

# “I Hope I Die Before I Get Old”

Legal & General supporting inclusive capitalism and the intergenerational contract

THE WHO, “MY GENERATION”, 1965

LEGAL & GENERAL GROUP PLC



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## Forward looking statements

This document may contain certain forward-looking statements relating to Legal & General, 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 acquisitions or combinations within relevant industries. As a result, Legal & General'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 document 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.

# It Was A Very Good Year

## Operating profit (£m)

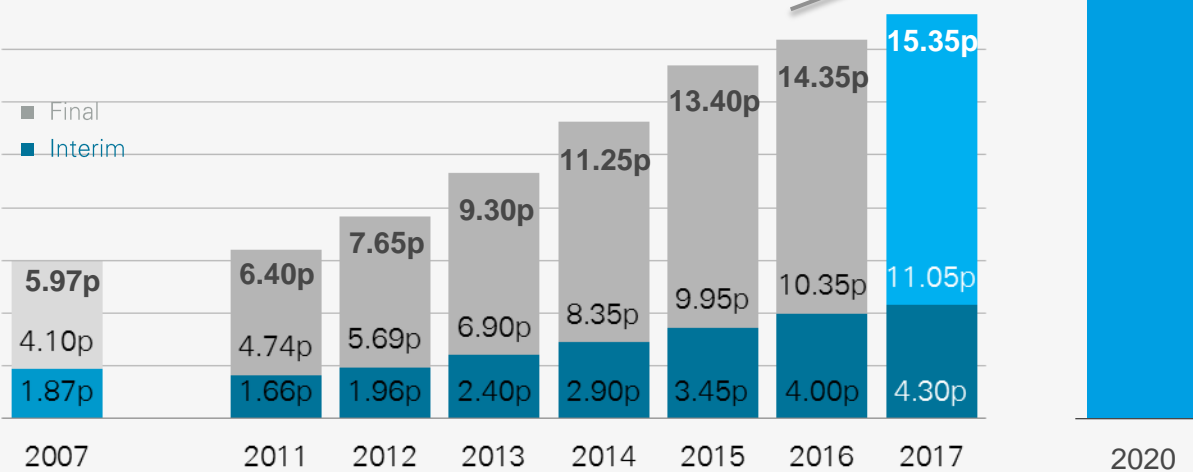
12% CAGR 2011 - 2017



## Dividend per share

16% CAGR 2011 - 2017

Group dividend guidance  
7% CAGR FY16-20



The group has a progressive dividend policy, reflecting its medium term underlying business growth, including net release from operations and operating earnings

## Resilient to Brexit risks

Risks	Direction	Impact on Legal & General
Rates rise	+++	<p><i>Rate rises will be the "new normal" - Ben Broadbent</i></p> <ul style="list-style-type: none"> <li>Higher rates reduce our liabilities</li> </ul>
Credit spreads widen	++	<p><i>Economic uncertainty may cause credit spreads to widen</i></p> <ul style="list-style-type: none"> <li>Higher spreads reduce our liabilities because our assets are held to maturity</li> <li>Higher spreads will lower LGIM's AUM, thereby lowering fee income</li> </ul>
Downgrades and defaults	-	<p><i>Some companies may struggle in the post-Brexit world</i></p> <ul style="list-style-type: none"> <li>£2.7bn credit default reserve</li> <li>LGIM mandated and remunerated based on avoiding downgrades and defaults</li> </ul>
Employment falls	0	<p><i>If companies pull operations out of the UK or if the economy slows, employment may drop</i></p> <ul style="list-style-type: none"> <li>However the UK jobs market has been robust with 197k new jobs added in Q1 2018</li> </ul>
Property markets fall	-	<p><i>House prices are still rising, with expectations at 2% in 2018 and 3% in 2019<sup>1</sup></i></p> <ul style="list-style-type: none"> <li>Diversified portfolio across the country and price levels</li> <li>Disciplined growth, with a variety of contractual safeguards (pre-let hurdles, risk-adjusted LTVs)</li> </ul>

1. EY Item Club, <https://www.theguardian.com/business/2018/may/23/uk-house-prices-fall-by-02-for-march-says-land-registry>

## Solvency II sensitivity scenarios: significant positive impacts

31 December 2017	Impact		Detail
	Surplus £bn	Coverage ratio <sup>1</sup> %	
<b>Base Group SII position</b>	<b>6.9</b>	<b>189</b>	<ul style="list-style-type: none"> <li>As at 5 March 2018, ratio estimated at <b>196%</b></li> <li>Movement due to increasing yields and operational surplus generation</li> </ul>
<b>1. Interest rates +100bps</b> (e.g. 10 year UK Gilts 1.2% to 2.2%)	<b>+0.8</b>	<b>+20</b>	<ul style="list-style-type: none"> <li><b>Significant positive</b> for L&amp;G's balance sheet</li> <li>As interest rates increase, pension liabilities decrease</li> <li>Liabilities are discounted at a higher rate resulting in a <b>reduction in SCR</b></li> </ul>
<b>2. Credit spreads widen 100bps<sup>2</sup></b> (escalating addition to ratings)	<b>+0.2</b>	<b>+8</b>	<ul style="list-style-type: none"> <li><b>Positive impact</b> driven by the Group's Matching Adjustment (MA) portfolio</li> <li>As spreads widen:               <ul style="list-style-type: none"> <li><b>Own funds impact is limited</b> as decrease in asset valuations is offset by higher MA yield uplift used to discount liabilities</li> <li>However, a decrease in liabilities results in a <b>reduction in SCR</b></li> </ul> </li> </ul>

1. Shareholder basis

2. Assumes no change in L&G's long term default assumptions, and no change in the Fundamental Spread

# The Long And Winding Road: Mortality releases 2017 to 2020

## Mortality releases

£m	Mortality reserve releases			
	2017	2018 estimated	2019 estimated	2020 estimated
<b>Pre-tax profit</b>	332	330*	330*	**
<b>Post-tax profit</b>	274			
<b>Dividend to Group</b>	250			

\*If we were to mechanically apply the CMI 16 and CMI 17 tables we would expect a 2018 and a 2019 release similar in quantum to the release disclosed in 2017

\*\* Mortality tables not yet produced

- In 2017, we completed the review of our longevity trend assumptions and adopted adjusted CMI 2015 mortality tables
- Should current trends continue to emerge we would release prudence over several years
- If we were to mechanically apply the CMI 16 tables we would expect a 2018 release similar in quantum to the release disclosed in 2017
- There would be a similar impact for 2019
- Assumes mortality trends continue to move with an approximate 2 month reduction in life expectancy



# Grow Old With Me

## Group Strategy

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Investing & Annuities  
LGR AUA

£58.2bn

+7%

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Investment Management  
LGIM AUM

£983bn

+10%

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Insurance  
LGI & GI GWP

£2.9bn

+6%



## Reshaping the group has increased focus

### Disposals, closures & simplifications

	Status	Proceeds
IndiaFirst Life (H1 2018)	Sale agreed	£79m
Mature Savings (H2 2017)	Sale agreed	£650m
Insurance: Netherlands business (H1 2017)	Sold	€161m
Savings: Cofunds (H1 2017)	Sold	£147.5m
Legal & General Germany (H2 2016)	Sold	-
Savings: Suffolk Life Group Limited (H1 2016)	Sold	£45m
Legal & General Ventures (Snow & Rock, Liberation Ale, ABI)	Sold	£141m*
Legal & General International Ireland – investment bonds (H2 2015)	Sold	£15m
Savings: Egypt business (H2 2015), 55% interest	Sold	\$54m (L&G share)
Savings: Gulf business (H2 2015)	Sold	-
Insurance: France business (H2 2015)	Sold	£159m
Xperience: Estate agency business (H2 2014)	Sold	£6m
Retail Investments transferred to LGIM: was 13 <sup>th</sup> now 3 <sup>rd</sup> in net flows	Simplified	-
Workplace integrated into LGIM's DC business, now £68bn AUM	Simplified	-
Withdrawal of investment advice: Network and Employed sales (2016)	Simplified	-

