Q4 2014 Earnings Call

Company Participants

- John B. Pollock
- Kerrigan Procter
- Mark J. Gregory
- Mark J. Zinkula
- Nigel D. Wilson
- Paul Stanworth
- Tim Stedman

Other Participants

- Abid Hussain
- Alan G. Devlin
- Amit Singh
- Andrew J. Crean
- Andrew J. Sinclair
- Ashik Musaddi
- Barrie Cornes
- Fahad U. Changazi
- Gordon Aitken
- Greig N. Paterson
- Jon M. Hocking
- Oliver G. Steel

MANAGEMENT DISCUSSION SECTION

Nigel D. Wilson {BIO 1535703 <GO>}

Thank you. Good morning and welcome to our Preliminary Results Presentation for 2014. The usual housekeeping rules apply. Please silent mobile phones. And I would draw your attention to the normal disclaimers about the forward-looking statements.

I'm joined on stage by Mark Gregory, Mark Zinkula, Kerrigan Procter, and making his last appearance for Legal & General, the legend that is John Pollock. Also in attendance are many of my colleagues and senior members of the L&G's management team. Paul Stanworth, Simon Gadd, Chris Knight, Tim Stedman, Sarah Aitken, Mike Bury, Jackie Noakes, Duncan Finch, Siobhan Boylan, Jim Islam, and Bernie Hickman. John is certainly barring out on a high after a mere 35 years. John's made an immense contribution to our culture, our customer engagements, and, of course, to our financial performance.

The financial highlights for 2014 show strong growth. LGR assets up 28%; LGIM assets up 16% and savings assets up 10%. Retail Protection premiums exceeded £1 billion for the first time. In total, the groups ensured premiums exceeded £3 billion. Legal & General have several market-leading businesses, and they are scale businesses. We can provide great prices to our customers and consistently reduce our unit costs as we drive growth.

Operational cash and net cash also grew 6% and 10%. PBT was up by 8% and EPS at £0.167, up 10%. What we've seen over the last five years is dividends per share growing at 24% per annum. We are also beginning to develop a track record in EPS growth, 10% for the last three years. Our ROE has risen to 17%. The strength of the performance enables us to recommend a full-year dividend of £0.1125, up 21% versus last year. Under this level, the dividend is 1.65 times covered by net cash, in line with previous guidance.

Legal & General is about predictability and consistency and the ability to deliver repeatedly and reliably for all of our stakeholders. Our five macro drivers of growth: ageing populations, globalizing asset markets, welfare reform, digital lifestyles and bank retrenchments are as relevant today as ever, and they are long-term trends. They drive our businesses, and here you could see some examples of strategy in action.

Ageing populations, driving not just workplace pensions, but also a record year for de-risking, both through LDI and bulk annuities. Continuing international expansion by LGIM, now our business with assets comfortably above $1 trillion. 12% growth in platform assets as we make the transition from old-style savings to our digital model. Another strong performance from our market-leading UK protection franchise with premiums up 6% as private insurance fills the gap left by a retreating state welfare system. And now £5.7 billion of direct investments, not only economically and socially useful, but also enabling us to match assets and liabilities across our balance sheet. We invest for the long term and boost risk-adjusted returns from real assets at a time of super low returns from conventional traded assets.

Mark, John, Mark and Kerrigan, not quite the Beatles but nearly, will talk through the business in detail but the common features of 2014 was scale and focus. Where we have areas of exceptional strength, we build on them like LDI where LGIM is the clear market leader and bulks where we executed two of the UK's largest ever transactions. And where we have a business in a growth phase, we acted to control the costs of that growth like Workplace, where we hit our targets of halving losses last year.

2015 will be more of the same except we'll be moving faster. This is a year of de-cluttering. We're focusing on our core markets and capabilities of continuous process improvements to reduce our costs, particularly our unit costs. You will have noticed the sale of our non-core Irish business and our estate agency business; the acquisition of Newlife, the lifetime mortgage business; the transactions with PGGM, the multiple Workplace savings wins; and the investments in the private rented space.

You'll have seen that following the announcement of John's retirement, we have split LGAS into insurance and savings and moved Workplace pensions into LGIM. And Jimmy Atkins has stepped down from LGA and Robert Moore is joining to head LGIMA. We are still accelerating our evolution. This has been a strong year, but we're not complacent. We know there's still work to do and challenges lie ahead.

I'll come back to some of those at the end of this presentation, but I'll now hand over to Mark Gregory and my colleagues to take us all through the numbers and business division performance. Mark?

Mark J. Gregory {BIO 15486337 <GO>}

Thank you, Nigel, and good morning, everyone. This was indeed another year of continued momentum across our business. In 2014, there were three key drivers of that momentum: clarity about our strategy, which enables management to identify and deliver on opportunities; secondly, focus within our businesses, which delivers clean and relatively predictable model which takes us back – or takes us from a stock growth to operational cash to net cash to profit and to dividend. And thirdly, diversification across our primary business lines from Investment Management, Retirement, Protection, Savings and L&G Capital, which gives us resilience and explains why the external shocks, which the sector experienced in 2014, had a relatively limited effect on our performance and strategic direction.

Nigel mentioned the retraction (07:04) principle and we apply it at a level of strategy, operations and financial management. Improved efficiency and cost management are givens for us, and we don't expect any prizes for delivery. Once again, in 2014, our growing stock of business drove higher operational cash which, coupled with efficient and effective execution, drove rise in net cash, operating profit, earnings and dividend. We avoid trapped cash and capital and we delivered in line with the guidance we gave.

Stock grew across the business last year. Annuity assets were £44.2 billion with almost two-thirds of the assets from bulk schemes. LGIM's assets of £709 billion, savings assets of £124 billion and our total insurance premium is exceeding £3 billion, all new records, while the group's total direct investments doubled to £5.7 billion. These stock increases have driven our profitability. New business strain benefited from improvements across each of savings, protection and retirement. This reduced cost of writing new business coupled with 6% operational cash growth resulted in a 10% increase in our net cash.

Operating profit of £1.275 billion was likewise up 10%. This percentage increase in operating profit was dampened by a change we've made to our accounting presentation. Starting in 2014, restructuring costs from around the business will be charged against operating profit given the ongoing nature of this type of investment. These restructuring costs totaled £31 million in 2014.

2013 operating profit has not been restated. We incurred £70 million of restructuring costs in that year, which have been charged below operating profit. Profit before tax was up by 8% and earnings per share up 10% at £0.167.

In terms of capital on both an IGD and economic capital basis, we continue to run healthy surpluses within our preferred ranges as we enter the final year prior to the implementation of Solvency II. Our increased profitability in 2014 resulted in a return on equity for the year of 16.9%, up from 16.1% in 2013.

Looking in more detail now at our business stock growth, you can see the healthy progression over the last four years: 14% compound annual growth in LGIM assets, 11% in our total insurance premiums, 16% in annuity assets, and 35% in savings including the Cofunds acquisition.

The lesson from our Protection business is that increased scale together with continued focus on efficiency improvements drive unit costs down and cash margins and profitability up. Having both scale and efficiency provides us with real competitive advantage, which in turn is driving further growth.

Here, you see that conversion of business stock growth into financial delivery is working. Again, a full-year view with a 5% compound annual growth in operational cash, which combined with annual improvements in new business strain has delivered a 9% annual growth in net cash, 7% growth in operating profit and an ROE rising from 14.9% in 2011 to 16.9% last year.

