

Nigel Wilson Good morning. Welcome to our 2018 Full Year Results. As our title suggests, we are delivering inclusive capitalism and inclusive capitalism is delivering for our shareholders and for our customers.

A couple of bits of housekeeping. Here are the usual forward-looking statements. Please switch off mobile phones and if there is fire alarm, the home team will shepherd you downstairs.

First of all, a big thank you to all of my colleagues; another year when they delivered. 2018 was a year when political risk increased everywhere, economic growth slowed everywhere, markets underperformed everywhere but it was, yet again, another year of strong financial performance based around our consistent strategy and consistent delivery.

Our long-term macro drivers of growth like demographic change, digital technology and globalisation of asset markets are so self-evidently long-term and so well-established that our resilient businesses relentlessly keep moving forward. We can and will self-determine our success through excellent execution. The capability of our people both complements and supports our market-leading businesses.

In terms of financial highlights, operating profits from our divisions were up 10% to £2.23 billion, EPS was up 7% to 24.74p. We had a £200 million negative investment variance which reduced EPS by 2.7p, much of which occurred in December and has reversed since. Our return on equity was 22.7%. Our full-year dividend increased by 7% to 16.42p and our book value per share increased by 13% to 143p. Our S-II operational surplus generation also increased by 14% to £1.4 billion.

Legal & General was formed in 1836. It took us 175 years until 2011 before our operating divisions delivered over £1 billion in annual operating profit, but in the next seven years we accelerated our evolution and added another £1.1 billion of operating profit. This resulted in the £2.2 billion shown on the slide.

The bar charts for operating profit and EPS exclude the mortality release for 2017 and 2018 and the positive impact from US tax in 2017. The tax effect was a one-off, the mortality impact is multi-year, it is more of a trend than a blip. Our growth in EPS from 2011 to 2018 is 10% per annum, an absolute increase of 100%, from 12.42p to 24.70p.

Consistent delivery has also been the watchword for dividend per share. For the third year running we've increased this by 7%. Our dividend policy remains consistent, progressive and sustainable. The quality of earnings is also demonstrated in this slide. We have consistently grown EPS and whilst our DPS has been growing at 7%, we've increased the growth in our book value per share; last year's was 13%.

L&G is a long-term business that is creating shareholder returns for the present and growth for the future. In summary, we've been delivering double-digit growth in operating profit and EPS, dividend per share has grown 7% per annum for the last three years, book value per share 11% compound for three years and our ROE is over 20% again.

Laura and Kerrigan are going to discuss LGRI and LGC in some detail, however it is worth noting that our investing in annuities businesses grew operating profit between 16% and 42% and delivered a combined £1.437 billion towards our £2.2 billion continuing divisional operating profit.

We are the only PRT player competing in all global markets. Our UK share was, once again, 30%+ whilst our US share is only 3%. In lifetime mortgages we've created a 30% market share in a market which could quadruple in size over a ten-year period since our entry three to four years ago.

In individual annuities, historically, when sales from insurer back books dominated, we had a market share below 10%. The market has opened up, the playing field is levelling, and our market share has risen to 19%. These are all relevant, important businesses which are economically and socially useful. They are aligned to our main growth drivers, notably the need to create productive real assets and the necessity to produce tomorrow's capital.

LGIM deserves a special shout out as the UK's first and only £1 trillion asset manager; again, a global business with a significant US presence and an increasing capability to win mandates in Asia. We compete in an \$80 trillion industry, heading to a \$120 trillion industry. We have a 1.6% market share.

Our £43 billion of net flows is again a standout performance. At this point I would also like to thank Mark Zinkula for his leadership since 2011. Mark and I have enjoyed many, many constructive discussions. Mark has built a uniquely successful US fund manager, a UK market-leading, multi-asset business, and established our fixed income and LDI businesses as global leaders.

He has also opened up the Chinese and Japanese opportunity to his successor, Michelle Scrimgeour, who will succeed Mark later this year. I'm confident that Michelle, whilst bringing her own capabilities around operations and risk, will help us continue to deliver growth.

Insurance, under Bernie's leadership, successfully turned around group protection, exceeding our sales expectations. We also experienced good growth in retail protection in the UK and the US. We have developed several market-leading technology solutions in insurance.

In summary, against complex political, economic, weather and market background, we delivered in 2018 as we have done consistently over the last ten years. I will now handover to Jeff, who will take you through the financials in more detail.

Jeff Davies Thank you, Nigel. Welcome, everyone. This morning I'm going to cover our 2018 results, our performance on both a Group and Divisional basis, our capital position and, lastly, the strength of our liquidity and surplus cash.

Looking to group financial metrics, 2018 was a strong year for Legal & General, continuing to deliver value to our shareholders. Operating profit was up 10% to £1.9 billion, with growth in five of our six business, demonstrating the quality of our business model and the relevance of our focused long-term strategy.

This growth rate is excluding a £433 million mortality release. Including it, operating profit was up 14%. We've been able to make sizeable mortality releases for the past two years because our long-term assumptions about mortality were prudent against emerging longevity trends. Going forward, all comparisons I make to prior year metrics will be excluding these mortality releases unless otherwise stated.

As I mentioned at our half year results, when making measured investments into our business, in order to improve efficiency, gain access to growth areas, enhance customer experience and to comply with the evolving regulatory framework; for that reason, you will notice investment project spend is up 5%.

Volatile markets over the course of 2018 resulted in negative investment variance, particularly in LGC's traded equity portfolio. Despite this, we were still able to maintain profit before tax growth and an ROE of 22.7%.

Finally, as a high-level summary of our capital position, the group Solvency II operational surplus generation was £1.4 billion, up 14% from last year, leading to a coverage ratio of 188%. Importantly, we expect this surplus emergence to continue growing, giving us optionality to invest in further new business. As of 4th March and excluding the £400 million of debt which is to be redeemed on 1st April, our coverage ratio had increased to an estimated 190%.

Moving on to our 2018 divisional results. LGR's Institutional business, which deals with corporate pension schemes, grew 16% excluding the mortality release and 27% when including it. This was due to record UK PRT volumes and the continued stable unwind of prudent margins from the existing annuity book.

Our retail LGR business grew 42%, primarily driven by our increase in market share in individual annuities. Despite challenging markets, LGIM was up 2% and maintained the leading cost income ratio of 52% whilst continuing to invest in growth initiatives.

LGC grew 18%, due to the robust performance of our £2.4 billion direct investment portfolio and benefitting from an additional contribution from CALA Homes following the full acquisition in March.

LGI contributed £308 million, up 2% from the prior year following the turnaround of group protection and continued good performance in our UK retail protection business. This was offset by adverse mortality experience in the US market.

General insurance was down due to the industry-wide adverse weather experience. In addition to our continuing operations, we had £79 million of operating profit from mature savings which we sold in December 2017 and expect to complete in 2019 following the Part 7 transfer, with a profit at that point above £400 million.

Our results demonstrate a diversified business model that can deal with temporary fluctuations in specific markets while still delivering consistent returns to our shareholder and investing for growth.

LGR had a very strong year in both parts of the business, benefitting from market opportunities created by ageing populations. Operating profit was up 22% to £1.1 billion. In addition to profits from new business and our back book, we also recognised positive variances from higher than expected mortality experiences in 2018 and routine assumption changes.

LGRI doubled premiums during the year. Our annuity asset portfolio is now at £63 billion with a quarter in direct investments. We continue to demonstrate pricing discipline, achieving our target returns. Laura will talk about this shortly.

As I said earlier, during the second half we finalised our mortality analysis update. This resulted in us adopting an adjusted version of the next actuarial model CMI '16 for our mortality improvement assumptions, leading to a release of £433 million pounds from our IFRS reserves.

The adjustments have been made to reflect how our annuitants differ from the broader population. This leads to only a small reduction in life expectancy, illustrating the prudence of this release. As usual, we maintain our cautious and staged approach to the trends we are seeing and we'll investigate a move to the next actuarial table, CMI '17, in light of our 2018 experience and the relevance to our book of lives. We will provide an update on our analysis later in the year.

