Legal & General plc
Preliminary Results 2014

Wednesday 4 March 2015

Dr Nigel Wilson
Group Chief Executive
Thank you. Good morning and welcome to our Preliminary Results Presentation for 2014. The usual housekeeping rules apply. Please silence mobile phones and I would draw your attention to the normal disclaimers about forward looking statements.

I am joined on stage by Mark Gregory, Mark Zinkula, Kerrigan Procter and making his last appearance for Legal & General, the legend that is John Pollock. Also in attendance are many of my colleagues and senior members of the L&G's management team. Paul Stanworth, Simon Gadd, Chris Knight, Tim Steadman, Sarah Aitken, Mike Berry, Jackie Nokes, Duncan Finch, Siobhan Boylan, Jim Islam and Bernie Hickman.

Slide 4
John is certainly bowing out on a high. After a mere 35 years, John has made an immense contribution to our culture, our customer engagement and of course to our financial performance.

The financial highlights for 2014 show strong growth. LGR assets up 28%, LGIM assets up 16% and savings assets up 10%. Retail Protection Premiums exceeded £1 billion for the first time. In total the Group's insured premiums exceeded £3 billion.

Legal & General have several market leading businesses and they are scale businesses. We can provide great prices to our customers and consistently reduce our unit costs as we drive growth.

Operation cash and net cash also grew 6% and 10%. PBT was up by 8% and EPS at 16.7 pence, up 10%. What we have seen over the last five years is dividend per share growing at 24% per annum. We are also beginning to develop a track record in EPS growth, 10% for the last three years. Our RoE has risen to 17%. The strength of the performance enables us to recommend a full year dividend of 11.25p, up 21% versus last year. And at this level the dividend is 1.65 times covered by net cash in line with previous guidance.

Slide 5
Legal & General is about predictability and consistency and the ability to deliver repeatedly and reliably for all of our stakeholders. Our five macro drivers of growth, aging populations, globalising asset markets, welfare reforms, digital lifestyles and bank retrenchment are as relevant today as ever. And they are long-term trends. They drive our businesses and here you see some examples of strategy in action.

Aging populations driving not just workplace pensions, but also a record year for de-risking both through LDI and bulk annuities. Continuing international expansion by

LGIM, now a business with assets comfortably above $1 trillion. 12% growth in platform assets as we make the transition from old style savings to our digital model. Another strong performance from our market leading UK protection franchise with premiums up 6% as private insurance fills the gap left by a retreating state welfare system. And now £5.7 billion of direct investments, not only economically and socially useful, but also enabling us to match assets and liabilities across our balance sheet. We invest for the long-term and boost risk adjusted returns from real assets at a time of super low returns from conventional traded assets.

Slide 6
Mark, John, Mark and Kerrigan not quite the Beetles, but nearly! Will talk through the business in detail. But the common features of 2014 were scale and focus. While we have areas of exceptional strength we build on them, like LDI, where LGIM is the clear market leader and bulks where we executed two of the UKs largest ever transactions. And where we have a business in a growth phase we acted to control the costs of that growth like workplace, where we hit our targets of halving losses last year.

2015 will be more of the same, except we are moving faster. This is a year of de-cluttering, we are focusing on our core markets and capabilities, of continuous process improvements to reduce our costs, particularly our unit costs. You will have noticed the sale of our non-core Irish business and our estate agency business. The acquisition of New Life, the lifetime mortgage business, the transactions with PGDM, the multiple workplace savings wins and investment in the private rendered space.

You will have seen that following the announcement of John's retirement, we have split LGAS into insurance and savings and moved workplace pensions into LGIM. And Jimmy Atkins has stepped down from LGA and Robert Moore is joining to Head LGIMA. We are still accelerating our evolution.

This has been a strong year, but we are not complacent. We know there is still work to do and challenges lie ahead. I will come back to some of those at the end of this Presentation, but I will now hand over to Mark Gregory and my colleagues to take us all through the numbers and business division performance. Mark.

Mark Gregory
Group Chief Financial Officer
Thank you Nigel and good morning everyone.

Slide 8
This was indeed another year of continued momentum across our business. In 2014 there were three key drivers of that momentum. Clarity about our strategy which enables management to identify and deliver on opportunities. Secondly, focus within our businesses which delivers a clean and relatively predictable model which takes us from stock growth to operational cash, to net cash to profit and to dividend. And thirdly, diversification across our primary business lines from investment management, retirement, protection, savings and L&G Capital, which gives us resilience and explains why the external shocks which the sector experienced in 2014 had a relatively limited effect on our performance and strategic direction.

Nigel mentioned the de-cluttering principle and we apply it at the level of strategy, operations and financial management. Improved efficiency and cost management are givens for us and we don't expect any prizes for delivery. Once again in 2014 our growing stock of business drove higher operational cash which coupled with efficient and effective execution drove rising net cash, operating profit, earnings and dividend. We avoid trapped cash and capital and we delivered in line with the guidance we gave.

Stock grew across the business last year, annuity assets were £44.2 billion with almost two-thirds of the assets from bulk schemes. LGIM's assets are £709 billion, savings assets of £124 billion and our total insurance premiums exceeding £3 billion, all new records. While the Group's total direct investments doubled to £5.7 billion. These stock increases have driven our profitability. New business strain benefited from improvements across each of savings, protection and retirement. This reduced cost of writing new business, coupled with 6% operational cash growth resulted in a 10% increase in our net cash.

Operating profit of £1,275 million was likewise up 10%. This percentage increase in operating profit was dampened by a change we have made to our accounting presentation. Starting in 2014 restructuring costs from around the business will be charged against operating profit given the ongoing nature of this type of investment. These restructuring costs total £31 million in 2014. 2013 operating profit has not been restated. We incurred £17 million in restructuring costs in that year which have been charged below operating profit. Profit before tax was up by 8% and earnings per share up 10% at 16.7 pence.

In terms of capital, on both an IGD and economic capital bases we continue to run healthy surpluses within our preferred ranges as we enter the final year prior to the implementation of Solvency II. Our increased profitability in 2014 resulted in the return on equity for the year of 16.9% up from 16.1% in 2013.

Slide 9
Looking in more detail now at our business stock growth. You can see the healthy progression over the last four years. 14% compound annual growth in LGIM assets, 11% in our total insurance premiums, 16% in annuity assets and 35% in savings, including the Cofunds acquisition. The lesson from our protection business is that increased scale together with continued focus on efficiency improvements, drives unit costs down and cash margins and profitability up. Having both scale and efficiency provides us with real competitive advantage which in turn is driving further growth.

Slide 10
Here you see that conversion at a business stock growth into financial delivery is working. Again a four year view with a 5% compound annual growth in operational cash which combined with annual improvement in new business strain has delivered a 9% annual growth in net cash, 7% growth in operating profit and an RoE rising from 14.9% in 2011 to 16.9% last year.

Slide 11
The divisional breakdown of new cash progression in 2014 illustrates the value of our focus and diversification, combining to deliver what we believe to be higher quality earnings. All divisions delivered increases in net cash, with LGAS up 6%, LGIM and L&G America up 10%, L&G Retirement up 17% and L&G Capital up 18%.

