**Nigel Wilson** Thank you, all, for joining this Q and A session this morning. Sorry for the slight delay. We’ve had the highest number of attendees we’ve ever had, so we’re expecting some tough questions. I hope you’ve all had an opportunity to watch our virtual results presentation. If you haven’t and would like to, you can find the link on the webcast.

As I said in the presentation, I’m incredibly proud of the way Legal and General has risen to the operational market challenges presented COVID. I’m actually excited and enthused about our prospects in H2 and beyond. Levelling up, build back better, the planning changes, all play to Legal and General’s narrative and people can see the importance of being an asset manager, but also increasingly an asset creator.

As you’ve seen in the results, we’ve demonstrated that our balance sheet is robust, our operational earnings are resilient and our strategy is highly relevant, probably more relevant than it’s ever been, as both to weather the storm of the health pandemic but also to help build back better and investment-led growth.

I’m here, joined at Coleman Street by my colleagues, and we’re ready and looking forward to answering your questions, as normal, trying not to ask more than three sub questions within your questions, but we’ll give you some grace time. Thank you. And the first question is from Andy Sinclair.

**Andy Sinclair**  Thanks, Nigel. I’ve got three questions, of course. The first one. You’ve held the divided flat today. I can understand the backdrop but it is a divergence from your policy of interims being 30% of the prior year. Can you tell us a little bit more about the rationale for that decision, given that it only saves about £20 million?

Secondly, within LGI, just wondered if you could give us a little bit more colour about the experience variances. How much was COVID specific? How much attributable to each, the UK and the US?

And the third question being on the fixed income portfolio. You’ve got a little bit more BB today than previously, though still only about 2% of the portfolio, and clearly hasn’t had too much of an impact on Solvency, given the capital beat. You gave a bit of colour in the presentation on some of this being assets under construction, but do you have a cap level in mind for what you’d like to keep sub-investment grades below, or does it just depend on the backdrop? That’s my three questions.

**Nigel Wilson**  Thank you, Andy. Those were more thought-provoking questions than we get from you usually. So I’ll answer the first one. I’m going to ask Bernie to answer the second one if Jeff picks up the third one. The dividend was a very good discussion with our board.

And really, there were two options, either 0% or 7%. And we came down on 0%. We thought that was the right thing to do for the right reasons at the right time. It was a very measured response. It also gives us flexibility over the rest of the year because although we’ve been robust and resilient, you can’t tell what’s really going to happen with COVID. The science is very imprecise.

We’re delighted with our results. The point you make is a relevant one. It was not much incremental costs from paying the extra amount of the dividend, a mere £20 million, as you’ve said. We could’ve easily afforded it. But we thought we had to be relevant to the times.

And that’s what we’ve done with the divided decision, recognised that lots of people are going through difficult times. And although we’ve done incredibly well, we think we’re rewarding shareholders fairly by paying the same dividend as last year, and being aware of the wider societal issues that are going on right now, and actually, it is the right thing to do. Bernie?

**Bernie Hickman** Yes, sure. So on the experience variances, yes, we’ve given you the biggest one, obviously, which is claims. We’re here to pay out when tragedy strikes, and that’s exactly what we’re here to do in a pandemic. And so, yes, we’ve seen a number of claims, particularly in the US, but also as some small amounts in our group protection business.

It’s 80 million overall from claims which is the vast majority of the experience variances. It’s about roughly a quarter in the UK, three quarters US, would be where it is. And it’s fair to say we’ve had about half of that already and another half is provisions. Just slightly more than half is provisions. So we’re hopeful that we’ve already provided for claims coming through in the second half.

Clearly, we don’t know how things are going to pan out, so there’s some uncertainty there. But we hope we’ve provided for enough there. Hopefully that’s the colour you’re looking for, Andy.

**Nigel Wilson**  Jeff.

**Jeff Davies**  Yes, sure. And just on the fixed income portfolio, as you say, Andy, we’ve had good experience to date. There are a small number of downgrades to sub-investment grade and there are some very good reasons for some of those in the direct investment portfolio, as I said in the presentation, and we do anticipate, on completion of those, would upgrade again.

We obviously would ultimately have a limit of concentration around this, but we look very much on a case-by-case basis. We will trade when we economically think it makes sense. We’re never a forced seller. And we also are looking in a more holistic sense of, well, what do BBs mean going forward? Is there a different dynamic around that?

And we will weigh that up against the economic or almost non-economic, if you like, impact that it has on the Solvency II ratio versus what is the best thing for us to be doing. We have trimmed slightly a couple of those that have downgraded. We’ve thought that has made sense. And we’ll continue to look at it, as I say, on a case-by-case basis. I think those credit meetings have gone to weekly now from daily. So we constantly look at that and speak to the traders, speak to LGIM around what makes sense to look at those assets.

