Y 2019 Earnings Call

Company Participants

- Bernie Hickman, Chief Executive Officer, Legal & General Insurance
- Chris Knight, Chief Executive Officer, Legal & General Retail Retirement
- Jeff Davies, Chief Financial Officer
- Laura Mason, Chief Executive Officer, Legal & General Retirement, Institutional
- Nigel Wilson, Group Chief Executive
- Unidentified Speaker

Other Participants

- Abid Hussain
- Analyst
- Andrew Baker
- Andrew Crean
- Andy Sinclair
- Ashik Musaddi
- Colm Kelly
- Dominic O'Mahony
- Greg Patterson
- Johnny Vo
- Jon Hocking
- Oliver Steel

Presentation

Nigel Wilson {BIO 1535703 <GO>}

Good morning, everyone. Welcome to our Full Year 2019 Results Presentation, and of course, to our wonderful new surroundings. Today is about how Legal & General is delivering inclusive capitalism, great commercial and economic results, but also benefits for society more broadly. The two go hand-in-hand for us.

We work this out almost a decade ago, and this is a program of action for us on both fronts, inclusive and capitalism. By way of housekeeping, please switch off mobile phones. There are no planned fire drills and the usual disclaimers apply to forward-looking statements.

2019 was another consistent year of strong performance for Legal & General, record-breaking in several key areas. Operating profit from divisions, excluding mortality release and excluding discontinued businesses, was up 17% at GBP2.5 billion. Solvency II operational surplus generation was up 9% at GBP1.6 billion. EPS was up 16% at 28.66 pence, and ROE was 20.4%. Book value per share was up 9% at 156 pence. And the recommended full-year dividend is 17.57p that's up 7%.

Jeff will take you through the financial numbers in detail. As an overview, all of our divisions performed well in 2019.

These results are another step on a consistent journey. For almost a decade, we have delivered annual double-digit growth in operating profit from divisions, EPS and DPS. And our growth in book value per share has accelerated, reflecting the quality of our earnings, plus ROE rising from 14.9% to 20.4%.

2019 was another year of consistent growth for all five businesses. Since 2015, all have delivered growth in operating profits. LGRI delivered compound annual growth of 21%, LGIM 4%, LGC 12%, insurance 2%, and Retirement Solutions had the highest rate at 25%, overall 13%. In 2015, we set ourselves an ambitious goal of 10% compound growth in EPS for the five-year period from 2015 to 2020. We have achieved that goal with 58% growth in four years. So we'll be setting out our ambition for the next stage of our development later in the year.

Our focus is two-fold. Firstly, on large often international markets where we have a small market share and out -- and can outpace market growth like our investment management. And secondly, growth markets, where we have leading market share and can grow by retaining market leadership and expanding internationally like PRT. That strategy is working for us. We've also entered a new -- a number of new adjacent market successfully and at scale, for example, affordable housing and salary finance.

Meanwhile, in 2019 we continue to sharpen our business focus by completing the sale of the General Insurance division for GBP255 million. We expect to complete the GBP650 million sale of the Mature Savings business in the first half of this year.

New business in 2019 was similarly strong, building on sustained compound growth across all of our divisions, 47%, 23%, 35%, 5%, 31% and 48%, as shown on the slide. We have no lag outs. In pension risk transfer, LGRI delivered GBP11.4 billion, including significant international success. We are a global leader in this market and our pipeline is strong. LGIM's external net flows of GBP86 billion is more than twice the equivalent in 2018.

LGC's direct investments of GBP2.9 billion are another step forward. LGC is unique as well as contributing to its own operating profits. It is a crucial part of our strategy to create alternative assets for the broader group and to deliver outstanding economic and social outcomes in housing, in energy and in future cities.

Insurance GWP rose to GBP2.7 billion, again, we are a market leader. Competitive products, strong distribution, and fintech sit at the heart of LGI, which includes our intermediate and mortgage business, which facilitated GBP78 billion of transactions in

2019. Retail retirement in LGRR delivered GBP970 million of individual annuity premium. And in a more competitive market, GBP965 million of lifetime mortgage advances.

I'd like to thank all of our divisional CEOs. Laura Mason, Chris Knight, Kerrigan Procter, Bernie Hickman, Claire Singleton who is delivering the sale of mutual savings, Michelle Scrimgeour, as well as all of their colleagues, and indeed many of our advisors for another stellar year. And to wish Michelle a speedy recovery from her ski injury. She was listening in today and has every reason to be proud for businesses performance.

Our colleagues make Legal & General the success that it is today. And they operate within a collaborative and mutually reinforcing structure. LGC, LGR and LGIM work closely together to create assets which deliver shareholder returns. We structure and/or self manufacture assets to support PRT business and to provide AUM to LGIM and to LGC. This model which is built around positive and constructive collaboration creates new asset classes and provides co-investment opportunities for our external institutional clients.

And this combination of investing as a principle and as an agent is supported by the Solvency II capital advantages and technological leadership provided by LGI. Working collaboratively across our divisions has diversified risk, and it is the structural and capital synergies which results in our 20% ROA. These synergies remain unique in our sector and our industry.

I would now like to hand over to Jeff to take you through the numbers.

Jeff Davies {BIO 20023574 <GO>}

Thank you, Nigel. And good morning, everyone. This morning, I'm going to cover our 2019 financials on both group and divisional basis. The management of our credit portfolio, the ongoing investment in LGIM, and lastly, our capital position and surplus generation.

Looking to our group financial metrics, 2019 was a strong year for Legal & General, continuing to deliver value to our shareholders. Operating profit from continuing divisions was up 17% to GBP2.5 billion, with growth in all five businesses. Demonstrating the quality of our diversified business model and the value of our focused long-term strategy. This growth rate is excluding a mortality release from LGR's annuity book. We've been able to make sizeable mortality releases for the past three years, because of our long-term assumptions about mortality were prudent against emerging longevity trends.

In the second half for 2019 and in light of more recent mortality trends, we conservatively adopted an adjusted version of the CMI 2017 tables, resulting in a reserve release of GBP155 million. As usual, we maintained our cautious and staged approach to the trends we are seeing. And we will investigate a move to the next actuarial table CMI '18 in light of 2019 population experience and their relevance to our book of lives. We'll provide an update to our analysis later in the year.

Going forward, all comparisons are made to prior year metrics will exclude these mortality releases unless otherwise stated. As I mentioned that our half year results were making measured investments into our business in order to improve efficiency, drive growth, and comply with the evolving regulatory framework. For that reason, you'll notice investment project spend is up GBP60 million. The additional expenditure primarily relates to augment in cybersecurity, upgrading the IT infrastructure and preparation for IFRS 17. We expect this to reduce as these complete and moves to BAU.

