Legal and General Q3 2015 Call Transcript   Wednesday, 04 November 2015

Mark Gregory, CFO of Legal & General: Good morning and welcome to our Q3 2015 IMS call. I'm joined here today by Jackie Noakes, MD Mature Savings. Kerrigan Procter, MD of LGR. Paul Stanworth, MD of L&G Capital. Duncan Finch, MD of Insurance. Mike Bury, MD of Digital Savings and last but certainly not least, sitting right next to me, Mark Zinkula, CEO of LGIM.

Today's strong numbers show we are growing our business stock. LGIM assets and annuity assets are up and because of this we delivered record cash generation at the three-quarter year point. Top line numbers are, operational cash up 11% to £936 million, net cash up 14% to £943 million, LGIM assets under management up 8% to £717 billion and annuity assets also up 8% to £43.1 billion. Savings assets up 2% to £104.9 billion, UK protection premium up 3% to £1,109 million and direct investments up 43% to £6.6 billion.

Turning to our businesses and starting with LGR, Q3 was a quieter quarter for bulks with £92 million of completions meaning £1.5 billion total annuity sales year to date. Our bulk pipeline remains strong. The expansion of our bulk annuity business internationally is a big strategic opportunity for LGR. We entered the US pension risk transfer market in October with a $450 million bulk deal with Philips and are progressing plans to enter the European market in the next few months.

Our new lifetime mortgage business is exceeding our expectations. The application is now running at around £10 million per week from a standing start earlier this year. And we're targeting to write up £200 million by the end of this year. Going forwards we believe more and more people will access the housing equity to help finance their retirement.

LGIM is now ranked the 15th largest global asset manager in the Towers Watson research published this week. External net flows are £21.7 billion, excludes the £13 billion National Grid Pension Scheme mandate win announced in September where we shall receive the assets this month.

LGIM's international expansion continues at a pace and is being led by LGIM America. LGIM's Asia business is also making progress with mandate wins in Korea, Taiwan and we've just entered Japan.

In the UK our retail funds business continues to make significant progress, moving up into the top three of UK net retail fund sales in Q3. Workplace pensions also grew strongly with assets under administration up 30% to £13.1 billion with further significant mandates yet to fund. These newly won schemes will add a further 700,000 people to our existing 1.4 million customers by the end of next year.

LGC's investments are focused on four key areas where we believe limited institutional finance have created attractive investment opportunities. They are housing, urban regeneration, alternative finance and clean energy. Notable investments so far this year in the urban regeneration space include first phases of a £400 million investment in Cardiff and an initial investment of £162 million in Leeds. In total direct investments are up 43% on last year at £6.6 billion and we anticipate adding at least two more urban regeneration deals in the next six months.

Legal and General Insurance increased its UK protection premium by 3% year-on-year to £1,109 million maintaining its position as the largest provider in the retail market.

Our savings business which comprises digital and mature savings increased its assets under administration by 2% year-on-year to £104.9 billion. As you know, we closed our With-Profits fund to new business in January and are identifying cost efficiencies to compensate for the gradually declining asset base.

Cofunds generated net flows of £2.6 billion with total assets under administration up 6% at £73.1 billion. L&G America delivered year-to-date sales of $86 million in line with guidance at the time of our interim results where we said we expect new business volumes to be circa 25% lower for 2015 compared to 2014. L&G America is important to expansion of the group in the US, providing back office support for LGR and the balance sheet for writing further US pension risk transfer business.

I'm pleased to say we're ahead of our group-wide target to deliver operating cost savings of £80 million, reducing costs from £1.25 billion in 2014.

Finally, Solvency II, as you know we've applied to the PRA to use our internal model to calculate our solvency capital requirement, transitionals, matching adjustment and deduction and aggregation for L&G America. Whilst we've not yet received any feedback in respect of the PRA's decisions, we do expect to obtain approval for these applications. We'll report our Solvency II capital position for the first time as part of our full year results in March 2016.

So to quickly sum up, our stock of business and cash are up, our business has momentum and we have further growth opportunities. So now I'll open the call to questions.

Oliver Steel, Deutsche Bank: Morning, Mark, morning everyone. Three questions to start with, it's, sort of, difficult to know where to start actually with your numbers today. But can you talk a bit more as to why the third quarter cash flow appeared to accelerate? I think there's been a rebasing of your assumptions in some of the insurance businesses as well as underlying momentum elsewhere. Why have you rebased those assumptions upwards, so what's going on there? That's question one.

Secondly, on the new business strains, given how little bulk annuity business you wrote in the quarter it seems a surprisingly positive strain figure and I'm wondering if that's been driven by either cost savings or maybe the equity release sales which you're generating.

And then, thirdly, if you're now writing bulk annuity business in the States what does that imply for the US dividend to the holding company?

Mark Gregory: I think probably for the first one, I might pick up all those questions myself and I'll clearly share the questions out beyond that. So in terms of the, kind of, Q3 cash flow progression, Op cash up 11% at the three-quarter year point. In terms of what's going on, I think a series of, kind of, contributing factors there, Oliver, no one thing in isolation. So clearly in terms of the performance of the non-insured businesses clearly within that result we've got LGIM's profits in there, so we bring in LGIM on a post-tax operating profit basis. Clearly LGIM as you can see from the numbers is trading well and clearly that's had some benefit.