**Nigel Wilson**  Thank you, Andy. And just in terms of qualifications from Bernie’s answer, we’ve provided about 44 million for H2 in our LGI and we hope that’s a good number. But clearly, given that we’ve already provided that, that won’t influence the level of profits, and therefore, what Bernie was telling you is he’s going to do much better in H2 than he’s done in H1.

And on the rating, obviously we have a lot of assets under construction and they naturally upgrade when the construction is finished. And some of those are starting, achieving practical completion in the next few weeks. So thank you. The next questions, gosh, Andrew Crean. So we’re sticking with the As to start with. Andrew.

**Andrew Crean**  Morning, all. Yes, I have three questions. Firstly, LGIM. At the full year, you dodged the question about whether you were sticking with the 8% to 10% growth rate. I just wonder whether that is your commitment and when that starts, because obviously it’s a little bit behind this year.

Secondly, on LGR, 81 billion portfolio, trying to grow the book by 8 to 10 billion a year in terms of… Not grow the book but grow new business. What kind of growth in cash profits does that allow you to achieve while maintaining a decent Solvency provision? And finally, you’ve talked about a 3.5 billion credit provision under IFRS. How does that provision play into Solvency II? And if you do get defaults in Solvency II, is there a provision sitting there which can be deployed, or will it hit the capital generation?

**Nigel Wilson**  Thanks, Andrew. I don’t think we dodge questions, Andrew. I think that’s a bit harsh to say we dodge questions.

**Andrew Crean**  Well, I think Michelle had a broken leg, didn’t she? Which it was her department.

**Nigel Wilson**  Yes. She’s just about recovered from her broken leg and she’ll be joining us on the call so I’ll pass to her to just answer in a second. I think what we’ve said was that we would update you on a lot of strategic issues at the November capital markets day. And that really hasn’t changed.

Clearly, in the first half of the year, we saw good revenue growth from LGIM and assets went up as well, but costs went up by a higher percentage. And so the rate of growth of profits is a lowish number. But it’s unusual at the moment to get growth in profits in the fund management industry. And again, the robustness and resilience of the business has shone through. Michelle, would you like to add to that?

**Michelle Scrimgeour**  Look, it’s a great question, Andrew. As I said, as Nigel has just said, we’ll definitely come back to this at the capital markets day. I didn’t deliberately break my leg, I promise you. I would just echo what Nigel has said for it is a tough environment for asset managers. We talk about looking to deliver positive net flows as a percentage of opening AUM. That’s something I think that we will continue to talk about. And then clearly, there’s a market return that goes with that. I would love to come back to this at the capital markets day.

**Nigel Wilson**  Thanks. Jeff, can you answer questions two and three?

**Jeff Davies**  Yes, sure. To some extent, the second question would also be a core element of our capital markets day because clearly the growth we achieve on LGR will be a big driver of what’s possible, where we’ve talked before about this sustainable portfolio. And at that level of 8 to 10 billion per annum, the capital base deals with that and the business becomes self-financing, you still get significant growth, as we say, in cash earnings that comes from that.

There’s a lot of surplus thrown off the back for prudence, whether that be on an IFRS basis or Solvency II. And we’d be confident of continuing to deliver growth of the sort of scale that we’ve seen to date. But we’ll be more specific around that, does it alter by plus or minus a few percent as we move to a more steady state on LGR which will then depend what other businesses are doing and how much growth we get in the US.

The 3.5 billion on the credit default reserve, yes, that’s the IFRS basis. Interestingly, there’s almost as much embedded in the best estimates in Solvency II because the fundamental spread is a deduction over 50 basis points, and that’s slightly less, in fact, than we get deducted, or we hold for IFRS to get to the 3.5 billion. So even in your base balance sheet, you have prudence of 3.5 billion or so in a similar way in Solvency II. And then you hold capital on top of that.

There isn’t the same loss absorbency because they’re not seen as margin. But of course, unless you get a jump to default from a higher-rated asset, then this would tend to be an asset that is on its way down, probably being downgraded. We’ll do something about trading it. At the point it would default, we’d naturally be replacing that or probably already have replaced it in the portfolio with a higher-rated asset. So the marginal impact on the Solvency II balance sheet would therefore be reduced. Nigel.

**Nigel Wilson**  Thanks, Jeff. We’re obviously incredibly pleased with the performance of the people within both LGR divisions. Under these really extraordinary times, they’ve produced fantastic sales numbers. I’m just looking at H2 again. Why are we positive about H2? LGR has already completed nearly 700 million of PRT deals and has 2.7 billion in exclusives and a pipeline of 18 billion just in the UK alone.

