

# ▶ A SIMPLE BUSINESS IN A COMPLEX WORLD

**Bank of America Merrill Lynch  
17th Annual Banking & Insurance CEO Conference**

**25 September 2012**

EVERY  
DAY  
MATTERS



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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.

# WE HAVE A SIMPLE BUSINESS THAT HAS AVOIDED COMPLEXITIES.

## 1. We manage market leading businesses in attractive markets:

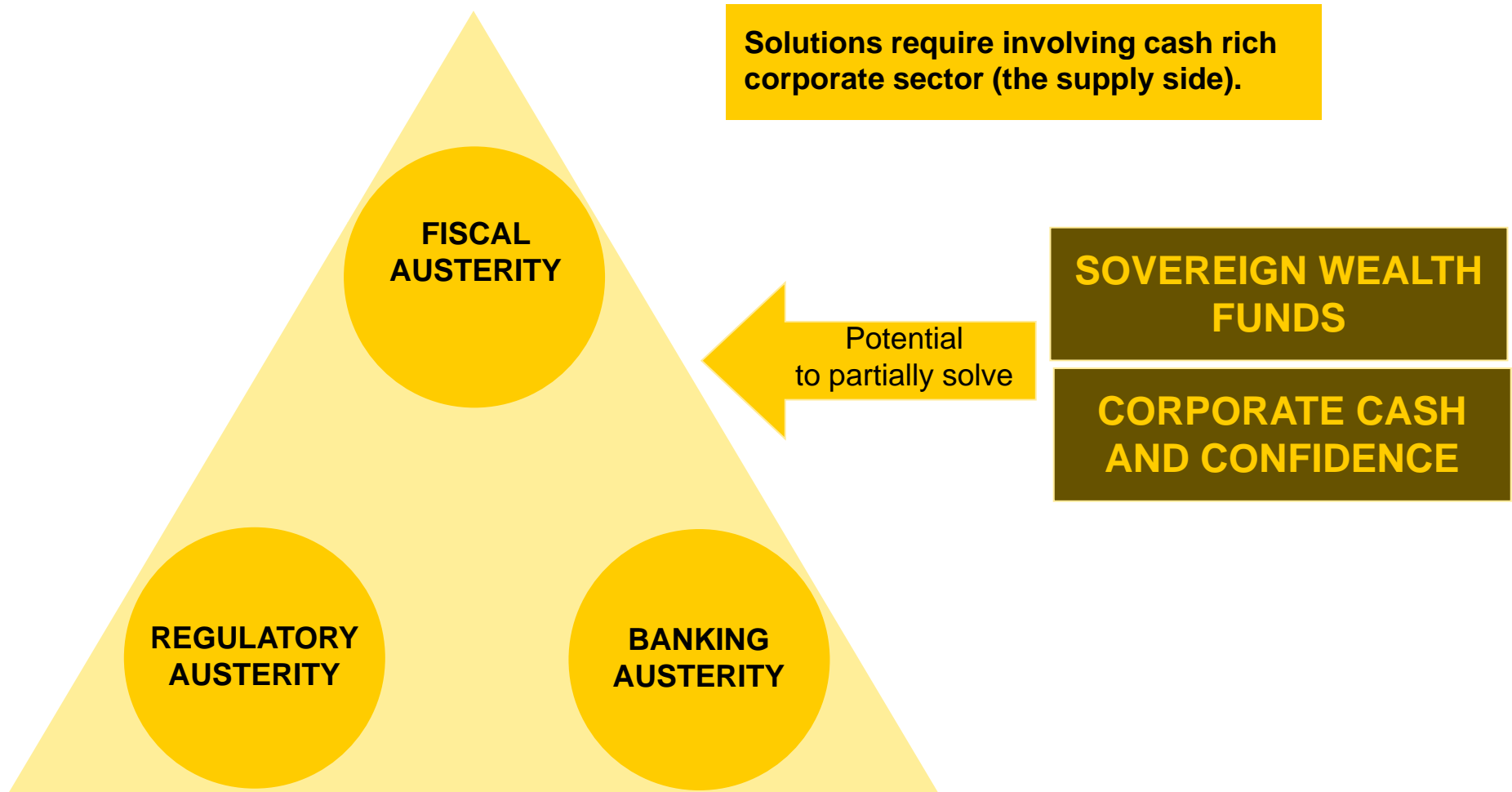
- i. We are growing our strong franchises, LGIM, UK Protection and Annuities
- ii. We are improving franchises: US Protection, UK Savings
- iii. We are focussing on developing plans to create value for France, Netherlands, India, Gulf, GI and Housing (Network)
- iv. We are committed to providing transparent financial reporting

