
The Legal & General Half Year Results**Thursday, 09 August 2018**

Nigel Wilson: Good morning and welcome to our 2018 half year results presentation. This morning I'll take you through the highlights, Jeff will take you through the financial results and the divisional performance in more detail, and then I will return to discuss some of the broader strategic themes and our outlook.

Today I'd like to start by thanking my colleagues, our management team and all our employees for their hard work and collaboration in delivering these results. Across all of our divisions we have a stronger management team than I have ever seen at any time since joining Legal & General. All of my colleagues are performing at a higher level. Our industrial scale up has succeeded and we're now building a technologically scaled up business. The usual disclaimers apply.

This was another six months of strong performance from Legal & General. The investments we have made set us up for a very busy H2, and in line with our financial and growth ambitions for 2016 to 2020. On the slide here we've excluded last year's £126 million mortality release from the comparisons as we had no equivalent for H1 2018. The next mortality release in H2 is expected to be higher than last year's total of £332 million.

Operating profit from divisions at £1.059 billion was up 7% versus half year 2017. Solvency II operational surplus generation of £700 million was 11% up on the prior year. Earnings per share at 13 pence were lower than the prior year, due to the decrease in investment variance of £142 million from £175 million to £33 million. And our interim dividend of 4.6p is also 7% up versus last year, consistent with our policy.

Stepping back, we see operating profit from divisions, which was £1.1 billion in 2011, growing at 10% per annum since 2011. EPS over the same period is growing, again at 10% per annum. This strong growth trajectory is without including the effects of last year's mortality release.

And looking at dividend per share, I've included data in the slide back to 2007. We see the same steady progression and growth at 10%. But it's worth noting operating profits were £658 million back in 2007. Now, after a decade of growth, they're over £2 billion. Looking at the double digit compound growth in operating profit from divisions from dividends per share and earnings per share over the longer term is instructive.

During this period we have had numerous and plenty of exogenous challenges, including Solvency II, pensions freedom, thematic reviews, the Brexit referendum, interest rates falling. In each case, having a clear strategy and focus and the ability to implement management actions that enable Legal & General to deliver a steady drumbeat of rising operating profits, earnings per share and rising dividends.

The interim dividend for H1 2018 of 4.6p is up by 7% from 4.3p last year and is set in accordance with our formula. So no change to our approach of measured progression, which provides a high level of predictability for our investors. Jeff will cover the balance sheet in more detail, but in summary we see here the consistent effect of growing operational surplus generation.

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We have written significant volumes of new annuity business over the last few years, while the SCR has in fact reduced from £8.3 billion to £7.4 billion. And through small and negative new business drain delivered consistent net surplus generation. The S2 coverage ratio continues to strengthen and at the end of June was 193%, compared with 186% a year ago. The longevity release we expect to make in H2 will provide additional capital for Legal & General.

This snapshot of operating profit by business division shows the positive momentum from H1 2017 to H1 2018, across every business division except general insurance. Never have we had so many opportunities to grow. Never have we had such a strong management team to deliver that growth. We now need to execute. And H2 has got off to an excellent start with more to follow in the rest of the year and beyond.

Our businesses and their profits are aligned to structural growth drivers in the broader economy. Over the next 20 years the UK population aged 65 to 84 is estimated to grow by almost 40%. This aging demographic in the UK underpins a PRT market which is busier than ever, with an active quote levels at over £20 billion in a market where pricing factors are moving in favour of deal execution. We have over seven billion expected to complete in H2 2018. We expect a record year in 2018.

We also expect strong double digit growth in retail retirement products to continue in H2 and beyond. In housing, CALA and our other housing businesses are just reaching scale in a market which is still well short of the target 300,000 homes per year.

In investment management, we are leading the shift towards DC. We are strong in global LDI and fixed income and we expect to see further US and international growth in H2 and beyond. In the insurance businesses, markets and weather conditions have been difficult but our management actions are turning around previous areas of under performance, moving customer acquisition increasingly to direct and employing digital to improve products, pricing and service.

Our confident outlook suggests that we will again out perform in H2 and beyond, enabling us to achieve our targeted EPS performance out to 2020. I am very positive about H2 and the years to come. Now, I'd like to hand over to Jeff.

Jeff Davies: Thank you, Nigel. Morning everyone. I'm not going to use Nigel's glasses either. This morning I'm going to cover the financials for the first half of the year: Where we are investing, the performance of each of our divisions and finally the group's capital position.

As Nigel said earlier, we have been consistent in our delivery and the first half has been no exception. Our operating profit from divisions is up 7%, with growth in five of our six businesses, which demonstrates the quality of our divisions and the relevance of our focused long term strategy. This growth rate excludes the first half 2017 mortality release of £126 million. This is consistent with how we presented the full year results. All comparisons I make to half year metrics will be excluding this mortality release unless otherwise stated.

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We are using some of these mortality releases and strong profits to invest in high growth opportunities within our chosen markets. As previously flagged, we are making measured investments across our group to drive cost efficiencies, gain access to growth areas, enhance customer experience and to comply with evolving regulatory framework.

In the first half of 2018, on top of the investments within divisions, this resulted in a £13 million increase in group investment spend, meaning operation profit was up 5%. PBT was down, largely as a result of lower investment variance compared to the first half of last year due to adverse equity market performance and lower long term interest rates impacting LGI reserves.

Net release from continuing operations was down slightly to £658 million, primarily due to lower new business surplus from LGR. Our return on equity remains above 20%, illustrating the efficiency of our balance sheet. Now we'll turn to operating profit from divisions.

In the first half, LGR's institutional business, which deals with corporate pension schemes, grew 8%. This was as a result of the larger opening position and continued stable unwind of prudent margins. Our retail LGR business grew 11%. LGIM grew 5% and maintained a leading cost: income ratio of 51% whilst continuing to invest. This was despite challenging markets. LGC was up 21% following a strong performance from our £2 billion direct investment portfolio which included an additional contribution from CALA Homes following the full acquisition in March.

LGI contributed £154 million, up 5% from the prior year, following the turnaround of group protection which returned to profitability, and continued good performance in our UK retail protection business. This was partly offset by adverse mortality experience in the US, where the market was impacted by an exceptionally bad flu season. General insurance was down due to the adverse weather experienced, in particular the freeze in Q1. This was consistent with the wider market.

Our diversified business model means that we can manage temporary fluctuations across the group and still deliver attractive returns to our investors. And a quick update on the disposals we've recently announced. Mature savings expected to complete in 2019 following the past seven transfer.

In the first half we recognised 56 million operating profit from this business, comprising the unwind of the expected underlying profits and a one-off release of £33 million provision, which is no longer required following the transaction. In June we announced an agreement to sell our stake in India First, resulting in pre-tax profits of around £45 million on completion. This is expected by the year end.

I'll talk in more detail about each of our divisions shortly, but first I'd like to cover our investment in the business which we referenced at our full year results. We are well placed to invest in future growth with our robust balance sheet, cash position, ongoing mortality releases and strong ROE. The investments we are making achieve four objectives. Improve operational efficiencies through technology investments. Access growing markets through bolt-on M&A. Enhance the customer experience, and meet evolving regulatory standards.

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In technology we are investing across the group. For example, in LGIM we are focusing on DC pensions and personal investing. In LGR we are part way through a multi-year technology project, modernising our platforms in preparation for significant PRT activity expected in coming years. In GI, Smart Quotes has revolutionised the quoting process and Smart Claim helps streamline the claims process for customers. We are investing more in robotics across the group, both in customer facing operations and finance functions.

