JP Morgan Conference

Slide 1 Title

Good Morning, and thank you for the opportunity to present today.

This morning I want to talk about the future as we see it at Legal & General… in particular about the five key macro trends we have identified, our strategic response to those macro trends, and the management actions that we are taking to deliver our response.

Slide 2 Forward looking statements

As I will be looking forward rather than back, I'd like to remind you of the usual disclaimer on forward looking statements…

Slide 3 Secular Stagnation

First, a few comments on the macro-environment.

In the global economy we appear to be trending to zero… in many places, and on many measures: growth, inflation, real wage growth, rates and productivity – except perhaps for a elite minority – for example in finance or technology.

People describe productivity as a puzzle… a conundrum… it is true it is no longer very obviously connected with growth….but the answer is in Economics 1.01 and it is about the lack of investment in infrastructure and skills.

We have never seen so much money available, interest rates are historically low, but we are chronically under-invested. Companies are cash-rich, and returning cash to shareholders is high… Buy-backs in the US are at record levels.

We see a proliferation of low-grade, low-paid, low-productivity jobs. In the UK, 25% of all jobs require the educational skills of an 11 year-old. Digital and Machine Intelligence are hollowing-out middle-class jobs, public sector jobs are shrinking.

But at the top, WhatsApp was sold at a staggering $310m per employee. QE has continually driven asset prices as the risk free rate has become return free risk..

As a consequence of these trends inequality is widening…. Everywhere.

Markets and policymakers aren't responding imaginatively to this. Instead of taking steps to boost supply and/or demand, we have forgotten basic economics and become obsessive Fed-Watchers. And with fewer tools available to economies in an increasingly zero world, the next obvious step is competitive currency devaluation, which of course adds nothing to growth – it just moves the existing growth around for the short-term.

So we risk sleep-walking into secular stagnation… A really disappointing outcome.

Slide 4 Compelling Case

Secular stagnation is however as unnecessary as it is undesirable.

Politicians across Europe know what actions they need to take, but as Jean-Claude Juncker says they don't know how to get re-elected after taking those actions.

But at least in the UK, a return to Economics 1.01 suggests a series of supply-side actions which would work: investment in housing, including the supply chain, to create 250,000 new homes annually… investment in urban regeneration and energy, especially solar so we can use new storage and capture technology… and investment in digital. All these investments have a strong multiplier effect… again economics 1.01.

These are things we could be doing. However, opportunities are being eroded by the stubborn insistence on prioritising political projects like the £80b HS2 and the Hinkley £24b nuclear project… crowding out investment opportunities.

And job-creating investment would help offset the effects of the tough decisions that need to be taken with respect to health and welfare spending… with the NHS particularly an area where the politicians simply equate expenditure with moral rectitude – with minimal thought for the wisdom or efficiency of the spending process.

Slide 5 Clear & Focused Strategy

Why do we think deeply about these things at Legal & General? The answer is because our strategy since the financial crisis has been based on our interpretation of five macro-trends which we see playing out across most of the world:

- ageing populations, which create demand for pension saving products and longevity de-risking…. these play to our strengths.
- increasingly homogenous asset markets, which drive the expansion of LGIM's international footprint…
- welfare reform, which is driving the provision by the private sector of pensions, protection, health insurance and savings as cash-strapped governments reduce state benefits and entitlements…
- bank retrenchment, which is creating white space for long-term investors, for example in infrastructure, and medium term and long term SME finance.
- and increasingly digital lifestyles, which alters product distribution, customer service and favours competitive pricing with low unit costs.

Slide 6 Achievements to date

Identifying the trends is one thing… but it is our management actions and execution which ensure that we can not only make the most of those macro-trends, but that we can do so in a way that is consistently understood by, and rewarding for, our shareholders.

Here you see some strong double-digit examples of growth in assets from pension saving, de-risking and decumulation…asset growth from an ageing population.

Likewise, strong growth in international assets in LGIM as we ride the trend of global asset homogenisation: we have many more mandates in our “hopper”.

Welfare reform is driving Protection, and the risk-sharing model for pensions is working well… John Lewis was another significant win. This segment will grow as the law requires the contribution rates rise from 2% today to 8% by 2018…. Our UK DC business is already £40bn.

Digital continues to transform business, with our platform assets rising 16% and continued process improvements driving down unit costs in insurance…

And we have now made £6.3bn of direct investments in the UK, against a target of £15bn… we are one of the biggest property owners in Manchester. The government’s “Northern Powerhouse” is one that has been working for us for some time … But we want to do more, including in “the North of the North”…. As well as Cardiff, Bristol and Birmingham.

Slide 7 Progressing the Strategy

We are ambitious. This is a slide I used this year at our Prelims, which is as much for the internal as the external audience…It sets a high bar for myself and my management colleagues.

It also shows ambitious growth targets from here through to 2019: doubling of US assets in investment management, growing insurance in the UK at twice GDP, growing our DC position to market leadership as it gradually replaces DB saving, reducing operating costs in nominal as well as real terms.

