Legal & General Interim Results 2016 **Tuesday, 09 August 2016**

Nigel Wilson

Cover slide

Good Morning, and welcome to our 2016 half year results…

…and indeed welcomed by a photograph of Manchester… one of the City's we are helping to regenerate…

…for the UK to grow it is essential that our great cities replicate the success of London… this includes not just Manchester, but also, Leeds, Birmingham, Cardiff, Newcastle, Bristol etc.

Slide 2 Forward Looking Statements

The usual disclaimers apply… please switch off mobile phones … and if there is a fire alarm, the home team will shepherd you downstairs…

Slide 3: Half year results

I would like to take this opportunity to thank my colleagues… many of whom are in this room or watching the broadcast.

It is also with great sadness that I tell you that Gene Gilbertson our CEO of Legal & General America passed away last month. Gene was an exceptional person; brave, bold, courteous, intelligent and kind.

I was privileged to call Gene a friend and a colleague… he made an immense contribution to our firm in terms of his roles as CFO and CEO of LGA … and he will be missed by all of us.

This has been another terrific six months of delivery and performance.

- Net cash generation grew 16% to £727m

- Profit before tax by 23% to £826m

- EPS by 14% to 11.20p

- ROE increased to 20.4%

- Our Solvency II surplus was £5.3bn

- Economic Capital surplus was £8.1bn

- And our dividend of 4.00p representing 30% of last year's full year dividend.

Slide 4: Key financials

In full year 2008 our net cash was £320m, in full year 2009 we had increased this to £699m… In the first half of 2016 we achieved £727m.

This slide shows the growth in our core KPI's…Net cash generation, dps, eps and ROE… all demonstrate excellent growth.

The annual cash retained has been in the range of £413m to £471m… in the first half of 2016 we retained £489m, despite increasing the dividend by 16%.

One of the results of our cash generation and retention of the cash, is the large amount of low yielding cash now in the business… £2.3bn in LGC alone.

Improving our shareholder returns on this cash has to be one of our future objectives.

This return issue sits alongside LGR improving its risk adjusted returns on its £51bn of assets… which Kerrigan is discussing later.

Slide 5: Excellent execution

We have delivered excellent execution around our five key growth drivers.

There were many significant achievements in all areas of our business…

…LGR's accelerated growth is outstanding…

…LGIM's DC expansion is impressive...

...LGC's Cala and Pemberton are powering forward …

…Our digital direct insurance sales are growing quicker than we expected…

…The capability of our teams is increasing… Cross divisional synergies are rising.

Our execution is improving but… we can perform even better…

LGIM can accelerate growth in DC … and in Asia and enter South America,

...LGR can accelerate its growth in its 9 profit centres, LGC can deliver higher returns from its three lines of business… Insurance and Savings can commercially digitalise their business lines quicker.

The macro and demographic trends that support our business growth remain valid and probably even more relevant.

A 20% plus ROE is evidence of the successful execution of "our strategy".

Slide 6: Accelerating the evolution of our five drivers

Whilst our shares did suffer due to the Brexit vote - our businesses didn't.

Our balance sheet remains resilient.

The credit rating agencies have reaffirmed our rating… S&P at AA-, they also upgraded our "management & governance" rating to strong.

Well done to Simon Gadd and his team. Risks are being well managed, despite economic uncertainty, political complexity and market volatility.

I remain excited and enthusiastic about the new opportunities we have created to grow our businesses, including the global defined contribution pension market, UK infrastructure and international digital insurance.

We have a slightly different line up today… As usual I will be followed by Mark Gregory… however Simon Gadd, our CRO and Kerrigan Procter our MD of LGR will perform an informative double act… before I sum up at the end … Mark

Mark Gregory

Slide 7:

Thanks Nigel…

...I too would like to add my thanks to our colleagues for all their hard work in delivering the results you see today… but also to express my sadness at the recent premature death of Gene Gilbertson.

Nigel has given you the top-line figures … so I will now add some colour on the Divisional performances as well as our capital position...

Slide 8: Consistent Delivery: Strong Results

I'll start with my usual slide showing the key numbers in terms of stock of business, cash and earnings... and the capital position.

It's been a positive period in terms of the stock of business...

… 18% growth in LGIM assets under management, now £842bn with £9.6bn of external net inflows.

… 18% growth in LGR's annuity assets, now £51bn with more new annuity business written in the first half this year than the whole of 2015.

… and 28% growth in Direct Investments - now at £8bn across the Group.

The growth in the stock of our business continues to drive our operational cash generation, which at £655m, was up 5% and net cash generation at £727m was up 16%.

Operating profit was up 10% and profit before tax up 23%, including a positive investment variance of £58m in the six months.

All these factors together meant our annualised post-tax return on equity increased to 20.4%.

And last but by no means least our Solvency 2 surplus at 30 June 2016 was £5.3bn, representing a 158% coverage ratio of our £9bn Solvency Capital Requirement.

For those looking to do peer comparisons, adjusting for our with-profits fund, our coverage ratio would be 163% at the half year.

Slide 9: Driving growth: increasing stock

Our strategy is focussed on delivering sustainable growth and here you see how our business stocks have progressed over the medium term:

Each of our core growth divisions delivering meaningful and consistent growth over many years … something we intend to keep going.

Slide 10: Strong divisional performance

Of course, simply having scale is not enough.

Here you can see that our businesses are converting their respective scale into profit - all of our divisions making an important contribution to the Group’s cash generation and to earnings.

Slide 11: LGR

Moving now to cover the performance of each of our divisions and … I’ll start with Legal & General Retirement which has had a very successful first half in 2016 - its first in a Solvency 2 world.

Operational cash generation was up 20% at £205m reflecting the increasing size of the back book and, with it, the increased level of prudential margin available to be released over many years.

Net cash generation was up 47% at £284m with the £3.8bn of new annuity business written in the first half delivering a new business surplus of £79m.

Operating profit, which was up 44%, then further benefitted from higher actual annuitant mortality experience compared to our best estimate assumption and from a £58m reserve release as we enhanced our modelling of longevity insurance.

On longevity more generally, we have made no change from the year-end to our reserving basis for longevity improvements - we are still using a modified version of the CMI 2013 tables.

Finally for LGR, our successful entry into the lifetime mortgage market continues with £231m of new advances in the first half, representing around a 25% market share and on track to achieve our £500m target for 2016.

Slide 12: LGIM

Turning to LGIM.

LGIM performed strongly with external net inflows of £9.6bn which were positive across all the main product lines, channels and regions.

As at 30 June, total assets under management were £842bn, up from £746bn at the year end.

LGIM delivered many successes in the first half including:

- International AUM up to £152bn with new sources of inflows including two partnership agreements in Japan.

- We secured our first DC pension mandate in the US.

- More generally in DC, our total AUM is now £50bn with £17.3bn and more than 2 million customers on our Workplace savings platform.

- We remain market leaders in the UK and US for LDI mandates and are making significant progress in the fast growing pooled LDI section of this market. Total Solutions AUM was £389bn.

- And in UK Retail, net inflows were £0.7bn in the first half.

That placed LGIM second for market share of net inflows and represents a very significant step forward from our historical performance in the retail market.

LGIM's operating profit was £171m with a 50% cost to income ratio on revenue up 2%, in part reflecting the lower market levels in the first quarter, which meant the average monthly closing AUM over the 6 months was £784bn.

Slide 13: LGC

Legal & General Capital delivered a strong performance with operating profit up 17% at £135m, on top of which, a positive £60m investment variance meant that profit before tax was up £84m at £195m.

The rationale for our strategy of increasing the proportion of direct investments over time is evidenced by the operating profits from our £1.1bn LGC Direct Investment portfolio exceeding those from our £3.8bn traded portfolio - £68m compared to £59m.