The divisional breakdown of net cash progression in 2014 illustrates the value of our focus and diversification, combining to deliver what we believe to be higher quality earnings. All divisions delivered increases in net cash. With LGAS, up 6%; LGIM and L&G America, up10%; L&G Retirement, up 17%; and L&G Capital, up 18%.

We said many times the significant components of our operational cash generation are largely predictable; hence we can give guidance on these elements. At the 2013 prelims, we provided operational cash guidance on some of our businesses for 2014. That guidance was £765 million in aggregate. The actual outturn was only £764 million. My mistake.

For 2105, we're providing an additional guidance to cover L&G Capital and the impact of the group debt costs on cash generation as well as splitting what was previously LGAS between the insurance and savings. In aggregate, the items we have guided on will represent an 8% year-on-year increase if achieved.

A couple of further points I'd like to add. Firstly, L&G Retirement is expected to utilize the remaining brought-forward tax losses in our annuity company in the first half of 2015. And secondly, L&G America, where its contribution to the group's net cash is a dividend it pays to group has already paid its 2015 ordinary dividend of $80 million.

Our dividend policy closely links dividends to net cash generation. The board is recommending a final dividend of £0.835, bringing the dividend for the full year 2014 to £0.1125. This 2014 dividend is 1.65 times covered by net cash generation in the year, down from 1.82 times covered in 2013. This is in line with our guidance that we would move towards 1.5 times net cash coverage of dividend in 2015 should our Solvency II surplus be no lower than Solvency I.

Our recommendation means that our dividends have grown by an average annual growth rate of 24% over the last four years through a combination of healthy net cash growth and unwinding of the dividend cover. We will provide updated dividend guidance when Solvency clarity has fully emerged.

Moving to the business divisions, I'll cover L&G Capital and L&G America. Zink, Kerrigan and John will cover LGIM, L&G Retirement and LGAS. L&G Capital delivered strong results in 2014. Operating profit grew 13% to £203 million. The actual return achieved in 2014 on LGC's assets was 3.5%. This was lower than our assumed returns of 4.3% as positive impacts from the direct investment portfolio within LGC were more than offset by the returns on our traded equities which did not meet our medium-term assumptions.

By accessing illiquidity premium through LGC's long-term direct investment strategy, LGC helps other parts of the business gain exposure to new business classes and improve risk-adjusted returns. 2014 saw further investments in housing, infrastructure and urban regeneration. Our mix of businesses enables us to act as a principal investor through LGC, as an investment manager through LGIM, as well as being able to attract co-investment from LGIM's institutional client base.

This co-investment alongside partners is becoming an increasing feature. For example, we co-invested £370 million with PGGM, the Dutch pension fund, in property assets in 2014 and a further £375 million in 2015. We've also committed to £1.5 billion to support a £15 billion UK regeneration-funding vehicle. We'll do this in conjunction with the UK government's Regeneration Investment Organization or RIO as it's known. LGIM will act as the investment manager for this entire vehicle.

L&G America, our term and universal life business, has consistently delivered rise in growth premiums, a compound annual growth rate of 10% since 2011 with a 2014 total of $1.117 billion, representing a 9% increase year-on-year.

Net cash, which represents the dividends paid by LGA to the group, increased by 10% in dollar terms. New business volumes were lower at $150 million compared to $155 million in 2013 and down 15% in the second half compared to the corresponding period in the prior year. This reflects price changes we introduced during 2014 which raised prices at lower margin price points and reduced them elsewhere.

Operating profit fell 36% to $93 million. This is mainly caused by $46 million of adverse mortality experience compared to assumption in 2014. Poor mortality does appear to have been an industry-wide feature in the first and fourth quarters of 2014 in the U.S. However, we continue to closely monitor our emerging experience in 2015 to determine whether pricing needs to be adjusted further. Lower interest rates also impacted profits at LGA to the tune of $10 million year-on-year.

Turning now to capital and balance sheet matters. I'll first cover the Solvency I IGD balance sheet. On an IGD basis, we have total capital resources at year-end of £7.7 billion and a total capital requirement of £3.8 billion, giving a surplus of £3.9 billion and a capital coverage ratio of 201%, which is within our preferred range of 175% to 225%.

The waterfall analysis on this slide shows the movements in the IGD surplus during 2014. I'll draw out a few key points. Net cash generation retained and not paid out as dividend amounted to £0.4 billion. Capital deployed right in new business in the year exceeded capital being released by the back book by only £0.2 billion despite writing record volumes of annuities in 2014.

In June last year, we issued £700 million of qualifying debt has extended the overall maturity of our borrowings significantly and further strengthens our capital position. The default provision for credit assets back in our annuity liabilities has been increased further and is now £2.3 billion. There were no actual defaults within this credit portfolio during 2014. Indeed, defaults have been less than £10 million in aggregate over the last five years.

Next, our economic capital position. As I said at the interims, let me remind you that our economic capital position is not the same as Solvency II. We calculate economic capital using the same modeling framework we intend to use for our Solvency II internal model, but we define economic capital as being amount of capital the board believes the group needs to hold over and above these liabilities to meet its strategic objectives. It is not a regulatory number. And we'd expect it to be a number of differences between this and the Solvency II capital position.

Our economic capital resources at year-end 2014 were £12.5 billion, our economic capital requirement was £5.5 billion, leaving a surplus of £7 billion on a coverage ratio of 229%.

This slide shows the main changes in economic capital surplus in the year. Many of these are the same as IGD. The key differences are the back book generated £0.7 billion of surplus, and that the new business has covered its economic capital requirement resulting in no overall strain despite having written record annuity volumes.

Just a few words to finish on where we are with Solvency II process which, of course, will be live in less than 10 months. Our internal model to calculate our solvency capital requirement will be submitted to the regulator during the second quarter of this year and the PRA then has six months to review our model, ask any questions they have and ultimately, to approve or not approve our internal model.

We'll also be submitting our application to use a matching adjustment in valuing our annuity liabilities under Solvency II.

There are still just too many moving parts to be able to provide you with meaningful guidance on our likely Solvency II position. We will, of course, update you in due course.

With that, I'd like to hand over to Zink to talk about LGIM's performance.

Mark J. Zinkula {BIO 16142450 <GO>}

All right. Thank you, Mark. LGIM had another successful year, demonstrating once again the robustness of our business model. Profit increased by 11% driven by strong growth in our LDI, multi-asset, fixed income and property business lines, and continued rapid growth in the U.S. As the UK DB plans derisk, we continue to experience outflows in our equity index funds. This is, once again, offset by significant net inflows in our LDI solutions.

We're growing assets in the DC market and the property business had record net inflows of £1.6 billion, increasing the assets by 20% to over £13 billion. And our international business had another successful year, especially in the U.S. where we continue to grow our market share in the corporate DB market and we're taking steps to further expand our business into other market segments.

We continue to diversify and grow our higher margin business lines in 2014. While index business has grown by a respectable rate over the last five years, we've experienced far stronger growth in our other core business lines.

We built a market-leading LDI business. And as the market gradually shifts from defined benefit to defined contribution, we've expanded our range of innovative, low-cost, multi-asset funds for this market. We've experienced extraordinary growth over the past five years of 26% annually in our LDI and Multi-Asset Solutions businesses. Our Fixed Income and Property businesses have also experienced significant growth, with Fixed Income growing at an 11% annual rate and Property at 15% as the range of clients, both domestic and international, have increased demand for income, real income and liability management strategies.

We had a strong year in all four of these business lines in 2014 and we expect this success to continue this year. The diversification of our business is allowing us to achieve steady profit growth while still maintaining a low cost income ratio and a high persistency rate.

