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Legal and General Full Year Results 2015

Tuesday, 15 March 2016

Nigel Wilson

Cover slide

Good Morning, thank you for coming to our annual results presentation for 2015.

No doubt some of you saw our model house in the lobby. Housing is part of our "investing for the long term".

Slide 2 Forward Looking Statements

A couple of bits of housekeeping…

...here are the usual forward-looking statements… switch off mobiles …and if there is a fire alarm … the home team will shepherd you downstairs…

Slide 3

This is another terrific set of results from Legal & General… Operating profit up 14%... Dividend up 19%... and EPS up 11%...

...I'd like to thank all of my colleagues and particularly the team in front of me - Mark Zinkula in LGIM… Kerrigan Procter in LGR… Paul Stanworth in LGC… Duncan Finch in Insurance… Jackie Noakes in Savings … and of course Gene Gilbertson in LGA…

...They are a committed, strategically aligned and ambitious team, driving our strategy forward… Delivering value for customers and value for shareholders.

Today I will talk about overall financials and our strategy and Mark Gregory will lead you through the detailed financials and Solvency 2. Mark and his team are central to our success at L&G…

...I understand completely why he has decided to retire after 18 years and eight years on our Board… plus three years as CFO during which time he landed our S2 internal model approval… but I'm delighted he will still be around for some time.

Slide 4: Financial Highlights

...Net Cash up 14% to £1.3bn, Operating Cash up 11% to £1.2bn, Operating profit up 14% to £1.5bn, EPS up 11% to 18.6p... a 17.7% RoE and a recommended full year dividend of 13.4p, up 19%.

Growth in the teens across our key financial metrics is a major success.

Slide 5: Clear & Consistent Strategy

We can deliver these results because we have two things: a clear and consistent strategy and the ability to execute well.

Our five growth drivers - ageing populations, globalised asset markets, the need to create new real assets, welfare reform and digitalisation - these, are long-term, persistent and operate across economic cycles…

...We are a resilient growth business.

We don't just float along passively waiting for a rising tide that lifts all boats… we have positioned ourselves in the fast moving water.

Here's how we've done it: In pension de-risking, we are winning mandates and becoming a top UK lifetime mortgage provider.

We are winning investment management mandates in the UK, the US and Asia… achieving further big scheme wins in auto-enrolment - moving insurance towards a digital, direct model… and investing in long-term real assets to capture illiquidity premium and drive economic growth.

Slide 6: Delivering Strong Results

The 2015 results are part of a consistent medium term trend - over 4 years our compound annual growth rate for Net cash has been 10%,…for EPS it has been 11%... DPS by 20% … and RoE has grown to 17.7%.

Total shareholder return for three and five years has been 114% and 259% respectively.

We have accelerated the evolution of L&G from a traditional “life office” to an integrated asset model…asset-gathering, asset management and asset creation… whilst retaining our market leading expertise in insurance risk management.

We have de-cluttered and re-focused on our core capabilities… exited the non-core and sub-scale and positioned ourselves in new growth markets including LDI, real assets, housing, urban regeneration, workplace pensions and lifetime mortgages …

... whilst retaining our consistent focus on efficiency and unit cost reduction.

Slide 7: Economic Capital and S2 Capital

We have a compelling vision - our team is driven by deep thinking and excellent execution.

I will return to strategy and outlook later. But first, Mark and I will address

Solvency 2.

Our Solvency 2 capital surplus at the year-end is £5.5bn… a coverage ratio of 169%.

Our Economic Capital surplus at the year end is £7.6bn...a coverage ratio of 230%.

The only new business effect for us from Solvency 2 is in LGR in the UK - which we had in any case already moved to be a more capital-efficient and risk-efficient business.

Note, about three quarters of our risk capital arises from market risk both under Solvency 2 and Economic Capital models, reflecting the fact we are more of an asset company than an insurance company.

Solvency 2 has not materially changed our strategy.

Moreover, we believe there will be further helpful changes to Solvency 2 as the EU reviews its post credit-crisis legislation, potentially including a re-working of the risk margin for longevity.

I'll now hand over to Mark to give you more colour both on Solvency 2 and on the financial results for 2015.

Mark Gregory

Thanks Nigel…

...I too would like to add my thanks to our colleagues for all their hard work in delivering the business performance in 2015 and also in regard to the implementation of Solvency 2 - a real team effort.

Slides 9: Capital position remains strong

I'm very pleased with our results for 2015 but before I get to those let me take you through our capital position.

As I describe our opening Solvency 2 balance sheet, I'll also reference our Economic Capital position as both are relevant to how we run the business.

In aggregate, the Group's eligible own funds on both an Economic Capital and a Solvency 2 basis were the same at 31 December 2015 … at £13.5bn.

This is coincidental - they are certainly not bound to be the same number.

So for the 2015 year end, it comes down to merely a case of where the line is drawn between what is required capital and what is considered surplus.

Solvency 2 has many similarities to our economic capital: for example, both are calibrated as 1-in-200 year value at risk balance sheets.

But Solvency 2 has a number of items which we consider to be non-economic and hence there are differences between the two … I'll explain those more later.

Our Economic Capital coverage ratio is 230%, almost unchanged from last year and our opening Solvency 2 coverage ratio is 169% with a Solvency 2 Capital Requirement of

£8 billion and a surplus of £5.5 billion.

Slide 10: SCR analysis

Here's a breakdown of our Solvency 2 Capital Requirement or SCR by risk type, after the effects of diversification.

48% of our £8 billion SCR relates to credit, arising predominantly from the £39.4billion of bond and bond-like assets backing our annuity business.

11% of the SCR relates to equity asset risk, primarily relating to equities held in shareholder funds, our With-Profits fund and the Value In Force of our Non Profit Savings business.

Our largest insurance risk is longevity, also equivalent to 11% of SCR on a diversified basis.

I should also point out that the SCR includes the SCR related to our With-Profits business and our final salary pension schemes.

Slide 11: High quality capital

Moving on from our Solvency 2 capital requirement to consider the quality of the capital resources which contribute to our £13.5 billion of own funds.

£11.3 billion of our own funds, or 84% of the total, is core Tier 1 and this component alone covers our Solvency Capital Requirement 1.4 times.

Slide 12: Sensitivity analysis

Not unsurprisingly given market risks comprise nearly 3 quarters of our Solvency Capital Requirement, this analysis demonstrates that our coverage ratio is more sensitive to market and economic movements than insurance risks.

The sensitivities shown here are all independent stresses to a single risk.

In practice the Solvency 2 balance sheet will be impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation.

At a Group level, the Board has set a preferred Solvency 2 coverage ratio to be greater than 140%.

This is not to say that should the coverage ratio drop below 140% that any mitigating action will automatically be taken...

... but it is a prompt to consider whether any action might be appropriate given the prevailing circumstances and what has caused the coverage ratio to drop below 140%.

I would remind you that the PRA have been very clear that from their perspective, 100% coverage ratio of the SCR, at all times, is sufficient.

Any buffer above this is at the discretion of regulated firms and their Boards.

Slide 13: Group Solvency II Surplus emergence

This slide shows a projection of the Solvency 2 surplus emergence over the next 5 years.

