Legal & General plc
Q3 2014 Interim Management Statement

Tuesday 4th November 2014

Mark Gregory
Group Chief Financial Officer
Good morning everyone and thanks for joining us on the call this morning. With me in the room today are John Pollock, Mark Zinkula, Kerrigan Procter and Paul Stanworth. We will follow the usual format of me giving on overview of the Q3 Results we have announced today and then we will open it up to questions.

The two main themes of our Q3 Trading Statement are cash and growth. Starting with cash, operational cash at £844 million, up 8% for the first three quarters of 2014 and net cash is up by 12% to £827 million. The reconciling item between op cash and net cash is new business strain and this is down 58% year on year at £17 million as our increasing scale and efficiency benefited our LGAS protection and savings businesses in particular.

We have also taken the opportunity today to reiterate the 2014 operational cash guidance that we gave back in March. Our business model continues to deliver significant and predictable cash generation and our structure means that the vast majority of that cashflow can be dividended up to group, thereby underpinning the Group's dividend.

Those who follow our results will be well aware that we focus on growing the stock of our business and it is that stock which drives our current and future cash generation.

The business highlights bullet points on our front page of our IMS Release are all stock measures. Across the business we are delivering growth in stock, typically at double digit rates. Annuity assets up 16% now just under £40 billion. LGIM total assets up 14% now £676 billion or over $1 trillion. Savings assets up 13% to almost £120 billion. UK protection premiums up 6%, US protection premiums up 10% and direct investments more than doubled to £4.6 billion.

These rates of growth are being delivered both in our traditional markets like protection, investment management and savings as well as newer areas of focus such as housing where we are building on our established capabilities. For instance we facilitate one in six mortgages in the UK. Housing illustrates our ability to focus on a market where there is a clear supply demand imbalance, where many of the market players are relatively small and financially constrained and we are able to deploy our skills and scale to deliver almost immediate results.

Looking at our businesses in turn, I will start with L&G Retirement. Annuity premiums year to date are up 5% to £3.9 billion. Within this bulk annuity sales are up 29% at £3.4 billion. These numbers exclude the transaction in Q3 which transferred just under £2 billion of annuities from With-Profits to our shareholder fund. Including this transfer we have written a £5.8 billion annuity business year to date. Of this £5.8

billion of annuity business, only £508 million was individual annuities, well under 10%.

Individual annuity sales in the quarter were down 61% year on year and we have seen little prospect of upside against the forecast we gave at the time of the budget that individual annuity volumes would be 75% lower in 2015 compared to 2013.

Even before the budget announcement we were expanding our bulk annuity business because the global derisking opportunity was where we saw the real growth potential. The strength and flexibility of our annuity franchise means that we have been able to secure bulk volumes which have more than offset lower individual annuity sales.

Looking ahead, our bulk pipeline is strong, including our immediate prospects. Hence our comment today that we have a high degree of confidence that we will finish 2014 having secured around £8 billion of annuity transactions which will be more than double the record we achieved in 2013. The usual caveats apply around timing and market conditions for the portion of the £8 billion not yet fully contracted.

The financial consequences of the Chancellors changes for us are limited. But we will not be walking away from the provision of retirement solutions for individual customers. We will have a range of products available for next April, including tax efficient cash out plans, new income oriented multi asset funds from LGIM and still annuities. We will continue to provide good products, good value, good service.

The message to people reaching retirement is simple. Access your pot how you like, but you can only spend it once. And make sure you get guidance. The message to shareholders is also simple. The financial engine of LGR will be the bulk market. The individual market will be a much smaller part of the overall contribution.

LGIM total assets up 14% that is £676 billion. A key part of our strategy for LGIM is focused on the derisking trend which is occurring within defined benefit pension schemes. The impact of this is pretty well illustrated in this trading update where our year to date LDI net inflows were £18.4 billion whereas our Index business had net outflows of £11.8 billion.

Another key aspect of our LGIM strategy is to take advantage of the international opportunities. Total international assets have increased by 45% to £86.5 billion with net inflows of £7.2 billion year to date with particularly good progress being made in the US.

