

► PROTECTION  
& ANNUITIES.  
STEPPING UP.

INVESTOR ROADSHOW  
18 MARCH 2013

EVERY  
DAY  
MATTERS



# 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.

# PROTECTION AND ANNUITIES: EXECUTING TO MEET OPPORTUNITIES.

## SUBSTANTIAL STOCK DRIVES STRONG CASH

- UK Protection and Housing Premiums £1.6bn, Annuities £32bn AUM
- Scale and industrial processes drive cost efficiency
- Expertise in insurance and portfolio risk enables high predictability
- Significant free cashflow dividend to Group

## MACRO THEMES DRIVING GROWTH

- Increasing numbers of consumers reaching retirement
- High demand from corporate DB pensions for de-risking options
- Welfare reform in UK encouraging self-reliant culture
- HR managers reviewing employee benefits alongside auto enrolment

## CAPABILITY AND REACH GIVE COMPETITIVE ADVANTAGE

- Deep data and expert analytics capability in longevity and mortality
- Synergy with LGIM on assets liability matching and solutions for LGIM's 3,000 pension clients
- Continuous innovation in digital technology and products
- Breadth of distribution and comprehensive housing proposition

# STRONG RESULTS: FEW SURPRISES.

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	243	14	257	43	(24)	(71)	7	212	69	281
Housing and Protection	279	(45)	234	(29)	22	30	12	269	90	359
Investment Management	197	-	197	-	-	-	-	197	46	243
Savings	179	(62)	117	(39)	20	11	(9)	100	33	133
US Protection	40	-	40	-	-	-	22	62	37	99
GC&F	20	-	20	-	-	-	(2)	18	4	22
Investment projects	-	-	-	-	-	-	(38)	(38)	(12)	(50)
<b>OPERATING PROFIT</b>	<b>958</b>	<b>(93)</b>	<b>865</b>	<b>(25)</b>	<b>18</b>	<b>(30)</b>	<b>(8)</b>	<b>820</b>	<b>267</b>	<b>1,087</b>
Variances and other	-	-	-	-	-	-	(19)	(19)	(32)	(51)
<b>GRAND TOTAL</b>	<b>958</b>	<b>(93)</b>	<b>865</b>	<b>(25)</b>	<b>18</b>	<b>(30)</b>	<b>(27)</b>	<b>801</b>	<b>235</b>	<b>1,036</b>
Per share (p)	16.40		14.80					13.90		
Dividend per share (p)			7.65					7.65		
Dividend cover			1.91					1.80		

# CASH FOCUS CONTINUES.

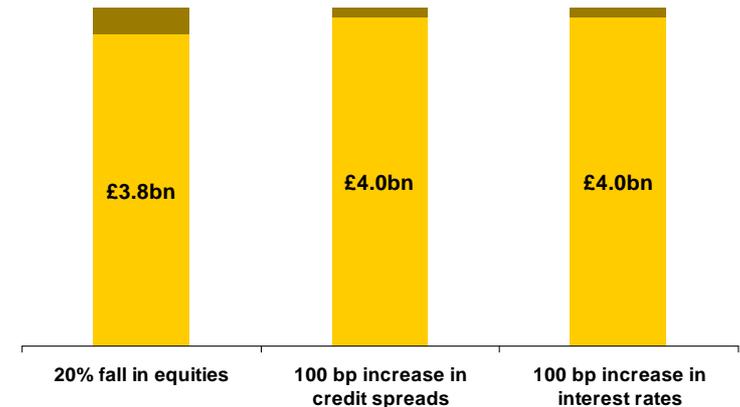
£m	2013	2012	2012			DIVIDEND	DIVIDEND
	GUIDANCE	GUIDANCE	OP CASH	STRAIN	NET CASH	TO GROUP	% CASH
Annuities	c.620	c.590	243	14	257	525	88
UK Protection			240	(45)	195		
Insured Savings			108	(62)	46		
<b>SUB TOTAL</b>			<b>591</b>		<b>498</b>		
With-profits	c.55	c.50	52		52		
US Protection	c.60	c.55	40		40	40	100
European dividends			14		14	14	100
<b>SUB TOTAL</b>	<b>c.735</b>	<b>695</b>	<b>697</b>		<b>604</b>		
Savings Investments			19		19		
GI and other risk			25		25		
LGIM			197		197	175	89
<b>TOTAL CASH FROM DIVISIONS</b>			<b>938</b>	<b>(93)</b>	<b>845</b>	<b>754</b>	<b>89</b>
GCF			20		20		
<b>TOTAL CASH</b>			<b>958</b>	<b>(93)</b>	<b>865</b>	<b>754</b>	<b>87</b>

# CAPITAL STRENGTH: LOW VOLATILITY.

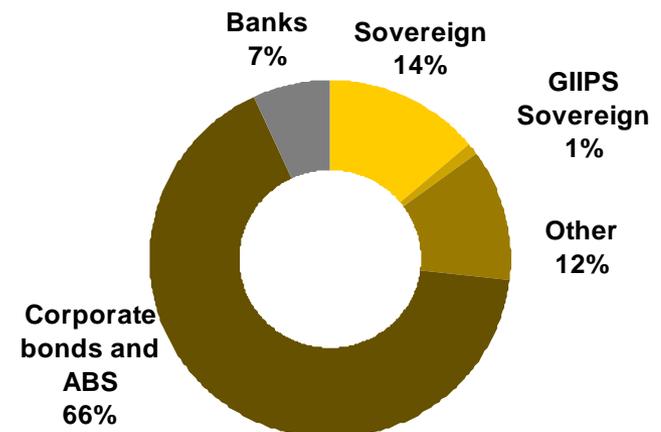
FINANCIAL HIGHLIGHTS £bn	2012
Group capital resources	7.2
Group capital requirement	(3.1)
<b>IGD surplus</b>	<b>4.1</b>
IGD coverage (%)	234
LGPL default provision	1.7

