Legal & General plc
Half-Year Results 2014

Wednesday 6th August 2014

Dr Nigel Wilson
Group Chief Executive
Good morning to everyone. This is our 2014 Interims Presentation. The usual arrangements are in force today. The fire alarms, forward looking statements and mobile phones.

Today you will hear from me, but you will also hear from Mark Gregory who is going to take you through the numbers. John Pollock and Mark Zinkula will talk about LGAS and LGIM and we have got a free feature today. Kerrigan Procter is going to talk about LGR.

This is another very strong month, six months for Legal & General, strong in terms of business delivery, strong in terms of financial results. Net cash up 13%. Dividends up 21% and return on equity of 17.6%.

Financial performance of Legal & General is consistent, both on quality of cash and earnings and on excellent execution. Not quite a sprint, but a heck of a middle distance pace, especially for a 177 year old company.

Consistently improving financial results are underpinned by strategic consistency. Our scale and skill drives growth and competitiveness. Our economically and socially useful products and investments improve the security and quality of life for our customers. And our strategic clarity and operational excellence are driving consistent improvement in shareholder returns.

The five mega trends that drive our growth are here to stay. The State pension could cost over £400 billion annually by 2063. That is compared to about £90 billion today. Bank retrenchment continues and the AQR this autumn will take this forward. And after 500 years of print and less than a decade of digital, we are just in the very early days of a long and productive digital journey for Legal & General.

The key to success and our success is not just identifying these trends, it is acting and responding to them. We did this again in H1. Aging population with retirement solutions, delivering record annuity premiums and rising workplace assets. Digital. Platform assets continue to grow and relentless process improvements continue to drive down our unit costs. Protection continues to grow as welfare reform becomes more pressing. Our ideas for Beverage 2.0 are moving closer to implementation. These include fairer flat rate pension tax relief and using the auto-enrolment plumbing to help working age people build rainy day savings against events like sickness and unemployment.

Globalisation of asset markets drove the international success of LGIM and makes pension de-risking a reality. And Bank retrenchment has meant we have continued to expand our direct investments. CALA plans to treble in size to £800 million by 2016

and we have added a £250 million entry point to SME lending through our Pemberton investment.

Here are our five profit centres. One important thing they all have in common is scale. Our businesses are scalable and we are a simple business in a complex world. Where we see growth we will invest to achieve that growth, organically or by acquisition. Over the last year we have demonstrated that we have the capacity and capability to make good acquisitions from CALA and Banner Homes through Lucida and core funds to GIA and the Idol. We are making good progress in integrating and managing those acquisitions.

What this slide doesn't show are our synergies and our team work. We are one firm, one set of values and one set of behaviours. We have many examples of great team work in Legal & General. The £3 billion ICI Bolt deal is a recent one. This involved 93 people working as a team across LGIM, across LGR, across LGC and across the Group. Our two economies, that is the UK and US are expected to enjoy some of the strongest growth amongst the developed countries. Investment is coming back, but it still lags consumption. So our slow money approach is vital to delivering long-term sustainable economic growth that is fair to all.

We have made £4.6 billion of direct investment so far across housing, commercial property and infrastructure. There is student accommodation, distribution centres, hospitals, care homes and energy and now we have added direct lending. We are creating new asset classes, enhancing risk adjusted yields, reinforcing our role as providers of institutional investment, first with our own money and later alongside institutional pension fund and sovereign wealth fund clients. We are doing this already and giving greater policy and regulatory stability as well as supply side reforms. We intend to deliver much more alongside private and public sector partners, including enlightened local authorities and the 39 lets on local enterprise partnerships.

In March I surprised colleagues and perhaps some of you by highlighting some things we need to do better. Here is the check list. Financially in terms of cash we are ahead of expectations. We are on track to half the losses on workplace savings this year. We are delivering on the Cofunds and other acquisition integrations. And we have acted to improve our risk adjusted yields. After Prelims the budget was something of a surprise. But it has not knocked our resilient and robust business off its stride or diminished the scale of opportunities we see for Legal & General. The Chancellor's creative destruction in annuities will be good news for the customer and good news for Legal & General. We were an ordinary company, we aim to become an extraordinary company and we have made good progress towards that our goal in H1.

I will now hand over to Mark.

Mark Gregory
Group Chief Financial Officer
Thanks Nigel and good morning everyone. The first half of 2014 represents another chapter in a strong and consistent story. Business growth coupled with cash and earnings growth. The green arrows on this slide are not just up they are significantly up. Growth in stock today drives earnings tomorrow. And in terms of stock this was a very strong six months.

The fourfold increase in our bulk annuity premiums drove a 20% year on year increase in annuity assets to £38.5 billion. LGIM assets on either our previous

definition of assets under management or the new broader measure, have increased substantially. Savings assets grew 17% with our auto-enrolment proposition driving workplace assets up 30% to £9.5 billion and platform assets were up 26% at £67.4 billion. UK protection and general insurance premiums have grown 5% to £921 million and L&G America increased gross premiums by 10% to $553.

Our focus on cash generation remains. All five divisions delivered operational cash growth. All five divisions delivered net cash growth. Overall operational cash was up 8% at £578 million and net cash was up 13% at £567 million. Operating profit was up 11% at £636 million and earnings per share up 9% at 8.51 pence.

For a long-term business like ours, having a strong and resilient balance sheet is critical. Our capital base remains strong, but not at the expense of capital efficiency. Our annualised return on equity was 17.6%. We are delivering business growth, cash and earnings growth, dividend growth and all without compromising the strength of our capital base.

A design principle, at the heart of our business is that we drive high quality growth in stock so as to deliver increasing long-term and highly visible cash flows. Our business stocks are growing and growing at a healthy rate. This stock growth has in term accelerated the progress in cash and earnings. This is a multi-year story of delivery. The £567 million of net cash generation in the first half of this year is more than 75% greater than the net cash delivered in the whole of 2008.

This slide shows the increased net cash contributions from our five divisions. The 13% increase in net cash were driven by an 8% increase in operational cash and a 70% reduction in new business strain. Both L&G Retirement and UK Protection, delivered record sales. LGR did so on terms which once again generated a new business surplus and UK Protection's record sales came with £15 million less new business strain.

Across the Group progress on net cash is a result of efficiency and scale. The bullet points on this slide show the correlation between business stock growth and net cash growth. And this is net cash which will be delivered this year and for many years to come.

Given Kerrigan, Mark and John will cover the performance of their respective business areas, I will limit my divisional commentary to L&G Capital and L&G America.

So L&G Capital. We delivered a 21% increase in net cash from £68 million to £82 million and increased operating profit from £86 million to £102 million. Operating profits and cash generation are calculated using assumed investment returns on the average LGC assets. In the first half this was 4.4% annualised on £4.7 billion of assets.

The investment variance across the Group, a straightforward reflection of the Alpha generated versus assumption during the period was positive £26 million for the first half versus positive £42 million for the prior year. The smaller positive was largely the result of total equity returns being lower than long-term assumption in the period.