And people have really risen to the challenges across all of the divisions of L and G and delivered a great outcome for H1. And we’re very positive about H2. The next question, it’s another A. It’s Andrew Baker. And look forward to a B or a C coming up in the future.

**Andrew Baker**  Hi. Hi, Nigel. Thank you, guys, for taking my questions. Three again, keeping with the theme. So the first, I guess just a quick one, just returning to the dividend. Appreciate that it’s flat year-on-year and the answer that you gave there. Can I assume there’s no change to your underlying progressive divided policy?

And then, second, on the COVID-19 impact. So specifically, as I look at LGR had a positive 32 million impact, LGI, the negative 80 that you’ve talked about, 44 million of which was from future claims, should we expect greater positive variance from LGR in H2? I guess what I’m getting at is you’re overweight longevity but it seems like, so far at least, mortality has had a larger impact on your results.

And then the third one is on the bulk annuity pipeline. So you disclosed in June 25 billion. It was 18 today but I think that is UK only. So what is your overall bulk annuity pipeline? Is it materially different to that 25 billion that was announced previously? Thank you.

**Nigel Wilson**  Thank you. On the dividend, the message we’re trying to give is we thought we were being appropriate in these times with 0%. And if you’d listened to the brilliant virtual presentation that Jeff and I have given, we’ve said and reiterated that there’s no change to our progressive dividend policy. On the LGR questions, I’m going to pass you over to Laura Mason who can talk both about the pipeline and the COVID impact and maybe the longer term impact on mortality that we’re seeing.

**Laura Mason**  Yes. Thank you. Thank you, Andrew. On the mortality, we’re continuing to monitor this on a regular, weekly basis in terms of the impact on COVID as we do with many other impacts on mortality. As you may be aware, recently, actually the impacts of mortality have been less than usual, taking the average over the last five years and comparing to mortality in the UK. So we’re just continuing to monitor.

In terms of your question on the pipeline, yes, you’re quite right, the 25 billion is referring to the UK. I think that was Hymans Robertson’s estimate and that’s something that we consider about right, given what we can see in both the wider market pipeline and our LGIM pipeline.

The US market is picking up. It’s been a good market over the first half of the year. Q4 is always a busy time in the US and there are certainly some larger deals coming through, larger than we’d expected actually in the US, which isn’t included in the 25 billion. Thank you. Back to you, Nigel.

**Nigel Wilson**  Yes. In big picture terms, last year was a record year and this year will be probably the second best year ever. We expect to get our normal market share in the UK and gradually keep edging up in a very measured way in the United States. And we’re now moving away, exciting this, moving away from the As. And Jon Hocking is next up to ask a question.

**Jon Hocking**  Thanks, Nigel. Morning, everyone. I’ve got three questions, please. Firstly, on the mortality within LGR, Jeff, on the presentation, mentioned the 200 million guidance for the CMI 18. Is it reasonable to assume that, given there’s been an acceleration in the first half, that the net number is likely to be lower than that? That’s the first question.

Second question on new business strain. It was very low in the first half. Should we assume that normalises somewhat in the second half? And then the final question on LGC, below the line, in a release I think it mentions that the majority of the below-the-line write-down is on the equity portfolio and not on the two retail assets. But could you give some idea of the split there, please? Thank you.

**Nigel Wilson**  Yes. I’m going to ask Jeff first, and then maybe Laura, to back up the answer to the first questions. And then I’ll pass the first one on to Kerrigan who can talk not just about… He can talk in general about the investment markets in the UK for the assets in his portfolio.

**Jeff Davies**  Jon, on the LGR mortality, certainly the 200 million I gave, that was simply for moving to CMI 18 for year-end reserving. That’s irrespective of COVID impacts, etc. within the year. That would be more in the base table. So that’s where we’re looking today. We are, at the same time, looking at the medium to long-term impacts of COVID and whether there will be a change of funding, whether there’ll be changes in what flu does because people wash their hands, they’re more conscious, etc.

And there’s numerous other effects. Who knows where unemployment might go, delays in treatment around cancer? And we will also feed that into our view. But those are independent of first-half experience. You saw the 32 come through in LGR. That was the experience to date around COVID that has already been allowed for. So there is no offset between the two.

New business strain was around 4%. We continue to be very efficient. It’s a slightly longer duration business, a third business, so we work harder to keep the strain down on that. And so we’d be reasonably positive for the second half around new business strain. No reason to think it would be fundamentally different. As ever, it will depend. If there’s one or two lumpy schemes with slightly different features, then that can change. But it’s broadly in line with where we expect it to be, ongoing.