LGAS grew UK Retail Protection sales by 18% to £124 million APE. In a market whose overall size is broadly static this represents further growth in market share. We are strengthening distribution with new ties. We are continuing to increase efficiencies and improve digital processes to reduce unit costs. Scale reinforces our competitive advantage.

Group Protection sales in the UK were down £3 million in the quarter where we remain very disciplined in our pricing.

Savings increased AUA by a further 13% with net inflows of £4 billion to Cofunds. AUA of Cofunds is up 18% to £69 billion.

Workplace now has over £10 billion AUA up 28% and customer numbers up 48% on this time last year. Net inflows year to date in workplace are £1.5 billion and we are on track to halve the losses this year as the business increases both scale and efficiency. Longer term Workplace has the potential to be more than just a pensions business. It could become a wider distribution mechanism, for additional products including protection.

US protection in LGA, sales in the quarter were 39 million dollars, down from 43 million dollars in the corresponding period last year, reflecting the price changes we made in May so we were broadly expecting this to be the new run rate level for new business going forwards.

Finally on L&G Capital, our direct investments at the end of September were £4.6 billion, reflecting a mixture of investments and disposals during the quarter. Our medium term intention of having around £15 billion of direct investments remains but each and every asset will be assessed on its individual risk and reward characteristics.

In summary our strategy to deliver 'cash plus growth' is set and we are in execution mode. And this was another quarter of delivery.

I now open the call to questions.

Question and Answer Session

Question 1 : Alan Devlin, Barclays
Hi guys, three questions if I can. First of all if you could talk about the economics of the internal transfer. When Friends Life did one last year of £2 billion they set it out as £10 million as cash going forward. Is that a good guide to your guys?

And just on the corporate pension business, you said you were on track to halve your loss and you have got £10 billion of AUM which in the past you said is the normal numbers to get towards scale. What is the impact on the new business strain of reducing that loss? Is it one of the drivers of the reduced new business strain this quarter?

And then finally on LGIM. What is the margin on the overlay business versus the rest of the portfolio or the economics of the overlay business versus the rest of the portfolio? You have net outflows £7 billion on the bulk of the business but you have included the overlay of net inflows year to date. Is the £476 billion the driver of earnings in that business or the £676 billion including the overlay assets in GIA? Thanks.

Answer: Mark Gregory
Thanks Alan. I will pick up the first one on the internal transfer of the annuity business. John can comment on the corporate pensions scale point and Mark can pick up on the LGIM margin point.

Just on the internal transfer of the £2 billion of annuities out of our with profit fund into our shareholder fund, clearly we have not disclosed the exact breakdown of that Alan. What I would say is we have used pretty much the same pricing message we use for all our external bulk annuity transactions so there is no special element to the with profit transfer. It is very much an open book exercise, both parties had their own advisers. So it was done on an arm's length basis and therefore the economics will be similar to what you expect from other externally sourced bulk transactions, but we have not actually disclosed that today.

Answer: John Pollock
Hi Alan. Halving losses, we are still on track. I think what we have previously guided is low double digit billions rather than ten specifically and I am very confident that we can continue with that guidance, low double digit losses. And the strain impact from those losses is negligible. It does not quite work like that. Efficiency cost of setting schemes up - that drives the strain rather than whether it is intrinsically profitable or not.

Further answer: Mark Zinkula
With regard to LGIM and the economics of the overly business versus the rest of the business, the fees and profit margins on our overlay assets would be very comparable to the Index business that would be the closest comp. With regards as to whether to focus on the total AUM or total assets, if you focus on the total assets, we earn fees on £676 billion and also focus on the composition of the assets as well. So over the last several years we have diversified our business model by product, by distribution channel, by geographic region and that is continuing and whilst doing so investing heavily in the business we are still maintaining roughly 90% persistency and roughly 50% profit margins but across a more diversified book of business.

Alan Devlin
Okay, thanks.

<u>Question 2 : Oliver Steele, Deutsche Bank</u>
Good morning. Actually I wanted to follow-up on that LGIM question. I am assuming that a lot of the outflows in index funds is linked to bulk annuities. So given your positive pipeline on bulks looking specifically to the fourth quarter, but also I guess looking into next year, how should we be thinking about index fund outflows looking through into 2015?