Within the £68m Direct Investments operating profit, £36m came from the operating businesses in the portfolio, such as CALA Homes, up from £10m in the first six months of 2015.

For these operating businesses, our profit recognition represents our share of the actual profits being generated, not a smoothed IRR return.

The traded portfolio performed well and delivered a positive investment variance of £77m over and above the operating profit of £59m - the latter being based on longer term assumed returns for the traded portfolio.

In part, due to our chosen positioning of the portfolio around the EU referendum, 38% of LGC's £5.9bn of assets at the half year were in cash or near cash equivalents.

Clearly we need a significant proportion of these for Treasury management purposes but it does provide us with the optionality to move into higher returning assets … when and where we believe the appropriate risk adjusted opportunities arise.

The level of our cash holdings will have an impact on our operational cash generation from LGC this year.

Slide 14: Insurance

Our Insurance division includes the market leading retail protection franchise in the UK.

Operational cash generation by Insurance was down £2m year on year at £159m with higher dividends from Legal & General Netherlands being broadly offset by a lower expected release from our UK Protection back book - the latter in part reflecting model changes in 2015 to both the quantum and shape of our protection reserves.

Net cash generation benefitted from £7m of new business surplus.

Operating profit was down £48m at £138m with £40m being the pre-tax impact of the lower expected release from the UK Protection back book and £18m being adverse claims experience, mostly in Group Protection.

Other movements year on year in the operating profit were the £9m FloodRe levy, before which GI profits were up £2m. This impacted the Combined Operating Ratio by 6% points.

There were £7m of profits from Legal & General France in the comparator - a business we disposed of at the very end of 2015.

We made one reserve change this year in respect of lower maintenance costs for the protection business which added £31m to operating profit.

Slide 15: Savings

Net cash generation by our Savings business was down £14m at £48m reflecting a declining contribution from our mature savings business.

Our platform business made further progress in reducing cash costs which partially offset the lower profit contribution from mature savings meaning overall Savings operating profit was down £6m at £49m.

We have sold our SIPP business, Suffolk Life for £45m, having taken the view that this business was no longer core.

Slide 16: LGA

And finally Legal & General America.

The operational and net cash generation from L&G America reflects the level of dividends remitted to the Group. The ordinary dividend for 2016 was up 10% at $88m.

Operating profit was up marginally at $62m with mortality experience in the half year being broadly in line with assumption.

Persistency continues to be good, meaning Gross Written Premiums were up 2% at $601m.

New business volumes were lower at $41m APE as the team focuses on the profitability of new business.

LGA remains a top 3 provider of term assurance to Broker General Agents in the US.

LGA is also playing an important role to the wider Group in the US by providing the regulatory balance sheet and administration services for LGR in America and back office support for LGIM America.

Slide 17: Resilient capital position

Moving to balance sheet matters and in particular the Group's capital position at the half year.

The Group's Solvency II surplus was estimated to be £5.3bn, with eligible own funds of £14.3bn and a Solvency Capital Requirement of £9bn making the Solvency II coverage ratio 158% at 30 June.

Removing the £650m of SCR associated with our With Profits fund from both the numerator and denominator equates to a coverage ratio of 163% on a shareholder basis.

We do not adjust for the £90m SCR associated with our own defined benefit pension schemes.

54% of the Group's SCR, or £4.9bn, related to credit risk at the half year with longevity risk being the next largest component at 12%.

Of our eligible own funds, £11.6bn or 81% are Core Tier 1, these assets alone exceeded the SCR by £2.6bn.

The SCR has increased by £1bn to £9bn at the half year with the primary driver being the impact of lower interest rates on the valuation of that SCR.

On an economic capital basis, the Group's surplus increased by half a billion pounds to £8.1bn and represented a coverage ratio of 235%.

Slide 18: Sensitivity analysis

Given the proportion of our SCR which relates to credit, this chart shows the extent to which our Solvency II coverage ratio is sensitive to rate movements, spread widening, rating downgrades and defaults.

Simon Gadd will outline in his presentation our approach to managing credit risk.

I have also shown our exposure to a fall in property values which is less than people might intuitively think because, for the sale and leaseback assets in our annuity fund, it is the rental income that has most of the value not the residual capital value at the end of the lease.

Slide 19: Movement in the Solvency II surplus

This chart shows a summary of the £0.2bn reduction in our Solvency II surplus over the first 6 months of 2016.

The expected release from the back book after 6 months' worth of amortisation of the transitional generated £0.5bn of surplus.

The impact of new business on our Solvency II surplus rounded to zero in a period where we wrote £3.8bn of annuity business as the incremental own funds broadly offset the SCR.

The investment variance reduced surplus by £0.6bn, as I said earlier, mostly as a result of lower swap rates.

For own funds, the recalculated transitional largely offset the increase in the risk margin, but the surplus is impacted by lower rates increasing the value of the SCR.

Other capital movements of positive £0.5bn represents a mixture of actual experience in the 6 months and the first phase of management actions including removing eligibility restrictions around certain assets and removing inadvertent prudence left in our best estimate liability calculations as we transferred from Solvency I to Solvency II.

Slide 20: Reconciliation of Economic Capital

As I mentioned earlier, our Economic Capital surplus at £8.1bn has increased by £0.5bn in the first half in contrast to the £0.2bn reduction in the Solvency II surplus.

The difference between the two bases has therefore increased from £2.1bn to £2.8bn.

There remain two significant differences between our economic view of our capital position and Solvency II and both of these have been magnified by lower interest rates.

Firstly on longevity, where the difference in the actual calibration of a 1-in-200 stress is unchanged from year-end but the pound notes value of this difference has increased due to lower rates.

Secondly on the credit stress where we consider the behaviour of the Solvency II matching adjustment under stress to be unrepresentative of reality and again lower rates have served to increase the value of this difference.

Slide 21: Estimated Solvency II new business value metric

And finally on Solvency II, as promised we have provided an estimate of the value of the key lines of new business we have written based on Solvency II capital and cash flows.

We estimate that the present value of future Solvency II surplus generation from new business written in the first half to be £382m for annuities, equivalent to 10.2% of new business premium, £81m for UK insurance, a margin of 11.1% and $54m for L&G America or 12.4% margin.

These are calculated using the same principles we used previously to calculate EEV but assumes surplus emergence on a Solvency II basis, rather than Solvency I which used to underpin EEV.

We no longer calculate EEV given we are now in a different regulatory capital regime. However, in directional terms the equivalent embedded value margins would have been higher for annuities and lower for protection.

Slide 22: Formulaic Interim Dividend

Finally from me, the interim dividend.

The dividend policy we announced in March this year remains unchanged

… that is a progressive dividend policy reflecting the Group's expected medium term underlying business growth, including net cash generation and operating earnings.

In terms of implementation of this dividend policy, the Board has decided to adopt a formulaic approach to setting this interim dividend and for future interim dividends, that being 30% of the prior year, full year dividend.

The interim dividend for 2016 is therefore **4.00p per share**.

The Board felt that given the long term nature of our business, it is more appropriate to have a discretionary increase in the dividend once a year, at the final, rather than twice a year. As you will be aware there is an increasing trend amongst FTSE100 companies to adopt a similar formulaic approach to setting interim dividends.

And with that, I'll hand over to Simon Gadd …

Simon Gadd

Slide 23: Picture

Thank you Mark.

Slide 24: Role of Risk Management

CROs and risk functions are paid to worry about the future. To ensure we understand, manage and can tolerate the downsides for the risks we take.

My remit covers the full range of financial, operational and conduct risks.

I also worry about external and emerging risks that may disrupt our strategy, one live example which is currently playing out is Brexit.

