An Introduction to IFRS 17, 29th November 2022

Ed Houghton, Group Strategy and IR Director, Legal & General
Thank you very much for joining today's Q&A session on IFRS 17. I hope you've all had the opportunity to watch the video or to look through the slides, both of which are on our website.

My name is Ed Houghton. I'm the Group Strategy and IR Director. I'm joined today by Jeff Davies, Group CFO, and Richard Crooks, IFRS 17 accounting lead. Can I remind analysts, please, to raise your virtual hand as I can see some of you have already done.

If you'd like to ask a question, I'll then invite you to turn on your camera and to unmute your line. We need to allow you to do this from our end, too, so please bear in mind that it may take a moment or two while we click the necessary buttons. Please limit your questions to two. The first question is from Andy Sinclair from Bank of America. Andy, please go ahead and unmute your line.

Andy Sinclair, Bank of America
Hi guys. Thanks for this time today and thanks very much for all the detail you provided. Good to see you first out of the traps of the UK life insurers.

And so, two for me, please. Firstly, I think you've been pretty clear that nothing in the real world is changing, but you did give some colour on IFRS distributable reserves in the presentation. But just really wonder if you could put some more numbers around that just to give comfort that we're not going to run into any issues with distributable earnings and that becoming a binding constraint. That's my first question.

And my second question… I've asked a few other companies similar questions as well… Looking at the difference between own funds in Solvency 2 world and IFRS shareholders equity plus CSM and, I guess, risk adjustment as well. I think own funds are about 17.4 billion at half year, but that includes various qualifying debt. I think book value plus CSM and risk adjustment, I get to about 17.5 to 18.5 (roughly) billion from the numbers you put out today. Just wondered if you can give me a kind of a waterfall between the two of them, because I don't think you’ve got too much goodwill. Just if you can walk through that, thank you very much.

Jeff Davies, CFO, Legal & General
Yeah, cheers, Andy. As we said, we have material distributable reserves at both the LGAS main insurance entity- and the Group-levels, so we see no concerns at all about that. Obviously with the additional statement from the Board about dividend payments, it's in the many billions. So, we have no concerns at all about it. So, we're very happy with that and we've been conscious of it from the start and looking at what some of the dynamics would be and being comfortable throughout.

Richard has been one of the people monitoring that. In terms of the analysis, we do show the Tier 1 own funds against equity plus CSM because there is some of that analysis there. Obviously, you get some slight differences in risk margins versus transitionals and risk adjustments. Discount rates are slightly different in terms of the fundament spreads are more prudent than the 41 basis points we have under IFRS 17, for example. And so there are a few differences, but broadly there are different ways of looking at the same balance sheet and so we think that's a good way to look at it. As you say, shareholder equity plus CSM and what you see as the addition, we don't have any sort of material goodwill at all in ours.

Andy Sinclair, Bank of America
OK, thank you very much.

Ed Houghton, Group Strategy and IR Director, Legal & General
Great. And the next question is from Greig Paterson. Greg, please go ahead and open your line.

Greig Paterson, KBW
In terms of the operating profit, I've obviously just had a quick scan through presentation, am I correct in understanding that there will be no mark to market impacts going through the operating profits, all either below the line or straight to OCI?

And the second point is, excluding the movement in the CSM, am I correct that there will be a supplementary income statement so it looks very similar to what we saw before in terms of new business enforced contribution, operating sanctions. And I see you're referring to NSG, so by definition that still has to exist. So basically, the income statement for an investor looks pretty similar except for the CSM movement. Is that a fair statement?

Jeff Davies, CFO, Legal & General
There will be very little in terms of mark to market. The changes in terms of insurance business will be very much an unwind and expected on our excess assets, and then the unwind from the amortised cost assets that we've allocated, which effectively back the CSM. And so, we won't get that. We then get the expected unwind from the prudence in the discount rate, the sort of 41 basis points. And so, the rest would fall to investment variance to the extent that exists. But we have looked to take as much of that out of the result as possible. For example, through the protection business going through OCI in terms of rates impact and by allocating some of the assets, that back the CSM for the annuity business to amortise cost as well. So, there should be a lot less noise from the insurance business in respect of mark to market certainly.