Slide 12
We said many times the significant components of our operational cash generation are largely predictable and hence we can give guidance on these elements. At the 2013 Prelims we provided operational cash guidance on some of our businesses

for 2014. That guidance was £765 million in aggregate. The actual outturn was only £764 million, my mistake!! For 2015 we are providing additional guidance to cover L&G capital and the impact of the Group dept cost on cash generation, as well as splitting what was previously LGAS between insurance and savings.

In aggregate the items we have guided on will represent an 8% year on year increase if achieved.

A couple of further points I would like to add. Firstly L&G Retirement is expected to utilise the remaining brought forward tax losses in our annuity company in the first half of 2015. And secondly L&G America where its contribution to the Group's net cash is the dividend it pays to Group, has already paid its 2015 ordinary dividend of $80 million.

Slide 13
Our dividend policy closely links dividends to net cash generation. The Board is recommending a final dividend of 8.35 pence, bringing the dividend for the full year 2014 to 11.25 pence. This 2014 dividend is 1.65 times covered by net cash generation in the year, down from 1.82 times covered in 2013. This is in line with our guidance that we would move towards 1.5 times net cash coverage of dividend in 2015 should our Solvency II surplus be no lower than Solvency I.

Our recommendation means that our dividends have grown by an average annual growth rate of 24% over the last four years through a combination of healthy net cash growth and unwinding of the dividend cover. We will provide updated dividend guidance once Solvency II clarity has fully emerged.

Slide 14
Moving to the business divisions, I will cover L&G Capital and L&G America, Zink, Kerrigan and John will cover LGIM, L&G Retirement and LGAS.

L&G Capital delivered strong results in 2014. Operating profit grew 13% to £203 million. The actual return achieved in 2014 on LGC's assets was 3.5%. This was lower than our assumed returns of 4.3% as positive impacts from the direct investment portfolio within LGC were more than offset by the returns on our traded equities which did not meet our medium term assumptions.

By accessing liquidity premium through LGC's long-term direct investment strategy, LGC helps other parts of the business gain exposure to new business classes and improve risk adjusted returns.

Slide 15
2014 saw further investments in housing, infrastructure and urban regeneration. Our mix of businesses enables us to act as a principle investor through LGC; as an investment manager through LGIM; as well as being able to attract co-investment from LGIMs institutional client base. This co-investment alongside partners, is becoming an increasing feature. For example we have coinvested £370 million with PGGM, the Dutch pension fund in property assets in 2014 and a further £375 million in 2015. We have also committed to £1.5 billion to support a £15 billion UK regeneration vehicle. We will do this in conjunction with the UK Government's Regeneration Investment Organisation or RIO as it is known. LGIM will act as investment manager for this entire vehicle.

Slide 16
L&G America our term and universal life business has consistently delivered rising

growth premiums. A compound annual growth rate of 10% since 2011 with a 2014 total of $1,117 million representing a 9% increase year-on-year. Net cash which represents the dividends paid by the Group increased by 10% in dollar terms. New business volume is lower at $150 million compared to $155 million in 2013, and down 15% in a second half compared to the corresponding period in the prior year. This reflects price changes we introduced during 2014 which raised prices at lower margin price points and reduced them elsewhere. Operating profit fell 36% to $93 million which was mainly caused by $46 million of adverse mortality experience compared to assumption in 2014. Poor mortality does appear to have been an industry wide feature in the first and fourth quarters of 2014 in the US. However we continue to closely monitor our emerging experience in 2015 to determine whether pricing needs to be adjusted further. Lower interest rates also impacted profits at LGA to the tune of $10 million year-on-year.

Slide 17

Turning now to capital and balance sheet matters. I will first cover the Solvency I IGD balance sheet. On an IGD basis we have total capital resources at year end of £7.7 billion, on a total capital requirement of £3.8 billion giving a surplus of £3.9 billion on a capital coverage ratio of 201%, which is within our preferred range of 175 to 225%.

The waterfall analysis on this slide shows the movements in the IGD surplus in 2014. I draw out a few key points. Net cash generation retained and not paid out as Dividend amounted to £0.4 billion. Capital deployed before writing new business in the year exceeded capital being released by the back book by only £0.2 billion, despite writing record volumes of annuities in 2014. In June last year we issued £600 million of qualifying debt which extended the overall maturity of our borrowings significantly and further strengthens our capital position. The default provision for credit assets backing our annuity liabilities has been increased further and is now £2.3 billion. There were no actual defaults within this credit portfolio during 2014. Indeed defaults have been less than £10 million in aggregate over the last five years.

Slide 18

Next, our economic capital position. As I said at the Interims, let me remind you, that our economic capital position is not the same as Solvency II. We calculate economic capital using the same modelling framework we intend to use for our Solvency II internal model, but we define economic capital as being the amount of capital the Board believes the Group needs to hold over and above its liabilities to meet the strategical objectives and is not a regulatory number and we would expect there to be a number of differences between this and the Solvency II capital position.

Our economic capital resources at year end 2014 were £12.5 billion, our economic capital requirement was £5.5 billion, leaving a surplus of £7 billion on a coverage ratio of 229%.

Slide 19

This slide shows the main changes in the net economic capital surplus in the year. Many of these are the same as IGD, but the key differences are that the back book generated £0.7 billion of surplus and the new business has covered its economic capital requirement, resulting in no overall strain, despite having written record annuity volumes.

Just a few words to finish on where we are with Solvency II process which of course will be live in less than 10 months. Our internal model to calculate our Solvency capital requirement will be submitted to the Regulator in the second quarter of this year and the PRA then has six months to review our model, ask any questions they have and ultimately to approve or not approve our internal model. We will also be submitting our application to use the matching adjustment in valuing our annuity liabilities under Solvency II. There are still just too many moving parts to be able provide you with meaningful guidance on our likely Solvency II position. We will of course update you in due course.

With that I would like to hand over to Zink to talk about LGIM's performance.

Slide 21

Mark Zinkula
Chief Executive Officer LGIM
Thank you Mark. LGIM had another successful year, demonstrating once again the robustness of our business model. Profit increased by 11% driven by strong growth in LDI, multi asset, fixed income and property business lines and continued rapid growth in the US. As the UK DB plans de-risk we continue to experience outflows in our equity index funds. This was once again offset by significant net inflows in our LDI solutions. We are growing assets in the DC market and the property business had record net inflows of £1.6 billion increasing assets by 20% over £13 billion.

And our international business had another successful year, especially in the US where we continue to grow our market share in the corporate DB market. And we are taking steps to further expand our business into other market segments. We continue to diversify and grow our higher margin business lines in 2014. While our index business has grown by a respectable rate over the last five years, we have experienced far stronger growth in our other core business lines. We built a market leading LDI business and as the market gradually shifts from defined benefit to defined contribution, we have expanded our range of innovative, low cost, multi asset funds for this market. We have experienced extraordinary growth over the past five years of 26% annually in our LDI and multi asset solutions businesses.

