Q2 2015 Earnings Call

Company Participants

- Bernie Hickman, Managing Director, Individual Retirement, LGR
- Duncan Finch, Managing Director-Legal & General Insurance
- Kerrigan Procter, Managing Director, Legal & General Retirement
- Mark J. Gregory, Chief Financial Officer & Executive Director
- Mark J. Zinkula, Chief Executive Officer-Legal & General Investment Management
- Nigel D. Wilson, Group Chief Executive

Other Participants

- Alan G. Devlin, Analyst
- Andrew J. Crean, Analyst
- Andrew J. Sinclair, Analyst
- Andy Hughes, Analyst
- Gordon Aitken, Analyst
- Greig N. Paterson, Analyst
- Jon M. Hocking, Analyst
- Oliver G. Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Nigel D. Wilson {BIO 1535703 <GO>}

Thank you. Good morning, everyone, and welcome to our 2015 Half-Year Results. The usual disclaimers apply and please switch off mobile phones. First of all, I'd really like to thank my colleagues for another terrific six months of delivery and performance with great role in assets, cash and EPS. We've seen double-digit growth in net cash, 18% growth in operating profits, 19% ROE and 19% growth interim dividend.

L&G is firing on all cylinders and I believe we can accelerate further. We are delivering our sixth consecutive year of double-digit compound growth across all our key financial metrics. That's op cash, net cash, operating profit, EPS and dividends. And veteran L&G observers, and indeed I see many in the audience today, will recognize that the company is very different today in terms of its focus, business mix and its capability to execute successfully for customers and for shareholders.

We continue to accelerate our evolution. Mark Zinkula has been leading LGIM into becoming increasingly a multi-profit, multi-channel, multi-geography business. We've successfully rolled out our Index business into the United States. We've expanded our

Chinese business and successfully entered Japan, Taiwan and Korea in the last six months. And we've continued to grow the DC, the LDI and our Real Assets business.

Asset management is a global business and while we've moved fast and, indeed, achieved a lot, we are at the early stages of globalizing our business. LGR under Kerrigan Procter has a market-leading position in pension derisking and is evolving its business model successfully. The evolution of our capital light model was driven by the sheer size of the derisking market opportunity, a $10 trillion global opportunity, which means we needed to evolve to a new model.

The expected changes in Solvency II are acting as a positive catalyst accelerating us in a direction that we'd already started to pursue. Insurance, now under Duncan Finch, continues to lead and deliver premium growth in Retail Protection. In recent comments from the government suggests that the successful public/private model of digital workplace pension is now increasingly likely to be applied to other businesses, too.

LGC under Paul Stanworth's leadership continues to drive risk-adjusted returns upwards through direct investments in long-dated real assets where the banks have left behind white space for us to go into. Investments in housing and regeneration are economically useful for us and indeed for you and to the broader economy and that's socially useful, too. Alternative finance has successfully expanded and clean energy is on its way.

LGA, Gene Gilbertson has been appointed CEO and President. Progress, so far, is very pleasing in supporting our efforts to grow our businesses in the United States. Savings under Jackie Noakes and Mike Bury has delivered another solid performance. And overlaying all of this is the drive to digital. The second machine edge is in the folding right now. And I want us, at Legal & General, to be our own disruptor. As well as pushing down unit costs, we are continuing to improve service to the benefits of customers and shareholders alike.

This slide is a snapshot showing the changes in our business. It's also how we see our simplified business structure. The asset management businesses, on the left, LGIM, LGR, LGC, delivered £571 million of operating profit in the first six months of this year. That's up 30% on the first half of 2014. And direct investments, which include the synergistic partners with PGGM, Schroders, Peel, Petra, now amount to £6.2 billion.

Insurance businesses, which are shown on the top right, UK Protection, GI and LGA delivered £232 million in operating profits for the half year. That's up by 5% with strong net cash generation.

And the Savings businesses, at the bottom right, are a slow managed run-off in the Mature Savings and asset growth in our platform businesses. It's a far cleaner, less complex business model, but it still benefits from close collaboration where business move seamlessly from one division to another, from LGIM to LGR, by LGR to LGC.

Synergy is indeed an overworked business expression, but we have this with our management team. We are growing the top line, but strategic clarity and consistency has to be matched by disciplined execution in cost control. This is true of total costs and it's also our approach to investments. Our cost-reduction program is on track to deliver against an expense target for the full year of £1.17 billion. That's £80 million of cost savings with £40 million of restructuring costs. That's an impressive 2-to-1 ratio. Actual costs, shown here, £546 million, this is not a one-off. It is part of a continuous drive to optimize our businesses. And we're already seeing the benefit with a 19.1% ROE.

Structural simplicity accompanies cost discipline. Disposals and closures of non-core businesses are progressing well. We've now sold our Irish business, our state agency businesses, whilst the sales of French, Egyptian and Gulf businesses are scheduled to close in H2 with Germany to follow. I'll let Mark Gregory to explain the accounting of these disposals.

Retail Investments and Workplace moved to LGIM alongside the institutional businesses. DC is performing really strongly. And Mark Zinkula and I have very high hopes for retail. Acquisitions are selective and bolt-on. New Life in the lifetime mortgage sector is a good fit, as the retail pension decumulation market changes, and individual annuities decline creating a need for more flexible sources of retirement income.

We have now doubled this year's target for lifetime mortgages new business to £200 million. As Bernie knows, still not as high as I want, but continuing in a positive direction of travel. This will be a familiar slide, but it's worth reiterating our ambition. Progress is on track for each of these nine goals for 2019.

You'll see some early evidence in today's numbers. On asset growth, GWP, direct investments, costs. We are moving forward with a more strategic goal around mobile insurance, housing and welfare reform as well. We have good organic growth. New Life is another successful bolt-on. And we are now making bolt-offs as well. We have short, medium and longer-term plans for growth. Finally, a laugh from Greig, it's only taken me six years. Gosh, he'll be writing a buy recommendation next and I'll have heart attack. We are at the second or third floor and the elevator has certainly traveled ever onwards and upwards.

I'll now hand over to Mark G. and then to Mark Z., then to Kerrigan and Duncan, to give more color on their businesses before coming back at the end to round up. Mark?

Mark J. Gregory {BIO 15486337 <GO>}

Thank you, Nigel. So, here's the financial summary for the first half. Growth in our assets, growth in cash generation and profits are maintaining a healthy balance sheet, whilst delivering a very good return on equity. Performance has been positive with good growth in stock, particularly low-growth – low-teen growth in asset management businesses, feeding through to 8% growth in operational cash, 11% growth in net cash and 18% growth in operating profit at £0.75 billion for the first half. All of which have been supported by our ongoing focus on cost and efficiencies.