Turning to direct investments, we completed £1.6 billion of new direct investments in the first half. Increasing our total stock to £4.6 billion up from £2.9 billion at year

end. These are now nearly 10% of the assets in our principle balance sheet. We have to hold assets for solvency capital purposes and we have to hold assets to back our new deal liabilities. Our strategy therefore for the principle balance sheet and particularly for direct investments is to generate enhanced risk adjusted returns given the relatively low liquidity requirements for the assets we hold.

L&G America. Operational and net cash represent the dividends paid up to Group. LGA paid $73 million of ordinary dividends this year compared to $66 million last year. As a reminder, the ordinary dividend from LGA is normally paid in Q1 each year with a further albeit significant smaller preference dividend expected in Q4. You can see the compound annual growth rate of L&G America in recent years and dividend progression remains a key strategic objective for this business.

In terms of business performance, LGA delivered first half sales of $78 million up 11%, growing its market share. It is now the fourth largest provider of term assurance in the US by premium and the largest provider through broker general agents.

Operating profit was lower $72 million versus $81 million last year including high levels of death claims which were $33 million adverse to assumption. Higher mortality in the first few months of 2014 does appear to have been a feature across much of the US industry. We believe this to be a short-term effect and anticipate mortality returning to assumed levels in the second half. In the last couple of months we have introduced a new pricing model which allows us to set assumptions at a more granular level. As a result we have increased prices in lower profit areas and reduced prices elsewhere. This will lead to a change in business mix and we expect to see a small reduction in new business volumes in the second half against the comparable period last year. But overall we expect margins to be broadly unchanged.

Moving on then to the Balance Sheet. The Group's Solvency I IGD capital position remains strong with a surplus of £4.7 billion at the half year. This includes the vision we hold for defaults in the credit assets back in our annuity business which is now increased to £2 billion. The components in the IGD are shown on this slide. £567 million of net cash generation, £588 million of net proceeds from our recent Tier 2 debt issuance. £122 million of capital released from Lucida following the successful completion of a part 7 transfer of a business into LGAS. £200 million of net investment for organic growth and finally the cost of the interim dividend announced today.

The resultant IGD coverage ratio at 236% is above our preferred longer-term range of 175-225%, but it is worth bearing in mind that we have 600 million of Euros of existing Tier 2 debt which is callable at par in June of next year. The coverage ratio, absent recent Tier 2 issuance would have been 219%.

Today we have also disclosed details of our economic capital position as at year end 2013 and a summary of the position at half year 2014. I am aware that the term economic capital means different things to different people. To be clear, our economic capital reflects the amount of capital which the Board believes the Group needs to hold over and above its liabilities to meet its strategic objectives. It is not a Solvency 2 Balance Sheet.

We have used the same modelling framework we intend to use for our Solvency 2 internal model, but there are many material differences between the two balance sheets. The eligible own funds in our economic capital balance sheet of £11.4

billion at year end 2013 and £12.3 billion at half year 2014 represent the excess of the value of assets over liabilities. These liabilities are valued on a best estimate market consistent basis and use an economic matching adjustment for valuing annuity liabilities. The liabilities also include an allowance for the cost of recapitalising the balance sheet following a one in 200 year event. The economic capital requirement is then the amount of capital required to cover this one in 200 year stress in the year following the balance sheet date.

Our eligible own funds coverage ratio are the economic capital requirement was 251% at year end 2013 and 261% at half year 2014 with economic capital surpluses of £6.9 billion and £7.6 billion respectively.

We have also provided a breakdown of the composition of our economic capital requirement by risk type as at year end 2013. This is calculated after diversification between risks. Asset market risks in aggregate represented 69% of our total economic capital requirement and within this credit is our largest risk exposure.

Insurance risks comprised 26% of our total economic capital requirement and in this risk family, longevity is our largest exposure.

There is lots of new information here, however the overriding message from both the IGD and economic capital balance sheets is the same. We have a strong and robust capital position.

Finally onto the dividend. The Board has the relative luxury of making its dividend decision from a position of strong cash and earnings delivery and capital strength. The Board also shares the Executive's confidence in the prospects for the business going forwards. Our dividend guidance remains as outlined at the 2013 Prelims announcement. Providing we continue to expect our Solvency 2 capital surplus to be no lower than Solvency 1 then the Board will reduce net cash coverage of dividend cost down towards 1.5 times by the end of 2015. In line with this guidance, coupled with the performance of the business, the interim dividend has been increased by 21% to 2.9 pence.

So in summary, a terrific set of financials and further evidence for our shareholders that we are successfully executing on our strategy of growing the company and delivering enhanced returns.

I will now hand over to Kerrigan.

Kerrigan Procter
Managing Director of LGR.

Thanks Mark and good morning. You have a large cast list of speakers this morning so I will be brief in laying out some of the facts about LGR in the first half and then our outlook.

This was a strong six months for the business in all metrics, cash, profits, new business volumes and the growth of stock. We had a surprise event affecting the individual annuities of course, but by that time our shift in focus in 2013 to the large end of the bulk market meant that we already secured the ICI deal. As a result bulk annuity premiums more than quadrupled to £3.1 billion in the period. The new business margin was unchanged at 8.4%.

Looking more closely at the cash position. You see operational cash rising from £130 million to £146 million and net cash growing 13% to £166 million. So rising new

business volumes, a growing stock of business and sustain able margins continue to deliver strong cash flows.

One point to stress is the synergy between LGR, LGC and LGIM where Paul Stanworth, Mark Zinkula and their colleagues are sourcing new assets to match the long-dated liquid nature of our liabilities. These deliver better returns to shareholders and allow us to price new business competitively.

The defined benefit of global risk transfer market is a market with huge potential. Globally the DB market is in the very early stages of de-risking of the order of $10 trillion worth of liabilities that will be de-risked over the next couple of decades. On buyout funding basis £1.8 trillion worth of those liabilities are in the UK. So this slides illustrates one of L&Gs strengths in this market, the ability to operate right across the de-risking journey. This is another synergy point with LGIM, our capacity to take a client through active fixed strategies, LDI and onto longevity insurance buy in and buy out. To be competitive in the bulk market you need integrated asset management strength, longevity expertise, asset liability management or LDI capability. You need capital and you need a track record of effective execution. Having these skillsets will continue to set L&G apart. Our comprehensive product capability is matched by almost 30 years of experience in the bulk sector, not only positioning us very strongly for the UK bulk market, but also for global diversification, particularly in North America.

We expect individual annuity volumes to fall by 50% this year. So far our sales are in line with this expectation with first half sales of £383 million versus £754 million last year. We expect a further 50% fall again this year. So our focus in this market has been on maintaining pricing discipline while the reduction in volume has been replaced several times over with the bulk market.

Turning to the outlook for replacement products and individual retirement, we are moving forward with alternative products that work well within the context of post April 2015 freedoms. We already offer a high net worth drawdown product and we are going to extend this to the broader market. We are also developing products that can operate alongside lifetime annuities and which combine greater investment flexibility with the security of guarantees. We are closely engaged with both the regulatory change that is required and the developing guidance process.

