majority of business is written in the second half of the year, we have won our third sales and have a good visible pipeline for the coming months.

To conclude, the huge potential of both our key PRT markets is only just beginning to be realized. And we are extremely well-placed to take advantage of the opportunity presented. We are well-placed to capitalize on the depths of our relationship within the defined benefit pensions market, as well as sourcing exclusive assets for the business.

We've been in the PRT market for 30 years and are investing for the long-term in a scalable business, including in both the people and technology to deliver the volumes of transactions expected. We're the only insurer providing PRT solutions in both the US and UK and able to benefit from the growth in both these markets. I look forward to the rest of 2019 and the coming years ahead, as we deliver on the potential for our growing global PRT business.

I'll now hand over to Kerrigan.

Kerrigan Procter {BIO 15093363 <GO>}

Thank you, Laura. Before looking at the future opportunities for LGC, I wanted to recap on the strong performance that LGC has delivered this year, not just in terms of financial performance, but also in our growth and development. We delivered strong operating profit growth of 18%, driven by the new investments we are making in DI. Acquiring the whole of CALA Homes was an important step in delivering that growth, but we also made a series of other new investments across our teams, such as our joint venture with Bruntwood, where we've created the UK's largest science and technology property platform.

We've also strengthened our team and have recruited both in our central investment teams, but also in our start-up businesses, where we have attracted strong new management teams and new employees into those businesses. The overall business we have built is now well positioned to deliver further growth going forward.

As a reminder, LGC's primary purpose is to deliver an attractive financial return on the long-term capital we manage. Given that it is long-term capital, our preference is to invest in markets where there is a shortage of long-term capital, where we have relevant skill sets and where we can act as a catalyst for the self manufacture of assets for annuities or third-party LGIM clients.

The three areas of focus for us currently are to meet those three preferences, our future cities, housing and SME finance. I will cover each of those in turn, but first a few words on the overall deployment of our portfolio of shareholder assets. Across LGC and Treasury, we have assets of approximately GBP8.6 billion. GBP2.4 billion is in what we call direct investment, GBP4.4 billion in cash or near cash, and GBP1.8 billion in traded assets, predominantly equity. This is after reducing our strategic weighting to equities by about GBP500 million in the first half of 2018. As Jeff said, we have more cash than we need for liquidity purposes and we plan to reduce our traded equity holdings over time. Put together, we have over GBP3 billion of dry powder for future investments.

Within the GBP2.4 billion direct investment portfolio, we have a range of operating models. GBP1.1 billion is made up of wholly-owned operating businesses, namely the housing businesses of CALA, Later Living, affordable homes and modular homes. The significant addition over the year in this part of the portfolio was the move to the full ownership of CALA.

Just over GBP700 million is made up of joint ventures or minority shareholdings. This is mainly within the future cities business, which has evolved from our experience gained in urban regeneration and clean energy. The majority of the GBP200 million increase in investment is from our 50/50 joint venture with Bruntwood in September, called Bruntwood SciTech. The final GBP500 million is an externally managed funds with our partners Pemberton for SME lending, NTR for wind farms and a range of venture capital funds, we invested further in all three areas over 2018.

Future Cities is our business that helps future proof the regional economies of cities. Legal & General brings together long-term capital, experience of working with local partners, and a set of skills to help get things done. These skills include developing workplaces with new ways of working your mind, modern retail experiences, providing places to live, digital infrastructure, infrastructure to support mobility and clean energy to power the cities. This image sets out our vision of a future city.

LGC is actively looking at investments in many of these areas. To help deliver this, we are forming partnerships with universities, local governments and local businesses. I've picked out a few examples to bring this to life. LGC's activities around Leeds include a joint venture to invest in our successful modern commercial and retail schemes called The Springs at Leeds' Thorpe Park, an innovation center with Bruntwood SciTech called platform; a build-to-rent scheme alongside clients with LGIM, our factory that makes modular houses; and solar and wind farms, with our partner NTR.

Around Manchester, we have a joint venture in MediaCity, a range of science and technology focused real estate with Bruntwood SciTech, build-to-rent, a mixed-use commercial property. We continue to make further investments in the infrastructure to support Future Cities. Recent examples include our joint venture in a data center development, servicing the London to Cambridge corridor called The Kao Data Campus; clean energy generation through onshore wind with NTR; investing more in renewable technology solutions, such as more efficient photovoltaic cells with Oxford PV and our investment last week in electric vehicle charging with Pod Point. We're working with many partners in many cities around the UK and we are excited by the potential for those cities for our investments and for asset creation for PRT for LGIM clients.

The UK needs more homes. We think the UK needs around 340,000 more homes each year for the next 10 years. The market delivered only around 200,000 last year. We need more homes to buy and more homes to rent, more starter homes and more homes for last time buyers, more social housing, and more private sector homes. L&G's housing strategy has the flexibility to deliver all these types of homes. We call it three dimensions of freedom with L&G's homes.

Firstly, we can deliver all types by tenure, through homes to buy with CALA, to homes to rent throughout Build-to-Rent Fund. Secondly, we can deliver all types by life stage with homes for first time buyers with our L&G Homes brand to later living through the inspired

Villages Group and Guild Living brand. Thirdly, we can deliver all types by affordability, from social and affordable housing with L&G Affordable Homes to high-end executive homes with CALA. This broad offering allows us to flex what we deliver to the market as the market cycle changes.

Our housing businesses have had different starting points. Affordable, a modular with startups, later living is a corporate roll-up, CALA was predominantly an acquisition, and it has been a good investment for LGC. In the period 2013 to 2018, CALA has almost trebled homes sold to 2,200, and grown EBIT from GBP23 million to GBP95 million.

What next for LGC? For Future Cities, we have more to do with many cities across the UK. We also think that the concept has applicability in the US. Our focus on housing is execution and building out the three dimensions of freedom strategy.