Our fixed income and property businesses have also experienced significant growth with fixed income growing at an 11% annual rate and property at 15% as a range of clients, both domestic and international, have increased the amount of income, real income and liability matching strategies.

We had a strong year in all four of these business lines in 2014 and we expect this success to continue this year. The diversification of our business is allowing us to achieve steady profit growth whilst still maintaining a low cost income ratio and a high persistency rate.

Slide 23

Over the past year we have made further progress in expanding our range of strategies for DB clients as they move towards a self-sufficiency, or buyout end game strategy.

Working in close partnership with LGR we are the only firm that can provide all aspects of the derisking journey for pension funds. We are a thought leader and a significant player at every stage of the pension lifecycle. We broaden our solutions business to have an enhanced pooled LDI offering, an active LDI capability, a broader range of fixed income and mobile asset funds and we recently launched a delegated solutions proposition. Our efforts are being rewarded as we are experiencing increasing flows in all of these areas.

The expansion of our solutions business model is allowing us to further solidify our position as a market leader in the corporate pensions market.

Slide 24

Our strategy is to replicate our DB market success into DC market.

With the recent transfer of our workplace DC platform to LGIM, the development of an investment only platform and the creation of a broad range of funds, we are creating a comprehensive customer proposition. This business model allows us to work with all potential partners.

Our funds for this market are designed on common values of transparency and value for money. And leverage the scale and breadth of our index funds and our asset allocation team.

These products consist of diversified multi-asset funds as people accumulate assets and funds that are more suitable for people as they approach retirement and ultimately begin to draw income.

We are continuing to invest in this business to ensure we have the infrastructure, distribution capabilities, products and administrative support to be the long-term market leader in this rapidly growing segment.

Slide 25

Finally we had another successful year in expanding our international business.

Our US business once again led the way with record net inflows of over $9 billion.

We are well positioned to continue this strong growth with a market leading LDI proposition and excellent fund performance with the vast majority of our benchmark over 1,3 and five years.

We are now expanding into the US DC market, launching our own range of collective investment funds designed for pension investors. This will enhance our position in the US and deliver recent acquisition of global index advisors. Although it will likely cause some outflows in that part of GIA’s business, which was anticipated and reflected in the deal structure.

Outside of the US, although we have made good progress in raising our profile in our non index capabilities, our net inflows were down year-on-year due to the disappointing index business.

It is important that we continue growing our international business. We are making further investments in distribution and manufacturing across our three hubs, in London, Chicago and Hong Kong to maintain strong profit growth.

And I will hand over to Kerrigan.

Slide 27

Kerrigan Procter
Managing Director of LGR.

Good morning. As you are all aware, we have had a terrific, if challenging year at L&G Retirement with strong results for the business in all metrics. Cash, profit, new business volumes and growth of the stock of assets.

The budget announcements in March last year, accelerated the move we were already making to focus our business on bulk annuities. And indeed we have a record year in bulk annuities in writing £7.9 billion of transactions, more than twice the amount we wrote in 2013. We wrote the UKs largest buy-in for ICI at £3 billion in March and the UK's largest buyout transaction with TRW in November. Our total new business volume of £8.5 billion includes a £1.9 billion internal transfer from our with-profits fund.

One of the misconceptions about our business is that there is a significant margin compression in our bulk business, however our EV margin was broadly stable and we continue to deliver our Economic Capital hurdle rates.

Our individual annuity sales were down 54% and we continue to believe the market will be another 50% down in 2015. Pricing discipline is our focus in this market not chasing volumes. I will come back to our response to the new retirement market shortly.

Our operating profit growth of 38% and net cash growth of 17% show we continue to deliver strong cash flows from a growing stock of business, now £44 billion.

Slide 28

You saw this slide earlier in Mark's Presentation. As you heard, L&G is the only company which participates in all aspects of the derisking journey for DB pension schemes.

We recently published a report which showed two-thirds of the UK's largest private pension schemes are looking at some form of pension risk transfer solution rather than retaining or managing all the risks themselves. Indeed nearly half said they were looking to implement a solution in the next five years. That should not be a surprise, I have never known a finance director who wants more DB exposure.

We have a suite of de-risking solutions from LGIM's active fixed income multi-asset and LDI strategies up to LGR's longevity insurance and bulk transaction options which we can offer to our clients. To be competitive in this environment you need integrated asset management strength , LDI capability and longevity expertise. You need capital and you need a track record of effective execution. Having these skill sets will continue to set Legal & General apart. This comprehensive product capability is matched by almost 30 years of experience in the bulk sector.

We have a market leading capability and underlying demand for de-risking is strong, but the timing of bulk deals does depend on scheme funding and affordability.

Also of course the amount of credit and longevity risk we retain on our balance sheet will depend on the application of Solvency II in the UK.

Slide 29

And now onto individual retirement. We have a number of responses to the new environment for our customers. Historically people underestimate how long they will live and how much money they might need in retirement. However, the over 60s in the UK have some £1.3 trillion worth of housing equity. We expect many will want to access this to supplement their retirement income. So we recently announced the acquisition of New Life Home Finance. New Life provides UK lifetime mortgages. We expect to write more than £100 million worth in 2015 just a start.

We are also launching a series of solutions for our individual customers which provide them choice and build on the strength of our brand.

These include a cash-out retirement plan, a fixed term retirement plan. And of course, for some, a lifetime annuity will remain an attractive option.

And we have relaunched our Retirement website to provide customers with the tools and education material to help them make informed decisions.

Together with LGIM's 'end to end' DC offering, that Mark covered earlier, I believe we have a comprehensive response to freedom and choice in pensions.

Speaking of individual for retiring, over to John.

John Pollock

Chief Executive Director LGAS

Thank you Kerrigan. And thank you Nigel actually because at the walk-in for those of you who don't know, Wishbone Ash that was the greatest rock band ever!

Anyway, as this is my last appearance at the Legal & General Results Presentation. Some of you may think that is a good thing, looking at my exec colleagues here. However for the others, I am very pleased that 2014 was another really strong year for LGAS and that our insurance and savings businesses are in really, really good shape going forward under the next generation of management. I am handing on the baton with real confidence.

Slide 31

I will start the overall LGAS numbers for 2014. Operational cash was broadly flat at £472 million. We reduced strain from negative £73 million to negative £48 million, enabling us once again to improve net cash to £424 million and operating profit to £460 million. Profit before tax was increased from £371 million in 2013 to £453 million in 2014, a 22% increase.

The LGAS businesses of insurance and savings sit at the heart of Legal & General. This machine contributes consistently to cash and profits because it operates at scale with a high level of efficiency and high customer confidence, resulting in a growing stock of business which in turn drives down unit costs to ever more competitive levels.

So in 2014 LGAS total insurance gross premiums, our stock, grew again to just over £2 billion. And we have around 25% market share in UK protection new business flows.

UK Savings assets also grew to £120 billion and gross written premiums in GI were also up.

