Legal & General Annual Results 2017 — Wednesday, 07 March 2018

Nigel Wilson: Good morning everyone welcome to our annual results meeting for the full year 2017. The usual housekeeping announcements first, there are no fire drill plans, can you turn mobiles off and the standard disclaimers apply to forward-looking statements.

2017 financial highlights were formidable; operating profit up by 32% to £2.06 billion. PBT also up by 32% to £2.09 billion; EPS up 50% to 31.87 pence and ROE of 25.6%. Our results do include our mortality reserve release of £332 million for the full year that is £274 million post-tax. This has led to some additional £250 million of dividends from our LGAS entity to Group, increasing remittances.

There was a one-off boost to EPS from the reduction to the US corporate tax rate which was positive for our US insurance business. Legal & General is strongly cash-generative with net release from continuing operations also up 9% to £1.4 billion. And we are structured to enable cash to flow easily up to Group without trapped cash or trapped capital in subsidiaries.

Remittances were £1.6 billion up from £1.1 billion for 2016. We're therefore confident in recommending a 7% increase in the full year dividend to 15.35 pence; another terrific year. I would of course like to thank all of my colleagues and thanks particularly to Steve Ellis who is sitting in the second row here and the team in our lifetime mortgage business. In less than two years they've created a market-leading business with a 30% plus market share.

And it is based in Solihull, proving you can grow new entrepreneurial businesses in financial services outside of London. A model we have also replicated in Barnsley. This slide captures medium-term trends in our financial performance, showing consistent delivery of strong financial metrics. Our goal is to make our medium-term trends our long-term trends.

Operating profit has grown by 12%, net release by 9% and return on equity has grown from 14.9% to 25.6%. Net release retained after payment of the dividend has averaged over £500 million over the last three years. You should also note that book value for shares has also grown by 7% and grew 13% last year. So in 2017, 7% EPS growth coupled with 13% increase in book value per share, was over 20%.

We have reported a 32 pence of earnings per share, if you take off the effects of the 2017 mortality release and the one-off change in the US tax rates we delivered a 23.1p of EPS, a 9% growth on last year which is in line with our stated long-term EPS ambition.

We have been busy for several years at Legal & General shaping our company for the future, enabling us to focus on our core businesses which can drive real earnings growth for shareholders and which are economically and socially useful in our chosen markets. This has included de-cluttering or disposing of subscale legacy and non-strategic businesses.

Our disposals include our old-fashioned businesses in the Netherlands, France, Germany, Egypt, Gulf, Bahrain, Ireland and our less successful acquisitions such as Suffolk Life and Cofunds. Some of this has also been strategic with the most important major steps being the sale of our mature savings business announced in December for £650 million.

We also secured an ongoing long-term investment management agreement for LGIM and with Swiss Re we have a great partner for our longstanding customers. We have significantly reshaped the Group over the past few years to a simple, focused, modern business model. This reshaping has allowed us to redefine our strategy. It is unchanged overall, straightforward and consistent but we have clarified and simplified what we do. The strategy is effected in three of our business areas: Investing in annuities, Investment management and Insurance.

Our strategic purpose is unchanged: to improve the lives of our customers, to build a better society and in doing so create value for our shareholders. By aligning these interests we create the inclusive capitalism of our annual report. Our divisional structure is retained and I am fortunate to have an outstanding leadership team: Laura, Chris, Cheryl, Mark, Kerrigan, Jackie and Bernie are all here today sitting in the front row.

And we are delighted to have added Jeff Davies, Paul Miller and Emma Hardaker-Jones to our leadership team. As well as welcoming John Godfrey back from his sabbatical advising the Prime Minister. Our strong collaboration across teams and the synergies between the divisions mean that we can collectively perform better in the sum of our parts. I will talk in more depth about the strategies later this morning once Jeff has taken you through the numbers but the resulting three businesses is focus on our core strengths: modern products, technology innovation and a footprint which is global for LGIM, but to date largely UK and US, for the rest of the Group.

Moreover we deliver sustainable profitable growth and our strategy continues to be driven by six long-term growth drivers; ageing demographics, globalising asset markets, creating real assets, welfare reform, technological innovation and creating today's capital. All play a part in creating market conditions from which we can benefit and they're more relevant today than ever. And in 2017 we demonstrated how we were able to use them for customers, for shareholders and for society.

Strategy in the abstract can be elegant but the execution is paramount; we are applied thinkers. This rather busy slide illustrates progress in areas where we are positioned to benefit from the growth drivers to become leaders in our chosen markets: LGIM approaching one trillion pounds of AUM, Groupwide direct investments increasing 44% to £14.4 billion.

And we became the first company to achieve £1 billion of lifetime mortgage advances in a year. As well as a £463 billion solutions business with a 40% plus market share and as Mark will tell you tremendous global growth opportunities. I'm also pleased to say that Bernie Hickman and Steve Griffiths did a great job in 2017 of turning round our underperforming Group Protection business now profitable in H2 and beyond.

Taken collectively the simplified strategy and the excellent execution by a strong management team has delivered another terrific set of numbers. I'll now hand over to our CFO, Jeff Davies who will take you through them in more detail.

Jeff Davies Thank you and good morning everyone. I'm going to run through the financials for the year, our dividend and capital position before handing back to Nigel for more on the Group strategy and Q&A.

As Nigel has already said it's been an outstanding year at headline level with operation profit from the continuing operation up 35%. This includes the recent changes we have made to our reserving for longevity but has been adjusted for the sale of our mature savings business. As we flagged at the half year we reviewed our longevity improvement assumptions and we moved to an adjusted version on the next actuarial table CMI15. This made the total released in the year £332 million.

Even without this prudent release, we grew operation profit from continuing operations by an impressive 12% as a result of our excellent execution and clear, focused strategy. Our key divisions performed strongly in 2017 contributing to the 9% increase in net release from continuing operations. In line with half year on top of the net release there is now in total a £250 million additional dividend from the LGAS subsidiary in respect of the mortality release. When added together this means the Group generated £1.7 billion total release, up 21% on 2016.

On internal dividends the cash remitted to Group in respect of 2017's results was up 46% on last year at £1.6 billion. We grew our return on equity to 25.6%. Finally as a high level summary of our capital position, the Group's net Solvency II surplus was £1.2 billion, up from £1.1 billion last year leading to a coverage ratio of 189%. This net surplus generation will continue to grow over time.

As an additional point, our coverage ratio as of 5 March was an estimated 196%. Our dividend policy based on operating metrics remains unchanged. The Board took into account the strong 2017 results, together with the medium-term underlying business prospects and has therefore announced a full year dividend of 15.35 pence, which is up 7% on the previous year.

Turning to the operating profit from our divisions we saw good growth in many areas. Our Institutional LGR business which deals with the corporate pension scheme grew 39% on a reported basis and after excluding the mortality release it was a strong 10%. This was as a result of the larger opening position together with a 7% growth in new business sales.

Our Retail LGR business grew 116% and a great 26% after excluding the mortality release. New distribution arrangements as the preferred provider of annuities to Aegon and other DC platforms, helped drive this. LGIM grew an impressive 9% on the back of record external inflows and strong asset performance while maintaining discipline in its market-leading cost income ratio.

LGC was up 6% benefiting from returns from the division's £3.8 billion traded asset portfolio and continued strong performance in the £1.5 billion of direct investments. LGI contributed £303 million which was flat year-on-year with growth in its US division offset by the previously reported adverse claims experienced in group protection and lower long-term lapses on older business in retail protection.

And finally GI contributed £37 million down £15 million from 2016 predominantly due to the impact of increased costs from escape of water in line with industry experience as we reported at half year. We're happy to say we've not seen a repeat of this in the second half.

