
Legal & General

Accelerating the Evolution of our Growing Businesses

Nigel Wilson, Group Chief Executive

7th June 2017



Macroeconomic signals and noise

Legal & General's strategy based on long term macroeconomic and demographic drivers particularly in areas of market failure:



Excessive attention is paid to “economic noise”, uncertainty and unemployment, not enough to employment, productivity and risk. Widespread conscious bias for “gloomy reporting” by media, economists and politicians



UK employment rate is 74.8%, employment at 32m, all time highs. Economically inactive 21% (8.83m) all time low. Unemployment of 4.6% (1.54m) close to all time low. Vacancies 0.8m all time high. Working days lost through strikes 32m in 1980, 0.3m last year



Although unemployment is low, and vacancies high, real wage growth is lower than expected and productivity growth is poor



QE has caused lower for longer interest rates (sometimes negative). Despite low rates, there has been an unwillingness to invest in the real economy with consequential impact on economic growth, productivity and real wages



The demographic drag on growth is larger than previously forecast

Clear and consistent strategy: excellent execution

Growth drivers

2016 Business highlights

Ageing demographics

- LGR record transactions £8.5bn
 - £54bn total annuity assets
 - £620m Lifetime Mortgages sales, voted best Lifetime Mortgage lender
-

Globalisation of asset markets

- LGIM total AUM of £894bn, up 20%, International AUM of £177bn, up 45%
 - 252 US clients with \$148bn assets, 4 of top 5 US Defined Benefit (DB) plus DC
 - US net flows £9.4bn (2015: £6.3bn)
-

Creating real assets

- £10bn of group-wide direct investments, up 39%
 - £1.2bn 'Build to Rent' housing pipeline
 - UK infrastructure investments, e.g. London Gateway Port, Cardiff, and Newcastle
-

Welfare reforms

- Market leading UK retail protection business, around 25% market share
 - UK DC assets £57.1bn, up 24%
 - 2.2m customers in over 9,000 pension schemes
-

Technological innovation

- Retail protection direct sales up 7%, General Insurance direct sales up 20%
 - Investment and partnership with Smart Pension, a Fintech auto-enrolment pension provider
 - Increasing use of Robotics and Cloud
-

Today's capital

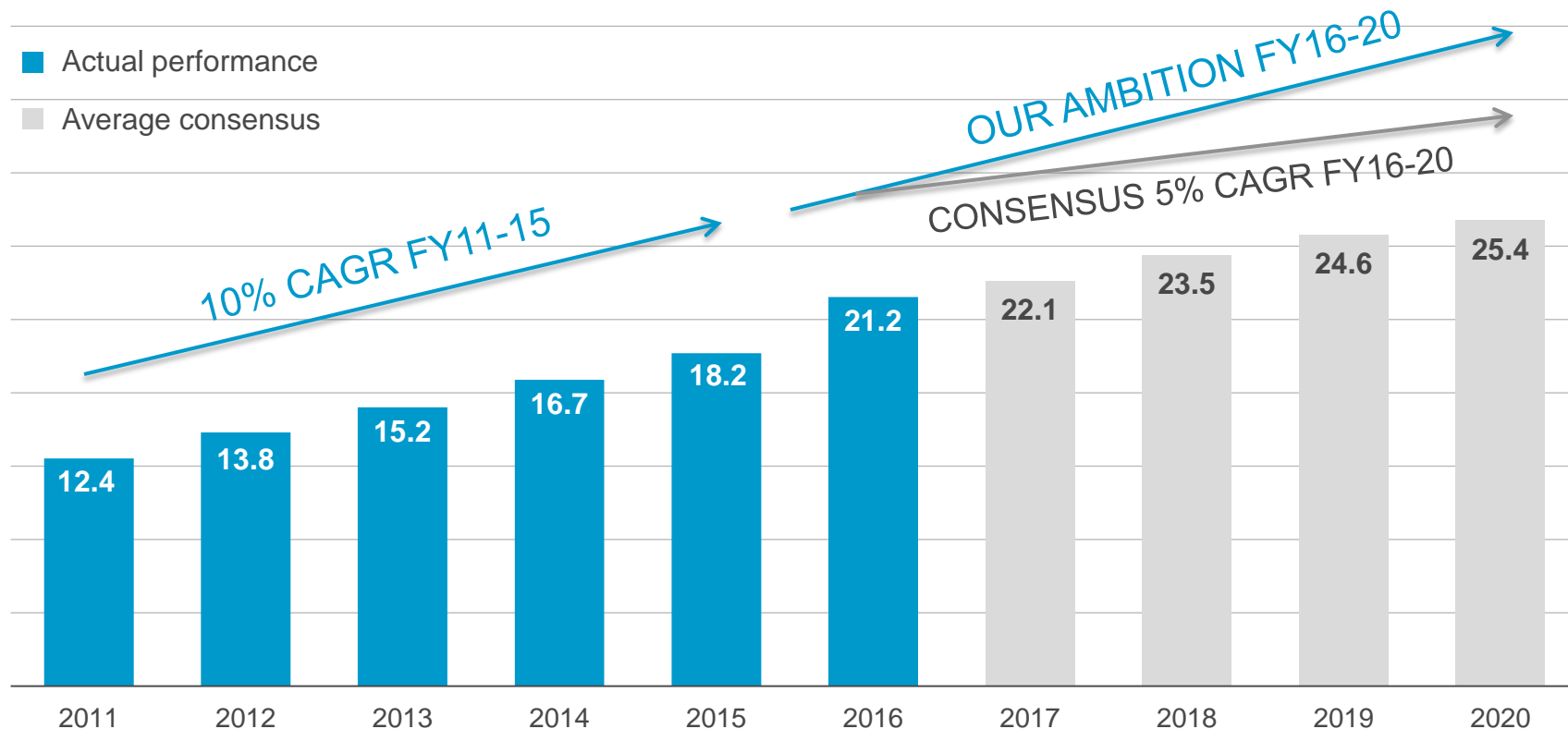
- SME debt finance, Pemberton's final close at €1.2bn, with 80% external investment
 - SME equity finance, £150m venture with Woodford IM & British Business Bank
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Accelerating our evolution: strategic goals 2016 - 2020



