

LEGAL & GENERAL

A MODERN & GROWING INVESTMENT BUSINESS

2016

Legal & General Group plc

Barclays Global Financial Services Conference
September 2016



Media City, Salford 2015

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.

Manchester had the highest per capita income globally in the 19th century



“Salford, once more important than Manchester...the workers of Salford live in dwellings in which cleanliness and comfort are impossible” 1844

Legal & General: From 1830's cyberpunks to investors and creators of digital cities



**First Machine Age:
Babbage Difference
Engine**



**Ada Lovelace:
First Female Actuary**

FIRST MACHINE AGE:

L&G: formed in a coffee shop in 1836 as a UK Peer-to-Peer company using big data.

SECOND MACHINE AGE:

L&G: providers of today's capital, engaging with customers to accelerate digital capabilities.



**Globally Trusted &
Respected Brand**



Peer-to-Peer

- FinTech has disappointed to date, but government policy has driven digital disruption.
- Businesses, consumers and regulators are accelerating their digital capabilities.

The second machine age: the age of digital disruption

First Machine Age – Britain led the world



40 years of noise before the growth signals emerged

- The Wealth of Nations (1776), Adam Smith
- An Essay on the Principle of Population (1798), Thomas Robert Malthus
- The Communist Manifesto (1848), Karl Marx & Friedrich Engels

- Windfall gains helped boost corporate profits, lower interest rates, lower tax rates, international outsourcing, hollowing out middle management and share buybacks
- Deflation, demographics, regulation and debt are dampening positive thinking and innovative solutions
- The rise of the “technological elite” (Apple, Microsoft, Facebook, Google, Amazon, Alibaba, Tencent has been good for growth
- UK: leads G20 in digital start ups (EY 2016 Report)

The second machine age: issues for business

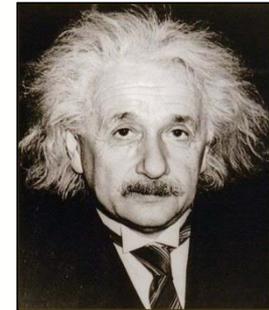
1. Productivity growth, talent, capital investment and shareholder value creation are increasingly residing in the super digital companies based in U.S. and China
 2. “Digital supers” with talent and technology originally worked in “student problems” are now trying to work on grown-up problems: transport, healthcare, energy, housing, medical science, plant science
 3. European politicians “believe” these businesses will suck revenue and profits from their slow growth developed economies, which have very long tails of business, no productivity growth and ageing capital stock
 4. Europe has no “famous five” equivalent, however there are huge unexploited opportunities
 5. UK leads the world in start ups – we need our start ups to become profitable “scale ups”
 6. FinTech has been disappointing so far despite money being the ultimate digital product
 7. America has a massive scale advantage in the VC ecosystem – investment flows bigger than rest of world put together – UK is addressing this issue although social media huge success elsewhere
-

As monetary policy takes front and centre stage, is the global macro economy moving to a digital world of zeros?

		Downside
	Analogue Economy Paper Money % change	Digital Economy Digital Money % change
Economic growth	2 - 4	0
Productivity	2 - 3	0
Nominal interest rates	4 - 6	0
Real interest rates	2 - 3	0
Inflation	- Normal - Hyper	3 - 10 10 - 30
Wages	- Nominal - Real - Hyper	4 - 6 2 - 3 10 - 30
Currency	Fixed with "crashes"	Volatile

"We cannot solve our problems with the same thinking we used when we created them."

Albert Einstein



Declining interest rates, have not resulted in increased investment

Money printing has not resulted in increased inflation

Legal & General equity narrative: investment case

- Global demographic and macro trends underpinning structural growth drivers for the business anchored by market leading positions in the UK and a fast growing US presence
- Unique market leading investment businesses with a strong, well-respected and trusted global brand delivering economically and socially useful solutions
- Strong operational and financial performance delivering double digit growth in EPS and DPS over the last five years
- Strong balance sheet (economic capital ratio of 235% and Solvency II shareholder ratio of 163%) supporting future growth opportunities
- Constant innovation plus decluttering through focus on low cost business model, disposals and closures drives continued high RoE – currently 18-20%

Clear strategy and business model together with strong balance sheet to drive attractive earnings and cash growth throughout the cycle

The opportunity: we are the UK's leading solutions provider

'Today's Money' Patient Capital

Pension Funds	£1.3trn
Insurance Funds	£900bn
Sovereign Wealth Funds	£4.8trn



Essential 'Capital Heavy' Industries

Housing	£150bn
Regeneration	£100bn
Clean Energy	£40bn
Transport	£90bn
SME Finance	£125bn