Moving on to LGR's retail business, we have been successful in increasing market share since 2016 in a relatively flat individual annuity market. In 2018, our sales were up 18% to nearly £800 million. The lifetime mortgage market grew strongly. We were able to gather a sizeable share of this growth with advances increasing 19% to nearly £1.2 billion.

Since 2016, we have now doubled volumes in our retail retirement business. The growth in individual annuities has benefited from new distribution agreements and product innovation. Improvements in our enhanced annuity proposition have made us number two in that market. When combining this with our expanded sales and marketing capability, we have grown total market share to 19%.

Lifetime mortgage advances have almost doubled over the past two years, driven primarily by product innovation including the flexible draw down LTM in 2017 and the optional payment LTM in 2018. Going forward, we expect to continue to benefit from recent bank partnerships such as with NatWest and Virgin.

In LGIM, operating profit was up 2% to £407 million. Revenues from flows were partially offset by the impact from adverse markets on management fee growth and continued investment in the business. We've maintained a stable cost/income ratio of 52% which has increased marginally from last year, reflecting this investment. We are automating and simplifying our business using data analytics, digital client portals and optimised investment platforms to make us easier to do business with and drive efficiency.

As guided at our LGIM Capital Market event last year, we expect the ratio to be slightly higher in the short term. Fund performance continues to be strong. External net flows were £43 billion representing 4.3% of opening AUM. This contributed to a 3% growth in AUM to over £1 trillion, a significant milestone reached by the team in LGIM.

In 2018, we saw positive flows from our DC, retail and international businesses. We had £12 billion of positive net flows from DB, reflecting the continued structural shift from DB index to LDI strategies as clients de-risk.

UK DC had a great year with total net inflows of £8.4 billion and has maintained a leading position in this channel with UK DC assets now standing at £71 billion. We anticipate further growth as the minimum contribution for UK auto enrolment increases from 5% to 8% of earnings in April 2019.

We have also built one of the largest and fastest growing master trusts in the UK, which recently surpassed £5 billion in assets. Total DC members have now reached 3.1 million.

In retail, we continued to see high demand for our multi-asset and index products in the UK and are broadening our distribution strategy in Europe. Total retail AUM reached £31 billion with net inflows of £2.8 billion. LGIM was ranked second in the UK retail sales in 2018.

Overseas demand has continued with positive flows from the US, Gulf and Asia. International AUM now stands at £258 billion, making up a quarter of our assets. To focus on the US, the business continues to show positive momentum and has almost doubled in AUM since 2014, growing at 14% on average. Total AUM now stands at \$192 billion with good flows performance of \$15 billion.

We see high demand for our fixed income, index and LDI strategies, with increasing focus on providing more customised solutions for our US corporate DB clients. We are also accelerating our US real assets capabilities.

LGIM's long-term strategic goal is to build on three fundamental themes. Firstly, we have continued to broaden our investment capabilities, building out our core strengths. This includes growing our fixed income active strategy such as high yield, enhancing our multi-asset offerings, expanding real assets which are high demand by pension schemes, and launching our European ETF range.

Secondly, we are addressing the savings gap. Much of our growth in this area is in retail and in DC, where we continue to invest and have leading positions. Thirdly, we are expanding internationally as we export our core strengths. We have had success in our carefully chosen markets within the US, Europe, Gulf and Asia and we see a strong pipeline for 2019.

In LGC, we continue to diversify and expand our asset portfolio. Operating profit increased 18% to £322 million, driven by a 63% increase in our direct investment portfolio to £2.4 billion. The DI portfolio delivered £143 million profit before tax. The existing assets performed well. Our net portfolio return of 7.4% reflects the continued new investment in the portfolio, which Kerrigan will cover in depth shortly.

The traded portfolio of mostly equities was especially impacted by market falls over 2018, resulting in a loss before tax of £94 million. In keeping with our strategy, we are continuing to reduce our exposure to traded equities and invest in new direct investments.

Now, moving into our insurance divisions. On the life side, in LGI, operating profit increased 2% to £308 million. However, there are some moving parts to highlight. In the UK, as previously guided, group protection's profitability improved following management actions taken to address adverse claims experience in prior periods.

Additionally, we made some modelling refinements in retail protection as discussed at half-year. This offset higher new business strain due to writing more group protection business and slightly lower product margins in competitive retail protection market. However, we have seen UK retail protection margins start to improve towards the end of the year. UK gross premiums increased 3% to £1.6 billion and total LGI new business premiums were up an impressive 14% at £343 million.

In the US, operating profit was down \$38 million, largely due to higher than expected claims in the year compared to favourable mortality experience in the prior year. This adverse experience included elevated cases of flu in line with the wider market but still within our tolerances of expected volatility. Assuming constant FX rates, US premiums

grew 4% and the business is the largest provider of US term life by number of policies through the brokerage channel.

GI operating profit was nil in 2018 as a result of adverse weather experience in line with the market primarily relating to the Q1 freeze and subsidence surge due to prolonged dry weather over the summer. Excluding both these impacts, operating profit would have been £26 million and the combined operating ratio, 97%.

Gross premiums increased 11% to £410 million, of which 36% now comes from our direct channels, demonstrating the returns on our investment in technology, SmartQuote and SmartClaim. Since the start of 2016, GI has established nine distribution agreements with major UK financial institutions, with three new partnerships going live in 2018.

Moving on to our capital position, the Group maintained a healthy Solvency II surplus of £6.9 billion at the year end. Our Solvency II coverage ratio, as calculated on a shareholder basis, was 188%. As I mentioned earlier, our coverage ratio as of 4th March, excluding the debt to be redeemed, was estimated at 190%.

Looking at our Solvency II surplus bridge, operational surplus generation has increased 14% to £1.4 billion. The impact of writing new business in the year was £0.5 billion. This includes using some of our surplus capital to write record UK annuity volumes with strain remaining below 4%. This resulted in net surplus generation of £0.9 billion.

Operating variances of £0.1 billion included the mortality release on annuities which was partly offset by some strengthening elsewhere. Market movements for the year were minus £0.5 billion reflecting weaker asset markets at year end, predominantly in equities, as well as a number of other smaller variances. As can be seen by the 190% ratio, we have now regained most of this.

And finally, on Solvency II, our usual slide gives you our estimate for the present value of Solvency II surplus emergence from the key elements of the new business we wrote. As we have previously flagged, these metrics are influenced by changes in business mix and that was true of PRT this year. Overall, our margins continue to be robust whilst we maintain pricing discipline.

At half-year I mentioned we would give more detail about our liquidity and cash position at the full year results. The Group's cash is split between our treasury assets and our traded portfolio holdings of cash and short-dated gilts, and currently stands at £4.4 billion.

On the right-hand side, we have set out liquidity requirements over 2019. Prudently, we allow for dividend and coupon payments, stress collateral requirements and an opex reserve, but we have not added in the benefit of surplus emerging over the year. Conservatively, this leads us with £1.5 billion of surplus liquidity which we can use for investment in our businesses to drive further growth.

The investments we are making achieve three objectives; improved operational efficiency through technology investments, access growing and adjacent markets through bolt-on M&A, and fund profitable organic growth.

So, to conclude from me, despite market volatility in 2018, our resilient business model and today's set of results prove we are well-placed to continue growing in our chosen markets in 2019 and beyond. Even without the mortality

release, our business produced excellent growth with operating profit up 10% and EPS up 7%. Since 2015 our EPS has grown by 11% compound. This in line with our previous EPS guidance and an indication of our ongoing ambition.

All our businesses have great growth opportunities and are backed by a strong balance sheet and surplus liquidity position whilst delivering excellent ROE. I will now handover to Laura to go into more detail on the opportunities in our PRT business and the robustness of our credit portfolio.

