# LEGAL & GENERAL - MULTIPLE OPPORTUNITIES AND MANAGEABLE RISKS.


## MORGAN STANLEY
## 26 MARCH 2014

EVERY DAY MATTERS.

# FINANCIAL HIGHLIGHTS.

1. Net cash generation up 16% to £1,002m (2012: £865m)
2. Operational cash generation up 9% to £1,042m (2012: £958m)
3. Operating profit up 7% to £1,158m (2012: £1,087m)
4. Profit before tax up 10% to £1,134m (2012: £1,033m)
5. Profit after tax up 12% to £896m (2012: £798m)
6. Earnings per share up 10% to 15.20p (2012: 13.84p)
7. Return on equity 16.1% (2012: 15.4%)
8. Full year dividend up 22% to 9.30p per share (2012: 7.65p per share)
9. Net cash dividend cover 1.8 times (2012: 1.9 times)

# STRATEGIC & FINANCIAL EVOLUTION.

| | 2009 AND ONGOING | 2012 | 2013 AND BEYOND |
|---|---|---|---|
| | **CASH: CERTAINTY AND SUSTAINABILITY** | **CASH + ORGANIC GROWTH** | **CASH + ORGANIC GROWTH + SELECTIVE ACQUISITONS** |
| **STRATEGIC PROGRESS** | • Industrialised and automated processes<br>• Cost of new business reduced<br>• Capital efficiency increased | • Identification of five key macro drivers of growth<br>• Banks and governments excessive leverage create 'white spaces' to expand into<br>• No burning platforms | • Continue to accelerate growth in flow to annuities, direct investment and LGIM<br>• Six bolt on acquisitions<br>• Measured international expansion<br>• Increased digital capability |
| **ORGANISATIONAL PROGRESS** | • One firm with shared culture, beliefs, values<br>• Every Day Matters | • Expansion of key roles - improving talent<br>• Strengthening our social purpose | • Five major profit centres in our new operational structure<br>• Becoming a destination for talent |
| **OUTCOMES** | • **Net cash: 213% growth**<br>2008: £320m<br>2013: £1,002m<br><br>• **Dividend: 129% growth**<br>2008: 4.06p<br>2013: 9.30p | • UK Individual annuities up 26%<br>• UK Protection up 25%<br>• US Protection up 28%<br>• Direct investments £1.4bn<br>• Workplace net inflows £1.6bn | • LGIM International AUM: £59bn<br>• UK longevity insurance: £5bn<br>• UK Savings Assets: £109bn including Cofunds acquisition<br>• Direct investments: £2.9bn<br>• 1.5 times target dividend cover |
| | **Cost of 2013 dividend £550m** | **Return on equity 15.4%** | **Return on equity 16.1%** |