Slide 25: Brexit

Actually the EU referendum was a great example of an event with uncertain outcomes to analyse and consider the risk mitigations available.

As you would expect, we were well prepared for the short term implications of either outcome from the referendum.

L&G have limited direct business exposure to trading in Europe, so our planning focussed on our asset exposures and the operational implications for managing these portfolios, derivatives and collateral arrangements.

We ran a variety of scenarios and determined the best blend of risk exposure and hedging to balance out, as best we could, the impacts on our balance sheet and P&L.

We were fully prepared operationally, including ensuring our property funds were holding high levels of liquidity, which helped LGIM keep the fund open when most of its peers closed.

In the weeks preceding and following the referendum we maintained a very close engagement with both the PRA and FCA… a constructive dialogue throughout.

Brexit hasn't changed the fact that the largest risk on our balance sheet is credit.

Slide 26: Exposures: Long term investor with strong diversification

As a firm, our business model involves actively taking credit risk, as we believe this is a rewarded risk.

My job is to ensure the Board has understood and articulated its risk appetite and then ensure our exposure is prudently managed within this appetite.

To extract the reward, we maintain a highly diversified portfolio, and deploy considerable capability through LGIM fund managers, working very closely with specialists in Asset Liability Matching within LGR, to understand, model and manage credit risk.

The most important point to understand is the ALM position of our portfolios.

Our liabilities are mostly illiquid; particularly the annuity liabilities and therefore we are very rarely a forced seller of assets.

We hold ample gilts and cash to cover extreme liquidity and collateral requirements.

So we predominantly hold credit and other fixed income assets for the cash flows they generate, we are less interested in their current market value.

The Solvency II balance sheet does bring in some artificial volatility due to swap rates and asset price movements, which we will need to learn to live with, but this is why we have a surplus buffer.

Economically we are really only interested in defaults, which change the cash flows, or downgrades which increase the risk of the cash flows not arriving.

We have 30% of our bond portfolio in BBB assets, we have to be particularly vigilant of downgrade risk here.

Downgrading of BBB assets to sub investment grade is most penal from a capital perspective and economically is a cause for concern.

This is where risk selection, diversification and limits of single name and sector exposure are crucial...

For example, our strategic decision taken a few years ago to be materially underweight in bank debt.

But ultimately this is one of the key reasons why we hold a surplus buffer above the 100% coverage ratio, to provide scope to absorb losses and give us freedom to take controlled risk.

Although we do have direct property exposure in some strategic projects within LGC, the majority of our property exposure sits in LGR.

It is important to understand that the property is always secured by a long term lease to high quality counterparties.

Or, the property is purely security in the event of default of a counterparty to which we have provided long term financing.

So again we are much more interested in the rental stream, which provide most of our cash flows, than any short term property market value fluctuations, as we are not planning to sell the property.

We are growing our portfolio of direct investments.

Critical for me, is a robust underwriting, structuring and internal credit rating process for these long term investments, in order to avoid unrewarded risks.

The internal credit rating committee sits within my second line function, independent of the deal makers, with its members having several decades of experience from the mainstream rating agencies.

Slide 27: Continuing to monitor the environment

We live in an uncertain world, so we have a range of monitoring actions and contingency plans in place.

As CRO, there are two key issues I continue to monitor.

Firstly, our Solvency 2 balance sheet will have more volatility to market price movements, particularly falls in the rates curve, than is economically our view of risk.

This will make communication complicated and may distract from the correct risk management strategy.

We need to explain better what is noise and what is a genuine concern.

Secondly, is a major credit crisis around the corner and if so, how will it manifest itself?

We have seen how extreme levels of liquidity and monetary stimulus have so far materially dampened down defaults and extended the credit cycle.

Our credit and property exposures are analysed down to individual names, to identify counterparties we believe are most exposed to broader economic slowdown or specific Brexit risks remembering we can take a long term view.

We are clearly not immune to a credit cycle downturn leading to credit losses above our expectations…

...however, I have explained how we protect ourselves against this risk and that we have considerable inherent benefits from being long term investors with minimal liquidity pressures.

… and with that I will hand over to Kerrigan…

Kerrigan Procter

Slide 28: Picture

Thank you Simon and good morning.

You have heard about LGR's financial results from Mark and about the Group's risk management framework from Simon.

So I would like to talk about LGR's diversified sources of new business and the management of our back book.

Slide 29: Nine sources of profit

The world's population is still ageing, services to help manage the financial consequences of ageing populations are still in huge demand, private sector defined benefit pension systems globally are still in run-off, more people need more assistance to accumulate wealth and achieve financial security in retirement.

So what has changed since the EU referendum?

Real yields in the UK are expected to be lower for longer. The average pension plan deficit will have increased. But the average across nearly 6,000 pension plans and £2 trillion of liabilities hides much.

First a lot of interest rate and inflation risk hedging has taken place. And we should know.

LGIM's LDI business was created ten years ago to the month. Over that ten years it has hedged interest rate and inflation risk at the rate of around £30bn per annum and LGIM is just less than half of the LDI market.

The asset allocation to fixed income has increased over the same period from just under 30% to just under 50%.

Overall, we estimate that approximately half the interest and inflation risk has been removed from the UK's DB system.

It is true that only a small number of pension plans will have removed all their interest rate and inflation risk.

However there is a second trend in pension risk transfer that is important to understand, namely that of incrementalism.

This could be through pensioner buy-ins, longevity insurance, top-slicing or medically underwritten bulk annuities.

We are currently quoting on around £13bn of bulk annuity business in the UK and £16bn of longevity insurance business and much of this comes from pension plans taking pension risk transfer step-by-step.

With an incrementalist approach not all interest rate and inflation risk needs to be hedged and not all the deficit paid off before pension risk transfer can start.

Legal & General is well placed in such a market.

We know the clients, we are financially strong, we are committed to the pension risk transfer market and uniquely, we offer not only all the steps in pension risk transfer, but more broadly in pension de-risking.

We are looking to participate directly in the US pension risk transfer market through LGA with a similar commitment and philosophy.

We continue to quote on a range of bulk annuity deals and will look to build on our initial success in a measured way.

Our reinsurance hub, L&G Re, A+-rated, in a solvency II equivalent regime and with registered reinsurer status in the Netherlands, allows us to participate as a reinsurer in European Pension Risk Transfer.

We are quoting on several deals and are looking to build on last year's new business.

The combination of Freedom & Choice in Pensions and Solvency 2 has already led to much change in the individual annuity market.

We were delighted to work with Aegon in the acquisition of £2.9bn of their individual annuity backbook and to become preferred provider for their new annuity business from October this year.

The latter should add just under £200m to our individual annuity volumes in the first 12 months. We expect further industry consolidation.

Slide 30: Robust asset portfolio

Looser monetary policy will intensify the hunt for yield.

Portfolio management discipline combined with an ability to self-manufacture attractive assets will be needed both for new business success and to achieve the full financial potential of LGR's £51.0bn backbook of assets.

Our asset portfolio is a global portfolio of fixed income and real assets with the portfolio credit risk managed by LGIM's active fixed income team.

The team have incentives balanced between increasing yield and minimising downward credit migration and default.

Over the years this has led to a well-diversified and robust portfolio.

By way of illustration 63% of the £51.0bn portfolio is A-rated or better with only 3% in sub-investment grade assets.

We hold 12%, that is just over £6.0bn, in gilts. Including these gilts, £25.0bn of the fixed income portfolio has the UK as country of domicile for the issuer.

Slide 31: ...With High Sectoral Diversification

The portfolio is well-diversified by sector with, for illustration, 4.4% in Banks, 4.5% in Oil & Gas and 3.7% of bonds in the property sector.

We have £6.2bn of the portfolio in what we term self-manufactured assets, or direct investment.