Legal & General is a company which has delivered on its last mid-term plan – and delivered market-leading returns for investors as it did so. My colleagues and I are flattered that our approach to cash and growth is now becoming an industry norm.

We have a plan also for the next five years… We see ourselves as being on just the third floor of a building … we were on the ground floor but we plan to move to the top of a high-rise.

Slide 8 Consistent Delivery: Strong Results

Focusing on the financial results from this approach, you can see from the 2014 results our progress in growing the stock of our business: annuity assets, LGIM assets and protection gross written premiums, up 28%, 16% and 5% respectively…

Growth in stock drives growth in net cash and operational cash, both over £1.1bn…and growth in operating profit and profit before tax, both over £1.2bn.

The nature of our business and the focus of our management execution means operational cash is highly predictable for large parts of the business.

Return on equity was 16.9%, and our full year dividend 11.25p – up 21% and 1.65 times covered by net cash.

2014 was not a blip, but another year of consistent delivery… by way of comparison five years ago in 2010, net cash was £760m versus today's £1.1bn. Dividend was 4.75p per share versus today's 11.25p.Turning to financial clarity, over the last five years we have evolved from a focus on cash, to cash plus growth, to cash plus growth plus M&A.

Slide 9 Q1 2015

… and these were our Q1 numbers for 2015… again on trend with Operational cash up 11% to £330m, Net cash up 8% at £326m – in the whole of 2008 Net cash was £320m. Growth in assets – LGIM assets up 17% to £737bn and annuity assets up 19% to £46bn.

Slide 10 FY Dividend

Alongside predictability, the second characteristic of L&G's cash is that the business is structured to allow clean transfer of cash up to Group where it can be utilised, amongst other things, for dividend payment. 86% of divisional cash was paid up in this way, demonstrating the liquid nature of the cash generation, and lack of trapped cash in subsidiaries.

These two characteristics create high quality of earnings and strong dividend paying capacity. On the slide you also see consensus expectations for 2015 and 2016… dps up from 11.25p to 13p.

Slide 11 De-cluttering

Strategic purchases and investments in the last few years have included: housebuilders CALA and then Banner; Lucida, where we bought the assets of a bulk annuity business; the fund platform Cofunds where we bought out other shareholders; GIA in the US DC asset management segment and NewLife, the UK lifetime mortgage provider.

The “de-cluttering” process has also involved a programme of exits and disposals where businesses are non-core, uneconomic, sub-scale, where the markets have moved on.

That includes: our “historical” business in Germany; our estate agency businesses which were non-core; our international retail investment bond business; our venture capital business, LGV. And we have closed with-profits to new business.

More disposals are in progress.

Cost discipline has long been an important part of our daily work at Legal & General. Tight control of costs – for example unit costs of protection products – enables us to compete on price effectively and profitably.

We have been at the forefront of reducing costs for customers – for example through the charge cap in Workplace pensions, currently 75bps, but which we hope the new Pensions Minister Ros Altmann will reduce to 50bps.

There is more we can do. Despite growing our business, this year we are on track to make cost savings of £80m from our overall cost-base of £1.25bn – a 6.4% nominal saving, against which we will take a restructuring charge of £40m. Savings will be made from people, processes, and places – we will have a more agile, better-aligned business as a result.

Slide 12 Focused Business

The way we increasingly look at our business is markedly different from the traditional life sector approach – part of becoming a simpler business in a more complex world.

To get there, alongside greater strategic clarity, we are creating a higher level of organisational clarity: de-cluttering the business. We think of it in these terms.

First, we have a series of asset businesses:

- LGIM, Legal & General Investment Management, with over $1 trillion of assets, and generating £262m of net cash and £336m of operating profit in 2014.

- LGR, Legal & General Retirement, with £44bn of assets, £343m of Net cash and £428m of Operating Profit last year.

- LGC, Legal & General Capital, which runs our £57bn principal balance sheet, and generated £162m of Net cash and £203m of Operating Profit.

The asset businesses work closely together, for example on pension de-risking, urban regeneration, housing and property, where LGIM's expertise can be deployed alongside LGR and LGC. These businesses are being internationalised: notably through LGIM's expansion in the US and Asia, but also potentially through international pension buyout or buy-in business.

Collectively, this is about asset creation and asset management – including new asset classes like student accommodation, distribution warehouses and build to rent accommodation. And beneath those businesses we have our holdings in CALA Homes, our UK top-ten housebuilder and Pemberton, which provides SME finance.

Second, on the right of this side, we have insurance - a "clean" and now united UK insurance division covering:

- Retail Protection, with premiums of over £1bn, up 7% year-on-year
- Group Protection, with premiums of over 3350m. up 4.5% year-on-year
- General Insurance, with premiums of £377m, up 1% year-on-year

and

- LGA, Legal & General America, which generated $76m of net cash last year, up 10% on 2013.

The third box, bottom right, has our Savings businesses. Total savings assets are £113bn, with operating profit of £105m and net cash of £113m. These broadly fall into two categories: Mature and Digital.

- Mature savings assets were £36bn, and include our With-profits business, which is now closed to new business and in long-term run-off.

- Digital Savings consists of Cofunds and our SIPP business, Suffolk Life.