Laura Mason Thank you, Jeff. This has been a tremendous year for LGRI and the industry. It's a privilege to have become CEO at this point in its evolution and I'm pleased to be able to share more about the results we achieved over 2018 and how we plan to build on them in the coming years.

Our growth in PRT has been down to our strengths as Legal & General, having long-term trusted customer relationships, offering a solutions-based approach that sets us apart from competitors and having market-leading asset sorting through our collaboration with the LGIM and LGC teams.

As a result, we have delivered consistent growth in operating profit over the last few years, growing from £760 million in 2017, to £832 million in 2018. We have high expectations for future growth given the strong current pipeline of £20 billion and the sheer scale of the potential markets.

2018 was a year when our global PRT business really excelled. LGRI agreed transactions totalling £9.4 billion; £8.4 billion in the UK and \$844 million in the US, up 18% from 2017. Our biggest deal was the £4.4 billion buy-in with British Airways, the UK's largest buy-in to date. We also completed a £2.4 billion buy-out with the Nortel pension scheme which allowed them to obtain better pension benefits for their members than with a PPF safety net.

There were a number of other transactions that offered innovative solutions by drawing on our group strengths. These included teaming up with LGIM to offer a combined DB/DC solution for one client as well as structuring a debt asset with the AA, which we took on as part of the buy-in. Indeed, around a third of the UK business closed last year was with existing LGIM clients.

In the US, as well as continuing to grow our new business premiums, we have built on our reputation for excellent client services whilst expanding our originating sourcing for direct investment. The chart shows the continuing growth in both these markets over the last three years and we expect this trend to continue.

At Legal & General, we have a market-leading model for sorting assets for our PRT business. We work closely with both LGIM and LGC to obtain assets that match our liabilities through traded and direct markets in both the UK and US. The LGIM real assets team has expanded in capability, having expertise in a wider range of asset classes and geographies. As Kerrigan has evolved LGC's strategy, LGR are working close with his team to be their suppliers of long-term financing for their Future Cities and housing sectors.

The LGR asset portfolio remains of high credit quality and is well-diversified by sector. 17% of the portfolio is in sovereign-like assets and the proportion of direct investments has grown from 17% to 20% over 2018. We continue to hold a substantial credit default reserve, currently at £2.9 billion.

We invest in a wide range of direct investment asset classes with a key feature of having high quality cash flows to back our liabilities; these include real estate debt, infrastructure debt, private corporate credit and property-backed leases. Our property-backed leases are long-term leases to high-quality tenants with the added benefit of having ownership and control of the property in the unlikely event of a tenant default. Our exposure to direct property is therefore low; around 8% of our direct investment portfolio and 2% of the total portfolio.

The table shows an updated list of our largest ten direct investments. HMRC remains our top tenant in our property-backed leases. We've increased our portfolio with them since this time last year by adding leases in Glasgow, Sheffield and Stratford, and more recently in Salford, with deals sourced for us by LGIM Real Assets who work closely with HMRC to structure the leases, as well as working with LGC to find a number of the sites. We continue our investments in other sectors, focusing on secure cash flows and the opportunity to have a positive impact on the daily lives our customers and their environments.

Moving on to the US, a measured approach to organic growth has delivered a high success rate in our initial target market of smaller schemes. We wrote 21 deals in total in 2018 compared to 15 in 2017. As we build our US business, the teams in the UK and US continue to work very closely and collaboratively, leveraging knowledge and expertise, particularly in asset sourcing and longevity. A key aim for 2019 is to increase the size of deals we can write through fully utilising our internal and external partnerships. LIGMA will continue to expand our expertise in huge potential market for direct investments and, as in the UK, LIGMA clients will provide a flow of potential new PRT business.

We have had a strong start to 2019. We have already completed or are exclusive on £1.3 billion of UK PRT business. We also quoting on around £20 billion and expect more to come. In the US, where the majority of business is written in the second half of the year, we have won our first deal and have a good visible pipeline for the coming months.

To conclude, the huge potential of both our key PRT markets is only just beginning to be realised and we're extremely well-placed to take advantage of the opportunity presented. We are well-placed to capitalise on the depth of our relationships within the defined benefit pensions market, as well as sourcing exclusive assets for the business.

We have been in the PRT market for 30 years and are investing for the long term in a scalable business, including in both the people and technology, to deliver the volumes of transactions expected. We're the only insurer providing PRT solutions in both the US and UK and able to benefit from the growth in both these markets. I look forward to the rest of 2019 and the coming years ahead as we deliver on the potential for our growing global PRT business. I'll now hand over to Kerrigan.

Kerrigan Procter Thank you, Laura. Before looking at the future opportunities for LGC, I wanted to recap on the strong performance that LGC has delivered this year, not just in terms of financial performance, but also in our growth and development. We delivered strong operating profit growth of 18% driven by the new investments we are making in DI. Acquiring the whole of CALA Homes was an important step in delivering that growth, but we also made a series of other new investments across our teams such as our joint venture with Bruntwood, where we have created the UK's largest science and technology property platform.

We have also strengthened our team and have recruited, both in our central investment teams, but also in our start-up businesses where we have attracted strong new management teams and employees into those businesses. The overall business we have built is now well-positioned to deliver further growth going forward.

As a reminder, LGC's primary purpose is to deliver an attractive financial return on the long-term capital we manage. Given that it is long-term capital, our preference is to invest in markets where there is a shortage of long-term capital, where we have relevant skillsets and where we can act as a catalyst for the self-manufacture of assets for annuities or third-party LGIM clients.

The three areas of focus for us, currently, that meet those three preferences are Future Cities, housing and SME finance. I will cover each of those in turn, but first a few words on the overall deployment of our portfolio of shareholder assets.

Across LDC and treasury we have assets of approximately £8.6 billion; £2.4 billion is in what we call direct investment, £4.4 billion in cash or near cash, and £1.8 billion in traded assets, predominately equity; this is after reducing our strategic weighting to equities by about £500 million in the first half of 2018.

As Jeff said, we have more cash than we need for liquidity purposes and we plan to reduce our traded equity holdings over time. Put together, we have over £3 billion of dry powder for future investment.

With the £2.4 billion direct investment portfolio, we have a range of operating models. £1.1 billion is made up of wholly-owned operating businesses, namely the housing businesses of CALA, Later Living, Affordable Homes and Modular Homes. The significant addition over the year in this part of the portfolio was the move to the full ownership of CALA.

Just over £700 million is made up of joint ventures or minority shareholdings. This is mainly within the Future Cities business, which has evolved from our experience gained in urban regeneration and clean energy. The majority of the £200 million in investment is from our 50:50 joint venture with Bruntwood in September called Bruntwood SciTech. The final £500 million is in externally-managed funds with our partners, Pemberton, for SME lending, NTR for wind farms, and a range of venture capital funds. We invested further in all three areas over 2018.

Future Cities is our business that helps futureproof the regional economies of cities. Legal & General bring together long-term capital, experience of working with local partners and a set of skills to help get things done. These skills include developing workplaces with new ways of working in mind, modern retail experiences, providing places to live, digital infrastructure, infrastructure to support mobility and clean energy to power the cities. This image sets out our vision of a future city.

LGC is actively looking at investment in many of these areas. To help deliver this we are forming partnerships with universities, local governments and local businesses. I've picked out a few examples to bring this to life. LGC's activities around Leeds include a joint venture to invest in our successful modern commercial and retail scheme, called The Springs at Leeds' Thorpe Park; an innovation centre with Bruntwood SciTec called Platform; a build-to-rent scheme alongside clients of LGIM; our factory that makes modular houses; and solar and wind farms with our partner NTR.

Around Manchester we have a joint venture in Media City, a range of science and technology-focused real estate with Bruntwood SciTech, built-to-rent and mixed use commercial property.

We continue to make further investments in the infrastructure to support future cities. Recent examples include our joint venture in a datacentre development servicing the London to Cambridge corridor, called The KAO Data Campus; clean energy generation through onshore wind with NTR; investing more in renewable technology solutions, such as more efficient photovoltaic cells with Oxford PV; and our investment last week in electric vehicle charging with Pod Point.