It does need some very careful caveats: It is only one projection and as you saw from the previous slide, the Solvency 2 balance sheet is sensitive to markets and actual insurance experience … as well as to management actions and various other impacts.

… that said, I still think it is useful to see the trend before these impacts.

What it shows is a projection of the surplus emerging each year after the amortising the transitional benefit but before the cost of dividend in each discrete year...

For example, the 2017 surplus emergence is shown before any dividends paid in 2017 but it does assume dividends were paid in 2016 and so on.

I can guarantee that in reality the actual surplus will not emerge as shown so don't bother getting your rulers out...

... but what I am saying is, that over time we expect surplus emergence to be sufficient to fund transitional amortisation, new business investment, dividends and maintaining a strong capital base as the business grows.

When we get to the interims and the next full year results, we'll show you the movement in the Solvency 2 balance sheet so you will start to see actual experience rather than a projection.

Slide 14: EC surplus of £7.6bn

Whilst you'll have to wait for a Solvency 2 analysis of change we can show it now for Economic Capital.

We'll continue to use Economic Capital going forwards alongside Solvency 2 to ensure the decisions we make are economically robust.

We paid £0.7 billion in dividends in the year.

In 2015, the new business we wrote generated £0.1 billion of economic capital surplus and the release from the back book generated £0.8 billion.

The other capital movements primarily reflect changes in asset mix and other market movements as well as some modifications to our model.

Economic Capital own funds at year end were £13.5 billion, our economic capital requirement was £5.9 billion leading to a surplus of £7.6 billion which meant our Economic Capital Requirement was covered 2.3 times.

Slide 15: Reconciliation of EC to S2

Finally in this capital section, I said I would explain the main differences between our Economic Capital and Solvency 2 positions… and this slide shows a bridge between the surpluses on the two bases at year-end 2015.

The main difference between our Economic Capital and Solvency 2 models is in respect of credit...

... particularly in the calculation of the matching adjustment - whether that be the assumptions underpinning the matching adjustment calculation or the eligibility of either assets or liabilities to qualify for matching adjustment treatment.

These differences amount to a not insignificant £1.4 billion.

To give you some sense of what 1-in-200 event looks like, let me describe the longevity stress…

We estimate that the average life expectancy of a 65 year old male in the UK is currently 85.4 years.

In addition to this, as you would expect, we also make assumptions about how mortality will improve in the future.

Our best estimate adds 1.9 years to give a best estimate life expectancy of 87.3 years in total.

Our Solvency 2 stress then adds a further 3 years to this life expectancy to take it to 90.3 years...a 3 years increase in life expectancy over the course of the next 12 months.

To translate this into causes of death, our best estimate assumes that 20% of all annuitants who are currently expected to die of cancer will be cured within 15 years.

Under our Solvency 2 stress 95% of deaths ... from all forms of cancer...will be cured within the next 15 years.

This Solvency 2 longevity stress goes beyond our economic view of that risk… which accounts for a further £0.3 billion of the difference.

Various assets within our balance sheet have been excluded from Solvency 2 own funds. On our economic view...these assets, amounting to £0.5 billion, are included in own funds.

Finally, we don't have a transitional benefit in our Economic Capital balance sheet, unlike Solvency 2, and in this analysis we've allocated the difference back across various components of the Solvency 2 technical provisions, most notably to neutralise the difference between the Risk Margin under Solvency 2 and the Recap Cost we hold under Economic Capital.

Slide 16: 2015 Financial Highlights

Moving on from capital to our financial and trading performance in 2015, Nigel has given you the top-line figures …

... and I will now add some colour on the Group numbers and cover the Divisional performances…

Slide 17: Consistent Delivery: Strong Results

Here we have the key numbers in terms of stock of business, cash and earnings... as well as the balance sheet.

In terms of the stock of business, there are two particular growth areas to highlight.

First, the 8% growth in LGIM assets under management, now £746bn and driven by almost £38bn of external net inflows - a record year…

...and a fantastic performance across all product areas, geographies and client segments.

And the second is the 22% growth in Direct Investments - now at £7bn across the Group.

This growth reflects the success we are having in originating and developing assets on which we expect to enhance the risk-adjusted returns for shareholders.

As I've said on previous occasions, it is our stock of business which drives our cash generation.

And Operational cash, at £1,217 million, was up 11%.

Net cash generation at £1,256 million was up 14%, operating profit was also up 14% and our post -tax return on equity increased to 17.7%.

Slide 18: Driving growth: increasing stock

Here we see how our business stocks have progressed over the medium term: 11% compound annual growth rate for LGIM’s assets under management...

... LGIM is now the 15th largest global fund manager - but this still represents only around 1% of global market share… plenty of headroom to grow.

Our Insurance premiums have grown by a compound annual growth rate of 8% - now £3.1bn...

... bear in mind we are the largest player in the UK protection market with a retail market share of around 25%...

And of course our growing annuity back book in LGR is expected to provide predictable releases for very many years to come.

Slide 19: Net Cash: diversified growth

This slide shows the progression in net cash generation during the year, up £152m or 14%… with all of our business divisions, other than Savings, making a meaningfull positive contribution to the increase year on year.

Slide 20: LGR

Moving now to the business divisions… I'll start with Legal & General Retirement.

This is a growing business and Operational cash generation was up 27%, to £372m in 2015…

...Net cash generation benefited from a new business surplus of £45m, within which the longevity reinsurance in respect of new business contributed £55m post tax or £69m pre-tax.

… and Operating profit of £639m was up by 49% as a result of the expected release from the back book, the new business surplus, higher annuitant mortality in the year, and reserving changes in respect of customers who have gone past their normal retirement date... but who have not yet chosen to start receiving their pensions.

A couple of further points on longevity…

...Our reserving for mortality improvement is still based on an amended version of the 2013 CMI table rather than the 2014 table where the latter places more reliance on recent heavier population mortality…

...and secondly, we've now reinsured £7.5bn of longevity risk in respect of our annuity liabilities.

Annuity business volumes were lower than 2014 at £2.7bn as we did not repeat the two mega deals we wrote in 2014.

We did, however, complete over 60 bulk transactions in the UK, and expanded internationally with our first Dutch and US transactions in 2015.

UK Individual annuity premiums of £327m were lower - the 2014 comparator was £591m. This was broadly in line with our expectations.

However, from a standing start at the end of Q1, we wrote £201m of Lifetime Mortgages in 2015 - volumes continued to grow through the year, with £99m being completed in Q4…

... very definitely a growth business for L&G.

Within the total annuity assets of £43.4bn, we increased Direct Investments by 20% to £5.5bn, evidence of the synergy that operates between LGR, LGC and LGIM…

... something which we will continue ... whilst always maintaining discipline over asset quality.

Slide 21: LGIM

Turning to LGIM, 2015 was an outstanding year… but I suspect Zink would say that the business is only just getting into its stride…

Revenues were up by 8% at £694m, the cost-income ratio was a very competitive 48%, and operating profit from our asset management business was £359m up 7%.

2015 saw very strong inflows, and international mandates accounted for £9.5bn of external net flows.