For SME finance, Paul Miller is developing an expanded strategy of a venture capital, we clearly see the potential for DC pensions investments. Overall, we are confident that LGC can deliver good returns for shareholders and help create assets for PRT and LGIM clients.

On that, I'll hand back to Nigel.

Nigel Wilson {BIO 1535703 <GO>}

Thank you Jeff, Laura and Kerrigan, and thank you for being such terrific colleagues. The fact about compound growth is that it compounds, hence 100% growth in EPS and 100% growth in operating profit since 2011. We have learned that demography is destiny. The aging demographics are non-reversible and are driving our growth. The PRT industry is becoming bigger everywhere. Lifetime mortgages are critical and our solutions for later life living are needed more than ever before. Asset markets are becoming more homogeneous and global. Asia will become our third global pillar.

We are one of the largest DC players in the UK. Emma Douglas and our DC team, as Jeff talked about, are doing a great job. As an industry, we need to commit more capital to grow. New infrastructure capital, in particular, needs to increase. UK Fintechs, Medtechs, Sciencetechs, all need more capability and more capital. Non-bank patient capital is required everywhere.

We have successfully moved our business from low growth, low return businesses into high growth, high return businesses. This slide shows a GBP1.3 billion of disposals that helped to achieve our goal. Transforming legacy businesses into high growth technology-enabled businesses is a really difficult challenge. Mergers between large FS firms rarely deliver, one plus one is rarely two, it is often simply one, just a little bit. This has been, to be honest, to our benefit over the last 10 years. We prefer to compete in high growth markets through organically originated businesses. We may need a bolt-on to get us in the game, but the vast majority of our growth is organic. We consistently capture 20%, 30% or even 40% market share.

We have indeed moved into high growth, high return businesses. We have the capability, the capital and the brand strength to fill out the opportunities in this slide, in a very measured and largely organic way. Our businesses and indeed our brand travels well. We are a globally trusted brand.

In the USA, we've proven our model works. We have growth options. Now, we need to accelerate the growth and replicate what we've achieved in the UK. In the UK, our strategic roll-out is complete. Execution is the key. We have businesses that are both resilient and growing. In Europe, China and Japan, we are being selective and measured with our market entry, and to date successful, but with a small s.

We have created options, we now need to deliver. The opportunities are self-evident, we need to seize them. Every business in every industry needs more technological capability that has to determine its role in complex ecosystems. Legal & General is no different. This highlights our ever-increasing opportunities in the retirement ecosystem. Much of what is on this slide didn't exist seven years ago, that includes lifetime mortgages, large scale PRT, DC, later life living. We also have opportunities where we're just beginning to test and learn. Personal investing and drawdowns are two of them.

In respect of inclusive capitalism, we are leading the industry. We want people to be and feel included, that they have appropriate housing, healthcare, pension, transport, education, such that they too can enjoy and share in the benefits of capitalism. We are indeed using our patient capital to invest for the long term. It's allowing us to become market leaders in a suite of products and solutions.

We are addressing market failures, notably pensions, savings and infrastructure in a wider sense, and we are becoming a leading data-driven, digitally-enabled business. But we are still in the early stages of our development and have much still to do. We view disruption, and particularly self disruption, as a privilege and responsibility. Legal & General is delivering inclusive capitalism. We have become a leader in financial solutions and a globally trusted brand.

We'll now be delighted to answer your questions.

Questions And Answers

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you. It's Andy Sinclair from BofA Merrill Lynch. Three for me, if that's possible. So firstly, just wondered if you could elaborate on the LGIM pipeline for 2019, anything that we should particularly be aware of, or just more of the same strong net inflows?

Secondly, PRT margins on new business look a little bit lower. How much of that effectively can be caught up by applying more illiquids to the back book? And how much is this due to the duration of the book being taken on?

And thirdly, just wondered about that EUR1.5 billion of excess liquidity on Slide 24. When is too much liquidity there even for the -- what you've got on offer? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

I'll let Jeff answer the third question in more detail. But for some of my colleagues, excess liquidity doesn't really exist, they are just like hoarding cash. Mark, do you want answer the first question, if Laura answers the second and Jeff answers the third? Mark?

A - Mark Zinkula {BIO 16142450 <GO>}

Yes, in regards to --can hear me okay? Yeah, in regards to LGIM flows, I think, we're off to a good start this year. I think the momentum we would expect to continue into this year and into the future. I think in retail and DC, as Nigel pointed out earlier and Jeff, we are continuing consistent growth in those markets from outside the top 20 in retail not that long ago, into now consistently top 5 and last year top 2 in gross and net flows.

In DC, we just continue to solidify our position as that market continues to mature. UK DB flows will always be lumpy, I always mentioned that in the past. This is the nature of that marketplace, especially as it's going down this derisking path. And again the momentum in the US continues to be excellent and we planted a lot of seeds In Europe, which are going to benefit the result -- realize the results there. And then more recently, Asia, where in Japan and in Hong Kong, there is a hub for the broad region. I'm optimistic this can be potentially a bit of a breakout year for us.

A - Jeff Davies {BIO 20023574 <GO>}

I'll echo Mark's comments about a breakout year in Asia. I think, Sarah Aitken and the team have done a great job in Europe and indeed Asia and creating lots of opportunities. Mark's always been very bullish, similarly bullish to me about the American opportunities and how in the personal investing business, we have high hopes for in the future.

A - Laura Mason {BIO 20420360 <GO>}

Yeah, there's two parts to your question I think. Firstly, on the slightly smaller new business value, and that was exactly what I said, down to slightly shorter business in 2018 compared to 2017, by about two years.

On the second part of your question, 20% of the book at the moment is in direct investments, 5% in lifetime mortgages, so definitely reinvest to -- put more direct investment into the back book.