Banks

Governments

'Yesterday's Money'

“Our Towns and Cities aren’t overbuilt, they’re under-demolished”

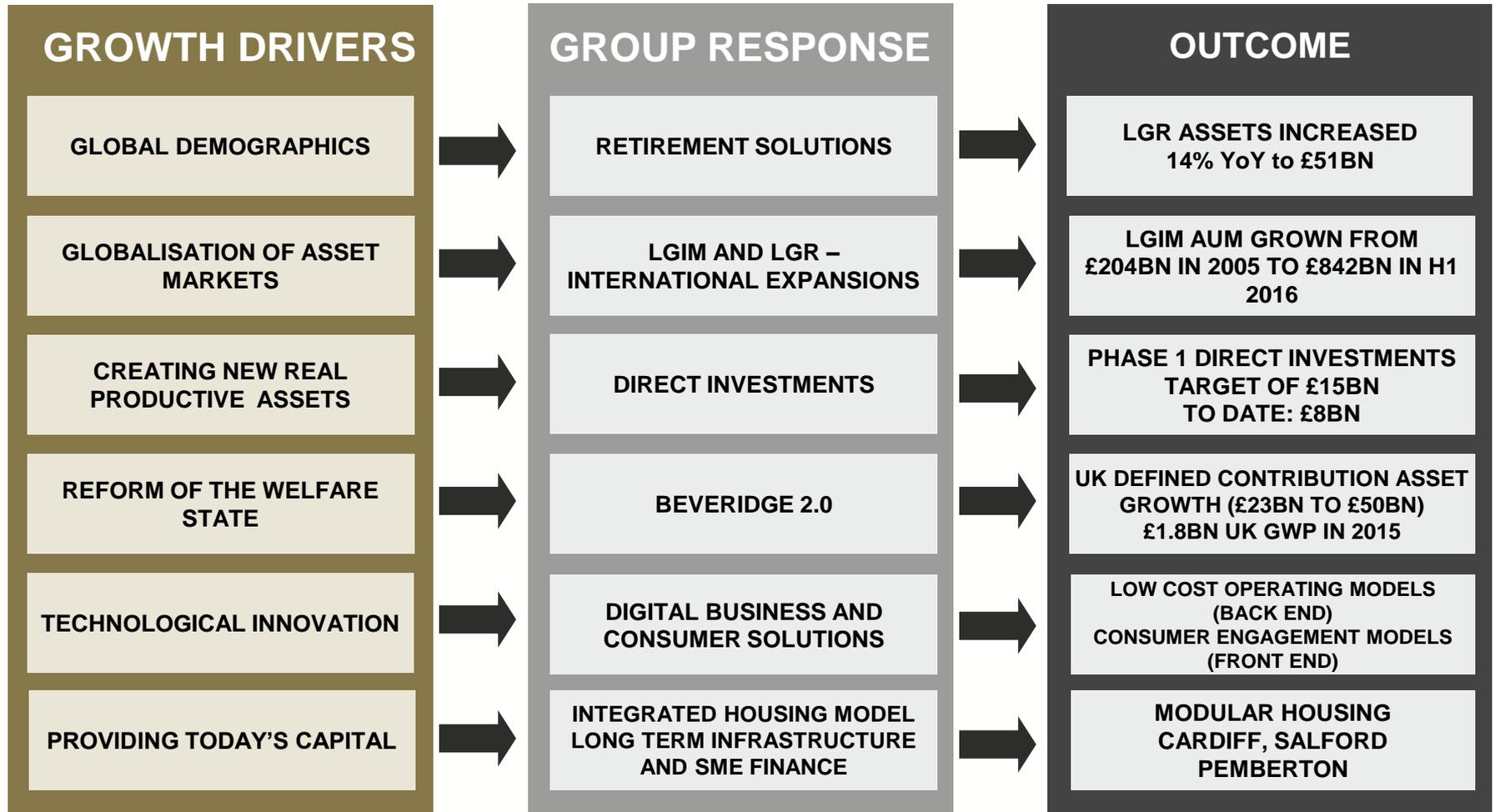


Digital infrastructure investment’ multiplier: key to economic growth – a collective communal responsibility