Profit before tax was up 6% at £672 million. This is stated after a charge of £40 million as a result of us classifying L&G France and L&G Gulf as held for sale. Nigel said I'll explain the accounting treatment so here it goes.

The relevant accounting standard is prudent and therefore asymmetric, where businesses are held for sale and the expected net realizable value is lower than the carrying value, then we're required to write them down to net realizable value ahead of the actual completion of the transaction; hence, the combined charge of £40 million for our French and Gulf businesses. Where expected net disposal proceeds are greater than carrying values, as is the case with our Egyptian and Irish businesses, then any gains are only recognized if the transactions are completed at the balance sheet date. You'll be glad to know there ends the accounting lesson.

Finally, on this slide, the balance sheet remains strong on a regulatory and economic capital basis, and we delivered an annualized return on equity of 19.1% in the first half. Looking more closely at the stock measures, LGIM assets under management was £715 billion versus £640 billion at half year 2014. This was a result of strong net inflows, within which total external net flows are £13.8 billion or up 62% year-on-year. LGR, the other large asset business, have annuity assets of £43.4 billion compared to £38.5 billion at half year 2014. Total annuity sales in the first half were £1.3 billion with 86% being bulk annuity sales.

Insurance premiums were up 4% at £1.6 billion versus the prior year comparator. Savings assets on the Cofunds platform grew 11% to $74.6 billion. And in Mature Savings, assets declined slightly to £34.8 billion. At every results presentation, I emphasize the connection between growth in stock and L&G's ability to generate cash, and here you see it again. Our strategy is designed to deliver growth and efficiency gains and these are combining to drive our financial performance.

Which brings me to dividends. The interim dividend announced today is 3.45p, up 19%, in line with our dividend policy and represents another step in the progression, which has delivered a 21% compound annual growth rate since 2011. I'll return to balance sheet matters shortly, but to round up the results from business divisions, Zink, Kerrigan and Duncan will cover LGIM, LGR and Insurance, and I'll cover L&G Capital, L&G America and Savings. L&G Capital had a successful first half, growing operating profit by 13% to £150 million and increase in net cash to £92 million, up from £82 million on the back of higher average assets over the period.

The actual return on LGC assets was 4.2% versus 2.5% in the first half last year, benefiting from the continued direct investment in strategic businesses and projects with £203 million being invested in the last six months. LGC is establishing a strong track record for investing in sectors that need patient capital to replace bank and public funding, thereby providing returns for our shareholders and providing long-term investment opportunities to LGR and LGIM clients.

LGC's investment activity is focused on four sectors; firstly, housing, where LGC's housebuilder CALA continue to perform well. The strategic land bank is being developed with two build-to-rent projects in London and Salford are commencing to deliver around 500 homes. Urban regeneration, where LGC is providing funding alongside external partners to regenerate UK towns and cities, and includes MediaCity in Salford and the regeneration of Bracknell in Berkshire and projects within our English Cities Fund.

Alternative finance, primarily through our investment in Pemberton, providing debt finance to SMEs across Europe by the recently-launched fund. And finally, clean energy, which we see opportunities opening up, our technology advances and government subsidy regimes are reformed. LGC works jointly with several external partners, broadening the skills available to L&G and increasing the supply of capital into these businesses.

Moving on our successful bilateral deals with the likes of PGGM, this model provides the basis of our work with the government's regeneration, investment organization programs designed to attract co-investing overseas investors into the UK. The pipeline of opportunities is strong and we expect to make new investments in the second half.

L&G America delivered increased operational and net cash in the first half, $80 million of dividend compared to $73 million in the prior year. Gross premiums at $588 million were up 6%. Operating profit, however, was lower, $61 million compared to $72 million. The first half saw $30 million of adverse mortality experience, reflecting the net of reinsurance position.

Total claims gross of reinsurance were actually marginally lower than the price on a reserving basis. We adjusted our pricing last year and have done so again in 2015 under the new leadership of Gene Gilbertson. And we have seen lower new business volumes as a result and have instigated a corresponding cost-saving program. We expect to see full-year new business volumes at around 20% lower in 2015 than 2014.

Savings operational cash was flat in the first half at £64 million and net cash slightly increased to £59 million. Operating profit at £50 million was down by £4 million. As we said at year-end results, we've restated the LGIM and Savings comparators to reflect the transfer of our Workplace Savings business to LGIM. Savings for L&G now has two broad components, the Platform business and the Mature business. The Platform assets under administration has grown by 11% year-on-year to £75 million and flows were positive for both Cofunds and Suffolk Life.

As the asset base grows on platforms, we're continuing to focus on costs. Cofunds is on track to deliver the £11 million of cost reductions by the year-end that we targeted at the time of the acquisition.

Our Mature Savings business, a legacy business effectively in gradual decline has been tightly managed. Assets at £35 billion were slightly down, but in line with our expectations, and cost discipline here underpinned the positive shift in Savings net cash contribution. We sold L&G Ireland and closed our with-profits fund to new business.

Now, to the balance sheet, which remains strong, on the Solvency I IGD basis, our coverage ratio is 198%, in the middle of our target range. And we have a surplus of £3.8

billion after repaying £600 million of Tier 2 subordinated debt at its first call date in June. The default provision for the credit assets backing our annuity liabilities stands at £2.3 billion, despite over the last five years having only experienced defaults of less than £10 million.

Our economic capital position reflects the amount of capital the board believes L&G needs to hold above its liabilities to meet our strategic objectives. As I've often said, this is not a Solvency II assessment of capital. Our economic capital position remains strong at 220% coverage ratio and the next slide shows the main movements since the year-end.

The new business we've written in the first half has more than covered its corresponding economic capital requirement by £0.1 billion. The back book has generated £0.4 billion of surplus, whilst own funds have been reduced by the payment of the 2014 final dividend and the repayment of the £600 million of sub-debt.

There are some other important points I'd like to make on Capital. Firstly, to update on Solvency II, we're working closely with the PRA and have submitted our applications to use our internal model to calculate the Solvency capital requirement to use transitionals, matching adjustments and deduction and aggregation to L&G America.

We'll update you as clarity emerges, but to manage expectations, this is unlikely to be before December. Even then, the actual Solvency II balance sheet going forward in 2016 will rely on components of the year-end 2015 balance sheet. I can't give further guidance at this point, though I know you'll ask. But I would remind you, on the PRA's recent clarification, that transitionals will account as Tier 1 capital.

Specifically, in relation to annuities, we've already moved to a capital-light model to respond to the very significant demand in the pension de-risking market. The impending Solvency II regime has been a catalyst in this regard. Therefore, we've accelerated implementation of the capital-light model for new annuity business with more use of reinsurance.

This capital-light model means for new annuity business less risk will be retained on our balance sheet and we'll optimize the return on the capital we deploy in this market. It will change the shape of profit emergence, with a higher proportion of profit emerging in the year of sale and less profit in total per contract over the whole of the contract life. We're already starting to see the benefits in terms of LGRs, new business surplus, operating profit and return on capital in these results.

