Q3 2011 Earnings Call

Company Participants

- Chris Knight, Financial Director, International Division
- John Pollock, Managing Director, Risk
- Mark Gregory, Managing Director, Savings
- Nigel Wilson, CFO
- Paul Stanworth, Investor Strategy Director
- Wadham Downing, Group Financial Controller

Other Participants

- Andrew Crean, Analyst
- Blair Stewart, Analyst
- Colin Simpson, Analyst
- Duncan Russell, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Marcus Barnard, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Raghu Hariharan, Analyst
- Toby Langley, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And welcome to your Q3 IMS conference call. Throughout the call, all participants will be in listen-only mode. And afterwards there will be a question and answer session. Just to remind you, this conference call is being recorded.

Today, I am pleased to present Nigel Wilson, Chief Financial Officer. Please begin your meeting.

Nigel Wilson {BIO 1535703 <GO>}

Good morning, everyone. And thank you for your interest in listening to our Q3 update on such a cheery day. Joining me on the call are my colleagues, John Pollock, the MD of Risk;

Mark Gregory, the MD of Savings; Wadham Downing, our Group Financial Controller; and Paul Stanworth, our Investment Strategy Director.

I will make a few comments, then open up to questions.

We are delighted with the results; a great team effort with all divisions contributing. Our performance in the metrics that matter is strong. The shape and balance of our results is consistent with our strategy. And our risks are well diversified and well managed.

Coupled with this, we have executed well in several operational areas. Our operational cash generation for the nine months is up 17% at GBP736 million, on track for well over GBP900 million for the year. Net cash generation is GBP631 million for the nine months, up 15%.

Total worldwide sales. And that's excluding LGIM and GI, are just down 1% at GBP1,338 million APE. Sales are up in Savings, Protection and International. Annuity sales were down. But after last week's GBP1.1 billion BPA deal, Annuity sales year to date are around 50% above last year. LGIM's gross new funds flow were GBP25 billion, similar to last year. And GI sales are up around 40% year to date. So overall, a good sales results.

In Risk, our Protection and Annuity business, sales were up in Individual Protection by 11%. And down in Group Protection by 7%; overall up 5%.

In Annuities, sales were down in Individual and BPA, driven by the change in retirement age in H1 2010, which gave a one-off boost to Individual Annuity sales. However, we have just signed a distribution deal for individual annuities with AXA Wealth for their maturing pension customers. John's business signed a similar deal last year with Zurich Financial Services. And with Saga.

Sales are up in the Savings business with sales at GBP968 million APE. And net new inflows were GBP1.2 billion. ISAs and Unit Trust sales were 24%; sales on Investor Portfolio Services, that's IPS, our fund platform, were up 71%; and uninsured SIPP sales were up 20%.

Sales were down, though, in the non-profit workplace pensions. But as Mark can explain in Q&A, this was down to timing.

LGIM continues to grow. Gross fund flows for nine months are over GBP25 billion, with net new funds being at GBP3.6 billion. LGIM continues to win Index Fund, LDI, Active Fixed Income and International client mandates. LDI, Active Fixed Income. And International, three big growth markets for LGIM continue to increase their proportion of total gross fund flows.

Turning to International, sales are up 9% at GBP122 million APE, driven by the USA, which is up 50% year to date in local currency. Chris Knight, our FD of International is on the call with me.

In respect of our diversified risks, the quality of our assets in the Annuity portfolio is substantially improved in 2011, compared to 2008; less banks, more UK gilts, plus our high quality sale and leaseback investments. Paul can cover this in a bit more detail in the Q&A.

We have minimal shareholder exposure to our direct sovereign holdings in Portugal, Spain, Italy, Ireland. And Greece. Our assets and liabilities are well matched and well managed. Our GBP1.5 billion default reserve remains in place.

We also completed a GBP390 million longevity insurance deal on the back book last week. That is a reduction in white collar longevity risk replaced by blue collar new business longevity risk in the GBP1.1 billion new business that John and team brought last week.

In respect of operations, we have made good progress in unit cost management in several areas in both John and Mark's business. And with Wadham's input, we've achieved good progress in Group and shared services costs.

We continue to industrialize our processes. The successful execution of the data center migration, in partnership with IBM, was completed a couple of weeks ago. And is our most recent example of a complex project delivered on time. And on budget.

