Nigel Wilson Good morning and welcome to our 2019 H1 presentation. Firstly, a couple of bits of housekeeping. Here are usual forward-looking statements. Please switch off mobile phones and if there is a fire alarm, the home team will shepherd you downstairs.

The jet engine on the screen reflects one of our three standout deals of the first half of 2019, the largest ever UK PRT deal, over £4.6 billion for Rolls-Royce. The other two records were the partnership at Oxford University which we announced a few weeks ago, which will deliver up to £4.0 billion of investment over the next decade.

We expect a significant amount of these assets will support our PRT business, so Oxford University postgraduate engineers may well be living and working in facilities which fund the pensions of their Rolls-Royce predecessors. This is an example of inclusive capitalism in practice.

The third record for LGIM was the award of a $50 billion mandate from GPIF in Japan, adding to record international inflows. These deals reflect skills and capacity across the L&G Group, real asset expertise in LGIM and LGC, appetite for long-dated real assets in LGR, new expertise in science-based real estate through our Bruntwood SciTech JV and a desire to execute transactions which we demonstrate repeatedly that we are economically successful, socially useful and increasingly international.

I’m delighted the business is performing so well and at scale. Scale, technology and trust are three of the most important assets a financial business can have, and we have all three.

These strengths, plus depth of management, track record and strong presence in markets with opportunities, mean that all five businesses should contribute to our future growth.

The sale of Mature Savings and GI enables us to focus on businesses where we have a leading market share and into adjacencies where we see outstanding growth potential. That success is reflected in our financial metrics.

12 years ago, in 2007, full year operating profit from divisions was just over £650 million. It took us 175 years to make our first £1.0 profit. In the last six months we made £1.2 billion, up 12%.

EPS of 14.74p is also up 13%. Operational surplus generation, at £800 million, is up by 17% and ROE is again at the 20% level. Book value of £8.7 billion is £1.0 billion ahead of this time last year and up by 13%. And, as expected, our dividend is 4.93p, that’s 30% of the 2018 full year dividend payment.

This is not outstanding or in any sense a flash in the pan. It is part of a consistent long-term growth story over a decade. Since 2011, we’ve delivered 11% compound growth in operating profit, 10% growth in EPS, 14% growth in DPS and 7% growth in book value per share.

The credit for this is due to our strategic clarity, excellent in delivery and a strong and collaborative management team who are with us here today. I’d like to thank Jeff, Bernie, Laura, Chris, Kerrigan, as well as Cheryl and Claire, who are overseeing the sales of GI and Mature Savings, and welcome Michelle Scrimgeour to the team as the new CEO of LGIM.
That team manages a focused set of five growing and profitable businesses and delivers the synergies that make them significantly more than the sum of the individual parts. L&G is a clear global leader in pension risk transfer and LGRI had a fantastic H1, with operating profit up 45% to £524 million.

We have a 30% market share in the UK but only 3% of the similarly sized US market, so there is plenty of headroom. And, since the end of June we’ve executed further US business, breaking away from the under £100 million deals and into the mid-sized scheme bracket.

LGIM is, by some margin, the largest UK investment manager with £1.1 trillion of AUM but we only have 1.7% of the global market, again headroom for growth. LGC is a unique business, delivering 12% compound growth in operating profit.

As well as being a successful business in its own right, it is a funnel for assets for LGRI and LGIM, key to our success. The insurance business has around a quarter of the UK life market and is growing premiums. It is a key driver of our digital effort, delivering growth through customer-centric technology which also brings down operating costs.

LGRR, the retail retirement business, had a fantastic half year, delivering 47% growth in individual annuity sales. Rumours of that market’s demise due to pensions freedom were, as Mark Twain said when he read his own obituary, greatly exaggerated.

We have transformed the UK lifetime mortgage market. The market has grown from £1.0 billion to £4.0 billion and our share is close to 30%. Other competitors are now following so we have to continue to evolve and innovate our own product suite.

Looking across the five businesses, flows for those businesses are strong annual compound growth rates ranging from 9% for insurance, up to 45% for individual annuities over the last three years. And, in terms of H1 2019 versus H1 2018, all five divisions have grown sales.

Our strong track record within the five businesses is underpinned by a mutually-reinforcing business model. This provides us with unique synergies in asset manufacturing and management. Our model also benefits from the capital synergies and diversification provided by LGI.

Our retirement businesses help to provide LGC with capital which it uses to create and structure real assets to back liabilities in the retirement division and to drive shareholder returns. LGC also provides assets for third-party clients via LGIM, our investment management business.

LGIM, in turn, acts as an important lead generation for our PRT business through its relationship with DB pension trustees and its focus on LDI. LGIM is also an important source of third-party co-investment for LGC and, of course, provides asset management services for both of these businesses.

Each of our businesses, therefore, make important contributions to and benefit significantly from one another. This is a mutually beneficial and unique combination and key source of our long-term competitive advantage.
Legal & General Half Year Results 2019

For Legal & General, this has been a strong first half and we’re also starting H2 strongly with a pipeline of opportunities across all five divisions. I will come back to outlook later but I will now hand over to Jeff to take you through the H1 financial performance in more detail.

Jeff Davies

Thank you, Nigel. Good morning, everyone. This morning, I’m going to cover the financials for the first half of the year on both a group and divisional basis, the management of our credit asset portfolio and lastly our capital division, together with a bit more detail on how we think about the impact of growing PRT volumes over the medium term. Kerrigan will cover LGC’s results separately in his presentation.

In the first half, the group delivered another strong set of results. Operating profit from divisions was up 12%, benefitting from an exceptional performance in UK PRT and increasing market share in UK individual annuities.

As we previously flagged in our 2018 results, we’re continuing to make measured investments into our business in order to improve efficiencies, gain access to growth areas, enhance customer experience and to comply with the evolving regulatory framework.

In the first half of 2019, this resulted in a £20 million increase in group investment spend. Operating profit increased by 11% to just over £1.0 billion. PBT was up 12% as a result of higher investment variance due to positive equity market performance and an accounting gain arising on the valuation of assets in the group’s defined benefit pension scheme.

This was partially offset by lower long-term interest rates impacting LGI reserves as we’ve seen in other periods. As Nigel mentioned earlier, the synergies between our businesses drive profits and fuel future growth. This is demonstrated by the group delivering a return on equity of 20.2%.

Given a number of known factors including lower rates, our Solvency II coverage ratio reduced to 171%. Operational surplus generation was £0.8 billion, up 17%, and we expect a similar level of OSG in the second half.

I’ll cover our capital position in more detail later but turning to operating profit from our divisions, LGR has continued the momentum from the second half of last year, growing operating profit by 36% to £655 million.

This was driven by the ongoing delivery of prudential margin releases from the back book and the new business surplus emerging from our record global PRT volumes of £6.7 billion.

Both of our retirement businesses performed strongly. With the volume increase, our institutional business grew operating profit by 45% to £524 million, whilst our retail business grew operating profit by 10% to £131 million.

We continue to exhibit discipline in our profit approach and originated significant direct investments to support our new business with DI AUM growing by £4.9 billion since H1 2018. The UK annuity business we transacted in the first half was written at attractive margins, in line with prior periods.

As we mentioned at the 2018 year-end results, we’re currently investigating the appropriateness of moving to CMI-17. Based, on our analysis so far, the trend of slower mortality improvement is continuing and we currently estimate the impact of a change to our assumptions could result in a release of the order of £200 million. We’ll finalise our analysis in the second half and expect to make any changes at year end following the completion of this work.
Moving on to retail retirement, our individual annuity business is a leading provider in the UK market. Sales increased 47% to £497 million, benefitting from wider market penetration and improved pricing sophistication.

Lifetime mortgage advances were £489 million, down slightly from last year as we maintained pricing discipline in a competitive market. In the second half we plan to launch our retirement interest-only mortgages to address the growing number of individuals reaching retirement with interest-only mortgages, adding to our existing solutions for this segment of the market.

Our LGR asset portfolio, which is managed by LGIM, has now grown to £72 billion whilst maintaining high credit quality and good diversification by sector. 16% of the portfolio is in sovereign-like assets and the proportion of direct investments is 20%.

Since the 2008 financial crisis we’ve reduced our holdings in bank and insurers in order to reduce our financial correlation risk and to improve our sector diversification.