Examples of M&A investment are Canvas, Buddies and Salary Finance. Our regulatory spend has increased to reflect changes such as IFRS17, GDPR and MiFID II. We continue to deliver these as efficiently as possible.

We have collaborated across divisions to ensure a seamless offering for our customers on platforms like Legalandgeneral.com and myaccount. And of course, focusing on the latest advances in cyber security to keep our data secure. Our investment in the business will help us deliver our long term growth objectives.

Returning to the divisions and LGR. In the first half, operating profit was up 9% to £480 million following a strong performance from the back book and positive operating areas, partly driven by the acceleration of fully processing PLT scheme data. As I mentioned at our year end results, we are currently investigating the appropriateness of moving to CMI 16.

Our latest estimate of this is a reserve release at the higher end of a £300 to £400 million range, under IFRS and Solvency II, as we adjust our best estimate assumptions. We will continue our analysis and expect to make any changes for year end following completion of this work.

Looking at new business in more detail, we wrote nearly 1.1 billion of annuity premium in the first half, including the innovative transaction with the BAA pension scheme. In LGRI, US pension risk transfer business more than doubled premiums in the first half and we expect this positive momentum to continue into the second half of the year as this is when we have historically seen more activity in the US.

Since we started in the markets three years ago, we have written almost \$2 billion of annuity premiums. In the UK, the bulk annuity market has been attracting headlines recently for a record pipeline. We are currently pricing more than £20 billion of live transactions, as Nigel said. We have retained a significant portion of the 2017 Warehouse Direct investments, and added to this to support higher second half volumes that we mentioned earlier.

Moving on to retail business, individual annuity sales were slightly down at £337 million as last year benefited from increased H1 sales during a catch up period at the start of the Aegon distribution agreement. We continue to see demand returning to the individual annuity market, and in the second quarter we saw a 16% increase in premiums compared to the same period last year.

We are the leader in lifetime mortgages, with a 28% market share, having written £521 million in loans in the first half. Up 23%. We remain positive about the potential in the second half of the year. Although we are market leaders, we are recent entrants, so lifetime mortgages only represent 5% of our £56 billion annuity portfolio.

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There's been a lot of talk in the market following the PRA's recent consultation on the use of lifetime mortgages to back annuity liabilities.

We will of course be working with our industry peers to respond to the consultation, but our view is that we have a robust capital treatment for lifetime mortgages and a relatively small exposure, so we believe any change from this new consultation will not be material to our capital position. In short, the second half holds a lot of promise for LGR, with a strong new business pipeline and positive momentum.

Within our annuity asset portfolio, we continue to maintain a high credit quality, with approximately two thirds rated A or better. 19% of which is in sovereign like investments. We are continuing to increase our allocation to direct investments, and these now make up 19% of our asset portfolio. On this slide, we have provided a list of some of our largest direct investments. As you can see, we focus on securing long term rental income from high quality tenants, with our largest exposure being over £1 billion to the UK government, primarily through HMRC.

Now let's move to LGIM, who were the focus of our capital markets event in June. LGIM has shown consistent growth, with operating profit up 5% to £203 million, driven by higher AUM at the start of the year and increased revenues from flows. This was partially offset by the impact from adverse markets on management fee growth, and continued investment in the business.

We maintained a stable cost: income ratio of around 50%, due to the scalable nature of our business model, and fund performance continues to be strong. External net flows were £14.6 billion, with good performance across regions, channels and product lines. This excludes £2.4 billion of AUM which moved to LGIM as part of the Canvas acquisition.

In the first half we saw positive flows from our DC, retail and international businesses, which helped offset the structural shift from our UK DB index business as our client continue to de-risk. We talked about this trend in June, and as an example we flagged one large outflow of £6 billion from a local authority scheme.

UK DC had a great performance, and we maintained our market leadership while building the largest and fastest growing master trust. In retail, our rapid growth has continued into the first half of the year, and AUM up 17% to more than £25 billion. International AUM increased by 16%, and this now makes up nearly a quarter of our assets.

At our capital markets event, we talked about LGIM's three strategic themes. Firstly, we have continued to broaden our investment capabilities, building on our core strengths. This includes expanding into Europe with ETS, offering real assets which are in high demand by pension schemes, and packaging our responsible investing capabilities into our future world funds.

Secondly, we are addressing the savings gap. Much of our growth in this area is in retail and in DC, where we now have over 2.8 million customers. Thirdly, we are expanding internationally as we export our core strengths. We have had success in our carefully chosen markets within the US, Europe and Asia, and we see a strong pipeline for

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the second half of the year. As we have previously stated, LGIM's operating profit growth target is 8% to 10% over the medium term.

Moving on, LGC continues to grow profits as we diversify and expand the assets we invest in. Operating profit was up 21% to £172 million, following a strong performance from the direct investment portfolio. And also benefiting from the additional contribution from CALA Homes. It should be remembered that due to the seasonal nature of housing, CALA experiences higher profitability in the first half of the year.

PBT was £82 million, down from £194 million in the prior year, with lower equity returns resulting in negative investment variance in the traded portfolio. Direct investment achieved a net portfolio return of 9.1%. The portfolio is now over £2 billion, and in the first half of the year LGC invested or committed over £700 million into new opportunities as well as into existing asset classes. This included the launch of affordable housing and further investment into build to rent fund with LGIM real assets.

Through the creation of real assets, urban regeneration and clean energy investments, we are rebuilding UK cities, generating stable returns for shareholders, MA eligible assets for LGR and attractive assets for LGIM clients. We will continue to expand into cities where we do not yet have a presence. The traded and treasury assets portfolio was £6.1 billion and includes cash holdings of £4.1 billion, up from 3.4 billion at the year end. This is mostly due to the receipt of proceeds from Swiss Re for mature savings.

Our protection division, LGI, had an improved performance in the first half of the year. Operating profit increased 5%, however there are a couple of moving parts to highlight here. In the UK, our leading retail protection business reported good profit growth with some one-off model enhancements offsetting adverse lapse experience and lower product margins in a competitive market. As previously guided, group protection returned to profitability following management actions taken to address adverse claims experience.

Total UK protection premiums increased 3% and our direct distribution channel again performed strongly, accounting for 21% of retail new business APE. In the US operating profit was down \$48 million to \$24 million, largely due to the higher than expected claims in the first half, compared to favourable mortality experience in the prior year. This adverse experience was due to elevated cases of flu, in line with the wider market.

Assuming constant FX rates, US premiums grew 3% and the business remains the second largest provider of US term life assurance through the broker channel. GI made an operating loss of £6 million in the first half, primarily as a result of the adverse weather experience, in line with the market with the Q1 freeze. Excluding the freeze impact, operating profit would have been up £7 million to £22 million, and the combined operating ratio 92%, highlighting underlying progress in the business.

Gross premiums increased 12% to £193 million, whilst maintaining our pricing discipline in a competitive market. The division has also becoming increasingly diversified, with our pet insurance business gathering momentum.

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Overall, 37% of our premium now comes from our direct channel, demonstrating the returns on our investment in technology.

GI has had eight distribution agreements with major UK financial institutions go live since the start of 2016, including two new partnerships in the first half of this year. We remain in active discussions with potential new distribution partners who value our Smart Quote and award-winning Smart Claim propositions. These factors combine to give good prospects for growth in the second half and beyond.

