S1 2013 Earnings Call

Company Participants

- John Pollock, CEO, LGAS
- Kerrigan Procter, MD, LGR
- Mark Gregory, GCFO
- Mark Zinkula, CEO, LGIM
- Nigel Wilson, GCE
- Paul Stanworth, GC, ID

Other Participants

- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Andy Sinclair, Analyst
- Ashik Musaddi, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Sachin Ravi, Analyst
- Unidentified Participant, Analyst

Presentation

Nigel Wilson {BIO 1535703 <GO>}

Good morning, everyone. Welcome to Legal & General's preliminary results presentation for 2013. Before we start, the usual forward-looking statements. And please switch off mobile phones, as they interfere with the sound system. (Operator Instructions).

I'm joined on stage by my colleagues, Mark Gregory, our CFO; John Pollock, the CEO of LGAS; and Mark Zinkula, the CEO of LGIM. Also present are Kerrigan Procter, MD of LGR; Paul Stanworth, MD of LGC; Bernie Hickman, our Group Financial Controller; and Simon Gadd, our CRO; plus many other colleagues, all of whom will be delighted to answer your questions.

First, the highlights. 2013 was another very strong year for Legal & General; net cash of GBP1 billion, up 16%; operating cash, up 9%; pre-tax profits up 10% to GBP1.13 billion; and EPS up 10% to 15.2p. And most importantly, DPS was up 22% to 9.3p. Another set of positive steps in our consistent journey. These strong results are driven by our successful strategic transition from cash, to cash plus organic growth, to cash plus organic growth plus M&A.

As well as achieving substantial organic growth in many areas, we've undertaken five bolt-on acquisitions in the last 12 months. Lucida was a great financial and strategic acquisition. CALA is a better-than-expected transaction. And Cofunds is a super strategic deal. But we do need to deliver financially on Cofunds. And GIA is our first US acquisition and our first fund management acquisition. Much of the credit should go to Wadham Downing and his team. But it's been a strong collegiate team effort. We had three responses to the 2008 financial crisis.

First, a greater focus on cash. The result, net cash has risen by 213% from GBP320 million to GBP1 billion. And dividend by around 130% to 9.3p.

Second, there was a real determination to make the balance sheet more resilient. We've increased our credit default provision from around GBP500 million to almost GBP1.8 billion. And we've minimized our exposure to challenged asset classes.

And third, there's been a relentless focus from my colleagues on operational efficiency and delivering value for our customers.

Our focused strategy, our strong balance sheet. And our operational and financial performance, should allow Legal & General to retain its strength in the face of short-term economic or political shocks. However, we should really benefit from the long-term structural trends.

Last year, we highlighted five of these; the ageing populations, constrained welfares, globalized asset markets, bank retention and digital. We have a strategic approach here at Legal & General that joins the dots between these long-term economic and demographic trends and our products and services and, indeed, our management capabilities.

The consistent theme of our recent results presentations has been that we've laid out a very clear strategy and then executed efficiently and well. For example, transforming the GI business, which lost around GBP70 million between 2007 and 2008, it has made around GBP100 million in the last two years. And our colleagues in Birmingham and Ipswich [ph] have just done an outstanding job, as John will tell you, during the floods.

The result of our consistent approach has been outstanding performance in a relatively weak, volatile and risky economic environment. However, this positions us very well for 2014, where we expect a return to economic growth, particularly in the US and the UK.

We do expect to see some external turbulence and we need to continue to evolve as our industry changes. We saw last year the first butterfly wing effect as the Fed talk of QE tapering contributed to massive disruption in many emerging markets. There are many economic imbalances and global political tensions. There will, we believe, be more butterfly wings fluttering in 2014.

We have reorganized ourselves into these five profit centers to successfully compete in the post-global recession world based on our five key trends.

We've been living in a world of fast and hot digital money based on short-term risk assessments. This short-term focus has disrupted many financial markets and many economies. The banking growth model of maturity transformation excessive leverage has proven to be inherently unstable.

However, long-term institutional investors are stepping up, providing long-term competitively priced capital based on long-term risk assessments and long-term economic needs. Legal & General, as the UK's largest institutional investor, is already playing a key role. And we plan to extend that role going forward.

Our industry is changing. We're moving from an analog world dominated by face-to-face meetings in physical buildings, legacy processes and spreadsheets, to one where rich data analytics using big data are being used to develop customer products, customer insights and new customer services.

This will allow us to provide better-value, digitally-guided solutions for our customers. This is increasingly common in many other industries; for instance retail, media, travel, entertainment; and will become increasingly common in ours.

We already provide underwritten quotes for annuities in 1.3 seconds. Straight-through processing in our market-leading retail protection business exceeds 80%. And we have over GBP70 billion of assets on our digital platform.

In protection, we have successfully transitioned to a digital model; and our market share, as John will talk about, is well over 20%.

The transfer of welfare, pensions and savings from the state to individuals and corporates will continue. The success of auto-enrolment will provide a model for many other products and services. This will include long-term care, life insurance, critical illness cover. And flexible annuity schemes. There will be many others as well.

We believe this is an economically unavoidable fact. And again, this is a trend that is our friend. I'll now hand over to Mark who will take you through the numbers and discuss the dividend policy in more detail. Mark.

Mark Gregory {BIO 15486337 <GO>}

Thank you, Nigel. Good morning. Building on the theme of sustained performance across the economic cycle, which Nigel outlined, 2013 was a further year of strong delivery for Legal & General. All of our operating divisions have a common feature; that they generate their cash and profits from their respective stocks of business, be that the size of the asset base or the total premiums received.

All of these stocks of business will deliver cash and profits in a sustainable way over the long term. That's why our strategy is so focused on growing our business stock. It is the single most important factor which will drive cash and profits for many years to come.

This slide demonstrates the growth we've achieved in 2013. It's substantial and broad based. Our business stock is also driving current-year cash and profits. In 2013, net cash exceeded GBP1 billion for the first time, up 16% year on year. Operating profit was up 7%. And earnings up 10%.

Ours is a long-term business. We will maintain an appropriately strong balance sheet so our customers can have confidence that we'll meet our long-term promises to them. At the same time, our business model is also delivering healthy returns on equity, 16.1% in 2013, as we continue to deploy capital effectively and grow earnings.

Here, you can see the consistency of our delivery of growth in stock being achieved year in, year out. LGIM's assets under management are now GBP450 billion. Total insurance premiums are up to GBP2.8 billion. Our annuity book has grown to GBP34.4 billion. And our UK savings assets are now at GBP109 billion.

This delivery comes from having focus and confidence in our chosen markets. This is core to our model. This has been translated into consistently growing operational cash and net cash which in turn have underpinned the growth in dividends to our shareholders.

In 2013, operational cash was up 9% to GBP1,042 million. New business strain was more than halved at GBP40 million, resulting in net cash generation of just over GBP1 billion, up 16%.

All of our business divisions contributed to this growth in net cash. LGIM net cash was up 9%, L&G retirement up 14%, LGAS was up 22%, L&G capital up 11%. And L&G America up 10%.

Ours is a very clean cash model. 88% of the net cash generated by the businesses was remitted to Group in 2013. This feature is a key underpin of the dividends paid to our shareholders, which brings me to balance sheet, capital. And the dividend.

As a long-term business, as I said, we will maintain a strong balance sheet during good times and bad. Our long-term fund continues to have a AA credit rating. And our regulatory capital surplus under the currently in force Solvency I regime is GBP4 billion, equating to a coverage ratio of 222%, within our preferred long-term IGD range of 175% to 225%.

This level of capital buffer over the regulatory minimum requirements provides assurance against long-term insurance risks, enables us to plan for the longer term. And provides us with the flexibility to take advantage of the opportunities as they arise.

We accelerated the rate of capital deployment in 2013, both in increased organic growth, particularly in annuities new business. And four bolt-on M&A transactions, our first for a number of years.