In terms of divisional performance I'll start with LGR. We've already covered the 13% operating profits growth even without the mortality releases. LGR's net release was up 16% to £688 million benefiting from a new business surplus increase of 13%. This was as a result of securing attractive spreads and direct investments whilst maintaining our discipline when pricing new business. We've also warehoused more DI than last year which we can now apply to new business in 2018.

Our total annuity sales of £4.6 billion with a new business value add of 8.5% was achieved with a regulatory capital strain of less than 4% which is within our target, low to mid-single digit range. For the mortality release I want to illustrate how our change in assumptions in respect of future improvements growth of £206 million that you see. As you know, at the half year, we decided to release £126 million of prudence in our reserves in light of the continuing higher number of actual deaths we experienced compared to expectations.

On the back of further analysis of our own mortality experience and the trends we have been seeing we've also decided to move to an adjusted version of the next actuarial model CMI15 for our longevity improvement assumptions. These adjustments were made to reflect how our annuitants differ from the broader population and applied some smoothing. As you can hopefully see from this illustrative graph, our models still anticipates the same long-term improvement assumptions.

Moving to CMI15 simply assumes an experience in slightly lower improvements in getting there. You can see this is a minimal change in our total life expectancy assumption illustrating the prudence of this release. Going forward we will continue to scrutinise the likelihood of a sustained slowdown in mortality improvement as population data and that on our own book emerges and consider whether to make further changes to our best estimate assumptions.

If we do choose to make assumption changes it will be in stages and over several years. In the coming year we will consider the appropriateness of moving to CMI16. As an indication, simply moving mechanically to this table would have a similar sort of economic impact as the total release this year.

This table breaks down the new business flows in LGR. We wrote £3.4 billion of UK bulk annuities in 2017 as demand remained strong, with £1.4 billion of this transferring from LGIM clients giving further evidence of the unique breadth of pension de-risking solutions we can offer clients. Additionally, we wrote a further 15 deals in the US bringing the total business written there to over $1.6 billion.

Client demand from UK pension plans remains substantial and the pipeline of transactions we're in active discussions with has risen to £17 billion. The US defined benefit pensions market has similar potential with the market growing year-on-year. We will continue with our measured approach as we look to expand.

Our LGR retail business had a particularly strong year with new individual annuity business up 78% due to the new distribution agreements and demand continuing to return to this market. Also in LGR retail our lifetime mortgage business wrote loans of just over £1 billion. The market has the potential to grow rapidly with £1.5 trillion of UK housing equity owned by the over 55s. We expect up to four billion to be transacted in 2018 up from £3.1 billion last year. And with our 33% market share and great distribution network we are well-placed to benefit from this growth.

The asset portfolio backing our annuity liabilities has expanded its range and diversity in 2017 and remains defensive in nature. 20% of the portfolio is in sovereign-like assets and over two-thirds of it is A rated or better. In addition, we continue to have a £2.7 billion credit default reserve held against it. We now have 17% of the portfolio in direct investments, with stable income, often collateralised or secured on great counterparties. Overall, this is still less than we hold in sovereigns which is an opportunity to create further value.

LGIM had a year of strong growth with record external net flows of £43.5 billion which is 5% of opening AUM and 33 billion of this from international clients. Operating profit grew 9% to £400 million and we maintained a steady cost income ratio of 50% due to the scalable nature of our business model offset by continued investment in our growth strategy and increased regulatory costs.

Positive flows across virtually all of our channels, regions and investment areas demonstrated the breadth of LGIM's business model. It continues to grow our UK DB business and remain the largest manager of assets in this market and the market-leading provider of LDI solutions. We are also the largest manager of DC assets in the UK with good growth in the past year and the market leader in workplace master trusts.

Our UK retail business has also grown rapidly with record net inflows of £3 billion and ranking third in net flows for the second consecutive year. As I mentioned nearly three-quarters of our flows last year came from international clients with our international AUM of £228 billion. Our US business contributes significantly to this with assets of $189 billion across an expanding range of strategies for 350 clients.

Our thought leadership in the US DB market have planned increasingly on some LDI strategy and consistent strong performance in our range of access to fixed income funds and now complemented by our more recently established index team and DC proposition. But it is not just the US where we have seen success and see significant market potential.

In Europe we have £12.6 billion of net inflows and we now have 44 billion in client assets. Our acquisition announced in November of Canvas the ETF platform will provide clients with access to one of the fastest growing segments in asset management broadening our geographical reach and product range.

In the Gulf we have £3.6 billion of net inflow and now have £36 billion of assets as we deepen our relationship in this region. We've established a distribution office in Tokyo, trading and fund management capabilities in Hong Kong and won our first Australian client. As well as broadening our UK footprint our global brand is well-recognised and we have been winning mandates while we pursue focused and disciplined expansion.

LGC continues to grow assets and profits as it diversifies the asset classes it invests in. Operating profit was up 6% and TDT is £363 million with strong performances from both the direct investments and traded portfolio. In the direct portfolio a combination of asset disposals and sales of funds generated £369 million of proceeds exceeding our target of £250 million for 2017. And importantly our disposals during the year met our return expectations of at least ten to 12% IRR.

These sale proceeds were recycled as we invested or committed almost £700 million into new investments as well as into our existing portfolio including new investments in later living as well as expanding our build to rent fund with LGIM. Our operating business investments also delivered strong results with Pemberton and NTR expanding rapidly and CALA delivering revenue of £776 million more than three times the amount it achieved the year we acquired our share.

In our housing portfolio we will continue the expansion of our build to sell and build to rent offering and we have measured plans to develop businesses in the later living and affordable housing sector. We intend to grow the urban regeneration portfolio through further investment into existing projects and the regeneration of cities where we do not yet have a presence.

For LGI, operating profit for the division as a whole was flat year-on-year. Within that result US protection grew 5% with good premium growth of 8% and favourable mortality experience. In UK protection our profits of £209 million were impacted by the previously reported adverse claims experienced in group protection as well as some lower long-term lapse experience on older business in retail protection.

The range of actions taken by group protection including pricing of scheme renewals has returned the business to profitability in the second half and we anticipate it will continue on this trajectory in the coming year. The margins across UK protection remain robust in a competitive environment. During 2017 our US business launched a direct to consumer sales channel and work is ongoing to digitally transform the business. This will continue in 2018 with a launch of an application that provides an instant underwriting decision for more customers and digital collection of medical information to increase efficiency.

As usual, LGI America has already paid its 2018 dividend, this year it was $105 million up from $100 million paid last year. In GI, gross premiums increased 13% to £369 million whilst maintaining our pricing discipline in a competitive market. 38% of our premium now comes from our direct channel. As flagged at half year our operating profit was affected predominantly by the impact of increased costs from escape of water claims in Q1. We took action to address this and saw improved claims experience in the second half as can be seen by the 92% combined ratio.

GI has now won seven distribution agreements in the last two years from major UK financial institutions several of which will commence in the first half of 2018. And we are diversifying our proposition with our acquisition of pet insurance provider, Buddies. These factors combine to give good prospects for growth in 2018.

On savings the team did a great job in delivering the 2017 results amid a few distractions. As you are all aware we announced the sale of our mature savings business to Swiss Re in December for £650 million achieving a sale price of one times Solvency II own fund. The profits of over £400 million will be recognised when the Part 7 completes which is targeted for mid-2019.

Moving to our capital position, the Group Solvency II surplus increased £1.2 billion since the last year end to £6.9 billion. Our Solvency II coverage ratio calculated on our shareholder basis increased to 189% up from 171% last year. As I mentioned earlier our coverage ratio as of 5 March was estimated at 196% reflecting increases in interest rates since the year end. Our economic capital showed similar growth over the last year as expected.