IGD SURPLUS £bn	2012
<b>At 1 January 2012</b>	<b>3.8</b>
Operational cash generation	1.0
New business strain	(0.1)
Dividends	(0.5)
Experience and other variances	(0.1)
Increase in UK capital requirement	(0.2)
Release of capital from US capital programme	0.3
Other regulatory adjustments	(0.1)
<b>At 31 December 2012</b>	<b>4.1</b>

## IGD SURPLUS: SENSITIVITY TO MARKET MOVEMENTS

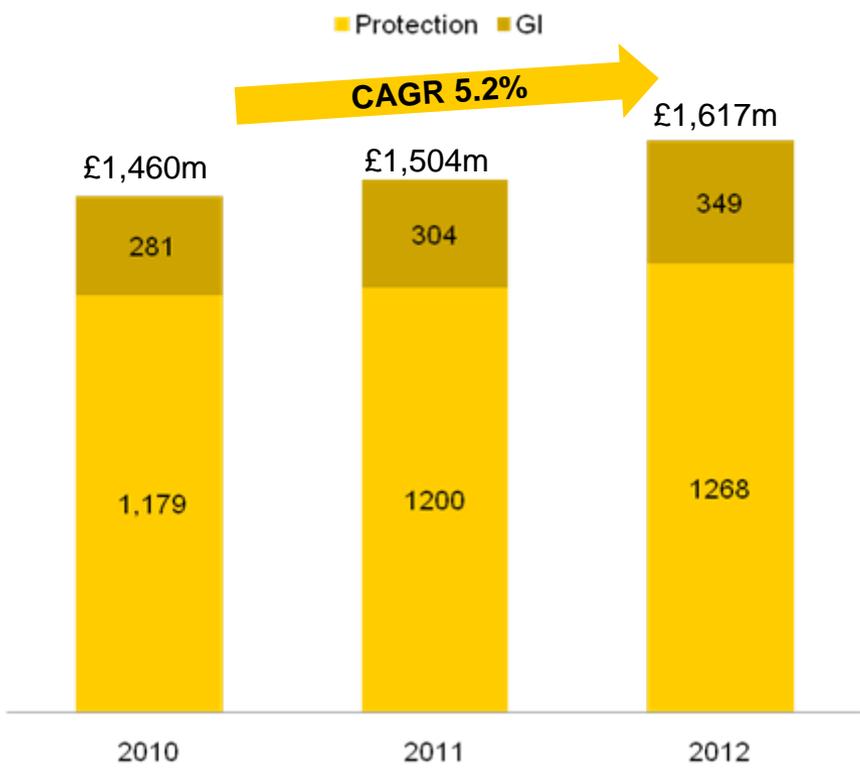


## 2012: ANNUITY PORTFOLIO (LGPL) EXPOSURES

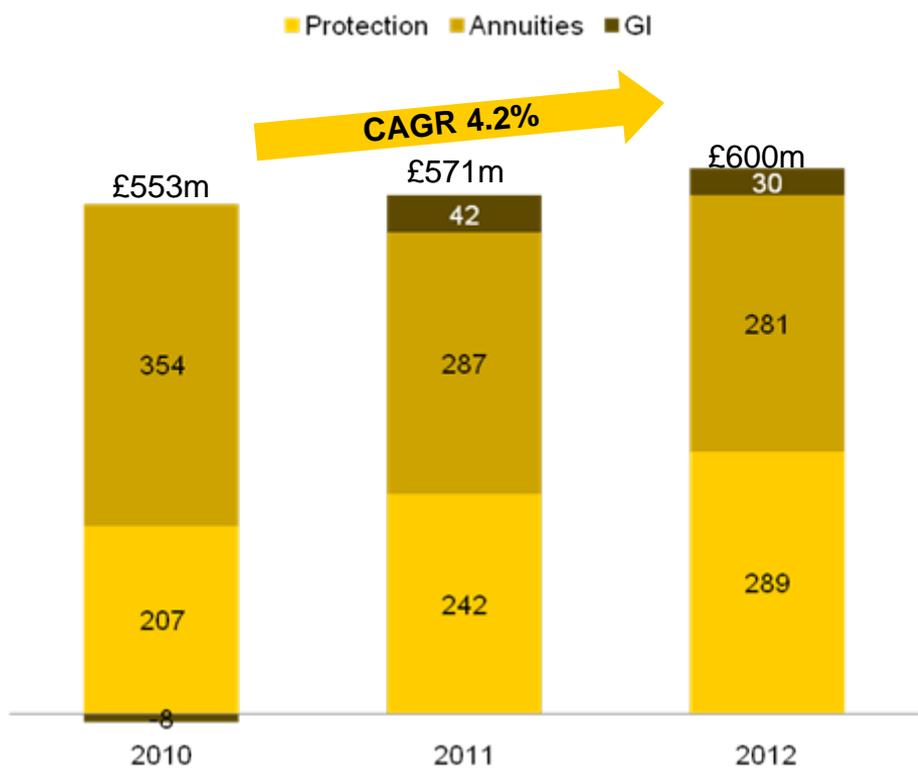


# PROFITABLE GROWTH.

### Housing & Protection GWP £m

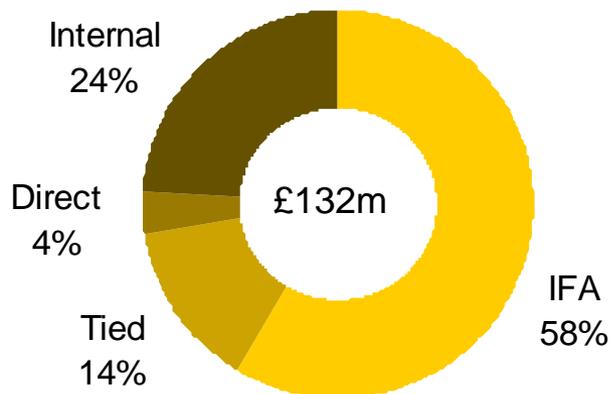


### Protection & Annuities Op. Profit £m

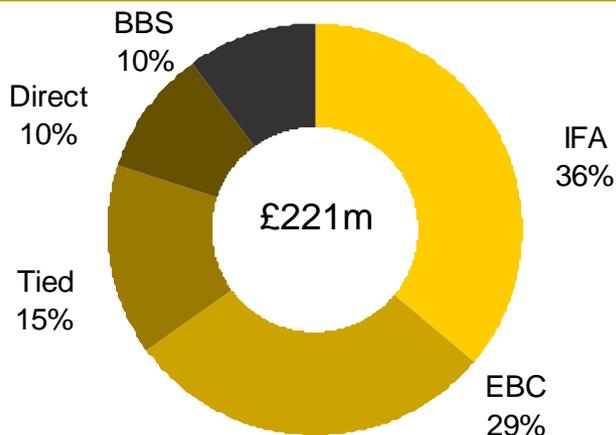


# DIVERSIFIED DISTRIBUTION: REACHING OPPORTUNITIES.

## INDIVIDUAL ANNUITIES APE



## UK PROTECTION APE



## OUTCOME

- Able to adapt to changes in market
- Post RDR - have captured 87% of Building Society customers. IFAs likely to be more interested in Protection and Annuities
- Able to optimise pricing positions and balance capacity
- Welcome FSA/ABI review into annuities market - 76% of L&G's volumes sourced from external market
- Online Consumer Portals in Protection and GI driving up portion from D2C Channels to 10% in Protection and 16% in GI
- Group Protection gaining as employers review benefits alongside auto enrolment

# INNOVATION.



**RDR –  
SUCCESSFULLY  