In Asia, LGIM won further mandates in China, and new ones in Korea, Japan and Taiwan, and the US business continues to grow strongly - where, as well as having a market-leading LDI proposition, we also won our first multi-billion dollar US Index mandate.

We have not neglected the UK - the National Grid pension mandate delivered about £12bn of inflows, we are expanding Workplace savings, which now has £14.7bn of AuA and continue to win significant new mandates including John Lewis and Tesco. We believe the latter to be the largest corporate pension scheme in Europe by number of members.

Total DC assets, including investment-only, rose by 13% to £46bn.

Our retail offering is also growing - 2015 was a record year for inflows and we are now ranked at number 6 for retail flows - we were outside the top 20 in 2014.

...And real assets also performed well with assets up 26% to £18.3bn and LGIM worked closely with LGC and LGR to launch three urban regeneration schemes in the UK - in Salford, Leeds and Cardiff.

Slide 22: LGC

Legal & General Capital delivered strong Net cash: £187m compared with £162m in 2014. Operating profit was up 15% to £233m.

LGC has been actively managing and diversifying its portfolio - with a particular focus on direct investments in housing, urban regeneration, clean energy and alternative finance.

Direct investments in LGC now account for £867m - not just using our balance sheet's size and duration to capture illiquidity premium, but also driving synergy gains across the business.

Slide 23: Insurance

For our Insurance division, UK Protection Gross Written Premiums were up by 2% to £1,442m in 2015 as a result of strong sales and good retention.

Retail protection premiums were up by 5% with a particular emphasis on growing the direct sales channel which now accounts for 18% of new business APE.

Protection purchases are frequently aligned with mortgages and house buying: our Mortgage Club last year facilitated over £46bn of mortgages - 20% of the entire UK mortgage market.

Insurance net cash was up 6% to £348m although operating profit was down to £293m from £370m as a result of changes to our modelling of reinsurance for our UK Protection business.

The impact of these changes was to reduce operating profit after tax by £93m in 2015 and it will also reshape the prudential margins, deferring some of the emergence of future cash generation.

The General Insurance business saw operating profit reduce by £8m in 2015 to £51m - this includes a £15m impact from the UK floods in December.

The Combined Operating Ratio of our GI business in 2015 was 89%, compared with 87% in the prior year.

Slide 24: Savings

Operational cash generation in our Savings business was £119m down £8m on the prior year.

This reflects the declining contribution from mature savings, which is in run-off partially offset by the contribution from our Platforms business.

Lower new business strain meant that net cash generation was only £3m lower year on year.

Savings operating profit was £99m as compared with £105m - reflecting active management of the cost base to offset the lower contribution from Mature Savings.

Cofunds remains the UK's largest platform business, with a 19% market share and it has now achieved the £11m cost reduction target set at the time of the acquisition.

Slide 25: LGA

Legal & General America had a much better year in 2015.

Net cash generation - this is their dividends up to Group - was up 9%, at $83m and operating profit increased from $93m to $125m.

The 2016 ordinary dividend of $88m has already been paid.

LGA is, moreover, an important component of our expansion in the US - we are using its balance sheet for US Bulk Purchase annuities…

...and LGA is also providing back-office support to both LGR and LGIM in America.

Slide 26: Consistent focus on cash

This slide should be familiar - it illustrates the consistency and predictability of our cash generation.

This means we are able to guide on operational cash generation for LGR, Insurance - with the exception of GI - Savings, LGA and LGC.

Compared to the £1,014m we achieved for this subset of divisions in 2015, we are guiding to a 6-7% increase in 2016.

Slide 27: Full Year Dividend

And finally, on to dividend matters.

The full year recommended dividend for 2015 is 13.4p, an increase of 19%...

This represents a net cash coverage ratio of 1.58 times, down from 1.65 times in 2014.

As promised we have also today announced our new dividend policy:

Going forwards, we will have a progressive dividend policy reflecting the Group's medium term underlying business growth, including net cash generation and operating earnings.

Overall a great set of results in 2015 with all divisions playing their part which has enabled the Board to recommend a 19% increase in the dividend.

And our new progressive dividend policy means we'll be able to reward shareholders for the future growth as we continue to transition our business model towards greater emphasis on asset gathering.

… and now I'll hand back to Nigel…

Nigel Wilson

Slide 28: 2015 and beyond

Thank you, Mark.

Legal & General has evolved rapidly over the last few years…

... we have de-cluttered, aligned our strategy to the five macro drivers, set the growth businesses in motion and are moving successfully towards a more digital asset manager model.

Slide 29 Our Strategy Continues to Evolve

We have come a long way:...

... 15 years ago we were a traditional UK "life office" with a small investment management business…dull but worthy…

Unsurprisingly the credit crisis - which took our share price to 21p in 2009 - was a rude awakening.

Since then, we have gone through three phases from the depths of the credit crisis to 2011 we re-booted the Company.

Focusing on cash enabled us to clean-up the business, to set a credible strategy and to decide what was core and non-core.

Net cash grew from £320m to £846m, restoring external confidence in the business and internal pride.

From 2011 to 2015 we delivered consistent progression in cash and dividend …

... sold or exited non-core or subscale businesses, focused ourselves on strong markets and geographies, and invested in our growth businesses….

...We took Net cash to £1.3bn with strong growth in EPS, DPS and RoE… and Direct investments started to transform capital intensive industries.

In the next phase 2015 - 2025 …the focus will be on growing the asset businesses, and making our insurance businesses increasingly international and digital - a programme that has already started and which will drive returns throughout the ten-year period.

Slide 30: High performing businesses aligned to growth drivers

Today we are substantially an asset gatherer, asset manager and asset originator.

The asset businesses: LGIM, LGR and LGC collectively delivered operating profits of £1.227bn in 2015 - more than three times the £376m Operating profit achieved by insurance in the UK, US and Asia.

Expertise and scale in insurance markets is an important component…

...it is the combination of asset management and insurance risk expertise which gives us a clear leadership position in pension de-risking.

Slide 31: De-cluttering and simplifying

We are decluttering and simplifying our business to focus on core strengths and growth markets.

We sold or closed sub-scale businesses where we don't have long-term competitive advantage - Egypt, France, the Gulf, Ireland, Suffolk Life, estate agency, ventures and so on.

We have reduced costs from £1.25bn in 2014 to £1.13bn in 2015, exceeding our £80m cost target.

Slide 32: LGR Nine sources of profit

Kerrigan Procter's LGR has nine sources of profit - we are pushing forward on all of them…

...optimising the cash generation of the back book, internationalising new business with deals now completed in the US and Netherlands and setting a higher, £500m target for lifetime mortgage business for 2016.

As Mark has highlighted, the back book cash generation will remain a source of material profits for many years.

Our £1.4billion Lucida transaction in 2013 was a model for back book acquisitions... no people, no systems and no property... this is a market with further potential as players consolidate or exit.

Slide 33: LGR Capital Lite

LGR's capital-lite strategy is in place - we have already executed £11.6bn of longevity reinsurance …

We see huge potential demand for Pension Risk Transfer … there are an estimated $9 trillion of DB pension liabilities globally…and very few global competitors with the right combination of scale, insurance and asset management expertise.

