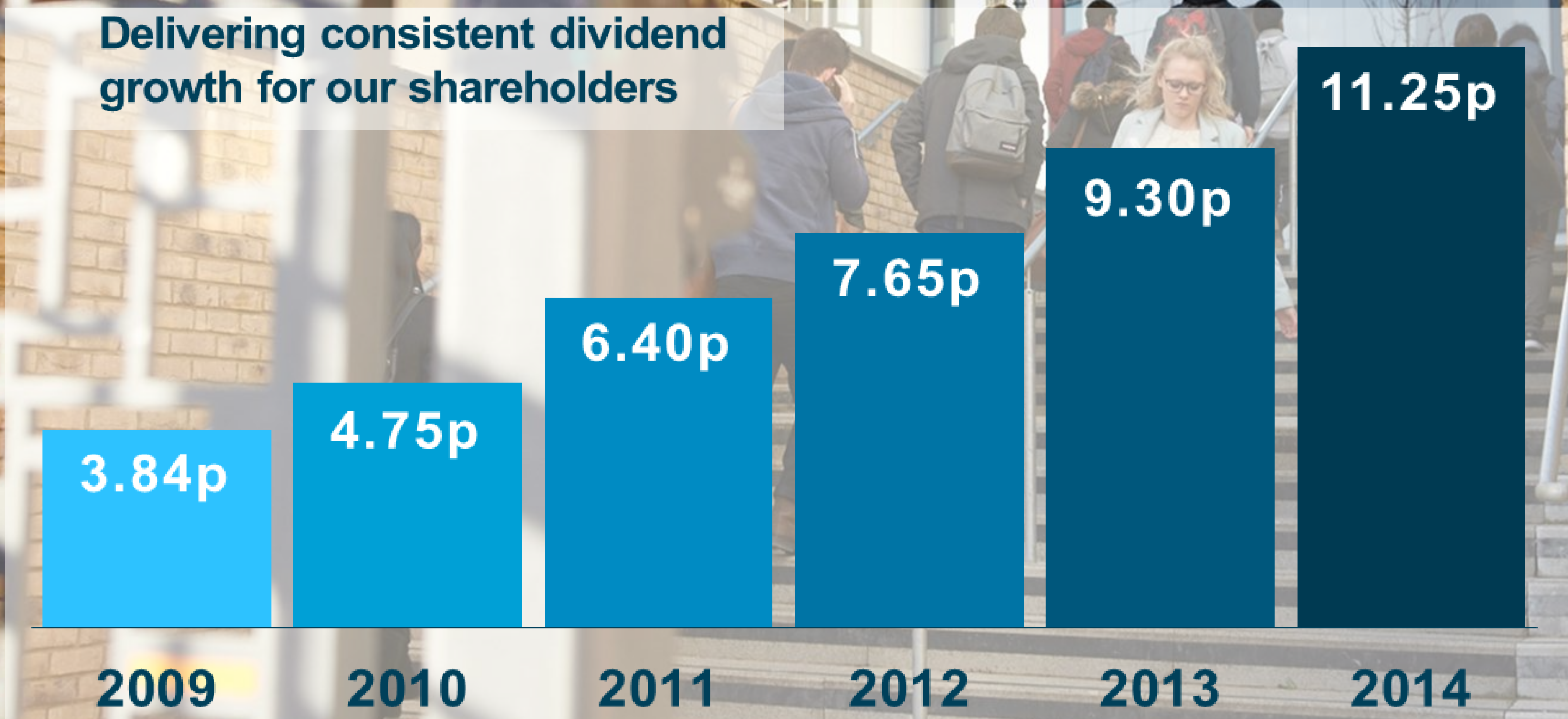
Legal & General

Morgan Stanley European Financials Conference 2015

Nigel Wilson

Group Chief Executive



Legal & General

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.

Quantitative Easing, or Financial Indigestion?

SLOW OR NO GROWTH FOR MANY	• Still a personal recession for many people in Western economies • No real wage growth as no productivity growth • QE has driven up asset prices and allowed governments to over-consume
TECHNOLOGICAL REVOLUTION: JUST BEGINNING IN FS	• Banking, Insurance and Fund management costs and prices will fall • Smaller profit pools and more transparency • Scale players will benefit from super-efficiencies • New profit pools emerging
PUBLIC POLICY: EVOLVING FAST	• Unaffordable or disproportionate welfare spend will be reduced • Governments will focus on Infrastructure and the Supply Side • Coping mechanisms needed for ageing populations
REGULATORS: JUGGLING RISK AND REWARD	• Large (excess?) capital requirements drive retrenchment • Banks: a rich source of fines and taxes • Transparency and public benefit become the formal and informal benchmarks
LEGAL & GENERAL'S RESPONSE	• Alignment to unstoppable macro-trends • Continuous (digital) industrialisation of processes • Economically and Socially Useful Products

QE, Helicopter Money or Positive, Slow Money?