The likes of our general insurance business, you know, Q3's been a reasonably benign period for claims so again in terms of we bring GI business again in on an operating profit after tax basis, so again that's had some benefit. And, we have gone back and just revisited, as we do every year just make sure our calculation of expected release from our insurance businesses is as accurate as possible. And again this year we've done that and it has revealed, bits of improvements which were not in the initial assessment, which we have brought into the calculation at Q3.

Again, no one factor per se, Oliver is driving the increase it's just some of the parts and they're all pretty much going in the same direction, hence we've got a reasonable uplift overall but no one thing in isolation.

On the new business surplus and your comment that surprisingly positive given the low volumes, you're quite right clearly volumes weren't massive particularly in the bulk space in Q3. But again in your question you, kind of, hinted that, kind of, actually the main reasons we have seen benefit in the new business surplus is down two main factors. Firstly, as I say we have had a pretty strong rebase of our cost base during the course of 2015. For our in force book that will come through as an experience variance at year end but for new business we do take the benefit of any unit cost benefits, do get factored into the calculation of new business strain or surplus. So to the extent which those cost savings have impacted and benefited new business you are getting that benefit through the new business surplus calculation.

And the other major point again you alluded to it in your question, we do allocate the lifetime mortgage asset volumes to new business in LGR and therefore the extent to which we get enhanced spread by credit governance strength in that space, that additional spread does come through and boost the new business surplus associated with the year to date so it's not just about what's happened in Q3, you know, we allocate that based on year to date new business volumes in annuities. Again, that's been a positive factor there.

To the bulk annuities, it's very early days, as you say we are writing that through the US business. At this stage, you know, no one deal will make a difference in that regard but, you know, clearly in time as we grow the US balance sheet and as that business grows profitably then we would expect that to be a benefit to dividend. Again, I wouldn't expect that to be a short-term benefit, Oliver that's one, as we grow that general account in the US and that's when we get the benefit in due course. It's not going to be a day one benefit in terms of immediate dividend increases from the US business as a result of US bulk annuity transactions.

Oliver Steel: Just to come back on that, would it imply any reduction in the dividend, short-term?

Mark Gregory: I wouldn't read that into it either.

Oliver Steel: Okay thank you.

Andrew Sinclair, Bank of America Merrill Lynch: Morning everyone, a few quick questions as usual. Firstly, you see to have been winning a few workplace benefit schemes recently just wondered if you'd seen any pick up in re-broking of schemes as we approach the switch off of commission in April next year.

Secondly, just wondered if you could give us an update on pensions de-risking pipeline and how activity is varying between the UK, US and Europe.

And, thirdly, I realise it's just a trading update today but just wondered if you could give any comments on the PRA's commentary yesterday which seem relatively positive for Solvency II.

Mark Gregory: Cheers, Andy so I think Zink will pick up the one on workplace and the re-broking activity in the market, if Kerrigan picks up the one on pensions de-risking and I'll come back on your question on Sam Wood's speech yesterday.

Mark Zinkula: No material change, I think, in activity. It's going to be somewhat sporadic but I wouldn't say there's any material change. I'll add a couple of comments first on de-risking before handing over to Kerrigan because obviously there's a continuum. Depending on the asset strategy before, some kind of longevity offloading solution but we are continuing and it depends on, as equity markets rally and/or rates backup, it's been very volatile equity market but obviously to the extent we're in a situation where one or both of those environments exist, we will see incrementally an increase in de-risking activity in the LDI pipeline because it impacts on the status of those who plan to implement de-risking strategies. I'll hand over to Kerrigan to talk about the bulk annuity market.

Kerrigan Procter: I think that's true on both the UK and the US side and I'll touch on Europe at the end. We get early sight of what's going on in the pensions de-risking space through the LDI business in the UK and the US and there's absolutely no let-up in client demand, if anything an acceleration of… a continuous acceleration of clients wanting to de-risk and de-risk all the way through to buy in or buy out. So it's still a very exciting market. Our pipeline, the market pipeline is still strong as you can see from the Q3 figures. Difficult to predict exactly when those land but a strong pipeline and our competitive strength in the UK and the US markets, particularly the UK market currently is substantial.

Just a touch on the US market there really is a strong pipeline in that US market we are quoting on a lot of deals there and that looks like it's going to be strong into next year also. So the US market is, along with the UK market particularly exciting.

Europe, there's definitely some business to be done in Europe, selectively and in the Netherlands in particular. We are very keen to participate in that market. We have the capability, longevity data and the asset management capability and the administration capability to do that and we're hopeful that we can demonstrate that to you soon.

Mark Gregory: Thanks, Kerrigan, just on Sam Wood's speech yesterday, I'm not sure everyone saw it but Sam gave a speech to the ABI yesterday where he picked up some further comments on Solvency II. Again, Andy we did take that as being positive comments. Clearly there was a lot of stuff he chose to say about the way the risk margins going to operate. I think the fact that he's recognised that they probably have created a non-level playing field between Europe and the rest of the world is probably a good thing. I think the fact that that's… and also the fact that I think he recognises that the interest rate sensitivity, the risk margin calculation has made it more volatile than people were expecting.

I think generally probably the risk margin is going to end up being bigger than perhaps the PRA expected when the concept first got constructed. So I think in that sense I think the fact that looking at, kind of, what's happened and how it's playing out in practice I think that's a beneficial thing for ourselves and other people particularly in the annuity market going forwards. One thing I would take exception to in Sam's speech he did at one point reference the fact that he was worried about whether the use of longevity reinsurance would actually reduce rather than enhance policyholder protection.