Legal & General’s investment in a £400m Development in Cardiff

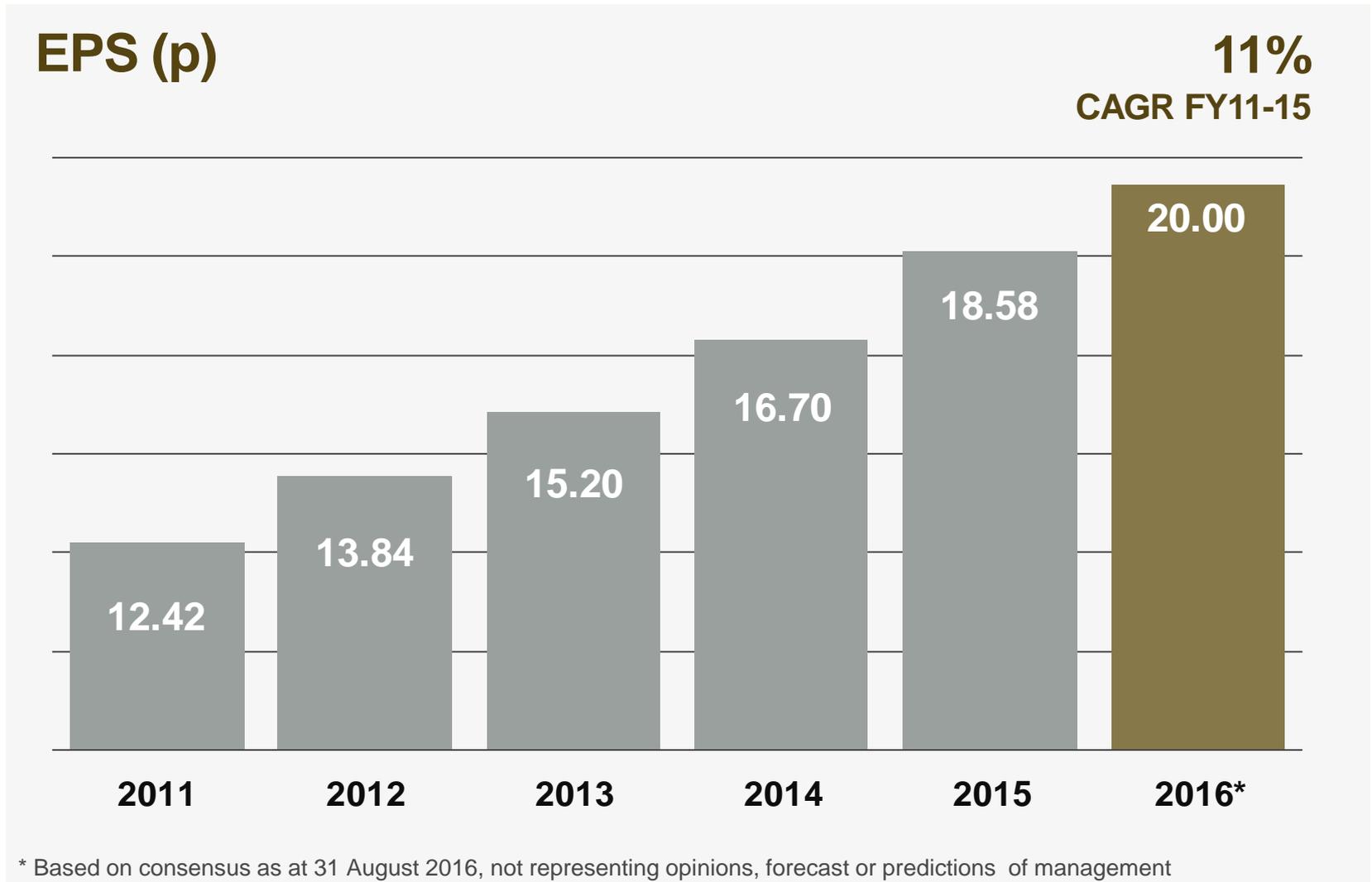
“UK GDP could have been five per cent higher, on average, each year between 2000 and 2010 if its infrastructure had matched that of other leading global economies”.

