Q3 2014 Sales and Revenue Call - Interim Management Statement

Company Participants

- John B. Pollock
- Kerrigan Procter
- Mark J. Gregory
- Mark J. Zinkula
- Paul Stanworth

Other Participants

- Alan G. Devlin
- Andrew J. Crean
- Andrew J. Sinclair
- Andy Hughes
- Ashik Musaddi
- Gordon Aitken
- Greig N. Paterson
- Jon M. Hocking
- Oliver G. Steel
- Ravi Tanna

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the Legal and General Q3 2014 Interim Management Statement Conference Call. My name is Andy and I'll be the operator for your call today. There will be a question-and-answer session at the end of today's presentation.

I would now like to hand over to Mark Gregory, Group Chief Financial Officer to begin today's presentation. Mark, please go ahead.

Mark J. Gregory {BIO 15486337 <GO>}

Thanks, Andy. Good morning, everyone, and thanks for joining us on the call this morning. With me in the room today are John Pollock, Mark Zinkula, Kerrigan Procter and Paul Stanworth. We will follow the usual format of me giving an overview of the Q3 results we've announced today, then we'll open it up to questions.

The two main themes of our Q3 trading statement are cash and growth. Starting with cash. Operational cash at £844 million is up 8% for the first three quarters of 2014, and net cash is up by 12% to £827 million. The reconciling item between op cash and net cast is new business strain and this is down 58% year-on-year at £17 million as our increasing scale and efficiency benefited our LGAS Protection and Savings businesses in particular.

We've also taken the opportunity today to reiterate the 2014 operational cash guidance that we gave back in March. Our business model continues to deliver significant and predictable cash generation, and our structure means that the vast majority of that cash flow can be dividended up to Group, thereby underpinning the Group's dividend.

Those who follow our results will be well aware that we focus on growing the stock of our business. And it's that stock which drives our current and future cash generation. The business highlights bullet points on the front page of today's IMS release are all stock measures. Across the business, we're delivering growth in stock typically at double digit rates.

Annuity assets up 16%, now just under £40 billion; LGIM total assets up 14%, now £676 billion, or over $1 trillion; Savings assets up 13% to almost £120 billion; UK protection premiums up 6%; U.S. protection premiums up 10%: and direct investments more than doubled to £4.6 billion.

These rates of growth are being delivered both in our traditional markets like protection, investment management and savings, as well as newer areas of focus, such as housing, where we're building on our established capabilities. For instance, we facilitate one in six mortgages in the UK.

Housing illustrates our ability to focus on a market where there is a clear supply-demand imbalance, where many of the market players are relatively small (2:56) constrained and we're able to deploy our skills and scale to deliver almost immediate results.

Looking at our businesses in turn, I'll start with L&G Retirement, annuity premiums year-to-date are up 5% to £3.9 billion. Within this, bulk annuity sales are up 29%, at £3.4 billion. These numbers exclude the transaction in Q3 which transferred just under £2 billion of annuities from with-profits to our shareholder fund. Including this transfer, we've returned £5.8 billion of annuity business year-to-date. Of this £5.8 billion of annuity business, only £508 million was individual annuities, well under 10%.

Individual annuity sales in the quarter were down 61% year-on-year and we see little prospect of upside against the forecast we gave at the time of the budget that individual annuity volumes will be 75% lower in 2015 compared to 2013. Even before the budget announcement, we were expanding our bulk annuity business because the global de-risking opportunity was where we saw the real growth potential.

The strength and flexibility of our annuity franchise means that we've been able to secure bulk volumes, which have more than offset lower individual annuity sales. Looking ahead, our bulk pipeline is strong including our immediate prospects, hence our comment today that we have a high degree of confidence that we'll finish 2014 having secured around £8 billion of annuity transactions, which will be more than double the record we achieved in 2013. The usual caveats apply around timing and market conditions for the portion of the £8 billion not yet fully contracted.

The financial consequences of the Chancellor's changes for us are limited, but we'll not be walking away from the provision of retirement solutions for individual customers. We will have a range of products available for next April including tax efficient cash out plans, new income-oriented multi-asset funds from LGIM and still annuities. We will continue to provide good products, good value, and good service.