We have expanded our usable Solvency II surplus bridge to claim the 1.2 billion total movement over the year. As we guided, our operational surplus generation has increased to £1.3 billion. The impact of the amortisation of the opening transitional was broadly offset by the corresponding release in risk margin. The impact of writing new business in the year was a very capital-efficient strain of less than £100 million.

Operating variances of £0.4 billion including the impact of the change in our mortality assumption, experience variations, changes to model calibration and management actions. These actions include change of asset mix, matching adjustment and optimisation and hedging strategies. We also chose to strengthen our interest and inflation calibration which offset some of the benefits in the second half.

Our market movements for the year were a net zero with equity market rises offset by credit spread narrowing and small interest, inflation and FX changes. And finally on Solvency II, our usual slide gives you our estimate of the present value of Solvency II surplus emergence from the key elements of the new business we wrote.

As we have already noted our margins continue to be resilient whilst maintaining pricing discipline. For a small strain of less than £100 million we have created £564 million of value.

So to conclude from me even without the mortality releases or one-off US tax benefit our business produced excellent growth with an operating profit increase of 12% and an EPS growth of 9%. This is in line with our previous EPS guidance and an indication of our ongoing ambition. On longevity we maintain our prudent and staged approach to the trends we are seeing and we'll investigate and move to CMI16 in light of our 2017 experience.

All our businesses have great growth opportunities and are backed by a strong balance sheet and cash position whilst delivering excellent ROE. I'll now hand back to Nigel to go into more detail on these growth opportunities.

Nigel Wilson: Thank you, Jeff. Clearly this has been another great year of delivery. I'm both very pleased for my colleagues. I'm very proud and privileged to be the CEO of Legal & General. Record annuity assets, record assets under management and record insurance premiums, but what is really exciting as Jeff mentioned is looking forward. It's how our reshaped business and focused businesses can address and build on so many global trends which are moving in our favour.

Our strategy begins with our six long-term growth drivers which are highly relevant and drive continued growth here at Legal & General. To pick on a few; the ageing demographics combined with pension and welfare reform is still leading to the significant DB to DC shift which continues to gather pace. We now manage £68 billion of DC assets the largest manager in the UK. We're highly focused on the whole DB journey from LGIM's LDI products to buy-in and buyouts at LGR and providing the direct investment to deliver the returns expected by our policyholders and by our shareholders.

We're also actively growing in DC, both in the UK and so far in the US. Technological innovation drives so much today but we, Legal & General are more than keeping pace. Investing today's capital can provide a threefold benefit], solving customer's problems, building a better society and delivering strong returns for Legal & General shareholders. Inclusive capitalism means finding solutions that work for both Legal & General and for society.

Having exited from some businesses we can really concentrate our attention and energy on those that can make a real difference and deliver our unique model of inclusive capitalism. Through investing in annuities, we will continue to drive our global leadership and pension de-risking while investing policyholder and shareholder capital in direct investments to address the societal need in infrastructure and housing.

And in investment management we continue to build out our world class international businesses. And we are addressing the UK's savings gap by growing our retail investments and workplace savings businesses. Finally, within insurance we're seeking to harness technology to become a fully digital and data-enabled insurer while addressing a clear customer need for financial protection.

The numbers Jeff took you through show we are very capable capitalists but what we do also meets the real customer and real societal need. Let me take you through each business area briefly. First, LGR within Investing and annuities. LGR institutional is our largest business and we continue to be really excited by its growth prospects.

Our franchise, particularly including LGIM gives us a differentiated ability to source attractive business. Our financial and brand strength allows us to remain disciplined in our pricing. Laura has picked up the reins and has promised me another great year in 2018.

In LGR, Chris has terrific plans to further broaden our individual annuity franchise within this important area, delivering complete retirement solutions. Then, on the Investing side of the business, we have a unique capacity to source attractive and high-performing direct investments via LGIM, via LGC, and via Lifetime Mortgages.

LGC has two principal goals; first, it uses our strengths, including our existing businesses, network, brand, and talent to invest our shareholder capital to maximise returns. Secondly, it supports our other businesses by creating or unlocking debt-like investments with great counterparties for LGR, and by creating opportunities for LGIM and its clients. Recent examples include the urban regeneration project in Cardiff and seeding LGIM's Build to Rent fund.

LGC invests in four principle areas, urban regeneration, housing, SME finance, and clean energy. LGC will take fund investments, outright ownership, or equity stakes, but only if they satisfy our return criteria, and are consistent with our strategy. This is a unique capability and will continue to evolve and accelerate its evolution under Kerrigan's new leadership. And I would like to thank Kerrigan for taking on this exciting new challenge.

LGIM is a business we have built for the future; once rooted in UK DB pensions, LGIM's strategy today is focused on three things, broadening our investment capability, growing globally, and expanding our UK DC and resale businesses to address the UK savings gap. We have expanded into the white space, huge multi-billion-pound markets, such as global high yield, multi-assets, real assets, factor-based investing. We have no legacy problems, only upside.

And we're taking global lead on ESG, more of our inclusive capitalism, where Sacha Sadan and his team are leading the market across the world. We plan to host a capital markets day in June, focused on LGIM, so you can look forward to hearing more from Mark and his outstanding management team.

Our insurance business goal is to be a fully-digital and data-enabled insurer; firstly, we are looking to use technology to improve operational effectiveness, reduce costs, and improve customer outcomes with extensive use of robotics, AI, and big data. Secondly, we are digitising and diversifying our distribution. For instance, Smart Quote for GI, where we offer executable quotes after only five questions by using big data. And, as Jeff mentioned, we are already winning partnership business because of it.

Thirdly, insurance is where we innovate and explore, alongside digital pioneers in Fintech and Insurtech. As Jeff said, GI delivered 13 per cent growth in premiums in 2017, and indeed Cheryl and her talented team are planning to make me even happier by achieving even more growth in 2018 and beyond.

Although we have strong divisional accountability, collaboration and synergies enable us to deliver more than we ever could as individual businesses. It is a vital part of our firm’s culture, and a key positive differentiator. There are many, many examples of this; providing institutional and corporate clients with consistent solutions across LGIM and LGR, using assets sourced by LGIM and LGC, leveraging our workplace customer base to offer products from across the Group, and creating a single customer interface for over ten million customers within My Account, to provide access to retirement, savings, and insurance solutions.

The re-focusing of our business puts growth in the US to the fore; we have three excellent growing businesses with great management teams. LGIM has delivered strong growth in client numbers, including some of the largest US DB and DC funds. LGR, with a strong pipeline in a market where only four per cent of the £3.7 trillion of DB liabilities have transacted so far. LGI’s US term insurance business is well-positioned for the many opportunities we see for increased digital deployment, and more D2C activity.

Now, a few case studies for future growth; in 2016, we launched LGIM’s Future World fund to address the demand for better risk-adjusted returns alongside greater ESG impacts. With over $6 billion in the fund to date, we have a $100 billion ambition. And our Build to Rent fund is currently a £1 billion business, seeded by LGC, but it has also attracted investors from LGIM’s global institutional clients.

It is truly amazing that, to date, we haven’t created an institutional asset class in housing in the UK; we will change that. We see it as a £10 billion opportunity which taps into the demand we are seeing right across the UK for high-quality, institutionally-owned, rental accommodation. A classic case of fixing a market failure and using our commercial strength to help tackle a societal problem. It’s not just the millennials who face a housing shortage, but older people too. Legal & General is once again providing a solution, through Later Life Living.

Digital or Insurtech has become a watchword across our industry, it is also crucial to use data to improve the customer experience, which is what we do in GI, through Smart Quote and Smart Claims. Five years ago, filling a digital slide was demanding, today, we have multiple projects evolving at real pace, and with real energy. We started a few years ago, with four robots, known as the Ramones, now we have more than 50, with many more being developed to massively increase efficiency in our operations, primarily in LGI. Our partnership with Slice Labs, like our work in payroll lending with Salary Finance, addresses contemporary customer needs.