## 2. Almost as important is what we are not:

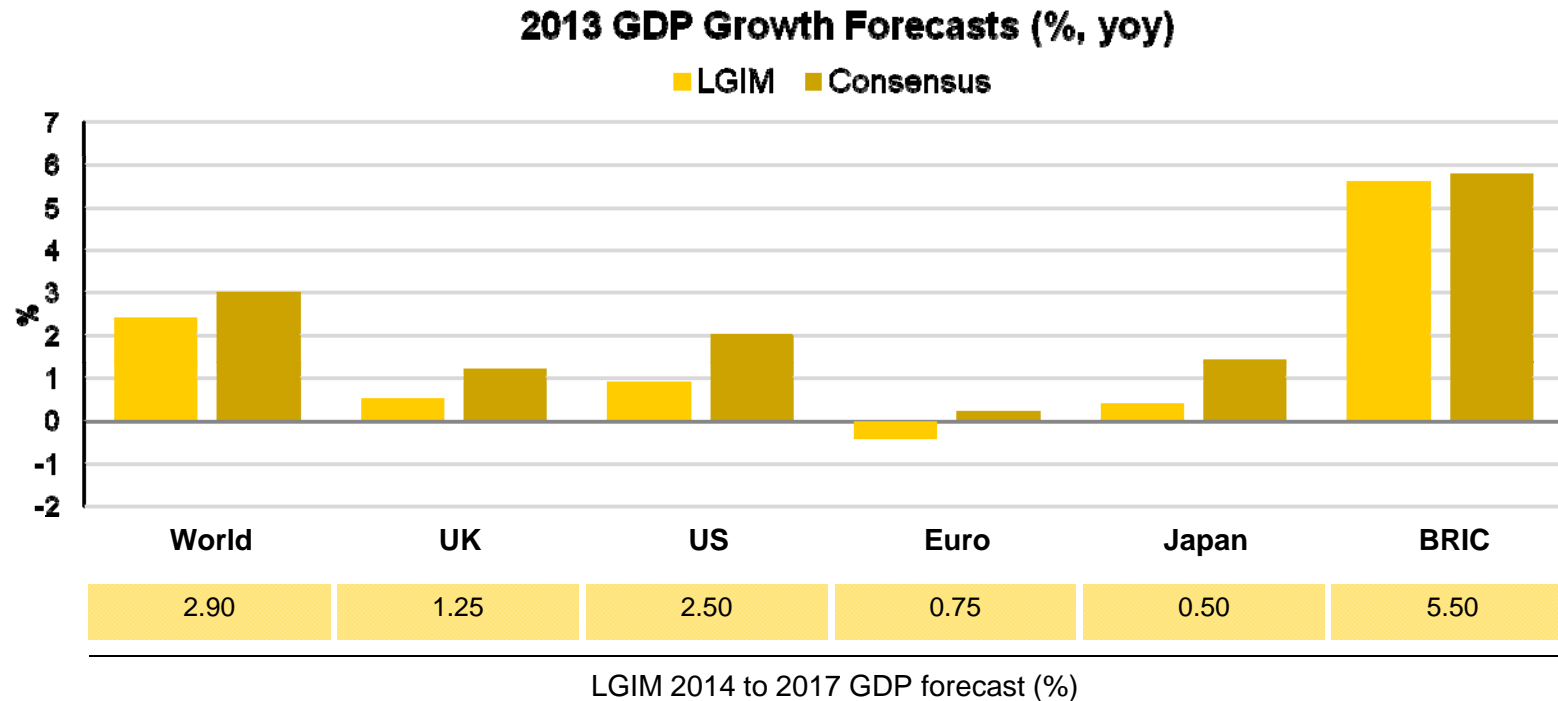
- i. No burning platforms
- ii. We don't sell products or take risks we don't understand
- iii. Minimal "European" long term interest rate guaranteed products and no US variable annuities resulting in complex balance sheet
- iv. Minimal exposure to problem assets e.g. sovereign debt, Euro sub bank debt