Slide 34: LGR Assets

The asset portfolio backing the annuity book - which we published a few weeks ago - is well diversified and actively managed by an outstanding team with a track record of strong performance...

... 95% of our flagship active fixed income funds outperformed their benchmarks in 2015.

The average credit rating is “A minus” and a quarter of the portfolio is made up of secured debt.

Credit quality and diversification have been strengthened since the credit crunch in 2009 - Just 2.9% of the £43bn is sub-investment grade, and just 4.7% in oil and gas.

We have substantially reduced our exposure to banks. In addition we have built prudent reserves: £2.2bn for default risk, and £1.7bn for adverse mortality experience.

The direct investment portfolio backing LGR’s annuity liabilities is now £5.5bn - again with an average “A minus” rating. These raise risk-adjusted returns but also benefit from strong covenants.

Our direct investments will continue to grow - we are moving into an age of real assets instead of the synthetic assets that fuelled the credit crisis.

Slide 35: LGIM: Growth in all markets

LGIM, led by Mark Zinkula, had a terrific year in 2015 and is well-positioned going forward.

Globalisation for us means moving towards a three-hub manufacturing model: the UK, US and Asia.

Distribution is working effectively: our brand travels brilliantly and our basic premise of scale, value and customer service is winning mandates for us even where we have little or no infrastructure.

Barriers to entry in local markets are coming down - and we are on our way to becoming genuinely global.

Slide 36: LGIM: diversified businesses

We are no longer a monoline asset manager providing index products for UK DB pensions… that was our old model.

Our AUM has more than trebled in the last decade - a CAGR of 14% - and scale has been accompanied by diversification.

Slide 37: LGIM: growth on multiple fronts

Here you see the growth across product categories - solutions, fixed income, real assets, workplace pensions and UK retail where we were largely invisible for several years, but where we have the benefit of a strong brand and 10 million existing customers.

Slide 38: LGIM: global footprint

International AUM and flows were strong in 2015 - but what I think is really striking here is not the 43% CAGR but the amount of headroom for growth...

... we are the fifteenth-largest global asset manager, but our global market share is around 1% - in my opinion, an ambition to grow market share towards 2% over the next decade or so feels realistic to me.

Slide 39: LGC: 4 areas of growth

LGC, led by Paul Stanworth has four areas of focus for direct investment -

...Urban Regeneration, Housing, Alternative finance and Clean energy...

...We are already leading the way in building an impressive real asset portfolio…

Slide 40: LGC: Sector focus

These are marketplaces with a clear funding gap, where supply and demand are out of balance, and where we can deploy our large, long-dated balance sheet effectively - often partnering with sector specialists.

We have momentum and are accelerating delivery… and are always exploring ways to maximise returns, such as our new investment in Modular Housing which allows us to access fast, cost efficient building.

This is asset creation for the whole group, and to date LGC has generated a terrific return on capital by creating assets for LGR and LGIM.

Slide 41: LGC: multiple drivers

This is a simple but important slide. I don't think we have communicated the multiple drivers of value within LGC well enough.

We invest as a principal, using shareholder money… We invest as a direct investor, to back the annuity book …

... and we invest as an agent through LGIM and its institutional "family and friends".

The assets we create can be tailored in terms of maturity, cashflow, index-linking and so on and we can choose between LGIM, LGR & LGC to best deliver our strategy.

This delivers economically and socially useful outcomes. But it is also a real win for L&G to have this capability…

The synergies across LGC, LGR and LGIM enable us to enhance earnings for shareholders directly…optimise cashflows from the annuity book… and create new asset classes for LGIM and its clients.

We have been leading the institutional sector by doing this for three years now…the political world is catching up as they realise that investment in real assets is the way to improve productivity and growth.

Slide 42: Insurance: Direct

The digital disruption that we have seen across whole industries - media, music, retail and so on - is coming to insurance.

We have already seen the effect of regulatory change on intermediated and advised sales in financial services… but the combination of big data, digital communications and the internet of things will have an even bigger effect.

Duncan Finch's challenge is to ride that wave. We have made a decent start.

The back office in our insurance business is already highly automated and digital... and delivers competitive unit costs.

The drive is now on to expand the front-office digital direct channels.

Direct customers and sales grew at an impressive rate in 2015 and L&G Direct now accounts for 18% of insurance new business sales.

Slide 43: Insurance: Strategy

We are investing in the direct channel, in the customer journey and experience, in marketing direct and in mobile optimisation… this is vital for the UK markets and to internationalise in a high-value way.

LGIM is a good digital model… $1trillion AUM managed by 1,900 employees. Insurance and Savings are fast followers.

Slide 44: Internationalising life

IndiaFirst, our JV with bank of Baroda and Andhra Bank has been a pathfinder, working closely with the Indian government which has a strong digital programme to deliver basic mass-market products to improve financial resilience: we sold 2 million policies in 3 months.

The next steps will be to take that experience and re-import it to the UK improving financial resiliance of our customers by introducing a highly affordable, entry-level protection product will be a significant disruptor to the UK insurance market - our aim at L&G is to be our own active disruptor, not a passive disruptee.

Slide 45: Savings

In Savings, we have clear opportunities to add value to the Group.

We are using more digital to simplify operations, enhance customer journeys and control costs in the cash-generative legacy businesses…

…while increasing our industrial scale and hence operating efficiency in the platform businesses.

Slide 46: LGA

LGA delivered 6% growth in Gross Written Premium in 2015.

As well as insurance, it gives us a terrific base in the US from which to write Pension Risk Transfer business and to support LGIM America.

The US is our second most important market after the UK and our strategy will mirror what we do in the UK in the US.

We have made good strides there - but we haven't maximised synergies yet ... but are focusing intently on a market that is underpinned by a strong economy and where our brand is really well-received.

Slide 47: One Firm, One Set of Values

We are one firm, with one set of values and one set of behaviours…

We are constantly strengthening the capabilities of our colleagues… building the right positive supportive culture…

This is not just for risk management purposes - though culture is the best determinant of compliance - but to ensure we attract and motivate the best and most committed people.

Slide 48: 2016-2020: A World Full of Opportunities

Our businesses today are focused on those areas where we can operate at industrial scale, providing the best products, service and best value through tight cost control and economies of scale.

The five growth drivers create a world of opportunities for Legal & General over the next decade.

Ageing populations and a rapidly rising population of over 60's mean we can aspire to international leadership in pension de-risking…

As an asset-gatherer, we are operating in a $78 trillion global asset market that is almost borderless and becoming even more global...

...it is realistic to aim to double our global market share by 2025...

We will continue to use our - I believe unique - synergies to capture illiquidity premium and grow our real asset portfolio...

...and DC pension saving will grow across the world over the next decade… as it becomes the favoured solution in the US, Europe and Asia…

We will leverage our DC and workplace experience to become international leaders in providing private sector solutions for shrinking welfare states.

And we will continue to disrupt ourselves and our markets to drive the digital agenda going forward... not least in insurance which on a medium or perhaps even a short-term view will change beyond recognition.

L&G has come a long way in a few years, but it is still a work in progress.

We take a long view, but we have already started to make the changes that will drive us forward over the next five and ten years - and we will make that change positive for our customers, employees and shareholders.

