Legal & General Half Year Results, 9th August 2022, Q&A

Sir Nigel Wilson, Group CEO, Legal & General
Thank you. And we're now very happy to take questions. Before each question, can people state their name and the organisation they're representing? And why don't we start with Andy?

Andy Sinclair, Bank of America
Thanks. It's Andy Sinclair from Bank of America. Three for me, please. Firstly, on LGC, just wondering if you could give us an idea of the actual cash generated within LGC and if possible, just to give an idea of that by mature businesses, disposal proceeds and margins and third-party capital. That's question one.

Second was just on the bond portfolio.

I think for the first time, correct me if I'm wrong, under 50% of the portfolio is now in the UK with over 50% international. Just wondering, are you looking to further internationalise that portfolio and does the average credit rating differ by geography? And thirdly, on LGIM, with a slightly lower AUM base, just if you could give us an update on outlook for costs and cost income ratio for the rest of the year and beyond.

Sir Nigel Wilson, Group CEO, Legal & General
Thanks. Okay. Jeff, do you want to take the first one? I'll do the second one. And Michelle, if you're happy with the third one?

Jeff Davies, Group CFO, Legal & General
The cash around LGC for the first half was round about op profit. I think you'd said before, sometimes it'll be less than our profits, sometimes it will be more, sometimes it'll be significantly more, as it was last year with the sale of Media City, for example. So, there were no large transactions as such in the first half.

So it was good steady cash emergence, round about just higher than our profit number.

Sir Nigel Wilson, Group CEO, Legal & General
It was very observant of you on the bond portfolio because that was in the appendix in one of these slides, so well done Andy! It is indeed the case that we've invested more of the assets in outside the UK than in the UK; 51:49. And that's one of the arguments we've been having with both the government and the regulator, because clearly ideally we'd like to invest more of those in the UK.

So, giving us a mandate where we have more opportunities and more asset classes in the UK would undoubtedly result in a better outcome for the UK. Unfortunately, America is very open for business as my colleagues will tell you and therefore we are getting some pull from America and in one sense the attractiveness of America is going up a bit and the UK is going down a bit.

And under the current politically regulatory environment over here, we'd like to reverse that and we're hoping one of the things that the new Prime Minister does is indeed reverse that, to give us more opportunities to invest here in the UK. Plus, ironically, they've got a bit ahead of us in things like retrofitting - retrofitting of housing and offices already produces a matching adjustment asset class.

But you know, we'd like the UK to at least keep up with the US and indeed Europe.

Michelle Scrimgeour, CEO, Legal & General Investment Management
On costs, just to say… clearly, it's a challenging time and I'm not going to lie about that. But in terms of what we said at the Capital Markets Day in November 2020 was that we would expect to see the cost income ratio go up towards the mid-to-high fifties, given that we're going to invest in the business.

That hasn't changed. What's happened, and as Jeff has also indicated, is that we would expect that to probably drift up a little bit actually in the next year or so. But that's not going to be the norm. It'll normalise once markets settle. And we'd expect that to come down again over time.

Ashik Musaddi, Morgan Stanley
All right thank you, Ashik Musaddi from Morgan Stanley. First of all, great set of results and pretty clean this time. So really appreciate that. Not many one offs. So that's the good news. Just three questions. One, I saw somewhere in the table at the end of the presentation, the credit default reserve was 3.4 billion last year. It's 2.7 billion this year.

I think it has to do with the level of assets, but would be good to get a bit of mechanics as to how you decide on this number. Thank you.

The second one is around solvency ratio. 212% is a number which looks pretty good. I guess you would agree that there is a lot of buffer to absorb shocks here, but how are you viewing this?

I mean, would you like to capitalise on this through some extra capital return or some accelerated growth? Are you looking to do that or you're just waiting for markets to settle and then take a call at that point?

And the third one is, one of the sensitivities that you have around interest rates and a bit of benefit that has gone through in solvency ratio rates.

Is there any way you can hedge that out at a reasonable cost so that the solvency ratio doesn't go down even if interest rate drops again? Thank you.

