S1 2012 Earnings Call

Company Participants

- John Pollock, Group Executive Director, Risk
- Mark Gregory, Managing Director, Savings
- Mark Zinkula, CEO, LGIM
- Nigel Wilson, Group Chief Executive
- Paul Stanworth, Investment Strategy Director
- Wadham Downing, interim Group CFO

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Colin Simpson, Analyst
- Ed Houghton, Analyst
- Gordon Aitken, Analyst
- Marcus Barnard, Analyst
- Unidentified Participant, Analyst

Presentation

Nigel Wilson {BIO 1535703 <GO>}

Good morning, everyone. Welcome to our prelims for 2012. First, the usual housekeeping; the fire exists are in the same place as last year. And the usual disclaimers apply about the forward-looking statements.

Today, we'll follow the same format as at the interims. I will give an overview of the results; Wadham Downing will go deeper into the financial and some of the business delivery aspects; and then Mark Zinkula will talk about the developments of LGIM. I will finish by focusing on outlook and growth drivers; and John and Mark will join us for questions.

This is another very strong set of results from Legal & General; a good performance from the Company at every level. The very top headlines are our 12% EPS growth at 13.9p, which, together with our confidence about the future prospects, enables to recommend a full-year dividend of 7.65p. That's up 20%.

This was driven by record sales and flows; net cash of GBP865 million, versus GBP846 million last year; improved operating profit at GBP1,087 million; PBT up 9% at GBP1,036 million; and profit after tax up 11% to GBP801 million. ROE, at 15.5%, was also stronger.

Note here also the profit contributions from business divisions. Operating profit from divisions, at GBP1,115 million, was an increase of GBP57 million.

These results reflect the effectiveness of our business model, our synergies. And the strength of our product propositions and distribution. And excellent disciplined execution. We've now repeatedly demonstrated our ability to keep growing throughout the difficult sluggish period for the UK economy. And notice the lack of correlation to economic negatives. And a very firm resilience.

But the Legal & General story is not just one of downside protection. Although our forecast for the UK economy. And indeed for the developed Western world as a whole, is that growth will continue to be lackluster over the next year, we believe that Legal & General have the capacity, the capability. And indeed the ambition, to deliver above trend growth almost irrespective of the underlying economy.

This is because the key drivers of growth and bigger macro trends, which are likely to be with us for some considerable time. These are important thematic issues which run across economic cycles. There are five of these macro themes. And Legal & General has a commercial response to each of them.

First, as global asset markets become more homogenous, LGIM will accelerate its expansion in the international market.

Second, a globally aging population really matters to us because aging populations require greater individual pension savings and self-reliance. People and governments can't rely on the next generation to fund them any more.

Corporate de-risking of pension funds is also here to stay, not just in the UK. The era of the DB pension is over. And we are well placed to handle its legacy and its transition. Our focus on retirement solutions for individuals and companies, therefore, taps directly into the changing demographic.

Third, the global economy is fast turning digital with huge implications for how we interact with customers and consumers. And how we industrialize our processes for maximum efficiency. One aspect of this is our strong focus on digital platforms.

Next, state spending is falling; it has to fall. Again, not just here in the UK. Tax and spend on welfare is slowly beginning to be replaced by individual self-funding and premium-based systems. We are seeing it already in workplace pensions. But it will drive growth in individual protection, in long-term care. And in group income protection.

These UK examples are just the beginning of a new approach to public/private sector risk sharing. And we are well placed to be a central player in these markets.

And lastly, the retrenchment of banks to shrink or rebuild their balance sheets likewise creates opportunities for direct investment. We're already active in property and infrastructure, GBP1.2 billion in 2012. And we have the capacity to do much, much more.

So these are our five themes. And our five strategic responses. Wadham, Mark. And I will touch on these throughout the presentation with some hard evidence of the various ways in which our businesses are delivering.

Behind the strong headline financials, 2012 demonstrated that this is a Company which is delivering, accelerating its growth in both the flow of new business and the stock of business that's on our book. LGIM net flows more than doubled versus year, up at GBP7.1 billion; and AUM was up 9% to GBP406 billion. The AUM increase was driven by international mandate wins of a very high quality.

Individual annuity sales, as well as sales in Savings, were at record levels. UK Protection achieved 25% sales growth. GI made very strong progress. US Protection sales growth was 28%. That puts us amongst the top five providers of life insurance in the United States; a great result by our US colleagues. And not something an observer would have expected a few years ago.

There's been a great team effort to accelerate the evolution of the Company from cash to cash plus organic growth, to cash plus organic growth plus acquisitions.

Four years of relentless focus on cash has grown cash from GBP320 million to GBP865 million. And supported a dividend which has grown from 4.06p to 7.65p. What underpins this is excellent execution of digital. And various other process improvements.

These bring down our unit costs in production, as well as rationalizing and de-risking our balance sheet. This was possible because we have scale and focus. This work will continue, particularly in the digital arena.

The second phase. And a real focus for 2012, was organic growth. You see the success of this in today's results in the spectacular sales growth in protection; and in individual annuities; and strong LGIM flows; and the marquee deals that we've done in bulk Annuities; and similar de-risking transactions for customers. That has driven the 12% EPS growth; doing things better, faster. And more efficiently.

Again, there is more to do, particularly, for example, with the internationalization of LGIM; the expansion of the digital savings platform businesses; building on the success of auto-enrolment; and our outstanding protection franchise.

We're now entering the third phase. The macro trends created huge opportunities for us to step up. And not all of these will be, or can be, achieved through organic growth alone.

The opportunities we see are in our core markets; retirement solutions, asset management, replacement of the welfare state. As ever, it's driven by our focus on delivering high quality earnings, disciplined use of capital. And driving good returns for our shareholders.

Our strong balance sheet gives us the optionality to pursue organic growth and bolt-ons. But the financial discipline that is part of our corporate DNA means that we will subject these to rigorous financial and operational criteria.

Let me give you some examples. First, LGIM, which has grown from GBP36 billion in 1995. And some of my colleagues who were around in 1995 are here today, to over GBP400 billion today. You can see our response to the increasing globalization of asset markets.

The strong net inflows this year, GBP7.1 billion, were driven by international mandate wins. This is part of a longer term trend that has taken us from GBP7 billion in international AUM five years ago to GBP43 billion at the end of this year, end of 2012.

We're adding selectively by region; for example, rolling out our core index capability in the US. And the Gulf, expanding products in Europe. And entering the Asian market.

Next, retirement solutions. The aging population and the shift to DC will continue to drive UK individual annuities. The majority of our annuities are externally sourced. And we stand to be beneficiaries of the OFT review of the market. Meanwhile, we intend to grow enhanced annuities within the Annuities product suite.

The need for corporate retirement solutions is not just a UK phenomena. We have our first European bulk annuity transaction in the hopper. And our fund management activity shows there is a clear de-risking requirement for pension funds in the United States. Again, a series of step ups, which can include LDI, buy outs. And buy ins.

And in longevity insurance, we have a leading UK position. Witness the recent BAE Systems deal. We can expand that expertise internationally. This is an area where we may need to accelerate growth with targeted selective bolt-ons.

The digital economy is a cross-cutting theme, another megatrend. Mark Gregory, as well as leading the massive turnaround that we've seen of our Savings business, has been leading the digital charge; not just here in the UK. But also in India.

For our Savings business, one aspect of this is the growth of platforms. Industry projections for the UK are for a doubling of AUA by 2017. Our IPS platform now has GBP8.6 billion on it. And our workplace platform a further GBP6 billion.

Our digital skills and propositions have developed strongly in 2012 with the establishment of our post RDR offering. And the implementation of workplace pensions. This is a real growth focus.

Protection. This graph illustrates the phenomenal growth in the SOCA business in both the UK and the US over the decade.