So, another great year, but we remain ambitious; we achieved 17 per cent EPS growth in 2016, and nine per cent in 2017, so well-placed and on-track for our financial ambition to achieve ten per cent EPS growth from 2015 onwards. I feel like our business is in great shape. We are at a real inflection point; we have clear strategic goals we are delivering on, we have a great set of businesses, unencumbered by the legacy of the past, a globally trusted brand, and a great team focused on our exciting growth opportunities. With that, let me open it up to Q&A. Oliver.

Nigel Wilson: Can we limit everybody to three questions at the most?

Oliver Steel Oliver Steel, Deutsche Bank. Three questions; first of all, on cash, 3.4 billion is what you're saying you've got at the moment, I don't think that includes anything yet from the savings sale, so perhaps you could talk about what it could be, pro forma. Then I don't think what you've ever really clarified is how much of that cash is actually excess, and perhaps you can also link it in with the Solvency ratio now at 196; how much of that is excess.

Second question is what are you going to do with it? You've proved that a lot of your business is capital light, even the annuities business is not facing that much strain. The sorts of businesses you're in don't sound as if they've got a lot of major acquisition opportunity, bar CALA, so what are you going to do with it?

And then the third question is perhaps for Jeff; so, you're saying the longevity release in 2018 will be the same as 2017.

Jeff Davies: that's not what I said.

Oliver Steel: Well you can correct that, you've also said you're going to spread it over several years, so does that imply that 2019, 2020 are also going to be in the same area?

Nigel Wilson I'll get the first two; Jeff left lots of breadcrumbs for people to follow there, and it was interesting to watch people's faces as they were trying to figure out exactly what he was saying, which he believed in rehearsals was totally clear and fully understandable. But he was getting points of correction from Mark Zinkula, so he's straight on actuarial issues, which is the first time in all that training he's had to go through for several years where he's beginning to show a benefit.

On the cash point, indeed you're right; the £650 million of cash that we received from the sale of mature savings isn't included in the £ 3.4 billion, we received that on the 2nd January. And, as Jeff mentioned, that will result in over £400 million of profit being credited to the P&L in 2019. There was some other cash we received, which was part of the transfer, and that's in one of the footnotes which Jeff might highlight, where that goes to.

On the whole issue of capital and what we're going to do with it, that's why I've got a great, outstanding management team who are going to inundate me with brilliant ideas in the next few years. But you're right at the moment, that we've created a very capital-light model which is generating about half a billion of extra cash per year that we're not actually using in the business, hence the cash balance keeps going up and up and up, and with the disposals goes up even further.

But because we've got a 20-odd per cent return on equity, we have business models where we can deploy the capital truly efficiently. We have a huge amount of white space to expand into, and I alluded to a few of those areas; the roll-out of Future World as a global brand is a key priority, and one that Mark and I are massively enthused about on a personal level.

We have a series of bolt-on acquisitions that we're thinking of making; Mark's been thinking of making one in America for a few years, and he's still thinking of it in 2018. I hope this year he actually gets on and does one of them, because we need a greater direct investment capability in the United States. We've still got further opportunities in Cheryl's business, and in Chris' business, so we're not short of opportunities to deploy the capital.

But we'll be very patient. We'll be very patient, and very measured was the word that Jeff used. And yes, the Solvency II ratio is pretty close to 200 per cent, but we like having a particularly strong balance sheet. We've never had targets for our Solvency II ratio. Now, Jeff, can you answer that third, tricky question?

Jeff Davies I thought it was all clear from the presentation, as Nigel said. Yes, so the longevity, we will look at CMI 16, we're waiting for our 2017 data to be fully developed, and as you note, we use an adjusted version of those tables; it was adjusted to CMI 15, so what I talked about in the presentation, if you just mechanically plugged in CMI 16, you get an answer very similar to the total release that we had this year.

But of course, we're not in a position today to say we will just mechanically plug it in, because we smooth our data to make sure there aren't blips in it. We look at our own portfolio, we look at our socio-economic group against the underlying data, so that's the reason for the caveats around it. It's not as simple as saying we'll just move to that table; there's a lot of work to be done for that, and understanding what's driving it, and continuing to invest in understanding what's driving those.

And then, looking forward; yes, we still talk about the several years, only last week there was CMI 17 released, and that showed the same sort of similar numbers. Again, you're talking small numbers, whether you saw the 0.2 change in life expectancy, but that would again translate into the same sort of releases if you continue to see it. So we need to see what comes out of our data, and we will continue to keep addressing it, but we see the trends and we believe there is a medium-to-long-term slow-down in mortality improvement in the short-term.

Nigel Wilson Two extra points there; so, both of our senior audit partners smiling that you gave the correct answer to the question on that, which should keep them both happy. I think the other point is I noticed one or two of the notes that came out this morning said the mortality release is a one-off, I think Jeff's trying to say it's not one-off, it's for multiple years. We're moving forward in a very measured way in terms of recognising what's happening to longevity for the business.

Andy thought he was getting the mike there; that's what you get for being the broker.

Gordon Aitken Thanks, Gordon Aitken from RBC; first on mortality, so you have moved to an adjusted version of the tables, because I know your book is different. Just wondering how it is different, and what actually has been your experience of mortality swings of your annuitants versus the population? Your book will definitely be wealthier than the population, you talked a bit about this; there's a bit of debate in the Institute of Actuaries about how that wealthier segment is moving, so I wonder if you're holding some prudence back here?

And I suppose the second question is on retail annuities in the open market; can you talk a bit about that as a proportion of the total annuity market? It was broadly 45 per cent a year ago, I'm wondering what it is now, and how fast you think the open market will grow?

Nigel Wilson Yes, I'm going to let Chris answer the second question, then Jeff's going to have yet another go at answering the first question. Might get it right for you, Andy.

Jeff Davies You're right in that we have a slightly higher average socio-economic group within ours, and there is more uncertainty about how wealth is impacting future improvement of elements. We just released a paper along with the panel that we sponsor around what we've seen in the past, but there is that question of do you get faster improvements if you have more wealth, because you can immerse in it, or have you already had all your improvements, and therefore you may be slower going forward?

And so that does give us that little bit of extra prudence that we factor in. But in terms of underlying experience, there is nothing substantially different about what we have seen to date than what is coming through in the population data and pensioner data etc.

Nigel Wilson Chris.

Chris Knight Thanks. Yes, we see the open market continuing to grow, in fact the whole market grew modestly in 2017, up again over the last two years. And with 700,000 people coming to retirement every year going forward with more DC money, rather than DB income, then we see that potential for growth. It's up for us to make that market. I think the implementation of PS1712 is also going to have an impact; that happened last week, so we'll have to see what that does. But that essentially means that when anybody gets their annuity quote going forward, they will be presented with the best price in the market as well as the immediate price as well, so, we see that as being net positive for us over the long run.

Nigel Wilson One of the interesting unintended consequences of George Osborne's pension freedoms, we're going to see a lot more innovation in pension solutions being offered by providers like ourselves. It was in fact creative destruction at work, and one industry reduced in size massively, and lots of other new industries are emerging around it, and we're pretty much trying to be market leaders in all those other areas. And so far, DC has been a huge success, Lifetime Mortgage and Later Living are also doing incredibly well. Andy.

Andy Sinclair Thanks, it's Andy Sinclair from B of A Merrill Lynch. Three questions from me, please. Firstly, on LGIM; just wondered if you could give us a bit of thoughts on the pipeline of business coming into 2018, and also, what you think of for the longer-term cost-income ratio for that business? Secondly, staying on LGIM; your recent ETF investment Canvas, just wondering, do you feel that gives you everything you need to compete in the ETF space, and how material can ETFs be for LGIM? And thirdly, on the dividend; you've pointed towards EPS growth of ten per cent, guided towards dividend growth of seven per cent, how do you feel about the divergence of these, and increasing coverage over time? Thanks.