The message to people reaching retirement is simple, access your pot how you like, but you can only spend it once, and make sure you get guidance. The message to shareholders is also simple. The financial engine of LGR will be the bulk market. The individual market will be a much smaller part of the overall contribution.

LGIM total assets are up 14% at £676 billion. A key part of our strategy for LGIM is focused on the de-risking trend, which is occurring within defined benefit pension schemes. The impact of this is pretty well illustrated in this trading update, where our year-to-date LDI net inflows were £18.4 billion whereas our index business had net outflows of £11.8 billion.

Another key aspect of our LGIM strategy is to take advantage of international opportunities. Total international assets have increased by 45% to £86.5 billion, with net inflows of £7.2 billion year-to-date with particularly good progress being made in the U.S.

LGAS grew UK Retail Protection sales by 18% to £124 million APE in a market whose overall size is broadly static. This represents further growth in market share. We're strengthening distribution with new ties. We're continuing to increase efficiencies and improve digital processes to reduce unit costs. Scale reinforces our competitive advantage.

Group Protection sales in the UK were down £3 million in the quarter, while we remained much disciplined in our pricing. Savings increased AUA by a further 13% with net inflows of £4 billion to Cofounds, AUA at Cofunds is up 18% to £69 billion. Workplace now has over £10 billion AUA, up 28% and customer numbers up 48% on this time last year. Net inflows year-to-date in Workplace are £1.5 billion and we're on track to halve the losses this year as the business increases both scale and efficiency.

Longer term, Workplace has the potential to be more than just a pensions business. It could become a wider distribution mechanism (7:27) for additional products including protection. U.S. protection and LGA sales in the quarter were $39 million, down from $43 million in the corresponding period last year, reflecting the price changes we made in May. So we will broadly expect this to be the new run rate level for new business going forwards.

Finally on L&G Capital, our direct investments at the end of September were £4.6 billion, reflecting a mixture of investments and disposals during the quarter. Our medium term intention of having around £15 billion of direct investments remains, but each and every asset will be assessed on its individual risk and reward characteristics.

In summary, our strategy to deliver cash plus growth is set and we are in execution mode. And this was another quarter of delivery.

I now open the call to questions.

Q&A

Operator

Thank you, Mark. We will now begin today's question and answer session, ladies and gentlemen. The first question is from Alan Devlin of Barclays. Alan, please go ahead.

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

Hi, guys. Two questions, if I can. First of all, I wonder if you could talk about the economics of the internal transfer, where French life did one last year of £2 billion. They set it at a £10 million annuity to the cash going forward. Is that a good guide to you guys? I mean just on the corporate pension business, you said you're on track to halve down your loss, and you've got that £10 billion of AUM, which in the past you said is one of the numbers to get towards scale. What's the impact on the new business strain of getting to -- of reducing that loss? Is that one of the drivers that will reduce new business strain this quarter? And then finally, just on LGIM, what's the margins on the overlay business versus the rest of the portfolio, or the economics of the overlay business versus the rest of the portfolio?

If your -- you've a net outflows of £7 billion on the bulk of the business, but if you include the overlay you've actually had net inflows year-to-date. Is the £476 billion the driver of earnings in that business or the £676 billion including the overlay assets in GIA? Thanks.

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

Okay thanks, Alan. I'll pick up the first one on the internal transfer annuity business; John can comment on the corporate pensions' scale point; and Mark pick up on the LGIM margin point. Just on the internal transfer of the £2 billion of annuities out of our with-profit fund into our shareholder fund, clearly we haven't disclosed the exact breakdown of that, Alan. What I will say, we used pretty much the same pricing measures we use for all our external bulk purchase, bulk annuity transactions.

So there's no kind of special element to the with-profit transfer; it was pretty much an open book exercise. Both partners had their own advisors so it was done on an arm's length basis and therefore the economics will be similar to what you would expect from other externally sourced bulk transactions. Like I said, we haven't actually disclosed uniquely to-date.