# TRIANGLE OF AUSTERITY.

Huge Global Imbalances, Solutions slow to emerge

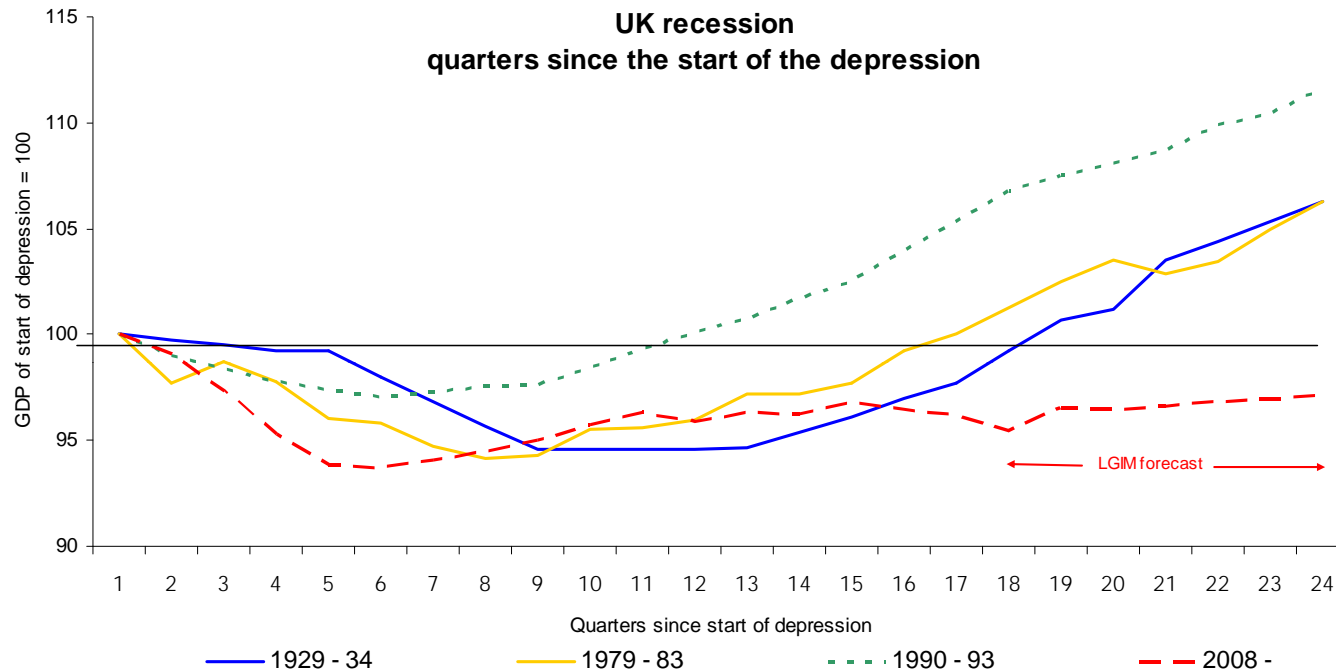


# GLOBAL STRESSES AND COMPLEXITIES.



- Fiscal strains (Southern European Sovereigns growth negative, fast approaching US fiscal cliff)
- Asian growth maturing
- Complex international trade tensions
- Poor monetary transmission through global banking system

# UK MID-RECESSION?



- Small GDP rebound: Q3(Olympics, construction) versus Q2 (Jubilee holiday, wet weather)
- Weak underlying trends: Unemployment unchanged over 18 months, housing transactions remain sluggish
- Inflation sticky: upwards pressures on goods prices from imports but domestic wage growth remaining subdued.
- Deficit unchanged: £119bn in 2011/12, similar in 2012/13.

# INSURERS ARE NOT BANKS.

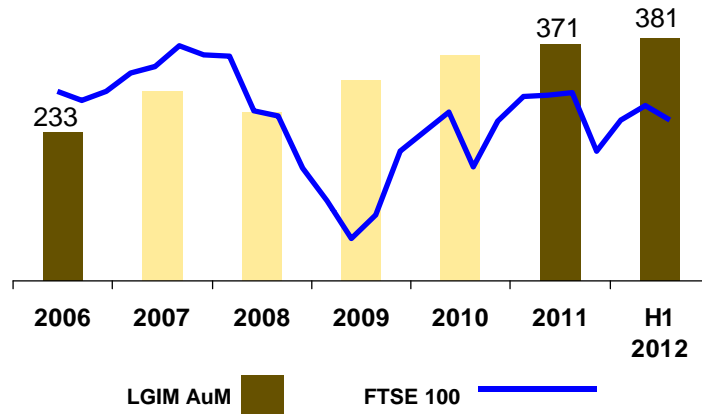
	Insurers	Banks
Liquidity	Independent : no central banks support	Dependent on central banks
Solvency	Strong	Recapitalising over medium term
Crisis resilience	High survival rate	Poor survival rate
Assets	Valued by market	Valued by banks
Regulation	Prudent principles	Pro-cyclical rules
Funding	Long term	Short term

- Banks withdrawing capital from lending, market making and asset management
- Banks capital markets intermediation broken down for many sectors, but insurers still need to fund customer savings
- Long term guaranteed products (e.g. annuities) “illiquid” – insurer captures yield at point of purchase and hold assets to maturity, no return of premium.
- Insurers benefit from diversification between financial and insurance risks i.e. longevity versus credit

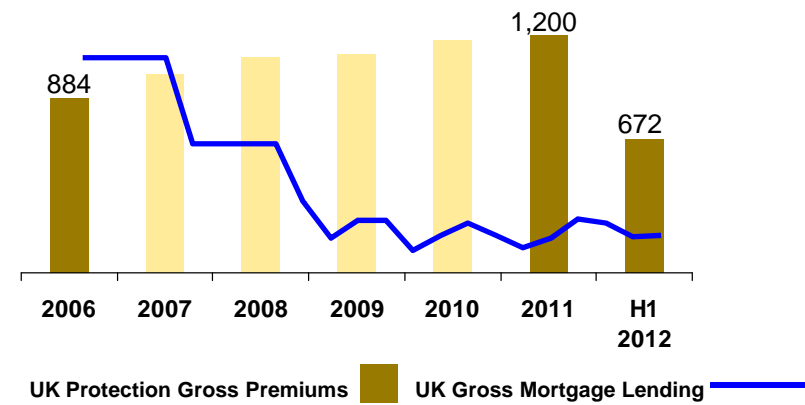
**Insurer sector increasingly establishing asset management and direct provision of credit and capital**

# L&G RESILIENT MODEL.

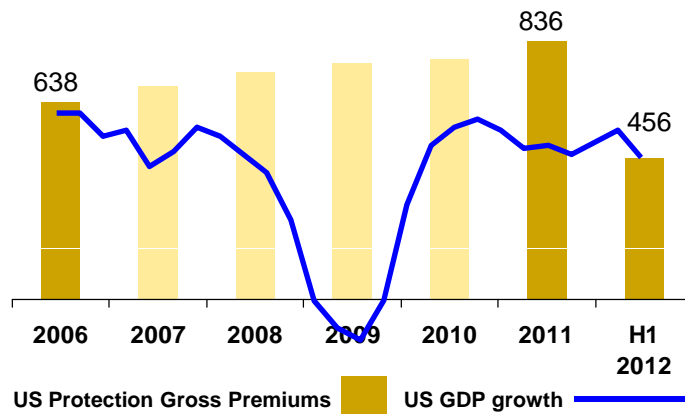
LGIM Assets under Management (£bn)