Our six long term growth drivers

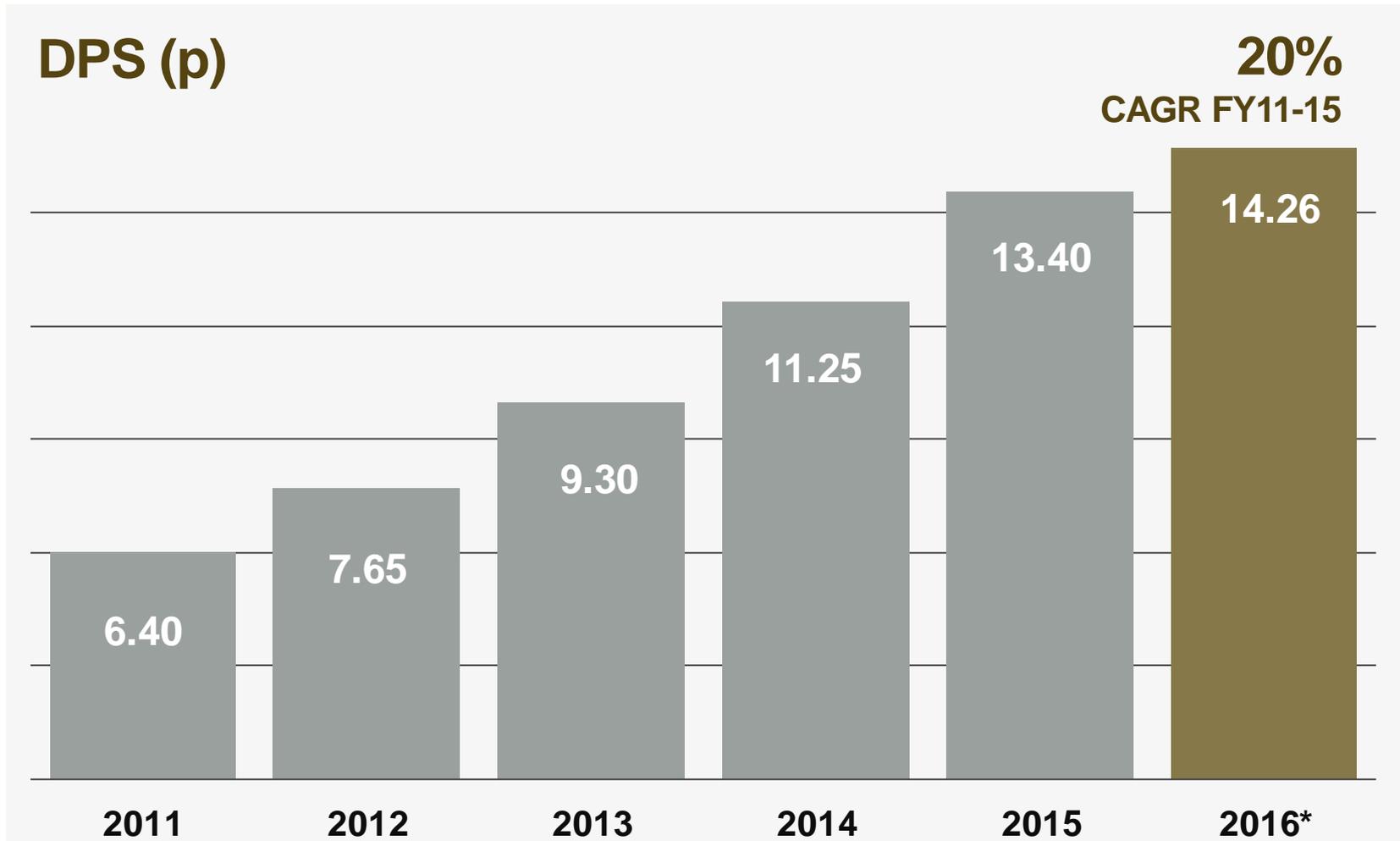


DRIVING CASH AND DIVIDENDS

Strong earnings per share growth

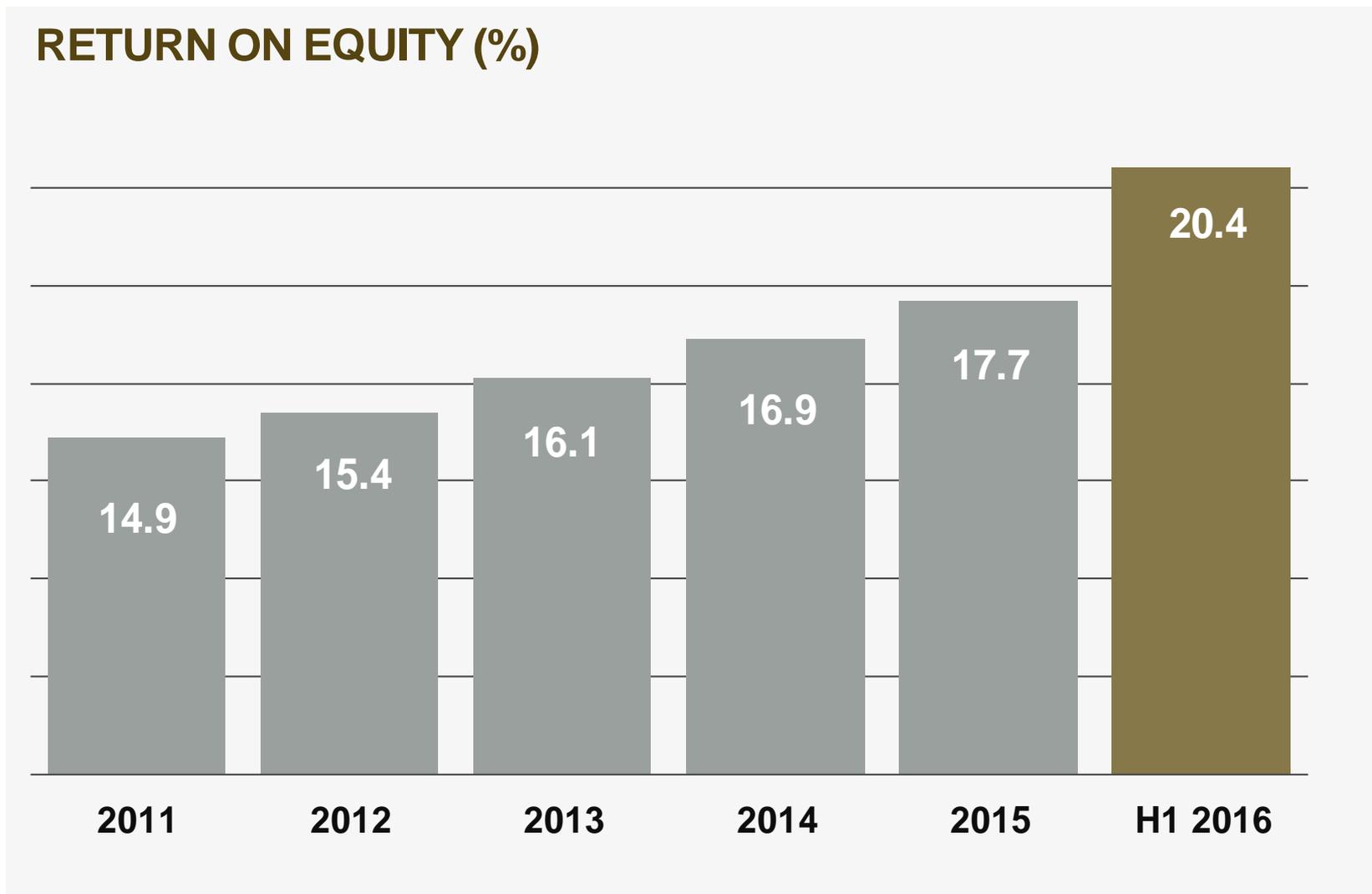


Strong growth in dividend per share

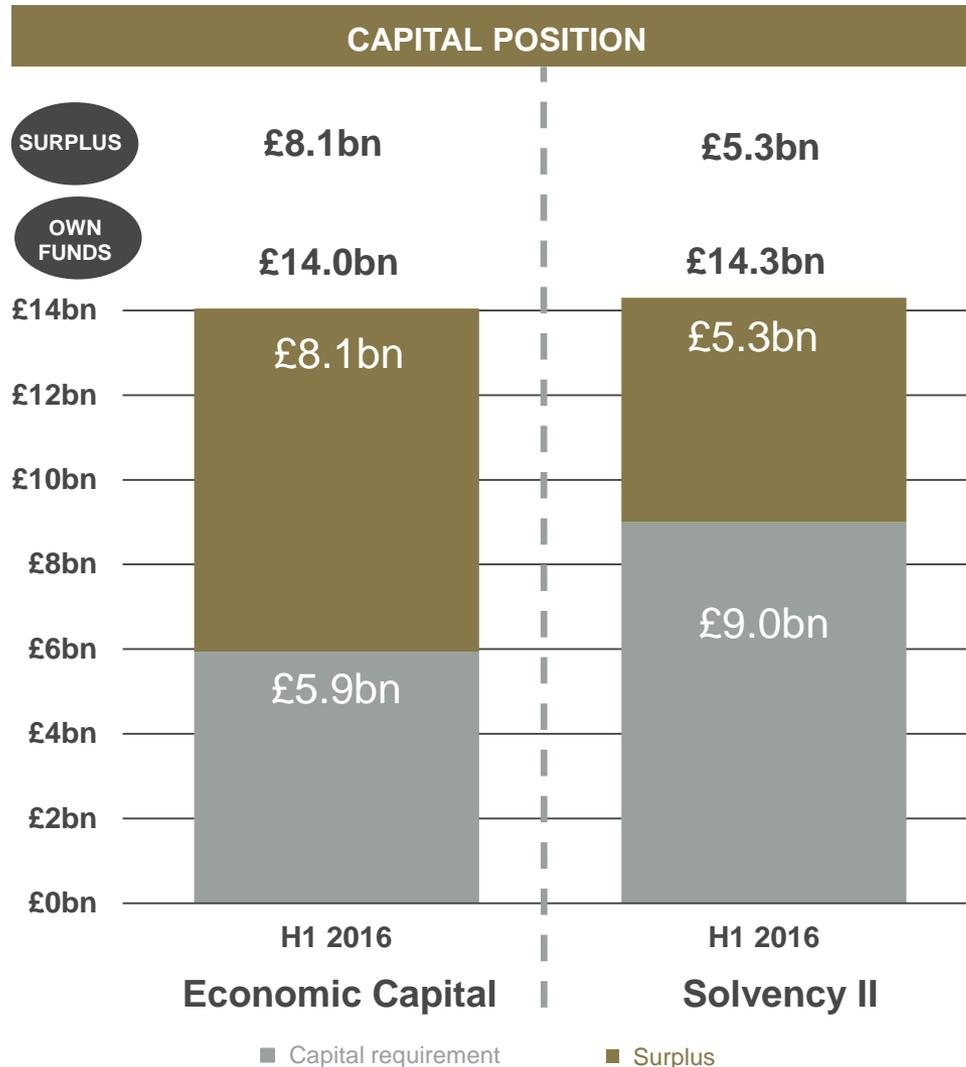


* Based on consensus as at 31 August 2016, not representing opinions, forecast or predictions of management

Return on equity increased to 20%



Strong balance sheet supporting returns and growth



- **Economic capital ratio 235%;
Shareholder Solvency II ratio 163%**
- **81% of regulatory Own Funds are core tier 1**
- **£8.1bn Economic Capital surplus**
- **S&P credit rating AA-**
- **S&P assessment of Legal & General's 'Management and Governance' upgraded to strong**

Economic Capital is the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet the Group's strategic objectives.

Solvency II has elements which Legal & General considers to be inconsistent with the Group's definition of economic capital, so there will be differences between the two balance sheets.

High performing Group aligned to growth drivers

ASSET MANAGEMENT

Operating Profit (£m)
H1 2016 H1 2015

Legal & General Retirement

- £51bn of assets

406

281

Legal & General Investment Management

- Over £853bn of assets

171

176

Legal & General Capital

- £5.9bn of assets

135

115

TOTAL

712

572

Number of employees = about 2,500

INSURANCE AND SAVINGS

Operating Profit (£m)
H1 2016 H1 2015

Insurance

- Retail protection GWP £582m
- Group protection GWP £233m
- General insurance GWP £156m