"If QE had been proper money creation, with cash going into the pockets of people or the coffers of businesses, it might have sparked serious substantial increases in economic activity, which would have led to much bigger investment in real productive capital."
Robert Peston, BBC

"Abandon helicopters. Use bombers. Bomb Germany, France, Italy, Greece, the entire Eurozone. Bomb them with banknotes, cash, anything to boost demand. The money must go straight to households, not to banks. Banks have had their day and miserably failed to spend. From now on they get nothing."
Simon Jenkins, Journalist at The Guardian

"...QE just puts off necessary reforms. We're in a period when investment should be high. People should be saying: 'I can do something useful with all the cheap money'. But the investment we're seeing is very disappointing."
Matt King, Credit Strategist at Citi

"This staggering £275bn largely ended up with the banks. We need a different kind of QE, to help the wider economy directly and to implement some badly needed green projects that would enhance the sustainability of the economy and improve the environment – as well as creating thousands of new jobs"
Professor Richard Werner, University of Southampton

"The level of this type of QE could be set to €1 trillion over the next few years…this form of QE backs productive investments directly, as opposed to inflating risky financial instruments"
Yanis Varoufakis, Greek Finance Minister

Real wages, productivity and population

Past 50 years:

Annual Labour Growth	1.7%
Annual Productivity Growth	1.8%

Next 50 Years:

Annual Labour Growth	0.3%

At 1.8% productivity growth, GDP growth will be 40% lower

Source: McKinsey

Long term direct investments

£15bn

Direct investment programme, with £5.7 billion invested to date

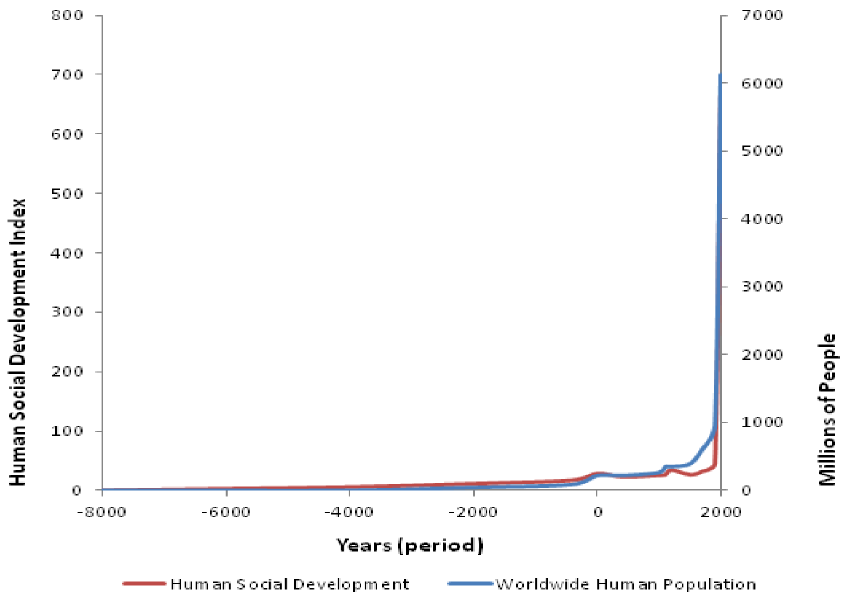
"We've already made multi-million investments into student accommodation over the last three years, funding high-quality developments, with long leases, backed by premium universities in first-class locations."