We've also renewed our GBP1 billion banking facility. So we'd like to take this opportunity to thank our banks for their continued support.

Now to outlook. We expect trends in Protection to continue; as noted earlier, we have the GBP1.1 billion BPA. Savings trends will also continue with mixed sales performance. But strong in the areas we want to perform. And LGIM will continue to accelerate its international expansion.

At a macro level in the UK, a combination of state retrenchment, an aging population, increased household savings. And continued derisking activity by pension fund trustees should drive growth across Protection, Annuities, Savings and LGIM.

Now, questions please.

Questions And Answers

Operator

(Operator Instructions) Blair Stewart, BofA Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

I'll ask a couple. You talked about the pipeline in workplace pensions and said that the weakness was down mainly to timing. I just wondered if you can expand on that?

And secondly, on the Annuities section, just a couple of small questions. Firstly, what's the year-on-year movement in individual annuities, excluding that one-off from last year, if you have that?

And secondly, you've clearly done a major bulk deal in Q4. But I just wondered how the pipeline was looking? Has the negotiation of that exhausted all your efforts, or have you got other stuff in the pipe as well? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Well my colleague, John Pollock, doesn't look exhausted. But he'll answer the second question on annuities. And Mark will pick up the first one on workplace savings.

A - Mark Gregory {BIO 15486337 <GO>}

Okay, just to pick up the point then, Blair, just to explain I guess the length of the pipeline we now see on a lot of these workplace schemes that we're bidding for and winning. Importantly, these schemes do involve a fairly material scheme reorganization of the pension arrangements already in place at the various employers and often involves them, first off selecting a provider such as ourselves, then going into an awful lot of employee negotiations with unions etc., before coming up with the end solution. And these things just do take a long time.

Allied to the fact we are focused on the autonym [ph] opportunities as we see it. And that's been very much central to our workplace savings strategy. So in that sense, we're not playing [ph] in the commissions end of the year workplace market currently; we're very much focused on the longer term autonym opportunity, which we do see as being a very material one and a very worthwhile one for us to pursue. So we are being selective on a number of very significant mandates.

We can't yet name names. And they haven't yet come through in completions and, indeed, a lot of these schemes won't actually come through now into the First Quarter of 2013. But actually, we now know we've secured a very material level of scheme wins, going forward. And in the press release we gave some indication of the sort of scale that we've already secured. But we're also out there pitching for some other very big schemes as we speak as well.

So we're very confident about the flow. But a bit like BPA has been in the past, I have to say it's going to be a bit lumpy for the next couple of years as these schemes either complete in the quarter or they don't. So I think you have to get used to a little bit of volatility in terms of the APE numbers coming through. But long term, we're still very satisfied with the rate of progress we're making in terms of growing the scale of our workplace business.

A - John Pollock {BIO 6037447 <GO>}

Hi, Blair, John here. Just on your two annuities, just on the first one in terms of trying to strip out what the effect of last year's retirement age changes was, it's really quite difficult. So if you accept this in the spirit it's meant. My best guess for underlying growth would be in 3% to 5%. And as far as pipeline for BPA, that's always, always, always lumpy. There are still some schemes around; whether any of them will close this quarter or not very hard to know. But no, certainly not exhausted, as Nigel said.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

Jon Hocking, Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

The Q3 update of the IGD ratio, just wondered why. And if there's anything we should read into that? I'm sure the answer is no. But I'd be interested to see why you didn't put a number in.

Then secondly, there's been a lot of commentary around the FSA looking at liquidity swaps, have you entered into any liquidity swap arrangements with any banks?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay, just checking, Jon, you had two questions there; we lost you for the first few seconds.

Q - Jon Hocking {BIO 2163183 <GO>}

Yes. The first question was, you didn't give an IGD ratio update at Q3, any reason why not?

A - Nigel Wilson {BIO 1535703 <GO>}

No, Wadham will pick that up. And Paul Stanworth will pick up the question on liquidity swaps.

A - Wadham Downing {BIO 17627522 <GO>}

On IGD, we've given you the IGD at the half year, a figure of GBP4 billion. We also disclosed a full set of IGD sensitivities in the accounts; that's page 168 for those interested. Then, coupled with the strong cash generation announced today. So clearly depending on market fluctuations that you predict, you can get to a number around GBP4 billion or above at the year end.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Paul Stanworth {BIO 15495409 <GO>}

The answer to the liquidity swaps is that we haven't entered any liquidity swaps. And I think if you look at the portfolio that we have for annuities, which predominately credit based, it would be unlikely that we would.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, excellent. Thank you very much.