Nigel Wilson Mark, you've got two questions to answer. I think this is the first time you've had two questions back-to-back.

Mark Zinkula Thank you. So, with regards to the pipeline, I think we are expecting to see a continuation of what we had over the past two to three years, which is continued positive net in flows pretty much across the board. You saw this past year, we've seen an increase in flows in every region, increase inflows in DC and Retail, down slightly in DB, but again, still positive, and that we still expect to have continued single-digit profit growth for the foreseeable future in the DB market, while the other markets, obviously, where the growth potential is higher.

We do have one, which we announced last year, but we do have one significant outflow the first part of this year, which is the Access local authority pension pool, which will be six million of outflow. Again, there will still be a lot of lumpiness in the DB part of the business, but, again, the underlying trends are still very favourable for our business model, very broadly.

In regard to the Canvas acquisition; so I think the timing is certainly right for us as we're expanding our Retail business. As pointed out earlier, we're doing very well in the UK retail market now; we're now expanding into Europe, and ETFs are becoming increasingly popular in Europe, for a variety of reasons which I'll go into if you're interested in more detail. I think we have the right partner, it's a great leadership team, and actually, since we announced the acquisition in November, assets are already up 25 per cent from the announcement date, and we'll continue to launch funds that, with the expected core funds, the thematic funds, and ESG-related funds, that we expected from our brand.

Nigel Wilson Perfect, thank you, Mark. Jeff, do you want to…?

Jeff Davies Yes. The short answer is similar to the earlier one, around we'll continue to invest. It's not a conscious decision to improve coverage ratios or anything else; we think it's a sensible number, given where we stand, and we continue to review the position. The Board will continue to review the position across a range of metrics. So, there was nothing magic about either of those, we genuinely believe that's our ambition around growth and we think that's a sensible place to set the dividend at this stage.

Ravi Tanna Thanks, it's Ravi Tanna from Goldman Sachs; three questions please. The first one was just going back to the cash that was asked about earlier, the 3.4 billion; I was wondering if you could give us any sense of how much of that's encumbered versus what's freely available? And also, if you could perhaps give us a sense of where that's sat, whether it's in LGF, or elsewhere in the Group?

The second one was just on the annuity business; obviously very strong new business surplus, and you've referenced the contribution from direct investments and Lifetime Mortgages. There was a speech from the PRA last week referencing their scrutiny around use of matching adjustment internally rated assets, and you've obviously talked about there's scope to take that further; I was just wondering if you could tell us a bit more about your risk appetite in that context, please?

And then the third one was on LGC; obviously, with the decision to sell out of investments and crystallise cash, there's a trade-off with profits to a certain extent, I know some is being re-invested and recycled, but could you give us a sense of that trade-off going forward, please?

Nigel Wilson Okay, on the cash; the cash at 3.4 was the cash that was largely held in LGC, as you will see in the slide; it isn't actually the total cash across the Group, which we didn't give. There was £650 million came in in January in one tranche, and £170 million in another tranche, so we're very long cash. I don't think we've ever given out the numbers as to what's encumbered and not encumbered, given the model. Maybe, Simon, do you want to just talk a little bit about risk appetite in general, and in the Lifetime Mortgages specifically. Simon's our CRO, and then Kerrigan, can you answer the LGC question?

Simon So, the same as we presented before about all of our direct investments; the primary aim is to make sure that they are a good match to our liabilities, and make sure that all the risks underneath them are properly assessed. The matching adjustment process, which was referred to in the question, and having to get approval from the PRA to any asset that goes into that portfolio really ups the game in terms of making sure that there's really rigorous assessment of the risks, that the cash flows are as fixed as possible so that they are a good match for liabilities.

Lifetime Mortgages, we have to put into a structure to do that, but again that's been rigorously assessed with the PRA, and although there is a continuing dialogue about that we are very comfortable with the way we're currently reserving for and capitalising against the risks for that product. So, certainly there is a limit to how much, ultimately, we can have in direct investments backing annuities, but we're a long way away from that at the moment because of the liquid nature of those liabilities. So I think it's about 17 per cent to the portfolio currently, we've got plenty more scope to increase that without encumbering any illiquidity issues.

Kerrigan Procter Just on the re-investment and recycling of capital within LGC; we have a range of assets within LGC, on the direct investment side, we have yielding assets, development assets, operational assets, and then a start-up area. And, of course, some of those assets come to the end of their useful life with LGC and it makes sense to sell them on, things like part of our office developments in Cardiff urban regeneration, we sold those on. Parts of Bracknell, moved on. And of course we've got really exciting re-investment opportunities, so things like some of the land we bought for our Communities business, where we're building out 3000 houses

The really exciting opportunity is Later Living, where we put £100 million in in 2017, so the net investment was positive. We'd expect to issue some guidance on the future, we expect to put more of that into some of those really exciting opportunities in Later Living, for example. Some of the existing urban regeneration plans could be developed out, and we're working with Further Cities, really exciting plans on clean energy, where we've only just started, and we've got about £100 million in a range of Fintech, PropTech, and Healthtech companies; that's incredibly exciting, we can curate and develop further. So, it's going to be net positive, obviously, in a whole range of really exciting areas.

Nigel Wilson Yes, I think we took a very measured approach here as well, is that yes, we wanted to do a proof of concept because we know what a cynical group of people we have in the room with us today. So, build it and sell it is part of it, and it was great to see, in Cardiff, that there were two European investment firms who bought the assets, and a Canadian firm who bought it in Bracknell. I'd love to say that was in the plan, but it wasn't in the plan, that actually these would have wide international institutional appeal, which is something we found to be unexpected, but actually beneficial to us as a company.

Colm. Colm Kelly, UBS. Thank you for taking my questions. Firstly, it's on the margins; as mentioned earlier, the annuity margins and the new business margins are improving materially through the direct investment strategy, I suppose how do you see that trajectory in terms of margin expansion going forward? Is there more to go there? I know Kerrigan previously mentioned there was a bit of a ceiling in terms of how much Lifetime Mortgages could be used within the asset portfolio, given the need to maintain matching, so maybe just colour on that. And also, just why the Solvency II new business margin has come down a little bit since the half-year.

Secondly, on LGIM, again, performing very well on flows, on earnings, also, the cash remittances are up, I think for the first time since 2014, with a pay-out of 76 per cent, so just thinking about that progression and the pay-out from here, given it had come down a little bit prior to this year. Are we going to see continued growth in that cash remittance number, or should we expect a little bit more held back for maybe re-investment or acquisitions, as management alluded to earlier?

And then, finally, on the subsidiary cash remittance; you provided enhanced disclosure on that, so thank you for that. I'm assuming the sale of Cofunds and the proceeds have not been remitted from entities and so maybe is that flagged for re-investment?

And then, finally, there's the other subsidiary remittances of £120 million, so I was just wondering if you could provide a little bit more detail on what is driving that? I think last year the sale of Suffolk Life contributed to that number, and just looking at some of the subsidiaries underpinning it, I don't think they have paid dividends largely in the past, bar L&G Re, so just maybe colour on where exactly it's driven from, and can we expect continued growth in that number going forward? Thank you.

Nigel Wilson Okay, while Jeff's thinking of a couple of the answers here, I'll give a bit of waffle to give him a bit of time. On how we think about the portfolio, the thing that we're trying to flag is that we have over 20 per cent in sovereigns and moving from sovereigns to A-rated direct investments or Lifetime Mortgages is a phenomenal trade for us, and hugely value-creative, and we haven't really started on that.

