S1 2011 Earnings Call

Company Participants

- John Pollock, Group Board Director, Risk
- Mark Gregory, Managing Director, Savings
- Nigel Wilson, CFO
- Simon Burke, Group Tax Director
- Tim Breedon, Group CEO

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Blair Stewart, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- James Pearce, Analyst
- Jon Hocking, Analyst
- Marcus Barnard, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Raghu Hariharan, Analyst
- Toby Langley, Analyst
- Tony Silverman, Analyst
- William Elderkin, Analyst

Presentation

Tim Breedon {BIO 3157585 <GO>}

Well. Good morning, everyone. Welcome, again, to Coleman Street for our preliminary results presentation. This is my seventh. And my last, full-year's results presentation for Legal and General; however, we're not giving any update on CEO succession today. Process continues and, as we said in September, it will be concluded before the end of 2012.

In the meantime, we'll follow our usual format; I'll give you the headline numbers; Nigel will take you through the results; and then I'll return to discuss strategy and outlook.

Word on housekeeping; like to remind you that fire exits are through the lift lobby and down the stairs. And could you also turn off your mobiles, please, because they do interfere with the sound system.

Usual disclaimers about forward-looking statements apply.

First, the headline results for 2011. As you can see, it was a very strong year for the Group, very strong indeed. Operational cash is at GBP940 million, up 12% on last year. And net cash is GBP846 million, 11% higher than 2010.

We stated for the last few years that we believe our cash generation to be sustainable. After five years of growing cash, I hope we have now successfully demonstrated that this is the case. Cash generation is diversified. And of high quality. All four of our business divisions made substantial and growing contributions to cash.

Cash generation, however, is not at expense of growth in the business. Worldwide new business sales were up 7% to GBP1.9 billion worth of APE. That's another new record for L&G. Again, all four businesses, Risk, Savings, Investment Management. And International, contributed to sales growth.

IFRS operating profit was GBP1.056 billion, an increase on last year. And profit before tax was GBP956 million.

ROE is 14.5%.

And on embedded value measures, EEV operating profit was nearly GBP1.5 billion, that's 20% higher than last year, with a sharply higher contribution from new business, at GBP441 million, an increase of 17%.

EEV per share was 147p, up 11%.

We maintain a strong balance sheet. IGD surplus is now GBP3.8 billion, representing a coverage ratio of 220%.

We remain confident about L&G's future, its cash generation. And the strength of our business. The Board has agreed a final dividend of 4.74p, an increase of 39%. Dividend for the full year is, therefore, up 35% at 6.4p; a new high. At this level, net cash cover of the dividend is 2.25 times, down from 2.72 times last time. And on a clear trajectory.

The Group is performing very strongly. Strategy is delivering excellent results. Nigel will now take you through these results in more detail.

Nigel Wilson {BIO 1535703 <GO>}

Thank you, Tim. Operational cash flow generation and net cash for 2011 continued on the strong trend we saw in Q1 to Q3. Operational cash was GBP940 million. Over the last five years, compound growth is 13%.

Net cash was GBP846 million; that's up GBP86 million. Over the last five years, it has increased by GBP610 million.

The EUR35 million special dividend from the Netherlands is excluded from operational and net cash.

One of our goals has been to diversify our cash flow by increasing cash from LGIM, Savings. And International. And that's by improving their financial performance.

As many of you commented, we were highly dependent on annuity cash flow. In 2009, it represented 52% of our net cash flow. Since 2009, we've increased LGIM and Savings from 22% to 35%. This represents an increase from GBP154 million to GBP300 million; we have doubled cash flow. Whilst International has increased from GBP8 million to GBP51 million.

As Tim said, this growth in cash has not been at the expense of slowing sales or profits. In fact, as Tim has already mentioned, all four operating divisions increased their operating profit in 2011. Collectively, they grew by 8%, from GBP983 million, to GBP1,060 million. As shown on the previous slide, more of this profit is from cash. And less from positive experience and assumption changes.

At Group level, operating profit increased by 5%, from GBP1.002 billion, to GBP1.056 billion.

You should also note that we adjusted down our smooth long-term return on cash, from 4% to 1%. And made other consistent adjustments to LIBOR benchmark bonds. In the appendix, we show how this had an impact of reducing operating profit by GBP52 million. And net cash by GBP38 million. Therefore, our GBP1.056 billion would have been GBP1.108 billion and net cash would have been GBP884 million had we not adjusted. Note, there is no impact on earnings.

It is our intention to retain this prudent approach in 2012, reflecting the unusual interest rate environment that we see, driven by QE and LTRO.

This is a busy slide but, as a consequence, it's one of my personal favorites as it links together cash, profits, earnings. And dividends. Some highlights from the slide. This includes operational cash from each division; this is shown to be GBP940 million. On a per share basis, this is 16.13p.

The net cash build up is shown; that's GBP846 million. Again, on a per share basis this is 14.52p, with dividends, as Tim mentioned, of 6.4p per share.

Positive experience variances were GBP10 million. And assumption changes were a positive GBP19 million. In total, GBP29 million. Last year, they were GBP135 million. Note, these are not included in cash.

The GBP80 million non-cash is largely the utilization of deferred tax. You should note that in aggregate our UK deferred tax asset only decreased from GBP495 million to GBP493 million, in 2011.

You can also see the composition of the GBP1.056 billion of operating profit. And the EPS of 12.46p.

The 2010 equivalent slide is in the appendix. So you can analyze the variance between the two years in greater depth.

Given the decline in equity markets and the volatility of other assets markets, we are pleased to have achieved only a negative GBP2 million on asset investment variances, with a further GBP95 million largely from the mark-to-market at fixed rate interest rate swaps, which reflected the fall in interest rates.

This slide is a new slide and it shows the 47% increase in dividends from the subsidiaries. Last year, they paid GBP476 million; this year, GBP701 million.

We want to turn profit -- cash into dividends at the Group level. A key objective of our financial strategy is not to have trapped capital and trapped cash in the subsidiaries. Of the net cash produced by the divisions, 87% was dividended to the Group.

Risk had another outstanding year, responding to John Pollock's leadership. The strategy is, first, based on scale, particularly in protection, which allowed us to continuously drive down unit costs; second, a widening and deepening distribution base; and third, using technology to increase straight through processing and improve our customers' experience.

Our GI business is a focused household plan, who are also using technology efficiently. We are indeed capturing more of the annuity opportunity through our innovation and our product expansion.

In terms of the aggregate results for Risk, operational cash up to GBP482 million; net cash up to GBP451 million; operating profit up to GBP561 million; and IFRS profit before tax up to GBP733 million.

Annuities delivered a solid performance. Operational cash strain and net cash were ahead of the guidance we gave. Note, new business strain was positive GBP35 million for the year.

Individual annuity sales fell by around 10%, which is a consistent trend throughout the year. But bulk annuities grew by around 60%, reflecting our expansion into the large schemes.

EEV margins were, again, attractive. The decrease, from 11.9% to 10%, reflected shorter duration of the new schemes, not their return on economic capital.

The potential market for bulk annuities remains enormous, estimated to be around GBP1 trillion. The current market size is around GBP5 billion to GBP8 billion per annum. We have successfully expanded our product offering in 2011 with the GBP1.1 billion Turner & Newall deal. And we completed several large longevity swaps. We expect more of this type of business in the future.

It is also worth commenting on the outstanding work performed by the LGIM fixed income team and our risk management team; not only in executing well for our customers. But also, again, we had no defaults on the 3,000 or so assets held within the LGPL portfolio.

The credit quality of the LGPL portfolio also improved; more gilts, fewer banks, more corporates. Our credit default provision is now GBP1.6 billion.