DEPLOYED  
MARKET LEADING  
SOLUTION**

**LARGEST UK  
LONGEVITY  
INSURANCE  
SCHEME**

**ONLINE  
PROTECTION  
SYSTEM DRIVES  
EFFICIENCY**

**ILL HEALTH LIABILITY  
INSURANCE (IHLI)  
PUBLIC SECTOR  
PROPOSITION**

**ADVISER AND  
CONSUMER QUOTE  
“APP”**

**ACCESS TO 45 MILLION CUSTOMER  
RELATIONSHIPS THROUGH BUSINESS  
PARTNERS**

**87% COVERAGE  
OF BUILDING  
SOCIETY MARKET**

**ONLINE HEALTHY  
LIVING TOOL**

**ACTIVE MEMBER  
OF THE  
LONGEVITY  
SCIENCE  
ADVISORY PANEL**

**“DEADLINE TO  
THE BREADLINE”**

# FIVE MACRO TRENDS. FIVE CORPORATE RESPONSES.

**Homogenous asset markets**



**LGIM International**

**Ageing populations**



**Retirement Solutions**

**'On the Go' lifestyles**



**Digital Solutions**

**Welfare Reforms**



**Protection**

**Retrenching banks**



**Direct investments**

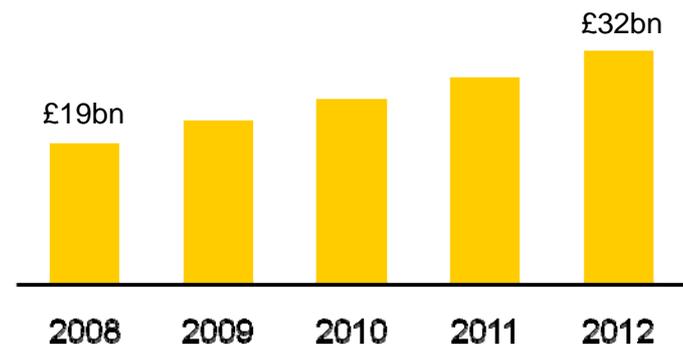
# RETIREMENT SOLUTIONS.



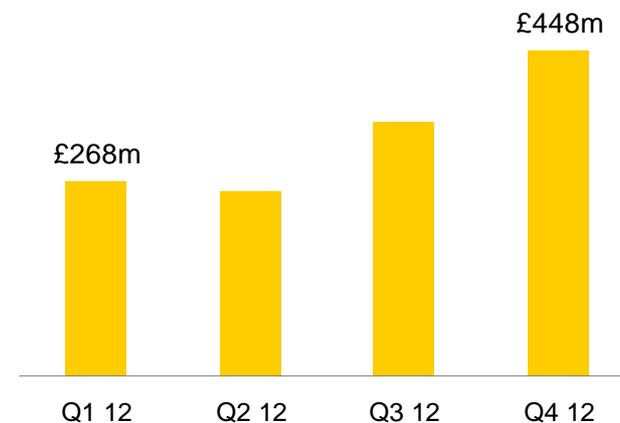
# GROWTH IN ANNUITIES: SCALE.

FINANCIAL HIGHLIGHTS £m	2012	2011
Operational cash generation	243	227
New business strain	14	35
<b>Net cash generation</b>	<b>257</b>	262
<b>Operating profit</b>	<b>281</b>	287
Individual Annuities APE	132	105
Bulk Annuities APE	102	146
Total Annuities APE	234	251
LGPL Credit Default provision (£bn)	1.7	1.6
Annuities AUM (£bn)	32.2	28.4
Direct Investment (£bn)	1.2	0.6
Annuities EEV margin (%)	8.8	10.0