Operator

Toby Langley, Barclays Capital.

Q - Toby Langley {BIO 15924432 <GO>}

My first question is on the cash result. At the half year I think you had a boost of GBP18 million from a change in basis, I'm just wondering what the equivalent uplift is in the Third Quarter so we can compare the prior year results?

On the Turner & Newall deal, I wonder if you can help me out with regard to what kind of strain we should be looking at for that deal, is that going to be in line with the negative GBP7 million that we've seen year to date?

Then the third question is on workplace pensions; you've got some quite big numbers in terms of number of scheme members added. I just wondered if you could tell us what the base is here, how many individuals are you looking after here in the Corporate Pension business at the moment?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay, the first question I'll just get Wadham to update you on the numbers there. And John, do you want to pick up on the other two [ph]?

A - Wadham Downing {BIO 17627522 <GO>}

Yes, on the adjustment that's fairly linear. So we're probably talking about GBP22 million/GBP23 million.

Q - Toby Langley {BIO 15924432 <GO>}

That's the nine months uplift is it?

A - Wadham Downing {BIO 17627522 <GO>}

Yes. That's the year to date, yes.

Q - Toby Langley {BIO 15924432 <GO>}

Okay.

A - John Pollock {BIO 6037447 <GO>}

Toby, as far as strain is concerned we would never disclose strain a scheme-by-scheme basis. But I don't think there's anything that we would say that would materially change guidance for full year strain that we've already given.

Q - Toby Langley {BIO 15924432 <GO>}

Okay. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Just for the record, we're sort of in the GBP0 million to GBP20 million [ph] area for the full year.

A - Mark Gregory {BIO 15486337 <GO>}

Just in terms of active lines on the workplace book, we've got just under GBP0.25 million active lines currently paying into our corporate pensions portfolio, Toby, it's that sort of order. So the numbers we're talking about are quite transformational in terms of changing the scale of this business.

Q - Toby Langley {BIO 15924432 <GO>}

Okay. Thank you very much.

Operator

Colin Simpson, Goldman Sachs & Co.

Q - Colin Simpson {BIO 15894636 <GO>}

Could you just talk about this GBP1.1 billion deal please, is there any inflation risk that you've taken on. And what sort of duration are the liabilities? And if you can't quantify exactly, maybe compared to your existing back book?

Then maybe, Nigel, just a bit of color on that, we don't see you often taking on large schemes, what's the rationale this time around? Is it maybe a lack of growth in your other businesses, or lack of small schemes coming into the pipeline? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

If John and Mark cover the first two questions. We've always looked at large schemes. And it's interesting that there's a bifurcation amongst the analysts as to those who want us to write a lot more annuity business. And as I said earlier, we're up 50% year over year in our UK annuity business; we just happen not to have won any in the past. We're delighted to have won this particular scheme. And as I think John alluded to earlier, him and the rest of the team are working on a number of other large schemes. But they just do take a long time.

I think, as we mentioned earlier, we started work on this scheme in April of last year. And there's one that's in the hopper, has been there since last year. So they just do take a long time. But we have been anticipating it for some time; we thought at one point it would get included in the Q3 numbers. It ended up getting moved back a little bit. But we're just delighted with it.

John and Paul, do you want to comment on the other points that Colin raised?

A - John Pollock {BIO 6037447 <GO>}

Duration you mentioned, Colin, is relatively short; it's a more IA type portfolio. So in comparison to the book, I would imagine it's -- I haven't actually done the numbers, Paul, don't know if you've -- I would say it's slightly shorter than the average of the book.

A - Paul Stanworth {BIO 15495409 <GO>}

And in terms of the inflation and rates position, it does have those exposures. But they're all hedged out, as we would normally do.

Q - Colin Simpson {BIO 15894636 <GO>}

Okay. And sorry how are you hedging inflation, just index-linked gilts?

A - Paul Stanworth {BIO 15495409 <GO>}

We have a bond and derivative overlay strategy, which we've utilized for some time. And we just continue to use that process to hedge out the inflation risk as well.

Q - Colin Simpson {BIO 15894636 <GO>}

Excellent, thanks very much.

