Mark Gregory, CEO of Savings

Good morning, it's good to see so many people here, although I recognise very many of you, but for those who don't know who I am, I'm Mark Gregory, the CEO of our Savings Business here at L&G, and thank you for joining us this morning.

Before we begin the usual disclaimer around forward looking statements. Legal & General has a clear strategic goal for Savings: to create a large-scale, efficient and profitable asset gatherer, focused on the middle-market, which we know well, which also acts as a gateway to the wider group.

Today we're going to cover four of our chosen asset gathering routes, and we'll also hear from Andrea Blance, the Savings Division CFO, about how we intend to drive earnings progression. Chris Last, who is our Income and CEO of Cofunds, will speak about the Cofunds opportunity. And Chris Rhodes, who is Executive Director at Nationwide Building Society, will also give some insights from his perspective and from one of our most important distribution partners. Chris Rhodes actually has to leave us after his session, but at the end there will be plenty of opportunity for Q&A, so if you could, please hold your questions until then.

I'd like to begin by reminding you of our core group strategic themes. As outlined by Nigel at our 2012 prelims, we are benefitting from big macro drivers affecting our markets across economic cycles, and this slide illustrates the five clear growth themes we have developed to respond.

The combination of ageing populations and pressure on government budgets is driving increased levels of self-funding. We believe this will, in turn, drive long term growth in pensions and savings; that's why we're so committed to this market.

Rapid development of digital and mobile technology go hand-in-hand with customers' expectations of increasingly efficient and sophisticated digital propositions. Our acquisition of Cofunds provides us with scale in digital solutions.

Our Savings business also acts increasingly as a gateway to L&G: it provides increasing flows to LGIM and Annuities, and secures distribution access to customers for other insurance products across a comprehensive range of routes. These include workplace, banks and building societies, digital platforms, and, of course, traditional financial advisors.

We see our Savings business in two parts: mature and growth, and today we're going to very much focus on our growth business. Our mature business, which includes with-profits and legacy insurance savings products, is a distinctive asset which will continue to provide strong cash for some time. Our strategy recognises that over time this cash will gradually decline and therefore our aim is to drive up the contribution from our growth businesses at a rate which will outpace the gradual run-off in the mature business.

The mature assets are fairly sticky and we anticipate that they'll provide reasonably predictable cash flows over a sustained period of time. Our strategy here is to focus on retention and to have a tight grip on costs. This provides us with a bedrock to invest in the modern growth businesses. We don't actually see our growth businesses as an insurance business. We see it instead as modern asset-gathering, fees less expenses business.

Today I'm going to talk about the major routes that we have to deliver our objective of becoming a high scale, profitable, cash-generative, asset gatherer, with this additional key role of acting as a gateway to the rest of the group. And let me say at the outset, as a result of executing on this strategy, I will be personally disappointed if in five years' time we have not achieved an average annual growth rate of 10% on our stock of assets, net of the predictive run off of the mature business.

Our clear goal is long term value creation, growing quality earnings, resulting in high free cash flow with good payback characteristics of investment and capital, of which almost all is available to be remitted to L&G Group. Ours is really a simple model: high scale and strong flows in assets, which earn fee revenue. The key for us is to develop a similar model to LGIM, whereby a low cost to income ratio results in attractive net margins, whilst also being capital light.

This is a digital business, using platforms optimises efficiency and gives customers better engagement and service. Scale enables us to build bigger, more efficient, more automated processes, and thereby outperform in attractive growing markets. And our vertically integrated model means that we earn revenue at multiple points in the value chain.

All of these elements combine to enable us to offer good value to customers, a virtuous circle driving further growth in assets, and high quality earnings to L&G Group, together with further flows to LGIM, as well as Protection and Annuities.

This is a long term business and we're looking out to five years and beyond. This model is very similar to others we have executed, notably in LGIM and Protection, which I'll touch on later, and this goes to the very heart of L&G's corporate DNA.

Growing assets is central to our strategy, so I will start by explaining how we intend to do so. This slide illustrates what we internally refer to as the Engine of Growth that will drive profitable scale. This is based on steady growth in net flows from markets we know well, where we see long term structural growth opportunities and where we intend to outperform. We will outline why these markets have the right growth characteristics: socioeconomic, demographic and regulatory, and what makes them financially attractive and capable of delivering profitable scale.

Today we'll be focusing on four distinct routes to access that market: banks and building society partnerships, retail investments, workplace savings, and platforms, particularly Cofunds. The broad strategy for our growth is the same in each of these four routes: to have attractive front end propositions, backed by scalable industrial processes, to give us high scale at attractive margins, a significant market share in growing markets. And this is a differentiated strategy, but for L&G the UK mass and mass affluent markets, which we call the middle market, is very familiar territory. This is where we built similar businesses in Protection and Annuities over the last ten years, with scale, leading market share, and very efficient operating models. Our successful experience of operating high scale business leads us to believe that you have to have high scale in order to succeed, and this has informed our decisions about priorities for the four key routes.

Over ten years we've built a leading presence in the banks and building society sector and developed strong, long term, strategic relationships with major names, such as the Nationwide Building Society and Barclays. Hence, our decision to partner with further players in this space to provide an effective response ahead of regulatory change. And many of today's customers prefer the transparency of mutual funds-based propositions. Utilising

LGIM as manufacturing capability, there was a clear opportunity to become a bigger player in the retail investments market.

We set out to become the leader in workplace pensions. There are strong tailwinds from macro drivers, such as auto-enrolment and the decline in defined benefit schemes. We believe the long term prize will be won by those who capture a high share of the market early in its development. We also believe that scale is necessary to maximise profit in the intermediary platforms market. This market is forecast to double in size over the next four to five years, so taking full control of Cofunds, the UK's leading platform, provides us with a clear opportunity to benefit from this growth. All of these routes will provide growing incremental flows to build further on our stock of assets, a high proportion of which will be managed by LGIM.

I'm really pleased to say that we've successfully completed our turnaround of Savings, and we started this in 2009 and delivered a further year of scalable growth in 2012. This meant we could make a much larger contribution from Savings to the overall group cash generation and profit. Our Savings' model is now capital light and cash generative: £117m of net cash in 2012, an operating profit of £133m.

Assets under administration grew a compounded annual growth rate of 11%, from the beginning of '09 to £70bn by the end of 2012, and, with additional assets from Cofunds, total assets under administration were a pro forma £110bn as at the end of Q1 2013. We now have a strong foundation to exploit asset gathering opportunities, leveraging our vertically integrated business model. So by 2012, we had the right foundations on which to build a scalable, efficient, asset gathering business, focused on the four routes to market that we'll be discussing today.

As already mentioned, our mature businesses provides an important foundation for growth: the £42bn of assets are fairly sticky and provide predictable cash flow. Steady organic growth of capital light products has delivered a further £32bn in assets. And you can see here the beginnings of the scale play. Access as sole provider to 21m members across UK building societies. £9.1bn now on IPS platform, which shares the Cofunds' technology. £6.9bn on our workplace platform, over a half am new auto-enrolment customers, and encouraging low opt out rates of under 10% to date. And with 23% market share, we are leaders in passive funds.

In Q1 2013, AUA grew by £4bn in the mature and organic growth lines, taking these assets from £70bn to £74bn. And now the Cofunds transaction brings us a net £36bn of net new assets to give us the leading position in the UK platform market. It's an important and attractive transaction for us. Our plans are for it to earnings accretive in its own right in year two and it also provides the opportunity to deliver further revenue to synergy benefits. And Chris Last will tell you more about these a little later.

This brings me to our model for the next phase of growth in Savings. Our goal is to maximise absolute value. Scale is the key. Giving large scale and high efficiency, we can offer good value to customers and deliver healthy returns. This is precisely the way LGIM grew its assets under management to its current £441bn, so we know how to execute on this strategy. As a long term business, it is a stock of assets which is the key determinant in generating fee revenue. We invest to acquire new flows, and this is done subject to stringent financial discipline: payback needs to be predictable and achieved in a reasonable period. The greater the scale, the greater the fee revenue.

We're also very focused on driving out direct operating costs. Against higher scale, this will drive higher operational leverage, leading to higher gross contribution.

In the end it's our track record of steady ongoing investment in the customer proposition, and in the efficiency of our operating model, that gives us our competitive advantage. We undertake steady, regular investment in systems to drive continuous progress on efficiency. With the exception of occasional regulatory driven expenditure, we aim to not have any surprises or spikes in investment. We believe scale and efficiency will be the prime determinants of success in the UK savings market, and already, in parts of that market, we believe there are too many subscale competitors, and that some will fall away.