\* Largely owned by With-Profits business



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# Reinvesting disposals in profitable, socially useful investments

## Mature Savings disposal

Disposal date: December 2018  
Sale price: £650m  
  
Expected completion date: Mid-2019  
Approx. profit on disposal: £450m



## Cala acquisition

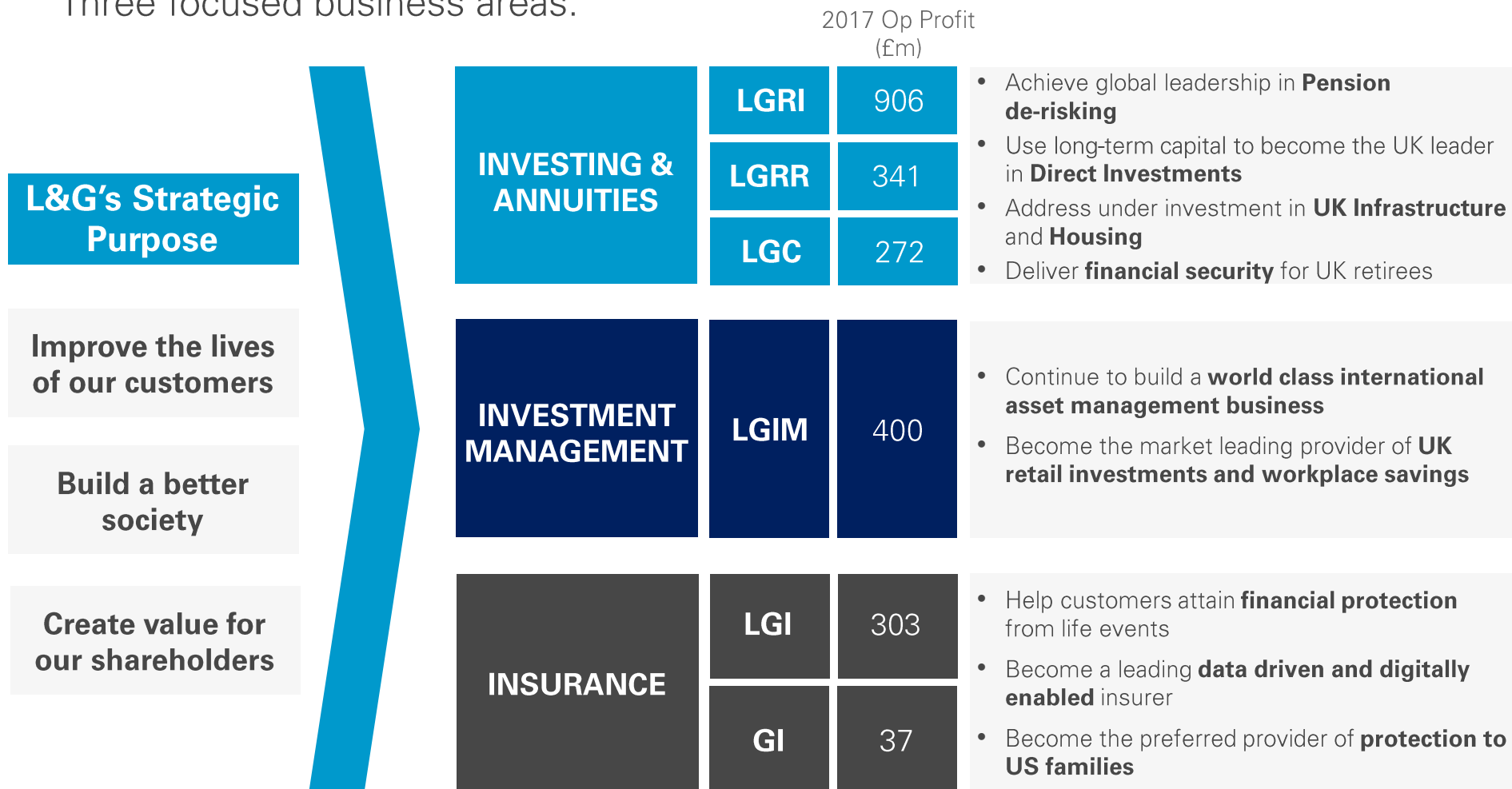
Acquisition date: March 2018  
Purchase price: £315m  
Acquisition amount: 52.1%  
(total ownership now 100%)



Full Cala business value £605m

# Businesses aligned to capitalize on growth drivers

Three focused business areas:



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# Our six growth drivers: delivering inclusive capitalism across generations

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## Growth drivers

## Legal & General's Actions Broader Economic Potential

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### Ageing demographics

- Optimise longevity exposure for corporates
  - Deploy housing equity for old-age needs, add specialist housing for right-sizers
  - **Enable high-quality, independent living and financial security**
- 

### Globalisation of asset markets

- Provide value for money alternative to active equity
  - Design solutions to fit newer liability-aware investing and diversified growth strategies
  - **Create efficient investment for a low-return environment**
- 

### Creating real assets

- Real asset investments as principal
  - Development of new asset classes for third-party clients
  - **Driving city growth and re-balancing regional economies**
- 

### Welfare reforms

- Protection as a genuine welfare alternative
  - DC, auto-enrolment and effective decumulation to enhance pensioner resilience
  - **Optimise focus for limited government spending**
- 

### Technological innovation

- Direct retail sales deliver customer power and choice, including digital advice
  - Improve service efficiencies and lower unit costs
  - **Deliver better value to consumers**
- 

### Today's capital

- Scale vehicles for start-ups
  - Financing efficiency and productivity improvements
  - **Higher quality, more productive jobs drive real wage increases**
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# Our six growth drivers: delivering inclusive capitalism across generations

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## Growth drivers

## 2017 Achievements **Leading the way**

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### Ageing demographics

- £6.4bn LGR transactions, including 15 US pension de-risking transactions
  - Over **£1bn** Lifetime mortgages sales, market leader, 33% market share
  - Solutions assets of **£463bn**, up 12%, UK market leader with 42% share
- 

### Globalisation of asset markets

- 349 US clients with £139.5bn assets, 4 of top 5 US DB pension funds
  - Successfully winning US mandates, net flows £12.6bn (2015: £9.4bn)
  - LGIM total AUM of **£983bn**, up 10%, International AUM of £228bn, up 29%
- 

### Creating real assets

- **£14.4bn** of group-wide direct investments, up 44%
  - £1bn 'Build to Rent' pipeline with new sites in Bath, Birmingham, Leeds and Brighton
  - Extended Homes sector into Later Living through a new operating partnership
  - UK infrastructure investments in Bracknell, Newcastle and UK transport
- 

### Welfare reforms

- Market leading UK retail protection business, 24% market share
  - UK DC assets £68.2bn, up 19%, largest manager of DC assets in the UK
  - 2.7m DC customers in over 14,000 schemes
- 