In terms of the statement, to some extent that's true. We're into the depths of disclosures and what's required. There will be a breakdown, but it will be centered around sort of CSM if you like… The new business metric, what are you adding from CSM, what is the unwind from CSM? Then what is your interest rate accretion to that? What have you earned on your assets and then that will give your overall operating result? But we will also help walk people through what we saw before and what are you seeing now, certainly in the early stages. That could be one of the things we would do in May, for example, to try and make that a bit easier.

Greig Paterson, KBW
So it will have all those constructs that it had that I've mentioned that it had before. You know pre CSM and then there will be the CSM adjustments to those old constructs.

Jeff Davies, CFO, Legal & General
You'll be able to see experience variance. You'll able to see CSM unwind, so most of them will be there, but you won't have the net release from operations which doesn't exist in the same way. That is effectively where you'll CSM to some extent and what's been thrown off the in-force comes from that.

Greig Paterson, KBW
Alright, so there will be differences in the appearance.

Jeff Davies, CFO, Legal & General
Yeah, absolutely. But as I said, we'll try and walk people through that as we give much broader disclosures going forward.

Greig Paterson, KBW
Alright, thank you. Cheers.

Ed Houghton, Group Strategy and IR Director, Legal & General
Thanks, Greig. And the next question is from Nasib Ahmed. Please go ahead and open your line.

Nasib Ahmed, UBS
Thanks. Yep, 2 questions. So, I guess the first one is on the EPS target being greater than DPS previously. I see in the release you've said 10 billion of PRT would give you 6 to 7% CAGR on UK PRT operating earnings. And you've changed the DPS growth to 5% as well. So, it seems like EPS is still growing greater than DPS. Is the growth actually bigger because you rebased your starting point lower by 20 to 25%?

So, that's the first question. Second question on slide 14. Just on the prudence on IFRS 17. The 41bps, is that just a credit risk or does that include risk adjustment as well, because 41 bps seems a little bit high. And Jeff, you mentioned the fundamental spread is higher, which is about 50 bps, so if I compare the prudence on solvency II that would be higher on a like for like basis, right? So, we could put 50 bps next to that on a solvency II basis, is that correct? Thanks.

Jeff Davies, CFO, Legal & General
I'm not quite sure what to say apart from you're right on all of that. So, EPS greater than DPS, we tried to give the example that if we write our ambition levels, we talk about 10 billion PRT, it's often when we've talked about equally on a self-sustaining portfolio, then you would get profit growth of 6 to 7%, broadly across the insurance business. Clearly there's upside to that if we are to capitalise on the very large PRT market that's out there.

Anything we write on top of that would give us an increase in profit growth and then, of course, any assumption changes. You know if there are longevity releases in the future, those will also add to CSM and give us greater profit growth. So, that's a clean number, everything happens as expected, you write this business with 9% of CSM and risk adjustment added on 10 billion and then it runs off at 8%. So, it's trying to give the maths for people to build something. But yes, there are upsides (and you could argue downsides)… but there are definitely upsides to that if you write more volume or there are longevity releases etcetera that come through over time and are released.

You're spot on. I've been arguing the point that 41 basis points does seem quite prudent. It's supposed to be a best estimate view of cost of default and downgrade. But it is quite a big number. Our own experience is one basis point for default. So, as you know, that's where roughly 20 basis points of that would unwind into Op profit, and then the next 20 basis points (if experience is in line with what we've had) would unwind into investment variance. So, we're looking at about £200 million of profits each year rolling out of that 41 basis points on top of CSM unwind and risk adjustment unwind.

Nasib Ahmed, UBS
That's clear. Thank you.

Ed Houghton, Group Strategy and IR Director, Legal & General
Thanks Nasib. And the next question is from Andrew Crean. Andrew, please go ahead and open your line.

Andrew Crean, Autonomous
Two things. Firstly, historically you've hedged the IFRS balance sheet, which is unique.