Retirement savings remain too low, so we think it will become increasingly necessary to make use of housing assets in retirement. Therefore we are investigating the feasibility of launching a lifetime mortgage capability in 2015.

Finally I am delivered to be able to tell you that Bernie Hickman, well known to most of your through his investor relations activities will be joining me in LGR as MD of individual retirement. He joins me with effect from tomorrow.

So I will now hand over to Mark to talk about LGIM

Mark Zinkula
Chief Executive Officer LGIM
Thank you Kerrigan. I would like to begin with our key performance metrics. Operating profit increased by 5% to £159 million in the first half of the year. This reflects continued strong revenue growth largely driven by net flows on our active and LDI products and a stable cost/income ratio which remains below 50%. Persistency was in line with a long-term expectation of 90% despite outflows from our index equity business as defined benefit schemes continued to de-risk.

Total net flows for the period were £10.4 billion which including overlay assets which are derivative positions primarily related to LDI strategies on which LGIM earns a management fee. The inclusion of overlay assets has become a standard market practice and provides a more comprehensive view of our business.

International assets, especially the US continue to grow rapidly and accounted for over a half of the net flows. In the UK we once again experience strong demand for expanding range of LDI solutions. And after a successful year in 2013 our property business continues to experience significant growth with AUM increasing by 16% to £12.8 billion. And we are investing in our DC proposition in order to expand our product offering and distribution strategy.

Drilling down a little deeper, our business is becoming increasingly diversified. Over the past 5 years the balance between indexed and non indexed assets has shifted. The non index funds now accounting for 57% of total assets compared to 45% in 2009. This has largely been driven by growth in our solutions and active fixed income strategies as schemes de-risk and change their asset allocation.

Property is also experiencing increasing asset flows as we expand our range of capabilities and funds. We are diversifying our asset mix further with the repositioning of our active equity and multi asset offerings. We are launching additional income and real income growth strategies and our multi asset team is developing a range of products that leverage our low cost index funds and asset allocation capabilities.

The UK defined development market continues to mature and we are working alongside our clients to help them as they de-risk and ultimately move towards self sufficiency or buy out. We are focusing on providing them with innovative new products and solutions designed to make this transition easier. Over the past year we have expanded our solutions business to include more competitive offerings and discretionary management, active LDI and pooled LDI strategies. We have experience significant growth in our solutions business and we are well positioned to continue this positive momentum.

We also expect growth in the DC market to accelerate. We are expanding our DC business to include an investment only platform and a broader range of funds to meet client needs as they approach and enter retirement.

As mentioned earlier, our property business has been growing rapidly and had an outstanding six months with a total of £1.8 billion in transactions making us one of the most active property investors in the UK.

Total net flows exceeded £1 billion for the first half of the year as we benefited from strong flows from UK pension and retail clients and growing interest from Europe and the Gulf. Our property team is now managing £2.5 billion on behalf of LGR on its sell and leaseback programme and is expanding its funding activities. Strong investment performance over 1,3 and 5 year periods and our expanding range of products has us well positioned to continue growing this business.

Our international expansion continues to gain momentum, especially in the US where performance remains excellent and net flows for the first half of the year reached £4.7 billion. We are expanding our fixed income product set and broadening our distribution and our plans to enter the index business in the US are progressing well. We are expanding our team in Asia and we won our first major passive mandate

earlier this year. We are successfully executing the first phase of our strategy for the region and will continue to build out our distribution and front office teams in Hong Kong.

Finally, in Europe and the Gulf, we didn't win any large passive mandates during the first half of the year, which is what led to the year over year decline in international and net flows. However we saw our first flows in our new SICAV fund range and increasing interest in our fixed income and property capabilities from clients in these regions. Expanding our international business will be a primary driver of growth for LGIM and we will continue to invest in all of our focus regions.

I will hand over to John to talk about LGAS

John Pollock
Chief Executive Director LGAS
Thanks Zink. Well in terms of sheer scale, innovation and flexibility, LGAS is the leader in protection and on platform savings. And in the first half of 2014 was a further period of growth. Growth in stock with insurance premiums now standing at £1.038 billion. And UK savings assets of £113 billion. And financial growth with net cash of £206 million versus £177 million. And good increases in both operating profit and profit before tax.

I am starting with protection as it just may be that you have forgotten how good a business this is. In retail protection we are market leaders with over 25% market share. Very strong margins. Technology that still leads the market and a customer base of enviable quality. These immensely strong attributes together with responsive and competitive pricing, over 80% straight through processing rates, low unit costs and multiple touch points with the customers and intermediary partners enable us to drive profit and cash growth relentlessly,.

Our distribution reach is strong and growing stronger. With the announcements of new exclusive partnerships with National Australia Bank and TSB amongst others. Our reach includes the mortgage network which in the first half facilitated £18 billion of mortgages, about 1 in 6 of all domestic mortgages in the UK.

Group Protection had a successful first half of the year with gross premiums of £229 million, up 10% on half year 2013 following a series of larger scheme wins. We are innovating in developing the synergy between the corporate businesses. It is working closely with workplace pensions, sharing customers across the corporate sector and increasingly winning public sector business. New business margins in the UK Protection were 9.3%, a sizable improvement versus the first half of 2013 when we were dealing with the significant changes driven by I-CE and gender neutral pricing.

France has a thriving Group Protection franchise. And APE there was 57 million Euros up 30% as we began to leverage the UK strengths in product proposition and broker relationships. And GI delivered an excellent 88% combined operating ratio, and operating profits of £28 million for the half year 2014. This is less than the 39 million for last year, however the flooding and storms at the start of the year resulted in £12 million of additional claims. Gross premiums for the half year were marginally down at £178 million versus £183 million last year.

The weather in early 2014, notwithstanding, this is a business where we have delivered a turnaround. Profitable since 2011 and the direction of travel is good. It is a highly digital business, one of the leaders as far as L&G is concerned. And we continue to grow efficiencies in claims and improve risk selection.

One reason for creating LGAS from the old protection and savings businesses was the synergy potential across the 6 million individual customers we service. And this synergy is particularly clear in our corporate client base. Corporate business consists of Group protection and workplace savings. Again businesses with scale. £9.5 billion of workplace assets and rising. Over 1,900 corporate schemes and scalable as unit costs fall in workplace and we increasingly work in a joined up way across our shared customer base.

The cost message is important across the whole of LGAS. We continue to drive out costs following the creation of the business and are on target for the delivery of £34 million of cost savings by the end of 2014. This efficiency is particularly important in workplace where the combination of growth in stock and disciplined management of the cost base means we are on track to have last year's £29 million of losses.

Retail savings, assets under administration at the half year were £100 billion, compared to £85 billion a year ago. And platform assets rose 26% from £53.7 billion to £67.4 billion with net flows of £2.5 billion in the period.