Replicating EPS growth in 2016 - 2020

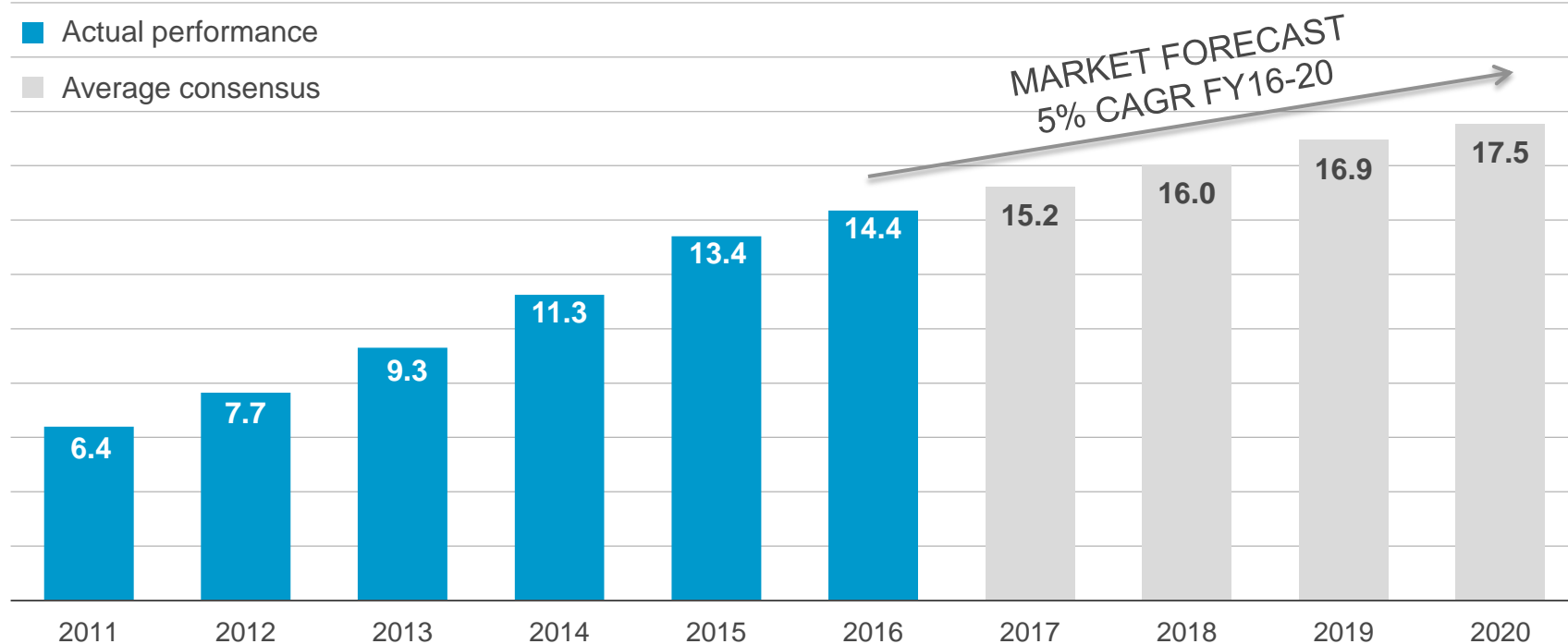
Earnings per share (p)



Note, 2017-2020 based on consensus as at 30 May 2017, not representing opinions, forecast or predictions of management.

Dividend per share growth

Dividend per share (p)



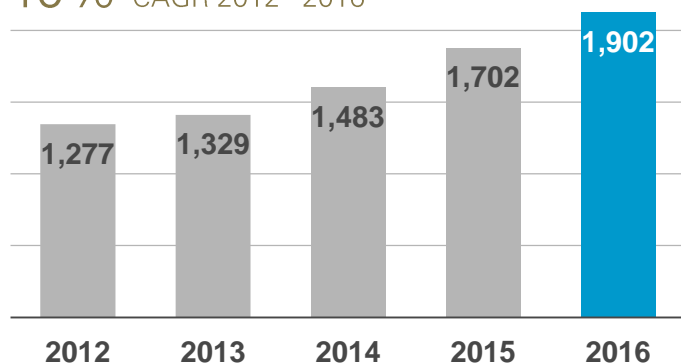
- In 2016, the Board considered the best trajectory of dividend growth, taking into account sustainability across a wide range of economic scenarios and the Group's anticipated financial performance, resulting in a **7% increase in the full year 2016 dividend**

Note, 2017-2020 based on consensus as at 30 May 2017, not representing opinions, forecast or predictions of management.

Accelerating the evolution of our growing businesses

Operating profit from divisions (£m)

10% CAGR 2012 - 2016



DIVISION	2016 (£m)
Legal & General Retirement (LGR)	811
Legal & General Investment Management (LGIM)	366
Legal & General Capital (LGC)	257
Legal & General Insurance (LGI)	317
General Insurance (GI)	52
Savings	99
Operating profit from divisions	1,902

LGR

UK market leader in PRT, c.33% market share

#2 UK Lifetime Mortgages, c.29% market share

£54.4bn AUA

LGIM

#10 global asset manager, c.£900bn AUM

World #5 in Index

World leader in LDI, c.45% UK market share

LGC

Investing the Group's £6.2bn shareholder funds to improve risk adjusted returns

Focus: Infrastructure, Housing and SME Finance sectors

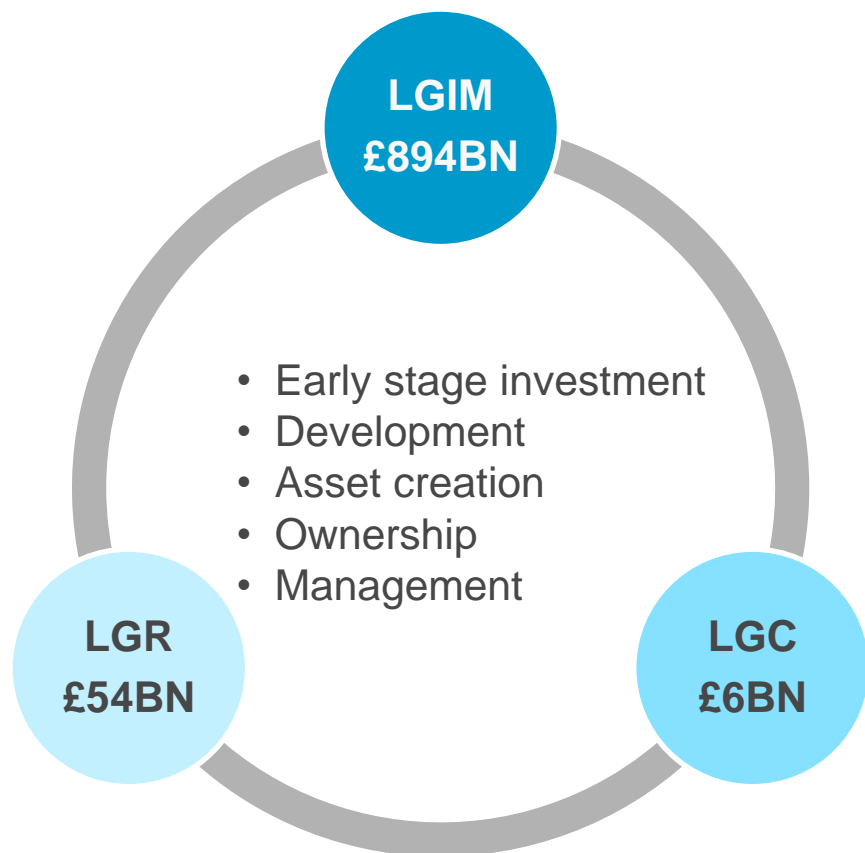
LGI

#1 UK Retail Protection, c.24% market share

#4 US Term Protection¹

UK & US GWP: £2.4bn

Our unique synergistic investment business model, captures maximum value



	LGIM + LGR + LGC	
	2016	2015
Operating Profit (£m)	1,434	1,229
No. of Employees	2,800	2,550

The illiquidity of our liabilities and our asset expertise allows us to create unique investment opportunities