Over the past year, we made further progress in expanding our range of strategies for DB clients as they move toward a self-sufficiency or buy-out endgame strategy. Working in close partnership with LGR, we're the only firm that can provide all aspects of the de-risking journey for pension funds. We're a thought leader and a significant player at every stage of the pension life cycle.

We broadened our Solutions business to have an enhanced pooled LDI offering and active LDI capability, a broader range of fixed income and multi-asset funds and we recently launched a delegated Solutions proposition. Our efforts are being rewarded as we are experiencing increasing flows in all of these areas.

The expansion of our Solutions business model is allowing us to further solidify our position as a market leader in the corporate pension market. Our strategy is to replicate our DB market success in the DC market.

With the recent transfer of a workplace DC platform to LGIM, the development of an investment-only platform and the creation of a broad range of funds, we're creating a comprehensive customer proposition. This business model allows us to work with all potential partners.

Our funds for this market are designed on common values of transparency and value for money and leverage the scale and breadth of our index funds and our Asset Allocation team. These products consist of diversified multi-asset funds as people accumulate assets and funds that are more suitable for people as they approach retirement and ultimately begin to draw income. We're continuing to invest in this business to ensure we have the infrastructure, distribution capabilities, products and administrative support to be the long-term market leader in this rapidly growing segment.

Finally, we had another successful year in expanding our International business. Our U.S. business once again led the way with record net inflows of over $9 billion. We're well positioned to continue this strong growth with the market-leading LDI proposition and excellent fund performance with the vast majority above benchmark over one, three and five years.

We're now expanding into the U.S. DC market, launching our own range of collective investment funds designed for pension investors. This will enhance our position in the U.S. and build on the recent acquisition of Global Index Advisors, although it'll likely cause some outflows in that part of GIA's business, which was anticipated and reflected in the deal structure.

Outside of the U.S., although we've made good progress in raising our profile in our non-index capabilities, our net inflows were down year-over-year due to disappointing Index 3 business. It's important that we continue growing our international business. We're making further investments in distribution and manufacturing across our three hubs in London, Chicago and Hong Kong to maintain strong profit growth.

I'll now hand it over to Kerrigan.

Kerrigan Procter {BIO 15093363 <GO>}

Thank you, Mark. Good morning. As you're all aware, we have had a terrific yet challenging year at L&G Retirement with strong results for the business in all metrics: cash, profit, new business volumes and growth for stock of assets. The budget announcements in March last year accelerated the move we are already making to focus our business on bulk annuities. And indeed, we had a record year in bulk annuities writing £7.9 billion of transactions, more than twice the amount we wrote in 2013.

We wrote the UK's largest buy-in for ICI at £3 billion in March, and the UK's largest buy-out transaction with TRW in November. Our total new business volumes of £8.5 billion includes a £1.9 billion internal transfer from our with-profits fund.

One of the misconceptions about our business is that there is a significant margin compression in our bulk business. However, our EV margin was broadly stable, and we continue to deliver our economic capital hurdle rates. Our individual annuity sales were down 54%, and we continue to believe the market will be another 50% down in 2015. Pricing discipline's our focus in this market, not chasing volume. I'll come back to our response to the new retirement market shortly.

Our operating profit growth of 38%, a net cash growth of 17% show we continue to deliver strong cash flows from a growing stock of business now £44 billion. You saw this slide earlier in Mark's presentation. As you heard, L&G is the only company which participates in all aspects of the de-risking journey for DB pension schemes.

We recently published a report which showed two-thirds of the UK's largest private sector pension schemes are looking at some form of pension risk transfer solution rather than retaining and managing all the risks themselves. Indeed, nearly half said they were looking to implement a solution in the next five years. That shouldn't be a surprise. I've never met a finance director who wants more DB exposure.

We have a suite of de-risking solutions from LGIM's active fixed income, multi-assets and LDI strategies up to LGR's longevity insurance and bulk transaction options which we can offer to our clients. To be competitive in this environment, you need integrated asset management, LDI capability and longevity expertise. You need capital and you need a track record of effective execution. Having these skill sets will continue to set Legal & General apart.

This comprehensive products capability is matched by almost 30 years of experience in the bulk sector. We have a market-leading capability and underlying demand for de-risking is strong but the timing of bulk deals does depend on scheme funding and affordability. Also, of course, the amount of credit and longevity risks we retained on our balance sheet will depend on the application of Solvency II in the UK.

And now, on to individual retirement. We have a number of responses to the new environment for our customers. Historically, people underestimate how long they will live and how much money they might need in retirement. However, the over 60s in the UK have some £1.3 trillion worth of housing equity. We expect many will want to access this to supplement their retirement income.

So, we recently announced the acquisition of New Life Home Finance. New Life provides UK lifetime mortgages. We expect to write more than £100 million worth in 2015 just as a start. We are also launching a series of solutions for our individual customers, which provide them choice and build along the strength of our brand. These include a cash-out retirement plan, a fixed-term retirement plan and, of course, for some, a lifetime annuity will remain an attractive option.

And we've re-launched our retirement website to provide customers with the tools and educational material to help them make informed decision. Together with LGIM's end-to-end DC offering that Mark covered earlier, I believe we have a comprehensive response to freedom and choice in pensions.

Speaking of individual retirement, over to John.

John B. Pollock {BIO 6037447 <GO>}

Thank you, Kerrigan, and thank you, Nigel, actually because at the walk-in, for those of you that don't know, that was Wishbone Ash playing, the greatest rock band ever.

Anyway, this is my last appearance at a Legal & General results presentation. Some of you may think that's a good thing, looking at my exec colleagues here. However, for the others, I am very pleased that 2014 was another really strong year for LGAS and that our insurance and savings businesses are in really, really good shape going forward under the next generation of management. I am handing on the baton with real confidence.

I'll start the overall LGAS numbers for 2014. Operational cash was broadly flat at £472 million. We reduced strain from negative £73 million to negative £48 million, enabling us once again to improve net cash to £424 million and operating profit to £460 million. Profit before tax was increased from £371 million in 2013 to £453 million in 2014, a 22% increase.

The LGAS businesses of insurance and savings sits at the heart of Legal & General. This machine contributes consistently to cash and profits because it operates at scale with a high level of efficiency and high customer confidence, resulting in a growing stock of business, which in turn drives down unit costs to ever more competitive levels.

So in 2014, LGAS total insurance gross premiums, our stock, grew again to just over £2 billion and we have our own 25% market share in UK Protection new business flows. UK Savings assets also grew to £120 billion, and gross written premiums in GI were also up. UK Protection has delivered a consistently growing contribution to net cash. 2014 was a year of change in the market. However, our strength in our mix of distribution channels drove improved volumes and a consequent reduction in strain.

Selling more direct business is core to our strategy. D2C is growing strongly and now represents 16% of the volumes. Direct delivered strong margins, lower acquisition costs and better retention. This is partly a reprise of our powerful technology story. And today, we already process over 80% of applications and underwriting by a straight through processing.

We didn't ignore intermediated and partner distribution channels, however. In 2014, we grew share in IFAs. We added National Australia Group, TSB and Direct Line. And our mortgage network facilitated over £40 billion of UK mortgages, or said another way, one in every six UK retail mortgages last year enabling, us to connect with customers at a point where protection is crucially required.

In General Insurance; the quality story continues with good operating profit of £59 million and a combined operating ratio of 87% despite the flooding and bad weather in Q1 causing an impact of £12 million. Significant benefit this year has been driven by the digital and direct story with direct sales increasing by over 25% in the year, and we remain the largest online writer of household new business, consistent with building an ever stronger digital delivery.