I now hand over to Zink to talk about LGIM.

Mark J. Zinkula {BIO 16142450 <GO>}

Thank you, Mark. LGIM had an excellent first half with operating profit of 18% to £176 million and strong growth across the business. We experienced continuing healthy demand for our LDI multi-asset and real asset capabilities, and significantly better flows in our Index and fixed income products.

We saw positive momentum in the U.S., including winning our first index mandates in the region. We maintained a cost/income ratio of around 50%, while we invest in expanding our business as we continually focus on having the most-efficient operating model possible. We aspire to be economically and socially useful and I'm pleased that the core themes of long-term responsible investment are moving increasingly center stage.

We're very well-positioned in many of our core markets and to generate even greater long-term profit growth, we're assessing where we can accelerate business investment. Our UK defined benefit index business continues to decline as the DB market matures, but we've successfully transformed our business to position ourselves for future growth.

With an LDI market share of over 40%, we have the leading position in the DB market as schemes seek to de-risk. We continue to expand our range of solutions and experience record inflows and pooled LDI funds and delegated solutions as small- and mid-sized plans increasingly look to implement these strategies.

As DC gradually replaces DB, we're capturing a growing percentage of this market. Our Real Assets business is growing rapidly and we're seeing increasing demand from our international client base. These graphs illustrate the accelerating growth in all of these businesses and I'll elaborate on our expansion plans in the DC, real assets and international markets in my remaining slides.

With the business model primarily focused on the pension market, we're very committed to being a market leader in managing and administering DC assets as DC becomes a primary means of pension savings. The transfer of the Workplace Savings business is progressing well. We had an excellent first half. We now have 1.4 million bundled customers and the number of companies using our SME auto-enrolment solution has grown over 25% during the first half of the year.

Our recently-established investment-only platform has already generated £3.5 billion of assets, and our total DC assets under management now exceed £40 billion. We have a comprehensive business model for the DC market, which delivers our full strength and capability across investment, servicing and governance to EBC's corporates and the ultimate consumer. And we're well positioned to win irrespective of the pension reforms proposed by the Chancellor in his recent post-budget consultation paper. We expect accelerating growth as we roll out additional products, expand our distribution strategy and continue to invest in our platforms.

Earlier this year, we announced the creation of a Real Assets business by combining our well-established and successful Property business and our recently-created Infrastructure team. While bringing these areas together under common leadership, we've been growing our property lending capability, expanding into the build-to-rent sector and partnering with LGC on regeneration projects.

We recently closed our second Property Income Fund with over £400 million in equity from 16 investors from 10 countries. And we're successfully growing our international client base, which include the vast majority of the investors in our two Income Funds as well as two recent joint ventures of PGGM. We have an experienced Real Assets team, which has delivered strong performance, innovative products, leadership and sustainable practices and expansion into new sectors. This business is very well placed to deliver growing share of LGIM's profit.

I'll close with a slide on our international expansion. We had net inflows of £5.4 billion in the first half, once again primarily from our U.S. business. Our active asset fixed income performance in the U.S. continues to be strong with 100% of our composites outperforming their respective benchmarks over one year, three years and five years. This performance, combined with a highly-regarded LDI capability, puts us in an enviable position in the U.S. DB market as implementation of derisking strategies continues to gain momentum.

With the establishment of an index business and expansion of our distribution strategy, we will grow our U.S. business even faster. Although international index flows were low in the first half after a disappointing 2014, we're feeling more positive about this part of our business. We won our first index mandates in the U.S. and also won several mandates in Europe and Asia, which we expect to fund during the second half of the year. We anticipate higher growth in all regions this year as we continue to invest in our international expansion.

In summary, we're successfully executing our strategy to be a market leader in all of our core businesses, as we've transitioned from being a largely one-dimensional domestic asset management firm to becoming a diversified consumer-focused international business that's experiencing accelerating growth.

Now, I'll turn it over Kerrigan.

Kerrigan Procter {BIO 15093363 <GO>}

Thanks, Mark. LGR had a successful first half with strong financial results, steady flow of bulk deals and a promising start for our new lifetime mortgage business. Net cash is up 16% to £192 million in H1 2015, driven by the operational cash increase from the large stock of business, an increase in new business surplus through sourcing of attractive assets and the use longevity reinsurance for 2015 deals.

Operating profit is up 49% to £280 million, in part helped by further longevity reinsurance of bulk deals closed in 2014. We wrote £1.15 billion of business from the 23 bulk annuity policies in the first half of 2015. This was down from last year's record comparator, but the volume, the flow and the financial results, all demonstrate our strong position in the market, our price discipline and the substantial opportunity the bulk market presents.

The individual annuity market remains challenging. We wrote £180 million of new business in the first half of 2015, down 53% year-on-year. The Q2 volume after the introduction of freedom and choice on April 6 was £81 million. We see little prospects for individual annuities and our view remains the full-year volumes would be roughly half those of 2014.

We do, however, see a huge opportunity in lifetime mortgages. We completed our £5 million purchase of New Life Home Finance in March and rebranded it as Legal & General Home Finance in June. As of 30 June, we had funded £37 million of new lifetime mortgages with applications running at £5 million a week. They are now around £7 million a week. So, we have, therefore, doubled our target for 2015 from £100 million to £200 million.

Given the $10 trillion potential size of the global pension risk transfer market, we embarked in late 2013 on a program to reinsure or syndicate risk. We have already reinsured the longevity risk of approximately three-quarters of bulk deals closed since the start of 2014 and have live reinsurance arrangements in place with seven reinsurers and a panel of more than a dozen. This is a deep market.

Selectively retaining risk on our balance sheet allows us to help a broad set of defined benefit clients to de-risk, while delivering great returns on capital for our shareholders. Solvency II supports a capital-light front book strategy, though the client need for pension scheme de-risking does not change, nor do the skill sets required to help those clients, namely integrated asset management, longevity management, DB pension administration and deal execution; all areas where we have a leading capability.

Meanwhile, our stock of business, the back book, should be able to generate material levels of profit for around 15 years. We'll deliver operating cash, while managing longevity risk, keeping tight control of costs and continually seeking to improve the yield on our assets.

Finally, our international plans are progressing well. We are now quoting live on U.S. pension risk transfer deals and we've hired a team led by George Palms based out of a dedicated office in Stamford, Connecticut. This team is tightly connected with L&G's out-of-the U.S. business lines. We will write business out of LGA using its balance sheet, regulatory approvals, administration and central services. All fund management services will be delivered by LGIMA. So, we have a highly credible, integrated L&G pension risk transfer capability in the U.S.

Put together, our cash-generative back book, our capital-light front book, our burgeoning lifetime mortgage business and our entry into the U.S. give me great confidence in the future for LGR.