Long term direct investments

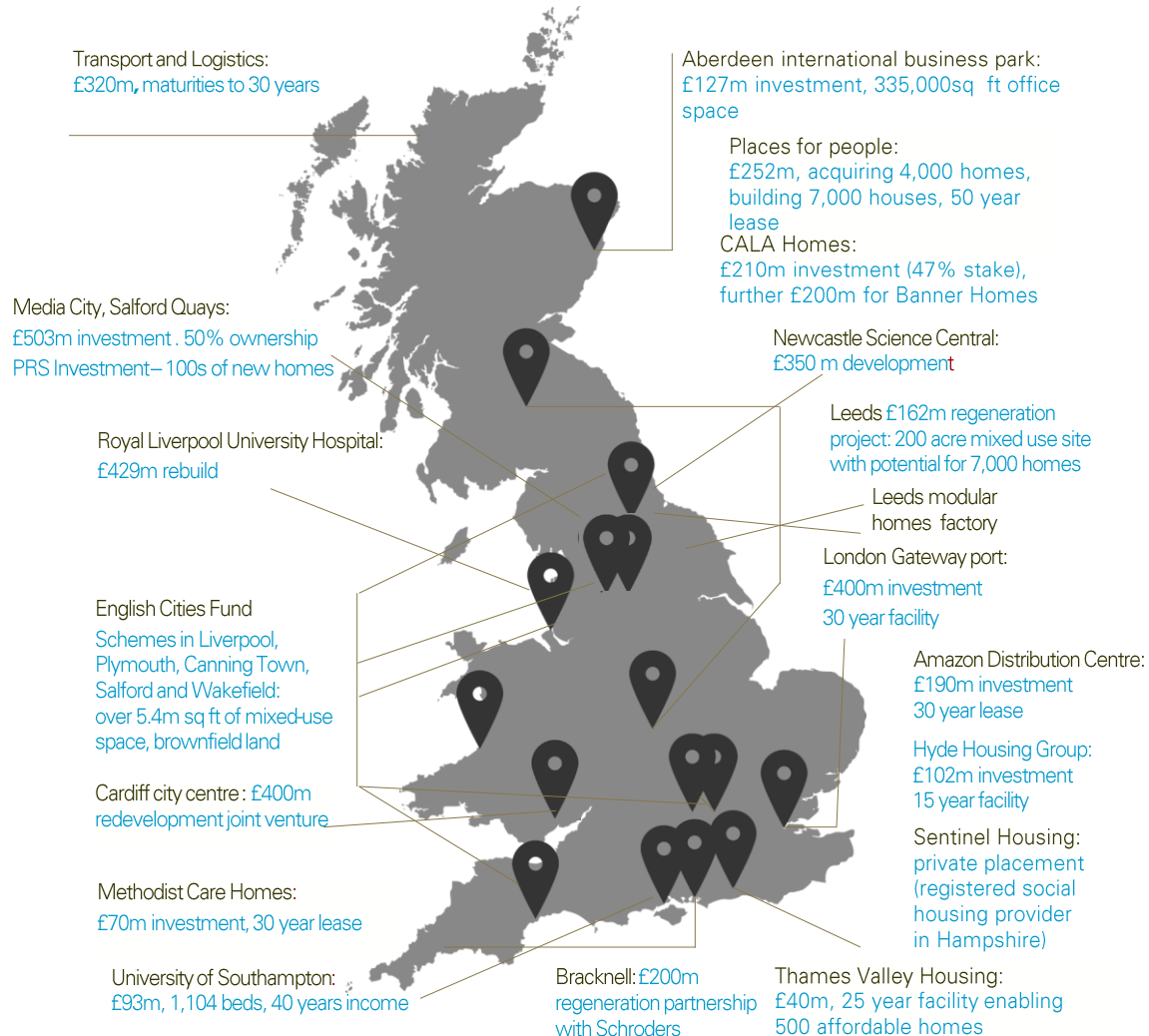


£15 billion
direct investment
programme with
£10 billion
invested to date



We focus on direct investments in three key sectors:

1. UK infrastructure
2. UK housing
3. SME finance



Our unique investment business model example: Cardiff



OUR PROPERTY EXPERTISE

- Initial infrastructure development, £20,000 in Stockton and Hartlepool Railway in 1841
- LGIM the 3rd largest property asset manager in the UK – c.£20bn

Central Cardiff mixed-use redevelopment scheme

Sep
2015

1 JV with Cardiff County Council and local developer, RightAcres – initial equity investment by LGC (£37m)

LGC

2 First building: £83m BBC Wales HQ, pre-let on 20 year lease – matching adjustment compliant in LGR

LGR

3 Second building: No. 1 Central Square, multi-tenanted – mixture of leases, not matching adjustment compliant so is being sold by LGC

LGC

LGIM

4 LGIM earns management fees for managing the whole complex

LGIM

5 JV gives L&G right of first refusal to invest in further 7 phases, phases 3 and 4 in progress

LGC

LGR

LGIM

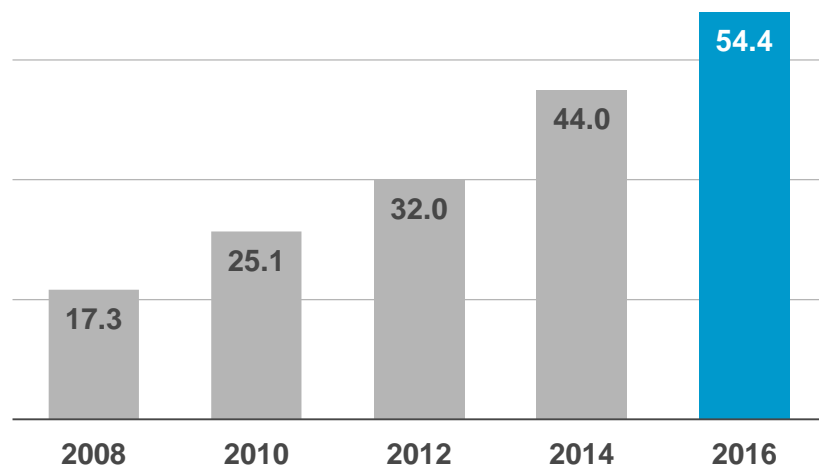
2017
and
beyond

Model being replicated across the UK

LGR track record: sustained growth in assets and profits

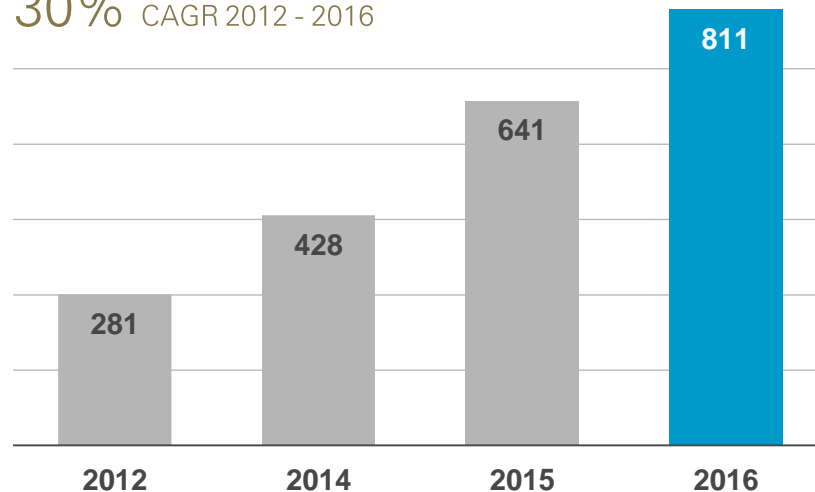
LGR AUA (£bn)