Moving on to our capital position, the group's Solvency II surplus stands at £6.9 billion. Our Solvency II coverage ratio increased to 193%, up from 189% at year end. Due to the increased understanding of, and focus on, Solvency II we no longer intend to publish our economic capital coverage ratio. We retain EC for internal management purposes and, for those of you that are interested, the coverage ratio at the end of June continues to be around 60% higher than the Solvency II ratio shown here.

We have bridged the Solvency II surplus to help explain the movement since the year end. Operational surplus generation was 0.7 billion, up 11% on the prior year. This already covers the larger of the two dividends paid each year. New business strain in the first half was around £100 million. As per last year, the majority of this figure was in respect of our US term sales, which we reinsure and finance in the second half, significantly reducing the eventual strain from this business. Operating variances during this period included a number of minor movements which net to zero.

And finally on Solvency II, our usual slide gives you our estimate on the present value of Solvency II surplus emergence from the key elements of new business we wrote. As we have consistently noted, our margins are resilient, and we continue to maintain pricing discipline. In LGR, the new business margin was slightly higher than usual, at 10.3%. As you know, we wrote fewer deals in the first half, therefore this is not a true representation of our expected full year margins. In LGI, the new business margin was 7.1%, reflecting product mix changes and the impacts of competitive pressures in the retail protection market.

So to conclude, our business produced a solid performance in the first half, with operating profit from divisions up 7%. The group continues to achieve an ROE of over 20%, and our healthy solvency and cash positions provide further optionality to continue growing in what we believe will be an exciting second half of the year, with many opportunities. I'll now hand back to Nigel to go into more detail on a number of high growth areas across the group.

Nigel Wilson: Thank you, Jeff. You'll now be familiar with the way we describe our three core businesses: Investing in annuities, investment management and insurance. And the divisional structure that sits beneath it. For the next few slides, I'll talk about the implementation of strategy in those three areas. The strategic thinking outlined here should be familiar to all of you. Our alignments to these six structural drivers of growth is however worth repeating, because the growth drivers continue to work for us.

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One, aging demographics underpin pension risk transfer. We are confident of executing a further seven billion in H2 for this year. As pension deficits shrink so demand grows as more schemes reach the point where buy in or buy out becomes economically priced for them. The aging demographic also drives lifetime mortgages. Where the market was about 1.6 billion in 2015 when we started, it is now about four billion and is expected to be six billion by 2020.

Two, globalisation of asset markets. Where LGIM's international AUM has grown by 22% compound since 2014, and where we will expand from our low base into Asia and extend our reach in Europe, including through ETFs.

Three, in real assets, the LGC direct investment portfolio grew 49% in H1 2018. Housing and infrastructure are key political challenges for the UK, but ones where Legal & General can make a good economic return.

Four, welfare reform, where for example the move to auto enrolment has contributed to a 21% increase in LGIM's workplace customers, part of a 15% increase in DC where AUM is now a market-leading £72 billion.

Five, technology is improving customer service and customer value. I will return to this later. We are scaling our businesses successfully using technology, as Jeff mentioned, but we have significant further opportunities to improve.

Six, and the need for today's capital evidenced itself in our 200 BC investments, and the growth of our Pemberton Funds to almost €3 billion.

This is a new slide which helps illustrate the way we think about long term growth for Legal & General. There are three broad categories in the business: Start ups, scale ups and grown ups. In summary, our grown up businesses, as Jeff discussed, are performing incredibly well. These grown ups are our largest businesses. 100% owned, typically with leading or at least substantial market share. They're innovative and entrepreneurial, and successfully compete in attractive growing markets.

But we also look at build versus sale options, hence the disposal of Mature Savings for £650 million, at a profit of more than £400 million which will be booked in 2019.

Scale ups are strategically aligned growth businesses where we can be either 100% owners or holders of a significant minority stake. These businesses have the potential to become grown ups, and as they grow, so we can increase our ownership as part of financing their growth. CALA is a great example of this. It has moved up to the grown up space with L&G now, as Jeff mentioned, 100% owners. In effect replacing Mature Savings.

Other businesses where we own minority stakes can likewise be funded to grow. Pemberton in SME lending. NCR in clean, green and cheap energy. ADV, our venture capital partnership with the British Business Bank. Salary Finance and Smartr365. If, despite growth, the strategic fit is not right, a minority stake can be sold at a profit. For example, India First.

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Looking now at the 100% owned scale ups which are delivering fast growth to Legal & General. These include Build to Rent, LGIM America, LGR America, European ETFs, DC and retail and future cities. Here you have a set of high performers with strong growth prospects. For example, our total Build to Rent pipeline is now 3,000 homes across nine schemes nationwide. More than double our pipeline a year ago. Our US businesses, LGRA and LGIMA are similarly well placed for growth. LGIMA for example delivered net inflows of £8.3 billion in the US in the first half of this year.

Our start ups are either 100% owned or companies in which we have a minority stake. The 100% owned start ups are developed within the business units, for example our surveying and insurance businesses. The minority owned start ups which are in areas connected with our core businesses, which we believe have outstanding potential for growth. As that growth materialises, we increase our stake to help support its growth.

We have some terrific start ups and scale ups in Bernie's business, including Salary Finance and Smartr365, as well as Caresourcer in Chris's LGR retail business. To get more granular about this, here we illustrate the L&G housing ecosystem, driven both by the need for new real assets and the deployment of technology. This encompasses house building across all forms of tenure. For sale, for rent, later living and affordable. It utilises the leading market shares we have through L&G mortgage flows and our leading surveying business, as well as our lifetime mortgage business. House moves are also the natural point for GI and indeed protection transactions, again with a significant data or digital component.

We have three other exciting ecosystems which we'll discuss at a later date: Workplace, retirement and real assets. They drive real synergies and collaboration across Legal & General. Our growth pyramid had CALA moving from scale up to grown up. L&G's investment has facilitated a tripling of revenue in five years, a 2.5% increase in housing units delivered, and a five times increase in EBIT. Operating margins have indeed improved, but they're still only 13% compared to a 21% industry average. The pipeline is strong, with 3,000 units per annum a credible medium term target.

LGIMA is likewise in transition from scale up to grown up. Initiated with \$6 billion of internal assets back in 2007, since 2013 it has successfully attracted US and domestic and international funds, and now has over \$180 billion under management. Its product range is extending. From early significant successes in active fixed income and LDI, we're now building out to index and starting in multi-asset and real asset. And LGIMA is now positioned to be one of the drivers of our 8% to 10% growth in LGIM.

LGIM Asia is in the start up bracket. Yes, we've won mandates in Asia, but we're just beginning to scratch the surface in a market that is becoming one of the three pillars of global asset management. We're adding resources and investing for growth into numerous Asian markets.

Like LGIMA, LGRA is 100% subsidiary in the scale up category. From a standing start in 2015 it has written nearly \$2 billion for 28 clients, including \$300 million in H1, up from \$141 million in H1 2017. The background is a US PRT

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market estimated at \$20 to \$25 billion this year, driven by a supportive policy environment and a favourable mortality and rate environment. We are enabling this business to grow by utilising group-wide infrastructure and real asset capabilities in the United States, as well as leveraging our strengths, including longevity, investment management and admin expertise.

Salary Finance was a start up which we first invested in, in 2017. It's now clearly a scale up where we now have a 40% shareholding. It has half a million employees on its platform already, and we expect it to reach a million by the end of this year. Because it is a truly digital scale up business, we can scale up quickly. Salary Finance is intending to launch more widely in the US in H2. More innovation for L&G will follow in all of these areas.