Meanwhile, the retail distribution review, or RDR, will drive the need for further efficiency. Unbundled pricing will deliver greater transparency for customers, something we here at L&G are wholly supportive of.

Our Savings business benefits by playing across the entire value chain, from manufacture to distribution. This slide illustrates the vertical integration in our model, across the fund, product, platform and advice steps of the value chain, which allows us to incrementally earn our returns at every stage, a sort of Geoff Boycott innings of safe ones and twos, adding up to a big score. This increases revenue for Savings, and also provides customer flows to other parts of L&G, such as Protection and Annuities, who benefit from lower acquisition costs.

Here you see the Customer for Life Model, a series of simultaneous, overlapping or consecutive products, taking the customer through a series of typical life events, from buying a home, having kids, saving for retirement, and drawing a pension. We are one of a very few companies who offer a comprehensive range of products that are right for customers no matter where they are in their life stage. Our products are purchased by individuals and in bulk by employers. So, in one form or another, we see Savings as a major gateway to the broader L&G Group. The workplace is an obvious access point for individuals to accumulate assets throughout their working lives. The ability to offer a comprehensive range across Savings and Protection has been a key factor in attracting our bank assurance partners.

I've already mentioned our focus on the middle market. One of its attractions for us is that we know how to serve this customer base well, through General Insurance and Protection and Annuities, and this is where our scale and brand means our products offer good value and quality service experience.

Before we look at each of these four components in turn, it is worth just setting the scene in terms of potential scale, using once again our engine for growth. I've mentioned our bank and building society distribution and the decision we took to focus on building societies as one of the few remaining high street channels of financial advice to the middle market. Post RDR, there are now an estimated £5.5m unsupported customers in this segment. In the retail investments market greater transparency and awareness is already starting to drive a trend towards passive investment, the right conditions to channel funds into our low cost model. Our growth estimates for the retail passive market are for significant annual growth rates over the next five years of between 8% and 20%, and we re-priced earlier this year, as we seek to maximise our advantage in this space.

Workplace savings: it's a miracle of behavioural economics and clear modern customer communications, that soft compulsion has delivered pension savings with opt out rates currently under 10%, at least for our schemes. Further growth will come from the next major phase of medium sized employers joining, and contribution rates increasing. Spence Johnson, who are leading industry commentators, estimate that assets held in defined contribution schemes will triple over the next decade.

Cofunds is the UK's largest platform provider, in a market which Fundscape forecast will more or less double over the next four to five years. It is a profitable scale proposition, operated in a fragmented platform market where we expect to see exits in due course.

This is now a good place to introduce Chris Rhodes from Nationwide Building Society and he's going to outline their vision for providing financial services to their members. Chris.

Chris Rhodes, Nationwide

Thank you Mark. Good morning everyone. I'm just going to show you, to start with, a short video of what it feels like to walk into a Nationwide branch.

<u>*Video Plays*</u>

1st Staff Member	*Our SFC Services are available to everyone and they can walk right off the streets into the branch.*
2nd Staff Member	*Financial planning is an important part of the product portfolio offered through the Nationwide. Within the high street we are the only people that really offer advice, especially for everyday customers.*
1st Staff Member	*We are introducing customers to the SFC on a daily basis.*
2nd Staff Member	*I'm able to offer my customers still face-to-face advice which a lot of my competitors don't do any more.*
1st Staff Member	*In Nationwide we believe that each customer has special individual needs.*
2nd Staff Member	*We sit down with them and assess their needs to get to know them as a person and find out what their financial goals are.*
1st Staff Member	*SFCs talk to customers in a language they can really understand.*
2nd Staff Member	*The good thing through Legal & General and our partnership it amalgamates it all onto the one portal so where the customers may have five or six different fund providers it's all pulled together and they've got access to look at it all on one site really.*
1st Staff Member	*The feedback we've got from our customers has been amazing.*
Customer	*I was really, really surprised by how easy it was, how friendly she was, how accessible she made it.*
2nd Staff Member	*A lot of people are fed up with the banks and what's happened in recent years and I think they do like the fact that we are still a building society.*

Customer	*Yeah it wasn't pushy at all and I feel like I've just got so much out of it and I'm glad I've done it.*
2nd Staff Member	*It's very easy within the Nationwide to acquire customers for our service as we have access to 15m members already. Financial advice is a right not a privilege.*

Chris Rhodes

The video gives you a flavour of high street financial advice for the mass market it is about face to face interactions. It requires a strong trusted brand, a large scale customer base, a full product set and importantly a national branch network.

In many respects it is about scale on the high street. So let's look in a little more detail at the Nationwide and Legal & General partnership. The Nationwide vision is to be the first choice for financial services in the UK, as measured by customer consideration of our brand for their mainstream financial services needs. Our purpose, which sets out what we do and what we focus on is to safeguard our members' financial interests by helping them save, helping them buy their own home and helping them make the most of their money. Our advice proposition is fundamentally linked to helping our members make more of their money in a secure way. So in that respect help and advice is at the heart of what we do.

In the presentation I will explain why we chose Legal & General as a partner; what our proposition is; where we stand today, and perhaps the most important of all; the opportunity for us.

So why did we partner with Legal & General? Simply it's a great brand that complements the values of the Nationwide brand and goes down well with our membership as a trusted products provider. But they also bring to the table some great systems and processes. In particular the work that was done on the point of sale system for RDR helped to drive an excellent customer experience as well as delivering an integrated fact find and presentation system that supports our advisors. Now it would not have been possible or economically viable for us to have done that on our own. The combined L&G and Nationwide RDR programme enabled us to deliver ahead of the regulatory deadlines.

Integration of the sales system with a cost-effective platform that supports the complexity of transaction processing is also a key requirement and Legal & General are uniquely able to deliver this via Cofunds.

And finally strategic collaboration. The joint approach to partnership means that we're able to leverage each party's expertise and deliver a better outcome than we could on our own. Whilst this may sound simple it is more challenging than you might think and not many partners are able to look through their own individual challenges to look to the greater objectives of the partnership in the round. Legal & General have demonstrated they are able to do this on many occasions.

So turning to mass market advice on the high street. It requires simple products that are able to cost-effectively meet the needs of the average UK customer so that a single adviser can look after all the customer's needs over their lifetime. From a regulatory perspective our advice proposition is classified as restricted. Now our proposition consists of single and regular premium investments with the appropriate product rep whether that be bond or ISA or just basically a straightforward Unit Trust, inheritance tax planning and Annuities. Now these products are underpinned by a range of investment funds selected from a number of investment managers giving us more flexibility to meet the needs of our different customer segments. This process is supported by Legal & General's investment management research unit. We don't currently cover pensions but that is one potentially for the future depending on need and demand from the membership base.

Now our salesforce also provide advice on Protection products and this means the team has greater coverage and scale than would be the case if they were only advising on the investment range and we no longer sell products without advice. Our advice charging structure is simple. It's a 3% initial advice charge and a 50 basis points ongoing advice charge and this compares very favourably to the competition for our target market. And the fee structure is supported by a cost-effective platform charge that means customer returns are not eroded through high ongoing charges.

Now the proposition we promote is one of being your trusted adviser across your Investment and Protection needs, underpinned by what we call 'On Your Side' pricing, which means our pricing is less than that of the traditional bank assurance model and much more in line with what you would get from an IFA. Now the proposition has received favourable commentary from market commentators and the press in the round.

Now our typical customer segments fall into two broad life state segments. So for the actuaries and analysts in the room let's call them Mr Grey and Mr Black, we don't want to get any more exciting than that. The Mr Grey segment tends to be older, typically a lump sum investor, their core needs are capital growth and income, whilst at the same time they are considering how to distribute their wealth to family members. Their needs can often be more complex and will involve retirement and inheritance tax planning. At the other end of the spectrum, the Mr Black segment is generally younger with family protection needs plus the requirement to grow their wealth for a specific purpose, usually through regular premium savings.

Now the Nationwide base of £15m over-indexes versus the UK as a whole in the affluent segments where these needs arise, basically younger mortgage holders and pre-retirement and post-retirement savers. We currently have 6.3m members with deep product relationships with Nationwide and it is these members who are the target market for our advice proposition.