15% CAGR 2008 - 2016



LGR Operating Profit (£m)

30% CAGR 2012 - 2016

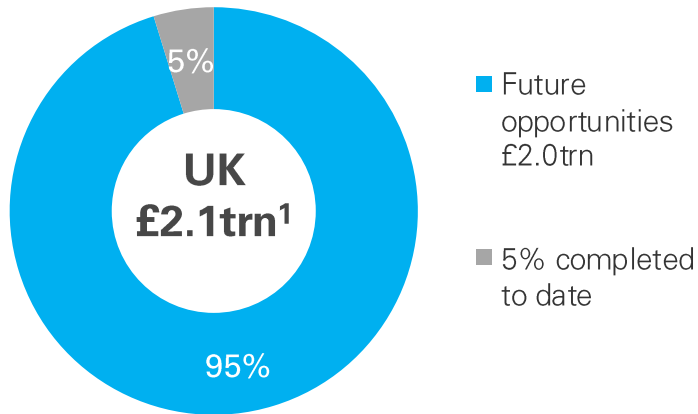


- LGR AUA growth driven by over £7bn in total annuity sales in 2016, including £3.3bn in UK PRT, a £2.9bn backbook acquisition, and £620m in new lifetime mortgages
- Record profits of £811m achieved in 2016, benefitting from increased scale of business, use of technology, profitable new business written and positive mortality experience
- £54.4bn portfolio provides well over £10bn of undiscounted future profits

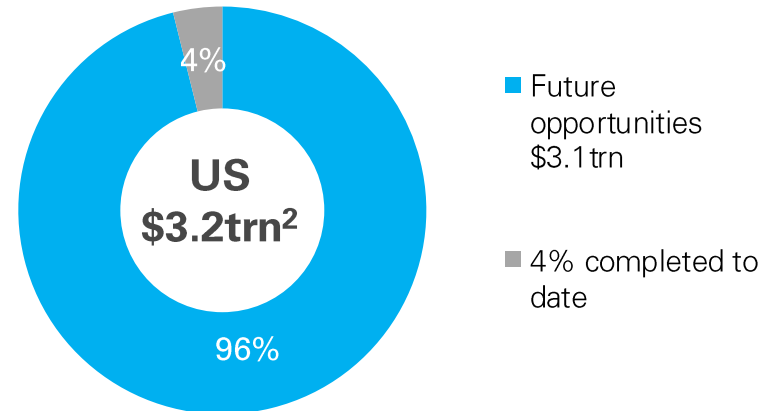
Our aim is to continue to grow LGR in scale and grow profits faster than assets

LGR: Global Pension Risk Transfer

HUGE PRIVATE SECTOR DB MARKET OPPORTUNITIES IN BOTH THE UK AND US



- LGR is market leader in UK PRT, with **c.33% market share** of 2016 new business
- Funds most likely to transact have already begun de-risking journey through LDI mandates – c.£0.9bn of assets of which c.45% are LGIM clients
- Currently **quoting on c.£13bn UK PRT deals**
- 2017 expected to see over £15bn³ in UK PRT volumes across the sector

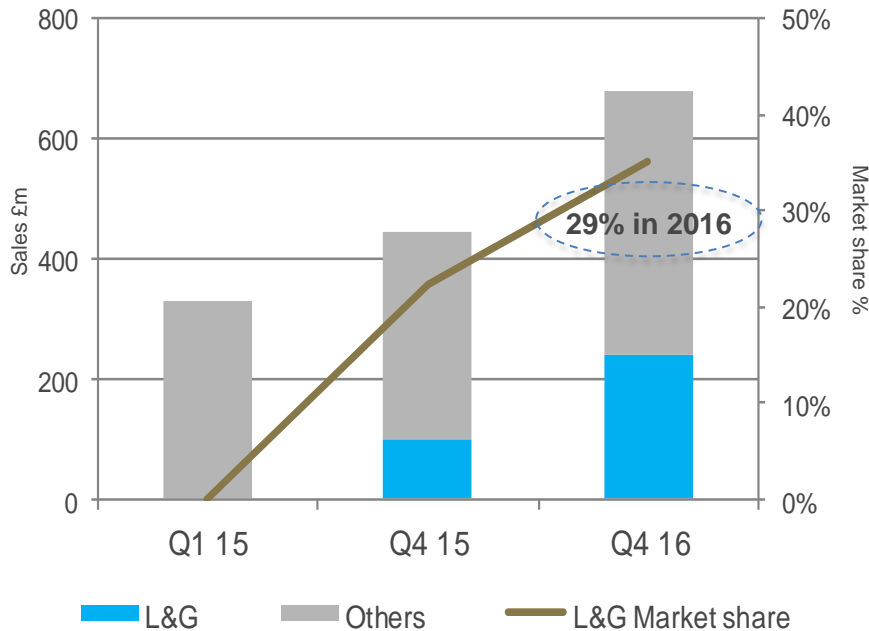


- Significant opportunity with c.\$3.1trn US DB pension liabilities to complete de-risking journey
- Expertise required is similar to the UK
- Written **c.\$1bn** US PRT business to date
- US mandates typically transact faster as not inflation linked

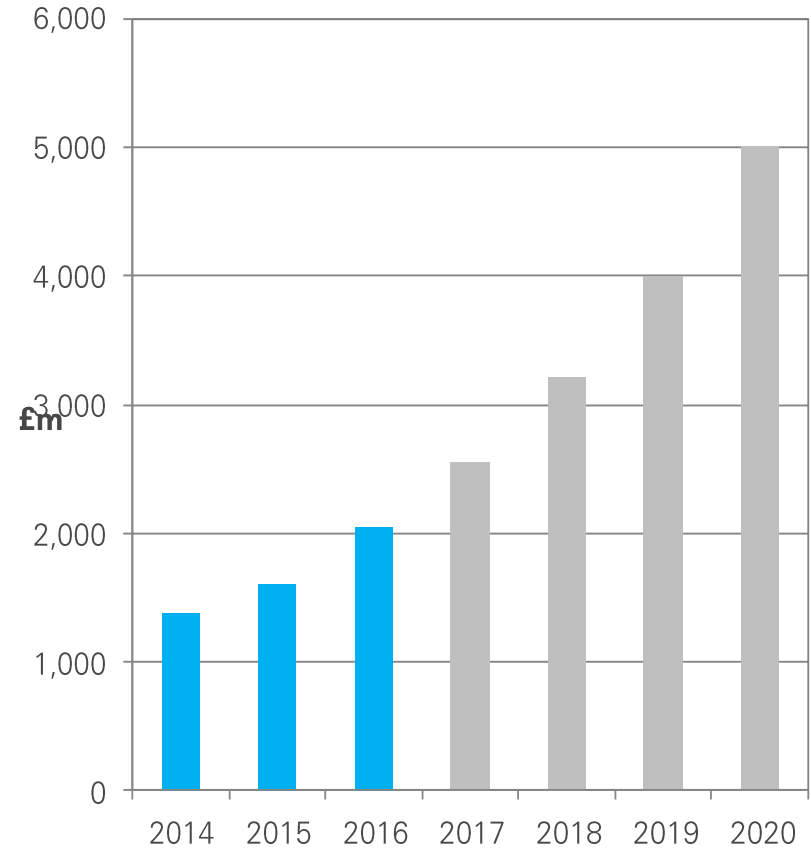
LGR: Lifetime Mortgage market is growing fast and could grow faster