### Technological innovation

- Retail Protection direct sales 18% of total, General Insurance direct sales 38% of total
  - Newly created Fintech business areas, to drive technology disruption across the Group
  - My Account: over 1.5m users with c.630k new customers signed up in 2017
- 

### Today's capital

- Leading lender to Europe's corporates via Pemberton. 4 funds to date tracking to €3bn+ AUM
  - Invested in over 100 start-ups to date via partnerships
-

# Old Man Take a Look At My Life

## Legal & General Businesses

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Investing & Annuities

#1

In Lifetime  
Mortgages

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Investment Management

2.7m

People in our DC  
pension schemes

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Insurance

7

New GI distribution  
partnerships



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## Intergenerational trends are supportive of our business

1

Typical pensioner incomes are now actually higher than working-age incomes

2

3.3m Last Time Buyers ('LTB') looking to downsize with £820bn LTB housing wealth locked up in homes no longer fit for purpose

3

Millennials are half as likely to own a home at age 30 as baby boomers were

4

4 in 10 millennials live in private rental accommodation at age 30 (4x that of baby boomers)

5

Young adults spent the same as those approaching retirement in 2001, but they are now spending 15% less

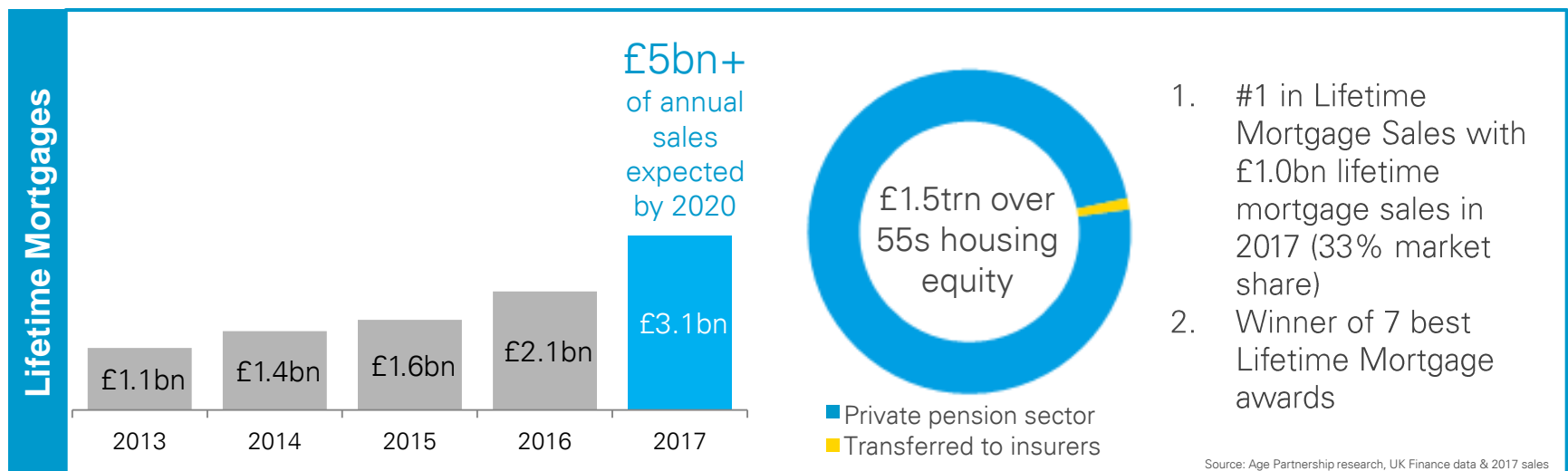
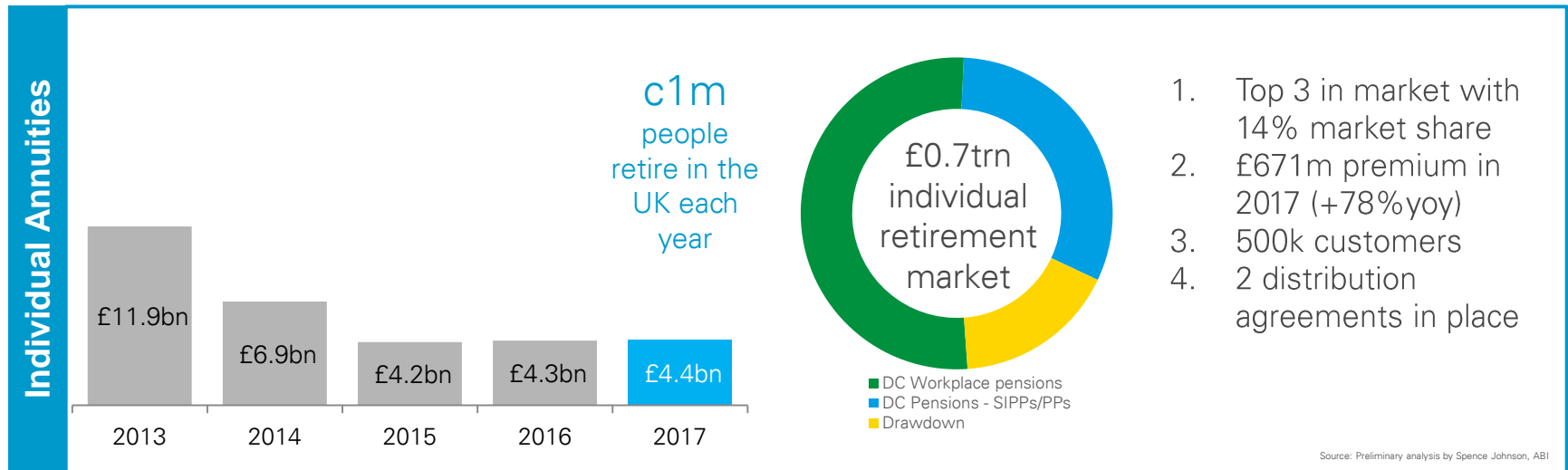
6

Employees born in the early 1980s are half as likely to have a DB pension as those born around 1970, meaning they are taking more risk in retirement