This slide shows a schematic of how our cash and capital flows come together. Dividends are funded out of cash flow from our existing business stock, with the capital stock being utilized in part to support our growth aspirations, as well as providing a buffer against unexpected events.

We're content with the direction of travel on Solvency II. The worst case scenarios have been avoided. However, there remain some significant issues which could affect either or both of the industry's capital requirement or capital resources under Solvency II.

We have a strong capital projection model and have looked at a wide range of scenarios. However, the final assumptions, which will be required for us to clarify our solvency position, are simply not known yet.

The same is true of the transitional regulatory capital step of ICA+, where we've used much of our Solvency II modeling to produce the output. However, our current view is that our Solvency II capital surplus will be no lower than our solvency I IGD surplus. We will update you further in due course as clarity emerges.

Today we've announced our recommended 2013 final dividend. And as promised, an update on our dividend guidance. As a consequence of the continued success of the business, as demonstrated by the results we've announced today, the Board has recommended a final dividend of 6.9p, delivering a total dividend for 2013 of 9.3p, up 22% on 2012.

Alongside investing for future cash and earnings growth, rewarding our shareholders through attractive dividend progression remains a key strategic priority.

The resilience of our business model, coupled with emerging clarity over Solvency II, means that we expect to reduce the net cash coverage of our dividend down towards 1.5 times by the end of 2015 compared to the 1.82 times coverage in 2013.

Cash generation remains a key focus for us. Here we've provided guidance on certain key components of our cash generation in 2014. This guidance has been cut in a different way to previous years and, hopefully, you'll find it more useful if you want to forecast our cash generation for the current year.

Some additional background on the operational cash guidance numbers we've produced here. The LGAS, excluding GI, we're anticipating a number of moving parts, with our growth businesses delivering increased contributions, partially offset by lower contributions from the mature elements of the savings business. And a circa GBP9 million reduction year on year as a result of the changes in tax rules for new protection -- new retail protection business, which came into force at the end of 2012.

In L&G retirement, operational cash guidance reflects the benefits of the growth in the stock of that business. One specific point I would make is that we now expect all of the net cash generation from L&G retirement in 2014 to emerge tax free.

The L&G American guidance reflects dividends paid to the Group expected to be up 10% year on year in local currency terms at $76 million, of which the ordinary dividend element of $73 million has been paid already.

Moving on to the divisional performances in 2013. I'll cover L&G America, L&G capital and L&G retirement. John and Mark will then talk you through LGAS and LGIM performances.

Starting with L&G America. New business APE at $155 million was up 9% to $142 million, contributing to the 11% rise in gross premiums at $1,024 million in the year. Net cash rose 10% to $69 million.

As a result of some adverse mortality experience on our smaller book of universal life products and lower investment returns in the year, operating profit fell from $156 million in 2012 to $145 million in 2013. However, we've made further progress at LGA, improving our underwriting efficiency and completing a further phase of the LGA capital efficiency program by reinsuring the XXX reserving requirements on 2013 new business with LGAS. And we've also initiated a program of investment activities to increase the yield on LGA's $3.3 billion asset portfolio, including through direct investments.

This strategy of increasing the Group's risk-adjusted returned on assets is precisely why L&G capital was established. Paul Stanworth and his team are responsible for the investment strategies for our principal balance sheet, i.e., the GBP43.4 billion of investments where shareholders are exposed to some or all of the market risk, as well as managing the Group's debt and liquidity. The vast majority of these assets are held to back our insurance businesses, such as annuities and the XXX reserves in America.

The disclosed operating profit for L&G capital at GBP179 million, up 10% on 2012, relates to the return earned on the GBP4.7 billion of assets held at Group level or retained in LGAS outside of the long-term fund.

Bank retrenchment continues to create opportunities. And in 2013, we increased the direct investments in our annuity book from GBP1.2 billion to GBP2.5 billion. And grew the direct investments in the GBP4.7 billion of L&G capital assets from GBP0.2 billion to GBP0.3 billion.

As well as enhancing our risk-adjusted returns, direct bilateral investments enable us to further improve the matching of our cash flows from long-term assets with our liability requirements, with much reduced frictional cost. Examples include building a property and commercial lending portfolio, which in turn includes student accommodation, distribution centers. And funding for hospitals and affordable housing.

Since the start of 2014, we've completed a further GBP300 million of direct investments. So that in total, we now have over GBP5 billion in infrastructure and direct investments.

The greater emergence of clarity on Solvency II is important here, making areas like infrastructure investment possible. And enabling us to participate in a GBP25 billion industry commitment to infrastructure with the Government. This investment is significant for the broader UK economy. And for us, makes clear economic sense.

L&G retirement. Annuity premiums in L&G retirement were up 78% at GBP4.1 billion compared to the GBP2.3 billion in 2012. This powered operational cash generation of GBP260 million up from GBP243 million.

The business surplus was also up at GBP33 million, giving rise to a net cash of GBP293 million, up 14%; and operating profit of GBP210 million, up 10% versus last year's GBP281 million.

Net inflows into L&G retirement of GBP2.1 billion meant our stock of annuity assets increased to GBP34.4 billion. This is a step change from prior years. It's a reflection of how we're both confident and competitive across the whole of the annuities market. And also of our view that the worst case Solvency II outcomes for long-term guarantees such as annuities have been avoided.

Individual annuity sales were broadly flat in 2013, up GBP1.3 billion, achieved in a market down 15% year on year as a result of RDR, gender neutral pricing. And individuals deferring retirement.

This market is evolving rapidly towards individually underwritten annuities. We've responded by launching our enhanced annuity quote capability. And we see significant growth potential in this segment of the market.

We're confident that the regulators and media's current focus on annuity distribution and pricing will ultimately play to our strengths as a low cost provider which attracts around 75% of our individual annuity business from the open market.

We have nothing to fear from greater shopping around and transparency. Properly priced and distributed, annuities remain the right choice for the majority of retirees.

So L&G retirement is a leading player in individual annuities. And it's much more besides. We have leading positions in the UK bulk purchase annuity market and in longevity insurance. In addition, we wrote our first international bulk annuity contract in 2013. And continue to seek opportunities in the bulk market outside of the UK.

The significant growth in L&G retirement in 2013 was delivered in the corporate market; 94 BPA deals, with premiums of GBP2.8 billion, including eight large schemes with premiums in excess of GBP50 million; and securing significant secondary BPA business through our acquisition of Lucida.

We completed three longevity insurance transactions in 2013, recovering GBP5 billion of liabilities for BAE Systems.

Longevity insurance is an important component of our offering and complements our LDI buy-in and buy-out capabilities. In the corporate de-risking sector of the market, we have the clear advantage of being able to leverage both our mortality and investment management experience.

Owning big data and a global investment manager allows us to price and manage risk appropriately, taking the risk we choose to take. And reinsuring as appropriate. I now hand over to John.

John Pollock {BIO 6037447 <GO>}

Thanks a lot, Mark. The benefits for creating a single insurance and savings division, namely LGAS last year, is becoming increasingly clear. In 2013, operational cash was GBP474 million, up from GBP436 million last year. Net cash was GBP401 million, up from GBP329 million. And in terms of stock, insurance gross written premiums continued to grow, up 5% to GBP1.923 billion.

Savings assets under administration rose from GBP55 billion to GBP109 billion with almost GBP8 billion of net inflows to Cofunds since the acquisition in May.

LGAS operating profit was GBP444 million in 2013, down a little from 2012. But there were strong profit contributions, particularly from GI and protection.

But it was also a year when we invested in our newer growth businesses. And we need to invest further to turn scale into profitability in workplace savings, to maximize the benefit from buying Cofunds and to move our digital program forward.

We will do this partly through reinvesting efficiency gains, including the savings we announced when we acquired Cofunds. And by the rigorous cost control that is already in our business DNA.