- £1.5 trillion of housing equity owned by over 55s*
- Ageing Population will drive further growth
- Only £18 billion released over last 25 years**

L&G response: Entered LTM market in 2015

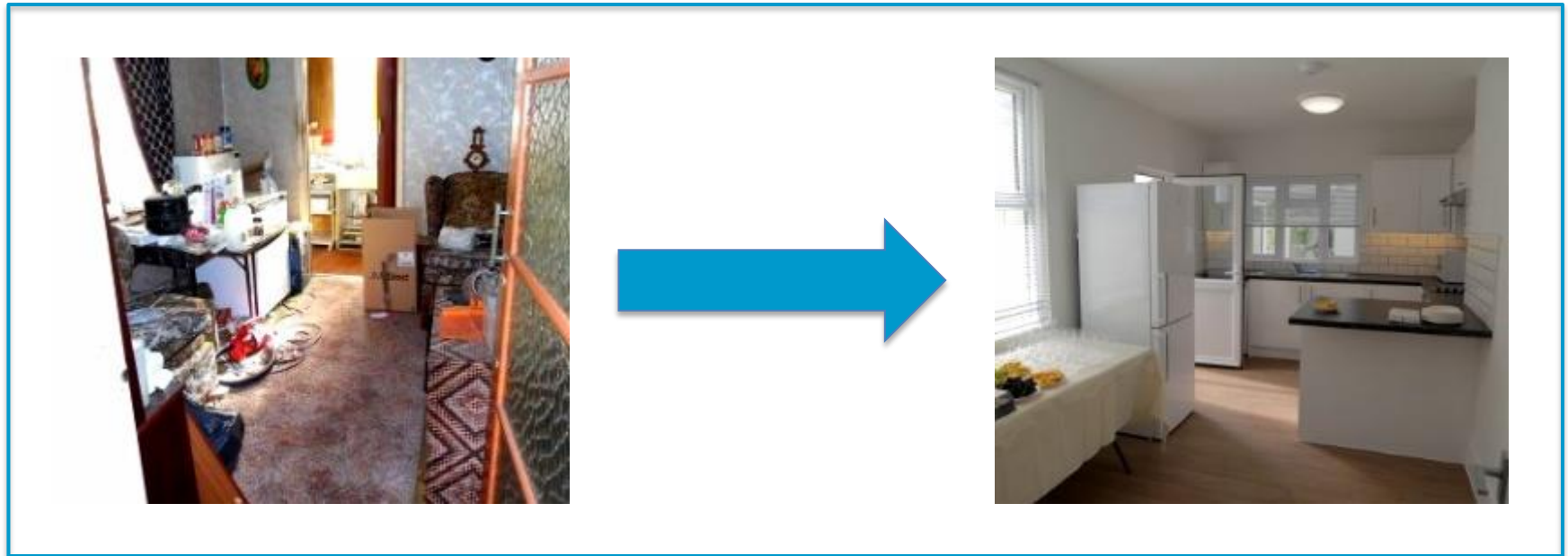


Lifetime Mortgage Market Forecast



Faster growth required

LGR: Lifetime Mortgages making a real difference



Our market leading customer proposition

- Wide range and competitively priced product offering
- Fair lending framework: unique approach which includes providing free bereavement, financial and well-being counselling services for lifetime of product
- Innovative solutions to meet market needs – partnered with high street bank to address “Interest Only shortfall” problem

Diversified and risk-balanced book

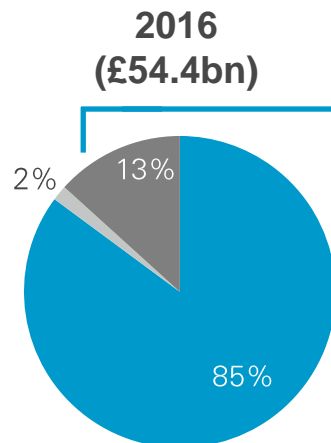
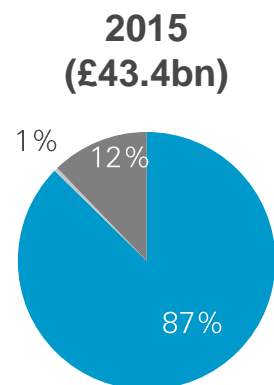
- Average LTV (loan advanced) of 27%
- Average customer age of 71
- Geographical region spread

Technological innovation

- High quality end-to-end digital customer experience

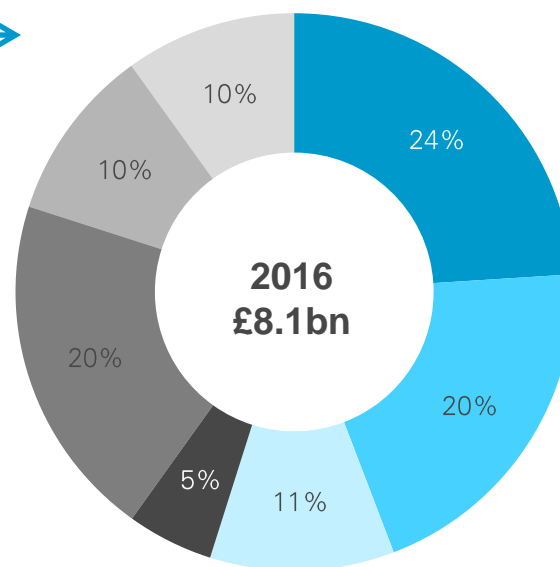
LGR: robust and well diversified annuity asset portfolio

INCREASING PROPORTION OF DIRECT INVESTMENTS...



- Credit assets
- Lifetime mortgage
- Direct Investments (excl lifetime mortgage)

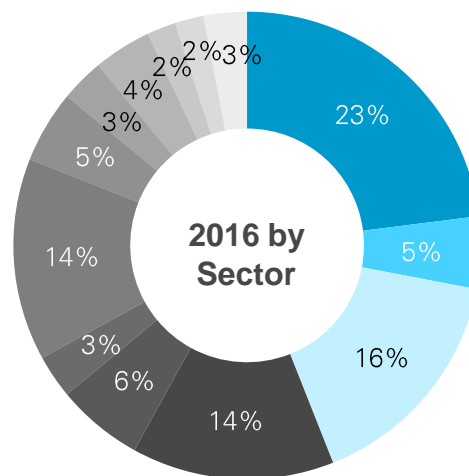
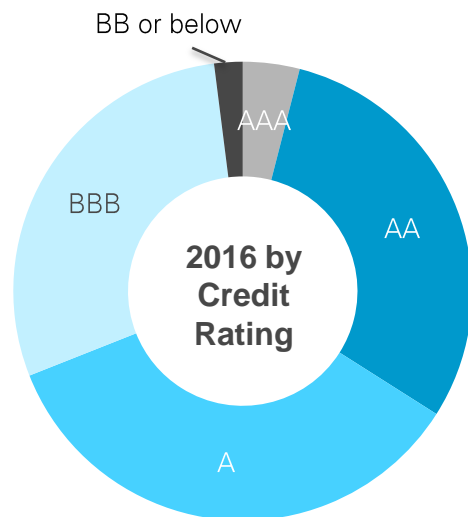
WIDE SPECTRUM OF DIRECT INVESTMENT CLASSES