Now that you've got a steadier IFRS position, will you switch to hedging the solvency 2 balance sheet and therefore putting an underpin to your 220 to 225% coverage ratio? And secondly, I'm still struggling to understand why you want to grow your earnings faster than your dividends, given the fact you've got a much steadier profile of earnings. I think you're saying over the last few years, you've generated about £0.5 billion more capital or surplus in dividends. Is it not time to increase the payout ratio, not reduce it?

Jeff Davies, CFO, Legal & General
So good questions, Andrew. Hedging... well, it's interesting actually, we are now looking at what you've talked about. The movement to IFRS 17 definitely makes our ALM easier and the hedging easier because what we effectively get two best estimates that are much more alike (on an IFRS 17 and a Solvency II basis). So, we can do our cash flow matching, do our best estimate liability matching. Then we have excess assets and we can decide what we do with that. The fact that we have allocated quite a lot of the ones backing the annuity CSM to amortise cost means that doesn't give any noise in the investment variance and therefore we can have those to offset movements in rates for the solvency ratio. And so, we will be looking as we embed all of this to see if there is something we can do which could involve lengthening some of those with some more assets outside the best estimate liability, which could potentially take some of the rate sensitivity out of the solvency ratio.

But obviously at the moment we're bedding that in, moving from IFRS 4 to IFRS 17 and it's something we're investigating to see would we want to do more of that, lengthen slightly using assets which would slightly reduce that solvency sensitivity that you talk about and the ratio. It is of course as we've always said, a non-economic hedging that you are doing. And so, we would want to trade off what are the costs and benefits of that.

But it's definitely something we're investigating and as we do more thinking on it, we will obviously update and you'll see it coming through in our sensitivities.

The earnings greater than dividend… well we think it's a good thing to grow earnings of course and we have grown the book value consistently. We see that as an indication of good quality earnings. As much as anything it's to show we also manage the investment variance and our good quality result which has then had earnings growing bigger than dividend. We do want to reinvest to some extent, whether that is capital or liquidity, whilst growing the book value gives us reducing leverage and gives us options around that.

In terms of restating it this time, obviously we didn't want to use an IFRS education session to completely change all of our targets. We did update on dividend to some extent, but we didn't want to restate every item, in terms of earnings greater than dividend, but we do see value in quality of earnings growing book value and having some optionality around that.

And as we've said before, we'll continue to review where we think the capital policy takes us and what we should be doing, but we're happy with the 5% growth on dividend at this stage and using our earnings to potentially deploy against the PRT demand that is out there and invest on ongoing basis into LGC and other growth opportunities.

Andrew Crean, Autonomous
OK. So, reducing payout ratios every time.

Jeff Davies, CFO, Legal & General
Potentially yes, if you are growing your earning, that’s right.

Ed Houghton, Group Strategy and IR Director, Legal & General
Can we try and go back to Ashik. Hopefully we can hear you if you unmute your line this time.

Ashik Musaddi, Morgan Stanley
I just have a couple of questions. First of all, for clarification. You mentioned that the divisional earnings are going to go down by 20 to 25%. So, is that only LGRI and LGRR? Or is it the total divisional earnings?

And what about the final operating earnings, is it possible to get a bit of a view on what is the final operating earnings? Does it mean that if it's all divisional earnings, then does that mean that final operating earnings is going to go down more than that? So that's the first one and just related to that, is there any sense of how much of this is only coming from annuities, would be helpful.

Second thing is, I guess one of the reasons why your earnings are going down is because of growth because probably you will now have negative new business strain. So, what happens to your earnings growth if let's say you do not grow at all, you just keep your book flat whichever is say 3 billion, four billion of annuities to maintain a flat book. What happens to your earnings growth? I'm just trying to get a bit of understanding, what is the steady state, the earnings growth or earnings number, if you don't grow at all, just keep a flat steady state business. Yeah. Thank you.