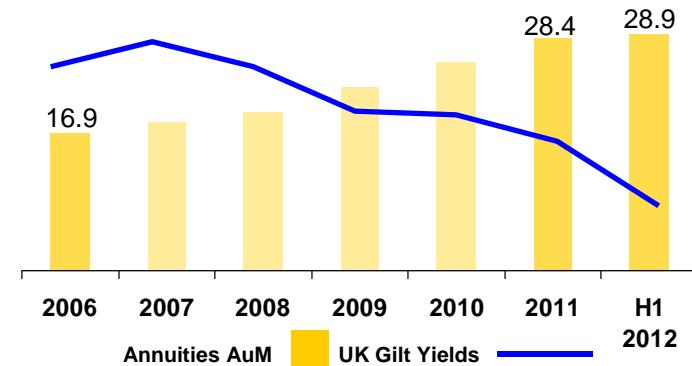
UK protection gross premiums (£m)



US protection gross premiums (\$m)



Annuities Assets under Management (£bn)





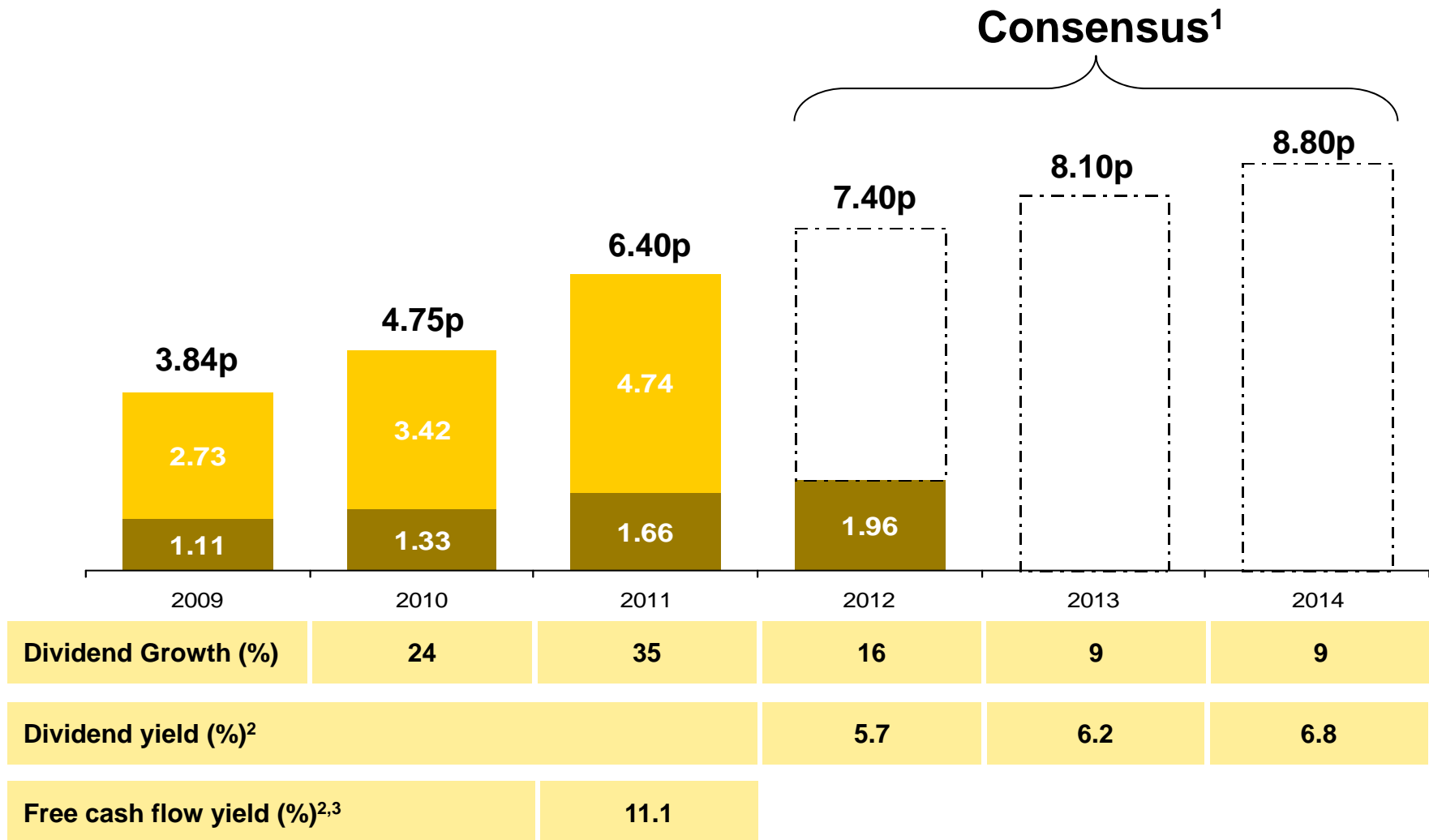
# DISCIPLINED ACTIONS IN OUR BUSINESS.