Now to date we've advised over 500,000 investment customers and over 500,000 Protection customers and total investments under advice are £10.6bn, up from only £3bn five years ago. We have 450 investment advisers and 385 Mortgage and Protection advisers deployed in our 700 strong branch network. There is a significant opportunity to grow the investment base. 84% of the UK population is within five miles of a Nationwide branch and we already have some form of relationship with one in four households in the UK. Now most of our investment customers hold another product with Nationwide and there is significant scope to advise more of our 8.2m savings members who hold £126bn in cash with us today. The key sub-segment though is the 630,000 customers with at least £50,000 in a liquid savings account with Nationwide. There are also other flows of customers that will provide further advice opportunities, whether it be 16m online visitors a month or the 1.9m Mortgage customers without life Protection.

So in conclusion advice on the high street is a key customer need and a key part of the Nationwide strategy. There is an advice gap on the high street for mass market customers and meeting that advice gap through straightforward, high quality product propositions presents a real opportunity for both Nationwide and Legal & General.

Thank you very much I'll now hand you back to Mark.

Mark Gregory

Thank you Chris. Chris has illustrated how two customer-focused brands can work together to meet customer demand. Done to standards of excellence with clear focus on customer outcomes bank assurance is a market with the potential to grow.

Building societies have long been trusted financial partners forms of retail customers but RDR has been a real game changer. Post RDR numerous bank players have exited from the middle market. One reason is that many of these players, post the credit crisis have had other issues to sort through so providing financial advice to customers has not been top of their agenda. RDR probably became the final catalyst for withdrawal, given the requirement to invest and manage large, complex regulatory change. The need for advice is not confined to the high net worth customer, whether it's a change of employment, an at retirement event or receiving an inheritance, a transaction which might, perhaps to some of you in the room, feel like a relatively small amount of money is actually of huge importance to the customer concerned, latent demand is therefore high.

Deloitte research has indicated that 63% of those in the so-called 'advice gap' which is around 3.4m people were previously served by banks. The middle market is a segment where L&G has a strong brand heritage and one that we have been committed to for a long time with a reputation for customer value and service and we saw RDR as a catalyst for expansion and growth. L&G once again demonstrated its capability to execute complex change by delivering an RDR solution in November 2012, comfortably ahead of the regulatory deadline.

And by securing access to 21m members across UK building societies and providing an attractive broad offering we've created an asset gathering channel that has scale and leading position in its market segment.

The early evidence from our own advice service post RDR is showing that demand for advice continues to be strong. We have momentum. We have around 600 consultants who give us high scale reach to customers, the majority of these are employed by building societies and use L&G's platform functionality and fund services but they also include 150 of our own financial consultants directly employed by L&G and this gives us direct experience with customers. We can therefore offer our partners a choice of different models.

We are well advanced in building scale on our IPS platform. The platform was designed for and is used by our distribution partners. It uses the same technology as Cofunds and has already built up assets of over £9bn.

We built a financial advice portal that is integrated with our IPS platform. It works well for both our distribution partners and our shared customers. So the IPS platform, together with this fully integrated point of sale system now supports a digitally enabled advice process and this is key to making face to face advice, which so many customers need, effective and economically viable.

Ours is a vertically integrated model. At each point we have access to margin which means we enable a high value proposition alongside accretion of commercial value.

The platform and portal combination results in an efficient model. This reduces the time spent factoring and retrieving client information, enables selection of suitable product wrappers and funds, and back office administration is automated. All of which frees up the adviser's time for more client interaction which benefits efficiency and develops stronger customer relationship. It also ensures advice risk is well controlled.

Post RDR the economics of the model for advice are based on developing long term relationships with revenue flowing over the lifetime of the relationship. We operate an initial advice charge and then an ongoing annual service fee. The contribution from the service aspect grows over time as revenue flows from greater assets under advice.

While in its early days almost all customers of our own consultants have elected to receive ongoing service. This is the model which scale we'll leverage further but we also have the optionality to deploy this model more widely. The gap in the market means it's quite possible that several banks could reconsider their strategies and again much of this technology could be deployed in other spaces such as the workplace.

These potential growth events are not included in our base plans but the potential exists nevertheless. Chris Rhodes noted that 630,000 of his customers have more than £50,000 in savings. This may have surprised you but it is worth briefly exploring the connection between housing equity and savings deposits, notably in middle Britain.

Here you see that the UK housing turnover and household deposits have picked up since the start of the credit crisis. This bodes well as improving turnover up and down the housing chain means that retirees are able to sell their homes and downsize. This increases the release of equity back into the family with over 60% of households as owner occupied and with the value of these homes doubling in real terms since 1981 housing equity growth will also fuel a rise in inheritances. This growth is expected to be rapid over the next 15 years with nearly a fourfold increase in inherited sums. Research indicates that around 30% of the recipients of these sums intend to invest in pensions and other long term savings.

Note here that this is not confined to the high net worth market, the middle market segment has benefited from house price inflation as well.

In the bank assurance space we offer our partners one significant relationship not a myriad of complex ones and that's important to them in a highly regulated market. We are a low risk, easy to execute option. In a typical relationship we might provide mortgage-related retail protection on a directly authorised basis, an execution-only savings proposition, and our consultants where the customer has the need for advice.

Our partners also benefit from access to our mortgage distribution network which is the largest in the UK and where we've distributed around £19bn of intermediated mortgages last year. These multiple touch points with our partners also benefit L&G in the wider sense.

We will quantify some of them for you here. We generated £16m AP protection business in 2012. The IPS platform is open architecture to ensure independence and a wide and suitable fund selection for our customers. However, LGIM's funds represent 19% of total IPS assets. The point, as I said earlier, is that this strong network of building society partners is not just an asset gathering channel but it also acts as a powerful front door for the rest of the group.

So we are strongly and perhaps uniquely positioned in bank assurance where scale and efficiency requirements make it increasingly difficulty for competitors to enter. Focusing purely on bank assurance with existing partners and consultants we expect assets to grow between 12% and 16% per annum from now until 2017. As a result we forecast that we will improve our cost to income ratio over those next five years.

I now want to move on to our retail investments' business. This business distributes mutual funds into the market and gains flows from our own platforms as well as other market platforms used by wealth advisers and discretionary fund managers. As the market continues to shift from traditional insurance products to mutual funds, it's a big advantage for us to have a scale funds business with packages LGIM for the retail market.

Vertical integration is underpinned by our established retail funds' business enabling us to bring the benefits of LGIM's low cost manufacturing, including amongst other things index tracking leadership, inside our retail funds' proposition.

L&G Retail Investments is a separate operation to LGIM and is integrated within Savings, which enables us to design effective product solutions due to our close understanding of retail customers, distributors and platforms. The fund management element sits in LGIM for the vast majority of the funds. This enables Retail Investments to benefit from LGIM's efficiency as a large scale fund manufacturer.

But all other aspects of our Unit Trust business sit in Savings, so that's Sales, Marketing, Proposition and Product Development, and Asset and Customer servicing. In addition, our Savings' business also includes an expert team that provides a fund screening service and creates appropriate funds to meet customer risk appetite for our partners.

This business is further up the maturity curve of our growth businesses. It already benefits from high scale with substantial AUA and retail assets of around £12bn as at 31st March this year. By applying rigorous cost disciplines we have improved operational leverage with direct cost to income ratios now at 60%, ahead of many of our retail fund competitors. And note that this includes a manufacturing margin for LGIM.

Given LGIM's strength we recognise the opportunity to capture more of the retail funds' market and to address this we took action at the end of last year by putting in new leadership to that team. The timing of this is important as we expect significant demand for passive retail funds, which in 2012 made up 8% of the total market, in contrast to the institutional market where passive funds accounted for 36%.

Strong momentum in the market in the past five years has seen mutual funds benefit from the decline in insurance backed products. Now post RDR there is a new catalyst from the removal of commission. Pre RDR commission levels were significantly different between active and passive funds. And whilst there is a close role for active management in the retail space, we believe that fund charge transparency will lead to greater participation of passive funds in the retail funds markets going forwards.

Linked to this, we expect advisers to focus much more on the total cost of investment to customers. We consequently took action in April reducing passive fund fees to make our proposition even more compelling, and to capture a higher share of the expected market growth in this segment where we already have a 23% share.

The strategy, which LGIM is fully behind, is to not only leverage our strength in passive, but at the same time broaden our proposition, LGIM's expertise, heritage and branch strength in providing index fund management positions as well. Our first hand knowledge of customer need and our in-house fund screening team provides us with the tools to build and construct modern, good value, simple fund solutions, providing diversity of risk to customers with well matched and good value multi asset strategies.

The scale of the opportunity is illustrated here. We are planning on the basis of a medium term annual growth rate for retail investments of between 5% and 15%. Supported by a growth in scale and by plans to drive efficiencies, we intend to continue driving down the cost to income ratio, and once again we are actively exploring the opportunities to gain greater synergy benefits across the group. Workplace ISAs are an obvious example given our leadership in the workplace market, which I shall cover next.