Jeff Davies, CFO, Legal & General
Obviously the only businesses that are impacted are the insurance businesses. So specifically, it's the annuities… and the protection businesses within the retail division. And obviously the PRT business, LGRI. So those are the only ones impacted. Therefore, if you run through their numbers to the Op profit by divisions, you get the 20 to 25%. If you then look at the bottom line of profit, you would get a slightly higher number than that depending on the relative impacts of the Group costs et cetera and just get a small difference between that. And that's just slightly higher, that's all it is, you can drop it in on what we've had over the last sort of three years if you like.

And in terms of flat, I think the simple answer is it would be flat. So, if we keep it flat it would be flat. The maths we've tried to give to help people in their models is, the CSM you add interest of about 3% and the CSM amortises at about 8%. So that would be net about 5%. So that would run down at about 5% of the CSM, but if you're keeping the business flat, your investment margins etcetera would be pretty similar.

So, you might get a slight reduction if you were doing at that level, but clearly what we're out to do is to add to the CSM. So even if we're writing 7, 8, 9, 10 billion, then we're going to be growing the business and we've tried to give some numbers so people can model that. You add 10 billion of new business with 9% of CSM and risk adjustment and that runs off into profit at about 8% per annum.

And so that gives you a growing book, plus you get the investment margin, which increases on top of that. And so that's where you get to the sort of 6 to 7%. So, there's enough pieces in there for people to model the annuity book and sorry, because you did mention it in the first bit, it is dominated by the annuities. 80% of the CSM risk adjustment is from the annuity book. And so that dominates the dynamics of it. Clearly the protection book's in there, too. It's interesting, it's got a material amount in the billions of CSM but the annuity book absolutely dominates quite clearly for insurance business.

Ashik Musaddi, Morgan Stanley
Thank you. Just one thing on this again. So, it's fair to say that it's not that new business strain is adding any drop in earning. It's nothing to do with new business strain. Going forward as well does your growth rate, the 6 to 7% changes if you do more growth or less growth because in Solvency II, the way it works is if you grow faster than your total capital generation drops because it's

counterintuitive, but it drops because of the new business strain. So, does that same dynamic work here as well?

Jeff Davies, CFO, Legal & General
No, it's the opposite. So, the more business you write, the more CSM you add, assuming it's all profitable obviously, which just means your profits grow in the following period. It's very predictable. It's not volatile. You can see what happens. It's all maths. You know, how much are you adding, how much is running off. You all know the duration of an annuity book. You add some interest to that and we make the yield on the underlying assets, which is an additional source of profits. So, it's very straightforward and you can work out the maths to grow the book. So, there's no strain element involved, as long as you're not writing loss making business.

Ashik Musaddi, Morgan Stanley
Yeah. OK. Thank you. Thanks a lot.

Ed Houghton, Group Strategy and IR Director, Legal & General
Thanks Ashik. Let's go please to Larissa next. Larissa, please go ahead and unmute your line.

Larissa van Deventer, Barclays
Thank you very much. Two questions, both pertaining to slide 13, please. I recognise that this is illustrative, so not science, but if we can look at the component parts. On your existing CSM in stock, if we're roughly eyeballed it, it looks like it decreases by about 3 odd percent a year. If the question is how much of next year's profit is already logged in from the existing book, is that a reasonable rough way to look at it?

Jeff Davies, CFO, Legal & General
Almost all of next year's profits is locked in from the existing book because the new business profit is just at most half a year's runoff on the CSM. So 1/24th, let's say making it up of what you write in a year. So, it's all locked in.

Larissa van Deventer, Barclays
Thank you. Because here it appears to be going down which seemed wrong. I guess we can basically assume that year on year it will stay flat if we write no new business. Is that correct?

Jeff Davies, CFO, Legal & General
We do show on a previous slide that the runoff does slightly increase as a percentage. So, actually, the contribution from the inforce, especially over the first few years, is pretty flat in your earnings, which is obviously a nice feature to have of the business.

Larissa van Deventer, Barclays
So effectively, we take a 20 to 25% knock next year, but then effectively the profits are locked in for the next 12 years that a reasonable way to think about it.