We had another strong year in Housing and Protection, with improvement on all metrics. Operational cash increased by 21% to GBP255 million; net cash by 35% to GBP189 million; APE also increased; as did margins, from 6.4% to 9.3%, reflecting the delivery of our strategy.

Gross premiums exceeded GBP1.5 billion for the first time, with GBP1.2 billion from Protection and GBP300 million from GI. GI also produced strong results with profit up to GBP42 million, premiums up 8%. And a combined operating ratio of 88%.

We achieved strong performances in these businesses, despite the challenges of the UK housing market and worsening UK employment.

The GBP27 million mortality charge we experience in Group Protection in H1 was reduced to GBP8 million in H2.

It is worth noting that the achievement of our sales teams in intermediating GBP16 billion of mortgages and market share of around 20%. The sales teams continued to play a key role in driving growth in our IP and our GI businesses. We are having success in widening and deepening our distribution base.

Our savings strategy again delivered. Again, we have scale at the center of the strategy with GBP65 billion of AUA. We're also using technology to drive down unit costs and improve customer service, particularly as move to expand workplace savings through auto enrolment. Furthermore, we are looking forward to competing in a RDR world.

Savings also delivered a strong performance from Mark Gregory's team. Virtually all key metrics improved. Operational cash up 26% to GBP174 million; net cash up 63% to GBP111 million; operating profit up 11% to GBP128 million; APE was also up; net flows were also positive in what is a fairly challenging UK market.

Mark and his team have delivered. Collectively, they have transformed the business between 2008 and 2011. Operating profits have increased by GBP121 million, from GBP7 million to GBP128 million; net cash by GBP134 million, from minus GBP23 million to GBP111 million.

Now, we are indeed excited about the prospects for our workplace savings products and the impact of RDR. Our approach to the market, offering simple, low cost, good value products through robust and simple technology platforms, we believe will result in attractive propositions for our customers and attractive financial returns.

We are winning customers; Marks & Spencer, General Electric. Unit costs are improving. Platforms are increasing their scale. And we are extending distribution, for example, Nationwide and Yorkshire Building Societies.

LGIM also delivered on its strategy. We are achieving a lot of success in pension derisking in the UK. And in accelerating our expansion and growth in international markets. This is reflected in all of the financial metrics, including AUM, which grew to GBP371 billion. This slide shows the positive growth achieved.

Mark Zinkula's first year as CEO of LGIM has been a success with strong performance on all key metrics. Revenue up 10% to GBP417 million; costs up significantly less at 6%. The net result, profits up 14% to GBP234 million.

Cash generation also improved by 17% to GBP189 million.

The margin improved by 0.2 basis points to 10.9 basis points. And average expense margin decreased by 0.2 basis points to 5.3 basis points.

Gross inflows were up to GBP32.8 billion. And net flows were positive at GBP3 billion.

Closing funds were GBP371 billion; that's up 5%.

The continuing delivery of LGIM is captured on this slide. Improving service to existing external and internal customers, particularly in the UK. However, there are exciting plans to accelerate expansion of the business in the US, in Europe, in the Gulf. And in Asia. Progress to date has been impressive.

Our international strategy is based on the synergies with our UK businesses. This approach is most advanced in the United States. We see further opportunities in numerous other markets, however, our expansion will be measured.

In respect of our International performance, profits increased in both the US, which was up by 22% to GBP104 million. And in Europe, where profits increased to GBP41 million. Cash was up in line with guidance to GBP51 million, from GBP44 million.

Our results in the US have been in line with the accelerated expansion we targeted. We now have 900,000 active policies. Were the number six provider of term life business. APE grew by 39% last year. And margins also improved to 10.7%. Another phase of our capital program was successfully executed. And US has already paid its 2012 dividend, which was $60 million.

The next few slides address some specific investor and analyst questions. We are growing our business, including shareholder value. And increasing cash at the same time. This slide provides the data to support this. UK new business value add has increased from GBP265 million in 2008 to GBP376 million in 2011. We're also increasing the cash from the back book, as you will see on a later slide.

Our VIF is growing. Undiscounted VIF grew to GBP8.4 billion. And discounted VIF to GBP4.25 billion.

In respect of LGIM, we've seen profits increase from GBP172 million in 2008 to GBP234 million in 2011.

LGI, our unit trust business, has moved from a loss in 2008 of GBP7 million to a profit of GBP34 million in 2011.

GI moved from a loss in 2008 of GBP2 million to a profit of GBP42 million in 2011.

And International is now paying a reasonable and growing dividend; nil in 2008, GBP51 million in 2011.

This slide is also a complex slide. It shows the link between cash, operating profit. And our EEV metrics. We can see EEV per share moving from 149p to 167p; in total, GBP9.8 billion. Included within this GBP9.8 billion is LGIM valuation of GBP1.8 billion. And savings investments at GBP155 million. Both of these are probably prudent estimates.

The IFRS businesses are contributing significant growth in profits, from GBP216 million to GBP289 million, with cash growing from GBP171 million to GBP234 million. And EEV from GBP1.6 billion to GBP1.9 billion.

Cash, profits. And EEV are also increasing from the other businesses.

Another slide which investors should find helpful; it shows the cost outperformance of the Group and the prudence of our assumptions 2007 to 2011. In total, GBP496 million of after-tax positive experience and assumption changes. Note, these are present value numbers. It is worth noting that this GBP496 million is not included in cash but does flow through to capital, another example of our prudent approach.

The balance sheet remains strong. This slide shows the link between cash, capital. And IGD. Our IGD increased to GBP3.8 billion, reflecting the GBP940 million of operational cash net of the GBP376 million of dividends.

You should note that we are funding a temporary increase in capital for the US. This is somewhat similar to what we did at the end of 2009 when we purchased the Potomac securities, which also decreased IGD in the short term.

The UK use of operational regulatory capital, in total GBP90 million, was again largely offset by the US capital management program; GBP65 million.

The credit default reserve has mechanically increased to GBP1.6 billion from GBP1.5 billion. This can be considered as an additional capital buffer.

This slide simply shows how Group capital and financing assets have grown from under GBP4.2 billion at the beginning of 2010 to over GBP5.9 billion at the end of 2011; in total, growth of GBP1.8 billion.

Another favorite of mine, the new 999 slide. But no need to panic with this one . We gave good guidance to operating cash in 2011, at least we thought so. For 2012, we expect in-force cash generation to increase from around GBP560 million to around GBP590 million. With-profits should be similar to 2011.

You have sufficient data to model GI and LGIM. GI, as you know, in part depends on the weather. And LGIM partially on market movements.

The US has paid its $60 million international dividend.

Group capital and financing will, to some extent, depend on the asset market performance. And strain will depend on the volumes and competition within our product markets.

We remain confident in our ability to deliver significant cash and profit, to provide the basis for good growth in DPS in 2012 and beyond.

I will now hand back to Tim.

Tim Breedon {BIO 3157585 <GO>}

Thank you, Nigel. I believe the strategy we've been pursuing over the last five years has been the right one. And that we have successfully positioned the Company for a future of sustained growth and sustained profitability.

It's been a consistent strategy in the UK to maintain leadership in risk products through the pursuit of scale, competitive advantage in technology. And risk pricing expertise, combined with broad distribution; to shift the Savings business to a capital-light model. And invest to ensure that we emerge as winners from industry changing developments, such as RDR and pension scheme auto enrollment; to grow LGIM in terms of its profit contribution and the breadth of its product range. And to exploit the cost, customer, product. And distribution synergies that exist between these businesses, whilst maintaining the advantage of balance and diversification between them.

Overseas, our aim has been to increase the returns from our existing businesses, as well as steadily growing our presence by developing bancassurance JVs in larger emerging markets and grow LGIM internationally, in terms of both manufacture and distribution.