Again, Sam's obviously not mega close to exactly how these swaps work in practice but I would make the point that these longevity swaps are fully collateralised; they are essentially contracts for difference. We pay a fixed leg and we receive a float leg in return based on the actual longevity experience. But that difference is fully collateralised so I would strongly disagree with his comment, or his inference that maybe in some way longevity reinsurance weakens the policyholder protection. I would strongly refute that's the case.

But that issue aside I think the commentary that Sam came up with yesterday was entirely helpful and we look forward to taking that debate forward but again I'm not expecting any material change before 1 January 2016.

Andrew Sinclair: Very good thank you very much.

Fahad Changazi, Nomura: Hello, good morning, could I just chase up on the comments on the US bulk pipeline? First of all, given they have a different capital regime versus what we'll have here do you see any regulatory arbitrage where their people will looking to undercut and how will you respond to that in the US, firstly?

And the second on the BOA comments again they were talking about non-EU companies participating in the UK market. I think you also mentioned reinsurance as well and I know some of your panel is US reinsurers so again could you please comment on that and how you see that developing?

And the final thing is on LGIM it's doing very strongly and even the index funds have net inflows for nine months. Could you just again remind us of what we should be expecting for the index flows going forward, given that we're going to the de-risking journey in the UK?

Mark Gregory: Ok, thanks Fahad. If you don't mind Kerrigan, picking up those first two questions and then obviously Zink pick up the LGIM index. Even, index flows are up, even, well done mate. Go on Kerrigan.

Kerrigan Procter: So US bulk pipeline, different capital regime clearly that's one of the reasons we're applying for level playing field, deduction and aggregation in the US so that's clearly an interesting market to play in with a different capital regime. Probably that's all there is to say on that point. Clearly linked to your second question in terms of the UK market very clear you've seen the deals that we've done that there's a flow of longevity risk, particularly with the risk margin in mind that Mark was talking about from Europe to North American reinsurers. And we've recognised that, accepted that and actually participating in that so it gets a good result for our clients and boosts our return on capital. So that looks like a sensible thing to participate in and get involved with and just recognise that that's a fact.

You talked a bit about, you mentioned about more UK companies getting involved in the UK markets, I mean, yes some interesting activities there. A real positive that more reinsurers want to get involved on the longevity side of that market so I see that as the positive. It's a healthy market, plenty of client demand, reasonable competition but not too much. So, you know, I feel that is a positive, vibrant market actually.

Mark Zinkula: In relation to LGIM's business we are seeing, as you pop point out, increasing, positive momentum in virtually all parts of the business which is encouraging. It's obviously not going to be a straight line in all these markets but we are… the breadth and the strength of the results is really encouraging. With respect to the index business specifically you asked about, we do expect to continue to see outflows in the UK DB market because we have mostly passive equity assets and so it's a continuation of the trend you've now seen for several years and that will continue. But we are executing better, we've invested heavily in the business in regards to expanding the distribution of index capabilities more broadly. So we're seeing increasing flows in retail; would expect that to continue we're much more competitive in that space now. In defined contribution market, getting a lot of these assets are coming in as part of multi-asset funds but the underlying funds, the majority of those funds are in underlying index funds but packaged as part of multi-asset solutions for the DC market.

And then internationally have entered the US market. This is our first year in the US market and starting to win mandates. We have a few clients now and getting seeding for funds and so we do expect to see an acceleration of growth there. And in Europe and in Asia there's positive momentum as well. As reported in the press the sovereign wealth funds have had, well openly we've had outflows to some funds as well as other managers. So again it's never going to be, you know, positive momentum in all markets at all times but broadly speaking you do hope to expect to, again it's not going to be every quarter, but the trajectory will be positive net flow situation going forward.

One other thing just to mention also, our product offering we've expanded, multi-asset funds and leveraging their index capabilities as building blocks for growing an array of multi-asset funds for the DC and retail market and increasingly DB but also product development alternative data space. So the types of funds that we're offering is expanding and we expect to continue to evolve our product offering, the range of the index funds into the alternate beta space going forward.

Fahad Changazi: As we were for the UK index fund but better stuff helping elsewhere. Ok, thank you.

Greig Paterson, KBW: I'll do the traditional three questions. The first two are on the net capital generation, you mentioned in your opening remarks that one of the key factors there was better results at LGIM. The run rate, I mean, when I modelled it I looked at the run rate to LGIM in the first half of the year I considered the cash flows had started improving in the second quarter, that equity markets are down and, you know, your costs were controlled. All things equal that wouldn't have justified the jump in the run rate that you've seen. What exactly has caused the quarter-on-quarter jump rate in LGIM? That's the first question and LGIM's contribution to OCG.

The second one is on the GI side, did you have any large prior year releases in the third quarter?

And then my third question is when you look at your economic capital model and you strip out one-offs you adjust for the fact that you're actually trying to run a double AA calibration not a triple BBB calibration, it doesn't look like you, even at the current run rate of annuities, you're basically consuming all the capital that's been released off the backbook … What is the capacity to grow bulk or take on a few more large super bulks in the short-term? I will struggle to understand that.