The second question linked to this, is there anyway we can use the inflows into your solutions business as a sort of forward indicator of what future bulk annuities might look like?

Answer: Mark Zinkula
Good questions. With regards to the first question, the passive outflows are not directly related to annuities, they are related to derisking strategies although some plans will ultimately not pursue annuities as an end game solution. They might pursue self sufficiency or something in between, frankly, a partial annuitisation or what have you, but certainly the vast majority of our passive outflows are related to rerisking strategies which may or may not ultimately end up in some kind of annuitisation.

The growth in our LDI business would be somewhat of a leading indicator as to the ultimate growth in the annuity market, but again not all of the LDI strategies will ultimately result in a buyout contract, but certainly that would be the direction of travel for much of that business.

Further question
At some stage, not necessarily today, but I think it would be quite interesting for us to sort of understand the dynamics of the shift from passive funds into derisking solutions and then ultimately into bulk annuities just so that we understand the timing and the linkage between the flows?

Mark Gregory
We will pick that up Oliver.

Mark Zinkula
It makes sense you are thinking about it the right way though, it makes sense.

<u>Question 3 : Andrew Crean, Autonomous Research</u>
Good morning. Three questions if I may. Firstly, given the very strong performance in annuity sales including the internal transfer, I am slightly surprised you have not moved up your cash forecast for LGR since the beginning of the year. I wonder whether there is something that lies behind that or innate conservatism?

Secondly, I wanted to ask on LGIM whether you felt that the business had any opportunity from the debacle at PIMCO in terms of active or passive fixed interest?

And thirdly, I wanted to ask on the bulks, does the company believe it has all the skill sets it needs in terms of longevity IP in-house or does it think it needs to have a better understanding of impaired lives?

Answer: Mark Gregory
Thanks Andrew, I will pick up the first one on the impact on op cash, Mark can pick up any thoughts on PIMCO and Kerrigan can pick up on longevity skills in particular.

So on the op cash guidance and impact of current year volumes Andrew, we very much set the op cash based on the opening balance sheet for each year. So any impact of new business in that year will only impact on new business strain or surplus number and clearly that will come through in net cash rather than operating cash and the guidance we have given is at the op cash level so you would never expect any new business in the current year to affect the op cash guidance so it is a pretty stable number for the year in question. It will clearly then impact the opening balance for the following year so you will get an operational cash benefit down the track, but in the year you write it the only impact on new business strain/surplus line which affects net cash rather than op cash.

Answer: Mark Zinkula
In regards to the situation with PIMCO, could be an opportunity for us certainly in the institutional space. So there has been a lot in the news about outflows and their retail funds. Institutional investors on average will take a bit more time to assess the situation. But certainly, especially related to our US fixed income business and to some extent LDI business, could present an opportunity over the next few quarters to potentially gather some assets off the back of this news.

Answer: Kerrigan Procter
On the bulks IP we think the longevity expertise we have is significant IP for us. To give you some brief idea of the scale, we have a research team of 27 people based in Kingswood looking across the data we have collected over 27 years of bulks and individuals,that we also have built up data and skill sets in US, Netherlands, Canada and also on the individual side in particular, things like co-morbidity is a hot topic of research and data build up in that area which will be an important thing for enhanced or underwritten annuities going forward. So we see that as a significant skill set for us and not especially looking, never complacent hopefully, but not especially looking to or think we need to complement that.

<u>Question 4 : Andy Hughes, Exane, BNP Paribas</u>
Hi guys, a few questions if I could. The first one on Lucida, I think you said at the half year you distributed all the acquisition proceeds out of Lucida plus the incremental capital requirements. And I read something that said Lucida on an internal capital

model was actually falling short on the standard model was falling short. External. So are you basically running the business currently with a massive difference for the annuities versus the standard model? And how big is that gap versus your feeling as to where the cashflow should be as to where it would be on the standard model?

Second question was about the financial annuity reinsurance. Is there a cost for that and how big should we think of that?