LGIM manage the portfolio to avoid downgrades and defaults and has been extremely successful at this, realising less than £25 million of default losses in traded credit since 2007, whilst maintaining overall portfolio credit quality. As further protection, we continue to hold a substantial credit default reserve which has grown to £3.2 billion.

We’ve covered our DI portfolio in some detail in previous presentations, so on this slide we focus on UK-listed corporate credit. This comprises just 23% of LGR’s bond portfolio with many of these holdings being multinational companies such as GSK, Vodaphone and Unilever, with significant overseas earnings.

In total, the credit quality of our UK investments is similar to that of LGR’s aggregate asset portfolio, with over 70% of UK assets A-rated or higher. Our portfolio is also geographically diversified. Whilst the vast majority of our liabilities are denominated in sterling, we hedge our currency exposure to deliver matching sterling asset cash flows.

In LGIM, operating profit was up 1% to £205 million, reflecting increased revenues from flows and positive markets. As previously guided, this was offset by continued investment in the business, specifically on the automation of our processes, system developments and customer experience enhancements. Reflecting this investment, the cost income ratio of 53% has increased marginally from last year.

Total AUM is now over £1.1 trillion, with international assets accounting for almost 30% of £343 billion. External net flows were £60 billion representing 5.9% of opening AUM. Of this, international net flows were an impressive £45 billion and included the £37 billion passive mandate with the Japan Government Pension Investment Fund, leveraging our strong ESG approach and providing LGIM’s Asian business with a platform for future growth.

UK DC had another good performance with AUM now exceeding £86 billion. This includes over £7.0 billion in our master trust, one of the largest and fastest growing in the UK.

Moving on to our protection division, LGI, operating profit was down £20 million to £134 million largely due to the prior year benefitting from model refinements. In the UK, both our retail and group protection business continue to generate good profits, with UK margins improving in the first half.
In the US, operating profit was up £23 million to £41 million, primarily due to a reserve release following improvements to the new IFRS methodology and lower adverse mortality compared to the prior period.

Total new business annual premiums were up 9% to £178 million and gross written premiums were up 7% to £1.4 billion. The business continues to grow at good levels of profitability and growth-written premiums are up 7% to £1.4 billion. The business continues to grow at good levels of profitability and, looking forward, we expect the full year LGI operating result to be in a similar range to 2018.

Moving on to our capital position, the group’s Solvency II surplus stands at £5.9 billion and our coverage ratio was 171% at the end of June. The quality of our capital remains strong. 78% of our own funds is core tier 1 and we remain confident in the resilience and capacity of our balance sheet to withstand significant shocks.

We have bridged the Solvency II surplus to help explain the movement since the year end. Operational surplus generation from the back book was £0.8 billion, up 17% on the prior year.

There were a number of well-understood movements during the period including the one-off redemption of £400 million of sub-debt previously flagged at the year-end, the larger of the two dividend payments for the year and the non-economic impact of lower interest rates on the valuation of our balance sheet, which was partially offset by positive equity markets, and a discretionary deployment of £0.3 billion of capital to fund significant UK PRT volumes, which remains low strain at circa 4%.

In the second half, we anticipate a similar level of OSG, a modest contribution from the disposal of the GI business and a potential mortality release. This will comfortably cover the smaller second half dividend to be paid whilst also providing additional capital to support further new business with the final ratio subject, of course, to market movements.

This slide shows our capital requirements before diversification. Given our focus on annuities, our primary risk exposures are to longevity and credit. In the context of recent rate moves we note that our economic exposure to interest rates is low, just 1% of our SCR is held against rates.

And, finally, as we grow our direct investments, it’s worth emphasising again that in many cases our primary exposure is to the counterparty and not to the underlying property. Property constitutes just 8% of our year-end SCR.

L&G is well-positioned to benefit from the ongoing structural growth opportunity in PRT. Whilst newer PRT business requires solvency capital to be put against it on day one, this capital commitment pays back quickly and generates an attractive and long-term flow of operating surplus for the business.

To help illustrate this, we’ve modelled the cumulative Solvency II surplus generation for a notional £10 billion of annual UK PRT sales. This is based on the mix of PRT business we’ve written over the last three years.

For L&G, UK PRT new business has a capital strain of around 4% on day one and generates approximately £100 million per annum in OSG over the next few years, resulting in a typical base payback period of around five years. Over the life of this business, we expect to generate significantly more than £1.0 billion of surplus.
Clearly, the level of new business strain will vary depending on the makeup of in-payment and deferred annuities. We manage the mix of business carefully to achieve the desired balance between strain and profitability.

As we have shown, PRT is one of the contributors to OSG growth. We’ve been growing dividends at 7% per annum since 2017. Since that time, OSG has grown, on average, at 11% per annum and we’d hope to continue at around the 10% level over the medium term. This provides plenty of capacity to write desired levels of new business.

OSG, net of dividends paid, has grown at 19% per annum, giving increased coverage on this particular metric. Given the level of market opportunity in PRT and the significant surplus generation we’ve shown, as well as the strength of our balance sheet, we are happy periodically to deploy more capital in the period than we generate. For example, this may be the case in the second half. We will, of course, remain disciplined in the deployment of our surplus capital to ensure we meet or exceed our return targets.

So, to conclude, our businesses produced a good financial performance in the first half with double-digit growth of key metrics. LGR performed strongly in a buoyant UK PRT market and this business remains highly attractive to us. As we write this business, the group’s OSG earnings and cash continue to increase at double-digits, giving us optionality to invest in new business.

We continue to achieve a return on equity of around 20% and the synergies between our businesses are a unique source of competitive advantage. LGC is a key part of those synergies, and I’ll hand over now to Kerrigan to go into more detail on the first half performance of his business and the exciting developments we’ve been announcing there.

Kerrigan Procter Thank you, Jeff. Starting with the H1 financials, LGC divisional operating profit was £173 million, slightly up compared to H1 2018’s £172 million. With that, direct investment operating profit was £99 million, just down on the previous £104 million and reflecting a UK market for housing that was more challenging at the start of 2019 than the first half of 2018.

Earnings overall were up more significantly at £278 million compared to £82 million given the relative performance of the roughly £2.0 billion invested in an internationally diversified portfolio of equities and multi-asset. Our direct investment portfolio has grown from £2.0 billion a year ago to over £2.6 billion at 30th June.

Legal & General Capital invests £7.8 billion of assets, of which £2.6 billion is direct investment in three growing business lines, namely L&G Homes, Future Cities and SME Finance. We expect to double the investment to over £5.0 billion in these three business lines over the next three to five years.

Our investments cover residential and commercial real estate, infrastructure, private credit and venture capital. Our planning assumptions for our real assets are for double-digit returns in development with high single-digit returns for developed and operational assets, giving a target blended return on the direct investment portfolio of 8-10% overall.

I plan to spend the next few minutes on how we are investing both in a way that is consistent with L&G’s structural growth drivers including creating real assets, today’s capital and aging demographics, and in a way that supports asset creation for LGR’s annuity portfolio and for LGIM clients.
L&G’s three-legged asset strategy of asset funding through pension risk transfer and individual annuities, asset management through LGIM and asset creation through LGC has been in place for several years now.

Three examples of LGC creating real assets to back annuities or to facilitate the launch of new LGIM funds are affordable homes, private sector build-to-rent and the Oxford University Partnership announced in June.

The Legal & General Affordable Homes business was created in 2018. Since then, the business has been seeking to acquire, build and manage new affordable homes across England, working in collaboration with housing associations and local authorities.

Contracts have been exchanged with four affordable schemes and the first scheme in Croydon completed at the start of July. Many more schemes are in the pipeline. L&G Affordable Homes will be near breakeven in its first year of operation and we expect it to be profitable in 2020.

Furthermore, the affordable rents on these homes pay CPI-linked rental income, creating a portfolio of assets that can be structured as CPI-linked assets. We will start using these assets to back PRT business late this year or early next year.

LGIM’s Build to Rent fund, which holds a portfolio of urban apartment buildings for private sector rent, is a product in demand from pension schemes given the stable cash flows that can be achieved for multi-occupancy rental accommodation. It has 13 schemes across the UK delivering around 4,500 homes for elective renters.