Despite positive performance in equities and other asset classes over the course of the year, the overall result was a negative investment variance. In particular, LGI was again impacted by a fall in U.K. and U.S. government bond yields, as we've seen in previous periods. However, we were still able to maintain profit before tax and EPS growth of 15% and 16%, respectively. And Nigel has already covered the synergies that lead to 20.4% ROE. Finally, the group Solvency II operational surplus generation was GBP1.6 billion, up 9% from last year. And the coverage ratio for year-end was a 184%. I'll cover our capital position in more detail later.

So turning to our divisions. LGR's momentum has continued in 2019 with operating profit grown by 27% to GBP1.4 billion. This success was driven by the ongoing delivery of prudential margin releases from our growing back book. Further helped by positive variances arising from routing updates to our mortality assumptions. Both our retirement business has delivered solid growth. Our institutional business grew operating profit by 34% to GBP1.1 billion.

For the second year in a row, the UK PRT market had record new business volumes, topping GBP40 billion in 2019. LGRI took roughly a quarter of total market volumes as we maintain pricing discipline, achieving Solvency II new business margin of 7.9%, and capital strain of just 4%. Our retail business delivered operating profit of GBP298 million, up 5%, with annuity new business continuing to grow. As I said, LGRI had a fantastic year, writing more than GBP11 billion, a 21% increase.

In the UK, we wrote GBP10.3 billion on a wide range of deals, including one of the largest pension buyouts for Rolls-Royce, and LGIM client since 1989. We are a trusted partner for pension schemes across their de-risking journey. And in 2019, we helped a number of plans meet their end goals, including the culmination of a seven year de-risking journey for Hitachi. We also completed one of the first transfers from fiduciary management to pension buyout for a client. We are unique in having both these capabilities in our business. Meaning, we are well placed to help fiduciary management clients move to buyout over time.

The UK PRT market opportunity remains vast and we are continuing our development of capital-light PRT products. For example, in 2019, we wrote our first assured payment policy, which provides asset yield, interest rate and inflation risk protection to pension plans, paving a more secure path to buyouts over a planned timeframe. Many of these transactions benefited from LGIM's long standing client relationships.

Over the past three years, 51% of UK PRT deals have been from LGIM clients. There are also significant international PRT opportunities. And in 2019 we entered the Canadian market with the transaction through a partnership with Brookfield of 200 -- over CAD200 million. In the U.S., we wrote more than $1 billion for the first time we started writing larger mandates.

In retail retirement, we have delivered 24% operating profit growth annually since 2016. Our individual annuity sales increased 22% over the year, benefiting from our improved enhanced annuity proposition and increased broker presence. We added a fourth introducer arrangement in November with Prudential, which is expected to increase sales by 15% in 2020.

Lifetime mortgage advances were down to GBP965 million, as we maintain pricing and underwriting discipline in a competitive market. Despite stronger competition, we were still able to achieve a 25% market share, driven by our wide range of products and strong customer focus brand. Our LGR asset portfolio, which is a source of long-term captive AUM for LGIM has now grown to GBP76 billion, with 28% of the portfolio in direct investments included lifetime mortgages.

We have maintained high credit quality with two-thirds of our bond portfolio rated A or better, and 17% in Sovereign like assets. The portfolio is well diversified by geography and sector. Only 22% of our bond portfolio is in UK listed corporate credit, with many of these holdings being multinational companies with significant diversified overseas earnings. Our exposure to overseas issuers makes up nearly half of our portfolio and we hedge our currency exposure to deliver matching Sterling asset cash flows.

We are thoughtful in our exposures to various sectors. As I've mentioned before, we have reduced our holdings in procyclical sectors like banking, where exposure is less than 5%. We have also avoided sectors which we believe are at risk of significant disruption. For instance, traditional retail and automotives, which together constitute less than 2% of our portfolio.

LGIM manages the portfolio to avoid downgrades and defaults and has been extremely successful at this. Realizing less than GBP25 million of default losses and traded credit since 2007, whilst maintaining overall portfolio credit quality.

As further protection, we continue to hold a substantial credit default reserve of GBP3.2 billion. LGR also has a diversified and high quality direct investment portfolio with stable income from high quality counterparties, often additionally collateralized or secured. 15% of the assets are rated AAA and approximately half of these are quasi-sovereigns, like HMRC and the Security of State.

We added GBP4.3 billion of new alternative assets over 2019, and have had particular success financing internally generated new asset classes in bill-to-rent and affordable housing. Leveraging the experience and skills of LGC homes and LGIM real assets. Again, and I know I stress this a lot, it's important to remember that our primary exposure in LGR's DI portfolio is to the counterparties not to the properties.

We recognize the influence our annuity investment decisions can have, and therefore we've been thoughtful about how to integrate sustainable principles into our asset strategy. We've made explicit commitments on overall carbon intensity in our TCFD publication. Across the group, we have sold investment opportunities to develop and commercialize de-carbonization technologies. LGR alone has made more than GBP1 billion of direct investments into renewable energy such as solar and offshore wind. We invest in assets like social housing and renewable energy, because our pensions are for the long-term and require long-term sustainable assets to back them.

Now, moving on to LGIM. Operating profit was up 4% to GBP423 million, reflecting an increased revenues from flows and positive markets. As previously guided, this was offset by continued investment in the business, resulting in cost income ratio of 54%, which has increased marginally from last year. LGIM achieved record external net flows of GBP86 billion, representing a 9.4% of opening AUM. Of this, international net flows were GBP59 billion and included GBP37 billion Japanese passive inflow reported in the first half. This mandate leveraged our proactive ESG approach and provides LGIM Asia business with a platform for future growth.

We also continue to see strong demand from a broad range of European customers, with flows of GBP11.6 billion reflecting the continued focus we've placed on the region. Total AUM increased 18% to GBP1.2 trillion, with international assets accounting for 30% at GBP370 billion. UK DC had another strong performance with AUM up 33% to GBP94 billion, maintained in its market leading position.

This includes GBP8.9 billion in our Master Trust, one of the largest and fastest growing in the UK, reflecting its continued appeal to DC plans who outsource their governance, investment and administration to LGIM. Total retail AUM reached GBP39 billion. LGIM was ranked second on both gross and net UK retail sales in 2019, as we continue to experience high demand from multi-asset and index products.

As part of our ongoing change program, we continue to invest in the business to achieve the resilience and scalability fundamental to LGIM's future success and to generate operational leverage. Areas we are investing in include digital client portals, technology enabled investment platforms, and international expansion, leading to efficiency and lower unit costs as we grow. Going forward, LGIM related project expenditure currently reflected in group expenses will be allocated to the LGIM result.