Pre RDR workplace pensions was a market where we focused on the fee based capital light mandates rather than the commission driven market. However, the advent of auto-enrolment and the new economic dynamic created by RDR, with the emphasis on appropriate charging structures, has substantially increased the market opportunities for us.

Auto-enrolment was a catalyst for us to develop a comprehensive proposition targeted at both winning new auto-enrolment schemes and capturing transfers of existing assets. The quality of the proposition, which includes effective employee engagement tools, trust-based options, and a number of features to minimise additional cost for HR and payroll departments, has attracted a number of well recognised employers such as Sainsbury's, Barclays, Boots and M&S.

We have been successful on both goals and from a low base in 2008 our workplace platform has made a rapid progress in scale and now totals nearly £7bn AUA. Alongside gaining new schemes for auto-enrolment, a number of employers have also asked us to manage their existing schemes. These assets total £1.3bn, some of which has already transferred to L&G and some of which will come across in due course. By the end of this year we expect to have over 800,000 customers on our workplace platform. We have collaborated with LGIM to design a range of effective fund solutions, and in particular with a high quality and good value default fund option. LGIM is now in a stronger place to compete for share in the wider defined contribution market and additional synergy benefit of working with savings.

Workplace provided £2bn of flows to LGIM in 2012, and you should note that we don't count these so-called internal flows in reporting net flows for LGIM. Industrial processes are key to success in this market. Recognising this, we are focused on developing a scalable automated model with capacity for high volumes. We are able to handle single day volumes in excess of 100,000 new auto-enrolees. Equally, there are potential cross-selling benefits. Group protection has been a clear beneficiary as new auto-enrolees into pension schemes often also qualify for dependents and death in service benefits.

Down the line given the value and quality of our annuity proposition, we expect a consistent proportion of our growing workplace pension platform business to annuitise with L&G over time. This is a high growth market. Industry commentators expect defined contribution assets in the UK to triple in value to £829bn by 2022. This is therefore an important component of our scalable efficient asset gathering model.

We believe auto-enrolment is likely to be the biggest change in the pensions' market, potentially bigger than A-Day. The rollout of auto-enrolment to mid-sized employers will accelerate markedly in 2014 when over 38,000 employers will need to have a scheme in place for their employees. Our estimate is it will lead to something like an additional 1 million new auto-enrolees next year alone.

As the size of companies enrolling their workforces reduces we will be continuing to invest at controlled levels. This will allow us to focus further to improve levels of automation, ensuring low cost of acquisition and high levels of straight through processing, particularly where there may be limited pensions or even HR infrastructure. As our scale builds we are reducing our in-force unit costs. Between 2008 and 2012 this reduced by 13% annually as a result of fixed cost coverage and straight through processing improvements.

To put some colour on this, the most recent monthly file received from our single largest scheme, some 85,000 employees, was uploaded onto our systems with only 25 exceptions requiring human intervention, and all those 25 were cleared the same day.

While the UK market does not have compulsion, at least at this point, there is direction of policy here. It is sometimes overlooked that contributions will automatically accelerate through new auto-enrolees joining, and in addition mandatory increases in the minimum contribution levels, which will go from 2% now to 8% by 2018. Employers are also free to provide higher contributions to the minimum levels and several of our early stagers have indeed elected to do so.

At this stage I would like to draw on experience in Australia where this type of model is now mature. Auto-enrolment was introduced with hard compulsion in 1992. As scale begets scale AUA has grown at over 18% annually for the last decade and is now comparable with the country's GDP. We effectively may have something equivalent to hard compulsion in the workplace in the UK already based on opt out rates to date. Our aging population and the gradual withdrawal of the State point to inevitable increase in the contribution rates, and this is already in the legislation.

We have given you growth projections today, but I suggest that based on the Australian experience the potential for the UK market may have been underestimated. This business is growing fast and we are making progress on unit costs, however it is less well developed on the maturity cycle. Our plans are for it to build further scale and to take advantage of the operational leverage in our model. Long term value will develop from the continuous flows and steady accretion of the assets. Note that our in-force workplace asset book already provides a positive contribution. Our success in winning schemes and the latent growth in new employees joining schemes gives us confidence that the asset base can grow by 16% to 23% a year over the next five years, and we expect a step-up in the growth rate in 2018 due the higher minimum contributions that I referred to earlier.

When you think about it, the introduction of auto-enrolment with this element of compulsion is a colossal shift. For the biggest workplace pension providers, like ourselves, this is effectively equivalent to the right to collect National Insurance from millions of workers across the country. Scale and efficiency are the keys to success, and by rapidly growing our customer numbers we are making good progress towards our high scale/low cost asset gathering model.

I'm now going to hand over to Chris Last to talk about Cofunds. As you will have seen earlier today we have now completed the acquisition and Chris has been appointed as CEO of Cofunds to take the business forward under L&G's 100% ownership. Chris.

Chris Last – CEO Designate, Cofunds

Thank you Mark. I'm Chris Last and this is day one in the new job for me. You will have seen our acquisition of Cofunds so it's a welcome opportunity to give you some more commentary around the business.

First the platform market. The digital benefits and single access which platforms provide are well accepted both for advisers and consumers, and RDR has increased the value of platforms as an enabler of financial advice. The client and adviser model has shifted from one based on high numbers of one-off transactions, to one based on developing loyal relationships and the quality of ongoing advice. With much clearer pricing and a regulatory need to charge explicitly for advice, advisers need to prove their worth every year to their customers and to keep their costs down.

Cofunds supports this through both front and back office integration as well as providing branding portals. For advisers and their customers alike platforms reduce cost and increase benefits, including an often overlooked benefit of being able to switch between fund managers within the same tax wrapper. This enables us to manage our relationships, including remuneration. And because platforms are now so critical to where and how advisers decide to place their business, we believe it's essential to secure this part of the value chain.

However, this same strategy allows us to secure value for Legal & General across the whole value chain. Our acquisition rationale was not simply based on Cofunds' cost synergies, but on this wider value chain analysis. In this new model the value from the client is gained over years and not single transactions, and this is something that Legal & General is very familiar with and can manage well. It's also why acquiring the largest pre-existing book of assets is a powerful driver for our business.

Cofunds' strengths are that it does the basics well and offers value for money in a post RDR world. These are critical differentiators. It offers the core product wrappers that the majority of clients require, and a strong fund range. It's focused on mass affluent customers with a particular strength in ISAs. Cofunds is used by a high proportion of IFA firms. It's worth noting that most firms use multiple platforms. Cofunds has 13,000 active registered individuals using the platform. It also benefits from diverse distribution, especially when combined with our strong penetration of the building society sector through the IPS platform. Cofunds is simple and reliable.

This appeal gives us sole platform status for a number of direct businesses, including more in-depth services such as Chelsea Financial Services, and mainstream routes like Moneysupermarket.com. In total our platform supports over 800,000 retail customers, a statistic which demonstrates our market leadership, and that market is still growing fast. In fact, around three-quarters of new asset flows are onto platforms. In the last five years the market's grown almost 25% annually and a key driver of this growth has been the migration of client holdings from insured products to mutual funds. Despite this strong flow towards platforms, assets on platforms still only represent 8% of the investable asset pool in the UK, so headroom definitely remains.

The RDR will support this flow to platform-based accessed mutual funds, and Fundscape's central realistic forecast is that the market will more or less double over the next four to five years. As the largest player in the platform market, Cofunds' functionality is familiar and well established and its technology is reliable. Cofunds benefits from strong relationships with key large-scale intermediary firms and is profitable now, and it now has the clear financial backing of a household name, which will reassure customers. Our scale enables us to deliver competitive platform pricing and value for money, and the quality of Cofunds' service will benefit from industrial-scale operations. With a market share estimated at around 20%, which is £52bn of a £261bn market, and unlike many platforms already profitable, we believe Cofunds is well placed to take full advantage of the market growth.

Cofunds was an early mover to explicit pricing, or clean share classes, or nil rebates for new flows in September 2012. That proved a good strategy ahead of the recent announcement which bans cash rebates from fund managers from 2014 for new business and from 2016 for legacy business, and in addition to having a strong position with IFAs and in bank assurance, Cofunds also benefits from further diversification with its institutional business. L&G's agreements with partnership in the bank assurance space, and Cofunds' partnerships with large advisory firms, such as Skipton and Chase De Vere, provide a diverse and solid base to hedge the impact of regulatory change. There are currently around 30 platforms in the market, with the majority moving to focus on high net worth, and many still loss-making. This is an inherently unstable marketplace that may well see structural change at some point in the near future.