Sir Nigel Wilson, Group CEO, Legal & General
Jeff, do you want to take the first and the third question? I'll do the second one.

Jeff Davies, Group CFO, Legal & General
The first one is reasonably straightforward. It is just the discount rate. The methodology is still the same. It's the 43 basis points applied to the same assets as it was before basically. But I think our discount rates had gone up by something like 170 basis points, so it's literally just discounting at a higher rate for the same cash flows gives you a much smaller number. If we put it back to the old [discount rate], it would be virtually the same. So there's no big change there.

On the third one. Rates hedging. We constantly look at this, it is a big question, we have our smartest people on it all the time to think, we try to balance solvency versus IFRS and of course with the change coming in IFRS we're looking at what's possible there. You shouldn't confuse solvency ratio movements with whether we're matched or not.

A bit like inflation we're matched, cash-flow matched, we're rates matched on the annuity portfolio. It is the fact that you've got an SCR which has got a big stress which brings in more duration to that. So, we constantly look at it, we balance using derivatives to do that, spend some money or use the liquidity in a stress up by putting more derivatives on.

But we're pretty happy. We wouldn't want it to get higher, we try and balance that, too. But we will be making changes as we go into IFRS 17 and we'll try and optimise between the different metrics.

Sir Nigel Wilson, Group CEO, Legal & General
We want an investment-led recovery here in the UK. In fact, everywhere, we fundamentally believe that's the right thing to do. We would like to be given a bigger mandate to allow to invest. And so the fact that the Solvency II ratio is well over 200 is very comforting. And it does bring into the question of buybacks, so we've made a comment on that in the RNS. A preference if we can still deliver a 20 odd percent return on equity is to continue investing in our very attractive high growth businesses and just relentlessly pursue that. We've hired some great new people into our

organisation who are globally dispersed looking at investment opportunities everywhere. We've got a great track record in pretty much all of the businesses right now.

And with 500 start-ups, our activity in new and attractive sectors like renewables give us lots and lots of opportunities to invest and to grow the business and in fact, accelerate the growth of the business. And one of the things we're looking forward to is explaining why we're accelerating growth in 2023 and 2024 and beyond.

And we're not going to go along the 0% line that I had in in my slide.

Nasib Ahmed, UBS
Nasib Ahmed from UBS. Thanks for taking my question. So first one on your Capital Generation Target for 2022 of 1.8 billion, if I double the half one number, I get to 1.9. And you've got management actions coming in the second half presumably. So are there any offsets that bring you down to 1.8? And then on the 25 billion of pipeline, what percentage are you exclusive on?

I didn't see that in the release. Apologies if I missed that. And then on the credit migration sensitivity, it was a little bit higher. What's driving that and what's the difference between the -19 on the slide and the -14 in the press release?

Sir Nigel Wilson, Group CEO, Legal & General
Thanks. Jeff, do you want to take the first and third question? Andrew, do you want to take the pipeline and the opportunities and why you're so confident that we're going to outperform?

Jeff Davies, Group CFO, Legal & General
The capital generation, to be honest there's not a lot going in there. It's pretty much the same. It just doubles up, there's a bit of rounding, in 0.9s and 1.8s, but there isn't much there. We expect double digit growth in the OSG. It's obviously dependent what was in the previous period when you're only looking at a half year, what's in the full year. But we expect that 1.8 round about double digit growth in OSG. So there's nothing major going on within that.

I'll do the last one, if you like. Again, a lot of it is maths, the credit migration one is very simply, and we saw this in the pandemic in our numbers, because the sub-investment grade spreads have widened.

So, when we formulaically model our stress, we say, BBB's downgrade, and then we sell them and we go back. So, we make a bigger loss at the p oint we sell them in our model because the spreads are wider that they're migrating to. So, we saw exactly that in the pandemic. It's just the maths of having wider spreads as a starting point.

So, there's nothing, we haven't strengthened [the sensitivity]or anything, it's just the market conditions, the way it flows through. And on the 19 to 14%, yes, we showed 19% was the net impact of 20% downgrade. We showed 14% in our sensitivities. As I said, we've taken a slightly more prudent view. So, we've only rebalanced sub-investment grade and not quite all of it.