In time, the BTR fund will be large enough and mature enough to be able to fund the development of a pipeline of new apartment buildings, but to get the fund started a combination of Legal & General’s capital and PGGM’s capital is being used to fund the initial development pipeline with new sites in H1 in Glasgow and Wandsworth.

The third example is one of future asset creation. In June, L&G announced a 50:50 partnership with Oxford University to develop projects in and around Oxford covering affordable homes, key worker homes, student accommodation, commercial property and the creation of science and innovation districts with modern workspace and research facilities.

Through this partnership we expect to be able to create up to £4.0 billion of assets over the next ten years, much of which will back annuities or form part of LGIM managed funds.

Moving on to homes where our strategy has three dimensions through which our L&G Homes customers can buy a home, rent a home or enjoy later life in their own home. Firstly, on homes to buy, which is all under CALA’s Mature Operations and Governance. CALA sold just under 1,100 homes in H1 2019, compared to just over 1,200 in the first half of 2018.

Secondly, on homes to rent covering affordable homes and private sector rental, L&G’s platform for developing and operating homes to rent delivers good returns for shareholders, diversifies our exposure to the housing market, stimulates the economy through construction and development and creates assets to pay pensions.
Thirdly, on homes for later living which is where L&G’s long-term themes on the need for the real assets and the aging demographic meet, I believe that this is significant investment opportunity presented by the longevity economy that goes beyond the traditional view of opportunities to sell pills and cruises.

The later living business profitable in 2018 and we expect the combined business to deliver similar profits this year. Later living is also an interesting asset class for L&G. It delivers returns from property development and sales but also delivers recurring income through management fees and rental income which can, in time, be structured to pay pensions.

My presentation in March includes a look north when I talked about our future cities investment in Manchester, Leeds and Newcastle and I’ve just talked about Oxford in England’s economic heartland. But, we also go west with further investment in Cardiff and Bath committed since the start of the year. Last week, we announced the latest stage of investment in Cardiff Central Square in partnership with the Welsh Government and Rightacres Property. This development will provide a transport interchange, build-to-rent apartments for our BTR fund and office space with a long lease to back pensions.

Earlier in 2019, we announced the redevelopment of Bath Quays – North, a 5.5 acre riverside site and, in May, we announced that our first urban later living community would be in Bath.

To futureproof their regional economies local stakeholders in cities need to support education jobs, home and communities but future cities also need to be connected and clean, which is why we have been investing in renewables infrastructure and digital infrastructure.

In renewables infrastructure, LGC has invested around £130 million in 19 onshore wind and solar assets across Europe with our partner NTR including further deployment of funds in H1.

Put together with the over £850 million of UK offshore wind infrastructure debt managed by LGIM Real Assets for LGR, Legal & General is becoming a meaningful UK investor in renewables.

We see electric vehicle infrastructure becoming an extension of this strategy which is why we took a 13% stake in Pod Point, a UK provider of electric vehicle charging point, in February.

Digital infrastructure is the integration of digital technologies with physical infrastructure to deliver connected and resilient assets to form the backbone of future cities. It is one of the fastest growing segments of infrastructure.

We made our first investment in this sector in January with a circa £60 million investment in the Kao Data Centre, a new data centre near Harlow, targeting the Cambridge to London corridor.

Our third LGC business line is SME Finance covering private credit and venture capital. Within SME Finance, we have seen good progress with our investment in the private credit manager Pemberton, in which L&G is a 40% shareholder. Pemberton has raised over €2.5 billion of funds over the last 12 months and as at half-year had AUM of approximately €5.5 billion.

Of LGC’s circa £400 million of assets in the SME Finance portfolio, approximately £300 million are cornerstone investments in Pemberton’s private credit funds; these have performed well.
The SME Finance venture capital investment approach is via a fund-of-funds strategy with over £100 million committed across nine managers and good initial returns. Our next step is to introduce an investment vehicle to allow LGIM’s defined contribution investors access to the fund-of-fund approach, so VC into DC.

In summary, the assets Legal & General Capital manage need to support liquidity capital coverage and deliver a good long-term return for shareholders. However, given the long-term nature of the capital, Legal & General’s strategy is to do more with these assets and use them as a catalyst to create other assets for the group.

We are delivering on our plans to do this in Homes, Future Cities and SME Finance in a way that is good for customer, shareholders and, more broadly, the UK economy. Thank you. I’ll now hand back to Nigel.

Nigel Wilson

Thank you, Jeff, and thank you Kerrigan. To deliver a decade of consistent double-digit growth, we have aligned our strategy with six global macro trends which are structural rather than cyclical. We’ve also reaped the benefits of leaning in.

We deliberately have a combination of businesses focused on two types of markets. We have big markets where we have a relatively small market share, where we can outpace market growth, for example, in global asset management, US PRT and UK housing.

And, also growth markets where we already have a big market share and where we can grow by retaining market leadership. This includes DC pensions, lifetime mortgages, UK PRT and insurance. We have exited declining markets like mature savings, and those where we’ll always be subscale like GI.

To pick some examples from the data, in PRT we have a 30% market share in the UK and expect the market to exceed £30 billion over the next few years. It used to be a £3.0 billion annual market, so this is a ten times increase in terms of flow and a step change in terms of accumulation of stock.

In the US, we expect a similar market performance but we start from a 3% market share. In global asset markets, our market share has grown from 1.2% in 2007 to 1.7% today. We expect this market to grow and our share to keep growing faster. Our share of global revenues should grow faster still as we improve our product mix.

We have executed well in the US and in entering Asia. Ten years ago we were a UK DB index house. Today, the growth we are delivering is in international, in DC, in solutions and multi-asset products, backed with a leading ESG focus.

In real assets, the combination of LGC, LGR and LGIM gives us a significant advantage. In UK housing, we have, in macro terms, a government target of 300,000 homes per year – a huge shortfall – a market share for L&G of 2% and, in the house building sector, a unique balance sheet and a trusted brand to deliver at scale.

In UK DC, we have £86 of assets and a 19% market share. ISAs will more than double over the next five years and we can grow our current 1% market share. Our ecosystem approach and our scale will enable us to improve returns for pension savers including innovative ideas like VC into DC; this is a live and exciting piece of government policy.
Another driver is technology which is most obviously visible in retail-facing products. Adoption improved the cost space and the user experience. We can see this in pensions, in mortgages, in surveying and in protection. It also makes it possible to operate economically with a low cost of entry in adjacent markets which are currently broken.

There are several examples of this including SalaryFinance to disintermediate payday lending, Care Sourcer, to connect social care users and care providers, and Pembertons, to lend to SMEs.

Our business model is tried and tested in the UK and is increasingly being transferred to international markets. Looking at DB pensions we see across six markets a total market size of almost £10 trillion and we operate in 85% of the global DB market.

As those markets develop, we can build out our model with its unique combination of asset management, pension risk transfer expertise, retirement solutions and capital investment. We’ve already achieved market entry in PRC in the Netherlands, Canada and Ireland, and in the United States we’re moving up through the size brackets of PRT, and we are already a top three international asset manager in Japan.

China is rapidly liberalising its markets to permit establishment of 100% foreign ownership subsidiaries and, indeed, after supportive discussions, we are progressing our application for a wholly-owned foreign subsidiary in 2020. Here you see the doubling of both international PRT premiums and of LGIM’s international AUM since 2016.

We expect this growth trajectory to continue. Our partnership with Brookfield has enabled us to do our first Canadian PRT deal this year. We can genuinely claim to be the only global PRT player. We’ve also written in excess of £1.0 billion of PRT business in July alone and have a pipeline of £20 billion plus.

Our strategic ambition should be in no doubt. Historically, we have delivered 10% EPS growth from 2011 to 2015 and we’re on track to replicate this for 2015 to 2020. By backing the global growth drivers, being focused and delivering well, we have managed fluctuations from regulatory change and mitigated risks from market volatility.

In the second half of the year, strategic clarity and excellent delivery, top line and bottom line, across all our divisions will be our priority as we work through a period where there will be a lot of external political noise from Brexit and global trade issues. We are well-prepared.

Beyond that, we will accelerate our global ambition based on the tried and tested model which we now have in the UK and which is now delivering for us also in the United States.

I have every confidence that the management team here can deliver that goal. We can scale up success, we can be financially and socially useful and we are a leader already in financial solutions and a globally trusted brand. Now, we’re happy to take questions.