In our view, scale is a necessary requirement for profit, and scale enables the development of industrial processes and operational leverage. Cofunds focuses on doing fewer things really well that can be leveraged many times, and therefore the value to the customer is maximised. By contrast, providing a high end wrap platform requires continual investment in complex solutions and functionality for a diverse set of customer demands, resulting in high charges for customers. Cost and price leadership is increasingly important in a post RDR landscape. The attraction of Cofunds' model is demonstrated not only in our very large number of IFA supporters, but also in our strong partnerships with much larger businesses.

Arguably Cofunds is three platforms for the price of one. While it has the retail proposition you would expect, it also has a white label capability, most notably for our own IPS service for banks and building society distribution, and a distinct institutional client proposition. Cofunds' institutional services provide efficient transaction and custody functions, allowing clients to benefit from our scale in their non-core areas. The institutional business has evolved to provide services to a broad range of over 40 clients, including discretionary fund managers and distributors, names such as Charles Stanley, TD Wealth, Brooks Macdonald, Quilters and SEI, and although this business has lower gross margin, it adds scale and marginal contribution to support fixed cost coverage and is cheaper than retail to operate.

The retail proposition further benefits from the advisory and bank assurance sub-platforms, and in the bank assurance space. Legal & General's IPS platform can be used to secure increased levels of product and fund revenue in that bank assurance space. There is an advanced level of integration between IPS and the front end technology used by advisors, creating a compelling offer in that space.

Cofunds' platform offerings are based on shared technology and operations, but they can be customised for different user bases in order to exploit different markets, without diluting the advantage of single platform. The use of common technology and operations provides further efficiency as scale builds from these diverse sources. The variety of partners and advisory models demonstrates Cofunds' capability to use a single technology and operational base to support multiple and diverse distribution models. These multiple channels provide our platform offering with a hedge against possible future developments in the platform market. Whether our partners want our branded service or to make it their own, we are able to be a highly effective and scalable partner.

Cofunds delivered rapid growth in AUA and revenues during the period when we've been a minority shareholder. Unlike many platforms, Cofunds makes a profit. The profit of £4m in 2012 reflects investment in preparation for RDR. We will of course continue to invest appropriately to ensure that the platform adapts to the evolving marketplace, nonetheless given the scale and with clarity of direction under our ownership, we are very confident that profit can be driven north from here.

The historic financials provide some reference point for you to assess where the opportunities are. As Cofunds grew and acquired scale, there was less focus on the cost base. At the turn of the year it had a headcount of well over 800 supporting the business. Straight through processing rates are currently around 25%, so while the business has achieved much in creating the scale to be successful, it's clear to us that much more can be done to drive up usage through embedding digital processes more deeply, both inside the business and with our user base, so we're confident that we can further reduce operational costs.

We're now managing the integration programme, and this is phased with activity concentrated in the first 12 months following acquisition. At each stage, we deliver cost savings. Phases 1 and 2 build on the strengths and capabilities of the Legal & General Group, the initial focus is on addressing duplicate functions where we can quickly gain fixed cost leverage. Access to L&G's group buying power and using L&G Group specialists instead of external consultants will also provide relatively quick benefit, and further to this by bringing all platform operations under a single business with common management, we will be able to use resources more flexibly, particularly in periods of high volume, and gain some benefit also from reduced management overhead; for example a single change in development programme removes frictional costs that existed in the previous business to business relationship, reducing overall costs and streamlining future delivery. Based on this we're expecting our acquisition of Cofunds to be earnings accretive in its second year. In Phase 3 we will bring our experience of streamlining processes on IPS to support the delivery of operational savings.

When we announced the transaction, we confirmed it was capable of generating £11m annually in total cost synergies. We did not provide a value for revenue synergies, though we believe there is a real opportunity to generate additional value. These potential revenue synergies are in addition to our prudent business case, which was developed to ensure clear focus on driving out the cost synergies. Open architecture is very important to us and to our partners. However, we see clear opportunities across the value chain. Like a high street supermarket we'll promote our own brand offerings, but not to the exclusion of customer choice. As our retail investments proposition gets much more traction, we expect the share of own brand L&G's retail funds and fund solutions to increase. Cofunds has historically been underweight on pensions. Pensions assets account for only about 6% of AUA, versus market levels of some comparable platforms of over 30%. L&G's pensions expertise and leveraging Suffolk Life in particular will drive growth. Suffolk Life's SIPP is already in Cofunds, and by bringing the two entities closer, we have the opportunity to drive up SIPP volumes.

Working together across our new and extended value chain gives us optionality to access a wide customer base for non-investment products, such as Protection, General Insurance and Annuities, as well as the opportunity to exploit the common technology and operations to develop direct to customer propositions. Bringing this together, depending on market conditions, we would anticipate Cofunds' AUA growing between 10 to 20% a year over the next few years, providing AUA of between £80 to £100bn by 2017, compared to the current £52bn. Meanwhile, based on both cost and revenue synergies, we are projecting rising profits over the same period. Additionally there are broader synergy benefits for the wider group, including some intangibles such as the capacity for Cofunds integration to help the development of digital across the L&G Group.

Our ownership of the UK's largest platform gives us both a means to win in the future platform market and to do so far more quickly than many. We're avoiding the trap of developing an exciting but expensive wrap into the overly competed for part of the platform market. We've secured a scale play, to ensure our place across the whole market, the whole value chain.

So now having covered the last section of our savings engine for growth I'll hand over to Andrea Blance.

Andrea Blance, Chief Financial Officer, Savings

Thank you, Chris. Good afternoon everyone. I'm Andrea Blance and I'm the Chief Financial Officer for the Savings Division.

I'll start now with the slide you saw at the very beginning of this presentation; the simple earnings model that underpins our strategy. The business strategy that Mark and Chris have set out is strategically and financially compelling. We're now firmly in the growth phase and we're clear in our goals to deliver a high scale business and maximise absolute returns. The growth businesses are well positioned to grow the stock and the flow of assets profitably through each of the four channels discussed today, and you've seen the plans we have for further extending our scale. Meanwhile the mature businesses are core assets, they will deliver predictable, strong, cash generation through the medium term, but we do need to achieve more leverage and drive unit costs lower still.

The task for finance is straightforward, at least in principle. The focus needs to be on two key variables; growth in assets, which will drive the revenue line, and the reduction in unit costs, where an efficient servicing model is critical. These drive cash and earnings, and it's these two items I'm going to focus on today.

So starting with scale in assets; by 2012 we had grown these to £70bn, and that's before the addition of Cofunds. As Mark has outlined, we benefit from vertical integration, which enables savings to gain gross revenue at multiple points. Excluding with profits, gross revenue in 2012 was 82 basis points. That was after deducting the fund management fees that we paid to LGIM. We operate to strict underwriting criteria, which instils firm pricing discipline and gives us confidence in the quality of these revenue flows. Periodic reviews by Simon Gadd, our Group Chief Risk Officer, provide further assurance.

We fund direct operating costs, including trail commissions and deferred acquisition costs amortisation from gross revenue, to come to the gross contribution margin that we earn on our in-force assets.

We then fund commission costs and strategic investments out of the gross contribution to drive a net contribution margin.

The second priority is cost efficiency. We operate a culture where there's continuous review of direct costs. Our approach requires not just the right strategy, but the skill to execute effectively. We have a good track record in this respect, and have successfully turned the Savings business around. In 2008, we consumed cash. In 2012, we generated £170m and at the same time we reduced in-force unit costs.

As Mark has mentioned, we faced into the need to transition the business model in 2009. A number of tough decisions were taken. For what was probably the first time in L&G's history, we announced material redundancies in our back office support functions in 2009, and as a result headcount was reduced by 20% between 2008 and 2010 in the Savings division.

Between 2008 and 2009, we reduced initial commissions as we introduced new product styles with trail commission terms. We also reduced stakeholder pension commission rates and last year we right-sized our IFA account management teams, to establish the appropriate post-RDR structure to support our long term IFA relationships.

As a result, new business string fell from £161m in 2008 to £62m in 2012, and that was a total reduction of 61% and at the same time unit costs fell by 21%.

In 2012, as a result of all these initiatives, savings delivered a material operating profit contribution of £133m. Around 90% of this profit was available to be remitted to group as free cash, available either to fund the dividend or to be reinvested in growth opportunities.