Rebasing the 2019 financials would have resulted in GBP29 million transfer of expenses, increasing LGIM's cost income ratio from 54% to 56%. So GBP394 million is the base 2019 figure to start projecting from. To help you, in 2020 we expect the equivalent transfer from group to be around GBP20 million of additional expenses. This allows better transparency and accountability of spend for management, and aligns with the general practice in the rest of the group. And just to emphasize, there is no impact on the overall group results.

In LGC, operating profit increased 13% to GBP363 million. Within this, the direct investment portfolio delivered operating profit of GBP217 million, up 15%, with affordable housing delivering a profit in its first year of operation and existing assets performing well. Our diversified direct investment portfolio now stands at GBP2.9 billion, up 22%. As we added GBP0.5 billion of new investments during the year across housing, future cities, and SME finance. Profit before tax was up more significantly at GBP464 million, driven by the relative performance of the internationally diversified portfolio of equities.

Now moving on to our protection division, LGI. Operating profit was up 2% to GBP314 million, with the UK and U.S. businesses collectively delivering stable growth and margins in highly competitive markets. The decrease in UK reported profits was largely due to a change in intra-group reinsurance of the U.S. business as previously flagged. Consequently, operating profit in the U.S. was up GBP29 million to GBP91 million, primarily due to the same reinsurance change and the reserve release following improvements to recently adopted IFRS methodology.

This was partially offset by adverse mortality in line with experience across the broader U.S. life sector. Total gross premiums were up 6% to GBP2.7 billion. The business continues to grow at good levels of profitability, with Solvency II new business value up 5% to GBP216 million. Looking forward, we expect continued stable earnings and premium growth in our leading UK and U.S. businesses, as we invest in technology, enhance our product offerings and strengthen our distribution relationships.

Moving on to our capital position. At the end of 2019, the group Solvency II surplus stood at GBP7.3 billion, and our coverage ratio was 184%. Despite recent market volatility, our balance sheet remains well capitalized and resilient. As of the end of February, the coverage ratio was estimated a 174%. We have consistently demonstrated a rigorous approach to risk and capital management. Since 2016, it is worth noting, we have maintained solvency of paying a progressive dividend, investing in new PRT and navigating market volatility.

We have bridged the Solvency II surplus to help explain the movement during the year. As we said, operational surplus generation from the back book was GBP1.6 billion. There were a number of well-understood movements as well during the year. Among them, the non-economic impact of lower interest rates from the valuation of our balance sheet was largely offset by positive equity market returns and other market movements. And the mortality release, model refinements and management actions led to positive operating variances. Net surplus generation was GBP1 billion, even allowing for record new annuity volumes. We will, of course, remain disciplined in the deployment of our surplus capital to ensure we meet or exceed our return targets and remain within our risk tolerances.

So to conclude, we achieved record PRT volumes and asset management flows in 2019 with all our businesses producing a good financial performance and double-digit growth in key group metrics. Notwithstanding volatile markets, we have a strong and robust balance sheet and this remains the case. OSG and earnings continue to grow attractively as we execute, giving us optionality to invest in new business. The synergies between our businesses are unique source of competitive advantage, and we have again achieved the return on equity of around 20%.

Thank you. I'll now hand back to Nigel.

Nigel Wilson {BIO 1535703 <GO>}

Thank you, Jeff. Turning now to our outlook. We will remain focused on delivering inclusive capitalism, economic impacts, commercial success and the socially useful outcomes, which give us long-term sustainability. These are not new themes for us. For example, Sasha [ph] and his team have been long-term pioneers of stewardship, active engagements and ESG investment.

Our thinking is now becoming mainstream. Equally, we have led in creating real asset investment outside London. The process now known in governments is leveling up. We've invested in 15 cities to-date including Edinburgh, Newcastle, Leeds, Sheffield, Manchester, Bristol, Cardiff with many more to follow. And more than any other institution, we have responded commercially to the aging demographic. Having led the process of change in many areas, and we are delighted others are following, we will accelerate our pace of change.

Our six macro growth drivers are more relevant today than they've ever been. Markets are coming to us. The aging demographic almost everywhere illustrates the scale of market opportunities. If retirees globally were a country, it would be the third largest economy in the world behind the U.S. and China. PRT, an individual de-cumulation markets will continue to grow. And in the U.S., we are growing our capacity to execute larger PRT transactions. Across the markets where we operate, there are more than 5 trillion of DB liabilities.

LGIM has just 1.7% of global market share for AUM. In 2018, total globe -- global AUM was $74 trillion and is forecasted to grow to $101 trillion by 2023. The UK DC total market AUM is expected to more than double to GBP955 billion by 2028. The switch to DC is key to UK Welfare reform. And we have built quality products and have trusted workplace brand with more than GBP90 billion of AUM.

The next step will be to enable better investment outcomes for millions of ordinary pension service, including modest allocations to new asset classes such as infrastructure, build-to-rent housing and venture capital. Decades of under-investing in the real economy needs correcting. And we are in a strong position in UK housing at urban regeneration infrastructure and climate change.

Carla homes, now have revenues of over GBP1 billion, that's 4x the size when we first invested. And we're growing fast across other housing tenures, affordable housing, later life living and build-to-rent. West Minster may have only just discovered the north, but we are already the people who know how to invest there. And in the Midlands and in the West and in Wales and indeed in Scotland, so we are perfectly positioned to leverage the expected expansion of public capital spending.

Technology will continue to drive market evolution and we continue to make strides with digital and with data. For example in protection, but also the retail products like salary finance, intermediates mortgages and surveying. We've added climate change as a growth driver. Climate change will simply be the defining financial challenge of our generation with huge investment, CapEx, ESG and stewardship opportunities. As we -- as well as risk management challenges for the whole sector. I'll return to this topic this topic the letter slide. But as Mark Carney has made clear, there will be both financial winners and losers, we intend to be the winners.

This slide illustrates the strong growth and growing scale of PRT markets in the UK and the U.S., GBP40 billion and GBP30 billion markets in 2019, respectively. But equally the fact that in both cases 90% of the DB markets remain on corporate balance sheets. Market leadership in global PRT requires several characteristics, which Legal & General already possesses. Actuarial and longevity expertise, asset management skill, the capacity to source attractive regulatory compliant real assets like our GBP4 billion investments in the world's leading University in Oxford, and the ability to execute and administer large schemes.

We also have the ability to work with schemes on a de-risking journey through LDI and potentially innovative capital-light solutions towards full buyers as our recent AIB transaction illustrated. This is solving the issue that consolidators are trying to address.

This slide is a new disclosure, enabling you to see the strongest growth areas by product, by geography and by channel as we diversify LGIM's expansion and lean into globalizing asset markets and growth. Compound growth in the high 20% and 30% ranges in multi assets, the U.S., Europe, UK, DC, and through international channels illustrate the increasing breadth and depth of our coverage and our ability to win mandates.