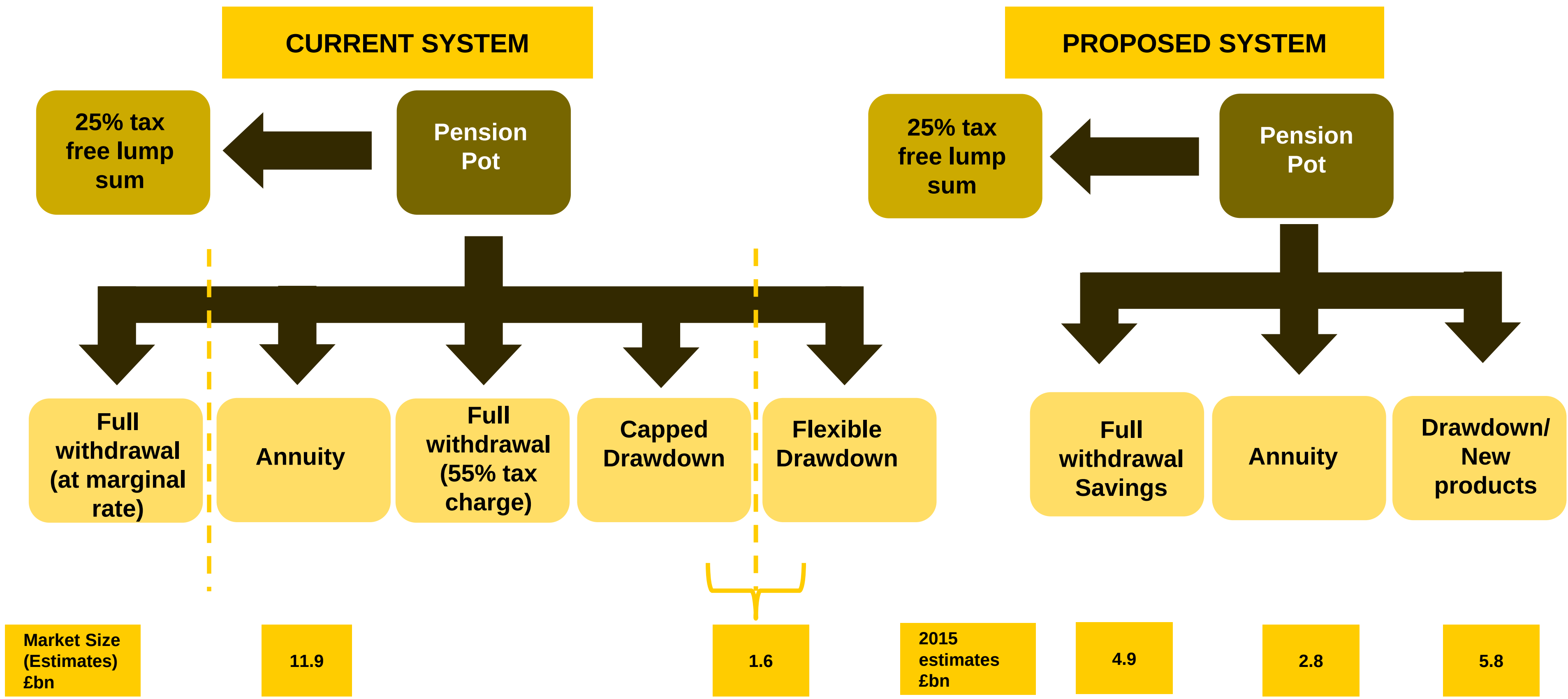
# CREATIVE DESTRUCTION.

## "NO ONE WILL HAVE TO BUY AN ANNUITY" – George Osborne, 19th March 2014

1. We have reconfirmed our cash and dividend guidance
2. In 2014 we plan to exceed the £4.1bn annuity transactions we achieved in 2013. We announced a £3bn transaction today – more to follow
3. Our acquisition of GIA a leading US DC provider has an unexpected bonus, as it will enable acceleration of our DC expansion in the UK
4. Our acquisition of Cofunds, with £64bn AUA the UK's largest platform provider, will also assist our UK DC and retail expansion
5. The Chancellor's idea to increase customer choice, encourage competition and innovation in the annuity market is a good one, however:
   - How advice will be provided and paid for is unknown
   - Customers who should buy an annuity may be discouraged from doing so
   - There will be less demand for gilts going forward
   - There will be a boost to: consumption, debt consolidation, housing, buy to let and tax as customers monetise their pension through cash withdrawal

# GOVERNMENT PROPOSALS – DEFINED CONTRIBUTION MARKET.

- Full implementation April 2015, with transitional rules until then – many deferrals
- Current 55% tax charge on pension funds to be reviewed/reduced
- “Providers” will have to provide free and impartial guidance at retirement



# IMPACT OF PROPOSALS – FOR DC MARKET.

- 41% of sales from internal vestings (i.e. existing customers) and 32% non-standard products – likely to experience substantial reductions
- Lower margin and lower capital intensity investment drawdown products will increase rapidly
- Costs of “free & fair” guidance to retirees is unknown and no clear timetable
- Shorter duration/more liquid investments for flow of new DC vestings – impact on fixed income markets unknown
- Buy to let and Equity release will become more attractive to retirees