Mark Gregory: Thanks, Greig I'll probably have a go at all three and in fact let Kerrigan add a bit of colour to the last one. In terms of my answer earlier to the question from Oliver, kind of, where the growth and the cash have come from, I wasn't implying that it all come from one area. I was simply saying that there's been a number of positives and actually pretty much all the variances all went in the same direction this time round, hence we've end up with a reasonably meaningful growth in the operational cash growth year-on-year. So I wasn't implying for a second that all the delta you calculated in your spreadsheet, Greig is down to LGIM, or GI. I'm simply saying that it so happened this time round that all our variances went in the same direction, hence we ended up with a reasonable outperformance as a result.

We clearly haven't given a divisional breakdown of cash generation, clearly this is a trading update and we do obviously try and give a bit of colour around cash at Q1 and Q3 but we don't give a divisional breakdown. So I'll save the kind of final profit number on this update for our prelims in March, if you don't mind.

Likewise on GI, nothing untoward there, I hinted in my answer earlier, you know, that we've had a pretty benign Q3. In reality we'd expect, kind of, most of Q2 and Q3 to be pretty benign because that's what the weather does in the summer. But, you know, it's been a pretty quiet third quarter and therefore that has benefited GI but nothing untoward going on in terms of prior year releases, etc, that's not part of that equation.

On the capital consumption point of bulks, clearly we are… we set out clearly at the interims this year, we are, you know, very focused now on a capital lite model for annuities and very aware this is about optimising our return on capital. I wouldn't say it's anything to do with any sort of capital constrain we're simply, as a capital deployer we're making sure we get adequate return for the capital we deploy. And that's about at all times making sure we have the optimum capital model to do that. You shouldn't interpret that as meaning we've got some sort of capital constraint in terms of what we can and can't afford to do. It's simply making sure that when we do deploy capital we get an adequate return for our shareholders for doing so. Kerrigan, do you want to add to that in any way?

Kerrigan Procter: In terms of super bulks there are and there will be super bulk deals out there if the price is right and our return on capital in particular is right then we're still very interested in those deals. So, as Mark was saying I wouldn't read anything into Q3 figures beyond just a quiet quarter.

Greig Paterson: All right, thank you.

John Hocking, Morgan Stanley: Morning everybody, just have a couple of questions on bulks. I just wondered what's your approach was going to be in terms of capitalising the US unit and how you think about relative returns on capital, sort of, US versus Europe.

And then secondly, the comment in the release about, sort of, further internationalising bulk, when you talked about Europe is that Ireland or is that Netherlands?

Mark Gregory: Right do you want those two Kerrigan?

Kerrigan Procter: Yes, sure, I mean, interesting pipeline in the US, as we talked about, the question earlier was… referred to a different capital regime, which of course it is, so the capital consumption is different between the EU and Europe. We have… we've always talked about the consistent return on capital metric and we will… we will apply that and pick and choose whether we want to do US deals or UK deals. I think the important thing is that we have that choice and we look across both of things equally and you will be able to tell which looks more attractive for us by the deals we write, effectively.

John Hocking: So, sorry, have you had to, sort of, pump prime the legal entity or… how do you think about locating capital in the US?

Mark Gregory: I'll pick it up. We're not… we're not… we're not anticipating a material increase in any capitalisation of the US business. Without giving too much away, Jon, L&G America, our insurance business there, is very, very long mortality. It's a term insurance writer, currently, so certainly in terms of the local statutory basis in the US, writing more longevity business in that… in that insurance business is a very good diversifier, so we're not anticipating, certainly for the first leg of growth in the pension risk transfer space based in the US to have any material impact on the capital requirement of that US business.

Kerrigan Procter: And then, just to follow up on your point on international, yes, really, we're talking about the Netherlands, there, being the largest market in Europe ex UK.

John Hocking: So, just to follow up on the… Mark's US point, what proportion of mortality is actually reinsured in the US? What proportion do you keep on your own balance sheets?

Mark Gregory: We have given a lot into the UK, so in the US we have an excess reinsurance cover basis, so above a certain amount… I'm not going to give that number away, but every life assured above a certain amount, we reinsure that to reinsurance markets, so we do retain a reasonable amount of mortality risk on our… on our US balance sheet.

John Hocking: Okay, great. Thank you very much.

Gordon Aitkin, RBC: Good morning. A couple of questions on bulks, please. First, just to follow up, you said the bulk pipeline remains strong, but I would expect you to say that ahead of a Q4, and it's a very seasonal market this one, the sales mostly in Q4. I'm just wondering, is there an added driver, in 2015, due to Solvency II? I mean, the consultants I spoke to a few months ago were certainly pushing trustees to make decisions then, in order to get Solvency I pricing.

And secondly, so, in the Dutch market, I mean, it's obviously a different market to the UK and the US in that insurance companies have, in the past, taken on pre and post-retirement liabilities, they even take on active members, in fact. I'm just wondering what your strategy will be, there? Thanks.