Partially, let's call it 75% or so of the sub-investment grade. If we rebalanced all the sub-investment grade, that would give you another couple of percent. And if we rebalanced the investment grade, which we also haven't done in the slide that would give you another 3%, which closes the gap on the 5. So, we've just taken a more prudent view on what we would rebalance to show in the sensitivity on the slide.

Andrew Kail, CEO, LGRI
Morning, everybody. So, on the 25 billion, we haven't disclosed the number, we're exclusive and that's a relatively small number at this stage. The 25 billion would cover the transactions that we're in active conversations through to pricing across the UK, US and Canadian markets. So as Nigel said

and Jeff said, very buoyant markets both in the UK and the US and as with other commentators, we'd expect 2022 to be a high level of transacted volumes than we saw in the previous year.

And we are in the final stages of some very significant pricing conversations, but we're not exclusive at that stage.

Sir Nigel Wilson, Group CEO, Legal & General
It's fair to say we've got more active conversations than we've ever had in the history 35 years that we've been doing this business. So, the sales teams are very busy at the moment, pricing up various things and people are pulling forward deals that they might have been thinking about doing three, four or even five years’ time because rates have moved up, deficits have gone.

Chairman of trustees are pretty anxious now that they've got a window of opportunity to do things, and so they're kind of getting on with it. I think the other thing, Jeff, about our portfolio, we don't have very much BBB minus in our portfolio as well, which I think is a good thing. And Chris Knight is sitting at the back there and he's always commenting on the fact that we've got so little cyclical, BBB minus as well.

And so, the clever team who construct the portfolio, [they] spend a lot of time figuring out what's the right portfolio for us to have as a business.

Larissa Van Deventer, Barclays
Larissa Van Deventer from Barclays. Congratulations on a good set of results. Two questions, please. The first one on LGC. How should we think about growth and the sustainability of growth to the end of your five year plan? Specifically, which areas do you expect most aggressive growth? And what is most at risk? And then with respect to bulk annuities, you mentioned the active discussions on margin. What are those margins most sensitive to and what would be the biggest risk be to the margin compressing? Thank you.

Sir Nigel Wilson, Group CEO, Legal & General
Laura Mason unfortunately is not here. We don't have all of the executive team here today, so I'll have a go on LGC and if Jeff takes the second question that'd be great. I think we're very fortunate now, we've created lots of optionality for ourselves across the whole of the LGC business and we really started that in 2013, 2014, and lots of those businesses which were tiny in those days have, really become quite substantial businesses already and are in structurally growing markets.

So, the £600-700 million target which I know from some of your papers, you think is very conservative, I may well agree with that myself and in fact, I certainly agree with it myself, but that's kind of the targets we've set at the moment. I think if you talk to the management team and Gareth Mee is here, who's the LGC CFO... if you catch Gareth afterwards, he can go through some of the more detail about it and why we're very excited about the American opportunity, which has really opened up for us and the renewables opportunity.

And again [on renewables], Simon Gadd's here sitting at the front and he can go through some more of the detail around what are the opportunities. We've done, sort of tactical equity and a small amount of debt investment so far, but the universe of opportunities is very wide, which just goes back to this point about Solvency II. There's a lot of that we have to do outside the Solvency II buckets at the moment. We'd like to push a lot more of that into Solvency II and get rid of the fixed cash flows and come round to highly predictable cash flows. And hopefully our regulator and the treasury can see eye to eye on that, that just makes a huge amount of sense for here in the UK and indeed elsewhere.

Jeff Davies, Group CFO, Legal & General
The PRT margins, [in the first half] are pretty consistent with the first half last year. You know, we

absolutely will only deploy capital if we believe the margin is there. The big thing that drives that for us I talked about it, is obviously the asset manufacture that gives us a big competitive advantage.

Spreads widen and also make it easier to achieve those margins with traded credit, which gives us a bit more optionality in the investment. And… we are able to get very good reinsurance terms. We then make a decision about how much capital, how much to reinsure, pending Solvency II discussions and everything else, our capital headroom, how much do we want to maintain?