A - Jeff Davies {BIO 20023574 <GO>}

Yeah. And on liquidity, yeah, first -- the right term -- as Nigel says, that obviously we're just going to hoard it, right. I mean as Kerrigan showed, we have lots and lots of plans for using that. It just gives us plenty of optionality, and even optionality to grow some of the other businesses, where we turn cash into future profits. And so, we'll continue to invest and now we have a business plan that we'd certainly look to use it with all the opportunities, in particular, in LGC to make the best use of our shareholder capital and optimize those returns.

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking from Morgan Stanley. I've got three questions, please. Looking at the Solvency II capital generation bridge that you've produced, if you sort of adjust for the one-offs, I think the one-offs sort of probably offset between positives and negatives. With the strain level that we saw last year, you are pretty much paying out all of the Solvency II capital generation via the dividend. Just wonder whether you are confident that going forward, once that strain normalizes that we are going to see the Solvency II ratio grow every year with the volume that you're writing? It's the first question.

And then secondly, just looking at the matching adjustment in the back of the release, it seems to go from 106 bps to 138 bps over the year. We are seeing some massive increase, given that the new assets you're adding. So, have you gone back and retrospectively changed the matching adjustment and the fundamental spreads only go up by a basis point seems odd.

And then associated with that, where is that number coming through the Solvency II capital generation? Presumably there is a big increase in surplus as a consequence of that. Is that coming through in the GBP1.4 billion that you're showing of capital generation?

And then the third question with the -- the GBP1.3 billion of receipts from disposals, how much of that has actually been reinvested in the business? And then just a follow-up on Andy's question, that cash you're showing, the GBP1.3 billion of liquidity, you said that's Group, is that Holdco or Group, because it's obviously different? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

I think the first two definitely for you Jeff, and I'll go with the third one.

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, sure. The operational surplus generation compared to new business, yeah, I mean there was a few factors, similar to the business mix, there is a few factors within the new business strain itself. So, as you say, as that normalizes, in particular, if there was more inflation linked in there and which is just another risk you have to hold a bit of capital with. So, we were still below 4% on our total strain.

But as I said, we're also confident of the OSG continue to increase over time. And if you think about sort of an extra GBP100 million of OSG, which is a single-digit growth on that number, that creates the ability to write GBP2 billion, GBP2.5 billion of PRT business, which is over 20% growth in new business and still remain flat.

So, we could easily fund the sort of growth that we're talking about from the OSG. We don't anticipate that the strain dramatically changing from where we are and we constantly look at ways to optimize that capital usage, whether that's the US PRT or the

UK PRT. And of course, we can have the benefit of (ph) slightly higher margins to offset it on day one when we write the business, which is what we had started to see towards the end of last year.

So, we're happy and confident on that. And actually given the capital levels we are at, even if we chose to write a bit more volumes and use a bit of capital in the short term, we showed the 190% (ph) from where we are today for the rest of the year is a very strong position to be in. We are pretty comfortable on that. And there is about six (ph) I think, really, if you add them up.

The matching adjustment, yeah, has gone up. It is mostly just spreads. I mean obviously the total DI component has gone up. We know that's better than the corporate bonds -- corporate bond spreads, it's general spread. As you noted, fundamental spread didn't change. The overall rating hasn't fundamentally changed. In fact, if anything, quality portfolio slightly increased in terms of credit quality. It is just where we are on spreads and it's mechanical. It doesn't come through in OSG, I would say, because that's an open-end assumption that it would flow through via OSG. So, it's coming through further on in various movements. And Tim will allocate them to various buckets there, depending whether they are new business related et cetera.

A - Nigel Wilson {BIO 1535703 <GO>}

We've spent about GBP300 million, I would say, of the GBP1.3 billion that we've raised and that was the CALA investment and there's different drivers on top of that. But in reality, and part of the reason we moved Kerrigan to LGC is just that there's amazing opportunity to invest in direct investments across the UK. We started on this journey a number of years ago, but certainly accelerated in the last 12 to 18 months in Glasgow, Edinburgh, Newcastle, Leeds, Manchester, Birmingham, Bristol, Bath, Oxford, Cambridge are all cities where I expect Kerrigan and his team, and it's a great team now, will actually create opportunities for us to create unique assets for Laura's business, but also assets for Mark's Real Asset business in 2019 and beyond and create those tremendous synergies that we have across the Group.

Yeah, Jeff, was -- exactly what the excess liquidity is, is a subject of much negotiation between myself and the actuarial accounting teams, who all line up on the other side. But we've certainly got huge amounts of money to spend, create growth and actually drive the OSG and drive the surplus generation, EPS generation on a go-forward basis.

We cover this section and then just go section -- move over to that section next, and that might be efficient. So, (inaudible) this section and so if you just -- the middle section -- is anybody in the section, please put their hands up.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just three questions. Just -- can you just give us an update for the Solvency position of the largest entity LGAS? I believe it was 154% in 2017. So, how did that progress for the year? I notice that the mortality release was obviously high year-on-year on an IFRS basis, but when we look at their cash remittance, the dividend or special dividend from LGAS to the holding company was GBP100 million less than the year before. So, why was that the case?

Also in terms of your assets, again, you've highlighted that you have a higher amount of internally-rated assets, probably 3% higher than it was last year. Can you tell me what is the spread differential between a single-A internally rated bond versus the average single A corporate bond? Can you tell me the differential on the spread? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

Three good questions. One -- Jeff, do you want to do one, I've got two, and you can -- and if you -- and you or Laura (ph) is three.

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, well actually the question (ph) is quite easy, because if you look at what happened in the Group level and given how much was dominated by Laura's business within LGAS, you won't be surprised to know that it's pretty much the same, the same as the Group level. So, the Group was 189% at the end of previous year and it's 188%, 190%, the numbers we talk about, yes, almost the same. So yes, I think it was 154-ish, 153%, it is the same time that you get in LGAS, because that it's just dominated by that business.

Q - Johnny Vo {BIO 5509843 <GO>}

May not be in these subsidiary --

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, the 190% is already allowing for that being repaid. And so, in the net, nothing really moved over the year, it's the same sort of position in LGAS.