Questions?

Alan Devlin: Thank you. Alan Devlin from Barclays. A couple of questions. First of all, in 2015, you had strong net inflows into LGIM and the bulk annuity volumes light slightly. Can you talk about the pipeline of both businesses into 2016, and particularly, in bulks, the UK and the ex-UK pipeline. And then, secondly, on L&G capital, which is becoming an increasingly important part of earnings and cash, can you… and you've got some very ambitious targets in housing and regeneration, etc, can you talk about how that plays into an Solvency II world, of the capital-light model. You talked about 1.4 billion in your matching adjustment differences, does that… does that help within the Solvency II world, or is it a headwind. Thanks.

Nigel Wilson: I'll just correct you. We have no ambitious targets. I think they're all realistic targets. My… I do have ambitious targets, but those are not the ones I'm allowed to put on these particular slides. They all got taken out yesterday when I was doing the final verification meetings, sadly. Mark, do you want to take the LGIM? Kerrigan, if you take LGR, and Paul take LGC, if that's okay? Mark?

Mark Zinkula: Yes. The question is more about bulk annuities, but yes, within LGIM we had record flows last year, really, across the board. And we're continuing to see a lot of activity in the LDI space, so, obviously with the volatile market the first part of the year and so forth, it's not going to be a straight path, but there are different kinds of hedging activity that will occur and implementing trades on a capital-efficient basis and so forth. So we do expect LDI volumes to continue to stay relatively healthy over the course of the year. I'll pass over the Kerrigan on annuities.

Kerrigan Proctor: I think just back to the UK to start with, evermore pension schemes in run-off, more and more schemes close and the future accrual, that market is definitely growing from the… there's about £1.8 trillion worth of liabilities and transferring of the rates between £10 billion to £15 billion a year from pension funds to insurers, and I see that growing. The demand is definitely there. I mean, certainly flows will be variable from quarter to quarter. Quite a lot of acceleration towards the end of last year into deals into 2015, but certainly very constructive for the whole of the year, this year, in terms of client discussions that we're having.

Paul Stanworth: Thanks. In terms of LGC, I mean, I think the key purpose of LGC is to capture an asset flow that's going to be coming to the institutional investor base anyway, whether it's in LGIM's funds or whether it's in Kerrigan's funds. And, you know, what we're trying to do is capture the, kind of, value chain earlier on, rather than just buyer-completed assets, it's to build the assets themselves. So the capital that LGC puts in has quite a huge leverage in terms of its ability to capture an asset flow. And Nigel talked about the fact that we can, kind of, get a 10:1 ratio. For every pound we put in LGC, we capture ten times the asset flow that would go if its debt-type instruments and sale and lease backs to Kerrigan's, and if it's equity-type co-investments, it would go into Mark's.

And so those benefits will come out in the different division. So our targets are very big, but really the catalyst, in terms of LGC, is to capture that front end of the development process, and the deal-flow that comes out the back.

Nigel Wilson: A couple of extra points to add. Bill Hughes is not here today, otherwise I would have congratulated his cycling 1,400km to Mippin I think he's got 1,300 in his legs at the moment, so he's sat looking a bit weary, but he's done a great job of building our real asset business – that's gone from about 5 million profit to 50 million profit over the last five or six years. And the direct investment hopper, which is very full at the moment, we've done quite a lot of deals already this year, so that's, you know, a tremendous benefit to shareholders, and that combination of Mark's team working with Paul's team working with Kerrigan's team gives us a real competitive advantage in winning the bid for that particular area.

Gordan Aitken: Thanks. Gordon Aitken from RBC. Three questions, please. First, on annuities, you mentioned the potential for the market to consolidate there, just wondering if you have any preference between large bulks versus existing retail annuity books versus existing bulk books? And what are the consequences of maybe buying and existing book? If the target already has a transitional, do you get the benefit of that under Solvency II? The second one on strain: it's positive overall; what happens to strain in a new, capital-light world, when you use longevity reinsurance? And if you can talk, maybe about the capacity for longevity reinsurance on an annual basis, that would be great. And the final point on the match adjustment. You pointed out there was a big gap between the capital surplus and the economic capital on a Solvency II basis; is there anything you can do to reduce that gap, and just maybe get more matching-adjustment on more assets? Thanks.

Nigel Wilson: If I was going to write some questions, I would have written those question for us to answer, Gordon. So thank you for, indeed, asking those questions. I think just on this big-picture stuff around… I'm going to give my colleagues time to think about the answers, so I'm just going to waffle on for a minute. On the whole area of Solvency II, there are, sort of, four macro-themes which we need to think our way through. One, the EU's definitely going to change the regime, going forward, and that's going to be a benefit to us as they change the risk margin, they've already had three goes at changing the fundamental spread. I think that's point one.

The second point is the modelling point that you talked about, about the difference between the matching adjustment. I'll let Mark give you… give you more details on that in the answer. But we didn't optimise, we did lots of things at year-end and Mr Stedman and Mr Blunt did a fantastic job, but they didn't quite get everything that we could have possibly done done, so there's quite a bit of other things that we… that we didn't get fully modelled out that we… but I would expect, in 2016, to model our way through. And the third point, there were a number of optimisation things, like ineligible assets, you know, Kerrigan and his team did a good a job, but actually there's quite a bit of it that could have also gone into the matching-adjustment portfolio, if they'd just speeded up a little bit towards the year end, but they were busy on the 101 other tasks. And the fourth area is really on the whole longevity question that Mark talked about, where we've stood back, and we've only used the 2013 table. At some point, we've got to look at all the data that's coming through, where people have just been dying a lot quicker. But if… Kerrigan, do you want to go through the first answer, Mark, you take the second?

Kerrigan Procter: Just on the industry consolidation, I mean, clearly there are some interesting opportunities out there. We'll look at them just like any other deals. We'll look at our return on capital metrics, we'll look at impact on coverage ratio, we'll look at the impact on our cash metrics. But certainly some interesting deals out there. Broadly, they rely on the skills as bulks. You need administrations, you need asset management skill sets, you need to understand the longevity risk. On the individual side, of course we've got 550,000 individual policyholder ourselves, so we do understand that longevity risk, and we'll pick between the best bulk back-book deals or the best individual annuity back-book deals, or the best front-book deals. On your point about transitionals, yes, if you heading towards part seven on those deals, then I think you're pretty likely to get transitional relief, so that's a possible additional boost for looking at some of those back-books. So interesting, certainly, to look at.

Nigel Wilson: And there's plenty to look at, at the… I mean, we're not short of opportunities to look at, and there's not lots of competition around for those things.

Kerrigan Procter: You talked about capacity for longevity reinsurance. I was at a global conference on longevity reinsurance last year, and there are lots of global reinsurers, either interested in the market as an offset to mortality risk, or interest in the market because there's such a potential for growth in the market, or interested to do longevity risk alongside asset risk. But a huge global interest and understanding in the UK market, so really positive on capacity there over the next… well, over the foreseeable future.