Turning now to the corporate client businesses, where we have group protection and workplace savings. Group protection now has almost 3,000 clients with 1.8 million members and delivered a 4% increase in gross premiums in 2014. Sales were slightly down at £65 million. But as we expected, there is an overlap in the client base between Group Protection and Workplace savings and the synergy benefits will continue even after relocating Workplace savings into LGIM this year.

The finances of Workplace showed significant improvement in 2014. And as I promised, we have halved the £29 million losses we experienced in 2013. The new Workplace was always going to be a market where the early mover would have to wait to secure a P&L advantage as the business scaled up, but this is now happening.

Assets were up 28% to £11.1 billion in 2014. There are now over 1.2 million employees on the books through the 2,000 schemes, and our 50-basis-point proposition means we are winning business from many of our more expensive competitors. We continue to drive home efficiencies as the businesses grows in scale and leverage the customer self-service capabilities within our digital deliveries. Remember also that contribution increases are enshrined in law.

Last but not least, our Retail Savings business. Our assets under administration are now at £109 billion compared to £100 billion a year ago. I have said it before, but I think it's worth repeating, Cofunds is about two things: integrating, updating and reusing the capabilities that we bought; and secondly, creating and maintaining a unique large-scale, good value platform that can deliver multiple products through multiple channels.

We have made good steps towards this, delivering annualized cost savings of £7 million to date and are targeting £11 million by the end of 2015. We are consolidating our London-based properties to realize further operational synergies, and we are increasing our D2C proposition using the Cofunds capabilities.

Suffolk Life continues to grow with assets of £7.7 billion, up 17% on last year. It is really well positioned following the developments in the market from the budget pensions reforms. Now when we last spoke, I talked about Legal & General launching a D2C capability, built around the Cofunds business. We have gone a little farther than that and built an online capability for all of our retail customers, both existing and prospective.

This week we have launched to our internal staff base much of the functionality we promised, L&G Live, together with My Accounts, which is the vehicle to access existing products. L&G Live is our bit of version (34:47) of the D2C engagement model shown here by my beautiful assistant. Our aim is to do more than simply sell products. We would like to offer information, education, support and access for all customers, both prospective and existing. We will enable the purchase and ongoing management of products accounts, leveraging the flexibility of the Cofunds assets.

Our aim is to be the long-term trusted partner of all of our customers including business partners building a long-lasting and mutually beneficial relationship. Easy to understand. Easy to access. Easy to transact. This environment is the basis upon which we will continue to build that ambition, reducing costs and increasing scale. And these developments have not been expenses. We are aiming to repeat the successful protection technology model enabling straight through processing for our savings, investments and especially the new retirement products reducing costs, building scalability.

And finally, as I reflect on my 12 years on the board and 35 years at the Company, I can honestly say that the strength of this business is immense. I am sad to be leaving L&G, it's been a massive part of my life and I'm extremely proud of what the whole team have achieved. I know that I'm leaving the business in extremely capable hands and I would like to say a heartfelt thank you to all of my teams over the years for their hard work and dedication. I have only achieved what I have because of them. So, thank you.

Over to you, Nigel.

Nigel D. Wilson {BIO 1535703 <GO>}

I missed the bit about you'll buy us all a drink afterwards, John. Scottish habits die really hard. That's the cultural engagement I was talking about earlier. Thank you, John and thank you to all of my colleagues for yet again delivering another strong set of results.

Good results, however, are not grounds for complacency. We can, as John mentioned, improve further. We have made a strong start to 2015. We've won several large Workplace pension schemes, and we're making substantial progress on direct investment projects including our second PGGM co-investments, our first private rental scheme, further regeneration in Bracknell in the south and our five English cities scattered around the country. We've had some great wins already in LGIMA. The pipeline for BPA is strong and (37:33) have certainly helped GI in the first quarter.

Some of the targets for next year set out here. Mark Gregory is taking you through the operational cash but from the guidance we are giving, you can see that we intend to deliver further growth in cash. Key management actions are set out on the right. The internationalization of LGR, finally I say, more internationalization of LGIM, continued push into DC, expansion of the direct channel, and the lifetime mortgages to reflect the new retirement, and very exciting market opportunities that we see, continued expansion of direct investment asset classes including private rental and the RIO co-investment program, and the focus on profitability in areas such as platforms, and the corporate insurance segment. And there will be continued push on unit costs and efficiencies across the whole Company.

We, the management, have tasked ourselves to reduce operating costs by £80 million during the year from £1.25 billion to £1.17 billion. In nominal terms, a 6.4% reduction across all management expenses and operating costs. And the ever-popular Chris Knight has been given the dubious honor of leading that particular initiative.

We anticipate we will incur around £40 million of restructuring costs to achieve this. That's a 50% ratio, which is a very good ratio. This is a quantification of what we regard as business as usual. Modern businesses need a relentless focus on costs. We have to deliver and drive down unit costs and deliver scale economies across our businesses.

Here, on this slide, is the longer-term view. We are already a business with ambition, built on solid strategic and financial foundations. The elevator is perhaps on the second or third floor of a high rise. For the last five years, as the results shown again today, we have set out targets and delivered on them. Net cash was £320 million in 2008. It is now £1.1 billion. As mentioned before, dividends have gone by 24% per annum in the last five years. For the next five years, we will have the same strategic clarity and financial rigor but the senior team has reset the level of ambition across the Company. We want to double investment management in the United States, lead in UK DC in the same way we have led in DB for so long. We will rollout LGR's de-risking skills internationally and build real scale in direct investments.

Housing and personal finance are closely interwoven in the UK. As John mentioned, we already intermediate £40 billion of mortgages per year and have real property expertise. We've made a great start with color. So, housing and urban regeneration is an obvious next major segment for Legal & General.

We will adapt to changes in digital and distribution. For example, mobile life insurance, where we are piloting some of our ideas. We will use our market-leading positions in Workplace as the basis for distributing other good value products, which will be needed more and more as the staff reduces its welfare spending.

We're not short of ambitions or aspirations, but we are realistic and we are risk managers too. Our progress to-date and our confidence in our strategy and direction of travel suggest that – suggests to us that our ambitions are, in fact, the right ones, ones that we can deliver on in the medium to long term.

Thank you for your attention. I'd now like to open the floor to questions.

Q&A

Q - Alan G. Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin from Barclays. A couple of questions. First of all, I wonder if you could give us a bit more color on the bulk annuity pipeline that you said was strong, but definitely given where funding levels are on pension schemes. I know you said that in the past that TRW is already in the LDI, so probably (42:05), but just some color on the pipeline (42:09) as well, the pipeline in the (42:11).

And then secondly, just on economic capital in IGD. The surfaces were flat year-on-year but the ratios came down, as required capital. I want to get a little more color on the market movements there and what you're comfortable with on those capital ratios? Thanks.

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

Sure. Kerrigan, takes the first and the second. I mean, the internationalization of LDI is meant to cover the US, Canada, Netherlands, and Ireland, and I have personally been very disappointed by the lack of progress that Kerrigan's made in the last year. I don't know what he was doing on last year.

A - Kerrigan Procter {BIO 15093363 <GO>}

Just breakthrough...

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

Just breakthrough. Just breakthrough.

A - Kerrigan Procter {BIO 15093363 <GO>}

So, on the bulk annuity pipeline, and just to give you a feel for the strength of the pipeline, we're quoting the Life currently on about £10 billion worth of transactions UK, US predominantly, UK predominantly a bit in the US. I mean the usual caveats when those will actually close could be in the next few months or it could be the next few years. And, of course, we'll choose which ones we actually want to win out of that portfolio. But that's sort of, I guess, significance of the continued demand for pension derisking. And some of the survey work that we did suggest that that's still a very strong client need out there.