Now, I'll hand over to Duncan.

Duncan Finch {BIO 18966514 <GO>}

Thank you, Kerrigan. As it's my first appearance on one of these sessions, I'm delighted to be able to report that the performance of the Insurance business was strong in the first half of 2015. We maintained operational cash at broadly the same level as 2014 at £165 million, but reduced new business strain enabled us to improve the net cash position by £7 million also to £165 million.

Operating profit of £192 million is 7% ahead of last year, driven by strong profits from Household, favorable claims experienced in Group Protection and operating efficiencies. UK Insurance gross premiums, our stock grew again to just over £938 million. Our UK Protection gross premiums were up 4% at £774 million in half-one 2015. However, our Household premiums fell from £178 million to £164 million, reflecting competitive pricing in that market.

We continue to lead the UK Retail Protection market and importantly we have grown our direct-to-customer channel, L&G Direct, new business, by 11% year-on-year. In our partnerships channel, we secured a new distribution agreement with Intrinsic in half one and expect to see a positive impact from this in the second half. Our Protection margin remains strong at 8.5% and is slightly up on our full-year 2014 margin.

Our mortgage club facilitated over £20 billion of new mortgages in half-one 2015, up £2 billion on the same period last year and reinforces the club's leadership in its market. Our surveying businesses completed over 200,000 residential surveys in the first half of 2015, a 92% increase on the same period last year, benefiting from winning several new large contracts in 2014.

Strategically, both our mortgage club and the surveying business remain core to our housing proposition, connecting us deeply with lenders, intermediaries and customers are the important mortgage event.

Group Protection gross and new business premiums were flat in the first half of the year at £229 million and £40 million respectively. Our Household insurance premiums have fallen by 8% year-on-year as we remain disciplined about pricing and our focus remains on delivering profit rather than chasing top-line premium in a challenging market. In the first half of 2015, our combined operating ratio was 82%, 6% ahead of the same period last year.

We expect intermediaries and partners to be the main distribution route for our insurance products for the foreseeable future, but an increasingly important aspect of our business is the ability to interact directly and digitally with our customers either through our own brand or through intermediary brands. Strengthening our capabilities in marketing, digital, data analytics, while simplifying products and customer journeys, is essential to future success across all our distribution channels. We continue to invest to build these capabilities. And off the back of this investment, I'm pleased to say that our direct-to-customer business, L&G Direct, continues to grow strongly.

1 million customers have now bought insurance products from us directly and L&G Direct now represents 18% of new Retail Protection business and almost a third of Household gross premiums. In half-one 2010, our direct Household business was 10% of our gross premiums. Since then, we've recorded a 27% compound annual growth rate in direct Household premiums. These figures illustrate that the insurance division is successfully selling and connecting directly with customers and the capabilities that we have built and continue to build are becoming increasingly relevant and important to our intermediary partners as well. The investment we have made in our direct and digital capabilities is

working. And these, with further initiatives, lead us to remain confident for our half-two performance.

I will now hand back to Nigel to close.

Nigel D. Wilson {BIO 1535703 <GO>}

Thank you, Duncan. Great time, first time up to bat. We'll invite that man back next year. Bracknell Town centre spent 14 years being under demolished. Now, as you can see, we're clearing the ground for a substantial rebuild with modern retail housing. Sadly, I didn't get the job as a new digger on the site in Bracknell. I've got to stick to my current day job. We've seen a lot more IMBYs, not NIMBYs. People want local jobs and local economic growth. This is part of our housing and regenerating business, one of the selected growth businesses where we have already made the initial investment, which are now already delivering strong profit growth.

In operational terms, L&G's mix of businesses or our diversity comprises the three big-scale cash generators; a simplified insurance and pensions business, scale investment management and other asset businesses and a capital-light derisking and retirement business. Plus, we have exciting growth businesses with kickers. Their growth is alongside the regular cash-generative businesses at our core, which you all know well, which are being covered today by my colleagues. LGIM, as Mark said, is just beginning its journey in the United States and Asia. These are huge opportunities for L&G.

We now have the management teams in place to deliver that growth. CALA, our UK housebuilder, taps into a structural shortage of housing here in the UK. Expansion into housing and urban regeneration utilize synergies with LGIM Property, and as Duncan said, our £40 billion per annum mortgage business and uses our balance sheet strength. These are marked differentiators versus our competitors.

Workplace will continue to grow. Minimum contributions will rise from 2% to 8% in 2018. We continue to win more customers and we'll do so in the second half of this year and beyond. L&G Property will use its established expertise to grow in new markets and lifetime mortgages will fill the gap left by individual annuities. Very different from our historical model and ready for the next phase of our growth.

I'll now open up to questions. Okay.

Q&A

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

Thanks. Good morning. It's Andy Sinclair from BofA Merrill Lynch. Three questions. Firstly, you spoke about the increasingly capital-light model for annuities. I just wonder, you commented a bit briefly on this, but do you think there's sufficient capacity in the reinsurance market if you and other bulk annuity writers start making greater use of longevity reinsurance to tackle these trillions of DB liabilities? And what are the limitations on volume here?

Secondly, just wondered if you could give us any quantification on the change in return on capital employed for the capital-light approach to writing annuity new business compared to the more traditional approach.

And thirdly, just looking at the economic capital methodology on longevity, I think you mentioned that the economic capital assessment assures – ensures that the balance sheet makes sufficient allowance to meet the 1-in-200 stress over the run-off of liabilities rather than just over a one-year timeframe. I just wondered, if you could elaborate a bit more on that, and if that's materially different just to a Solvency II basic approach? Thanks.

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

There's six PhD students working at Cambridge right now trying to answer those questions I think. However, I'm going to let Kerrigan have first stab at them. Kerrigan, also has a PhD, by the way. Is that right?

A - Kerrigan Procter {BIO 15093363 <GO>}

So, capital-light capacity in the reinsurance market, as I said, it's a deep market. We can see capacity from a broad range of reinsurers and there's ever more increasing range of reinsurers who want to join the panel. Some of them are looking at it as an offset to their more substantial mortality tail risk and some of them, increasing number, looking at it a business line in its own right. So, we've got good visibility, substantial capacity there for years to come. So, no problem with writing the volumes for the foreseeable future, I think, on the longevity reinsurance side, we're confident with that market.

I think the next one, changes to the return on capital employed for new business. I think – and I'm sure Mark will comment on this – there's plenty more discussions to come on the calibration for Solvency II. It's not really going to go there. But the thing that is clear, though, is that the risk margin is new and the thing that longevity reinsurance does is removes the need to hold that risk margin. And so, clearly that has an impact on our thinking in the use of longevity reinsurance.