Disciplined execution has to be built around the right metrics. When I joined Savings in January, Mark asked me to review the metrics that we currently used to drive business performance. We quickly concluded that the traditional life of pensions metrics that we've been using and which have served us very well in the past are now sub-optimal. Savings is an asset-gathering business, and as such should be run on asset management metrics. We've therefore decided to start transitioning Savings' performance metrics from insurance-style metrics, which focus on APE and embedded value numbers and so on, to new asset management metrics.

This is an important journey. We're working on first cut numbers and are making the changes to our systems to deliver prior comparatives and projections. I see this as a culture change initiative, as well as a metrics initiative. For example, the Savings executive team is already being targeted in 2013 on the new draft metrics, including net funds flow, assets under administration, fee revenue generation and cost income ratios. We're already seeing different behaviour as MDs have greater transparency over the performance of their businesses.

This is not the first metrics project I've led here at Legal & General. Some of you may remember I was Group Financial Controller back in 2009 when we pioneered cash metrics across the Group. And you may remember that we defined and redefined the cash metrics several times in those early days. My personal learning from that time was that the process of definition really needs to be substantially complete before we go into detail with new disclosures to the market.

The new metrics are more transparent and they do improve accountability. They align better with our strategic ambitions to grow assets and drive out cost efficiencies, and they will accelerate profit generation. We'll start to disclose them externally as the project progresses, and we are making good progress.

We're further ahead in the Retail Investments business in this respect. And here you can see the type of simple metrics and disclosures that I would like to form our template. You can see very clearly how we arrived at an operating profit of £30m for 2012, which was based on £11bn of assets, a net contribution margin of 31bps, and a direct cost income ratio of 60%. Since 2008 the net contribution margin has doubled from 15bps to over 30bps.

Adopting the new metrics across Savings will enable you, our investors, to track improvements in the important cost/income ratio, and will give more transparency on profitability. And don't forget that LGIM earns money manufacturing the funds which are at the core of our Retail Investments proposition. This is not included in the £30m of profit on this slide.

So this is how I assign my priorities. Each of our growth businesses is at a different stage relative to the scale efficiency frontier. But for each of those businesses the goal is clear: to create long term value through operational leverage. In Bank Assurance we fully expect to exploit our market position, and we believe there will be the potential to expand the model further through new partner acquisition. During the transition period we will manage the challenges of developing and extending the operating model.

Our Retail Investments operation has created good scale and is well advanced on its journey. It's further ahead in terms of our financial delivery model, but there is more to do to drive cost efficiency, even as we ride the expected wave of growth in passive investment. This business benefited from the migration of the Nationwide Building Society's funds back book, showing the synergy benefits of acquiring scale. The business has invested in an automated workflow processing and has worked to manage mix, including rationalising low-value products. And I'm working with Simon Pistell, the new MD, to assess further opportunities for efficiency.

With Workplace we acknowledge the imperative to delivery both scale and efficiency. And this is a journey where we have made good momentum. As we enter the second phase of auto-enrolment cost control and pricing discipline will continue to be vital.

Cofunds already benefits from substantial scale, but to date it hasn't focused on efficiency; pointing to a clear opportunity. So, we've put in place a detailed project plan to drive out synergy benefits, and this has been agreed with management. This is another area where Simon Gadd and his team will provide additional independent review and challenge over our delivery. Again we have a clear model of accountability with a single accountable owner and there is clear alignment of success and reward.

Across the board, and notably in mature businesses, we will relentlessly eliminate uneconomic activities and drive out redundant cost. As Mark has mentioned, we recognise the challenge of diminishing assets under administration and the related contribution from mature lines, and this is built into our plans. Our aim is continuous cost improvement and specifically to reduce costs in line with AUA maturities.

We've had increased focus on retention which has resulted in over £600m of assets being saved between 2010 and 2012. We will improve our policy retention mechanisms and continue rationalising mature funds and products.

And so in conclusion I believe this model will drive long term value, not only for Savings but also downstream value for the rest of Legal & General within LGIM and also within protection and annuities. We think we're uniquely positioned amongst savings providers as a company which operates at so many levels up and down the value chain and which also has the product range to cross-sell and up-sell through a variety of customer life events. Maximising these synergy benefits is a core part of the Group-wide strategy.

So, now back to Mark to wrap up.

Mark Gregory

Thank you, Andrea. That brings us almost to the end of the formal part of the presentation.

We've shared our vision for Savings business, which creates a value for shareholders and gives customers access to good value, high quality financial products. We have a long term vision to create an asset gathering fees business. We aim to deliver steady year-on-year progress. We've developed a differentiated portfolio of attractive routes to growth markets which we understand well, where the macro factors play to our strengths and therefore we can outperform. We aim to build long term value through developing high scale and operational leverage. Operational excellence is in our DNA, and we have options to deploy the models more widely. I know this because we've done it before.

Here you can see the Group's track record of sticking to a vision and making it work. We selected protection as a growth market over a decade ago. We consistently innovated to develop industrial processes which enabled us to deliver value and establish a leading market share in the middle market. Strong execution means that we have grown our gross premiums fourfold to £1.3bn in 2012.

The development in LGIM over the same period tells the same story: through scale and focus on operational excellence to meet client needs, LGIM has grown fourfold from £111bn in 2000 to £441bn today.

And we have the same long term vision for Savings: to accomplish the virtuous cycle of scale, efficiency and customer value which drives further scale and economies. Our Savings business is on a journey to becoming a large-scale efficient, profitable asset gatherer. The turnaround has been efficiently executed, and our mature business continues to provide a strong underpin for growth. We have a clear strategy in place for our growth businesses with the right distribution channels to drive asset growth, and rigorous control of costs.

We've chosen our markets very carefully: a differentiated approach focused on markets that we know and with a customer base that we understand well. The middle market segment is currently underserved and has strong market growth potential. Scale and operational efficiency of the sort we have delivered elsewhere will enable us to serve this market and provide increasing value to both shareholders and customers.

Hence my aspiration that these four routes can deliver average annual growth rate to total savings AUA of at least 10% per annum over the next five years, even allowing for the natural decline of our mature business. This implies a total stock of assets of at least £175bn at the end of this period. And the benefits will be felt right across the Legal & General Group. Our Savings business generated £309m of single premium pensions into our annuity business in 2012. And growth in workplace pensions means we expect an increase in internal flows for our annuity business going forwards.

We can also envisage that Workplace could become a key gateway for employees to access our other savings and insurance products. We believe we have the right strategy and we are well advanced in executing and delivering significant growth in assets. We can expect steady year-on-year accretion as the pool of assets grows, and with it fee revenue and operational leverage. Savings will continue to deliver high quality earnings for the Group.

Finally, L&G has a trusted heritage brand and seven million customers already in the UK. This plays to our advantage. The economic and regulatory forces influencing the UK savings market are highly likely to favour financially strong institutions such as L&G, those with a track record and a wide range of skills and a commitment to professionalism and customer service.

Just being Legal & General is a great differentiator for us.

Thank you for listening. I appreciate your time. And now I would like to open up the floor to questions.

Question 1

Gordon Aitken – Royal Bank of Canada

Three quick questions, please. Just on the Nationwide deal if you can talk about the basis points that Legal gets when you're selling through that agreement versus when you're just selling outside that agreement?

Secondly on the Retail Investment side. You talked about you'd reduced your passive fees. I think many of us buy into the fact that the RDR has levelled the playing field because active funds did offer more commission; why did you therefore reduce your passive fees?

And third on Cofunds – it's a very small profit, £4m against a very large block of assets. You've obviously got targets for assets out to 2017; what have you built in in terms of revenue basis points and cost basis points over the next five years?

Answer: Mark Gregory

I'll pick up the first one on Nationwide. Simon, do you want a quick go at the retail fees reduction? You put it in place; you can justify it now. And on Cofunds Chris you can pick up the question on the revenue going forwards.

Just on Nationwide, clearly Gordon I'm not going to give you precise pricing because that would be too much commercial sensitivity around that. But we do make our margin in different places. Primarily we get it from the platform charge from using our IPS platform; but clearly they also often take L&G funds or L&G products and we make additional product margin from that as well. Again, we do make our margin in very different parts of the value chain. And I guess in that case the model is working in that naturally the actual cost of providing advisors is met by Nationwide under that model. So, that's where we get our revenue from under the Nationwide relationship. I'd rather not disclose precise basis points of revenue. I understand why you want it, but I don't think I can.

Simon, do you want to explain where we are with passive funds?

Answer: Simon Pistell

On passive funds we took the decision to reduce prices for a number of funds, I think it was April time. They were relatively small price reductions, a few basis points here and there. And it's really to bring us in line with market leadership of passive funds in the UK. We were a little bit I suppose more expensive than some others, and we're pretty much now in line across the board.