138

186

Legal & General America

- \$88m net cash generation

43

40

Savings

- £29bn of mature assets

49

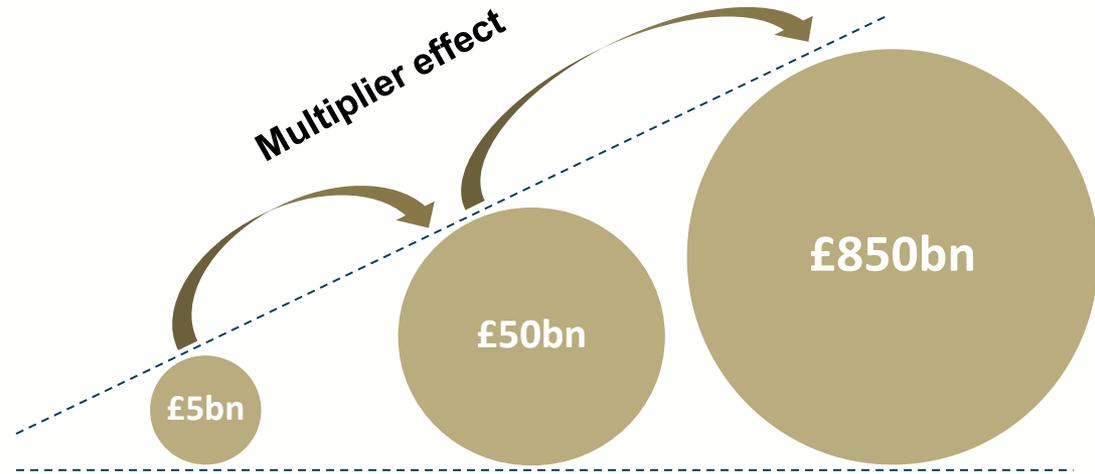
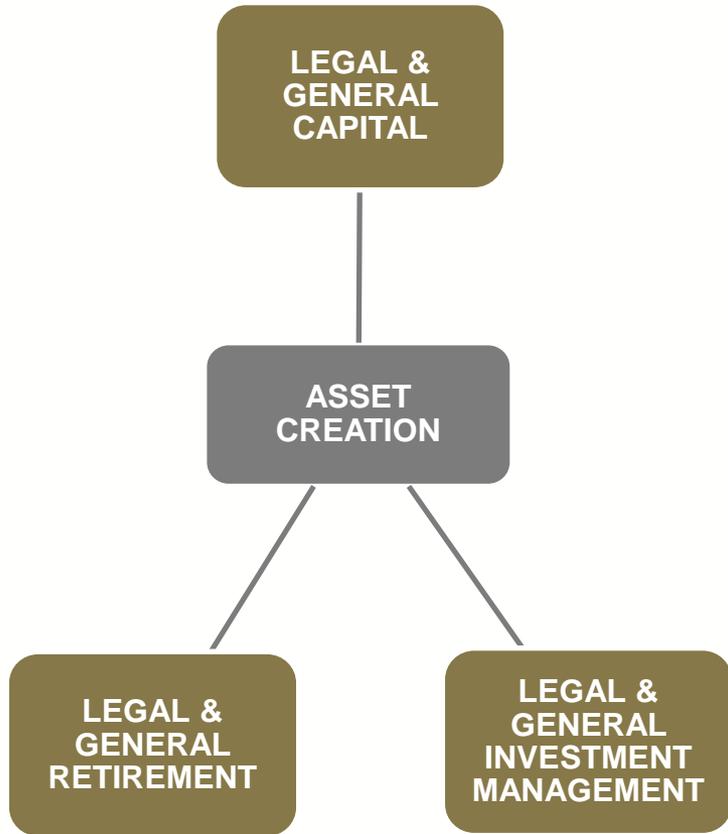
55

