

# Goldman Sachs European Financials Conference

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Legal & General Group Plc  
7<sup>th</sup> June 2016

Mark Gregory  
Group Chief Financial Officer



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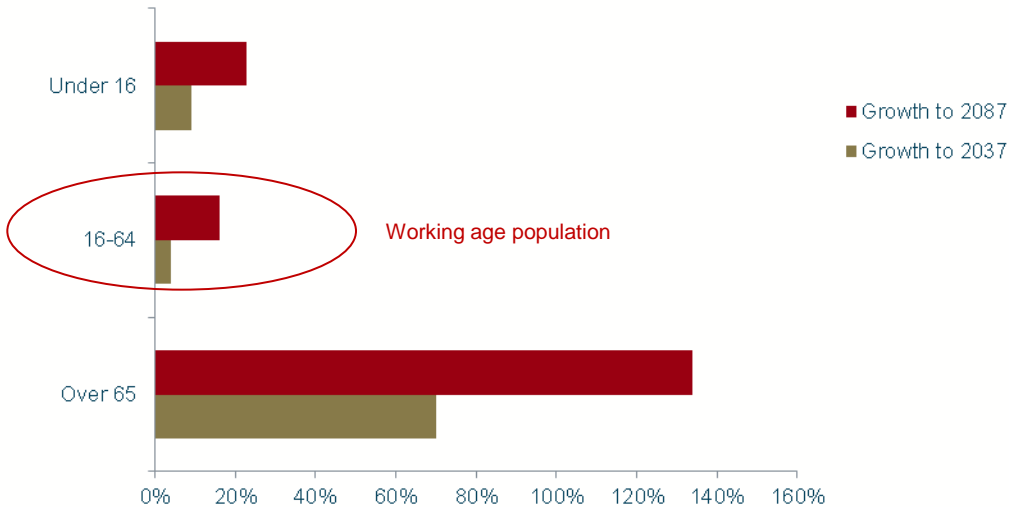
## Forward looking statements

This document may contain certain forward-looking statements relating to Legal & General Group, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc. does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

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# Ageing populations: UK and worldwide demographics trends undeniable

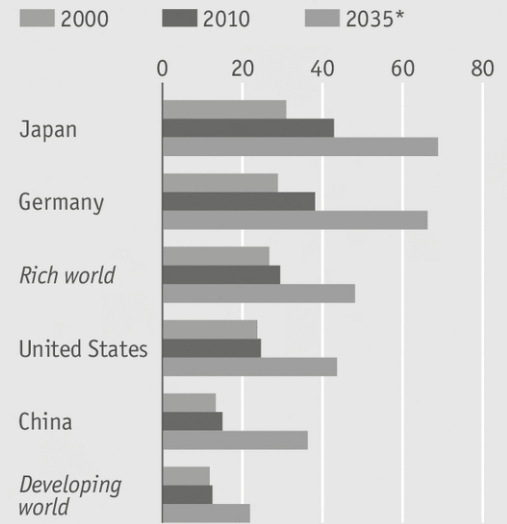
## PROJECTED UK POPULATION GROWTH BY AGE FROM 2001



Source: ONS 28 March 2014

## The big shift

Old-age dependency, population aged 65 and over per 100 people aged 25-64



Source: UN Population Division

\*Forecast

- In the 20<sup>th</sup> century the planet's population doubled - twice. In this century it will not double even once as birth rates decline steeply in much of the world
- The number of over 65s is set to double in the next 25 years
- Globally the ratio of old-age dependents versus working age population is rising rapidly: 16 people aged 65+ to every 100 working adults in 2010 rising to 26 by 2035

Source: The Economist: 'Age invaders' <http://www.economist.com/news/briefing/21601248-generation-old-people-about-change-global-economy-they-will-not-all-do-so>

## Ageing Population: Four Opportunities, Matching Skillsets

<b>PENSION SAVING</b>	<ul style="list-style-type: none"><li>• UK Workplace Saving: c 1.8m customers</li><li>• DC scale and expertise</li></ul>
<b>PENSION RISK TRANSFER</b>	<ul style="list-style-type: none"><li>• Liability Driven Investment</li><li>• Buy-ins and buy-outs</li></ul>
<b>LIFETIME MORTGAGES</b>	<ul style="list-style-type: none"><li>• Fast-growing business following 2015 acquisition</li><li>• £201m executed in 2015, £500m target for current year</li></ul>
<b>ASSET CREATION</b>	<ul style="list-style-type: none"><li>• Retirement housing</li><li>• Healthcare</li></ul>

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# Longevity Expertise and Customer Access

## **Longevity management**

- 29 years in the bulk market has given us seasoned longevity data and longevity expertise. We have 25 people dedicated to longevity research and analysis plus independent academic support
- Our longevity expertise, diversified business, financial strength, balance sheet size, client reach and structuring skills leads to excellent reinsurer relationships

## **Most extensive UK client reach**

- 6,300 UK private sector schemes, around 3,000 are already our clients
- Strong brand to drive DC and workplace – 10m existing retail customers worldwide
- We, uniquely, can offer clients all steps in pension derisking

## **Integrated asset management**

- Liability driven investment in its purest form
  - Global fixed income
  - Real assets and self-manufacturing
-

## Financial resilience for most families remains low

**9.61m (36%)**

Of households have no savings, whilst a further 3.47m (13%) have under £1,500.

**4.7%**

The average proportion of their post-tax income, UK households save.

**209**

People a day are declared insolvent or bankrupt – equivalent to one person every 7 minutes.

**6,323**

New debt problems dealt with every working day by the Citizens Advice Bureau.

**£2.551 trillion**

Anticipated household debt in Q1 2021, with an average of £95,532 per household.

**£163 million**

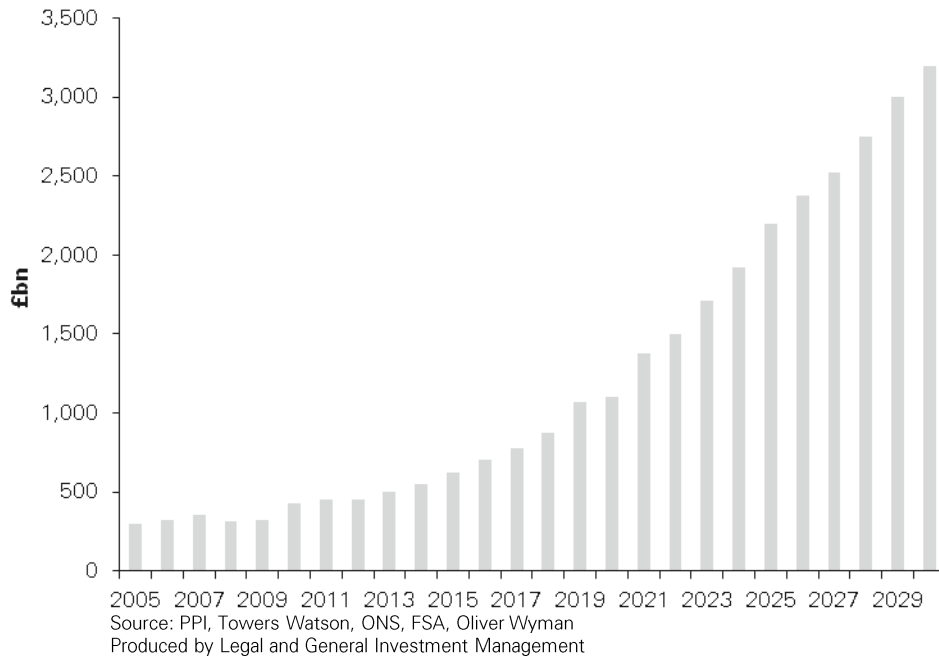
Increase in net lending to individuals per day.

**15,400**

Owner-occupied properties taken into possession in the year to June 2015.