## UK ANNUITY ASSET GROWTH £bn

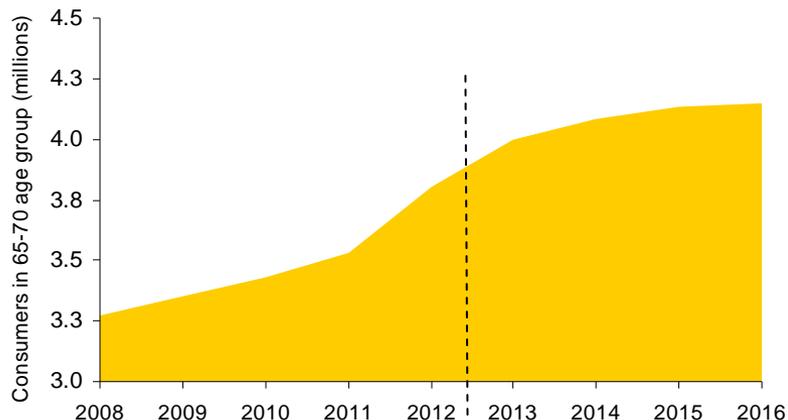


## INDIVIDUAL ANNUITY GROWTH 2012 £m



# RETIREMENT SOLUTIONS: DRIVERS.

## UK CONSUMERS REACHING RETIREMENT



Source: Government Actuary's Department

## UK DB PENSION DEFICITS



Source: Pensions Protection Fund



## STRATEGIC SUMMARY

- Baby boomers creating strong potential annuity demand.
- UK DB pension deficits have grown due to low corporate bond yields, continued inflation and longevity risk.
- LGIM and Annuity teams work closely together to deliver solutions for existing clients as appetite to de-risk rises.
- In the US, aggregate S&P 1500 deficits rose by \$73bn to **\$557bn** by end 2012.
- Trend for increasing deficits also seen in northern Europe. In the Netherlands, the combined deficits for the largest 35 multinationals increased from €7bn to **€30bn** in 2012.

# EXECUTION POWERS GROWTH. RETIREMENT SOLUTIONS

## FLEXIBILITY IN BULK ANNUITIES: TATE AND LYLE PARTIAL BUY-IN

December 2012, **£347m pensioner buy-in**

Ability to deal with a complicated benefit structure ,  
employing a price tracking mechanism

Funded in-part by an in-specie transfer with the balance  
covered by pre-investment

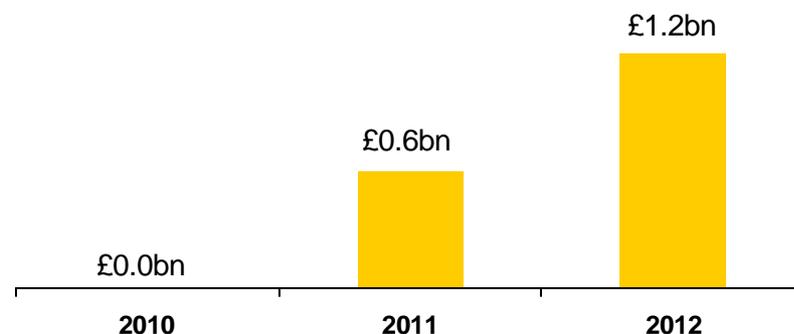
## LONGEVITY INSURANCE CONTRACT: BAE SYSTEMS 2000 PENSION PLAN

February 2013, **covering 31,000 pensioners and £3.2 billion** of liabilities, 70% reinsured to Hannover Re

Advantage vs banks through ability to carry insurance  
risk and manage reinsurance

**Capability in longevity:** forecast correct population  
level of 90+ years before 2011 census publication

## 2012: GROWTH IN DIRECT INVESTMENT



## 2013: EXECUTION PLANS



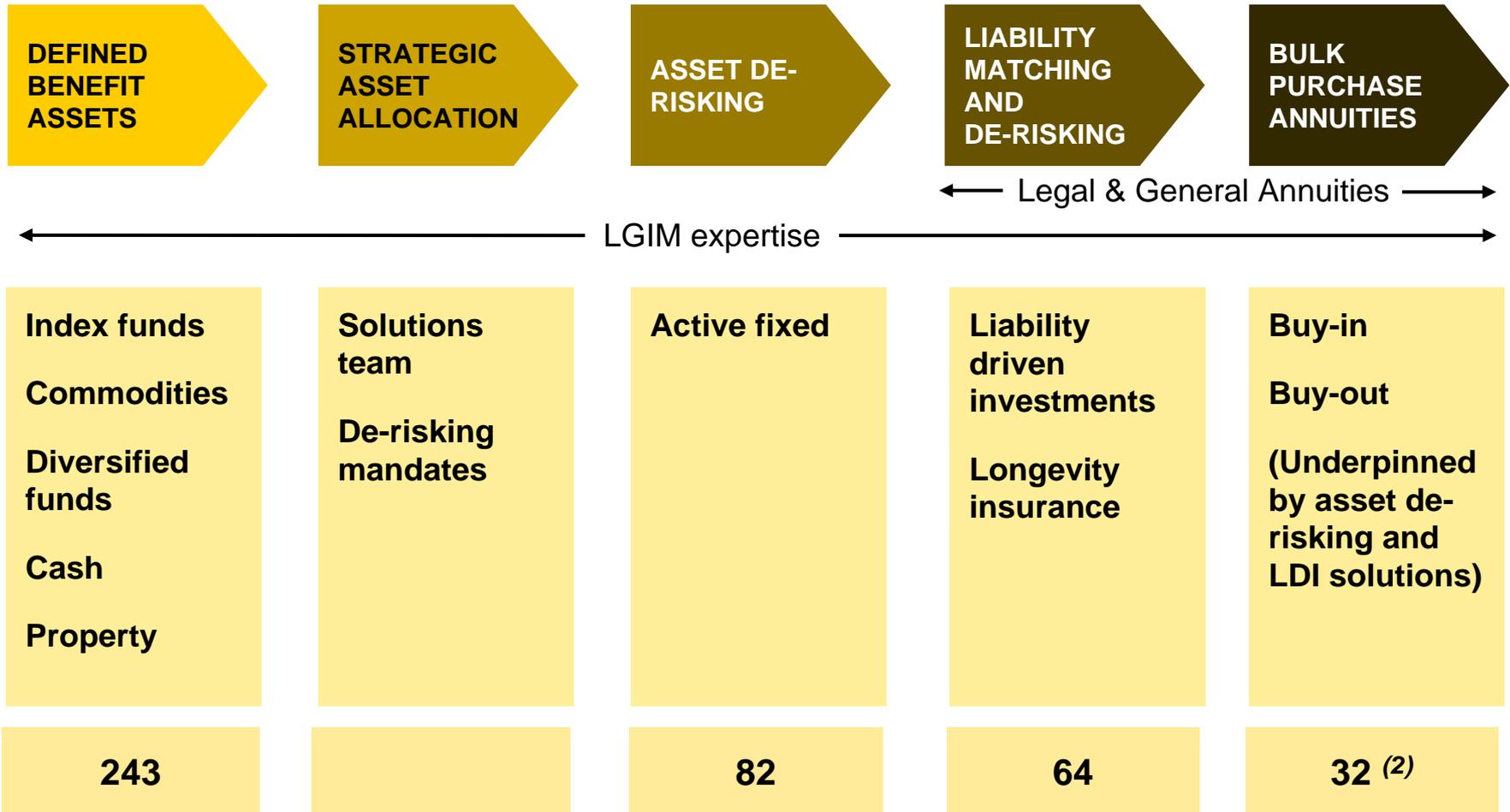
FTSE 350 pension **deficits up to £75 billion**