**Nigel Wilson**  I think what Jeff said is it’s 4% for the H2 as well. And thank you, Jon, for your questions. We’ll now move on to…

**Laura Mason**  Kerrigan.

**Nigel Wilson**  Oh, sorry, Kerrigan. Gosh.

**Kerrigan Procter**  I’ll first make a comment on the below-the-line LGC comments. As you quite rightly pointed out, the majority of the impact is public market equities. Then we mentioned a couple of our retail assets. And then there’s some noise there. Probably, I’d describe that as noise in terms of some other assets there. But those are the main two themes.

To be helpful, just trying to do the figures in my head, I think it’s roughly 55% to 60% of that would be the public market equities. And then, in terms of the two retail assets, so we’re talking about Bracknell, the Lexicon and The Springs, at least Thorpe Park really, are the ones that have… The independent valuations came in lower for those. Again, as we’d expect them, obviously in context.

We have a just over 3 billion direct investment portfolio. Less than 10% of that is in these two retail assets. Yes, they are more experience and destination focused, modern retail, but they’ve had, as we all know, a very short, sharp impact that’s exacerbated the ongoing trend in retail that we’re seeing. So we’ve taken a sensible valuation on those, we think.

**Nigel Wilson**  Thank you, Kerrigan.

**Jon Hocking**  Thank you.

**Nigel Wilson**  We’ll now move on to Oliver.

**Oliver Steel**  Good morning. I knew having a name at the end of the alphabet never helped. So three questions. First of all, the capital requirements have pushed up by 1.2 billion in the first half. Okay, obvious reasons behind that. But I’m just wondering what can you envisage from a market perspective, or indeed any other perspective, that brings that capital requirement down anytime soon. And I guess I’m looking for a breakdown of how much of that was caused by rating downgrades and so on.

Second question is the flows within LGIM appeared to drop away quite sharply in June, from 11.3 billion at the end of May to 6.2 billion. Is that the US business that you’re talking about? And if so, what’s the outlook for that particular segment? And then third question is a bit of a simple question. But, Nigel, you talk about a similar second half performance in terms of operating profit. Are you talking here of the underlying 1.075 million in the second half as being the aim?

**Nigel Wilson**  Jeff takes the first question. I’ll take the second one and the third.

**Jeff Davies**  Sure, yes. There’s two different things. I think there, you’re talking obviously the SCR increase and what does that do on coverage ratio. We’re very happy with the 173. There’s different things we can do to improve the coverage ratio versus SCR falling. Clearly, a big impact in that SCR growth is the fall in interest rates. And everyone will have their view on where the yield curve is going. But we won’t be relying on it increasing anytime soon and we’ll be well set up, by the way.

Those of you that have got to our sensitivities will see that we’re now slightly less sensitive to rates, which is helpful. Obviously the recovery in equity markets and the other LGC investments that Kerrigan talked about would increase certain funds, increase the ratio in particular spreads as well moving. So some of that impact will also have been the dispersion that I talked about in my presentation where, if we see those BB assets, in particular, coming back in over time, that again flows through.

There hasn’t really been a material impact from any credit downgrade migration, etc. That hasn’t been an impact. It’s really those movements, as I talked about. We continue to have management actions available. Obviously the longevity releases would increase our Solvency position. So very comfortable where we are and, ongoing, being able to use capital to write new business versus managing the overall position.

**Nigel Wilson**  Thanks, Jeff. On LGIM’s assets, we had one very large outflow from one specific client of about 6 billion. They’re a very large client of ours and they simply took some of the assets in-house. We’d been discussing it with them for a very long period of time to make sure the transition worked well. And it was a pretty [unclear] mandate.

The second part of your question, I think, is a fair one, that in the US, we had net outflows, which we’ve had an amazing track record for a number of years. And again, that was just really because of various trigger points in certain mandates where they were switching their assets out of our business and into others because of the trigger points in the mandates. It wasn’t part of natural and long-term outflow. And we’re very pleased, at a macro level, that we had 6 billion of inflows in the first half of the year.

In terms of similar, in the first half, I would say we had a similar level of profit to last year’s first half. We were down 2% but I think that’s fair, to call that similar. In the second half of the year, I think we’ve guided to the fact that we expect LGI to do better. I think Kerrigan has just articulated why LGC should do a little bit better.

And we expect the other three divisions to continue on the course that they’ve been on in the first half of the year. And therefore, that’s how we think of similar in that context. So, thank you. We’re now going to move back onto the As, having briefly disappeared from the As. Is Ashik, can you come forward next with your question, or questions?