Operator

Nick Holmes, Nomura.

Q - Nick Holmes {BIO 3387435 <GO>}

A couple of questions, please. Firstly, with Solvency II and annuity reserving, wondered if you could give us an update on whether there's any news likely to come out on the matching premium concept in the next month or so. And whether you think that will be good or bad?

Then second question, with the Savings business, wondered if you'd give us a bit more detail about the distribution channels that are driving the very strong growth in unit trust and ISAs? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, I would love to be able to make predictions on Solvency II but, as we've pointed out, the implementation date's been pushed back about 15 months in the last 12 months. So any predictions on Solvency II have proven to be consistently wide of the mark. I think you're all familiar with the state of flux around the discussions on a number of concepts in Solvency II. We'd love to be able to tell you that there's perfect clarity on that. But there isn't.

Tim, who's been very much leading the initiative and all of this in terms of the lobbying efforts, continues to be at the forefront of all of the discussions and negotiations with the Treasury, the FSA and Europe. We're very pleased with the support that the FSA and the Treasury are giving us. But as you see from a number of other European discussions and negotiations that are going on at present, it's very hard to make these linear.

Q - Nick Holmes {BIO 3387435 <GO>}

Nigel, do you think there will be an announcement from the commission on the matching premium concept, in particular, say, before Christmas? We've been waiting for it for some time. And I just wondered if you had a feel for when we might hear something?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. The next step is a Parliamentary one. So it's all the commission proposals have to go in front of Parliament. And my personal ability. And my colleagues, to predict both the outcome and the timing of the outcome of that, I would say was not one of our strong points. And that we expect the variance on that prediction to be quite wide. Mark, do you want to pick up the --

A - Mark Gregory {BIO 15486337 <GO>}

On the distribution profile of our Investments business I think these days [ph] it's nicely diversified. So strong sales through our intermediary relationships. And with a little bit retail IFAs. But also through our bancassurance banking type relationships as well. So we see very strong distribution through our building society partners as well. And we are seeing some nice growth on direct side, as well as key plus [ph] as we think about life post RDR that we grow our direct side as well. So again I would say [ph] that's also growing. It's well diversified the distribution of our Investments business.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Great, thank you very much.

Operator

Oliver Steel, Deutsche Bank.

Q - Oliver Steel {BIO 6068696 <GO>}

A couple of questions. First, on the longevity swap, I was just wondering if you could talk through the implications of that in terms of capital or margins, going forward?

The second question is, looking at some of the new distribution deals that you've done. And particularly the one with AXA Wealth, are you able to give us any guidance on likely volumes that could come out of that? Or if not specifically about the AXA one, whether you've got some figures for how much the Zurich deal has boosted volumes by?

Then thirdly, you talk about Group protection sales, can't quite remember the wording. But a strong pipeline for the Fourth Quarter. So I was just wondering what was driving that?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay, if John takes the second and third. On the longevity swap, we are increasingly using our or using risk based economic capital to make our decisions around this. In terms of what we've done. And I've obviously tried to articulate that in the call, is that we've swapped one type of longevity risk, which is white collar risk. And taken on some more blue collar risk which we think, from a risk based economic capital viewpoint, is very good for shareholders to have done that.

We believe we're improving the return on economic capital by entering into both of these transactions. And clearly, the fact that we've moved longevity around through these transactions is also a positive from shareholders.

And going forward. And I'm looking at John here. And Paul, we would expect to do more longevity swaps, both to third-party customers, which again we've been working on for some time on those particular transactions to get them over the line. And further opportunities on the back book to improve the overall return on our risk-based capital.

John, do you want to comment?

A - John Pollock {BIO 6037447 <GO>}

The other two, Oliver -- I'm a bit reluctant to give absolute volumes -- aware of some sensitivities with our partners. But I think you can rest assured that I would expect the full year, in terms of those kind of tied deals, to be returning some low nine figures, I would imagine.

As far as our pipeline on Group Protection, this is simply a factor of recommendations made and timing of deals so that we have some sight lines into corporates that have either selected us to work with a partner, or that we believe are likely to. And we have some advanced warning of that in that market. And therefore, reasonably confident that Q4 is going to be a reasonable quarter for us.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. Thank you very much.

Operator

Gordon Aitken, RBC Capital Markets.