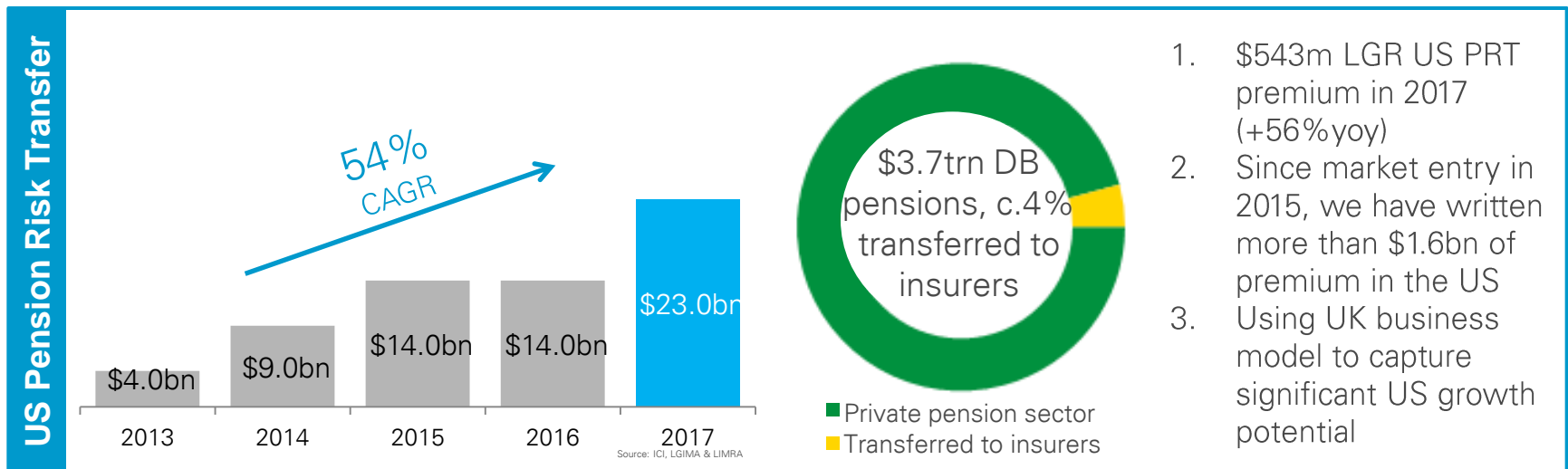
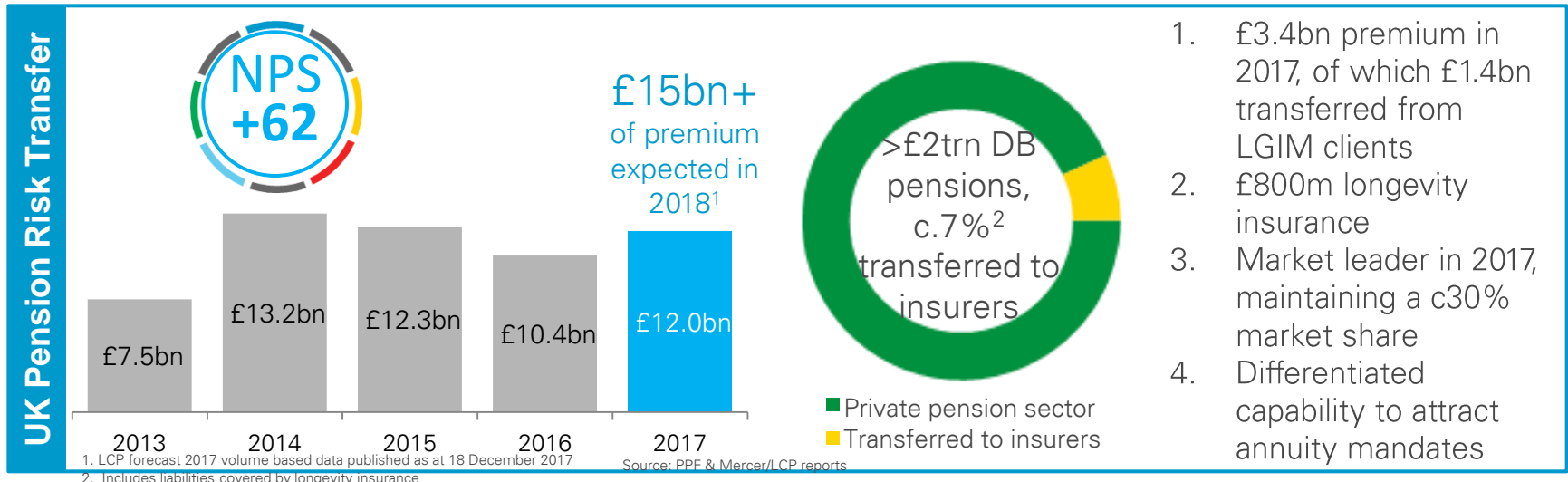
"A new generational contract: the final report of the Intergenerational Commission"



# When I'm 64 – LGRR: Providing security in retirement to ageing populations



# When I'm 64 – LGRI: Helping institutions pay pensions to their employees



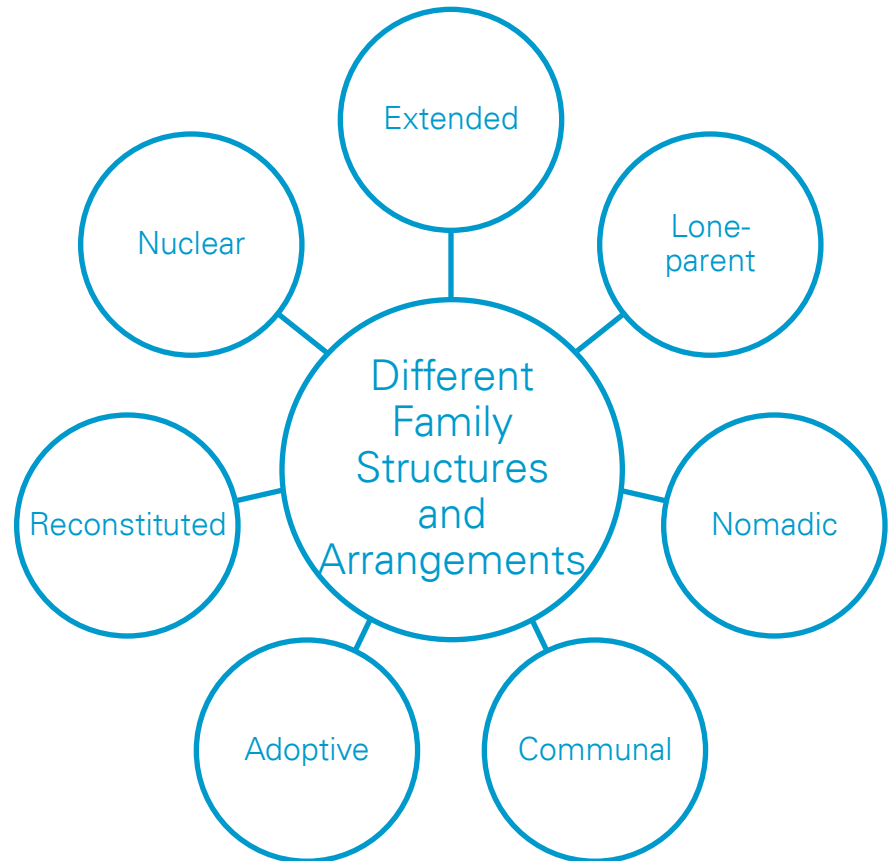


# Backing liabilities with assets that support customers across the generations

## At Retirement Balance Sheet

Increased reliance on home as a source of value, but challenges accessing the value