A - Nigel Wilson {BIO 1535703 <GO>}

Yeah, there's nothing particular about the dividend, in the sense that we just have to choose a low number this year than last year. I think last year we're trying to demonstrate from the previous year, when people said we haven't dividended as much. We over-dividended last year and I think the dividend we introduced this year is a more normal type of dividend from the sub, and I don't know whether Laura or Jeff can answer the third one.

A - Laura Mason {BIO 20420360 <GO>}

Yes. So, I mean I think it's probably worth starting with a few comments on the internal rating process,. It's done by an independent team, independent from the origination team in LGIM, independent from my business, highly scrutinized by the regulator. We go through an exercise each year, where we do sort of spot checks on the ratings compared to what we would have got if we had them externally rated.

And in terms of the spread question, it's a range, it will be a very low pickup if it's private -- corporate credit, private placement to a higher one, to sort of property-backed leases.

A - Jeff Davies {BIO 20023574 <GO>}

We've certainly said that the general direct investments first with corporate in the 50 to 150 (ph) range. And you could be -- and you could be -- yeah you could be anywhere in that range, even a little bit lower across sort of a single-A rated.

A - Nigel Wilson {BIO 1535703 <GO>}

I think the rating process is, as Mark and I and others have discovered, is obviously a very onerous internal process.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hello. Yeah, Ashik Musaddi from JP Morgan. Just a couple of questions. First of all, if I look at the shape of the earnings basically for last four, five years, it's heavily moving towards annuities and LGC, which is I would say kind of capital backing annuities. Are you happy with that shape going forward as well, and moving towards that, because you have de-cluttered lot of your non-core business, which was one of the slide, which has lost those earnings. Asset management is growing, but not as annuities. Similarly, protection is growing, but not as fast as annuity. So, how should we think about the shape? And are you comfortable with that shape in say five years time? That's first.

Secondly, I mean, we are in a very benign credit market at the moment and your solvency ratio is around 190%. So, do you see a need for that to build up, i.e. accumulate some capital? Or do you think that if you accumulate, let's say, 10 points of capital, you will try and invest that and try and maintain around 180%,190% solvency ratio, just so that we are not losing opportunity caused on that extra capital?

And thirdly is, could you just remind us on the asset management target of 8% to 10% growth, how do you see that playing out for next couple of years? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yeah, on the shape, we are very happy with the shape of the business. I'm hoping on a go-forward basis, we will be able to accelerate the growth of LGIM in an investment phase. But at the moment I know Bernie has got a number of plans for accelerating the growth of the insurance business, but we want all of them to be successful growing businesses. I think the scale of the opportunities for Laura's and the Chris' business, and Kerrigan's business at the moment is just bigger from a profit point of view. Jeff, do you want to take the second question?

A - Jeff Davies {BIO 20023574 <GO>}

Yes, sure. In terms of credit versus solvency, I wouldn't say that we are particularly aiming at a solvency level because of the credit cycle, credit market. We obviously do many, many, many stress tests to look at that and a lot of you have already referred back to our capital markets. The sorts of stresses we talk about there still apply to that book. So, we're very happy at the solvency level we are at.

But I would say, actually, we're happier for a different reason, which is, should there be a downturn et cetera, it gives us optionality even on an ongoing basis. So, we believe that to be in a strong capital and liquidity position in any sort of slowdown, actually allows us to take those opportunities and we did that following the last crisis. And so we would -- more it's an optionality thing that we're happy to have those levels of capital in the business.

A - Nigel Wilson {BIO 1535703 <GO>}

Yeah, I'll ask Mark to pick up the question on LGIM future prospects, but I suspect you'll hear from Michelle later in the year about what she thinks is future prospects. I think they are on the same page, I've spent time with both of them.

A - Mark Zinkula {BIO 16142450 <GO>}

So, if you look at our results last year, so If you look at the net flows, if you look at our expense growth, would have been right in line with what we would have expected or signaled at the Capital Markets event last summer. Obviously, markets -- most sectors were down last year and that has an impact on our revenue that's beyond our control.

I do think we are still very well positioned to have, as a percentage of opening AUM, single-digit net flow growth going forward. You can see the compositions increasingly toward active fixed income, multi-asset, real assets, we have a lot of potential to grow the real assets portfolio. Bizarrely we continue to have outflows in index of all things, because our starting point was mostly UK DB equities. So, there's a lot of potential outside there as well.

And then, yes, we do expect -- we signaled last summer we expect our investment in the business to be a bit higher over the next few years, which will put some upward pressure on the cost-to-income ratio. All else equal, again markets -- obviously market volatility is not -- will have an impact on these results that we can't -- but assuming reasonable market returns, I think the 8% to 10% growth over the medium term, it still makes sense for us.

A - Nigel Wilson {BIO 1535703 <GO>}

One more here then, move to Greg. Okay.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. I was sort of rather assuming that we'd see some sort of Brexit fears impacting the flows in your business, whether it's direct investment flows, bulk annuities, LGIM flows even, but clearly that doesn't seem to be in any at all. So, the question I've got is, if there is a sort of relatively smooth Brexit, is there any upside that you see in your business from that, or is it just a neutral?

A - Nigel Wilson {BIO 1535703 <GO>}

No, I think there is pent-up investment demand. I think one of the things that we've talked about and Kerrigan can follow on and make some comments about what he is seeing in the future investments in the housing markets in 2019 and then Brexit consequences of that. But there is still pent-up investment demand in the UK that hasn't happened. And I think that will be positive for us as a business. There is obviously a market pickup, which we hope would happen as well, which as Mark alluded to, is quite a tough market for the asset management business, it's certainly better, if there was some more -- less political risk and less political uncertainty going forward. Do you want to talk a little bit about?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. I think the point is, when you look through over the next decade, we do know that we will need more houses and we do know that we'll need more development spend in cities all around the UK. So, that long-term view is really important. In terms of short-term features of the housing market, for example, houses are selling, they are selling at reasonable prices. So yes, it was a bit slower in November and December, and the first couple of weeks in January, but they are selling now. So, it's not obvious that there's any huge Brexit fear, I'd point, out there at the moment.