Strategically, the LGAS businesses are closely aligned to our five macro themes; in retirement solutions, where workplace savings in Suffolk Life are our accumulators of retail pension savings; in protection, where our scale, technology and performance positions are strongly, as state welfare gradually shrinks; and in digital, where Cofunds gives us a new on-platform model. And we increasingly automate to deliver improvements in speed, efficiency and cost.

Both savings and protection benefit from revenue and cost synergies. Last year, LGAS delivered GBP34 million of run-rate savings from de-duplication and our reduced headcount of around 400; and this is on top of the GBP11 million of Cofunds integration benefits we previously disclosed. And there will be more efficiencies to come from BAU operational synergies. And much greater customer focus.

These efficiency gains are vital to our future. And we are investing to make the business more digital. But we also have to control the cost base as our growth businesses achieve critical mass in volume and, therefore, profitability.

Cofunds now has assets under administration of GBP64 billion, with net inflows of GBP7.9 billion under our ownership. And since acquisition, we have been investing in the technology and delivering greater efficiency, building a platform that works not just for Legal & General. But for IFAs and our Bancassurance partners.

Under Legal & General, the technology will have greater capability. LGIM inside [ph] enables delivery of better consumer pricing and a wider range of fund solutions. Ultimately, Cofunds will become a much, much broader platform, with protection, annuities and other product solutions on platform. This positions us strongly for the projected trebling in platform growth.

The insurance businesses drove LGAS sales and profitability in 2013. They benefit from a high degree of digital automation. In retail protection, the straight-through processing rate is now 81%. Our unit costs set the industry benchmark. And we are extending automation, for example into Group protection.

Transformation of a business is not solely about technology, however. Management actions can also be affected. In GI, where premiums grew by 7% to GBP375 million, the combined operating ratio fell to 84% versus 95% in the prior year.

This reduction reflects clearly the benefit of a more benign weather environment. But also that of underwriting excellence and a much more efficient claims handling process. For example, in the recent storms our new process enabled 60% of the claims to be settled within four weeks.

The benefit of these innovations. And of course the weather, delivered a contribution to operating profit of GBP69 million versus GBP30 million in the prior year.

We have around 1 million workplace pensions members and assets under administration of GBP8.7 billion, up 45% last year. Our leading role in auto-enrolment positions us really well for rising contributions and growing pot sizes.

Workplace currently loses money but has good potential upside as the market acquires scale and the assets under administration reaches critical mass. Workplace shares many characteristics with the insurance mass market where we already excel. There is a premium on unit costs and intense focus on pricing and consumer outcomes. And a very high degree of overlap with our existing customer base of protection, GI. And obviously small pot annuities.

Corporate protection is an aligned business. We are making the most of the synergies between pensions and protection under a new integrated management structure. And our shared clients account for around GBP3 billion of assets. Clearly, this gives us the ability to cross sell across the whole of our product suite.

So turning to outlook, 2014 is off to a strong start in protection. And in savings, we have also seen strong asset growth continue from 2013 into the current year in both workplace and the Cofunds businesses. We expect a strong continuing performance from our mortgage network, which intermediated GBP28 billion, or one in six of all UK mortgages last year.

We do expect that GI claims for the first two months of the year will be around GBP12 million higher than last year following the recent flooding.

But in summary, LGAS is coming together as a scale business with over 6 million individual customers and over 8,000 pension scheme clients. We contribute strongly to cash and earnings. And we are extracting synergy gains as we build on our existing strengths and invest in an increasingly digital on-platform future. Thank you. Now pleased to hand over to Mark Zinkula.

Mark Zinkula {BIO 16142450 <GO>}

Thank you, John. I'd like to start with a slide of our key performance metrics. I should mention that for comparison purposes, we've restated the figures for 2012 to reflect the integration of our retail business into LGIM during 2013.

Our operating profit increased by 12% to GBP304 million. This reflects strong growth in revenue, the rallying [ph] equity markets. And growing net flows into our non-asset products. And a stable cost income ratio below 50%. We have a robust business model. And have successfully maintained a low cost income ratio throughout a period of continued investment in the expansion and transformation of our business.

With gross inflows significantly higher than any previous year, we enjoyed a healthy increase in net new business. But the magnitude was impacted by a slight decline in persistency as UK pension plans transitioned out of equities.

Importantly, our net inflows were in higher fee-earning strategies such as LDI, fixed income and property. Both our LDI and fixed income businesses saw total net new business of over GBP4 billion, while property took in almost GBP1 billion of new business.

As the defined benefit market matures and our business model continues to evolve, we're experiencing sustained growth in non-passive and defined contribution assets. And accelerating the expansion of our international business, all of which are important drivers of future growth.

Our international expansion continues to gain momentum and remains a cornerstone of our business strategy going forward. Our international AuM has grown to almost GBP60 billion as of yearend.

The US in particular experienced another strong year, with record net inflows into LDI and fixed income supported by an excellent performance track record.

In the Gulf, our presence in the region continues to grow, with record inflows of over GBP4 billion and a healthy pipeline of index and property mandates.

Europe also enjoyed record sales, taking in EUR7 billion of new business.

We'll build on this success following the launch of our SICAV funds last November. And we'll be targeting institutions and fund platforms across Europe in the coming year. We're now licensed to market in Asia and we were awarded two additional mandates earlier this year.

As you can see from this chart, there has been a dramatic increase in assets in the US business and growth is accelerating. We now manage assets on behalf of several of the largest pension plans in the US. And we're receiving regular inflows from new and existing clients.

We're capitalizing on our growing reputation among pension funds and consultants as spot [ph] leaders in LDI and a best-in-class credit manager.

We continue to expand our fixed income capabilities and product set. And have started hiring a team to expand our index business to the US.

We're also expanding our distribution strategy beyond the corporate DB markets. As part of this strategy, we recently announced our acquisition of Global Index Advisors, a provider of index target date funds for the US defined contribution market, which gives us access to this rapidly growing area.

Turning to the UK. As the DB market matures and pension plans de-risk, we experienced outflows in passive equity assets, especially in the final quarter. However, we're also benefiting from this trend by capturing significant flows in our LDI strategies where it's estimated that we have over 40% market share.

In fact, when you include switches out of passive strategies in addition to net flows, we took in GBP7 billion of new LDI assets last year.

The DC market is picking up momentum and our strong presence in this market is helping us win business from several platforms, especially our workplace savings platform.

We made some key hires recently in our DC business, as well as in our multi-asset and active equity schemes, which will support the further development of our product range for this important market. We're well positioned to continue growing our DC market share.

RDR is also having a positive impact on demand for index funds as we've experienced positive net flows in our retail funds for 10 consecutive months. And net retail inflows have increased by over GBP2 billion year over year.

And finally, we continue to deepen the synergies across the L&G Group. The integration of our unit trust business into LGIM is nearing completion and this is enabling us to deliver institutional quality and experience to the retail market.

LGIM is working closely with L&G capital to develop our direct investment capabilities. And last year, we invested over GBP1 billion in property, commercial lending and infrastructure direct investments to support our annuity business.

At the same time, LGIM is working closely with the L&G retirement division to create solutions for clients seeking to insure their longevity risk. And we're uniquely positioned to offer investment solutions for pension fund clients at every stage of the pension journey.

And as I mentioned in the previous slide, the increasing growth in DC is helping us generate new assets from our workplace savings platform, with over GBP1 billion of net flows going to LGIM last year.

To conclude, LGIM had a very successful year with robust growth across the business, especially in our international division. And continued progress in expanding our product offering and growing our DC and retail businesses. And we're confident this growth will continue in 2014. I'll now hand it back to Nigel.

Nigel Wilson {BIO 1535703 <GO>}

Thank you, Mark, John and Mark. There are four key operational actions to deliver growth across the business in 2014, as highlighted on this slide.

The first, increase our annual net flows. In LGR, Kerrigan's business, GBP2 billion is not enough. In LGIM, GBP9 billion is not enough.

The second, reduce our unit costs. As many of you are aware, costs in all areas of financial services are too high. We need to increase our transparency and lower our unit costs for our customers.