All financial services businesses, in fact probably all businesses full stop, now have to be technology businesses. You've seen some of our digital start up and scale up investments in our earlier pyramid of growth, but the use of technology is increasing everywhere, and at pace across our grown up businesses too. This includes the Cloud, robotics, AI, big data, block chain and platforms. The key to this, for us anyway, is focus and delivery rather than just unveiling technical solutions which are in search of a problem to solve.

So we measure carefully for example the costs and benefits of unattended and attended robotics. Disruption for us is a responsibility and a privilege. This applies even when we are disrupting ourselves. So the use of big data, for example in surveying or GI, is not just about pricing but is also about our customer's journey. For example, being able to solve and secure home cover on any device, 24/7, by just answering five questions or fewer.

Operating in an evolutionary model of this sort requires plenty of entry points for companies and businesses as they grow, but it also requires focus on exit. Where it is right to exit. In recent years we have consistently sharpened our focus through a series of disposals, closures and simplifications. We see these moves through two connected lenses: Strategic fit and shareholder value.

The slide illustrates our exit from businesses which were sub-scale, underperforming on profit or growth terms, or in geographies or segments which did not align to our strategy or our skill set. Since we've started, it has delivered 1.3 billion of cash to invest in higher growth businesses.

Turning now to the LGC 8.1 billion asset portfolio. The composition of the portfolio, with over four billion of cash, clearly indicates that there are many optimise opportunities ahead for Kerrigan and the team. We've made very significant progress though in Direct Investments, which more than doubled since 2015. They now stand at over two billion and generated 104 million of operating profit in H1.

The Direct Investments naturally support our PRT business. This is LGC's role as an asset sourcer. The traded and treasury assets portfolio however now stands at £6.1 billion, with operating profit of £68 million. We have to deliver more profit from these assets. The standout item here, which Jeff and I have both commented on, is the component of cash which is well over £4 billion. Reinvesting cash into more productive assets while maintaining a

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group ROE of over 20% is a clear winning strategy for Legal & General. Given our success to date and the opportunities presented to us, we will be accelerating LGC's evolution in H2 and beyond.

I will finish on our financial ambition and strategic goals. Our goal is to replicate the 10% compound annual growth in EPS which we delivered for 2011 to 2015 for the period 2016 to 2020. Halfway through, we're on track to deliver that goal. Our outlook for H2 is confident about moving forward in a material way on each of the strategic goals listed here.

We do expect to close a further seven billion in PRT transactions. We expect workplace AUM to grow further and faster. We expect LGIMA to deliver further growth. We will get off the ground in LGIM Asia. And to expand in housing and urban regeneration across more cities in Britain. We will deliver inclusive capitalism, fulfilling an economically and socially useful role. And we will do that by utilising all the talents of all of our people, and all the strengths of our positive, supportive culture. Now, I'll open up to questions.

Can you just mention your name so that people... Even though I know who you are, for the camera?

Andy Sinclair: Thanks. It's Andy Sinclair from B of A, Merrill Lynch. Three from me as usual please. Firstly on the pipeline. Seven billion of bulk pipeline in the UK. Could you just give some colour on the global opportunities as well? Do you expect a better H2 than H1 globally as well for pension risk transfer? Secondly, still staying on pension risk transfer. Has pricing or competition changed after the consultation paper on lifetime mortgages? And third, moving across to the insurance business. Group protection, APE, growth ticked up a little bit in the first half of the year. Just wonder if you could comment on pricing trends outlook here after a few wobbles on the insurance business.

Nigel Wilson: Sure. I'll answer one, Jeff can answer two and Bernie can answer three. The seven billion isn't the pipeline. Those are exclusive deals that we expect to close... In fact expect to close either one later this week or early next week. And so the 20 billion that used to be called pipeline is now called actively quoting, because it's the more explicit definition from our CRO, Mr Simon Gadd, on that particular thing.

The pipeline's also very strong in America but the metrics are not as well developed in America. But certainly the second half is always stronger than the first half. But I think as Jeff's talked about and I've certainly talked about, we'll just maintain our financial discipline in America. But there's certainly a bigger pipeline in H2 in both the UK and the United States. And in fact, there's a couple of other countries, Holland and Ireland, also featuring in the pipeline for H2.

And indeed into 2019. The pipeline is also looking very strong in H1 of 2019 as well, and I can see my colleagues at the back nodding their heads, because they won't be getting much time off over Christmas. Jeff?

Jeff Davies: Yes, sure. The pricing competition round LTM. Certainly we've been reflecting a possible outcome of that consultation within our pricing, and the trustees of schemes have been accepting of that

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and understand the logic. Given we've been winning we therefore assume our competition must be doing the same around that. So it flows through, we can provide the explanation, we can provide the impact on pricing and it's been accepted.

Nigel Wilson: Bernie?

Bernie Hickman: Yes, so on group protection we've been making a number of changes, particularly making our pricing more sophisticated and also addressing customer service, and it's really good to see that that's coming through in new business sales as well. Part of our pricing is putting premiums up, and sometimes we'll retain schemes, and that all comes through into APE as well. So, yes, some really encouraging trends in terms of margins and other activity in the market. That's always evolving. We remain more sophisticated and disciplined in our pricing and we'll be looking to get profitable new business wherever we can.

Nigel Wilson: Thanks Bernie. I'd like to thank Steve Griffiths and all the team in group protection who've just done an outstanding job for us. I know Steve's not here today because he's working hard.

Alan Devlin: Thanks. Alan Devlin from Barclays. Two questions. First of all, on the L&G Capital, just picking up on your last point you made. Obviously the cash is growing faster in absolute terms than the direct investments. Realistically how quickly and how much can you put into direct investments? Because that can be a big delta to earnings as we saw in the first half. And then just secondly on the lifetime mortgages, follow up from Andy's question. Obviously not a big impact on your back book because it's a small part of AUM, but what is the impact on the new business margins? Because you are writing a lot of it going forward. And also are you changing your LTM pricing as well as the annuity pricing to reflect any changes? And how do you think that the PRA can justify their assumption...

Nigel Wilson: I'll ask Kerrigan to talk about LGCL. I'll just echo some of the points... I'll just go through the lifetime mortgages. It's a very attractive market and the PRA is trying to stop in a certain sense very high loan to value high rate products for people, and they've developed a system which does that, I think, in my view.

We don't always get treated the same way as banks, hence we've got a 2.6 billion credit default reserve which is way higher than any banks would have on an asset portfolio. Because we fulfil a different role than banking. We are structural providers of long term capital into the industry. So we tend to have more onerous... I know that banks think they've got onerous capital rules, but we would have more onerous. And lifetime mortgages are in that area.

As Jeff mentioned, it's not a problem for us within the lifetime mortgage business, and it's certainly not a problem as a consequence in the PRT business. We've got lots of upside yet in terms of the amount of assets. We've only got two billion out of 56 billion in lifetime mortgages. I don't think in any way was this designed to catch L&G out. In a sense it was more encouragement to L&G in the lifetime mortgage markets.

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On LGC Kerrigan, why are you not investing more money when you've got all this money sitting idly around?

Kerrigan Procter:

Well I think in Nigel's press blurb he talks about changing Britain and the real, enduring need for private capital in residential housing across Britain, and indeed economic investment in our great cities outside of London. Certainly there's incredible demand for it and we think it's a great social and economic purpose to be putting money to work there. Residential housing we're live on just about 90 sites across the UK.

There are attractive opportunities to buy land, a lot more that we can do there in sectors such as affordable housing, later living and, indeed of course, build to sell where there's an incredible demand for all those unsupported markets. Broadly across all those markets, there's more we can do there certainly. And in the future of our UK cities, again about £500 million invested in that two billion portfolio.