Q - Gordon Aitken {BIO 3846728 <GO>}

Three quick questions. Firstly, on the Marks & Spencer's scheme, what sort of rates of return are you expecting on that deal? And you've also got quite low enrolment rates in the scheme at the moment with a 15-odd-% to 20-odd-%. What participation rate do you need to hit your rates of return?

Secondly, can you just comment on some new entrants into the pre-auto-enrolments. So DC market? We're seeing ATP making some noises; they're talking about GBP1.50 per month administration fee. And 30 bps AMC. How do you compete with that?

And finally, just on the annuity reinsurance transaction. What's the appetite at the moment for reinsurers to pick up annuity business? Did you see several bidders for that transaction?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. I think Mark's going to answer the first two questions; John, do you want to answer the third one?

A - Mark Gregory {BIO 15486337 <GO>}

Just on the specific question around rates of return on the M&S scheme itself, again, I'm not prepared, obviously, to divulge precise prices. It is fair to say that, strategically, we are very keen to grow the size of book, we get very clear synergistic benefits from fixed cost coverage and unit cost reduction for growing in size. And clearly, we've seen that in this sector over the last two or three years. And we expect that to continue, going forward.

So it's all part of the wider strategy here of growing the size of the book. And being very, very focused on making sure the cost base is kept well under control as we grow the size. And don't grow the cost base with it. In the round, very much we're looking to grow the rate of return we get on our Pensions business.

Total participation rates, we haven't obviously got a single M&S member across yet. So we won't have seen any members come across until probably quarter 2 next year for the first transfer. And then the big auto-enrolment will come across in Q1, 2013.

Total general participation rates, I think we're probably expecting something like a 30% to 40% dropout rate for auto-enrolment, from people who've already [ph] auto-enrolled to those who actually end up being auto-enrolled post the opt out period. So that's the sort of participation rate we're assuming in our modeling.

In terms of the wider market, it is fair to say there are, obviously, a number of competitors playing in the auto-enrolment space. You mentioned the likes of ATP are making noises in this space. What we're finding is we've got a very competitive proposition. And yes, price is one of the core components. But it's also a lot about trying to make sure the employer themselves have some of the headaches taken off their plate.

Again, if you're a pension manager, or an HR director, you're worried about making sure you comply with the auto-enrolment rules. And a lot of our investment has gone into making absolutely sure that every member who should be auto-enrolled is auto-enrolled; those who shouldn't be auto-enrolled are not auto-enrolled. And making sure that, when we get clean payroll data downloaded straight into our systems, we can administer that without it being touched by human hands.

So that's very much the model we're growing now. So you shouldn't be thinking that it's all about a straight price comparison; there's a lot more to this than just a simple AMC charge.

A - John Pollock {BIO 6037447 <GO>}

Short answer to it is, yes, multiple reinsurers were interested in this. And their appetite does seem to be fairly keen at the minute. So yes, there's plenty of reinsurers out there interested.

A - Nigel Wilson {BIO 1535703 <GO>}

I thought it was a very good answer, Mark .

Operator

Andrew Crean, Autonomous Research.

Q - Andrew Crean {BIO 16513202 <GO>}

One question; one clarification. John, I think you were talking about the potential from the new deal with AXA Wealth. And you said a nine-figure sum. I wasn't quite sure what a nine-figure sum is.

Then the question I had, I wanted to push a bit further on potential developments in matched premiums on Solvency II, because I know one of the things which is being suggested is that, if you have more than 15% of your corporate bonds in BBB and below, you won't be granted a matched premium basis. And I think you have 34%. I was wondering how you're thinking about that, whether you think it will apply to both new business and the back book.

A - Nigel Wilson {BIO 1535703 <GO>}

We'll answer the second question first here, because we just want a point of clarification on this, because you're not the first person to ask that question, Andrew. It is a good question, because it's clear one or two people believe that to be the case.

That's currently not the case in the drafting. And, Paul, do you just want to clear the amount of debt. And how the rules we think will operate?

A - Paul Stanworth {BIO 15495409 <GO>}

The rules that are referred to are at 15% limit on new money. And 30% once you've bought the actual portfolio itself. And on top of that, we've got unknown transitioning rules. In the meantime, if you overlay the maturity of our portfolio, it doesn't require a memo [ph] as urgent action.