Three, we have to improve our risk-adjusted returns, particularly from Paul's area. We're making good progress. But we need again to accelerate our evolution going forward.

And four, we need to turnaround loss-making and underperforming areas. And as you've heard today there's quite a few of those. There's upside potential for us in DC, in retail, in workplace savings, in platforms. And indeed in international. We can and will perform better in 2014 and beyond.

We're already stepping up to meet the challenge of delivering another growth year for Legal & General. Progress to date in 2014, as you've heard from my colleagues, is good.

We used to be described as dull but worthy. But today, I'd like to think that only half of that is true . We work very hard to make sure that we're still worthy rather than dull. However, we think of ourselves as being socially and economically useful in what we do.

We're on a great journey here at Legal & General, of which the last five years have been absolutely terrific. It's been a great journey for our customers, for our employees. And most of all, for our shareholders.

There's always going to be debate around the politics and regulation of our sector, both from the Prudential and indeed on conduct [ph] side. Sometimes, the signal-to-noise ratio is unhelpful. But it's a debate that we really understand well. And one that -- where we take a leading role.

Solvency II, as you heard from Mark, has progressed satisfactorily. The UK Treasury in particular has done a really, really good job. We at Legal & General are making a successful transition from being a domestic life office to an increasingly international asset manager. We're highly efficient in corporate and individual protection, in retirement solutions and in digital savings.

We're also growing organically and by acquisition. And we have a powerful brands which works for retail, corporate and institutional customers. And which has shown itself. And somewhat remarkably, to be capable of incredible international expansion.

We have delivered consistent financial progress, including our dividend. Under Mark Gregory's leadership, we continue to operate a clean, straightforward cash model. Operating cash across most of our business lines is predictable. And Mark set out his guidance today for you.

Almost 90% of our cash is remitted to Group and is available for a reinvestment to strengthen our capital and our balance sheet and, of course, to pay dividends to our shareholders.

L&G's strength today means that we can be more explicit about our dividend policy. Mark and I have given clear guidance today that the dividend should move towards 1.5 times covered by net cash by 2015.

I'd like to thank you for your attention. And I'll open the floor for questions. And indeed, there's some roving microphones.

Questions And Answers

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking, Morgan Stanley. Can I ask some questions on capital and the dividend, please?

On capital, I think with even the Pru giving an economic solvency ratio apparently in the next week or so, you're increasingly in the minority of not giving any guidance at all. I just wondered whether you could answer a few questions on the economic capital. Specifically with Solvency II, what are the outstanding issues? Is this all matching adjustment related, or are there other issues you can give more clarity on?

Then the comment you've given in terms of your absolute solvency surplus being higher on an economic basis and Solvency I basis. Presumably, that implies the solvency ratio will be lower given the higher requirement. Could you talk maybe about what range of economic solvency you see as appropriate given the volatility of the balance sheet?

Then, once we get Solvency II done, how concerned are you might end up being a domestic SIFI and having global capital requirements coming behind that? Is this something which is going to be a recurring cloud for next five years or so?

Then just finally on the dividend, to what extent does your new guidance leave you some slack for disappointment on where we land with Solvency II? Have you thought about that in setting that dividend policy? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

I'll make some general comments and then I'll ask Mark to take the tricky parts, if you like.

I think in general, we're very happy with the progress that's made on Solvency II. I think the variation of our economic capital position is wider than we would like in terms of the balance at the moment.

We're very comfortable with our economic capital model. But there are a number of outstanding issues on Solvency II. And I don't want us to be thought of as a UK company alone. I think what you've heard today is that we have -- our LGIM business particularly is going to expand internationally; and, indeed, our insurance business in the United States is very big; and we have a smattering of businesses elsewhere. I don't know if you want to pick up the specifics?

A - Mark Gregory {BIO 15486337 <GO>}

Yes. There's quite a few points there, John. I'll try and pick them off.

Just on the first question on why we haven't disclosed the economic capital, well, we do have an economic capital model. And as I say, we use those primarily for individual, discrete investment decisions. So things like the way we price annuities, etc., we absolutely run those through our economic capital model to make sure we're getting the necessary return on economic capital.

At a Group level though, actually, the biting [ph] constraint is a regulatory balance sheet. Therefore, in the context of things you need to be worried about, it is the GBP4 billion IGD Solvency I surplus that is the biting restraint. Therefore, by definition, our economic capital surplus is somewhat higher than our Solvency I capital position. But we don't think it's desperately helpful to actually divulge that number.

Then it's more things to work through, particularly if we link that back to Solvency II. You asked about what the outstanding issues are. I guess our cap [ph] as I say, in theory, the scope for a range of outcomes is quite wide before it's now come in on the back of the Omnibus II text which was agreed in the quarter four of last year.

The sorts of things they've set out this time, well, like I said, categorize those as being partly to do with the rules and partly to do with the interpretation of those rules. So a good example of a rules-driven issue might be that the risk-free rate that we use as our liability discount rate, which is a key prop for that calculation, that is still not set. We think it's going to be swaps less 10 bps. But it might not be; that we have another exercise come up asking for it to be swaps less 35 bps. So even as basic as what is the risk-free rate you use in your calculation is not yet fixed.

We've got a view on where it's going to end up; a few of them will clearly lobby for the right outcome. That will be one example.

On things like interpretation, things like the diversification benefits, we've got a big correlation matrix at the center of our risk-based model. That is open to interpretation.

I think you'd all agree that things like longevity, mortality, are inversely correlated. But exactly how much? And those sorts of things do matter to the overall calibration and, therefore, the final outcome on the Solvency II model.

So it's those sorts of things I was referring to when I said there's still quite a lot of uncertainty. We're not at the kind of fundamentally difference of opinion; we're really more of the individual detail level.

Q - Jon Hocking {BIO 2163183 <GO>}

So the comment in the release that it's going to be 18 months potentially before you get clarity, can we expect to see a Solvency II economic ratio at the end of the year when we've seen a Level 2 text? Or do you need to see the interpretation of a Level 2 text before you...

A - Mark Gregory {BIO 15486337 <GO>}

I think the point at which I can work out both sides of the equation, John, I'll give it. So it can be -- as I said in my speech, actually, we're going to see Solvency capital requirements move under Solvency II and the Solvency capital surplus move under Solvency II. Therefore, both sides of the equation will look different.

So that's why I'm nervous about giving a ratio at this stage, because actually, we're going to see fundamentally what is currently the potential margin on one side of the balance sheet move across into the capital side.

So all things being equal, the ratio will be lower in a Solvency II world, just the way the quotient is going to work. That's why I flagged the Solvency II capital surplus in pound notes terms. We expect to be no lower than Solvency I. I didn't actually quote a ratio read-across.

You asked about global systemic. Clearly, we're not as it stands currently one of the GSIIs. But clearly, there is a strong desire to have a global view on what the regulatory minimum is. And again, that work is ongoing. As you say, it's looking towards the end of this decade.

I suspect in reality we'll get some of the back-draught from that. Whether that a -- we're formally a GSII or not, I'm sure local regulators will still take a view on making sure that the thinking behind GSIIs gets fed across to individual, local insurers. But again, that detail is still years and years away from coming to fruition.

A - Nigel Wilson {BIO 1535703 <GO>}

I think on a business and strategic side, there's nothing that we know in Solvency II that's preventing us from executing our business strategy; and from a shareholder value point of view, that's the most important thing is that we're not in fact feeling under -- being constrained by the regulators in anything that we do.

And indeed, some of the discussions we've had with the Treasury and the regulator have been very supportive of the actions that we've been taking, whether that's investing in infrastructure with a lot more certainty, expand our annuity business with a lot more certainty. The correlation benefits that we get from longevity and mortality have seen us expand into the longevity insurance business.

But there's still a wide variety. I guess when we see everybody else's magic economic capital model, we'll have the time to reflect and see whether we can give a better guidance and a bit more range for the half-year, the full-year results.