So, there's a lot of back-book optimisation that, if you want to talk about Laura and Chris about afterwards, very specifically, on the actions we've set on the size of the prize in that given area. But I don't know whether you want to add anything to that, or take that very complicated last question, or whether you want to take that one offline as to what the remittances are going to be, the mix of remittances.

Jeff Davies I was going to say, £120 million remittances, it's probably best if we chat with Garvan later on. But some of that is tied in, and some of them are smaller entities, just paying small amounts out. Obviously the vast majority of our remittances come from LGIM and LGAS etc. unless we're seeing good progress, good precedent around release of a longevity release, and then the dividend paying on top of the underlying, and as I said, we're trying to give more disclosure, the £1.6 billion paid out and what are we moving to Group, and where is that sitting? So that was the main thing around that.

Jeff Davies Yes, that's a small number; start of 17, we would have dealt with that as normal course of dividends as it was paid through, and it's pretty clear in the dividend strategy around what we pay through LGAS etc. And just on the annuity and new business margin etc. it was sort of following on from the previous question as well; as Simon says, we're 17 per cent, four per cent Lifetime Mortgages of the total book. As an enforced portfolio, and overall, we believe there's plenty of headroom, we could easily go 30. Whether 40 is the right answer but certainly there's headroom there which is a number of years of adding to that book.

And Lifetime Mortgages grows, we grow new business, we grow the total book, we can allocate this DI that we warehouse either to the in force, or to new business. We'll be disciplined in that, and because we have that optionality with the in force, we can maintain the pricing discipline. So, we're very focused on the right new business, added value, the right returns on economic capital, and knowing we can apply it to the in force if we need to.

Questioners Is this on the LGIM pay-out?

Nigel Wilson I think something I learned last year, some of you pay a huge amount of attention to this whereas, in fact, we usually round it to the nearest 50 million on some of the internal stuff, and then you get bothered whether it's 76, or 72, or 78 per cent; we rarely do that, but we tried to demonstrate this year that there was a huge amount of remittances and, rest assured, there will be a huge amount of remittances again this year because we hadn't realised the sensitivity of some of the analysts to exactly making sure that we don't have trapped cash or trapped capital in the divisions. So, we recognise we didn't succeed last year, in convincing all of you, so Mr Crean in particular can give me a touch on my collar to remind me that, actually, this is part of the equity narrative. We'll come back to you, Greg.

David Bracewell Great. Thanks for the question. It's David Bracewell here, Redburn, two questions. One on the workplace savings; there's going to be an increase to the contribution rate this year, and also in the year after, I'm just wondering how that will affect your business? I don't know what your average contribution level is for your current workplace flow, so it would just be interesting to hear how that might impact the flows there.

And the second question is on the risk margin for the annuity business; there's a good chance the PRA are going to maybe change the rules there, allow you to have some flexibility; I was just wondering, if they do relax the rules there, what you might do in terms of strategy? Would you reduce the reinsurance that you purchase? Or actually, have you found that the reinsurance is so cheap you might keep that going forwards? Thanks.

Nigel Wilson They're both very good questions, for all sorts of odd reasons which we'll go into afterwards, but Mark, why don't you explain why Emma and the team are doing such a fantastic job in the DC space?

Mark Zinkula So, in the workplace business, the contribution rates are scheduled to go up; many of our customers are already at an eight per cent contribution or thereabouts, so we would expect there to be somewhat of an uptick, and we don't expect persistency to go down. The concern is when the contribution rates go up, obviously, that there might be some lapses. So, on balance, net net, it's quite positive for our business overall.

Jeff Davies Being an actuary, I love the answer to the next one; it depends. But it does depend, if there's a movement it will come down to what is the cost of reinsurance versus how much is the risk margin being reduced, and the cost of capital trade-off; we've always said that, and it entirely depends how much any risk margin reduction would be, and we will then review. The reinsurance remains very good value for both parties, and we have a good supplier. We have the 14, 15 on a panel that we can get reinsurance from, so we'll maintain to look at that, the operating model, obviously with a focus as well on new business strain, and managing that on a Solvency II basis, ensuring we would continue to be capital-efficient.

Greg Paterson Greg Paterson, KBW, morning. Three questions, and they're numbers; I was surprised at the jump in annuity margin, I'm talking about on your new business release basis, you reinsured 80 per cent of the longevity on the new business in the first half, what percentage did you reinsure in the second half? I'm trying to understand the change.

The second point is in terms of direct investments; what percentage were allocated in the first half into new business as opposed to the second half? And then, just finally, can you give us some guidance on where you see the sustainable tax rates going forward at the operating level post the US changes?

Nigel Wilson A little bit on the first one, just by way of background, I think people all seem to forget, the individual annuity business, we don't reinsure at all. The US annuity business, we don't reinsure at all. All the back-book transactions, we don't reinsure at all, and it's only the UK PRT business, and so it's hard to do linear mathematics when there's lot of changes in the mix. And it's really, answering the preceding question, it's the ratio that we have in the UK PRT business, which may well change going forward, depending on what percentage Sam does.

Then, if any of you want to be really technical about this, Tim Stedman wrote an incomprehensible answer to Jeff and I last night, which was "depends", and you can do the "depends" sensitivity with Tim afterwards. Do you want to answer?

Jeff Davies Yes, sure; in terms of first-half to second-half percentage, very similar. The model element didn't change at 80, 85 per cent reinsured on the UK PRT. We look at each case on an individual basis; it depends how much deferred and in-payment is in a transaction, and what the pricing is, especially on deferred reinsurance where it's available. So, some of that drives it, but there isn't any conscious decision that was made between first-half second-half on that.

In terms of percentage DI M, we haven't been explicit on how much we're allocating to new business versus in force. Some of the useful metrics is we carried over more DI than we had the previous year, so we could have allocated a lot more if we wanted to make the numbers look better, and we effectively warehoused some of that.

I think the other thing that has improved the margin significantly is obviously a greater amount of Lifetime Mortgages; if you're writing deferreds and you've got Lifetime Mortgages, that is a reasonable pick-up on yield compared to any other assets we'd be sourcing at the very long tail, big impact, long duration, higher-yield pick-up, so that has an impact on that.

Jeff Davies No, no particular change. On tax rate, yes, the simple answer is at a Group level, it's materially neutral on an ongoing basis. It was very much a one-off. There isn't much more to add to that, to be honest, given how big it is, compared to the rest of the Group.

Nigel Wilson Laura, do you want to pick up the bits that Jeff missed out, on how warehousing works, which I think a lot of people haven't fully covered, and what the opportunities are in the DI space moving forward?

Laura Mason I think on Jeff's slide, he was very clear about the relative proportion of direct investment and Lifetime Mortgages in our portfolio growing over the year as the size of our book grew. The diversity point is a really key point; for us, direct investments is now almost a flow business, Lifetime Mortgages have been highlighted, the other one to highlight is the LGIM's Real Assets Private Placement business, both in the UK and US, as well as some of the other sources that we're working on with LGIM Real Assets. And, really importantly, the opportunities we're unlocking through LGC.

So, we've talked about Cardiff; Newcastle is another one. We did a really successful deal in Leeds, Headingly, on the back of work we've done with LGC in Thorpe Park. And looking forward to working with Kerrigan, really, with LGC to unlock further opportunities in the sectors we've chosen.

Nigel Wilson We don't think anybody else has this sort of LGIM, LGC, LGR capability, and because we created huge amounts of optionality over the last four or five years in all these towns and cities across Britain, we will reap the benefits of that in future years.

And Chris and the team are innovating hugely in the Lifetime Mortgage market, which is going to increase the flows of that business. And, as Simon mentioned, we're well below our risk appetite at the moment. John, and then we'll come back to this side.