I mean, just on the US, you mentioned as well, I think last year in the US around about $8.5 billion worth of transactions closed in the US. So, it's a pretty substantial amount. And that feels like that that's growing. Certainly, as interest rates back up probably sooner in the US than the UK, we'd expect that market to develop. So, still it's slightly by that market.

In 2014, which you clearly won't see from the results we quoted live. The difference we quoted live on the transactions in all of the US, Canada and Netherlands we're ready to do deals subject to the small change in price. We could have done deals. So, I think it was that tick in the box, we could have done it, but the pricing discipline meant that we didn't push that too far.

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

With pricing discipline, he's referring to Mark and I just being (44:18), I'd call our Group capital committee where we do turn down a lot of deals because we want to retain our higher ROE and our reputation to shareholders for consistently delivering. Mark, do you want to take the question on?

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

Yeah. I think it's quite important, when you think about the both the regulatory balance sheet, indeed the economic capital balance sheet they've been actually in total balance sheet terms, you're quite right, clearly, that the both balance sheets and the capital requirement has gone up year-on-year. But kind of that's been offset by movements on the asset side of the balance sheet, as well as the – perhaps, to give you a better color on

(44:49) went up by £1 billion year-on-year, I think, from £4.5 billion to £5.5 billion, just a little bit of kind of color to that.

So, broadly half of that is down to the new business we wrote in the year – we are comfortable with the economic capital requirement and the other half broadly reflects kind of macro investment-related movement systems of interest rates going down in the year. But importantly, that's been broadly offset by a movements in our own funds, the other side of the balance sheet in economic capital terms. So, as I said in my presentation, the new business, we got enough assets in to cover the capital requirement and likewise on the interest rates, the assets has gone up by enough to cover the increase in economic capital requirement. So, yes, clearly (45:32) gone up there (45:33) has come down, but in total terms, the balance sheet remains in good shape.

Q - Amit Singh {BIO 17580740 <GO>}

Hi. Amit Singh here from Jefferies. You obviously had a great year in Retirement, but I couldn't help but notice that in your press release, there was a slightly higher tinge of caution in some of the risk appetite going forward. Was that driven by any indications on Solvency II that you've seen, or was it just telling us not to get excited about it?

And my second question was on the equity – on mortgages business. You said you have £100 million sort of expectations in 2015. But regulation wise, do you see any more challenges there? I know in Feb, the PRA sort of softened that stance a bit. But going forward, are there any more challenges on that? Thank you.

A - Kerrigan Procter {BIO 15093363 <GO>}

I really like that line now. I'm going to remind Nigel of that lines: PRA softened their stance. Do you like that? That's a very nice capturing or something. I've never seen the PRA softened their stance on many things. Thank you. (47:44) taking my time on the mortgage sector. I think on Solvency II, I think the PRA have whatever the solution will be somewhere in their mind or whatever, as Mark mentioned, we are submitting our model some time in Q2. And, normally, if we see some smoke coming out, we'll communicate that to the markets.

I think me and many others across the whole Europe are in active discussions with our regulators. And as soon as there's greater clarity, which will be probably towards the back end of the year rather than the front end of the year, to be honest, but we'll talk about – we'll talk in more detail, more informed detail. I suspect over the next six to nine months, there's going to be lots of tittle-tattle and technical pieces written by various people on this. But the honest answer is we don't know the answer at the moment. But Mark laid out, I think, very clearly the timetable.

John, did you want to talk about lifetime mortgages?

A - John B. Pollock {BIO 6037447 <GO>}

Yeah. Sure.

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

The £100 million by the way is a pathetic target.

A - John B. Pollock {BIO 6037447 <GO>}

Yeah. Thank you, Nigel. Yes. The specific question was around Solvency II and the lifetime mortgages. And whatever you call it, it was a helpful note that we've just had out, which does provide some helpful clarification. It has been a question mark over the lifetime mortgage market, is to quite how it would be treated under Solvency II and the matching adjustment in particular. So, it is a helpful thing and certainly was an encouragement to us. In the bigger picture level, we've got £44 billion of annuity assets. Most annuity providers have got substantial proportion in lifetime mortgages. So, we've got plenty of capacity to write lifetime mortgages. So, yeah, £100 million is the bottom end of the range.

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

Yeah. I think in general, there's £1.2 trillion of housing equity for the - or the 60s. A lot of that's going to be recycled over to rightsizing where Paul and the team are working on retirement villages or getting equity lease or lifetime mortgages. So, the PRA's softened their stance and helpful now. So, that's two very, very positive things. I don't know if there's anything else you want to add, Mark, or should we just pass on the next question?

Okay. Next question. We might need to move that more from the mic to this end because we're just working with from the back to the front, whoevers...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Ashik Musaddi from JPMorgan. Just a couple of question, one on the economic capital. I mean, if my understanding is correct, economic capital should benefit quite a lot from credit spread narrowing. On top of that, you had strong results and on top of that, you raised some debt. So, the available capital should have gone up quite a lot. What's going in that? And secondly, on the same economic capital, I think page number 67 of your press - 72 of our press release; it shows there's a big currency movement impacting your required capital. What's going on in that? Again, you mentioned...

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

Let's move to Mark, that's one for Mark.

And he's passing it on to Tim. I mean maybe better to say (49:55).

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

Come on, just on to the second question if you want.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just on the second question, you mentioned your dividend will move towards 150% payout ratio depending on Solvency II surplus being equal to or more than Solvency I surplus. Is the surplus matters or the ratio matters or how should we think about that? Thank you.

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

Yeah. I'll take the second one. Just in general, we're trying to give a reasonable guidance on this. When the Solvency II rules come out, will give separate dividend guidance. We're just trying to guide people to about 1.5 times by the end of this year. That's the easy question. The difficult question, do you want take that?

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

Just one thing you said that actually, in terms - you're quite right, things like credit spread is coming in to actually benefit our economic capital I think just about last year I think our spreads on our portfolio actually went out a little bit year-on-year. So, you might - I thought it would come down. I'm pretty sure I might (50:51) I think that our spreads on the fixed income portfolio actually slightly wide in 2014. So, you're right, directionally, but actually not turned as what I think to our portfolio last year. On your techie question, I'd say I'm going to have to bow to my - oh, you're bowing as well, so we'll come back to that.

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

So techie, actually, not techie.

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

Yeah. You have outdone us.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Absolutely, that's okay. Yeah.

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

Go ahead.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Gordon Aitken from RBC. A couple of question on bulks and one on capital also. Schemes of buy-in, that's the thing at the moment. And presumably, over time, they convert to buy-outs eventually. Just can you talk a typical sort of lag between buy-in and buy-out? And if it's like guaranteed business for you, can you talk about the relative uplift in margin when that happens?

And then just the second question is on capital requirement for bulks, and then actually the capital requirement for bulks is 8% of the reserve. If you'll offload the longevity risk straight away, which presumably is something that's available for you to do that, I mean, just talk a bit about the capacity for reinsurers and desire for reinsurers to do that. And what does the capital requirement drop to as a percentage of the reserve because presumably you're just left with a credit risk?