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

I mean, in macro terms, we don't see a problem or any issues in delivering a very strong return on capital. In a sense, we've been trialing this for about a year and a half. We figured out about three years ago that we'd better develop a long and deep reinsurance market. Originally, we had a couple of reinsurers. We have now – whether we've got 11 or 12, I can't remember what we verified in the end. But it was about a dozen people who are actively in the reinsurance market.

Mark, do you want to add anything to Kerrigan?

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

Yeah. I guess, just particularly on the economic capital market, I guess, to add a bit of color, and clearly the actual EC treatment depends a lot on each individual deal that we end up doing. I would say, broadly, in economic capital land, the reinsurance trades have been broadly neutral, taking all the capital to get a bit of an economic capital requirement release, but we obviously pay a little bit to the reinsurers for their profit margin, that's why we do it.

But I think as Kerrigan says, I think we say in EC land, it's broadly neutral. But that's kind of why we haven't done a lot of it in the past. I would say categorically in Solvency II land, it's likely to be a good trade to do. This margin is going to be quite punitive, particularly in low-interest rate environment for things like longevity risk. So, certainly, from an SII perspective, it's a bit of a no-brainer.

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

Thanks.

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

Jon? Keith, are you going to do, some work, you're just standing there with the mic.

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

Jon Hocking from Morgan Stanley. Three questions, please. On the annuity business again, do you think, based on what is reasonable to assume at the moment that the capital requirement is still going to go up post-Solvency II? So, is the price of annuities for pension derisking clients going to go up? And do you think it's going to have an impact on the potential volume, if that assertion is true?

Secondly on the direct business, to what extent is the insurance direct business linked in to direct offerings on the asset management side and for pensions or is this just an insurance silo direct business? And then, finally on the lifetime mortgage business, there's still quite a lot of negative press on lifetime mortgages. And I just wondered, given how strong your brand is, what the reputational risks are here and whether you are doing anything different from a conduct or disclosure or product structure perspective than your peers? Thank you.

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

Yeah. Bernie can pick up the lifetime mortgages on there. It's very sad that you have such negative comments on stuff. You can become a member of our – one of our risk committees, Jon.

A - Bernie Hickman {BIO 19334629 <GO>}

I'll take the last one?

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

Yeah. And Duncan, will you pick the second up?

A - Duncan Finch {BIO 18966514 <GO>}

Yeah.

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

Yeah. So, just on capital requirements post-Solvency II, I think we have made it quite clear, certainly, in the press release today that we do expect the new business, the capital requirement in Solvency II to be higher than Solvency I. I think we have to take in the round the kind of what we call capital. Clearly, under Solvency II, there's a solvency capital requirement. Then, there's a risk margin, I think, in the kind of round. I think those are all kind of capital we have to hold. And I think there's no doubt now that under Solvency II, the aggregate of risk margin and SCR will be higher than the equivalent under Solvency I. We're not saying exactly how much yet until we actually get the final calibrations on our internal model approved. But certainly, directionally, I think we now take the view that Solvency II will require more capital in the annuity business than it would have been under Solvency I.

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

Duncan?

A - Duncan Finch {BIO 18966514 <GO>}

Yeah. The direct business that I've talked about this morning, was limited to the insurance products that we offer. So, that's the extent of that business. But, clearly, there are the potentially broader opportunities to move your direct model. Once you've got the capabilities and the skills, you can utilize your skills in many other places, whether that's through intermediaries or through other distribution routes as well. But what I talked about was just insurance.

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

And if you'll go to [My Life], there'll probably a great deal for you, Jon.

A - Bernie Hickman {BIO 19334629 <GO>}

Yeah. So, on the lifetime mortgages, yeah, we're very aware of the history of the market where we've been developing our products, very conscious of the need to make sure we give good value for customers and flexible products and that we've really thought through those reputational issues. But I think the big point is, is that you're going to get the occasional press story from products that were sold many years ago. There are hundreds of really happy customers out there who want to fund a great retirement lifestyle sitting on huge equity growth in their houses, and they love this product; someone giving them a chunk of money, which they can really then put to use in their lifetime. So, I'd say, there's many, many really happy customers with this product, and that's what we're focused on giving great value, great products to increasing numbers of customers, who are I think going to increasingly want to access their equity through this product.

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

Yeah. Thanks, Bernie. I think we spent 10 years deciding whether to enter this market or not. It's taken that serious by our board. And we – the customer research, as Bernie mentioned, this gets some of the highest customer research satisfaction of any financial services product. So, it's very – the modern version of this is very much enjoyed. You've got high prices, high house prices and very low interest rates. It's very different from the product that may have been sold 10 years, 12 years ago.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. Andy Hughes from Macquarie. A few questions about the retirement business as well, I'm afraid. The first one is on kind of how much you need to sell to keep the earnings flat going forward for the annuity book? Because you've pointed out the annuity business you write going forward won't have the same margin on assets that the back book had. So, clearly, you need to sell a lot more new business than you sold previously to grow the earnings going forward.

Second question is on the kind of margin that you're going to be making on this stuff, when you pay out reinsurance. Presumably it's not anywhere near as high, but it's capital-light, so your ROE is still quite high, but the returns are low. And the second question, sorry, is what distinguishes you now from everyone else in the market? So, presumably, everybody else in the market can get reinsurance from the same panel of reinsurers. They're going to do pretty much the same thing with the assets. And can L&G make superior returns than everybody else in the market?

And a final bit is a cheeky question on data quality. So, you guys always told me the annuity data quality is really good and now I see an assumption change for unreported deaths. So, does that mean you're not so sure about the data quality as you were before? Thank you.

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

I think I'll answer the last one. We've always been incredibly prudent. And it's good that you see you're reverting back to type. I was worried there that the two of you were happy and jolly and getting – I was getting – well mainly, you, Greig. It's good to see you back. I think at a macro level, I would personally be very disappointed if we sat here in two years, three years, four years, five years' time and saying an LGR's hadn't grown returning. So, I think we've got a great opportunity to grow our earnings going forward. And I know Kerrigan, Bernie and the rest of the team are absolutely determined to do that. So, that as an intro to Kerrigan's answer, which he's had a little bit more time to think about...

A - Kerrigan Procter {BIO 15093363 <GO>}

Well, I think, probably, the first two questions are related and really what's going on is if you can strike your longevity reinsurance somewhere between your best estimate and your prudent reserves, then it will tend to bring profit upfront. And so, there's less overall, but it's more upfront. Of course, as in most market, it depends on where you strike that reinsurance arrangement. And of course, what we need for this market is to be attractive to our clients, ourselves and the reinsurers. And so, depending on the deal and the type of longevity risk, it will shape that profit either more upfront and reduce quantum, depending on where you strike it between best estimate and potential reserves. So, that's really probably the answer to both of your questions.