We work with LGIM's real assets team and LGC on the origination of these assets and then structure them to be matching adjustment eligible as far as possible.

Since the EU referendum, we have agreed a further half a billion of direct investments.

We also hold just under half a billion in lifetime mortgages, where we originated £231m of loans in H1 2016 to add to the £201m originated in 2015.

We see this as a big potential market and expect to meet our £500m target for 2016.

We are pleased to have agreed a five-year arrangement with Santander in July to distribute lifetime mortgages to their customers, which we anticipate will add £100m of new business annually.

Slide 32: Longevity risk management

Finally on to longevity insurance.

Our gross longevity risk is £56.1bn with net risk of £43.8bn.

We continue to reinsure over two thirds of the longevity risk of our new pension risk transfer business in the UK.

However, we chose not to reinsure the longevity risk of the Aegon book of individual annuities; we are comfortable with the risk and we have transitional relief on that book of business.

We will be completing a full review of our backbook of longevity risk in the second half of 2016.

We have seen higher than expected seasonal mortality over the past few years and will be considering whether our longevity best estimate should extrapolate recent variations into a longer term trend.

I'll now hand you back over to Nigel…

Nigel Wilson

Slide 33: Name

Thank you Kerrigan.

Returning to our theme of growth.

This slide shows examples of our investment in the UK in Cardiff, Manchester, Bracknell and Newcastle.

Slide 34: High performing Group aligned to growth drivers

Our businesses continue to perform well with an impressive increase in operating profit from our asset management divisions to £712m.

But there is a lot of work still to do in replicating the LGIM and LGR success across, LGC, Insurance and Savings. These businesses remain work in progress.

Slide 35: LGIM

Congratulations to Mark Zinkula and his team for becoming a global top 10 asset manager by AUM… from where we were 10 years ago, to where we are today and where we'll be in another 10 years should be a terrific story.

DC has risen from £29bn in H1 2013 to £50bn today… this could be 4 or 5 times larger in 10 years.

Our solutions business was £91bn in 2009, it is now more than 4 times larger at £389bn.

In UK retail we were not even a top 10 player 3 years ago… in the first half we became number 2 in terms of net sales… our goal… is to be number 1.

International AUM has risen from £52bn to £152bn… with much more to follow.

Real Assets is excluded from this slide… as we have already commented on it in many areas, but Bill Hughes and his team have done a great job.

We recognise that pricing in asset management will become more competitive and have adapted our business model accordingly.

Slide 36: LGC

LGC is just starting on its journey… we are building our capability ahead of investing our capital.

Housing…

…we have invested £377m… Cala already delivers an 18% return on the equity we have invested…

…we are confident we can replicate this success in Build to Rent alongside our partners PGGM, we have started to maximise value from our Strategic land bank and our investment in modular construction looks promising.

Retirement homes should be a positive addition.

Infrastructure… this is about investing in new real assets creating new jobs… and delivering great returns…

…We are well positioned across many UK cities…

Across our business, 94% of our £2.5bn shareholder portfolio in property is fully let, with only 4% under development.

…Cardiff - where we have two buildings - one is 100% let, the other 97%.

…Manchester - all fully let.

…and Bracknell… about 70% let.

Pemberton's performance in SME debt finance is pleasing… our goal €1.5bn by 2017… We intend to add equity in 2016 or 2017 to our SME finance business…

Slide 37: Insurance

We believe the global insurance industry is going to move from an agency / bank distribution model to a more digital approach … largely but not completely via mobile.

We are already experiencing significant increases in digital engagement and digital purchase.

India First, our joint venture, is using retina recognition and our partnership with Vodafone in India will be mobile.

In the UK via My Account we are seeing a huge increase in engagement… in the US our Direct Solutions have reduced the purchase time from as long as 2 months to under an hour.

Slide 38: Building L&G in the US

We are replicating the success of our UK businesses in the US…

…LGIM is delivering the growth in AUM and our customer numbers are rapidly increasing…

…South America will follow soon…

...LGR has produced the measured approach we wanted…

...LGA is fully integrated into our business, our values and our behaviours…

...LGC will follow… but only at the appropriate time.

Slide 39: Creating significant new options for UK and global expansion

The world is full of opportunities…

...global economic growth is likely to be 3% plus...

...technology is the most exciting and relevant that I have experienced in my life…

…financial markets and customer needs are homogenising creating good opportunities for Legal & General…

…The retrenchment of banks is an added bonus…

...as is the role we can play in welfare reform and infrastructure.

On the slide are some examples of our successful expansion…

…lifetime mortgages in the UK… entry in 2015 and named provider of the year in our first year of operation…

…LGIM has entered Japan…

…we have exciting new projects in Newcastle, Crowthorne and in modular homes.

We achieved rapid success in the US in our DC business… and digital insurance is showing real progress.

We are on track for another successful year in 2016. Once again thank you to all my colleagues.

Despite the many uncertainties in the world, we believe we can self-determine our success and seize the many opportunities our business model is providing.

Slide 40: Excellent Execution

We will now take questions…

Andrew Sinclair (BAML): Thanks, it's Andy Sinclair from BAML; firstly on Solvency Two, and in your disclosure you flagged £0.5 billion from your first phase of management actions, just wondered how much more you think you can get through that as you get more things eligible for matching investment etc.? Secondly, on the 10.2% new business margin for annuities under Solvency Two, how would that differ if you were using more of the longevity re-insurance for the more typical new business? And thirdly, on Solvency Two versus the cash flow disclosure; operating cash generation was £655 million, I just wanted to reconcile that against the £0.5 billion release under Solvency Two and economic capital if you could? Thanks.

Nigel Wilson: Remember we've got lots of the businesses which are not in those Solvency Two. So on the management actions, I'll ask Mark to pick that up, and the managing longevity, Kerrigan, and on Solvency Two going back to Mark. I've been joined on stage, of course, by Paul Stanworth and Mark Zinkula and by all means address some of your questions to them. In management actions, I've been slightly disappointed; I think Mark could have done a much better job in the first half of the year.

Mark Gregory: Yes, you're quite right. So of the point five pretty much all of that was down to management actions in the first half so we got pretty much all things in the hopper, some things we can do ourselves, Andy, so taking a few there are still some liabilities which we're not using MA, are not MA-eligible, particularly the euro-denominated annuities, we still need to get them into the MA portfolio. And more generally on MA, we haven't yet got MA approval for the use of our lifetime mortgage book, so that £440 million of lifetime mortgages hasn't yet...we don't get MA treatment on that yet. And more generally on the internal model, like all firms we'll be going back in again this year for what's called our major model change for the year, so there will be a number of things in that, some good, some will go the other direction, but nevertheless we are looking to optimise and improve the actual internal model calculation of the SCR over time. That's a once a year process with the PRA in the second half. So a number of things within our own gift going forwards, a number of things in the internal model. I think again it will be a multi-year journey in reality before we get to a steady state in terms of the total S2 modelling around.

Kerrigan Procter: I think on the longevity one it depends; there's clearly some details in that figure, the 10.2 %is made up of the Aegon business where we didn't re-insure the longevity risk, got a bit of individual annuity

business in there that we didn't, and the pension risk transfer business where as we said we re-insured about two-thirds of the longevity risk of that pension risk transfer business, particularly the larger deals. So if you re-insured a bit more there would be lower initial strain and then the pay back would be a bit lower in place of that. So I think we'll see that develop as we go into the future half-years. So a little difficult to really be precise at this moment; it depends on the price of longevity risks.