Mark Gregory: Just a couple… on the impact on surplus, I think we've explained, as best we could, at the half-year, Gordon, that the effect of the capital-light strategy, broadly, is to bring more of the profits forward. There are less profits in the tail from the capital-light strategy, but the reinsurance typically brings more into new business surplus, hence, in my speech, I gave you a number for the benefit-to-new-business surplus in 2015, based on the reinsurance we entered into, for longevity, in the year. So I think that feature you could expect to continue, broadly, going forwards.

On your other question around what scope is there to close this gap in the 1.4 billion I highlighted between the economic capital surplus and the… and the SII surplus, in respect of matching adjustment treatment, I think the answer is some and some, some of the differences, I think, are permanent in nature. So, for example, Solvency II is very clear that any assets below investment grade, you can't take any yield enhancement below that rate, below that it's deemed to be credit risk rather than any liquidity, so you are forced to go back up to a triple-B yield. So those sorts of features, they are permanent features going forward, so we wouldn't expect those to reverse.

I think there is some scope elsewhere, in the difference between EC treatments of MA and Solvency II, for example some of the liabilities we have… on the annuity side, currently, we don't qualify for a MA treatment and some of those, we think, with some… either some renegotiation with the counterparty, or indeed some more work ourselves, just taking the PRA through our thinking, we hope we can get more of those liabilities to qualify for MA. So if I was to guide you over the next year or two, I might hope for maybe a quarter or a third of that gap to close. We will need… a lot work to do internally, and then we've got to take our colleagues at the PRA through our thinking as well. So that's certainly, kind of, our target, what we'd like to try and achieve.

Nigel Wilson: That's hundreds or millions of gains, not tens or millions of gains. Greig I know you're… you usually wait until the 17th question before we ask you, because it usually comes in eight parts and…

Greig Paterson: Yes I was wondering. Just in terms of the bulk annuities, I mean, they shrank by 60% this year and you took reinsurances obviously a capital constraint of some sort. You've given a forecast on Solvency II I wonder if you could give us a feel for what… and it got the new business strain in…. I wonder if you could give us a feel what the bulk in the UK protection budget is in that forecast thing you gave. The second thing is platforms, I wonder if you can just give me the contribution to the NCG of the platform business, I think it's a loss of some sort, I think if you sell it what the boost to NCG would be. And the third question is I wonder if you can give us a feel, because, I mean, obviously credit risk has been a theme that's been quite dominant this year in terms of what sort of billions of bonds you had downgrades on this year versus what billions had upgrades so we can just get a feel for sort of activity that's going on in your portfolio.

Mark Gregory: Shall I take all those?

Nigel Wilson: Kerrigan can take the first and you take the second and third I think, the volumes. We are not capital constrained I think is the point, I think we were resource-constrained getting through all of the Solvency II work.

Kerrigan Proctor: I think when I look at 2.7 billion bulks roughly compared to 5.9 billion bulks in 2014. Clearly, 2014 we did the big ICI scheme three billion, TRW scheme 2.5 billion that made a big difference. We closed roughly the same number of policies and I think what I really focus on is return on capital metrics and profitability and I'm not fussed about the fluff in the middle that's the volume figure and that's very much how we think about the business. And we think very constructively, as I said about the business in the UK, in the US and the Netherlands, competitive dynamics looking good in those markets for us.

Mark Gregory: It will be broadly in line with the volumes we wrote in 2015 although it will hinge a lot, Greig on pricing and the actual risk characteristics but in simple terms your thinking is broadly in line with the 2015 volumes.

Nigel Wilson: Three to four rather than the six to seven billion.

Nigel Wilson: Okay and the other two questions are on the net cash contribution from platforms. It is positive but not very positive, Greig so just to correct your question it's not negative but it's not a stunningly positive number either but there is a small positive contribution from the platform net cash generation.

In terms to your question around credit experience in 2015 we had £2.1 billion of downgrades across the whole of our shareholder funds and annuity bond portfolio, it's about 5% of the portfolio was downgraded in 2015. We had about 0.5 billion of upgrades during the year as well.

Anasuya Iyer: Hi it's Anasuya Iyer from Jeffries, the first question was just on the Solvency II ratio, spreads were obviously volatile so far this year. Are you able to give us any Solvency II number at the peak of the spread widening so far this year and where it is now just to understand the range within which it moved? The second question again on Solvency II you have given us quite a lot of useful sensitivities but are you able to give us anything on a scenario, like a 2008 financial crisis? And the last question is just a follow-up on the longevity reinsurance. We've had comments from the PRA increasingly cautious about longevity reinsurance do you have a comment on what that means for the future of your strategy?

Nigel Wilson: Just on the movements, when I talked about Solvency II there are going to be four big themes this year. One is the EU theme which is going to result in hundreds of millions of difference, the modelling changes hundreds of millions of difference, the back book optimisation and hundreds of millions of difference. So there's quite a lot of modelling stuff which I think is preferential for us going forward for Solvency II. The big picture thing about Solvency II I don't think it makes any material difference to our business whatsoever for this year.

The strategy that we had for last year will just be totally replicated for this year.

Mark Gregory: The number, I'm not ashamed to give it is 158% at the middle of February and it's about 163% at the end of last week. And your question around, kind of, stresses rather than scenario clearly we give an individual… I made that point in my presentation there that clearly things do happen in combination. What I would say we are not going to give the scenarios today but clearly we have to make sure when we did our 1 in 200 stress, all the, kind of, known lifetime events have been covered by… have been caught within the one in 200.

So things like, you know, the events of 2008 had to make sure they were within our view of 1 in 200, we couldn't have that as being beyond one in 200 so I would say that in the round our view of one in 200 absorbed all known events in the last 100 years or so. That was just to make sure that our one in 200 wasn't, kind of, too tight.

Ashik Musaddi: Hi its Ashik Musaddi from JP Morgan. Just a couple of questions, going back to the Solvency II point if I start with 158 at February lows, if you strip off the dividend which should have been paid with last year's earnings, so you're like 150% give or take; your target is 140%, we did enter a, kind of, big crisis in February but nowhere close to 2011 or 2008. So how should we think about the dividend growth given that your buffer at February lows was ten percentage points? How should we think about 140% or what does that mean? That's one.

Nigel Wilson: I mean, the one thing I can… rest assured we'll do better than your forecast. I was just looking through the history of JP Morgan's forecast on our dividend and bottom of the class would be best on that. Yes worse than KBW, you're in the same range but even on that Greig you've been better than JP Morgan on that. I think, going back to the first point is that Solvency II is in its early stages, there are a number of EU things that are going to get rolled out. We are going to get the ineligible assets changed at some point during the course of the year.

There's some optimisation of getting stuff that's up a notch from BBB to A or A- and there's lot of potential to do stuff with the portfolio. 140 is not a target range in the sense that we even have to take any action it's still a huge buffer, 140. We wanted to give an illustration of what the Board would ask us as a management to begin to think about any management actions and, you know, clearly we're not in any type of scenario like that.

Ashik Musaddi: Second question is how should we think about annuity growth and earnings? I mean, what I was looking at is your net inflows in 2014 was 4.4 billion so versus opening AUM, say 12%, net inflows of growth in assets in 2014, whereas your earnings jumped by 27% in annuities in terms of operational cash generation. That's a big jump between asset and earnings. Similarly this year your net inflows in annuities is, like, 0.4 billion which is, like, 1% of the asset base. So how should we think about this asset growth versus earnings?