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

So Alan, yes, having losses, we are still on track. I think what we previously guided is low double digit billions rather than £10 billion specifically. And I'm very confident that we can continue with that guidance, low double digit (11:00) to have losses. And the strain impact on -- from those losses is negligible. It doesn't quite work like that. It's the efficiency cost of setting schemes up that drives the strain, rather than whether it's intrinsically profitable or not.

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

In regards to LGIM and the economics of the overlay business versus the rest of the business, the fees on the profit margins on our overlay assets would be very comparable to the index business. That would be the closest comp. And with regards to whether to focus on the total AUM or total assets, you should focus on the total assets. We earn fees on £676 billion. And also focus on the composition of the assets as well. So, over the last several years, we've diversified our business model by product, by distribution channel, by geographic region, and that's continuing. And while doing so, investing heavily in the business, we're still maintaining roughly 90% persistency and roughly 50% profit margins but across a more diversified book of business.

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

Okay thank you.

Operator

The next question is from Oliver Steel of Deutsche Bank. Oliver, please go ahead.

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

Good morning. Actually I wanted to follow up on that sort of LGIM question. I am assuming that a lot of the outflows in index is linked to bulk annuities. So given your positive pipeline on bulks, looking specifically into the fourth quarter, but also, I guess looking into next year, how should we be thinking about index fund outflows looking through into 2015? The second question again, linked to this is, is there any way in which we can use the inflows into your solutions business as a sort of forward indicator of what future bulk annuities might look like?

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

Okay, good questions. With regards to the first question the passive outflows are not directly related to annuities, they would be related to de-risking strategies, although some plans will ultimately not pursue annuities as an end game solution, they might pursue self sufficiency or something in between frankly, a partial annuitization, what have you. But certainly the vast majority of our passive outflows are related to de-risking strategies which may or may not ultimately end up in some kind of annuitization.

And yeah, the growth in our LDI business would be somewhat of a leading indicator as to the ultimate growth in the annuity market, but again not all of the LDI strategies will ultimate result in a buyout contract. But certainly that would be the direction of travel for much of that business.

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

Okay. I mean at some stage, not necessarily today, but I think it would be quite interesting for us to sort of understand the dynamics of the shift from passive funds into de-risking solutions, and then ultimately into bulk annuities, just so that we understand the timing and the linkage between the flows.

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

Yes, we'll pick that up, Oliver.

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

It makes sense, you're thinking about it the right way though, it makes sense.

Operator

The next question is from Andrew Crean of Autonomous. Andrew, please go ahead.

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

Good morning. Three questions, if I might. Firstly, given the very strong performance in the annuity sales, including the internal transfer, I'm slightly surprised that you haven't moved up your cash forecasts for LGR since the beginning of the year. I wonder whether there's something which lies behind that or that's just innate conservatism.

Secondly, I wanted to ask, on LGIM, whether you felt that the business had any opportunity from the debacle at PIMCO in terms of active or passive fixed interest. And then thirdly, I wanted to ask, on the bulks, does the company believe that it's got all the skill sets it needs in terms of longevity, IP in-house, or does it think it needs to have a better understanding of impaired lives?

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

Great. Thanks Andrew, I'll pick up the first one on the impact on op cash, Mark will pick up any thoughts on PIMCO and Kerrigan can pick up on longevity skills, in particular. So on the op cash guidance and the impact of current year volumes, Andrew, we very much set the op cash based on the opening balance sheet for each year, so any impact of new business in that year, with only impact on new business strain or surface number, Andrew. That will come through net cash rather than operating cash in the guidance we've given, the op cash level.

So you would never expect any new business in the current year to affect the op cash guidance, so it's a pretty stable number for the year in question. It will then impact the opening balance sheet before the new year, so you will get an operational cash benefit down the track. But in the year, you're right, the only impact coming through is on the new business strain/surplus line --

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

Yes.

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

Which affects net cash rather than op cash.

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

In regards to the situation at PIMCO, it could be an opportunity for us certainly in the Institutional space. So there's been a lot in the news about outflows from the retail funds. Institutional investors, on average, will take a bit more time to assess the situation. But certainly, especially related to our U.S. fixed income business, and to some extent LDI business, could present an opportunity over the next few quarters, to potentially gather some assets off the back of this news.