Slow Money: Media City, Salford

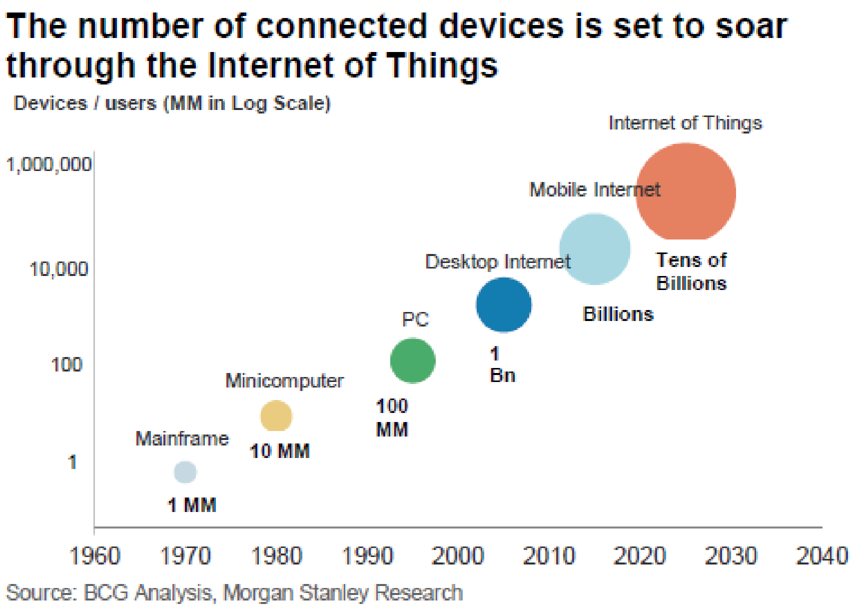
- Investment in a £500m Development
- Part of our £5.7bn Direct Investments
- Illiquidity boosts risk-adjusted returns

- LGC Net Cash: £162m
- LGC Operating Profit: £203m

Digital Delivery: Revolutionary Growth

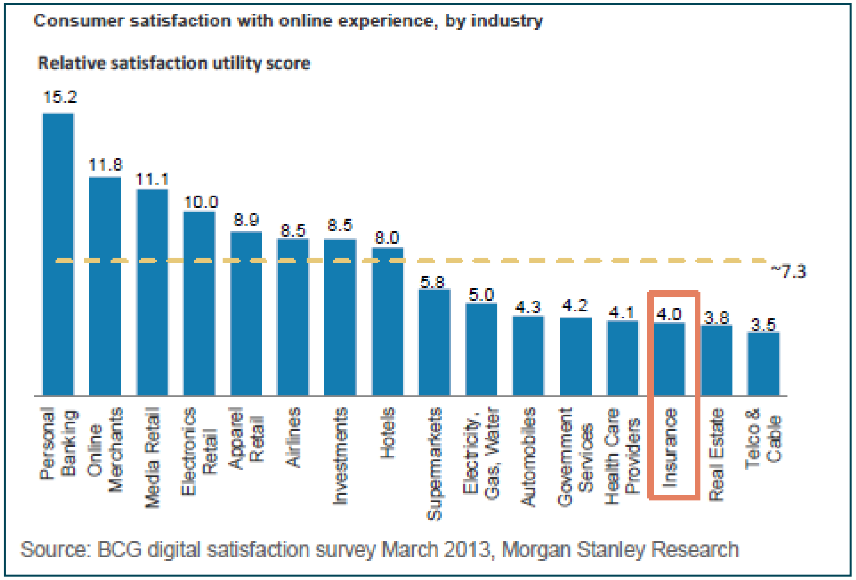


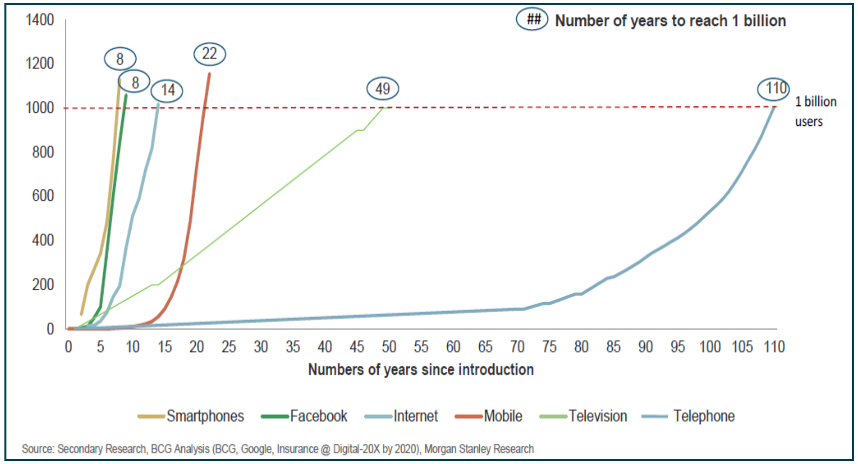
Source: "The Second Machine Age", Brynjolfsson and McAfee



- Industrialisation of FS Manufacturing and Distribution
- Lower, more transparent prices for customers
- Smaller profit pools shared between fewer players
- New profit pools emerging

Industrialisation of manufacturing and distribution





- Historically industry slow to implement new technology
- Insurance industry lags behind for online experience
- Adoption of digital technology is set to accelerate

Providing our retirement customers with freedom & choice

Housing, Lifetime Mortgages

- Retirement housing for right sizers
- Newlife acquisition expected to complete in H1 2015