There is a lot of demand as we see regional devolution and people wanting to work with us to apply private capital to their opportunities, whether that's commercial environments, residential environments or mobility, connectivity, sustainability. All the future of our cities. So we certainly see huge opportunities for growth. My colleagues here on stage tell me frequently to invest it wisely, so we will be very careful about the way in which we build out our portfolio. But certainly a huge number of opportunities, and you should expect to see that two billion investment grow at a pretty reasonable pace with that backdrop.

Nigel Wilson:

I'd again like to thank Kerrigan for moving from LGR to LGC. I know that was because he saw the huge opportunities that we have in LGC to grow the business. And along with John Godfrey and Pete Gladwell who used to do a lot of the work with me, Kerrigan, John Cummins who joined us from RBS who's made a huge contribution already on his team. We've got much more resources going into this than we had before.

And very highly talented people who are being welcomed in Edinburgh and Glasgow and Newcastle, Bristol, Bath etc., etc. Cambridge, Oxford. There's lots of great activity going on and lots of towns and cities are leaning into Brexit, which is a positive thing. And regional devolution and empowerment of these people is really another big positive for us as a firm.

Gordon Aitken:

Thanks. Gordon Aitken from RBC. Three questions, please. First on Solvency. You're running at 193. It's obviously a lot higher than when you started under Solvency II. I just wonder if you can comment on what the driver is there? Is it board driven? Regulator driven? Shareholder driven? Or is it just a short term issue? Second on equity release. I note you say you already have a robust capital treatment for lifetime mortgages. Does that mean that you are using a deferment rate which is within what the PRA is talking about, so North of 1%?

And just finally, UK bulks. You feel you've got fantastic opportunities and possibly an alternative opportunity here. So bulks you've said the strain is less than 4% at the moment. So let's just say it's 3%. Now you can't run a bulk at

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100% solvency, so let's say 140. So the strain after building up the capital requirement, and I know that's not how you define strain, but the actual immediate hit on an 18 billion book would be 1.3 billion.

Now there is an 18 billion book out there, the big advantage that would have over DB schemes is... Because of course DB schemes don't come with any capital, this already comes with its capital and the market saying that's priced less than a billion compared to the 1.3 billion for a DB scheme. Why isn't that more profitable to you than the DB schemes that you're taking on?

Nigel Wilson: There's a man who's got more ambition than I have. I can't believe this is happening. I feel ashamed of my lack of ambition for this particular division. Jeff, do you want to answer one and three, and Chris can you answer two? If you can remember what one and three were.

Chris Knight: Yes, I think there's a number of changes to the PRA's new proposed basis for lifetime mortgages, so it's a bit hard to compare one to the other, we're going from a quite worldly type of approach to a more of a market system. We are pretty confident given what we see that the 1% deferment rate, which is what we're pretty much steering to, would be really quite a modest impact for us both on existing business and also for new business. Really only on a section of the higher loan to value products. It's more likely to have an impact I would think on people offering perhaps slightly lower loan to values for similar interest rates in the future.

Nigel Wilson: Okay. Jeff?

Jeff Davies: Yes, sure. The 193%, I'd categorise it more as a natural evolution to be honest. It's not that it's targeting anything in particular or we're aiming at that. There's been some rise in interest rates, though they're still reasonably low. That drives some of it. Obviously a lot more sophistication in managing the metric, and the likes of Tim and those in the LGR team in particular optimising matching adjustment on an ongoing basis. Optimising that asset portfolio, that helps to drive it. Refinements in the model on an ongoing basis which has moved that higher.

So we have to keep up with generational, which we haven't been spending which we're seeing in other parts of the balance sheet. So there's a general evolution of it and we keep it under review. We don't think it's too high yet, we think it gives us great optionality to write things like seven billion plus of PRT deals. Whether it gives us optionality to write 18 billion is another question.

I think the question is more of the relative attraction. We're always interested in large transactions around annuities, however when we can write seven billion plus of PRT whilst maintaining our pricing discipline, we believe using a lot of the advantages we have, whether that's relationship, the asset side of the balance sheet, whether it's more bespoke transactions, then we believe that also drives a lot of efficiency for us. So it would have to be reasonably compelling and we'd look at other things apart from just the capital strain associated with that.

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Colm Kelly: Thank you. Colm Kelly, UBS. Two questions. One on the cash generation, or the release of operations as it's called. I suppose that used to be the core cash metric to communicate the sustainability of the dividend strategy. Looking at the growth rate of that since 2017, each half year it's 0%, 2%, minus eight. Now I appreciate there's impacts in there, the back book cash generation has been flat. What has changed or why should I not be looking at that metric as continuing to be key for the dividend sustainability?

That's the first question. Second question, apologies if I didn't pick up the answer earlier to the new business margin impact from the equity release consultation. If you could just comment on that. I know you have the numbers done and it's not material for the Solvency, but for the new business margin impact that would be useful. Thank you.

Nigel Wilson: Well, zero for the second one. Jeff, do you want to take the...

Jeff Davies: Yes, I was going to say, zero for the second but we're flowing it through the pricing as I said. So we anticipate that going through. It's still a really attractive asset from a funding perspective for the annuity portfolio, so we would see that flowing through. In terms of release from operations, as you say, there's a lot of moving parts been going on there. Mix of business, the mature savings dropping out, and so that then drives changes in what you see on the release from operations. And even things like FX flow through on LGI, and so there are always movements on that metric.

We look at release from operations, we look at net release from operations, obviously we anticipate that being significantly higher when you add in a large amount of PRT business in the second half. And we see good growth in these metrics on an ongoing basis. We also look at Solvency II surplus generation, that's why we gave the exact number in growth for the operational surplus generation. 11% is clearly bigger than 7%.

We then have a new business strain and we can manage that, we can offset against longevity releases etc., so we look at that number as well. And obviously the normal op profit PBT metrics. So we look at a range of these. I've already said to a few other people, I'm thinking we'll do a bit more cash type disclosure at the year end because the figure is big, and relating that to what are we paying out from entities. But it's never quite as landed at the half year. It's much cleaner to do it at the full year. So we'll look at a number of these metrics and give a bit more cash type disclosure.

Oliver Steel: Oliver Steel, Deutsche Bank. So first question is on...

Nigel Wilson: How many questions have you got, Oliver?

Oliver Steel: Three.

Nigel Wilson: Three, okay.

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Oliver Steel: So the first question is on Direct Investments you're warehousing within LGR. Can you remind us how much you built that up by last year, how much you've added to that this year, and I suppose basically what I'm looking for is some helpful indicator towards the new business margin you might expect on the seven billion plus of pipeline you've got on the second half. Second question is, the SCR came down I think 300 million. You talked a couple of questions ago about management actions you'd taken. Is that what drove it and how much more have you got to do on that front?

And then finally with reference to slide 29, that's the interlinking on all of the housing activities that you've got. How much cross-selling are you actually doing between those various parts? CALA Homes to new mortgages, new protection policies, how much existing mortgages are moving into equity release mortgages. Anything you can give us on that is useful.

Nigel Wilson: I'll do one and three Jeff, if you do two on this. The Direct Investments, we obviously warehouse Direct Investments the following year, and those typically cover a large proportion of what we want to complete during the following year. So we had that in hand. We knew we had a huge pipeline of customer business, which in a certain sense was one of the reasons we didn't press awfully hard on the very large back book transaction earlier in the year. We'd have been quite happy to take three billion of it, like Aegon, but we had so much customer business that we wanted to focus on the customer business. And to be fair to the deal team they've just done a great job of doing that.