Q - Greg Patterson {BIO 21641359 <GO>}

Good morning. Greg Patterson, KBW. Three quick questions. One is, Jeff, you mentioned that you were looking at structures with internal and external partners to allow you to increase the volumes of bulks here. I do wonder if you could give us some more color what these structures will be?

Second point is, there was a mention that you've been selling down equities given the hit that you had last year. And I was wondering what the sensitivity would be to Solvency II, how it would have changed, where we are now in terms of what you sold year-to-date?

And the third thing is, it was mentioned that you are happy with the UK footprint currently. I was wondering if the GI business fits into that happiness, or that's ex the GI business?

A - Nigel Wilson {BIO 1535703 <GO>}

Laura, if you take the first question, Jeff takes the second question, and I will take the third question.

A - Laura Mason {BIO 20420360 <GO>}

I think what we were just referring to, in the US we're looking to expand the size of deals. We deliberately started at the smaller end of the market. I mean, there are a number of solutions that we can put in place using other bits of our balance sheet to be able to do this, which we're very much hoping to execute this year. Quite simple structures, really internal reinsurance will be the main one.

Q - Greg Patterson {BIO 21641359 <GO>}

(Inaudible)

A - Laura Mason {BIO 20420360 <GO>}

Through Banner. We write everything out of Banner in the U.S. at the moment.

Q - Greg Patterson {BIO 21641359 <GO>}

(Inaudible)

A - Laura Mason {BIO 20420360 <GO>}

So, at the moment, we write our business out of Banner, that has a finite size and as we increase the size of the deals that we write in the US, we will potentially look to reinsure some of it back to the UK in the short term.

A - Nigel Wilson {BIO 1535703 <GO>}

Jeff, do you want to talk about the --

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, the equity stress is pretty straightforward. I mean, we did -- we sold them because it was a strategic view, not because of the losses, were actually sold before the losses. And but, basically, it wouldn't have changed that much. I mean, you take that GBP500 million and the stress is 25% of GBP500 million, so that would have moved. But generally the scale of movement is about the same, you know, it starts at GBP1.5 billion, but of course, you've got all the fee related, the VIF element, which comes into, which is why you get a bigger movement in the total number that you see in the Solvency II stresses, but the ones published are very, very similar to last year, but it's GBP500 million less of direct traded equity, which comes through. As Kerrigan said, just it was actually towards the end of first half of last year.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, it's part of a general trend to -- of less trading volatility, which is what we're doing. Then we had a huge amount of it (ph) in December. So, we felt we've covered ourselves enough and that's obviously caused us to be -- our earnings per share a couple of p less than we'd actually thought it would be at the beginning of December.

On the whole question of what the Group's going to be and how we move forward in terms of what share is in the kind of the UK, we've got a great model in the UK, which works and we are modifying it and adjusting it slightly for America, but not hugely to -- for the American market. It will be a bit more use of reinsurance across the Group, as we scale on for that. Really the only thing, a couple of bit extra DI capabilities that we might use third parties for in the American model that we've been looking at, because LGIM is not yet developing those capabilities in the US.

We think the future city stuff seems to be translatable into the United States and certainly we'll be looking at transactions along the way. We won't be doing this in the short term, certainly in Asia, but the welcoming that we had in Japan, which approved our license in record time and the welcome we've had in China is much greater than we anticipated or expected and the brand seems to travel incredibly well in all geographies at the moment. We got far more geographic opportunities than we have capability to deliver at the moment. We need to increase the capability of the Group, which is a nice position to be in.

Q - Greg Patterson {BIO 21641359 <GO>}

And the GI?

A - Jeff Davies {BIO 20023574 <GO>}

And the GI, I mean GI is different from our other businesses, in a sense, it's a historical business, which has done very well over the last five or six years and periodically, we get people ringing up and asking, is it for sale and sometimes those appear in the newspapers, or various analysts. But it is much less of a strategic fit than the other businesses. Michelle and the team have done a great job in modernizing it. And for those who haven't seen it, the new technology that she has developed in amazing and it has helped us win lots of mandates, that Jeff talked about. And third -- second and third, okay.

Q - Andrew Baker {BIO 20402705 <GO>}

Hi, Andrew Baker, Citi. Just two questions. Can you just give an update on your views on commercial consolidators, whether you see these as viable competitors or not?

And then secondly, are there any structural margin differences between the UK bulk annuity business and the US bulk annuity business? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Answer both of those Laura.

A - Laura Mason {BIO 20420360 <GO>}

(Multiple speakers). So commercial consolidators. I mean, I think that's worth -- to start, I think it's worth to put it into perspective. The UK DB market is huge. There are still over a trillion (ph) liabilities on corporate balance sheets and not all of those will go to buy-in or buy-out, with or without the existence of commercial consolidators. And I think it's clear from -- there is a series of DWP consultation papers that the DWP are looking for complementary solutions to what is already in existence.

In terms of UK and US, I mean, we are very selective about the business we write in the US. The thing that we've been able to do very successfully over the last two years is sort of transport our mortality, longevity activities over to the US, so have a much more sophisticated way, I think, of looking at that aspect of the deals and our competitors say that we're very happy with the ones that we win.

A - Nigel Wilson {BIO 1535703 <GO>}

Keep passing the mic, I guess.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks. Colm Kelly, UBS. Firstly, just on the strain on the margins. So, the growth has been very, very strong in annuities, and the outlook remains very strong there. But I suppose there was a little bit of a cost to the business mix, being a bit more intensive on strain, a little bit lower on the margins.

If we think about going forward to capitalize on the good growth that's there, should we see this business mix as reflective of what we should be expecting going forward, and therefore, is the new business strain closer to higher single digits of premium more realistic going forward than low single-digit? And equally on the margins, is the 7.9% reflective of what we should be expecting going forward?