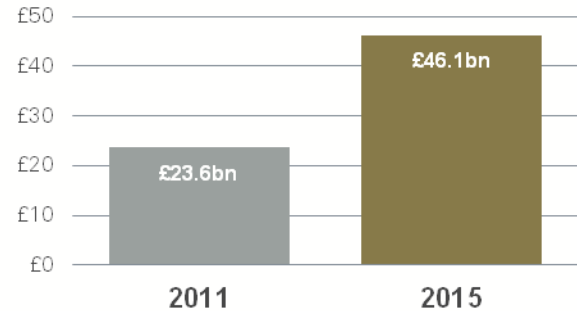
# Auto-enrolment a huge success

## UK DC savings industry projections

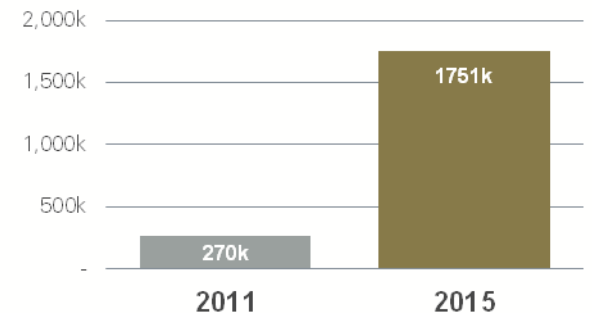


## Legal & General

### DC AUM



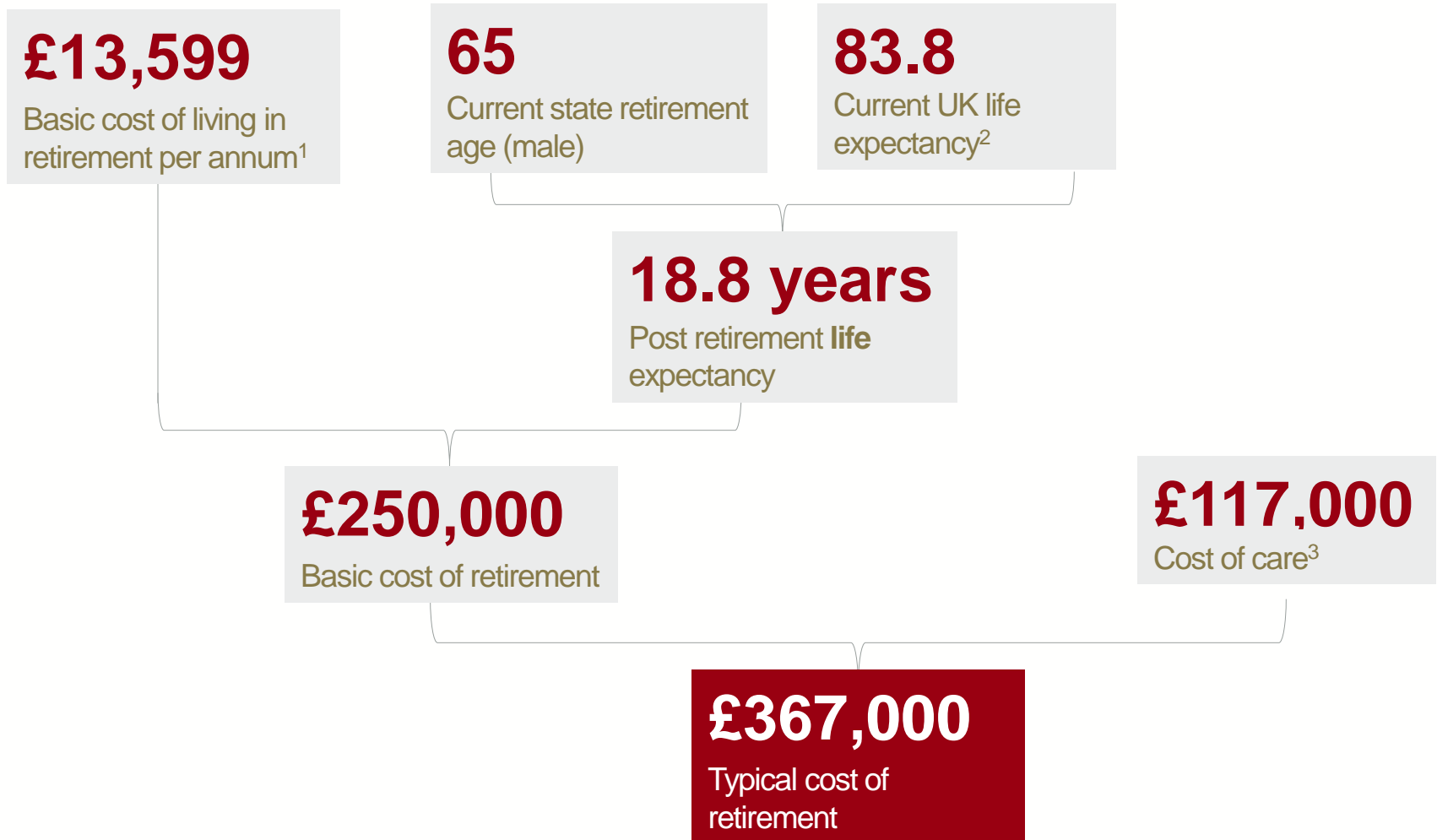
### Workplace Customers



- Auto-enrolment has been a big success in the UK with over 90% of employees choosing to stay in workplace schemes.
- Increase in DC savings driven by auto-enrolment, with 12 million individuals ultimately expected to be enrolled in workplace savings schemes, compared to c.5 million today.
- Currently we have 1.8 million customers, increasing to c.2 million customers by the end of 2016.
- Statutory minimum contribution rates will increase from 2% today to 5% in 2018 and up to 8% in 2019.
- Minimum contribution rates may have to be increased still further.



# Typical cost of retirement



Sources: 1. Joseph Rowntree Foundation – minimal acceptable standard of living equating to £261.52 per week

2. Office of National Statistics, life expectancy for a 65 year old male

3. Laing & Buisson Care of Older People, UK Market Report 2014/15 – annual cost of care (excluding nursing) of £29,250, 4 year life expectancy in care for self-funded individuals

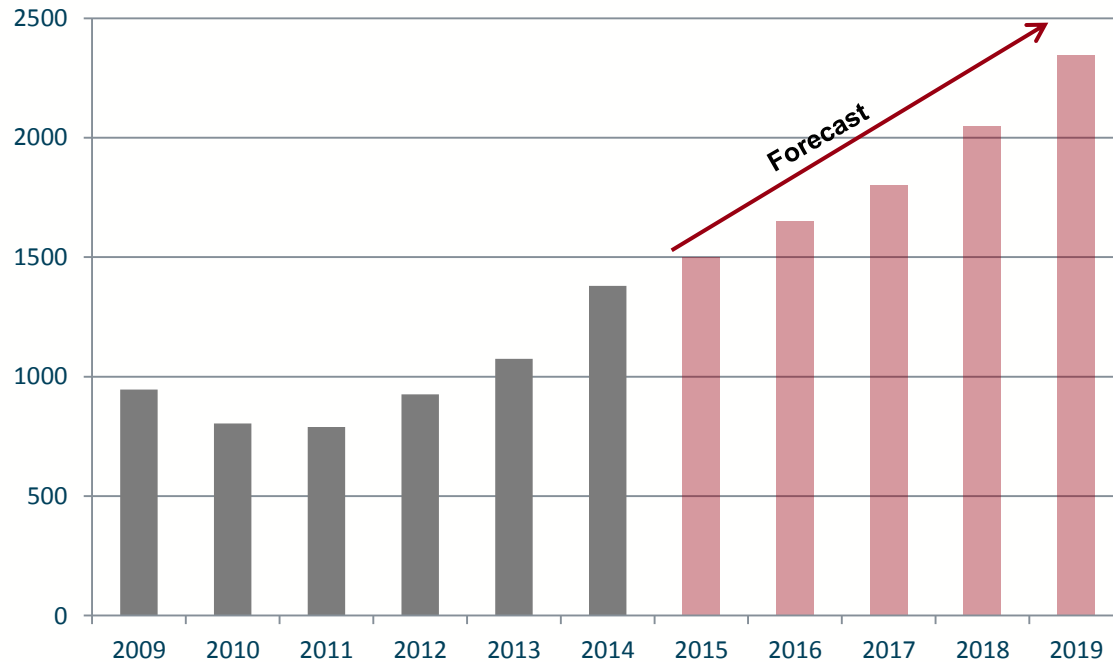


## 2016 personal balance sheet at retirement

	<b>ASSETS (£'000)</b>
Average house value	190
State pension, £155pw index-linked	200
Pension savings: Defined Benefit	50
Pension savings: Defined Contribution	30
Lifetime value of free bus pass, senior rail card, free TV licence from 75, winter fuel payment, Christmas bonus, free prescriptions	15
Savings	20
<b>TOTAL</b>	<b>c.505</b>