**Alan Devlin**  
Alan Devlin, from Barclays. A couple of questions. First of all, on the PRT volumes, I think you’ve already written £8.0 billion year-to-date including the stuff this half. What is your capacity to continue writing more volume this year and what is the constraint of that? Is it the solvency capital? Is it the access to direct investments? And, can you continue writing more volume over the £10 billion level you’ve quoted before?
And, then, secondly on L&G Capital, obviously there’s still continued significant growth in the direct investments but the earnings haven’t come through; relatively flat. I think you talked about the J-curve in the press release. When do you expect the earnings to come through from these investments?

And, given your target of writing £5.0 billion of direct investments at 8-10% return, should we be expecting that business to earn £400 million-plus in the next three-five years which will obviously be a material uplift in earnings, not just for LGC but also for the group? Thanks.

Nigel Wilson  Great questions, Alan, and I’m now going to delegate the answering of those questions to my learned colleagues on my right. But, you’re right, in a sense in both of them, that we’ve said we’re expecting to write about £50 billion over five years and there’s nothing that we can see that’s going to blow us off track from doing that. And, indeed, LGC has to drive up the returns as you suggest, but I’ll let Jeff do the first and Kerrigan do the second.

Jeff Davies  Nigel has covered it in the medium-term. We’re definitely open for business in the second half. We showed that we have considerable surplus generation on an ongoing basis, so we will look at what’s available in the market. We balance off value versus capital usage, profitability. It puts us in a strong position. Flexible structures, as well, for the scale of those deals to make sure that we can write the ones that are most attractive.

No constraints on the asset origination. You saw a significant number we brought in over the last 12 months. We continue to generate the direct investments we need from that and also been very successful around the credit side of things, as well, in writing deals. So, we’re making all the metrics stack up with the assets that we’re sorting and don’t see constraints on that.

We tend to look slightly longer than six months, so looking 12-18 months, there’s plenty of pipeline there. We can pick the ones we want and we’re happy to write those.

Kerrigan Procter  Great, thanks Alan. Just on the other points, in terms of the £5.0 billion, we wrote about £500 million or invested about £500 million of net new investment over the last year in total which gets us to the 2.5 to five years.

Obviously, investing is not only what but when, so it depends on precisely when we get that into the market but we feel confident that, at that pace, we can get to the £5.0 billion and there are enough attractive opportunities around both the development of new real assets and then the operational real assets to get that blended return, so I’m feeling good about the quantum of investment opportunities and the potential returns that we talked about in that portfolio. So, yes is your answer there.

In terms of when some of those investments come through, some of these investments are literally investments in land that we’re building things on. When you first buy the land, that’s cash out but then it takes a while to develop and the profit comes in when you actually move on or stabilise those assets.
So, there’s a bit of time lag between getting real assets in the ground sometimes — literally in the ground — and then turning around, which could be affordable homes business pretty much straight away, later living about a year later and then some of the other businesses might take a couple of years to see that return come through.

**Nigel Wilson**

If you just work along the line and, then, if you just pass the microphone.

**Oliver Steel**

Oliver Steel, Deutsche Bank. Two questions. The first is that assets at LGC actually fell in the first six months and I know there was a strong mix change but the overall assets fell, so why did that happen? And, then, secondly, Jeff, you talk about... actually, I should just keep this simple.

In the first half, the market moves on solvency were quite a lot less then had been expected. Can you explain why that’s happened and what the market move in the second half to date, has been?

**Nigel Wilson**

Kerrigan, do you want to have a go at the first one?

**Kerrigan Procter**

Yes. It’s a reasonably simple answer in that three real parts of the portfolio there’s direct investment which you saw growing £2.2 to £2.6 billion over the last year, the equity portfolio, roughly £2.0 billion of equities in multi-asset which has moved with markets, effectively — we didn’t move in or out — and there’s a cash element. The cash element includes our treasury balance and it’s that treasury balance that’s moved in and out as debt gets repaid or dividends get paid. So, it’s the treasury balance in cash that’s really moving around there.

**Jeff Davie**

Yes, you were right on the market movements. It wasn’t so evident on the slide. I think it was -0.2 was the number. Obviously, there’s offset in items within that, as we said. You were all pretty close on consensus, so therefore it was all in line with our sensitivities.

The rates were down significantly and now 0.2, as you all know, and then that was offset by uplift from equities but also sterling weakening is a benefit to us because all our surplus capital in the States is suddenly worth a lot more in our calculation.

We get plusses and minuses for shapes of inflation changes, so there’s a lot goes in there; spreads, different things over the first half. It’s never quite as simple as the sensitivity relative differences between BBBs, BBs, and As, etc. But, the big, big movements were rates down and equities up a bit so, therefore, they largely offset within that.

Yes, second half there’s been movement. It was a month and there’s been quite a bit of movement in the last few months as we’ve noticed. But, generally, the rates moved in line with the sensitivities, as you’d expect, but there’s offset in items on that. Again, FX has obviously gone in our favour.

The surplus generation is now significant. We’re adding 2% to the solvency ratio every month, just from surplus generation, so that’s significant as we move forward. So, yes, there would have been movement in line with the sensitivities on rates but with some offset in items on that.

We also did get significant amounts of money; a cheque for £5.0 billion; not quite. But, a load of assets landed right at the end of June. We’ve optimised those a bit, as well, in the start of July and that’s almost £100 million back on that operating variance that you saw. So, there’s always bits moving around within the balance sheet there.
Dominic O’Mahony   Thank you very much. Sorry, hi, Dom O’Mahony, Exane BNP Paribas. Thank you. Three questions, if that’s all right. You made reference to some of the potential macro tail risks on the horizon. I wonder if you could just refresh us on your capital management policy around that?

If I remember correctly, in the policy you talked about 140% threshold for thinking about whether things need to be done and, indeed, hedging the best estimate rather than the full solvency balance sheet. Any update or colour on that would be helpful and, in particular, has anything changed in terms of the way you run the business as you approach that number, or if you wrote 150 do you continue to write bulk annuities in the same manner as you would today?

The second question, just on LGC, it looks like quite considerable growth in direct investments to come. Is there a capital strain from that? How does that impact the insurance balance sheet on a solvency basis?

And, then, thirdly just on bulk annuities, clearly very strong volumes. If I look at what you said, you’re talking about a £30 billion market and, actually, roughly £30 billion a year for about five years. The pipeline number I don’t think has changed since the full year. If I was being churlish, I might say that’s flat or an outlook that’s flat with a market share that’s already very high but also you’d see this as a growth opportunity. Could you help me square that circle? Thank you.

Nigel Wilson   Only somebody in this industry would say that was flat. I think you’ve got to go and work in retail or some of the other sectors. Laura, why don’t you explain why there’s lots more market opportunities than even the £20 billion number that we’re putting on right now and then Jeff can answer those rather technical questions on the threshold 140%. As we explained ever since we did that, that wasn’t really a threshold, it was more initial thinking around something and it’s long since been put in the bottom drawer.

Laura Mason   Dom, I think we’re always censored in terms of the number that we can actually say we’re quoting on, so I’m not exactly sure how we define it. I think it’s the numbers of where we’ve actually put a quote out. In terms of the actual pipeline, I think Nigel’s estimate of £30 billion over the next five years is a relatively conservative one.

It is a business that doesn’t have a smooth trajectory. I know it’s conservative. So, I don’t think it’s flat. We did think about this. We said £27 billion in March. We said £20 billion now and that is just how we’ve calculated the number of deals or the amount that we’re actually quoting on but, certainly, we’re seeing the actual number of visible deals in the UK are coming in almost on a daily basis; so, very confident they will grow.

Nigel Wilson   We’re obviously going up the gaze in the United States, as well. We did a $200 million-plus deal, whereas all the others have been below $100 million and we’ve got more access to direct investments and more future access to direct investment and all those things come together.

We’ve opened up the Canadian market, the Netherlands market and the Irish market and so, actually, there’s an enormous pipeline of stuff coming at us, but as Jeff will tell you, he’s pretty miserable at the Capital Committees and he’s rubbing his hands together. But, we’ll just do the deals that we think are in the long-term interests of our shareholders. I’m deeply hurt about being called conservative, actually.
In terms of managing the balance sheet, as Nigel said, we don’t like to set a range. The ratio is just one of the things we look at. Quantum of surplus, etc, gets distorted as we’re seeing now from rates. You’re just moving from one pocket to another, as Tim likes to say, a bit of owns funds to SCR. It moves the ratio but I still have the same pounds the day after to pay the claims.