Jeff Davies, CFO, Legal & General
Yes, that's right. As long as experience obviously plays out.

Larissa van Deventer, Barclays
And then if we take new business profit, would it be a reasonable expectation to take VNB divided by 12 and add that to the previous year's profit?

Jeff Davies, CFO, Legal & General
We say in the presentation that new business, focusing on annuities, that it's approximately 9% of premium. So £900 million on a 10 billion book, so that goes straight to your CSM and risk

adjustment. And then as you say the following year, a 12th of that runs off into profit. So yes, you're adding that each period and that's where you can see building up. And don't forget, you're also growing the book, so the investment return component which is not included in that also grows as you grow in the book.

So, if 3-4 billion of annuities run off but you write 10, you've grown the book by 6 billion, which out of 80, 90 billion is 7, 8%. So that's where you get more growth.

Larissa van Deventer, Barclays
Brilliant. Thank you very much.

Ed Houghton, Group Strategy and IR Director, Legal & General
Next, and currently the last question, is from Dom O'Mahony. Dom, please go ahead and unmute your line.

Dom O'Mahoney, Exane BNP Paribas
I've got a couple of questions. So, just on the 20-25% change, I mean that's against the last three years and the last three years your assumption changes… if I look at your Op profit breakdown there… they're very big. I mean something like 20% of the operating profit. So can you just give us a sense of what the 20 to 25% reduction would be if you stripped all of these assumption changes out of the numbers. So really, just thinking about the new business dynamic, I'm guessing it's lower than the 20 to 25.

And then can I just also just clarify, variances will still be recognised in the year. So if you have excess mortality in a year, am I right in saying that will all be recognised in the year, it won't be rolled up into the CSM?

And then second question. In terms of the transition of the balance sheet, I see you've got about 1/3 of the CSM that comes from the fair value approach. Could you give us a sense of whether you think applying the fair value approach versus the full retrospective or modified retrospective, does that change the output in terms of how much CSM and how much profit you're expecting to generate? Or is it really just a detail of methodology and I shouldn't worry too much about the transition approach? Thank you.

Jeff Davies, CFO, Legal & General
Over the last three years, the assumption changes, longevity releases, etcetera have been quite material. Easiest way to think about new business, there's some small numbers there from retail protection in the 10s of millions, but of course the number we've always used is 2.5 (to about 4% in a really good year) of premium would have been profit for the annuity business.

So, if we were writing 6, 7, 8, 9 billion, you're talking a couple of hundred million of profit only would have been from the new business. If you take the assumption changes out, you can see that two out of one and a half, 2 billion, whatever the number is, even of the annuity business, when we were making a billion plus on PRT business and the 200 hundred million wasn't a huge number of that for just new business alone. And that was only PRT, let alone the whole Group profits.

So yes, you're right on that. If you think about it, percentage of premium, we would always talk about 2.5 to max 3.5, 4% of premium as profits under IFRS 4. And now we're saying well look 9% is set up as CSM and risk adjustment for annuity business, which is much more in line with our Solvency 2 new business value and which makes sense that that's where you get to.

On your experience variance, yes, the actual variance within the year will obviously flow through in exactly the same way. It's only if you make an assumption change that it goes to the CSM. So, if we made a change to our view of future longevity improvements, that would be capitalised and put in the CSM and then spread over the next 12 years, as we've been talking about as a sort of duration element as opposed to before, it would have dropped through to profit. So yes, that's the difference there.

Yeah, 30% on the fair value. Richard, could bore us for a long time, the merits of the different methodologies and what they mean. To one extent I would say I wouldn't worry about it too much because most of the fair value is pre-solvency II. That's been an easy cut off for people because it was very hard to get all the data and granularity that you needed pre-2016.

And the reason I say that is, to put it in context, in the last five years we've written 40 billion plus of annuities, whereas in the five years before that we wrote about 16, so the vast majority of value has come from the fully retrospective with a modification. But that's just minor tweaks where it didn't quite qualify. So, it's as if we had IFRS17 from when we wrote the vast majority of our book. And so I would just guide you towards that in terms of materiality.