Secondly, just on the surplus liquidity. Firstly, thanks, for the disclosure and I think it's useful. How much in terms of the ongoing surplus generation after the dividend should be adding on to that number, because obviously there's disposal of proceeds and reserve releases been generated in recent year?

And then lastly, just on direct investments. The existing portfolio is performing very well, as you've mentioned, can you maybe talk a little bit about the new assets you've added on this year, what type of returns have been generated on those assets, please? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

I think Laura, you if you do the first one, and then Jeff you do the second one.

A - Laura Mason {BIO 20420360 <GO>}

So, in terms of the margins, the strain, the new business mix this year, I mean, I think that really was just a consequence of 2018. We look at the business we write in a number of ways, of course, some reported metrics, but we also have internal economic management metrics that we look at. So, I don't think this year was a sort of start of a trend.

On the direct investments, we've talked a little bit about some of the new ones we've done. We had a great run with HMRC. I don't think it's a secret to sort of say that actually this year spreads have tightened in direct investments that we've been very selective about and those that we have written and definitely focused on the ones that where we have competitive advantage to LGIM and LGC. That effectively means we get them off market and still get the slightly higher returns.

Q - Colm Kelly {BIO 19140684 <GO>}

(Inaudible)

A - Laura Mason {BIO 20420360 <GO>}

So, it's a good question. So, US and UK very different. We don't have to write Solvency II. We don't run under (ph) Solvency II in the US. So, I mean, I don't think we would see the proportion of strain can rise in the US. It should come down as we scale the business, much simpler.

A - Nigel Wilson {BIO 1535703 <GO>}

And Jeff?

A - Jeff Davies {BIO 20023574 <GO>}

Yes, just on the OSG, I mean, there's a bit of mixing up capital and liquidity there, I think. We don't have a target for how much of the OSG is left after writing new business. We manage across the balance sheet during the year, what's the opportunities, what the returns we can make as a Solvency look, and we monitor all these things on a weekly basis. And so we know when we're looking to write these deals, especially if it's a GBP4.4 billion deal, we're obviously managing it very, very closely.

So, we don't -- we don't aim at that and actually more of the liquidity type drivers is, Frank and Kerrigan working very closely together, when do we think these are coming, when do we think we're going to sign et cetera. And we can't predict within a month when they're going to do, but we have a pretty good view of our plan, how much we think Kerrigan is going to put to work. And for the capital impact of the things Kerrigan doing is minimal, because it diversifies the way again for longevity and credit. So, you need to be a bit careful on mixing up the liquidity and capital side of things, I would say.

A - Nigel Wilson {BIO 1535703 <GO>}

Yeah, I think what we expect to see is an evolution of DI capability in 2019 and beyond. And that's -- again just going back to why Kerrigan's got a bigger team, Mark's got a bigger team, because we're seeing more opportunities, particularly on a city by city basis. You can talk to Paul about the build-to-rent opportunity afterwards. There are just huge opportunities to create direct investments and how this LGIM, LGC, and LGR all work together. And that I think will help us improve the metrics in LGR at least to send the metrics for all of our businesses.

You only just leave the mic there, then we don't have to keep giving it back, and it will just speed of the logistics.

Q - Abid Hussain {BIO 20229932 <GO>}

Sure. Morning. It's a Abid Hussain from Credit Suisse. Just two questions if I can. If I can just come back to the earlier question on pension consolidation fund. Why do you think the DWP may allow these funds to operate with lower capital than on the insurance rules? And then, if they are allowed to operate with lower capital, is there something that you could set up a structure under pension rules to capitalize on that?

And then the second question, just coming back on the surplus liquidity of GBP1.5 billion. So, I understand that will increase with additional disposals and as you release Solvency II capital. I just want to understand, are you looking to deploy all of the GBP1.5 billion, or is there some sort of minimum internal buffer that you're keeping for the risk, or is it completely deployable?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, you can kind of go on the second one. Just try and update (multiple speakers).

A - Laura Mason {BIO 20420360 <GO>}

Yes, consolidated, I think it's fair to say that how they'll will be regulated is still to be decided. Will Legal & General do something in the space? We already have a wide range of solutions to DB pension schemes and are continuing to evolve them.

Q - Abid Hussain {BIO 20229932 <GO>}

So, could you actually operate under pension regulation?

A - Laura Mason {BIO 20420360 <GO>}

So, we would -- I think this is an evolving market. I think we have the component parts in place to be a competitor for any of the potential consolidation vehicles that might be launched.

A - Nigel Wilson {BIO 1535703 <GO>}

Jeff, you want to say anything on this?

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, I mean, the GBP1.5 billion, the liquidity, as Kerrigan said, you could argue with GBP3 billion, because we can sell the equities and transfer that across. So, there is plenty of plan for moving this, as and when we find the right investments within the business. And so that is the key, is making sure we've got the returns.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. In terms of the buffers, you bear in mind --

A - Jeff Davies {BIO 20023574 <GO>}

We already have --

A - Kerrigan Procter {BIO 15093363 <GO>}

The GBP4.4 billion of cash and near cash, we have already got GBP2.9 billion as a buffer -- as a buffer there for -- just with all things you might be thinking about.

Q - Abid Hussain {BIO 20229932 <GO>}

My understanding was the -- some of the -- some of -- the liquidity is used for collateral agreements on derivatives, and so you don't really sort of sell those down.

A - Jeff Davies {BIO 20023574 <GO>}

Yes. Well, as we said, we already -- in that number, we've already taken out the stressed collateral requirement. We actually also have a whole lot of liquidity in Laura's business, so we don't even include that, which is also to cover the swaps, et cetera that they're using. So, there's lots --

A - Kerrigan Procter {BIO 15093363 <GO>}

Nigel will say there's buffers on buffers, but there are lots of areas where we are holding stressed liquidity already and the GBP1.5 billion on top of that.