We do look at that, obviously, as it would reduce, but at the levels we’re at, we’re very comfortable, as Simon constantly stresses it for various scenarios and we look at that on an ongoing basis. But, we still hedge in the same way. It’s not quite the bell we hedged IFRS cash flows for an IFRS profitability, therefore for the annuity business.

They move around, get closer or further away from the Solvency II bell at difference points in time, but that’s generally how we look at that. There’s nothing we’ve done fundamentally to shift it at the moment. We’ll always look at if there is anything opportunistic, but there’s nothing at the moment.

And, in terms of the DI, yes, I can answer if you like. Part of the strategy we talked about it selling down some of the traded equity over time. General rule, therefore, it’ll be reasonably like-for-like. If we were to move cash even into DI, some of which we did, as you can see, over the first six months it, again, generally diversifies away extremely well.

You saw those numbers; they were very big credit, very big longevity. So, you put in a bit of direct investments against that which have very different risk profile and they diversify away, so the overall capital impact is lower but it’s very efficient on a risk-adjusted return basis.

Julian Wellesley from Loomis Sayles. A couple of questions. First is on LGIM. Just wondering about the cost progression outlook there and if there’ll be any change, not in strategy but maybe in emphasis with a change in leadership there. And, just as a second question, you mentioned pricing discipline in lifetime mortgage. How do you see the current pricing environment?

Yes, Chris, you can answer the second, I’ll take the first one. Michelle isn’t here today. We have an LGIM America board meeting and we decided that it was actually better for her to go over there and meet all of her colleagues there than meet you lot, basically; good choice, as well.

She’s definitely coming at the year end and will go into some of her own initial strategic thinking around it, but she’s inheriting a fantastic business in many ways. But, we’ve got lots of optionality for growth and that’s one of the thing things that we’re really spending time at because there’s areas that we’re in already that there’s adjacencies to those areas where we can expand into.

And, we’ve found the international expansion relatively straightforward so far. We’ve done America incredibly successfully. We got our licence in Japan in six weeks which is in some way a record, and I’ve never seen the Chinese so friendly towards us – I can’t think why – on the two visits I’ve had there so far this year.

So, you’re unlikely to see a radical change in strategy but there’s a whole bunch of people that we’ve hired to expand into areas that we’re not really in already and our options for growth have expanded massively in the last couple of years, so we’d hope to see an acceleration in revenue rather than a deceleration in revenue on a go forward basis. Chris, you can put your book down if you want.
Colm Kelly  
I think, like the mortgage market, growth seems to have paused a bit in the first half of this year. We don’t think it’s a long-term factor, the dynamics driving that in the long run. £1.5 trillion of equity owned by the over 60s is still very much there but perhaps a bit of Brexit uncertainty creeping in on that.

From a customer perspective the rates you can get for a lifetime mortgage with very low LTV are now down at 3.3% which I think is a pretty reasonable deal for people. We had a 29% market share in Q2 and we don’t feel the need to chase what is kind of a soft market the moment. So, short-term pause, long-term very strong growth dynamic still.

Nigel Wilson  
Thank you. And, then, just work along the line.

Jon Hocking  
Jon Hocking, from Morgan Stanley. I’ve got three questions, please. Firstly, coming back to the solvency. I’m guessing you’re sort of in the 160s on a mark-to-market basis and, as you said, you’re going to rebuild solvency in the second half.

What comfort can you give us that if we had a combination of stresses from a hard Brexit, just looking at your sensitivities, if you take your story where property markets are down, equity markets are down, rates are down, which I guess would be the outcome of a hard Brexit in October, there could be a very large drawdown in the solvency ratio, at least on a mark-to-market basis. How has the board got comfortable with that risk going into the second half is the first question?

Second question, just looking at the workplace business, the number of members has gone up a lot. Can you talk a little bit about why that’s happening. I would have thought a lot of those scheme settle ahead of auto enrolment? Are you winning new schemes? Are you actually populating existing schemes with more members?

And, then, just on the LGIM business, you’ve been guiding for a while that the cost/income ratio is tipping up a little bit. The 53% for the first half, is that something we should annualise for the full year? Thank you.

Nigel Wilson  
Jeff, do you want to take that and I’ll take the two LGIM questions?

Jeff Davies  
Yes, sure. As I said earlier, the rates will have moved it down, starting at 170. That’s going to take you into the 160, so it will have gone down a few percentage points. We’ll already have generated surplus for a month to offset that FX. You can pick any day you like for equities or spreads and say where it is and those move around but core central has it just gone down a bit or rating gone a bit or some other stuff. And, so, we’re comfortable where that is.

On the bigger picture question, interesting, we can all guess what will happen to the economic environment at that point in time and we purposely don’t when we present it to the board because you can imagine the debate you would have.

So, we present some economic scenarios and don’t attribute them to any particular happening and the board are very comfortable. We’ve looked at all of those, whether it’s rates down, what’s happening to equities, what’s happening to sterling. Invariably someone will pick the worst of most of those, as well, and clearly we are comfortable to standing here talking about writing volumes but we’ll manage that on an ongoing basis. They all, in the vast majority of scenarios, stay well within our risk appetite and we’re comfortable with those.
One interesting point, people talk about rates down. Of course, you may well get a steepening of the yield curve which then will have a different impact again, so there are already offsets in all of these but we model a wide, wide range of scenarios and very comfortable where the balance sheet it.

**Nigel Wilson**  
On workplace, is Emma here? No, she isn’t. We’re winning a lot of new schemes and continuing to win schemes; in fact, the biggest scheme we’ve ever won in terms of assets, we’ve won; it hasn’t yet funded. And, so, we’re feeling very confident about the future flows. And, it is rice on a chessboard. As we get more schemes and people contribute more, you just get a natural growth around that.

And, so, our ambition is by no means achieved at 3.4 million in the UK. We’re looking at a much higher number over time. And, also for the US. We’re still in our very early days in the US but we’ve won some great clients already in the United States.

Again, we’ve won a very big client in H2 already, so the team are feeling happy about the flows that we’re getting in the US which, as a number of you have pointed out, was a little bit later than we expect in the first half of this year, but it picked up already in the second half of the year.

In terms of cost to income ratio, in part that’s Michelle’s to decide how does she want to add to the cost base relative to the revenue basis? We certainly feel as though we have lots of opportunities for growing revenue quicker. In some ways we have to moderate the rate of growth of costs.

Part of that is going to come through when we have, eventually, slowdown in the IT spend, partly related to regulation and cyber and various other areas, but also because we’ve modernising the business as we’ve gone into these new areas.

We don’t really have a target for cost to income ratio. It’s a number that’s just arisen at around the level it’s at the moment but we do have an ambition to grow the bottom line a little bit more than we’ve done in the first half of this year and, indeed, in the last part of last year.

**Andrew Baker**  
Hi. Andrew Baker, Citi. Three questions please. First, your bulk annuity pipeline in the UK and US is strong. We’re seeing rates come back, potentially widening hedging gaps for unhedged plans. Do you see low rates impacting the demand for bulks moving forward?

Secondly, in your release this morning you mentioned that you’d bolstered your structuring expertise in the PRT space in order to develop capital-light solutions. Is there anything new that you’re doing there and if you could just give a little bit on that, that would great?

And, then, third you mentioned on the longevity releases, a target of £200 million or I shouldn’t say target, a guidance of greater than £200 million. This is less than maybe a number that you’d given last year for a 2019 estimate. Does this take into account lower debt in 2019 that you’re seeing or is it something else that is why you’re looking at that or that number has come down a little bit? Thank you.
Nigel Wilson  
Laura, maybe give a little bit of extra on this, but the low rates, we always had low rates for a long period of time. If I’d said to you three or four years ago, by the way, the market is going to be £30 billion and rates are going to be 0.5%, you’d have all said, well, that’s just ludicrous when it’s at £3.0 billion.

So, the correlation between rates and demand is just not there, in part because so many of them are hedged and so many of them are already hedged with us because we’ve got a 42% share of the LDI market.

In terms of innovation, Laura maybe you could talk a little bit about that and then Jeff can answer the question on mortality.