# PENSIONS MARKET STRUCTURE – DC MARKET.

| | | | 2015 Estimates | | |
|---|---|---|---|---|---|
| **Customer pot size** | **2013 Market premium (£bn)** | **2013 Market Count (000's)** | **Cash/Savings** | **Annuities** | **Drawdown/New Product** |
| <10k | 0.5 | 101 | 0.4 | 0.1 | 0.0 |
| 10k – 30k | 2.2 | 122 | 1.4 | 0.4 | 0.4 |
| 30k – 80k | 4.2 | 92 | 2.1 | 0.8 | 1.3 |
| >80k | 5.0 | 38 | 1.0 | 1.5 | 2.5 |
| Total | 11.9 | 353 | 4.9 | 2.8 | 4.2 |
| | | Existing Drawdown | | | 1.6 |

Source: LGR

# PENSIONS MARKET STRUCTURE.

- Private sector has £1.8trillion of liabilities to derisk through LDI, longevity insurance, buy in, buy out or managed retention

**DC TRANSFERS UNKNOWN**

£Xbn

**PRIVATE SECTOR**

£1.1trn assets

£1.8trn liabilities

**CORPORATE BALANCE SHEET DERISKING**

Bulk purchase annuity

Longevity Insurance

Liability Driven Investment

**PUBLIC SECTOR (FUNDED)**

£210bn

Source: The Purple Book: PPF/The Pensions Regulator – November 2013

# IMPACT OF PROPOSALS FOR DB MARKET.

- Will not allow transfers from private DB to DC schemes if it damages the economy and/or makes it materially harder for UK companies to finance long-term investments
- Public sector DB will not be allowed to transfer
- Options for private sector DB schemes (subject to consultation):
  1) No right of transfer
  2) Transfer allowed, but ringfenced under current legislation
  3) Cap on annual transfers
  4) Transfers allowed, subject to DB trustee approval
  5) Full flexibility
- 12 week consultation period

# LGR, LGIM AND LGAS: MULTIPLE GROWTH OPPORTUNITIES.

OUR OPPORTUNITIES

| LEVERS OF GROWTH | LEGAL & GENERAL'S DISTINCTIVE PROPOSITION | SIZE £bn |
|---|---|---|
| UK BULK ANNUITIES | • Unique link to LGIM's 2,800 client base (UK's largest pension fund manager)<br>• Clear synergies with LDI de-risking to buy-out | 23.7* |
| LONGEVITY INSURANCE | Twice the benefit:<br>• Complements LDI expertise<br>• Step towards buy-in / buy-out | 5.0 |
| UK INDIVIDUAL | Cofunds (LGAS)<br>Individual Annuities (LGR)<br>Suffolk Life (LGAS)<br>Workplace Savings (LGAS) | 64.0<br>13.3<br>6.0<br>8.7 |
| INTERNATIONAL | Potential for International expansion into the broader US pension de-risking market, facilitated by:<br>• Existing longevity skills<br>• LGIM America's LDI and investment skills | 0.4 |
| LGIM | • LDI – Leading Global LDI manager, #1 market share in the UK can deliver full journey buyout.<br>• DC – Our strength in Index, Target Date Funds, Multi Asset and Income Funds should result in growth above industry's projected 12% growth rate | 70.0<br>31.0 |