A - Kerrigan Procter {BIO 15093363 <GO>}

On the bulks, on the IP, we think the longevity expertise that we have is significant IP for us. Just to give you some brief idea of the scale, we have a research team of 27 people based in Kingswood, looking across the data we've collected over 27 years of bulks and individuals. We also have skill sets from data and skill sets in U.S., Netherlands, Canada and also on the individual sides, in particular things like comorbidities is a hot topic of research and data build up in that area, which will be an important thing for enhanced or underwritten annuities going forward. So we see that as a significant skill set for, and not especially looking, and we're never complacent, hopefully, but not especially looking to, or think we need to complement that.

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

Great. Thank you.

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

Okay. Thanks Andrew.

Operator

The next question is from Andy Hughes of Exane BNP Paribas. Andy, please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi guys. A few questions, if I could. The first one, on Lucida, I think you said at the half year you'd distributed all the acquisition proceeds out of Lucida, plus the incremental capital requirements. And I read something that said that Lucida, on an internal capital model, was actually falling short of the Solvency II -- sorry, on a standard model, was falling short of the standard model. So are you basically running the business currently with a massive difference for the annuities versus the kind of standard model? And how big is that gap versus your feeling as to where the cash flow should be versus where it would be on a standard model?

And the second question was about the Prudential Financial annuity reinsurance. Is there a cost for that? And how big should we think of that? And a third question was on the -- again, on the annuities, I'm afraid. I'm a bit confused because, obviously, spreads have narrowed quite considerably in the credit markets, and that would normally mean -- as you say, you have a very disciplined approach to writing protection -- shouldn't that mean you also have a very disciplined approach to writing annuities, and as you're making a lower margin, pull back from the bulk annuity market as well? Thank you.

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

Okay, thanks, Andy. I'll pick up the first question on Lucida and the read across to Solvency II. I guess, Kerrigan, if you can pick up the reinsurance point and the impact of spreads on bulk pricing and margins.

Just on the impact of, I guess, Solvency II, in the round, standard model versus internal model, Andy, clearly, at this stage, we're still -- as I keep saying, we're still working through with the regulator exactly the outcome in terms of internal model. Now our application doesn't go in 'til next April. I think it's fair to say, as you probably would expect, that we would hope that our internal model gives a better treatment, a more favorable treatment, capital-wise than the standard formula. But in terms of the quantum of that difference, I'm not going to comment on that on the basis that we don't yet know exactly what -- the quantum in our internal model.

So I think it's fair to say, we'd not be bothered trying to get internal models approved unless it was beneficial to do so. And clearly, from our perspective, annuities is a big risk area, both for credit and for longevity and therefore it's a key component of that. But much more color than that I think would just be unhelpful at this stage.

A - Kerrigan Procter {BIO 15093363 <GO>}

On the Prudential Financial annuity reinsurance, I mean, they join a roster now of six reinsurers that we use lives to, at the right time, select which risks we keep and which risks to pass on to reinsurers. So I just view that as a continuing part of the sensible management of longevity risk on the balance sheet, probably nothing more than that.

On your point about spreads narrowing, I mean, in terms of our pricing basis and how we select deals, we really work on a return on economical capital basis. And when things meet our internal hurdle rate on that, we look to proceed with deals; and when they don't, we stand aside. So, that's really how we think about the economics of the deals.

Q - Andy Hughes {BIO 15036395 <GO>}

And then, has the return on economic capital come down?

A - Kerrigan Procter {BIO 15093363 <GO>}

I am sorry, Andy, I didn't catch that.

A - Operator

(20:57).

Q - Andy Hughes {BIO 15036395 <GO>}

No, no. Has the return on capital declined as a result of the spread narrowing?

A - Kerrigan Procter {BIO 15093363 <GO>}

No, our -- we've kept our hurdle rates constant.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you.

Operator

The next question is from Jon Hocking of Morgan Stanley. Jon, Please go ahead.