LGIM is more diversified than is generally recognised. Index at only GBP404 billion is a third of our AUM. LDIs in obvious step, as Jeff highlighted, on the path to buyout. And indeed the majority of our PRT business comes from existing clients, 60% plus by number and 90% plus by volume in 2019. Multi-asset funds are aligned to grow with the expected growth of DC, and more than 90% of our AUM is external. We have a GBP100 billion of internal funds, mostly annuities or nearly GBP80 billion excluding Mature Savings, which is shortly to be sold. That's only 7% of total AUM.

Kerrigan has updated you on LGC's growth at recent results presentations. The division continues to make strong progress, now with GBP2.9 billion in diversified direct investments. And it's on track to achieve GBP5 billion in the next three to five years. We are building a number of an alternative asset businesses across three broad asset classes. That's future cities, housing, and SME financing. In housing, for example, we have a diverse range of businesses which provides solutions by life stage, by affordability and by tenure. These include affordable homes, later life living and built-to-rent.

Our alternative asset businesses are at various stages of profit maturity as shown on the slide, and therefore have significant future growth potential. We're also building them to attract LGR funding and third-party capital. This year, as we said earlier, we are formally adding climate. Specifically, the challenge of addressing climate change to our strategic growth drivers. This is where our combination of profit and purpose can combine to the greatest effects and where we can mobilized the skill and enthusiasm of our best people to produce inspiring results.

As you will see, when we publish our TCFD report next week, we start from a strong base on making real progress. Among the scale players, LGIM is rated as a leader in ESG investing. We haven't just discovered this. We were pioneers in the field, in the E, in the S and the G, and we're further strengthening our analytical and product capability. But also where we invest our own assets as a principle, we are using the investment capability of LGC to back new technologies. For example, in photovoltaics, electric vehicle charging, an upstream energy management. We also set new market leading carbon standards for the house building industry through our housing businesses.

Transitioning power generation from hydrocarbons to renewables like on or offshore wind involves a transition from OpEx models to CapEx models. The cost is upfront and investments is long-term. This is highly suitable for debt capital market financing and whether technology is established and the economics proven, as in wind, highly suitable for LGR's annuity portfolio.

We have already GBP1.3 billion of renewable energy assets in the portfolio. But all of us, institutions and individuals have to step-up. What the finance sector has done collectively so far has not slowed the pace of global warming. We all fall a longway short. The stakes are high for the planet, but also for business and the financial sector. Addressing climate change is therefore the next consistent step in the delivery of inclusive capitalism.

Our track record since 2011 is very strong. From 2011 to 2015, we delivered 10% annual growth in EPS. Then, we set out our ambition for replicating that growth from 2015 to 2020. We have achieved the current goal in four years, not five. Our growth in operating profit, ROE, EPS and DPS and book value has been achieved through a period of cereal changes and challenges. We've had Solvency II, pension freedom, not for longer days Brexit, and various political instability. But despite concerns around each of these at the time, none of them have dented our ability to deliver good business or eroded customers' trust in our brand.

Legal & General has shown itself to be not just a highly resilient business, but one that is quick to adapt, to change and to evolve. The latest challenge is now coronavirus. So far, there's been no direct effect on our business. Our exposure to the most exposed sectors is very small and our balance sheet, as Jeff has explained, is strong.

We have ridden through previous challenges precisely because of the consistent relevance and application of our strategic macro drivers of growth and the capacity of our people to execute that strategy effectively. This remains the case today. Despite the effect of the virus on markets, we are now emerging into a period of relative political stability in the UK. And the government's economic and policy direction as well as markets and public sentiment is increasingly aligned to the inclusive capitalism program we've been pursuing for almost a decade. Having done five years work in four years, we do not intend to spend the next year resting on our laurels of costing.

In the autumn, we will set out our ambitions for the next phase of our development for you. Headlines will include, how we intend to build on our global leadership in pension de-risking for corporate clients and retirement income provision for retail customers. How we accelerate the deployment of patient capital to improve the built environment investing in our cities and infrastructure. How we grow diversify a modernized to become a world-class global asset manager. And how we deploy data and digital technology across our whole insurance and investment infrastructure.

In summary, how we build on our established strengths to become more international, more technology focused. And most importantly, how we will rise to the challenge of the era, financing transition to low carbon and in delivering inclusive capitalism.

Jeff and I are now very happy to take questions. And as usual, our senior management team is here to pick up the really difficult ones.

Questions And Answers

A - Nigel Wilson {BIO 1535703 <GO>}

Question And Answer

Q - Andy Sinclair {BIO 4672001 <GO>}

Thanks. It's Andy Sinclair from BOA Securities. Three for me as usual if that's okay. Firstly, on LGIM you've given some pretty constant outlook on the floors pipeline for the U.S. for 2020. Just wanted to give us a bit more color on what you're seeing in the pipeline? What's in the mix and what that could do for the cost income ratio as well?

And secondly, I realize you've given a solvency II number as at February 28. But I was just wondering if you could confirm after recent market moves in the last few days that you're still above 170 and give some more color?

And thirdly, was just on the annuity book. You've talked in the past about that book becoming self-sustaining and that kind of 80 billion to 100 billion range, 76 or getting close. I just wonder if you give some color on the uplift to cash and an organic capital generation as you get towards that level. Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay, I'll take the first one and Jeff will take the second and third one. I'm not going to try and steal Michelle's standard to be fair. I mean, she'd love to being here today, but sadly she had very serious skiing accident. So she is not with us to answer that question. We try to use a couple of slides to give you the direction of travel that we're going in. Clearly, we are delighted with the success that we've had in Japan, breaking into China and the continuing to have great success in the United States.

I think, the new asset classes that we've been entering into for real assets are going to help LGIM that will help drive more revenue and more profits going forward. We're very happy with multi-asset in the way that's aligned with the DC business. Clearly, LGR is a great driver as well for LGIM at the bigger it gets the higher quality and the longer the returns, longer revenue streams that LGIM perceives.

So we were very happy with that. I think the cost income ratio has risen as you pointed out for two reasons. I think underlying cost have driven -- risen [ph] in the business and they've been a little bit ahead of where we expected and Michelle will address that when she presents.

And as Jeff mentioned, we've still been investing in the business to create this global business and expect that investment to continue over the next two to three years. Jeff, do you want to take two and three?

A - Jeff Davies {BIO 20023574 <GO>}

Yes. It really is the hot seat that screening for them. That's why I sat there with it. Yes, solvency II now, yes, I mean even with the most recent movements you're talking a 1%, 2% movement. So we're well over 170. We continue to monitor it, there are many offset and impacts equity rates spreads inflation. So they all are in the mixer around that is never as simple as you all know as just following our sensitivities. But yes, so we're comfortable with that. We're in a strong position and we monitor it regularly.