Cofunds is about two things. Integrating and updating what we have bought and creating a unique large scale, good value platform that can deliver multiple products through multiple channels. On the first go, we continue to target an annualised cost saving of £11 million by 2015 and so far we have delivered £6 million of those annualised cost savings. And this is primarily from the integration of Cofunds and IPS technology. At the same time we have been moving forward on the second larger objective. We now offer four LGIM tracker and mixed asset funds to nationwide customers via the Cofunds technology and I expect to have a broader D2C capability around the end of this year. But there is more work to do here, but I am very pleased with the team's progress.

Suffolk Life continues to grow, with assets of £7.2 billion, up 9% in the half year. And it is very well placed for the development in the market following the budget pensions reform. The evolution of the platform business more than offsets the net outflows of £1.5 billion in our mature savings book. These were as expected and in line with our strategy of shifting from the old life and pensions model to a modern digital business. In short, good execution means this is working out for us exactly as we had planned.

This slide encapsulates our strategy for LGAS, scale and scalability across the division. Leveraging of our strengths in protection and broader synergies within LGAS and across the Group. Driving efficiencies in workplace and Cofunds and pushing ahead with the series of deliverables and actions to progress the planned transformation of savings from an analogue life and pensions model to a new large scale digital business.

I will now hand you back to Nigel.

Dr Nigel Wilson
Thanks to Mark, Kerrigan, Mark and John. Legal & General has a consistent track record in delivery as you have heard from my colleagues, a very promising outlook. We are only part way through our journey. We are perhaps on the second floor of a large and substantial tower block. Our outlook is positive. We have the right strategy, our five key macro trends are driving growth and our Management Team is improving consistently. We are becoming a magnet for talent. My colleagues are indeed stepping up.

Kerrigan outlined the opportunities in LGR and the potential for the Chancellor's reforms to grow rather than diminish our business. John, whose business is undoubtedly the leader in UK Protection, is making great progress in moving to a new model, a digital model. Zink has positioned LGIM as the LDI leader, is growing LGIM internationally and stands to benefit from his focus on the huge potential expansion opportunities in DC and in retail. Paul has been successful in infrastructure and in urban regeneration. More asset classes to follow.

We are still rich in unfulfilled potential. There remains much to do. Legal & General is a business with a great track record, a great brand and a reputation for deep thought and powerful execution. We are financially, successfully, socially and economically useful and have a strong future.

I will now open up for questions and if you could give me your name and organisation you represent my colleagues will hand out microphones.

<u>Question and Answer Session</u>

<u>Question 1 : Oliver Steele, Deutsche Bank</u>

Oliver Steele, Deutsche Bank. Two main questions. One is LGAS pre the non life business was exactly in line with the cash flow you had projected for the full year, but within that the split I was a bit surprised at. Savings was down and then you have this Dutch dividend. So I wonder if you could give us a bit more granularity on what is driving savings, cash flow or profit? I assume there are exceptional costs in investing in the business within that and therefore the outlook I guess for that savings division in terms of profitability. Ditto on the Dutch dividend, is it sustainable? Normally that comes in the fourth quarter. How much capital have you got in Holland to return?

And the second question, distribution overseas. You have expanded your target market from £1.8 trillion in the UK to $10 trillion I think it is worldwide. How important should we see the extra multi trillion dollars worth of business for you sort of timing on your ability to access that, what sort of distribution actions do you need to take?

Answer : Nigel Wilson

I think that was three questions Oliver. So if I ask John to talk about the savings business, Mark the question on the sustainability of dividends for Holland and Kerrigan people like your ambition, but you have got to start walking the talk and not just talking the talk as far as I can see from that particular question. John first?

Answer: John Pollock

Thanks Oliver, yeah the savings was impacted mostly by the mature outflows. So pretty much as we expected. With profits drove, is coming off as I think is very well known in this room. And actually it was only very marginally down as we are trying to grow the new business. There has been some investment that has gone into enable that, but it is pretty much as we expected to happen as the mature outflows are replaced by growing our digital capability in the platforms and workplace savings.

Answer: Mark

Yes on the Dutch dividend, a good spot Oliver, clearly we did declare a dividend from our Dutch business for the first time this year. What is going on in Holland? Holland is a very difficult market, there has been a lot of political and regulatory impact on the Dutch business and the Dutch market more generally and we have seen volumes therefore decline substantially. The other side of that equation we need less capital to invest in new business in the Dutch business going forward. So therefore it is freeing up free cash flow with dividend back to the centre. You shouldn't see the dividend in

the first half this year as being any sort of one off or special. It is very much when we look into the sustainment and see there is more capital that can be freed up and dividend back to the centre, we will do so.

Further question
We will still have the dividend in H2 as well.

Answer: Mark Gregory
We will have the ordinary but just in terms of an incremented pace of dividend flows going forward. In the Dutch business we have capital in the insurance business. We are writing less business, we need less capital to support that new business growth and therefore it is more of the back book cash that is being freed up to be paid as dividend rather than investing it into new business in Holland.

Further question
So this is being paid for out of the back book cash flows?

Answer: Mark Gregory
Totally.

Further answer: Kerrigan Procter
On the bulk annuity fund, actually I like to think of the market more as a global pension risk transfer market and I think it will be dominated by a few small players who right across UK, US and Netherlands who can help companies internationally transfer risk from their balance sheets onto their own balance sheets or further into the capital markets. And I think having that broad canvas gives us an opportunity to participate in markets with different economic cycles, different rate cycles, different competitive cycles I think will be important. And obviously it has a different capital distribution potentially across those markets. So I think giving yourself a broad canvas, being able to participate as a reinsurer or insurer really gives you the ability to use L&Gs risk appetite most wisely across the globe.

Nigel Wilson
I think that answer meant that by the time Kerrigan speaks next time, there will be measurable progress as opposed to er. If it doesn't he won't be on the stage!

Question 2 : Andy Sinclair, Bank of America, Merrill Lynch
Thanks, it's Andy Sinclair, Bank of America, Merrill Lynch. Good morning. Three questions as well. Firstly the economic capital number seems incredibly high. I just wondered if you could put it into context and what do you think is an acceptable level and what capacity would you have to deploy the surplus?

Secondly on the direct to consumer platform that we will see by year end. Can you tell us a bit more about the plans for this business and where that can go over time?

And thirdly, on Protection, one of your competitors commented they had seen some increased competition in the protection market, what is your experience of this, this year or was it you that was the competitors I suppose?

Answer: Nigel Wilson
Can I rather like the previous question, divide that into four. If Mark Gregory takes the question on economic capital, Paul can you talk about some of the ideas we have for deploying the surplus capital and how you will definitely improve the mediocre returns we get on some of that already. If John you talk about the D2C platform and John

why don't we have your usual comments about the quality of the competition in the protection market which I am sure everyone will find engaging.