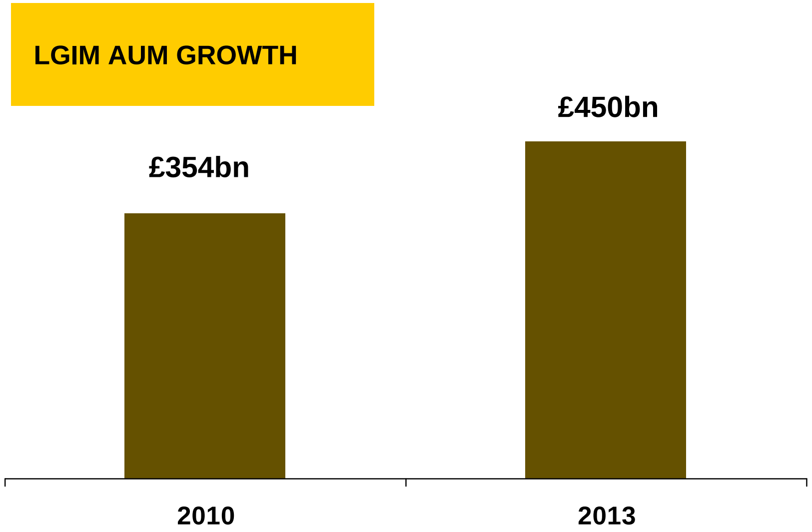
* Includes £3.0bn from ICI transaction

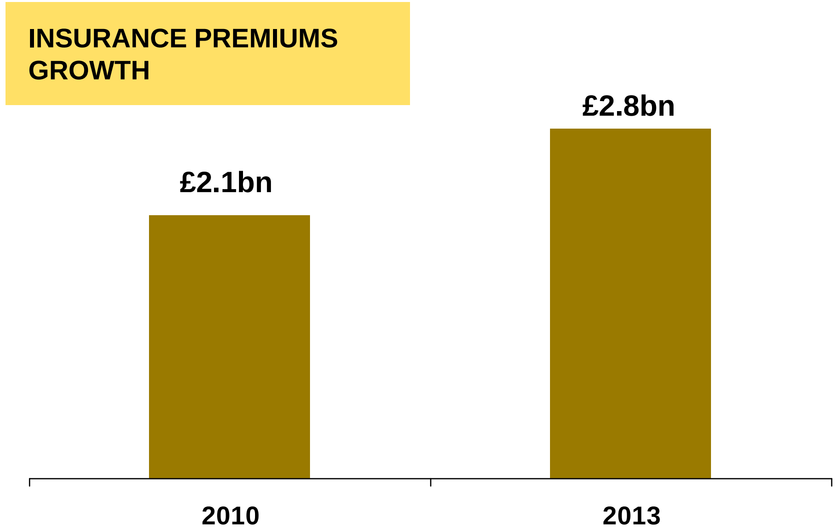
# CLEAR STRATEGY, OUTSTANDING RESULTS.

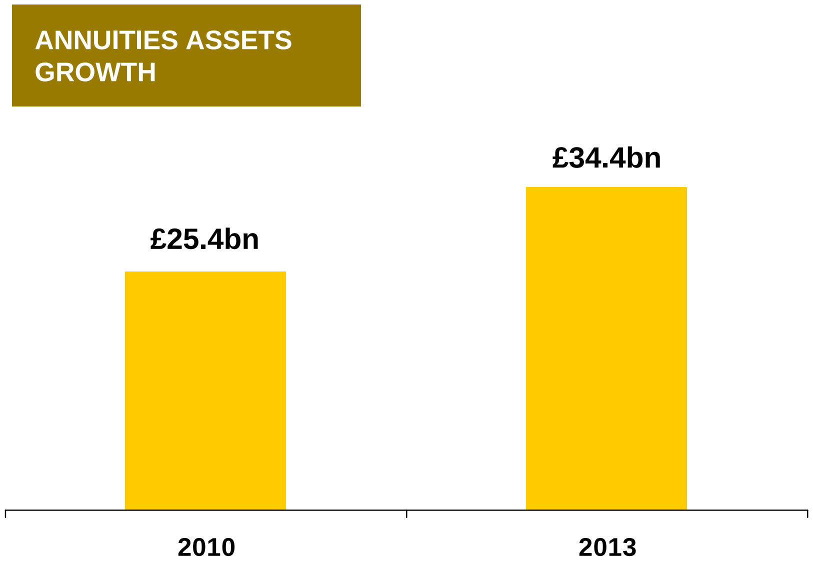
| GROWTH DRIVERS | GROUP RESPONSE | 2013 ACHIEVEMENTS |
|---|---|---|
| AGEING POPULATIONS | RETIREMENT SOLUTIONS | Annuity premiums up 78% to £4.1bn<br>Longevity transactions totalling £5bn of liabilities<br>Workplace assets up 45% to £8.7bn |
| DIGITAL LIFESTYLES | DIGITAL SOLUTIONS | Cofunds assets of £64bn<br>Enhanced annuities platform launched<br>Fastest growing home insurer in direct sales |
| WELFARE REFORMS | PROTECTION | Market leading position extended<br>Protection premiums up 7% to £2.6bn |
| HOMOGENOUS ASSET MARKETS | LGIM INTERNATIONAL | £59bn LGIM International AUM: 37% growth<br>£15.7bn record international flows: 99% growth |
| RETRENCHING BANKS | DIRECT INVESTMENT | Portfolio more than doubled to £2.9bn<br>Actual investment return growth c.90 bps |

