Q4 2016 Earnings Call

Company Participants

- Bernie Hickman, Chief Executive Officer, Legal & General Insurance
- Chris Knight, Managing Director, Legal & General Retirement, Retail Customer Division
- Kerrigan Procter, Managing Director, Legal & General Retirement
- Mark J. Gregory, Chief Financial Officer & Executive Director
- Mark Joseph Zinkula, Chief Executive Officer, Legal & General Investment Management
- Nigel D. Wilson, Group Chief Executive Officer & Executive Director

Other Participants

- Abid Hussain, Analyst
- Alan Devlin, Analyst
- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Andy Hughes, Analyst
- Colm Kelly, Analyst
- Gordon Aitken, Analyst
- Jon M. Hocking, Analyst
- Oliver Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Nigel D. Wilson {BIO 1535703 <GO>}

Good morning, everybody, and thank you for coming to our Annual Results Presentation for 2016. As you moved through our building this morning to the presentation, you will have seen many powerful authentic images of what we're achieving at Legal & General, such as our backdrop which is our regeneration of Cardiff. Technology and scientific developments are the most exciting for 150 years. And yet never has there been so much money available to invest so cheaply priced and yet so poorly used.

We are indeed in the second machine age or the fourth industrial age. There are so many great opportunities to grow and so few that are being seized. We, at Legal & General, find it inspiring to see that in the UK that the cup of entrepreneurial spirits amongst our talented millennials within our great universities and cities is overflowing with commercial ideas. Now is the time to support ambition and innovation by having the confidence to invest our ways to growth, including converting our many, many start-ups into scale-ups.

Legal & General has indeed stepped up as our results demonstrate. First of all, a couple of bits of housekeeping. Here are the usual forward-looking statements. Please switch off mobiles. And if there's a fire alarm, the home team will shepherd you downstairs. This is another terrific set of results from Legal & General. Profit before tax of 17% to £1.6 billion. EPS up 19% to £0.222 and ROE close to 20% and the dividend up 7% to £0.1435.

I'd like to take this opportunity to thank all of my colleagues across the whole of the group who delivered not just these results but in previous years as well. I have every confidence that they will continue to deliver in 2017 and beyond. We achieved these results despite all of the economic, regulatory and political shocks from Brexit, from Solvency II, from the legacy reviews, from an annuity thematic review, low interest rates, the abolition of compulsory annuities, et cetera, et cetera.

The UK is a great place to invest for Legal & General. And as Mark Zinkula and Kerrigan will explain, the U.S. is looking increasingly promising for us. The group strategy is not reliant on short-term economic outcomes. We have a resilient growth business that has delivered consistently strong results since the financial crisis. Our strategy is allowing to what we believe are six established long-term growth drivers: ageing demographics, globalization of asset markets, creating new real productive assets, the reform of the welfare state, technological innovation, and providing today's capital.

These have proven to be powerful drivers of our growth. We can look forward to the future with confidence because our core markets are growing, because our market share is increasing, and, as Mark Gregory will demonstrate, because our balance sheet is strong and because we have positive cash and earnings momentum.

Having spoken to many of you at the Capital Markets event about our growth strategy for the next five years, a critical part of delivering that strategy is having the right team. As you can see from the slide through a combination of selective hiring and internal promotions, we have significantly strengthened our management bandwidth and our technology capability. What is really pleasing to me is the combination of internal and external appointments.

It is really important to me also that we develop and nurture our internal talent, so that they achieve their full potential. This includes Kerrigan, Bernie, Chris, Cheryl, Aaron and Anton. But, at times, we need to look outside for people who will bring more pace and more energy and a fresh perspective, for example, Jeff, Helena, Paul, Stephen and Garvan. Furthermore, we have strengthened the board, not just with the Chairman's appointment, but also Philip, Lesley and Toby's appointments bring rich and relevant experience to the group.

Mark will go into our financial performance in more detail, but all of our key financial metrics are really pleasing. This is one of my favorite slides. All our KPIs are strong. Net cash, EPS, ROE, DPS, all demonstrate the tremendous growth we have achieved. A couple of line items we rarely comment on are the retained cash which, at £557 million, is not only a record. It's almost £100 million above last year. Plus the growth in book value per share of around 10% to £0.116 is also another record.

In terms of our six growth drivers, we made significant progress in all areas. The number and size of our achievements in 2016 is more than we have delivered in previous years. We are, indeed, accelerating our evolution. Some highlights. LGR had record transactions of over £8 billion. LGIM AUM increased 20% to £894 billion. We now have £10 billion in direct investments. That's up 40%. UK DC assets grew 24% to £57 billion.

Our GI direct sales grew 20% and we are making significant progress in digital insurance, in housing, in urban regeneration and SME finance, and that's both the debt and the equity. This slide also demonstrates that Legal & General is economically and socially useful providing solutions to society's critical financial needs. What Legal & General has also delivered is resilience and consistency.

Our net release of cash has grown by - our cash has grown by 13% per annum to £1.4 billion. EPS has also grown by 13% per annum to £0.222 and DPS by 17% per annum to £0.1435 and our ROE has increased from 15% to 20%.

I'll now hand over to Mark.

Mark J. Gregory {BIO 15486337 <GO>}

Thank you, Nigel, and good morning, everyone. By way of signposting, I'm going to cover the 2016 financials at a group level, our dividend recommendation, the group's capital position and I'll take you through the performances of our Insurance division, General Insurance and Savings. Kerrigan will then cover Retirement, Zink will cover LGIM and Nigel L&G Capital, as Paul Stanworth is sadly happen to attend a family funeral today.

As Nigel outlined, it's been another positive year in terms of our stock of businesses, 20% growth in LGIM's assets under management, now £894 billion with £31.2 billion of net inflows in the year. 25% growth in LGI's annuity assets, now at £54 billion with £7 billion of annuity business written in the year and 39% growth in direct investments, now at £10 billion across the group.

Moving to P&L, our renamed net cash generation now called net release from operations was up 12% at £1,411 million, including a new business surplus of £155 million. Operating profit was up 11%. PBT was up 17% on the back of the strong operating performance and a positive investment variance on our shareholder assets. And EPS was up 19%, meaning our post-tax return on equity grew to 19.6%.

At a high-level summary of our capital position, the group's Solvency II surplus at end of 2016 was £5.7 billion, equating to a coverage ratio of 171% on a shareholder basis. And our Economic Capital surplus grew to £8.3 billion. This slide shows the operating profit from our divisions, up 12% at £1,902 million. As you can see, LGR had a very strong performance in 2016, but each of our divisions delivered a meaningful contribution both in terms of profits and in terms of wider group synergies.

I mentioned earlier some of the growth achieved in our business stock in 2016, but our strategy is focused on delivering growth year in, year out. And, here, you can see the progression we've achieved over the last five years. And this sits at the very heart of our strategy. And we're confident we can sustain it.