Slide 32

UK Protection has delivered a consistently growing contribution to net cash. 2014 was a year of change in the market. However our strength in our mix of distribution channels, drove improved volumes and the consequent reduction in strain.

Selling more direct business is core to our strategy. D2C is growing strongly and now represents 16% of the volumes. Direct delivers strong margins, lower acquisition costs and better retention. This is partly a reprise of our powerful technology story and today we already process over 80% of applications and underwriting by a straight through processing.

We didn't ignore intermediated and partner distribution channels however. In 2014 we grew share in IFAs. We added National Australia Group, TSB and Direct Line. And our mortgage network facilitated over £40 billion of UK mortgages, or said another way, one in every six UK retail mortgages last year, enabling us to connect with customers at a point where protection is often required.

Slide 33

In General Insurance, the quality story continues. We have good operating profit of £59 million and a combined operating ratio of 87% despite the flooding and bad weather in Q1 causing an impact at £12 million. Significant benefit this year has been driven by the digital and direct story with direct sales increasing by over 25% in the year and we remain the largest online writer of household new business, consistent with building an ever stronger digital delivery.

Slide 34

Turning now to the corporate client businesses, where we have group protection and workplace savings.

Group protection now has almost 3,000 clients with 1.8 million members and delivered a 4% increase in growth premiums in 2014. Sales were slightly down at £65 million.

As we expected there is an overlap in the client base between Group protection and workplace savings and the synergy benefits will continue even after relocating workplace savings into LGIM this year.

The finances of workplace showed significant improvement in 2014 and as I promised we have halved the £29 million losses we experienced in 2013.

The new workplace was always going to be a market where the early mover would have to wait to secure a P&L advantage as the business scaled up.

This is now happening. Assets were up 28% to £11.1 billion in 2014. There are now over 1.2 million employees on the books through the 2,000 schemes. And our 50 basis point proposition means we are winning business from many of our more expensive competitors.

We continue to drive home efficiencies as business grows in scale and leverage the customer self service capabilities within our digital deliveries. Remember also, that contribution increases are enshrined in law.

Slide 35

Last, but not least our Retail Savings Business. Our assets under administration are now at £109 billion compared to £100 billion a year ago. I have said it before, but I think it is worth repeating, cofunds is about two things, integrating, updating and reusing the capabilities that we bought. And secondly, creating and maintaining a unique large scale good value platform that can deliver multiple products through multiple channels. We have made good steps towards this, delivering annualised cost savings of £7 million to date and are targeting £11 million by the end of 2015. We are consolidating our London based properties to realise further operational synergies and we are increasing our D2C proposition using the cofunds capabilities.

Suffolk Life continues to grow with assets of £7.7 billion, up 17% on last year. It is really well positioned following the developments in the market from the budget pension's reforms.

Slide 36

Now when we last spoke, I talked about Legal & General launching a D2C capability built around the cofunds business. We have gone a little farther than that and built an online capability for all of our retail customers both existing and prospective.

This week we have launched to our internal staff base much of the functionality we promised. L&G Live together with MyAccounts, which is the vehicle to access existing products. L&G Live is our beta version of the D2C engagement model shown here by my beautiful assistant (IPAD). Our aim is to do more than simply sell products. We would like to offer information, education, support and access for all customers both prospective and existing. We will enable the purchase and on-going management of product accounts, leveraging the flexibility of the cofunds assets. Our aim is to be the long-term trusted partner of all of our customer, including business partners building a long-lasting and mutually beneficial relationship. Easy to understand, easy to access, easy to transact. This environment is the basis upon which we will continue to build that ambition, reducing costs and increasing scale.

Now these developments have not been expensive. We are aiming to repeat the successful Protection technology model, enabling straight-through processing for our savings, investments and especially the new retirement products, reducing costs, building scaleability.

And finally, as I reflect on my 12 years on the Board and 35 years at the Company, I can honestly say that the strength of this business is immense. I am sad to be leaving L&G, it has been a massive part of my life and I am extremely proud of what the whole team have achieved. I know that I am leaving the business in extremely capable hands and I would like to say a heartfelt thank-you to all of my teams over the years for their hard work and dedication. I have only achieved what I have because of them. So thank you.

Dr Nigel Wilson

I missed the bit about, you will buy us all a drink afterwards! Scottish habits die really hard. That is the cultural engagement I was talking about earlier. Thank you John and thank you to all of my colleagues for yet again delivering another strong set of results.

Slide 38

Good results however are no grounds for complacency. We can as John mentioned improve further.

We have made a strong start to 2015. We have won several large workplace pension schemes and we are making substantial progress on direct investment projects, including our second PGGM co-investment, our first private rental scheme, further regeneration in Bracknell and our five English cities scattered around the country. We have had some great wins already in LGIMA, the pipeline for BPA is strong and no floods have certainly helped GI.

Some of the targets for next year set out here. Mark Gregory has taken you through the operational cash, but from the guidance we are giving you can see that we intend to deliver further growth in cash.

Key management actions are set out on the right.

The internationalisation of LGR finally, more internationalisation of LGIM, continued push into DC, expansion of the direct channel and lifetime mortgages to reflect the new retirement and very exciting market opportunities that we see. Continued expansion of direct investment asset classes, including private rental and the RIO co-investment programme. And a focus and profitability in areas such as platforms and the corporate insurance segments.

And there will be a continued push on unit costs and efficiencies across the whole company. We, the management, have tasked ourselves to reduce operating costs by £80 million during the year from £1.25 billion to £1.17 billion. In nominal terms is 6.4% reduction across all management expenses and operating costs. And the ever popular Chris Knight has been given the dubious honour of leading that particular initiative. We anticipate we will incur around £40 million restructuring costs to achieve this. That is a 50% ratio which is a very good ratio. This is a quantification of what we regard as 'business as usual'. Modern businesses need a relentless focus on costs. We have to deliver and drive down unit costs and deliver scale economies across our businesses.

Slide 39

Here on this slide is the longer-term view. We are already a business with ambitios, built on solid, strategic and financial foundations. The elevator is perhaps on the second or third floor of the high rise. For the last five year, as the results showed again today, we have set our targets and delivered on them.

Net cash was £320 million in 2008, it is now £1.1 billion. As mentioned before, dividends have grown by 24% per annum in the last five years.

For the next five years, we will have the same strategic clarity and financial rigour. But the Senior Team has reset the level of ambition across the Company.

We want to double investment management in the United States; lead in UK DC in the same way we have led in DB for so long. We will roll out LGRs de-risking skills internationally and build real scale in direct investments.

Housing and personal finance are closely interwoven in the UK. As John mentioned, we already intermediate £40 million of mortgages per year and have real property expertise. We have made a great start with CALA so housing and urban regeneration is an obvious next major segment for Legal & General.

We will adapt to changes in digital and distribution. For example, mobile life insurance is where we are piloting some of our ideas.

We will use our market leading positions in workplace as the basis for distributing other good - value products which will be needed more and more as the State reduces its welfare spending.