We are working with many partners in many cities around the UK and we're excited by the potential for those cities for our investments and for asset creation for PRT or LGIM clients.

The UK needs more homes. We think the UK needs around 340,000 more homes each year for the next ten years. The market delivered only around 200,000 last year. We need more homes to buy and more homes to rent, more starter homes and more homes for last-time buyers, more social housing and more private sector homes.

L&G's housing strategy has the flexibility to deliver all these types homes. Firstly, we can deliver all types by tenure through homes to buy with CALA, to homes to rent through our build-to-rent fund. Secondly, we can deliver all types by life stage with homes for first-time buyers with our L&G homes brand to later living through the Inspired Villages Group and Guild Living Brands.

Thirdly, we can deliver all types by affordability from social and affordable housing with L&G affordable homes to high-end executive homes with CALA. This broad offering allows us to flex what we deliver to the market as the market cycle changes. Our housing businesses have had different starting points; Affordable and Modular were start-ups, Later Living is a corporate roll-up, CALA was predominantly an acquisition, and it has been a good investment for LGC. In the period 2013 to 2018, CALA has almost trebled homes sold to 2,200 and grown EBIT from £23 million to £95 million.

What next for LGC? For Future Cities, we have more to do with many cities across the UK. We also think that the concept has applicability in the US. Our focus on housing is execution and building out the Three Dimensions of Freedom strategy. For SME finance, Paul Miller is developing an expanded strategy, and for venture capital, we clearly see the potential for DC pensions investment.

Overall, we are confident that LGC can deliver good returns for shareholders and help create assets for PRT and LGIM clients. On that, I'll hand back to Nigel.

Nigel Wilson Thank you, Jeff, Laura, and Kerrigan, and thank you for being such terrific colleagues. The fact about compound growth is that it compounds, hence 100% growth in EPS and 100% growth in operating profit since 2011. We have learned that demography is destiny. Ageing demographics are non-reversible and are driving our growth.

The PRT industry is becoming bigger everywhere. Lifetime mortgages are critical and our solutions for later life living are needed more than ever before. Asset markets are becoming more homogenous and global. Asia will become our

third global pillar. We are one of the largest DC players in the UK. Emma Douglas and our DC team, as Jeff talked about, are doing a great job.

As an industry, we need to commit more capital to growth. New infrastructure capital, in particular, needs to increase. UK fintechs, medtechs, science techs, all need work capability and more capital. Non-bank patient capital is required everywhere.

We have successfully moved our business from low-growth, low-return businesses into high-growth, high-return businesses. This slide shows the £1.3 billion of disposals that helped to achieve our goal. Transforming legacy businesses into high-growth technology-enabled businesses is a really difficult challenge. Mergers between large FS firms rarely deliver, one plus one is rarely two; it is often simply one plus a little bit.

This has been, to be honest, to our benefit over the last ten years. We prefer to compete in high-growth markets through organically originated businesses. We may need a bolt-on to get us in the game, but the vast majority of our growth is organic. We consistently capture 20%, 30% or even 40% market share.

We have indeed moved into high-growth, high-return businesses. We have the capability, the capital and brand strength to fill out the opportunities in this slide in a very measured and largely organic way. Our businesses and, indeed, our brand travels well. We are a globally trusted brand. In the USA, we have proven our model works. We have growth options.

Now, we need to accelerate the growth and replicate what we've achieved in the UK. In the UK, our strategic rollout is complete. Execution is the key. We have businesses that are both resilient and growing. In Europe, China and Japan, we have been selective and measured with our market entry, and to date, successful but with a small s.

We have created options. We now need to deliver. The opportunities are self-evident. We need to seize them. Every business in every industry needs more technological capability and has to determine its role in complex ecosystems. Legal & General is no different. This highlights our ever-increasing opportunities in the retirement ecosystem.

Much of what is on this slide didn't exist seven years ago; that includes lifetime mortgages, large-scale PRT, DC, later life living. We also have opportunities where we're just beginning to test and learn; personal investing and drawdown are two of them.

In respect of inclusive capitalism, we are leading the industry. We want people to be and feel included, that they have appropriate housing, healthcare, pensions, transport, education such that they too can enjoy and share in the benefits of capitalism. We are indeed using our patient capital to invest for the long term, and it's allowing us to become market leaders in a suite of products and solutions.

We are addressing market failures, notably pensions, savings and infrastructure in the wider sense, and we are becoming a leading data-driven, digitally-enabled business, but we are still in the early stages of our development and have much still to do.

We view disruption and particularly self-disruption as a privilege and a responsibility. Legal & General is delivering inclusive capitalism. We have become a leader in financial solutions and a globally-trusted brand. We'll now be delighted to answer your questions.

Andrew Sinclair Thanks. It's Andy Sinclair from BofA Merrill Lynch. Three from if that's possible. So, firstly, I just wondered if you could elaborate on the LGIM pipeline for 2019. Anything that we should particularly be aware of or just more of the same strong net inflows? Secondly, PRT margins on new business, a little bit lower. How much of that, effectively, can be caught up by applying more illiquids to the back book and how much is just due to the duration of the book being taken on? And, thirdly, just wondered about that £1.5 billion of excess liquidity on slide 24. When is too much liquidity there, even for what you've got on offer? Thanks.

Nigel Wilson We'll let Jeff answer the third question in more detail, but for some of my colleagues excess liquidity doesn't really exist, they just like hoarding cash. Mark, do you want to answer the first question, if Laura answers the second and Jeff answers the third? Mark?

Mark Zinkula Yes, in regards to LGIM flows, I think we're off to a good start this year. I think the momentum we'd expect to continue into this year and into the future. I think in retail and in DC, as Nigel pointed out earlier and Jeff, we are continuing consistent growth in those markets from outside the top 20 in retail, not that long ago, and are now consistently top five and, last year, top two in gross and net flows.

In DC, we just continued to solidify our position as that market continues to mature. UK DB flows will always be lumpy. Laura has mentioned that in the past. It's just the nature of that marketplace, especially as it's going down this de-risking path. And again, the momentum in the US continues to be excellent, and we've planted a lot of seeds in Europe; we are starting to realise the results there. And, then, more recently, Asia; we're in Japan and in Hong Kong as a hub for the broader region. I'm optimistic this can be potentially a bit of a breakout year for us.

Nigel Wilson I'd echo Mark's comments about the breakout year in Asia. I think Sarah Aitken and the team have done a great job in Europe and, indeed, Asia in creating lots of opportunities. Mark has always been very bullish, similarly bullish to me about the American opportunities and how in our personal Investing business we have high hopes for in the future.

Laura Mason Yes, there was two parts to your question, I think. Firstly, on the slightly smaller new business value and that was exactly what you said, down to slightly shorter business in 2018 compared to 2017 by about two years. On the second part of your question, 20% of the book at the moment is in direct investments, 5% in lifetime mortgages; so, definitely room there to put more direct investments into the back book.

Jeff Davies Yes, and on liquidity, the right answer is as Nigel said that obviously we just want to horde it for a term. As Kerrigan showed, we have lots and lots of plans for using that. It just gives us plenty of optionality and even optionality to grow some of the other businesses where we turn cash into future profits. And, so we'll continue to invest and now we have a business plan that we'd certainly look to use it with all the opportunities, in particular in LGC, to make the best use of our shareholder capital and optimise those returns.

Jonathan Hocking Jon Hocking from Morgan Stanley. I've got three questions, please. Looking at the Solvency II capital generation bridge that you've produced, if you adjust for the one-offs... I know the one-offs are broadly offset

between positives and negatives. With the strain level that we saw last year, you're pretty much paying out all of the Solvency II capital generation by the dividends.