But we have a model that works extremely well to deliver that margin, with a really good team that can deliver the hedging required on day one. And source the assets… And we're very careful to make sure we've got a sight on those assets. What are the spreads? What are we going to achieve? And that's the main thing, drives the margin in conjunction with the reinsurance.

Alan Devlin, Goldman Sachs
Alan Devlin, Goldman Sachs. Two questions. F?irst of all, on capital, how are you thinking about capital given your strong solvency re-issue and the comments with the jaws of Capital Generation, increasing above the dividend? I think in your press release, you included for the first time that you wouldn't sit on excess capital if it was in the best interest of returning to shareholders.

But then obviously given the very strong bulk annuity volumes and your comments that things you're expecting to see in three or four years coming through potentially earlier, you would use that excess capital to take advantage of that market if you could. And then secondly, I read a question, just given the big move in interest rates and credit spreads, you've seen both in the US and UK and you've talked about it in the investment portfolio, does that change your kind of view on what part of the bulk annuity market that's incrementally more attractive to you to invest capital for ... as obviously both markets have got more attractive but in relative terms has there been any change?

Sir Nigel Wilson, Group CEO, Legal & General
Thanks. Andrew, do you want to take the second one? And Jeff, do you want to take the first question?

Jeff Davies, Group CFO, Legal & General
We did include some [wording] as we had lots of questions over the last few months. Well, ratios are higher. What does that mean? As you know, we don't set a range of solvency ratio because we like to look at economically what's really going on within that. So, you hit on the right point.

It's the jaws… what is real economic capital projection and generation that we are producing and as those open that's real generation. So, if rates go back down and we've created that capital and we've either put it to work or we're sitting on, that's when we have a discussion, not just because rates move around, that gives us great optionality, as Nigel said at the start to invest.

And it's not just capital for PRT. That's pretty efficient, but it's also capital… whether it's LGC, LGIM, to grow those businesses create assets for the third parties, create assets for other parts of the business. You don't need too much capital for retail. It's a very efficient business. So, we balance the two all the time. But it's that real economic capital growth that is important for us.

Andrew Kail, CEO, LGRI
And then just on the UK / US markets, obviously we have a very different market profile in the US to the UK. We're typically competing on $500 million and below schemes and plan termination and we do see a difference in margin in the UK and US. So, I won't repeat Jeff's comments, but we're very disciplined around how we deploy capital and making sure we achieve the right margins, recognising our US business is in scale up and just like I said on the UK, the US business volumes and the market opportunities there are significant.

So, we're very active in the UK, but really disciplined on how we deploy capital, particularly given the different scale of balance sheets and the different capital regimes we have in we have in the US. There are some technical differences around yields and margins in the UK and US, particularly around duration and local US step. But I think on an economic basis we are very disciplined in how we deploy capital.

Sir Nigel Wilson, Group CEO, Legal & General
And the exciting thing in the US is that we're competing on $500 million deals and winning them. So that's a big plus for us. The brand recognition has gone up immeasurably in the United States.

Ming Zhou, Credit Suisse
Hi. Just three questions for me, please. I think in the appendix you've got your top ten BBB. So, do you have examples for the BBB minus? Because that's also 12% of your total BBB. And second question. Your 35% exposure in BBB, that's obviously much higher than your peers on the mid-teens and that has increased from your 2008 position, which I believe was around 20%.

And is there any action or any plans you could do going forward on the new business side as well as the existing book to maybe bring down that 35 percentage? And third question is the widening jaws between that capital and dividend. You've talked about optionality. Could you give a little bit more example of what sort of investment in growth you could do? Also, would you consider any excess return to shareholders?

Sir Nigel Wilson, Group CEO, Legal & General
I think that was about six questions around that. On the credit portfolio, I'll just make a few general comments. I think we're all feeling very relaxed about the composition that we have of it. We decided not to… people wanted BBB… so we give them BBB and then they come back and say, well, can you give us a BBB minus?