We are not short of ambitions or aspirations, but we are realistic and we are risk managers too. Our progress to date and our confidence in our strategy and direction of travel suggests to us that our ambitions are in fact the right ones, ones that we can deliver on in the medium to longer-term.

Thank you for your attention. I would now like to open the floor to questions.

Question and Answer Session

Question 1: Alan Devlin, Barclays

Thanks, Alan Devlin from Barclays, a couple of questions. First of all, could you give us a bit more colour on the book annuity pipeline which you said was strong, but could you give me more of what the funding levels are on pension schemes? I know you have said in the past TRW are in LDI probably market leaders, so some colour on the pipeline plus bulk annuities?

And secondly on economic capital IGD, the surpluses were flat year on year but the ratio is going down so some colour on the market movements there and what you are comfortable with?

Answer: Nigel Wilson

If Kerrigan takes the first and the second. I mean the internationalisation of LGR is meant to cover the US, Canada, Netherlands and Ireland. I have personally been very disappointed by the lack of progress that Kerrigan has made in the last year. I don't know what he was doing all last year?

Answer: Kerrigan

Just scraped through with the results. So on the bulk annuity pipeline, just to give you a feel of the strength of the pipeline, we a quoting live currently on about £10 billion worth of transactions UK predominantly but a bit in the US. I mean usual caveats that when those actually close could be in the next few months or next few years and of course we will choose which ones we actually want to win out of that portfolio. But that is the sort of I guess significance of the continued demand for pension derisking and some of the survey work we did suggested that is still a very strong client need out there.

And just on the US, you mentioned as well. I think last year when the US, around about £8.5 billion worth of transactions closed in the US so pretty substantial amount and that feels like that is growing, certainly as interest rates back up probably sooner in the US than the UK, we would expect that market to develop. So still excited by that market. In 2014 which you clearly won't see from the results, we quoted, the difference we quoted live on transactions in all of the US, Canada and Netherlands, we are ready to do deals subject to small changes in price. We could have done deals. So it was about ticking a box, we could have done it, but pricing discipline meant it would have pushed that too far.

Answer: Nigel
The pricing discipline we referring to Mark in there, what is called our Group Capital Committee, where we do turn down a lot of deals because we want to retain our high RoE and our reputation to shareholders for consistently delivering market beating returns. Do you want to take the question?

Answer: Mark
Yes I think it is important when you think about the both the regulatory balance sheet and indeed the economic capital balance sheet you think, actually in total balance sheet terms, you are quite right, both balance sheets, the capital requirement has gone up year on year. But this has been offset by movements on the asset side of the balance sheet as well. So perhaps give you a bit of colour on economic capital. ECR went up by a billion pounds year-on-year I think from £4.5 billion to £5.5 billion, just a little bit of kind of colour to that. So broadly half of that is down to new business in the year being accompanied with an economic capital requirement. And the other half broadly reflects the macro investment related movements, like interest rates going down in the year. But importantly that has been broadly offset in our own funds, either the balance sheet in economic capital terms. As I said in my Presentation, for new business we got assets in to cover the capital requirements and likewise on things like interest rates, the asset has gone up by enough to cover the increase in economic capital required. So yes, the ratio has come down, but in total terms the balance sheet remains in good shape.

Question 2: Anasuya Iyer , Jefferies
You obviously had a great year in retirements, but I could not help but notice that in your Press Release there was a slightly higher tinge of caution in terms of risk capital going forward. Was that driven by any indications on Solvency II that you have seen or was it just telling us not to get excited about it?

And my second question was on the lifetime mortgages business. You said you have £100 million of expectations in 2015, but regulation wise do you see any more challenges there? I know you said the PRA has sort of softened its stance a bit, but going forward are there any more challenges on that?

Answer: Nigel Wilson
I really like that line there, PRA has softened their stance, that is a very nice capturing, and I have never seen the PRA softening their stance on anything. Thank you. I think on Solvency II, I think the PRA have in their mind what the solution will be. As Mark mentioned we are submitting our model sometime in Q2 and when we see some smoke coming out we will communicate that to the market. I think we and many others across the whole of Europe are in discussions with our regulators and as soon as there is greater clarity, which will be probably towards the back end of the year rather than the front end of the year to be honest. But we will talk in more informed detail, I suspect over the next six to nine months, there will be lots of tittle tattle and technical pieces written by various people on this. But to be honest we don't know the answer at the moment, but Mark laid out very clearly the timetable. Do you want to talk about lifetime mortgages? The £100 million by the way is a pathetic target!

Answer: Bernie Hickman
Thank you Nigel. Yes the specific question was around Solvency II and Lifetime Mortgages and whatever you call it, it was a helpful note just put out which does provide some helpful clarification. It has been a question mark over the Lifetime Mortgage market is to quite how it would be treated under Solvency II and matching adjustment in particular. So it is a helpful thing and certainly was an encouragement to us. The bigger picture level, we have got £44 billion of annuity assets most annuity providers have got substantial portion in lifetime mortgages so we have got plenty of capacity to write lifetime mortgages. So £100 million is the bottom end of the range.

Answer: Nigel
I think in general £1.3 trillion of housing equity for the over 60s. A lot of that is going to be recycled either to right-sizing where Paul and the team are working on retirement villages or getting equity lease or lifetime mortgages. So the PRA softening their stance and helpful now, so two very positive things. I don't know if there is anything else you want to add? Okay next question.

<u>Question 3: Ashik Mussadi, JP Morgan</u>
Thank you Ashik Mussadi from JP Morgan. Just a couple of questions, one on economic capital. I mean if my understanding is correct, economic capital should benefit quite a lot from credit spread narrowing. On top of that you had strong results and on top of that you raised some debt. So the available capital should have gone up quite a lot. What is going on in that?

And secondly on the same non capital, I think page 67, 72 of your Press Release, it shows there is a big currency move impacting the required capital. What is going on in that?

Nigel Wilson
That is one for Mark I have decided. And he is passing it on to Tim. It may be better to take, as it is so detailed, Tim mentioned. So second question?

Further question
So just on the second question, you mentioned the dividend will move to 150% payout ratio depending on Solvency II surplus being equal to or more than Solvency I surplus. Is the surplus matters or the ratio matters? Or how should we think about that? Thank you.

Answer: Nigel Wilson
I will take the second one. Just in general, we are trying to get a reasonable guidance on this. When the Solvency II rules come out we will give separate dividend guidance. We are just trying to guide people to about 1.5 times by the end of this year. That is the easy question. The difficult question. Do you want to take that?

Answer: Mark Gregory
Actually in terms, you are quite right in terms of credit spreads coming to actually benefit economic capital. I would say I think just about last year our portfolio when out a little bit year on year so you might have thought it was coming down, I am pretty right in saying Tim that I think our spreads on the fixed income portfolio slightly widened 2014, so you are right directionally, but actually not true in terms of what happened to our portfolio last year. On your techy question, I am afraid I am going to have to bow to my, we will come back to you on that one. You have outdone us.