As Nigel has outlined. And I've illustrated on the slide, further progress has been made with respect to all of these strategic goals in 2011. Indeed, it's been a year of significant progress on numerous fronts. I'd highlight, in particular, the increase in premiums and margins in our Protection business; the pensions derisking trend; the extension of our distribution partnerships, with more to come; LGIM's breakthrough into the US pension fund management market; and the momentum that we've established in workplace pensions as presenting very exciting prospects for growth in the future.

And one thing is clear; we are not going to be short of opportunities in the years ahead.

Outside our core UK market, aims, as you know, has been to increase the returns of our international subsidiaries. We've made good progress in the US, with sharply increased sales, higher margins. And dividends. And further capital returns. We remain focused on the term life market, having successfully avoided products which have undermined the performance of many others.

In Europe, the environment's been more challenging. But I'm sure, however, that we are far from being alone in making this point.

Our experience in India has been good. Premium income was 89% above 2011; and, after only two years in operation, we've over 200,000 policies in force.

We're hopeful of adding to our portfolio in bancassurance joint ventures in major emerging markets this year. But we will continue to be highly selective.

Other key elements of the strategy we put in place five years ago relate to the adoption of cash flow metrics to drive the business and report on its progress to shareholders. I think you're familiar with it; strong control of the cost base; a step change in management bandwidth culture and brand; and improved capital management.

Again, we feel our results in 2011 owe much to the greater focus, clarity. And confidence that these initiatives have brought. Having the right strategy is one thing. But developing the organizational capability to deliver it is just as important.

You may consider operational efficiency, scale in our chosen markets, the extent and quality of cash generation, balance sheet strength to be business as usual for L&G. It is. At least it is for us. But the platform these provide should not be underestimated; they are source of competitive advantage.

Ours is a powerful franchise. What we do is already substantial. But our business model means it remains scalable still. And what is more, it matters. As a result, we're very involved in debates about how financial security in the UK is to be delivered for a society facing difficult choices, whether it's in respect of long-term care, sickness absence, financing economic growth, or long-term investment.

2012 will be a year of substantial change for the industry. We'll see the adoption of RDR, which banns providing commissions for advising on sales of savings products. And will lead to a significant change in the distribution landscape in the UK; gender neutral pricing; reforms to the taxation of life assurance products; the start of auto enrolment and compulsory employer contributions in corporate pensions.

We will see the FSA moved to a twin peak structure in anticipation of the creation of its successor regulatory bodies. And this heralds a major shift in regulatory focus and style, which is bound to have profound consequences for the UK financial services industry.

In 2009, I said that it was possible for an ill-judged and indiscriminate regulatory backlash to the financial crisis to do more lasting economic damage than the crisis itself. And I believe that this remains a risk.

And of course there's Solvency II. Implementation of this capital regime for insurers across Europe has already been put back to end 2013, ad the process is likely, in my view, to suffer additional delays. And this, inevitably. And unhelpfully, will prolong the period of uncertainty still further.

So, until detailed rules and transitional arrangements are finalized, maintaining flexibility and capital strength remains the right thing to do.

As we predicted, UK economic growth has been subdued. It's likely to remain so in 2012. However, the wider economic challenges would also be catalyst for further opportunities. Competition is less intense. And market share growth can be secured without impacting margins.

The public sector's retreating from the provision of unsustainably high welfare benefit. Consumers will increasingly recognize the need to protect, save. And to invest. It's an opportunity. Greater personal responsibility aligns with our values. And it aligns with our product range.

Many are finding these market conditions challenging. Legal & General, however, is thriving. As our results show, the Group is performing strongly, with considerable momentum. Through the successful execution of our consistent strategy, we believe

Legal & General is clearly demonstrating that it's got the strength to succeed in the current environment. And we are confident that we can continue to benefit from the opportunities it will inevitably present.

We've grown the business and generated high levels of sustainable cash to support an increase in the dividend; we can continue to do so.

I'll open the floor to questions. Thank you.

Questions And Answers

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking, Morgan Stanley, I've got three questions, please. On the cash slide that Nigel put up, you've got very high conversion of cash into dividends. Are those remittance ratios sustainable going forward? And you also hinted that there's an opportunity to actually sweep some excess capital out of the subsidiaries, I wonder if you could talk about that.

Secondly, on the Savings business, you've obviously done a lot of work on reducing strain and the profitability's up quite strongly. But the assets are flat. From here on, to get profit growth in that unit, do we need to see assets to grow?

And then finally, the platform that you developed, you've got a very small proportion of overall savings assets on that platform. Actually, getting more assets on to that platform, how key is that to the leverage story going forward?

A - Tim Breedon {BIO 3157585 <GO>}

That's great. Well, cash to dividends, that's obviously one for Nigel. And I'll ask Mark to comment on strain in Savings and growth in AUA. And also on where we plan to take the platform.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, very good questions, Jon. We will try to get a similar level of cash out of the subsidiaries. I think it's a great discipline to have as a business. I think it demonstrates that the profits turn into cash, turn into dividends for the shareholders.

Clearly, for International it's 100%; for LGIM, we typically around 90% comes out; and we had slightly less from the Risk and Savings group. But that's a strategy that we expect to continue into the future.

A - Mark Gregory {BIO 15486337 <GO>}

Okay, just dealing with the first question then, Jon, around how important asset growth is to the Savings strategy, well, one of the slides that Tim, perhaps Nigel, showed just set out the core four or five strands to the Savings strategy. Clearly, the top one of those is the need for growth. So clearly, one can't shrink to greatness in that sense. And we absolutely recognize the need to make sure we land growth. And also we bring that growth on in a very efficient way.

So, at its core, this is the growth strategy. And that's very much what we set out to do. And we have over the last three or four years grown the assets significantly in Savings. And that actually has boosted the revenue line considerably, which clearly has come straight through to the bottom line. So that's key.

Clearly, in the short term, the market movements, etc., are unhelpful in that regard. But long term, we're still very much committed to growing the asset stock that we've got in the Savings business.

On the more precise question around the efficacy L&G manufactured funds on the platform, it is an open architecture platform. At this stage, we're very much kind of that's the way we run it. We try not to over-promote our own assets on there.

Clearly, if we think about how we might extend that platform going forwards, particularly thinking potentially around the direct space, there might be more scope then to think about how we, whilst retaining an open architecture proposition, still have a little bit more propensity to have L&G manufactured funds on that platform. But, at this stage, we very much use it as a genuine open architecture platform model.

A - Tim Breedon {BIO 3157585 <GO>}

Yes, thanks. Falling markets clearly mean even a small increase in assets under administration is not a bad result. And in terms of the platform, it is open architecture. It makes sense financially, from an open architectural perspective. It would be good to have more LGIM representation on that. But it is not a necessary condition for profitability of the platform going forward.

Operator

(Operator Instructions).

Q - Toby Langley {BIO 15924432 <GO>}

Toby Langley, Barclays Capital. I've got three questions, as well. I've asked this of some of your competitors. So I'd like to ask it again, about the issuance of RDR class shares. And how you see that affecting the AMC charge on your existing retail Savings business. And, indeed, whether that -- any pricing pressure there for the broader market, particularly in the active space, conceivably is an opportunity for you, being more of a passive provider.

Secondly, I wonder if you can comment on bulk annuity pricing in 2012. It was strongly -- sorry, the strain was strongly positive in 2011, has that continued into this year?

And then finally, there is no formal cash target in the numbers today. And I wonder whether you can maybe go a bit further as to explain why you haven't gone to the lengths of doing that?