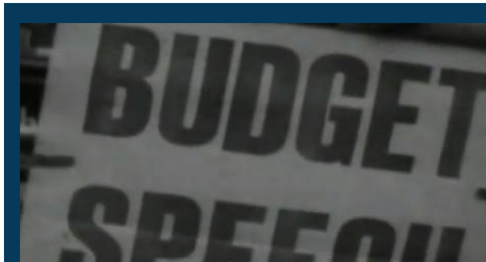
newlife
equity release

Freedom & Choice

- Cash-Out Retirement Plan
- Fixed Term Retirement Plan
- Secondary Annuity Auctions

Policy changes

- 2014: “No-one will have to buy an annuity”
- 2015: Secondary market for annuities



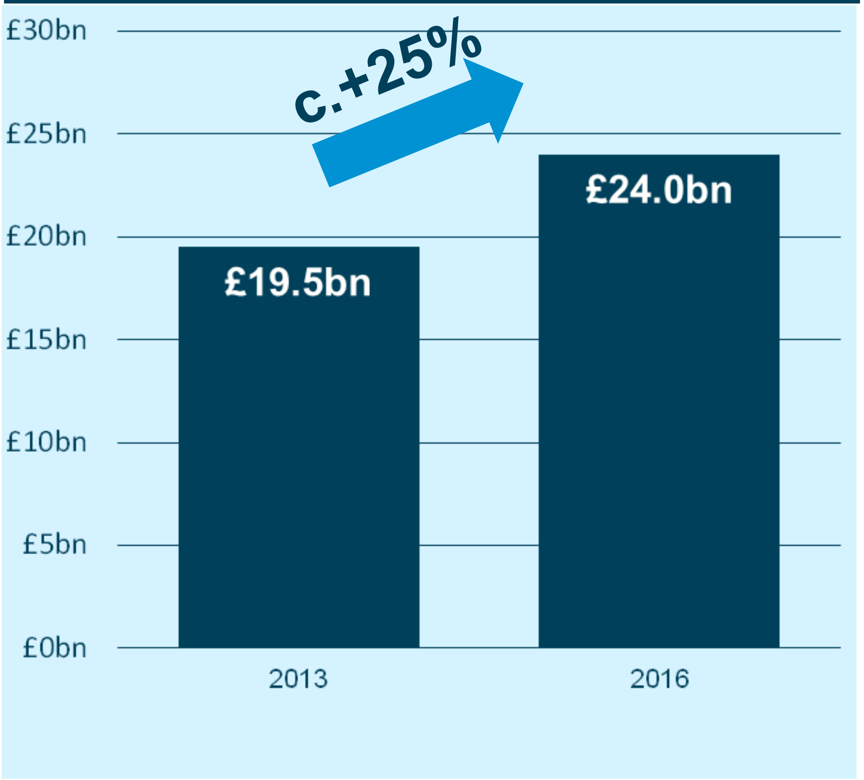
Typical personal balance sheet at retirement

	ASSETS (£'000)
Average house value	180
State pension, £148pw index-linked	200
Average pension savings, average DC pot £30k	80
Lifetime value of free bus pass, senior rail card, free TV licence from 75, winter fuel payment, Christmas bonus, free prescriptions	15
Savings	20
TOTAL	**c.495**