We've had no defaults in the portfolio. It's discussed more by you guys than by our rating agencies and/or our regulator. So, you're the more sensitive group. Hence, we've given you a lot of information to try and get you over the hurdle that, in fact, this isn't a high-risk portfolio. And the more names we give you, there always seems to be somebody else you want to get access to. So, we're very comfortable at 35%. Chris Knight, who is the CRO, if you want to catch up with him afterwards and have a longer discussion about the risk in the portfolio, he'll be very happy to do that.

Jeff Davies, Group CFO, Legal & General
Some of the change [in the BBB portfolio] will be FX because there's a much more active BBB market in the US. And so with the movement in FX, it proportionally looks a bit bigger. You'll notice that AAA also proportionally has gone up… No one says that, though! It is just moving around a little, you know… It isn't that it's very active.

Some of it also has to do with early stage direct investments. When we develop some of those… a lot of those don't get reviewed and upgraded until later. And don't forget, the BBB minus will include some of the sub IG that we've had as upgrades over the last 12 months or so after coming out of the pandemic.

Sir Nigel Wilson, Group CEO, Legal & General
There's a formulaic thing that we do on assets under construction, which gets upgraded once they stop being under construction. So, there's some mechanics in there. So, part of the reason that we've got 35% and not a lower percentage is that we're actually building assets in different parts of the country and things like Affordable Housing and stuff like that.

You can get a lower rating, but then [those assets] get upgraded once the development is finished and become income producing over a long period of time. We're very comfortable with the portfolio, but not complacent.

No name given
Just firstly going back to Alan's question. I think one of the EBCs is saying that next year is going to be a record year for bulk volumes. So given your capital position, would you consider going over the 40 to 50 and the 10? Because, you know, it's great value business.

And would you also consider asset reinsurance to white label and to grow in that space? Question two is the direct allocations. The back-book presumably, given LGC and given the opportunities you have, you're looking to expand that. Can you give us more idea about that? And lastly, on mortality, where are you in the journey to thinking about what is the sustainable kind of picture for mortality improvements, mortality rates and protection, given what's just happened? Is there any movement there? Thank you.

Sir Nigel Wilson, Group CEO, Legal & General
I think the answer to the first question is yes and yes. If our capital is very strong and there are opportunities, then clearly these were guidelines. They're not necessarily, if the market's poor, then we'll be below targets. If the market's very attractive, then we may be a bit over target.

I don't think it's one EBC that's thinking the market's going to be larger next year. I think all of them are thinking that it's going to be very large next year. And that's part of the reason we want the rules to change for Solvency II, is to give us a wider university of DI so we're capable of dealing with this issue when it comes our way.

Jeff Davies, Group CFO, Legal & General
In terms of back-book DI, it is back-book and obviously putting the better assets against new business and you can see different examples of that. The part of that positive investment variance in LGR is putting assets to the back-book and seeing that come through in returns but also in the release from operations is some of that is the assets that we've started applying to new business, some of which will also be put into the back-book going forward, is prudent allowance for those assets coming through.

And so, the majority of that increase actually comes from what we've done with assets, whether that's Build to Rent, etc. and we've very prudent assumptions around those and those therefore unwind under the IFRS. And you see that in the release from operations. Economically, we think absolutely it makes sense.

We have, however you want to measure it, 10, 13, 15 billion of headroom to put these assets against, we believe we can produce more than we need for new business, even with these large volumes. And at the same time, we can direct some to the back-book. We have still significant Gilt holdings in the back-book.

We don't believe we need those all the time. And so, we're constantly managing the flow and how much we can put to the back-book. And then it goes back to would we use asset reinsurance as well, etc. to optimise the economics of the whole thing…

Sir Nigel Wilson, Group CEO, Legal & General
On assets, we'd like to do more Affordable Housing and Social Housing. The housing list in the UK… the waiting list… is over a million houses. There were 90,000 children in London in temporary accommodation last night.