I'd be disappointed if we didn't continue to give you an update as we go through the process. And you don't have to wait 18 months to find out the final answer. Next question on the divvy?

Q - Andy Sinclair {BIO 17749036 <GO>}

Andy Sinclair, Bank of America Merrill Lynch. Firstly, the outlook for the bulk annuity market and longevity insurance market looks strong. I just wanted to see -- are you expecting some more competition in that market and who are you coming up against at the moment?

Secondly, on the savings and protection businesses being integrated, we've got some detail so far; we've got some headcount reductions. But there's the headcount of about 7,000 at the moment for the LGAS businesses. I just wanted to see where that can go over the next few years.

And finally, just on Cofunds; how much of Cofunds AUM is institutional at the moment? And what are the margins on that business as opposed to the rest of Cofunds?

A - Nigel Wilson {BIO 1535703 <GO>}

I like those questions, actually. I think I'll ask Kerrigan to answer the first question. And that's part of the reason of putting it on the slide. I think we can be a bit more ambitious than we've been in the past going forward. And I'll give John a bit more time to prepare for answers two and three. Kerrigan.

A - Kerrigan Procter {BIO 15093363 <GO>}

Great, thank you. Thanks, Andy. I think we'll refer you back first to the slide that Mark talked about, the four levers for growth in annuities; individual annuities, bulk annuities, longevity insurance and the international market for annuities. And put together, the combination provides both long and short-term excellent prospects.

You talked about in particular the bulk and longevity insurance markets. Both good short-term and long-term prospects for those markets, as you rightfully said. And should there be more competition in those markets.

Well there are quite some barriers to entry. To be successful in the bulk annuity market, you need strong asset management, expertise in longevity, great capital management, great asset liability management and experience in administration. Those things aren't easy to put together. The experience is a hard one. We've been in it 27 years.

So there are currently a very small number of participants really active in the bulk annuity market. And an even smaller number in the longevity insurance market.

And we may see a little bit of movement there. But there certainly is the potential for that to move more to a sellers' market. So sellers of risk market rather than a buyers' market. So I'm very constructive on that market.

A - Nigel Wilson {BIO 1535703 <GO>}

Thanks, Kerrigan. John, do you want to pick up the other two questions?

A - John Pollock {BIO 6037447 <GO>}

Yes. Thanks, Andy. Nice question. I could stand here for an hour espousing why. Please don't -- I could; you know I could.

A - Nigel Wilson {BIO 1535703 <GO>}

I know you can .

A - John Pollock {BIO 6037447 <GO>}

Thanks for the support, boys . Bringing it together, just think about the relentlessness of L&G's unit cost management. We talk about being in our DNA and it is. We're bringing together savings and protection because ultimately, post-RDR, customers will need accessibility as the advice gap continues to bite as IFAs and other distributors migrate up market.

So bringing together the capability to deliver a customer proposition in the first instance is the most important aspect of why we did it. But of course, we're able to take the synergy benefits of only having one division. And that's what we've done.

And this is nothing out of expectation for Legal & General. We are just constantly looking at ways to deliver ever more efficiency, both for us as a business, for our colleagues in the workplace, for our shareholders and for our customers.

So I'm expecting, as the mature savings market declines further and our growth businesses accelerate, that we would continue to see relentless efficiency being driven in that space.

And it actually is quite a nice segue to your Cofunds question. At the minute, the split between retail and institutional is something in the order of 50/50. It's there or thereabouts. But of course, thinking about the Cofunds business rather than just a pure fund supermarket for IFAs, you should be thinking about it how it positions Legal and General savings offerings to its customer; and as I said in my speech, about the breadth of opportunity we have of putting other products on platform, again in manufacturing profits, a margin for servicing customers in a more holistic environment. And clearly, all of that will be done much more efficiently when it's in the single platform.

Q - Andy Sinclair {BIO 17749036 <GO>}

Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Greig.

Q - Greig Paterson

Three questions on the annuity space. 2014 prospects for international annuities, or whatever you can give, talk about that.

In 2013, the new business strain was flattered by the Lucida deal. I wonder if you can give us some guidance in terms of new business strain, how the bulks will affect it for 2014.

And your sweet spot in annuities, if I remember correctly, is the SME bulk space. And you've had two new entrants into that space and they've got quite a good proposition in that it's got an enhanced impaired focus. I wonder if you think that's going to affect the margins on your annuities going forward.

A - Nigel Wilson {BIO 1535703 <GO>}

Three good questions. I think why doesn't Kerrigan pick up the first and the third question; and, Mark, do you want to talk about the strain questions?

Kerrigan, why have you done so poorly in international, was really the question that Greig was asking; and why aren't you stepping up to the competition in certain -- in the enhanced annuity space, which is the sub-text, I think.

A - Kerrigan Procter {BIO 15093363 <GO>}

Well I think the...

Q - Greig Paterson

Just in bulk.

A - Nigel Wilson {BIO 1535703 <GO>}

Oh, just in bulk? All right.

Q - Greig Paterson

SME bulk.

A - Nigel Wilson {BIO 1535703 <GO>}

SME bulk. Okay. So it was a tougher question then, Greig.

A - Kerrigan Procter {BIO 15093363 <GO>}

I'll take the first one on international. I think the important thing to understand is that we've talked about those four levers for growth and we price consistently across those four levers. We have the same return on economic capital hurdle rate and we look at it consistently across those four. So when the price is right, we emphasize different parts of those markets.

The US annuity market, bulk annuity market, looks really attractive and increasingly attractive. And when the price is right, we'll look to do some deals there. And if the price isn't right, we'll look to do deals elsewhere. So that's what we'll be looking for in that market.

On the point about bulk SMEs, I definitely don't view that as our -- necessarily our sweet spot. We again, uniquely, price across all parts of that bulk annuity market. We'll do very large deals and we'll do very small deals. And at the moment, the tilt towards that market is for somebody with the pricing capability, the capital capacity and the credit standing and market reputation of Legal & General, probably the sweet spot for us is more towards the larger side of that market.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thanks, Kerrigan. Mark.

A - Mark Gregory {BIO 15486337 <GO>}

Yes. Just on the strain point, Greig, clearly, we've guided very heavily today on net cash for 2014. So we gave you lots of numbers. We didn't give you L&G capital, GI and new business strain. So having not given that, I'm not tempted to start giving too much detail on the strain. It's only four numbers for you to have a go at trying to estimate going forwards.

That said, clearly, the component that is the annuity and new business strain, or surplus, is a key part of the cash profile. As Kerrigan said, we are very disciplined around the way we deploy our capital in our pricing for new business. Therefore, that should feature into the impact on net cash strain -- sorry, new business strain or surplus going forward.

So I'm not going to give you the exact number. But we will maintain the discipline we showed in 2013 when we generated a GBP33 million surplus on annuity business in total.

Q - Greig Paterson

Can you give us the Lucida benefit then so I can strip it out and…

A - Mark Gregory {BIO 15486337 <GO>}

No. The Lucida benefit is spread across different parts of -- quite a lot of it does go through new business strain of surplus benefit in 2013. But it's not all in that line. We haven't broken that number out for you. I think we'd still be very disappointed if it wasn't a positive number in 2014, if that's some help to you, Greig. Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

Three questions. Andrew Crean. Firstly, could you give us a sense -- you gave us a couple of years ago -- a sense of your internal firepower for acquisitions?

Then, secondly. And this may be in the pack, I haven't had time to go through it, one of the potential profit levers you've mentioned is eradication of losses on businesses, on about four or five businesses. Could you just tell us collectively how much those businesses are losing currently so we can get a sense of gearing?

Then the third question. You mentioned at one point, I think -- was it the annuity cash is tax-free at the moment or profits are tax-free? Could you say why that is and whether that will continue? Because I thought there were some deferred tax assets which were being utilized and would run out. And so give us some sense of how that plays over the next couple of years.