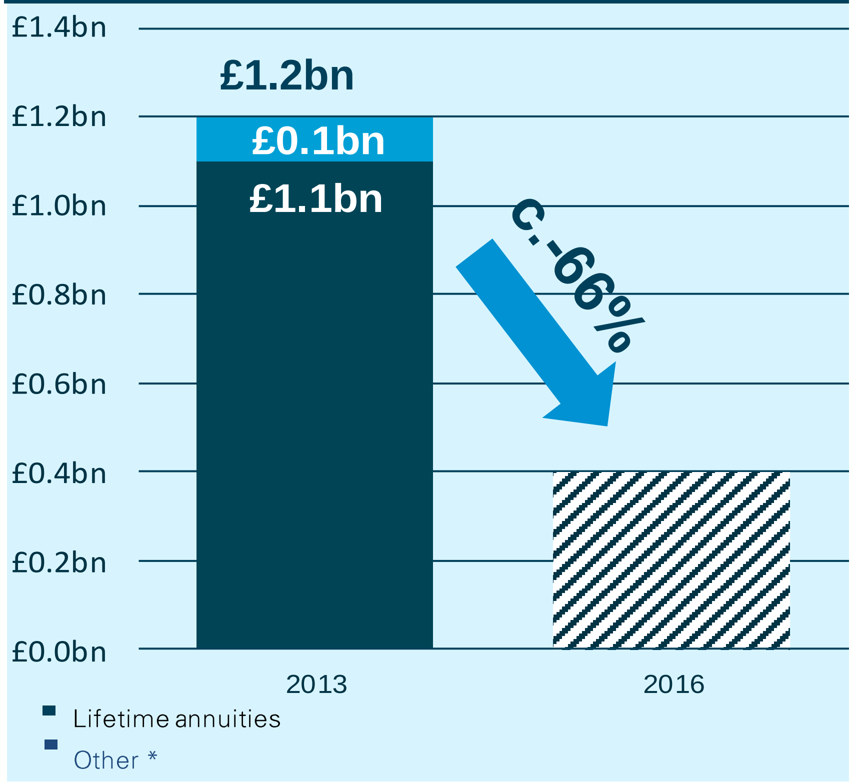
Beyond April 2015

EXISTING PROFIT POOLS WILL SHRINK – NEW POOLS WILL EMERGE AS MARKET SIZE INCREASES

MARKET SIZE



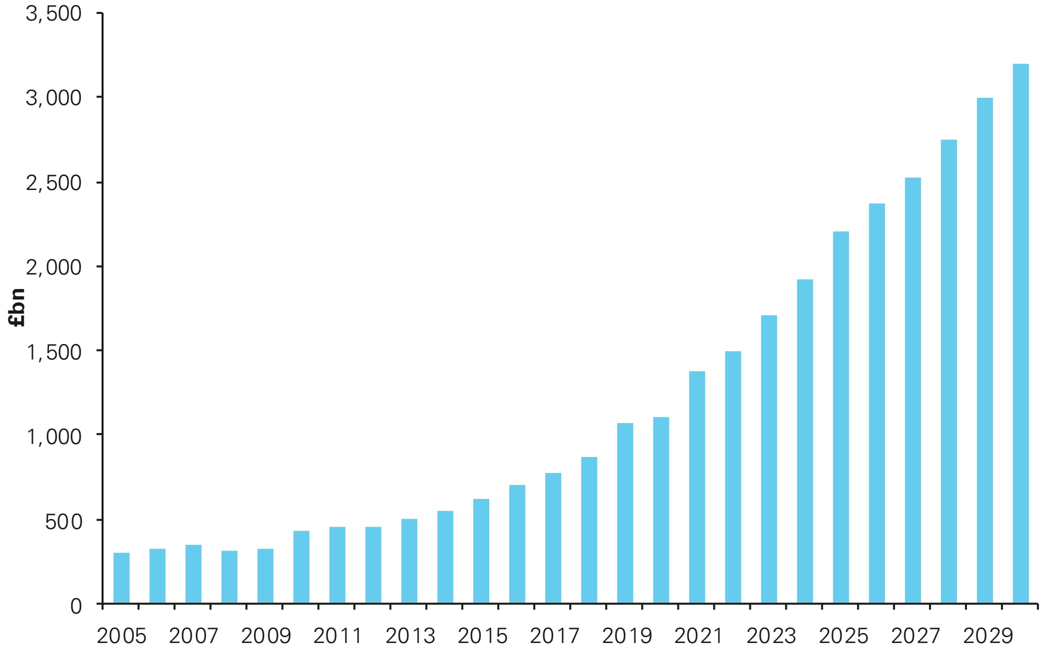
PROFIT POOL **



*Other includes Drawdown, Cash, Equity Release (Lifetime Mortgages) and Alternatives.
**L&G Estimates.