**Ashik Musaddi**  Yes, thank you, Nigel, and good morning, everyone. So just a couple of questions. First of all, can we get some clarity on your debt leverage capacity? You have raised about £1 billion of debt this year. How much more debt can you issue, be it to capture the growth or be it to absorb macro shock? So that would be the first one.

The second one is just going back to Oliver’s question about operating profit. Clearly, you reported only 2% drop but then there was a big, around 200 million, 230 million of positive one-off in operating profit from assumption changes and some non-cash items.

So how should we think about that number? How much of that number should be recurring in future? How much should not be? Because there is a material difference. 585, sorry, 720 is your reported operating profit in annuities, but then 200, 220 could be, say, one-off, non-cash items and model changes. So just trying to get a better sense of how much we should start taking in on an ongoing basis.

And third would be, again, going back on dividend. I’m sure [unclear] earlier as well. But how should we think about the full year dividend? It could be a decision that I’m pretty sure you’ll make at the end of the year. But any thoughts on full year dividends at the moment? Thank you.

**Nigel Wilson**  The first two questions and I’ll take the third question.

**Jeff Davies**  Yes. Oh, excuse me, sorry. Yes. On, yes, debt leverage, certainly one of the positives, if you like, that have come out of the market volatility is a lot greater interaction with rating agencies. We’ve been talking to them a lot to help them understand our balance sheet and the movements. Clearly, we’re talking around the leverage ratios. Generally, the RT1 was positive for Moody and Fitch, and also, it was a good conversation with S and P. We’ve looked at those.

We continue to deliver and grow our balance sheet, which gives us the headroom. We potentially have expensive debt next year that we will consider, and whether that would be kept on the balance sheet. So at that point, we would certainly have more headroom.

And within RT1, on a pure metrics basis, there is plenty of headroom. So we’re very conscious of the rating agency metrics. Some have improved. Some, we’re getting closer to the AA limit. But we constantly improve that metric as the balance sheet grows and all parties are comfortable on that. So we’re happy we have enough headroom to manage that on an ongoing basis.

On the second one, I don’t quite recognise the number you talk about. Clearly there was a release in LGR. But generally, this is ongoing management of the bases. As Tim likes to say, we have lots of simplifications in our model in that, over time, they become more material. They’re always set up, we hope, on a prudent basis, given their simplification. And we get to these on a list and we slowly update them.

Luckily, on an ongoing basis, they’re positive because that’s the way they’re set up. And so there’s an underlying level of maintenance of your methodology and assumptions that leads to these on an ongoing basis, I would say, as you’ve seen in our results over many years. It’s not that there’s suddenly a dip away from them.

**Nigel Wilson**  Thank you. And the Tim that he was referring to is Tim Stedman. And please call him up with any really, really difficult questions afterwards. On the dividend, we think zero is just the right signal at this time. It’s an appropriate signal, not an inappropriate signal for us to make.

It’s a very measured one. It gives us flexibility around it. It’s meant to demonstrate our long-term commitment to a progressive dividend policy which we’re not changing away from. And we thought zero was the best way of signalling that, given all of the circumstances that exist right now. Okay, thank you. We’re going to move on to another A. Abid, please.

**Abid Hussain**  Oh, hi. Morning. Thanks for taking my questions. I’ve also got three questions. The first one is coming back, actually just following on from a previous question on mortality. I still am not quite clear on the mortality release, the size of the release on the annuity business in LGR versus the negative on LGI, and the quantum seems odd, given the annuity book is much larger.

And so the question really is, is that just a case that you’re being really conservative on the annuity book? And I’m just thinking about that from the ONS. They’re suggesting that deaths so far this year in the UK are about 50% above the past five-year average. So just any additional colour on that would be helpful.

And the second question is on lower interest rates. Could you just share your thoughts on, if we do start to see the interest rates lower from here, I know there’s not much room to go to zero, but potentially got lower or even negative from here, how does that impact the affordability and demand for PRT business?

And then the final question is on superfunds. And I think you’ve said in the past that superfunds are complementary to you. And indeed, I think the legislation that’s come out requires them to offload the business to insurers before they can extract any earnings, any profits. So from that sense, it clearly is complementary.

But I also recall that there were plans that you may be setting up under a similar structure, a similar structure under the Pensions regulation to benefit from the lower capital position there. And I’m just wondering if you can update us on your thoughts there, please.