Moving on then to dividend, 12 months ago, we announced our new progressive dividend policy, reflecting the group's medium-term underlying business growth. In line with our policy, the board has considered the best trajectory of dividend growth taking into account sustainability across a wide range of scenarios and the group's anticipated financial performance. Accordingly, the board has recommended a final dividend of £0.1035 given a full year dividend of £0.1435, up 7% on 2015.

In terms of divisional performance, I will start with our recently formed Legal & General Insurance, which combines our UK and U.S. protection businesses. Operating profit in the Insurance division was £317 million for the year, up 5% after adjusting for the disposal of L&G France in 2015. Breaking down the Insurance division performance between the UK and the U.S. and starting with the UK. Operating profit here was up 6% at £216 million. Our leading retail protection business in the UK continues to perform well with new business up 5% and gross premiums up 6%.

However, operating profits from our UK Insurance business were held back by the performance in group protection, where the adverse claims experience we reported at the half year continued in the second half. Bernie has already started the process of addressing this. Elsewhere in the UK, our Mortgage Club facilitated a record £53 billion in mortgages in the year. And our Surveying business also had a record year by completing over 0.5 million surveys.

Legal & General America is the 10th largest term assurance provider in the U.S. and the fourth largest in its core brokerage channel with gross premiums up 3% at $1,220 million. Net release from operations for the business represents the dividends remitted in the year to the group and this was up 10% at $91 million.

Operating profit at L&G America was $115 million and LGA has already paid its 2017 ordinary dividend in February of $100 million. Following a minor equity capital restructure, all of the dividend will now get paid as an ordinary. In 2016 and previous years, we used to receive an additional preference dividend of just under $3 million in the fourth quarter.

Operating profit for our General Insurance business was £52 million, up 2%. For what is predominantly a household book, the profit performance did benefit from relatively benign weather conditions in 2016, although we did have to absorb the first annual Flood Re levy of £9 million, which added 3 percentage points to our combined operating ratio of 89%. Our direct business grew by 20% and now accounts for 37% of gross premiums. And in 2017, recently signed distribution agreements are expected to increase GI gross premiums by around 10%. One final point on GI, we expect zero profit impact from the recent Ogden rate changes.

In our Savings division, which, in 2016, comprised both our Mature Savings and Digital Savings businesses, net release from operations was down £17 million year-on-year at £99 million. At an operating profit level, increased use of automation, including the use of robotics in our Mature Savings business, has meant profits were only down £1 million at £105 million as we continue to manage the reducing contributions from our book which is largely closed to new business.

Our Digital Savings business, which included the Cofunds and IPS platforms and Suffolk Life, made an operating loss of £6 million in 2016. These businesses have now been sold. Moving on to balance sheet matters and in particular our capital position. The group's Solvency II surplus increased by £0.4 billion since the half year to £5.7 billion at year-end. Over the same period, our Solvency II coverage ratio, as calculated on the shareholder basis, increased by 8 percentage points from 153% to 171%.

On a pro forma basis of calculation, the coverage ratio increased from 158% to 165%. 81% of our £13.6 billion of Solvency II Own Funds were core Tier 1 assets. And these core Tier 1 assets alone were £3.1 billion more than the group's capital requirement.

Our Economic Capital surplus increased to £8.3 billion, representing a coverage ratio of 230%. And our AA minus credit rating has been maintained and provides further evidence of our robust capital position. This slide provides you with a bridge of a £0.2 billion increase in the Solvency II surplus over the year from £5.5 billion to £5.7 billion. The operational surplus generation from existing business contributed £1.2 billion.

In your analyst pack, you can see a reconciliation of the IFRS release from operations to this number. The impact of writing new business in 2016, including the £7 billion of new annuities, was to reduce Solvency II surplus by £0.1 billion. Your packs also provide a reconciliation of this number to the IFRS new business surplus. An obvious point perhaps but, over time, the aggregate cash flows will be the same. So, the only difference between IFRS and Solvency II is in the timing of the emergence of these cash flows.

Net surplus generation of £1.1 billion in the year represents the combined result of operational surplus generation less new business strain. Operating variances were a favorable £0.2 billion in total and included, amongst other things, experience variances in the year, changes in best estimate liability and capital calibrations, changes in asset mix and, as per the Solvency II requirement, a change into the capital in respect to the new business you expect to write in the subsequent year.

Market movements in the year reduced surplus by £0.3 billion as the impact of lower rates on our Solvency II capital requirement more than offset the benefit to Own Funds of higher asset values. And, finally, on Solvency II, this slide gives you our estimate of the present value of Solvency II surplus emergence from the key elements of new business we wrote.

For example, the new annuity business we wrote in the UK is expected to deliver £693 million of future surplus. And our UK retail protection business, from which we get much of the benefit on day one, is expected to generate £139 million. This expected surplus generation from the new business shown on this slide is 9 times the total Solvency II strain of £100 million we invested in writing this business. Very clear evidence of our ability to grow the business profitably in a Solvency II world.

And, with that, I'll hand over to Kerrigan.

Kerrigan Procter {BIO 15093363 <GO>}

Thank you, Mark. Good morning. Legal & General Retirement delivered strong results for 2016 with both record profitability and record new business sales of £8.5 billion. This was delivered with a backdrop of a new regulatory capital regime which allowed us to successfully put into practice our plans for capital-efficient approach under Solvency II.

Turning to LGR's financial results first, net release from operations was up 41% to £592 million. New business surplus increased to £159 million. In part, this reflects the growth in total new business sales. It also reflects the capital-efficient business model where we expect to reinsure more of the longevity risk for UK PRT deals than previously. Operating profit was up 27% to £811 million. This includes the positive financial impact of higher-than-expected mortality.

However, we have not made material changes to our forward-looking longevity assumptions. Before making such a change, we would prefer to see more evidence that the higher-than-expected mortality in recent years is a trend that we could extrapolate many years into the future. Our Solvency II new business margin on UK annuities is 10.4% and the associated Solvency II new business value-add is £693 million. This was achieved with a capital strain of just under £200 million.

Let's turn to new business and our eight sources of profit, taking each in turn. We were pleased to be able to work with Aegon to acquire their back book of 27,000 open market individual annuitants in May 2016. The deal is eligible for transition relief and we are comfortable with the longevity risk, as the risk profile is comparable with business we wrote at the time. Therefore, we have chosen not to reinsure the longevity risk on this book of business. We see further opportunities for back book consolidation and we'll be exploring these using the same financial metrics as PRT.

We wrote £3.34 billion of bulk annuity business for UK private sector DB pension plans in 2016, predominantly in the second half of the year. Notable transactions included a £1.1 billion buyout with the Vickers Group Pension Scheme, part of the Rolls-Royce Group, in early November. The Vickers Scheme has been a longstanding client of Legal & General, becoming an LDI client in 2007. So we were particularly pleased that we were able to play a part in the successful decade-long de-risking and ultimate buyout of the scheme.