And the third question was again on the annuities I am afraid. I am a bit confused because obviously spreads have narrowed considerably in the credit markets and that would normally mean, as you say you have a very disciplined approach in writing protection, shouldn't that mean you also have a very disciplined approach writing annuities and as you are making a lower margin, pull back from the bulk annuity market as well? Thank you.

Answer: Mark Gregory
Thanks Andy. I will pick up the first question on Lucida and the read across to Solvency 2. I guess Kerrigan if can pick up the reinsurance point and impact on spreads on bulk pricing and margins.

Just on the impact of I guess Solvency 2 in the standard model versus internal model. Andy clearly at this stage we are still, as I keep saying, working through with the Regulator exactly what the outcome in terms of internal model. Our application does not go in until next April. I think it is fair to say, as you would expect, we would hope that our internal model gives a better treatment, more favourable treatment capital wise than the standard formula. But in terms of the quantum of that business, I am not going to comment on that, on the basis we don't yet know exactly what the quantum in our own internal model is. But I think it is fair to say we would not have been trying to get internal models approved unless it was beneficial to do so and clearly from our perspective annuities is a big risk area both for credit and for longevity and therefore it is a key component of that. But much more colour than that would just be unhelpful at this stage.

Answer: Kerrigan Procter
On the Prudential financial annuity reinsurance, they join a roster now of 6 reinsurers that we use at the right time, select which risks we keep and which to pass on to reinsurers. So I just view that as a continuing part of the central management of longevity risk on the balance sheet, nothing more than that.

On your point about spreads narrowing, I mean in terms of our pricing basis and how we select deals, we really work on a return on economic capital basis and when things meet our internal hurdle rate on that so we look to proceed with deals and when they don't, we stand aside. So that is how we really think about the economics of deals.

Further question
Has the return on economic capital come down as a result of the spread narrowing?

Answer: Kerrigan Procter
No, we have kept our hurdle rates constant.

Andy Hughes
Thank you.

<u>Question 5 : Jon Hocking, Morgan Stanley</u>
Morning everybody. I have got two questions please. On the asset management side, if you look back in one of the tables you have 9 month flows tracking over the last three years, is it fair to say the international business is slowing in terms of inflows or phasing of mandates and how is the pipeline looking? That is the first question.

And second question on Legal & General Capital, the principle balance sheet, the £4.6 billion is all of that in shareholders funds or some in assets backing annuity technical liabilities? Thank you.

Mark Gregory
Zink if you pick up the first one and Paul the second one.

Answer: Mark Zinkula
In regards to the LGIM international flows, relatively early days in building out our international business. As you know the flows will be fairly volatile. The US continues to see increasing flows in its fixed income and LDI strategies and I would expect that trend to continue. Where we have struggled a bit in the last few quarters has been in our international passive business, particularly related to additions or new mandates from wealth fund clients. Again there is much lower margin, lower fee and our active strategies are LDI strategies, but we expect that business to perform better over the coming years than it has over the past several quarters.

Answer: Paul Stanworth
In terms of the £4.6 billion of assets that we have got. Effectively these represent the shareholder components of various legal entities we have in the group but they don't back any liabilities.

Further question
And the £15 billion aspiration for, it was mentioned somewhere else, presumably that is backing annuities?

Answer: Pau Stanworth
It would be covering all of the parts of the balance sheet, so annuities, it would represent the £4.7 billion we just talked about. We have some growing in our US business and LGA, we hold some in our with-profits fund as well.

Jon Hocking
Okay, thanks very much.

<u>Question 6 : Gordon Aitken, RBC</u>
Morning. Three questions on bulks please. First on solvency of pension schemes. Can you talk about what the typical solvency of a pension scheme you take on is? And presumably it is buy-ins these days. And has the big reduction in solvency in October had an impact on demand? First thing.

Secondly, back to reinsurance transaction, the £1.34 billion with Pru Financial. You are obviously bullish on bulks, the part buy in in Q4, do you need to or would you look to offload more longevity risk when you do those deals?

And third, could you talk about margins on bulks please, that you have seen in the third quarter, and also discuss this now? Thanks.

Mark Gregory
Thanks Gordon, all for you Kerrigan those three.