In the UK, John Pollock, as well as being our social purpose champion, has just done an outstanding job in building this business. This is my point about scale begetting scale. And about being well positioned to deliver growth across the economic cycle as a result of the gradual retreat of welfare, or the welfare state, as the governments increasingly run short of money.

We're already UK market leaders across individual and group protection. And are number four, number five position in the US already. Future growth will come in the UK from building on the synergies with our mortgage business. We are the biggest player in the intermediated mortgage market in the UK, with a market share of 25%.

Growth will also come through greater digital engagement, building on the success of our online protection system. We see further opportunities to roll out our products and deploy our expertise in Europe now that we've brought our European subsidiaries closer to the UK, under John Pollock's leadership.

Group Protection in France will be an example of a market where we see potential. Jimmy Atkins. And our colleagues in America, will continue to push for growth there. After several transactions, we now have a capital structure which means we can fund US growth more efficiently. And some fallen angel competitors are retrenching in the US.

And we will evaluate expansion into new territories, where we believe our product skills are resonant. And where markets are attractive. Bolt-on acquisitions may, again, play an accelerated growth theme here.

Direct investments are a clear strategic response to the low interest rate environment. The reduction of bank lending and increasing requirements for infrastructure investments has created opportunity for investments with a very attractive risk adjusted yield. We've already invested GBP1.2 billion in physical assets. And we intend to do more.

Legal & General has no burning platforms, as a result of having to live with the consequences of early decisions to engage in markets which turned out to be problematic. Sometimes, what you choose not to do matters as much as what you choose to do. So we've consciously avoided US variable annuities and European long-term guaranteed products.

Buying pension back books is an area, again, that we believe is best avoided. System integration is often so tricky that one plus one equals much less than two.

We've also looked at equity release. At one level, this is a very obvious area for growth. A disproportionate amount of wealth is tied up in property in the UK. And some of this will have to be liberated to fund an aging population. But in its current form, the history of the product and its reputation points to customer reluctance. And there is a regulatory uncertainty, with the capital requirement for equity release likely to be treated in a penal way under Solvency II, or ICA Plus.

We've also been closely involved with Andrew Dilnot's project to develop funding solutions for long-term care. The cap is a very important step forward. And we welcome the development thinking. But so far, we've avoided entering the market pending much greater clarity.

This is a confessional slide. This is where we could be bigger, or where there's some catching up to do. As you can see on the right-hand side, 2013 has a number of actions to grow in some obvious areas, which are adjacent to our existing businesses; private wealth products, such as ETF; international passive equity funds; and, indeed, enhanced annuities.

Our response to regulatory change and technology drive the other items. The advice gap left by RDR. And the engagement of hundreds of thousands of new customers through auto-enrollment, mean that our advice network through building societies and digitally will get more emphasis. Part of this will be about platforms, including those used by high net worth customers. And this is an area where accelerated growth could also involve bolt-on acquisitions.

Discipline is also a theme running through our approach to investment. Algor scenario analysis. And the skill, indeed, of my LGIM colleagues, means that we are far from being passive, or just responding to an unfolding event.

We anticipate, we have tailored mandates. And we manage risk very tightly. We aim to have a balance sheet which, if not completely bomb proof, has a very low sensitivity to market development. Our own capital resource, therefore, is very secure and the assets backing the annuity book closely matched. And of high quality.

We have again increased the credit default reserve against the annuity book to GBP1.7 billion. Defaults last year were GBP0.6 million; and, indeed, over the last four years have totaled GBP1.6 million. This is essentially unused since 2008. And we've also reduced the portfolio sensitivity to interest rates. Our capital is strong. And our capital management is very disciplined.

After the latest delays, we now believe Solvency II is unlikely to be implemented before 2017. The delay, the uncertainty. And the cost is, of course, regrettable. But our internal model application was submitted on time and on budget in November.

Effective capital management has enabled us to grow in the United States. Our transactions to date have untrapped $735 million of capital for redeployment into the business. And for dividend up to the Group.

And this is not the end of the process. We will evaluate the effectiveness of our use of capital in our smaller businesses, general insurance, France, Holland. And with our economic capital model now up and running, we can more broadly optimize capital deployment across the L&G Group.

Efficient and effective use of capital is, of course, just one part, although one important part, of our ability to execute on major projects. We're good at this already. The results of 2012 show that auto-enrollment, RDR. And indeed Solvency II, have all been executed well; and this will remain important, both financially and operationally, as we roll out our digital projects across different parts of the business.

This is an overview of today's results. I'd now like to hand over to Wadham Downing, who will walk you through the numbers in more detail.

Wadham has just done a fantastic job as interim CFO, which has given him a very broad and deep exposure to all parts of our Company. This will stand him in good stead as he takes up his new responsibility as Head of Strategy and M&A across the Group.

As well as talking you through the financials, he will be expanding on this theme of excellent delivery; as will Mark Zinkula, who will give you more detailed insight into how he is leading the growth of outstanding LGIM franchise. Wadham?

Wadham Downing {BIO 17627522 <GO>}

Thanks, Nigel. Good morning, everyone. These results demonstrate that we can grow. Growth and progress stand out in almost every line of today's numbers; growth in sales, profits. And cash, in earnings per share. And dividends, in the UK. And internationally. And across all our business divisions. I said at the half year, simply put, we're doing what we said we would do.

I want to emphasize four points today. First, these results demonstrate yet another year of progress; second, we've had an exceptional year of delivery, this gives us confidence that high quality effective execution will continue to power growth; third, we've had a strong balance sheet with low volatility; and fourth, we're in a position to grow, at the same time as delivering strong dividend growth to our shareholders.

Let me now turn to the numbers, starting with our strong results and strong progress. At the top is earnings per share. This is a key metric for us; up 12% to 13.9p. Operating profit continues to be strong. And GBP1,087 million has all our business divisions up on the prior year.

At the divisional level, operating profit is up by 5%, from GBP1,058 million to GBP1,115 million. Underlying our resilience business performance in the period with overall small variances, IFRS profit before tax, at GBP1,036 million, is up 9%.

Operational cash and net cash generation remains substantial. Our focus on cash generation continues. Net cash, at GBP865 million, was up on 2011. If we drill down to the business units, this was up by 5% in aggregate; diversified. And of high quality.

Return on equity is equally impressive; 15.5%, versus 14.9% last year. We continue to maintain a strong balance sheet. Shareholder assets now stand at over GBP6.5 billion; up from GBP4.2 billion at the beginning of 2010.

IGD surplus is now GBP4.1 billion; a healthy coverage ratio of 234%. For 2012, our double-digit sales growth broke records, both at stock of business on our books. And the flow continues to grow.

In asset management, our continued progress is winning international mandates is demonstrated by the good net flows of GBP7.1 billion, versus GBP3 billion a year ago. And LGIM has reached new record for AUM, at GBP406 billion.

In our life businesses, our quality franchises continue to demonstrate market leadership, helping to drive up sales 15% at GBP2.1 billion APE. And the stock is also up, both in the UK and the US.

So a strong set of results. And in the areas we highlighted when we met at the half year. To show you our growth strategy, this next slide brings to life our strategic growth themes, using examples from some of our 2012 successes.

The themes set out on the left are the parts of accelerated evolutions Nigel has previous spoken about. But what you see here is evidence of our execution excellence.

The international expansion of LGIM, you see the sharp uptick in international net flows; and international AUM growing by one; third, with a very high quality international client base. Our GBP43 billion international AUM would be a respectively sized fund management operation in its own right. But for us it's really only a start.

Retirement solutions, you can see landmark transactions in the corporate space. And individual annuity sales growing by over one-quarter.

Individual protection grew sharply on both sides of the Atlantic, while UK Group Protection grew by over 50%.

The success of Group Protection, our 52% growth compared with market growth of 28%, reflects innovative product approaches in rehabilitation and in tailored products for public sector employers, as well as the effective deployment of technology.