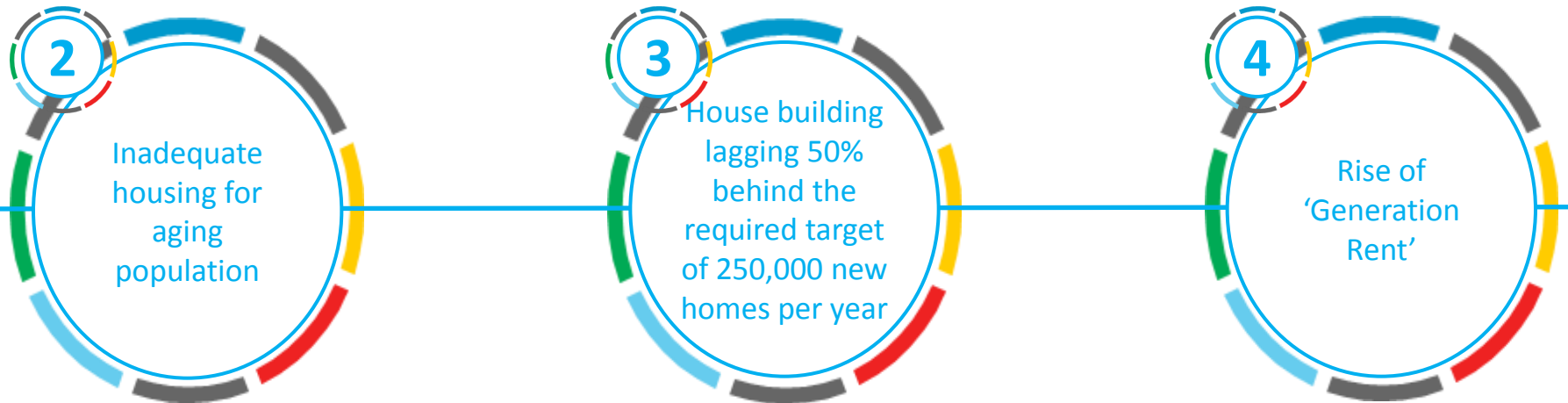
	(£k)
State Pension:	230
Private Pension:	85
Other Savings:	10
Benefits:	15
Healthcare etc:	20
<b>Housing:</b>	<b>250</b>



### Changing living situations coupled with changing ways of working

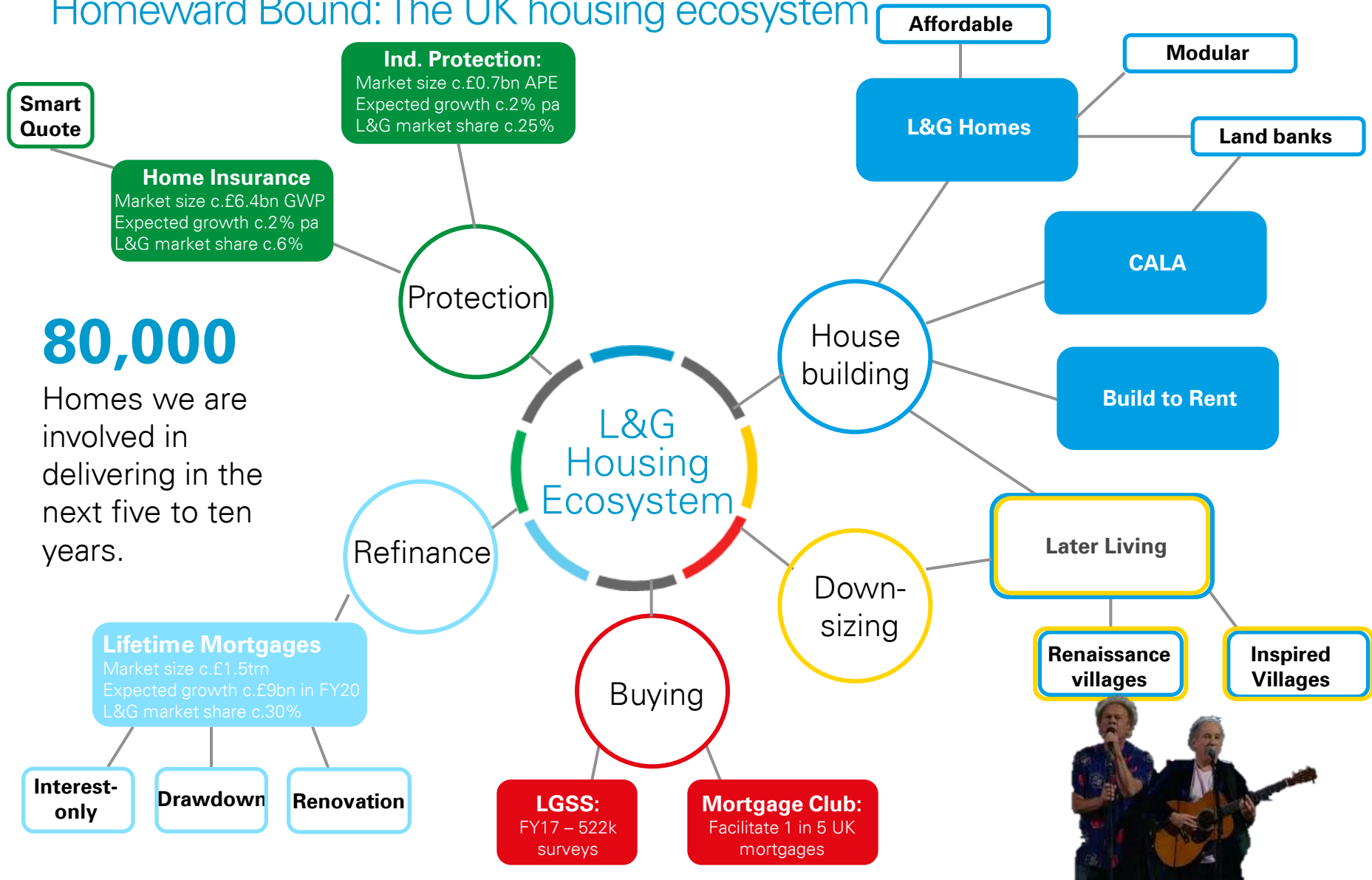
- Gig economy
- Self-Employment
- Self-incorporation
- Freelancers

# “Worst housing crisis since the Second World War”<sup>1</sup>



1. Richard Cotton, Mayor of Camden

# Homeward Bound: The UK housing ecosystem



**80,000**

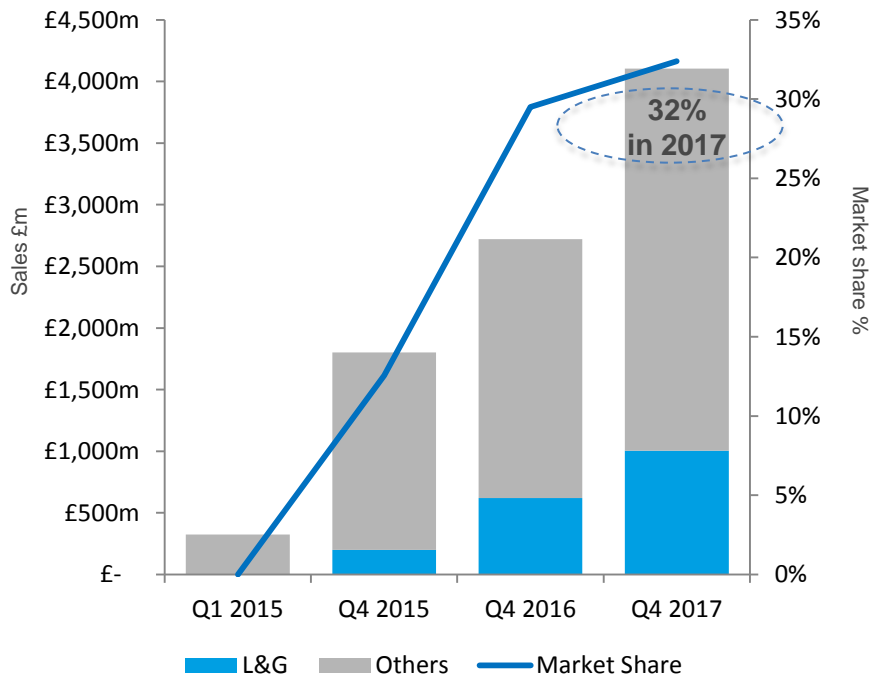
Homes we are involved in delivering in the next five to ten years.