The changing landscape for UK pension savings

DEFINED CONTRIBUTION SAVINGS

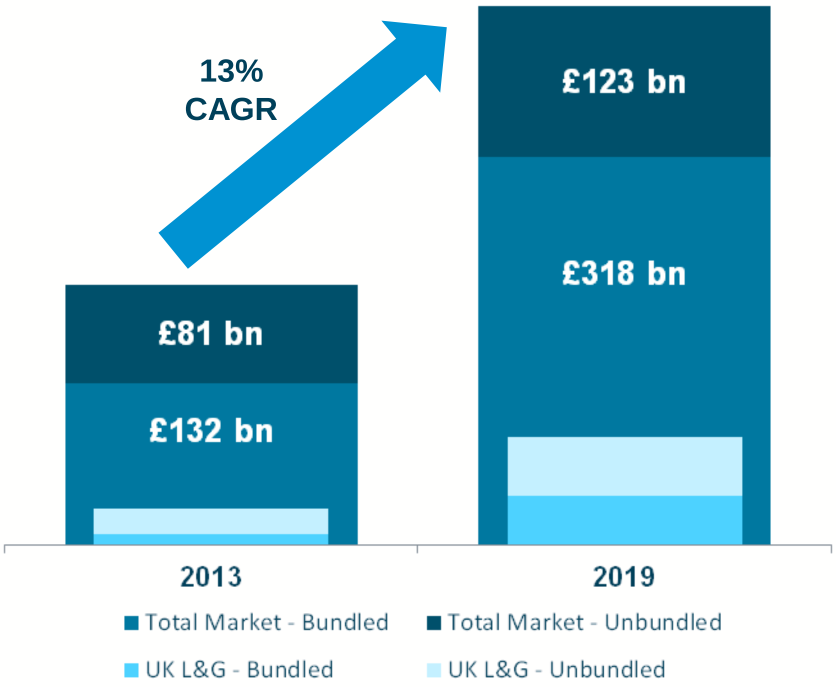


- Increase in DC savings driven by auto-enrolment, with 12 million individuals ultimately expected to be enrolled in workplace savings schemes, compared to c.5 million today.
- Statutory minimum contribution rates will increase from 2% today to 5% in 2017 and up to 8% in 2018.
- Minimum contribution rates may have to be increased still further.

Source: PPI, Towers Watson, ONS, FSA, Oliver Wyman
Produced by Legal and General Investment Management

Growth potential of UK DC Workplace market

UK DC Workplace bundled and unbundled market



UK DC Workplace market potential

- Combined LGAS and LGIM bundled and unbundled share of total UK Workplace DC market was 14% in 2013
- UK DC market at least 12% year on year growth, driven by:
  - auto-enrolment and greater contributions
  - large scheme DB to DC
  - attraction of pensions post-budget
- Expected market consolidation as scale essential to generate profit – estimated just 4/5 providers will have 80% of total market assets
- Charge cap of 75bps from 2015 with further reductions likely – LGAS/LGIM well positioned

Source: Spence Johnson 2014 and Legal & General estimates

Comprehensive suite of de-risking solutions

LEGAL & GENERAL IN US

LEGAL & GENERAL IN RETIREMENT

Passive | Active Fixed | LDI & multi-asset funds | Longevity insurance | Buy-in | Buy-out

LEGAL & GENERAL INVESTMENT MANAGEMENT

Index funds	Active fixed interest	Solutions[1]	Longevity insurance[2]	Buy-in	Buy-out
ASSETS (£bn)					
274.8	103.8	293.3	6.0	44.2	
2006		2007			2014 (£2.5bn)

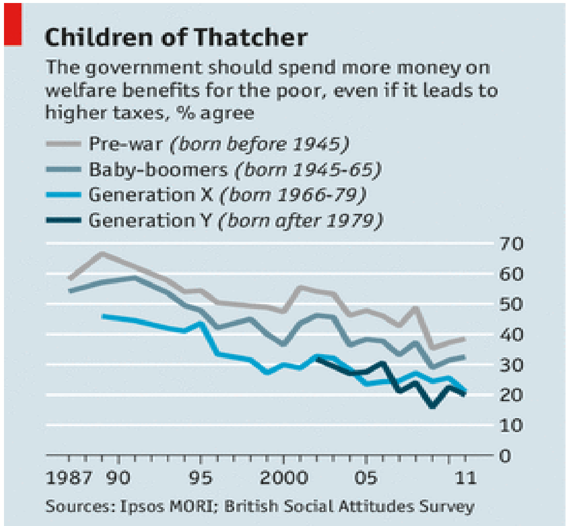
- Legal & General is the only company which participates in all the aspects of the de-risking journey
- 2014 a record year for annuities with £8.5bn of annuity transactions including two of the largest ever UK bulk deals
- ICI £3.0bn largest ever UK buy-in
- TRW £2.5bn largest ever UK buy-out

1. Includes overlay assets, which comprise derivative notionals associated with solutions business.
2. Deal size.

Unaffordable Welfare, Beveridge 2.0 and "Generation Y"

"Europe accounts for just over 7% of the world's population, produces around 25% of global GDP and has to finance c.50% of global social spending… It's obvious it will have to work very hard to maintain its prosperity and way of life"

Angela Merkel, German Chancellor



*The Economist 1 June 2013. From the print edition

Polling shows 18-24 year-olds are increasingly likely to see welfare as a personal, not a State, responsibility.

Public-private risk-sharing offers a solution.