Dom O'Mahoney, Exane BNP Paribas
On the 20-25%, the reduction in Op profit, my question was really how much of that is because assumption changes now no longer drop to the Op profit. So I'm guessing a big portion of the 25% reduction in Op profit is actually just the assumption change is no longer contributing. And if you were to rebase the last three years excluding assumption changes, could you give us a sense of how much you would expect the Op profit to move?

Jeff Davies, CFO, Legal & General
It varies in each year, but it's at least half that number I would say.

Dom O'Mahoney, Exane BNP Paribas
OK, very good. That's really helpful. Thank you.

Ed Houghton, Group Strategy and IR Director, Legal & General
OK, we have a repeat question from Andrew Green. Andrew, go ahead.

Andrew Crean, Autonomous
You keep on hinting that you might increase your BPA writing and clearly, given the funding position of the annuity market, that is very possible. It doesn't have an impact immediately on your IFRS earnings, but it will impact your solvency capital generation and that in the end pays the dividends.

Could you be more clear as to what your strategy is on writing BPA's? Are you going to stick with your current targets or do you think you're going to open your shoulders? You have the capacity so to do.

Jeff Davies, CFO, Legal & General
What we've been saying, and it is our current approach, is I think - with the greater market demand out there that everyone is aware of and talking about - it is probably easier if you like for us to hit our eight to 10 ambition and possibly be at the top end of that or slightly over. And that would then allow us to still be self-sustaining, the things we've talked about et cetera. And though we have headroom within that over our ambition period, and as everyone notices our capital position is strong at the moment, so we wouldn't be concerned with going over the limit slightly on self-sustaining.

However, on top of that there is undoubtedly a good number of jumbo-type cases out there that we are all in conversations with and they're trying to work out what they'd like to do. We're all trying to work out the best way to take them on board and so, on top of that BAU, 8 to 10'ish type numbers, we may well do some one-off transactions which might repeat for a few years and as and when we get to those, we'll communicate appropriately around those. How we're thinking about it, how we are using reinsurance, what is it doing to our capital, how we thought about it and we would do that at the time.

But, clearly, we will look at those, what metrics are available, can we deliver them, do we have the assets to back them, et cetera. And we'll talk about all that at the time. So, we're certainly not shutting off that we're going to do that, but I think that's more likely the scenario than that we just happened to write 12 by mistake as BAU. And so, we will continue to communicate around that and as we have more conversations with schemes, the intentions of all parties will become clearer on that.

Andrew Crean, Autonomous
OK. And you'd like us to look more at IFRS or your solvency II capital generation, what is your primary metric you want us to measure you by?

Jeff Davies, CFO, Legal & General
Solvency II is clearly the more economic view of the world. It's certainly the constraint that everyone has looked at in terms of dividend paying ability. We're in a nice position of 220, 225 at the moment (given where rates are on any day) but it's that capital generation, what are we doing that helps us to determine what is available, what does that mean, what's coming off the business. We now have an underpin of very stable accounting, but solvency II capital generation is generally what we've looked at, and you've all looked at, over the last few years.

Andrew Crean, Autonomous
OK. Thanks.

Ed Houghton, Group Strategy and IR Director, Legal & General
Oliver Steel, I can see you've got your hand up, so please go ahead and unmute your line.

Oliver Steel, Deutsche Bank
50% of your LTIP is linked to IFRS earnings and has been, I think, over the last few years. And you're now telling us that all the assumption changes have basically been written back. So how is your Board assessing the LTIPs that you paid in recent years and how are you planning to adjust the LTIP targets for 2020 to 2023 and 21 to 24?

Jeff Davies, CFO, Legal & General
We have considered that and we've obviously looked at what does means for EPS, what are the elements in there? The biggest thing I would point you towards is, of course, the vast majority of our longevity releases were excluded from everything. We excluded them explicitly. They were excluded from what you looked at in terms of earnings. They were excluded from all our earnings discussions. And so that has been taken out of that.