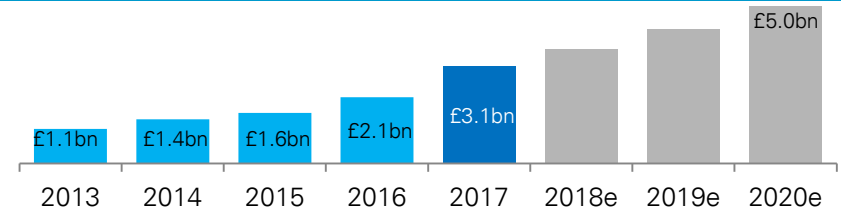
## LGRR: A leading provider of in-demand Lifetime Mortgages

- £1.5 trillion of housing equity owned by over 55s<sup>1</sup>
- Ageing Population will drive further growth
- Only £18 billion released over last 25 years<sup>2</sup>

### L&G response: Entered LTM market in 2015



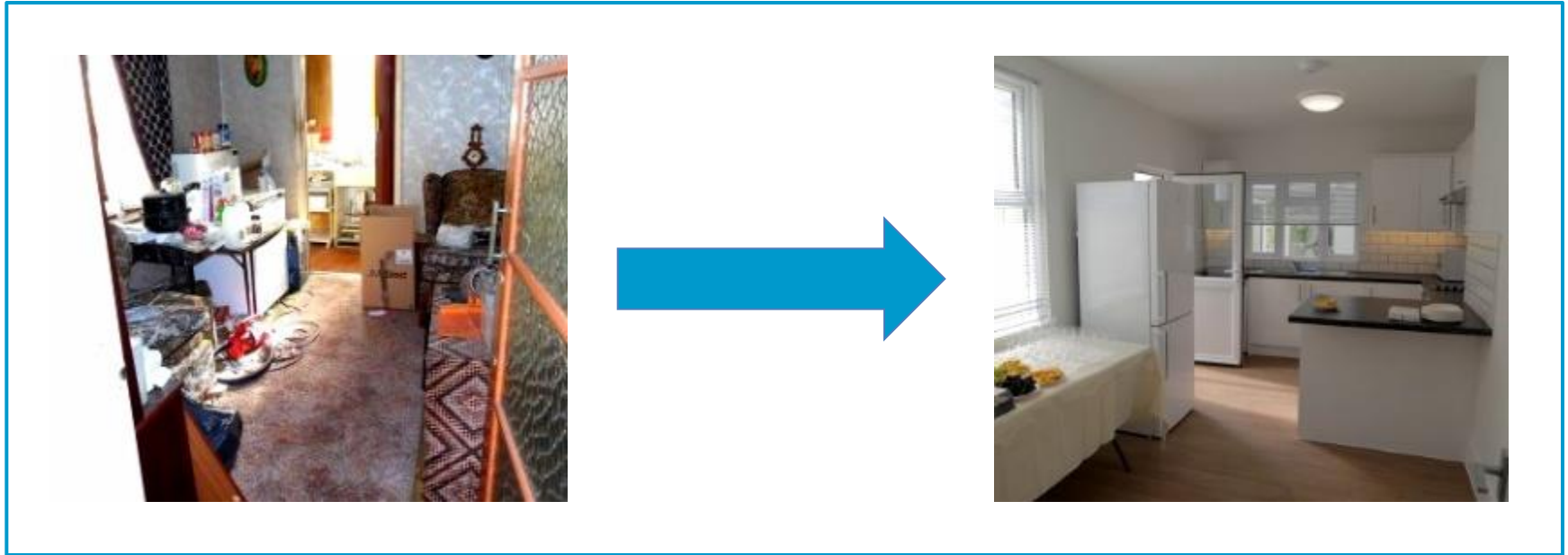
### LTM market forecasts



### Leading the market in quality and customer-focus

Award	Organiser
Best Equity Release/Lifetime Lender: 2nd place	Mortgage Strategy Awards
5 star rating for our Lifetime Mortgages	Moneyfacts
Best Equity Release Provider	Your Mortgage Awards
Best Equity Release/Lifetime Lender	Mortgage Strategy Awards
Later Life Lender of the Year	Mortgage Introducer Awards
Retirement	Gold Standard Awards
Best Equity Release Provider 2017	Moneyfacts
Best Mainstream Annuity Provider	Moneywise Awards
Best Equity Release Lifetime Lender 2017	Mortgage Strategy Awards
5 stars in the Mortgage Providers	FTAdviser Online Innovation and Services Awards
5 star rating Flexible Lifetime Mortgage	Moneyfacts

## LGRR: Lifetime Mortgages making a 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

## LGC: Later Living

### Significant market opportunity

- 65+ year old population forecast to grow by 50% by 2033
- 3.1m Last Time Buyers ('LTB') looking to downsize with £820bn LTB housing wealth locked up in homes no longer fit for purpose<sup>1</sup>
  - 6.2m unoccupied bedrooms, equating to 2m family homes or 10 years of housing supply
- 0.7% of 65+ in UK live in care housing vs 6.1%/5.4% in US/ Australia<sup>2</sup>
- Existing stock not fit for purpose; 49% of accidental deaths in 65+ linked to fall in the home



### Strong strategic fit for L&G Group

- Close alignment with L&G's long term growth drivers; ageing population, creation of real assets and the reform of the welfare state
- Retirement solutions a core capability of the wider L&G Group
- Compliments L&G's approach to UK's residential housing supply issue with multi-tenure offering including build to sell and build to rent
- Social and economically useful: Solving the NHS problem<sup>3</sup>

Purpose built later living schemes produce huge preventative health benefits

  - 38% reduction in NHS spend
  - 46% reduction in GP visits
  - 18% reduction in falls
  - Unplanned hospital stays reduced from 10 to 2 days



### Targeted implementation

- Stringent selection policy for initial sites and operating partner to ensure long-term congruence with L&G desired product and level of service offering
- Target plan to deliver c1,300 units by 2020 through Inspired Villages Group and the Renaissance Villages Group



1. Last Time Buyer Report 2018  
 2. International Lessons for Housing with Care, "Stronger Foundations"  
 3. Extra Care Charitable Trust



## LGC: Investing to meet UK's housing needs

### Legal & General Affordable Homes

- Aim to be fully operational and delivering 3,000 homes per year within 4 years
- 1.3 million households<sup>1</sup> on UK waiting lists with new additions averaging only 30,000 properties a year over the last 10 years
- A lack of affordable housing has a direct impact on the ability of employers to recruit the labour needed to run a well-functioning society and modern economy

### Modular Homes

- Precision-built modular homes constructed in our factory in North Yorkshire
- Time spent building on site will be reduced by up to 50% compared to traditional techniques
- Our modular homes will use less energy to run and also will use less energy to build
- Delivery stage in Q2 2018

### CALA

- Tripled revenues since 2013 acquisition of 48% stake to £748m in 2017
- Profits rose 12% p.a. to £91.5m in 2017
- Acquisition of full stake funded by sale of Mature Savings allowing us to replace a falling profitability business with a growing one and freeing up £295m of cash for the Group



## LGC: Build to Rent Fund: £10bn opportunity

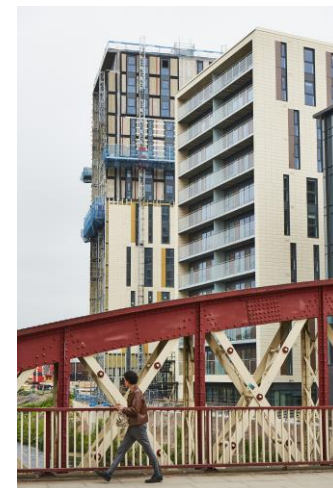
Collaboration between LGC and LGIM launched £600m open-ended BTR fund. Now over £1bn investment capability and growing.