Kerrigan Procter: Yes, sure. On the first point, we're not seeing a huge pick up into Q4. I think… I think, rationally, you would say trustees probably should have hurried up and got things done before the implementation of Solvency II and the removal of transitional relief, but really, from the trustees point of view, the potential price increase, going into next year, doesn't look that substantial, in the face of big equity market moves or interest rate moves, so they haven't actually, other than a few odd cases, really got a move on and tried to close this year. So I'm not expecting a big… a big pick up in market volumes in Q4, particularly, I mean, give or take they'll be a super-bulk deals in there, possibly. Then, on the Dutch model, on the Dutch market, we're really interested in pensioners and deferred, so not… so not really active members but very similar to our UK and US payout businesses. It's that long stream of relatively well-known cash flows going out we're interested in, so we can apply our asset management strategy to that. So it's a bit similar, pensioner and deferred pensioner market we're interested in, in the Netherlands.

Gordon Aitkin: Okay, thank very much.

Colm Kelly, UBS: Morning. I have three questions, please. On your UK bulk, if we look year to date you've written 1.25 billion, but if we… if we take out the additional tranches of the ICI bulk scheme that you wrote in Q1 2014, it looks like it's closer to roughly 250 million of bulks from new pension schemes new to L&G, so clearly it's volatile, but can you give some colour and specifics on why you think it's a lot quieter than you expect in the context of, you know, industry consultants tipping the bulk annuity market in the UK to hit close to 10 billion by full-year?

Secondly, on US pension risk transfer opportunity, obviously you're positive on the outlook there, can you give you colour on any targets you have in place for that business, and maybe any colour on, you know, the return on equity capital shareholders can expect to achieve on that business over time?

And thirdly, do you… do you expect to maintain IFRS cash generation as a key metric to communicate cash going forward? Clearly, there's two big changes taking place – Solvency II and, you know, we've seen peers move to other Solvency II remitted surplus-cash type numbers – but we've also, further down the line, the new accounting standard IFRS 4 Phase II. There's a particular provision within that to spread profits on any contract over the full duration of the contract, which, you know, seems to constrain the ability to recognise more profit, upfront, on the annuity business over the long term. So, you know, you know, is IFRS net cash the right metric to judge cash on, or can we expect there to be changes in how that's communicated, going forward? Thank you.

Mark Gregory: Okay, thanks, Colm. Again, I'll ask Kerrigan to pick up the first one about any more colour he can give on the… on the UK pipeline and market, this year. I'll pick up the one point on the US return on equity targets and, indeed, your question about cash metrics going forwards.

Kerrigan Procter: Yes, just on the UK bulk pipeline and volume. I mean, as you'll know well, from the figures, a lot of it's dominated by, I think, Greig's phrase, super-bulks. When you look at our deals last year, ICI, TRW, a lot of the volume is dominated by that. We've had a pretty steady flow of small to medium-sized bulks this year, that's really great business for us, that has been great business for us. You know, I think whether or not it hits the consultants target of 10 billion for the end of the year will depend on whether a couple of super-bulks deals out there will close or not. So it's just the fact that that headline volume, 10 billion, is… given to by the consultants, is dominated by a couple of super-bulk deals, I think.

Mark Gregory: Okay, thanks, Kerrigan. In terms of the US pension risk transfer market and… any targets we might have. Our only target, Colm is to make sure we maintain our return on economic capital pricing basis. So the only thing that matters here is making sure we get the adequate return we expect to get when we deploy capital into that market. So we have no, kind of, volume targets, per se. Clearly, over time, we expect that market to be material for us, but we don't… we don't set short-term targets that Kerrigan has to go away and write any one quarter, any one year. We are absolutely disciplined to make sure that when we deploy capital, we get the returns we want from that capital deployment. So that's absolutely… our target is to achieve that return.

In terms of, kind of, metrics, going forwards, I do expect us… and we do plan to maintain our existing IFRS cash-generation metrics going into the future, not least because, as you say in your question, Colm, we are going to see another change, yet again, in the future, when, finally, we're going to get IFRS 4 Phase II, the new insurance liabilities standard, whenever it comes in. Probably, now, it's going to be 2020 before it comes in. I'm very, very keen we don't end up, kind of, changing metrics, kind of, three times in the space of five years, so it is definitely my plan to maintain our existing cash definitions going forwards, and we will, then, reconcile those back to say the new Solvency II balance sheet going forwards as well. So you can, kind of, see how the things interact, but I think in terms of consistency, I'm very keen to maintain the cash metrics we have in the organisation already. And when… if and when IFRS 4 comes in, in four or five years' time, we'll take stock then about exactly what that means in terms of the metrics. But for now, I'm keen to maintain consistency.

Colm Kelly: Okay, thank you.

Andrew Crean, Autonomous: Good morning, all. Could I come back to the first question, and could you enumerate the third element of cash generation? You talked about one-off releases in the third quarter.

Secondly, could you talk about what's going on in the protection market, and whether you think you're growing share or whether, after many years of growing share, you seem no longer to be so?

And then, thirdly, I'd like you to talk, if you could, candidly about the savings business, which I see that you broke out as separate division. You closed the with-profit business. It's been rumoured, in the press, that you've been trying to sell Cofunds and Suffolk Life. I mean, what is the overarching strategy towards these businesses, going forward?

Mark Gregory: Okay, thanks, Andrew. I'll pick up the first one, around your comment on one-off releases in the Q3 numbers. Duncan can pick up any comments on the protection market, and I'll ask Mike Bury just to comment on the strategy for Cofunds and Suffolk Life.