Nigel Wilson: I think Kerrigan gave a great answer to that but I don't know whether you picked it up, is that we actually can grow the profitability and the cash from the business just by doing relatively, what I would regard as simple optimisation and my colleagues tell me they're very onerous optimisations. So we're very, very confident that the op cash that comes off the annuity book in 2016 will be significantly ahead of the op cash that we had in 2015.

And then it's up to Kerrigan and the team to come up with various non-back book optimisations to drive the earnings further forward in 2016. There is a bigger choice and a bigger funnel, if you like to look at because we have got a lot of back books in the UK which are coming on the market and the team are looking at those. We have got a lot of UK deals which are on the markets. We usually try and get one closed for the Morgan Stanley Conference but we'll have to see whether we do that later this week or not. But if not this week it will be shortly thereafter; clients aren't always as obliging as we would like them to be.

Kerrigan was in America last week and indeed, you know, the Dutch market and the Irish market have further opportunities for us. So we are spoilt for opportunities and those nine sources of profit that we had down, a few years ago were two; we've gone from two to nine.

Abid Hussain: Morning it's Abid Hussain from Socgen, three questions if I can. If I can just quickly come back to the 140% ratio that you mentioned I was just wondering at what point would you stop paying dividends and I appreciate the EU looking at redefining the risk margin definition. That's the first question and then the second one, if you had the same level of bulks as you did last year how much Solvency II capital would you consume going forward, if you could give us some sense on that?

And then finally on margins, can you share your EEV new business margins on UK bulks versus US bulks?

Nigel Wilson: It's those were the good questions those are the not so good questions but I'll answer them anyway. I don't see at the moment, there isn't a… 140 is not a dividend trigger by any means whatsoever; it's net cash and earnings. If you read the dividend policy it doesn't say anything about Solvency II in there whereas it used to, if you go back and read last year's. So we have changed there is such a lot of headroom in Solvency II. And I think as Kerrigan was trying to explain there are four or five things which are going to happen this year which will help free-up the amount of cash that we generate in capital that we generate as a business.

Kerrigan Proctor: I think just on the margins points we haven't given the breakdown of the figures but the UK bulk would have been ahead of the US just because of the nature of the business. The UK is typically inflation-linked and there was some deferred in there, the big US deal was no kolas and all pensioners.

Mark Gregory: Just on your point about the impact on capital under Solvency II, in the project slide I showed you there is a new business strain number on there, clearly that's a combination of all the group's new business. I'm not going to give a granular breakdown by business line but we have the indication there of how the total business we expect to write will come through in a Solvency II strain perspective. So the slide we gave you has given you an indication of how we think about that impact going forwards.

Oliver Steel: Oliver Steel, Deutsche Bank, apologies I'm going to ask about Solvency II again, at least two of the questions. The first is you have done the opposite of Aviva and the Pru in the way you've stated your Solvency II ratio so I wonder if you could just give us an alternative Solvency II ratio if you strip out the with profits fund and the pension fund surplus? Secondly, can I come back to that slide 14 about the new business strain because it looks very low and you say it's a, sort of, mixture of everything so I wonder if you can just give us a little bit more guidance on exactly what's gone into that? I assume it's something to do with the protection in-force generation and that sort of thing.

And then, thirdly, you talk about consolidation of pension pots are you talking organically funded consolidation of pension pots? Annuity pots, rather.

Nigel Wilson: What would be non-organic?

Oliver Steel: Issuing shares.

Nigel Wilson I think we feel, maybe we're not getting it across very capital-strong and the amount of capital that we're using in the business is not that great and hence, you know, the surpluses were incredibly strong. So this view that somehow we're capital constrained in 2015 isn't true whatsoever.

Mark Gregory: On the SCR impacts, with profits about £650 million of SCR in our calculations of the eight billion, about 650 million represents with profits SCR and we've got about 80 million in respect of our two internal defined benefit pension schemes I'll let you do the maths. In terms of back to the slide there I guess what I would say that almost… inevitably it's around we're going to see annuities being solvency II straining pretty much all other new business we expect to be surplus generating partly to do with diversification benefits, etc. But probably annuities will strain and the likes of Duncan's world in protection will look quite attractive given the natural diversification between the two business lines.

Oliver Steel: Is it just protection?

Mark Gregory: No pretty much all lines actually diversify against annuities.

Andy Hughes: Thanks very much, Andy Hughes from Macquarie. Three questions if I could, the first one is I thought we had better talk about your dividend forecast given ours are rubbish. On slide number 13, going back to Solvency II progression clearly we can see… I just want to double check exactly what I'm looking at here so the big bars are they pre or post new business strain? Do they include LGIM? So if I'm looking at the, kind of, progression of the net of the two bars is that how I should think about the dividend and it doesn't seem to be growing at 5-6% or 19% in future. In fact it looks like it's growing at a very modest rate.

So is the dividend growth in future coming from the one-off management actions you've highlighted in terms of risk margin, matching premium or should we expect a much more moderate rate of dividend growth in future I guess looking at the projection you've got here?

Nigel Wilson I'm sure there's plenty of dividend headroom because some of you asked for that slide; if you read the dividend policy it doesn't mention that, Andy it didn't say net surplus generation it says earnings and cash. So we will be basing the dividend going forward on earnings and cash not that. That was mainly for the techies so that you understood… because a number of you were anxious that that was going down so we wanted to produce a slide…

Andy Hughes: Sure but this is the cash, isn't it this is the Solvency II surplus so this is the cash?

Nigel Wilson But that's not the cash that we're going to be using for the dividend policy. The dividend policy is driven off earnings and net cash under IFRS

Andy Hughes: Right okay I'm not sure I understand. The second question was on the CMI 15 table, a couple of questions really obviously it's materially lower than 14 and 13 that you are currently using so how long is it before you, sort of, adopt CMI 15? And if you don't and your view is more that you should stick with 13 doesn't that mean you'll have less new business coming through over the next year as other people sort of think well CMI 15 may be the way to go?

Kerrigan Proctor: As you know, Andy we use a modified version of CMI 13 and despite high morality we were reluctant to move with that trend last year but we do expect a full review of that longer term trend this year and is something we'll be looking at. I mean, of course there's a distinction between reserving and what we use for pricing also so I don't necessarily think through what we've put in reserving, it just controls how much we release each year versus upfront rather than how we think about… how we price the deals.

Mark Gregory: Just a bit more colour on the question about the surplus projection, my estimation actually each year assume the prior year dividend has been paid so we have got a progressive dividend assumption baked into that calculation. So when you're looking at just the increase in the top line actually you're losing the fact that there's already a progressive dividend being paid in all prior years. So a little bit misleading to think about just the growth on that chart in isolation; inherently the projection is all prior years allow for progressive dividend to be paid. I won't give you the exact number but we have a progressive dividend assumed in our plan.

We have lots of other moving parts as well and I think that's still not technically correct the way the projections work. So each prior year you've already got a progressive dividend being paid so you've already taken the pain of that progressive dividend. So just looking at the top line growth doesn't show you the complete picture.