Answer : Kerrigan Procter
Yes solvency of pension schemes, at the point people buy-in or buy-out of its pensions. Buy-ins are typically, you are right there. It will be typically involve the Trust assets plus some typically reasonably small contributions from the companies to complete the buy-in premium and typically those pension schemes are close to fully funded typically to go through that transaction.

Your point about reduction in funding levels or funders and debtors in October, the way I think about market volatility is more that it increases the dispersion of funding levels. So those people furthest away from derisking probably have more on equities and might exhibit a larger fall in funding level, but those aren't the ones who are closest to buy-out anyway. Those ones that have gone down a derisking LDI strategy and have clearly demonstrated they are on that path of derisking, their international funding level tends to be pretty stable and stable funding levels that is the purpose of LDI and likelihood of eventually over this year or next year, in the next decade heading towards buy-out. So increased disparity does not necessarily increase the demand from those people who are likely to look at buy-out.

Back to the point about the Prudential reinsurance strategy. We have arrangements with a wide range of reinsurers, back to the point, just sensible risk management. I would not necessarily read anything into that other than we choose which risks we keep and which to pass on when the price is right and that is what we choose to do really.

Margins in Q3, you saw our margin figures at half year. That is something that is a sensible starting point for future thoughts.

Further question
Can I just follow-up on that reinsurance. Pru Financial at the margin they are making versus the margin that you originally made on the bulk business, are you making, what sort of spread are you making on that deal?

Answer: Kerrigan Procter
We will give you the actual margin figures when we get the whole year figures, you will get the full detail then in those figures. But as I said the margin figures we showed at half year, take that as a half year guidance. An essential starting point for future reference.

Gordon Aitkin
Okay, thank you.

Question 7 : Ashik Mussadi, JP Morgan
Hi good morning. Just a couple of questions. First of all your annuity volumes are, I mean the total assets is up 20% give or take year on year. By the end of the year it will be around that. Is it a fair thing to assume your growth capital generation from LGR will also be more or less similar to 20% up? If not what is the missing link there? That is the first one.

Secondly there is some news around that you have recently cut the pricing for the index funds. So is that material and does that change anything in terms of earnings from LGIM etc?

And thirdly can you explain a bit more on this efficiency concept on the new business margin and exactly where it is coming? I agree you mentioned protection and savings, but where is it weighted more towards and what are the benefits from that? Thank you.

Mark Gregory
I will pick up the first one and then Mark can pick up the one on Retail Index pricing changes and John if you could pick up the one on new business strain.

Just on growth and annuity asset, in simple terms, the dominant impact is higher volumes. So we do get some diversification in terms of capital. Having said that, annuities is our dominant risk type. So in that sense you don't very much, so certainly in simple terms, as asset volumes go up, expect for annuities, you should expect the capital requirement to go up broadly in line with that.

Answer: Mark Zinkula
In regards to our recent announcement about deduction in fees on a targeted range of retail index unit trusts. Retail represents about 5% of our index assets and it is on a subset of those funds that we ultimately decided to reduce our pricing to be more in line with some of the competition. In those funds we would expect higher volumes as a result of the more competitive pricing to more than offset revenue loss as a result of the reduction in our fees.

Answer: John Pollock
On new business margins Ashik, essentially you should just think about strain as the cost of establishing a policy on the books. And the more efficient you are, so for example in protection, 82% odd straight through processing, the higher the volume, the lower the unit cost, therefore the lower the strain. And the same is true in savings, the more you automate the capture of customers and premiums and money, the less cost you have in establishing those policies. So the more efficient you are, the lower in effect the strain. There are capital effects as well, but principally that is how you should think about it.

Further question
Just a follow-up on new business strain question, is it possible to start seeing positive new business strain item for both protection and savings as well? Or is it too early for that to happen at the moment given the scale?

Answer: John Pollock
I don't think you should be thinking about savings ever generating positive strain. It is a much more simple, straightforward cash in, expenses out type business and therefore it is unlikely except for potentially very, very high premium levels you might see effect there. But it is more about the reserves that get established as well as the costs that get established on insurance businesses. So it is possible the higher efficiency you have in the risk businesses, the higher the surplus can be. But savings, much, much less likely to evolve in that direction.

Ashik Mussadi
Very clear, thanks.