Answer: Mark Gregory
Okay, picking up economic capital answer. Clearly you say we have £7.6 billion of economic capital surplus at the half year and as you intimate Andy that is a very healthy position. We haven't given a range for how we view the coverage ratio we are aiming for because primarily it is not a biting constraint. Currently Solvency I regulatory balance sheet is a biting constraint and I am absolutely convinced that our Solvency 2 when we finally get that agreed will be the biting constraint then as well. So I think it is out there for new information for you to help you understand the dynamics and inherent value of the organisation, but at its core it won't be the biting constraint. So as and when we get clarity on Solvency 2 we will clearly share it with you as soon as we possibly can. But we are still probably a year or year and a half away from that final clarity on Solvency 2.

Answer: Paul Stanworth
On terms of the surpluses, the surpluses have been a very helpful thing to have in terms of being able to widen the asset classes that we have invested in. In the first half we have used our surplus assets to allow us to buy big, certainly lease back portfolios that have supported the LGR portfolio and we have also invested further in CALA. But going forward, we are looking at all sorts of areas that are going to widen the asset base that we have. We are increasingly, the investments that we have are being invested in by our competitors and we are looking to broaden the investments that we can have. And our surplus capital allows us to increase our capabilities and also allows us to buy assets and buy effectively through the balance sheet. And we will be looking at increasing our investments in infrastructure and housing and we are also looking at other asset classes, including SME lending which we have announced and potentially in the US aviation finance, all of these areas are areas that banks are retrenching from and offer us the opportunity to improve our risk adjusted returns.

Answer: John Pollock
I am going to stand up for this one and puff my chest out, because I think when they are talking about the competitive market and protection, they are talking about us. So 25% market share has been growing pretty much every quarter that I can remember for the last decade. We are bigger than 2 and 3 put together and we are delivering margins that are absolutely superb in this business. So if that is competition. The truth is we do have absolutely inherent advantages. We have enormous scale strength. We have customer service quality that is beyond everybody else's. We have stand out technology and we have relationships with the reinsurers that bring them very enthusiastically to our door to offer us their capabilities. So this market has been competitive or a decade but actually we are thriving in that space and I expect that to continue. So we are the biggest, we are the best and you can expect that to continue. Which is a fantastic segway from D2C.

We bought Cofunds for a capability. It is not just about being an independent fund supermarket. It is about enabling the digital offering to customers in their savings space, post RDR where the so called advice gap has expanded. There is an obvious place for a big brand like us to play. We have already delivered at the 1st July into Nationwide, a Cofund based capability. And I expect that to continue to develop. We have customer pools where we can place our offering that isn't just about expensively marketed D2C, it is about being able to enable partners to participate in this market as well as of course auto-enrolling pensions customers and the very large book of protection customers we have got. And we can place this increasingly emergent technology into all of those pools, leveraging low cost access as well as re-

enabling customers which is a social good, to access savings products. So watch this space, we are delivering, we will have capability in Q4. I am not out there trying to go toe to toe with existing players. Legal & General are smarter than that, it has pool and capability of customers that it can access better. So I am pretty confident that we will have a lot more to say in this space over the coming 6,9,12 months.

Nigel Wilson
That was John's modest answer by the way. When he gets to the Management Meetings it is a bit more optimistic than that. To be fair to John, I was down in Hove the other day with the Bereavement Unit and the Claims Unit down there. They have a net promoter score of 86% which is almost unheard of in our industry. There is a real commitment to delivering great customer service. And at the heart of what John's business has done, never mind all the cost, economics and everything else, is the service to the customer over a long period of time has been truly outstanding. And for all of this John was chosen as the Protection Provider of the Decade. I think seriously we could have given it for the last three decades, but I think they just gave it for one particular decade. I think you have now done 30 years plus with the mighty Legal & General.

Question 3 : Gordon Aitken, Royal Bank of Canada
Gordon Aitken from RBC. Just first question on LGIM. You have talked about these overlay assets as new disclosure derivative instruments, I was just wondering if you could tell us what sort of fees you earn in a bit more detail there?

And second one on cash, the peer in the UK life sector which reported this morning, their definition of net cash includes required capital from writing new business. We have had another one recently which put a target out there, they call it cash after, after, after. Which excludes new business acquired capital. I just wondered what your growth in net/net cash would be just so we can compare like with like?

And the second part to that is I see from slide 16, your new business capital required is £0.3 billion. Presumably the bulk that you wrote, you are looking at 8% capital requirement. So that is going to be about £240 million, so presumably your net/net cash you would expect to grow in the second half?

Nigel Wilson
Yeah part of that question is, it is very hard to compare like for like I think is what you are doing. We just have a consistent approach to it from our point of view. Clearly we have got a lot of cash back through the Lucida number which continued into H2. I think if you read you will see we got £200 million back and there is only £100 and odd million put into the number that we showed as a Group. We are not big users of capital to grow the business as you rightly point out. It is mainly in the bulk annuity space, where some of you will have noticed the default provision is now £2 billion, which I think in the last 5 years we have used about £600,000. So we are trying to give a consistent definition of cash which relates to our business. We do not run competitors business, we run our business. If there is some normalisation, lots of clever in the room I am sure can make the appropriate adjustments. I don't know if you want to add to that Mark?

Answer: Mark Gregory
I did show on the waterfall showing the IGD moving up, that is where the capital. We define cash as the sensitive release at the potential margins in our technical provisions. We showed the Solvency capital requirements movements between enforced releases and new business strain through the capital movements. So the numbers are there Gordon, I can't remember last year's to give you an exact answer.

But we have given the disclosure and the movement in the IGD and that does break down the net flow between the existing solvency capital being released and the new business solvency capital being created. So you can do the maths, the disclosure is there I just haven't got it in my pack in front of me.

Nigel Wilson
We can take it offline afterwards. Mark do you want to talk in general about the global pension de-risking market and opportunities for LGIM

Answer : Mark Zinkula
To your question specifically on the overlay assets, we had disclosed on an ad hoc basis for the last several years, we decided to start disclosing in a consistent basis for a couple of reasons. It is market standards, what our competitors do. It is something we feel we should do going forward. And secondly, if you look at any independent studies or comparisons of the size of the major LDI players it includes total assets, or manage liabilities hedged. So it is something we will continue to do on a consistent basis going forward.

With regards to the fees, broadly speaking and this will be a rough comparison, but it will be broadly in line with the fees we get on a passive mandate on a like for like comparison, okay. But again that is going to be an over simplification because in passive you have smaller mandates, different size mandates as well as different requirements and execution. So a large cap development market mandate would go for more fees than an emerging market debt mandate for example. But broadly speaking that is roughly the fee levels. Keep in mind with LDI there has been some frustrating elements in the past because we disclosed the collateral we manage and I would always say, well we get a fee on a collateral, we get a fee on these overlay assets and we get an execution fee on top of it. So execution fee would show up in the other fees that we would earn over time as plans de-risk.

To the more general topic of pension fund de-risking, clearly we are well positioned in the UK market, Kerrigan built the LDI business here and we currently have 44% market share in the UK as mentioned earlier, that market as it continues to mature we are expanding our range of products and solutions to be more commodative to the small plans to implement de-risking solutions the pooled instruments as well as plans that want to get a bit more value if you will and take a bit more risk form the active managers in our active LDI strategies. So we would expect, I think we are well positioned for the future as well as that marketplace continues to expand.