Nigel Wilson I think this is the last question unless anybody else wants to put their hands up; we'll wrap up after this. Sorry, Andrew two more questions.

Fahad Changazi: Good morning it's Fahad Changazi from Nomura. I suppose just for clarity or comfort could you just give us your quick pitch for the changes in the dividend policy when you went to the Board, so moving from cash cover to this. The second thing is can you also do something in terms of optimising the balance sheet in that you have a core Tier 1 which is strong? And the final thing is just a point of clarity do you want to give a top end of the range; you just give 140? Will you be deliberating to get the new EU stuff coming through and then, sort of, decide on that later?

Mark Gregory: I'll pick all those up. We've had I guess two sources of dividend growth over the last, you know, five or six years a combination of both business growth and a reduction, structural reduction in the net cash coverage. Clearly the new policy has not got that linkage to reduction in cash coverage in there so we're very clear going forward you should think about dividend growth very much in the context of the underlying business growth you expect the organisation to achieve. Not being formulaic about it we're simply saying that the structural decline reduction in the cash coverage has now been removed from the dividend so you should expect the dividend to be much more correlated to underlying business growth from this point forwards.

In terms of the wider, kind of, sources of capital in our balance sheet we are always looking to make sure we've got an efficient capital balance sheet. We have about 30% leverage, operating leverage in our balance sheet and we have a AA- credit rating for both Moody and S&P for our insurance business. That's important in the context of the covenant we can offer for annuities, etc. We can always look at, kind of, efficiency and we probably could take out some more debt without threatening that rating. It's something we keep on active review rather than something we're just going to hit the button on in 2016. But we make sure we have got the right balance between debt and equity.

And in terms of not having a top end of the range I think that's a deliberate policy at this stage. I think we want to live in the Solvency II world for a while longer just make sure what we think as being too much… We would expect to able to deploy capital and Nigel outlined a lot of growth opportunities going forwards we want to make sure we have enough fire power to deliver against that whilst maintaining our strong capital base. I think we are just holding back now trying to think through what might be too much capital.

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Nigel Wilson And Gordon you're the last question now.

Andrew Crean: Andrew Crean, Autonomous can I ask a couple of things? Firstly, the risk margin, erroneous calculation of the risk margin could you talk a bit about the possibility that the regulator will be able to get things changed and over what timeframe with the EU and what that would do for you? And, secondly, could you talk a bit more expansively on your retail saving strategy in the UK because your adherence to platforms doesn't seem to be that strong if you read the press and you've closed the with profits funds and that sort of thing? What is your preferred route to market in retail savings or are you just sort of saying that that area of the market is not one which you want to emphasise?

Nigel Wilson: Okay I'll answer the first and, Mark you can answer the second and it's Andy taking the last question I've put my glasses back on now so got the line of sight. In terms of the whole issue around Europe we had various discussions with Europe towards the end of last year and very sympathetic with Gabrielle and various other people who recognise that it's an imperfect rule that was designed in 2009 when the longevity market didn't really exist for… the longevity reinsurance market didn't really exist.

There are two or three different routes to getting it sorted out, one which would conclude in 2017 and two that would conclude in 2018 but there'll be various representations made by the industry, I think Treasury has already made its views pretty clear that they would like to see it changed. It doesn't make a huge amount of sense for UK plc to reinsure a lot of this stuff offshore and the tax revenue and the expertise get moved to different jurisdictions.

There's a sympathetic understanding by both the regulators, by Europe and by the Treasury and whether that's… I'd prefer to see it get resolved in 2017 and my many, many years of dealing with Brussels say 2018 is more likely. But certainly the quality of the meetings that John Godfrey and Ted Hart had with myself in Europe were very high.

On retail savings, Mark do you want to answer on retail?

Mark Zinkula: Yes in regards to LGIM so we did have a very good year last year in retail sales so the unit trust business coming across to LGIM a couple of years ago we've always ranked around twelfth, thirteenth, fourteenth in this market; we've had such an institutional focus. So we have rationalised our product offering and pricing and so forth and as you heard earlier we had net sales that ranked sixth in the country so it's the highest rank we've ever had by a wide margin.

And we do expect to continue to grow our market share in retail market. Doing well in passive as you would expect but also in multi-asset, in property and we have this outstanding fixed income team that we really never adequately marketed into the retail market so that's obviously going to get a lot of focus since we did very well on the institutional space.

Nigel Wilson: One last question from Andy.

Andy Sinclair: Andy Sinclair from Merrill Lynch. Three quick questions. Firstly on annuity pricing since Solvency II has come into force I just wanted to get an idea if annuity pricing for bulks has materially changed; if there is any material impact on return on capital employed. Secondly, just possibly wrapping up a number of comments, points that have been raised about Solvency II, just wondered if you could give us an idea of how many points of capital you'd be organically generating all things being equal after the dividend has been paid each year. And, thirdly, just on lifetime mortgages clearly looking for a lot more growth there. I believe you don't get the matching adjustment for these at the moment just wanted to see what could be done there and what the opportunity is as you continue to grow.

Nigel Wilson: Do you want to talk about bulk pricing?

Kerrigan Proctor: On bulk pricing the capital light model and the Solvency II we're seeing three things. Firstly, increasing benefit of using longevity insurance, as we talked about on the asset side it favours some mix of high quality global investment grade self-manufactured DI and gilts so that's the other one to it. And then probably the third element is prices have gone up a little bit for the end purchaser. So we're seeing a combination of all those things. If you did nothing the price increase would have to be higher to maintain the return on capital but that's why you have to work and do the hard yards to get the structuring right.

Nigel Wilson: Mark you take the second one.

Mark Gregory: I can't answer your question precisely, Andy because if I do that you you'll be able to back-sell what the dividend increase is going to be going forward given my slide. So I'll stick to what I said in the script, we expect to reach enough surplus each year to fund the transitional amortisation, to fund new business growth, pay a progressive dividend and retain sufficient to grow the capital base as the business grows. So you should take from that that there's enough money going round to feed all the mouths you would expect to feed.

Nigel Wilson: On lifetime mortgages, you're right we took no credit in 2015 and that's one of the optimisations for 2016. Is how we restructure the lifetime mortgage business so it does fit in and become matching adjustment compliant because we had what we thought was plenty of headroom so it was one of the many projects that Mr Stedman, Mr Hickman, Mr Blunt and various others of my very clever colleagues have got on their to do lists for 2016.

I think in summary we are feeling very good about the results for 2015, indeed over the last few years we've constantly outperformed the industry's expectations particularly on dividend. There's a very famous slide which Merrill Lynch kindly produced called the worm slide which those of you who haven't got it we'll kindly make it available on our website for you. And we are feeling confident about the future. The range of opportunities and growth opportunities are so much better than they were two or three, four years ago. Got a much more capable, very focused management team. It isn't just the people in the room today it's the bench strength that exists right across our organisation.

We have a fine risk function led by Simon Gadd that really keeps us all on our toes and sadly he knows so much about the business and how it all works that nothing gets past him in any of the meetings that we have. We'd really like to thank everybody for their support over the last years and some of the constructive criticism we had over the last few years. We will relentlessly try and drive the earnings forward, the dividends forward and continue to improve our ROE. Thank you.