Laura Mason  
The new structures that we’re looking at, these include different reinsurance structures with external counterparties, as well as our own internal counterparty LG Re and certainly some of the assets that we’re working on with Kerrigan’s business, where we’re able to find structures that work well from a capital perspective are also helping, so really a combination of reinsurance and asset structures.

Jeff Davies  
And, on the longevity, we’ve been steering that we would be cautious and potentially spread these out a bit more. We’ve done more and more analysis on it. We do want to make sure we understand the cause of death, we want to make sure we understand the impact of socioeconomic class.

We are still only looking at 17. We know, in theory, there’s quite a bit to come in in 18, so we think there’s prudence within that. 19 experience is lighter than it’s been in the last couple of years but it’s still reasonably neutral, I would say. I think that’s in line with what peers are saying.

That’s not weighing heavily on our decision on what we do on the future improvements. Don’t forget, this is what we feed in for improvements, blend in over ten, 15 years. We will look at our data at it’s coming through but it’s much more via fundamental analysis of what is driving your long-term assumption and therefore how you blend into the long-term assumption.

But, yes, it would be one of the factors but it’s not impacting the bigger picture of what’s driving it, what’s the causes of death, what’s the differences by socioeconomic growth which are not that material for us, but we just always want to understand it and to be a cautious to release more.

Fahad Changazi  
Hello, good morning. It’s Fahad Changazi, from Mediobanca. A couple of questions. Could I just chase up on the Solvency II? Jeff, you mentioned that it’s down by a bit because of markets. When I mark-to-market it, I think I was getting up to 10% on market moves and that’s not including FX. That’s wrong, fair enough. So, if you can just clarify that.

The other thing is on this H2 bridge for the Solvency II. There’s £0.7 billion OSG H2; H1 it was £0.8 billion. You have £200 million of mortality releases coming. So, does that imply you’re writing more bulks or is covering more bulks in H2 versus H1 or is something else going on there, given that you’ve got mortality releases?

And, the final thing is on new business margin in annuities. It has gone up in H1. Could you perhaps talk about pricing? Because there’s so much demand, is pricing benefitting or is it just going back to historic levels and it was a blip we had before?
Nigel Wilson: Yes, the sample size is always so small when you’re doing a few large deals but I think, in general, there are well-informed buyers and well-informed sellers and so you should expect just minor movements in margins. Jeff and Laura, do want answer the other two questions?

Jeff Davies: Yes, sure. Clearly, it’s not 10%. It is a few percentage points down. If you apply the interest rate sensitivity and then it will come back. That’s sort of where you’re looking at. There’s nothing that’s moved more than the sensitivity. Obviously, you can pick a day – what was it, Monday – when equities were down and now that’s back again. But, it’s nowhere near that, whatever you would have, 161 or something in that case; no, that’s not the case.

The bridge, I think the longevity is separate, so that’s not within that. The 800, 700 is just rounding; one is a little bit over 750, one is bit below 750, so we’re saying 1.5 roughly, but I wasn’t quite comfortable putting it as another 800 because we thought that may round to to too high a number. We’ll see what actually plays out but we thought that was a safer side to put it, and the longevity is on top of that, so none of those numbers include anything for PRT new business.

Laura Mason: I agree with what Nigel said.

Nigel Wilson: Trying to redeem herself now.

Laura Mason: The growing pipeline has been well-flagged. I think we and a number of our competitors have been well-prepared for this pipeline, so we do expect overall margins to be fairly consistent and we will maintain our pricing discipline.

Nigel Wilson: You don’t need a microphone.

Greg Patterson: Greg Patterson, KBW. Three questions. I know we haven’t had a lot of downgrades but are there any early signs of that because obviously it’s a key risk to your solvency. I wonder if you could just talk about the downgrade environment and what we’re seeing now.

The second point is on the retail, LGI. Obviously, there’s wave of fintech in that area and that’s obviously putting pressure on margins. I wonder if you can just talk about the trajectory of margins there and also about the group margin trend because, obviously, that’s going to be lumpy and that’s interesting.

And, the third question is I know there’s a weak, not one-on-one correlation, but in terms of your capitalisation on the rating agency and you AA- financial strength rating, at what point, if the Solvency II ratio fell would the rating agencies start being worried about it? There must be some level. If it’s 100, you’re going to get downgraded; just to understand where, between now and 100, it’s an issue.

Nigel Wilson: Jeff, do you want to take the first and third and then, Bernie, you come in with the second one after Jeff’s dealt with the first and third one, which are broadly the same question?

Jeff Davies: Downgrades in our credit portfolio, there’s nothing particular we’ve got on the horizon, at all. Even Simon is agreeing with me. In fact, Tesco was upgraded, wasn’t it, which was good. But, the sort of sectors
we’re in, we showed the diversification. We’re not seeing that. You’re not seeing utilities, for example, being downgraded. So, no, there’s nothing we’re seeing on the horizon on that.

We’ve obviously, for the half year been through a thorough process, as well, on the internal ratings of our own direct investment portfolio and, again, we’re not seeing that. There are a few pluses or minuses of external valuations on that stuff but nothing on the debt that we’re holding. So, no, nothing on the downgrades.

On the ratings side of things, well, as you known S&P, in particular, have their own model that’s completely separate, driven off the Solvency II balance sheet with a bit in there. Those numbers don’t change fundamentally for what’s happening to your Solvency II ratio. There will be different impacts of market movements on a ratings model.

Ultimately, at some point, a long way down, there would be a question about market performance and can you sell the business, and clearly that’s nowhere near where any of these companies are. So, it’s nothing that has come up.

But, we’ve just recently been through all our conversations with the rating agencies, all very positive. You’ll have seen the press releases. It was very much a continuation of the same position. They recognise our strength in the businesses that we’re in, market leading positions, but also they do recognise the diversification starting to come through from the international expansion which is seen as a positive by the rating agencies.

Bernie Hickman  UK margins actually slightly improved first half to first half and that’s because we’re actively looking to optimise pricing, optimise our product mix, optimise everything to improve margin. At the same time, we realise dividends are paid in pounds, not percentages and so we’re looking to always optimise that pound outcome, as well.

Technology, you referenced, yes, that’s a really important point but the key point is we’ve been leading that technology innovation and that’s been driving out unit costs down, which we will put back into pricing. If that’s what we need to do to optimise the outcome or if we can optimise and increase the margins, we will do.

So, yes, we’re, I’d say, at the leading edge of the curve on technology and intend to remain there and are continuing to invest in our technology platforms and partnering with technology players, fintechs as well, to make sure we’re at the cutting edge of technology.

So, yes, going forwards, we’re delivering good margins and we’d be confident we can carry on with all our competitive advantages to deliver good margins going forward.

Nigel Wilson  Do you want to say anything about America, Bernie?

Bernie Hickman  Yes, America, we’re doing a similar technology investment pattern there and hope to get unit cost savings, part of which will go back into price, part of which would help to improve margins.

There, the margins have come down slightly. Both markets are competitive markets and the margin will fluctuate over time. Obviously, we’re always doing everything we can to improve margins. Group protection has gone up slightly. That just varies a little bit depending on product mix as well.
Nigel Wilson

Yes. Technology is inherently deflationary, as we found in lots of different industries and financial services is going to be the same. This is where you’re just going to see price competition. You can see that in the asset management industry, it’s very pronounced right now.

Our central case is for not for real price increases over the next years, but technology to drive down prices, but we have to use technology to get our cost base down. We've been very good at doing that so far. We certainly believe that we’re as competitive as everybody else or as anybody else in any of the areas that we compete in.

But, we're not standing still. There's a huge amount of effort. And, all the guys are nodding because we're in the preliminary budget stages for next year. We have to use technology both to give better value to customers but to also drive down our costs, and you have to perform and transform. Unless we perform and transform, we will lose market share, and that's not at all what we want to do.

Colm Kelly

Colm Kelly, UBS. Just a question on the solvency ratio of the Insurance entity. The operational surplus generation of 1.5 is important and thank you for the guidance. I suppose, as important from a dividend perspective is getting that out of the entities, and the insurance entity clearly is the vast majority of that.

Given the capital optimization program that you have, the insurance entity solvency starting point is much lower than at the group level. I think it was in the mid-150s at the start of the year. It is subject to similar market impacts as to the group ratio; a little bit different to the group ratio, there is a large cash remit typically coming out in the second half. So, I think the question for me will be when are you able to update even broadly on where the insurance entity solvency ratio is at the half or even currently?