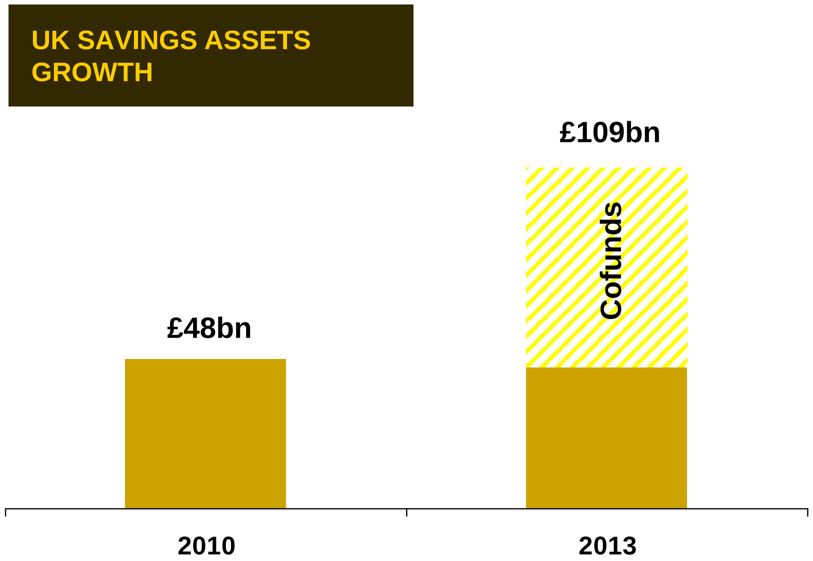
DRIVING CASH AND DIVIDENDS.

# DRIVING GROWTH: INCREASING STOCK.



# ACQUISITIONS - CLEAR STRATEGY, OUTSTANDING RESULTS.

| GROUP RESPONSE | IMPLEMENTED SO FAR | NEXT STEPS |
|---|---|---|
| RETIREMENT SOLUTIONS | • Acquired Lucida for £149m in 2013<br>• Expect return of c£140m capital by end 2014<br>• Fully integrated on L&G systems – no property or people costs | • Evaluate opportunities in US and Canada<br>• Monitor UK market for opportunities following Budget |
| DIGITAL SOLUTIONS | • Acquired 75% of Cofunds for £131m in 2013<br>• Budget announcements last week significantly increase potential<br>• Increased to 95% share of the Idol in 2013 | • Continue to monitor and evaluate new and emerging technologies<br>• Opportunities leading to potential distribution cost reductions attractive |
| PROTECTION | • Considered several UK opportunities – none met our criteria<br>• Financially disciplined approach | • Home (GI) remains attractive<br>• Evaluate technology businesses |
| LGIM INTERNATIONAL | • Acquired GIA for \$30m-\$50m in 2014<br>• Increased US assets by c\$16bn | • Continue to evaluate US and UK opportunities<br>• Substantial consolidation of industry in Europe |
| DIRECT INVESTMENT | • Acquired 46% share of Cala Homes for £65m in Mar 2013<br>• Acquisition of Banner Homes 2014<br>• Further landbank development | • Target IPO of Cala in 2015-2017<br>• UK market remains attractive |