Answer: Chris Last

On Cofunds, in the presentation I referred to the fact that we were going to spend £17m to take out £11m of annual costs. So, the position will improve substantially from the £4m profit that we're talking about now. We believe there are other opportunities as well in terms of bringing our two platforms together, looking at cost bases. But the plan is £11m improvement in the cost base going forward. So, a substantial difference to that profit figure.

Question 2

Blair Stewart – Bank of America, Merrill Lynch

Mark, you talked about the 10% asset growth target. Just how should we think about that in terms of net flows versus the market effect that you've baked in? The Savings business has had I think pretty much close to zero flows over the past couple of years, so is there something happening to the outflows; is that starting to tail off as we move forward? That's the first question.

Secondly, you've obviously given the AUM targets; how should we think about profits? What would be your thinking on operational leverage effects on profits? How shall we think about effects of competition, changing asset mix etc?

Answer: Mark Gregory

Just on the question of how we split the 10% between I guess market growth and net flows, we haven't given that split today, Blair. I would just say it is in line with LGIM's estimate for market growth over the next five years. It's not unduly racy, if you thinking that's what's driving the bulk of the number; but we have got a market growth expectation in those net flows numbers.

In terms of what is going to change going forwards, I think we have highlighted today hopefully where we're going to see accelerated gross inflows going forward, and clearly that is going to be a very big constituent of that growth up to my target of £175bn. But you're also right to say actually we do start over that period to also face into a slightly lower level of outflows as well; so some of the spiky maturities we've seen over the last few years should at least start to temper down a bit. So, there's a little bit of that going on; but actually the majority is coming from higher gross inflows rather than necessarily a slowdown in the rate of outflows – although there was a little bit of that in the equation.

And just on the relationship between AUA growth and profitability. Clearly we haven't provided any earnings direction today, Blair, and that was a deliberate decision not to do so. We were very much keen to set out the strategy for the Savings business and how we go about it. I think we've been very consistent with our view of identifying growth markets, where we see our model driving that growth for L&G, and a clear focus on operational leverage – that has always been part of L&G's DNA and that is going to remain so going forward. So, we are very focused on managing that, the old net margin five-year earnings we produce for the Group. We're not providing any earnings guidance today, if you don't mind. I'm sure you do mind, but I'm not doing it anyway.

Question 3

Andy Hughes – Exane, BNP Paribas

I just want to follow up on that one because it seems to me that you've got a large proportion of your book which is sold through building societies in the past i.e. structured products and things with quite high fees. And if the underlying assets under management only grow by 10% it's not clear to me that the fees of the book as a whole is going to go up, because obviously the legacy business having a fee of around 1%. And particularly in terms of considering the metrics, the net flows in themselves don't mean anything if you're losing the higher margin business on the back book, so if you're considering the metrics you suggest you weight them by net flows.

You've not talked too much about Suffolk Life, even though that was a big initiative to grow into the SIPP market a few years ago – and I know you've got a list of successful things. Can you talk about what went wrong with Suffolk Life specifically?

And on the IPS platform, I don't know whether platform is the right word – maybe I should use a rather ruder word and call it a half form, because, as the guy from Nationwide pointed out, if you're not advising on pension assets how's this model going to work? You have a platform which has everyone's savings assets on it, but at some point the investor will need advice on his pension and does he then walk into an IFA and the first thing the IFA does is move all his savings assets onto their wrap platform? And what does that do for the profitability of the business that's sold through the building societies? Thank you.

Answer: Mark Gregory

Okay, thanks Andy. Just on the impact of, I guess, the old book going off and the new book coming on, and clearly we've absolutely factored in the kind of impact that's going to have in terms of gross revenue, and again, the focus is very much on making sure we can manage net margin through that equation, Andy, and yes, we're absolutely mindful of the challenge of what might appear to be very high margin figures going off the books and that being replaced by lower margin business going forwards, but absolutely, we're focused on the need for efficiency to make sure that we protect the net margin over the period. So we absolutely understand the exam questions you're highlighting and again, the strategy is very much focused on making sure that absolutely that operational efficiency is built in to the model because that is what's going to drive and maintain the margins that we achieve at a net level.

In terms of Suffolk Life, you're quite right, we haven't said much about Suffolk Life, it's actually doing very nicely, as it turns out, and perhaps we should take a bit more chance to talk about Suffolk Life going forward, and again in that market we're seeing the first signs of quite big consolidation. So for what it's worth there are about 130 SIPP providers in the UK, which is probably about 125 too many I would suggest, but that might take a little bit of time to work through. But Suffolk Life is a quality brand, it's got great, great service standards and is making a decent contribution, so I think perhaps we should make a bit more effort next time, Mike, to actually say a bit more about -- sorry, Mike Bury, who runs our Suffolk Life business, it's part of his area, it's actually a very nice business and doing well and again, as Chris said earlier, we do see optionality under owning Cofunds to drive more SIPP business on the Cofunds platform going forwards than we've achieved to date.

Just on the IPS platform and pensions, Chris was obviously talking about he didn't see Nationwide customers necessarily at this stage wanting his advice as to advise on pensions, clearly we do deploy IPS beyond just Nationwide and when are we going to launch our platform based pension, Mike? Sometime in Q3 hopefully.

Mike Bury, Managing Director Retail Savings

Morning, Mike Bury. We use the IPS platform in a number of different areas, one of them is our business partner area and we're hoping to launch a pension in that market on the IPS platform next month, and then as the year progresses we can look at our other areas, not just Nationwide, but the other building societies etc that use IPS, some of whom have a different view to Nationwide on the importance of a pension.

Further question

But sorry, the original question was at some point people want advice about their pension or will move the assets off, is that a concern? Thank you.

Mark Gregory

No, I don't see it as that, and again it is for Nationwide to decide whether they want to advise on pensions and clearly their current view is they don't want to do that. I would argue that if the customer need is there for them to advise on pensions I suspect Nationwide would want to advise on pensions, so I think it's very much driven by customer need.

<u>Question 4</u>

Oliver Steele - Deutsche Bank

Oliver Steel at Deutsche Bank. You've been reasonably clear that you don't want to talk about the earnings outlet fee or diversion, you've given us the revenue bps, so I guess from that we can work out what the expenses are. Can you give us some indication of the split between those expenses as to how much might be sort of exceptional investment that's going into the division at the moment and how you see that investment sort of panning out going forwards?

That's question one, the second question is how are you feeling about further M&A in this area?

Answer: Mark Gregory

Okay, I did kind of try and highlight in the presentation, Oliver, that we do try and maintain a kind of level of investment going forwards and see it very much as a kind of ongoing part of the business to actually keep investing at a sensible level. I would say we have had a period of slightly elevated investment over the last year, particularly on the back of the RDR programme, so I would expect naturally that the level of saving has driven investment to decline back to where it perhaps, for more normal levels where it was historically rather than where it was during 2011 and 2012, so we are expecting a reduction, but again, our model does allow for continuing investment in the proposition over time. So what was the second question, Oliver?

Oliver Steele

M&A.

Mark Gregory

Oh, M&A, sorry yes.

Oliver Steele

Any numbers on that section or level.

Mark Gregory

Any numbers?

Andrea Blance

We gave some numbers at the half year last year in Nigel Wilson's presentation, I think we said we'd spent at that stage £44m on RDR and around about £20m on auto-enrolment. We haven't subsequently given an update, but I think you'd expect that we continued spending in the second half of last year on both those programmes, what you might not think of is that we spent a little bit more on embedding RDR into the business as usual activities in the first six months of this year, and beyond that business as usual activity broadly speaking.

Mark Gregory

And on the M&A point, Oliver, I guess it's stock in trade answer, but absolutely we're very mindful of the role M&A can play, but only where it will accelerate in view of our strategy or where it perhaps will fill, or augment where we think it can add to the overall proposition, but the usual caveats around energy as usual, financial discipline around doing any M&A, and it will only be bolt on, nothing transformational.

<u>Question 5</u>

Ashik Mussadi - JP Morgan

Thank you, Ashik Mussadi from JP Morgan. Three questions, you talked a lot about this vertical integration and value creating across value chains, so can you talk about the revenue margins that you generate across the value chain, at least some colour around that. that's the first thing, and the second, what proportion of your business is already following that value chain at the moment and what are your expectations going forward? And thirdly, can you talk a bit about like how does this LGIM work, the revenue from savings to LGIM, what's the basis point revenue that goes from Savings to LGIM? Thank you.