The sorts of assets that we're getting are similar to last year, and the margin itself on the deals will be much more related to the duration of the liabilities that we're taking on, rather than the quality of the assets that we have in the portfolio. And as Jeff mentioned, the movement between what gets shared between us and the customers is similar going forward. So we won't see material differences from the margins that we expected on the back book.

In terms of slide 29, the synergies exist not in selling a few more mortgages for our business. If you take build to rent, build to rent is generally something that creates synergies between all three divisions where LGIM are trying to build, and will indeed I think succeed in building, the first institutionally funded asset class around housing.

LGC is obviously providing the equity capital to kickstart that, get all those schemes going. In partnership with PGGM, who are great partners for us and have lots of expertise in this area. And once we structure those portfolios, LGR will take a cash flow based matching adjustment approach to getting assets which fit the portfolio.

I could go through all of the others, and at some point we'll arrange a presentation where we'll go through all the ecosystems, how things are joined up together, but that's probably the best example of how we're currently working together. And investing in new real assets which we can structure in such a way that they benefit LGC, LGIM and LGR.

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And urban regeneration, we've talked about Cardiff and Leeds and Manchester before. There's more of that going to happen, because we have much more capability to do that, which was really what Kerrigan was saying in the answer to the earlier question. Jeff?

Jeff Davies: Yes, on the SCR. There's no single big driver of that. There will be an element of rates, there will be an element of slight changes in diversification and what we would have as our biting scenario as we call it. There will be elements of small pieces along the line where we're optimising model changes on an ongoing basis etc. As you saw in the op variance, there was a whole load of things which were just cancelling out. But in terms of how many of those do we have to go...

There's a long way to go of evolution, we're constantly optimising. So what does it do for capital? What do we do... Do we use some internal reinsurance? Do we change the structures that we have for external risk transfer etc.? So there's a long way to go on those that always add and benefit on that and understanding how it all diversifies in the model and what optimises it. What mixes of business etc., a long way to go around that. And there will still be material areas where we believe we can improve the model and simply bring the SCR down. And the FCA will have a few when they think we will get it done.

Greg Patterson: Just on the home, the combined ratio of 92. If my memory serves me correct you used to be running around 94, 95, now it's 92. Now you've done a whole bunch of new deals. I assume you would have had to bid up for the deals. I would have expected the combined ratio to have gone up given all the other net rates in the market etc. So why have you got such a favourable combined ratio? And are there any other distribution deal costs that aren't included in the combined ratios? Say below the line in your start up spend or something like that?

That's question one. The second one is just was forced between its March results and its disclosures, Solvency II, to convert its equity release portfolio to change internal ratings from AA to A. I was wondering if you've had conversations with the PRA around your circa 13 billion direct investments and the ratings on that, and if there's any risk from that.

And the third question is I was surprised by that mature savings operating profit in the first half. I was wondering, is there going to be any further contribution in the second half from that element?

Nigel Wilson: If Cheryl takes the first question, Kerrigan I'll do a little introduction then you can take the second question, and Jeff takes the third question. So, Cheryl, do you want to just answer the first question?

Cheryl: Thank you. Our combined ratio has continued to improve excluding weather because we have been much more strong on our pricing discipline and our risk selection, and we've also been rebalancing our portfolio. So we've reduced our exposure to broker business and increased it to the direct. And going back to your point about the acquisition of the new deals, they've been reflected in the combined ratio too.

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Nigel Wilson: Okay, thank you. And just in terms of the... In the old days we used to go and get every deal that we did in direct investments, have a non objection from the regulator. We've moved on since then because we've gained the trust of the regulator, so we certainly had no discussion on the rating of the lifetime mortgage book. But, Kerrigan, is there anything else you want to add?

Kerrigan: Well, I guess just reflecting on the slide that we showed earlier, showing the top ten LGR direct investments, though it could be the LGC ones also. There's a very robust internal ratings process, that's been agreed and discussed with the PRA extensively. We have an independent team based in LGIM filled with experts, our group credit risk officer sits as part of that. So it's a very substantial process across a really diverse set of assets, so we're very comfortable with those, that internal rating process, and no reason to expect any wholesale shift in what we're doing there.

Nigel Wilson: I think our internal rating committee give the team a particularly hard time. They seem to enjoy giving Mark, Kerrigan and others who have to appear in front of them a particularly difficult time.

Jeff Davies: Yes, the mature savings is relatively straightforward. It's just an accounting thing. We're not allowed to realise all of the profit from the transaction until the Part Seven, therefore we amortise that if you like. It comes out whilst we're still on the reinsurance state rather than at Part Seven. So we expect the underlying, the 20 to 25 million, to each half year until we get to that Part seven as it just unwinds.

Nigel Wilson: Okay. Andrew? Then we'll come back.

Andrew Crean: Hello, it's Andrew Crean here, Autonomous. Could I ask three questions. Firstly, could you give a slightly more numerical answer to what the impact of a 1% deferment rate is? And also the growth rate in the direct investments from two billion. What sort of growth rate per annum are you looking at? Secondly, your ambition to grow earnings to 2020 by 10%. Dividend still growing at seven. Should we expect A to come up to B or B to come down to A? And thirdly, could you talk a little bit about the supposed toxic culture in LGIM, and particularly that would be a concern to me if it involves the area which is doing internal ratings.

Nigel Wilson: Indeed it would if that were true. I'll take the culture thing first, if I may, and then Jeff if you take the second question. Kerrigan, I think you've got to come back and give a better answer on the growth of DI.

I'm very proud of everything that Mark and the team have achieved over a number of years in LGIM, and any time we have any whistleblowing across the group, in a sense our culture's about actively encouraging whistleblowing, for people to come forward in a very anonymised way if there are issues that they want to raise. It's part of our openness as a firm. We have a policy which says every non-executive can go to any management meeting anywhere in the world at any time.

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Our regulators, including Sam Woods and Megan Butler from the PRA, they actually sit in on a whole day, a day in the life of L&G, and so they see how we work starting with the seven o'clock management meetings in LGIM and finishing up in the call centres late in the evening, listening to calls. So we want to be totally transparent about all of this. It's unfortunate these things have got in the media, relating to incidents that happened in 2017, but they have.

But rest assured, we're totally convinced and know that we have a positive, supportive culture here. We had an independent review from Latham & Watkins which assessed our culture, and it came out as positive, supportive and respectful. Any firm at any time will have a number of whistleblowers, and we're no different from anybody else around that, and we've actively encouraged our whistleblowers to come forward.

And there's an independent review of whistleblowers carried out by our internal audit function once a year, and every year that I've been here that's turned out to be a good report, and a supportive report of the things that we're trying to do as a firm. I don't know, Mark, whether you want to add anything to what I've just said?

Mark Zinkula: Yes. I guess I would just encourage everyone to look at this topic as comprehensively as possible and focus on facts. Things can be alleged at any time and how the press chooses to portray it we can't control. But we have an outstanding culture in LGIM. It's something that we take pride in, we know it drives absolutely everything in our business. Every aspect of our business. It's what we're primarily known for I think with our brand in the marketplace. And situations like this are actually really unifying for the employees.

I spent much of the last couple of weeks, most of the last couple of weeks, talking with employees and clients, and it's just been an extremely supportive, understanding situation. Not to say we don't have situations that come up, not to say that... There's always going to be issues in a large organisation, like Nigel mentioned, and we'll continue to address them within the control framework that we have, and in this situation I think it acted the way it was intended, to do independent investigation and try to bring closure to the activities that were alleged.