1. Portfolio of economic choices. Not boosting yield at the expense of risk, no funding trades, no “collateral upgrades”
2. Improving asset and liability matching and management of interest rate and inflation risk
3. Attractively priced diversification
4. Expected Euro sovereign problems, avoided high exposure

Annuity asset portfolio	£bn
GIIPS sovereigns (all Italy)	0.2
Other sovereigns	3.8
Other assets	26.7
<b>Total</b>	<b>30.7</b>

5. Expected challenges for Banks and reduced holdings
6. Understanding and deep data on longevity and mortality improves selection of risk and predictability of experience

# STRONG DIVIDEND GROWTH.



1. Source: Bloomberg at 19 September 2012.

2. Based on a share price of 130p.

3. Net cash generation as a percentage of market capitalisation. Operational cash generation as a percentage of market capitalisation is 12.4%.

# H1 PERFORMANCE HIGHLIGHTS.

1. Interim dividend up 18% to 1.96p per share
2. Earnings per share up 14% to 6.96p
3. Operating profit up 5% to £518 million
4. IFRS profit before tax up 11% to £525 million
5. IFRS return on equity 15.9% (H1 2011: 15.0%)
6. Operational cash generation £471m, net cash generation £407m. 98% of operational cash generation from the UK and US
7. Strong balance sheet: IGD surplus £3.8bn with 224% coverage ratio and minimal exposure to European peripheral sovereign debt
8. Growth in shareholder assets to £6.0bn from £4.2bn in January 2010.
9. Market cap of £8.0bn on 21 September 2012.

# H1 2012: SOLID RESULTS: NO SURPRISES.

Strong linkage between operational cash, profits, earnings and dividends.

All in £m	Operational cash generation	New business strain	Net cash generation	Experience variances	Changes in valuation assumptions	Non-cash items	Investment gains and losses, international and other	IFRS profit/(loss) after tax	Tax expense/(credit)	IFRS profit/(loss) before tax
Annuities	121	1	122	16	-	(33)	-	105	34	139
Protection & Housing	114	(33)	81	(10)	18	11	-	100	33	133
Investment mgt	97	-	97	-	-	-	-	97	22	119
Savings	88	(32)	56	(15)	2	16	(4)	55	18	73
<b>UK divisions</b>	<b>420</b>	<b>(64)</b>	<b>356</b>	<b>(9)</b>	<b>20</b>	<b>(6)</b>	<b>(4)</b>	<b>357</b>	<b>107</b>	<b>464</b>
US / other non-UK	39	-	39	-	-	-	1	40	24	64
GC&F	12	-	12	-	-	-	-	12	1	13
Investment projects	-	-	-	-	-	-	(17)	(17)	(6)	(23)
<b>Operating profit</b>	<b>471</b>	<b>(64)</b>	<b>407</b>	<b>(9)</b>	<b>20</b>	<b>(6)</b>	<b>(20)</b>	<b>392</b>	<b>126</b>	<b>518</b>
Variances*	-	-	-	-	-	-	17	17	(11)	6
Other	-	-	-	-	-	-	(2)	(2)	3	1
<b>Total</b>	<b>471</b>	<b>(64)</b>	<b>407</b>	<b>(9)</b>	<b>20</b>	<b>(6)</b>	<b>(5)</b>	<b>407</b>	<b>118</b>	<b>525</b>
<b>Per share</b>	<b>8.08</b>		<b>6.98</b>					<b>6.96</b>		
<b>Dividend per share</b>			<b>1.96</b>					<b>1.96</b>		

\*Note: Investment Variance; £15m Asset related, £(9)m Other (incl. mark to market of interest rate swaps)

# FY 2011: Linkage between operational cash, profits, earnings and dividends.

All in £m	Operational cash generation	New business strain	Net cash generation	Experience variances	Changes in valuation assumptions	Non-cash items	Investment gains and losses, international and other	IFRS profit/(loss) after tax	Tax expense/(credit)	IFRS profit/(loss) before tax
Risk	482	(31)	451	22	24	(86)	-	411	150	561
Savings	174	(63)	111	(12)	(5)	6	(6)	94	34	128
Investment mgt	189	-	189	-	-	-	-	189	45	234
<b>UK divisions</b>	<b>845</b>	<b>(94)</b>	<b>751</b>	<b>10</b>	<b>19</b>	<b>(80)</b>	<b>(6)</b>	<b>694</b>	<b>229</b>	<b>923</b>
US / other non-UK	51	-	51	-	-	-	37	88	46	134
GC&F	44	-	44	-	-	-	-	44	8	52
Investment projects	-	-	-	-	-	-	(41)	(41)	(15)	(56)
<b>Operating profit</b>	<b>940</b>	<b>(94)</b>	<b>846</b>	<b>10</b>	<b>19</b>	<b>(80)</b>	<b>(10)</b>	<b>785</b>	<b>268</b>	<b>1,053</b>
Variances*	-	-	-	-	-	-	(55)	(55)	(42)	(97)
Other	-	-	-	-	-	-	(9)	(9)	6	(3)
<b>Total</b>	<b>940</b>	<b>(94)</b>	<b>846</b>	<b>10</b>	<b>19</b>	<b>(80)</b>	<b>(74)</b>	<b>721</b>	<b>232</b>	<b>953</b>
<b>Per share</b>	<b>16.13</b>		<b>14.52</b>					<b>12.42</b>		
<b>Dividend per share</b>	<b>6.40</b>		<b>6.40</b>					<b>6.40</b>		

\*Note: Investment Variance; £(2)m Asset related, £(95)m Other (mark to market interest rate swaps)