Skill in the executing and effective delivering of complex programs underpins our success in the digital space, too, with IPS platform sales up 34%. This will be increasingly important in the context of the post RDR environment, where we now have access to over 20 million potential customers through our expanded set of building society relationships.

Direct investment is about the efficient deployment of assets, particularly the assets back in the annuity book. Here, again, we are executing well, investing in quality physical assets against the backdrop of low gilt yields with tightening credit spreads.

All of these growth themes, well executed, will continue to drive profit, ROE. And cash generation.

And now we move to this important area of focus. Cash generation showed strong progress in 2012. This is a new variance on our last cash slide, comparing against guidance and, importantly, the dividend cash flow for the Group.

In the middle block for 2012, we start with operational cash from our stock of UK businesses. Annuities, GBP243 million; UK Protection, GBP240 million; and insured savings, GBP108 million; together, up 6% to GBP591 million.

If we then add our other line items, with-profits and international dividends, get to a subtotal of GBP697 million.

If we had our IFRS businesses, you get to an operating divisional cash generation number of GBP938 million. And total operational cash at GBP958 million.

As a strain on the covered business, the net cash totals are GBP845 million from operating divisions, up 5%; and a substantial total net cash of GBP865 million.

Last March, we gave you 2012 guidance for certain line items, in-force cash generation, with-profits. And international dividends, totaling GBP695 million. As you can see, we came in marginally ahead at GBP697 million. This continues to prove the strong predictability of our cash generation.

Based on the growth we've seen in 2012, our guidance at this level for 2013, GBP735 million, is up GBP38 million, or 6%.

On the right-hand side, we also have the dividends coming up to Group and, at GBP754 million, represents an 89% coverage of net cash; up from 87% last year. Again, demonstrating the effectiveness of our model, turning to cash to profit, to dividend.

This is a useful slide. It brings all our numbers together; cash, profit, earnings. And dividends. Operational cash generation, you'll recognize the GBP958 million broken down by operating division; similarly, for the GBP865 million of net cash.

At the bottom of that column you'll see the net cash per share of 14.8p. And dividend per share at 7.65p. You will note the coverage ratio, at 1.91 times, is below the 2 times level.

Building on the predictability theme, the next two columns, experience variances and assumption changes, a net negative GBP25 million and positive GBP18 million, respectively. Few surprises for a business of this size.

Finally, IFRS profit after tax of GBP801 million. And EPS of 13.9p; with the final column grossed up to GBP1,036 million.

From this solid base, let's move into some detail to show the strong progress made by each division. And how execution is powering growth, starting with asset management.

LGIM continues to grow, with revenues up 7% to GBP446 million; and operating profit up GBP243 million, with net cash nearly GBP200 million.

Floating assets under management were GBP406 billion, with record growth inflows of GBP34.2 billion. And net flows of 137% to GBP7.1 billion.

International expansion is the theme; record international net flows of GBP7.8 billion; international assets up to GBP43 billion.

As I mentioned at the half year, there is an investment cost to international expansion but at 46%, versus 44% a year ago, the cost-to-income ratio remains best in class. Mark will give us some more detail behind LGIM's success, in a few minutes.

Annuities has had another year of impressive growth. As the book grows, operational cash generation grows; up 7%. New business surplus was GBP21 million lower. But still positive. Otherwise, net cash and operating profits are robust numbers. We achieved record sales in individual annuities, at GBP132 million APE.

Bulk annuities is a lumpy market. Although we wrote the largest transaction in 2012, Tate & Lyle, 2011 included the Turner & Newell scheme, which made it a tough comparator. Overall, in excess of GBP2.3 billion of new business annuity premiums in the year.

The graphs on the right demonstrate the potential for annuity growth in the UK; at the top showing our consistent growth; and on the bottom the future potential growth of the annuity market, as more DC pensioners in the UK reach retirement.

That's the numbers; now about execution. Let me show you how we will build on the successes of 2012.

In individual annuities, we stand to benefit from the growing number of maturing DC pensions. As over 75% of our annuities are sourced from external customers, we see the OFC's market review as a positive.

And let's not forget our early 2013 success. We've completed the largest UK longevity insurance deal ever, covering GBP3.2 billion of liabilities, with 31,000 pensions, the BAE Systems DV pension plan.

Meanwhile, as we develop retirement solutions, we're also stepping up into the funding gap; developing investment strategies to gain higher risk adjusted returns to fund our liabilities, including infrastructure and direct investments, which now amounts to GBP1.2 billion.

The next area where we'll see a step-up into another gap is Protection. Protection, both in the UK and the US, had a bumpy year in 2012. All the numbers on this slide go in the right direction.

In the UK, operating profit is up 14% to GBP359 million; and net cash up 15% to GBP234 million. The scale and cost benefits we see coming through reduce strain.

Worldwide GWP protection products now total GBP2.1 billion; up from GBP1.7 billion in 2008, with the potential to grow further.

You remember, from the half year, that the US Protection business is a sizeable business in its own right. And it continues to grow with APE up 28%. And double-digit margins.

The graph on the bottom-right shows why the US is continuously seen as an extremely efficient operator, with unit costs falling by 30%. We believe this execution in 2012 gives us an excellent springboard for future growth.

The market will help, as Nigel said. There is a gradual transfer of responsibility back from the State to the individual. Welfare reform puts protection at the heart of that process. As a leading protection provider, with highly efficient operations and low unit costs, both in the US and the UK, we're competitive and offer great value to our customers.

The graph on the bottom-left shows where our competitive advantage in the UK has enabled us to strongly outperform the market.

In the US, we see clear opportunities to grow. Some of our competitors are entrenched in their brokerage relationships in making our capital usage more efficient in the US, a further GBP375 million of capital this year, we're able to finance growth more effectively.

LGA is now fifth in the US; up from 11th three years ago. And you can see our 2013 plans on the bottom-right (inaudible).

Now, onto Savings. Our Savings division, again seen a strong performance; sales, cash. And profit all up. Operating profit in Savings improved by 6% to GBP133 million.

Cash generation is up 5% to GBP117 million; a business that actually consumed GBP23 million of cash in 2008.

Our workplace savings business has had an outstanding year, which has contributed to driving Savings sales up to GBP1.5 billion APE, up 15%; and the stock of business growing too, with GBP70 billion in assets under administration.

On flows, as you may recall from the half year, the GBP2.2 billion of net redemptions come from our maturing with-profits book. Outside with-profits, our net inflows were a positive GBP1.6 billion.

We've transformed Savings since 2008. And the graph top-right shows the move to what we call our growth products; simple, capital-light propositions, collective workplace and platforms.

We plan a Savings Investor Day in May to tell you more about Savings business and our growth products. And a more to more asset management style fee earning; I hope you can join us for that.

The growth products and platform strategy leads me straight into our digital theme. Given the theme of execution excellence, I'd particularly like to emphasize the success of platform, workplace and RDR.

In 2012 alone, we won another 107 partnerships as provider for companies for workplace pensions. We have passed the 500,000 mark for auto-enrollees. And so far opt-out rates have been less than 10%. Assets on work saves are up nearly 60% at GBP6 billion; and IPS, with sales up 34%, has now assets of GBP8.6 billion. These digital businesses are approaching the scale to making meaningful contributions to Savings profit.

Our digital strategy is at the heart of Savings growth. But other businesses across the Group are using digital to drive out efficiencies and access to customers.

In Protection, following on from our successful online retail protection offerings, now employers can buy online too. You can even play our Protection game from the App Store.

I've covered many of the growth areas and P&L items, now let me turn to the balance sheet. As you can see, top-left, our IGD surplus is GBP4.1 billion, after accruing for the payment of the full-year dividend.

The Group's capital resources total GBP7.2 billion. And covers the capital resource requirement of GBP3.1 billion by 234%, which speaks for itself.

Graphs on the right demonstrate the low volatility of this surplus-to-equity downturn, interest rates. And credit spreads.

The capital buffer is, of course, in addition to the GBP1.7 billion of LGPL credit default provision.