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

I mean the other point I'd like to make is our Retail Protection model is already this model and we do have probably the best margins, the highest market share. We've grown organically, increased our market share from 5% to 25%, whilst we've had this model already. So, it's fairly proven, well-trodden route for us as a firm. Is it possible to have not a question on LGR, just so that my other colleagues can not sit here in silence? So, Oliver, then to you, Greig. Okay.

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

Just to humor you, I won't - sorry. It's Oliver Steel with Deutsche Bank. Just to humor you, I won't ask you question about any of that. So, the first one, which is the sort of roll-on from it is, if you're going to accelerate the profit recognition on annuities, and I accept you're not going to talk about the dividend sort of officially until next year, but how conceptually will you treat that earlier profit recognition when you think about the dividend going forward? Second question is, you're looking to sell various overseas businesses. What are you thinking about doing with the proceeds?

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

Yeah, I think they're actually good questions, Oliver. I think on the dividends, if I answer it, I'll get into trouble. So, I'll let Mark answer the dividend question, I'll come back on the proceeds.

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

Yeah. On the same point, clearly we are committing to give an updated dividend policy at the time of the prelims next year, Oliver. So, I know you're very keen to understand how we think about that going forward, but I think we have to just make the board go to the proper machinations and considerations around what that looks like. I mean, clearly, you're quite right. This will introduce element of more variability and volatility in the cash number compared to profits that we've had in the past. So, I think we just need to work through what that mean practically, but we'll - clearly, the board will make sure what we come up with will be good guidance for you on dividend. I think any more than that at this stage - I think I'd better say nothing more about it.

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

On use of proceeds, I think there are few areas that we'd like to spend some money on. I think LGIM America is going so well that we'd like to accelerate the growth. We're going to accelerate the growth anyway. Mark has put together an outstanding team over there. They're doing incredibly well. But we're short at LGP on real asset businesses and we like to make acquisitions in that space. We continue to look at the ETF space, where again we're doing build/buy - classic build/buy analysis. We're going to spend the proceeds. That's an area I'd like spend there.

And Duncan, as he mentioned, has just done a fabulous job in the whole digital fin-tech space. And we think we've got an endless number of people coming to the building offering us fantastic new businesses to buy, which is just about to take off, and if we – just pay us a massive multiple of revenue, we could be home and hosed on those. So, if you see announcements in those areas, don't be surprised. Next, Greig. I promised Greig. Steve you're doing an absolutely useless job. You're never doing it again.

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

I mean, this is just for forecasting purposes and it is the LGR. But if you look at the guidance you've given for the LGR back book this year and you look at the fact that the tax loss disappears and the fact that you've overlaid the reinsurance contracts accelerating future cash flow, what is the sort of sterling million headwind those two items create so that we can sort of – so that we can do some kind of adjustment to our models relative to assets, et cetera. So, what – if you hadn't lost your tax loss and you haven't overlaid the reinsurance, what would be the sterling million in force for 2016? What would be the difference?

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

It's a good job you don't sit on our budget committee, because you'd just be a walkover, Greig, because there is – in macro terms, I don't accept that Kerrigan's got a headwind, which is working against him. Is that something ?

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

Before you – I just want to – I always do the three questions.

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

Yeah. There's more.

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

Cofunds, there was some rumors about Cofunds. I wonder if you could just elaborate on your sort of strategy towards Cofunds. And just listening to your Solvency II question about deduction and aggregation, given that you won't be getting that diversification credit and you've got this mortality headwinds, et cetera, I mean, what's your thoughts around selling that business? Does it fit into the plans or strategy?

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

Okay. I'll do the second one. And between Mark and Kerrigan if you can decide.

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

Yeah. So, just on the, I guess, the headwinds as you described them Greig. So, on the tax point, we had about £35 million of carry-forward tax losses total used up in our annuity businesses at the start of the year. Actually, in terms of profit, we actually used them all up into the cash. We've only released half of it at the half year. So, you'll all see the full impact that's spread across the full year in terms of the net cash numbers. So, to answer your question, that would generate about a £35 million headwind, in your language, year-on-year next year.

I think in terms of the benefit of reinsurance, I mean, I guess, you do some simple math. I mean, this year we've generated a new business surplus on LGR, a £22 million on the back of £1.3 billion of annuity sales. This time last year, we had about £20 million new business surplus on that back of £3.2 billion of annuity sales. You can work out, at least directionally, kind of the benefit we're getting from reinsurance. And clearly, it depends by each deal we do and each term we write it on, but it gives you some sense of the benefit of reinsurance in terms of the cash generation in the year of sale.

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

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

I'll let you do the math, Greig. You can kind of back solve that to get some clue.

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

Kerrigan, is there any you want to add or no.

A - Kerrigan Procter {BIO 15093363 <GO>}

Well, I think, overall, what we're talking about our back book, we've reinsured some risks, but it's – there's a substantial stock of business there that's going to deliver pretty material profit, profit before cash, or tax for the next...

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

What you're saying there, Greig, just for clarity, there's more winds behind us than headwinds and what we're going to do with the back book. So, I know you'll always take a negative view on these things. But I think, going forward, there's such a big – we've got a massive amount of gilts we've not put into direct investments. The upside from – and that is just one of a long list of things. We never try to fully optimize the back book. But certainly from the second half really of this year and onwards, there's much more of a separation between the back book and the front book. And there'll be a – and we'll talk a lot more about that at the year-end and try and give greater clarity on the levels of cash that we're going to generate going forward. But it's not – the offsets are more than the headwinds going forward in – mind you, Kerrigan may have a different view as we go through arm wrestling during the budgeting process. But I'm sure he will do.

On Cofunds, we've had a number of approaches on Cofunds. There's lots of speculation in the media about that. And Mike, who's sat in the front row, has been working with me on one of the strategic options for Cofunds going forward. We don't have anything to report today. But at some point, Mike will finish his study and finish the analysis that he's been doing. And again, we'll update the market when we've got something concrete to say. But we're looking at a number of fairly – Mike's a very creative and innovative individual, lots of interesting ideas as how we might be able to leverage the Cofunds platform going forward.

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

LGA.

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

LGA, fits with the group. It's very, as I think Kerrigan mentioned, it's a vehicle for doing a lot of our pension risk transfer in America. And so - and we've never really had - in terms of the diversification benefits, we think the benefits from growing our U.S. business more than offset any minor loss in diversification benefits we get. Mark, is there anything you would...?

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

That's true.

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

Yeah, really. Well, pleased to hear it's true. Steve, are you going to do some work?