Using long term capital to address the chronic long term lack of housing supply and meet the increasing demand for affordable, quality rental accommodation.

In total 2,000 homes under construction or in planning at seven sites, with the aim to have 6,000 in planning, development or operation by the end of 2019.

### The story so far...

- |      |  |
|------|--|
| 2015 | Walthamstow: 440 homes as well as 20,000 sq ft of commercial accommodation                                       |
| 2016 | Bristol: 255 homes above c.11,500 sq ft of commercial space  |
| 2016 | Salford: 225 new homes on two sites; first site delivered Jun 2017   |
| 2017 | Bath: 171 apartments, 126 car parking spaces and 17,000 sq ft of retail space                                    |
| 2017 | Leeds: 250 homes as well as 8,640 sq ft of commercial and amenity space  |
| 2017 | Birmingham: 220 residential units and 7,500 sq ft of commercial space, 61 car parking spaces and a public square |
| 2018 | Brighton: 200 homes and up to 3,000 sq m of commercial space   |



The Slate Yard, Salford



## LGC: Urban regeneration brings jobs and homes to UK cities

**LGC** investment in Salford has provided multiple profitable investment opportunities for **LGR** and **new institutional capital** managed by **LGIM**

Sourcing new institutional capital funding

### Phase 1

- 125,000 sq.ft, “matching adjustment” compliant, 25 year RPI-linked **lease to Salford Council**
- Forward funded by LGR for c. £50m

### Phase 2

- Two purpose-built “**Build to Rent**” blocks totalling 225 units
- Forward sale to L&G’s Build to Rent fund for c. £45m

### Phase 3

- Second **office building** with “matching adjustment” compliant, 25 year RPI-linked lease to Salford Council
- To be funded by external party for c. £110m

### Phase 4

- **Two multi-storey car parks** with “matching adjustment” compliant leases to Salford Council
- Owned and funded by LGR and LGIM managed Fund

### Phase 5

- “Matching adjustment” compliant, **Government Property Hub** with 25 year RPI-linked lease
- To be funded by LGR

### Phases 6-10

- In progress

Similar approach used for Cardiff, Leeds, Bracknell, Newcastle, and other cities across the UK

## LGI & GI: Protecting the things that matter

### Legal & General Insurance

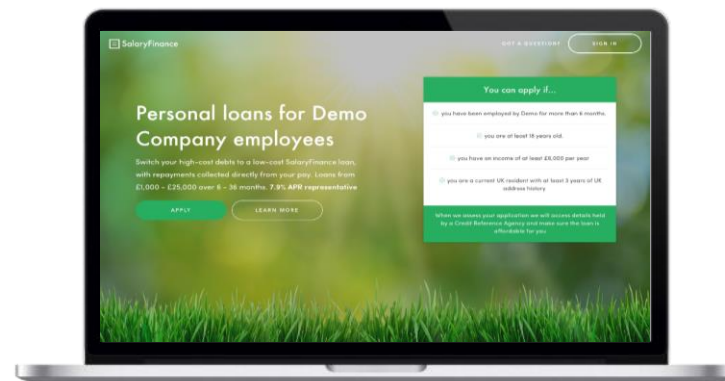
- Largest provider of retail protection in the UK and a top 10 player in the US term life market, ensuring income stability for families

### General Insurance

- Range of pricing, underwriting and claims management actions used to address increased costs of escape of water claims in Q1 2017
- Market leading, digitally innovative application, SmartQuote launched
- 7 new distribution partnerships added since 2016, of which several commence in H1 2018

### SalaryFinance

- Personal lending with repayments taken directly from salaries
- 250,000 people added to the platform since L&G investment in September
- From application to having the money in the bank account can take as little as 7 minutes
- Partners with many major employers in the United Kingdom
- Yorkshire Building Society became the latest supplier and partner in January 2018, adding savings solutions to the platform

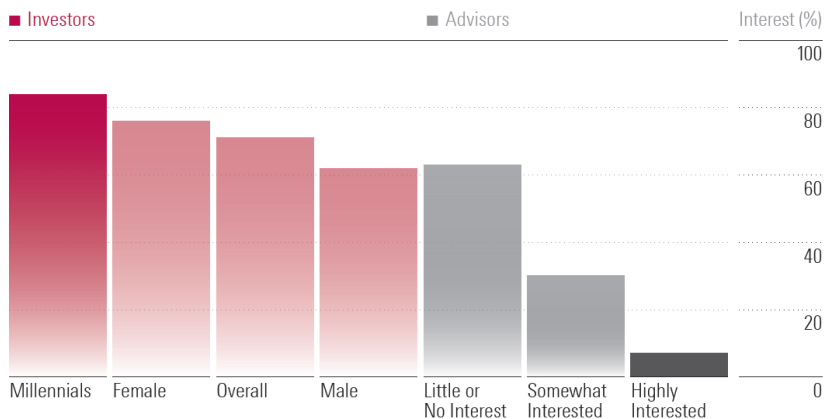


# LGIM: Providing DC pension solutions and investments for the future world

## Defined Contribution (DC) pensions

- Largest UK manager of DC assets, with £68.2bn assets, up 19%
- 2.7 million UK DC customers in over 13,000 schemes

**Different Interests** A high percentage of **millennials and women** say they are interested in ESG investing. Financial advisors? Not so much.



Sources: Morgan Stanley Institute for Sustainable Investing, Cerulli Associates.

ESG Investing & Corporate Governance are crucial to attracting the new savers

**Launch:** Feb 2017 **Fund size:** \$6.3bn

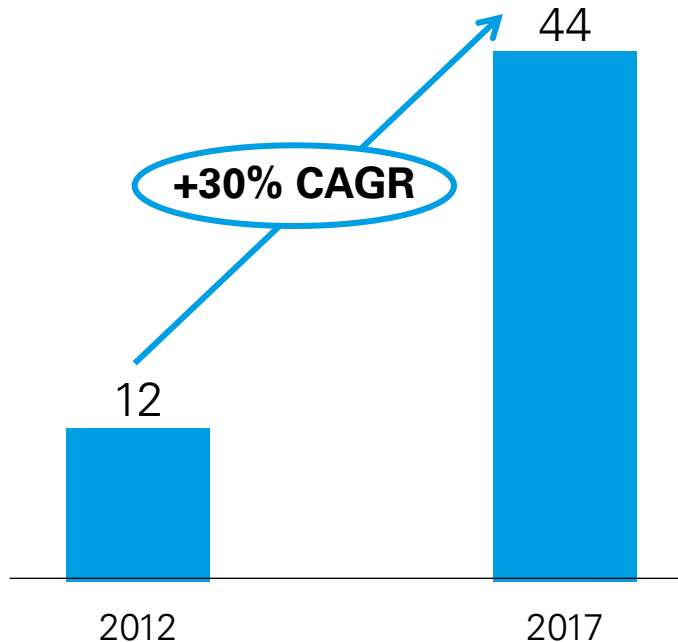
### Aims:

