

Mark Gregory - Group Chief Financial Officer, Legal & General Group

Mark, this has been yet another really successful half year, with key financials up right across the board. What have been your highlights?

Yes, I'm very pleased with the financial performance of the Group, so in headline numbers, the Group's net cash generation was up 16 per cent at £727 million, operating profits up ten per cent, profit before tax up 23 per cent, meaning our Return on Equity for the half year on an annualised basis was 20.4 per cent. So, very happy with the financial performance. From a capital perspective, our Solvency II capital surplus was £5.3 billion at the half year, representing a coverage ratio of 158 per cent.

You announced a new progressive dividend policy in March, what is today's interim dividend?

Well, clearly, we want to reward our shareholders through a progressive ordinary dividend, so we announced a new dividend policy in March this year. So it is a progressive dividend policy, which reflects the expected underlying medium term business growth within the organisation, represented by things like by the net cash generation and by operating earnings and, again, as we deliver good financial results, so we want to reward our shareholders. The board has decided that for the interim dividend, it would adopt a formulaic approach going forwards, so we will pay 30 per cent of the prior full year dividend as an interim dividend this year and going forwards. As a consequence, the interim dividend for this year is four pence.

The new Solvency II capital regime is now bedding down. How are you performing?

Well we are a very well-capitalised organisation. We recognise we are giving customers long term guarantees and commitments etc., so we need to make sure we have a strong capital base to make sure we can honour all those guarantees over time. So it's important to us to have a strong balance sheet. Our Solvency II surplus was £5.3 billion at the half year representing a coverage ratio of 158 per cent. On an economic capital basis our view of a one in 200 level of capital requirement we have 235 per cent coverage ratio at £8.1 billion in surplus so we have a very strong balance sheet and we want to maintain that going forwards.

Turning to your business divisions, Legal & General Retirement has had a strong first half?

Yes indeed. So annuity assets at the half year were up 18 per cent, at £51 billion, and we saw good flows in the first half of the year, so £3.8 billion of new annuity business in the half year - that's more than we wrote in the whole of 2015 in aggregate. In profitability terms, we had profits in LGR at 44 per cent at £406 million year on year, so really right across the board, very successful. Away from annuities, we entered the lifetime mortgage market last year and, already in this year, we're about 25 per cent market share in that market from a standing start in April last year. So, again, very happy with the progress we're making here in the UK. And outside the UK, we wrote our second US pension risk transfer deal, so, again, making progress in that very important market for us as well.

Do you agree that LGIM's performance looks pretty robust in what have been challenging markets for fund management?

Yeah, LGIM's doing very well. So LGIM's profitability in the first half, operating profit was £171 million, its total assets under management now are a staggering £842 billion. We think that makes it one of the top ten global fund managers by asset size, so it really is now a very, very large business in its own right. We saw £9.6 billion of external net inflows in the first half of this year, that was spread between the UK, US and other key markets around the world. So we really are making very good progress in that regard. In the DC pensions space, we've now got nearly £50 billion of assets for DC pensions of which £17 billion plus are on our Workplace Savings platform where we have over two million customers now through our auto-enrolment proposition. So very good progress at LGIM.

Legal & General Capital are becoming an increasingly important part of the Group. What achievements particularly pleased you in the first half of 2016?

Again, good operating performance at L&G Capital so operating profit up 17 per cent at £135 million, and within that, the direct investment portfolio within LGC is performing very well, so across the group we have £8 billion worth of direct investments, and £1.1 billion of that sits in L&G Capital - that's invested in areas like housing, infrastructure, and SME finance and that portfolio is performing very well. So again, we're seeing good progress as we invest more money into these direct investments, we would expect that to continue and increase going forwards.

Mark, going forward, how do you see the group performing?

Well I'm very confident in the prospects for the group. You know, we have a very resilient balance sheet, the strategy is very, very clearly laid out, so we've aligned the strategy to what we regard as being five very long-term macro growth drivers and, again, we would expect those things to play out over the very long term. So again if we execute well, our strategic thinking is very clear. We know the trends are in our favour, we just need to execute well year in year out and that's something this L&G team is very used to doing.