A - Tim Breedon {BIO 3157585 <GO>}

Well, on the cash targets, I didn't think we needed to. I think we made our point about growing cash. And we've made our point about how that's going to be converted into dividends. We're on a very clear trajectory. I didn't think it would be particularly valuable to put in the cash target for this particular year. You can see clearly what we're trying to do. We're continuing along that trajectory.

Mark can answer the question on RDR.

And bulk annuity prices, it's a bit early in the year really to say exactly where bulk annuity pricing is going. But what we've seen so far is that there is no erosion of returns on that business apparent at this stage. Mark?

A - Mark Gregory {BIO 15486337 <GO>}

Okay. And just dealing with the RDR impact on fund loss pricing, I guess, without giving too much away, it's quite common knowledge, amongst, say, inactive price fund currently there's an element which traditionally [ph] pays trail commission, an element which goes to fund the platform charge, etc. Now, clearly, with the absence of commission post RDR one would expect the trail commission element of AMC to disappear.

At this stage, the FSA are still allowing bundle pricing propositions for platforms; that may or may not prevail longer term. We haven't yet announced our own share class pricing post RDR. But clearly we will take account of those impacts. And, therefore, one would expect the headline charge on most retail funds in the UK to come down to reflect the absence of trail commission going forward. So that's definitely a trend we expect to see.

The other question you raised, Toby, around the import of passive funds going forward, we've been very keen on this, as a concept, for a while. If you look at the general shape of retail portfolios in the UK, there's a huge propensity towards active funds within that. If you compare that to, say, an institutional corporate pension-type portfolio there's a much, much, bigger propensity to hold passive funds.

Now, our belief is that as the kind of transparency of pricing becomes more apparent then the construction of the underlying funds. And, therefore, the price offer of those funds, will become much more key. So we are absolutely of a belief that we'll see passive funds become much more prevalent in the retail space than we've seen in the past. And it goes without saying, given LGIM's absolute clear competence in that space, we expect to be beneficiaries of that trend.

Q - Toby Langley {BIO 15924432 <GO>}

Thanks.

Q - Greig Paterson

Greig Paterson, KBW. The traditional three questions. The first one is at the half year your annuity margin was 8%. And it climbed to 10% at the end of the year, that's EEV margin, yet you wrote a bulk annuity with far less immediate annuities. And you wrote a low margin swap transaction. So I wonder if you could just square the circle. Is it assumption changes? What's gone on there? That's question one.

The second one is -- I'll also save you time. One, I think you gave some guidance last year but I wonder if you can give us some appetite, or some numbers on your appetite, for bulk annuities and longevity swaps so we can at least attempt to do some forecasts for you for 2012.

And the third question is I notice you renewed your bancassurance arrangements recently. I was wondering -- you're obviously -- I doubt you're going to give us some details on profitability. But I wonder if you could talk about the profitability of your bancassurance versus your non-bancassurance channels; whatever you can give us, some insight into whether you make less or more money under bancassurance.

A - Tim Breedon {BIO 3157585 <GO>}

I'll have a go at all those without doing too much by way of giving you commercially sensitive information. The annuity margin, I think don't look at the annuity margin over a half year; it's really not relevant. The best thing is to look at it over an entire year because of -- it's only really at the end of the year that we can think about allocating expenses, for example, for the business, looking at all of the assumptions. And so on.

So the half year really gives you an indication of where you are. So don't treat this thing as two separate halves. It's one year's experience, measured at a point of time, six months in. And then done again as a full year. So no assumption changes significant, John? No significant assumption changes to report on that.

And I think the margin is very attractive, in double figures, particularly given the nature of the liabilities that we're taking on at the moment. There's a lot of business in annuities at the moment and, because of uncertainties around the profitability in that business, are relatively quite high.

Appetite, we've already said GBP2.5 billion of premiums per year is broadly our target, provided it meets threshold return on economic capital targets.

Clearly, if we can do business significantly above that return on economic capital target the capital committee may decide to do more of it. If we can't achieve our target returns, we'll do less. But, broadly, we're comfortable of adding about GBP2.5 billion worth of premium across all the annuity businesses. We look at it as one. We don't have a separate target for small bulks, big bulks. And individual annuity business.

And the next one was profitability of bancassurance. Well, we wouldn't do it if it wasn't profitable. We do it in scale. We do it in scale. These are often sole ties. So if you do them well and you get scale through them you'd expect your margins to be good. If you do them badly and you don't get the scale, margins will not be good. We're in the business of doing it well.

And because we do it well, these agreements, which are typically five-year agreements, do tend to get rolled over, renewed. And, indeed, as is the case with YBS. And Nationwide to some extent, extended to cover, in YBS's case, more brands than branches; and in Nationwide's case, post RDR, product delivery and more products.

Q - Greig Paterson

(inaudible).

A - Tim Breedon {BIO 3157585 <GO>}

If you do it well, it can be your most profitable channel. If you don't do it well, it can be your least profitable channel. We tend to do it well. Can I be clearer? I don't know.

Q - Tony Silverman {BIO 2162363 <GO>}

Tony Silverman, S&P Capital IQ. I wonder if you could talk a little bit about the dynamics of low interest rates on the annuity market and the demand picture for 2012. That's first question.

Secondly, on page 23 of the review, I think it is, you have your reconciliation of undiscounted cash flows. And you've got a number for the contribution from new business of GBP0.8 billion. I was wondering if you could give us some indication how much of that is in the first 20 years. And how much is later? Obviously, a lot of it could be later for some of the products. Or what you can say about the profile of it over time.

And finally, I noticed the comment on some of the news wires that you're opening an Asia office. I don't think I heard Asia mentioned at all so far, perhaps you could say something about that, or are you maybe keen to?

A - Tim Breedon {BIO 3157585 <GO>}

Okay, we'll cover all of those. Interest rates and the impact on demand for annuities, I think you said both in individual annuities and bulk purchase annuities.

On individual annuities, I think we're seeing more people trying to delay taking a retirement annuity at the moment, delaying their retirement, or delaying the conversion of their pension pot into an individual annuity, hoping they'll get better value when gilt yields are less depressed by QE and other factors. However, this is just a delay. It's not a cancellation of that flow. And I think we're not unusual in seeing slightly lower demand in individual annuities now because of that effect.

In bulk purchase annuities, often the assets that we're dealing with are already hedged, they're already in gilts and corporate bonds and, therefore, won't necessarily make a big difference to demand. Won't necessarily; that's not always the case. But it is often the case.

The VIF amortization profile I'm going to give to Nigel. I'm just going to say that Nigel did mention Asia in his presentation; distribution office only at this stage.

LGIMs have been very successful; far exceeding our expectations in Chicago, both the manufacture and distribution office there. I think that could be a big business for us based out of America. It just makes sense to complement that now with a presence in fast-growing Far Eastern markets.

A - Nigel Wilson {BIO 1535703 <GO>}

Perhaps, on the annuities I should have expanded on what was in my own mind. There'll be a limited pipeline of people who, if you like, matched their intention to go the bulk purchase route by moving into gilts at higher interest rates. So, obviously, it's correct that there will be the people who already have moved into the collecta [ph]. But that pipeline will be limited. And one thinks that if low interest rates persist that pipeline will exhaust itself.

A - Tim Breedon {BIO 3157585 <GO>}

Absolutely. Pension funds, by definition, with the benefit of hindsight, wished they'd made their equity to gilt switches earlier. But a lot of them have made the average pension fund exposure to fixed income. And cash is a high proportion of assets. Typically, that's done in respect of pensions in the course of payment.

When you do buy-in transactions, bulk purchase buy-in transactions often that's the only part of the liabilities that you're dealing with. So there is a big amount of business which is already interest rate hedged which could be converted into a bulk purchase annuity, particularly buy-in. It's not the whole GBP1 trillion, obviously. But it's a (expletive deleted) big number. So plenty to go for. It's not going to -- I don't think it's going to dampen demand significantly in the short term. It's a big enough market.