Thanks. Can I ask three questions, please? The first one's just coming back to the reinsurance capacity. We certainly have heard reinsurers talk positively about longevity reinsurance market. But I just wonder if some of that capacity comes from the fact that there's too much alternative capital in the P&C side of the reinsurance market. And if that market turns, what happens then to the longevity reinsurance, whether that tap turns off? And if so, what's plan B, if there is one? Second question is if the shape of your profitability on the longevity side has changed, I just wonder if it makes any difference to the diversification benefit against your protection book, if at all. And the third question is just on America. I just want to get a feel for the pension de-risking market there. And I wonder if - sort of what proportion of your LDI clients in the U.S. you've been talking to in terms of their inclination to de-risk and get a buy-in or buy-out from you. Thanks.

Yeah. Can I ask Mark just to talk a little bit about the LDI business in the States, just because I'm afraid you were going to doze off?

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

That's awful.

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

There. Just talk - because that lead naturally into some of the other questions that you...

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

He's buying time for Kerrigan. The LDI market in the U.S. is lagging the UK by several years. And as with the UK, it started with the larger plans, sort of more sophisticated plans and so forth. And then now, it's working its way into some of the smaller and mid-sized plans. So, I alluded this earlier, but we launched some pooled funds to have a more compelling proposition for some of the smaller plans, implement derisking solutions in a way that's economically efficient for them.

With many of our clients, we're definitely in discussion with them or they're in discussion with us, I should say, about looking at their end-game strategy. For many plans in the U.S., it will just be, what we call, self sufficiency. They'll just continue to manage. They'll have an asset strategy that's better hedged to their liability profile on expected benefit payments. But they'll continue to have us manage the assets for them. But increasingly, plans are thinking about offloading that longevity risk in some manner in the U.S. market. And the bulk annuity market, again, is nearly as developed in the U.S. as it is in the UK. And I guess, I'll transition to Kerrigan to talk about that.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. We have over 100 clients in the States.

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

120.

A - Kerrigan Procter {BIO 15093363 <GO>}

120.

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

First time Nigel's ever rounded down. 120.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. I mean, those clients are exactly just the same model in the UK that they are exactly the ones who are interested down the de-risking path and they want to talk next about where they want to go in pension risk transfers. So, it's a really interesting business model. In fact, one of the LDI salespeople from LGIMA moved over to run the sales for pension risk transfer earlier this year. So, there's a very close connect there between LGIMA what we're doing with LGR in the U.S., and very exciting.

Just back on the reinsurance capacity, I mean, as I said that it's people looking for an offset to their mortality risks. Some people are getting interested in it as a business line in its own right. I think at the edge is then people coming - moving in from with capital to spare from other parts of the market or more attractive use of capital and all of those things will develop. I think once they're in the market, they'll stay in the market actually. And so, we've got great confidence there. And also, it's part of our - necessity part of our skill set to cultivate those links with a broad panel of reinsurers and encourage them into the market. So, I have no problems there with that.

Of course, there are things further down line rather than just linear reinsurance. We'll do tail risk, longevity reinsurance, that's an interesting angle, or we can embed things in insurance-linked securities, something else we're exploring. So, there's a long line of great ideas that the team are implementing to really get the best price for ourselves and for our clients in that market. So, very exciting, indeed. You talked about some of the diversification benefit against our protection book, which is mostly UK longevity risk with the diversification of the U.S. mortality risk that we keep as we build the U.S. capability. Then I think that diversification benefit will be even more pronounced, U.S. mortality against U.S. longevity. So, I think we're on a positive path on that route as well.

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

Okay. Thank you. Andrew? Front, Steve.

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

Hello. Good morning. It's Andrew Crean with Autonomous. Could I ask three questions? On the dividend, I'm still not entirely sure, I need some help on this. I mean, you have historically changed the balance between interim and final from time to time. And I don't know whether the interim lift is a signal to final one. You've talked about moving towards 1.5 times cover and I think market's been confused as to whether that is towards in 2015 or to - so, if you could give us some help on that. Secondly, I think we probably do want to understand what the economics - overall cash economics on the annuity business and the capital-light model are - is relative to the others? You've given some indication in terms of the fall in the EV new business margin. Is that a good sign of that?

And then, thirdly, in the balance of the business, as I look on one of your slides, the balance between Asset Management and Insurance and the Savings business, the Savings business, the asset accumulation part of the Savings business looks relatively small in the context of the whole earnings of the group. And I just wonder whether you're happy with that, if accumulation is the funnel by which you access some retail decumulation opportunities?

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

Okay. Mark do you want to - if you pick up the last question, about the opportunity for retail in the - Mark Z, and Mark, do you want to just pick up the others?

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

Yeah. I mean, clearly, on dividend, Andrew, we've given notice today about whether that's a different proportion of interim. As far as I can see, the board will take its own view at year-end about how it thinks about the final dividend. But we are clearly saying today, regarding interim dividend as being in line with our existing dividend policy. Read into that what you want, but that's what we're saying, explicitly around what we're doing. And in terms of your phraseology about whether it's to 1.5 times or towards 1.5 times at year-end, we are very clearly towards 1.5 times. So, that's the word. That doesn't rule out 1.5 times. I'm simply saying it is in a range towards 1.5 times.

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

Okay. Yes. I was waiting until he fell asleep. So...

Yeah. I've got three questions, please.

Three is being very popular today.

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

We didn't answer Andrew's three, did we? We only answered Andrew's one.

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

What? I've only answered one of your questions? I thought it was such a long answer I thought we answered them all.

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

No, no. I'm still on the first one.

A - Kerrigan Procter {BIO 15093363 <GO>}

Okay.

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

Yeah.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. So, I mean, directionally, the point that you can reinsure between your prudent reserves and your best estimate, you bring the cash forward, you see a high new business surplus and a lower margin. So, that's directionally what you should be looking at. As ever with these reinsurance sales, it depends on the price, it depends on the longevity which you're looking at. So you flex up and down those - those two parameters will flex. So, there's more going on in that margin statement than just that because we wrote shorter-dated business rather than longer-dated business in Q1 - I'm sorry, in H1, also. So, plenty of things going on there, but directionally, your thinking is right, I believe.

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

I can sense an Autonomous Research paper coming. Mark, do you want to talk about retail in the UK or...

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

Yeah. Certainly. So, retail - as you know, the Unit Trust business transitioned to LGIM early part of last year. And we're in the process of - well, we've launched a lot of products, particularly in the multi-asset space, multi-index space, leveraging our index building blocks to have good value products for that market. Our property fund has been a big seller. We've gotten a lot of more competitive in the index space, as well in retail. So, we currently rank, I think, 13th and we have aspirations to be considerably higher than that. We should be higher than that. Hired Honor Solomon toward the end of last year to build out the retail distribution efforts; hired a head of retail sales, we just announced that a couple of weeks ago. And so, we're in the process of now continuing to build out and improve and expand our distribution there. So, we have high hopes for the retail businesses, as Nigel mentioned earlier.