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

Good morning everybody. I've got two questions, please. On the asset management side, if you look back at one of the tables you've got some nine-month flows tracking over the last three years, is it fair to say the international business is slowing in terms of inflows? Or is that just phasing of mandates? And how is the pipeline looking now? That's the first question. And second question, just on Legal & General Capital, the principal balance sheet, the £4.6 billion, is all of that in shareholders' funds? Or is some of that in assets backing annuity technical liabilities (21:49)? Thank you.

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

Mark, can you pick up the first one, and Paul pick up the second one?

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

In regards to the LGIM international flows, it is still relatively early days in building out our international business, as you know, so the flows will be fairly volatile. The U.S. continues to see increasing flows in its fixed income and LDI strategies, and I'd expect that trend to continue. Where we've struggled a bit the last few quarters has been in – with, in our international passive business, which is related to additions or new mandates from sovereign wealth fund clients, which again they're much lower margin, lower fee, and our active strategies are LDI strategies. But we expect that business to perform better over the coming years than it has over the past several quarters.

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

Okay, thank you.

A - Paul Stanworth {BIO 15495409 <GO>}

Yeah, in terms of the £4.6 billion of assets that we've got, they effectively represent the shareholder components of various legal entities that we have in the group, but they do not back any liabilities.

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

Okay, thank you. And then the £15 billion aspiration for -- as mentioned somewhere else, presumably, that is partly backing annuities?

A - Paul Stanworth {BIO 15495409 <GO>}

It would be covering all of the parts of the balance sheet. So it would be annuities, it would represent the £4.7 billion that we just talked about. We had some going in our U.S. business in LGA, and we held some of that with-profits fund as well.

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

Okay, thanks very much.

Operator

The next question is from Gordon Aitken of RBC. Gordon, please go ahead.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. I have three questions on bulks, please. First, on solvency of the pension schemes, can you just talk about what the typical solvency of a pension scheme you'd take on is? And I'm presuming it's all buy-ins these days. And has the big reduction in solvency in October had an impact on demand? First thing. Secondly, back to the reinsurance transaction, the £1.35 billion with Pru Financial. You're obviously bullish on bulks and the pipeline in Q4. Would you look to – do you need to or would you look to offer more longevity risk when you do those deals? And just can you talk a bit about margins on bulks, please, that you've seen in the third quarter, and also (24:08) now? Thanks.

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

Cheers, Gordon. I think it's all for you, Kerrigan, those three.

A - Kerrigan Procter {BIO 15093363 <GO>}

Great, yes. Solvency of pension schemes, at the point people buy in or buy out of these pensions, if it's buy in, typically you're right there. It will be -- typically involve the trust assets plus some typically reasonably small contribution from the company to complete the buy-in premium. And clearly those pension schemes are pretty close to fully-funded typically to go through that transaction. Your point about reduction in funding levels or fund expenses in October, I mean the way I think about market volatility is more that it increases the dispersion of funding levels.

So, those people furthest away from de-risking probably have more in equities and they might exhibit a larger fall in funding level, but those are the ones who are closest to buy-out anyway. Those ones that have gone down a derisking route, LDI strategy, kind of clearly demonstrated they're on that path of de-risking, their funded status or funding level tends to be pretty stable. And stable funding levels, that's the purpose of LDI, and the likelihood of eventually over this year, next year, in the next decade, heading towards buy-out. So it increases disparity. So it doesn't necessarily increase the demand from those people that are likely to look at buy-out.

Back to the point about the Prudential reinsurance strategy, as I said, the Prudential Financial, they announced, we have arrangements with a wide range of reinsurers. Back to the point, just sensible risk management, I wouldn't necessarily read anything into that, other than we choose which risk we keep and which to pass on when the price is right. And that's what we have to -- that's what we choose to do really.

Margins in Q3, you saw our margins figures at half year. (26:18) that's, I think, the sensible starting point for future bulks.

Q - Gordon Aitken {BIO 3846728 <GO>}

Could I just follow up on that reinsurance? I mean The Pru Financial, the margin they are making versus the margin that you originally made on the bulk business, are you making -- what sort of spread are you making on that sort of deal?