And lastly in the US we clearly we built it as an LDI business just before the LDI market came out so we are very well placed there and growing very rapidly in the US as you heard earlier.

Nigel Wilson
We have had quite a number of mandates from the largest clients in the United States as well.

Mark Zinkula
We manage assets of the largest clients in the US.

<u>Question 4 : Jon Hocking, Morgan Stanley</u>
Jon Hocking from Morgan Stanley. I have got three questions please. The first one on economic capital. I wondered if you could tell us, the economic capital numbers look very insensitive to spread so I wondered what you were assuming in terms of when you see a spread widening event, what proportion of the spread widening do

you take as a default reserve and what proportion do you see as a liquidity premium? And what you are assuming in terms of assets with pre-payment risk in that calculation. That is the first question.

Second question, in the US on the protection business, are you looking at any adjacent product entries in the US? I know you were talking about the bulk business, but in retail, any things you can do in terms of expanding the product bucket?

And then finally coming back on Gordon's question about net cash, looking at that waterfall slide 17, I know there was a lot of rounding about that slide, but about a third of the cash is being eaten up by movement in capital requirements. I guess some of that is the bulk as Gordon mentioned, but can you comment on that again and whether you had any thoughts about how those cash flow numbers look on your EC numbers rather than on the IFRS numbers?

Answer: Nigel Wilson
I think that gives, sets a new benchmark in technical, well done Jon. I am going to take two which is we are not planning at the moment to launch any other products in the United States in that particular space. So I have answered two very succinctly Mark. I will give you one in three.

Answer: Mark Gregory
I have given some sensitivity in the economic capital disclosures today Jon, I would highlight those are single risk stresses that we have given you there. So when things do go bad they tend to go bad in kind of combinations of risks rather than individual, so I would just make that point. But the sensitivity we have disclosed there for spread widening is very much the cost of us then having to re-rate our asset portfolio back up to the required credit rating of the overall portfolio. So that is a stress that we have shown today. Clearly we have a stress for defaults in our economic capital calibrations and clearly if that is not enough, then that will come through. But we do recognise, we do have a sensitive default adjusted capital requirement. Do you want to add to that Tim?

Answer: Tim
And describes the downgrade sensitivity as well as the spreads. I think Mark described the downgrade sensitivity which is the second one we have listed. What we are trying to show on the spread sensitivity is just if all spreads widen, does that impact our balance sheet? No, because it is all about our assumptions about default and downgrade and that is the second sensitivity that we have given in there.

Nigel Wilson
If there are other technical questions, can I suggest those particular ones, you probably want more detail and why don't we delegate Tim, Simon and Bernie to pick those up afterwards. We would be very happy to answer those questions.

Answer: Mark Gregory
On the other one Jon, to add a bit more colour to the movement in capital. Again back to the answer I just gave, the capital we show in the IGD movement is the Solvency 1, Pillar 1 capital requirement and they are very prescriptive. Broadly it is 4%, technical provisions for annuities and it is broadly 1% for the unit linked type insurance contracts. So clearly if we are growing an annuity book, that absorbs capital while you are growing it, but it then releases it over time as well. So again we have disclosed that information but it is a very formulaic Solvency 1 is a very

formulaic basis of capital requirement. Solvency 2 will be much more a basis going forward. So it will look different in the new world.

Question 5 : Andrew Crean, Autonomous Research
Andrew Crean, Autonomous. Three questions. Firstly what is the diversification credit within the required capital on the economic basis?

Secondly, on your moving to alternative investments, I mean there is an awful lot of commentary by the Bank of England about how cautious they are. I see Andy Holding yesterday was talking about this. How does that play with you and how are your discussions on that?

And then thirdly, on LGAS, you are trumpeting the benefits of scale in both the protection side and on the platform side, but one area you don't have scale and are losing money in is DC pensions, workplace pensions. You mentioned that you would not be averse to acquisitions. Is that an area where perhaps you could jump start the earnings by building scale through acquisition?

Nigel Wilson
Do you want to go first Mark?

Answer: Mark Gregory
The position on the diversification benefit in our EC model, clearly we haven't disclosed that today Andrew, but partly because actually it is a composite on very many different levels in the modelling. So you get diversification within risk boundaries and between different risk boundaries so it is an important catalyst in the model and clearly we have a very strong correlation matrix within our EC model but actually we haven't disclosed the absolute number. It is obviously a meaningful benefit. I won't be led Andrew, but it is a meaningful aspect of our EC risk, that is the benefit of being a non monocline we have different types of risks which mortality and longevity tend to go in different directions. So there is some natural diversification within our model.

Answer: Nigel Wilson
Charlie being sat beside me at MIT, so I have spent the last 30 years discussing various aspects of investment, macroeconomic policy with Charlie, it is great to have Andy doing it now and I am a great admirer of some of his more enlightening work he has written over the last few years. 'The Dog and the Frisbee' being a fine example of a piece of research I found particularly interesting. I think we have taken a very careful and prudent approach to asset, it has taken us a long time, it took us about a year and a half of research to decide to do our first investment in that, I think Paul and his team have developed a very strong track record. I think all of the investments we have made so far are performing at least as well if not better than we had anticipated. I think it was a very reflective piece that the bank brought out. I know Andy particularly well so I engage with him on lots of economic issues since I remain a second rate economist myself. Sadly true. But I don't think he is referring to the specifics of a firm like Legal & General. I think there is just a nervousness about people chasing yield unnecessarily in the sector. I think we are fulfilling an economic and socially useful function in the types of investment that we have done in the asset classes. And Paul mentioned aircraft leasing. I think we have been looking at that for 2 or 3 years already and have an open mind as to whether we go into that as an asset class. I think lifetime mortgages as an asset class we have been looking at for ten years to the best of my knowledge, maybe even longer than that. So there is a lot of research and consideration that goes in before we go into any particularly new asset classes.

The third question was yours John?

Answer: John Pollock
Yes I am actually not unhappy with the team's effort in growing the workplace and we have done quite a lot in there. Pricing policy, we believe there is going to be some asset transfers as schemes look at what is being offered by the various players and think about where they want their pensions management to be placed. If there were clean books of business and they were you know sensibly priced and that we believed would accelerate our growth, certainly would not be adverse to that, but at the minute we are doing pretty well and I can see a reasonably rapid growth ahead of us. So I am fairly comfortable, never rule anything out though.

Question 6 : Andy Hughes, Exane, BNP Paribas
Thanks, Andy Hughes, Exane BNP Paribas. I am a bit worried about being a AAA asset because there aren't that many around the group here, they usually get sold! So a couple of questions if I could. Economic capital, obviously I am more interested in the Solvency 2 outcome because that is really where the business is going to end up. I think you pointed out a number of differences between your model and Solvency 2. Could you point out how big the scale differences are or give some insights on where the main differences might be? I am thinking in particular about the recent ABI letter to the PRA outlining your expectations for how you expect Solvency 2 to come out. And I appreciate the PRA is probably going to come back and say we don't like those, we are going to come back with a much harsher definition. But where does this square up relative to that particular interpretation?