<u>Question 8 : Greig Paterson, KBW</u>
Morning gentlemen. Probably the traditional three questions. The one is I am just thinking about the budget you have to the capital, the free surplus budget you do have to write annuities. I wonder if you could give us an idea of how much the £8

billion you write in this year will cost on your, assuming in order to keep your AA credit rating and how that compared to the stock of free surplus you have on AA basis so we can get a feel for what the budget is?

The second thing, the US, you make this comment about slowing sales and potentially returning capital through higher preventatives. I wonder if you could talk about the strain there, the back book release etc so we can have an idea of what the potential is?

And then the third question is CALA, you made a comment, made £27 million was a record amount, on circa £300 million of turnover and you want that to get up to £800 million. I was wondering a) where does that fit in and various lines of net capital generation and what would be the kicker if you did achieve that £800 million turnover in 2016 just for modelling. Thank you.

Answer: Mark Gregory
Okay thanks Greig, I guess I will pick up the first couple and Paul will have a go at the CALA question at the end.

In terms of capital budgets and our stock and impact of free surplus of writing more annuity volume and protecting the AA credit rating. Clearly it is a balancing act in the round Greig and clearly recognise that no balance sheet can write infinite amounts of business. There is capital used in this business. We will update on IGD and economic capital use at year end. But we have not done that at Q3 as we don't do at Q1 and Q3, we will clearly update on the capital balance sheet position at year end. All I will say is we are entirely comfortable with the level of business that we are writing this year. Again we will update and give a bit more colour on the prospects going forward and the capital implications of that at the Prelims in March.

In terms of L&G America, we did flag up at the half year that we had adjusted our price in Q2 this year and did expect that to have some impact on volumes and some of that has come through as I said in my overarching speech at the start of the call. So volumes were down about 4 million dollars APE in the quarter in isolation. In the round this is a term assurance business and we are just keen to make sure we get the right risk adjusted return for the capital that we put at risk in writing business in America against business we know very well. We have been in that business marketplace for a long time so I will describe the price changes as more of a tweak rather than wholesale change. Hence the impact on volumes has been reasonably muted but we are very keen to make sure that that business generates good value for the Group and for shareholders in the longer term.

Further question
Sorry to interrupt, just on a request. You don't ultimately have to hold ICA or the minimum economic capital. You have to hold a higher number because the Regulator requires a higher number and you have a superior credit rating. I wonder would be more useful to see the free movement on a sort of AA level. As this is more realistic going forwards as a disclosure?

Answer: Mark Gregory
We will think about it for year end Greig, clearly, exactly what constitutes AA is in the eye of the regulators ultimately but we will try and get a little bit of colour around this. Clearly the ranges we gave is 175 to 225 and clearly this is where we think the right level of capital is for the organisation, but that would not necessarily be how Moody's and SNP in particular think about AA, but clearly the two things are not that far apart. That is our preferred range and we are a AA related business. So you can read into

that what you will, but we are broadly in the same place. We will give some thought to it Greig.

Answer: Paul Stanworth
Yes thanks Greig. The way we account for CALA in the accounts is we accrue their net sales in terms of an addition over costs because they are not declaring dividends and so we earn 47% of CALA's results, and they made £27 million as you say from just under £300 million of revenues. We would expect the margins to be the same as they build up to their target plan of £800 million and it would come through our accounts as continued accrual of those net sales as opposed to a private equity type approach where they might remark the value of the assets according to current multiples.

Further question
Would it make it into your net capital generation statistic?

Answer:
To be clear we have an assumed return in the cash number Greig and any variance against that goes through the investment variance line.

Further question
So it will contribute to the LTIR (long term investment return)

Answer:
Yes it will be in the LGC's cash number and then any variance against the assumed return will go against the investment variance.

Greig Paterson
Thank you.

<u>Question 9 : Ravi Tanna, Goldman Sachs</u>
Good morning, just three questions please. The first one is on the with profits annuities transfer and I am just trying to understand to what extend we can see this as a one-off or is there a great deal more of this type of business to come in the future and specifically whether the £8 billion annuity guidance for this year has any more of that type of business ear marked within it?