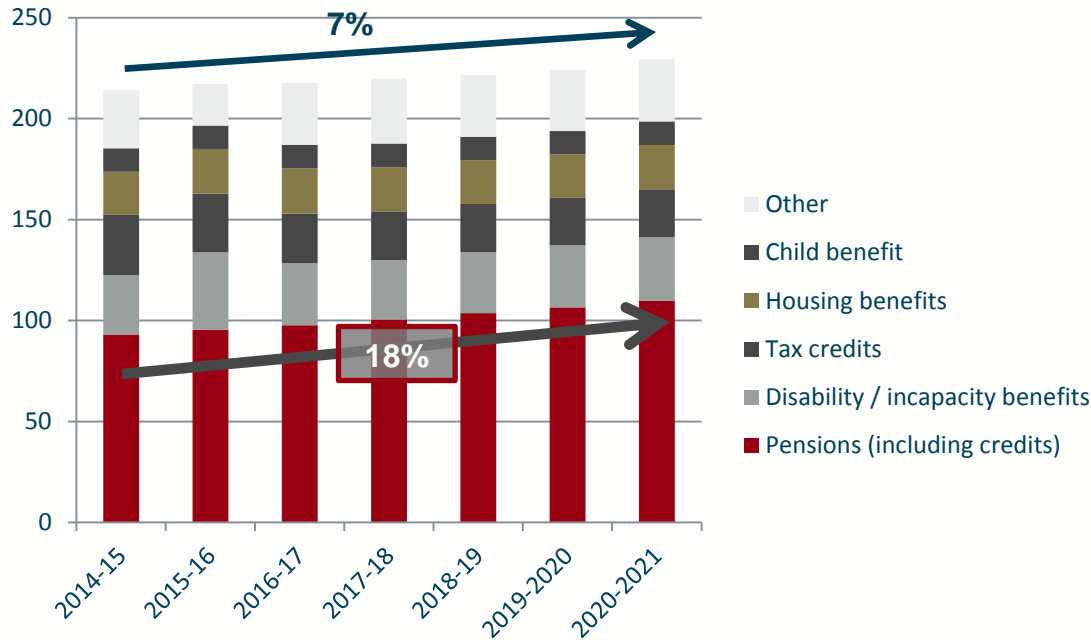
# Lifetime mortgages – an increasingly important source of retirement income

## Forecast new equity release advances



- The UK's population is ageing and the number of elderly people is expected to grow by 5.5 million between 2010 and 2030
- The equity release market grew by 29% in 2014
- The Lifetime Mortgage market is forecast to grow to over £2.3bn by 2019,
- Over 60s in the UK own nearly £1.3 trillion of housing equity giving plenty of scope for market growth

## UK Pension reform key to reducing welfare spend

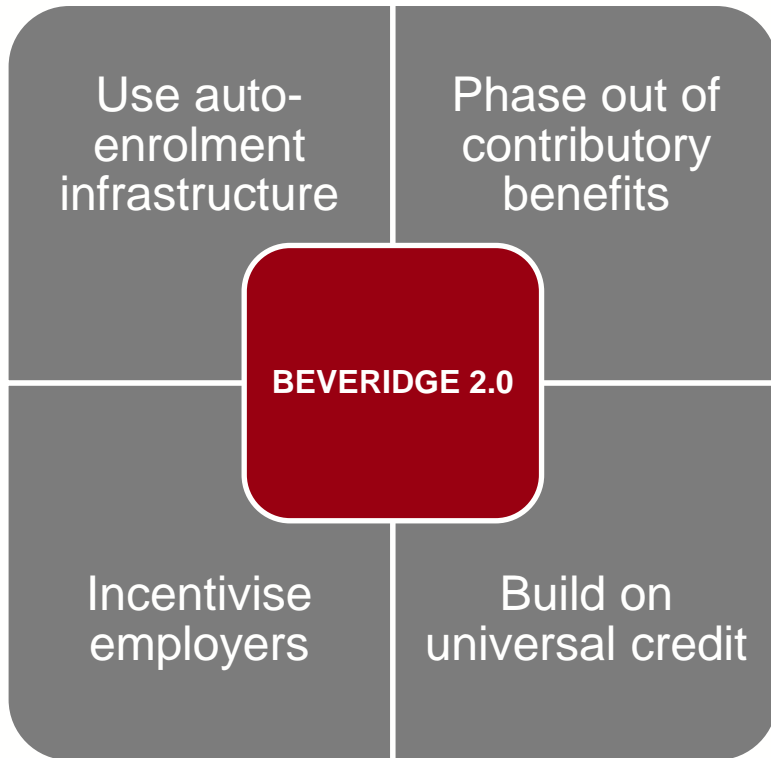


- Pension costs to rise 18% in next 7 years to £110bn by 2021
- 48% of all welfare spend compared to 44% today

- Introducing a flat rate of pension contribution tax relief at 25% saves UK government £8bn p.a.
- Polling shows 18-24 year-olds are increasingly likely to see welfare as a personal, not a State, responsibility.
- Private provision of pensions the key opportunity with emerging opportunities in private provision of unemployment, sickness and critical illness protection.

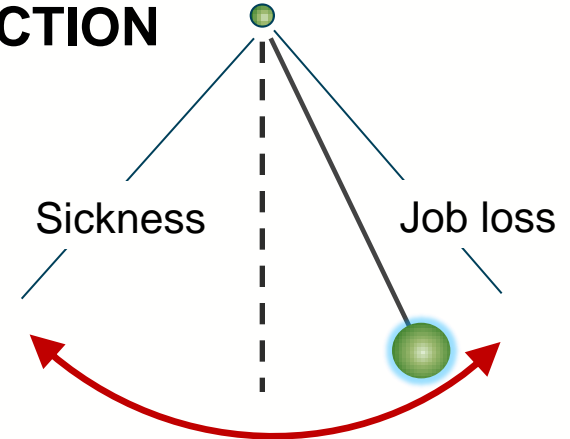
# Further opportunities to 'privatise' UK welfare

## THE SYSTEMS ARE ALREADY IN PLACE.



### PROTECTION

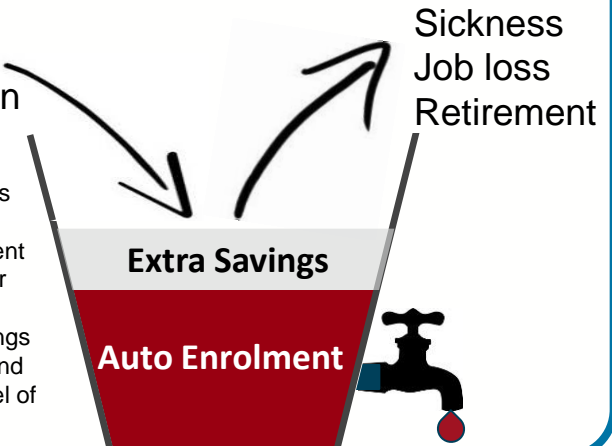
- The product can be designed to provide sickness and/or unemployment benefits
- Pays benefits in the event of specified circumstances



### SAVING

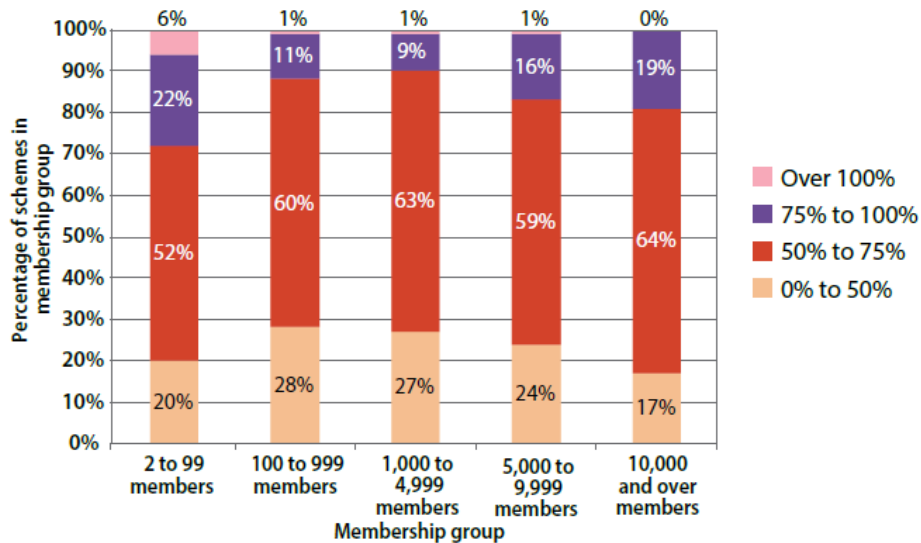
Extra AE Contribution

- Enhances Auto-enrolment benefits
- Ability to access savings in the event of sickness and/or unemployment
- Some of the savings can be used to fund a guaranteed level of benefit