**Nigel Wilson**  If Jeff just goes through the structure of the leases for LGR and LGI, and then I’m going to ask Laura to comment on the PRT affordability and other questions. But I’m also going to ask Chris to comment on that for his business, as both for the individual annuities, lifetime mortgages. And indeed, if you want to make some passing comments on your digital care business, that will be great to hear.

**Jeff Davies**  Yes. And we can, offline, take people through the dynamics of what leads to this for the deaths that you see. But at a very basic level, of course, don’t forget you might be paying out half a million or a million pounds for a death claim, whereas on an annuity, the reserves that you would be holding would be maybe a multiple of 12, 14 times the actual annuity per annum, and so you wouldn’t necessarily get to the same sort of quantum, even if it was the same lives, if you like.

Clearly, we did see a lot more older deaths in the population, but that’s very much what’s reflected there. We tried to reflect the COVID deaths in the period in what we’ve done for the annuity release. And, as I say, we could explain the dynamics on that and what that leads to.

But this 32 is very clearly the answer here. We don’t believe we’ve been prudent and conservative either way on that. We believe that’s what our data is telling us for the COVID deaths in the period. We have paid out and put IBNR away for the group life business, in particular in the UK and the US mortality business, as Bernie talked about. And then we do believe we’ve been prudent in setting aside 44 million for the second half on the mortality claims, in particular focused on what the uncertainty in the US may lead to.

**Nigel Wilson**  Thanks Jeff. Laura.

**Laura Mason**  Yes, thank you. And on the impact of lower rates, most of the clients in our pipeline have been preparing for buy out or buy in for a long period of time and will have a relatively sophisticated LGR programme in place which means that they’d be relatively immune to rates moves in terms of their de-risking journey. And I think just noting that a lot of our pipeline this year has been for buyouts which tend to be longer duration, and we’ve seen no real change to that pipeline, even due to the recent moves.

I’ll just quickly comment on superfunds, in fact, before handing over to Chris on the rates question for his business. Yes, you’re quite right to point out that the guidance has been helpful to us. And we’ll wait to see how… It is only guidance at the moment.

We continue to work through a number of different solutions within L and G that will be directly competing with those superfunds, our ISS and APP products, which will be directly competing and have the added benefit of being insurance contracts too. So, as you say, it’s definitely complementary in terms of what the guidance has come out with. But we will be continuing to work under the insurance regulations in the short to medium term, that’s for sure. Thanks. Chris.

**Chris Knight**  Thanks, Laura. Yes, we saw quite a brief drop in annuity sales, individual annuity sales earlier in the year but it came back quite quickly. I think, on the one hand, people are having mixed thoughts about whether this is a good time or a bad time to retire. But, in fact, we’ve seen volumes come back quite strongly. And in a way, this has proved our case.

If you’re comparing an annuity with a drawdown product, for most normal people, they’ve now had a lesson in what happens when you’re invested in the equity market and you see your pension funds drop. So I think, in the long run, that will be really supportive for the product. And remember, there’s a secular increase at the moment in numbers of people reaching age 65 each year, which is going to go up from about 200,000 this year to about 900,000 by the end of the decade. So that’s just a good long-term growth driver for us.

Lifetime mortgages was very slow in Q2 because of applications. And that would’ve been felt across the market. And probably, we’ll see that coming through in completions in Q3. But, in fact, we’re also seeing a big bounce back there with the reopening of the housing market, and applications in July were back where they were in February, which is a positive time for us, going forward.

And Nigel mentioned care. And obviously, care is a huge issue for lots of people and our customers. And we’re doing more work digitally, on the website and other channels to help people understand, find and fund the care that they need for themselves and their loved ones.

And we’ve made some good investments in recent years in companies like Care Sourcer and Current Health, who are really coming into their own now in this crisis, and helping both individuals and society to help fix the care conundrum, so to speak. Nigel.

**Nigel Wilson**  Thanks, guys. On individual annuity sales, I think that’s another one that we can put in the bucket, similar and resilient. We would expect sales this year to be similar to last year, given the current trends that Chris and Emma and the team are seeing. We’d now like to hand over to Dom to ask his questions.

**Dominic O'Mahony**  Oh, hello. Can you hear me?

**Nigel Wilson**  Yes, we can hear you.

**Dominic O'Mahony**  Great. Thank you so much…

**Nigel Wilson**  Very loud.

**Dominic O'Mahony**  Oh, right. Well, I’ll whisper. Thank you for taking my questions. A lot of them have been answered already. But I still have three, if that’s all right. Laura, you spoke a bit about the impact of rates, or the lack of impact of rates on demand from your customers. At the same time, lower rates makes it more capital intensive to write bulk annuities. Is that impacting the way that you’re thinking about pricing and capacity?