And on the savings business, after the cross savings in Cofunds, is it making £6 million profits in the half year or is it still roughly breaking even? Thank you.

Nigel Wilson
John takes the second question and I will just do a bit of a preamble on the first. The ABI did write as you know to the PRA I have read the letter. There is a sort of strict interpretation of Solvency 2 which is supposed to happen on a consistent basis across. We think there is little probability of that happening, that every regulator is going to interpret the rules as they see fit. So totally inconsistent Solvency 2 across Europe as we have all started in such very different places, hence the billions and billions that have been spent in trying to create a harmonising model. There is nothing that I have heard on Solvency 2 that says we are going to get a horrible outcome around this. I think the engagement we have had with the PRA on a number of issues and the FCA on a number of issues has been very constructive. I think there is more sharing of information than has gone on ever I think and in terms of the approaches. And I am very much encouraged by that. And certainly the discussions that we have had with the Treasury over a long period of time around how we should be managing our capital, everyone seems pretty happy with the stewardship we have for our capital. I don't know if you want to go into the technical parts?

Answer : Mark Gregory
A bit more detail for you Andy. First of all the rules for Solvency haven't been set yet. We had the so called level 1 text agreed through the European Parliament in November last year. A lot of the detail will be contained in the level 1 text. We have seen a very early draft of that, we haven't actually seen the formal version out for consultation. That will happen during the course of this quarter and that will go on into next year. So we won't actually get the final probably until the middle of next year. And then there is all the process that Nigel has described around getting our internal model approved with the PRA. So there is a lot to go through at a high level.

In terms of the detail. I guess at a high level I would say actually Solvency 2 EC, on a basis, EC is purely economic whereas Solvency will have some non economic elements within it. And perhaps to illustrate an example of that would be, I described our recapitalisation costs when I went through describing our balance sheet. With Solvency 2 we will have a risk margin in it and that will contain some probably quite sizeable non economic elements within it. So for example within the risk margin there is no diversification within the risk margin itself, whereas in our EC model we think those risks do diversify, so therefore we allow for that. Solvency 2 will set the rules for the whole of the European industry, therefore they have separate example of the discount rate in the risk margin has been 6% above long term risk free rates, whereas in our EC model we use a lower rate because actually our cost to capital is lower than 6% over risk free. So as I say at a high level it is the things that are non economic in Solvency 2 which will be different to what we have got in our EC. I think the risk margin is probably the best place where you can think conceptually how it is going to be structurally different.

Further question
So in terms of the benign ABI lesser approach as it will probably end up worse than that, how does that compare to the economic capital roughly? Presumably you have done the numbers on the ABI suggested approach and presumably that is worse than the economic capital approach from what you are saying. I am just trying to get a scale as to how much capital you think it might have even in a benign Solvency 2 comparing it to the economic capital disclosures?

Answer: Mark Gregory
I know it sounds evasive Andy, but until we get the rules and run it though our model it is just misleading to give a number out there because we just don't know. Again we talk about and expect our Solvency 2 surplus to be no less than Solvency 1 and that is still the kind of guidance we give to the market, but clearly the EC is a lot bigger and it will probably be somewhere in the middle.

Nigel Wilson
That is £7.6 billion and £4.7 billion which are in the pack if you want to read it Andy which is a fairly wide range but I don't think it is going to have a profound impact on our approach to business. Some of the most complicated areas of Solvency 2 are around equivalents and stuff which we just don't have as issues for us as a Group.

Answer; John Pollock
Profits. Unfortunately or fortunately I have got an FD who knows a thing or two about the savings business. There is no hiding place for me Andy. We are making money. We are working hard to make more.

Nigel Wilson
I think we will tell everybody what the Cofunds profitability is at the year end which is kind of the journey we are on. We said we would half the losses, we are on track for doing that. We will give you the Cofunds profits at the year end regardless of what they are.

Question 7 : Alan Devin, Barclays
Alan Devin from Barclays. A couple of questions. First of all L&G America. Have you had more mortality, the results have been very strong, but you refined your pricing and suggested in the second half. Is that a temporary slowdown or is it going to be the new level going forward?

And just on the annuity margins which are flat year on year, maybe there are concerns that bulks are a much lower margin than the individual, but that was written as you said pre-budget. Do you expect the post budget bulk margins to come under pressure or is that 8.4% a good run rate for us? Thanks.

Nigel Wilson
I will do the summary of those. I think the LGA model, we are just refining. We have had a team from the UK working closely with our colleagues as John has said, we have got a great team in the UK. We have got very sophisticated pricing in the UK. Simon, Tim you have all spent time out in the US refining our approach to the business out there. And we are happy with the progress that we are making. It was a surprise to us the size of the mortality particularly in Q1, but it was an industry trend rather than anything specific to us as a group. It is clear that people are dying quicker than we thought in our assumptions, both in the UK, the US and indeed in some of the other countries that we are exposed to. So we don't quite know whether that is a trend that we have seen for a particular period of time or just some one-off event. But we have had very hot, very variable weather conditions and a lot of economic historical austerity at different levels in society. As a consequence we have seen some odd patterns which net/net are favourable to us, but we have experienced odd patterns. Do you want to take the second one?

Answer: Mark Gregory
Can I interrupt that. We have brought more granularity to the pricing, we think that is a beneficial and good risk underwriting, a good pricing of that risk assessment. I think therefore we would expect at this stage the mix to look at bit different with marginally lower sales but it is very early days Alan, it only happened in the last two months and the trends so far look like a marginal reduction, but this could just be a little bit of noise. So I will update you at year end when we obviously will have more months of performance to update you on.

Nigel Wilson
Kerrigan do you want to talk about the annuities?

Answer: Kerrigan Procter
Absolutely, we have a strong quote outline, we are continually quoting on all parts of the bulk market from very small to very large volume of quotes. We gave in the first half about 14 billion quotes out there and so what we are seeing in terms of pricing is margins I expect to be pretty consistent at the large end pre and post. Interestingly the very competitive pricing at the very small end of the bulk market that we saw immediately post budget seems to be calming down a bit now as well. So no particular concerns about developments there.

<u>Question 8 : Marcus Barnard, Oriel Securities</u>
Marcus Barnard, Oriel Securities. Can I just ask a bit more about this 10 trillion of retirement opportunities you see around the world? I am interested where you got that number from, but you don't need to lay that out in too much detail? Just in terms of how you will do that. Will you need to set up new subsidiaries to undertake that type of business or can you write them out of LGR in the UK? What are you planning to do? Is it longevity insurance or reinsurance or are you doing traditional sort of bulk buy outs, buy ins? And also I think one of the factors you have always said differentiates you is your experience and expertise in that area and clearly you are going into something a bit new here. How are you going to get that? Are you just going to apply what you know here across or are you going to buy it in locally? If it is not that difficult how well protected do you think your position in the UK is if you can

go and expand there. Why can't someone come and do the opposite and come here?