# UK IS IN A PRE-ELECTION BOOM.

- Post 2015 election higher interest rates may cause an unstable UK economy alongside a volatile international economic background
- UK consumption growth driven by jobs growth, improved credit availability, coupled with windfall gains from £18bn of PPI payments and £28bn of mortgage interest cost savings – remortgaging will drive further growth
- Investment is following consumption – there remains huge potential growth opportunity which requires better policy intervention
- Government deficit remains "sticky" at around £100bn, cost of funding this deficit is likely to rise in 2015 as timing of US rates increase becomes more certain
- UK goods trade deficit remains "sticky" at around £100bn – lack of investment and poor export infrastructure remain a problem

**We expect 1% rise in interest rates in 2015: results in a 1% decline in GDP growth**

# PERSISTENT MACRO ECONOMIC VOLATILITY WILL REMAIN.

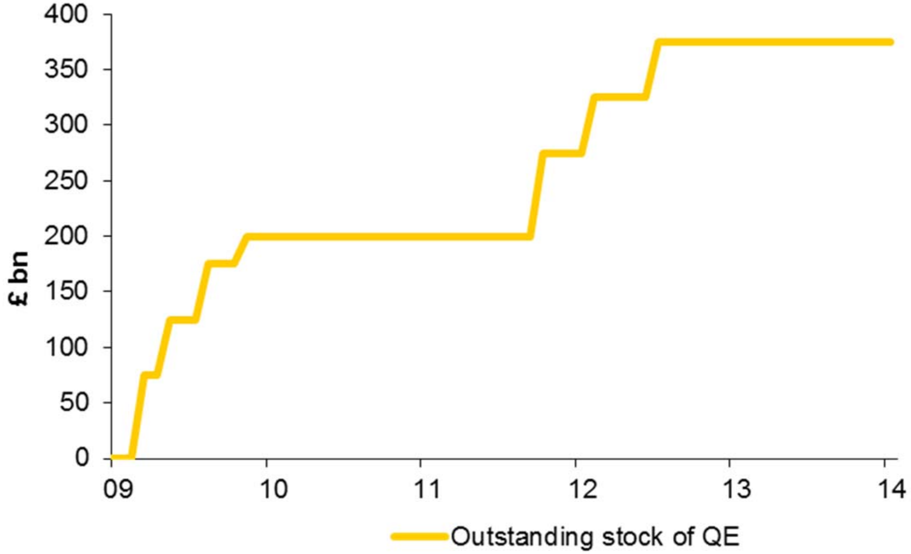
The unwind of QE coupled with China slowdown and the fragility of many economies will put downward pressure on global growth

- Chancellor has performed well in persuading capital markets to buy gilts – an asset with a negative real return and the potential for substantial capital losses – this support for gilts may not continue
- Massive reforms are required and will be implemented in China which will undoubtedly have an impact on: commodity prices, trade balances, FX, inflation/deflation and asset prices
- The list of economies experiencing shocks is growing outside of the original “fragile five” – Fast money will continue to drive volatility
- The lack of real wage growth has been a problem for many DM economies – policy responses are being developed e.g. minimum wage increase.

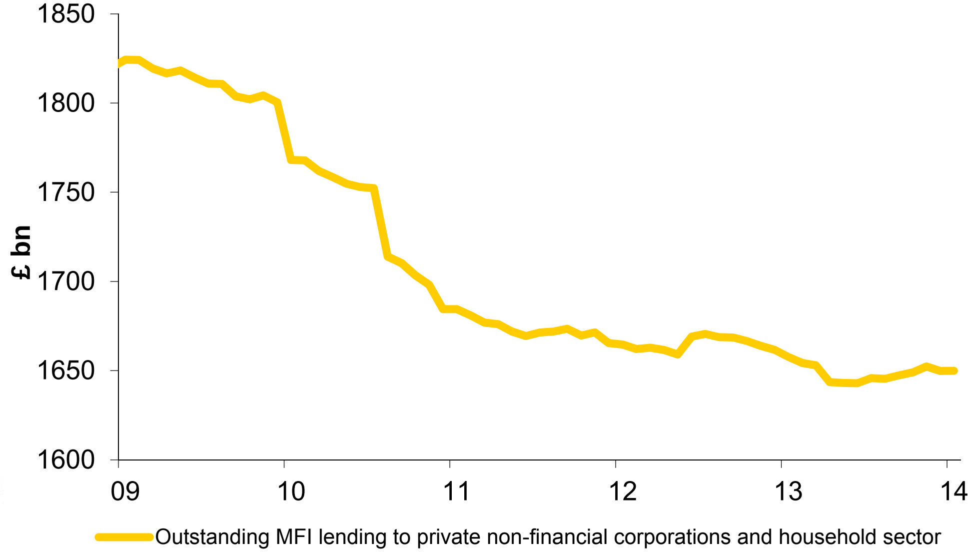
**Legal & General business model based on our five growth trends has performed well in an environment of continual economic shocks.**