A - Nigel Wilson {BIO 1535703 <GO>}

I'll take the first one. And maybe on the losses and the improvements of the two businesses, if John and Mark comment. Mark, I think, if you will first about DC and retail. And whatever; and on the third question, on tax, Mark, will you pick up that one?

On the firepower for acquisitions, we're very much a bolt-on acquisition type of company. We view bolt-ons as being up to 5% of our market cap. Our market cap's got a lot bigger over the last -- so, the bolt-on numbers have got a lot bigger.

We don't think we're capital constrained and we don't like giving an absolute dollar amount or pound amount of acquisitions because it's very much driven by the returns. We will, rather like Kerrigan mentioned, we take a very disciplined approach to using our capital and we don't want to chase returns or just write business for the sake of writing business, or indeed making acquisitions.

So we have internal competition for capital between Wadham's area and the acquisitions area and the new business area. As Mark mentioned, we want to have a very healthy and strong balance sheet because we think that generates a huge amount of customer attention in lots of the areas that we operate in. Whether that's in the Gulf in terms of the sovereign wealth funds, it's very large BPA deals, it's our presence in America, our credit rating is certainly very highly regarded.

Mark, do you want to pick up the profit opportunities in the areas of your business, then move on to John. And follow on with Mark Gregory?

A - Mark Zinkula {BIO 16142450 <GO>}

We're expanding in several areas in LGIM, as you know. So the only one I would say is loss-making at the moment would be in Asia because we're just getting started and it's very marginally loss-making because we're building out a very economist approach.

The US is not comfortably profitable. We'd expected to pay a dividend this year and I guess it's safe to assume that. But we are -- we want to invest in the business. And so our place in the US market right now with our strategy, we've talked about it quite a bit already. So we want to make sure that we continue to invest practically and expanding our business there.

To the extent we've had other business units that haven't been terribly profitable within LGIM, we have in essence closed them down. So private equity would be one example where we're redeploying the resources in Paul's team; and within the retail business, we've streamlined our strategy there as well to be focused on the unit trust aspect of the business relative to the structured products which has been loss-making recently [ph].

A - Nigel Wilson {BIO 1535703 <GO>}

Active equities is a kind of break-even-ish as well.

A - Mark Zinkula {BIO 16142450 <GO>}

Yes. It's a slight profit in equities.

A - John Pollock {BIO 6037447 <GO>}

Andrew, the only business that is loss-making for me at the minute is workplace savings, which I think everybody was aware of. We've disclosed GBP29 million of losses this year, which you can understand in the context of on-boarding very high volumes of very low contribution. So it's hardly surprising that we made losses.

While we're investing it in that business, Nigel I think has also disclosed that we plan to have those losses next year. And Mark I think said a couple of years ago that low double-digit billion of asset scale is what we need to do to get to break even and beyond.

A - Mark Gregory {BIO 15486337 <GO>}

Yes. The point about tax-free cash emergency in our annuities business, this relates to the corporate entity called L&G Pensions Limited. But we do have a deferred asset with the tax losses are brought forward, trading loss is brought forward from prior years, Andrew. And I'm just saying we're using that up as LGPL makes profit. But actually next year, we've still got enough deferred tax asset left to actually put it for next year's likely profit to emerge tax free.

So it's that effect which we're describing when we say the cash flows within LGPL, our annuity business, will emerge tax free. The numbers are -- we've roughly got about GBP93 million of trading losses, tax benefit trading loss to a tax asset left in the balance sheet for that. And we use about GBP70 million a year.

So in 2015 -- again, we only ever guide one year at a time, Andrew. We thought we'd run out of tax losses in the current year. But actually, we found some ways in which that isn't true. So we're working on that to mitigate the impact in 2015 and beyond.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thank you very much.

Q - Unidentified Participant

You're probably not going to answer my first question in that case. Reading between the lines in your Solvency II statement, you suggested that it's going to be at least GBP4 billion. So you're clearly being conservative in that number, aren't you, sort of question?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I've answered that question. How about that?

Q - Unidentified Participant

And second thing is, you're going to workplace savings and is there ever going to be a scenario in the future where you could bring that on platform with Cofunds and have a single proposition? Is that ever going to be in the scope to? Obviously, there's great scale in Cofunds.

A - John Pollock {BIO 6037447 <GO>}

Stop thinking of Cofunds as a fund supermarket platform for IFAs and think of it as an open architecture capability that we now have. Therefore, how we deploy that we have choices and capabilities and if workplace scale -- we've got to get workplace to scale first before we start imagining the art of the possible. But yes, it's entirely possible that we would in the future.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, RBC. A couple of question on annuities and one on LGIM. On annuities, just on the back of the FCA competition market study, what happens if more customers enter the open market, however that happens? Do you either keep your margins the same and take more volume, or do you maintain volume and up your price?

On impaired annuities, are you playing catch-up on the pure -- on underwriting on the pure non-standard annuity players while you have a much larger in-force annuity book? Is it the case you just haven't collected enough rating factors over the years?

And finally on LGIM, there's a GBP2.6 billion outflow in the Fourth Quarter. You've benefited hugely over the years from consultants pushing the core satellite and DB pension funds -- that's been your area, selling indexed equities to DB pension funds. Now that DB pension fund market, as you said, is in structural decline. The equity holdings of these schemes are in decline to a greater extent. Should we expect continuous outflows?

A - Nigel Wilson {BIO 1535703 <GO>}

Good questions. I think why don't I just give Mark? If you answer yours first and then I'll move on to Kerrigan's second.

A - Mark Zinkula {BIO 16142450 <GO>}

Okay. I didn't think I'd escape without that question being asked [ph] by the business ones [ph]. But no, our business model is inherently very institutional so the cash flows, or the inflows quarter to quarter are going to be uneven. And I've talked about that quite a bit in the past.

So we had significant inflows in the First Quarter which are GBP5 billion or GBP6 billion or so. I told you to not get too excited. A couple of billion of outflows in the Fourth Quarter; I told you to not get too alarmed.

So if you take a step back, first of all, our persistency is still around 90%, which is line with our historical average. We did have a record persistency year in 2012. We're hoping to maintain that. We'd like to improve it slightly this year and we're taking action to try to do that. But as you mentioned, many of the outflows are beyond our control as these plans de-risk.

You do have to look at the underlying composition of the assets though that we are losing versus gaining. So we are in essence loosing passive equity assets, gaining fixed income LDI, annuity assets, property assets. Those are higher fee, higher revenue.

We do accept over a long period of time for our DC assets, the growth in the DC market to offset the gradual decline in the DB market. This will take several decades. It's not -- the flows aren't going to match quarter to quarter or year to year. But we do feel that we are extremely well positioned in the DC market; in much better position now than we were two years ago in our product offering and our distribution strategy there. And not just workplace savings. But also with other platforms as well.

Then in the retail and international space, we have tremendous upside potential. I think we rank twelfth or something in the retail space here. It's getting renewed focus. And I mentioned there's this positive momentum year over year and we're just getting started internationally. So it's been a few years that we've tried to grow our business internationally. And obviously experiencing good momentum there.

So factoring all that together, we would expect although over the next few decades gradual decline in DB assets, we can still maintain profitability as plans go from one product set to another and then still continue to grow the business within the UK as well as internationally in these other channels.

A - Nigel Wilson {BIO 1535703 <GO>}

I think speaking with my Chairman of LGIM hat on, I'm just terrifically excited about the prospects for growth for LGIM. I think of this as being on the second floor of an elevator at the moment is that we have these huge amounts of opportunities. We're just laying down people and capability around the world.

We've just got started in Asia. It's loss making but it's getting going. We've really just got started in the Gulf; and although we've been fantastically successful in America, it's very early days.

And we surprised ourselves in Europe last year. I think we did better in Europe than we expected to do. And the UK strategy is very much DC and retail to grow. We're going to get quarter-to-quarter volatility in the DB space as some of those assets are chunky and they disappear. But it will be over a very long period of time. So we -- hence the GBP9 billion is not enough remark; that we'd rather like to do a bit better than that in 2014 and beyond. Kerrigan?