**Auto Enrolment** growth will fuel DC savings  
and future retirement 'pots'

Appetite for more **Longevity Insurance**  
**arrangements**

Opportunities to use our **annuity expertise**  
**outside UK**

# ANNUITIES AND LGIM DE-RISKING CAPABILITY.



AUM<sup>(1)</sup>  
(£bn)

1. As at 31 December 2012, 2. Comprises all annuity assets

# RISK SCIENCE: OUR APPROACH.

## IN HOUSE CAPABILITY

<b>Wide range of skill sets</b>	Actuaries, statisticians, epidemiologists, research scientist, programmers
---------------------------------	--

## COLLABORATION

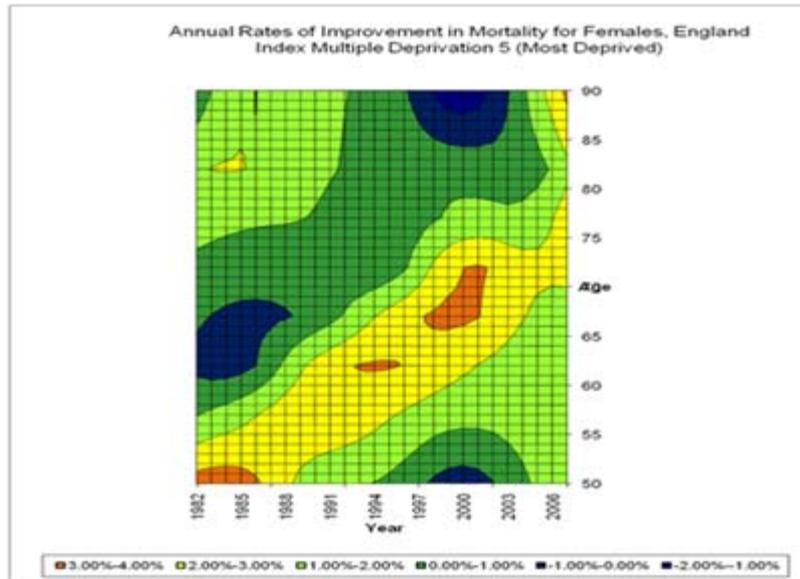
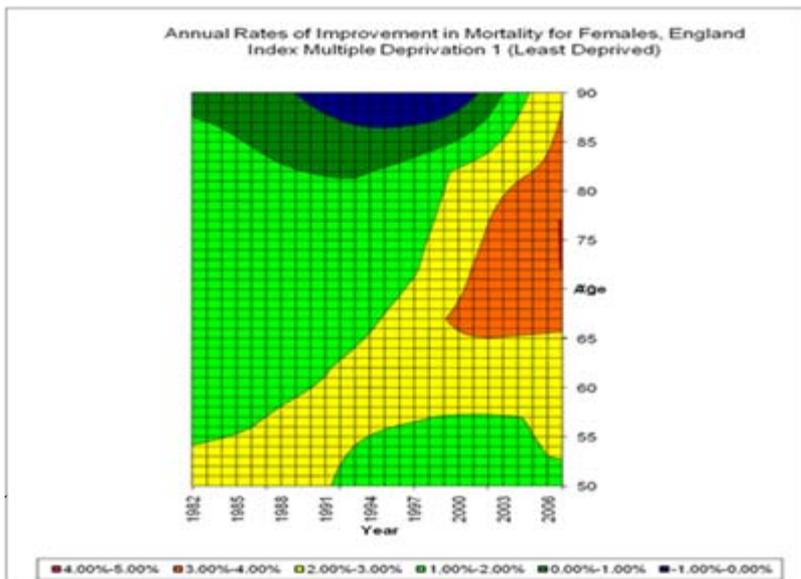
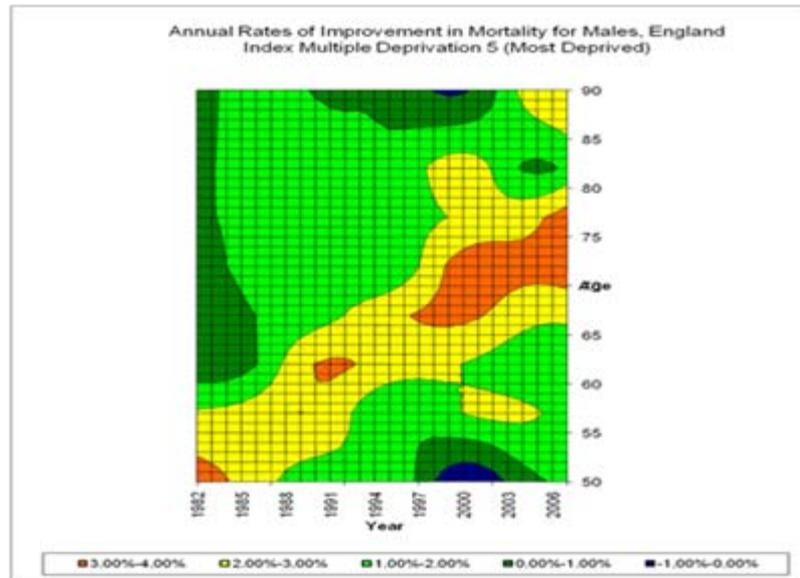
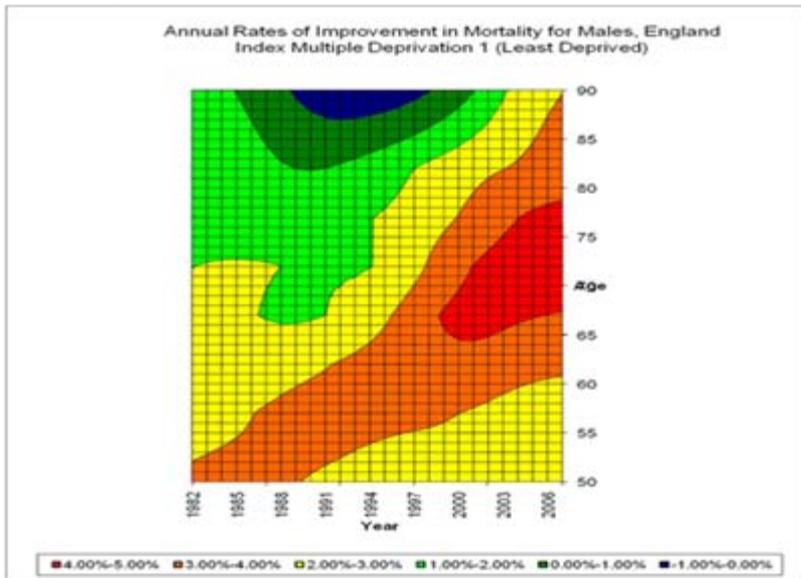
<b>Core collaborative groups</b>	University College London, Liverpool University, Commercial Consultants
<b>Longevity Science Advisory Panel</b>	Leading scientists and academics; The Economist's source for gender longevity differences