John Hocking, Morgan Stanley. I've got three questions on LGIM, please. Coming back to the ETF point, I think the conventional wisdom is that unless you're a top five player in ETFs, you don't really make any money, and this is a very crowded space, but I guess, on the flipside, you guys are running at four, five bps expenses, so I just wondered whether we should think about ETFs differently for you, given your expense base? First question.

And then, secondly, on the factor-based investing; is this a full-on quant offer, and what capabilities do you have there? What capabilities do you need to build? And then, finally, you've got three strategies there that are pretty low-cost, first the funds; you've got the classic index business, a passive business, you're going to have the ETF platform, and you're going to have quant; is there an issue here with crowding in terms of go to market offer? You've been so well-known in that sort of index space; how do you pitch to the institutional retail clients when you've got three things which ostensibly do something very similar?

Nigel Wilson Mark's thinking of answering the first three. I think the key thing is we have such huge white space to go into, Mark and I have done a few trips to America, to the Middle-East, and to the Far-East, and what struck us is how well the brand resonates with all sorts of customers around there, and the values and behaviours of the firm are really highly-regarded. Other colleagues have gone there and made it easy for us, as I say, when we went down, but the reception we got has been absolutely outstanding, and now it's putting people on the ground.

And, as you say, we have much more equity narrative, or narrative around the products and solutions that we have, we're getting demand pull. Australia is somewhere we haven't even visited, but we're winning mandates. Korea, Taiwan, Japan, they're all areas where we're just beginning to put the infrastructure in, so we've had demand pull ahead of the infrastructure. Mark, you might want to answer the three questions.

Mark Zinkula And they're related questions, they're very good questions. Conceptually, thematically, what's happening is the index market, the passive market, is still evolving, and from a product vehicle perspective as well as product design perspective, and so we still have a lot of demand in the core index space, but the markets have all been towards factor-based investing. So investing in different kinds of indices to meet client needs, which we define as factor based and some people call it smart beta.

More thematically into the ESG space you talk about the Future World Fund and so forth and there's a blurring of the lines of what's technically index or passive and what's a bit more than that, but this is the direction of travel and we want to be, we are I think right now but it's early days, a market leader and developing products that are going to meet evolving investor demand.

As part of this value proposition is just the strength of our corporate governance team, just the importance that's being placed especially from institutional investors but over time by the millennial crowd and wealth managers and so forth that we are proper stewards and doing our part as one of the largest asset managers to hold companies accountable for a variety of ESG topics, and some are more higher priority than others for various clients.

In regards to the ETF space, understand the conventional wisdom. Keep in mind this is still very, very early days to the ETF market here. Vanguard was a late entrant in the US back when the ETF market was evolving there and we have a very strong index brand, a very strong passive brand. Yes, we have the scale but we also have the brand. We're known to be in the space.

ETFs are primarily a vehicle for index strategies, broadly speaking, so we do believe that we can enter the market not starting as a top five provider but grow rapidly over the next several years. Again, it is of the strength of our scale, our operating model and our brand and it's very early days in this market outside of US, frankly, of everywhere else in the world. I think I covered all the questions.

Jeff Davies Okay, we're going to go here, then go over to Andrew. Okay, Barry.

Barry Good morning, it's Barry Cornes, Panmure Gordon. I've got a couple of questions. First of all, in terms of the lifetime mortgage market I wondered if you could just give us a view in terms of the outlook and also maybe comment on any potential regulatory concerns over polices which were cancelled relatively early? The second question I had was in respect of the credit default reserve which I presume has got no drawdown during the year and just wonder whether or not there's any chance of a reserve release there. Thank you.

Jeff Davies You asked that question five years ago, Barry. I might just give you the same answer that we gave five years ago. We've almost never had a drawdown on a default reserve and I know KPMG were studying it very carefully for their year-end as we were switching auditors. We've had Price Waterhouse Coopers I think for a mere 175 years as our auditor. I think the original auditor was in fact Price all those years ago, but it's something we constantly actively love to see whether we have excess approvements built in the credit default reserve. Chris, do you want to talk about lifetime mortgages? Steve's here today and so if anybody's got a lot of detailed questions, then Steve will be around afterwards to answer them.

Chris Knight We're very positive about the lifetime mortgage market going forward, £1.5 trillion of equity owned by people in retirement, but I think it's right for innovation going forward. We absolutely try our best to go way beyond the regulatory compliance minimums to make sure customers are given really good value for money, for example by making all our products flexible so people only borrow what they need to borrow when they set one up and then they can come back to us for future borrowing.

We've not seen, and I think probably because of our approach to compliance and distribution we've not seen a lot of early redemptions at all. That's not even a small issue really for us. For those of you who read The Sun yesterday will have seen they helped us announce our property refurb lifetime mortgage as there's a huge number of people living in houses that are entirely unsuitable for them and we can help them fix their house up and make it liveable and rentable out and so forth.

So whether it's silver separators, divorce being an issue, people living without children – there's a million people over 60 ageing without children, why on earth would you not want to take a lifetime mortgage out of it? What are you waiting for? So I think there's tons of things that we can do

Nigel Wilson I can't remember but you wanted like a 25% conversion rate

Chris Knight As you see, we're quite passionate about growing the market.

Jeff Davies Yes. There was a sentence there, Chris, when you all read The Sun yesterday which I thought was… they didn't all read The Sun yesterday. You can have a copy off us.

Andy Hughes, Macquarie. Thanks very much. The first one is a numbers question on the figure you show on the mortality basis slide where you show the CMI 15 impact at 65 at 23.5. I'm just trying to remember what CMI unadjusted was. I think it was 22.8 and I'm just wondering the margin versus what the population stuff is because basically the point is I'm trying to work out, A, what I'm looking at here in 20.5. Is this your base table bulk annuity rolled up with all your assumptions?

It sounds like you put an extra smoothing factor on top of the base CMI stuff because you talked about smoothing, so if you use a different smoothing adjustment to the CMI which you can do, or are you using the base CMI tables on top of your own population? The second question is a more strategic one. So the 10% EPS growth ambition thing, it's a bit hard for a business that's largely annuities so maybe you could help us out as to how you're going to grow the earnings by 10% per annum. Thanks.

Nigel Wilson That was also a question we were asked about five years ago. I think since then we've gone slightly faster than 10% per annum. Maybe you want to take the first question?

Jeff Davies Yes, the first one is pretty straightforward. There was a big, let us say, illustrative and that's very much what it is, [unclear] IFRS basis. That is one age that we chose to just show how we're changing the underlying. But, yes, as we said earlier, we do apply smoothing. So we applied smoothing to our own data, we applied smoothing to how we bring the CMI tables in, so they're all adjusted and that's just an indication of what the movement has been on an IFRS type basis, so less decimal basis. It's the quantum change that's important, the point one or the point two rather than the absolute number.

Nigel Wilson Yes, I think on the EPS thing, we have a multitude of businesses now in the portfolio. At a personal level I think they're all capable of growing at circa 10% per annum; LGIM, LGR, the two LGR businesses, LGC and GI. I think Bernie's got the most difficult task with the current portfolio to get 10% growth in the retail protection businesses. I think given the great work that Steve and the team did in 2017 in group protection I'd be disappointed if we didn't get 10% growth in the group protection business, so when we come here next year Steve will be standing proudly up telling we did in fact achieve that in 2018. Andrew?

Andrew Crean Morning, it's Andrew Crean, Autonomous. Could I ask three questions? On the protection side, could you just give us the numbers for what the hit on retail protection was and whether you have got over the persistency problem now? Secondly, on equity release mortgages, is there a finite amount of appetite you've got for this? It's the one product which has got a cliff guarantee in it. It's very continental European rather than UK. The PRA I think in June came out with some quite scary statistics for what would happen if housing fell 25-30%. And then thirdly, what's the nature of the annuity pricing competition? You've got the normal BPA market and then you've got this enormous life back book coming in. What's the pricing comparison between the two, and is the tail wagging the dog or the dog wagging the tail?