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

No, I think that they're both actually quite good questions, Gordon, much better than your usual schemes and sales. But – and you're absolutely right on one point which – Kerrigan, do you want to amplify on that?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. Well, just on the buy-ins to buy-out. I mean, really for us, when we write a buy-in, it's really just a small contractual administrative change to the buy-out where effectively rather than pay the pension scheme we just pay the pension direct. So, there's a small administrative charge, but really other than that, no difference in all the buy-ins we've written. We're contractually obliged to assist people to move to buy-out. So, that the buy-in, the buy-out, certain to happen with us if I go down that route. I mean, the time lag, there's no real answer there. It could be anything from a few months to a few years. Some people might stick in buy-in for a very long time, but very, very little financial impact from some small charge traditional administration work but that's pretty much it.

On the capital requirements. I mean it's so deal dependent and I mean clearly, if you (53:15) longevity insured. So, the point of transaction there is a reduction in capital requirements. That's a clear feature, but it'll depend on whether it's old rate pensions only or broad sort of pensions or deferred pensions. So, it's quite difficult to put a figure on precisely how much capital reduction you'll get there.

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

Yeah. It's clearly, I mean, it's the right answer, it's the right thing. And if you look at the IT idea, within 75% of it was reinsured afterwards.

And there'll be an increasing trend towards more reinsurance, I think, going forward particularly if the book gets a lot, lot bigger. We'll have to think of mitigating actions around that. And that's partially why we did some of the reinsurance just to make sure there's lots of liquidity. And as you know, there's lots of demand from the 9% to 10% reinsurers who operate in that particular market.

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

Thank you. Jon Hocking from Morgan Stanley. I've got three questions, please. Going back to the economic capital requirement. Mark, you mentioned sort of £0.5 billion movement for new business. Is that net of the capital release from the back book on an economic basis or is it actually just that the gross new business? So, first question.

Second question on equity release, what's the scale of ambition here in terms of the size of the book because if we went to the sort of level of some of your competitors, I guess you could release Northwater Capital from the annuity book given the high discount rates.

And then finally, on L&G Life, when is this going to be launched and what sort of marketing spend you're going to define it? Thank you.

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

Sure. Mark do you want to take one?

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

Yeah. (54:58) given the (55:00) I've seen and (55:01) agreed with the gross number, so it's the foreign impact to new business (55:04), 50% from the back book. So, it's gross rather than net new business.

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

Yeah. You're right to point out the pathetic nature of our ambition and equity releases, well maybe – (55:16) answered, though Kerrigan can give a bit more meat on that.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. On the equity release side it's so – I mean, we've got to get through the (55:24) approval and complete the deal for Newlife this year and that will take a few months to get through that. So, (55:31) will really start accumulating lifetime mortgages for this year. I see no reason why we can't write £500 million year-on-year consistently on lifetime mortgage as Bernie said, we've got £44 billion of assets with a favorable description of how much the adjustment might work. It's entirely feasible but we could – the market demand fills – they're looking for another big insurance company in that market and we have the capacity to write, so there's definitely looking at that kind of (56:00).

I mean – never say never but there's plenty of demand from the front book and we get to control all the, let's say conduct risks going through this route and precisely the assets that we like we get to control the product features as well. So, that gives us a lot of comfort as that business flow through, so we prefer the flow from our own book.

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

Yeah. We prefer genuine new business if we can get it because of all the risk – better risk management we think we have as a Company. And we don't want to take on unrewarded risks from other people but as Kerrigan said, we'll never say never. But it's something that I prefer, cause of action has plenty of demand at the moment. John, do you want to talk about...

A - John B. Pollock {BIO 6037447 <GO>}

Yeah. Well, aspects of it are already truly live. So, anybody here got a Legal & General policy? If you haven't, shame on you. It's just the staff putting their hands up. Gee, 12 years of effort and no sales. Bloody hell. If you did have a Legal & General, you could register on My Accounts and a lot of the functionality, the online functionality which is the cost-reducing functionality, if you like, customer self-service capability. That's already there in Live.

L&G Live, the platform, the sort of (57:18), we're going through stability testing with in-house is, as I was holding up, it is live. We're just not telling anybody the URL yet to make sure that it actually stacks up. And that will just emerge in time. How much marketing we need to put behind to actually - with 7 million existing customers? The truth is, not much. You can put people into the environment by telling them, your documents are here. Send them a text, press the link, they're into the environment.

And in that way, we hope to consolidate customers' activity, both purchasing and maintenance activity, reducing costs and building scale. So, people often think about digitizing or digitalizing - as Mark corrected me last time - is a very expensive process. For somebody of our scale, it's not.

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

I think one of the other interesting things about what we've done for the first part of the year is our - the Workplace pensions are SME self-serve. And I know when we have that in beta, which was just really for internal, we got 10 external customers signed up whilst it was just being tested in effectively a Google environment. But there's only five people down in Cardiff looking after that because it's just - it really is 20 minutes to 30 minutes to upload all of the small pension schemes into our Workplace pension.

And that's really what the digital world's all about. I think the problems you have as our industry, the banking industry is when you try and go into the massive spaghetti, which is the back book and the legacy parts of the business, and that's much more difficult to, for us as an industry, to undertake.

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

Great.

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

Greig always complains we get him last, so...

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

Yeah. So, does that mean I'm the last question or?

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

No. No.

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

And considering the list of questions I have said, but I'll keep it to three. The first one is I'm just trying to understand the US dividend. When you write new business in the US on a statutory basis, US stat basis, is it accretive or consumptive of capital? That's question one.

The second one is the longevity reinsurance deal you did this year. I'm trying to understand its impact in terms of a number on the eco capital, the IGD, and whether it impacted the net cash generation, so just we can a feel of your capacity to use that stuff?

And the third thing, I know that there was £600 million negative of other items on the IGD and the eco capital waterfall. But, in particular, one struck out as the contribution of the corporate pension scheme. I wonder if you can just discuss where the funding position is there and what commitments you have in the next few years? (59:56).

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

Yes. Yes.

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

That's correct. Right.

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

Right. So on the US point, yeah, most of the new businesses is capital consumptive in LGA. So, that's the straightforward answer to that one. On the last one (01:00:10) – I'll come back to the middle one in a second – on the last one about the pension fund, we have concluded our triennial valuation exercise with the trustees. That has resulted in an increased debt repayment schedule in capital return (01:00:22) we have to allow for five years' worth of a pension deficit payments into the IGD calculation. So, essentially (01:00:30) I think we rounded to 0.2 on my slide. That reflects five years' worth of increases in the pension of deficit payment.

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

Yeah.

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

I can't actually quite get your middle question. Can you just repeat it again (01:00:41).

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

(01:01:42)

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

The longevity in general.

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

You did a longevity transaction was pre-U.S., I think.

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

Yeah.

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

And that's obviously – I'm trying to understand, did it boost eco cap IGD? And also I wonder if it helped with the – your sort of hybrid net cash generation metric.

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

See, it would help both economic capital and IGD.

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

I'm trying to figure out. Yeah, I know that the instruction was around...

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

You mean it will be neutral?

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

Neutral on IGD probably.

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

Sorry. I'm going to get a mic so Tim can answer that question. Sorry, Greig.

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

Yeah.

A - Tim Stedman {BIO 19448392 <GO>}

Yes. Sorry, Greig. It's probably positive on DC because we don't carry the longevity capital. It's a ban-neutral on IGD early inception.

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

And in cash generation?

A - Tim Stedman {BIO 19448392 <GO>}

Again, I think it's broadly neutral.

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

Thanks, Tim.

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

And then just pass it forward to Barrie. That was...

Q - Abid Hussain {BIO 17127644 <GO>}

Sure. Morning. It's Abid Hussain from Soc Gén. Just one question back on economic capital, I'm afraid, can you just explain why the required capital went up by some £500 million for new business volumes but yet on slide 19, it shows no increase from new business requirements?