A - Kerrigan Procter {BIO 15093363 <GO>}

Thank you. Your first question was about the SCA review and what happens if more people go open market. Just a couple of facts about our business that came out earlier; 75% of our business in 2013 was written on the external market. We price competitively and consistently across our internal and external books and across all parts of the market, whether that's standard lifestyle impaired or severely impaired.

So it's good. We are strong advocates of shopping around, the open market option. We're strong advocates of medically underwritten annuities that people should provide their lifestyle and medical information as standard. And we're strong advocates of the fact that people should take advice.

So it's, if you like, it's the right time to be doing the right thing for customers and we always try and do the right thing for customers. So that whole market environment really plays positively towards the way we think about that individual annuity market.

Your specific point was about pricing discipline. I think we've probably said several times today already we maintain our pricing discipline. We have all the levers for growth internationally across various annuity markets and we price to maintain that pricing discipline.

A - Nigel Wilson {BIO 1535703 <GO>}

I think the other feature of the market is in the first six months of this year, we don't expect the individual annuity market to grow. I think we've talked a lot about the growth elsewhere. But we've got to recognize that in the short term, that market's unlikely to grow. Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

What about my impaired question?

A - Nigel Wilson {BIO 1535703 <GO>}

What?

Q - Gordon Aitken {BIO 3846728 <GO>}

Impaired annuities.

A - Nigel Wilson {BIO 1535703 <GO>}

I thought we answered that one.

A - Mark Gregory {BIO 15486337 <GO>}

The detail was about catch-up on underwriting; probably just a very brief couple of words on that.

We talked a lot about impaired inanities and we talked a lot about our digital capacity and our pricing capability. We talked a bit earlier about our digital capacity where you can sit with your RFA, enter your full medical and lifestyle information on a form; fire it across to us. We'll check prices with reinsurers, give it back. And we'll send all that back in under two seconds to you sitting at your desk with an RFA.

We process over 1,000 of those each day. And about 75% to 80% provide a guaranteed price for 35 days. So quite phenomenal digital capability -- digital capacity, rather.

And pricing capability, it's an evolution. The UK market is moving to a place where, based on each individual's medical conditions and lifestyle, we'll say how long we think they will live. You don't just use your in-house data. We have in-house UK data. You use external UK data and you use global medical research information to combine, to help you provide that estimate.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. The way I feel about it is that John's already been in that market for quite some time. And using that very rich data, very big data; lots of analytics around it. And our protection market share has grown from about 5% to 20%-odd now over the last 10 years or so. It's been a huge success for us. And I'm confident that Kerrigan and the team will be able to deliver similar success in individual annuities going forward.

Q - Sachin Ravi

Sachin Ravi [ph], Nomura. Again, on annuities, I'm afraid. Could you comment on pricing and competitive behavior in Q1 and how you expect that to develop going forward?

And also, correct me if I'm wrong. I think you have a single tie [ph] arrangement with Zurich. Is that --? Do you see a threat to that from the FCA review taking place? And how much of that is your premiums?

A - Nigel Wilson {BIO 1535703 <GO>}

We don't want to spend a lot of time on annuities. If you can answer these questions in 30 seconds, Kerrigan. So we can --. There's about 10 other people we've got to get to.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes, probably very quickly on pricing. I think we've covered it. It remains subdued. It was subdued in Q4. It will remain subdued in Q1 and Q2, we believe, on pricing.

And on Zurich, yes, we have an arrangement with Zurich. That arrangement continues with Zurich. I think they were in the press last week talking about that themselves.

Q - Sachin Ravi

Can you tell me how much of premiums comes from Zurich?

A - Nigel Wilson {BIO 1535703 <GO>}

I don't think that -- I think that's competitively sensitive information with Zurich.

Q - Alan Devlin {BIO 5936254 <GO>}

Alan Devlin, Barclays; just a couple of questions, first of all, on L&G capital and how the asset mix may evolve on page 18, with direct investing and direct loans, etc.. And what the potential uplift could be to the portfolio users [ph].

Another question for Kerrigan. There's been a lot of talk about individual annuities and bulk annuities. But I was wondering if you could talk about actually longevity. You mentioned there's actually less competitors in the longevity market; what the opportunity is there, or what the economics of that opportunity could be.

Then just finally on Cofunds. One of your competitors is particularly integrating their platform. I wonder what the long-term strategic -- your view is for Cofunds. Particularly, could you lever the L&G name Go Direct? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Again, very good questions. Paul, do you want to just talk about your ambitions and aspirations for L&G capital and how you're going to do much better going forward?

A - Paul Stanworth {BIO 15495409 <GO>}

Yes. Thanks very much for that. The general trend of the asset allocation, which we've been on for a while, is to move more into direct investments and away from the multi-asset strategy that we've had currently. And our targets really are set, because we've got a very liquid balance sheet. And we recognize that our assets historically have been very liquid and we can reduce the liquidity of our assets to improve those risk-adjusted returns.

So we'll be looking for -- we haven't set targets in terms of volume because really what we want to do is make sure we both into those assets on a basis that gives us a good risk-adjusted return. And the problem with volumes is that we may compromise that principle of getting better returns.

We made some external remarks about how much we're prepared to contribute in terms of infrastructure and other types of assets. And we would like to have a sizeable minority of our portfolio in direct investments but it will be on the basis that it hits the risk-adjusted returns. And the hurdle rate for us is really what we can achieve in our assets currently, which is predominantly investment grade debt.

So those returns are very, very low. And moving into illiquid assets provides us with the same kind of credit quality, the same risk-adjusted -- the same risks. But in terms of the liquidity, we'll get a pickup in terms of premium.

But the market is moving around all the time and we maintain that discipline against volume versus value.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Kerrigan, do you want to just pick up the longevity point? Then, John.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes. I'll just talk briefly about longevity insurance. Really in that market, there's only two direct competitors active in that market. I always think about it that we have twice the strategic benefit of anybody else for being in that market. You know we're uniquely placed to help pension schemes all the way through their DBD risking process. So longevity insurance is a great complement to LDI. And it's a great complement for people moving into buy-in and buyout. So twice the strategic benefit.

Really, the way that market works is that we provide a gateway to a diverse market of eight or plus active reinsurers in that market. So we take on that risk. We keep the risk we want to keep and we pass out the ones that don't. That's the way we provide competitive pricing for our customers by providing that gateway.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thanks. John.

A - John Pollock {BIO 6037447 <GO>}

Cofunds. Thanks, Alan. There's two fundamental things for Cofunds. First is we need to enrich the capability and functionality for our core and important client base in the IFA. So that's really important that we maintain that.

But secondly, as I've alluded to a number of times, think about Cofunds as a capability, a technical capability in which we can deploy a more open architecture, enriched product delivery mechanism to a much wider array of customers, whether that's direct to consumers, whether it's with our Bancassurance partners, whether it's through the enrichment with IFAs, whether it's to our in-force base, or to our auto-enrolled employees. The opportunity to take the Cofunds technical core and build out from it, that's what our investment going forward is all about. So the strategic opportunity to transform LGAS savings lies in how you consider the Cofunds capability.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thanks, John.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi, JPMorgan; three questions. Please correct me if I'm wrong. I guess you missed your guidance on 2013 in terms of back book capital generation. And you mentioned that you tried to under-promise or deliver. So what we are missing on that? That's the first one.

Secondly, on your guidance for LGAS capital generation this year, it looks like just 2% growth, whereas you're targeting around 5% growth in protection volumes. And savings should look to get better because of workplace pension losses coming down. So what's the missing link here?

And third one on general insurance. You reported 85% combined ratio, which is significantly better than the past. So how should we think about it going forward? Is it more sustainable level, or was there some sort of one-off in that? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

The award for the most negative questions so far. But we'll easily achieve. But I know, Andy, you're going to outdo them . You're trying to get the Andy Hughes title. Let me tell you, he won't give that one up easily.