- To provide **better risk-adjusted returns** over the long term by using an alternatively-weighted index rather than a conventional market-capitalisation index
- Addresses the investment risks associated with **climate change** by incorporating a climate 'tilt'
- Finally, the Fund takes our approach to climate change one step further by incorporating LGIM's innovative **Climate Impact Pledge**. This is a targeted engagement process where we work directly with companies to bring about positive change, and exclude those who don't meet the required standards after a certain engagement period

**Selected as the default fund for HSBC Bank (UK) Pension Scheme**

## Leaning into Europe with positive results

LGIM Europe ex-UK AUM growth (£bn)



European net flows up

**4.8x**

to £12.6bn (2016: £2.6bn)

**£228bn**

of AUM from International clients (+29% yoy)

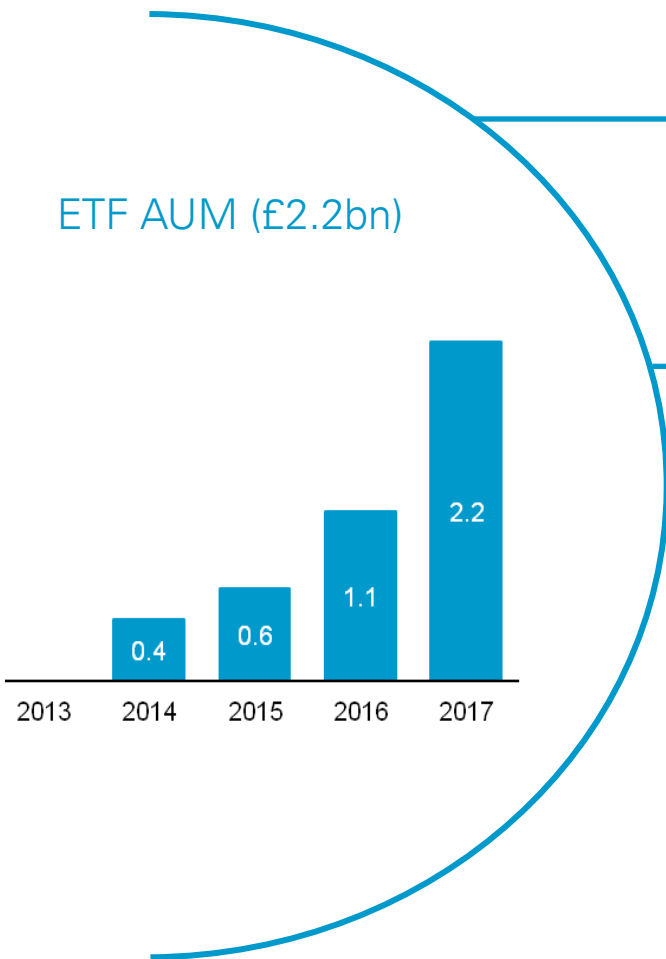
**Preparing for the future**

**€300bn+**

European infrastructure deficit

# Furthering European expansion through investment in ETF platform and SME Finance

ETF AUM (£2.2bn)



The Canvas acquisition provides LGIM with **'out of the box' ETF capability** (a blank canvas) as a platform for growth for LGIM's index and distribution capabilities

By the end of FY19, we will have launched a core range of LGIM ETFs to **target a portion of the c.£1.5trn** of ETF flows into Europe over the next three years

## SME Finance Investment (Pemberton)

In 2014 LGC purchased 40% equity stake in Pemberton, an independent alternative asset manager with a core strategy of **providing debt finance to small and medium sized enterprises**

4 funds to date tracking to **€3bn+ AUM**

**46% AUM growth** on our investment in Pemberton

**Global Fund Manager of 2016** Private Debt Investor

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## Our Strategic goals to 2020

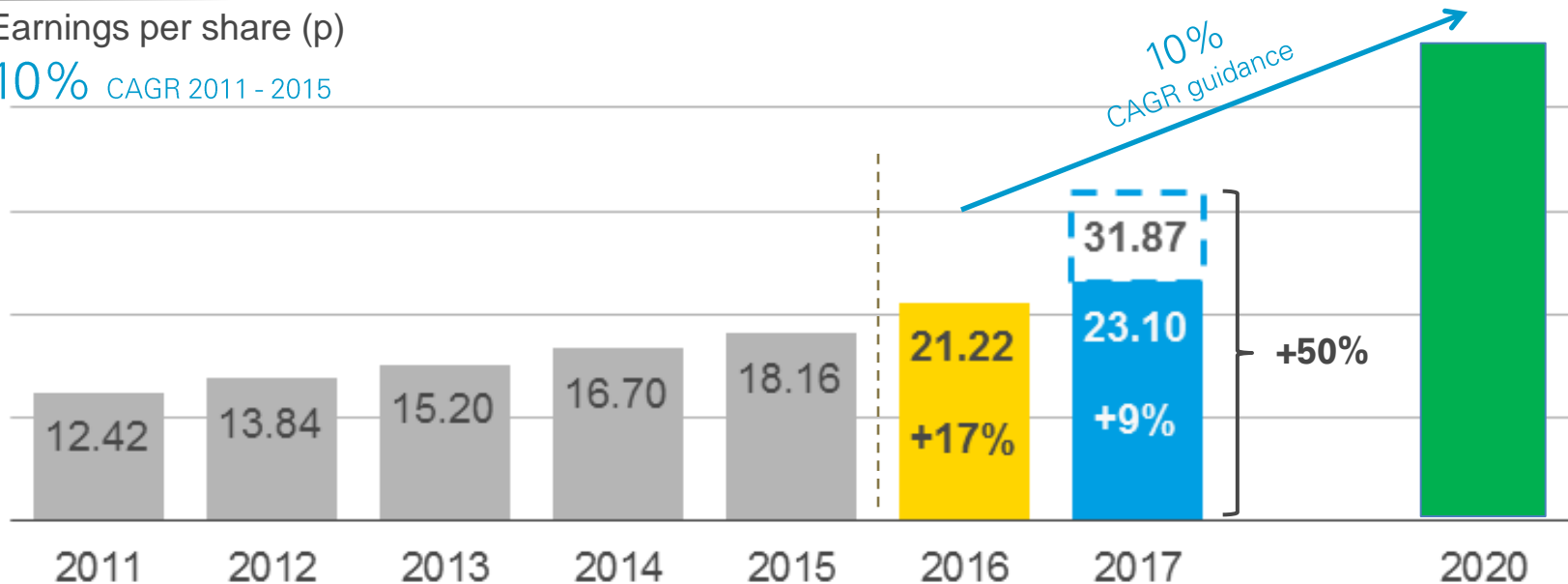
- Achieve global leadership in pensions de-risking and provide a suite of products to maximise retirement income
- Help people achieve security affordably through insurance and workplace pensions
- Use our existing skills and expertise to build a world class international asset management business
- Use 'slow money' to become the UK leader in direct investments including housing and urban regeneration
- Achieve market leadership in digital provision of insurance and retail investments
- To be a leader in financial solutions and a globally trusted brand
- Delivering Inclusive Capitalism

## Our financial ambition: Disruption is a privilege and a responsibility

Between 2011 – 2015 we achieved a 10% growth in EPS  
Our ambition is to replicate this performance out to 2020

Earnings per share (p)

10% CAGR 2011 - 2015



2017 EPS is 31.87p. Excluding mortality releases and US tax, 2017 EPS is 23.10p