Secondly, at what level would that solvency ratio of that entity you need to get to before you would be in any way concerned around constraints over cash remittances from that entity to the group?

And, just thirdly, you mentioned the risk appetite that you have. Can you maybe you articulate in a bit more detail what the risk appetite is for that entity because, clearly, it will be in the risk appetite statements, etc?

Last question is just on Canadian bulk annuities or PRT. Positive entry into that market this year – it's a large market – do you think the experience and expertise that has been built up in the US will help you scale that business up more quickly than the US did or should we expect a similar trajectory of growth in Canada as we have for the US? Thanks.

Nigel Wilson

I’ll take the easy one, which is the last one. We're going to have a measured approach to all of our international. Too many businesses have taken a sort of slightly cavalier approach to international expansion with risky acquisitions and everything else. We've got such tremendous momentum in all of our businesses. We can be very measured. We didn't do a Chinese joint venture in insurance like lots of the other firms. We haven’t got any legacy issues when we expand into these markets because we've got legacy assets or legacy businesses from the past, so we’ll just be continuing a measured approach.

Jeff, do you want to answer all the questions on LGAS? And, Simon is going to give his views on the risk appetite and how we think about it and how we measure ourselves against it.
Jeff Davies: Yes. LGAS, you’re right. It was on 53 year-end. It’s in the SFCR that’s published. We gave that number. But, it’s significantly less exposed to movements than we’ve seen at the group because we obviously don’t have the debt repayment and the dividend payment, which was the other big item, doesn’t come out. And, in fact, we have much smaller remittances from the entities in the first half; as you say, that’s in the second half. So, the impact we’ve seen at group is much, much less on the individual insurance entity, on LGAS.

Again, we model all the scenarios. We don’t have concerns over dividend requirements in the second half. Don’t forget the things that are positive; that surplus that’s in there and the surplus generation from the annuity back book and longevity releases all flow through for that business.

So, we’re comfortable as a board – we’ve got three of the board members here, actually – we’re comfortable as a Board on the dividend remittances from LGAS. And, we again have modelled that. As part of the group modelling, we model the individual subsidiaries and where are they against the risk appetite. Thank you, Simon.

Simon Gadd: Just to follow-up on that then. We don’t have a hard line for LGAS in the same way as we don’t have a hard line for group. We very much look at this through the scenario and stress testing lens, looking at playing out different scenarios. What does that do to the coverage ratio?

I think the only thing I would differentiate between LGAS and the group is there are different management actions available to manage the downside in LGAS. Clearly, there’s support from the group but there’s also the ability to move business around the group to make it as most efficient deployment of our capital as possible.

And, we have a reinsurance mix that are in LG Re that helps us do that. So, no hard and fast rules but, as Jeff said, it’s about making sure that we’re on top of all the stresses, understanding how they behave. Big dependence on Laura’s business in terms of making sure that their credit portfolio is properly diversified.

We’re really on top of the areas where there’s potential vulnerability to those stresses like Brexit, and we’ve done a lot over the last year or so to prepare ourselves for that, so we’ve had plenty of warning. So, yes, that’s the broad picture.

Colm Kelly: Sorry, just to follow up on that, if I can. In the risk appetite savings does the regulator not look for a limit such that post those stresses, your solvency won’t go below a certain number or is that just simply a 100% minimum requirement?

Simon Gadd: From a regulator perspective, it’s 100%, yes. So, anything above that is at the management’s discretion.

Chris Knight: And, is the board requirement aligned with that?

Simon Gadd: The board has its own view as to what it wants to be able to do and what stresses it wants to be able to be resilient to and that’s what I just answered previously.

Colm Kelly: Okay thank you.

Nigel Wilson: Johnny, then Andrew.
Johnny Vo

It's Johnny Vo from Goldman Sachs. Just a couple of questions. I was kind of surprised by the MA spread that you recorded for the half year at 121, which is quite resilient from 138 and I think you're at one of the higher end in terms of MA spreads that I can see and broadly in line with where most players were at the year-end when spreads were are very wide. How has that spread developed over the last few years? Can you just give us some data points on that?

In terms of the MA spread for new business, is that different to the overall book? Are you applying more illiquid assets to new business as an asset mix rather than your existing book?

And, finally, in terms of just following on from the question from Colm, is there a risk that some of the treasury assets that sit in L&G Finance get used to support the LGAS solvency position in a down scenario, given that you're looking for stress?

Nigel Wilson

Jeff, do you want to take the first and the third one and Laura take the second one?

Jeff Davies

Sure. I think they all get wrapped up in one. There's one big MA portfolio. We put the assets in there, so there's no difference. Laura can talk about pricing assumption if you like.

I looked at all the year-end SFCR – that's the sort of interesting character I am – and I didn't see anything particularly out of line. We obviously have some different mixes of business. We have LTM, which is very beneficial. We've secured a lot of these HMRC assets that we've talked about in the past. We've done very well on trading, US credit, for example, over the last 6-12 months.

But, there's nothing we would is unusual in that. There's nothing we've done differently in the MA. It has moved around broadly in line with a slight change in our mix in the asset portfolio.

We have been increasing the amount of DI, which you know is an uplift. It's moved with that. If anything, it's probably been a bit flatter because that, as a proportion in the last 6 months, hadn't changed dramatically because we've been writing a lot, even though we sourced over £4.0 billion. So, there's nothing in particular there. We'd be happy to go through in more detail with our guys and stuff but there's nothing I'm aware of there.

In terms of treasury assets, there's a long, long list of management actions we'd take at some point. We're not foreseeing, going to the treasury and saying let's put a load of cash into LGAS today by any means. So, there is a long list of management's actions we could do.

Laura Mason

And, in terms of the relative proportion of direct investments versus traded in new business, we have used a higher proportion of direct investments in new business than there has been in the back book.

I think over the last half of last year, we increased our direct investments in the overall book from about 17 to 20. That's actually remained fairly constant over this half year because we continue to make sure that we invest where we see the best value. And, I think, as Jeff said earlier on, we saw some better relative value in the traded markets in terms of how we executed the big deals we did this half year.

Nigel Wilson

There's four more questions. Andrew.
Andrew Crean  Good morning. It’s Andrew Crean, Autonomous. Can I ask three questions? The first one is a follow-up on the longevity question. Moving down your forecast for £300 million to £200 million is substantial. I just want to know whether that’s stylistic or whether it is a response to data, i.e. are you just saying that you want to spread this out over a longer period of time but you don’t actually think that the quantum of releases in the future is changed at all or is it a more material issue?

Secondly, slide 20, which was the profit signature on your BPA. Could you give us the IRRs around that and say, in terms of the capital invested is that at 100% or something higher?

And, then, stripping out LGR and looking at your other continuing businesses, they have, over time, not managed to grow at the same rate or even particularly at the 10% target rate. Do you expect that to change over the next few years? Particularly, I think you’re backing away from the LGIM 8% to 10% growth forecast. Because if they don’t and they don’t grow in line with the dividend, then the dependency of the dividend on annuities increases and that doesn’t please the market.

Nigel Wilson  In terms of the third question, I'll answer that and I’m just thinking of the answer to the first two questions.

If you look at the rate of growth of operating profits on slide six, you’ll see LGC is at 12% over the last 3 years and if you do the reverse maths from the numbers that Kerrigan was talking about, we definitely want to be looking for a higher rate of growth. So, the principle that you’re alluding to is the same.

We haven’t in any way backed away from LGIM. It’s just we’ve got a brand new CEO and the one message he gave me is please don’t give me any hospital passes answering tricky questions from Andrew Crean, in particular.

But, the retirement solutions business has actually been the star performer in terms of its percentage growth on an annual basis and, as you rightly point out, we’ve done fantastically well out of PRT and we can see the pipeline.

Of the five businesses, three are performing at around the level that you were talking about. LGIM, we’ll wait for Michelle to come back to us in March and the insurance business is getting higher top line than people expected. We haven’t yet translated that into a higher bottom line and that’s because we’re in the midst of this second wave of technology transformation that Bernie talked about, and we’ve got to get America growing a bit faster than we have in the past to get its profitability up to level.