Q - Andrew Crean {BIO 16513202 <GO>}

So basically, in-force book, 30%, 15% for new business.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. And we're well inside the 30% on the in-force book. And 15% is something we can comfortably live with.

Q - Andrew Crean {BIO 16513202 <GO>}

That must mean a Third Quarter change, because certainly the half year -- maybe the full year figures, you were at 34% BBB and below.

A - Nigel Wilson {BIO 1535703 <GO>}

We'll give you the data offline for that one, Andrew. To the extent that we're trying to predict where we're going to get to, it does make it difficult. But certainly, the drafting we've seen at the moment is one that we can manage our way through.

Plus, as Paul mentioned, we have the transition arrangements. And we're not sure whether those are going to 5, 7, 10, 12, whatever years of transition. The earliest they're going to come in is 2014. So we're okay on that.

A - John Pollock {BIO 6037447 <GO>}

Just to clarify, it wasn't AXA specifically I was talking about. The sum total of all of our relationships where we have partnerships with vesting [ph] annuity books, I would estimate to be in the order low hundreds of millions of premium generated.

Q - Andrew Crean {BIO 16513202 <GO>}

Grand, thanks.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Three quick questions. One is, I wonder if you can give us an update on US restructuring, when we can expect some further announcements, or when the US will pay some kind of material dividend over to the vendor [ph]? That's the first question.

The other two questions; one is, I wonder if you can give us a flavor of the EV margin on the bulk deal that you did, a. And b., what is the EV impact of the reinsurance deal. So we've got some kind of feel for what can be generated for this type of transactions, going forward?

A - Nigel Wilson {BIO 1535703 <GO>}

On the update, Chris Knight, who's the FD of International can cover that. He's been working very closely with myself on that. And John will, I think, repeat the answer he gave earlier on the BPA deal. Greig, by the way, we hope you're happy that their annuities year to date are up 50% after your particular urging on us to increase our annuity business before [ph].

A - Chris Knight {BIO 18966542 <GO>}

Greig, on the US, the US sent back $495 million of capital and dividends in March, which we think is pretty significant as a good first step.

Q - Greig Paterson

Is there anything there just a repatriation of money that you injected before?

A - Chris Knight {BIO 18966542 <GO>}

Partly, of course. All money is a repatriation of money that we injected before to a certain extent. We're working on two more transactions and we're really hopeful to be able to announce one by time of the results in March.

A - Nigel Wilson {BIO 1535703 <GO>}

The issue is trying to get all the regulators to agree at a particular moment on time on the structure that we have. And as Chris mentioned, to be like the number 37 bus, the third bus is now catching up quickly to the second bus. And we're still trying to get the second bus over the line.

Q - Greig Paterson

Well just to follow up. I was just trying to understand. I know in order to facilitate the previous buyback of the Triple X, was you had to inject money temporarily. And now you've repaid back. I just want to know what the net gain from that deal was.

A - Chris Knight {BIO 18966542 <GO>}

We injected $360 million and we sent back $495 million.

Q - Greig Paterson

All right, excellent, $350 million injected, yes?

A - Nigel Wilson {BIO 1535703 <GO>}

No, you're right to point that out, Greig. A lot of people didn't notice that. Money went out and then money came back. So we initially took an IGD hit on the money when it went out and then, obviously, reimbursed it when the money came back in.

Q - Greig Paterson

Cool. And the BPA margin end, is there uplift in EV from the reinsurance?

A - John Pollock {BIO 6037447 <GO>}

Well you know full well, Greig, that I'm not actually going to tell you that number. But just in terms of how you should think about it, just remember that the answer that I gave is it's a relatively shorter duration scheme. So you can have a think about that for yourself.

Q - Greig Paterson

Thanks for that, all right. But in terms of the reinsurance deal, the EV, just maybe you can talk through the mechanics or the economics on how it affects your EV. Do you end up holding lower capital. So you have a lower cost of capital, there's an uplift through that element or? I'm just trying to think about how I should be thinking about the mechanics within your EV of this reinsurance deal.

A - Nigel Wilson {BIO 1535703 <GO>}

Part of its pooled together because we've pooled it together with the other deal. And so the way we were part thinking about it ourselves is a combination of the two deals in terms of their overall impact on the EV of the Group. And the future cash generation of the Group because, at the time, we were looking at that.