In terms of enumeration of the numbers… I've given as much colour as I want to give at this point, Andrew. I would… just counsel against the expression: one-off releases. This is a… just a… as we do every year, we just go back and make… as we get more information as we go through the year, we just go back and make sure the accurate calculation of our expected release goes through into the… into the cash number. So you shouldn't see this as been a… kind of, a funny one-off, this is simply a… yes, it's come through in the Q3 numbers, but it is, essentially a year to date impact from the recalculation of the expected release. It's just looking at where the prudence comes from and making sure we've got that properly modelled. And as we get to the end of the year, we have a clearer definitely of, kind of, what's actually come through by way of prudent releases during the course of that year. It's not more than that. This is not some odd accounting going on. It's not one-off in nature. It's an exercise we do every year.

Andrew Crean: No, I just wanted a number, actually. I didn't say it was funny.

Mark Gregory: Yes, and I'm not going to give it to you, Andrew. As I said, at year-end, you'll get the full breakdown, as always, of divisional cash breakdown, and then we'll be… you'll be able to see where the… which divisions have generated what cash generation in the year. But until then, it's… you'll have to wait till March.

Duncan Finch: Okay. On the protection side, yes, in recent years, we have grown our share of the protection market, and we continue to look for opportunities to increase our share of the protection market. I think, probably, in the numbers you're looking at, our share, over recent quarters, has been fairly stable.

Mark Gregory: Mike?

Mike Bury: And on Suffolk Life and the Cofunds, our approach there is to improve the profits by focusing on operational efficiencies. So, we've gone through, since acquisition of Cofunds, looking at integrated benefits with the rest of Legal & General; in 2015, we've also focused more on improving the underlying efficiency within the Cofunds business itself, and continue to identify the cost savings that are there.

Andrew Crean: Could I just come back on that, just with a bit more candour? I mean, what has been reported in the press is that you tried to sell Cofunds, because I think there was a… it was said that there would be a bill of about 125 to 150 million to re-platform it. Can you talk a little…? You know, it looks as though any disposals or sale process has fallen through. Does that mean that we may anticipate a big spend to re-platform?

Mike Bury: I'm afraid I can't comment on the speculation that's been in the press.

Andrew Crean: How about commenting on the spend to re-platform?

Mark Gregory: I think, as Mike said in his answer, we're committed to actually sorting out the, kind of, day-to-day processing inefficiencies at Cofunds, so you shouldn't be expecting a material, shiny, bright new toy re-platforming proposition to be spent from L&G. We're focusing on, you know, getting the bread-and-butter processes sorted out.

Andrew Crean: Thank you.

Anasuya Iyer: Oh, hi, good morning. I have three questions. The first was just on the bulk annuity pipeline. I know you said, don't read into Q3, but I just want to understand whether there is any waiting going on there, because obviously we're seeing index flows coming back to positive but a quieter bulk annuity pipeline. Is it… is the pension funds just waiting for rate increases, and how long is that wait going to last?

And my second question is just on the reinsurance market and whether… I just want to understand what stops funds from going direct to re-insurers, and will there, at some point be a direct relationship between funds and re-insurers which risks some of the longevity business that you do?

And the last one was just on LGIM: I think the investor relations team did say that LGIM is in the top three for UK net retail funds now, and I just want to understand what's driving that. Is it any one fund and it is sort of a trend that we should pay attention to? Thank you.

Mark Gregory: Thanks, Anasuya. Kerrigan, the first two, and Mark might pick up on the retail funds in LGM.

Kerrigan Procter: Yes, sure. On the question about is there any waiting based on market movements or rate increases, I mean, I think, really when you reflect on the market, there's probably about, I don't know, in the order of 10% of schemes who may have been down the LDI mandate and probably pretty much fully funded, and they're the most likely… not exclusively, but the most likely candidates to head towards the buy-in or buy-out route. And they're fairly obviously, unaffected by equity market swings and interest swings, so not really a waiting point from that point of view.

As to the ones who are progressing down that route of de-risking, I'd say almost every pension scheme is somewhere on that route of de-risking, then, clearly, you know to get themselves in to the position where they can… some contribution from the sponsor, afford a buy-in or buy-out, then that is somewhat dependent on equity market moves and moves in the UK in real interest rates, nominal interest rates in the US. So that will have some impact on the… on the following up group, but there's a wide dispersion of clients, different states of the de-risking process, with different funded statuses, so I don't think any of that really affects the day-to-day or quarter-to-quarter or year-to-year interest in clients looking to de-risk.

On the reinsurance market, I think that's a really interesting question, and something we think a lot about: could funds go directly to re-insurers? Well, the answer is, in the UK, for UK pension schemes and US schemes, is no, they can't, they have to deal with an insurer. But it certainly is an interesting thing to work out how we can most effectively service our clients by tapping that reinsurance market. So if we can be an reinsurance company instead of an insurance company in the middle, that can transform risk straight into the reinsurance market, then I think that's a very interesting proposition for us and our clients.

Mark Zinkula: With regards to the LGM retail flows, the last couple of years we have strengthened our distribution and rationalised our product offering in the retail market, and we rank, currently… I'm not sure where it's at, but 12th, 13th or 14th or… in AUM, in the UK retail market. So, the second quarter good flows and the third quarter further net flows obviously, we have aspirations to be significantly higher in the league tables in the retail space. Most of the demand, over the past year, one to two years, has been in our index funds, our multi-asset funds and our property funds. We have expectations to grow our presence in fixed income in particular, we have a very strong brand in institutional markets, we've been punching below our weight in the retail market over the past several years, and so with a revised set of equity funds we're in the process now of building a track record. So we do have aspirations, certainly, to continue to be a more… a larger presence in the retail market. We won't be top three in every quarter, but certainly I think the direction of travel and the… you know, is… should be expected to continue.