I wonder whether you are confident that going forward, obviously that strain normalises, that we're going to see the Solvency II ratio grow over year with the volume that you're writing? That's the first question. And then, secondly, just looking at the matching adjustment in the back of the release, it seems to go from 106 bps to 138 over the year, which is a massive increase given the new assets you're adding. So, have you gone back and retrospectively changed the matching adjustment and the fundamentals price has only gone up by a basis point, so it seems odd?

And then, associated with that, where is that number coming through the Solvency II capital generation because presumably there is a big increase in surplus as a consequence of that? Is that coming through in the €1.4 billion that your sharing of capital generation?

And then, the third question, with the £1.3 billion of receipts from disposals, how much of that has actually been reinvested in the business? And then, just a follow-up on Andy's question, that cash you're sharing, the £1.3 billion of liquidities, you said that's Group. Is that Holdco or Group because the two are obviously different? Thank you.

Nigel Wilson I think the first two are definitely for you, Jeff, and I'll go with the third one.

Jeff Davies The operational surplus generation compared to new business. There was a few factors, similar to the business mix. There's a few factors within the new business strain itself, so as you say as that normalises. In particular, there was more inflation-linked in there, which is just another risk you have to hold a better capital with.

We were still below 4% on our total strain but, as I said, we're also confident of the OSG continuing to increase over time. And, if you think about sort of an extra £100 million of OSG, which is a single-digit growth on that number, that creates the ability to write £2.0-2.5 billion of PRT business, which is over 20% growth in new business and still remain flat.

So, we could easily fund the sort of growth that we're talking about from the OSG. We don't anticipate the strain dramatically changing from where we are and we are constantly look at ways to optimise that capital usage whether that's the US PRT or the UK PRT. And, of course, we can tell, and Bernie tell, slightly higher margins to offset it on day one when we write the business, which is what we started to see towards the end of last year, so we're happy and confident on that.

And, actually, given the capital levels we're at, even if we chose to write a bit more volume and use a bit of capital in the short term, the number we showed, the 190 from where we are today for the rest of the year is a very strong position to be in, so we're pretty comfortable on that.

The second of about six, I think you had, really, if you add them up, the matching adjustment, yes, it has gone up. It is mostly just spreads. Obviously, the total DI component has gone up. We know that's better than the corporate bonds, but corporate bonds spread, it's just general spread as you noticed, fundamental spread didn't change.

So, the overall rating hasn't fundamentally changed. In fact, if anything, quality of portfolio slightly increased in terms of credit quality. It's just where we are on spreads and it's mechanical. It has not come through in OSG because that's an open assumption that we float through the OSG, so it's coming through further on in some various movements and Tim will allocate them to various buckets there depending on whether they're new business related, etc.

Nigel Wilson We've spent about £300 million, I would say, of the £1.3 billion that we raised and that was the CALA investment and there dribs and drabs on top of that. But, in reality, and part of the reason we moved Kerrigan to LGC, there's just this amazing opportunity to invest in direct investments across the UK.

We started on this journey a number of years ago, but certainly accelerated in the last 12 to 18 months and Glasgow, Edinburgh, Newcastle, Leeds, Manchester, Birmingham, Bristol, Bath, Oxford, Cambridge are all cities where I expect Kerrigan and his team, and it's a great team now, will actually create opportunities for us to create unique assets from Laura's business, but also assets for Mark's real asset business in 2019 and beyond and create these tremendous synergies that we have across the group.

Exactly what the excess liquidity is, is the subject of much negotiation between myself and the actuarial and accounting teams who are all lined up on the other side. But, we've certainly got huge amounts of money to spend create growth and actually drive the OSG and drive the surplus generation and the EPS generation on a go-forward basis.

If we cover this section and then move on to that section next, it might be efficient. So, if you do all of this section and Sujee does the middle section. If there is anybody in this section, please put their hand up.

Johnny Vo It's Johnny Vo from Goldman Sachs. Just three questions. Can you just give us an update for the solvency position of the largest entity, LGAS. I believe it was 154 in 2017, so how did that progress for the year?

I noticed that the mortality release was obviously high year-on-year on an IFRS basis but when we look at their cash remittance, the dividend or special dividend from LGAS to the holding company was £100 million less than the year before, so why was that the case?

Also, in terms of your assets, again you've highlighted that you have a higher amount of internally rated assets, probably about 3% higher than it was last year. Can you tell me what is the spread differential between a single A, internally-rated bond versus the average single A corporate bond? Can you tell me the differential in that spread?

Nigel Wilson Three good questions. Jeff, do you want to do one? I'll have a go at two and if either you or Laura does three.

Jeff Davies Well actually, the first one is quite easy because if you look at what happened in the Group level and given how much we're dominated by Laura's business within LGAS, you won't be surprised to know that it's pretty much the same as the Group level. The Group was 189 at the end of the previous year and is 188-190, the numbers we talk about, yes, almost the same. So, yes, I think it was 154-ish, 153; it's the same that you get in LGAS because it is just dominated by that business.

Johnny Vo But usually the bond would be at Group level, which may not be injected in the subsidiary.

Jeff Davies Yes, but the 190% is already allowing for that being repaid and so in the net, nothing really moved over the year and it's the same sort of position in LGAS.

Nigel Wilson There's nothing particular about the dividend in the sense that we just happened to choose a lower number this year than last year. I think last year, we were trying to demonstrate from the previous year when people said we haven't dividend as much. We over-dividend last year and I think the dividend we've produced this year is a more normal type of dividend from the supp. I don't know whether Laura or Jeff is going to answer the third one.

Laura Mason I think it's probably worth starting with a few comments on the internal ratings process. It's done by an independent team, independent from the origination team in LGIM, independent from my business, highly scrutinised by the regulator. We go through an exercise each year where we do some spot checks on the ratings compared with what we would have got if we had had them externally rated. And, in terms of the spread question, it's a range. It will be as a very low pickup if it's private, corporate credit, private placements to a higher one for some of our property-backed leases.

Jeff Davies We've certainly said that the general direct investments versus corporate are in the 50 to 150 range, and you could be anywhere in that range even a little bit lower for sort of a single A rated.

Nigel Wilson I think the rating process as Mark and I and others have discovered is always a very onerous internal process.

Ashik Musaddi Hello. Ashik Musaddi from JPMorgan. Just a couple of questions. First of all, if I look at the shape of the earnings, basically, for last four or five years, it's heavily moving towards annuities and LGC, which is, I would say, kind of capital-backing annuities.

Are you happy with that shape going forward as well and moving towards that because you have decluttered a lot of your noncore business, which was one of the slides which has lost those earnings; asset management is growing but not as fast as annuities; similarly, protection is growing but not as fast as annuities? So, how should we think about the shape and are you comfortable with that shape in say five years' time? That's first.

Secondly, we are in a very benign credit market at the moment and your solvency ratio is around 190%. Do you see a need for that to build up, i.e., accumulate some capital or do you think that if you accumulate, say, ten points of capital, you'll try and invest that and try and maintain around 180-190% solvency ratio just so that we are not losing opportunity cost on that extra capital?

And, thirdly, is could you just remind us on the asset management target of 8% to 10% growth? How do you see that playing out for the next couple of years? Thank you.

Nigel Wilson On the shape, we're very happy with the shape of the business. I'm hoping, on a go-forward basis, we will be able to accelerate the growth of LGIM. Clearly, we are in an investment phase. I know Bernie has got a number of plans for accelerating the growth of the Insurance business but we want all of them to be successful

growing businesses. I think the scale of the opportunities for Laura's, indeed Chris' business and Kerrigan's business, at the moment, is just bigger from a profit point of view. Jeff, do you want to take the second question?

Jeff Davies Yes, sure. In terms of credit versus solvency, I wouldn't say that we are particularly aiming at a solvency level because of the credit cycle or credit markets. We obviously do many, many, many stress tests to look at that and a lot of you have already referred back to our capital markets. The sort of stresses we talk about there still apply to that book, so we're very happy at the solvency level we're at.