# FAST AND SLOW MONEY: WHAT HAPPENED.

**QE MONEY PRINTING**




**STERLING M4**




- **QE probably prevented a more severe recession.**
- **More 'narrow money' doesn't compensate for 'broad money' destruction: if over-indebtedness was the problem, this cannot be the solution.**
- **Two-speed money is the result**
  - **Different winners and losers**
  - **Less sustainable recovery**
- **Have the laws of economics changed, or have they just been suspended?**

Source: Bloomberg and Ecowin.

# FAST AND SLOW MONEY: WINNERS AND LOSERS.

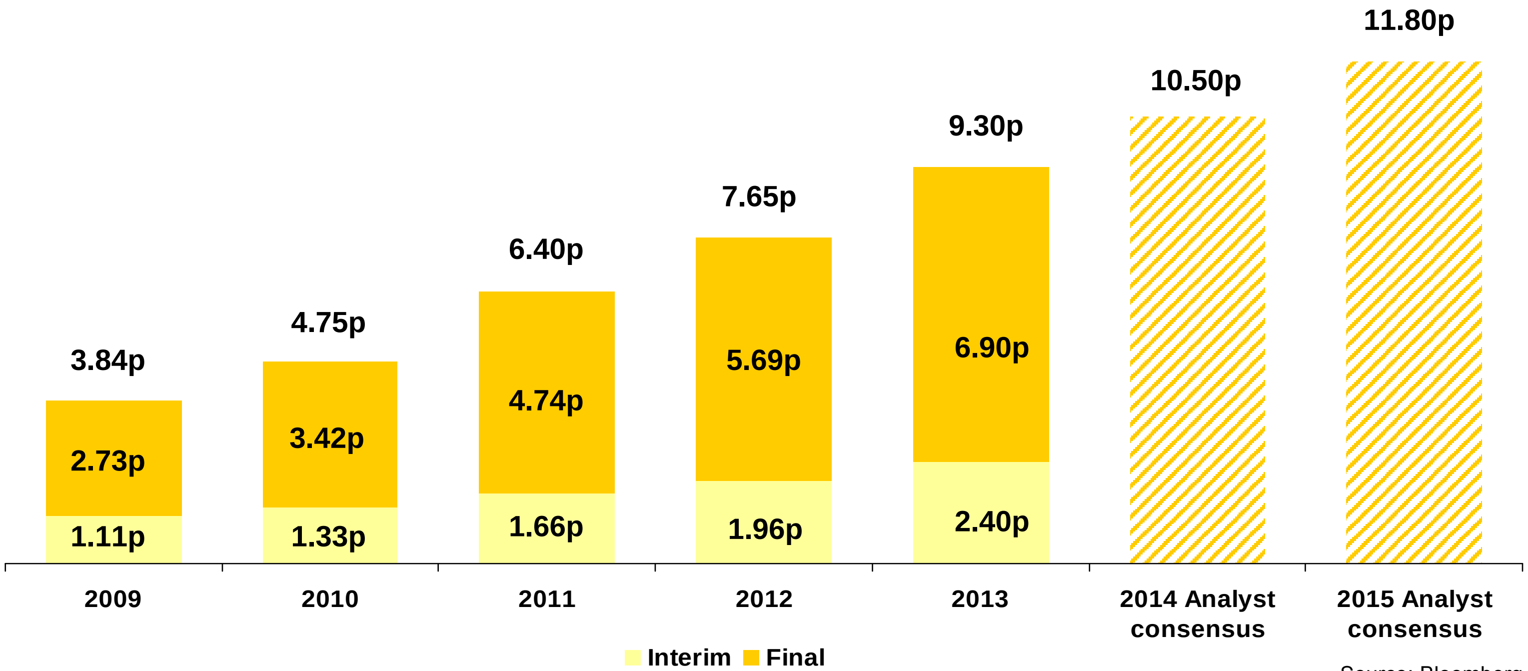
| WINNERS | LOSERS |
|---|---|
| Rich people | Poor people |
| Assets | Real Wages |
| Financial Assets | Capital Goods |
| Baby Boomers (mostly) | Young people (mostly) |
| Consumers | Savers |
| Countries with own central bank | Countries in monetary union |
| Monetary Policy Specialists | Supply side economists |