Thank you very much for those.

I think the -- I'm disappointed in you, Mark. I thought we hadn't missed guidance on cash [ph].

A - Mark Gregory {BIO 15486337 <GO>}

Yes. Where to start. On the LGAS, you raised the point about why 2% cash guidance improvement on LGAS and I did try and cover it in my speech. There are a number of moving parts going on there. John said we've got quite a diverse world now so some things are growing quite heavily. I did flag the GBP9 million year-on-year decrease and the fact we did have this tax advantage which will erode over time from the treatment of expenses on retail business, retail protection, new business gain. That will go down year on year.

So really, it's a sum of lots of parts. And that's why we guided to the GBP430 million -- to the circa GBP430 million number in 2014. I'm not sure we said we promised to under-promise and never [ph] deliver. But we're trying to be as open as we can with the disclosure. And the guidance is firm guidance.

A - Nigel Wilson {BIO 1535703 <GO>}

I think in the text in one of the slides, I can't remember where it is, we absolutely hit the exact guidance, the exact million (multiple speakers). Actually, for last year, for 2013, we gave guidance, we absolutely hit that on the head. So we'll try and do the same for 2014.

John, do you want to talk a bit about GI?

A - John Pollock {BIO 6037447 <GO>}

Yes. There is no one-off in GI except the weather, which last year was incredibly benign, despite the flooding in December. What I alluded to in my speech was we have changed a number of processes.

One, we're getting benefit in terms of flood underwriting. So we've always been good underwriters against environment agency flood refer zones. But our new claims process has proved extremely efficient, both at minimizing claims leakage, which is a significant benefit for us. But also pays back very powerfully for our customers who get the claims closed very much more quickly.

So the customers benefit, we benefit financially. And I'd like to echo Nigel's comments on thanks to the staff who stepped up over Christmas, who were there on Boxing Day and Christmas Day to take customer calls. So no one-offs.

Q - Ashik Musaddi {BIO 15847584 <GO>}

How much was the weather-related loss in 2012?

A - Nigel Wilson {BIO 1535703 <GO>}

In 2014 or...

Q - Ashik Musaddi {BIO 15847584 <GO>}

2013, sorry.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Within the reported numbers.

A - John Pollock {BIO 6037447 <GO>}

We reckon that the weather-related loss, we -- there were GBP12 million...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry. Benign weather impact. Sorry for that.

A - Nigel Wilson {BIO 1535703 <GO>}

It's very hard to tell exactly what that -- it is. I think we've given guidance in terms of how much January and February have cost the Group, which is the GBP12 million, which is within our normal weather tolerance, as it turns out. And I think John's being very modest about the achievements over the last five years in GI which was done largely through the efforts of your colleagues. But actually, they've just done a great job.

Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. So the first question on net cash and Solvency II. So we know Solvency II buffer is bigger than it is under IGD. And we know Solvency II is used to price annuities. But a cynic might say that we don't get disclosure because the net cash numbers on Solvency II look substantially worse given the mix of risks in the portfolio. And that's why the Group's not in a hurry to disclose Solvency II between [ph] operating variances.

So I guess that leads a follow-on question. The 1.5 times [ph].

A - Nigel Wilson {BIO 1535703 <GO>}

Can I say that's totally wrong, as it turns out, Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

A - Nigel Wilson {BIO 1535703 <GO>}

And so that's -- it's the opposite reason, to be part -- to be blunt about it. And so we've not actually disclosed it because that's not true. So if your second question is related to your first question, it's not, in fact right. And therefore, before we give any further guidance on it, we want greater certainty around all of this. And as Mark said, there are a number of things up in the air and we just want to make sure we get those right.

Q - Andy Hughes {BIO 15036395 <GO>}

No. So the other question I was waiting [ph] -- obviously, market conditions drive Solvency II balance sheet and net cash. But clearly the payout ratio relative to net cash will change then on credit spreads. So if credit spreads widen significantly, can you stick with your 1.5 times coverage reduction from the Pillar 1 net cash you disclosed today?

And the second --. Sorry, do you want me to go on to the second question?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, go on to the second.

Q - Andy Hughes {BIO 15036395 <GO>}

Second question is coming back to my question at the half year about the run-off of the mature savings business. So I can see -- I didn't get an answer last time so I'll make one up this time. So I can see on slide 56 GBP4.2 billion of outflows from both the mature savings business and the UK retail. If I was to assume that's 1% fee business, is that a GBP4.2 million a year headwind profit on the run-off for those two businesses?

And the third question is LGIM because I haven't asked (inaudible) about them yet. So I guess on the fixed income investment performance, I understand that LGIM was underweight, bank and financials sub-debt particularly. Has investment performance on the fixed income side suffered as a result of the rallying credit spreads on those asset classes? And is that one of the reasons why potentially the outlook for inflows maybe a bit weaker than it was?

Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

I'll start with the LGIM question because I know we've got an outstanding performance there.

So Mark, do you just want to pick up the...

A - Mark Zinkula {BIO 16142450 <GO>}

Solvency II.

A - Nigel Wilson {BIO 1535703 <GO>}

Then if Mark Gregory picks up the other two. So you've not a good performance in fixed income, Mark. What are you going to do about it?

A - Mark Zinkula {BIO 16142450 <GO>}

In fairness [ph], the US business and all of our competitors [ph] have outperformed one year, three years and five years. So thank you. I was wanting to say that without sounding as if I was being boastful.

In the UK, we did have underperformance in one of our core strategic funds. Our core plus portfolio underperformed last year after I think six or seven years of outperformance. All the other core funds were ahead of their benchmarks, I believe, unless there might be one or two smaller ones that I'm missing. So we -- our performance held up well last year.

A - Nigel Wilson {BIO 1535703 <GO>}

Mark, do you want to cop [ph] the jeopardy [ph] question?

A - Mark Gregory {BIO 15486337 <GO>}

Just on Solvency, we're not being evasive. I was just trying to say in my speech, there's still quite a lot of things need to be sorted out. And therefore, any Solvency II metrics are just meaningless at this stage. We just don't know the component parts performance solvency metrics [ph]. We know broadly what's going to happen in terms of potential margins going off the liabilities side being added to the capital side effectively. But we don't know enough to give you the details.

So the reason we're saying guidance goes up to 2015 and not beyond is that we haven't yet got the clarity and therefore the underlying metrics. We simply can't define them in a way that's going to be meaningful for us yet, let alone to you.

So that -- it's certainly not being evasive, Andy. We just don't know enough about it yet. And that will be true of the regulator as well. We're all working on this together as we work through the detail.

On the headwinds, you've called on retail savings, the more mature back book, we have guided on LGAS total cash at GBP430 million for the current year. That's all in that mix of that equation.

So we're not breaking that down by component part, Andy. You can do your own math on it. But we are -- we have given you a number for LGAS, excluding GI for this year. And that impact is in that number.

A - Nigel Wilson {BIO 1535703 <GO>}

We've had an hour and a half. I'm going to stop the questions now because I think there's a lot of -- well, all of my colleagues will be around. There's lots of second order questions. I can see people wanting to put their hands up again and ask a second question.

I'd just like to say thank you for all of your interest. It's interesting that we're five years into the recession. It's not yet fully completed. Five years ago, we had a net cash of GBP320 million. It's GBP1 billion. We're very committed to growing cash going forward and we're very committed to delivering greater dividends for our shareholders and deploying that capital, whatever that capital may be when Mr. Gregory, Mr. Hickman, Mr. Steadman [ph] and others sort things out with the Treasury and our regulators. But we're very confident about the future of Legal & General.

I'd just like to thank my colleagues, many of whom are in the room and haven't had a name check for the outstanding performance over the last few years and making my job much easier. So thank you.

Operator

This concludes the Legal & General plc preliminary results call. 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 handsets.