And I suppose notwithstanding that, I notice that your Solvency II margins have improved really strongly, from 7.8 to 10.6, clearly getting a lot more bang for buck for your capital deployment this period. I assume that’s to do with the fact that these are buyouts and so longer duration. Is that right? And so, should we expect that to normalise?

Just one more question on bulk. So, Nigel, as you indicated, the 675 done in July plus the 2.7 in exclusive, that suggests actually 3.4, already a good line of sight. Is this going to be a normal year then for bulks? Would it be reasonable to expect 8 to 10 billion for the year?

And then, final question. You’ve got an awful lot of cash. You raised a billion of… I mean cash, not capital. You raised a billion of cash through debt. I notice you’ve got, I think, about 1.8 billion more cash on the shareholder account than you did at the end of the year. If you put that to work in LGC and into direct investments, that would clearly be very accretive. I recognise you can’t deploy that all in one go. But does this give you the firepower to accelerate your allocations to direct investments and to grow LGC? Thank you.

**Nigel Wilson**  And thank you for those questions. You sound like me at the management meetings. Why are we not going to do that? So I am going to be very interested in my colleagues’ answers here. Kerrigan can answer the question of why he’s being lazy in deploying the capital and earning better returns for shareholders. And Laura can tell us why we’re going to get a similar performance, year over year, in the PRT business.

**Laura Mason**  Thanks, Dom. I thought you would pick up on the increase in Solvency II new business value. I think the first two bits of your question are quite linked in terms of the rates and the 10%. As well as what Jeff talked about, and you alluded to, yes, we have been seeing longer duration buyouts in the market, which again played well to the… Or is evidence really that these schemes are very well hedged and are able to execute in these types of market environments.

As well as being slightly longer duration, we have been able to work with the markets and invest in assets, particularly in March and April, at very good values in the credit markets which helped both pricing from customers’ perspectives and our metrics. And I think it’s those two combinations that really give you the answer of both your [unclear] and your value.

And just picking up again on the 8 to 10 billion, yes, we’ve talked a little bit about the pipeline already. We think the UK will be about 25 billion. The US, there’s some really large deals coming through in the US and as you know, Dom, we won’t be necessarily playing on those large deals, for those large deals, but it will hopefully give us some room for the slightly smaller deals. We were fifth in terms of total sales in the US in Q1 and expect to be fairly similar in half one. So definitely, the 8 to 10 billion guidance certainly still stands. Over to you, Kerrigan.

**Kerrigan Procter**  Just on the point about cash, just in terms of balance, of course, we remain enthused by our strategy. And I’ll just talk about that in a few minutes. But of course, of course, we’re thoughtful in the current environment.

So just in terms of the strategy, housing in future cities, SME investing, we think those are all the right areas on housing. It’s everything as you recall, everything by ten year, houses to sell, houses to rent, everything by affordability and also by life stage. We think, strategically, that’s a long-term positive. And, of course, we’ll be investing more there. But thoughtful as we go through the second half of the year.

Similarly, future cities, all those themes remain of science and technology focus, real estate, things like data centres and that much-needed urban generation. And, yes, we have continued to invest partly in that, as Nigel’s mentioned on the video in Sheffield over the lockdown period. So we remain enthused by that strategy. Of course, thoughtful again.

And yet again, SME investing, we know there’ll be a huge need for equity and debt in portfolios of SMEs. So again, we think we’re on the right strategy there, but again, thoughtful. So that’s probably the colour that I’d want to give you.

**Dominic O'Mahony**  Yes, thank you.

**Nigel Wilson**  Thanks. It was good of you to highlight the improvement in margin in LGR. But to give Bernie some credit, which we infrequently do on these calls, we saw new business value for his business go up by 19%, year over year, in the first half, and the margin go up from 7.6 to 9.4%, which is really as a result of all the digital initiatives that Bernie and the team have executed absolutely brilliantly well in both the UK and the US. We’ll now pass on to Steven.

**Steven Haywood**  Oh, hi. Thank you for taking the question. I only had one question, actually. It was on your credit migration sensitivity. Now, that’s nearly doubled year to date, from 800 million to 1.5 billion impact, but your credit portfolio hasn’t really doubled in size in the first half of this year. Can you tell me exactly what’s going on and why your credit migration sensitivity has increased so massively despite still only applying 20% downgrade to your portfolio, and your ratings don’t seem to have moved that much over the six months either? Thanks.

**Jeff Davies**  Yes. That’s a reasonably simple one. It’s simply that the spreads are wider on the BB assets in particular. The biggest impact of that is that we assume, this isn’t what we actually do all the time, but what we assume in the model is that, as a BBB is downgraded to BB, that we sell it and rebalance. We do that across the whole portfolio but that’s where you get the most material impact.