- Real Estate Debt, 24%
- Infrastructure, 20%
- Lifetime Mortgages, 11%
- Private Corporate Debt, 5%
- Property Rental Notes, 20%
- Property Residual Notes, 10%
- Income Strips, 10%

LGR: robust and well diversified annuity asset portfolio

...WHILST MAINTAINING OVERALL CREDIT QUALITY & HIGH SECTORAL DIVERSIFICATION

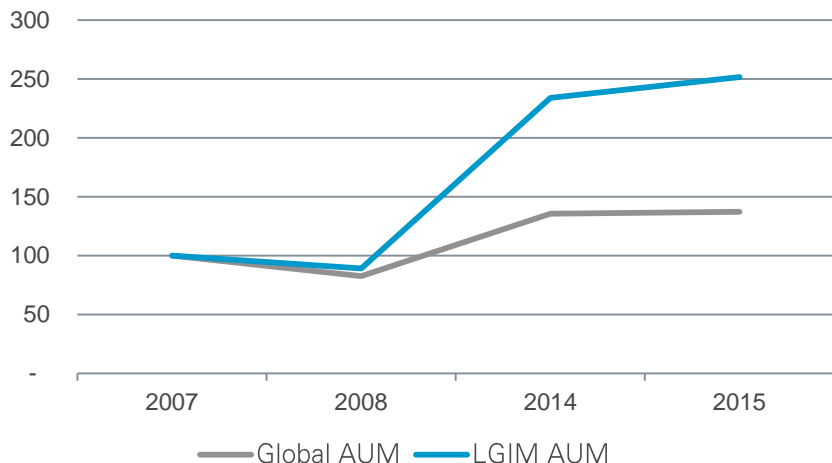


- 1. Sovereigns, 23%
- 2. Banks, 5%
- 3. Utilities, 16%
- 4. Consumer services and goods, 14%
- 5. Technology and telecoms, 6%
- 6. Industrials, 3%
- 7. Infrastructure, 14%
- 8. Property and property backed securities, 5%
- 9. Securitisations (collateralised credit), 3%
- 10. Energy, Oil & Gas, 4%
- 11. Commodities, 2%
- 12. LTM Loans, 2%
- 13. Financial Services and Insurance, 3%

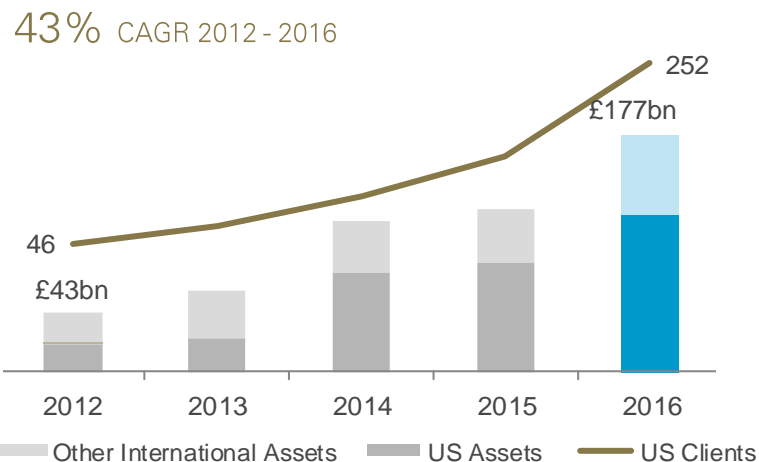
- Strong credit quality of asset portfolio
- Around 70% of the bond portfolio A rated or better, 29% in BBB, only 2% in sub investment
- IFRS credit default reserves of £2.7bn at end 2016, including “additional provision” of c.£0.6bn

LGIM: well positioned to benefit from positive industry trends

Top 10 global asset manager - Gaining market share



LGIM international AUM growth



Strong growth against slowing global AUM

- Despite industry headwinds, LGIM has significantly outperformed the sector
- From 2007-15, LGIM AUM grew c.12% pa vs global industry AUM of c.4% pa

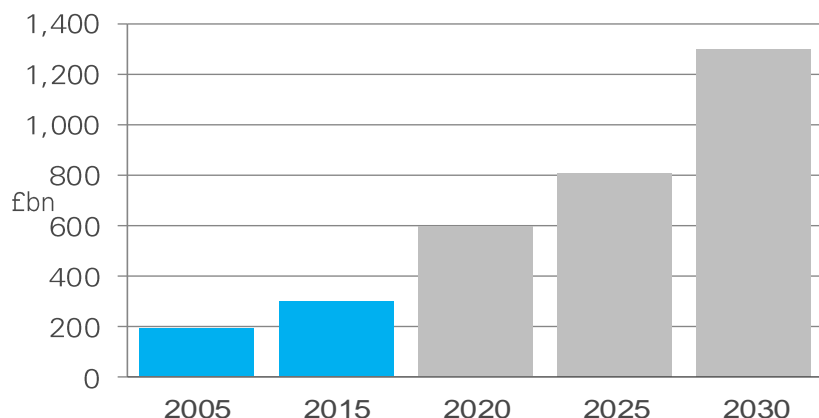
Increasing global demand for LGIM expertise

- Significant growth in the US business, focusing on demand for Index and continued strength in Solutions and Fixed Income
- Expanding into US DC market and developing US Real Assets capability
- Increasing footprint in Europe, Gulf, and Asia

Source: BCG Global Asset Management Survey 2016, LGIM analysis.

LGIM: delivering market-leading capability for UK DC clients

UK DC Savings Market Forecast



- Auto-enrolment a success with 90% opt in
- 12 million expected to be enrolled by the end of the decade, c.5 million today
- L&G - 2.2 million customers, 9,000 schemes
- Statutory minimum contribution rates increase from 2% to 5% in 2018, 8% in 2019
- Further opportunities in Japan, China and Australia

LGIM DC AUM

19% CAGR

£57.1bn

£23.6bn

2011 2014 2015 2016

Number of customers (m)

0.3

2.2

2011 2014 2015 2016

2017 focus:

- Growth of **Mastertrust**, one of the largest and fastest growing in the market
- Continue to build presence in the SME market following acquisition of stake in **Smart Pension**, an auto-enrolment platform

LGC: UK Real Asset opportunity

LONG TERM CAPITAL

Pension Funds	£1.3trn
Insurance Funds	£900bn
Sovereign Wealth Funds	£4.8trn



REDUCED CAPACITY




Banks	Governments
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FUNDING REQUIREMENT

Housing	£150bn
Regeneration	£100bn
Clean Energy	£40bn
Transport	£90bn
SME Finance	£125bn