## DATA SOURCES

<b>Lifestyle</b>	<ul style="list-style-type: none"> <li>• Health Survey</li> <li>• L&amp;G in-house datasets</li> </ul>
<b>Disease</b>	<ul style="list-style-type: none"> <li>• GP Research Database (3m records)</li> <li>• Hospital Episode Statistics</li> </ul>
<b>Death</b>	<ul style="list-style-type: none"> <li>• ONS</li> <li>• L&amp;G in-house datasets</li> </ul>

# RICH-POOR LONGEVITY DIFFERENCE.

(Cited by The Economist's 2012 Christmas issue)



# INVESTMENT DISCIPLINE.

## FORWARD LOOKING

<b>Extensive LGIM resources</b>	<b>LGIM: 6 economists, 20 person strategic risk team, plus a large pool of investment analysts</b>
<b>External Inputs</b>	<b>Industry standard Algorithmics software covering in excess of £350bn assets</b>
<b>Prospective risk analysis</b>	<b>500,000 simulations and theme based scenario analysis</b>

## ACTIVELY REVIEWED

<b>Regular review</b>	<b>Strategic asset allocation process with monthly reviews and second line challenge</b>
<b>Bespoke mandates</b>	<b>Mandates uniquely aligned to business objectives; few 'market benchmarks'</b>
<b>Broad challenge</b>	<b>Inputs from Asset Liability Committee, Chief Risk Officer, Group Treasury and Investments, business units</b>

## TIGHTLY MANAGED

<b>Clear hedge objectives</b>	<b>Low risk appetite for interest rate, inflation and currency risk across the Group</b>
<b>Simple liabilities</b>	<b>Virtually no un-hedgeable options or minimal reinvestment risk in products</b>
<b>Tight limits</b>	<b>Limited IGD sensitivity to interest rates, inflation and currency</b>

# 5. DIRECT INVESTMENTS.

## Sale and Leasebacks



- National Football Centre, St George's Park at Burton-on-Trent



## Income Partnerships

- Joint venture with Imperial College
- £116m student accommodation project in Clapham, London



- Tesco distribution hub at Reading



- University of Greenwich student accommodation
- £43m student accommodation project

## Commercial lending



- Unite Group
- £121m, 10-year facility



## Investment in Equity

- 46.5% share of equity (£65m) in CALA (entity value £210m)
- Earnings accretive in year one
- Return above Group WACC



**The Hyde Group**  
Making a lasting difference

- Hyde Housing Group
- £102m, 15-year facility

**Banking austerity has expanded opportunity**  
**Ready to play a bigger role in funding economic and social development**

PROTECTION.