Mark Gregory: Okay, and then on the comparison between operational cash generation and the Solvency II surplus generation, they're kind of similar, Andy, but actually quite different things in reality. So the operational cash generation as we define it is the release of prudential margin effectively under the Solvency I regime, but doesn't reflect the capital movements, whereas obviously for the Solvency II surplus generation, that is the total release primarily of capital and risk margin and investment returns we make on the owned funds in the balance sheet. So actually they're not quite as comparable as you might think they are, and the capital run-off of the SCR is actually quite a long-term nature thing, so actually does run off over...so we will get the £9 billion back in due course, but it will take a number of years to get there. So it is quite hard to do an exact side by side comparison because they kind of behave in quite different ways.

Ravi Tanna (Goldman Sachs): Morning, it's Ravi Tanna, Goldman Sachs; I have three questions please. The first one was on your cash guidance of five per cent, and I was just wondering what assumption is embedded for LGC returns in order to reach that five per cent? The second one is on the dividend policy, and it may be my mistake but I was just wondering has there been a change in terms of inclusion of reference to operating profit in addition to cash generation, and if so is that the underlying operating profit ex the Kingswood, or what kind of growth rate does that refer to in the context of this year? And then the third one was on asset allocation, and I was just looking for broader thoughts, please, around the Bank of England's term funding scheme and any kinds of implications that might have for corporate bond markets and your portfolio.

Nigel Wilson: Okay, Mark, do you want to take the first two and Kerrigan take the third one?

Mark Gregory: Yes, so on the cash guidance, particularly for LGC; the way we bring LGC op cash in is we use literally each month end asset portfolio that we have in LGC, for each asset class we have a projected return for that month and we re-balance it based on the actual asset portfolio and the mixture of that asset portfolio from one month to the next. And again, as we pointed out in the presentation, we do hold quite a lot of cash within LGC at the half year. The reason I brought the cash guidance down was that we have got more cash than I assumed when we gave the guidance at the start of the year, and clearly if we put that into higher returning assets in due course...So for each asset category we have a different assumption; not particularly racy, so five, five and a half per cent for equities...

Ravi Tanna (Goldman Sachs): I was just wondering if the five per cent was predicated on keeping the same quantum in cash for the second half of the year, is another way of asking?

Mark Gregory: Very broadly; we've still got some plans but clearly we're now into August, we haven't invested it yet, so there's a practical limit how much you can get invested in the time. Certainly over time we would expect more of that money to get invested into real returning assets, particularly cash only, diddly squat right now. But we're incentivised to do so but clearly we want to do that on an appropriate risk adjusted basis. On the dividend policy; very clearly in March we announced that operating earnings would be part of our assessment, what is our medium term expected underlying earnings going forward? So in that regard no news within that. But when we say underlying I think we will be think about what is genuinely underlying for the long term, so things like the Kingswood closure costs, without prejudging that debate, obviously that's been a one-off item in nature so it is very much trying to get a view for what we regard as being, over say a five-year period, the likely growth in the underlying business so I think we would strip out one-off pluses and minuses from that number.

Nigel Wilson: Kerrigan?

Kerrigan Procter: I think on the asset allocation it's probably not just the term funding, it's the corporate bond-buying programme, and of course we're seeing corporate bond spreads tighten significantly over the past few days, and quite a lot tighter since June 23rd actually, and before the EU referendum, as I'm sure you all know. So that's really why I referred to the hunt for yield and made such an emphasis on the self-manufacture of assets. And that's some kind of guide, the £ half a billion we've agreed in direct investments since then, clearly a tilt towards...it puts you in a strong position if you self-manufacture your own assets, increase the lifetime mortgages, so you can definitely see that. Of course we have flexibility within our bond portfolio; we have, as you will have seen from the slides, quite an allocation to US credit which hasn't tightened in the same way, so we have that flexibility to invest in the US and structure that back to sterling cash flows in a couple of different ways. So those are the sorts of things that we're thinking about, those are the flexibilities that we have and the strengths that we have to develop our asset allocation with both the corporate bond purchase programme as part of QE and the term funding.

Nigel Wilson: Mark Zink, do you want to add anything in terms of what we're seeing from clients, and their views on asset allocation across the world at the moment?

Mark Zinkula: Certainly; so I think it would be mostly pension assets but things will be similar to what we do on our own balance sheet, kind of the next evolution of LDI, if you will, is now that the hedging strategies are being implemented to varying degrees with different plans. They're now allocating increasingly to illiquid assets; it's kind of the growth assets that are more stable assets than public equities, so very similar trends that we're seeing. And even post the referendum, we're still seeing demand from external clients as well for illiquid assets; I think the weakness of the currency has probably certainly been part of that, so again it will be very similar to what we're doing on our balance sheet.

Nigel Wilson: But one of our key themes is to stop Mr Stanworth hoarding his £2.3 billion of money and actually get spending it on sensible things. Can we go down here, and then go across to Andrew and then come back out? I'm trying to alternate between the two sides; don't worry.

Gordon Aitken (RBC): Thanks. Gordon Aitken from RBC, just some questions on the bulk annuities, please. Have you noticed any change in appetite post-Brexit, either from pension schemes or insurance companies? I just heard Standard Life say that in this low interest rate environment it didn't make sense for their shareholders to offload the annuity book. And also, any change in strain? So that's really a question about pricing post-Brexit. And you talked about quite substantial pipelines in both buy-ins and longevity swaps; what proportion of those typically do you execute on?

Nigel Wilson: On the general point on Standard Life, I did give Keith a cheeky call but he said that he was holding fire for this moment and it wasn't worth actually getting together. So he's confirming what his private call said to me. But there's a huge pool of people who are talking to Kerrigan and the team there, and I think £13 billion is probably the biggest UK pipeline we've ever had. Kerrigan, do you want to add something?

Kerrigan Procter: Yes, just some thoughts there; more broadly the change in attitude, I think the £2.1 trillion of liabilities, it's such a huge figure it's difficult to get your head around. We think of that as a two to three-decade opportunity, and post the EU referendum, it's still a two to three-decade opportunity, I think. And within that, the sequencing of which clients de-risk may have changed a bit, so since we're talking to all the clients not a lot has changed for us on that point of view, but the sequencing of clients might have changed. And within each client they might have changed slightly the order in which they de-risk; maybe it's older pensioners first, maybe it's longevity first, maybe it's top-slicing first, but since we offer all the different steps to de-risking not a lot has changed fundamentally for us. So when you look at that very broad big picture of such a fundamental market and big long-term opportunity, I don't think the long-term picture has changed much in our way of thinking. Obviously the marketing plan, the engagement with clients, is a little bit different. I think the other point in terms of change of strain, probably too early to look at yet. The £750 million we did with ICI happened on the 5th July; we moved very quickly post-Brexit, there was a good opportunity for them, good opportunity for us to make progress with their step by step approach. We're still pricing on a consistent basis, engaging with people in that £13 billion pipeline of buy-ins and buy-outs constructively and all parties are working constructively towards executing at some point, maybe with us, maybe with others in the market. So clearly the pricing change hasn't moved significantly there and I don't think the strain will have changed significantly for us on the Solvency Two basis, but quite early days of course. And then finally in terms of the proportion that execute out of that £13 billion pipeline, I think it's difficult to say; some will execute over the next few months and some will execute in three or four years' time as they come to assess, and some will get a change in management and decide that now is not the right time for them and it may be five years before they come back. So most of them, I think all those 6,000 pension plans will be heading down that route. Sooner or later they will transact, I'm sure, but it could be, in that £13 billion, a matter of a few months to a small

number of years, and then of course other people will come in and change that pipeline as we look, and that will be nearer term in terms of transactions.

Nigel Wilson: If you took three percentages, ten per cent, 50 per cent, and 90 per cent, you would say 50 per cent was probably the better of those three estimates?

Kerrigan Procter: Yes, if you're looking over the next year I think 50 per cent would be the better.