Anasuya Iyer: Great, thank you.

Abid Hussain, Société Générale: Hi, morning all. I have three questions if I can, please. The first one is on direct investments. I was just wondering if you could articulate, in some way, the yield pick up you expect to achieve net of Solvency II asset charges. So that's the first question.

The second one is on lifetime mortgages. How do margins on these mortgages compare to… or margins and capital requirements compare to retail annuities?

And then the last question is on debt. I think you issued around 600 million of debt during the third quarter, and I was just wondering was that Solvency II driven? Thanks.

Mark Gregory: Okay, thanks, Abid. So, Paul with pick up the comment on anything you can say on direct investment yield pick up … and Kerrigan, on lifetime mortgage, anything you can say on… to help with the question, and I'll pick up on the point on the debt issuance.

Paul Stanworth: Yes, thank you very much. In terms of direct investments, on the annuity funds themselves, there's a pick-up of probably between 50 and 100 basis points, depending on the sectors that are being invested in. There is an advantage to some of the investments which we are capturing through combined efforts of investing in a broader range of projects, and we expect that to be a bigger portion of what we're investing in in the future. But the main bulk of what is going to the annuity fund is really coming through the LGP direct investment programme.

Kerrigan Procter: Yes, I think just adding to Paul's point, there, it's… you get a yield pick up for illiquidity risk premiums, but also with those assets you get… generally you get better security and better… direct control over those securities, so any loss given default we'd expect to be quite significantly lower. That's certainly the types of investments that we look at. So lots and lots of reasons to be interested there. On the lifetime mortgages, margins and capital comparable to retail, they are certainly beneficial assets, but it's a different market they come through, in terms of profitability and benefit to us as assets, pretty much, in the DI camp. So the actual origination and value you see in Legal & General Home Finance is not reflective of the whole value to us, which is really lifetime mortgages as a diversifier in our asset portfolio and as an asset that yields and attractive spread, relative to our backbook or traded credit. So that's where the real benefit comes through, and that is attractive. I mean, we, hopefully, as a firm, try and strike the right balance between attractive assets and value for money for our clients, and I think we achieve that. But it's a very interesting attractive market to be in.

Mark Gregory: Okay, and on the last question, Abid, about your question around our debt issuance and whether that was Solvency II related. Categorically, no. So, what we have here is a… we have active, kind of, balance sheet management, and we have a rolling, kind of, debt programme, we've got first-call dates on subordinated debt going forwards in 2017, 2019, 2021 and all we trying to do at all times is just manage that at the right proportion of debt, as part of our capital funding. We're very comfortable with the operating leverage ratio gearing at around 30%, and that's what we look to try and achieve and maintain over the long term. So we went into the market, this year, as part of that longer term agenda, but definitely not a Solvency II response.

Abid Hussain: Thanks. Can I just come back to the first question on the direct investment? How are the negotiations or discussions with EIOPA and PRA going on the asset charges on the infrastructure? I know there have been discussions on reducing the asset charges. I'm just wondering if you could give us an updated comment?

Mark Gregory: Kerrigan?

Kerrigan Procter: Well, I'll start of, and you will…

Mark Gregory: Talk and butt in, yes.

Kerrigan Procter: Yes, so really interesting developments across Europe, for the standard formula, a potential reduction in spread charge for… hence the SCR, for infrastructure assets. That's very interesting. Of course, what's relevant for us is the treatment in the internal model, so we will, of course, be exploring internal model treatments for infrastructure assets in a broadly defined infrastructure class. And that will be interesting, but that's separate from the standard formula conversations, of course.

Paul Stanworth: Yes, the other thing I would add to that, which is the, kind of, broader asset base of Legal & General, is the fact that there are a number of indictors that EIOPA have given around assets, like strategic equity or SME loans or infrastructure debt, where, as Kerrigan said, the main thing is we are using an internal model, but there are precedents to be set that we can look at within the standard model. And that's really important for us for LGC's assets which, themselves, are progressively moving from traded assets into more strategic assets. And we will look to the type of strategic capital charges that are being used in the standard model, when we review our internal model.

Mark Gregory: Thanks, Paul. Thanks Kerrigan.

Abid Hussain: Thank you.

Alan Devlin, Barclays: Hi, guys. Thanks. A couple of questions. Just a follow-up on the lifetime mortgages, is the current run-rate of volume sustainable, and therefore the benefit of the new business strain, or new business surplus sustainable as well?

And then, just on LGIM, first of all on LDI you, kind of alluded to the fact that, you know, the… if interest rates go up or equity markets rally there is a strong pipeline of LDI that could come on board. Do you know what kind of pipeline you have and what triggers it will automatically come on, if certain thresholds are hit?

And then, just finally on LGIM the growth in Asia, particular the… what's the focus and opportunity with your Japanese partner in that… in that region? Thanks.

Mark Gregory: Cheers, Alan. Obviously, Kerrigan for the first one and Mark, the second two.

Kerrigan Procter: Yes, lifetime mortgages, is the run-rate's sustainable. You'll have seen from the figures that Q3 year to date was just over 100 million, based on the Q2 and Q3 figures, we're still guiding towards the order 200 million for this year. Is that Q4 run-rate sustainable? Yes, absolutely.