These are shocking statistics for a modern economy given all the capital that is available, all the land is available, and all that people that are available to produce a massive change. And again, that's

something we think, between the government, the regulator, they've got to get these things sorted out so that firms like ours can step up. We're really excited about the life science projects, not just here, but in the United States, because pretty much everything we've done in cities and towns over here, there's a mirror image somewhere in America for a town or city.

It looks a lot like what we're doing in the UK and the universities themselves have realised they all need to modernise and compete. Even the mighty Oxford University is in that position. But we have great partnerships with about 10 or 12 of the UK universities right now and they're all recognising the world is changing online, teaching is changing, the customer proposition for the students is changing, how much research and how much commercialisation you can do in the UK is changing.

So, everywhere there's change and disruption going on and we're sitting at the heart of the debate and discussion of more of those things saying yes, we will deploy capital to help you go on this transitional journey with us. And if the renewables team were here… they've got a very long list of new opportunities that are coming our way, that we want to invest our capital in, in part to produce returns for normal service, but also to back our annuity liabilities, our ever-growing annuity liabilities.

Jeff Davies, Group CFO, Legal & General
I have a very quick answer on the mortality rates. It’s basically too early to tell is the correct answer. But, we look at that. We think it will be any probably slightly negative impact going forward, will probably impact the annuity portfolio, the older ages more than, say, the retained book in the US.

But it is, too early. You will have some form of endemic COVID, but of course you've got vaccines and medical treatment improving and we've been monitoring Australia where you have had a flu season again. There's been some hospitalisation, but you haven't had a huge number of deaths. But you can definitely say flu is back.

So, we will have both endemic COVID and a flu season. What will the impact be? It's quite subjective at the moment and doesn't change our long term view. So, at the moment we remain prudent… We would assume we'll see again releases coming through in the P&L year on year, unless we make changes to the assumptions.

Dominic O'Mahony, BNP Paribas Exane
Dom O'Mahony, BNP Paribas Exane. I've got two detailed questions and then one broader. The first is just on the FinTech revaluations. I couldn't see a value or an impact on the profit. If you could just share that, that'll be very helpful... and, clarify whether would that have been in the operating surplus generation? Or would it have been in the variances within the capital?

And secondly, in the operating surplus generation, were there management actions in there? I couldn't see that on the release. But if there were it'd be helpful to understand how much.

So, then the broader question is Solvency II reform. We've now had, quite a lot of detailed insight into how the PRA is thinking about this. Some scenarios around fundamental spread.

The ABI has been quite clear that actually the reforms as proposed don't seem to achieve some of the outcomes that the government seem to have thought they might get. Could you give us a sense of where you think the impact on your business would be given those reforms as they were laid out, both sort of the stock and the sort of new business dynamics?

I don't really have a sense of whether this is a big thing, a small thing… or positive or negative at the moment.

Sir Nigel Wilson, Group CEO, Legal & General
Do you want to take the first one, Jeff? And I'll do the second one.

Jeff Davies, Group CFO, Legal & General
The FinTech number is one a number of you have made a stab at already. I'd say it's sort of in the tens of millions… People have had a stab at 30 to 60. So that's pretty close, you're in the range there. Obviously, we have to be sensitive. There's lots of third parties investing in these businesses, it isn't public, etc..

But equally, we don't make these numbers up. There is either external funding or it goes through a rigorous process… [where we question] are they achieving the business plan? Salary Finance is really moving forward. The US is accelerating. Emma there is nodding…she's on the Board. You can ask her afterwards if you like. They're really doing well and dealing very well with the economic environment and continuing to invest.

So, we look at, [and ask], are they achieving plan? Is there funding? This is part of the model… We said we would be investing in FinTech. Nigel mentioned nine of them. They will come through.

[On your second question…] So yeah, the IFRS is a base balance sheet for Solvency II. So that will be in there coming through within it.

It would be in the surplus generation. On management actions, I mean very little… you saw there was a negative investment and that's more about reinsurance type management actions. We haven't put in place the, what used to be called, Triple X funding for term life in the US… that's not there.

So, you know, that will be gone by the second half. So… very little in the way of management actions… and it continues the theme of clean numbers.