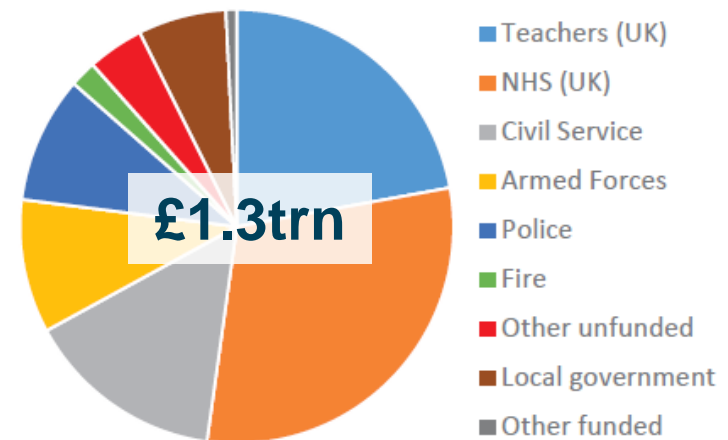


# Defined benefit pension schemes now a legacy issue hindering corporate growth

Distribution of buy-out funding levels by size of scheme membership<sup>1</sup>



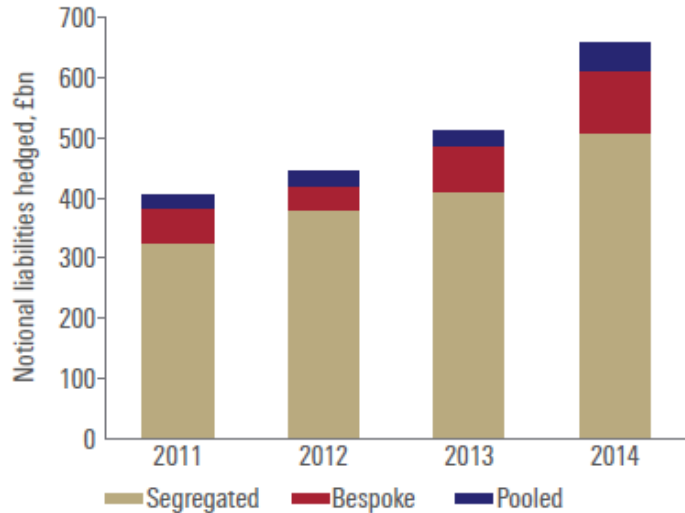
UK Government net public service pension liability<sup>2</sup>



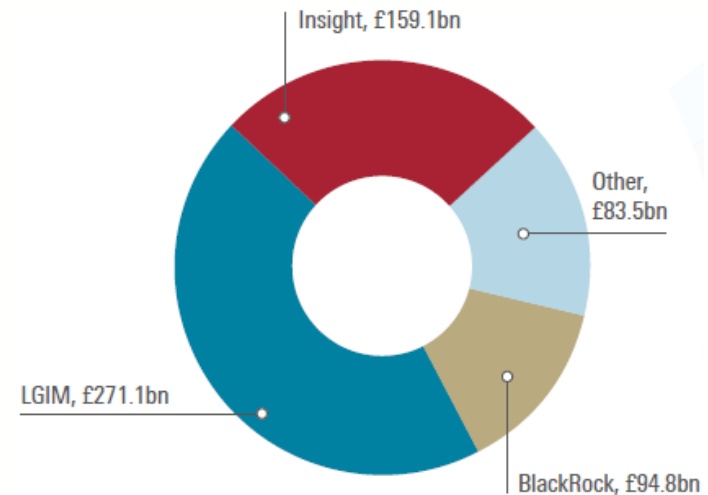
- Private pension scheme net deficit of c.£600bn.
- UK Government deficit of £1.3trn excludes state pension payments (i.e: total government deficit £2.6trn)

# Managing risk with Liability Driven Investments (LDI)

Notional amount of liabilities hedged for UK pension schemes



Notional amount of liabilities hedged by manager



## 67%

Of the UK's largest pension schemes have implemented LDI strategies with a further 10% expected to implement in the next 3 years

Source: Legal & general: 'De-risking journeys of large pension schemes'

# LGR: Nine sources of profit

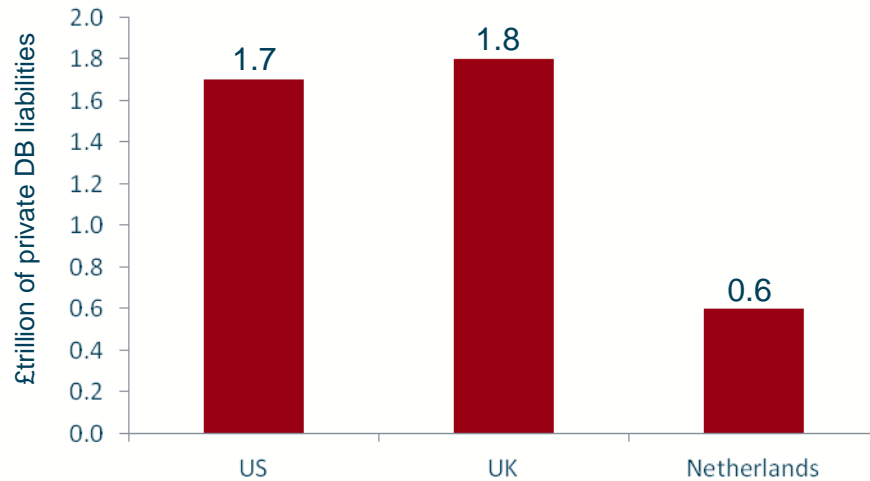
Capital characteristics

1	BACK BOOK FOR CASH	<ul style="list-style-type: none"> <li>£43bn annuity portfolio at Dec 2015 – generated £372m operational cash and £417m net cash in 2015; expected to throw off £10bn of undiscounted cash over 60 years</li> <li>Asset strategy being optimised with direct investments and lifetime mortgages</li> </ul>	S1-like release
2	BACK BOOK ACQUISITIONS	<ul style="list-style-type: none"> <li>Acquisition of £3bn Aegon UK back book, H1 2016</li> <li>Successfully completed £1.4bn Lucida transaction in 2013</li> <li>c.£100bn of UK individual annuity back books</li> </ul>	S1-like release
3	UK CAPITAL-LITE FRONT BOOK	<ul style="list-style-type: none"> <li>Evolving to meet anticipated demand, £2trn of DB liabilities in the UK</li> <li>UK's largest medically underwritten bulk annuity deal in Dec 2015, £230m for Kingfisher</li> <li>Further buy-in with ICI in excess of £300m</li> </ul>	S2 capital-lite
4	US PENSION RISK TRANSFER	<ul style="list-style-type: none"> <li>US has estimated \$2.6trn of DB liabilities</li> <li>First deal announced in Oct 2015 (\$450m) with Phillips US, first solo deal in Feb 2016 (\$65m)</li> <li>Utilising LGIMA's asset management and LGA's back office capabilities</li> </ul>	US RBC
5	LONGEVITY INSURANCE	<ul style="list-style-type: none"> <li>£5.6bn of longevity insurance deals completed to date</li> </ul>	S2 facilitating risk transfer
6	LIFETIME MORTGAGES	<ul style="list-style-type: none"> <li>£1.4trn of housing equity owned by the over 65's in the UK</li> <li>Long term illiquid asset creation for our annuity fund</li> <li>Entered market Q215, £201m written in 2015, on track for £500m target in 2016</li> </ul>	S2
7	GLOBAL REINSURANCE HUB	<ul style="list-style-type: none"> <li>L&amp;GRe A+ rated with S2 equivalence and registered reinsurer status in Netherlands</li> <li>European Pension Risk Transfer: First Dutch deal written in Dec 2015 for €200m</li> </ul>	S2 capital-lite
8	INDIVIDUAL ANNUITIES	<ul style="list-style-type: none"> <li>£327m written in 2015. Upside following industry consolidation</li> </ul>	S2
9	SECONDARY ANNUITY MARKET	<ul style="list-style-type: none"> <li>Entry in 2017</li> <li>Profit and diversification benefits</li> </ul>	S2