Yes, annuity self-sustain I have talked about this quite a bit that definitely stands, but I was born [ph] out by our planning when you're at suddenly 90 billion, 100 billion [ph] portfolio. Then that business covers the strain for sensible levels of volume in line with our ambition the 40 billion to 50 billion and also covers its contribution to the dividend. And so, that is something we're aiming at with that GBP40 billion to GBP50 billion and will -- it will actually give more detail of that probably in the Capital Markets Day. So we will share more on what it looks like some of the dynamics et cetera.

A - Nigel Wilson {BIO 1535703 <GO>}

Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean. Can I ask three questions, one slightly delicate. Firstly LGIM, when you are going to reaffirm the 8% to 10% growth target, which was mentioned a couple of years ago. Following up on that question, Jeff -- or the last question, when you talk about covering the strain and its contribution to the dividend, what are you talking about new business strain? Is that 100% or something like 150? And what is the contribution to the dividend?

And then thirdly, the indelicate one, your base mortality improvement was about 1% improvement. With coronavirus, are you doing any scenario testing? Or can you give us any scenario testing for potentially what that could do? Because certainly its death rate of the older ages is a lot more than at the younger ages?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I'll say little bit on the last question. And I think to be fair to Michelle, she's not here today. And I think, she wants to -- she is got a very long and worthy presentation, which you're all going to get it some, at some point when she's back to work. When she'll go through the whole strategy for LGIM. On the whole -- [ph] issued, it is quite interesting from a social point of view that we've been talking a lot about people dying earlier than expected. And in our cities and towns across the U.K., typically the poorest areas people died at 58 and in the richer area is about 85 and we've had very little social concern of much debate about that in the last 20 or 30 years.

But coronavirus is sort of resulted in us getting hugely interested in this particular topic and we've agreed an enormous I think the largest private sector partnership with Edinburgh University to do a huge amount of research on this very important topic. As to why people are dying much quicker than we all expected indeed all of my brilliant actuaries that sit in this room got that one wrong. I'll let Jeff answer the really technical questions that you asked as well Andrew.

A - Jeff Davies {BIO 20023574 <GO>}

Yes. So sustaining point, I mean, that -- that's not at the 4% level that is holding a sensible solvency ratio. And so that's what we factor in there that is fully financed in itself and equally on the dividend, it's our own current projections on the contribution what it has been historically what that business has been contributing via rail gas and our views on how we want that to grow over time. Obviously it is a whole load of variables, what level of strain? What makes a business or volumes? And that's why we need to give a bit more color in the future presentation.

A - Nigel Wilson {BIO 1535703 <GO>}

Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. The slide Jeff you showed, about that solvency ratio over the last four years, holding pretty steady or actually, I think even moving up certainly over that period. I mean that has benefited in the last few years from a number of disposals quite a lot of management actions. And I suppose linked to the question that has been asked already about the self-sustainability of the annuity book. I mean you're talking here about GBP40 billion to GBP50 billion over five years, which would actually imply slowing growth in the annuity book. So I'm just wondering, should we then assume slowing growth in that respect? Or do you have levers to pull that can enable you to grow faster than that GBP40 billion to GBP50 billion? That's question one --.

A - Nigel Wilson {BIO 1535703 <GO>}

I might get Laura to talk about the growth of the annuity book and Jeff can pick up on the technical point to your -- [ph] rest.

A - Laura Mason {BIO 20420360 <GO>}

I mean, we certainly see the pipeline in the U.K. and U.S., meaning that we can is sort of have a very safe target of GBP45 billion to GBP50 billion. I mean, I will let Jeff comment on what other leaders we have to pull to go above that level, but the market certainly is there in our two core markets, our pipeline in the Canadian market is also growing, which we haven't factored into to that 45 to 50.

A - Jeff Davies {BIO 20023574 <GO>}

She's doing -- [ph], it's the 43 -- went from 45 to 50 without anybody -- and I know -- that's I've been doing that for years with the Board but suddenly we've got a Chairman now, who knows this -- those things and says that wasn't quite what you said at the last meeting Nigel.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. As I've said many times, we always have a wide range of management actions. We certainly have levers to pull. We -- they take many, many different from whether they're the model refinements et cetera that we see but more substantially partnerships temporary capital provision from people who are very happy to give us third party capital reinsurance arrangements. We have some quite innovative reinsurance structures that give us temporary financing at pretty low cost of capital. So there's always no shortage of parties wanting to talk to us and no shortage of brains to put together those structures. So yes, we're comfortable; we can allow those different volumes.

Q - Oliver Steel {BIO 6068696 <GO>}

Can I ask my second question? No, I'm going to cut it down to two. Second question is, you've said again that interest rates are economically not that important if you know they affect your solvency ratio. Given that the share price panics every time bond yields faults. Can you just sort of talk us through what impact lower bond yields really has then in practice. So if it's not the solvency II ratio that matters for you. What does matter?

A - Nigel Wilson {BIO 1535703 <GO>}

I think, people have always been concerned about defaults and that for many, many years that was the discussion here is, what the defaults is going to be. What's going to arise in the economy? Now we've had many years of law defaults and as Jeff said we only had GBP25 million, since 2007 and the provisions now GBP3.2 billion that sort of disappeared from everyone's economic understanding, but hasn't turned sentiment or perception. And when rates or credit spreads move around, our share price seems to move disproportionately. And I suspect that's not through buying and selling by people that's much more by algorithms. And I think, we all have to get used to the algorithmic trading world in which we live in now when, you, you go to your own rooms there's very few people compared to what there was you know it 10 to 12 years ago. So that's, I think that perceptions hopefully over time will diminish and to a certain extent it -- no matter what we said about it, what empirical evidence we've produced to it.

The second important thing about our business model which people forget is we encourage people not to on BB assets. We have a system which infects LGIM trades out of assets if they think they're going to go down to the BB. Because we don't want to lose that reputation that we've got outstanding credit management. So we hold a lot of very good quality BBB assets but very, very few BB assets. And to get to be held as BB asset.

You've -- you got to have a pretty good prospect of getting upgraded getting [ph] Tesco would be a very good example of that when they got downgraded to BB, we held on to quite a larger part of our Tesco holding, because we had a lot of confidence in the management that they get the credit rating back up.

So we have, -- Simon can go into because he has been involved to this for many years, going to the details of how we've set that up and manage it, I think very successfully over there. The last ten years, if fact Kerrigan was around 10 years ago as well when we were thinking through how -- what was the best way to avoid to jump to default types of situations? You want to pick up the economics of -- Jeff?