Mark Zinkula: Yes, with regards to LGM, there's… we can't really quantify, I guess, that precisely, the timing of the de-risking activity that our clients will have. We'll have a sense with some of the larger clients, but if you think about how broad and diverse our client base is now, and it's growing in the US obviously, there's a combination of… well, increasing in the US, new clients coming onboard within the UK, a higher percentage of the activity would be from existing clients, and then we're increasingly winning mandates with smaller clients and some of our pooled offering, so it's… we can't project with that degree of precision. You really have to look more at the percentage of liabilities that still haven't, you know, de-risked, that are un-hedged, however you want to define it, and that's the potential opportunity still for us to take on new business or transfer business from passive, which is covered in our market and other movement line item. But the timing of that, it's difficult to project. With regards to Japan, our recently announced agreement with Meiji Yasuda will focus on providing global fixed-income products for pension clients in the Japanese market, actively managed global fixed-income.

Alan Devlin: Thanks for your answers.

Mark Gregory: Thanks, Alan.

Barry Cornes, Panmure: Good morning, all. Just three questions from me. I wonder if you could talk, generally, about the outlook for UK pension savings reform?

And also then go on, maybe, to talk about current in-retirement market, focusing on the cash annuities draw-down split?

And thirdly, just wanted to pick up on costs. You obviously talk about being ahead of target, just wondered if that's in terms of the amount or the timescale, and whether or not you could look to revise and increase your cost savings, perhaps, in the likes of areas like Cofunds? Thank you.

Mark Gregory: Okay, I'll pick up the first one and the third one, and maybe Kerrigan will pick up on just the shape of the post retirement market or maybe Jackie and Mike can comment as well. But it's just on the… on the UK pension savings reform, I think it's now… George has now said, categorically he is going to update in the spring budget, rather than the autumn statement. I think that's sensible. Clearly there's been a lot of people fed back into that. We're on records as saying our preferred option is to have a flat-rate tax relief but at source, so we're advocating basic-rate tax relief for everyone, at 20%, but at source. So we still want to maintain the exempt exempt tax regime, rather than TEE. Clearly, the treasury will take all that feedback and will, not doubt, consider what… I think, at the end of the day we're pretty ambivalent overall, we think L&G will succeed no matter which way round it goes. We just think, for the sake of the market, in terms of growth in that market, we think customers will be more reassured to get their tax relief at source, rather than relying on the promise of a tax relief, let's say, in 50 years time, when they come to retire. So if it ends up being a pension ISA rather than the current regime, you know, given L&G strength particularly with LGIM in the camp, we're very sure we can succeed in that as well, but we would prefer to see the existing regime maintained, where customers can have absolute confidence that they get the tax relief at point of source, rather than having to rely on a benign chancellor in 50 years' time, to give them that… to honour the promise. So that's where we're coming from in that regard.

Barry Cornes: Thank you.

Mark Gregory: On the post-retirement savings market, I'm not sure who want to go first, but…

Kerrigan Procter: I'm happy to kick off, if you like. I mean, Barry, you know the figures very, very well indeed, don't you? But I think by numbers of people, I think it's sometime like 70% post freedom and choice on 7th April have taken cash; by pounds, it's more like a third cash, a third annuities, a third draw-down. I think on the annuities front, we talk about the market remaining subdued, we don't see a particular pick-up from that level of annuities, they're now larger size, there's a regular flow we're seeing of standard, fixed-term and enhanced annuities, and those proportions will vary over time, I think, but, yes, it's a… looks like a fairly stabilized flow for annuities now, but much less exciting than it would have been a couple of years back. On the draw-down options, well, I think we're very excited about the long-term potential. I think the market's got a long way to go there, yet, but I'm very excited about the LGIM multi-asset funds, post-retirement funds and the 'to and through' retirement funds that they're launching. I think there's a big part for those to play in the future income draw-down proposition, as that market develops.

Mark Gregory: Jackie if you can just quickly comment on customer based activity immediately post pension reform date, and kind of where things are settling down, just a quick comment on activity levels more generally?

Jackie Noakes: Yes, I mean, we've continued to see increased claim-volumes through quarter two, and our new norm, in terms of BAU is about 500% to 700% up. Customers are taking… continuing to take full lump sums and small amounts, effectively.

Mark Gregory: Okay, thanks, Jackie. On the, kind of, wider aspiration for costs, I mean, clearly we are pleased that our run-rate, currently, is to deliver more than 80 million for the current year, Barry. I think, in reality, it's always been part of L&G's DNA to kind of make sure we remain as efficient as possible. I think we flagged very clearly today that in Mike's world, around Suffolk Life and Cofunds, we're going to be very focused on that, going forwards, but it's part of our wider DNA. You know cost management will always be a key part of our agenda. So it's not just a once-and-done think this year, you know, we will always make sure we have the right cost base for the organisation, to make sure that supports the earnings growth we want to deliver from here on in. So I'm not going to leave any revised costs, just simply to say that it will always remain part of our strategic agenda, going forwards.

Barry Cornes: Okay, thank you.

Mark Gregory: I think, given the time is now 10 o'clock, we're probably going to call it there, if you don't mind? And so, thanks everyone for your input and lots of questions. We appreciate that and we'll speak to you at the year end.