<u>Question 4: Gordon Aitken, Royal Bank of Canada</u>
Thanks. Gordon Aitken from RBC. A couple of questions on bulks and one on capital as well. Schemes are buying buy-ins, that is the thing at the moment. And presumably over time they convert to buyouts eventually. So can you talk about the typical lag between buy in to buyout? And is this guaranteed business for you? Can you talk about the relative uplift in margin when that happens.

And the second question is on capital. The requirement for bulks. Now let's say the capital bulks is 8% of the reserve, if you offload the longevity risk straight away which presumably is something available for you to do that. Can you talk about the capacity for reinsurers and the desire for reinsurers to do that?

What does the cash requirement drop to as a percentage of the reserve because presumably you are just left with a credit risk?

Answer: Nigel Wilson
I think actually they are both quite good questions Gordon, much better than your usual! And you are absolutely right on both points which Kerrigan do you want to amplify on that?

Answer: Kerrigan
Just on the buy-ins to buyouts, I mean really for us when we write a buy-in it is usually for a small conjectural of administrative change to the buyout where effectively rather than pay the pension scheme and they pay the pensioners, we pay the pensioners direct. There is a small administrative charge, but really other than that no difference in all the buy-ins we have written, we contractually advise and assist people to buyout so the buy-in, buyout that is certain to happen with us if they go down that route. The time lag there is no real answer there, it could be anything from a few months to a few years. Some people may stick in buy-in for a very long time, but very, very little financial impact for us, a small charge for additional administration work, but that is pretty much it.

On the capital requirements, it is so deal dependent and I mean clearly if you take longevity insurance, at the point of transaction, there is a reduction in the capital requirements, that is a clear feature. But it will all depend on whether it is older age pensioners only or broad set of pensions or deferred pensioners, so it is quite difficult to put a figure on precisely how much capital reduction you will get there,

Nigel Wilson
It is the right answer. And if you look at the ICI deal, we reinsured 75% afterwards. There will be an increasing trend towards more reinsurance I think going forward, particularly if the book gets a lot bigger, we will have to think about actions around that. And that is partially why we did similar reinsurance just to make sure. Because lots of liquidity as you know and lots of demand on the 9 or 10 reinsurers who are operating in that particular market.

<u>Question 5: Jon Hocking, Morgan Stanley</u>
Thank you, Jon Hocking from Morgan Stanley. I have got three questions please. Going back to the economic capital requirement, Mark you mentioned half a billion movement for new business, is that net of the capital release from the back book on an economic basis or is that just the gross new business? First question.

Second question, on equity release, what is the scale of ambition there in terms of the size of the book? If you went to the sort of level of some of your competitors, I guess you could release an awful lot of capital from your annuity book, given the high discount rate?

And then finally, on L&G Live, when is this going to be launched and what sort of marketing spend are you going to put behind it? Thank you.

Nigel Wilson
Mark do you want to take one?

Answer: Mark Gregory
Yes I have only given you a broad rule of thumb, the number was a gross number, so before any impact of new business so that is 50% on the back book. It is gross rather than net new business.

Nigel Wilson
Yes you are right to point out the pathetic nature of our ambition in equity release as well. But it is roughly answered. Kerrigan can put a bit more meat on that.

Answer: Kerrigan
On the equity release side, I mean we have got to go through the change of approval and complete the deal for New Life this year and that will take a few months to get through that. So then we will get to the point where we will really start accumulating lifetime mortgages for this year. I see no reason why we can't write 500 million year on year lifetime mortgages in the future. As Bernie said, we have got £44 billion of assets and with favourable description of how matching adjustment might work, it is you know entirely feasible that we could if the market demand feel is there, looking for another big insurance company in that market, we have the capacity to write, so it is definitely looking at that kind of volume.

Answer: Kerrigan
Never say never, but there is plenty of demand from the front book and we get to control all of the let's say conduct risks going through this route and precisely the assets we like. So we get the control of the product pieces as well so that gives us a lot of comfort. So as that business flows through so we prefer the flow from our own book.

Nigel Wilson
We prefer genuine new business if we can get it, because of all the risk, the better risk management we think we have as a company and we don't want to take on unrewarded risks from other people, but as Kerrigan said, never say never. But certainly not our preferred course of action. There is plenty of demand at the moment. John?

Answer: John Pollock
The aspects of it are already fully live, so anybody here got a Legal & General policy? If you haven't shame on you. It is just the staff putting their hands up! Gee 12 years of effort and no sales. If you did have a Legal & General, you could register on MyAccounts and a lot of functionality, the online functionality which is the cost reducing functionality if you like, the customer self-service capability, that is already there on live. L&G Live, the platform, the sexy front-end, we are putting through stability testing in-house. It is, as I was holding it up, it is live, we are just not telling anybody the URL yet to make sure it stacks up. And that will just emerge in time. How much marketing we need to put behind it, actually there is 7 million existing customers, the truth is, no much. We can put people into the environment by telling them, your documents are here, send them a text to the link and they are into the

environment. And in that way we hope to consolidate customers activity both purchasing and maintenance activity, reducing costs and building scale. So people often think about digitising or digitalising, as Mark corrected me last time, is a very expensive process. But for somebody of our scale it is not.

Nigel Wilson
I think one of the other interesting things about what we have done in the first part of the year is workplace pensions, our SMEs self-serve. I know that when we had that in beta phase, we got ten external customers sign up, of course it was just being tested in effectively a Google environment. But there is only five people down in Cardiff looking after that because it is just, it really is 20 to 30 minutes to upload all of the pension schemes into our workplace pension. And actually that is what the digital world is all about. I think the problems you have as our industry and the banking industry, you go into the massive spaghetti which is the back book and the legacy part of the business and that is much more difficult for us as an industry to undertake.

Greig. Greig always complains we get to him last!

<u>Question 6: Greig Paterson, KBW</u>
Does that mean I am the last questioner? And considering the list of questions I have, but I will keep it to three. The first one is trying to understand the US Dividend. When you write new business in the US on a statutory basis, is it accretive or consumptive of capital? That is question one.

The second one is the longevity in the insurance deal you did this year. I am trying to understand its impact in terms of its number on the economic capital, the IGD and impact of the net cash generation so we can get a feel of your capacity to use that stuff?

And the third thing, I know there were £600 million negative of other items on the IGD and the economic capital waterfall, but in particular one stuck out, the contribution to the corporate pension scheme. I wonder if you could just discuss the funding position, is it there and what commitments you have in the next few years to pay into this?

Answer: Mark Gregory
On the US point, writing new business is capital consumptive in LGA so just a straightforward answer to that one.

On the last one about the pension fund, we have concluded our triennial valuation exercise with the Trustees. That has resulted in an increased deficit repayment schedule in capital terms for IGD we have to allow for five year's worth of pension deficit payments into the IGD calculations. So essentially the amount we put in, I think it ran into 0.2 on my slide. That reflects five years worth of increases in the pension deficit. I didn't quite get your other question, could you repeat it again?

Further question
The longevity insurance. You did a longevity transaction with Pru US I think, I am trying to understand did it boost economic capital IGD and also I wonder if it helped with your sort of high big net cash generation metric?