Answer: Nigel Wilson
I will save some of the blushes of the team here. We went into the LDI market in America which probably most of you didn't know exists as certainly none of you had written anything on. We had the market leaders. The team won most innovative team LDI team in America and that is just part of the pension de-risking journey and Mark is too modest to say, but we won four of the top ten pension clients in America straight off of that. So we don't have the expertise is sadly untrue. And we have got great expertise and a lot of them are the same clients believe it or not. We are actually doing some work for some very large European clients and they are the same clients in America. So we have got a lot of synergies as a Group and that has proven to be not easy wins, but actually a relatively straight forward conversation because of the close workings across the Group. We have been studying the American market and shadow pricing I think for two to three years now. And we worked with different partners, been in and out of deals. And it may be that the first transaction we do could be a partnership deal with one of our American colleagues or competitors. People who trust our judgement who are comfortable working closely with. But the pipeline is growing in North America and indeed in Europe and the UK at the moment. And we absolutely truly believe we have the capability to execute, otherwise we simply would not do it. We are not interested in creating new businesses in lots of countries. We have learnt a lot of lessons from the banks and other insurance companies who have expanded way beyond their capabilities and if anything at a global macro level people are shrinking down their portfolios. We are very much focused on the US and the UK. I don't know whether Kerrigan or Mark want to add anything about pension de-risking in the States?

Answer: Mark Zinkula
As Nigel has mentioned we established a business in the US as you know with a lot of large plans. So the natural next step for many of these plans is for some kind of end game. So it might not be, it might just be self sufficiency, but it also for increasing plans will be offloading the longevity risk in a buy in/buy out manner depending on what their end game solution is. And so there is, an obviously we have the investment expertise, we think about managing an annuity book essentially informally we call it on balance sheet LDI, we clearly have the skill set which you have observed in the UK market and we can transfer the same ability to manage risk on balance sheet as Kerrigan expands into the US market. And yeah, on a reverse inquiry basis, some of these plans are inquiring about whether or not we are going to be here in the market and how and so forth, because several of them have an eye toward some kind of end game solution that is beyond self sufficiency.

Answer: Kerrigan Procter
You asked about subsidiaries and what type of business. And I think we want a broad canvas so we could write business direct out of our US subsidiary or expand on that. We could write reinsurance into LGAS for example. So we have broad capability to participate as an insurer or reinsurer, probably in Canada and Netherlands will be probably a reinsurer and in the US reinsurer or insurer ultimately. In terms of type of risk, well it could be longevity or it could be buy outs. Certainly in some markets like the US it is more likely to be buy out for longevity only unless it is on a reinsurance basis. But all those things are possible and I think in terms of our skill sets Mark has talked about the asset management capability, I talked about having five things. The asset management capability is there in spades with the LDI and active fix teams we have in the US. So we will definitely develop that LDI active fixed capability to help us in the buyout space and the longevity expertise, it is a

different set of data, it is a different country of course, but it is the same socioeconomic conditions. Healthcare infrastructure, drug treatments and the biology of aging apply. It is those factors apply to a slightly different market. We have access to a reasonable amount of data in the US so put together with asset skills, longevity skills and then the implementation parts and the capital are immediately transferable.

Question 9 : Barrie Cornes, Panmura Gordon
Barrie Cornes from Panmura Gordon. A couple of questions if I may. First of all year end results you talked about expanding your involvement in non standard annuity writing in the UK. I just wonder if that is all changed as a result of the budget or whether or not you will continue that in your new product or products whichever you come out with?

And the second question is on the non life side. Obviously a very good performance. A lot of your pure non life competitors in that space have said that some of the competition on UK motors now transferred over to the household account. I just wondered your view on the outlook for household rates please?

Nigel Wilson
A combination of Bernie and Kerrigan, if you answer the first question. Talk to Bernie afterwards to be fair. Bernie does not officially start his new job until tomorrow. I secretly believe he has been doing some work on the side for Kerrigan.

Answer: Kerrigan Procter
Yes non standard annuity writing, we obviously talked a lot about at the last couple of results sessions and I think we made a comment that within three years we expected the whole market to move to underwritten and we invested in the digital capacity to get there and we had a very successful digital delivery. We really do have the capacity now to underwrite at scale, we just didn't make a big song and dance about it because the budget change pretty much over shadowed that. But I think it is a real hidden gem that we now have in that going forward it will probably be slightly older age people who buy annuities and it will be self selected. So therefore the market should go to comprehensively underwritten I think. And we have the digital scale to deal with that just in terms of figures so roughly about 22% of our business in H1 was enhancing annuities. So yeah, a big thing, I think it will continue.

Nigel Wilson
John do you want to comment on the GI market?

Answer: John Pollock
Yeah, I think it is probably true that this first half has seen a slightly more competitive household market than last year, but a little bit like I was saying about protection, you know it has been a competitive market for a very, very long time. And we know how to go about doing it. We are a focused specialist player there with an enormous housing footprint which allows us to continue to select the risks we want so although headline GWP was down a little bit, we are very, very comfortable with the profits and the combined operating ratio that we are making. So yes a little bit more competitive, but not something that is giving me any real cause for concern.

Question 10: Fahad Changazi, Nomura
Good morning. It is great that bulks more than compensated for individual annuity sales and you speak positively about the pipeline, 14 billion of quotes. Can you give any insight or colour in terms of how you see overall annuity flows developing in 2014 at all at this stage?

Answer:
I think the only thing we have said publically is we are confident that we will exceed the £4.1 billion last year and I remain confident. When I talk about £14 billion clearly some will close this year some have already closed, some will close next year, some will close in many years time. We won't win all of those, but it gives you some flavour that if they are the right price we are in the market and able to do that.

Nigel Wilson
About 8 to 10, so the pipeline is a little bigger at the moment. We have a bit more international stuff that is going to come through, but the 10 trillion is a huge number. There are lots and lots of people talk about this stuff, but actually getting people on this journey which LGIM and Mark's team and Kerrigan in his previous role played such a huge part, in doing that. There is a lot of pre-selling in effect for all of this stuff and sometimes it can take 3-5 years to get somebody from a discussion into actually doing a transaction.

Further question
If I could follow-up before the budget I think you said you wanted annuity flows to be up this year versus last year. Have you retained the guidance after the budget? And could you say anything on the annuities flows into the flat, up, down?

Answer: Nigel Wilson
They did better than we thought. At a macro level there is more in the hopper now than there was at the beginning of the year. As I said it was in the 8 to 10, it has gone up a bit. Whether Kerrigan and his team have the capability to deliver that increase in volume we will see at the year end.

I would just like to say thank you to everyone for your questions. The team will be around and many of my colleagues are in the audience for any technical questions that anybody has today.

And thank you for your support in 2014 and we will see you at the year end results.

End of Presentation