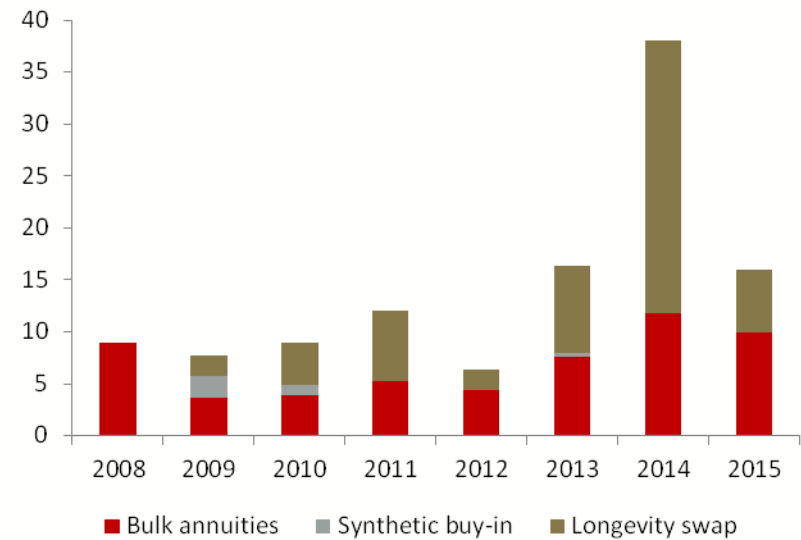


# Pension Risk Transfer (PRT)

Estimated size of major defined benefit markets



UK PRT volumes (£billion)

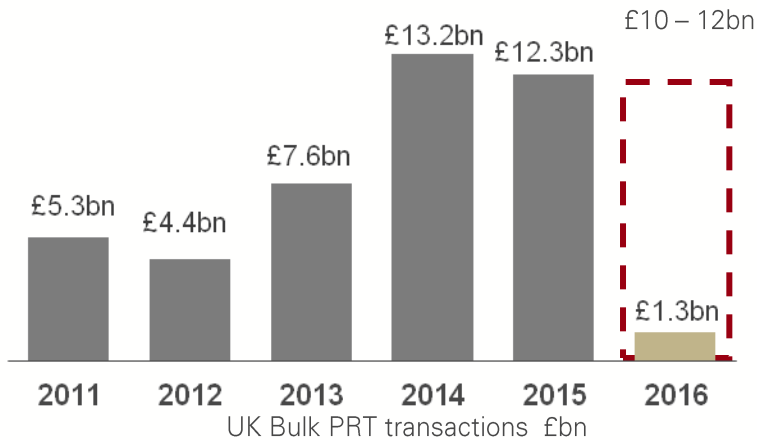


Source: Towers Watson Settlement Watch

- Nearly two-thirds, (64%) of large UK schemes are looking to arrange some form of insurance de-risking solution to cover their liabilities, rather than retain and manage the risk themselves;
- Nearly half, (47%) of interested schemes said that they were looking to arrange buy-ins or buyouts in the next 5 years; and
- Over two thirds, (67%) of schemes interested in longevity insurance, were looking to implement a solution in the next 5 years.

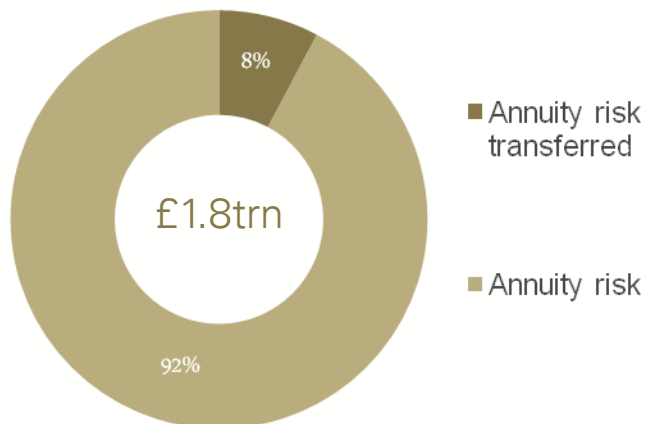
# UK pension risk transfer opportunity

## Annuity transactions



- UK derisking demand driven by:
  - DB schemes largely a legacy issue for corporates, most closed to new entrants and closed to future accrual
  - Distraction to management who want to focus on their business not on the pension scheme
  - No company benefits from over-funding
- Volume driven by affordability of the corporate to make up the deficit and transfer risk to an insurance company
- Funded status will improve with a rise in real interest rates, high equity values and deficit repayment plans
- UK only c.£140bn has moved to pension risk transfer so far
- Main competitors: Rothesay Life; Pensions Insurance Corporation

## Private sector defined benefit liabilities

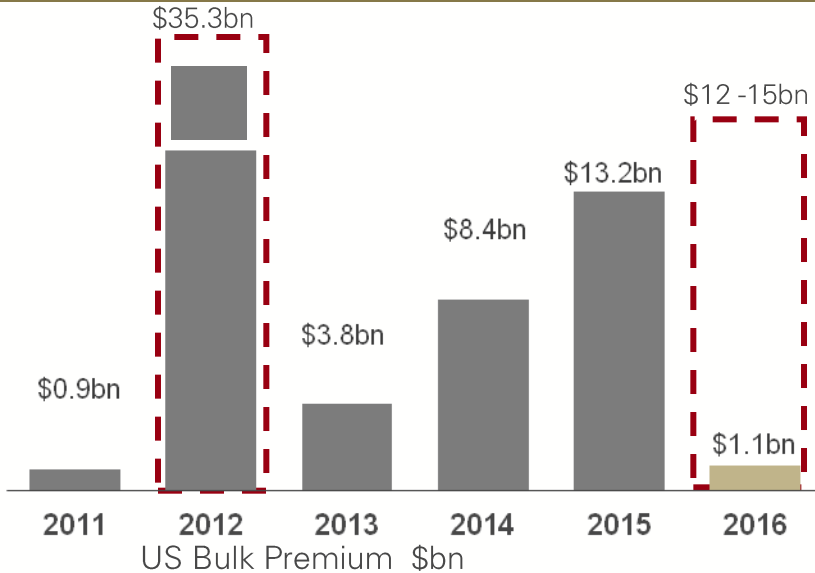


### Recent significant deals:

- In excess of £300m buy-in for ICI Mar 2016
- £230m medically underwritten buy-in for Kingfisher Dec 2015; UK's largest
- £2.5bn buy-out for TRW in Nov 2014; UK's largest
- £3.0bn buy-in for ICI in Mar 2014; UK's largest
- No change in approach post Solvency II implementation
- Reinsurance strategy in place for a number of years

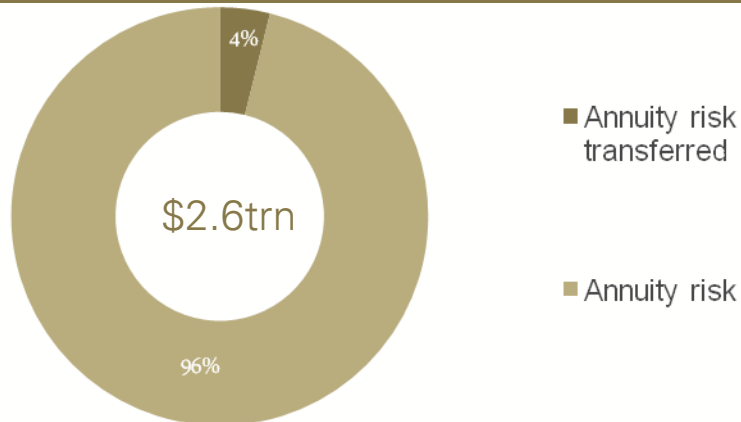
# US pension risk transfer opportunity

## Annuity transactions



- US behind the UK by several years in PRT market maturity
- US driven by same trends as UK, to the same conclusions
- However in the US, pension benefits are not linked to inflation, and so funded status will improve with a rise in nominal rates
- We have the same capital hurdle rate as UK
- US business uses equivalence under S2, which makes retaining longevity risk more attractive
- Main competitors: Prudential Financial; MetLife