But, I would say actually, we're happier for a different reason, which is should there be a downturn, etc, it gives us optionality and even on an ongoing basis. So, we believe that to be in a strong capital and liquidity position in any sort of slowdown actually allows us to take those opportunities and we did that following the last crisis. And, so more it's an optionality thing that we're happy to have those levels of capital in the business.

Nigel Wilson Yes, I'll ask Mark to pick up the question on LGIM's future prospects but I suspect you will hear from Michelle later in the year about what she thinks is the future for us. I think they're on the same page, having spent time with both of them.

Mark Zinkula If you look at our results last year, if you look at the net flows, if you look at our expense growth, it would've been right in line with what we would have expected or signalled at the Capital Markets event last summer. Obviously, markets, most sectors were down last year and that has an impact on our revenue that's beyond our control.

I do think we are still very well positioned to have, as a percentage of opening AUM, single-digit net flow growth going forward. You can see the composition is increasingly toward active fixed income, multi-asset, real assets. We have a lot of potential to grow the real assets portfolio. Bizarrely, we continue to have outflows in index of all things because the starting point was mostly UK DB equities, so there's a lot of potential upside there as well.

And then, again we signalled last summer, we expect our investment in the business to be a bit higher over the next few years, which will put some upward pressure on the cost/income ratio, all else equal. Again, market volatility will have an impact on these results, but assuming reasonable market returns, I think the 8-10% growth over the medium term still makes sense for us.

Nigel Wilson One more here, then move to Greig. Okay?

Oliver Steel Oliver Steel, Deutsche Bank. I was rather assuming that we'd see some sort of Brexit fears impacting the flows in your business whether it's direct investment flows, bulk annuities, LGIM flows even but, clearly, that doesn't seem to have been any at all. So, the question I've got is, if there is a sort of relatively smooth Brexit, is there any upside that you see in your business from that or is it just a neutral?

Nigel Wilson I think there is pent-up investment demand. I think one of the things that we've talked about, and Kerrigan can follow on, on Brexit comments, about what he's seeing particularly in the future investments in the housing markets in 2019 and any Brexit consequences of that.

But, there's still pent-up investment demand in the UK that hasn't happened. I think that will be positive for us as a business. There's obviously a market pickup, which we hope would happen as well which, as Mark alluded to, is quite a tough market for the asset management business. It'd be certainly better if there was less political risk and less political uncertainty going forward. Do you want to talk a little bit about that?

Kerrigan Procter Yes. I think the point is when you look through over the next decade, we do know that we'll need more houses and we do know that we'll need more development spend in cities all around the UK, so that long-term view is really important. In terms of short-term features of the housing market for example, houses are selling; they're selling at reasonable prices. Yes, it was a bit slower in November and December and the first couple of weeks of January, but they're selling now. So, it's not obvious that there's any huge Brexit fear point out there at the moment.

Nigel Wilson Okay. Shall, we move on?

Greig Paterson Good morning. Greig Paterson, KBW. Three quick questions. One is, Jeff, you mentioned that you are looking at structures with internal and external partners to allow you to increase the volumes of bulks you write. I wondering if you could give us some more colour what these structures will be?

Second point is that there was a mention that you've been selling down equities given the hit that you had last year. I was wondering what the sensitivity would be to Solvency II; how it would have changed, where we are now in terms of what you've sold year-to-date?

And the third thing, it was mentioned that you're happy with the UK footprint currently. I was wondering if the GI business fits into that happiness or that's ex the GI business?

Nigel Wilson Laura, if you take the first question, Jeff takes the second question and I'll take the third question.

Laura Mason I think what we were just referring to, in the US we're looking to expand the size of deals. We've deliberately started at the smaller end of the market and there are a number of solutions that we can put in place using other bits of our balance sheet to be able to do this, which we are very much hoping to execute this year; quite simple structures, really internal reinsurances will be the main one.

Greig Paterson With what entities?

Laura Mason Banner. We write everything out of Banner in the US the moment.

Greig Paterson So, you're not sort of financing it? I'm just trying to understand what the structures are.

Laura Mason At the moment, we write our business out of Banner. That has a finite size and as we increase the size of the deals that we write in the US, we will potentially look to reinsure some of it back to the UK in the short term.

Nigel Wilson Jeff, do you want to talk about the equity stress?

Jeff Davies The equity stress is pretty straightforward. We sold it because it was a strategic view, not because of the losses; we actually sold before the losses but basically, it wouldn't have changed that much. You take out £500 million and the stress is 25% on £500 million, so that would have moved. But, generally, the scale of movement is about the same. It starts off £1.5 billion but, of course, you've got all the fee-related, the VIF element, which comes into it, which is why you get a bigger movement in the total number that you see in the Solvency II stresses. The ones published are very, very similar to last year, but it's £500 million less of direct-traded equity which comes through.

Greig Paterson So, this year or not?

Jeff Davies No, as Kerrigan said, it was actually towards the end of the first half of last year.

Nigel Wilson Yes, it's part of a general trend to have less trading volatility, which is what we were doing, and then we had a huge amount of it in December. We thought we'd covered ourselves enough and that obviously caused us to have earnings per share a couple of p less than we actually thought it would be at the beginning of December.

On the whole question of what's the Group going to be and how we move forward in terms of what share is in the UK, we've got a great model in the UK which works and we're modifying it, adjusting it slightly for America but not hugely for the American market. There will be a bit more use of reinsurance across the Group as we scale up but that's really the only thing; a couple of extra DI capabilities that we might use third parties for in the American model that we've been looking at because LGIM is not yet developing those capabilities in the US.

We think the Future Cities stuff seems to be translatable into the United States and, certainly, we will be looking at transactions along the way. We won't be doing this in the short term, certainly, in Asia, but the welcoming that we've had in Japan, which approved our licence in record time and welcome we've had in China is much greater than we anticipated or expected.

And, the band seem to travel incredibly well in all geographies at the moment. We've got far more geographic opportunities than we have capability to deliver at the moment. We need to increase the capability of the Group, which is a nice position to be in.

Greig Paterson And, the GI?

Nigel Wilson The GI is different from our other businesses in a sense that it's an historical business which has done very well over the last five or six years and periodically, we get people ringing up and asking is it for sale and sometimes those appear in the newspapers or various analysts but it is much less of a strategic fit than the other businesses. Cheryl and the team have done a great job in modernising it and for those who haven't seen it, the new technology that she has developed is amazing and has helped us win lots of mandates that Jeff talked about.

Andrew Baker Hi. Andrew Baker, Citi. Just two questions, please. Can just give an update on your views on commercial consolidators, and whether you see these as viable competitors or not? And then, secondly, are there any structural margin differences between the UK bulk annuity business and the US bulk annuity business?

Nigel Wilson Do you want to answer both of those, Laura?

Laura Mason What was the second? Margins?

Andrew Baker Margins, UK and US bulk annuities.

Laura Mason For commercial consolidators, to start I think it's worth putting it into perspective. The UK DB market is huge. There's still over £1 trillion liabilities on corporate balance sheets. Not all of those will go to buy-in and buy-out with or without the existence of commercial consolidators. And, I think it's clear from the series of DWP consultation papers, that the DWP are looking for complementary solutions to what is already in existence.

In terms of UK and US, we're very selective about the business we write in the US. The thing that we've been able to do very successfully over the last two years is sort of transport our mortality longevity expertise over to the US, so have a much more sophisticated way, I think, of looking at that aspect of the deals than our competitors so that we're very happy with the ones that we win.

Nigel Wilson Just keep passing the mic, I guess.

Colm Kelly Thanks. Colm Kelly, UBS. Firstly, just on the strain and the margins. The growth has been very, very strong in annuities and the outlook remains very strong there but I suppose there's a little bit of a cost to the business mix being a bit more intensive on strain, a little bit lower on the margins.

If we think about going forward to capitalise on the good growth that's there, should we see this business mix as reflective of what we should be expecting going forward, and, therefore, is the new business strain closer to higher single-digits of premium more realistic going forward than low single-digit? And, equally, on the margins, is the 7.9% reflective of what we should be expecting going forward?