The second question is on UK protection market. You talked about maintaining your pricing discipline. I am just hoping you could speak a little bit more about the conditions in the protection space and specifically any differences between the retail versus group markets?

And thirdly and finally, on UK platforms, sales appear and flows appear very strong. I was just hoping for a quick update if it is possible on the direct customer plans for the platform and how they are progressing? Thanks.

Mark Gregory
Thanks Ravi. Kerrigan do you want to cover whether the with profits thing is a one off and John pick up on points 2 and 3.

Answer: Kerrigan Procter
That is a simple answer, it is a one-off so that was the internal transfer from with-profits to shareholders.

Answer: John Pollock

Hi Ravi. The protection market I think you asked about the differences between retail and group. Retail at the minute is pretty much operating as it always has. With appetite being expressed by competitors in a kind of on-off sort of way. We have been very consistent; our broad reach of distribution puts pricing discipline slightly less up our agenda than it would be for others. Because we are not in the same state of reliance on a broker market and IFA market as many others are. But we observe what people are doing and by and large the retail market has been relatively quiet of late. The group market however has seen a bit more competition emerging. We are very happy with our pricing point and tend to select the schemes on the basis of our risk appetite. We have been in that market for a very long time and built up quite a lot of data on not just sectoral but scheme specific characteristics that allow us to select. And if large schemes come to market you can see quite sharp swings. We have seen a growing appetite in that space from some of our competitors. But we have been doing this for a long time and are very, very comfortable with the position we occupy in both of those markets.

You also asked about a platform growing and our progress on D2C. We are in the last stages of the initial technology development on core functionality in that space and it is already soft testing internally with some of our own staff, me included as it happens. And I quite like it. There is quite a long way to go in D2C and I worry a little bit about the translation of that language into, people always thinking about it as outbound marketing. The way I think about it is it enables engaged customer self service capability. And that is what we will be delivering, it is what we expect to deploy into our partnerships earliest, but you will see capability emerge during the course of Q1 as I think our technology, I am pretty sure will be delivered robustly during the tail end of Q4.

Ravi Tanna
Thanks very much, very clear.

<u>Question 10: Andrew Sinclair, Bank of America, Merrill Lynch</u>
Thanks very much and good morning. Three questions please. Firstly on LGIM. Investment performance was extremely strong in the quarter, particularly in the solutions business. I just wondered if you could give us an update on that performance and maybe tell us a bit about what the key sensitivities are for this business?

Secondly, looking at the workplace business and wonder if you could give us an update on how markets are looking for tenders and retenders at the moment? Are you seeing existing schemes coming back to the market?

And finally, following on from Ravi’s point on platforms, just wondering if you could give us an update on cofunds and if you have seen a material change in flows, particularly since intrinsic was picked up by Mitchell?

Answer: Mark Zinkula
With regards to your first question, within the solutions business we include a multi asset business as well as LDI business. The multi asset fund performance has been very strong year to date. We are seeing increasing momentum in sales there. In regard to the market performance if you will, a lot of our collateral assets within our LDI portfolios are relatively longer duration and you saw a rally in that part of the curve in particular during the third quarter which is driving the higher market values in that part of the business.

Answer: John Pollock

Workplace and the market. That is quite a difficult question to answer to give any clear steer. There is activity in the second market where schemes are particularly at the larger end where they are reviewing their providers and we are quite keen to get those asset transfers. We have an incredibly powerful proposition, doing the right thing for pension savers with the 50bps guarantee and I would hope that as a consequence of those retenders that we would be a winner. But it is hard to say it is actually happening yet. Remember it is fairly early days in auto enrolment and I think scheme trustees and scheme managers will be considering their positions fairly carefully, but I do expect it to be a market that emerges and I do expect us to be a winner in it.

As far as the close impact from intrinsic changes, nothing really to say on that. No noticeable effect, not a huge account for us anyway so I don't anticipate that being materially impactful.

Andrew Sinclair
That's great. Thank you very much.

Operator
I am afraid we do not have time to take any further questions today ladies and gentlemen. If you had wished to ask more questions, the Legal & General Investor Relations Team would be happy to assist outside this call.

End of Presentation