Nigel Wilson: Is there anything you want to add, Paul, on the availability of direct investments and the increase in such demand we're seeing across the UK?

Paul Stanworth: Sure, I think in terms of direct investment portfolios, we've still got a huge pipeline that we're working with the UK government on for regeneration investment offers. They have a pipeline of over 100 billion that the UK government is seeking to invest in over the next five years. And as you probably know the infrastructure plan is about £480 billion in the UK. They do expect clearly a large amount of investment, private investment, in these areas and we see those pipeline...where it's relevant to L&G, predominantly in the areas that we're working in, so energy, and a lot of the city regeneration schemes that we're working in. And I think also in housing, we also don't think that the fundamentals have changed significantly as well; we're still in a low interest rate environment, we still have a housing industry that's not got leverage in it, we're still building half the numbers of houses that we should do, and if anything the changes that have happened in the referendum which might limit the availability of resources does play into the hands of our modular factory which we're constructing. So I think we're still comfortable with our strategy, and we still see a huge pipeline that is relevant to L&G.

Nigel Wilson: I think we're very encouraged by the progress we're making in the build to rent sector, and Bernie is sandbagging his targets for the year, yet again £500 million for lifetime mortgages, and I'll be really disappointed if it isn't higher by the year end. Andrew?

Andrew Crean (Autonomous): Good morning, Andrew Crean, Autonomous; three questions. Mark, could you finish off the answer to the question about the long-term returns you're assuming in LGC? Overall I think it was 5.3 per cent last year, so that's what we're after. Secondly, could you give in orders of magnitude on a BPA, if you're re-insuring it or not re-insuring it, in orders of magnitude, what is the amount of Solvency Two free capital generation which you would expect over the lifetime? I just want to see how that plays out. And then thirdly, I notice your SCR is only three per cent sensitive to interest rates, yet you've got a huge sensitivity to interest rates within the coverage ratio, I think it's gone up to 14 points, which I assume is the sensitivity of the risk margin, which is not very economic. A couple of points there; why isn't that entirely balanced off against change in dynamic transitionals? And secondly, if

for instance your coverage ratio was to fall to around 140 per cent because of low interest rates which are not economic, how would that reflect on your dividend policy?

Nigel Wilson: Some really good questions. I was expecting those of Andy actually. On the last question if Simon answers that one because give you a better perspective on the risk point of view and Mark do you want to take…?

Mark Gregory: So just on the question around the LGC long-term assumption the blended number doesn't really tell the whole truth and we do break it down by asset class; whatever Paul's got his money invested in we take the assumption based on that so if we've got more cash at a point in time that obviously drags the long-term assumption. I haven't done the maths to actually work out what it is but it will be slightly lower based on the fact that we do hold more cash. We haven't fundamentally changed many of the other medium-term expected numbers. I don't think I've worked it out actually. We can certainly work it out but we haven't changed the basis we simply say that given our actual split of assets within that we are just taking it by asset class, the expected return and that's what drives the blended return for LGC. And having more cash will definitely have brought down the expected return in the short-term. Shall I keep going on the SCR question? The point around the interest rate exposure as opposed to, kind of, the wider impact of interest rates so when we isolate out interest rates in isolation in the SCR calculations, the 3 per cent you allude to that is simply the impact of rates in isolation. It doesn't affect the impact of rates on the valuation of other risk items within the SCR calculation.

So I know it's slightly misleading but actually interest rates there are actually just that little bit in isolation there's a much, much broader impact from interest rates in terms of how they impact on other risks within the SCR.

And your point about risk margin and that being offset by transactions that broadly is what's happening. I know we don't disclose it but broadly the risk margin and the recalculated transitional are probably take care of each other; the risk margin has gone up with lower rates but so has the recalculated transitional so the pain of interest rates is all coming through the SCR calculation not the transitional and the risk margin which sits within the technical provisions.

Nigel Wilson: Kerrigan do you want to talk about the profitability pre and post longevity insurance?

Kerrigan Procter: I think as I said it's early days for Solvency II and as I've said many times it somewhat depends on the price of the longevity risk that you get. I'm not going to precisely answer your question but just in terms of some of the dynamics going on we've seen some figures about 20% SCR risk margin requirement for Solvency II business. But if you did everything as you did before in Solvency I, once you've hedged whatever, 75 to 90% of the longevity risk and then readjusted your asset portfolio to be more A plus rated rather than A minus rated you get down to the order of 10% figure in terms of SCR and risk margin of which how much strain you get obviously then depends on how much premium you get in from the client and those are the sorts of variables that we're thinking about in terms of that new business.

Nigel Wilson: Simon do you want to pick up on the bits that you've got left out of all that?

Simon Gadd: Just a follow up on the question around rates it is a bit of a complicated subject I'm afraid. If you think about it as asset and liability matching we're trying to get the interest rate sensitivity of assets to match the interest rate sensitivity of our liabilities. We've only got one set of assets, derivatives so that's fixed we've one choice we can make there. But our liabilities the rate sensitivity under IFRS, our profit balance sheet is different to the rate sensitivity of our Solvency II balance sheet.

We have taken the decision to balance the rates sensitivity at an IFRS level because we think that's closer to our economic view of the risks. Whereas in Solvency II, because of the prudence level in the SCR that creates it has more rate sensitivity and we decided that if we balanced that we would then create IFRS volatility which we don't really like. So we've decided we've got more tolerance for our balance sheet to have some sensitivity to rates than our profits. Clearly if our coverage ratio was near a 100% we would change that view but clearly it's nowhere near that at this point in time.

So you can only really balance the rate sensitivity of one of your balance sheets, your profits or your Solvency II we've chosen the profits.

Nigel Wilson: The 140% was an illustrative number, it's by no means a target and under the scenario you describe that would have no change whatsoever on our dividend policy. Andy.

Andy Hughes (Macquarie): Andy Hughes from Macquarie, three questions if I could the first one is about slide 19 this is my best guess as to why the stock price is not doing too well today. So obviously you're showing £500 million of operational cash generation, zero from new business and minus 600 from dividends. Now Aviva showed £200 million positives in their UK business from new business so could you basically breakdown the zero in terms of the negatives, presumably from annuities, positive from other stuff and just tell us what you'd expect in a normalised period rather than the H1? And is there anything weird about the £500 million number? I guess that's question number one.

Question number two I think you said you're going to review the mortality base at the yearend particularly long-term improvement rates and CMI 15. Presumably there's not much you would know on long-term improvement rates between now and the end of the year anyway so what would the sensitivity of these factors be in terms of both figures? And third I think it's a small question, I think Mark said the property portfolio is not sensitive to market value movements but is sensitive to other assumptions could we have some sensitivity regarding those assumptions please?

Mark Gregory: On the op cash generations, one thing I would say Andy clearly it's rounded to the nearest 100 million so like all these things they are big numbers. In terms of additional colour, we have given of course when we did the Aegon back book deal, the £2.9 billion we did say that impacted surplus generation, sorry surplus by £50 million roughly, so given the fact that overall all the business we wrote in the first half of this year it was roughly zero. Then you can work out for all the rest of things we wrote, so that's the rest of the annuity business we wrote as well as the new business in insurance world that came to broadly a positive £50 million to offset the £50 million, surplus. Again making the point there it's not just about Grain being some sort of super profitable deal actually we've written all our business on efficient Solvency II terms. That's not to say there's not an SCR, as I said in my speech actually we're getting own funds in to match the SCR so that does impact the coverage ratio. But actually in pure surplus terms that we writ in new business on terms which mean we're getting our SCR funded by third parties, either retail customers or by pension scheme trustees.