Answer: Mark Gregory
It helped both economic capital and IGD. Tim can answer that.

Answer: Tim

Sorry Greig it is positive on EC because you don't carry the longevity capital, it is about neutral on IGD.

Further question
And in terms of cash generation?

Answer: Tim
Again I think it is broadly neutral.

<u>Question 7: Abid Hussain, Societe Generale</u>
Just one question. Back on economic capital I am afraid. Can you just explain why the required capital went up by some £500 million for new business volumes, yet on slide 19 it shows no increase from new business requirements?

Answer: Mark Gregory
Yes so slide 19 is net movement so that is both the owned funds and the capital requirements so that is essentially a movement in the surplus, whereas in economic capital requirement which is only one half of that balance sheet, it went up by half a billion. It is saying you got a half a billion of own funds to set against half a billion of capital requirement. So the slide I showed, slide 19 was a movement in surplus which showed on both sides of the balance sheet. I will explain it to you later.

<u>Question 8: Barrie Cornes, Panmura Gordon</u>
Good morning, it is Barrie Cornes, Panmura Gordon. Just one question. In terms of the outlook for individual annuities in the UK, I think previously you were only indicating you thought they would be down at least 50% and now you are talking at 50%, is that subtle change?

Answer: Nigel Wilson
No we are 50% at two years running, that is where we are. I think Bernie has done such a good job of getting the volumes down and he is hitting those targets.

<u>Question 9: Andrew Crean, Autonomous Research</u>
Morning, I have got a couple of questions. Firstly on your workplace DC business. You are now substantially behind the market leaders. In scale terms I think they are at 30 and 40 billion versus your 11 or 12. Is that something, a gap you feel you need to close by M&A and is it practically possible to close it through M&As? Are there any targets out there?

And I was wondering whether you could unpick some of the profitability in your LGAS savings business. I would be interested. You have given us the profitability of the workplace pensions and how that is going and if you could give us some sense as to the profitability of the platform business and when that will make a material contribution?

And also related to that, you have closed your with profit business. Would you have, I mean most other companies are reliant on with profit cash, you are not so much. Would you think potentially of being a seller of some of those old style businesses?

Nigel Wilson
Some interesting questions there Andrew. The industry does not distinguish enough between big and scale. I think we have a fantastic scale in workplace which is a huge competitive advantage and we have had five or six major bids in the last three or four months in the workplace pensions and we have won them all except one so far and we have got a couple more in the hopper and I am not allowed to tell you who they

are. But we are finding that we have great operating scale, we may not be big. And the fact is the components of that, like LGIMs fund manufacturing capabilities are so great that we have what we see as a huge competitive advantage and hence our ability to win lots of new business. A combination of John and Mark on the second one?

Answer: John Pollock
I will just add to your comments on workplace actually. A lot of the assets under administration, a statement of history, not very clean business in comparison and we have been winning a very substantial market shares as staging has run through. So again a bit like Kerrigan, never say never. But actually we are winning schemes. You don't need to go through M&A because you are winning them on the basis of the excellent proposition that we have got.

On platform profitability, we more than doubled the platform profitability last year and as we continue to build scale and take costs out, as on the slide, so we would expect that to continue to improve.

And as far as the with profits, that represents a long, large base of very loyal customers to which a lot of our digital efforts and aims can provide opportunities. We see no reason for us to get rid of the with profit book.

Nigel Wilson
But never say never as they say.

Further question
Just following up on the platform, is that from nought to nought?

Nigel Wilson
Have we got it broken down Mark? No.

Answer: Mark Gregory
No, we will be filing our cofunds accounts in due course. It is roughly about 5 to 10 million Andrew roughly.

<u>Question 10: Oliver Steele, Deutsche Bank</u>
I will just actually start by adding perhaps on our behalf a few expressions of best wishes to John. I am one of the few people here who can probably remember Legal & General before John was on the podium, but that was a very long time ago and long distant past. And I think it is testament to how well you have done that some of the divisions you have managed are now very much core to L&Gs franchise in the UK. I think perhaps as a slightly joking comment, I might say that I note for the first time you name checked half a dozen or even a dozen of the management team at the start of the meeting, just to reassure us that your departure isn't going to leave a great black hole.

Anyway, so best wishes going forwards.

Now I have just got two questions. First is just going back to the balance of the business and your capacity to write bulk annuity business going forwards, most of the focus up to now has been on capital constraints. But I seem to remember that when you first arrived at Legal & General you were also talking about the balance of profit that has been in annuities and the rest of the business. So I was just sort of wondering what the constraints are on your ability to keep growing the bulk book from here?

The other question I have got is on the cost savings, £80 million. Is that business as normal, nothing coming through to the bottom line or should we expect some net margin improvement coming through?

Answer: Nigel Wilson
On the capacity to grow maybe I will reverse the question for that, is that we need LGIM to grow a bit faster, we need LGC to grow a bit faster. Mark do you want to make some comments on our capabilities to accelerate the opportunities? You are off to Japan and Hong Kong and China in the next couple of weeks?

Answer: Mark
Certainly, from LGIMs perspective obviously it is a business that is going through, has been going through a transition as our core index DB client base business is running off as those plans derisk. But we are seeing accelerating growth in a lot of other areas which I alluded to in my other slides. So certainly internationally, in the US growth continues to accelerate, every year we are having record net inflows. Nigel mentioned looking East. We are having a significant footprint now in the Gulf. Really just getting started in Asia and that is where we will be spending the next couple of weeks, but building out our presence in that region. So there is only upside potential there.

And regards to DC, when I hear we are way behind 11 versus 30. I mean this is a market that is going to be in the trillions, it is such early days, we are so well positioned and we definitely see the opportunity of positioning ourselves to have a very comprehensive business model to be the market leader in that space. There is tremendous upside potential in that market for us over the next several decades. So very encouraged by the growth prospects across those channels.

Nigel Wilson
Yes we have got a very powerful distribution team which Sarah Aitkins somewhere I think, sitting at the back if anyone wants to talk about some of the sales plans that we have in really driving growth, I am sure Sarah will stay behind afterwards to answer any questions. Paul is there anything you want to add on LGC?

Answer: Paul
Yes, thank you. So LGC has about £5.1 billion of assets, about £0.7 billion of that is in direct investments. The strategy that we are going through will have multiple effects through the profitability of the Group. Primarily through the changing in the return on assets, we have about a 4 to 5% return on traded assets and returns in the area of teens for some of the direct investments in their own right. But some of the things we have been trying to bring through today, is that not only do we create those returns, but we create greater access to assets for the annuity funding that is required every year. And through things like PGGM we help bring in new clients for LGIM which brings in fee revenue. So there is a much more multiplicative affect or compounding effect that LGC brings in terms of revenues than just simply the return on the assets.

And finally we are focusing on urban regeneration. We have worked on SME lending. These are all things that fill our social agenda. And we are putting money back into things that are helpful for the economy and away from traded assets. And I think those things are much more kind of powerful as they go through the business than just simply the return on the assets.