Secondly, just on the surplus liquidity. Firstly, thanks for the disclosure on that, I think it's useful. How much in terms of the ongoing surplus generation after the dividend should be adding onto that number because, obviously, there's disposal of proceeds and reserve releases been generated in recent years?

And then, lastly, just on direct investments, the existing portfolio is performing very well as you'd mentioned. Can you maybe talk a little bit about the new assets you've added on this year? What type of returns have been generated on those assets, please? Thank you.

Nigel Wilson I think, Laura, if you do the first and the third, and, Jeff, you do the second.

Laura Mason In terms of the the margins, the strain, the new business mix this year, I think that really was just a sort of consequence of 2018. We look at the business we write in a number of ways, of course, the reported metrics, but we also have internal economic management metrics that we look at. So, I don't think this year was sort of a start of a trend.

On the direct investments, we talked a little bit about some of the new ones we've done. We had a great run with HMRCs. I don't think it's a secret to sort of say that actually, this year, spreads sort of have tightened in direct investments. So, we've been very selective about those that we have written and definitely focused on the ones

where we have competitive advantage through LGIM and LGC, that effectively means we get them off market and still get the slightly higher returns.

Colm Kelly Just to follow up on the strain. So, a lot of it's coming from the US and the growth there has been strong and the growth is expected to continue to be very strong in the US. So, I was wondering if you could just drill into a little more detail on why that strain wouldn't be a factor and with what we should expect?

Laura Mason It's a good question. US and UK are very different. We are not under Solvency II in the US. I don't think we would see the proportion of strain can rise in the US. It should come down as we scale the business much simpler.

Nigel Wilson Jeff?

Jeff Davies Just on the OSG, there's a bit of mixing up capital and liquidity there I think. We don't have a target for how much of the OSG is left after writing new business. We manage across the balance sheet during the year, what's the opportunities, what's the returns we can make? How does our solvency look? And, we monitor all these things on a weekly basis, in fact. We know when we're looking to write these deals, especially if it's a £4.4 billion deal, we're obviously managing it very, very closely. So we don't aim at that.

And, actually, more of the liquidity type drivers is Frank and Kerrigan working very closely together, when do we think these are coming, when do we think we're going to sign, etc? We can't predict within a month what they're going to do but we have a pretty good view of our plan, how much we think Kerrigan is going to put to work, but the capital impact of the things Kerrigan is doing is minimal because it diversifies away against our longevity and credit. People need to be a bit careful not mixing up the liquidity and capital side of things, I would say.

Nigel Wilson I think what we expect to see is an evolution of DI capability in 2019 and beyond. And again, just going back to why Kerrigan's got a bigger team, Mark's got a bigger team, because we've seen more opportunities particularly on a city-by-city basis. You can talk to Paul about the build-to-rent opportunity afterwards.

There are just huge opportunities to create direct investments and have this LGIM, LGC and LGR all work together and that I think will help us improve the metrics in LGR, or at least sustain metrics for all of our businesses. Why don't you just leave the mic there and then we don't have to keep giving it back and it will just speed up the logistics?

Abid Hussain Morning. It's Abid Hussain from Crédit Suisse. Just two questions if I can. If I can just come back to the earlier question on pension consolidation funds, why do you think the DWP may allow these funds to operate with lower capital than the insurance rules? And then, if they are allowed to operate with lower capital, is there something that you could set up a structure on the pension rules to capitalise on that?

And then, the second question, just coming back on the surplus liquidity of £1.5 billion. I understand that will increase with additional disposals and as you release Solvency II capital. I just want to understand, are you looking to deploy all of the £1.5 billion or is there some sort of minimum internal buffer that you're keeping for other risks or is it completely deployable?

Nigel Wilson Yes, you can take on the second one. Do you want to just try and knock the consolidation on the head?

Laura Mason Consolidators; I think it's fair to say that how they'll be regulated is still to be decided. Will Legal & General do something in the space? We already have a wide range of solutions for DB pension schemes and are continuing to evolve them.

Abid Hussain Theoretically, could you actually operate under pension regulation?

Laura Mason I think this is an evolving market. I think we have the component parts in place to be a competitor for any of the potential consolidation vehicles that might be launched.

Nigel Wilson Jeff, do you want to say anything else?

Jeff Davies The £1.5 billion, the liquidity, as Kerrigan said, you could argue it's £3 billion because we can sell the equities and transfer that across, so there's plenty of plans for moving this as and when we find the right investments within the business. And so that is the key, is making sure we've got the returns.

Kerrigan Procter In terms of the buffer, bear in mind, the £4.4 billion of cash and near cash we've already got £2.9 billion as a buffer therefore for just the sort of things you might be thinking about.

Abid Hussain My understanding was some of the liquidity is used for collateral agreements on derivatives and so you can't really sort of sell those down?

Jeff Davies As we showed on there, in that number, we've already taken out the stressed collateral requirements. We actually also have a whole load of liquidity in Laura's business that we don't even include there, which is also to cover the swaps, etc, that they're using. Nigel will say there's buffers on buffers but there are lots of areas where we're holding stressed liquidity already and the £1.5 billion is on top of that.

Nigel Wilson Yes, there's definitely buffers on buffers.

Jeff Davies I thought I'd say it before you.

Nigel Wilson If I drew that slide, it would look a lot different, let me tell you. It doesn't include any of the cash for this year and, as you rightly point out, the disposal fees and the longevity release, which is in fact the cash is well. So, I think it's to create an impression that we've got plenty of money.

The way we look at it is in a very disciplined way. We're not in a rush to go out and make a massive acquisition to try and boost earnings. There's lots of things that all of the businesses can do to deliver growth and we're just really, really well-placed with tremendous people capabilities to accelerate our growth going forward.

Gordon Aitken Gordon Aitken from RBC. Three questions, please. First on mortality. Nigel, you stressed that mortality is multi-year at the start of your presentation. Just what should we expect in the future? I'm particularly interested in your thoughts about the 2018 table and you'll have seen that the CMI will be changing the smoothing factor in its model and so it's more responsive to the change in trend that we've seen since 2011.

Second point on equity release. Just your thoughts on the Institute of Actuaries research that was published a week ago on the equity release mortgage, no neg, your thoughts on that?

And finally, on LGC. You said there was a 7.4% return on direct investments and that's a one year return you'll be holding these assets to maturity. What's the yield you would get from purchase to maturity and maybe you can comment about the whole book and also new business given that Laura just mentioned that direct investment spreads have recently become tighter? Thank you.

Nigel Wilson Jeff, you answer the first one, Chris answer the second one and Kerrigan answer the third question, please.

Jeff Davies On the mortality and longevity release expectations, as you point out, the '17 and '18 tables, if you look at mechanically, drop-in, they imply ongoing releases and your paper talks about the scale of these. As I said, we want to look at these in comparison to our own book and what's relevant. We've gone with that smoothing factor and the CMI '16.

We would expect releases for a couple of years when you look at that table, but we don't want to put quantum on it until we've had a chance to look at how much prudence, how much caution should we be exercising, whether we spread it out more or we don't, what are we seeing in our book. There was a lot of deaths in '18. What do we see now coming through in '19? What are effects by socioeconomic group? So, we don't want to say too much until we've done some proper workarounds on an ongoing basis.

Nigel Wilson Chris?

Chris Knight We saw the work from the Institute of Actuaries. It think it moves the debate on a little bit but probably it isn't going to be a big factor in our view in sort of influencing the PRAs thinking on it, so we're waiting for them now to share their consultation or their updates in the next few weeks on the treatment of lifetime mortgages. Actually, we were pretty comfortable, as you probably remember, with the original proposals and in terms of pricing, we're already building into our pricing, both on the lifetime mortgages and annuity side, our expectation of where the regulator will end up on that.

Nigel Wilson And, is Simon precleared to launch our new products for this year as he seems to do regularly?