Nigel Wilson Yes, we'll answer in reverse order. I think both the customer business in the UK where we mentioned the 17 billion, which is the highest, we usually have about ten billion in the hopper. We've got 17 billion in the hopper. It depends how much we could convert in that, but there's an increase in demand and supply in the UK at the moment and certainly that's got to work its way through the marketplace.

The point that I think Jeff and I were trying to get across was we have a lot of pricing discipline around that so we're not going to chase any particular individual transaction because we have an ever-increasing breadth of opportunities that we're being presented in the market. But we certainly have enough risk appetite, capital and direct investment to support a pretty high level of growth in 2018 from the size of the back books that we've got. I don't know whether Chris or Simon want to take the equity release issue. Maybe Simon?

Simon Following up on the answer I gave earlier, so in total the DI we have an appetite threshold for, for lifetime mortgages I'm going to use Jeff's answer about the dependants again because it depends on the mix of that business. So it very much depends on how much your average loan to value is on that portfolio and we are very careful not to be aggressive on loan to value and try and keep that down to as low as possible so that we've got the bandwidth to accept volatility in house prices. So as long as we keep that down, then we'll have more capacity. Also, I think there was mention about a new product that we're launching in that space where effectively the borrower pays the interest, carries up any interest. Well, there effectively you're a lot more…

Jeff Davies No, we haven't announced that. That was in the rehearsal.

Simon We're a lot more protected in that type of product than we are in one where there's a rollup with the interest. So, yes, it'll depend on the mix of businesses as to how much we can, but we are very on top of being very prudent about our assumptions about future house price inflation.

Nigel Wilson So we have some very exciting new products coming and you heard it first today here. We were trying to figure out how to answer this question yesterday and Simon obviously didn't hear the answer. Bernie's going to answer the other question.

Bernie Hickman Yes, so on page 32 we set out our experience and valuation assumptions. It's fair to say we haven't got a problem in persistency. We've actually got customers really happy with us and we've got lower lapses, it's just in later durations. On our level term business and all our whole of life business the premiums stay level, the claims and quite a bit of our reinsurance premiums go up and so it's just a mechanical fact if we get people happy to stay with us, we actually make slightly less money and so that's just a minor impact.

To give you a quantification on that, we're talking a level term long-term persistency rate. We've seen lapse rates of 3.3% going to 3.1% so it's quite a tiny change in lapses and, yes, we hope customers carry on wanting to give us premiums and remaining in force and we'll be doing what we can to keep them happy. So that's what's going on broadly with the lapses and the figures are in the pack.

Jeff Davies The price of success. The last two questions. We'll try and finish by 11.

Andrew Baker: Citi. Just two questions, please. If we see rates increase, presumably good for bulk annuity demand, does it have any impact on the ability to source direct investments? Does it make that harder and does that become an issue for you guys as bulk annuity demand presumably increases? And then secondly, as you're looking to replicate your UK model in the US, specifically in the PRT space, you've seen I think 60% growth there this year, the market itself grew I think 70%. How do your models differ right now, and specifically if you could talk a little bit about infrastructure of direct investment sourcing differences and any plans that you have there going forward?

Jeff Davies Yes, I'll let Laura pick up the second question there. On the first question, just in general and on DI, you're right in the sense that it'll be terrific for us to see interest rates go up. Our balance sheet will look even stronger than it does today, but we don't see any sensitivity around that. I think there is just a huge demand for new assets across the UK and indeed across the US and Europe and both have recognised how crappy their infrastructure is. America gives itself an efficient rating which has now gone from C minus to D plus, so they're in a poor state there, but also in the UK and the expression we've used is a coalition of doers.

There's lots of discussion about leavers and stayers, but outside of London it's all about who wants to do things and we're finding pretty much across the country getting PRS schemes through or housing schemes through or other regeneration projects, roads, etc, relatively straightforward, probably the best environment we've had for 30 years. It's still a C plus, but it's moving towards a B in terms of how much better it's getting here in the UK. Laura, do you want to…?

Yes, really just expanding on some of the points I made earlier that we've organically grown a great platform for sourcing direct investments, probably quite different to our competitors because of the in-house capability we have through LGIM real assets and LGC, and really worth reiterating that I think we've really only just begun to scratch the surface of the opportunity that we have through LGC. We've been very vocal about some of the things we've done in urban regeneration and if you think about the other sectors that we've chosen to invest in, housing and clean energy, both of those have huge potential for long-term financing and creating investments that will fit our annuity liabilities.

Nigel Wilson One of the key messages is this capability and if you think Kerrigan has moved from LGIM to LGR to LGC, Laura has moved from LGR to LGC back to LGR, Chris has pretty much worked in every division right now, and Mark Zink just seems to stay at LGIM all of the time. The last question.

Angel Cansagra Thank you. Angel Cansagra from HSBC. Three questions, please. The first one is, you have given the split of cash remitted to the group from subsidiaries which is welcome disclosure; would you ever think of giving this split of operating capital generation by divisions? Because it's quite strong to see that the operating capital generation, cash remittance comfortably cover the dividend, but to just see what the divisions are contributing would be useful.

The second is on net capital strain; how much net capital strain have you seen from the UK PRT in particular if you give the split from that? And the third one is, I know you can't or you won't actually comment on political outcome, but if a Labour government comes in they're talking about nationalising some of the industries; have you thought of taking any action on your credit portfolio, in particular utilities? Thank you.

Nigel Wilson I'll answer the third question which is one of my specialist topics, but I'll let those really difficult first two questions pass to my colleague, Jeff Davies.

Jeff Davies Do you want to do the first?

Nigel Wilson Yes.

Jeff Davies You're talking the operating cash generation? You mean on a Solvency II basis?

Angel Cansagra The capital generated.

Jeff Davies Yes. The issue with that is of course you've got to allocate the capital so I think it would get a little bit messy, so that would be part of the issue of allocating it both between legal entities and divisions. You start to make so many assumptions that we probably wouldn't get it past the auditors, to be honest, so I think that that's the issue. We will be as transparent as we can around this stuff.

Having said that, we haven't been explicit on the strain but we say this: less than 4% for the PLT business which is predominantly UK and so that gives you an indication, so that gives you a negative. We then write a load of other business, like LGI which creates positives and offsets and brings you back to the less than 100 million number that we quote as a total across the group.

Nigel Wilson Yes. On the whole political situation, I've never met Corbyn and I don't know him well to have an informed judgement on exactly what's going to happen. What we have seen is our experience with the local authorities across the UK and regardless of whether they're Labour or Conservative, whether it's Bath, Bristol, Birmingham, Bracknell, Cardiff, Leeds, Manchester, Newcastle, there's just a whole array of political people and the Labour mayors or the Labour politicians and the Conservatives have been equally enthusiastic about being involved with us.

In respect of utilities, quite a lot of the utilities are actually in America and triple B rated American utilities. Yes, we have some exposure in the water but it's at a more senior level and if you want the exact numbers for that, then I'm sure Laura can provide those to you afterwards. We've looked at the portfolio and we think we've got no portfolio adjustments that we need to make as a group in respect of the ongoing political climate. We're very happy with the diversified nature. It's the switch out of sovereign into something that's the biggest change in the stock, the various floor changes that Chris, Laura and Jeff talked about earlier which we'll see over the next few years.

By way of wrap-up I'd just like to say thank you to everybody for their interest in following Legal & General. Thanks once again to all my colleagues for great results in 2017. However, it's 2018 now and, as my colleagues know well, I've waited a whole day before sending them out memos to what we needed to do for 2018 and beyond and the enthusiastic response to that memo is I congratulate them on that, so thank you. Bye now.