Sorry, the VIF amortization, Nigel?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, I think the business schedule in the pack of the aggregate numbers broken down over time and the business we took on, the CO [ph] wasn't particularly skewed to the longer term.

Q - Tony Silverman {BIO 2162363 <GO>}

What page is that?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, find it . I'm going to say 23 as a random guess. Is it 23? 23, there, how about that?

A - Tim Breedon {BIO 3157585 <GO>}

I've never seen Nigel stuck for an answer before, well done .

Q - Tony Silverman {BIO 2162363 <GO>}

That's not the new business.

A - Nigel Wilson {BIO 1535703 <GO>}

No, I'm saying the new business, very little of it would be of it -- the new business that we took on during the course of the year, very little of it would be over GBP20 million.

Q - James Pearce {BIO 16758460 <GO>}

James Pearce, UBS. Couple of questions. First of all, it looks as though you've relaxed the life expectancy assumptions a little bit in the embedded value, could you explain the rationale for that?

Second, I see you had a reinsurance profit on IFRS of nearly GBP200 million. What's the nature of the reinsurance that you're taking? And where did it appear in the income statement. And cash flow in particular? Is it operating or non-operating?

A - Tim Breedon {BIO 3157585 <GO>}

Do you want to have a go at those, John?

A - John Pollock {BIO 6037447 <GO>}

I'll certainly have a go at the first one.

A - Tim Breedon {BIO 3157585 <GO>}

If we've understood them correctly, I'm not sure I understand the second one.

A - John Pollock {BIO 6037447 <GO>}

Yes, I was just going to say I'll certainly have a go at the first one. The life expectancy changes, really, CPA is a relatively short-term business for us, or we've only been in the CPA market for a relatively short time in comparison to the BPA, where we're over 25 years. So our expectations of life were set very prudently. What we've done is, as we're gaining experience, we're beginning to bring them more in line to BPA.

Actually, our BPA is driven by a number of factors; scheme selection, whether you're a white or blue collar-type schemes. But equally, you'll find that the BPA life expectancy has slightly increased. So all you're seeing there is a release of some prudence in the CPA life expectancy.

Second one, you're going to have to run that question by me again.

Q - James Pearce {BIO 16758460 <GO>}

There's disclosure on page 66 --

A - Nigel Wilson {BIO 1535703 <GO>}

I think that one we can take offline at the end because it's quite a complicated question. I think you'll just -- if that's all right, James, we'll just do it at the end.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Raghu Hariharan, Citi. I just had three questions. The first one was on your small [ph] investment variances and cash flows. So it's on page 53 of your IFRS disclosure, you've got GBP172 million of profit on the Risk business, I was wondering what's the main driver of that below-the-line profit.

And the second related question was what is the amount of smooth investment returns that are in your net operating cash flows?

The third question was really on the Savings business. There's some press article talking about you making a offer for Cofunds, I was wondering is Cofunds planning? Or is it IPS plan b? Or is the other way around? Thank you.

A - Tim Breedon {BIO 3157585 <GO>}

Right, I'll do the investment variance. Nigel, will you do the one on the investment gains? And, Mark, will you do the one on Cofunds?

So I'll start with the investment variance. You're right to point that out. So, firstly, no defaults. It's a good start. The second, better asset liability duration matching. That's good. The third thing is a small, very marginal increase in yield on the portfolio, despite the portfolio improving in terms of credit quality. That's a very good result. That's exactly what you want in terms of pattern; reflects excellence portfolio management of the LGPL asset portfolio during the year.

Do you want to go for the investment gain number? Have you got it?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I couldn't hear that question sorry, Raghu, the second question was?

Q - Raghu Hariharan {BIO 15133573 <GO>}

Was the contribution in smooth investment variances [ph] in your operating cash flows? Because if you look at page 53 [ph], (inaudible), I guess the GBP172 million [ph] doesn't come through the operating line, it's below the line so the GBP97 million is net of the GBP172 million. Is it GBP269 million that's then the net operating cash flow? Is that the right way to look at it? If you've got a GBP97 million --

A - Nigel Wilson {BIO 1535703 <GO>}

The GBP97 million consists of two components; a minus GBP2 million, which is the asset variance, of which the GBP170 million is the largest positive component. But obviously there's a very large negative equity component in that of GBP139 million, which is part of another line in that statement. And then there's a GBP95 million negative, which is largely the mark-to-market on the interest rate swaps which I talked about. The minus GBP2 million and the GBP95 million is the GBP97 million. And that's below the line.

A - Tim Breedon {BIO 3157585 <GO>}

So the bit above the line is the assumed return. We've reduced the assumed return, the assumed yield on the assets that we have held significantly. And we've slightly underperformed that on shareholder funds in respect of particularly the holdings of equities which fell during the period. But we've outperformed it in other areas. So the effect is zero. So asset variance overall for the Group is around zero.

A - Mark Gregory {BIO 15486337 <GO>}

Yes, just on the Cofunds rumor, I think you'll forgive me for not commenting on market rumor and, in so doing, Raghu, I think I'll just comment on your plan a versus plan b question. I think that should be more of a no comment. So I'll duck that one as well.

If I can just perhaps give a little bit of context to where we are with Cofunds more generally. Clearly, we have essentially two elements to our trading relationship with Cofunds. We are a 25% shareholder in that platform. And it's got GBP36 billion of assets at year end.

Linked to that then, in terms of how we then trade with Cofunds, we've got -- obviously a lot of our products are available on Cofunds; not just our funds. But also our wrapped life and pension products are predominately available on Cofunds. And often to the exclusion of any other providers' products.

And perhaps linking back to IPS, clearly, we've given today our scale uplift [ph] of about GBP6.8 billion of assets on our IPS platform. And it's worth thinking about how we then leverage the scale benefit we have.

Since we rent our technology from Cofunds, things like custody, which again you need massive scale for usually to make any sense of, well, actually, because we're renting that scale effectively from Cofunds we get all the benefits of that without necessarily having the super scale that one or two of our competitors have been saying recently you need to be profitable in the platform space. So we're very content with the current state of the relationship with Cofunds.

Q - William Elderkin {BIO 3349136 <GO>}

William Elderkin, SocGen . Two questions. One, can you give us an idea of the range of Solvency II outcome scenarios, if you like, you thought about when setting the dividend for the final stage?

And secondly, what the resilience of that level of distribution is in an adverse Solvency II outcome?

And then, completely differently, can you give us an idea of how the overall Group tax rate is likely to trend over the next couple of years?

A - Tim Breedon {BIO 3157585 <GO>}

Simon? Simon's here, isn't he? He can cover the tax. Give you plenty of notice, whilst I deal with Solvency II. Yes, Solvency II, very complicated, once again. I'm afraid we still have no clarity on Solvency II.

Despite the implementation being put back to 2014, the timetable, I think, is, once more, under considerable pressure and it wouldn't surprise me if we see additional delays. The lack of certainty over the final rules means that we think the right response is to maintain capital strength, which we've done. And flexibility.

I think, encouragingly, there is very strong support across the European industry for countercyclical measures, a sensible transitional regime. And rules that reflect the illiquidity of many life assurance liabilities. And that's recognized by the European Commission, many other participants in the European political process.

The process, however, is a mess, not to put too fine a point on it. And, as a result, I think it's proving just as difficult as I imagined it would be to get the rules right and then to fix them in a way that enables firms to plan. So that's the bad news. The good news is there's still a lot of time to react.