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

Yeah. Yeah. So, slide 19 is a net movement. So that shows that's both the own funds and the capital requirements. So that essentially a movement in the surplus, whereas the economic capital requirement, which is only one-half of that balance sheet, went up by half. We essentially got £0.5 billion of own funds to offset against the £0.5 billion of capital requirement. So the slide I showed, slide 19, was a movement in the surplus which has both sides of the balance sheet in it. I'll explain it to you later.

Q - Abid Hussain {BIO 17127644 <GO>}

Right. Okay.

Q - Barrie Cornes {BIO 2389115 <GO>}

Morning. It's Barrie Cornes, Panmure Gordon. Just one question. In terms of the outlook for individual annuities in UK, I think previously, you were indicating that you thought they'd be down at least 50%. Now, you're talking at 50%. Is that a subtle change?

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

No, we're 50% for two years running is really where we are. I think Bernie's done such a good job of getting the volumes down that he's hitting those targets. Sorry. It signals a multiple appeal at the same time. I'm sorry.

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

Good morning. I've got a couple of questions. Firstly, on your Workplace DC business. You're now substantially behind the market leaders in scale terms. I think they're £30 billion and £40 billion versus your £11 billion or £12 billion. Is that something - a gap that you feel you need to close by M&A? And is it practically possible to close it through M&As? Are there any targets right there?

And then I was wondering whether you could pick some of the profitability in your LGAS savings business. I'd be interested, you've given us the profitability of the Workplace pensions and how that's going. If you could give us some sense as to the profitability of the platform business and when that will make a material contribution.

And also, I suppose related to that, you closed your with profit business, would you have - I mean, most other companies are very reliant on with profit cash base; you're not so much. Would you think potentially being a seller of some of those businesses?

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

An interesting question there, Andrew. On the - the IFRS fund in (01:04:10) industry isn't distinguished enough between big and scale. I think we have fantastic scale in Workplace savings, which is a huge competitive advantage. And we've had five or six major bids in the last three or four months in Workplace pensions and we've won them all except one so far. And we've got a couple more in the hopper and I'm not allowed to tell you who they are and my colleagues. But we're finding that we have great operating scale.

We may not be big and the fact is the components of that like LGIM's fund manufacturing capabilities is so great that we have what we see as a huge competitive advantage in those, hence our ability to win lots of new businesses. To some combination of John and Mark will answer the second question.

A - John B. Pollock {BIO 6037447 <GO>}

Yeah. I'm going to just add to your comments on Workplace. Actually, a lot of the assets under administration are statement of history, is not very clean business in comparison to ours, and we've been winning very substantial market shares as staging has run through.

And so, again, a bit like Kerrigan, never say never. I'm hoping for Zink to think about it. But actually, we're winning schemes. You don't need to go through M&A because you're winning them on the basis of the excellent proposition we've got.

On platform profitability, we more than doubled the platform profitability last year. And as we continue to build scale and take costs out, as I talked about in my slide, so we would expect that continue to improve. And as far as with profits, that represents a long, large base of very loyal customers to which a lot of our digital efforts and aims can provide opportunities, so I see no reason for us to get rid of the good profitability.

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

But never say never on anything.

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

Just following up on the platform, you dolled it. We're having resent from north to north.

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

Oh.

A - John B. Pollock {BIO 6037447 <GO>}

Andrew. Andrew.

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

Yeah.

A - John B. Pollock {BIO 6037447 <GO>}

I don't know...

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

It could be negative.

A - John B. Pollock {BIO 6037447 <GO>}

...if we got it broken down, Mark.

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

No. We didn't, no.

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

We don't give them. We will be filing our Cofunds and accounts in due course. It's roughly about £5 million to £10 million, Andrew. Roughly.

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

Okay. Oliver?

Q - Oliver G. Steel {BIO 6068696 <GO>}

I'd just actually start by adding perhaps, on our behalf, a few expressions of best wishes to John. I'm one of the few people here who can probably remember Legal & General before John was on the podium. But that was a very long time ago and a long distant past. And I think it's testament to how well you've done. But some of the divisions you've managed are now very much core to L&G's franchise in the UK.

I think perhaps as a slightly joking comment, I might say that I know it's the first time you name checked half a dozen or even a dozen of the management team at the start of this meeting just to reassure us that your departure isn't going to leave a huge great black hole. I know, so best wishes going forward.

Now, I've just got two questions. First is just going back to the balance of the business and your capacity to write bulk annuity business going forward. I mean, most of the focus up to now has been on capital constraints. But I seem to remember that when you first arrived at Legal's, you were also talking about the balance of profits between annuities and the rest of the business. So, I'm just sort of wondering what the constraints are on your ability to keep on growing the bulk book from here.

The other question I've got is on the cost savings, £80 million. Is that business is as normal, nothing coming through at the bottom line or actually should we expect some net margin improvement coming through?

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

Yeah. On the capacity to grow, maybe I'll reverse the question for that, is that we need LGIM to grow a bit faster. We need LGC to grow a bit faster. Mark, do you want to make some comments about our capabilities to accelerate the opportunities? You're off to Japan, Hong Kong and China, wherever, in the next couple of weeks.

A - Mark J. Zinkula {BIO 16142450 <GO>}

Yeah, certainly. So, from LGIM's perspective, obviously, it's a business that's going through - has been going through a transition as our core index DB client base business that is running off as those plans de-risk. But we're seeing accelerated growth in a lot of other areas, which I alluded to in my other slides. In regards to – so certainly, internationally in the U.S., growth continues to accelerate.

Every year, we're having record net inflows. Nigel mentioned looking east. We're having – we have a significant footprint now in the Gulf, really just getting started in Asia, and that is where we're spending in the next couple of weeks. But building out a presence in that region, so there's only upside potential there.

In regards to DC, when I hear we're way behind, £11 billion versus £30 billion, I mean this is a market that's going to be in the trillion. At as such early days, we are so well positioned. And, well, as an American coming across, definitely see the opportunity. We're positioning ourselves to have a very comprehensive business model to be the market leader in that space. There's tremendous upside potential in that market for us over the next several decades. So, very encouraged by the growth prospects we have across those channels.

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

Yeah. We've got a very powerful distribution team which Sarah Aitken is somewhere, I think, sitting at the back somewhere. If anybody wants to talk about some of the sales plans that we have in really driving growth, I'm sure Sarah will stay behind afterwards to answer any questions on the other further opportunities.

Paul, is there anything you want to add on LGC?

A - Paul Stanworth {BIO 15495409 <GO>}

Yes. Thank you. So, LGC has about £5.7 billion of assets, about £700 million of that is in direct investments. The strategy that we're going through will have multiple effects through the profitability of the group, primarily through the change in return on assets. We have about a sort of 4% to 5% return on traded assets, and we could get returns in the area of teens for some of the direct investments in their own right.

But some of the things that we've been trying to bring through today is that not only do we create those returns, but it we create greater to access through assets for the £40 billion to £50 billion worth of annuity funding that's required over year. And through things like PGGM, we helped bring in new clients for LGIM, which brings in fee revenue. So, there's a much more multiplicative effect or compounding effect that LGC brings in terms of revenues than just simply the return on the assets.

And finally, we're focusing on housing. We're focusing on revenue generation. We've worked on SME lending. These are all things that fulfill our sort of social agenda. And we're putting money back into things that are helpful for the economy and away from traded assets. And I think those things are much more kind of powerful as they go through the business than just simply the return on the assets.