Kerrigan Procter: Do you want me to say a few things on the longevity but I think you have probably a lot of the facts in that we had. Mortality is highly seasonal so in the cold, dark winter months you get a big spike up in mortality and it falls away in the summer months. And what we've seen this year in the winter just gone: higher than expected seasonal deaths. Last year we saw much higher than expected seasonal deaths, with the particular strain of flu virus and a vaccine that was ineffective. And then the season before that, higher than expected flu deaths.

And what we really need to do is make some expert judgment, analyse those figures, actuarial and scientific analysis of mortality to choose whether those features should extrapolate into a 40-year long-term improvement trend and that's the work that we're going through in the second half of this year and is in full flight.

Andy Hughes (Macquarie): **[Unclear].**

Nigel Wilson: We'll talk about that at the yearend we're not going to talk about it now. You've made your own estimates in your note, Andy, but we won't comment on that until we've actually completed all of the work and talk about that in March of next year.

Mark Gregory: Shall I pick up the property value one? Just on the property value sensitivity actually there's some disclosure in the packs, look at page 50 we've given some kind of plausible upside and downside valuations for the property portfolio. Again I was just saying in my speech in reality for us the income strip is by far the dominant part of the valuation, as in the rental income strip is by far the dominant part of the valuations. We've only got so much exposure to the actual residual capital value at year end. It's roughly 70/30. Not precise numbers so we're 70% exposed to the rental strip and 30 to the residual capital value at year end. So when you look at the LGR property valuation you can, kind of, scale it back; the capital value we're actually exposed to is somewhat less than simply taking a proportion of the total value.

Andy Hughes (Macquarie): What's the sensitivity on rental income – I can see a sensitivity of 1 per cent lower rental income?

Mark Gregory: Yes we have given that… we've given that disclosure, haven't we?

Nigel Wilson: Can we move on to Jon and then Oliver?

Jon Hocking (Morgan Stanley): Jon Hocking from Morgan Stanley I've got three questions please. Firstly, on the protection business a lot of moving parts in the protection profits you have the adverse mortality and then you've got the change in the shape of the profits. Can you just run through that I missed the change in the 15 statement? That's the first question. Second question on the downgrade sensitivity in the capital which is very helpful so thank you for that, I just wondered in terms of your investment mandate if you have a downgrade from single A to triple B or from triple B to double B is there a mandate to sell that ahead of downgrade and if so what account have you taken in that sensitivity for any, sort of, realised loss you might give as a result of the investment mandate? That's the second question.

And just finally coming back to Andrew's question on the, sort of, rates hedging I'm surprised that you're hedging the profit rather than the Solvency II capital given that your, sort of, dividends cover from the annuity block is basically driven by the Solvency II rather than IFRS. Have you hedged the risk margin at all, the downside risk there on that basis?

Nigel Wilson: Do you want to take the last question on the risk margin, Simon is our hedging guru today. And Mark, do you want to take the first one?

Mark Gregory: So just to give a bit of colour to the protection result I did make the point we had changed the shape particularly in respect of reinsurance modelling so as you know for a lot of our protection business, pretty much all of it we reinsure the mortality risk after reinsurers. But because we've moved to this, what's called a risk premium basis that premium does increase over time so we put more prudence into the latter years of the contract to reflect the fact that in theory at that point in time we could be paying more to the reinsurer than we're collecting in from the retail customers through their premiums. It's a prudent assumption but that's what we assume.

And that shifted the shape of the prudence release so less in earlier years, more put into the tail of those contracts. In simple terms we've got a £32 million lower release from the protection back book in the UK and roughly half of it is down to that one-off reshaping of the protection back book. There're are other bits and bobs in there, the loss of the I minus E tax regime a few million and some other bits and bobs in there but that's the main component of the other lower protection back book release.

Nigel Wilson: Mark do you want to talk about downgrades, talk about credit movements and how we manage and interface between LGR and LGIM?

Kerrigan Procter: If I can kick off with the investment mandates, you know, just in itself. There is no automatic requirement to sell on a downgrade. We have no expectation of buying sub-investment grade assets of course and there's a cure period or a, kind of, cure or explain period just as you find in most investment mandates. The mandate that we set up as I described is a very clear incentive to increase yield but don't increase credit risk or you can keep the yield the same and decrease credit risk, ie, default and downgrade risk as it's measured.

So the portfolio, the active fixed income team that works on it continually looking to move the portfolio to avoid those downgrades, defaults so it's a built in incentive to every day come in and work on that portfolio to mitigate that risk which I think is a really key part of how we run the portfolio.

Jon Hocking (Morgan Stanley): **[Unclear].**

Nigel Wilson: So obviously you failed last time Simon have another go.

Simon Gadd: Okay referring to the previous answer. So the short answer is no we don't hedge the rates] on our risk margin. The long answer is because that would make it even more different to our IFRS position. The risk margin is very long duration, very complicated so the operation is very difficult to hedge it but actually again it would take us into hedging more non-economic risk which effectively we don't think is the right thing to do. And by the way the PRA, for us and the whole of the industry a recalculation of the transitional because of the mid movement in the impact of the risk margin of the rates fall during the first half of the year.

Oliver Steel (Deutsche Bank): Oliver Steel, Deutsche Bank.

Nigel Wilson: We'll take three more questions, there's two, there's one other question if anybody else and Alan. Everyone's asked three questions so far.

Oliver Steel: (Deutsche Bank) To follow up John's question on the protection operational cash flow it's down 30% you're saying half of that is down to reserve changes. The I minus E I think is £ seven million in a full year which is, you know, diddly squat. So what's the rest of it and having changed that reserve profile should we now be assuming this first half number is the base of the UK protection profit? Secondly, you seemed to have, sort of, spiked the actuarial pen in a positive direction on the annuity in-force cash flow, on my calculations it's gone up from 39bps to 47bps at the start of the year, annuity assets under management. So obviously there's a change in reserving assumption coming through there again what have you done, how are you guiding towards the future, how will that change when you look at the data in the second half of the year?

And then third one, nice easy question, you've closed Kingswood. I think I also saw some other restructuring costs what sorts of extra costs do you expect from those?

Mark Gregory: They look all mine, don't they? The rest of the colour on the protection operational cash generation roughly half comes from the change to the modelling of the mortality reinsurance. As you say Oliver, correctly, the I minus E is about £7 million degrading, another 12 years of that about to come through the system before the seven years is all done so that's £3.5/four million at the half year. Insurance did benefit from the tax losses built up in L&G Pensions Limited; most of that benefit went across to the retirement business but actually insurance also got a benefit from that, so a couple of million, two or three million is down to that.

We had a lower stock, a lower level of gross written premiums in the group protection book at the start of the year so again the expected release from that is somewhat lower, it's about £5 million of the difference. We got a small amount of dividend in from L&G France last year must be getting close now to roughly reconciling the number but

it's quite a lot of smaller moving parts in the balance of the 32 million. In terms of is that the base going forward? One thing I would say, simple points there actually rather annoying the first half and second half are not symmetrical for protection business we get more cash release in the second half for group protection than the first half. So you shouldn't just take the first half and double it up actually we do get of the order of about £20 million more op cash from the group protection book in the second half.

It's all to do with second year renewals and that creates a strain when we actually write the renewal but actually that strain gets released during the course of the year. So it's a tad complicated but in terms of the way you should think about it you shouldn't just double up the first half. I think that's the full year we do get this slightly odd asymmetry between the first half and the second half.

Longer term I think we're looking to grow this business. As we said in the presentation we're writing very profitable protection new business we want to grow that book a bit. And for gross written premiums for retail protection were up 7% in the first half so you might think a new base yes but actually we are looking to grow that and Duncan and the team have got, you know, big plans to grow their contribution for the insurance business going forwards.