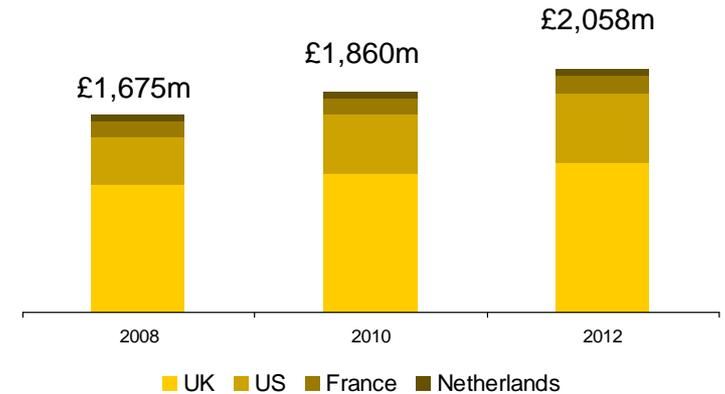
Legal &  
General

# GROWTH IN PROTECTION: EFFICIENCY.

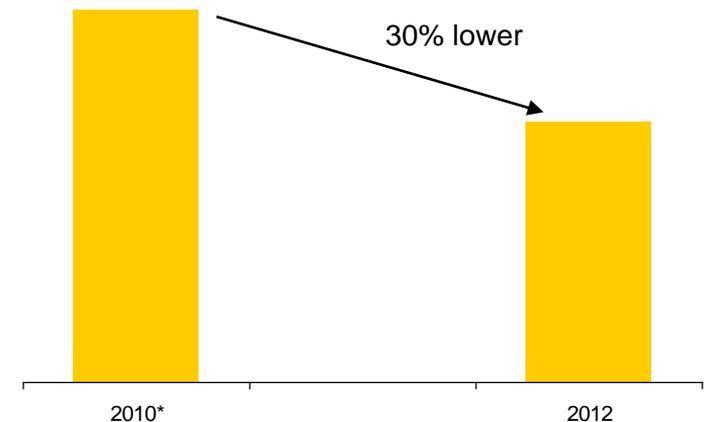
FINANCIAL HIGHLIGHTS £m	2012	2011
Operating profit	<b>359</b>	314
Operational cash generation	<b>279</b>	270
New business strain	<b>(45)</b>	(66)
Net cash generation	<b>234</b>	204
Retail Protection APE	<b>151</b>	131
Group Protection APE	<b>70</b>	46
Protection gross premiums	<b>1,268</b>	1,200
GI gross premiums	<b>349</b>	304
Protection EEV margin (%)	<b>11.8</b>	9.3

FINANCIAL HIGHLIGHTS US \$m	2012	2011
Operating profit	<b>156</b>	155
Protection gross premiums	<b>922</b>	836
Retail Protection APE	<b>142</b>	111
Protection EEV margin (%)	<b>11.8</b>	10.7

## WORLDWIDE PROTECTION GROSS PREMIUMS



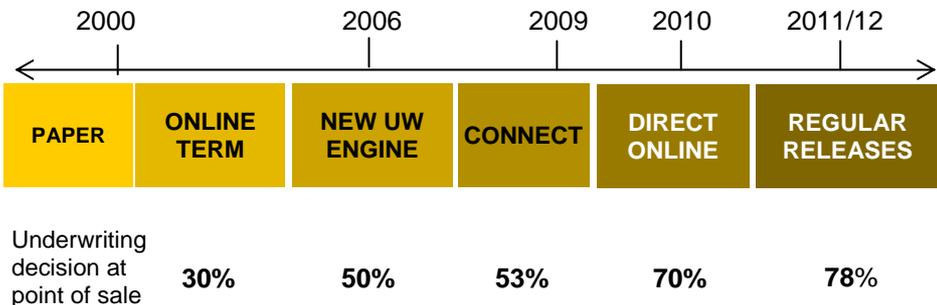
## US PROTECTION NEW BUSINESS PROCESSING UNIT COST REDUCTION



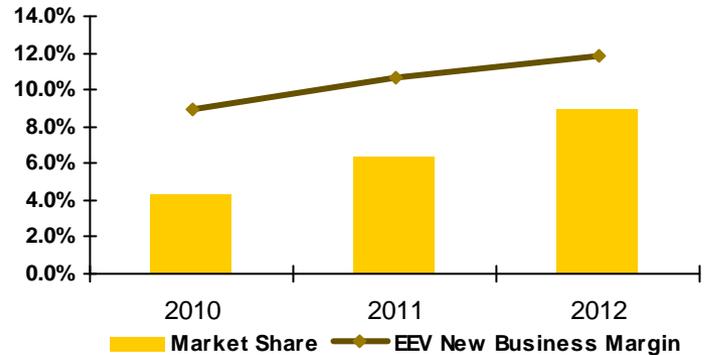
\*2010 CPI adjusted

# EXECUTION POWERS GROWTH. PROTECTION

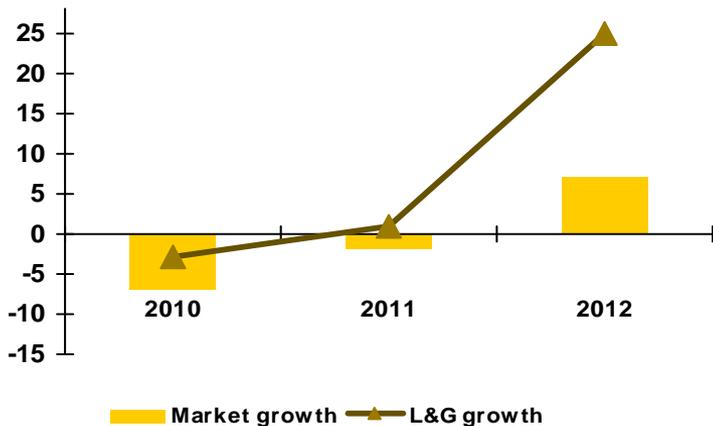
## 2012: RETAIL PROTECTION, BENEFITS OF TECHNOLOGY