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

So, from sort of a Newcastle to Arsenal, if you think of the Premiere League, from thirteenth to maybe third over the next couple of years. But I think we have that sort of ambition is that we've - well, I was exaggerating. I dream of thirteenth. Did we answer all your questions? Sorry about that, Andrew, I got too excited.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. So, the first question is on this taxing pensions like ISAs. I think you said that you are well-placed irrespective of the result of that. But most insurance companies would be very, very happy with the status quo we have at the moment. You've also got a slightly different business. Would you be actually happier if it pushes towards ISAs? Second question is on this writing bulks in the U.S., what's stopping you writing a bulk in the U.S.? Is it demand? Is it the fact you've got so much on in the UK, relationships, risks, competition, just talk a bit about that?

And the final point on Solvency II and capital. I mean, the risk margin is new. It's a function of interest rates, which have improved over the second quarter. It's a function of longevity reinsurance and, obviously, reusing a lot more of that. So I mean, if the capital requirement - one of your peers said it was 15% all in all with the risk margin and the other margins was 15% at the start of the year with no reinsurance, where does it now sit between the sort of 8% and 15% range? I mean, is it sitting - if you're using 75% reinsurance, is it sitting just above 8%? So, we're talking about a very small increase in the capital requirement. Thank you.

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

I think it's the same two guys who've just got to decide everything.

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

I'll do the last one.

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

Do you want me to take the first one?

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

Yeah.

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

Okay. Well, in regards to – as I mentioned earlier, we'll be happy with one model versus the other. I mean, the reality is if you look at – we specialize in managing pension risk as an organization. We deal with an ultimate of vast majority of the assets that we manage. We have been at our best, historically, I think it's safe to say this, when there's been a need for innovation in a market in the growth phase of the DB market here, in the maturity phase of the DB market in the LDI space as we entered the DB market into the U.S. Again, there's a need for innovation and we filled that void in the DC market here with auto-enrolment, our approach toward governance with our master – our bundled DC proposition and so forth.

We're fine with the status quo. We'll be fine with change. What we're concerned about is that if there is change, it's sensible change. And we're trying to influence that debate so ultimately if there's going to be a change in the model, it's ultimately in the best interest of consumers. But as I mentioned before, I'm confident we'd win either way.

A - Kerrigan Procter {BIO 15093363 <GO>}

What's stopping is in the U.S.? Nothing. We have administration in place. We have regulatory approvals in place. We have the team in place. We can quote on – we're comfortable with our longevity pricing. We're comfortable with our asset pricing, the asset management of LGMA. We've come honorable second on a couple of deals, which is not a bad place to be when you're entering a market. You understand exactly where the price is. I'm very hopeful that we'll be an even more honorable first at some point very soon.

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

I've joined a couple of sales pitches and when I joined, it didn't make any difference whatsoever. But I get the reflected glory where we win. And so, I've seen that that we've got higher probability of winning on a couple of deals, so I've joined Kerrigan and the rest of the team pitching for the pitching business. So, I'll be sulking if we don't win something in the second half of this year.

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

Last one on the risk margin.

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

Yeah. Do you want to cover that?

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

Yes. I guess, with all of these sort of questions, of course, it does depend. So, as you say, the risk margin is interest-rate sensitive. So, that's one we have to be cognizant of. And clearly, any benefit we get from insurance, as always, depends on the actual terms we get for the reinsurance. But clearly, I'm conscious that Nick at Pru did give some indicative numbers of kind of how the capital might look in the combined Solvency II SCR plus risk margin world. There's no doubt that reinsurance, under current economic environment, is actually extremely beneficial. I'll give you some sort of rule of thumb. We take a view that a material level of reinsurance will probably halve the level of combined capital ISCR and risk margin we need to hold against annuity new business, is a material benefit. But that does depend on pricing. It does depend on interest rate.

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

We're going to take one last question and then we'll hang a bit - any of the questions anybody has, just because we'll - a lot of people will have to move on to various other things. We promised we'd finish by a quarter to two. And so, one last question. Anybody else want to ask any other questions, all of management team will stay behind and answer anybody's specific questions. So...

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

Thanks. Alan Devlin from Barclays. A couple of questions. First of all, on LGIM, was a very strong flows in the first half, but can be lumpy. Is that number sustainable or can we take that forward or could it even be higher? And then the second question on the bulk annuity business. Just wondering, your preference for writing books and the economics - the difference in the economics in the U.S. versus the UK given you estimate you'll use U.S. equivalents, U.S. interest rates may move up faster than the UK, et cetera? Thanks.

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

Very good first question there. And I would like to answer that one myself, but sadly I'll have to pass it over to Mark.

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

Yeah. So, in short, flows will continue to be lumpy, but I do think the trend line should be higher going forward than we've seen in the last couple of years. I think the institutional market flows that you've seen some of our competitors have had - have announced results recently as well, there have been net flows across the industry in the institutional space. The last two years or three years have been relatively flat for a variety of reasons, a lot of that's in the sovereign wealth funs space, I believe. The data isn't broken out in that way, but anecdotally, that seems to be the case, where we don't have a lot of assets currently.

But certainly, as we've taken our index business internationally, starting to get some traction, there's only one direction that business can go, kind of almost by definition, over a long period of time. But the flows will continue to be lumpy going forward. As I mentioned - I alluded to before, we know of some sizable inflows coming in, in the second half of the year, but there's also one sizable outflow that we know about of, £1.5 billion or so, not that we're getting any every performance or service issue, just a client strategy changed.

So, not every quarter will be positive net flows. But we do expect, as a percentage of assets, to be more in this ballpark - net flows as a percentage of assets more in the ballpark we're in now, in the mid-single-digit percentages, hopefully, at least rather than low-single-digit percentages.

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

I vote for higher myself, but I'm...

A - Kerrigan Procter {BIO 15093363 <GO>}

Yeah. On the U.S. versus UK, Alan, I mean I think, as you all know, we deploy shareholder capital where it's most productive to deploy it. So, we have a consistent return on economic capital hurdle rate and we used that right across business lines and across time. And so, that's what we look about whether a U.S. deal is attractive relative to a UK deal. So, no difference there. And certainly, the U.S. market offers diversification both on longevity risk, on market cycle, range of clients, services, the LDI clients that are coming out and the fixed income clients coming out of LGIM.

So, really attractive from that point of view. And across the different market cycle where we might see the interest rate rises on the nominal side, especially in the U.S., sooner rather – sooner than the UK, I think, will be interesting for the development of the size of business coming through that market. So, yeah, really interesting U.S. market, but consistent metrics applied across all our businesses.

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

That's it. I'd like once again to say thank you to all of my colleagues right across the country who've delivered a fantastic performance in the first half of this year. Certainly, I suspect an even better performance in the second half of this year and beyond and you've seen a bit of the narrative of that today. And thank you again for all of your interest and the detailed questions that you had, and I look forward to my colleagues answering some of the even more detailed questions as this meeting ends. So, thank you.