Nigel Wilson
I think the general point to make, we are at the very early days of growth in lots of parts of our business. Andrew made a very good point about with profits. We are just not dependent, there is a risk that several of you identified five or six years ago, what happens when? And actually LGIM, LGC, LGR, LGAS have all created lots of optionality for further growth. We take in relatively modest steps I would say so far, largely organic to drive growth in those areas. And the result so far has largely exceeded my expectations, except for Bernie's pathetic target for this year, compliance, this is the bit we put in the Press Release. It wasn't my number.

On the cost reductions, there is £40 million you know the way that Mark has decided to account for it is I suspect different from competitors and many other industries who put the restructuring costs below the line, we are putting them above the line, we don't want to create lots of heady expectations for growth. But a certain proportion of that will definitely flow through to the bottom line. John talked about how do we improve digital to become more efficient in digital and how do we drive down unit costs. Kerrigan and the team, even though they are already pretty profitable are working on a good plan for that. We have closed one or two offices already across the Group. Chris and the team are working on it and are pretty determined not only to get the cost reductions, but make sure they flow through into the bottom line.

Two more questions and then anybody who wants further questions, the management team will stay behind afterwards.

<u>Question 11: Fahad Changazi, Nomura</u>
Just a quick follow-up question on LGIM. How should we be thinking about outflows from the index funds from here? Stable outflows are they expected to increase?

And related to that I suppose, could you give us some qualitative colour on how much the index funds outflows come back along the derisking chain over the last five years?

Nigel Wilson
A very good question, I will just give some extra pointers while Mark is thinking about the answers to that. Is that we have not had any, or we have had now, index sales in America are just beginning, index sales in Asia, we have got one I think so far. And the Gulf we would expect to do better this year than last year. But I will let you put a bit more colour on it Mark.

Answer: Mark
The trend will continue. So pension plans are derisking, they are selling equities, we manage a substantial percentage of the equity assets in the UK DB market so as they continue to derisk you will continue to see outflows of our index equity business and there is not much we can do frankly about most of that. What we can and the persistency rates remaining around 90% so an outstanding persistency rate, that continues to be our target to stay in that zip code. But over time, outflows will get larger as it goes to asset base getting larger etc if we maintain a 90% persistency rate. But we have to and we are doing an excellent job retaining assets in our expanding range of solutions which Kerrigan and I talked about, that ultimately goes into Kerrigan's business.

And in addition to the flows we report there is a lot of switches that happen. So several billion of switches in those strategies, as well as property fixed income which we don't report as that shows up in the markets in other movement line items as shift in assets. So there is a significant push and that is why you see our notional values go up significantly, we might be managing the passive gilts for example of an existing client so those gilts just shift from the index team to ultimately classified as LDI solutions. But we have to do a better job at that, we did a good job growing and most of our non index areas are repositioning, our equities business, we have to do a better job growing our index assets in other channels. We have been very aggressive about that. The retail business here, we are being much more aggressive in the DC channels here than internationally as Nigel already stole my thunder. He got his facts straight, which is pretty good. We are just getting started in the US at the end of last year, we are aggressively competing, as I mentioned before, we are going to accelerate the investment in Asia in particular the category index business. So in my mind that is going to be a much greater focus for the firm going forward.

Nigel Wilson
He has got a great big suitcase he is taking with him for two weeks in Asia. One last question.

Question 12: Andy Sinclair, Merrill Lynch
Morning, thanks. It's Andy Sinclair from BofA Merrill Lynch. Just firstly on the changed mortality tables in the US. What sort of cash and IFRS impacts would we expect from that going forwards?

Secondly on LGC, I think there is slightly over a quarter of LGC assets are currently in cash and cash equivalents. Should we expect to see this being invested in higher yielding assets in future or will there always be a significant cash holding in LGC?

And finally, last one to John I suppose, what is the average contribution rate at the moment in the workplace pension business? Just to understand how that will move as we go up to 8% mandated over the next few years? Thanks.

Nigel Wilson
Good questions there and I will just give Paul some hints. Is it a bit pathetic that we have got so much money in cash in LGC, but he can comment further on it.

Answer: Mark
Yes on the LGA one. We have put through this change to the embedded value assumption for this new as yet being consulted on table in the US longevity improvement table. Very much long duration, so latter years and we have not yet finalised, but we thought we would take some of the pain through our assumptions this year end. The impact it is going to have in our IFRS in terms of earnings and cash, we are pretty much, from an investment point of view, if we take the US Gap number and broadly, pretty much your assumptions, you kind of take any pain there is through on the drip year in year out. And because it is in the tail rather than in the here and now, I would not expect any material impact on earnings and cash, but it is certainly in the short term.

Further answer: Paul
Yes thanks for that question. The cash balance that we have at the end of the year is combined with what we require for Treasury. And so we run our liquidity testing to ensure that we have cash for our ongoing operations which includes dividends and coupon repayments and any redemptions that are coming up, as well as maintaining a coverage ratio for extreme events. And so that cash balance actually varies through the year and isn't a static fund level. From an investment perspective, we are separating what is required from Treasury from investments and we would not anticipate holding cash as part of the investment portfolio.

Further answer: John Pollock
I don't think we think about it quite as an average, the schemes are very different so large schemes that already would be at substantial levels, the people, the new members that are joining those schemes tend to be at the lower personal contribution levels. The SME marketplace is at lower. So the bulk of the non pensioned companies would be at the statutory minimum and therefore as we see the rise in 2018, 2017, you would expect to see those revenues flow. So across the book it is between the mature at already decent contribution levels at 10% and at the smaller and new members at the statutory minimum. So you would expect to see a gearing.

Nigel Wilson
I would just like to say thank you again to all of my colleagues, Oliver was right, we have got great bench strength now at Legal & General across the company. One of the things that I have been impressed by my colleagues ability, has been to recruit and bring on some of our people. And so it is great to see Robert joining us today. Mark persuaded him a couple of weeks ago to really think about it and he flew over about a week ago to talk to me and then two days later he left and he is almost on board, but we are getting outstanding people. We are getting much better technology across the Group. We haven't quite got there in all places, we are building real scale economics. We have got lots of optionality for growth. We have got to start delivering on that goal, set higher targets for ourselves. There is one individual in particular, I won't mention him anymore, as he is getting bigger and bigger targets. But we have got to deliver on costs as well and that is really for the first time we have put that in because I feel that when we do put that in, it helps stimulate the internal people to achieve the targets. So I will be disappointed if we didn't deliver along the targets that we have set because I think they are all achievable.

And I would just like to echo the point that Oliver made, John has been a great colleague of mine, a great member of the Board, he is causing trouble on the CALA Board now. He has gone on there to help get some extra operational focus on the business, but they are doing a great job and they got record profits last year and I am absolutely confident they will have economic profits again this year.

And thank you for all of your support over the last few years. We have had a good run, but it hasn't stopped yet and there is plenty more to go for. So thank you.

<u>End of Presentation</u>