A - Kerrigan Procter {BIO 15093363 <GO>}

I mean, we will -- will give you the actual margins figures when we get the whole year figures, you'll get the full detail then in those figures. But as I said, the margin figures we showed at the half year, then take that as a half year guidance, essentially a starting point for future reference.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thank you.

Operator

The next question is from Ashik Musaddi of JPMorgan. Ashik please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi. Good morning everyone. So just a couple of questions. First of all, your annuities volumes are kind of, I mean the total assets is kind of up 20%, give or take, year-on-year, by the end of the year it will be around that. So is it a fair thing to assume that your gross capital generation from LGR will also be more or less similar, 20% up? If not, what's the missing link there? That's the first one.

Secondly, there is some news around that you have recently cut the pricing for the index funds. So is that material? Or does that change anything in terms of earnings from LGIM, et cetera.? And thirdly is, can you just explain a bit more on this efficiency concept on the new business margin and exactly where is it coming? I agree you mentioned Protection and Savings, but where is it weighted more towards, and what are the benefits from that? Thank you.

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

Okay. I'll pick up the first one, then Mark, pick up the one about the retail index pricing changes. John, you want to pick up the one on new business strain?

Just on the growth in annuity assets, in simple terms, no, the dominant impact is higher volumes, so clearly we do get some diversification in Capital. Having said that annuities is our dominant risk type. So in sense, you do not get very much. So in simple terms as assets volumes go up, you should expect – for annuities – you should expect the capital requirement to go up broadly in line with that.

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

Okay. In regards to the recent announcement about our reduction in fees on a targeted range of our retail index unit trusts, this is -- retail represents about 5% of our index assets and it's in a subset of those funds that we ultimately decided to reduce our pricing to be more in line with the some of the competition in those funds. We'd expect higher volumes as a result of the more competitive pricing to more than offset revenue loss as a result of reductions in our fees.

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

On the new business margins, Ashik, essentially you should just think about strain as the cost of establishing a policy on the books. And the more efficient you are, so for example, in Protection 82%-odd straight through processing, the higher the volume, the higher the unit cost, therefore the lower the strain. And the same is true in Savings; the more that you automate the capture of customers and the premiums and the money, the less cost you have in establishing those policies. So, the more efficient you are, the lower, in effect, the strain. There are capital effects as well, but principally that's how you should think about it.

Q - Ashik Musaddi {BIO 15847584 <GO>}

I mean, just a follow up on that new business strain question, is it possible to start seeing a positive new business strain item for both Protection and Savings as well? Or is it too early for that to happen at the moment, given the scale?

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

I don't think you should be thinking about savings ever generating positive strain. It's a much more simple, straightforward, cash-in-expenses-out type business. And, therefore, it's unlikely, except potentially at very, very high premium levels, you might see an effect there. But it's more about the reserves that get established, as well as the cost to get established on insurance businesses. So, it's possible and the higher efficiency you are in the risk businesses, the higher the strain can be. The Savings, that's much, much less likely to evolve in that direction.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks, very clear.

Operator

The next question is from Greig Paterson of KBW. Greig, please go ahead.

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

Morning, gentlemen. I'll lead with the traditional three questions. The one is, I'm just thinking about the budget you do have to the Capital, or free surplus budget that you do have to write annuities. I wonder if you could give us an idea of how much the £8 billion you're writing this year will cost on your -- assuming in order to keep your AA credit rating. And how would that compare to the sort of stock of free surplus you have on a AA basis, so we can get a sort of feel for what the budget is?

And the second thing is, the U.S., you made these comments about slowing sales and then potentially returning capital through higher remittances. I wonder if you could talk about the strain there, the back-book release, et cetera, so we can have an idea what the potential is.

And then the third question, CALA, you made the comment it made £27 million, it was a record amount, it was on circa £300 million of turnover, and you want that to get up to £800 million. I was wondering, A, where does that fit in in the various lines of net capital generation? And what would be the kicker if you did achieve that £800 million turnover in 2016, just for modeling? Thank you.

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

Okay, thanks Greig. I guess I'll pick the first couple and Paul will have a go at the CALA question at the end.