Nigel Wilson: Okay, thank you Mark. Jeff, do you want to just go through the lifetime mortgage...

Jeff Davies: And the dividend.

Nigel Wilson: And the dividend, yes.

Jeff Davies: Yes, the lifetime mortgage... We're not going to give any more on the numbers. You can't just look at it at the deferment, you have to look at how do you structure it and the SPV etc., how does it flow through MA to get your total capital implication. So we're perfectly happy it's not material to group capital and there's others that will be worse off than us on that number. So we don't need to colour that further, we don't think.

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The 10% versus 7%, well we made a pretty clear statement about sustainable medium term 7%, and we've only done it once. So it probably would make sense to have a record if it's sustainable medium term of doing that. There's no magic number about the 10% versus the 7%, and I've said a number of times we look at the whole range of metrics, we don't just look at earnings.

And we use some of that headroom for investment, we look at what else we can do with it, and we look at Solvency II, we look at our capital position, we look at our cash position. We look at earnings on other basis. How much are we generating? So there isn't a magic between the two on those.

Kerrigan: I can give you a slight better figures then. Just in terms of H1 gross new investment for direct investment in the portfolio was just over 700 million. Obviously CALA was over 300 million of that. Net new investment round about the 500 million level or just over the 500 million level. As Nigel said, we've certainly got the team, the quality, the capability, the bandwidth and the opportunities to keep exploring opportunities at that rate, so that would be the rate of opportunity discovery. Precisely which ones we'll do and when, it will inevitably be a little bit lumpy.

Nigel Wilson: Okay. Just work our way round...

Andrew Baker: Hi. Andrew Baker, Citi. Just two questions please. So first one, in a growing bulk market you've seen some competitors do some larger longevity transactions. You've got your seven billion second half pipeline. Are you seeing any longevity reinsurance capacity concerns, either this year or just your longer term outlook, on the capacity there? And then secondly, you're obviously further down looking at IFRS 17. Are you in a position to give an updated view on what you see high level potential impacts on that? Thank you.

Nigel Wilson: Okay. On the longevity we've seen no capacity issues whatsoever, so we're very happy with the relationships we've had. In a certain sense, in the protection market we've seen no capacity issues at all for the last 25 years and so we've been doing it on one side of the business and on the other side we're absolutely fine. Jeff, do you want to take the second question?

Jeff Davies: Yes. IFRS 17 we're doing lots of work. We're comfortable, as we've said before, that actually has limited impact in terms of back book versus new business profits etc., because of the way it works. But it's a reasonable distance off and all the latest debate is: Is there 11 or 14 issues that need to be changed? So which version of IFRS 17 and when it's coming in is probably the question.

So our focus remains implementing efficiently, not burning money trying to bring something in until we get enough clarity, but being far enough advanced in improving our technology so that we can implement it. But, yes, we're not nervous about the accounting implications at this state, and we wait for more clarity to talk about it when we get there.

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Nigel Wilson: I think we have four more questions here, so if there's any more than the four questions here, can people put their hands up? Because I think we've got four more questions here to answer. Four more multiple questions.

John Hocking: Morning. John Hocking from Morgan Stanley. Got three questions please. First on annuities. Can you talk a little bit about how you're pricing for longevity? You're actually already taking CMI16 into pricing for new business, or actually we've moved even ahead of CMI16. That's the first question. Secondly, could you give us an update please on what's happening with L&G Homes? Is that up and running? Are you still test manufacturing or are you actually full launched there?

And then finally, just on lifetime mortgages. You've obviously built fantastic origination capacity there very quickly. Is there an outcome from the PRA review that makes it less attractive for backing the annuities? And is there actually a role for it in the balance sheet even if it's not actually that interesting any more from an annuity perspective?

Nigel Wilson: I'll answer the third one, which is no. I think Jeff made that point earlier on in terms of lifetime mortgages. They remain incredibly attractive for us anyway in terms of the back books accounts. I don't know about our competitors around that. If Kerrigan answers two and you answer one, Jeff, if that's okay? Kerrigan on two?

Kerrigan: Just on modular homes, well I'm sure we all know the strategic reasons for being there. Anybody in residential house building as part of a real assets portfolio needs an answer to the significant skills shortage we already see on building sites around the country. That's getting worse. You might be thinking Brexit, but aging demographic in the workforce on site is a very significant feature there.

So you need an answer to address that skills shortage as we go from 200,000 to 300,000 houses, and taking that construction offsite and putting it in a factory and doing 80% of the build there makes a lot of sense from a strategic rationale. We are already producing live houses that people will live in, with the first full houses now on our Butler's Park site in Crowthorne.

Jeff Davies: On longevity and pricing, obviously for PRT business in the UK we reinsure a vast majority, but the more important question is what are the reinsurers doing. We continue to see very aggressive terms. We think they're already being forced, because of competition reasons, to factor in a lot of this slowdown in longevity improvement into their pricing, so that naturally flows through in that.

Obviously for the individual retail annuities, we are very careful in anticipating where we think the basis will be. And Chris wants to be more aggressive. He still knows he's only going to be reporting it on what we've implemented by the year end. So we have to balance that at any point in time.

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Dom O'Mahony: Thank you. Dom O'Mahony, Exane BNP Paribas. Three questions from me, all on PRT. The first is, so 2018 is going to be a great year in terms of [unclear] for the market. You're excited about H1 2019. And I think we all understand those are the structural drivers. What I'm trying to get my head around is whether the recent dramatic improvement in funding positions is creating a surge in 2018, early 2019, which will then settle down and then revert to a long term growth. Or whether actually you see this as a step change.

The second question on pricing. It sounds like H2 is going to be dominated by very large ticket items. Does that affect the pricing dynamic and the capital strain dynamic? Or actually would you expect it to be similar to last year? And then finally in terms of pricing and capital strain on non-UK business. Are there any different dynamics there that we should be aware of? Thank you.

Nigel Wilson: Yes. The markets are so big, and as more deals get done and our capacity to do more deals and bigger deals has increased, by definition our clients have... Some of them have five, ten, 15, 20 billion that they want to do. We've done bits of that so far. Some of it's definitely repeat business with existing clients. We do have 400 billion of LDI business that we've done in previous years, so the hopper is enormous and we've created a similar hopper, as you know, in the United States.

We knew coming into the year end, that's why we had all that DI, that we were going to have a very busy year. To be fair, it's a bit busier than we thought, but it's still within the parameters of being... The direction of travel's the same. I think people are thinking that the market could go from 20 to 40 billion in any given year, and there's still a few back books to do, so there's an utter shortage of demand from clients.

There's a similar picture in the United States. There's a very full hopper of things that need doing. We can't be absolutely certain, but certainly 2019, the first half of that which we have reasonable visibility on already, is also very busy for the deal team. Do you want to add some colour on the pricing and capital, Jeff?

Jeff Davies: Yes, it isn't just large tickets. We have a number of deals that we're in these discussions on, and the dynamics change all the time on the pricing. Sometimes people see a big deal as really attractive, they really want to do it and they're less interested in the smaller deals, and the smaller deals look more attractive to us. So it does move around quite often, which is a tricky one to explain to the board actually. You tell them one strategy and then it's another.

And then in terms of the non-UK, the dynamics are pretty similar. We ourselves are very conscious of using economic capital in our pricing for that, so in terms of return hurdles on economic capital, they are very similar. We're newer to the market, so we're therefore a bit more wary on what we report to make sure that we are... We're just being slightly more conservative on that. But in terms of return targets and economic profit, they're similar.