We may have actually been thinking of a third deal that was supposed to happen at a similar time, which has slightly got delayed. So we're very much thinking along this as a collective series of actions which improve the overall return on our risk-based economic capital within the business. And that's the way we see them.

Each of the individual transactions achieves a return on economic capital that we're happy with. And that meet our return criteria. We're not going to divide out any of the individual deals into their subcomponent or report the profitability on any individual transaction.

Q - Greig Paterson

All right. So at the end of the year, we'll see the impact on the value of new business. And there won't be any back book impact, it's just aggregate the two deals together and see as a sort of franchise.

A - Nigel Wilson {BIO 1535703 <GO>}

I think as John was saying, there is the potential for other deals to get completed before the year end. And that depends on some of our other colleagues working enthusiastically, encouraged by John and other members of the senior management team, to get things done before the year end. Because I think as both John and Mark alluded to, there are a number of things that we'd like to try and get completed before we report our results in March.

Q - Greig Paterson

Sure. I'm just trying to understand how it'll impact the income statement. There's obviously an addition to the value of new business from the bulk deal. Where in the income statement does the reinsurance? Is it below the line? Is it part of the operating profit? Is it part of the value of new business?

A - John Pollock {BIO 6037447 <GO>}

It would be --

A - Nigel Wilson {BIO 1535703 <GO>}

We'll go through the mechanics of that offline, Greig. They have slightly different impacts on both the IFRS profit [ph] and the EV numbers. And each component of its slightly different and will require a level of explanation which will take more than few seconds on a call. So we'll happily give you a call afterwards and just run through that with you.

Q - Greig Paterson

All right. Thank you.

Operator

Raghu Hariharan, Citigroup.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Just had two questions, if I may, please? The first question was, can you tell us where the investment variances were on your cash number, given sharp movements in market movements in 3Q?

And the second question was, I was wondering where you're investing your annuity new business premiums, given where spreads are. And where Solvency II might head up? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

Sure. Paul, do you want to take the second question?

A - Paul Stanworth {BIO 15495409 <GO>}

In terms of the annuity book?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes.

A - Paul Stanworth {BIO 15495409 <GO>}

The investment strategy's not massively different to the breakdown of the portfolio that we've got currently. The impact that we calculate, in terms of spreads and capital, we look at from an economic capital perspective. And we're happy with the return on economic capital that the asset portfolio gave us.

A - Nigel Wilson {BIO 1535703 <GO>}

On investment areas, as Wadham let [ph] out earlier on, if you go to page 168 in the annual report, you can see the variance calculations there.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay.

Operator

Duncan Russell, JPMorgan.

Q - Duncan Russell {BIO 15944951 <GO>}

Just on page two of the press release, if I look there, I see that the stock of assets and premiums, LGIM assets are up 1%, year on year, Savings assets up 2%, the Annuities grew quite strongly. But Protection premiums are flattish as well. But despite quite a flat picture there, the operational cash generation was up 17%. So I was just wondering if you could give a bit more color on why the operational cash generation rose so dramatically, despite the fact that your volumes are kind of flat? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

I think it's a bit harsh to say the volumes are flat. There's certainly point estimates. And if you look at people like LGIM's stock of assets at the end of September and the end of October, they're different, depending on the market level.

The operational cash is driven off, effectively, the releases from the back book, which we gave you a very good heads up of what those would be for the year at the results in March, at the half year. And for consistency, we'll say the guidance that we gave on those we're still happy with.

The IFRS numbers, again, the guidance that we've given you previously, we're happy with the numbers there, the operational cash generation on a quarter-by-quarter basis being relatively consistent, except for the international dividends, which caused it to be a little bit up higher in the First Quarter of this year.

The new business strain has been pretty consistent, quarter to quarter, around GBP35 million GBP105 million divided by 3; it's been GBP35 million, GBP36 million in the first three quarters. So there's just been a great consistency and resilience to the operational cash strain and the net cash in 2011.

Q - Duncan Russell {BIO 15944951 <GO>}

Correct me if I'm wrong, though. But the new business strain isn't in the operational cash, is it? So it's just the release of the net cash [ph]?

A - Nigel Wilson {BIO 1535703 <GO>}

The net cash, yes.