A - Nigel Wilson {BIO 1535703 <GO>}

Yeah, definitely buffers on buffers, I'd say, yeah.

A - Kerrigan Procter {BIO 15093363 <GO>}

That's what I said before.

A - Nigel Wilson {BIO 1535703 <GO>}

If I drew that slide it will look a lot different. And in general, -- it didn't include any of the cash for this year. And as you rightly point out (inaudible) and the longevity release, which is in cash as well. So, I think it's created an impression that we got plenty of money. The way we look at it is in a very disciplined way. We're not in a rush to kind of go out and make a bunch of acquisitions to try and boost earnings. There's lots of things that all of the businesses can do to deliver growth and we're just really, really well placed, with tremendous capability -- people capability to accelerate our growth going forward.

Two passes or three passes, all right.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. It's Gordon Aitken from RBC. Three questions please. First on mortality. Nigel you stressed that mortality is multi-year at the start of your presentation. Just what should we expect in the future? I'm particularly interested in your thoughts about the 2018 table and you are also seeing (ph) that the CMI will be changing its moving factor in this model, hence, it's more responsive to the change in trend that we've seen since 2011.

Second point on equity release, just your thoughts on (inaudible) research that was published a week ago on the equity release mortgage, no NIC (ph), thoughts on that.

And finally on LGC, you said there was a 7.4% return on direct investments and that's a one-year return, and you'll be holding these assets to maturity. So, what's the yield you would get from purchase to maturity, and maybe you can comment on that whole book, and also new business, because I know Laura just mentioned that direct investment spreads have recently become tighter. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, Jeff you answer the first one. Chris answer the second one, and Kerrigan will answer the third question please.

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, on the mortality longevity release expectation, as you pointed out, the '17 and '18, which -- table that you look at mechanically drop in, you know, they imply ongoing releases in your paper, talks about the scale of these. As I said, we want to look at these in comparison to our own book and what's relevant. We haven't -- we've gone with that's moving factor the same and the same as '16.

We would expect releases for a couple of years, when we look at that table. But we don't want to put quantums on it until we've had a chance to look at how much prudence, how much caution should we be exercising and whether we spread it out more or we don't, what are we seeing in our book, there was a lot of dust in '18, what do we see now coming through in '19, or effects by socioeconomic group. So, we don't want to say too much until we've done some proper work around this on an ongoing basis.

A - Chris Knight {BIO 18966542 <GO>}

Yeah, we saw the work from the introductories (ph), things have moved a bit -- on a little bit, but probably isn't going to be a big factor, in our view, in sort of influencing the PRAs, thinking on it. So, we are waiting for them now to share their consultation or their updates in the next few weeks on treatment of lifetime mortgages. We were pretty comfortable with -- you probably remember -- with the original proposals. And in terms of pricing, we are already building into our pricing both on the (inaudible) the annuity side, our expectation of where the regulator will end up on that.

A - Nigel Wilson {BIO 1535703 <GO>}

And is Simon pre-cleared to launch our new products for this year (multiple speakers) regularly.

A - Kerrigan Procter {BIO 15093363 <GO>}

Gordon, just a comment on the new investments in LGC DI. When we look at development opportunities or land buying opportunities, the range of IRRs is 8% to 15%, that kind of area. As we talked about the range of operating models, there are some of those assets that are further on in their development are more yield based. So, those IRRs will be a bit lower. So, you see a mix of all those things in the early stage, the more mature investments and the development investments in that figure you quoted there, Gordon. So, 8% to 15% if you think about those new types of development.

A - Nigel Wilson {BIO 1535703 <GO>}

But that's an average double-digit. 7.4% is not good enough and that's just a phase that we are at, at this particular moment in time, because we are investing in assets, some of which haven't produced the return yet, so just a stock of something could be land or whatever. But actually, when we look at the IRR for DC, you see that they are certainly north of 10%.

Q - Gordon Aitken {BIO 3846728 <GO>}

Can I just follow up on the actual release point. I mean you say you're comfortable, but up here you're proposing a volatility of 13%, whereas the paper last week says there is absolutely no evidence for anything north of 10%. They talked about average of about 5%.

A - Jeff Davies {BIO 20023574 <GO>}

We have to wait now to see what the PRA comes up with in terms of the question about does that move to the base 4 (ph). I think it's sort of limited, let's see. As Laura explained for us, 25% of our assets are in lifetime mortgages at the moment. So, new stuff we have already factoring in the pricing, based on where we think it's going to end up. And so that's why, I think, adds up to being a pretty comfortable place for us either way.

A - Nigel Wilson {BIO 1535703 <GO>}

Can we just take the three last questions, one, two, three. Okay, otherwise we'd run over and I know how grumpy some of you get, when we run over.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. Just a quick question, it's Fahad Changazi from Mediobanca. Could you comment on -- and it's great to see a great outlook on bulk annuities, but we know one player who's coming back perhaps more strongly into the market after being busy with (inaudible) back book last year and Lloyds extracted a lower dividend from Scottish Widows looking to capitalize the bulk annuity. So, would you expect to attain your market share if you see GBP30 billion of bulk annuity premiums per year?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes.

Q - Dominic O'Mahony

Hi, Dom O'Mahony, Exane BNP Paribas. Thank you. Laura, I think if I heard you correctly, when you're talking about the capacity to write bigger tickets in US PRT, I think you might have referred to external capabilities as well. Could you maybe put a little bit of flesh on the line there?

Second question on the OSG, both in terms of the stock and the growth, could you give us some sense of what portion is sort of natural run-off versus management action? Is there sort of 14% in the natural run-off growth?

And then lastly, I think you described the deployment in terms of strain of 2018 as sort of using some surplus to capitalize on the growth opportunities in PRT. Should we be thinking that actually you'll be sort of using up surplus to capitalize on the economic -- the attractive returns you can get in PRT going forwards.