When it comes to setting the dividend, the key issue with the dividend is cash. Cash flows into the balance sheet. The dividend's got to be financed by cash. Cash flows into the balance sheet, how much of that is going to be distributed as dividend? The good news is that the dividend is hugely covered by cash and, therefore, the balance sheet is in receipt of strengthening year after year. So cash is the key determinant of dividend.

The second is, is the balance sheet strong enough? Or does it need to be -- do we need to retain more of that cash? And the view that we have taken, an unchanged view, is that a move towards 2 times cash coverage in the medium term is a sensible place to go, whilst the uncertainty over Solvency II remains. Once that uncertainty is removed, we'll have another look at it. Okay?

And tax; the simple version, please.

A - Simon Burke {BIO 19146780 <GO>}

Group-wide, our effective tax rate came in just about 2% below the annualized statutory rate in the UK. But, of course, our Group tax rate is made up of tax on UK profits and tax on overseas profits, which tends to be at a higher rate. But, notwithstanding that, the trend, I'd say, is to maintain a bit of an advantage over the UK rates. And bear in mind that the UK rates are going to come down. George Osborne's announced rates down to 23%. And I think the pressures on reducing CT rates will continue.

We've maintained a margin of at least 2% under for the last couple of years. And I hope that we might be able to maintain that trend going forward .

A - Nigel Wilson {BIO 1535703 <GO>}

Not that he's incentivized it in any way.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, Royal Bank of Canada. The deal you recently announced with Pilkington, you offloaded a large chunk of that to a reinsurance company, just wondering why you didn't keep 100%.

And second related question is you talked about being willing to write GBP2.5 billion of annuity income each year, is that a risk consideration or a profit consideration?

A - Tim Breedon {BIO 3157585 <GO>}

90% of the risk on the Pilkington transaction, longevity insurance transaction, was reinsured. We thought it was the right thing to do that. It may well be the answer to the earlier question about the use of reinsurance, by the way. This is a new standalone business line where we have a reinsurance partnership in order to participate.

You're asking why didn't we keep more of it; John will give you the answer.

A - John Pollock {BIO 6037447 <GO>}

As Tim says, it's a new standalone business. We already have an awful lot of longevity risk on our books. But as we come into this market there's a number of features that we can gain benefit from reinsurance partners. Their own pricing at times can be better than ours.

The longevity insurance market is likely to grow substantially. We're in it in partnership with this one; that doesn't mean to say that we will always seek or require reinsurance. And it depends on our appetite at the time, it depends on the type and structure of the scheme. And it depends on the nature of the liabilities. And we will pick and choose how we go forward in this market. This one was very much one that worked for us with a strong reinsurance partner.

A - Tim Breedon {BIO 3157585 <GO>}

In terms of setting the annuity risk appetite, I think it's partly profit. And I think it's partly risk. And it's partly diversification in that each year you can apply different sets of assumptions. And you have different amounts of insight and experience to inform your pricing.

So the longer you can stretch out your total appetite for this business the more information you're going to have; the more expertise is going to be available for you; the greater the confidence of the data that you have; and the more diversification across ranges of that you can make, mortality assumptions, postcode assumptions, all our assumptions. So instead of them being spot assumptions fixed forever and then we write all our appetite in one go, we can use the benefit of all the experience we're gaining year after year to inform and refine pricing.

Sometimes we put more prudence in, sometimes we find, as John has said, a little less prudence is required. But this diversification across vintages of assumption is, I think, really powerful for us and one of the benefits of being twenty plus years in the bulk annuity market when many of our competitors are just relatively new to it. So it's a kind of self imposed discipline.

It's interesting also to note that obviously capital flows off the back book as the business matures. And all of that capital, that release in reserves, find its way to shareholders.

In terms of the new business pricing, as of today, much of the reserves that we put up. And indeed the capital element, is funded by customers. That's why we have the new business strain being a positive number.

If you look at the two numbers and compare the size, it's very interesting to see how little movement there is in the amount of shareholder capital at risk, despite the fact that we're writing far more business than appears to be flowing off the back in terms of premium and numbers of lives. And so in that sense it is another kind of risk controller here, which is the amount of shareholder capital tied up at risk.

All those things go into the debate when we set risk appetite. As I say, line of business, as you can imagine, that we spent a heck of a lot of time discussing, analyzing, refining; it's very material to us. That's it.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Three questions. Could you give a sense of what your internal economic capital is in relation to your Solvency I capital?

Secondly, I think you've got two targets. You've got this 2 times cash cover on the dividend. But then you've got this other target of being between 1.75 times and 2.25 times the IGD requirement. And you're almost busting up through the top of that. And if you keep on having a cover of 2 times your bank so much cash into the balance sheet that I should think you'll break through that. And you'll also drive your ROE down. So how do you square those two?

And then finally, how many members have you got in your corporate pensions schemes at the moment? And how many additional employees in those firms are not currently within the remit and could be captured under auto enrolment?

A - Tim Breedon {BIO 3157585 <GO>}

Auto enrolment opportunity is a really big opportunity for us and the number of lives is significant; I'll leave Mark to give you those. But it is a step change, both in the market and for us.

In terms of economic capital versus Solvency I capital, we're a Pillar 1 company.

Q - Andrew Crean {BIO 16513202 <GO>}

I was thinking of quantum.

A - Tim Breedon {BIO 3157585 <GO>}

Sorry, I'm not giving you a quantum. But we have more economic capital surplus than regulatory solvency surplus.

And you're absolutely right about the constraints. And the way to deal with those constraints is to pay a massive increase in the dividend for 2011. And to continue to try and balance those metrics arithmetically. So stay within the IGD range, move towards the 2 times cash coverage, increase the cash flow. And out of that comes the dividend increases, like the one that we've been announcing today.

Q - Andrew Crean {BIO 16513202 <GO>}

So, to be clear on that, you will still try and keep within the 2.25 times?

A - Tim Breedon {BIO 3157585 <GO>}

Really, we're moving to a new basis for solvency going forward. So there will be a step change when the new solvency basis, called Solvency II, which will be economic capital-related but is unlikely to be the same as economic capital, in my view. We will look to see how that operates for us. We will then set a new solvency surplus target based upon the new definition of solvency that we'll operate to.

So we've got to have in our minds there's going to be a step change coming, which we thought would have happened by now; likely to happen in 2013. But not definitely going to happen in 2013. So look at that IGD surplus target as a kind of temporary one, Andrew, I think that's right, as a temporary one because the whole basis is going to shift in due course. But whilst it's there, we'll try and aim to keep within it.

Lives?

A - Mark Gregory {BIO 15486337 <GO>}

Yes, just on the number of lives in our workplace pensions arena, we've got about 350,000 active lives in our corporate pensions mandates currently. So, just to be clear, when an employee leaves a scheme or stops paying that drops out of that number. We treat that as part of our retail pensions business. So those are active premium paying members in the scheme. I don't know how that might grow going forwards.

In terms of the success we had last year, in terms of scheme reorganization, actually, people coming across who are already paying into a DC arrangement, we secured about 94,000 additional lives last year, of which about 10,000 actually came on the books during the course of 2011. Therefore, by definition, the other 80,000-odd will come on the books in due course. So they're already, as part of essentially DC reorganizations, paying into a DC scheme so they're already established pension payers.

On top of that, we've then got the auto enrolment opportunity as well. And we estimate we've got access to about 350,000 new auto enrollees through mandates we've already secured. Clearly, the trick then is to work out what proportion of those potential auto enrollees will actually remain enrolled when auto enrolment comes down the track.

DWP, by way of a steer two [ph], estimate about 35% opt outs from auto enrolment. Our candid view is it very much depends on the quality of the employer mandate in terms of what they're putting into the scheme.