Sir Nigel Wilson, Group CEO, Legal & General
On Solvency II, clearly if all of the PRA recommendations were implemented, our ratio would go down a little bit. And so that's not something that we think represents a Brexit dividend for the UK. I think it would force us to look at more asset reinsurance (which is rather like longevity reinsurance) given the amount of volume that's out in the marketplace right now… It would encourage us to invest in non-UK assets as well.

So, we think those are not good outcomes for the UK. Putting in rules that make us less competitive as an industry doesn't seem like the right thing to do, particularly when we think there's a great need for investment-led recovery and we're the largest investor in the UK and it's creating a set of rules which discourages from investing in the UK.

It doesn't seem like the right policy outcomes. It's not like this room is full of rash and reckless people who bet on red and are spread betting all day. They're some of the most conservative, prudent people we have. And that's one of the reasons I can sleep well at night, as I have so many people worrying about these sorts of things across our firm… So, it's not a worry for me… And we've given you more data, as much data as we can.

[To do that] we have to ask for everybody's name; we have to ask permission of S&P to get all this data to you guys so you can do a better job analysing what's really going on in our credit portfolio. And we always want to do the right thing for the right reasons, deliver the right outcomes, and we're not suddenly going to change our spots and actually go around and do all sorts of reckless things… Because we take our prudent principles very seriously.

Tim Stedman and I have worked very unsuccessfully together for six years on trying to get reform on Solvency II. He is reassuring me that at some point in the next ‘n’ years that we will resolve it. But if you really want the grimy details on the lack of success that Tim Stedman and I have had then you can talk to Tim afterwards.

Oliver Steel, Deutsche Bank
So, two questions. The first is the gross release from operations in LGRI and LGRR, which pushed up very, very strongly, 23% I think, on [LGRI]. I appreciate that some of that came from increased direct investments and increased yields on direct investments, but I think some of it was also caused by inflation.

So, I'm wondering, is there any element of that, that is not sustainable and where we'll find out next year that actually the numbers are coming back down again? So that's question one. Question two is… if you hit the top end of your targets on capital generation and cash, is it axiomatic that you should then be at the top end of your targets on dividend growth?

Sir Nigel Wilson, Group CEO, Legal & General
I'll have a go at the second question. Jeff can have a go at the first one...

Jeff Davies, Group CFO, Legal & General
That's what I was referring to earlier. So, of the 23%..., 60% plus comes from the assets that we applied to the book last year. And those are fully repeatable. It is just the prudent assumptions. It just unwinds in the same way as the prudence and the default assumption. Some of that is helped by inflation.

If it's rental assumptions on Build to Rent then those will factor through in the model. But those are fully repeatable. It just unwinds over time and it's just a very prudent assumption. People like Chris Knight and the PRA make sure that we're very prudent on that and it completely makes sense. We don't anticipate lots of future [inflation] increases for 25 to 40 years… that would inflate way too much and wouldn't give a fair view.

Sir Nigel Wilson, Group CEO, Legal & General
Part of the problem is that we are so prudent that you end up with being so far behind that you've got to [do something about it] in the end...

Jeff Davies, Group CFO, Legal & General
… Yeah, you've got to catch up, which is why you have the big increase. So, of 40% left, half of that is then just from having a bigger book. So that's fully repeatable. And the other half is just noise, to be honest... Bits and bobs being put through.

There's always, in a massive portfolio, stuff that comes through. So, we wouldn't see it dramatically going backwards or anything.

Sir Nigel Wilson, Group CEO, Legal & General
We're clearly ahead of plan - and the plan had 5% dividend [growth] - and we actually haven't had a debate about anything other than that right now. So, if we continued on the trajectory and the jaws open up, then there will be debate at the Board about what's the right dividend policy and what should we do about share buybacks. I'm hoping at the moment that my colleagues will come up with even more investment ideas on a go forward basis, so we can continue to get the sort of results that you guys all like. And we like…

Mandeep Jagpal, RBC Capital Markets
Good morning, Mandeep Jagpal, RBC Capital Markets. Just one question left for me on the credit portfolio. Again, I think later this year we're going to see the unprecedented event of the Bank of England setting back tens of billions of pounds of corporate bonds back at the market. At the same time, we're expecting potentially record volumes of bulk annuities for the next 12 months.