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

I think the general point we want to make, we're at the very early days of growth in lots of parts of our business, and we've replaced - no, Andrew made a very good point about them, with profits. We're just not dependent. It was a risk that several of you identified five or six years ago what happens when. But actually LGIM, LGC, LGR, LGAS have all created lots of optionality for further growth. We're taking relatively modest steps, I would say, so far largely organic to drive growth in these areas, and the results so far have largely exceeded my expectations except for Bernie's pathetic target for this year, which compliance insisted that we put in the press release. It wasn't mine.

On the cost reductions, the £40 million, the way the market decided to account for it is I suspect different from competitors and many of their industries who definitely put the restructuring costs below the line. We're putting them above the line. In part, we don't want to create lots of heady expectations for growth. But a certain proportion of that will definitely flow through to the bottom line.

John talked about how do we improve digital. Clearly, we need to become more efficient in digital. How do we drive down unit costs? Kerrigan and the team, even though they're already pretty profitable working on a good plan for that, we've closed one or two offices already across the group. And Chris and the team who are working on this are pretty determined not only to get the cost reductions, to make sure they flow through to the bottom line.

Yeah. We have two more questions then we're done. And then, anybody wants further questions, the management team will stay behind afterwards.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Okay. Good morning. Fahad Changazi from Nomura. Just a quick follow-up question on LGIM. How should we be thinking about outflows from the index funds from here? Should we have stable outflows or are they expected to increase? And related to that, I suppose is, could you give us some qualitative color on how much of the index funds outflows come back along de-risking chain maybe over the last five years and if you can give it easily?

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

Yeah. It's very good question. I'll just give you some extra pointers, while Mark is thinking of the answers to that, is that we haven't had any - oh, we have now - index sales in America were just beginning. Index sales in Asia, we've got the dizzying one I think so far and the Gulf, we would expect to do better this year than last year. But I'll let you put a bit more color on it, Mark.

A - Mark J. Zinkula {BIO 16142450 <GO>}

Yeah. The trend will continue. So, pension plans are de-risking. They're selling equities. We managed a substantial percentage of the equity, outstarts in the UK DB market. So, as they continue to de-risk, we will continue to see outflows of our index equity business and there's not much we can do frankly about most of that.

What we can – and the persistency rates remaining around 90% so it's an outstanding persistency rate that continues to be our target to stay in that zip code. But again, over time, the outflows will get larger because our asset bases are getting larger, et cetera, if we maintain a 90% persistency rate.

What we have to do and we're doing an excellent job retaining assets in our expanding range of solutions, which Kerrigan and I talked about, that ultimately goes into Kerrigan's business. And in addition to the flows we report, there's a lot of switches that happened. So there are several billion of switches out of passive in the LDI strategy. So, a lot of Property and Fixed Income which we don't report, but that shows up in the markets and now the movement in line item has a shift in assets. And so, there is a significant push and that's why you see our notional values go up significantly because you might be already managing the passive Gilts, for example, to an existing client.

And so those Gilts do shift from, well, always Tim manages them, but they shift from the index team to the ultimately the classified business, LDI solutions. But we have to do a better job. We're doing a very good job growing in most of our non-index areas repositioning our equities business. We have to do a better job growing our index assets in other channels. We've been very aggressive about that.

The retail business here are being much more aggressive than the DC channels here than internationally is, as Nigel already stole my thunder. Again, it's fact-straight (01:15:21) is pretty good. But we are just getting started in the U.S. throughout the end of last year and we're aggressively competing and, as I mentioned before, we're trying to accelerate the investment in Asia, in particular, to try to grow our index business. So, in my mind, that's got to be a much greater focus for the firm going forward.

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

It's a great big suit case that he's taking out into two weeks in Asia.

One last question.

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

Morning. Thanks. It's Andy Sinclair from BofA Merrill. Just sort of firstly on the change of mortality tables in the U.S., what sort of cash and IFRS impact would we expect from that going forward?

Secondly on LGC, I think there's slightly over a quarter of LGC assets are currently in cash and cash equivalents. Should we expect to see this being invested into higher-yielding assets in future or will there always be a significant cash holding in LGC? And finally last question to John, I suppose, what's the average contribution rate at the moment in the Workplace pension business just to understand how that will move as we go up to 8% mandated over the next few years? Thanks.

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

Good questions there, and I will just give Paul some hints. It is a bit pathetic that we've got so much money in cash in LGC but he can comment further on that.

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

On the table?

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

Yeah.

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

Yeah. So on the LGA one then, Andy, I mean could we - we had put through this change to the embedded value assumption for this new - actually, it's still being consulted on table in the U.S. on longevity improvement table, very much long durations in the latter years and it's not yet final. We thought we'd take some of the pain through our assumptions this year-end.

In terms of the impact that's going to happen in IFRS both in terms of earnings and cash, we're pretty much, from our best point of view, take U.S. GAAP number and put in the U.S. When your assumption is hit, you're going to take any pay and that is true on the DRIP year-in, year-out. So, again, because it's in the tail rather than kind of here and now, I wouldn't expect any material impact on earnings and cash, but it's certainly in the short term.

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

Paul?

A - Paul Stanworth {BIO 15495409 <GO>}

Yeah. Thanks for the question. The cash balance that we have at the end of the year is combined with what we require for treasury. And so, we run our liquidity test to ensure that we have cash for our ongoing operations, which include dividends and coupon repayments and any redemptions that are coming up, as well as maintaining a coverage ratio for extreme events. And so, that cash balance actually varies through the year and it isn't a sort of static fund level. From an investment perspective, we are separating what is required from treasury from investments, and we wouldn't anticipate holding cash as part of the investment portfolio.

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

Contributionry. (01:18:10)

A - John B. Pollock {BIO 6037447 <GO>}

I think we think about it quite as an average. The schemes are very different. So, large schemes that already we have had a DC scheme would already be at substantial levels.

The people, the new members that are joining those schemes tend to be at lower personal contribution levels. The SME marketplace is at lower. So, the bulk of the non-pension companies would be at the statutory minimum. And therefore, as we see the rise in 2018, 2017, you would expect to see those revenues flow. So, across the book, it swing between the mature at already decent contribution levels kind of 10% and at the smaller and new members at the statutory minimums. So, you would expect to see a gearing.

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

I'd just like to say thank you again to all of my colleagues. Oliver was right. We've got great bench strength now at Legal & General right across the company. One of the things that I've really been impressed by my colleagues' ability has been to recruit and bring on some of our people. And so, it was great to see Robert joining us today. Mark persuaded him couple of weeks ago to really think about it, and he flew over about a week ago to talk to me, and then two minutes later he left and he's almost on board.

But we're getting outstanding people. We're getting much better technology across the group. We haven't quite got there in all places. We're building real scale economics. We've got lots of optionality for growth.

We've got – started delivering on that growth, I think set higher targets for ourselves. There's one individual in particular, I won't mention him anymore, and he set a bigger target. But we've got to deliver on costs as well and that's really for the first time we put that in because I feel that when we do put that in, it helps stimulate the internal people to achieve the targets. So, I'd be visibly disappointed if we didn't deliver on all the targets that we set because I think they're all achievable.

And I'd just like to echo the point that all Oliver made. John's been a great colleague and a great member of the board. He's causing trouble on the (01:20:22) board now. He's got on there to help get some extra operational focus on the business. But they're doing a great job and they got record profits last year and I'm absolutely confident that they'll have record profits again this year.

And thank you for all of your support. Over the last few years, we had a good run but it hasn't stopped yet and there's plenty more to go for. So thank you. Bye now.