This capital strength gives us options to fund our growth. And to grow dividends to shareholders. Potential bolt-on acquisitions sit alongside our iconic growth plans, broadening our capability, or geographic expansion, or both, as we see fit.

The plan is to accelerate our growth through careful and disciplined use of bolt-on acquisitions. Acquisitions will, of course, be filtered through our growth theme; international expansion of LGIM, retirement solutions, international protections, digital. And direct investments.

In the nine months that I've been CFO, I've been an enthusiastic advocate of this new phase of our development; even more so now that I have responsibilities for my new role as M&A Director for the Group.

In summary, a strong set of financial results, which demonstrates another year of progress, driven by an exceptional year of delivery, allows us to further improve our returns to shareholders.

The robust health of our business, strong balance sheet gives us options for future growth. And, as always, our focus will be to continue to deliver value. Now over to Mark to give you an update on LGIM's success story so far.

Mark Zinkula {BIO 16142450 <GO>}

Thank you, Wadham. I'd like to start with a slide that shows our key metrics over the past five years, since this helps illustrate the growth and direction of our business.

You can see that during a very volatile environment we've delivered consistent results, which demonstrates the robustness of our business model. During this period, we experienced steadily increasing profits; we've had strong new business flows every year, with record gross inflows in 2012.

It's also worth noting that we've had outstanding persistency of client retention, with 2012 at a five-year high.

The net result of these two factors is the increase in net new business last year to over GBP7 billion.

We've consistently had a cost-to-income ratio below 50%, among the lowest in the industry. And we've managed to maintain this over the past few years, even as we've increased investment in our business.

This slide also illustrates how our business model is evolving. Non-index assets had nearly doubled over this period; international assets have had tremendous growth. And this trend is gaining momentum, for both passive and active strategies; and defined contribution assets have been growing at a healthy rate. We expect these trends to persist as we continue to execute on our strategy, which I'll discuss in more detail on the next few slides.

This slide shows how we're successfully implementing our strategy to provide de-risking solutions for defined benefit market as demand for these strategies continue.

These solutions involve a range of strategies designed to better control the risk to defined benefits schemes' funding levels through time. And our success is demonstrated by our growth in liability driven investment, or LDI. And active fixed income assets.

In addition to the GBP2-plus-billion of net inflows into each of these areas in 2012, we also experienced a significant increase in transfers out of passive management into active fixed income and LDI last year as our clients implemented de-risking strategies.

We have been more successful in retaining assets due to enhancements we made to our client service framework. And the broader range of strategies that we've made available to our clients.

Despite the low rate environment, we're seeing continued demand for de-risking solutions as many plans are hedging at least some degree of interest rate exposure at these levels.

I should also emphasize that LDI is a broader risk management framework and involves hedging other risks, such as inflation and equity exposures, which leads to continued growth of our LDI business.

We're continuing to develop our range of solutions. And have enhanced our pooled delivery for smaller clients, which we're in the process of rolling out. And we're expanding our range of fixed income strategies to meet client demand.

Finally, we're working increasingly closely with the Annuities division as our clients consider buy-out, buy-in, or longevity insurance options.

We're also experiencing good growth in defined contribution assets, although it's still relatively early days in this market. As the defined benefit market matures. And the defined contribution market expands, it's important that we establish a strong presence in this area.

We're giving a lot of focus to our product offering and distribution strategy for the DC market. We've taken several steps over the past year to improve our competitive position in this market. We launched several multi-asset funds. And have improved our pre-retirement funds. We also enhanced our distribution focus and are now in most of the platforms. We're working in close cooperation with the workplace savings division. And will benefit from their continued success.

LGIM has received the vast majority of flows thus far. And we anticipate that we're likely to receive a large proportion of the flows from this platform over time.

In 2013, we're focusing on expanding our penetration in the platform market, further developing our range of products. And continuing to strengthen our distribution.

Finally, the growth of our international business continues to accelerate. As mentioned earlier, we experienced strong net inflows in 2012, especially in the US and the Gulf.

Our international strategy is very focused. We've been targeting specific institutional markets. And leading with our core capabilities.

In the US, we're very well placed to capitalize on the de-risking trend in the market due to our growing reputation as a thought leader in LDI. And the strength of our fixed income team.

We entered the market with a differentiated strategy, providing a solutions-based approach to managing assets. And the team in the US is doing a fantastic job executing the strategy. We've only been in the market a short time. And already have 39 clients as of year end, which includes several of the largest pension plans in the country.

Given our excellent track record in all of our key fixed income deposits. And our strong product offering, we expect the positive momentum to continue. We're also in the process of expanding our product set to include passive funds.

In Europe, we are experiencing increasing success in raising index, active fixed income. And property assets from pension fund. And we're looking at expanding our distribution strategy to the private wealth space, which will also involve expanding a range of product vehicles.

We entered the Gulf a couple years ago. And we're making very good progress in establishing relationships with large finds in that region. Most demand, thus far, has been for our index funds. But we're seeing growing interest in some of our active strategies. Our client base is expanding, where we're experiencing additional flows from existing clients.

Finally, we're just starting to build a presence in Asia, again focusing on the institutional market. We were awarded our first mandate in the region last year, a global credit mandate. And we're taking steps to build out a full service operation in the region over the next few years.

We're at a very early stage in building out our international business. But we're off to an excellent start. I'll now turn it back over to Nigel.

Nigel Wilson {BIO 1535703 <GO>}

Thanks, Wadham; and thanks, Mark. We'll need these excellent execution skills and accelerating pace across the business to take full advantage of the macro trends that I outlined at the beginning of this presentation.

Returning to the theme of growth drivers. And their implications for L&G's future, here you see the very stark evidence of ageing population in Asia, in Europe. And indeed in North

America, with Africa being the only exception.

The baby-boomers are now reaching retirement age. And are simultaneously the biggest generation ever. And the first generation to reach this stage yet not be poor. Legal & General is squarely positioned to benefit.

The implications of ageing populations and rising longevity are not just limited to the current generation that is at or reaching retirement. They include further pressure on future government expenditure, with the corresponding need for individuals to save more for themselves. This is what's driving auto-enrolment. And will drive it further yet.

It also drives much more pension de-risking for corporates, who seek to immunize themselves from longevity risk. This includes longevity insurance, LDI, BPA, greater numbers of DC servers entering the annuity market.

It doesn't really matter to us if they're putting off retirement until later. It has to happen at some point.

Ageing population put a premium on those companies, like L&G, which really understand longevity risk and have the capacity to manage it. This is where scale and big data count; in pricing, for example, longevity insurance. And where operational excellence and scale count in efficiency, executing, for example, the administration and payment of millions of pensions.

I've spoken about our resilience through tough economic times. And our ability to outperform the economic trend growth rate across the cycles. This slide shows why the current. And likely future, economic environment in the UK. And indeed in other developed Western European countries, support this thesis.

Fiscal austerity, caused by strained government finances, works to our advantage. It forces efficiencies in welfare spending. And greater reliance on personal saving and protection, as the State cannot step in with acceptable level of welfare benefits when things go wrong for individuals.

The obvious result will be greater risk sharing. This is happening already with auto-enrolment; Group income protection in the private. And indeed the public, sectors; and, as we've seen, the first step towards private sector care funding, with government assuming some long tail risk.

Regulatory austerity. And the consequent funding austerities shrinking bank balance sheets, create investment opportunities for us. We borrow long. And we can lend long. We can. And already do, invest in infrastructure, invest in equity. And make direct investment; all yielding attractive risk-adjusted returns. And backed with physical assets.

This trend will grow as governments increasingly recognize the need to fund growth through capital expenditure. And have to turn to the obvious sources of capital; the insurance and the fund management sectors.

Let's look at one of the practical aspects of the triangle of austerity, housing. And why the current environment creates the opportunity for more direct investment.