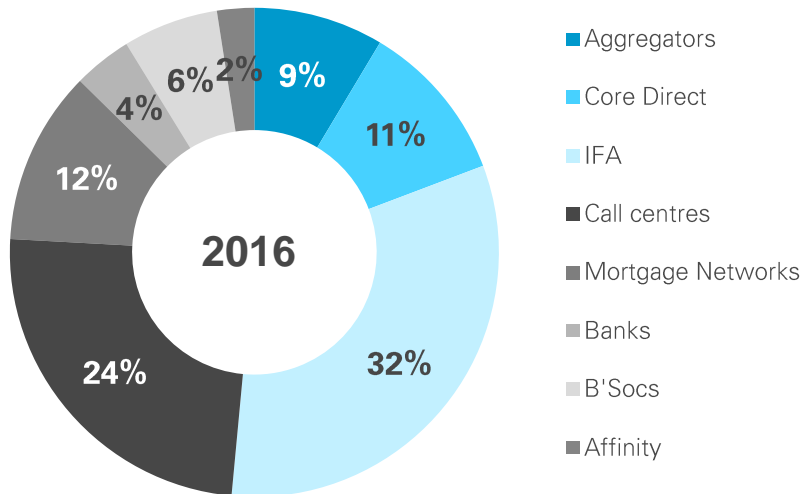
LGC: opportunity to grow in all sectors

Sector	Macro theme	Scaling up businesses	Developing new businesses
Infrastructure 	<ul style="list-style-type: none"> • UK projects worth £290bn of investment to 2020-21, 50% to be private sector funding • UK Urban Regeneration funding need of £100bn • £40bn clean energy market becoming “subsidy-free” and consolidating 	<ul style="list-style-type: none"> • Urban regeneration projects • Clean energy platforms 	<ul style="list-style-type: none"> • Further urban locations • Transportation Hubs • Energy asset technology innovation
Housing 	<ul style="list-style-type: none"> • UK builds around half of the target 300,000 new homes p.a. • ‘Generation Rent’, 5.7m private renters by 2018 • 3.3m “senior” buyers, with £1trn plus of equity seeking “downsizer” homes 	<ul style="list-style-type: none"> • CALA Homes • Build-to-rent • Build-to-sell • Strategic land bank 	<ul style="list-style-type: none"> • Manufactured house building • Affordable housing • Senior living
SME Finance 	<ul style="list-style-type: none"> • £150bn UK SME debt financing market with £60bn of new lending per year • £5bn support from UK Government to grow UK SMEs 	<ul style="list-style-type: none"> • SME Senior Secured loans (Pemberton) 	<ul style="list-style-type: none"> • SME equity

LGI: leading through digital innovation in insurance

UK - STRONG & DIVERSE DISTRIBUTION

LGI RETAIL PROTECTION

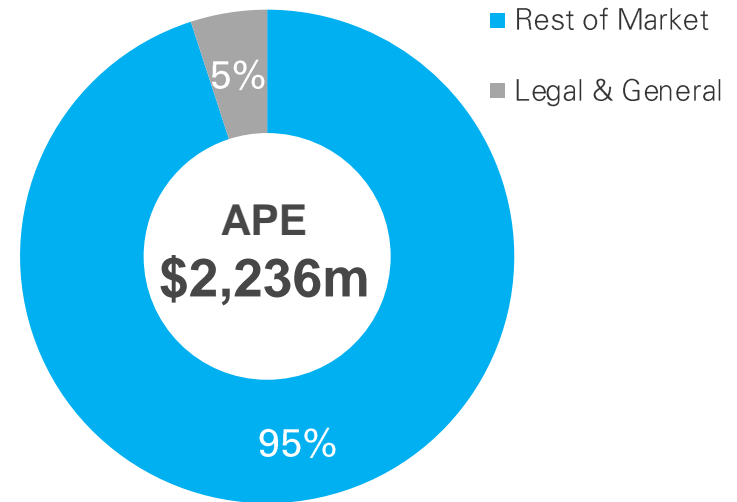


COMPETITIVE ADVANTAGE

- Market leading Retail Protection business in the UK with direct sales accounting for over 20%
- Best in class digital marketing function
- Digital eco-system enabling customers to research, buy and service their products