In terms of capital budgets and our stock and impact of free surplus of writing more annuity volume and protecting the AA credit rating, clearly, it is a balancing act, in the round, Greig. You'll clearly recognize that no balance sheet can write infinite amounts of business. This is capital usage -- used in business. We will update on IGD and economic capital use at the year end. We haven't done that at the Q3 point, as we don't do at Q1 and Q3. We'll clearly update on the capital balance sheet position at year-end. Although I will say this, we're never entirely comfortable with the level of business that we're writing this year. Again, we will update and give a bit more color on the prospects going forward, and the capital implications of that, at the prelims in March.

In terms of LGA, it's going to be just like (33:22) at the half year that we had adjusted our pricing in Q2 this year, and we did expect that to have some impact on volumes, and it's getting -- some of that has come through. As I said in my overarching speech at the start of the call today, volumes were down about $4 million AP in the quarter in isolation.

In the round, this is a term insurance business, we're just keen to make sure that we get the right risk-adjusted return for the capital that we put at risk in writing business in America. Again, it's a business we know very well. We've been in that marketplace for a long time. So, I would describe the price changes as more of a tweak, rather than a wholesale change, hence the impact on volumes has been reasonably muted. But again, we are very keen to make sure that business generates good value for the Group and for shareholders in the longer term.

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

Sorry to interrupt, just on a request, you don't ultimately have to hold IGA or the minimum economic capital; you have to hold a higher number, because the regulator requires a higher number, and you have a superior credit rating. I wonder, it would be a bit more useful to actually see the free surplus movement on a AA level than – because it's more realistic, just going forwards, just as a disclosure.

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

Yes, we'll think about that for year end, Greig. Clearly, exactly what constitutes AA, frankly, is in the eye of the rating agencies, ultimately. But we'll try and give a bit of color around -- clearly, the ranging we gave is £175 billion to £225 billion (35:00). Clearly, it's a clue as to where we think the right level of capital is for the organization. But that wouldn't necessarily be exactly how Moody's and S&P, in particular, think about AA. But clearly, the two things are not that far apart, because that's our preferred range and we are a AA rated business. So you can read into that what you will. But just we're in broadly the same place, but we'll give some thought to it, Greig.

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

Thank you. And then just CALA?

A - Paul Stanworth {BIO 15495409 <GO>}

Yes, thanks Greig. The way that we account for CALA on the accounts is that we accrue their net sales in terms of an addition over cost, because they're not declaring dividends. And so we own 47% of CALA, and they made £27 million as you say, just under £300 million of revenues.

And we would expect the margins to be the same as they build up to their target plan of £800 million. And it would come through our accounts as a continued accrual of those net sales, as opposed to a private equity type approach where they might re-mark the value of the asset according to current multiples.

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

(36:02) your sort of artificial net capital generation stat, will it make that?

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

Yes, we have an assumed return in the cash number, Greig, and any variance against that goes through the investment variance line.

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

All right, so it'll contribute to the LTIR percentage?

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

Correct. It will be in LGC's cash number; and then any variance against the assumed return will go through the investment variance.

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

All right, perfect. Thank you.

Operator

Next question is from Ravi Tanna of Goldman Sachs. Ravi, please go ahead.

Q - Ravi Tanna {BIO 16926941 <GO>}

Hi, good morning. Just three questions, please. And the first one is on the with-profits annuity transfer. I'm just trying to understand to what extent we can see this as a one-off, or whether there's a great deal more of this type of business to come in future and specifically whether the £8 billion annuity guidance for this year has any more of that type of business earmarked within it?

The second question is on the UK protection market. You talked about maintaining your pricing discipline. I was just hoping you could speak a little bit more about the conditions in the protection space and specifically any differences between the retail versus group markets. And thirdly, and finally, on the UK platform sales appear, and flows appear, very strong. I was just hoping for a quick update if it's possible on the direct-to-customer plans for the platform and then how they're progressing. Thanks.

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

Thanks Ravi. So Kerrigan, will you pick up the (37:25) please? We'll come around to whether the with-profit thing is a one-off. John, pick up points two and three?