We know the UK has a desperate need for more housing stock. The top graph shows the decline in new building, from almost 450 (sic; see slide 38 "450,000") houses per year in the late 1960s to fewer than 150,000 today. The lower graph shows gross mortgage lending over the same period; from almost nil to GBP350 billion at the 2007 peak.

The imbalance of supply and demand makes it very clear why housing is now unaffordable. But where does Legal & General enter this equation? First, as a mortgage intermediary. You can see our rising share of the market, now at almost 15% of gross lending. And 25% of intermediate lending.

Then there's the potential for direct investment. We've always built some housing. And we plan to build more. We own large strategic land banks, assembled many years ago, with a capacity for the development of thousands of houses. We have the capacity to finance this, whether for purchase via our mortgage club, or for rent.

Frustratingly, we face planning constraints. But the demand for greater house building as a driver of economic growth is such that development of the mid-term is much more likely. Facilitating the building of more houses is one of the most effective supply side steps the government could take to drive growth.

The ability to finance house building and house purchase has parallels in other areas; transport, energy, health. And education are four obvious areas. We've already started in education; energy and health will follow.

There is a clear urgent demand for infrastructure investment to drive economic growth. We can supply long-term finance for this.

We have the capability and ambition to help get Britain building, without tax-based subsidies or government guarantees. But what we need now is policy clarity, political will. And a growth ambition from the government.

I'd like to finish with the share price and dividend performance. You can see the progression in both since 2008. 2012's total shareholder return was 50.4%. Three-year TSR was 112%.

The 20% dividend growth we've announced today is a further step in our journey. The aim here is to ensure that we can combine dividend progression, your estimates are there on this slide. And earnings growth by judicious investment in the business and excellent delivery of a strategy which is aligned with. And driven by, a series of important and unstoppable macro trend.

Thank you, very much for listening. This is a great set of results delivered by my Legal & General colleagues. And I personally thank them for their contribution towards another positive step in our evolving story.

I'd now like to open up for questions.

Questions And Answers

A - Nigel Wilson {BIO 1535703 <GO>}

We're taking questions both from e-mail, from the Internet. And over the 'phone. I'm just going to read one out from Oliver Steel, who couldn't be here today. But -- and then I'll -- if people put their hands up, the microphones will appear in due course. And we'll just work our way around the room.

The first question is in the past, this is to John Pollock, John, you've mentioned that GBP2.5 billion is your capacity for annuity sales. Is there any scope for annuity sales to grow above and beyond this, or is it in fact capped?

A - John Pollock {BIO 6037447 <GO>}

Morning, everybody. Capacity is probably not quite the right interpretation of what we've said in the past. We don't really constrain ourselves by volume; we constrain ourselves by whether we're earning the right returns.

As Nigel has said, we see macroeconomic drivers that mean the need for this kind of insurance for individuals. And certainly for corporate, is continued to be there. There's high latent demand for this so I see no reason why we can't continue to grow this business.

The GBP2.5 billion was never really a constraint. So you shouldn't think about it in that -- it was more a guidance as to the levels we were writing. So I see no reason why we can't continue to grow this.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, RBC. A couple of questions. Aegon released some of its corporate bond default provision in the UK a couple of weeks ago. It was only a small release. But interesting in that the FSA was agreeable to that. Now your provision has increased, as you've said, as the annuity book has grown. Can you talk a bit about your ability to release that provision? What would the FSA's view be? Should we think of this as like a slush fund in that you're not releasing it because results are good. And maybe at some point when results are not so good it can release that?

Second question is, you talk about the OFT review into annuities and how you see this panning out. Now if more customers get forced into the open market, there is a huge lack of supply in the external market., you'll probably get more volume. And you'll probably get quite a bit more volume based on the lack of supply in the external market. Do you want all that volume? Or will you end up increasing your price?

And if you increase your price it's going to be bad for the customer. And that can't be what the FSA and the government want. So what would happen in that scenario?

A - Nigel Wilson {BIO 1535703 <GO>}

Two very good questions there. I'll take the first one on defaults. And I'll pass the next one to John, who, I can see, is ready to burst on that one.

I think the credit defaults are very prudent. We have a mechanistic formula that we use for calculating those, which goes through our various committees.

We recognize that GBP1.7 billion is a huge default provision this time it's come to us. We don't think of it as a slush fund. It's really a mechanistic calculation that's done by our colleagues. And it pops out at the end of -- each month as we grow the business. In fact, we grew the business last year and so the default provision automatically grew in line with the business. But we definitely don't look upon it as a slush fund. John, do you want to pick up the second?

A - John Pollock {BIO 6037447 <GO>}

It's a kind of subset of the first question actually, Gordon. We stand foursquare behind the ABI code of conduct and we're I think, in fact I hope, part of starting this argument. We stand behind our customers, which in the long term is the only way businesses can ultimately be successful.

So in terms of -- I'm not quite sure of the words you used, Gordon. But it's not likely that we will be doing anything that would damage our reputation in this market.

We don't feel constrained. And I think for a product like an annuity, where you only get one shop to buy it in your life time, doing the right thing by customers is always going to be the right place.

75% of our business flows come from the external markets. And that may or may not change post implementation of any changes. But we will still be very active in the market and, I hope, still a very leading player, delivering the right things to customers. We see this as a very positive development for the industry, for customers. And for Legal & General.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, BofA Merrill. Three questions, please. The trajectory of the dividend cover has come down from 2.3 times to 1.9 times. Given the strength of the balance sheet and predictability of your cash, could you talk a little bit about where you see that going in the medium term?

The second question is on LGIM and the cost line, looking at the cost line. Could you give a little bit more color on that in terms of the split of business as usual spend and investment spend that might lead to the distribution expansion, higher revenues, etc.. And, if possible, give a cost-to-income for the UK and overseas?

And thirdly, just on the strength of the balance sheet, what do you think your organic fire power for bolt-on acquisitions is? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

I'll talk a little bit about the first one, then pass that onto Wadham; if, Mark, you pick up the second question on LGIM; and, Wadham, do you want to pick up the third one on our capacity to do bolt-on acquisitions.

I think, in general, what I've always found quite interesting about this industry is we should have a very high capacity to pay very sustainable and certain dividends. If you look over the last 10 years, or beyond that, we've had a very spotty record, including ourselves, in terms of it.

So there's almost like a dividend pot in the share price because so many other companies, including ourselves, including the Pru. And various others have cut their dividend; hence, a number of you put out notes this morning where you were projecting yields of 5%, 5.5% for next year. And very high dividend progression over a number of years. That's never going to be reflected in the value until there's (inaudible) huge premiums of the SMT and the FTSE, who were at 2% and 3% average dividend yield, until there's a great certainty of conviction about the certainty of the cash flow. And the certainty of the dividend going forward.

The 2 times cover that we've used in the past as a guidance that we were getting towards was really just that; a bit like John's GBP2.5 billion. But just to give people a flavor for what sort of numbers we're likely to outturn. But there's no constraints under John, just a risk-based economic capital decision, as to how much annuity business that we ride.

Similarly, for the dividend, we'll bring the cover down as we drive net cash and earnings up going forward so that our shareholders can see multiple sources of dividend growth, both from earnings. And net cash. But also from the cover unwind. Mark, do you want to pick up LGIM?

A - Mark Zinkula {BIO 16142450 <GO>}

Yes, in regards to our cost line, we have our margin businesses, we have scaled businesses in LGIM, passive in LDI in particular, where there's kind of a natural Algor, if you will. But there's forums in each market. And we've been able to maintain different pricing. And ultimately have margins that we target, at around 50%.

So we've been exceeding that less over the years. Certainly, most of our costs are categorized them as business-as-usual costs. And as we invest in the business, we're doing it on a rolling basis. So heavy investment in the US, that's not clearly profitable.

Expanding in the Gulf, in Europe, the investment wasn't as expensive because we're managing those assets and largely servicing those accounts out of LGIM.