Four steps to Beveridge 2.0

Step			Saving / (cost) to Government
1	Replace pension tax relief with flat rate	Introducing a flat rate of pension contribution tax relief at 25% saves UK government £8bn p.a.	£8bn
2	Phase out 'contributory' benefits	Contributory ESA costs £4.35bn Contributory JSA costs £480m	£5bn
3	Raise employees NI threshold	Increasing the employees NI threshold to £10k costs £4.7bn	£(4.7)bn
4	Support employers	Increase the Enterprise Allowance to £4k, benefitting SMEs, costs c£1.5bn	£(1.5)bn

Net saving to UK Government of £6.8 billion

Regulatory changes

Financial regulators and interested parties, just affecting us in the UK:

Bank of England

Financial Services Compensation Scheme

Competition and Markets Authority

Prudential Regulation Authority

EU Council

Financial Stability Board

European Banking Authority

Money Advice Service

UK Government

European Insurance and Occupational Pensions Authority

European Securities and Market Authority

Panel on Takeovers and Mergers

Office of Fair Trading

Pensions Regulator

Financial Conduct Authority

Financial Ombudsman Service

UK Listing Authority

Clear and focused strategy

GROWTH DRIVERS	2014 ACHIEVEMENTS
AGEING POPULATIONS	• LGR annuity transactions over £8.5bn including two of the largest ever UK bulk deals • Workplace assets over £11bn, up 28% • LDI assets of £293bn, up 26%
GLOBALISATION OF ASSET MARKETS	• International assets of £129bn, up 110%* • Entered US index and DC market • Won first $1bn+ passive Asian mandate
WELFARE REFORMS	• UK protection premiums £1.4bn, up 6% • Market leading retail protection business • Workplace has 1.2m customers and 2,287 schemes on the platform
DIGITAL LIFESTYLES	• Retail protection straight through processing over 80% • Platforms assets of £72bn, up 12% • Launched Direct to Consumer (D2C) investment platform in Workplace for SMEs
BANK RETRENCHMENT	• £5.7bn of direct investments, up 98% • Further investment in housebuilding, Banner Homes and in SME lending, Pemberton (40%) • Co-investment of £370m with PGGM (major Dutch pension fund) managed by LGP

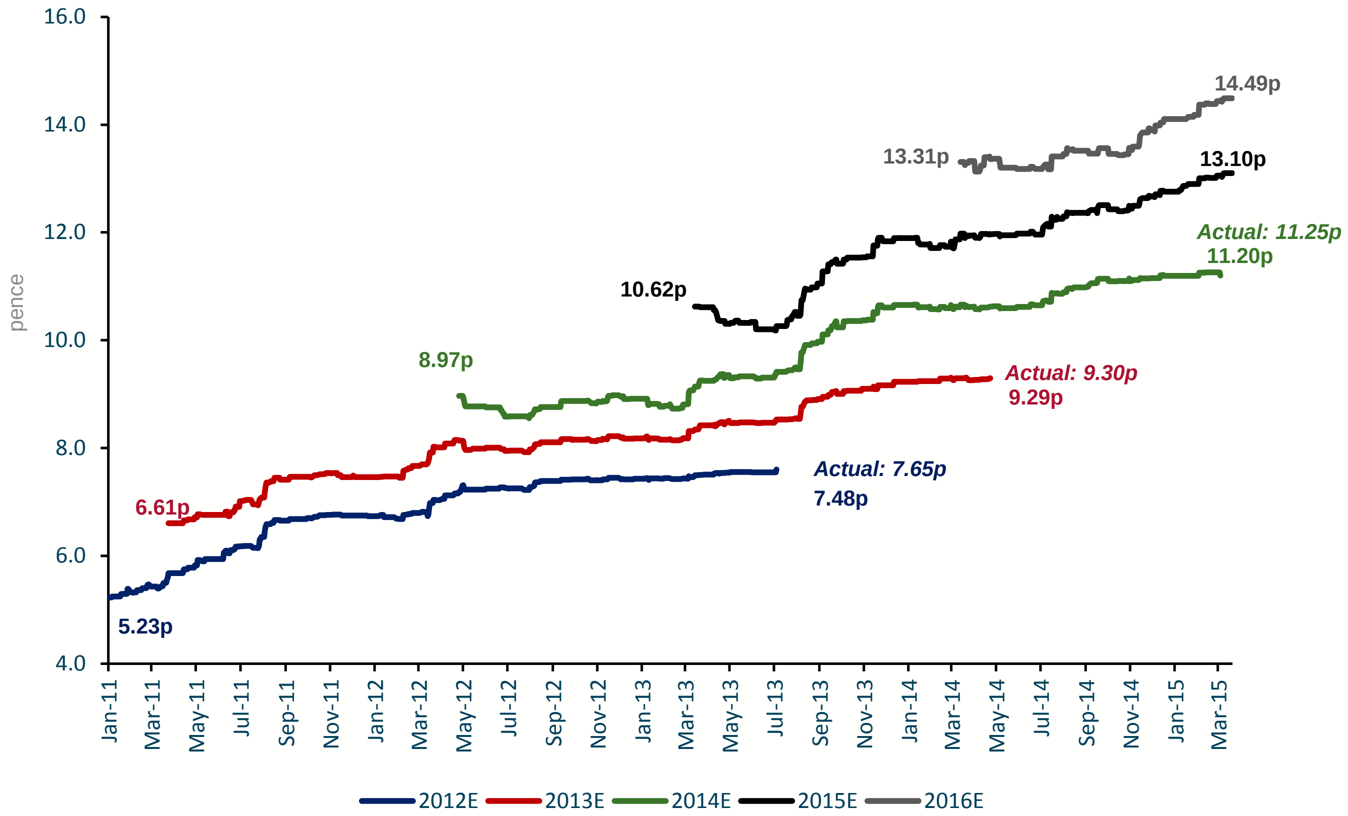
* Growth includes transfer of c.$60bn index funds to the US in 2014.