A - Paul Stanworth {BIO 15495409 <GO>}

That's a simple question -- simple answer, that it is a one-off so was that was the general transfer from with-profit to shareholders.

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

Yeah, hi Ravi. The Protection market -- I think you asked about the differences between retail and group. Retail at the minute is pretty much operating as it always has with appetite being expressed by competitors in a kind of on/off sort of way. We've been very consistent. Of course our broad reach of distribution puts pricing discipline slightly less up our agenda than it would be for others because we are not in the same state of reliance on a broker market, a fee (38:20) market as many others are.

But we observe what people are doing and by and large the retail market has been relatively quiet of late. The group market, however, has seen a bit more competition emerging. We are very happy with our pricing point and tend to select the schemes on the basis of our risk appetite. We've been in that market for a very long time and have built quite a lot of data on not just sectoral, but scheme specific characteristics that allow us to select. And if large schemes come to market, you can see quite sharp swings. And we have seen a growing appetite in that space from some of our competitors, but we've been doing this for a long time and we're very, very comfortable with the position that we occupy in both of those markets.

You also asked about a platform growing and our progress on D-to-C. We are in the last stages of the initial technology development on core functionality in that space and it's already in soft testing internally with some of our own staff, me included, as it happens. And I quite like it.

There's quite a long way to go in D-to-C and I think, I worry a little bit about the translation of that language into people always thinking about it as outbound marketing, whereas what I think about is enabled engaged customer self-service capability and that's what we will be delivering. It's what we expect to deploy into our partnerships earliest.

But you will see a capability merge during the course of Q1 as I think our technology, I'm pretty sure, will be delivered robustly during the tail end of Q4.

Q - Ravi Tanna {BIO 16926941 <GO>}

Great, thanks so much, very clear.

Operator

The next question is from Andrew Sinclair of Bank of America Merrill Lynch. Andrew, please go ahead.

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

Thank you very much and good morning. Three questions, please. Firstly, on LGIM, investment performance was extremely strong in the quarter, particularly in the Solutions business. I just wondered if you could give us an update on that performance, and maybe tell us a bit more about what the key sensitivities are for this business. And secondly, just looking on the Workplace businesses, again, I just wondered if you could give us an update on how the market's looking for tenders and re-tenders at the moment. Are you seeing existing schemes coming back to the market?

And finally, just following up on Ravi's point on platforms, just wonder if you could give us an update on Cofunds, and if you've seen any material change in flows, particularly since Intrinsic was picked up by Old Mutual. Thanks.

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

In regards to your first question, so within the Solutions business, we include our multi-asset business as well as our LDI business. Our multi-asset fund performance has been very strong year-to-date. We're seeing increasing momentum in sales there.

In regards to the market performance, if you will, the -- a lot of our collateral assets within our LDI portfolios are relatively long duration. And you saw a rally in that part of the curve in particular during the third quarter, which is driving the higher market values in that part of the business.

A - Paul Stanworth {BIO 15495409 <GO>}

On Workplace and the market, that's quite a difficult question to answer, to give any kind of clear steer. There is activity in the second market, where schemes are -- particularly at the larger end, where they are reviewing their providers and we are keen to get those asset transfers. We have an incredibly powerful proposition that's doing the right thing for pension savers with our 50:50 guarantee. And I would hope that as a consequence of those re-tenders that we would be a winner.

But it's hard to say that it's actually happening yet. Remember, it's fairly early days in auto-enrolment. And I think scheme trustees and scheme managers will be considering their position fairly carefully. But I do expect it to be a market that emerges and I do expect us to be a winner in it. As far as the flows impact from Intrinsic changes, nothing really to say on that. No noticeable effect. Not a huge account for us anyway, so I don't anticipate that being materially impactful.

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

That's great. Thank you very much.

Operator

I'm afraid we don't have time to take any further questions today, ladies and gentlemen. If you had wished to ask more questions, the Legal & General Investor Relations team would be happy to assist outside this call. Thank you for joining today's call, ladies and gentlemen. You may now disconnect your lines.