But Asia is going to be a relatively substantial investment. But still we're looking at low single-digit percentage of revenues of our cost base.

Also, we'll be investing, over the next few years, a bit more heavily in our infrastructure. So to have a global operating model and upgrade some of our systems. But, again, the incremental cost would be relatively low compared to the business-as-usual cost. So it would be, again, low single-digit percentage increases.

A - Wadham Downing {BIO 17627522 <GO>}

Third one was on M&A. So in terms of where we're thinking of M&A, we're thinking of our M&A as an alternative use of our -- of capital. So we've got returning -- growing shareholder returns, we've got organic growth. And we've got acquisitions.

All our acquisitions will be filtered through the growth theme. So we're taking to the growth theme today our five growth themes and, again, all of those will be used as filters for M&A, as much as they are for organic growth.

We talked about broadening capability, whether that's capability we haven't got, or in geographically, or both.

In terms of magnitude, bolt-on acquisitions we're seeing as up to 5%, 10% of market cap. So that's the sort of mindset we're in, in terms of private transactions.

Q - Blair Stewart {BIO 4191309 <GO>}

For asset management, I think the bottom line growth was lower than the top line growth this year because of the spend. Would you expect that to persist in 2013? Or will we see the opposite, which is normally the case?

A - Mark Zinkula {BIO 16142450 <GO>}

I think we would be largely in line with this past year. Again, we're continuing the invest in the business on a rolling basis. And I can't -- I won't predict, I guess, what kind of flows we expect to see from the Gulf, for example, or how big the US business will grow. Those are the two variables that could provide an offset and consistency in the top line and bottom line.

A - Nigel Wilson {BIO 1535703 <GO>}

I think you're going to see a number of years where we will be investing more in LGIM to accelerate its growth. But we've managed to keep the cost-to-income ratio to (inaudible) below 50%, which is terrific.

We would like to accelerate the speed at which we're growing. We've given ourselves more options to grow with the -- I know when I was over in the Chicago office, an office which likes to celebrate its success a bit more than my colleagues here in England -- there's one or two colleagues from America who are going to join the office over here. I hope they bring with them that cultural of celebration.

But certainly they -- there's a great optimism about the scale that we could bring in all of our international markets as we bed it down. But we've got to invest; we're so committed to that. We see great inbound calls from customers, which we're having to spend.

Both Mark and I were the Gulf in the last two or three weeks. And got a fantastic reception. Mark went first, to make sure it was -- I can have an even more successful when I went down, about 10 days later. But again, there's just very willing customers, happy to engage with us. And I'm very optimistic about our opportunities in Asia.

A - Mark Zinkula {BIO 16142450 <GO>}

If I could just follow on, real quickly, the way you have to think about, we're investing in some of these new areas. And we're having real big success. And how rapid.

So, clearly, the US is growing an accelerated pace; the same thing is happening in the Gulf. We're getting increasing traction in institutional market in Europe. But it's such early days that I really can't -- I don't want to give any kind of guidance, or predict the trajectory of that growth.

So, yes, we're pretty optimistic. But we're going to continue to invest as we venture into the private wealth space. And venture into Asia. And the timing of year over year of the top line versus the incremental spend, I'd rather not give guidance on that.

Q - Ed Houghton {BIO 17612475 <GO>}

Ed Houghton, Bernstein. I have two questions for Mark. Firstly, I'm interested in the relative profitability of your different product types within LGIM. Can you give a sense of that? How profitable is LDI, for example?

And secondly, you mentioned earlier that a high proportion of your DC assets on platform are invested in LGIM funds. Can you give a sense of how large that proportion is. And by how much you expect that to grow?

A - Nigel Wilson {BIO 1535703 <GO>}

On the second question, do you just -- yes, if Mark picks up the broader platform strategy because it's very much an open architecture type of platform strategy. So, Mark, you pick up the first question, which might not be much of an answer (multiple speakers).

A - Mark Zinkula {BIO 16142450 <GO>}

But we do target, basically, 50% margin plus in all our businesses so -- on a run rate basis. Obviously, when we're investing in a new region, or new area, it's going to take a while to be profitable. But on a mandate by mandate pricing basis, we're very disciplined. So -- but we don't disclose it by product line or geographic region for competitive purposes.

A - Wadham Downing {BIO 17627522 <GO>}

Just on that question around what proportion of our workplace pensions assets are going into LGIM funds, actually, it is a very high proportion currently, actually just guidance around 90% so far has gone into LGIM funds.

As Nigel says, we do market an open architecture proposition. That's very much part of the -- our sales pitch. But at its core, we've got an excellent management group behind us so we understand what kind of funds -- particularly in the default kind of space.

We do -- obviously, you've got (inaudible). A lot of people going into the default funds. We've spent a lot of time making sure we get the best value, best risk-adjusted returns, building on multi-asset passive fund capabilities. So we are very well placed to make sure that LGIM is a recipient of that.

But this stuff is broadly broked by employee benefits, because obviously it's not like we've just pushed them into LGIM funds. They are -- the EBC is there to offer that investment advice. We have to make sure that our proposition -- the LGIM proposition is the strongest one out there.

But at this stage, we are seeing very large flows into LGIM. I wouldn't necessarily say it's going to be a trend going forward, at quite that level. But we would expect the majority of assets to go across into LGIM funds, going forward, as well.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. Three questions, if I could. The first one is on the bolt-on M&A, obviously mentioned quite a lot. Is there any metrics around the bolt-on M&A in terms of targets for return on cash, etc? Because it sounds like you're focusing on growth businesses. So they could basically be quite high PE.

And the obvious question is, co-funds, you're doing an Investor Day on May about the Savings business. You're talking about bolt-on M&A. Are you hoping to resolve that one by May?

And the other questions are, effectively, on the Annuities side we can all see that credit spreads are very narrow now. That has an impact on cash generation, I guess. How do you address that from the back book? And, indeed, are you expecting more new business to compensate for that?

And third question on Protection. Presumably, the tax changes on Protection in the UK impact the new business strain, does that impact your cash generation as well? So with those two headwinds that are going on, how do you get the growing cash generation from the UK?

A - John Pollock {BIO 6037447 <GO>}

Sorry, I didn't catch the first of that.

Q - Andy Hughes {BIO 15036395 <GO>}

The tax changes on UK Protection, presumably that impacts new business strain. Therefore, what I'm saying is, given those two what seem like pretty big headwinds, you've got a forecast for growing cash generation for the risk business?

A - Nigel Wilson {BIO 1535703 <GO>}

You're a man who always sees headwinds that we don't see, Andy. But, actually, we'll have a go to try and convince you they're not headwinds. I counted four questions there. But I will answer all four questions.

The bolt-on acquisitions, we certainly have targets. And Mr. Downing has those targets. He's absolutely told me I can't tell anybody what those targets are until we've done a bit of delivery.

And the Investor Day in May, I don't -- if you pick up the second question on the Investor Day. And core funds. If just, Paul, do you want to pick up the cash generation one. And just explain why that's not true. And the fourth one, John, will you pick up the Protection question?

A - Wadham Downing {BIO 17627522 <GO>}

Yes, just on the co-funds and the Savings Investor Day question, clearly, Andy, yet again I'm going to say we don't comment on market speculation. And that remains our watchword.

What we will do, though, when we have the Investor Day is explain more broadly what is going on in the Savings space and how we're looking to take advantage of that. We will be revealing a new set of metrics, the way we think about the Savings business; again, I think to perhaps help the investor community understand how the dynamics of that business work. And we will see digital platforms playing quite a big part of that wider story for the Savings business.

A - Nigel Wilson {BIO 1535703 <GO>}

Just on the Investor Day, Andrea Blance has taken over as CFO and has instantly developed a whole series of new metrics. And that's part of the reason we'll to be holding the Investor Day.