# SUBSIDIARIES DIVIDEND 87% OF NET CASH TO GROUP.

Dividends supporting cash generation	2011			2010		
	Net cash £m	Dividend £m	Dividend % of cash	Net cash £m	Dividend £m	Dividend % of cash
Annuities	262	500	89	289	300	60
Protection and Housing	189			140		
Savings	111			68		
Investment management	189	150	79	162	132	81
International	51	51	100	44	44	100
<b>Sub total</b>	<b>802</b>	<b>701</b>	<b>87</b>	<b>703</b>	<b>476</b>	<b>68</b>
Group capital and financing	44			57		
<b>Total</b>	<b>846</b>	<b>701</b>	<b>83</b>	<b>760</b>	<b>476</b>	<b>63</b>

- Divisions deliver profits and generate cash
- Transfer majority of cash to L&G parent
- L&G pays dividend to shareholders and strengthens capital position
- L&G aims to avoid balance sheet “shocks”

# LOW CAPITAL RISK, HIGH OPERATIONAL RETURNS.

	H1 2012		FY 2011	
	IFRS Profit After Tax (£m)	Return <sup>1</sup> (%)	IFRS Profit After Tax (£m)	Return <sup>1</sup> (%)
<b>UK operating divisions<sup>1</sup></b>	<b>357</b>	<b>28</b>	<b>694</b>	<b>29</b>
International <sup>2</sup>	40	6	88	6
GCF – investment return <sup>3</sup>	63	3	142	4
GCF – interest <sup>3</sup>	(51)	(4)	(98)	(4)
Investment variances and Other	(2)	n/a	(105)	n/a
<b>Group<sup>4</sup></b>	<b>407</b>	<b>16</b>	<b>721</b>	<b>15</b>

## Group RoE reduced by:

- Low investment return on £4.5bn of Group capital and financing assets.
- High capital usage in the US.

1. For the UK operating division, return represents IFRS operating profit after tax divided by, for long term Risk and Savings businesses the average Pillar 1 capital requirement and for the remaining businesses equity is defined as the IFRS equity.

2. For the International division return on equity is the operating profit after tax divided by the average International IFRS equity.

3. GCF returns are the operating profit after tax divided by the average GCF assets and non-recourse external debt.

4. The Group's return on equity is the IFRS profit after tax attributable to shareholders divided by the average IFRS shareholders' equity.

# IMPROVING INTERNATIONAL CAPITAL EFFICIENCY.

- International RoE of 6%.
- Phase 3 of US capital management programme completed.

Phase	Date	Summary	LGA Capital Relief \$m (£m)	IGD Benefit £m
1	Dec 2010	Buyback external debt of Triple-X funding vehicle and replacement with internal reinsurance structure.	90 (58)	82
2	Dec 2011	Further replacement of Triple-X solution	100 (65)	60
3	Sept 2012	Further replacement of Triple-X solution	200 (123)	88

- €35m special dividend and €15m ordinary dividend from Netherlands in 2011 to improve L&G Europe RoE.

**Expect to complete further capital efficient transactions by end 2012**



# L&G HAS OPTIONALITY AND AMBITION.

## Solvency

- Very strong solvency
- 224% IGD Surplus coverage ratio
- Surplus on Pillar II (and > than Pillar I)
- £1.6bn reserves for NP annuity defaults

## Relevance

- Auto-enrolment increasing retirement provision
- Digital model for RDR – capturing bancassurance
- Protection solutions for welfare gap
- Attractive long term financing opportunities

## Ambition

- Partner of choice for Building Societies
- Global developments in LGIM and Retirement Solutions
- Leverage scale and technology platforms
- Protection growth in UK, US and Europe
- Attracting high performing talent

# LGIM'S INTERNATIONAL EXPANSION.

<b>Clients</b>	<b>Mandates to date</b>	<b>Next steps</b>	<b>Main Location</b>
<b>US</b>	Active Fixed and LDI	Index	Chicago
<b>Europe</b>	Active Fixed Index and Property		London
<b>Gulf</b>	Index Property	Active Fixed	London
<b>Asia</b>	Active Fixed	Index	Hong Kong (in progress)

- Focused approach selling world class capability in significant institutional markets.
- US office opened in 2006, Europe and Gulf leverage London platform
- Hong Kong base being established to access rapid growth and increasing globalisation of Asian institutions

# RETIREMENT SOLUTIONS: GLOBAL OPPORTUNITIES.

	Pension Assets (US \$bn)	Pension Assets as a % of GDP
United States	15,398	106%
United Kingdom	1,629	72%
Switzerland	597	113%
Netherlands	1,062	136%
Other European Union	1,283	11%

Global retirement solutions increasingly relevant :

- Withdrawal of the sovereign state; private provision required
- Aging populations – increased costs, DB closure & replacement
- Risk based accounting highlighting deficits