We always have, and will continue to have, the very interesting discussions at RemCo of one-offs, releases, what does that look like? And we absolutely are considering all of that, so it is very relevant… And equally, where we are rebasing for EPS et cetera. And we have considered that. So, we'll have to explain it further in the next report and accounts….

Oliver Steel, Deutsche Bank
OK, good to hear that the exceptions were excluded. That's actually quite a relief. Just going back to Andrew Crean's question then about what you see is more important between solvency II capital generation versus IFRS earnings. You're almost unique amongst the UK life companies still using IFRS earnings for LTIPs. Are you going to change that going forwards?

Jeff Davies, CFO, Legal & General
That's an interesting question. We have brought in a Solvency II metric more quantitatively into our earnings, management objectives, et cetera, and we'll continue to look at that for this very reason. We've been looking at what makes sense. There's obviously then the debate of what's the right one: is it operating surplus generation, net surplus generation. Is it capital budget or usage?

So yes, that's further discussion. We do have one explicit one in there and we will continue to use that. But equally, it's a bit like we said, we quite like growing book value and showing that you've got good quality earnings and so you can't completely ignore that one. One you can say is accounting, one's a regulatory basis and there's a balance. But you know… it's more what's the constraint, what is management incentivised on, because that's the constraint on the business and if it is more about surplus generation then we will potentially look at that and decide whether we put more weight on it or not.

Oliver Steel, Deutsche Bank
Thank you.

Ed Houghton, Group Strategy and IR Director, Legal & General
Let's go to Ashik again, please. Ashik, go ahead.

Ashik Musaddi, Morgan Stanley
Thank you. Just one question. This risk adjustment, if I understand correctly, is it fair to say that risk adjustment number is about say 4-5 billion? And what is the basis of coming to this risk adjustment number? I'm asking it because I guess given that you have done a lot of longevity transfers to reinsurers, why do we have such a big risk adjustment number at this point? I would have assumed that it's a bit lower.

Jeff Davies, CFO, Legal & General
It's not explicitly in there anyway. I don't know if you got your ruler out among the pages. It's a smaller than number than that, let's call it 2 to 2.5 billion. Obviously, none of this is finalised yet.

How do we get to that? It's not the same type of calculation as the risk margin. It's very much… what is your claims experience, lapse experience in the 85th percentile and if that's what you get throughout, how much extra would you need for that, what's the sort of reward that you need for that? What is the extra claims cost? And so that's where you get to the number. And whilst you say our new business has had a lot of reinsurance which is true, of course, we haven't reinsured any of the individual annuities. We have a reasonable size back book. And so, I think we are still, let's call it round numbers 70%, or so retained on longevity, might be slightly lower than that now when we eventually write all the 22, but it's certainly 65% still retained. And so, you get a reasonable number just for pure longevity. And, of course, we'd have mortality in the US, lapse experience on the protection books as well.

Ashik Musaddi, Morgan Stanley
Just one more question. So, your net of tax CSM is about 8, 8.5 billion. Is it possible to split this

between what is the spread component and what is the technical margin component - say longevity component - or say how much is the protection component or and what is the spread component?

Jeff Davies, CFO, Legal & General
We do give that, it's about 80% of it is annuity.

Ashik Musaddi, Morgan Stanley
No within annuities, is it all spread or is there a longevity component as well?

Jeff Davies, CFO, Legal & General
So there's no spread component - that's in the discount rate. The prudence for the discount rate is within your best estimate liability. So that's the 41 basis points. If you think of it very simply - on day one, you write the annuity, you have a premium, you discount that for your expected payouts at a prudent rate, with the 41 bps of the yield, what's left is the CSM. So that's just leftover from the premium less the best estimate - less the risk adjustment, obviously.

Ashik Musaddi, Morgan Stanley
OK, very good. Thank you.

Ed Houghton, Group Strategy and IR Director, Legal & General
I think that's where we'll draw a line under things. Greig, we can follow up with you offline if that's OK. Thank you very much for your questions today. I hope you found the video, slides and Q&A session helpful. Please do follow up with us in IR if you've got further questions. Thank you very much.