In late December, we completed a £900 million longevity insurance deal for a UK pension plan. The pipeline for potential new UK PRT business is around the level of £13 billion for deals currently being priced across the market, though, as you know, the flow of big deals can be lumpy. In aggregate, we reinsured 88% of the longevity risk for UK pension risk transfer business in 2016.

The U.S. PRT business made solid progress again last year writing $448 million of new bulk annuity business over six deals. This market has significant potential with market volumes in 2016 around $14 billion and the indications are the market will be even bigger in 2017, supported by rising U.S. nominal interest rates. We continue to quote actively in this market whilst always maintaining our capital discipline. The Dutch buyout market had a quiet year, but we have seen a large pickup in interest recently. And we'll continue to support this market as a reinsurer through our reinsurance company, L&G Re.

Our individual annuity business is now in growth mode again. Our sales fell from a peak of £1.3 billion in 2013 to a low point of £327 million in 2015 following Freedom & Choice in Pensions. In 2016, this grew 16% supported by an increase in market volume, some competitors exiting the market and the start of our distribution agreement with Aegon. We continue to participate in all parts of the market, including standard, enhanced and fixed term.

As we have done in the past, we provide consistent pricing between external and internal investing annuities. Our lifetime mortgage market share was 29% in 2016 with sales of £620 million, over three times the sales of 2015. Last year was the first year in which the market size exceeded £2 billion. But we see further potential for market growth as more over 55s access their housing equity to support their financial needs and retirement.

We remain disciplined about loan-to-value on pricing. LTV is age dependent and our average portfolio LTV is 27%. With our operational scale and matching adjustment efficient structuring, we can offer fair pricing to customers to support expansion of the market while providing a good risk adjusted return on assets to back our long-dated annuity liabilities.

The £54.4 billion asset portfolio backing our annuity reserves is a robust and well-diversified investment grade credit and real assets portfolio. The average portfolio rating is A minus and the portfolio had no defaults again in 2016. We hold a credit reserve of £2.7 billion within these annuity reserves, which can be used to absorb many hundreds of millions of pounds of actual credit default experience on the IFRS balance sheet.

Over two-thirds of the assets are A rated or better with £7.2 billion of gilts included in the AA rating band. We continue to build our direct investment portfolio, now at £8.1 billion, making up 15% of our annuity reserves. This includes £0.8 billion of lifetime mortgages, a range of private credit assets, including infrastructure, private placements and real estate debt, and properties with long-dated leases.

Direct investment improved the overall yield and credit diversification of the asset portfolio and direct investments benefit from underlying security or collateral. The asset management of the bank book, including direct investing, is our eighth source of profit for LGR. Combining this with our seven new business sources gives LGR a diverse set of opportunities for long-term profitable growth in both our corporate pension risk transfer business and our retail customer business.

I'll now hand over to Mark.

Mark Joseph Zinkula {BIO 16142450 <GO>}

Thank you, Kerrigan. LGIM had another successful year. Our results, once again, demonstrated the resilience of our business model despite the challenges facing our industry such as fee pressure, the FCA asset management study and poor performance of many active funds.

External net flows of £29 billion were positive across most of our main product lines, client channels and regions. Total LGIM operating profit increased by 3% to £366 million with the asset management operating profit, excluding a one-off adjustment for discontinuing box profits, up 7%. We maintained a stable margin of around 50% due to the scalable nature of our business model. We're growing our market-leading position in the UK defined benefit or DB sector with a broader range of strategies and replicating the success in the defined contribution or DC sector.

Growth in our retail business is also gaining momentum and we ranked third in net sales in 2016. And our international expansion continues with higher flows across all regions and particular strength in the U.S. International AUM was up 45% at £177 billion. I'll focus on all these growth areas in more detail in subsequent slides. The many challenges facing the asset management industry are also creating opportunities for managers with the right business model, products, and distribution strategy. We're gaining market share because we've positioned our business to benefit from several positive industry trends.

There are four product areas in the asset management industry that are expanding: index, solutions, alternatives, and active specialties. The majority of our assets fall into these categories. Within the solutions category, we're experiencing strong growth in multi-asset, active LDI and pooled LDI strategies. And the fiduciary management proposition that we launched last year is also gaining momentum.

Our continued strong track record in active fixed income is leading to increasing inflows, especially from UK and U.S. institutional clients. And there's growing demand for a range of alternative strategies such as real assets. We continue to develop innovative direct investment strategies for our clients such as the recently launched Build to Rent fund.

We've experienced net outflows from our Index business, largely from UK DB clients who are switching into LDI strategies. But we're seeing increasing flows into our index funds from international and retail clients. Our strong position in the market starts with our fundamental strength in the UK defined benefit pension sector. We're the largest UK DB pension manager with a 32% market share.

We've also built on our strength in index to become the market leader in LDI with a 45% market share. We believe we're well-positioned for the continued de-risking of DB schemes, taking clients through a range of solutions. Our commitment to real assets and market-leading position in pension de-risking represents a significant opportunity for L&G. But as the DB market is maturing, it's important that we continue to grow our DC and retail businesses.

We experienced a 23% increase in clients in our workplace platform last year to more than 2.2 million customers. We have one of the largest and fastest growing master trust in the market and total DC AUM increasing by 24% to £57 billion. Last year, LGIM acquired a stake in Smart Pension, an online auto-enrolment platform focused on the SMEs and our presence in this market has grown significantly.

Our retail business had net inflows of £1.4 billion in 2016 and positive net flows every month despite industry net sales flowing to the lowest level since 1995. We're well-placed to succeed, given the long-term trends in the retail market, such as a rise of index and multi-asset funds.

Finally, we had another successful year, expanding our international business, especially in the U.S. Net flows were £9.4 billion as we saw strong demand for our recently launched index funds and continued growth in our LDI solutions and fixed income strategies. Our U.S. expansion has been a major success.

We've leveraged our strong investment and solutions capabilities and now manage £119 billion of assets and have over 250 clients in this important market. We're expanding into the U.S. DC segment and developing our real assets capability as we establish LGIM as a leading U.S. pension solutions provider. We also experienced higher net flows in our other target markets of Europe, the Gulf and Asia and we're continuing to strengthen our distribution in those regions.

To sum up, we're confident we can maintain our leading position in UK DB and continue our strong growth in the UK DC and retail sectors and in our targeted international markets. Despite the challenges facing the industry, our solutions approach, exceptional client service and investment excellence, in addition to our focus on value for money and cost transparency make us very well-positioned to successfully deliver for our clients and continue to gain market share in our target markets.

Now, I'll hand it back over to Nigel.