In terms of annuity in force cash flows it's not quite… I know it's a simple metric, kind of, look at the, kind of, op cash release compared to the opening assets that doesn't quite give the kind of… Clearly what we're actually… is a level of prudence or one year's worth of prudence in annuity back book. We are constantly, kind of, reviewing the level of prudential margin that we carry and where we think we've got… And therefore just tweaking and adjusting best estimates as we go so there has been an element of that over the year that's common practice. So there probably is on average a little bit more prudence per capita, kind of, being released for the annuity back book as we think about the level of our, kind of, best estimate compared to our technical provisions.

But I wouldn't say there's been a fundamental change in the way we think about the quantum and shape of prudence in the annuity back book. Assets is not the very best proxy for the level of prudence in that back book.

Nigel Wilson: I don't think there's anything particular in the second half there's an ongoing programme. Kingswood's not closed yet that's the cost of closing Kingswood all brought forward, pretty much all brought forward to today. There may be other costs as we go through the process but that's our estimate as of today.

Ashik Musaddi (JP Morgan): Hi, Ashik from JP Morgan, just a couple of questions; one is why is IFRS more important than Solvency II? And if IFRS is important what measure, cash, operating profit, net earnings what is relevant and why basically because I don't know if I have heard that from any other company? That's number one. Secondly, is I thought that you are trying to reinsure longevity but your slide is suggesting that you're quoting for 16 billion of longevity source so what is going on there? On one hand you're offloading, on another hand you are taking longevity so what's that dynamic?

And, thirdly, your savings profit was down a bit, 20/25% what is driving that and is it a good run rate to assume going forward because your mature book is running down and your new business is still stark I don't know what the profit there is?

Nigel Wilson: Do you want to pick up on the longevity thing Kerrigan to start with?

Kerrigan Procter: Yes, that one is probably reasonably straightforward to explain. We are not accumulating much of that risk on our balance sheet so changed the names of the business it's pension risk transfer it's about helping clients, defined benefit pension schemes remove their risk in a step-by-step process. They definitely want to do longevity insurance as part of that step-by-step process we can be the direct writer for that and we'll reinsure a lot of that or we'll pass through an intermediate a lot of that or broker just some of those deals. So it's that continuing engagement with the clients; they connect with us, we reel them in and then they made do further transactions down the line. But we think it's an important service to give our clients to intermediate in those deals and then find a dozen or more reinsurers around the market.

Nigel Wilson: I think on the Solvency II, I thought Simon gave a very clear answer to that actually. We've made a decision and that's what we're going to do we're articulating it clearly. It may not be what other people are doing and that's fine but we've made our decision. We don't particularly want to hedge uneconomic, theoretical

things that may well change in the future and whether they change this year, next year or the year after, we would suspect there's quite a bit of change going to go on in those variables in the next two or three years. We are not trying to develop real expertise in hedging something that we think is very theoretical, uneconomic and will disappear, so that's the reason for that.

Mark Gregory: Yes just on the saving profit clearly the mature book is in decline. I would say the rate of decline 2015 we still had a reasonable level of things like endowment maturities with associated terminal bonuses ; shareholders get one-ninth of that. And clearly that level of maturity profile is evened out now. Yes, it will still decline actually but actually probably more steadily over the future and clearly we want the platform business then to step up and fill the void.

Nigel Wilson: Alan the last question.

Alan Devlin (Barclays): Alan Devlin from Barclays. A couple of questions; first on bulk annuities. I wonder if you could talk about the relative attractiveness of the US versus UK versus Europe it does seem to be a little more positive on the UK this time. Secondly, on workplace pensions your AUM continues to build but it's still stubbornly at a loss when do you think that could actually turn into profitability and start to pick up? And then just finally any, kind of, thoughts on M&A and you've been reasonable quiet of late and would you have thoughts or not?

Nigel Wilson: Mark, do you want to go first while the dismal performance in workplace savings you've continued it in the first half of this year and why you haven't pulled your socks up?

Mark Zinkula: Yes, certainly and there's different ways that people calculate performance in the workplace businesses.

Nigel Wilson: He's not going to tell you that he got stuffed on internal costs.

Mark Zinkula: Thank you for mentioning that it would sound defensive if I said it.

Nigel Wilson: Jackie Noakes out-negotiated him with…

Mark Zinkula: But workplace that doesn't really reflect the administrative aspect of the business so when you look at it in a vertically integrative basis it's very profitable; it's clearly profitable when you look at the asset management revenue and profitability that's attached to that business. Secondly, just the cost of on-boarding clients that's front-end loaded costs. We ran a lot of large schemes last year plus it was a very big year for us so there are going to be costs that are associated with on-boarding those schemes which are, well just the nature of the business. So that's a good cost to have obviously and then the compound in revenue over time will generate the profit.

But we'll continue to invest in the business I'm not too concerned about the profitability short-term I'm just building out the administrative platform. Have to look at it on a long-term basis on a fully integrated basis including asset management profitability.

Nigel Wilson: I think our challenge is that we managed to make the LGR platform, the LDI platform completely homogenous globally and so we've seen that as we've seamlessly moved into other markets. We've done the DC business in America but we haven't yet got what I'd describe as a global DC platform. And the demand for DC around the world is huge and Mark keeps going on these jollies to various countries and coming back and telling me how great the market is and if only we had the proper platform business we'd get a huge amount of business.

Mark Zinkula: And it doesn't include the investment-only platform which again we only set up a couple of years ago here which is very rapidly accumulating assets, looking to…

Nigel Wilson: About 30 billion.

Mark Zinkula: Very profitable because we're able to build it essentially from scratch rather than doing it with some legacy issues.

Nigel Wilson: I think that's very important you only see half of it, a third of it in fact is in the workplace the rest of it's on the investment-only platform which is actually twice the size of the workplace savings one. But given your historic background we've always produced the information on the workplace savings platform. Is that all your questions answered?

Mark Gregory: We haven't done BPA

Kerrigan Procter: Absolutely still remain enthused on the US annuity market we are busy quoting on several billions of dollars of deals out there. Of course unlike the UK we probably don't see all the deals in the US as we do in the UK yet. It's a market that's more sensitive to nominal yields rather than real yields but a lot of clients still looking to transact. We can price well on the longevity side assets, we can fully administer deals now so we're confident and spend quite a lot of time out there with the team and remain very enthusiastic about that market.

Nigel Wilson: On M&A we're still looking at bolt-on acquisitions that's very much the theme of the business rather than transformational deals. There's nothing that I would say is imminent at this moment in time but several of the investment banks who are represented by the firms in this room are busy producing blue books for us and we'll be considering those blue books over the summer.

Thank you very much for coming today I realise there was a lot of complexity this is the first time we've gone through the Solvency II results; they were quite bitty and messy in certain areas that we've tried to highlight and I think Mark's done a terrific job of explaining some of the bits and the moving parts around that. And Simon contributed immensely to the discussion around why we do what we do in terms of risk management.

It's very much work in progress, you know, we're delighted, you know, LGIM added almost £100 billion of assets since the last time we met you guys. Kerrigan's had an incredibly first seven months of the year but a lot more to do in the second half of the year. LGC: very happy with the work in progress that we've made so far. The retail

protection business did very well, incredibly well in the first half of the year. The group protection business is distorted by the issue that Mark talked about but could do better I think it's fair to say. Jackie's done a tremendous job in getting core funds in a much better place for us. We've got to manage the maturity decline around those businesses.

We are very much focused at the moment on the UK and the US, not particularly focused outside of the PRT business and the LGIM business in Europe and hopefully we'll continue to deliver, you know, great financial returns, strong earnings per share growth, strong DPS growth going forward. The team will be hanging around to take further questions and outside for coffee, so again thank you all.