A - Jeff Davies {BIO 20023574 <GO>}

Yes. I mean it's -- it's more reiterating are the rates itself doesn't turn to get to discount in a very, very, very long liabilities. You get some risk margin impact the SCR simply gets bigger. We have the same pound sterling the day after as we had the day before to pay the claims. The ratio, as you know, is reasonably sensitive therefore but actually the total surplus doesn't change that much in the grand scheme of things.

So no because they've run off am IFRS model it doesn't have much impact to that it's much slower over time. So we don't really see that it's the same as the non-economic effect is simply the accounting on the term life business where you see that coming through in the investment variance. We don't lose any money economically. We don't pay anything out of the door, when those rates go down.

Q - Jon Hocking {BIO 2163183 <GO>}

Good morning. Jon Hocking from Morgan Stanley. Three questions, please. On LGI Jeff, you mentioned you've had this sort of investment variance because of rise. And if you give us an update, given more time to the U.S. curve recently given what you just said, I'm assuming that's a linear impact rather than anything which is geared?

And the second question on [ph] solvency II sensitivities, [ph] sort of curiosity for the sector where the annuity companies have got a positive solvency impact when spreads widen? We've had about 25 bps levers flows and credit spreads, you'll sense to use for a 100 bps. What would actually have to see in spread widening before you'd actually see a negative impact on solvency?

And then finally, the [ph] of risk margin changes which came out sort of a day or so ago, which look like so tapering the risk margin for long durations. Have you had a chance to look at that? And if something does change the risk margins, so just a so wash for the transitional returning some economic benefits to you? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I'm going to ask Simon and Tim to take the third question and Jeff to take the first two questions.

A - Jeff Davies {BIO 20023574 <GO>}

All right, I have got the answer to third one. Yes. It's the response in change, we would expect to wash through the transitional. The impact is helpful, but probably not quite as much as we would have hoped. Not sure it's necessarily going to change the economics for the annuity business and reinsurance will still be a preferred option.

A - Unidentified Speaker

Yes. It's relatively small -- set out. First on the IV yet, it's reasonably linear especially on Bernie's business, slightly possibly even slightly dampened from linear in the U.S., because they hold some assets to back it was Bernie doesn't have any at all.

And the S2 spread yes, we show the sensitivity you definitely go well beyond that. There -- I'd say there isn't a simple answer because it depends the dispersion between A, BBB, BB and what we've already have seen or assumed for downgrades at that point. So it would be wrong to try and give an answer to that. I mean, Tim can talk you through some of the dynamics if you like as we look at it constantly. How do those after those sensitivities hold up, we present them to gain try and give the clearest picture we can with there a sensible range of movement. Obviously if we ever get beyond that, we'll update the market, if we thought it wasn't appropriate to use them.

Q - Abid Hussain {BIO 20229932 <GO>}

Good morning. Is Abid Hussain from Credit Suisse. Just two questions, please if I can. Firstly, on assumption changes, can you just talk to the 390 million valuation change that's coming through the LGR operating profit numbers? I think, part of it is this moved the CMI '17 tables, but there's a larger part due to the move and base tables. And I just want understand what to extent can we assume that's repeatable thing falls [ph] obviously. If you could help us in terms of thinking around their bodies?

And then just related to that, the second question is on the mortality reserve release outlook. So it proves that you got to around 200 million, it's a little bit weak, I guess in light of the latest CMI 19 projections. Are you giving any more guidance going forward?

A - Nigel Wilson {BIO 1535703 <GO>}

Jeff, (Inaudible).

A - Jeff Davies {BIO 20023574 <GO>}

Sure. Yes. So yes, you're right. The experience of the assumption changes in LGR is a combination of the 155 we talked about this close to 200 million for the base table change that is almost entirely mechanical. We've said before, we set our base table assumptions. Based on a roll in five year average, we don't like to put too much weight on the most recent experience. Clearly, we were bringing in 2018 when we did that calculation and therefore dropping off 2013. And you all know that there was heavy immortality in 2018.

So, therefore that about flows through, we flow through as it's, that's why it's characterized as the sort of business as usual, we did the same the previous year it was less of a move, it depends what you see. You can already tell 2019, 2014 were quite similar, so you won't see so much. We'll see what happens in 2020 and how that compares to 2015, so it's very much a rolling average with judgment obviously of how is it appropriate? What are we seeing in our own book of lives? How do we think, things are changing? But it's that base assumption set in a reasonably mechanical way which is why it falls there.

[ph] judgment is that is the trend because none of us know what's going to happen in the future. And so yes, we're not going to guide yet on the number there's a lot of work to be done on that. We definitely benefit from being a year behind so we have now seen what 2019 does again mechanically to that table. It's a small change. I think it's about a month extension to the life expectancy. So we are in a strong position of being able to look at '18 and '19, and by the time we set our bases, we have pretty good view of what's happened in 20 as well and therefore be able to reflect all of that and certainly therefore make sure we never over shooting without doing something wrong. But we are able to see almost three years of tables into the future from where we are. So will give an update around the half year, when we live -- developed our thinking, but some ideas well what's playing out in 2020?

Q - Greg Patterson {BIO 20260278 <GO>}

Hello, Greg Patterson, KBW. Three quick questions. One is, you mentioned you've invested in structuring and we've got this example of this assured payment policy. Obviously, when you bring in to third parties to help with a financing you give away up portion of profits. So, I was wondering, how as we increasingly bring in third-party financing? How the PV new your business premium margin would progress over time.

Second question, I noted, what we noted that the lifetime mortgages have come quite dramatic. Well, the sales of them are slowed increased competition. And I mean that is a unique duration. I was wondering, why we haven't really seen any impact on the margin from the reduction in the saying annuities and also in the PV new business premium given that we've seen a reduction in lifetime mortgages?

And third, I wonder if you could upgrade on the downgrades sort of situation. Have you had any downgrades this year? What's the prospect for downgrades in 2020, because obviously, that's the key issue with your solvency II ratio?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay, Laura -- answer the first, Chris the second and I'll do the third.

A - Laura Mason {BIO 20420360 <GO>}

So the APP policy Greg, and is actually an insurance policy covering as Jeff said, all market risk of a pension particular part of a pension scheme, so in that particular example we haven't brought any other third-party financing in and it's quite a neat way as Nigel said of finding one of our solutions to the sort of dilemma of their consolidators are trying to address so that sort of good capital light solution for us, where we didn't pass any of the financing or profits to anybody else?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. On the third party build to rent would be another example where PGGM around partner in the development phase. We've got a lot of expertise through all their continental efforts in build to rent. We will be using LGR to provide the debt financing for that increasingly on a go-forward basis.

And LGM also have an investment product open to lots of different institutions to invest in build to rent. Many of whom don't want to be involved in the development phase, but actually do want to hold onto the assets in the long -- over longer term. We view that as a big asset opportunity, the equity for that initial equity provided by LGC and PGGM long-term equity provided by LGIM's clients, and the proportion of the financing -- long-term financing is provided by LGR.