Nigel D. Wilson {BIO 1535703 <GO>}

Thank you, Mark. LGC delivered good results in 2016, achieving an overall 10% increase in operating profit to £257 million, a 29% increase in PBT from £73 million to £94 million from its direct investment business and a 31% increase in direct investment assets from £867 million to £1.137 billion. LGC is delivering on its direct investment strategy and building a solid platform for growth.

In addition to improved PBT, LGC increased operating profits from direct investments by 75% to £121 million, delivering a net portfolio return of 9%. That's well on the way to our target range for LGC of 10% to 12%. The traded portfolio, including treasury assets, also had a strong year, delivering a net return of 7% on its £5.1 billion of assets and a PBT of £325 million. LGC's purpose is to deliver shareholder value by investing the group's £6.2 billion of shareholder funds in direct investments to earn an improved risk adjusted return.

However, LGC is also reconnecting long-term service with the direct financing of UK housing, infrastructure and SME capital by building new business models in these sectors, whilst providing Legal & General Group with growth opportunities both as an asset manager but also as an asset gatherer. As the chart summarizes, the business model is to acquire, develop or scale up these assets and then look to sell them externally or retain them within the group.

Since LGC was established in 2013, it has been building a track record in each stage of its business model. In 2016, LGC invested or committed £404 million into new investments, including a new project developing Newcastle Science Central, a public-private partnership with the city's University and the Council.

Pemberton successfully raised €1.2 billion for its first fund and is targeting €3 billion by the end of 2017. In clean energy, NTR deployed 66% of its initial €246 million fund and plans to launch second €500 million fund this year. We've also delivered strong revenue growth from our existing businesses, including CALA, which had a record year building nearly 1,500 homes creating revenues of £718 million. This compares to £384 million as recently as 2014.

We've made good early progress on disposals in 2016. We're targeting proceeds of around £250 million in 2017 as LGC realizes some of the value from its investments. These include disposals of assets in Bracknell, in Cardiff and Central London. We've already agreed about £64 million so far this year. Together, this demonstrates LGC's maturing business and focusing and performing at all stages of the business cycle.

As you can see, since 2013, LGC has increased operating profit at a compound growth rate of 13%, grown total assets three times to £1.1 billion, increased operating profit five times to £121 million, all whilst doubling the net return on the portfolio from 4.7% to 9%. We believe LGC has enormous growth potential. Housing infrastructure and SME finance will remain the key focus as LGC connects Legal & General's clients with the investment opportunities to deliver homes, cities and businesses of the future

CALA Homes is planning to build 5,000 homes by 2020. Our Build to Rent partnership will grow into a multi-billion pound fund and we will bring the manufacturing and finance to the £143 billion (00:32:32) affordable housing sector. We're already regenerating 10 cities and towns across the UK. We want to double this, building on our very successful development model whilst we also want to create the platforms to fund parts of the UK's £40 billion clean energy market.

And, finally, we are seeding businesses to fund SMEs. We're targeting £10 billion AUM alongside our international and domestic partners. LGC has a terrific base to increasingly deliver value across the Legal & General Group. I'd now like to turn to our group-wide view of 2016 and beyond. We have successfully completed significant decluttering of our businesses through selective disposals and several simplifications.

Slide four noted the improvement in the management and board capability of Legal & General. On this slide, we can note the disposal of operations in France, Germany, Ireland, Netherlands, Egypt and Bahrain, but also that the simplification has helped our retail investment business to rise from 13th to 3rd and our UK DC business is now £57 billion.

Much of this success is due to the heads of distribution in LGIM. That's Sarah Aitken, Emma Douglas, and Honor Solomon who will shortly be joined by Helena Morrissey. L&G, as a group, is delivering on diversity and diversity is delivering performance for Legal & General.

As my colleagues have demonstrated, we are performing well. However, we cannot be complacent. We are in attractive growth markets and we are growing our market share. But every business, every business is now threatened by technology disruption. We believe we have selected businesses where we can have a resilient, long-term competitive advantage as long as we continue to execute well and that includes around technology.

We've shown on this slide six key technology developments, of which four are already BAU and where we made good progress in 2016. That's robotics, big data, platforms and the cloud. We also have commercial plans to develop these technologies for 2017 and onwards to further improve our performance. The other two key technologies are blockchain and artificial intelligence. These are on our radar but has yet no meaningful commercial applications.

On our recent Capital Markets event, we said our financial ambition is a similar performance in 2016 to 2020 to what we achieved in 2011 to 2015, where EPS grew by 11% per annum from £0.124 to £0.186 and net cash by 10% per annum from £846 million to £1.256 billion. We have indeed made a good start in 2016 with EPS rising by 19% and net cash by 12%. We need to continue to execute against our 2020 strategic goals shown on this slide to deliver a strong financial performance.

As Kerrigan outlined, we're aiming for global leadership in pension de-risking. As Mark outlined, we are organically building a world-class asset management business. As LGC has shown, we're on track to become the UK leader in direct investments and also a market leader in the digital provision of insurance and retail investments. But we also have important customer objectives, helping people achieve financial security affordably. And we aspire, as Mark Zinkula talked about, to be a leader in financial solutions and, of course, a globally trusted brand.

I'd now like to open up to questions.

Q&A

A - Nigel D. Wilson {BIO 1535703 <GO>}

Who's going to put their hand up first? A flood of questions. Why don't we start with Alan?

Q - Alan Devlin {BIO 5936254 <GO>}

Thank you very much. Alan Devlin from Barclays. I've got three questions. First of all on the dividend. Can you give a bit more color around your thinking on the dividend driven by the underlying medium-term growth of business plus you stress the dividend? I wonder if you could give a bit more of your view on both of those. Particularly, is the 7% is what do you think the underlying growth part of Legal's is and hence the dividend going forward?

Secondly on L&G Insurance, can you give a color on what's going on in group protection and what gives you the confidence that you'll grow earnings in L&G Insurance this year or is it just an easy comparative? And then finally, on LGIM, I think you had £30 billion of flows last two years. The forward guidance there on flow is a bit vague. Just wondering what's going - what's the pipeline like and is £30 billion a good number to think going forward? Thanks.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Those are all good questions. I have every confidence that Bernie has got an easy target for 2017 and beyond in group protection, if Bernie picks up that one. On the 17%, it was about the sustainability across a lot of scenarios. I'll ask Mark to pick that up. Used to be 17%. And on LGIM, the £30 billion is clearly an impressive number compared to lots of competitors. But can we do better, Mark? So, if, Mark, he goes first.