Clearly, when an employer's much more benevolent towards its employees and pays a higher employer contribution one would expect the take up rate to be an awful lot higher. And, generally, the scheme three one [ph] tend to be with very good employers who are taking their responsibilities towards their employees very seriously. So we are very confident we're going to get big take up. But we have priced for it on a much more prudent basis than that in terms of take up rate.

So that's how we're approaching the whole corporate pensions auto enrolment opportunity.

A - Tim Breedon {BIO 3157585 <GO>}

I think, on auto enrolment, we're not just dealing with a change in basis of contribution and opting in and opting out basis but companies are using it as a time to review their arrangements, full stop. And so we're not just talking about new lives or new auto enrollees here, we're often talking about the transfer of all the DC members. And the DC assets from existing schemes as well.

So the actual opportunity is the transfer. In the short term, the big opportunity is the transfer, whereas in the long term it's the new membership, of which some will be the auto enrollees, who previously would not have participated in the scheme. So very important to have in your minds these three different groups of people.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, BofA Merrill. A couple of follow ons. There's quite a lot of cash building up at the Group level. You've talked a lot about your organic plans, is there anything inorganic on the table. And comment please on whether that would come through the insurance business, or more likely through the asset management side?

Second question is given your comments on cash flow, the IGD, the fact that your economic capital is higher, is the only real constraint on reducing that dividend cover below 2 times [ph] clarity on Solvency II?

And the third question is if a Solvency II type regime or an economic capital regime is applied to the pension funds industry, what would your view be as to the impact that has on your bulk annuity market?

A - Tim Breedon {BIO 3157585 <GO>}

The last one, you've probably got as good an idea as I have but it would be a big thing for UK plc. You could argue it creates opportunities for insurance companies. But I think in the big scheme of things the impact on UK plc will be very negative, indeed.

It's not something we welcome. We have been lobbying against it. And I think political opinion in the UK that it would definitely be a step too far. So I think we're unlikely, at least in the short term, to get a Solvency II type regime applied to corporate pension schemes via Europe. But it is. And I know Michel Barnier has been on record as saying, something that is being looked at. He's also indicated that he would tread very carefully into that area.

The other one is organic versus inorganic growth. There's a lot of opportunity for organic growth here. I don't think we're going to be short of opportunities at all, as I hope we've demonstrated.

You know my views about revenue synergies and cost synergies are putting life assurance companies together. I'm very dubious that they exist. However, one or two areas which, perhaps, it would make sense for us to be bigger in, we are motoring inorganically -- organically, very quickly. And you can see that the balance of the Group is changing, I think for the better. And absolutely in line with our plans. But if there's a chance to turbo charge that with a bolt-on acquisition in one of those individual areas, we will certainly look at it.

Q - Blair Stewart {BIO 4191309 <GO>}

And on the asset management side?

A - Tim Breedon {BIO 3157585 <GO>}

I'm talking about all parts of the business.

Q - Blair Stewart {BIO 4191309 <GO>}

And on moving divided cover down to 2 times, is Solvency II the only constraint?

A - Tim Breedon {BIO 3157585 <GO>}

No, it's not the only constraint. Uncertainty is a constraint; that's market uncertainty, economic uncertainty, as well as regulatory uncertainty, all three of those things.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes, Nomura. Big picture question for Tim, following on from the previous question. You haven't given growth targets. And I know you're handing over the reins. But where would you see Legal & General going, say, in three years time in two respects; one is business mix. And the other is growth?

And I wondered if you could give us some sort of quantification, if that's possible, of business mix. Light risk is half at the moment and capital light stuff is one-third, what is the balance that you want?

And then in terms of growth, again, in terms of these segments, what is the growth that you think is achievable in Risk, in the Savings business, in Investment Management, in International? Could you at least tell us whether it's single-digit or double-digit? Thanks.

A - Tim Breedon {BIO 3157585 <GO>}

I think it really depends as individual markets. Clearly, where the underlying markets are growing we maintain our market share, we get growth. In other markets, such as protection, if we want to grow there, we're going to need to grow our market share. We are successfully doing that.

We've got very high market shares in some markets. And without growth in those markets it's clearly going to be a lower overall rate of growth. But, as I've tried to indicate, as the pressures on the competitive situation change, we do expect to see a reshaping going on in terms of competition. We've got RDR; we've got gender-neutral pricing; we've got Solvency II.

We think the appetite of some of our competitors to continue in some of the market segments where we are, we already have high market share, is likely to be less going forward, giving us room to expand market share without sacrificing margins.

Other places, we've got relatively low market shares in markets that are going to potentially grow exponentially. And I'll talk about -- we've talked about workplace pensions; that seems to be a very obvious one.

And the third one is expanding what we do well in the UK and looking for international opportunities. I've said in the past, bancassurance is something we do very well; I think we can make money in JVs, in emerging markets. Investment management, corporate and risk business, we do very well. There are opportunities to do more of that in developed markets. So that's the kind of shape of the growth that we're expecting.

And there are one or two areas where we just like to be bigger, we think. Our GI subsidiary, as we've said in the past, could be bigger than it is. At the moment, our Unit Trust business could be bigger than it is at the moment, to reflect the scale so that it's commensurate with the scale we've got in other areas.

In terms of the balance, I think the direction of travel's very clear, I don't need to say more about that. This is a far better balanced Group than five years ago. It's far better positioned for products where the future growth opportunity and profit opportunity is clear, as opposed to those where it was unclear in the past. We think we've positioned it really well, for the growth opportunities going forward.

As this is my last year, it's really not for me to say where this Group is going to be taken over the next few years. But the platform we've created, I think, is a really interesting and powerful one. It just has opportunity written all over it. Not just in one or two segments; it's a high quality play on many opportunities, which I think really does differentiate us from the many other companies in our sector.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions. One is, you beat my estimate, certainly, in terms of projection new business strength, I think it was about 44% of APE in the first half. And down to about 40% in the full year. So I'm just wondering what drove that. Actually, you beat on Protection new business margin as well. So what's driving that? And how sustainable is that improvement?

And then the second question is you talk about raising the yield on the annuity book but with an improved quality. So I'm just wondering what you've done in terms of the asset mix; perhaps a little bit more precision than you've given up to now to tell us how that's happened.

A - Tim Breedon {BIO 3157585 <GO>}

Well, Protection, do you want to do Protection, John? Probably the easiest thing.

A - John Pollock {BIO 6037447 <GO>}

It's pretty straightforward really on Protection. We've written a lot more business at higher efficiency. So we've got straight through processing rates up to 75%, we've got commensurate expenses materially down. And that drives strain. Commission, actually, has fallen very slightly as well. But that's just part of the overall commission mix. So it's really scale and efficiency.

A - Tim Breedon {BIO 3157585 <GO>}

Which we like. There's more to go?

A - John Pollock {BIO 6037447 <GO>}

Yes, there is more to go. Sorry, you were about to ask something else, Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

(inaudible).

A - John Pollock {BIO 6037447 <GO>}

Well, I think the overall protection market has been relatively flat over the last few years. Our share gains have been good. But, as Tim alluded to, there's quite a lot of government reform, unsustainable benefits being paid, which does give opportunities for private provision, self provision. And there are opportunities in there. We would hope to expand family protection, income protection. And the like.

We are a high scale, high efficiency play and, therefore, we will continuously focus on driving down our expenses. And that will, hopefully, materially impact on our strain.

A - Tim Breedon {BIO 3157585 <GO>}

Yes, increased diversification, a little bit more exposure in sale and lease back. So as [ph] the banks retreat from financing long-term assets with short term, often overnight, wholesale cash flows there's been a significant re pricing of those assets in favor of long-term holders. I'd expect that to continue. That's one area.