# 2014 – FURTHER PROGRESS IN ALL AREAS.

| DIVISIONS | 2014 OPERATIONAL CASH GUIDANCE £m | ACTIONS AND OPPORTUNITIES | PROGRESS TO DATE |
|---|---|---|---|
| LGR | 290 | • Increase net flows: 2012: £0.6bn, 2013: £2.1bn<br>• Reduce unit costs. Improve risk adjusted yield<br>• Continue to diversify sources of profit<br>• Increase longevity transactions | • £3bn BPA UK's largest transaction<br>• Risk adjusted yield improved through £800m of direct investment<br>• Plan to reduce unit costs being implemented in 2014 |
| LGIM | | • Improve performance in UK retail and DC<br>• Accelerate international growth: organic and acquisitions<br>• Accelerate external net flows 2012: £5.3bn, 2013: £9.3bn | • Completed hiring team in multi asset, target date, and expanding sales force<br>• Acquisition of GIA to focus on US and UK DC market |
| LGAS | 430* | • Reduce operating costs in all areas<br>• Maintain GI momentum<br>• Halve Workplace losses from £(29)m<br>• Improve digital profit performance and increase capability - Cofunds, IPS, Workplace | • Further cost reduction identified<br>• Performed well during the floods<br>• Continued strong performance in digital retail protection |
| LGC | | • Improve risk adjusted yield<br>• Retain £1.5bn equity position<br>• Active portfolio management via purchase and disposal of investments | • £1bn plus of direct and infrastructure investments completed in Q1<br>• Acquisition of Banner Homes and increase in landbank |
| LGA | 46 | • Improve risk adjusted yield and unit costs<br>• Continue to grow dividends at 10% per annum | • $300m high yield investment completed<br>• 2014 ordinary dividend of $73m paid |

* LGAS actual operating cash and cash guidance excludes General Insurance.

# 2013 DIVIDEND UP 22% TO 9.30p.




Source: Bloomberg

| | | | | | |
|---|---|---|---|---|---|
| **Net cash (£m)** | **699** | **760** | **846** | **865** | **1,002** |
| **Dividend (£m)** | **225** | **279** | **375** | **452** | **550** |
| **Dividend coverage[1]** | **3.11** | **2.72** | **2.26** | **1.91** | **1.82** |

**DIVIDEND GUIDANCE:** Assuming we continue to anticipate a Solvency II surplus being no lower than Solvency I, we expect over the next two years to reduce our net cash coverage of dividend towards 1.5 times. We will provide dividend guidance for subsequent years when Solvency II clarity has emerged. The Board remains committed to a progressive dividend policy over the long term.

1. Dividend coverage based on net cash generation.

# EVERY DAY MATTERS – OUR SOCIAL PURPOSE.

"Insurance has a **powerful social purpose**. We make a promise to our customers that we will be there to stand behind that **promise** when disaster or tragedy strikes. Our clear aim is to be a **force for good** in society, make every day matter for our customers and staff and live by the promises we make in our high **quality** products."