Nigel Wilson: I think one of the other lucky things we've got, we've got the likes of Simon Gadd and Tim Stedman who've been around forever. And having been up and down the cycles, we all lived through...

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We've got long term knowledge of the way the markets have moved. So rest assured, their heartbeats never get over about 65 when they're discussing any of this stuff, and so we're very measured in our approach and never get overly excited about the stuff at their level.

I get a bit excited about it, and Jeff's starting to get excited. And of course Kerrigan's been with us a long time and worked on the LDI business for a long time as well. So there's a great team, there's a very experienced team that are dealing with all of these issues. Three questions to go.

Abid Hussain: Hi, it's Abid Hussain from Credit Suisse. Just two questions if I can. Firstly, coming back to PRT. Why do you think the PRT deals have been skewed towards H2 this year? Is there something peculiar going on during H1? And then what proportion of deals in exclusivity do you typically close? Is it 100%? And then second question on direct assets. How are the yields on your liquid assets tracking relative to traded assets? Have you seen any compression or are they stable relative to last year?

Nigel Wilson: Yes, I think the answers to all of those things are positive, and so the... We've got a great origination capability in DI assets, so I'm very happy with all of that. Anything else you want to add, Jeff?

Jeff Davies: Yes, there is. I don't think there's anything magical about H1 versus H2. Deals take a while to land. There's a lot of discussion that needs to go on. So I don't think there's anything there. As Nigel says, we're already in conversations about things for Q1 19, and that could easily then move to Q2 19 etc. So I don't think there's anything magical there. Yes, percentage exclusivity...

Nigel Wilson: We had ten deals last year, which at the beginning of H2 were exclusive and the team delivered all ten. So they were ten for ten last year. And I'm sure that's the kiss of death, and I can see them all glaring at me and will give me a hard time tonight when this is all finished. But so far so good, and if there was a bit of wood around I'd touch it. But we usually have a very high conversion rate. Clearly there's some macro exogenous things happen which are outside our control or the client's control, then things tend to fall away. But they rarely fall away perpetually. They come back maybe 12, 18 months or two years later. Barry?

Barry Cornes: Morning, it's Barry Cornes at Panmure Gordon. I've got three questions if I may. First of all, back to the lifetime mortgages. I think you talked about to market of six billion by 2020. Just wondered if that's a slowdown? I thought maybe Steve Ellis may have given a bigger figure. I wonder if that's related to the consultation paper. So your outlook on lifetime mortgages please.

Second question, early June when you had the capital markets day there was about to be a launch of a retail savings campaign. That seems to have gone relatively quiet. Just wondered if you could comment on that please? And thirdly, on the GI side, obviously talked about weather in Q1 but I just wondered if the escape of water claims from previous years have, forgive the pun, but have dried up?

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Nigel Wilson: I'll let Cheryl answer the third one. Mark if you want to answer the second one. On the first one, Steve Ellis is my sort of guy. My sort of guy. You've got all the compliance people who just give you a hard time about future projections, so you always have to err on the very cautious to prudent side, but I think the market could be a lot bigger going forwards, and certainly the FCA have been encouraging that, and the Treasury encourages that as it's very good for the economy. I think there's 2,000 agents out of the 7,000 agents which are trained to sell the product who are actually selling the product so far, and if Chris and the team could just get out and do a bit more hustling then clearly we would have an even bigger and more successful business going forward. Cheryl, do you want to go next and then Mark?

Cheryl: Just on escape of water. So it's an industry wide issue. It's a peril, just like theft and fire. Last year we had a higher number of claims than we anticipated but we are pricing them at the right levels and choosing the right risks.

Nigel Wilson: Okay. Mark?

Mark: We didn't intend to have a big bang approach to launching our direct investment business, but we did launch it with a new ad campaign, Own Your World, which you saw some of the... I'm sure you've seen it around town and you've seen it earlier in the presentation slides. So positioning our brand in the marketplace, adjusting pricing on some of the existing funds. Launching some new funds, especially some of the more thematic future world funds in that range. Improving the customer experience. Tracking metrics more effectively. We're seeing some really positive trends. Alan and I were just talking about this this morning. And there will be another series of ads and so forth in September. So there will be a series of steps that will continue to occur over the next year and on an ongoing basis. So very much looking at this in that context, not just a big bang one time launch.

Nigel Wilson: Okay, thank you. Saving the best for last.

Ashik Musaddi: Hi Ashik from JP Morgan. Just a couple of questions. Jeff, you mentioned about warehousing assets for the expected volumes. Can we just get some thought on how does the mechanic for the profit booking work? So are the warehousing assets in LGR currently earning profits in LGR which are moved to the new business? Or how do the mechanics for the profit booking work for warehousing assets for future business? So that would be good.

The second one is, LGIM assets, you still see very strong positive flows. 12, 14 billion in the first half. Having said that, you have lost around 30 billion of assets in index funds, which is one of your core business, whereas we always hear as an analyst that there is a massive shift from active to passive. So what is the dynamic not working here in UK? Or is it that some of your index fund is moving towards structured solutions, something like that? Any thoughts on that?

Nigel Wilson: Okay. Mark, do you want to take the second question, Jeff, do you want to...

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Jeff Davies: Yes. The asset one's relatively straightforward. We basically haven't allocated it to back the annuity portfolio therefore the warehouse simply sits in the balance sheet at the market value in the annuity business and we allocate that to back it and flow through the IFRS either in new business surplus where we put it or if we flow it into the in force, it comes through as an investment variance. So we haven't allocated that yet, we're not taking account of those yield uplifts compared to the underlying portfolio.

Nigel Wilson: Because we designate business that we know we're probably going to get, we don't have to book the profit. So that's why we carry it as a positive but non-books DI gain. So we physically know which deals were highly likely, so we align them to those deals pre the year end, and it's always been our policy to do that. Mark?

Mark: Yes, with regard to the index flows. So looking back at where this business started, it was predominantly in UK DB equities, and obviously that's in structural run off as those plans are de-risking, and so that's what's driving and has been driving for a while the sustained net outflows in our index funds. Not every year, but frankly most years since I've been in the job. But meanwhile those clients are going into a broadening range of LDI solutions.

Our percentage market share has gone up from low twenties to around 30%, so you can think of that as a shift out of equities into a broadening range of LDI solution strategies, ultimately into some kind of buyout situation if they can afford it and want to do that. Then meanwhile, we are growing our index business in all other channels.

So we're seeing positive net flows in other channels in other regions. The core building blocks for our multi-asset products which would show up as multi-asset solutions, but they're building blocks for those products. But we do have to accelerate the growth in these other markets and channels to offset what will be continued structural outflows in the UK DB equity space.

Nigel Wilson: Okay, thank you very much. I'd just like to echo one of the points Mark made. We have a multi-asset team which has just done a tremendous job. Emiel, John and the rest of the team have just done a great job, and of course they have a huge opportunity because there's tons of white space to expand into. And Mark's done a great job leading the diversification of the portfolio. If we'd just been in DB index we wouldn't be enjoying being a £1 trillion AUM company right now. So great credit to all of the team within that LGIM.

I'd just like to say thank you to all my colleagues yet again for their great efforts in H1. I'm amazed so many of them have been able to turn up for this particular presentation, they're not hard at work at their desks, and I'll be wandering round in about 15 minutes time just checking up on everybody. And thank all of you for your questions and your interest today, and we do remain confident about H2 and we'll see you all again in March. Thank you.