So, when I mentioned earlier that not all businesses are firing on all cylinders despite this sort of 10% growth in all the key metrics over a long period of time, I still think we have a lot to do to get to an optimal performance across all the divisions, and all the divisions are not yet performing as well as they truly could perform. Jeff?

Jeff Davies  On the longevity, it isn't that there's anything structural. I don't think we've ever said it was 300 million. We said mechanically, if you drop '17, then you'd get 300 and some of you have done that. And, mechanically, you drop '18, you got a bigger number.

But, we’ve said we will be cautious. We just want to understand it. There isn't obvious data. There is some movement for socioeconomic class that we want to understand more. It makes sense to potentially hold some back.
Whether that means it all then eventually comes out three years out instead of now or it comes out in five years, in some ways, it doesn't really matter; it's better to understand what's there.

And, at the moment, being one year behind is working extremely well for us on that front because we get to see what is developing in '19. We know where we've got significant changes in '18 that can come through as well, so it works in our favour. So, there isn't anything.

We would be flagging it if we thought there was something we're seeing in the data, but that isn't the case. It's just we want to understand a little bit better, make some allowances for some of these while we probably do even more work again before we release next year, to be honest.

On the other one, well, obviously we're give BI, right? You can get your rulers out. That's why we shortened it a bit because you all would. Obviously, you guys know the strain number is at 100% and you can do whatever maths you want to do around that and what level you believe we should or shouldn't be allowing for in the 4% strain.

We talk about targeting a sort of a double-digit return on that stuff, but it goes back to one of Nigel's slides, that it's all about the synergies. It isn't really about how much do we make on an individual PRT business, not allowing for LGC returns, LGIM fees and the fact that we'll leverage up and add in other assets to it.

When you put all that in, you can have a range of six different metrics that hit different targets but you have to factor in the profits we're making across the group, which is why you get to a 20% ROE.

Nigel Wilson I don’t mind which microphone you get.

Abid Hussain Good morning, it’s Abid Hussain from Crédit Suisse. Just two questions from me. Firstly, just going back to the longevity reserve releases. Can you give us an indication of what they might be once you move to CMI 2018 tables, please?

And, the second question is on liquidity. Can you just explain briefly the drivers behind the lower liquid resources? I think they dropped down to £3.1 billion at the half year versus £4.4 billion at the full year. And, then, linked to this, what is the group surplus liquidity running at, at the moment? I think the full year number was £1.5 billion. Thanks.

Nigel Wilson Jeff, I think they’re both for you.

Jeff Davies Yes, sure. We’ll, I said the same; ’18, if you literally just drop it in, it’s a much bigger number, you can get to 400 million but we don’t just literally drop it in. It will depend what we see in the data, what more analysis we do and how much we think it needs to be held back while we do further work. So, it can be answer from nought to 400 million in that case. We may well choose to spread it out for the same reasons and apply some caution.

But on liquidity, the main movement is the timing we talked earlier a little bit around in terms of treasury liquidity, in terms of dividend out versus dividend up from subsidiaries, etc.

On the bigger picture, really what's happening is we've put quite a bit into direct investments. So, you see the 500-600 million that's gone into direct investment, plus we passed them out in the external dividend and coupons, so
there isn't really anything that's happened in there. The rest are small amounts here or there that's moved around, whether that's a bit of money spent on projects, a bit of money that's been taken back on deposit, not on deposit, in entities but there’s nothing major that’s moved apart from that.

Gordon Aitken  

Thanks. Gordon Aitken from RBC. Just a couple of questions. One on annuity strain. We’ve just come from a presentation where management set a strain on bulks; they’d written this half has halved versus 2018 H1. You’re still talking about 4% new business strain, so if you can square those two statements.

Nigel Wilson  

What was the first one?

Gordon Aitken  

Well, Phoenix saying the strain on bulks they’ve written this half is half of what it was.

Nigel Wilson  

What was it? What are the two numbers?

Gordon Aitken  

They didn’t give a percentage?

Nigel Wilson  

It’s a piece of maths that’s very hard to do then.

Gordon Aitken  

Well, the point is, if you’re talking about 60 billion of demand in the bulk market at the moment, I'll be surprised if you're not getting better pricing than you were a year ago.

Second question is just on competition. If you can give us a sense of competition in direct investments. The University of Oxford, they were obviously looking for a partner. Was there anyone else who could do that aside from you? In that Glasgow new rental site, the city council did they put it out for tender? How many companies pitched?

Nigel Wilson  

There’s always competition but it’s never the same competitor anywhere. We’ve been at this for about ten years now in the direct investment space and most of them are long-term relationships. The recent Cardiff deal, there wasn’t any competition for that because it’s sites that we own now and we've got a lot of optionality around those sites and that happens right across the UK. For new things there will, of course, be competition and, indeed, maybe Kerrigan can talk a little bit about the competition in Oxford or Bath or somewhere.

Kerrigan Procter  

Yes, just a few points on that. I read out a whole list of the sorts of things that Oxford University were looking for in Oxford and, yes, there were people who could do parts of that – affordable housing or student accommodation or key worker housing or science and innovation districts – but we're able to bring all of that together and all the types of capital that might be required whether that’s equity or debt; it could be LGIM managed funds or it could be LGR.

Over the years, we’ve built a pretty unique set of skills. So, yes, there were people competing against us right, again, to the end in the Oxford University partnership, for example, but it’s quite a range of skills that we bring there so we feel we’re in a pretty good place to win the bits of direct investment business that we want to.

Nigel Wilson  

We haven’t lost very many of these pitches over the last year and we’re incredibly well positioned for a huge pipeline of these future deals that we haven’t yet announced.
I think, just on annuities, it's very hard to talk about what Phoenix are doing but we're very happy with the numbers that we've got, and 4% is a pretty good number to use in all the models on a go-forward basis. Andy, last question to you.

**Andy Sinclair**

Thanks. It’s Andy Sinclair from BofA Merrill. Just two from me, just to tidy up at the end. Firstly, possibly for Bernie just on UK protection. We've touched on maybe a couple of elements of this already but the release from operations and IFRS operating profits have been on a bit of a downward trend for a few years now despite, as you said, premiums climbing quite a bit over that period.

When do you think that starts to turn around, when maybe that tech investment starts to pay off? So that's one. Secondly, it was just on the 2.0 billion pipeline in the US for PRT. How much of that US pipeline would you typically expect to convert and how many deals within that, just given that it’s starting to be some bigger ones you’re looking at? Thanks.

**Nigel Wilson**

Bernie and Laura, do you want to just answer those?

**Bernie Hickman**

There's, as always, a few moving parts in the release from operations. The UK was up a little bit half year-to-half year, which was good, but there is moving parts within there. There's a tax effect that's been ongoing for many years now. I think that drops away next year. I'm more hopeful that we can have a kind of sustained period of growth next year but there are other factors. The fintech is starting to come through as well, so that's been a positive. We've been changing some of the reinsurance between UK and the US; that's had a small negative on the UK, obviously offset in the US.

They're all kind of single digit moving around positions, really. The underlying position remains the same. As we get growth in premiums, that will be flowing through into release of prudence margins and that should be the long-term position that we get into but with noise around that.

**Nigel Wilson**

Laura is going to give a conservative view about the American prospects.

**Laura Mason**

On the US, I think we're really pleased with the organic growth we've seen over the last couple of years and, in particular, moving from the smaller size of the market to slightly bigger and have executed a number of bigger deals this year and have a number of solutions to accelerate that organic growth over the next few years.

In terms of how much we can give out, that's a very difficult question to answer because just as we do in the UK, we maintain our pricing discipline. So, we do put in prices that we would be happy to win that.

**Nigel Wilson**

As we move up the scale, the probability of us winning larger deals probably decreases. We've done very well in the under 100 million. As we go on to bigger classes, maybe the probability, because we're new into those classes, will be less. So, it isn't an easy mathematical question to answer but we can cover it in a little bit more detail after we finish.

Thank you, everyone, for doing the two shows today and, hopefully, it will just be one show at the year-end. Thank you for all of your questions and thank you, you who you've been supporting us, for your continued support.
And, even Colm said well done and shook my hand at the start. We’ve got it. John managed to get a little video or clip that we're going to put on our site this afternoon. There's a first for everything, I’m learning.

But, look forward to seeing you all at the year-end, where, of course, we'll be joined by Michelle, as well, so thank you.