Otherwise, just normal positive management of the portfolio. I can give you details but I'd rather not, if that's all right. It's -- the main effect is no defaults. The second biggest effect is the slightly improved duration, as matching of the portfolio. The third impact is improving the quality. But also marginally improving the yield, through management action.

So it's a big part of running an annuity business. And this is why I like the balance of the Group so much. That we have as much expertise, which is competitive in its market, on the asset side as we have on the liability side in this Group.

We are not dominated; we are not an insurance dominated Group. And we're not an asset management dominated Group. We have the balance between the two. We have expertise that we can apply to both sides of the balance sheet. And this is just an example of how we can make that work for us.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. Three questions, please. The first one's on LGIM, on the tracker fund business. I think you correctly highlighted that retail inflows into tracker funds hit a record this year from their OMA [ph], yet, when I looked at your data for the tracker fund, I can see that the net flows were positive GBP0.4 billion [ph] at the half year. And negative GBP1.6 billion [ph] at the full year. Maybe you could talk a bit about the outlook for institutional tracker fund business, which is the majority of what you've already got.

Second question was on Protection. When I saw the margin for Protection improve, from something like 6% at the half year to 12% for the full year, my first reaction was someone in the reinsurance market's probably done something silly. So it would be quite good to get the numbers, gross of reinsurance, for your new business margin for the full year; and also to understand where your H2 new business margin was for Protection; and also the impact on IFRS.

And the third question was, I guess, coming back to Greig's question about 10% annuity margin for the full year on the Turner & Newalls scheme. Obviously, Turner & Newall, lots of people who have been exposed to asbestos; one would have thought there was a massive mortality improvement rate within that scheme, yet you're using, or appear to be in the EEV using, the same mortality improvement basis as you would have done had you not written [ph] that scheme. So could you [ph] talk a bit about what impact that's had? Thank you.

A - Tim Breedon {BIO 3157585 <GO>}

Okay, I'll leave John to talk about the third one, though. But I'm not sure you're right.

LGIM, two separate markets, as you've correctly alluded to. There's the retail tracker market, which goes through Savings; there's an institutional index fund market, which goes through LGIM. You're talking about the LGIM numbers.

For some time, we've said that defined benefit pension schemes, where they bulk, where they're the biggest buyers of our tracker funds have been reducing their exposure to equity, particularly UK equity, buyers of bonds. And generally in a cash outflow mode. They're close to new members, some times being wound up, some times going to our bulk purchase annuity business. So this is absolutely as expected, which is why we have been trying to develop the other businesses' liability driven investment, fixed income. And the like, to compensate for the expected cash flows that we had there.

On the other side, we've got DC business growing with very large providers. LGIM have unbundled DC. And one would generally expect that there was enough cash flow going into the DC schemes, index, to offset the DB schemes. And, generally, quarter by quarter that is happening. But from time to time we lose a very large single, very large often low fee paying client and in a quarter or in a half year cash flows can be negative.

So the index business, our aim is to keep it broadly flat, DB to accounting [ph] DC. And make it more efficient. And as asset prices move up, hopefully revenues move up as well.

The growth that we need to find is in those same clients, or new clients, as they change strategy towards fixed income and moving away from index benchmarks to liability benchmarks; to be able to offer them the same kind of lower risk scaleable products that they often pulled that they get from us and really appreciate from us.

Our scores in Greenwich survey for client satisfaction and service are excellent. And we need to provide different products with the same level of administrative efficiency and service that fit in a family of low risk scaleable products as they move from index benchmarks, usually equities, towards fixed income and liability based benchmark.

So that's why we put this strategy together five years ago. You've seen the fixed income flow, the LDI flows, which are positive. We're doing okay. It's working out pretty much as expected in the UK, probably slightly better.

The big net growth is going to have to come from other markets where we don't have such big market shares as we do in the UK. So there we're looking at the success of the

American business. And also distribution into Europe, distribution in to the Gulf, distribution in to the Far East. And we've put in the packs details of the strong net flows that have come in from that business.

So, to us, there's no surprise about the way this is playing out. Figures as expected, just the odd big win/occasionally a big loss of a FTSE100 pension scheme will affect the quarter-by-quarter flows. We're talking only about the behavior of -- there's only 3,200 clients in here. It's not like the retail business, where we're dealing with 10s, or indeed 100s, of thousands and their behavior averages out. So that is the LGIM.

The Protection, again, can I repeat what I said earlier about we don't have a first half margin and a second half margin, we just have a full-year margin. Okay?

So nothing happened in the second year particularly. It's when you look at it over the whole there is no doubt that margins for the year are significantly positive. And they move more positive than our experience was at half year when looked at as a year. Some part of that was through reinsurance but mainly, as John has said, it is to do with pricing of new business and efficiency. I think that's right.

And the last one was on?

Q - Andy Hughes {BIO 15036395 <GO>}

Turner & Newall and the mortality assumptions.

A - Tim Breedon {BIO 3157585 <GO>}

On assumptions and asbestos exposure?

A - John Pollock {BIO 6037447 <GO>}

Yes, if I can just amplify the Protection margin thing a bit. One of the things about straight through processing rights, it's quite important for reinsurers, is they get surety because its rules driven. So if you are driving reinsurer's profitability they're prepared to help.

And we've had a number of innovations in that. You might have seen in the press the use of subject to access requests, which is part of our drive for higher quality data to underwrite from. So we get better data, rather than doctors opinions, which allows us to build a rule set that gives certainty to reinsurers that allows us to benefit from that. So it is scale and efficiency. But it's also certainty about come for the risk carriers that benefits us.

As far as Turner & Newall are concerned, as we've said a number of times to this community, there are two fundamental components of longevity; one is the base mortality and one is the improvers. The base mortality is the base mortality. So what we've already seen or experienced in terms of any exposure to asbestosis will already be in the base mortality. The improvers basis we've kept the same, rather than trying to differentiate it.

But we do have very, very high quality data and expertise, through our partnership with UCL, the fundamental exploration of cause incidents and consequence of disease. That is then overseen by our longevity science advisory panel, chaired by Derek Wanless, with academic epidemiologists looking at how we go about these things.

So long way of saying we are very sure that we are in the right place with Turner & Newall.

A - Tim Breedon {BIO 3157585 <GO>}

Good, thank you very much, indeed. I think we're coming to an end now, if there are no more questions. Shall we do one more. And that's it?

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel Securities. Just on your Protection new business margin, is that level that you reported for the full year indicative of what we should expect going forward?

A - Tim Breedon {BIO 3157585 <GO>}

John, do you want to take that?

A - John Pollock {BIO 6037447 <GO>}

It's a brave man that predicts margins.

A - Tim Breedon {BIO 3157585 <GO>}

Are you a brave man then, John?

A - John Pollock {BIO 6037447 <GO>}

What I can say is. And we did predict this, that the OFT taking away of market pricing from the market was likely to have a detrimental effect on consumers.

We operate slightly differently to the way the GI market and what we have seen is a much, much lower intensity of re-pricing than has been the norm in this market. So, insofar as I ever predict margins, I imagine that any competitive effect on margin will be slower going forward than it has been historically.

A - Tim Breedon {BIO 3157585 <GO>}

Indeed. And, John, we've got step changes, though; gender-neutral pricing, changes in taxation. I think it's going to be a bit of a new market, going forward, by the end of this year and we should be seeing the first signs of that potential re-pricing effect going through the market and change behavior of competitors and distributors towards some time this year.

Okay, thank you very much indeed.

FINAL

Bloomberg Transcript

Operator

This concludes today's call, ladies and gentlemen. If you would like to hear any part of this conference again, a recording will be available shortly. Thank you for joining. You may now replace your handset.