## 2012: LGA MARGIN AND MARKET SHARE PROGRESSION



## 2012: PROTECTION, OUTPERFORMING THE MARKET

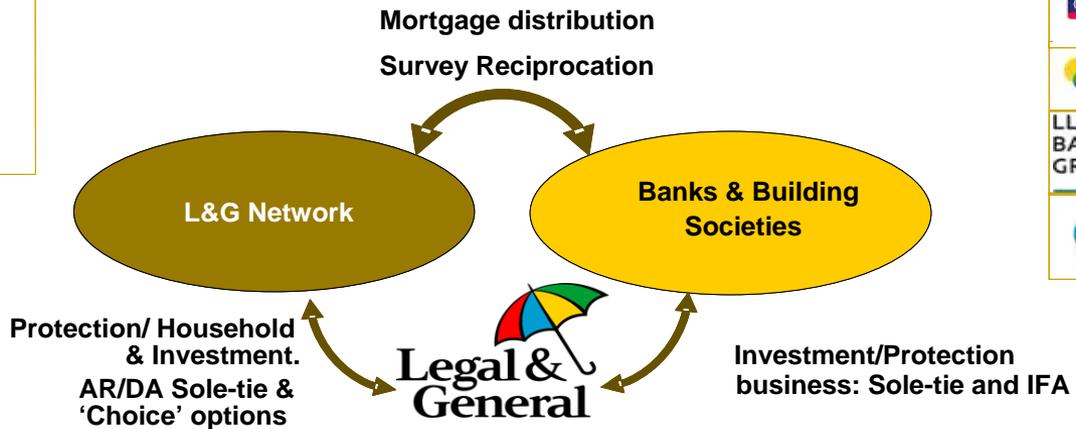


## 2013: EXECUTION PLANS

- **Migrate** more Group Protection schemes to enhanced efficient, scalable platform (Elixir)
- UK welfare reform** will increase the value of protection for employees and employers
- Auto enrolment roll-out** to next tiers will provide further catalyst for Group Protection
- Quote and buy platform** for SME market launched in February 2013 for Group Protection

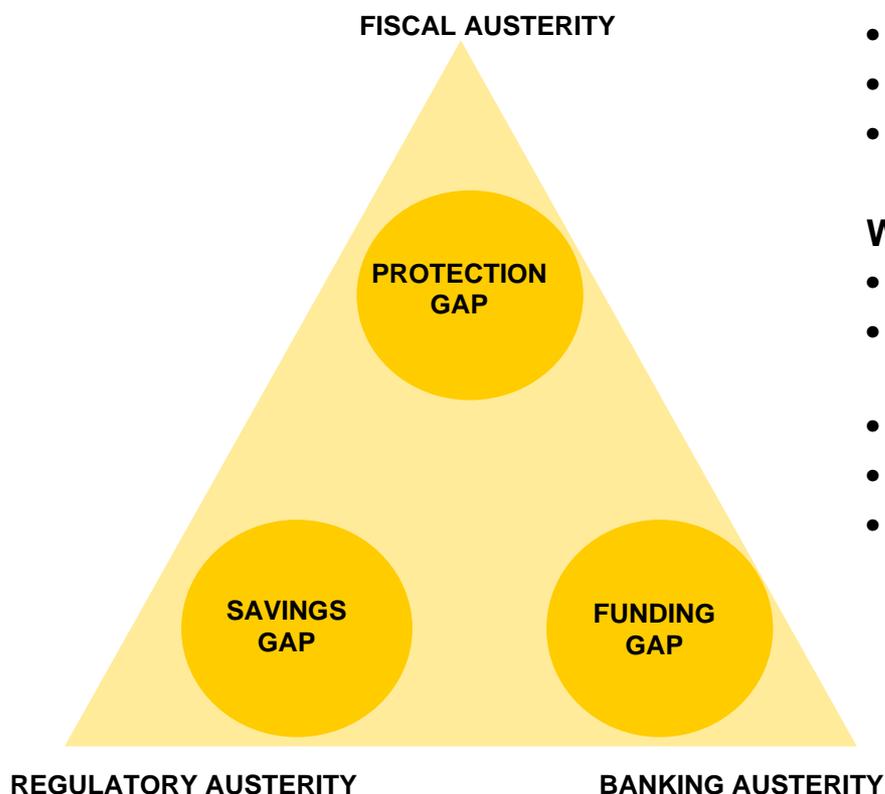
# COMPLETE HOUSING SOLUTION.

**L&G Owned Distributors**  
**Independent Local Brands**  
**Own Advisers (Not L&G's)**  
**AR (Advice Risk) & DA**



KEY METRICS	2012
Mortgage lending/market share (intermediated)	£19bn/25%
Active Mortgage Club advisers	c. 6000
L&G Network Appointed Representatives	729
Sole tied Directly Authorised advisers	644
House Surveys	160,000

# THE 'TRIANGLE OF AUSTERITY' CREATES OPPORTUNITIES.



## The 'Triangle of Austerity' is caused by:

- **Fiscal austerity:** government finances under pressure
- **Banking austerity:** deleveraging reduces lending
- **Regulatory austerity:** policy forces 'risk off'

## We are well positioned because:

- Protection steps in where government cuts welfare
- Leading auto-enrolment and RDR solutions to gain from policy incentives for long-term saving
- Leading DB pension de-risking solutions for corporates
- Funds available to replace bank financing
- Strong balance sheet: no need for regulatory deleveraging



As a provider of protection, savings and investment management, with multi-billions of capital resource, we are uniquely positioned to address the three gaps exposed by the 'triangle of austerity'

# THE PROTECTION GAP.

## CAUSES

- Over-estimated level of State benefits and ability to pay
- State move to actively encourage work (from passive welfare provision)
- Increasing life expectancy and long term care needs

## IMPACTS

- Burden of protection shifts to individuals
- Increasing exposure to financial consequences of death, disability and redundancy
- Potential implications for standard of living, lifestyle and future plans

## POTENTIAL SOLUTIONS

- Group protection enables UK Insurance to work with Government to shoulder more risk, allowing DWP to prioritise the most vulnerable
- Auto-enrolment to help employees obtain protection products
- Income Protection solution included in suite of “simple” products

## LEGAL & GENERAL'S ROLE

- Expertise in rehabilitation of employees and assistance back into work; long term absence 70% back to work within 12 months
- Use distribution reach to extend coverage

# Thank You