Answer: Mark Gregory

Just on the vertical integration, the kind of margin we make across the value chain, I think we tried to indicate that we try and make a sensible amount of margin from each bit of the value chain, rather than kind of trying to shoot the lights off in one bit and subsidise other bits which are not profit making, so that's absolutely part of the model. Now, clearly they're not exactly the same net bits in all kind of five main bits of the value chain, but we try and make absolutely sure that each bit pays its own way in its own right, and again, the other big benefit for vertical integration is the fact that one doesn't have kind of selling costs between one bit of the value chain and the next bit, so we have natural cost synergy in the fact that we have a joined up proposition. But it's absolutely key that each bit pays its way, we're not looking to make masses on platforms say and then lose money elsewhere, that's just not the way the model works. We'd like to take a notch of profit at each stage of the value chain, rather than subsidising from one bit to the next.

Sorry, what was your second question?

Ashik Mussadi

What proportion of your business is already following that value chain?

Mark Gregory

Oh yes, on this basis. It's quite hard to say, I mean clearly with the acquisition of Cofunds today one might argue that clearly that's the big transformational step in terms of really pulling together that value chain, and I think also post RDR we are seeing things like the advice distribution that we're bringing ourselves, rather than through the retail IFA market, that is shifting as well. So I think probably it's quite tough to actually quantify it at this point in time but clearly going forwards it will be quite a big shift from perhaps where we would have been let's say two years ago in terms of having the model on to this new basis. So it is quite a big shift from where we would have been historically, both on the back of RDR and the Cofunds acquisition primarily.

In terms of the kind of basis points margins that LGIM make, again we haven't disclosed that, clearly in the past we have disclosed inherently LGIM's cost/income ratio, talking about roughly 50%, it roughly makes whatever, 11 or 12 bps and costs around 6 bps, whatever, so all things being equal I think that's enough steerage about kind of what margin they might make on those assets themselves. We're not going to disclose the precise margin that LGIM makes on internal funds.

<u>Question 6</u>

Marcus Barnard – Oriel Securities

Marcus Barnard from Oriel Securities. Can you tell or remind us how Nationwide gets value for itself out of the distribution? I can't remember if it's a JV or just a profit share or whether it's a fee or a commission that you pay them. And also, what sort of structure is in place, because obviously banks and building societies are quite happy to pass business across when times are good, but sometimes when they're in need of deposits and deposit base volumes might dry up a bit. So can you just talk a bit around the structure of that deal you've got with Nationwide? Thanks.

Answer: Mark Gregory

Yes, again I'll have to be careful not to disclose too much of the kind of confidential information, Marcus, but Nationwide, in terms of pure advice, only get their value from the advice charge, so all other aspects of the advice proposition fall outside Nationwide's revenues, so that's very much where they make their part of the value chain.

On things like execution only, there is then some of the more traditional kind of commission type and revenue sharing type structures in place for that, but clearly post RDR that world has largely moved on to a world whereby they make their money from the advice charge.

Marcus Barnard

Is there anything in the agreement on volumes and guaranteed levels?

Mark Gregory

No, absolutely not, that's not the way the partnership works, and again we work on it together and when things are not going as well we work together to make sure they go better. Again, it's a very co-aligned relationship we have with Nationwide, and indeed all the others of our core building society partners.

In terms of the kind of structure and what happens when they get focused on other things, all I will say is that virtually all our business partners in the building society sector are very, very focused on financial services in the wider extent, so actually it is a key part of their total value. I think from memory I think Nationwide makes about 30% of its earnings from kind of noncore activity, including the FS it gets from L&G, so we are a very, very key part of that equation and it's a very happy relationship I'm glad to say.

Question 7

Nick Haskins - Moore

Nick Haskins. A quick question just on Cofunds, I think you said that the straight through processing was 25% which seems incredibly low. Can you sort of tell us what you expect that should be going forward? Thanks.

Chris Last

I think probably impossible to say where we will eventually get it to, the point I was trying to make was that it was relatively disappointing against the average in the market. Encouraging that there is some going on. The focus in Cofunds which I think also came out in the presentation was heavily on RDR last year as indeed with a lot of people and that focus on straight through processing will increase now on take on. So we're ambitious for it, but I wouldn't like to put a figure on where we'll get to and when, it's a very upfront focus.

Question 8

Andy Hughes - Exane, BNP Paribas

Andy Hughes, Exane, BNP Paribas again. A quick question on Cofunds. Obviously as you point out, Cofunds has been around for a while, a big fund supermarket historically, now we've got the wrap platform as opposed to RDR and advisers narrowing down their number of wrap platforms they place business on, can you provide some guidance as to what kind of assets you might lose through registration, because it seems to me that yes, it's not a bells and whistle service but a high net worth individual may want bells and whistles and therefore the IFA may move them on to a new platform. So I mean what's happening in terms of losing assets on that side? Thank you.

Answer: Chris Last

I mean firstly Cofunds has done very well post RDR, I think it's been very encouraging, the position, but where we're setting our cap with Cofunds is we have got more development to do and I mentioned the pension space is definitely there, but lots of advisers use multiple platforms as mentioned in the presentation and what Cofunds does really well is really liked by its adviser base, so we do lose some assets when more complex wraps are required, but actually Cofunds also does well the other way too. So Cofunds is positioned to actually be really good at what it does, we will enhance the proposition but we're quite clear on where our marketplace is.

<u>Question 9</u>

Alan Devin – Barclays

Hello, Alan Devin at Barclays. A couple of questions first on Cofunds, I think your growth objectives of 10% to 20% are pretty much in line with what the realistic growth assumption is for the industry, does that mean you expect to basically maintain your market share? And with 30 platforms in the market would you not expect some consolidation in that market?

And then secondly, on the update rates you talked about were so low at the minute it was effectively hard compulsion, where do you think those update rates will land at? Presumably they'll probably head downwards over the next couple of years? Thanks.

Answer: Mark Gregory

Okay, thanks, Alan. I'll pick up both those and give you a rest, Chris. On the Cofunds and our guidance in terms of where we expect the growth to come to, Alan, you're right, it is kind of very broadly in line with industry estimates and I guess yes, we would like to do a little bit better than that, just to kind of put a steer on it, but like all these things if I'm putting my personal name against it I want to make sure that we get there, rather than don't get there. So we absolutely recognise that, but having said that, clearly Cofunds is a very big beast so in that sense it is a little bit tougher as you get bigger to actually keep the same compound growth rate as perhaps the wider market. So there are a couple of forces in both directions, I agree, there is an element which consolidation may well play to its gain but also that scale at some point is tough to kind of keep the mass going forever and a day. So that's in the counter direction.

In terms of opt out rates on auto-enrolment, you're quite right, at this level we are lower than we expected we would be at. It's kind of tough to work out roughly where it's going to end up now, but we were focusing initially, we built our business case based on 50% opt outs as the worst case, we thought it would probably be about 33%, in reality it looks like the run rate being somewhat lower than 33% longer term. If I were guessing, and I really am guessing, maybe 20% to 25%, but it's not particularly well informed, it's just my gut sense where that opt out rate may end up, and clearly it depends a lot on the extent to which the employer gets behind it and the extent to which employers are prepared to be a little bit more generous than just the minimum rates etc. But there's quite a lot of momentum now around auto-enrolment, people seem to be quite happy to put their money into it. So there's certainly hopeful early signs.

Question 10

Ravi Tanna - Goldman Sachs

Hi there, it's Ravi Tanna from Goldman's. Just one question please. You spoke a little bit about the potential benefit for the retail business for selling LGIM funds, and the overlap between those two in terms of strategy, and I saw recently that LGIM closed one of its European retail funds and I was just wondering what the implications are and perhaps you can give us some disclosure on the balance between external funds and LGIM funds within that retail business please? Thanks.

Answer: Mary Gregory

Yes, we did announce we'd close the European Absolute Return Trust, that was a fund that didn't kind of get much market traction, so we took the view that better to not have it than have it so that fund has been closed down, but that said LGIM is still very much the kind of engine room of our retail finance business so currently where we have got external fund managers in the unit trust business it is where we actually have acquired books of business in the past. So we've never actually launched a new fund of our third party fund manager other than the fact that we do have three multi management funds in this suite which obviously does use external fund managers, but that's really the only exception to that rule. So it's very much well, where have done M&A and acquired unit trust books in the past that have come with some inherent external fund managers and we have maintained some of those.

Thank you very much for listening and taking the time today. We are actually for once going to lay on a bit of lunch for you, so that's very rare for L&G, but I hope you enjoy it and thank you very much for listening.

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