A - Mark J. Gregory {BIO 15486337 <GO>}

Yeah. So just on dividend, clearly, we're not giving a dividend forecast going forward, so that - but clearly, we have taken into account our new dividend policy, which talks about our thoughts on our underlying business growth going forward. And, clearly, we set our dividend for 2016 in the context of how we see that playing out. We can get a lot of scenarios to the board to work out kind of what sort of things could hit the business, both upsides and downsides and clearly recognizing the performance in 2016. So, we're very comfortable with the 7% growth in the dividend 2016 over 2015, but clearly, the board will make its own call year in and year out. But clearly, we are cognizant of our new policy in terms of how we set that dividend in 2016.

Q - Alan Devlin {BIO 5936254 <GO>}

(00:38:34)?

A - Mark J. Gregory {BIO 15486337 <GO>}

Well, we took lots of different scenarios. I mean, in terms of growth, new business growth and things which could happen to the balance sheet. And, overall, we're comfortable with that level of sustainability.

A - Nigel D. Wilson {BIO 1535703 <GO>}

On the stressing, there was one slide that Kerrigan put up which had the sort of extra buffer we've got for defaults under various scenarios. And if somebody wants to ask Kerrigan that question, I'd encourage them to do so. Bernie?

A - Bernie Hickman {BIO 19334629 <GO>}

Yes. On group protection claims, it's important to remember that we retain most of the risk for group protection as opposed to retail protection where we reinsure most of the risks. There is going to be inherent volatility in the business. In 2016, in our life business for group life, we have broadly the number of claims we expect here, but the actual average amount was higher than we expected. In income protection, it was a smaller number of large schemes whose claims experience wasn't - was poor and we had more claims than we expected.

So, we understand what happens, but it's not acceptable. That performance is not acceptable. And so, we are talking a range of actions to address the performance. So, we'll be repricing the schemes as they come up for scheme renewal. And we'll be improving our approach to risk selection, making sure we can accurately forecast future claims, which is at the heart of running this business. And so, whilst those are going to take some time to work through, it's early, early signs of claims trending back. And so, that gives us confidence that operating profit is going to improve and it's not in Nigel's DNA to set any easy targets. So, no, it's not an easy target.

A - Nigel D. Wilson {BIO 1535703 <GO>}

This is my annual battle on targets. I mean Bernie conned me on the lifetime mortgage targets in setting last year and easily outperformed them. You're right, Alan. He's been set an easy target for 2017 and beyond, I have every confidence that he'll deliver. Mark?

A - Mark Joseph Zinkula {BIO 16142450 <GO>}

So, in terms of the last couple years let me go back for quite a while. LGIM has been outperforming the market in net flows as a percentage of opening AUM. We're certainly well-positioned to continue doing that. We should hold ourselves of that standard for sure. It won't be a straight line. We have - because we have predominantly an institutional client base, the flows can be very lumpy.

But in terms of trends, I think, in our newer capabilities and newer markets for index continue to see an increase in gross flows. And for the most part, net flows where I'm probably most concerned is an increasing trend towards some of the very large investors consolidating assets and taking more in-house. Now, those tend to be extremely low fee index mandates for the most part, but that is a one area where on a net basis you could potentially see more volatility going forward.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Okay. Thank you. Yeah. Why don't we have two microphones? Yeah. Sorry.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah. Gordon Aitken from RBC. Three questions, please. First on longevity, I mean, you mentioned the spike up in deaths and I hear what you're saying. You want to see more of a trend there before you feel that can be extrapolated. But can you just give us an idea of sensitivity if you were to move to say CMI 2016, what value could be released?

Second question on - I see the stat, two-thirds of large DB schemes. And you expect to de-risk by - of some kind by 2020. I've seen that stat before, the two-thirds. I haven't certainly seen it to 2020. Can you just explain a bit more about that because that is just huge and I mean the sector as a whole doesn't have enough capital to deal with that?

And the final question on strain. It seems that the demand is ever increasing for bulks. Whether or not it's back books or DB schemes, supply doesn't seem to be increasing. So, if you can just talk a bit about strain as a proportion of the price? I think large schemes has always been about 5%. So, can you talk about how that's moved?

A - Nigel D. Wilson {BIO 1535703 <GO>}

Those are – that's an excellent synopsis of the industry, actually and they are three of the better questions. And I'm delighted to hand over those questions to my colleague, Kerrigan Procter.

A - Kerrigan Procter {BIO 15093363 <GO>}

On the longevity side, as we said, we have a large team and plenty of data. We talked about 16 million man years of data just from the last five years and we break it up into many different sectors and we analyze it thoroughly. And as you're making the point, there's been cold winters and there's been an effective flu vaccine. How much do we extrapolate of that into the future? And we're still going through that and there will be a discussion I'm sure in the first half of this year, again, about how much we extrapolate that into the future.

CMI 2015 seemed to follow the higher mortality more than we were certainly comfortable with at the time, so that would have been a step too far, I think. Hence, it's why we're still on the CMI 2014 – adopted CMI 2000 and 2014 model. So, I think, it's unlikely we'll go to unadulterated CMI 2015 but of course that will be discussions as we go into the first half of the year.

A - Nigel D. Wilson {BIO 1535703 <GO>}

I think it's fair to say deaths have been much greater than we'd anticipated pretty much for the last three years or four years. And it's very difficult to quantify that because it becomes such a big number if you extrapolate for the next 20 years. And there are many, many actuaries are all rubbing their tummies and patting themselves to try and figure out what it is. And hopefully, this is the year that with some actual smoke will emerge from all of these discussions because I get increasingly frustrated by it, as you can see.

A - Kerrigan Procter {BIO 15093363 <GO>}

I think on the two-thirds of DB de-risking, I think, what we're referring to there is broader de-risking. So, that's LGIM clients moving to self-sufficiency. And we're already about 45% of inflation interest rate risk hedged in that market already. So, I think, as we go to 2020, that's the sort of figure that we think. Now, some of those, of course, will go all the way to buyout or buy and then some will stick with longevity insurance or LDI in its many forms. So, that's what we meant by that broad perspectives of de-risking there. And then on strain, the final point is great figures. That was from a range of business. I think it's kind of mid-single-digits. Strain is sort of the right area. So, low to mid-single-digit. 2016, of course, was a great year.

A - Nigel D. Wilson {BIO 1535703 <GO>}

I mean we've built a business model that's particularly capital efficient, whether it's an Economic Capital or Solvency II, with the direct investment, the lifetime mortgage, the great terms that we got for longevity, reinsurance and a great capability between Kerrigan's team and Mark's team to work with client over a long period of time coming up with terrific solutions.

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

Good morning. Jon Hocking from Morgan Stanley. I've got three questions, please. Just to come back on the dividend. Obviously, for a long time, the group was increasing the payout ratio. Now, we've got a dividend increase, which is below the growth in cash and below the growth in operating profit. So, is there an explicit intention going forward to grow the cover? That's the first question.