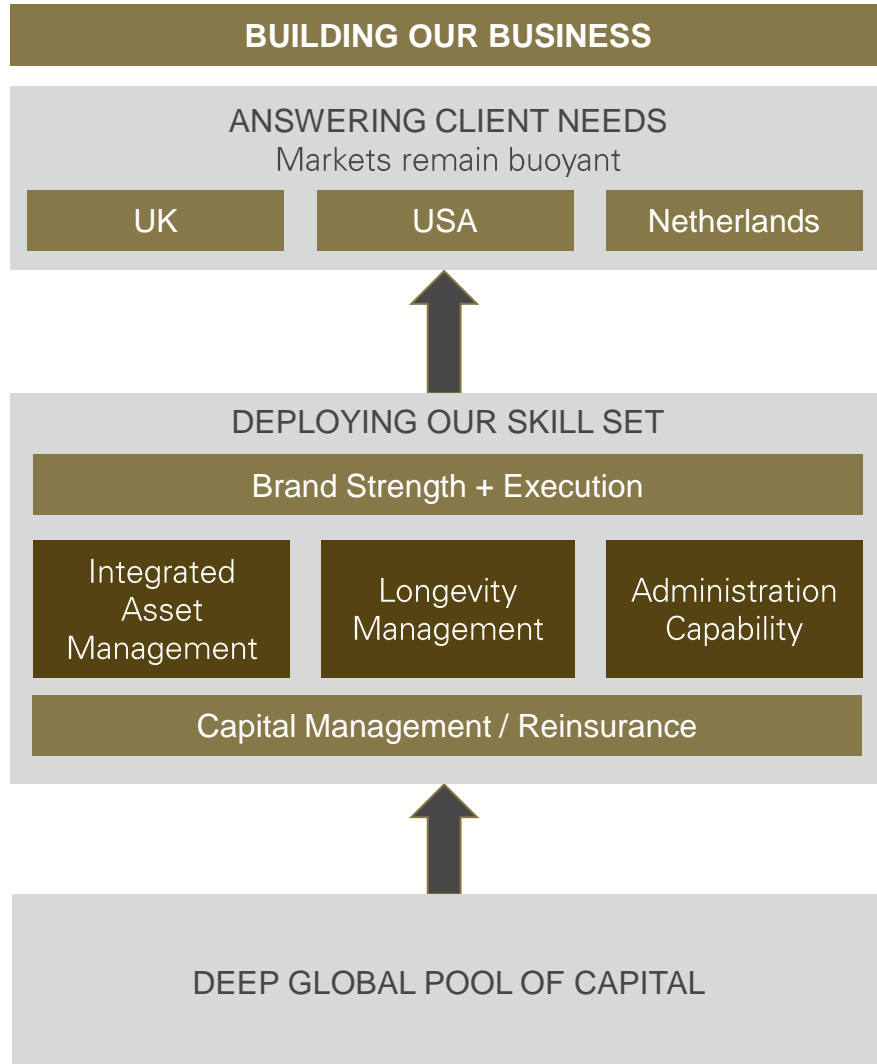
## Private sector defined benefit liabilities



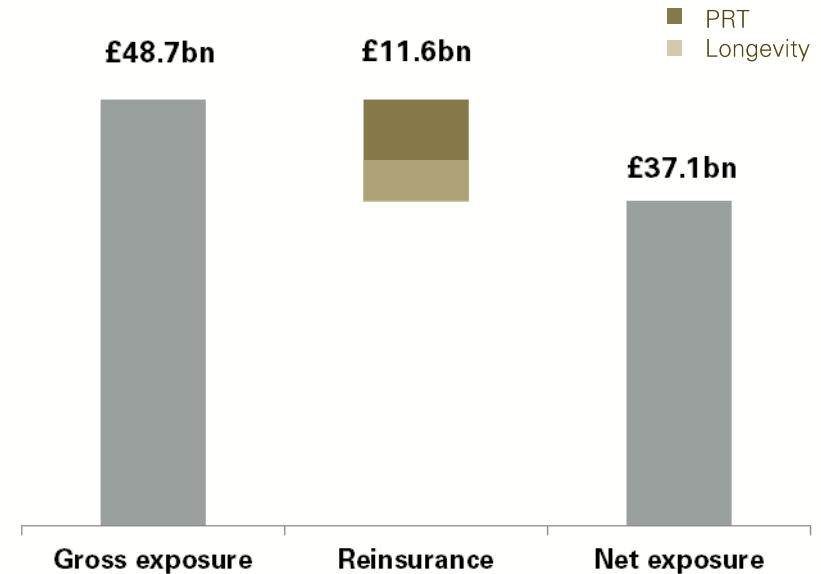
## Recent significant deals:

- First Legal & General US deal announced in October 2015 for Phillips US (\$450m)
- First solo deal in February 2016 (\$65m)

# Longevity reinsurance: our capital-lite strategy



## LONGEVITY EXPOSURE AS AT 31 DECEMBER 2015



- Reinsured £11.6bn of longevity risk over the past 5 years
- £3.8bn of longevity risk was reinsured with seven reinsurers during 2015; 11 on panel
- Less need to reinsure longevity in US as brought in on equivalence i.e. like the old model
- Increased level of capital in reinsurance market, currently estimated at £150bn\*
- Good quality disclosure and counterparty risk management key to PRA

\* Source: Lane Clark & Peacock

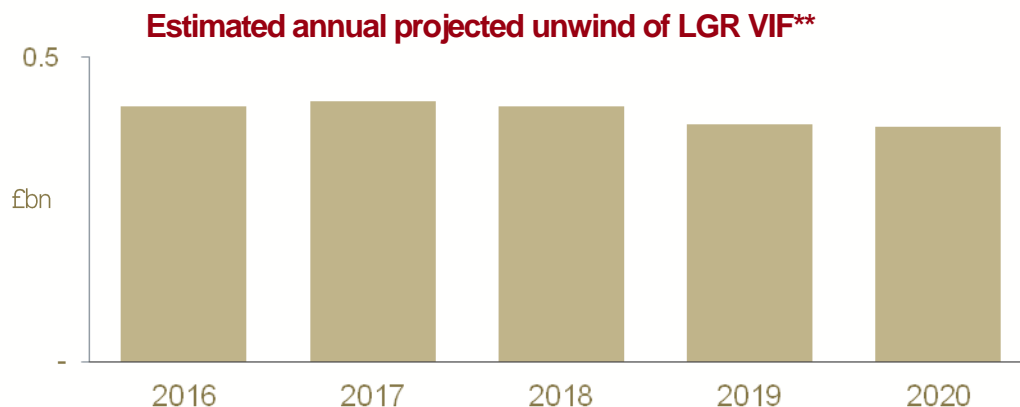
## Back book to deliver material profits for many years

Projected future cashflow before backbook actions*	Undiscounted 2015	Discounted 2015
LGR	c.£10bn	c.£5bn

£m	2014	2015	2016
Operational cash	292	372	
New business surplus	51	45	
Net cash	343	417	
Operating profit	428	639	

Further upside	- Direct investments	
	- Lifetime mortgages	
	- Default outperformance	

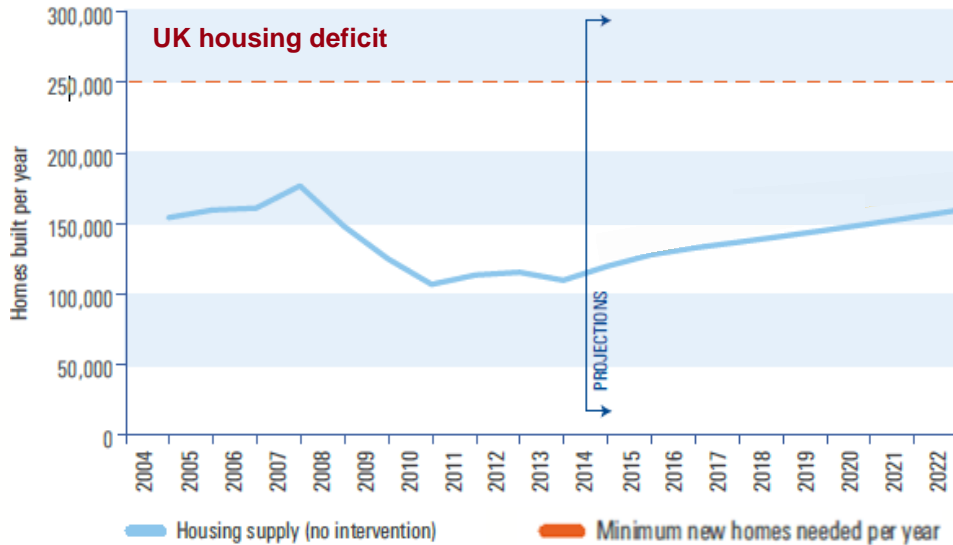
- High degree of predictability and visibility of monetisation of the back book.
- Annuity assets £45.5bn at 31 Mar 2016 expected to deliver material levels of operational cash generation and profit for many years.