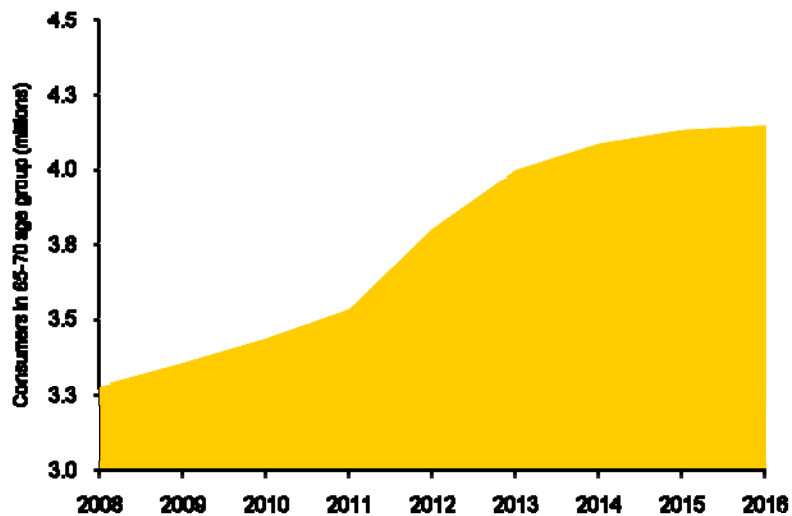
In US and Europe,

- Variable Annuity losses have led some European providers to withdraw
- US Pension plans increasingly fixed income (but still less than UK plans)
- LDI strategies gaining in popularity.

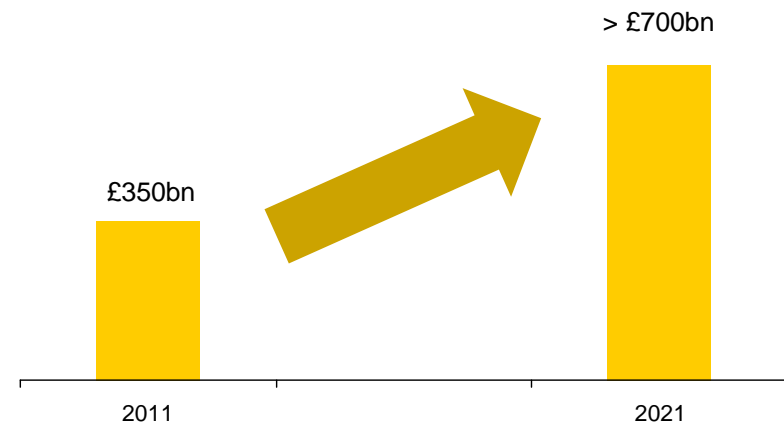
# RETIREMENT SOLUTIONS: UK GROWTH.

- Baby boom generation reaching retirement, average DC pot size now £31k (£23k in 2009) <sup>(1)</sup>
- Individual annuity market size predicted to increase from £11bn to £15bn in next 5 years <sup>(2)</sup>
- £12.4bn of UK de-risking deals in 2011 <sup>(3)</sup>, FTSE 350 pension deficits up to £92bn.<sup>(4)</sup>
- Bulk market potential enormous (£1trn +)

UK consumers reaching retirement <sup>(5)</sup>



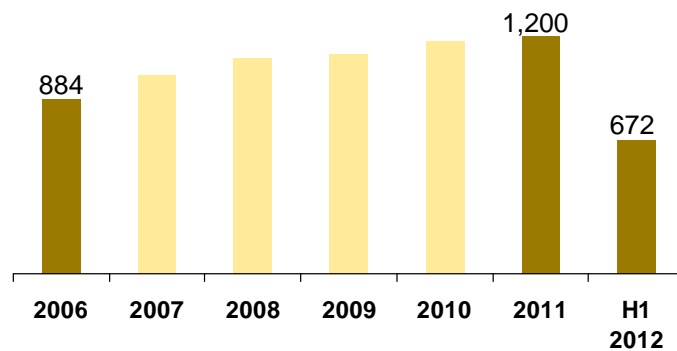
Estimated UK DC AuM growth<sup>(6)</sup>



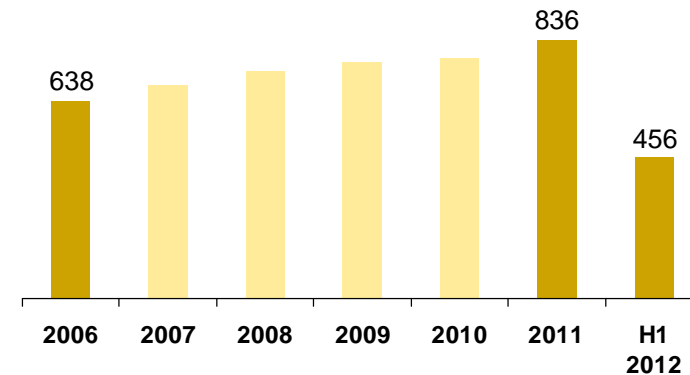
**UK retirement solutions have plenty of growth opportunities, with an international dimension for L&G to leverage**

# PROTECTION – QUALITY FRANCHISES.

UK protection gross premiums (£m)



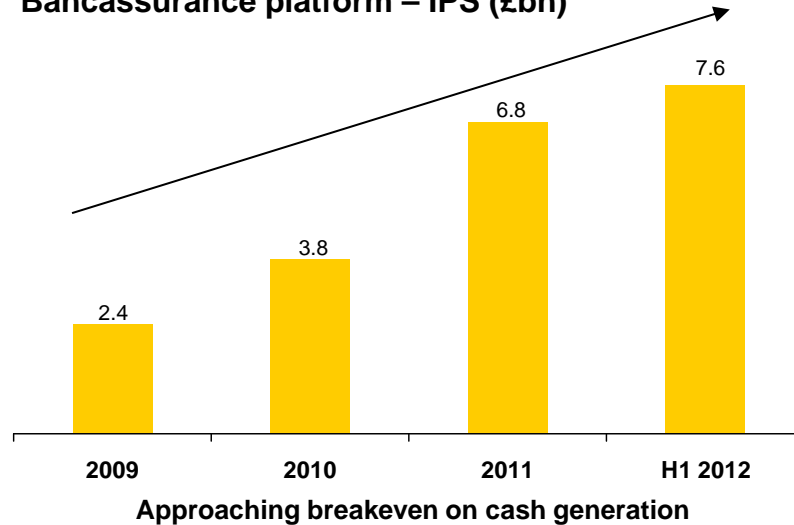
US protection gross premiums (\$m)