Second question on the Solvency II transitionals. There seems to be some issue with the recalculation. I wonder what that was and I wonder whether you could give us the actual sterling million balance for the transitional number at the end of the year. And then, just finally, I just wondered on the annuity book, whether the scope of the matching adjustment had changed over the year. Was there any opportunity getting further assets inside the scope? Thank you.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Yeah. I think on the first one, there wasn't a target cover ratio. So, it ended as an output rather than an input into the discussion on dividend. Mark, do you want to comment on the Solvency II and Kerrigan?

A - Mark J. Gregory {BIO 15486337 <GO>}

Yes. So, just on the TMTP points or the transitional measure point, so, yeah, we didn't meet the PRA's criteria to actually recalculate the transitional we did at the half year – pretty much the industry I think did at the half year. The PRA particularly point to interest rate movements as being one of their catalysts for allowing a regular recalculation.

To be actually clear, Jon, we will be able to recalculate no later than in 2017. So this is just a timing difference between when we can and when we can't recalculate. The reason we give you on a dynamic basis our view is that the rest of the balance sheet all moves dynamically, all the features, it's all mark to market. And, therefore, this one bit, if it doesn't move as well, it just gives you slight misleading figures. So, our view is we're better off giving you the bigger on a trued-up basis if we would say it. And we'll keep doing that going forward as well, whether it be good news or bad.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Kerrigan?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. As the MA scope changed, the big change over the year was matches or some approval for our lifetime mortgage assets where we've put a Solvency II efficient structure in place. We had £200 million of lifetime mortgages at the end of 2015. So, it wasn't worthwhile putting that in place for that time. We're also exploring various asset classes and they'll always need to go or generally need to go through a matching adjustment approval process. So, we keep looking at that. But the majority of the assets, we're comfortable with the matching adjustment efficiency of those.

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

Okay.

Q - Nigel D. Wilson {BIO 1535703 <GO>}

Hi. So, three questions. The first one, I think, on your spread sensitivities on Solvency II, I think, the direction of those have changed. Between the widening and narrowing, I just wondered if you could talk about that a bit more and what it means – if it means anything for cash. The second question was, I think, even in your market moves, even though yields were up in the second half spreads narrowed, I could see markets were up but I think the market movements in Solvency II ratio was still only, I think, plus 300 or so. So, I wonder if you could talk about whether that was different from the sensitivities you provide because it looks like it is. And finally, can I ask? You've hired Paul Miller for strategy and M&A? Has your M&A strategy changed there? Is there any plans or is there regional focus such as the U.S.? Thank you.

Okay. Mark, do you want to just walk through the first two and I'll pick up the third one.

A - Mark J. Gregory {BIO 15486337 <GO>}

Yeah. You're quite right. So, we did – the sensitivity to credit spreads did move from the start of the year to the end of the year. So, spread narrowing would have boosted surplus at the start of the year. By the end of the year, it had gone in the other direction. This could be a bit techie. I'll just quickly go through what's going on there. So you obviously have to think about it in two parts really.

On the Own Funds part, clearly, with spreads going out, that brings down asset values. But, as Kerrigan said earlier, we have got more assets now into the MA portfolio, whereas, in the MA portfolio, pretty much the assets and liabilities move together. So, by spreads widening, actually the impact on the Own Funds would reduce by having more assets inside the MA portfolio.

And then the other impact is on the capital requirement calculation itself. And here, you're actually getting a second order effect. Because rates have gone lower, the impact of spread widening because you start from a lower risk free rate, you add the spread on to that. Actually that has a bigger proportionate boost to the discount rate used in calculating the capital requirements.

So, actually, the benefit to the capital requirement of spreads going wider actually more than offset the diminution to Own Funds from spreads going wider. So actually, they just change direction because you've got two moving parts within Own Funds and capital requirement. And actually they just changed their relative importance over the course of the year. But that was very much on the balance sheet date at year-end and it could flip again in the future.

On the market movements, one thing that did happen in the second half, we didn't give a sensitivity for, before was actually our exposure to inflation. So, again, in the packs this time around, we have given you an inflation exposure. And, actually, in the second half, even though rates went higher, actually future inflation expectations benefit by 25 basis points, more than that. And even though we're well matched for inflation across the – in our economic view of a longevity risk because Solvency II extends all the liabilities out a long way. We're not matched against that. Therefore, with the inflation expectations going higher, that does have an impact coming through the capital and therefore, through that market movements line.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Yeah. On bringing in Paul, I think, the key thing is strategy and M&A and not M&A and strategy. And I think that emphasizes what we need to do. Our general philosophy on acquisitions is bolt-on driven. I think we've had a number of very successful bolt-on acquisitions. I think the other thing that we're finding is there's a huge number of people who want to partner with us, whether it's in the UK or the United States. And we've had a lot of success in working with partners, whether it's in Build to Rent, regeneration, in CALA Homes, the Smart Pension is another partnership, Pemberton is another partnership.

And Paul will be a person who, coming from a very disciplined financial background, will help us on those. And the last point you raised was about America. Paul has actually done a lot of work while he was at Goldman's on America. We might as well have him full-time working for us. I think he's a lot cheaper actually than other things. But, as Mark said, we have been stunningly successful in the United States.

However, we haven't been quite as successful as I'd like us to be. And I think there are more opportunities and indeed, the board would like us to be. In fact, the board is – we're having our Strategy Day in the United States this year for the first time because the number and scale of opportunities that are coming our way is immense. And we've got to figure out how do we filter those and how do we prioritize those and which ones are best for the long-term creation of value for shareholders.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andrew Sinclair from BofA Merrill. Three questions as usual.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Go ahead. All the same. Everyone has got three questions.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Firstly, on LGIM, flow is strong, assets up 20% year-on-year. I just wondered if you could talk about what this means for profitability. Seems the cost/income ratio was down a little bit, just a fraction. Was there any change in margins or was that just the box profits?

Secondly, you just mentioned about bolt-ons but what about bolt-offs, the remaining Mature Savings book? Are you keen to retain that or could you be interested in selling that at some point? And, thirdly, was on lifetime mortgages. You've targeted, what, £800 million of new lifetime mortgages this year. Could you give us an idea of how you expect that to be split between genuine new business versus re-broking from competitors in that space? Thanks.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Chris Knight, I'm going to ask you to pick up the third question on there. It's a very good question on LGIM and Mark should pick that one. And I'll just pick on the – the board has a very disciplined approach to which assets to keep. And we have been sellers of business as well that is not being in the long-term interests of ownership. And Mature Savings – and Jackie who's here runs mature savings. We have very grown-up discussions about whether that should be kept for the long-term or not. And you're right to highlight it. It's one of those ones that would be under perpetual consideration for us as a company.

A - Mark Joseph Zinkula {BIO 16142450 <GO>}

Yeah. So, in regards your question around the link between asset growth and revenue growth and margins going forward, all else equal, I do think fee pressure is going to continue, so it will take more asset growth to generate revenue growth. But, again, obviously, that depends on the mix of business going forward and so forth. And with our business model, we do have a very scalable business model really across the board by design. So I think we can maintain. We've had – and you saw the graph earlier – even as our business has been completely transformed over the last 10 years.