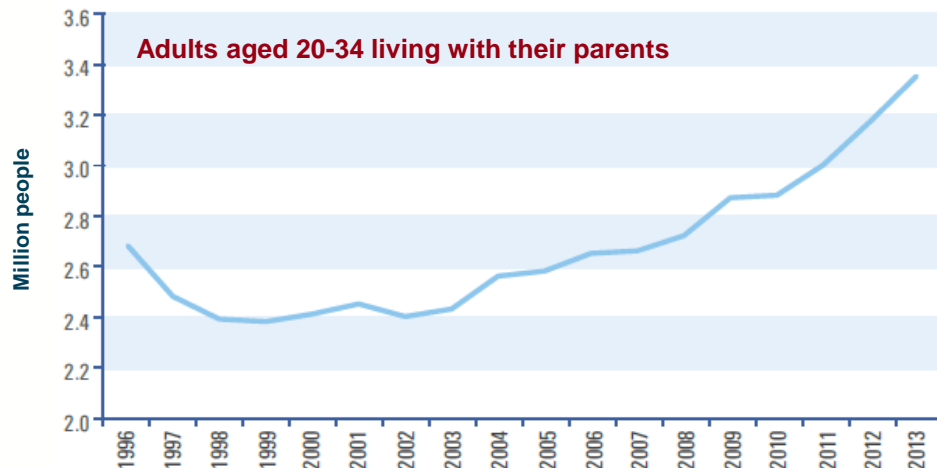
\* On EEV basis

\*\* Based on back book at 31 December 2015

# UK housing policy creating generational unfairness



- Each year we build 100,000 fewer homes than we need;
- The current system is incapable of delivering growth on the scale required;
- £15bn per annum of finance is required;
- We need to transform our dysfunctional house building system to create high-quality cost efficient homes across the spectrum including using modular housing

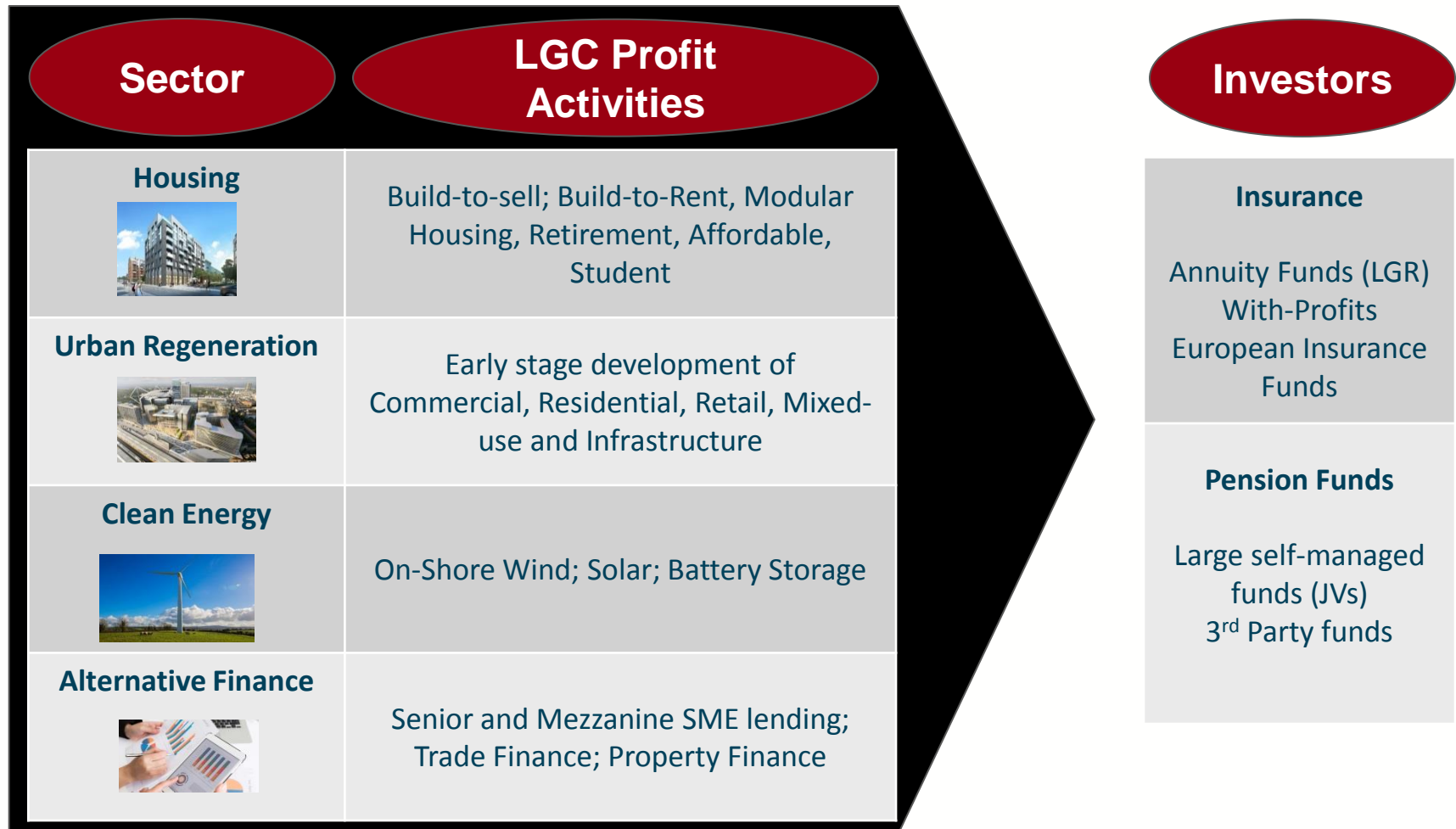


## £5 billion

Lent by the Bank of 'Mum and Dad', providing deposits for over 300,000 mortgages, purchasing homes worth £77bn in 2016.

Source: Legal & General: 'Bank and Mum and Dad' report

# LGC creating new assets for long term investors





## Legal & General Capital: Direct Investing Growth Opportunity

FINANCIAL HIGHLIGHTS	2015	2014	Operating profit 2015 (£m)
Net cash generation (£m)	187	162	
Operating profit (£m)	233	203	
LGC average assets (£bn)	4.2	3.9	
Direct investments	867	700	69
Traded portfolio	3,213	3,704	154
Treasury assets	1,585	718	10
<b>Total assets</b>	<b>5,665</b>	<b>5,122</b>	<b>233</b>

- Operating profit of £233m, up 15%
- Direct investments up 24% to £867m
- LGC delivers multiple drivers of value across the Group including generation of assets for LGR and new client revenue streams for LGIM

DIRECT INVESTMENTS	Investment (£m)	Operating profit (£m)	ROCE (%)
Housing	345	27	10.5
Urban Regeneration	346	31	8.1
Clean Energy	15	-	-
Alternative Finance	161	11	7.3
<b>Total direct investment<sup>1</sup></b>	<b>867</b>	<b>69</b>	<b>8.8</b>