And part of what we're certainly hoping when we have Investor Day is that we'll have some positive news to tell you. We're not holding these Investor Days simply to educate you about what's going on in the business. So there's definite focus on M&A in the business. Paul, do you want to talk a little bit about --?

Again, quite a few people have bigger roles. And different roles since last time you've seen them. So Paul has now got a bigger role across the Group. But no more extra money, by the way.

A - Paul Stanworth {BIO 15495409 <GO>}

No, I think the issue about cash flow is that the annuity book really doesn't have a lot reinvestment risk. We manage the -- effectively the present value of the spread to be constant over the lifetime of the annuities and so anything that we might do in terms of management actions will incrementally improve, if you like, the guaranteed return.

So we are immunized in terms of cash flow to spread changes because we don't have a reinvestment risk that generates the cash flow itself. We can lock in the cash flows and they'll run off, basically as expected.

A - Nigel Wilson {BIO 1535703 <GO>}

If you want that further elaborating afterwards, that's fine. Andy, it is -- there's some conceptual stuff around this, which is actually quite difficult. At some point, we should -- we maybe will have an Investor Day on our wider strategy about all this.

Simon Gadd is now the new CRO. And having been the poacher, he's now the gamekeeper. So it's interesting to observe as he -- when we were discussing the management actions that we're taking in Annuities and he was on the other side of the table asking who'd taken those management actions when, in fact, it was him, himself.

John?

A - John Pollock {BIO 6037447 <GO>}

Yes, just on the tax -- really, I'm quite looking forward, after Nigel has said we should be celebrating successes, to holding a big party. So, yes.

Just on the tax changes, first thing to note, Andy, is it's new business only, right. So the cash comes off the stock of business. The tax changes don't impact that at all. And you won't be surprised to find that the industry has priced for the effect of the tax changes. So we no longer get our expenses relieved. But prices have gone up as a consequence since the start of the year.

Q - Andy Hughes {BIO 15036395 <GO>}

So the impact of (inaudible) will take the strain that, is that what you're saying?

A - John Pollock {BIO 6037447 <GO>}

Yes. But it's very hard to know. What we're seeing during quarter 1 is a degree of volatility in pricing as people are just finding their new position, because we had gender-neutral pricing at the same time as tax changes. So there's a little bit of volatility in the market as people are finding their new position.

It's very hard to predict exactly what strain is going to be. But I'm not expecting any material effects as a consequence of the tax changes, no.

A - Nigel Wilson {BIO 1535703 <GO>}

I think the other point, just to give you a bit more confidence there, is that we did give you the number of GBP735 million for this year, which is a higher number than last year. And that includes both the Annuities and the Protection business. We wouldn't have given you that number if we weren't reasonably confident about what was going on.

Q - Unidentified Participant

Two questions. One is you had some disclosure in 2010, which you no longer have, that showed in 2013 the release from the in-force book dropping by 19%. You've now given guidance that it's increasing by 6%. At the time when I asked why it was dropping, you said there was a tax loss than ran out in 2013. Is it fair to say that, that tax loss is now running out in 2014, maybe because of low investment? I wonder if you could square that circle for me.

The second thing is you said you had no reinvestment risk in terms of credit. It's always been my understanding. And at the last results I think I discussed it again, that your bond duration is two years shorter than your assets. And you make up the difference to extend it with getting swaps. So you are exposed to the difference between swaps and credit for two years. I was just wondering, have you now extended your asset portfolio by two years in the last six months, or is my previous understanding correct?

A - Nigel Wilson {BIO 1535703 <GO>}

The good news is both of those answers we're going to give, Greig, are going to give you comfort. So I'll ask Mr. Downing to give you the tax answer, which we actually put in the disclosure so you won't have had time to read it yet.

A - Wadham Downing {BIO 17627522 <GO>}

It is on slide 15 of the press release, Greig, in terms of the trading losses available for the Protection and Annuities business into 2014. And possibly beyond.

Q - Unidentified Participant

(inaudible).

A - Nigel Wilson {BIO 1535703 <GO>}

There may well -- there may be further extensions, Greig. So it's not -- I know you get worried about it. But it's not --

Q - Unidentified Participant

(multiple speakers) --?

A - Nigel Wilson {BIO 1535703 <GO>}

Not necessarily, Greig. That's why it's a bit -- there are other things that we can -- that we may or may not be doing to extend the life of the tax, which some of the tax stuff you can pick up with our award-winning. And double award winning tax team, who are sitting in the front row. This year I think won the Building Public Trust award in PWC and the Tax Team of the Year FTSE 100, with Simon Burke sitting in the front row.

The second question, Paul, do you want to pick up that again?

A - Paul Stanworth {BIO 15495409 <GO>}

Yes, Greig, you're right; in terms of duration there is a difference between the assets and the liabilities. But it is a duration effect and not a maturity one.

So actually, from a maturity perspective, we have a portfolio that's extremely long dated; majority are over 10-year bonds. The only reason why there's a tail effect is just that the bond market simply doesn't go as long as some of the liabilities we have.

But from an IFRS perspective, if we were simply to run off the portfolio, it would run off in an IFRS-neutral way because we make no assumption about reinvesting at the back end to enhance the cash flow today.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi, JPMorgan. Now, given that you have been focusing on this longevity transaction. And this is the one that you announced two weeks back or something, that was the second one, can you give us some color on the margins that you make on that, especially because there is no credit risk that you are taking? So just the pure margin on longevity business.

And secondly, your individual annuities sales increased significantly in this year. So can you give us some color what's happening on that? What's the driving factor for that? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

John, do you want to take this? The first one is on longevity we've never discussed the margins on that. But -- and we don't include the longevity in our APE, either, which you'll have noticed, because it'll create all sorts of distortions and make the numbers very big if the market takes off. So that's why we've excluded on that.

We are very happy with the return on economic capital that we make in that business. It's not dissimilar to other parts of the business. But, John, do you want to pick up the annuity market. And how well you continue to do?

A - John Pollock {BIO 6037447 <GO>}

Yes. I'm really sorry, Ashik, I couldn't hear the --

A - Nigel Wilson {BIO 1535703 <GO>}

What's happening in the annuity market; in the individual annuity market? We did very well in 2012, will we continue to do very well in 2013. And beyond?

A - John Pollock {BIO 6037447 <GO>}

Yes, well the market's -- we get this sort of question each year, actually. There is structural inbuilt growth in this market. I think the projections for 2015 are something like GBP17 billion of DC flows. And because there is structural inbuilt growth in this market. And we're a leading player in it, we would expect to continue to be able to grow our position.

What's currently happened, there was a little bit of gender-neutral changes affecting Q4. And a little bit hanging over into Q1. But what you have to remember is the vast, vast, vast majority of the flow of annuities are small pots of people who don't have the choice of different retirement income solutions.

So all of you people in here think like fat cats, like us. And you're thinking about, well, what about drawdown, or what about all of the other changes? GBP34,000 is the average pot size of the annuity flow. And that will just continue. People will require their income in retirement. And they don't have the choice for the other solution.

So I fully expect us to continue to be able to participate very strongly in that market. There's structural inbuilt growth. And very optimistic about our place in it.

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel. Just, Nigel, on your penultimate slide, on investment in housing and infrastructure, is that something you're just considering if the political conditions were right? Or is it something that you're actively considering that we might see in the next year, or two?

And also, if you did get involved in that, is that the sort of long-term fixed income type investments that we'd see in the shareholder-backed annuity funds? Or is it something you do with shareholders' funds, or private equity within LGIM? What sort of type of investment would it be?

A - Nigel Wilson {BIO 1535703 <GO>}

No, that's a very good questions. Did you have two questions, or one question?

Q - Marcus Barnard {BIO 2103471 <GO>}

Two clarifications.

A - Nigel Wilson {BIO 1535703 <GO>}

Right, yes. I think the -- I think we've always -- our property business is GBP10 billion. And we have done a lot of developments. We have a huge strategic land bank. It's been called Project Tiger. Certainly, the one thing it hasn't been is a tiger-like project; it has been slothful beyond belief. And it's been sitting gathering dust in my office for many a year already.