So, all the growth is coming from capabilities and client channels in geographic regions that, frankly, didn't exist when Kerrigan and I were to join the firm roughly a decade ago. But we've still been able to maintain roughly the same margins because we're able to get the operational leverage from our existing businesses and invest that to grow our businesses in a very disciplined way and I expect that to continue going forward. And in regards to the cost/income ratio, yes it went from 48% to 49%, but that's still pretty good.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Could have been better.

A - Chris Knight {BIO 18966542 <GO>}

Thanks. On the lifetime mortgage £800 million, the vast, vast overwhelming majority of it is genuine new business, new to the market. There's a little bit which is further loans to existing customers and that's a very, very tiny amount which is we're seeing of re-broking at the moment.

A - Nigel D. Wilson {BIO 1535703 <GO>}

And you're very confident on £800 million?

A - Chris Knight {BIO 18966542 <GO>}

Very confident.

A - Nigel D. Wilson {BIO 1535703 <GO>}

There we go. It just went down the line.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes, Macquarie. Four questions.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Four questions. Oh, God.

Q - Andy Hughes {BIO 15036395 <GO>}

Well, you answered one, so that's three.

A - Nigel D. Wilson {BIO 1535703 <GO>}

You know what I was hoping for two from you.

Q - Andy Hughes {BIO 15036395 <GO>}

All right. Okay. I can put it to five.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Yeah. I'm sure you can.

Q - Andy Hughes {BIO 15036395 <GO>}

So the first one is on the dividend unfortunately. I'm just trying to get my head around the kind of dividend growth and the Solvency II cash generation. So it's £1.2 billion of Solvency II cash generation, less the dividend, less the interest, doesn't leave a lot of spare money behind. And I wonder if you're looking at things in a different way, i.e., excluding the risk margin? So, if we looked at the new business of minus £0.1 billion on Solvency II, took out the risk margin, would the cash flows look better?

The second question is on LGIM. Obviously, you highlight the asset management review and fee pressure within LGIM. Obviously, there was an article back last year talking about some of the high fee funds you have on the tracker side going up to 1.5%. So I'm wondering how should we think about the fee compression within LGIM. In particular, are we going to have kind of cutoff where you rebase a lot of the retail funds down to the current new business level? Maybe give us a feel as to what the new money coming on is fee margin versus that going off?

And then the third question is on the three years to four years of high deaths. So if deaths have been higher for three years to four years, does that mean LGR is overearning for the last three or four years and – in terms of dividend? And how does that circle around in terms of your view on that for you projecting forward continuing high level of deaths to get to your dividend decision given the Solvency II surplus? Thanks.

A - Nigel D. Wilson {BIO 1535703 <GO>}

On the dividend, let me tell you, the two hypotheses you came up were not relevant at all with any of the discussions that we had as a board. So, we can kind of say that they are just not part of the dividend discussion at all. Do you want to pick up the LGIM?

A - Mark Joseph Zinkula {BIO 16142450 <GO>}

Yeah. So, I think, with regards to your question, taking a step back. If you look at the nature of our assets and our fee to fund ratio is already extremely low. Within the index space, it is mostly institutional assets that have been very competitively priced and yes, there continues to be fee pressure in that space, but a lot of that has already played out.

In regards to all of our other capabilities, again, because they're relatively new to the organization, it's been priced at relatively current terms, so to speak. So going into the part of our business that would be legacy, index, share classes, this would be a fairly small part of our overall revenue. I don't have the number committed to memory and I'm not sure if you know it. We are going through a review and have been for a while of our back book. So the extent it makes sense to re-price or have clients shift from one share class to another, we're going through that process. I don't anticipate it being material to overall financial results when you look at the scale relative to the overall business.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Okay. Can we have Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel. I have two questions.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Two questions.

Q - Oliver Steel {BIO 6068696 <GO>}

So the first is you've not been particularly successful in the past in retail savings, but you've now hired Helena Morrissey which is a pretty big hire. So I wonder what the strategy is there and well, let's leave it at that? What's the strategy there?

Secondly, looking at the inflows into LGIM, you've shot the lights out on the LDI side and yet index has clearly seen outflows. I think you sort of touched on that earlier by talking about one or two large players. But I wonder what drove the LDI net inflows and particularly was that again one large fund? And how easily can we take the inflows which you're taking into LDI and extrapolate that into future bulk annuity sales?

A - Nigel D. Wilson {BIO 1535703 <GO>}

What I'm finding very pleasing about today is we used to get no questions on LGIM and Mark used to sit up here and not answer a single question. And now he's proving to be incredibly popular. He must be doing a pretty good job on presenting. Take it away, Mark.

A - Mark Joseph Zinkula {BIO 16142450 <GO>}

Yeah. I really miss the Solvency II question. Okay. Regards to retail, so the Unit Trust visits moved across to LGIM a few years ago, three years ago and we hired new leadership in that area, Honor Solomon. We brought in largely new leadership and promoted some people in the organization and so forth, rebuilt the team, rationalized the product offering. In 2015, we were sixth in net flows, which was the highest ever. Last year, we were third. Nigel, of course, you can imagine what the target is for this year. But I think we're starting to hit stride in the UK market and we have increasingly high ambitions for that space.

In regard to Helena's appointment, so if you think about the bulk of our business, which is this trend from DB to DC and in the DC space, obviously most of the relationships, initially at least, certainly would be at the workplace. As time goes on, obviously, there's going to be bigger pools of money with individuals. And we need to engage with those employees and their broader families and so forth to a greater extent. So Helena is coming in to lead the build out of our strategy in our business in the direct to consumer space, but, again, thinking about how our business model is evolving over the next few decades, frankly, in that perspective.

In regards to LDI flows, we broadly classify our solutions. And there is a lot in there. So I guess the way that I would describe it when Kerrigan started building the LDI business. Initially, a lot of the mandates were starting as hedging mandates where we've pension plans, managing their fund established volatility more carefully rather than assuming an infinite time horizon where markets being reversed and so forth in their asset strategy.

As time has evolved, increasing percent of those flows are what we'd call active LDI where we're trying to outperform that liability benchmark, which leverages at an expanding range of capabilities within LGIM, within fixed income and real assets and multi-asset and so forth. And then also as time has gone on, increasingly, our clients – where we're having increasing growth from smaller and mid-sized plans where this approach was adopted initially larger plans and pooled LDI strategies or more recently fiduciary management strategies.

In addition – and we'd expect that trend to continue. So we're seeing increasing momentum. As I pointed out earlier, that's the active LDI, pooled LDI fiduciary management concept. And then, in multi-asset, really, across the range of clients which we classify as solutions, especially in the DC market. But that really cuts across all of our distribution channels. And, again, we expect to continue to see compounding growth in our multi-asset strategies.