TRADED PORTFOLIO	Investment (£m)	Operating profit (£m)	ROCE (%)
Equities	1,389	101	7.4
Fixed Income	143	19	4.3
Multi asset	133	13	5.3
Cash	1,548	22	1.5
<b>Total traded portfolio<sup>1</sup></b>	<b>3,213</b>	<b>154</b>	<b>4.4</b>

<b>Treasury assets<sup>1</sup></b>	<b>1,585</b>	<b>10</b>	<b>0.9</b>
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1. ROCE based on 2015 average assets

# UK Regeneration case study: £1bn. MediaCity UK

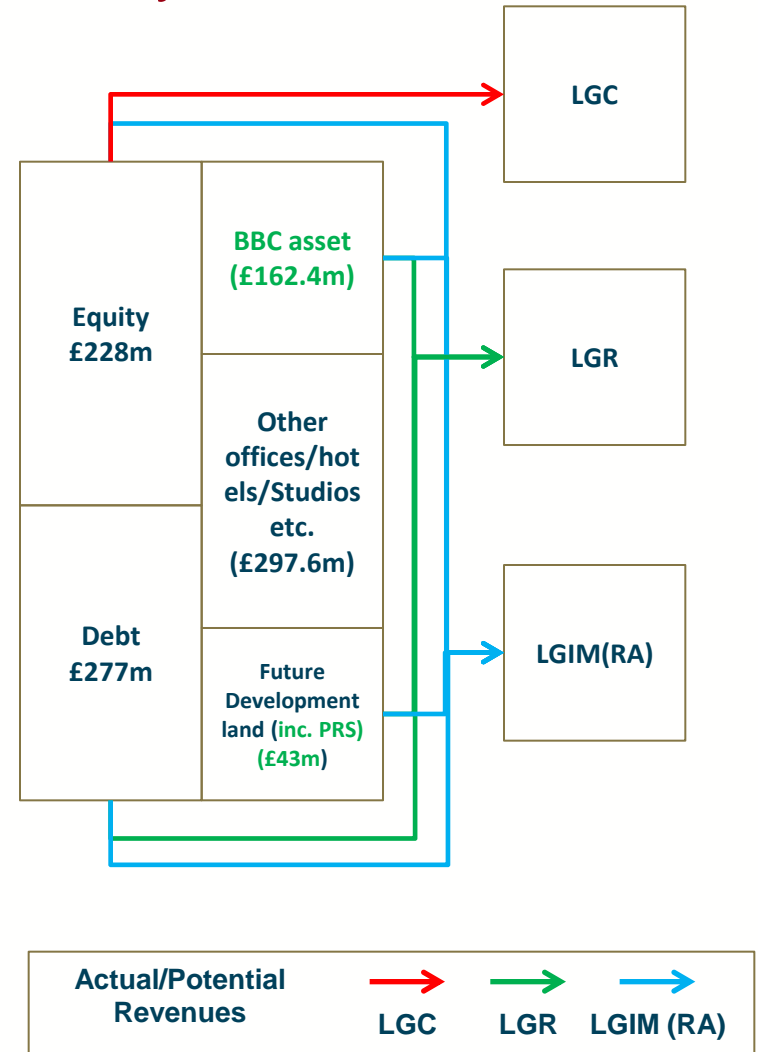


**SUMMARY**

MediaCity UK is 1.5m sq. ft. mixed-use scheme covers an area of c.35 acres and the largest purpose-built creative, digital and technology community in Europe. The developed estate is anchored by the BBC on long-term, indexed leases. Other tenants include ITV, University of Salford and Salford Council.

L&G acquired a 50% stake alongside the site's developers, Peel Group in **March 2015**.

The scheme has planning for further office, retail and leisure space, and 1,800 residential units



# Clean Energy Case Study: £700m NTR Joint Venture

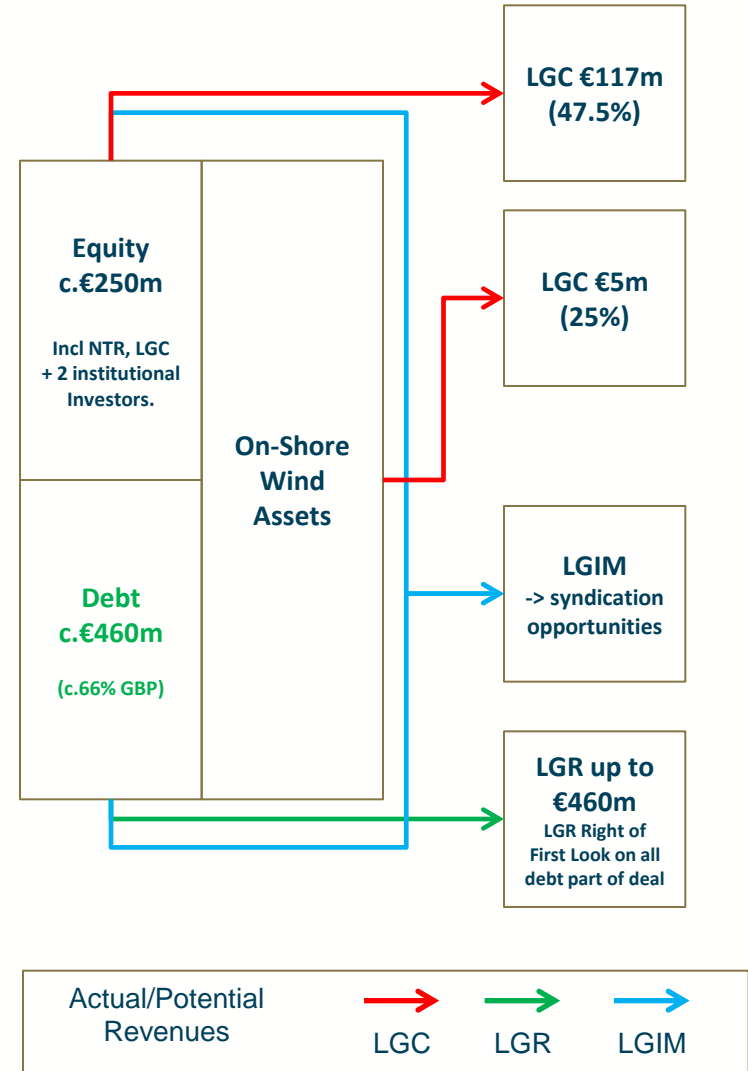


**SUMMARY**

€250m On-Shore Wind equity fund to provide electricity to power more than 100,000 homes and avoid 200,000 tonnes of CO<sub>2</sub> p.a. across the UK and Ireland.

LGC acquired 25% of NTR Wind Management in **December 2015**, jointly owned with NTR which will manage the first fund and future funds. NTR has committed €50m of its own equity into the fund alongside funds from LGC and pension funds.

The fund will provide equity to construct and operate onshore wind farms in the UK and Ireland, generating long term (>25 yr) cash yields for investors and debt finance options for €460m LGR



# A world full of opportunities 2015-2025

GROWTH DRIVERS	2025 AMBITION
<b>AGEING POPULATIONS</b>	<ul style="list-style-type: none"> <li>• 900 million over 60s today, 2 billion by 2050</li> <li>• Global pension liabilities in excess of c.\$9 trillion</li> </ul> <p><b>Ambition: International leader in pension de-risking</b></p>
<b>GLOBALISATION OF ASSET MARKETS</b>	<ul style="list-style-type: none"> <li>• Global asset markets c.\$78 trillion</li> <li>• Legal &amp; General share c.1% (\$1.1 trillion)</li> </ul> <p><b>Ambition: Double our global market share</b></p>
<b>CREATING REAL ASSETS</b>	<ul style="list-style-type: none"> <li>• Our integrated asset management business is uniquely placed to develop real assets</li> <li>• Positive constructive collaboration between Government, Regulators and the industry is developing</li> </ul> <p><b>Ambition: UK leader</b></p>
<b>WELFARE REFORMS</b>	<ul style="list-style-type: none"> <li>• DC business is a multi billion market opportunity, including US, China and Japan</li> <li>• European welfare model is not affordable nor exportable</li> </ul> <p><b>Ambition: International DC business</b></p>
<b>DIGITAL</b>	<ul style="list-style-type: none"> <li>• Fintech to date has been disappointing in insurance</li> <li>• Substantial friction costs will be reduced as our industry becomes more efficient including insurance and asset management</li> </ul> <p><b>Ambition: Leading digital player in insurance</b></p>