Jeff mentioned in his presentation that's kind of how it works affordable housing is very similar and I suspect later life living is going to go down the same route, where we create these new asset classes through a combination of third-party equity, our own equity funds from the annuity businesses and a mixture of LGC, LGR and LGIM, these are the sort of sweet spots for us to invest in. Do you talk a little bit on lifetime mortgages Chris?

A - Chris Knight {BIO 18966542 <GO>}

(Inaudible).

A - Nigel Wilson {BIO 1535703 <GO>}

Okay.

A - Chris Knight {BIO 18966542 <GO>}

(Inaudible)

A - Nigel Wilson {BIO 1535703 <GO>}

Well, I think there's lots of things we've mentioned, lots of other third-party want to provide capital in different forms to this market and we've got lots of innovative solutions. Because the -- I think, we all agree the size of the market is so big relative to our balance sheet.

We have to come up with innovative solutions, which solve the problems for clients, but also solve the issues for our balance sheets. And the number of solutions and innovation that our team has shown in developing those solutions has been incredibly high. And that, I think each time we set up and present -- Laura will have yet another interesting structure for us to talk about.

A - Chris Knight {BIO 18966542 <GO>}

Thanks on lifetime mortgages, we could see from about Q2 on this last year was a soft market and for us volume is not the be-all end-all, as the chairman reminds me on a monthly basis. We can also see from market. We're achieving so structurally higher margins than our competitors and that in itself of course feeds into annuity pricing and margins. So that would have been supportive in the round on margins. And I think, while other people are sort of dipping into and out of the market, our focus is building a long-term sustainable business that balances in the right way between risk and margin and customer value. That's our focus.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. On the anytime [ph]. -- No, I mean the only interesting thing I think that's happened is in the BBB market in the United States, where we've seen two trends. One is that self-help by a lot of the players including GE, AT&T and that's proving to result in some upgrades in the United States. The downgrade has been Kraft Heinz, who -- as you know didn't execute on their plan and fell behind in terms of -- fell behind in terms of their plan, got downgraded and their share price reacted very negatively to that, which we thought actually in the round was quite a positive outcome for us as a firm. And we've had [ph] a major events.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just a couple of questions. I guess, the trend in your asset portfolio has been pretty clear there's been a great portion of internally rated bonds, which has obviously supported the business. But also there's a notable increase in BBB. So can you just talk about the general trend, that's gone from 30% to 33%. So can you just talked about the trends there and certainly if there's a dislocation in the market, should we see a change between the internal rated sort of bonds to more liquid credit within your portfolio? That's the first question.

Second question is just in terms of the MA, I think at the half year, you had an MA spread of around 121 bps, it's 110. Is that just driven by spreads in the market or was that a portfolio shift? And second thing, could you tell me what the MA spread is currently if you have that available?

And the final question is just in regards to treasury assets. It's declined by about GBP500 million. I guess Legal & General finance has that liquidity position, has some money being injected in some businesses or investments elsewhere and should [ph] talk about that? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

The third one, Kerrigan talk a little bit about, what we've actually used the money for, most of the money is actually being given to Kerrigan infirm number of started visiting, you can talk about. Jeff, do you want to answer the second one along with the first one.

A - Jeff Davies {BIO 20023574 <GO>}

Yes. You're right. As spreads came in and therefore the matching adjustment went down, spreads have gone out since then, so it'll be, bit higher. We don't -- I don't have the exact number. Its effective [ph] doesn't even have the exact number. But you can know that it basically moves in the same way, the deduction doesn't change the fundamental spread. So an average bond portfolio added on to the 110 and with nothing much would have changed since the year-end otherwise.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I think, the long-term trends, and the amounted BBB that we have is about the same. Some of the BBB is actually assets under construction, which is going to become double AA assets. A lot of the government stuff is actually assets that were conducted -- constructing for them which get rated BBB. That's the only delta really that -- from the -- from portfolio changes.

Q - Johnny Vo {BIO 5509843 <GO>}

Thank you.

Q - Analyst

(Inaudible) Yes just on the treasury assets though, the overall cash position for the group really so 2.5 -- GBP2 billion-ish cash. We've got plenty of cash there forward-looking interesting investment opportunities at the right times it to invest, so many pluses and minuses in that, in that figure but the net GBP500 million or so invested in across our portfolios. So data centers [ph] point and start the year. And then later in the year, things like the affordable homes business and later living really is interesting areas in which the -- put money in the ground and then things came --

A - Nigel Wilson {BIO 1535703 <GO>}

It's a little bit more about the affordable home business and how excited we are the prospects?

A - Jeff Davies {BIO 20023574 <GO>}

I mean a really interesting business for affordable homes. So I think really brings to life a lot of what we're doing on inclusive capitalism. It's a very simple model of plenty of pension money looking for our home and plenty of affordable homes need to be built. They pay CPI-linked rents, which is fantastic to back pension risk transfer deal. So with that simple model, we set up over the course of the year, disability to use pension money now invested in this business to create these affordable homes and great that -- great commercial outcome for people here and also a great social outcome in terms of more affordable homes?

Q - Analyst

As far -- a 1,000 homes this year?

A - Jeff Davies {BIO 20023574 <GO>}

Yes. So, 1,000 homes this year rapidly grown to 3,000 homes, 750 million pretty much in the pipeline in terms of those homes. And we think, we can scale this up commercially pretty quickly. So very exciting.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. We think this is sort point to differentiation between us and the competition. Yes. I think you've got no one now. Colm?

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks. Colm Kelly, UBS. Just on the DL gas solvency ratio and I'm just wondering if you'd mind maybe giving an update on even a broad range around that given it's a high proportion of the cash flow? And then just secondly, on the subsidiary dividends from our assets it's fallen 10% year-on-year. Now, it remains at a healthy level and clearly these things are not linear. So I'm just wondering, what the decision-making behind that was. And do you remain confident in the ability to grow the remittance from LGAS in line with the strong growth in annuity new business volumes? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. We -- there isn't really a target for the internal dividends on a year-to-year basis. So we've basically using it to pay the external dividend. But one point a few years ago, we used the dividend a lot more out of it than we have done that [ph], we are certain extent investing some of that in some of the areas that LGAS uses. And the LGAS balance sheet is about 20% less than solvency ratio than the group balance sheet. It seems to hover at about that level like, but go up or down to a couple of cents either way. Yes.