Financial highlights for 2014

Annuity assets	£44bn	(2013: £34bn)	+28%
LGIM assets	£709bn	(2013: £612bn)	+16%
UK Protection GWP	£1.4bn	(2013: £1.3bn)	+6%
Net cash generation	£1,104m	(2013: £1,002m)	+10%
Operational cash generation	£1,101m	(2013: £1,042m)	+6%
Operating profit	£1,275m	(2013: £1,158m)	+10%
Profit before tax	£1,238m	(2013: £1,144m)	+8%
Profit after tax	£992m	(2013: £906m)	+9%
Earnings per share	16.70p	(2013: 15.20p)	+10%
IFRS return on equity	16.9%	(2013: 16.1%)	
Full year dividend	11.25p	(2013: 9.30p)	+21%
Net cash dividend cover	1.65 times	(2013: 1.82 times)	

Consensus Dividend Expectations

Legal & General Dividend Consensus



Prospective 2015E dividend yields:

L&G[1]: 4.5%

FTSE 100: 3.9%

Dow Jones: 2.4%

S&P 500: 2.0%

Source: Factset, Bloomberg

1. Based on 20th March share price of 293.3p and consensus 2015E DPS of 13.10p.

Further significant progress, however more to do in 2015

DIVISIONS	2014 OPERATIONAL CASH £m	2015 GUIDANCE £m	2015 KEY ACTIONS
LGR	292	340	• Creation of international business • Growth in direct sales and lifetime mortgages
Insurance excl. GI	286	290	• Reduce unit costs • Profitably grow the non-growing businesses e.g. Group protection
Savings[1]	127	135	• Reduce unit costs • Improve platform profitably
LGA	46	50	• Reduce unit costs • Help establish LGR in the US
LGC	162	170	• Create private rental sector as asset class • Accelerate urban regeneration e.g. RIO, Walthamstow
LGIM[1]	275		• Accelerate US and Asian growth • Accelerate retail and DC growth
GI	46		• Build direct distribution channel • Evaluate new lines of business
Group debt costs	(112)	(116)	
Other costs	(21)		
Total operational cash	**1,101**		
New business surplus	3		
Total net cash	**1,104**		
Operating costs[2]	1,250	1,170[3]	• 6.4% nominal cost reduction

1. Workplace savings is excluded from Savings operational cash and cash guidance, and included in LGIM operational cash.
2. Operating costs represent management expenses and project expenditure incurred during the year. This excludes defined benefit scheme costs.
3. Guidance excludes c.£40m restructuring costs to achieve the c.£80m reduction in operating costs.

Sustained growth

2009 – 2014

Bolt-on M&A
Organic growth
Cash focus

5 key macro trends

2014: EPS 16.70p, DPS 11.25p, ROE 16.9%, Net cash £1.1bn

2015 – 2019

- Doubling size of LGIMA assets
- Direct investments to exceed £15bn
- Establishing LGR's international business
- Grow UK GWP at twice UK GDP
- Building market leading position in UK DC
- Creating new business segment in housing and urban regeneration
- Launching a mobile business to drive customer growth in UK and internationally (Africa and Asia)
- Leading welfare reform with new savings and insurance products
- Reducing operating costs in nominal terms

Bolt-on M&A
Organic growth
Cash focus

5 key macro trends

2019: EPS, DPS, ROE, Net cash