Kerrigan Procter Gordon, just to comment on the new investments in LGC DI. When we look at development opportunities or land buying opportunities, the range of IRRs is 8-15%, that kind of area. As we talked about the range of operating models, there are some of those assets that are further on in their development and are more yield based, so those IRRs will be a little lower. You see a mix of all those things, the early stage, the more mature investments and the development investments in that figure you quoted there Gordon; so, 8% to 15% if you think about those new types of development type investments.

Nigel Wilson That's an average double-digit. 7.4% is not good enough, and that's just the phase of we're at, at this particular moment in time because we're investing in assets some of which haven't produced the return

yet because there's just a stock of something, it could be land or whatever. But, actually, when we look at the IRRs at GCC, they're certainly north of 10%.

Gordon Aitken Can I just follow up on the actual lease point? You say you're comfortable but the PRA are proposing a volatility of 13%, whereas the paper last week says there's absolutely no evidence for anything north of 10% and they talked about an average about 5%.

Chris Knight I think we have to wait now to see what the PRA comes up with in terms of the question about does that move the debate forward. I think it's limited; let's see. As Laura explained, for us only 5% of our assets are in lifetime mortgages at the moment. The new stuff we're already factoring-in the pricing based on where we think it is going to end up and so that's why I think it adds up to being a pretty comfortable place for us, either way.

Nigel Wilson Can we just take the three last questions otherwise we are going to run over and I know how grumpy some of you get when we run over.

Fahad Changazi Okay, just a quick question. It's Fahad Changazi from Mediobanca. It's great to see great outlook on bulk annuities, but we know one player who's coming back perhaps more strongly into the market after being busy with Pru's back book last year and Lloyds extracting a lower dividend from Scottish Widows looking to capitalise on bulk annuities. So, would you expect to retain your market share if you see £30 billion of bulk annuity premiums per year?

Nigel Wilson Yes.

Dominic O'Mahony Hi, Dom O'Mahony, Exane BNP Paribas. Thank you. Laura, I think, if I heard you correctly, when you're talking about the capacity to write bigger tickets in US PRT, I think you might have referred to external capabilities, as well. Could you maybe put a little bit of flesh on the bone there?

Second question, on the OSG, both in terms of the stock and the growth, could you give us some sense of what portion is natural runoff versus management action? Is there sort of 14% in the natural runoff growth?

And then, lastly, I think you described the deployment in terms of strain of 2018 as using some surplus to capitalise on the growth opportunities in PRT. Should we be thinking that, actually, you'll be sort of using up surplus to capitalise on the the attractive economic returns you can get in PRT going forwards?

And I guess, just picking up on Jon Hocking's earlier question, yes, you've got 14% growth in the OSG growth but if you want to maintain the same sort of level of dividend growth that, at some point, puts sort of a cap on how much extra strain you can bear, and so there's sort of mathematically a level at which you're forced to deploy surplus if you continued very significant growth in PRT.

Nigel Wilson This could be the year when they actually do the management actions which are planned for the particular year. Mr Stedman and Mr Davis are promising me, sometime in 2019 or possibly in 2020, they'll actually get round to doing it because we actually get overloaded with work from our regulators, not from the

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management actions we want to take. We just don't seem to get round to it in the year. That's just as a backdrop to that. But, the two of you answer the... You go first, Laura.

Laura Mason Yes, thanks Dom. On the external partnerships, the interesting thing I think for us in the US is that, actually, people do far less reinsurance than we become accustomed to probably because of Solvency II in the UK. That's certainly something we're looking to see whether it makes economic sense to export out there and also looking at partnerships where there can be a reciprocal relationship for asset sourcing versus potential capital. So early days.

Jeff Davies I think Nigel answered the question for you on the OSG in terms of management actions. The vast majority is that the book runs off, that is what is modelled, because actually if we execute additional management actions, things we choose to do, then they would appear outside. If we planned some, they'd be in there but they are not material in what is overall coming out of the book.

Your other logic, I'll go back to the comment I made earlier, absent most things and, A, I certainly keep pushing Laura's team to work out how we reduce strain constantly, etc, along those things and we look at the operating model as we scale up, etc, but also, actually, the jaw is open. We don't link Solvency II and dividend, but the jaw is open in your logic if you've got one at 10, 14 and one at seven. And actually, in terms of volume, £100 million of extra OSG, as I say, at a 4% strain, is £2.5 billion, which is suddenly a 25% increase in your annuity business.

And, would we use surplus? Well, Nigel's flippant answer of, yes, we'll keep market share, but we all know it's lumpy. If we had five in one year but 15 another year, I the year we do 15, we might therefore use up some capital. So, we will always look at this in the round of where we are, what's the position? We're not obsessing about keeping it below net surplus generation always covering dividend; that's just not the way we look at the business. We're happy with the strength of the balance sheet and the opportunities available and we look at in the round.

Nigel Wilson We've saved the best till last, Andrew.

Andrew The not very good. A couple of questions though. The longevity trends, do you have any sort of view as to what's driving them and whether they're sustainable; whether it is the lack of social care because of cuts in government spending, cohorts and post-war baby boomers being less fit because I think that will feed into how long they'll carry on for in CMI '19 and '20 which Gordon will, no doubt, have a view on?

Then, secondly, if I look at your direct investments and your equity release mortgages was £2.1 billion, you wrote £9.9 billion of annuities. It looks that you're not going to be able to grow your share of direct investments as a percentage of the total annuity book unless you either accelerate the amount of direct sourcing or write less annuities, which I assume you don't want to do. So, is there a chance and a scope to accelerate the amount of direct investments so that you can reach your 35% target of direct investments to overall assets?

Nigel Wilson I'm going to let Simon try and answer because Simon's been around for so long and he's seen such waves of longevity, he's going to dazzle you with his answer.

Simon Gadd Thanks for setting the expectations so high. I think the first thing to say about longevity is the clue is in the title, it's a very long-term assumption. Trying to overemphasise what's happened in the last couple

of years is wrong, you need to think about the long-term trends. In those long-term trends, I would probably put them into two categories; you've got the medical science effect and all the things that medical science is trying to do to increase life expectancy versus the lifestyle effects that often over the last decade or so have been a negative factor, so obesity, smoking, etc.

What we did say in the last few years and we predicted this would happen, is that the big drop-off in smoking levels that you saw sort of about 10 years ago, which led to a big sharp increase in life expectancy, that sort of flattened out. The natural propensity of people to smoke levelled out and effect fed through now into lower levels of mortality improvement. And, to some extent, you also saw that with the medical profession's real success in reducing heart attacks with a variety of different treatments and early intervention.

To get the sort of levels of improvement that we had in the last decade, to repeat it, the medical profession has got to step up, so they've got to find solutions to cancer; that's the biggest killer now, and that's a lot harder one to solve, it's a lot more complex disease to put right.

And, then the broader society, is the obesity crisis going to continue? The trend is still upwards or is it going to be flattened out or is the government going to do some things to try and reduce sugar intake, etc, to try and have an effect there. So, it's a very complex subject, which will play out over a number of years but don't draw too much of a conclusion from what's happened in the last couple of years.

Kerrigan Procter Just on the expansion of direct investment or the expansion of the self-manufacture of assets, you probably heard from several people today, it's a big theme across the Group. We feel confident in that theme, so we talked about marketing, growing and LGIM real assets not only expanding in the UK but also expanding in the US. We talked about Chris' new products in lifetime mortgages, the expansion of the things that we can do in that area.

And certainly, in terms of things like future cities and housing, that essentially the rental flows that flow off those in one way or another is an interesting creation of assets that can help the annuities business. So, all those things make us feel confident that we're on the front foot, we're expanding in many areas and we're creating those important real assets.

Nigel Wilson Thank you. I'd just like to say thank you to the analyst community. You always have a different way of looking at the kaleidoscope than we do, and it really keeps us on our toes having to read all of your interesting and provocative reports, many of which we agree with, of course.

As a final comment, I'd just like, once again, to show our appreciation for Mark, for over the last seven or eight years, just doing an amazing job for Legal & General.