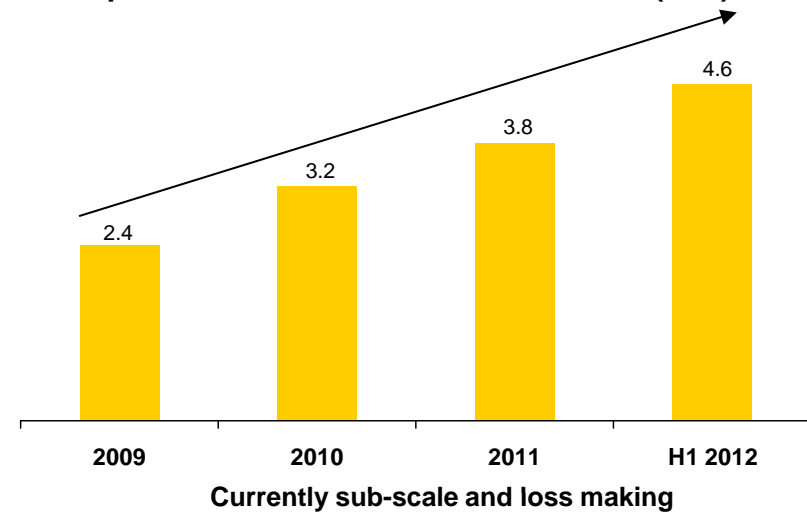
- 2011 FY GWP £1.2bn and 3m customers
- No 1 market position in both Individual and Group Protection
- New business margin of 10.8% in H1 2012 (2006: 6.4%)
- Development of technology has created admin and risk cost efficiency
- New business unit costs reduced 58% in 4 years
- Over \$450bn of sums assured and 900,000 customers
- Consistent year on year sales growth
- New business margin of 10.9% in H1 2012 (2006: 3.5%)
- L&G America credit rating upgraded to AA-
- L&G Netherlands term growth to €7m in H1 2012 (H1 2011: €1m)

# DIGITAL: PLATFORM FRANCHISE MOMENTUM, BUT LOW PROFITABILITY.

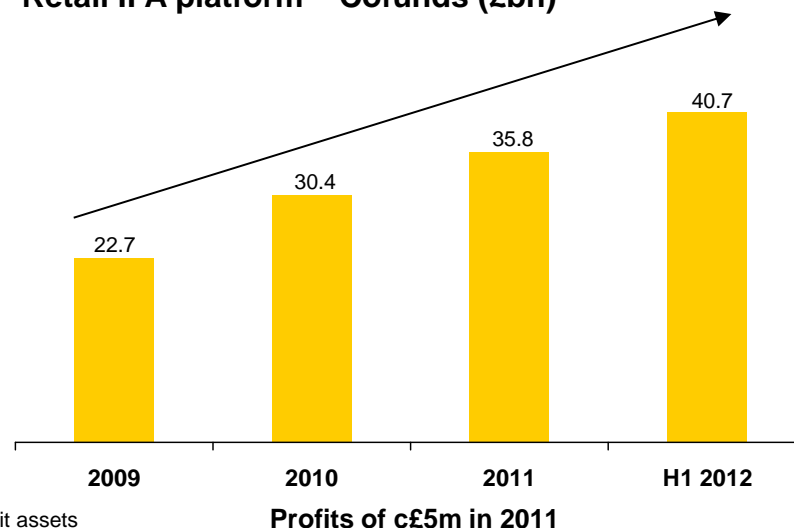
**Bancassurance platform – IPS (£bn)**



**Workplace Assets under Administration<sup>1</sup> (£bn)**



**Retail IFA platform – Cofunds (£bn)**



1. Non profit assets

## Workplace Scheme wins :

UK schemes won; Marks and Spencer, AllianceBoots, Asda, Sainsbury's, Co-op, Barclays and General Electric.

## Building Society wins :

Access to over 80% of UK building society members, through Nationwide, YBS, Leeds, Principality and others.

RDR ready products and systems launched to Nationwide in November

# LONG TERM FINANCE.

## PROPERTY DEVELOPMENT, INFRASTRUCTURE

**National Football Centre**



**Tesco's Distribution Hub**



**Imperial College Accommodation**



**University of Greenwich Accommodation**



# ACCELERATED EVOLUTION.

## Performance

- Focused on operational execution
- Financial and strategic disciplines mean consistent results
- No burning platforms
- Simple, transparent reporting
- Growing distribution to shareholders

## Attractive Markets

- Scale businesses in growing markets; Protection, Retirement Solutions and Pension de-risking
- Focused development of efficient, digital platforms
- Simple, transparent products for real customer needs
- Infrastructure funding

## Optionality

- Strong solvency
- Continuing investment in operational excellence
- Organic and selected in-organic growth