US - SIGNIFICANT OPPORTUNITY FOR MARKET GROWTH

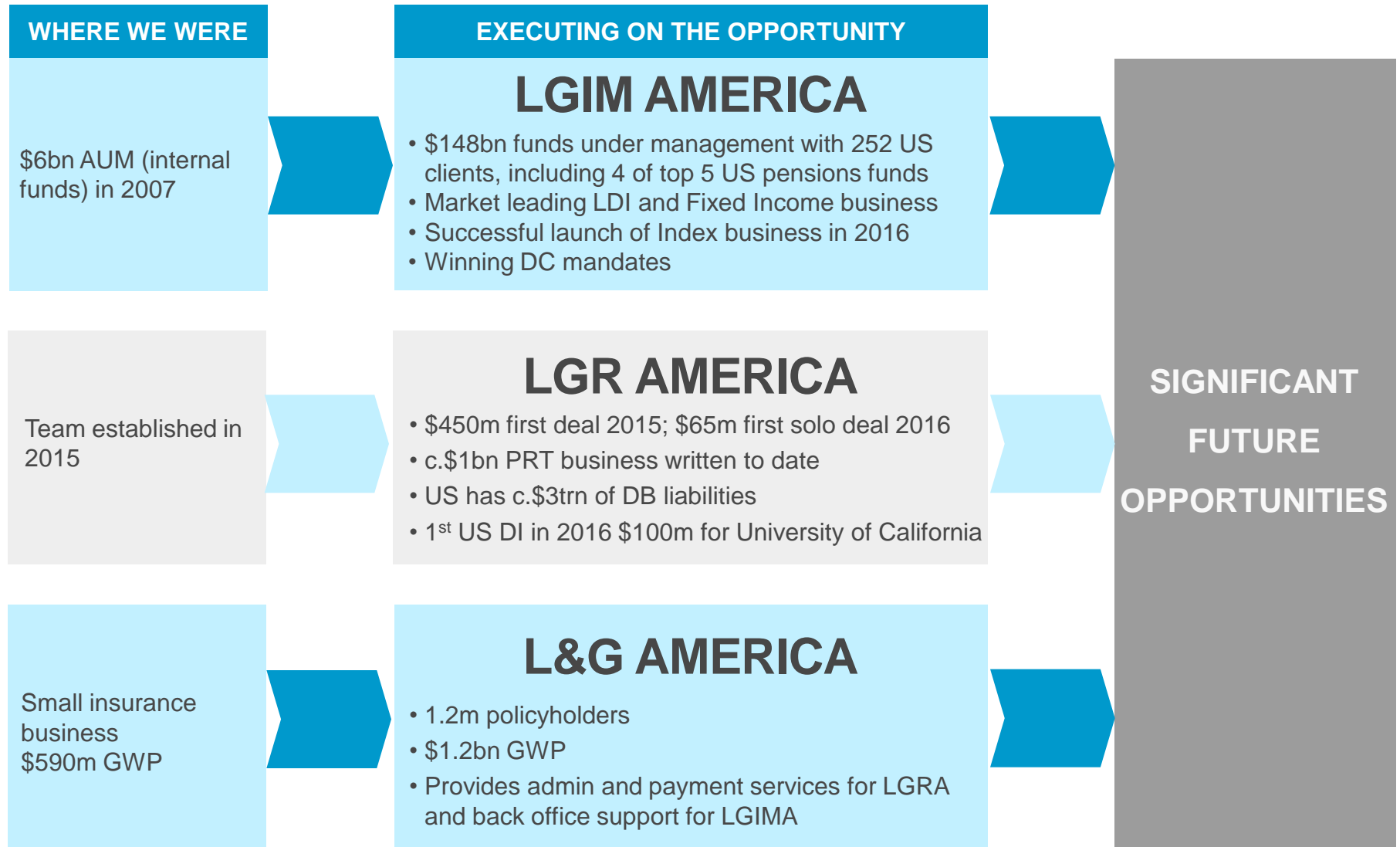
US INDIVIDUAL TERM MARKET*



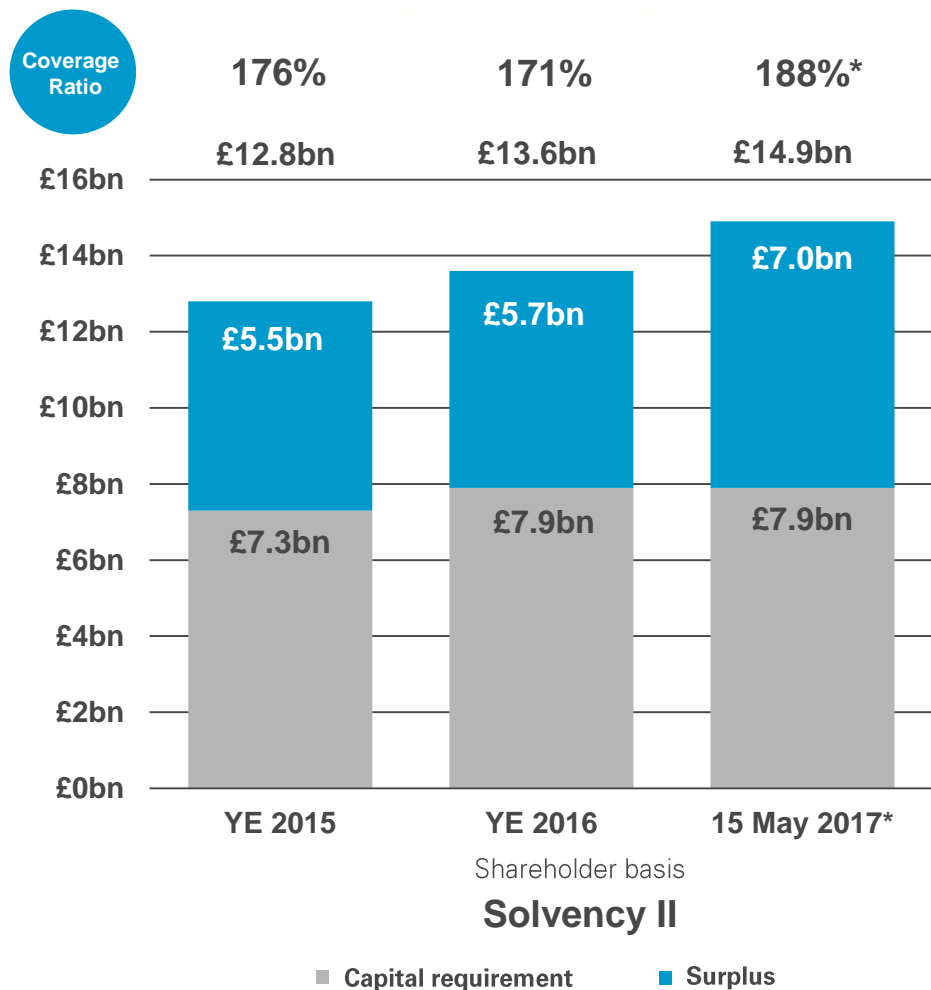
DIGITAL DIRECT OPPORTUNITY

- C.75% of US consumers research insurance online** but only 5% buy online**
- Fully digital life insurance currently under-developed
- Digital transformation is underway

We are replicating our successful UK model in the US



Growing Solvency II surplus: £7bn in 2017, 188% coverage ratio



- Solvency II surplus of **£7.0bn** as at 15 May 2017
- £12.0bn (81%) of £14.9bn eligible own funds are Tier 1 capital
- S&P credit rating AA-

The YE 2016 and 15 May 2017 figures incorporate management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at the reporting date as we believe this provides the most up to date and meaningful view of our Solvency II position. The conditions set out by the PRA to allow a formal recalculation of the Group's TMTP were not met as at end 2016 but, in line with PRA guidance, a formal recalculation will take place no later than 1st January 2018.

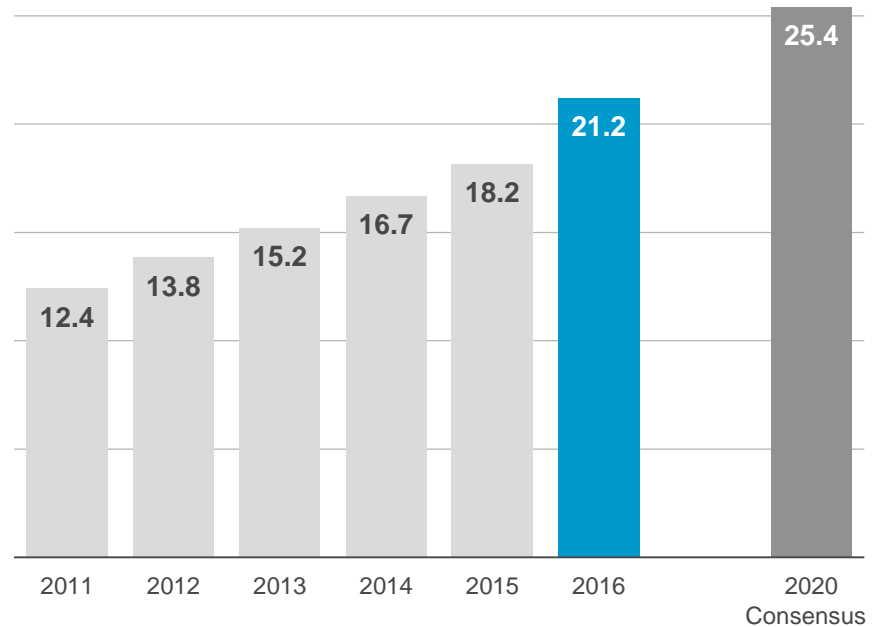
On a Solvency II proforma basis including the Own funds and SCR of the With-profits fund and our final salary pension schemes, the Group's YE 16 Solvency II coverage ratio was 165%, with Eligible Own funds of £14.3bn and SCR of £8.6bn

* Estimated Solvency II position as at 15 May 2017 and is before payment of the 2016 final dividend. After payment of final dividend, ratio at 180%.

Our financial ambition:
A similar performance
in 2016 - 20 to that
achieved in 2011 - 15

Earnings per share (p)

10% CAGR 2011 - 2015



**A positive start in 2016:
EPS up 17%**

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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Nigel Wilson, Group Chief Executive

7th June 2017