Because the starting point of the BB spreads is so much wider than it was at year-end, when you simply do the maths and say, okay, the same amount have downgraded, you’re selling them at a bigger loss, then that flows through in the sensitivity. So it’s just the maths that flows through on that because of your starting point of spreads.

**Steven Haywood**  Thank you.

**Nigel Wilson**  On a third note, I never agreed to this methodology, as you can imagine. But my actuarial colleagues tell me I’m wrong and it’s extraordinarily prudent, given our 20-year track record of what has happened under Simon’s leadership, Kerrigan’s leadership and Laura’s leadership of the business. We’ve had nothing like this as the real outcome. Can we now pass on to Trevor, please? We’ve got time for two more questions, actually. So, Trevor, can you be one of those last two?

**Trevor Moss**  Yes, I can try. I can try, Nigel, if you like. Actually, they were quite straightforward really.

**Nigel Wilson**  You are trying. You’re always trying, Trevor.

**Trevor Moss**  Yes. Well, it’s good to see your banter and enthusiasm has not waned in this period, Nigel. Right, the first question. You referenced in your descriptions earlier on the cross-border, or I call it cross-border, the US/UK PRT deal with market. I wondered if you might want to talk a little bit more about the potential that that may have to do these kind of deals when you’re the only player in town really, as far as I can see, for a US/UK deal.

The second thing really was just relating to LGC. Given the economy will need more investment capital than ever before, I suspect, in the next year or two, I wonder whether there won’t actually be more opportunity for you to direct money towards direct investments within LGC than you’ve already targeted. Because it does seem to me there’s going to be lots of demand for your capital and probably some reasonable returns on offer.

**Nigel Wilson**  Trevor, I absolutely agree with your second question. But I’m going to get Kerrigan to answer it in more detail. And if Laura, could you pick up the first one?

**Laura Mason**  Yes, sure. So thanks for noticing that one, and something that we’re really quite excited about. As you say, Trevor, we’re the only direct PRT writer at the moment that operates both in the UK and US and there are a number of global multinationals who are clients of both LGIM and LGIMA. And we are working on a pipeline at the moment where we’ll be hoping to execute more of these types of transactions simultaneously in the UK and US. So, yes, so something that’s pretty exciting for us.

**Nigel Wilson**  A few years ago where we ended up winning the UK leg and not the US leg, in part because of brand recognition in the United States. But our brand recognition now is way, way higher today in America, thanks to all the good work of our various US teams. Kerrigan.

**Kerrigan Procter**  Great, Trevor, couldn’t agree with you more in terms of the opportunities or the themes of build back better, or green economy with enough clean energy assets. And then, of course, things like affordable housing, or rental more broadly, these are all areas that will need new investment, the talk about shovel-ready projects across the country, to steal some of Nigel’s phrases from a decade ago. These are all things that are reality now and we’re absolutely excited by the opportunities there.

**Nigel Wilson**  Thank you. And…

**Trevor Moss**  Do you think that might imply, Kerrigan, that your… Oh no, sorry, Nigel, carry on.

**Nigel Wilson**  No, go on, Trevor.

**Trevor Moss**  No, I was just thinking whether it implies that your targeted level might be a little bit low. Or maybe that’s something you’re going to address in your CMD in November.

**Nigel Wilson**  Yes, I agree.

**Kerrigan Procter**  Nigel is agreeing with you, Trevor. But…

**Trevor Moss**  Okay, good.

**Kerrigan Procter**  There’s the statement that we gave with the 5 billion, up to 5 billion, 8% to 10%. And of course, we continue to think about that.

**Trevor Moss**  Yes, okay. No, that’s good.

**Nigel Wilson**  Thank you, Trevor…

**Trevor Moss**  Thanks, Nigel.

**Nigel Wilson**  For your continued enthusiasm and energy towards the sector. And thank you to everyone for dialling in for this call, and your questions. It was good to see the variety. It’s the first time we didn’t get three questions off everyone. I think there were a couple of twos and one one. And we really value and appreciate your continued interest and support in Legal and General.

What we’ve tried to demonstrate, and I think what we have demonstrated, is that Legal and General is robust and resilient and its strategy and business model are the most relevant that it’s ever been. And we are optimistic, ambitious and realistic about the future. We look forward to meeting with many of our investors who are on this call in the next few weeks and to updating you all at our capital markets event on 12th November. So be safe, be healthy, both yourselves and your families. And we look forward to seeing some of you physically, in person, as you come to the ghost town which is the city of London. So take care. Bye.