And given the high proportion of corporate bonds used by insurers to back these transactions, do you foresee any risk or opportunity as a result of this bonds being sold back and could it potentially have a positive impact on margins or pricing?

Sir Nigel Wilson, Group CEO, Legal & General
That's a very insightful question, and one that I'm going to pass to Jeff!

Jeff Davies, Group CFO, Legal & General
Any liquidity in the market clearly helps. There's a reason why we go to the US dollar market for a lot of our corporates, because there's just way more liquidity. So, if sterling bonds are being sold back… although of course we don't really invest heavily in financial services, which [comprises] a lot of the sterling bond market that you're talking about...

It's very hard to tell what it does to marginal spreads. I mean spreads move around anyway; that gets reflected in price. And if you look back, our margins have been pretty consistent since Solvency II have come in. So, we wouldn't be looking at this and hoping that it fundamentally changes things. But yeah, it's a good question.

Anything that happens, liquidity definitely will help; it's been settled. And I mean, we may be at the point where we want spreads to come in a bit because they've come out. Who knows?

Barrie Cornes, Panmure Gordon
Hello. Barrie Cornes at Panmure Gordon. Most people have asked my questions to be honest, but I'll take it from a different angle. Obviously, you have great opportunities going forward, I get that, and high ROEs. But you also talk about optionality. What needs to occur for you to start seriously considering returning capital to shareholders? You skirted round it, but what sort of hurdle rates should we be looking at before we think it might be on the agenda?

Sir Nigel Wilson, Group CEO, Legal & General
I don't think we've ever really had a serious discussion at the Board, about what are the right parameters around it. It's relatively new that we're over 200% solvency ratio… that we've been through yet another test, as it were, and everybody's happy with it. I think we were the only financial services company with a market cap over, 10, 12 billion who paid a dividend during COVID.

So, there's lots of attractive features that we have and how resilient the model is. We don't have a parameterisation right now if X-Y-Z happens, I'd love to say we did, but we actually don't.

Kerrigan do you want to say a couple of things about Asia since you're busy not in quarantine at the moment?

Kerrigan Procter, President of Asia-Pacific, Legal & General
Well, really, really good to see you all. It's been three years since I've seen a lot of you. So, thanks, Nigel, for giving me the opportunity to say a couple of words. I think when we look at Asia - at the opportunities there - and think about our skill sets… incredible skill sets and capabilities… that we have in pensions and investment… and the strategic growth drivers that we talk about… I'm very enthused about the opportunities we have in Asia - all the way from long-term savings, pensions, addressing climate change and alternative assets more broadly. So, all of those things are things that we're exploring, actively investigating, and I very much hope that we'll have more to say on progress on those in the near future. But thank you.

Sir Nigel Wilson, Group CEO, Legal & General
There are a number of questions that have come through from Andrew Crean and Greig and others virtually. But they tend to, I think overall, overlap with questions that we've answered here. If Andrew or Greig think that's not the case or anybody else who submitted a question, if they then just call us and we'll answer the questions obviously. Give Ed or Nim a ring and either Jeff or I will make ourselves available afterwards for it…

I'd like to say thank you to everyone.

Whilst it was a really good set of results, I think we have to remember the ongoing struggle - there is a real cost of living crisis out there. People are living in extraordinary times, unable to pay their food bills, their fuel bills, energy pricing. And I know that we as a corporate - and Emma's here heading up HR for us - want to make a difference both from our investment-led strategy, but actually [also] looking after our people and our customers during these really difficult and challenging times, which are going to be here for a while until we get some good resolution on those things.

But I don't want to leave on a downbeat note. So, I'd like to say again that we're very confident about 2022, 2023 and beyond. We've got a great team, tremendous collaboration, huge investment appetite, huge investment capabilities. We're very motivated to continue to deliver great outcomes for our shareholders and our customers and indeed for you guys as well.

Thank you.