And I guess just picking up on Jon Hocking's earlier question, yes, you've got 14% growth in the OSG growth, but you also have to, -- if you want to maintain the same sort of level of dividend growth that at some point puts a sort of a cap on how much extra strain you can bear, and so there's sort of mathematical level at which you ought -- you sort of force the surplus if you get sort of continued, very significant growth in PRT? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

This could be the year when they actually do the management actions that you plan for the particular year. And Mr. Steadman and Mr. David are promising me, sometime in 2019, or possibly 2020, they will actually get rounds of doing. We actually get overloaded with work from our regulators, not from the management actions we want to take. We just don't seem to get rounder (ph) then in the year. That's just as a backdrop to that. Just two of you answer the --

A - Laura Mason {BIO 20420360 <GO>}

Thanks Dom. On the external partnership, the interesting thing, I think, for us in the U.S. is that actually people do far less reinsurance than we become accustomed to, probably because of the Solvency II in the U.K. But certainly something we're looking to see whether it makes economic sense to export out there and also looking at partnerships, where that can be a reciprocal relationship with some assets sourcing versus potential capital. So, early days, but --

A - Jeff Davies {BIO 20023574 <GO>}

Yeah, Nigel sort of answered the question for you on the OSG in terms of the management actions and the vast majority is that as the book runs off I mean, that is what is modeled, because actually if we execute additional management actions, things we choose to do, then they would (inaudible) and then if we plan some, they'd be in there, but it's not material than what's overall coming out of the book.

I mean, your other logic, I mean, I'll go back to the comment I made earlier. I mean, if absent most things and, a, I certainly keep pushing Laura's team to work out how we reduce strain constantly, et cetera, along those things and we look at the operating model as we scale up et cetera. But also actually the door is open. I mean we don't link Solvency II and dividend, but the door is open in your logic, if you've got -- 10, 14 and one at 7 (ph) and actually in terms of volume, GBP100 million of extra OSG, as I say, to focus on strain at GBP2.5 billion, which is suddenly 25% increase in your annuity business.

And would we use surplus? Well, I know Nigel's flippant answer of, yes, we'll keep market share, but we all know it's lumpy. So, we had 5 one year, but 15 another year and in the year we do 15, we might therefore use up some capital. So, we will always look at this in the round, where we are, what's the position, We're not obsessing about keeping it below our net surplus generation, always covering dividend, which is just not the way we look at the business. We're happy we have strength in the balance sheet and the opportunities available, I mean, you look at it in a round.

A - Nigel Wilson {BIO 1535703 <GO>}

We save the best till last, Andrew.

Q - Unidentified Participant

They are not very good. Covered the questions, though. The longevity trends, do you have any sort of view as to what's driving them and whether they are sustainable, whether it is the lack of social care because of cuts in government spending, cohorts and post-war baby boomers being less fit? Because I think that will feed into how long they'll carry on (inaudible) '19 and '20, which Gordon will need to have a view on.

Then secondly, I mean if I look at your direct investments and your equity release mortgages was GBP2.1 billion, you wrote GBP9.9 billion of them annuities. It looks though you're not going to be able to grow your share of direct investments as a percentage of the total annuity book, unless you either accelerate the amount of direct sourcing or write less annuities, which I assume you don't want to do. So, is there a chance and a scope to accelerate the amount of direct investments, so that you can reach your 35% target of direct investments to overall assets?

A - Nigel Wilson {BIO 1535703 <GO>}

Yeah. I'm going to let Simon try and -- Simon has been around for so long and he's seen such waves of longevity, he is going to dazzle you with his answer.

A - Simon Gadd {BIO 17956222 <GO>}

Thanks for setting my expectations that way. So, I think the first thing to say about longevity is the clue is in the title, it's a very long-term assumption. So, trying to overemphasize what happened in the last couple of years is wrong, you need to think about a long-term trends. In those long-term trends, I'd drop them into two categories, you've got the medical science effect and all the things that medical science are trying to do to increase life expectancy, versus the sort of the lifestyle effects that often in the last decade or so have been sort of negative factors. So, obesity smoking , et cetera.

What we did see in the last few years is, and we predicted this would happen, is that the big drop in smoking levels that you saw about 10 years ago, which led to a big sharp increase in life expectancy, that sort of flattened out. So, people -- the natural propensity of people to smoke sort of leveled out and that fact sort of fed through now into lower levels of mortality improvement.

And to some extent you also saw that with the medical professions, real success in reducing heart attacks with variety of different treatments and early intervention. To get the sort of levels of improvement that we had in the last decade, to repeat it, the medical profession has got to step up. So, they've got to find solutions to cancer, that's the biggest killer now and that's a lot harder one to solve. It's a lot more complex to these, to put right. And then the broader society, is the obesity crisis going to continue, the trend is still upwards or is it going to be flattened out, or is the government going to do some things to try and reduce sugar intake, et cetera, to try and have an effect there. So, it's a very complex subject, which we will play out over a number of years, but don't draw too much for collusion from what's happened in the last couple of years.

A - Kerrigan Procter {BIO 15093363 <GO>}

Just on the expansion of the direct investment or the expansion of the self-manufacture of assets. Well, you probably heard from several (inaudible), it's a big theme across the Group, we feel confident in that theme. So, we talked about Mark's team growing at LGIM Real Assets and expanding in the UK, but also expanding in the US. And we talked about

Chris' new products in lifetime mortgages, the expansion of the things that we can do in that area and certainly in terms of things like future cities and housing that essentially the rental flows that flow off those in way or another is an interesting creation of assets that can help the annuities business. So, all those things make us feel confident that we're on the front foot, we're expanding in many areas and we are creating those important real asset.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. I'd Just like to say thank you to the analyst community. You always have a different way of looking at the kaleidoscope than we do, and it really keeps us on our toes having to read all of your interesting and provocative reports, many of which we agree with of course.

As a final comment, I'd just like once again to show our appreciation for Mark over the last seven or eight years, just doing an amazing job for Legal & General. Thank you.