Several of these projects were actually initiated by David Prosser. I was having lunch with him the other day, I said, sadly, David, I've been unable to move on many of the projects that you'd started 15 years or 20 years ago. But the politics are very important around all of that because these are huge holdings that we've had for many, many years across the country. And we'd like to galvanize them now and really energize them going forward.

In terms of the infrastructure investment, we're very interested in housing as an asset class and in both the shareholder funds, in the LGV, or the types of private equity type of investments that we've done. And, indeed, in the annuity fund. So we've done some of it in the past. You'll see us do more of it in the future.

In general, we would prefer, if we can get the right regulatory treatment and the political will, to hold UK physical assets to back the parts of the business rather than foreign liquid bonds. That's really a transition that we're working on with the regulators to make sure that they're happy with what we're doing.

Many of my colleagues have been to many meetings with the regulators to discuss this particular topic. And it's a high score draw at the moment. But at least we're in a high score draw. And there's much greater empathy at every level for having companies like us invest in the long-term UK infrastructure.

But housing's just one element. Clearly, we've done four or five student accommodations, Imperial, Greenwich, Southampton, Herts. And you'll see us do more of those types of things.

We've looked for a long time at energy; have never found the right investment so far to do that. But you may well see that in 2013. And beyond.

We're very -- we've been -- again, we've looked at a number of transport investments and, again, not done them so far. Pru recently did a health hospital investment. And we may be looking at very similar investments to the Pru. I know Tijan has a very similar view to our views on this particular topic here in the UK.

John Godfrey, who's with us today, sat right beside you. And I have spent many, many, many hours between the FSA, the Bank of England. And the Treasury. And the government discussing this particular topic. But we're beginning to have success. We think it's a very important thing for the government to encourage us to do. We'd like the regulatory support. We haven't quite got it yet. We're certainly thinking that we will get more support going forward.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Two areas I wanted to explore a bit further. On the capital, you've always said that your targeted range on IGD coverage was 1.75 times to 2.25 times. You're now beyond the top of that range. Does that -- would you be changing the range, given the fact you understand your internal and economic capital better, or does it still hold?

And as a corollary of that, therefore, should we read that as you make bolt-on acquisitions they'll be funded internally and bring you back down into that range?

The second area I just wanted to ask a bit about was you said that you're nearing critical mass in the platform market. Could you talk. And give us some sense, as to what you mean there in terms of profitability and the operational leverage?

A - Nigel Wilson {BIO 1535703 <GO>}

Good spot that, Andrew. That nearing critical mass means they're not making enough money yet. But I'll let Mr. Gregory pick that one up in due course because we're very excited about it. But we would like that business to contribute more to the bottom line.

On the IGD and capital numbers, do you want to talk about that?

A - Wadham Downing {BIO 17627522 <GO>}

Yes, our internal range for IGDs, the 1.50 times to 2.50 times piece, I think we're making good progress in terms of we made our IMAP submission. So we're making good progress on economic capital. So I don't think you'll see much change at all.

Q - Andrew Crean {BIO 16513202 <GO>}

Hold on a minute, it was 1.75 times, 2.25 times; you just expanded it 25 basis points on the phone.

A - Nigel Wilson {BIO 1535703 <GO>}

No, I think we don't run the business on the IGD surplus, surprisingly as it may seem. We look at economic capital. I think if we reduce our economic capital number at the moment you'd recognize we'd have an even bigger surplus. But that's a separate question.

We're still trying to resolve the many outstanding issues that Bernie highlighted during our IMAP submission, which is a 2,000 page document, the submission of the IMAP to the FSA. These are non -- they're 700 technical papers in support of it.

They are huge things that we've got to get through. We feel in great shape on our capital position. But we're going to retain the discipline that we've had before around acquisitions. We're still waiting for macro clarity around a whole raft of issues that we'd like to sort out with the FSA. And EIOPA. And everybody else.

But we're -- big picture level, we have an incredibly strong capital position. You're right that we had it highlighted 1.75 times to 2.25 times before, two or three years ago. We hadn't thought of that in that particular way for some time because internally we work on the economic capital model, we don't go around religiously updating the IGD number.

A - Wadham Downing {BIO 17627522 <GO>}

(inaudible) couple of years ago, as well.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, yes. It's not a constraining or governing metric around that. We have a lot of capital. We'd like to invest it wisely in both the direct investment area, in organic growth. And in bolt-on acquisitions. We've done well so far in the first of those two. We've got to earn the trust of shareholders that we'll do the same with the third. Do you want to pick up the platform, Mark?

A - Mark Gregory {BIO 15486337 <GO>}

Yes, we clearly have the two main digital platforms we run in the Savings. We have the work save platform for the workplace pensions arena. And we have our IPS platform in the retail investments arena. Clearly, using a phrase nearing critical mass, Andrew, is a kind of euphemism for they're losing money currently.

So we do actually recognize that the challenge, though, is efficient scale growth. And that's very much the route that we're on. We have absolutely got the scalability built into the model; again, very, very good progress, typically on the workplace platform. Last year, we built on a lot more volume. We've brought an awful lot of new members onto our platform with a very, very small increase in the underlying operational cost base.

So it is absolutely -- both those are absolutely operational geared leverage plays in terms of how we see them. We're absolutely trying to get the scale; when we get that scale, making sure that feeds through into greater contribution and profitability going forwards.

Q - Andrew Crean {BIO 16513202 <GO>}

Is it too simplistic to, say, ask the AUM figures for those platforms, the point at which you turn?

A - Mark Gregory {BIO 15486337 <GO>}

Well, it is. But when we say we're nearing, I'd say very, very rough GBP10 billion reach is the right sort of number to think about.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay, if we take -- we're just going to take one last question because I'm anxious that people are not -- and that -- we'll take other -- Colin, who hasn't had a go yet. We'll be around for the next half an hour and answer as many questions as people want. Or if people have thoughts during the rest of the day, by all means call myself, or Kate, or any of my colleagues; we'll be delighted to answer them. There's a lot of people been around for 1.5 hours, two hours now.

So, Colin, you have the privilege of asking the last question. And then we'll move to informal questions afterwards.

Q - Colin Simpson {BIO 15894636 <GO>}

No pressure . Colin Simpson, Goldman Sachs. Just a question on your systems, please. I was reading about a customer who was told it's going to take 128 days to part-gift a savings bond to his wife. I wonder to what extent your systems trail that of peers, it certainly doesn't look like you've been investing as much; and whether we're going to see an uptick in that sort of expenditure, or whether there's some sort of reputational risk from your current systems?

A - Wadham Downing {BIO 17627522 <GO>}

Well, thanks for that, Colin, yes .

A - Nigel Wilson {BIO 1535703 <GO>}

He won't be coming to our celebrations, that's for sure .

A - Mark Gregory {BIO 15486337 <GO>}

You are, you're buying . Just on that, clearly, it's wrong to quote. Clearly, that was in the press and it was a slightly embarrassing one to be in the press.

I can't remember the exact details. But these things are never quite as straightforward as they appear. We're talking about trust cases and where's the complexity involved and exactly who the beneficiaries are, for example.

I have to say, in terms of our measurement of our customers, it's never been at a higher level than we achieved last year. Our customer satisfaction scores are right up there. So we actually are in a much, much better place. So we absolutely put the customer at the heart of what we do.

Yes clearly, that was an awkward one-off example. But you should not read across from that where we are on service generally. We are at a very, very good place.

Q - Colin Simpson {BIO 15894636 <GO>}

Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, very much for the interesting questions that we've had today. And thank you for your interest in the Group. And the Company. We're all going to be around afterwards.

And I'm sure there's a raft of other complex and difficult questions you can put before my colleagues.

Thank you for your support in 2013; I hope we get the same in 2013. So thank you.