A - Nigel D. Wilson {BIO 1535703 <GO>}

We're going to do the last three questions, one, two, three.

Q - Colm Kelly {BIO 19140684 <GO>}

Colm Kelly, UBS. Thank you for taking my questions. Just going back to Solvency II, just to be clear as to why the regulatory Solvency II ratio wasn't provided. I appreciate the transitional capital recalculation point, but that is part and parcel of Solvency II. So, maybe just a little bit more color on why that's not provided given the importance of the metric.

Secondly, on the Solvency II disclosure due in May of this year. I suppose regulators in industry indicating the importance of this. How well-positioned is Legal & General for this and is there any messages or anything you want to flag ahead of that for investors?

And then, thirdly, you talk about a healthy pipeline of £13 billion of bulk annuities. Can you give some color on the stock of illiquid assets that are readily available to back that, i.e., not utilized for current schemes? Presumably, that's a key driver of the 10.4% new business margin you can achieve on that business. Thank you.

A - Nigel D. Wilson {BIO 1535703 <GO>}

I'll answer the third question there because it's - we've already got all of the direct investments in hand for the volume targets for 2017. So, that's a really, really important message for clients. The other two questions are a bit tricky, so I'm going to give them to Mark Gregory.

A - Mark J. Gregory {BIO 15486337 <GO>}

Yeah. In some ways, I guess, my answer to the first one, certainly, Colm, is in your second question. Clearly, you will get the regulatory position in May. We fundamentally believe that the dynamic base (01:02:46) that we've given you this time round we think is the right way to do it. Now, in reality, we've still got them all to do or that's someone to do, balance sheet. We are - it's equivalent to the old PRA returns. We've got to go through the whole audit process for that balance sheet and that's not yet been completed. When it is, clearly then, we'll disclose those in the middle of May. But, overall, my message is that what we've given today is a good indicator of where we expect that. It won't be materially different from that when you get to see the numbers in May.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Okay.

A - Mark J. Gregory {BIO 15486337 <GO>}

In terms of core messages, I would say, about - well, I'd just get back to big picture. We've written £7 billion new annuities in 2016. We've paid a good dividend in 2016. We've accommodated rates going down by best part of 100 basis points and the surplus went up by £200 million. So, wait for the detail in the returns come in May. Bigger picture, we're in good shape.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Okay.

Q - Abid Hussain {BIO 20229932 <GO>}

Morning. It's Abid Hussain from Credit Suisse. Just one question, if I can.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Very popular.

Q - Abid Hussain {BIO 20229932 <GO>}

Can I just go back to the dividend outlook, please? I was just wondering, how should we think about the dividend cover and the metrics that you prefer to use in the board room. Is it – should we be thinking about the net release from operations or the Solvency II net surplus generation or is it the IFRS profits or is it something else altogether?

A - Nigel D. Wilson {BIO 1535703 <GO>}

No. I think if we look at both earnings per share and net release as the two key metrics. But over a – Mark did five-year, 10-year and even 20-year models and scenarios when the board reflected on this. But there's a lot of attention over the five-years to 10-years. And I think the word that Jon used was sustainability under all scenarios. So we think we have a very robust and resilient model. So, if earnings or whatever fluctuate around, particularly on the downside, then we've got sufficient firepower for still projecting a very healthy, progressive dividend. We will be around, obviously, all of the management team, afterwards for questions. Andrew?

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

Good morning. It's Andrew Crean, Autonomous. Can I ask one question and a request? The question is what is the balance between the amortization of the transitionals and the rundown in the risk margin each year? And then the request is I think one of the problems we have with the stock is people's worries over credit crises and how that might affect you. Now, I was wondering whether you might be able to give, at some point, the impact on your earnings and cash and Solvency II surplus of an average year on credit defaults and going back over history, the worst years, so that we can actually get a sense as to the survivability of the business on those situations.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Yeah. Those are very good questions, actually. Kerrigan, if you want to answer the second one and just go through, in an average year, if we have £300 million, £400 million, like, what you'd see as a couple of sectoral or a country specific or something where you have a default that run into the hundreds of millions? Clearly, we've had pretty much zero for a number of years. And, Mark, do you want to pick up the other question?

A - Mark J. Gregory {BIO 15486337 <GO>}

Great. Yeah. That's fine. Go first on that.

A - Kerrigan Procter {BIO 15093363 <GO>}

As you said, we had £2.7 billion in credit default reserves and we did plenty of scenario analysis on whether it's the whole portfolio gets downgraded by a couple of notches or whether specific sectors have a more severe downgrade. And that leaves us pretty comfortable that we can take £700 million of default losses through our IFRS balance sheet whilst still having enough for our best estimate default provisions after those events – after assessing those events. I mean, of course -

A - Nigel D. Wilson {BIO 1535703 <GO>}

That's quite a big buffer that we've got already on the balance sheet in relation to what would be a pretty high and a very historic high level of defaults. Mark?

A - Mark J. Gregory {BIO 15486337 <GO>}

Yeah. Just a little bit color on runoff of the transitional compared to the runoff of the risk margin. Again, you'll get more details in May, Andrew. But just as a rule of thumb, we would expect to have roughly about a third of our day one risk margin still on the balance sheet at the end of 16 years, whereas, at that point, the transitional will have probably run off.

I want to say when I guided towards how you should think about net surplus generation at the Capital Markets Day in December I'm talking about mid to high-single-digits. I did allow for the fact that there'll be a slight mismatch between the runoff of the risk margin and the transitional in giving you that sort of guidance. So it's all in our scenario planning going forwards.

A - Nigel D. Wilson {BIO 1535703 <GO>}

Thank you for all of your questions today. And, again, thanks to all of my colleagues for another year. And I'd like to take this opportunity to – a special thanks to Mark Gregory who is stepping down after 18 years and at least 10 of which have been successful here at Legal & General.

He's been a terrific colleague. We've worked on many things together. He has a great team spirit which I think has captured Mark. And I'm not welcoming the analysis we have to do on Solvency II scenarios because of the complexities. But Mark and I spent many, many hours in our respective offices struggling with both the sign and the size of changes in response to various things.

But I look to the future for Mark because, undoubtedly, he is the best cover version of Jam's singer that I've ever come across. And his version of Down in the Tube Station at Midnight still ranks as the best single performance of any of my colleagues at karaoke in the history of L&G. So, those of you who may be joining us for his farewell celebrations, we're hoping that with a bit of encouragement from a few drinks and a little bit from his colleagues, he'll present what we think will be an outstanding performance, a bit better than his message to you really at one of the earlier celebrations.

So, again, we're going to stay around and answer further questions. Thank you for all of your interest and a high quality of questions that we had today. Thank you.