Q - Ashik Musaddi {BIO 15847584 <GO>}

This is Ashik Musaddi from JP Morgan. Just one question. Now your five-year charts are pretty interesting. But it also shows a clear trend that there is a straight line up growth and annuities and related business like LGC, which I would say is capital backing annuities. But if we think about asset management LGI, it is not growing as fast as that. So if I fast forward five years, I think you're annuities business will be 80% of the group. How do you think about diversification benefit that is captured in solvency II -- if you keep moving one business much faster than others? I mean, do you think that you'll be losing diversification benefit? Is it already captured in past five years how it has moved or the diversification benefits are still accounted at the same level which it was like two, three years back? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. I think, I'm going to let Bernie give you a little prequel of his presentation later in the year on what we're going to do to accelerate the growth of LGI. And because you're right, we got a very good diversification benefit of it. It would be very beneficial to us. If Bernie could grow a little bit quicker, he's always going to do it. (Multiple Speakers)

A - Bernie Hickman {BIO 19334629 <GO>}

I'm in the privileged position of been able to focus on growth, also in a great position, have been really strong in several markets. But it is mathematically harder when you're at 24% market share to be delivering the growth. The good news is, we've got great positions in the U.S. protection business. We've got a business at scale but with great plenty of growth potential. I mean, really their market share is 3% to 4%. And so, it's got plenty of room to grow there and so, yes that -- I spent a lot of my time focused on how do we get that U.S. business growing faster. And the great news there, we've got lots of technology, developments just going into the market now, being really well received and we're really hopeful for that to really lead to even faster growth from our U.S. business.

And the other trend and theme is technology investment in Fintech and so investments like in salary finances. It's really closely aligned with what we do as a business. It's got a great social purpose bringing financial well-being via employers and it's been going well and we've got great hopes for that going forwards. And so that's the business we can help to grow and really is great synergies in the workplace both within LGIM workplace around group protection benefits our business as well.

So yes, we've got plenty of growth to look at. Yes, I'd say we benefit enormously in LGI from fantastic diversification benefit from annuities and it's a, is a truly synergistic capital position. And we are trying to grow as fast as we can, but with all the usual caveats around making sure we're optimizing things and doing it in a really risk balanced way.

A - Nigel Wilson {BIO 1535703 <GO>}

There are couple of comments that should -- I have on that. I think the first one is each the businesses have these adjacencies. And Kerrigan mentioned that the likes PodPoint which exists there. Chris has got some care businesses, which people don't know very much about them. Bernie's got salary finance and a whole bunch of other things.

When we come to November, we'll talk a lot more about those sorts of things, which will help accelerate the growth. And we all I think shared, the feeling that our U.S. businesses -- all the three of our U.S. businesses could go a lot quicker. And we've been very measured in our expansion, get the right people, get the right system, get the right technology, build a brand and that's been really successful for us. I wouldn't quite agree with the point that you made about LGC's -- [ph] being totally tied to LGR. I think there's a lot of great things that LGC is doing outside of the LGR. Yes, there's a big synergy with LGR. There's a lot of very exciting things that you'll hear more about that. In fact, it will be long releases about that during the course of this year.

Two more questions. I think there's two more hands -- or three hands up.

Q - Dominic O'Mahony

Thanks. Dominic O'Mahony Exane BNP Parribas. Incredible -- two more questions on box if that's all right. So the first is in terms of the result in '19 looks like new business margins on an IFRS basis was just slightly higher than expectations and maybe strain was slightly higher. I think that's consistent with ensuring younger populations, tell me if I'm wrong? And is that a trend we are going to see presumably younger populations that value creation per pound of premium -- [ph] lifetime is higher?

Second question, you -- very helpful for giving us some targets for growth in that business GBP40 billion to GBP50 billion over the next few years. You also showed us that you actually think the market will grow, the UK market will grow in 2020. If you maintain your share of that actually just going to lost decline in 2021 and beyond. Are you hiding your life [ph], people say in this business? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

I will never knowingly. -- And I'm not -- [ph] worthy either which is this -- the headline and I seem to get associate with courtesy of Mr.Godfrey. Do you want to just take the first question, Laura?

A - Laura Mason {BIO 20420360 <GO>}

Thank you, John. I mean, I think it's easy to read too much into the sort of slight change in both IFRS margin and the strain. And I think on balance, we definitely did one large deal last year with slightly shorter lives, but we also did some longer duration deals as well. So probably imbalance there wasn't a huge change in 2018. There was very slightly less inflation, which we talked about at this time last year.

So I think, we do aim to keep relatively steady on both those two metrics and sort of right business that means that we keep relatively steady on both of them and therefore, work through reinsurance and other things to make that happen. I mean, I think it is -- I mean it's a hugely exciting market for us. And we have a really good sort of strong steady pipeline; we've mentioned we have been able to write larger deals in the U.S. last year as our balance sheet size has grown. And we are as starting in Canada, it wasn't actually on the slide, but that is a sort of CAD1 trillion market and only sort of, I think 5% of that market has gone to insurers so far. And it is increasing in terms of the overall levels that are going to insurers. And we have as clear on the slide, we have a partnership with brickfields, where currently we're reinsuring and a good strong pipeline with them for the start of this year.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Last question.

Q - Andrew Baker {BIO 3694545 <GO>}

Hi, this is Andrew Baker, Citi. So just two questions, please. First on the risk margin. So previously the POA has expressed the concern about the amount of longevity that's being offshore -- is there -- with the potential change the risk margin, it doesn't sound like, it's changing your view on whether you would use reinsurance, is there a potential risk of the PRA, we will change their view on how much they are comfortable with across the industry? It's the first one.

And second one just on mature savings, there's obviously been a delay to that close. Is that specific to the past seven transfer? And what -- and what's going on there, please? Thanks.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. Only respite internet ever meeting with someone's on Monday. So I'm asking that question myself and see what he has to say about it. But it's one we've been asking for a long period of time. If you rightly point down, there's a tradeoff between how they adjust it and the amount of longevity that's taken in the U.K.. Our preference would be for us to take more longevity in the UK, we've always said that unless they move the terms and they move them slightly independently of what it offers suggesting that's unlikely to happen. I don't know whether any of you want to add?

A - Jeff Davies {BIO 20023574 <GO>}

No. That's right. I mean, I think that last point is the most relevant. This is very much an -- per consultation that's put out, which may or may not involve trade-offs against other items within the -- it's not necessarily where the PRA thinking is on risk margin and not reflective discussions we have around that. I mean they have the drivers that you talked about and who knows what flexibility there may or may not be in post Brexit world.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. We'll all be around for a bit afterwards to answer any further questions that anybody has. I'd just like to say a big thank you for all of your support, all of your very detailed questions, which amazingly you've managed to conjure up in just a few hours since the release came out. And we thank you for your enthusiasm for all of that. We will be seeing you at least twice during the year, where we do the half-year results on our Capital Markets Day in November. And thank you, a big thank you to all my colleagues there, for answering the questions today, and for delivering a stellar set of results in 2019. And let's hope we can do this at something similar in 2020. Thank you.