Q - Duncan Russell {BIO 15944951 <GO>}

But in the operational cash, which is up 17%, year on year. But with the metrics being flat, still not clear to me, I know you say your outlook hasn't changed. But I'm trying to work out why the Third Quarter was up 17%, when LGIM assets were only at 1%, the Savings assets were only up 2%, Protection premiums are flat, the Annuity assets grew 13%. But I still don't quite get why there was a near GBP100 million increase in operational cash, year on year, against that kind of balance sheet backdrop. So --

A - Nigel Wilson {BIO 1535703 <GO>}

Each of the businesses has performed better, in terms of operational cash, than they did last year. So the broad numbers that we gave for the year are still consistent with the numbers that we're delivering now. The overall stock has gone up modestly. And the costs, as we've mentioned on numerous occasions, we've managed to consistently manage down. If your stock's gone up. And your pricing on that stock has remained relatively consistent, or gone up, as has been the case of LGIM. And your unit costs have gone down, you generate more operational cash. It's not more difficult than that --

Q - Duncan Russell {BIO 15944951 <GO>}

No. But again, in the first half versus first half, as I take 90 basis points margin on annuities, annualized, or 100 basis points, whatever it is, LGIM 5 basis points, maybe it was 6, I don't know. But you're still not getting there. I'm just trying to figure out what was the margin increase, or what happened for Third Quarter discrete [ph], to make this number jump up so much.

A - Nigel Wilson {BIO 1535703 <GO>}

It didn't jump up so much. It's pretty consistent for the First Quarters. Operational cash was actually GBP248 million, GBP250 million. And GBP238 million [ph] over the three quarters this year. And the growth in the first two quarters was significantly more than the growth in the Third Quarter; you can do your math, Duncan. If you can't do it, we're happy to go through the individual quarters on a quarter-by-quarter basis. But you can see the delta in the Third Quarter is less than the deltas of the first two quarters, which sort of reflects your underlying comments. But in aggregate terms, the overall number is pretty much in line with the expectations that we've given to you and others in the investment community so far this year.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. I'll have to run through that. Thanks.

FINAL

Bloomberg Transcript

Operator

Marcus Barnard, Oriel Securities.

Q - Marcus Barnard {BIO 2103471 <GO>}

Firstly, on the Turner & Newall scheme, your statement made clear that the scheme was quite poorly funded. I just wondered if this had an impact on margins. And whether the margins you achieve on this will be slightly lower than normal?

Secondly, the statement also said there would be an uplift to pensions, or there hope to be an uplift to pensions, post-completion. I just wondered who's paying for that? Presumably, that's from the scheme. But I just wondered if that relates to asset returns, or certainty, or guarantees, or admin efficiency. I wonder if you can tell us that?

And thirdly, well done on meeting your net cash generation targets. I suppose this question follows on a bit from Duncan's. But I just wondered where we could expect to see the target for 2012; whether it will be higher, or whether the fall in markets means you probably want to think about that bit more before the end of the year? Thanks.

A - John Pollock {BIO 6037447 <GO>}

Just a little bit on Turner & Newall. The long and the short of the answer to both questions, really, is the assets were slightly more than we bought PPF benefits. So the Trustees came to us, if you remember, way back in the dim and distant past, Legal & General wrote an awful lot of business out of schemes that had gone insolvent. And built up an expertise in being able to price benefits across complex categories in schemes that didn't have enough money to buy out all of the benefits.

As a consequence, they approached us to work with them, to determine what was the maximum pension benefit that could be delivered above PPF benefits to their members. And it was one of the reasons that they chose us to work with exclusively on this, which we duly did. And we were able to deliver them an uplift to their members' pensions, within the available assets that they had.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay. Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

I think we've finished all of the questions. If anybody has any follow-up calls, or whatever, then myself and my colleagues would be delighted to answer those questions, either today or later on.

I think, in summary, we were very happy with the performance, year to date. The business model is looking pretty resilient. Both John and Mark came across as a pretty optimistic about the future growth in their respective businesses. As we said earlier, America's had a great first nine months for the year. And hopefully, we can continue to work on the capital restructuring plan that we've got there.

Our annual cash, both in operating and net cash is tracking well above our target that we gave at the beginning of the year. But it's consistent with the guidance that we've given during the course of the year.

Thank you, again for your interest on the call today. And hopefully, we'll be able to deliver a similar strong message at the year-end results. Thank you.

Operator

This now concludes our conference call. Thank you, all for attending, you may now disconnect your line.