Slide 13 Further significant progress

I have already mentioned the quality and predictability of our cash… here is the Operational cash guidance for 2015 for all our businesses except LGIM and General Insurance… we are on track… the traffic lights are green, including on costs… Our 2015 management actions are being delivered… There will be no relaxing of the pace in the second half of the year.

Slide 14 Consistent growth in key metrics

Solvency 2 is a complex issue: it’s taken twenty years and an estimated £4bn from the UK industry so far… it has been even better for the actuarial and consultancy professions than Y2K was for the IT industry.

Some people enjoy the historical, unnecessary complexity of the life insurance sector, but at L&G we don’t. This applies to business metrics as well as regulation.

It used to be the case that progress was envisaged as a series of profit and cash J-curves, with business written at a loss in return for future profits expressed through Embedded Value accounting or MCEV.

There were three problems with this approach. First, a great many non-specialist investors didn't understand it – why should they?

Second, it potentially results in big swings from assumption changes.

And third, the J-curves have a habit of constantly moving away from you… the tipping-point is so often "not quite yet".

The more rational view is that complexity adds cost and deters non-specialist investors. The much more useful approach is to see progress in the same way that any other company might, based largely on metrics common in other industries.

Thus: a sustained upward progression of Net cash… EPS… RoE and Dividend – with a clear link to key milestones and management actions.

Slide 15 Direct Investments

So far, I have been quite financially-focused. I would like now to draw together the themes of strategic focus, financial focus and business focus, using two of the many examples from around the business: they aren't unique –this is the way we work across the business – but they illustrate the way we think about the business, and how we turn thought into action.

The first is Direct Investment by LGC. The start-point, from our five macro-themes, driving this is bank retrenchment, but also lack of investment.

There is also the lack of attractive yields from traded financial instruments. The relative lack of competition from banks at the long end of the maturity spectrum, and the availability of long-term fixed liabilities means we can source or create assets in the UK which match those liabilities, improve risk-adjusted returns, and which benefit from an illiquidity premium.

These investments are also economically and socially useful.

We began with direct investments in student accommodation – £1.25bn of direct investments with maturities ranging from 28 to 50 years. LGR can invest in long term assets where we are matching long term annuity liabilities – and LGIM property will manage the asset.

It’s an approach which works, not just in student housing. We have now invested almost £6.3bn in infrastructure, property, and housing of all categories: build to sell through CALA; affordable housing; housing associations like Places for People; and now build to rent.

We expect build to rent to be the next asset class that we can industrialise and institutionalise… and once we have created an institutional-sized asset class, LGIM can mainstream the product with its 3200 institutional clients.

The key to this working well is the ability of L&G to be both an investor and a manager – this gives “skin in the game “ which enables us to form partnerships – one recent example is with PGGM, but on an ongoing basis with others, both domestic and international, including through the £15bn investment vehicle we have set up with the UK government’s regeneration vehicle, RIO, which we launched earlier this year at 10 Downing Street.

Because of the scale and expertise of our investment management business, our existing property and regeneration expertise, and the fact we have significant holdings of overseas bonds, we can see this business growing to £15bn of direct investments, or 25% of our current principal balance sheet.

Slide 16 Welfare Reform

The second example I’d share today is driven by the macro-trend of Welfare Reform. In the UK, we have just seen a Conservative government elected, with a manifesto pledge to reduce spending on working-age state benefits by £12bn. So far, there has been no explanation of how this is to be achieved.

There is however a growing discussion about the restoration of the contributory principle – effectively the more widespread use of "social insurance". This creates a number of potential opportunities for Legal & General.

First, as the UK's leading protection provider, we can extend our offering, either through more widespread, good value individual protection products, or through group schemes. Our insurance businesses are highly digitally automated, have low unit costs and are scalable… they provide great customer value.

Even more interestingly, we are the largest private-sector provider of auto-enrolled workplace pensions – we have the digital "plumbing" in place with a significant proportion of the UK's largest employers. And as we win more schemes – we have achieved several big wins this year including John Lewis – we have a distribution mechanism that could be used to widen access to cheap, benefit-like insurance products to replace those the state will have to withdraw or reduce.

Pensions is already a public-private collaboration in the UK – one we understand extremely well… you have seen already how it is growing – and there is scope to replicate this in the welfare space… not just in the UK but in other markets as well.

Direct investment and welfare reform are just two examples of our approach. They are both driven by strategy… delivered by management action… and measured against consistent financial objectives… We have a similar approach across investment management, de-risking and retirement and the other parts of our business.

Slide 17 Einstein & Keynes

These are two of my favourite quotes… from Einstein and Keynes... they help us to understand our collective challenges.

There is a huge role for long-term investment and insurance in tackling some of the issues I set out at the beginning…. In a “zero everywhere” world.

We can provide new ideas and above all long-term investment to boost growth and productivity for an economy which is trending to zero, where inequality is rising, governments are over-indebted and jobs are being hollowed-out by technology, with too many people getting little back in return.

As the two examples show, what we do is economically and socially useful… in a nutshell… this is our purpose.

I’d now like to take any questions.