TOTAL

230

281

Our unique investment business model



LGC
<p>£5bn Shareholder Capital Strategic Investor with global partners</p>

LGR
<p>£50bn Annuity Funds Secure Income Investor</p>

LGIM
<p>£850bn Fund Manager Multi-Asset Investor</p>

Urban regeneration: £400m Cardiff Central Square

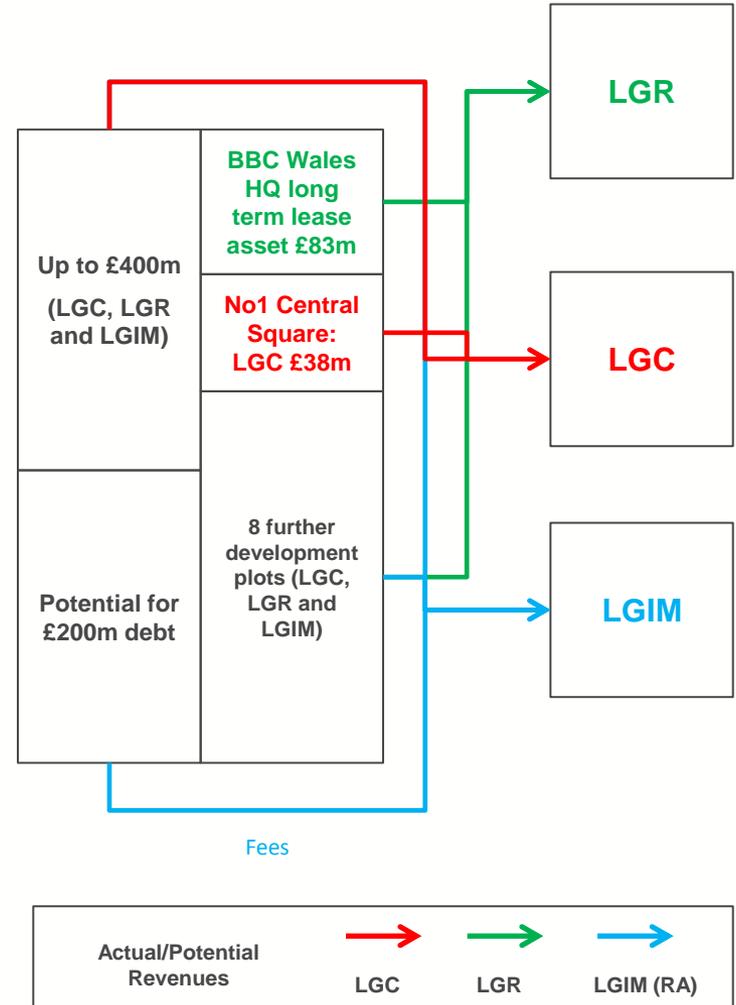


SUMMARY

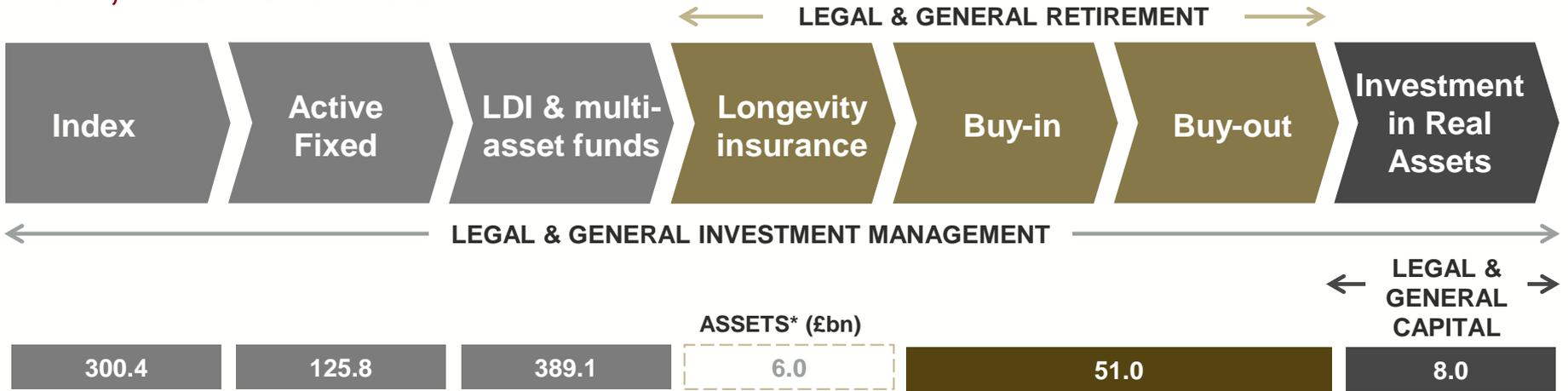
Central Cardiff mixed-use redevelopment scheme in JV with local developer, RightAcres, and Cardiff County Council. Framework agreement signed in **September 2015**.

Initial phase: 160,000 sq. ft. BBC Wales HQ, pre-let on 20 yr. lease / 135,000 sq. ft. office building, 97% let/agreed at completion.

JV gives L&G first option to invest in the subsequent phases, including a transport interchange (leased to council) student accommodation, office, hotel, retail and PRS.

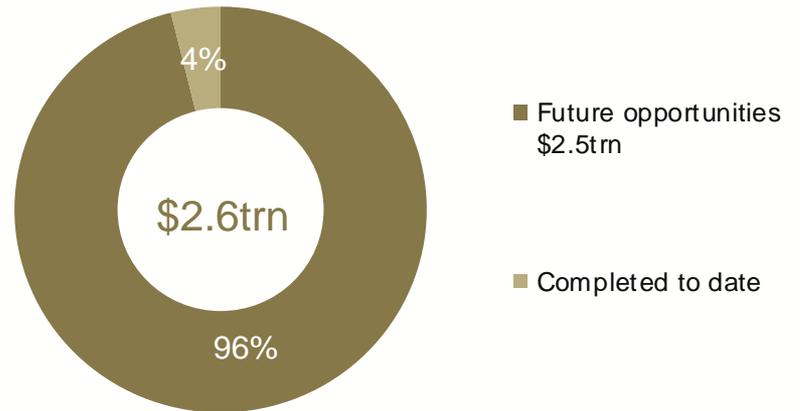
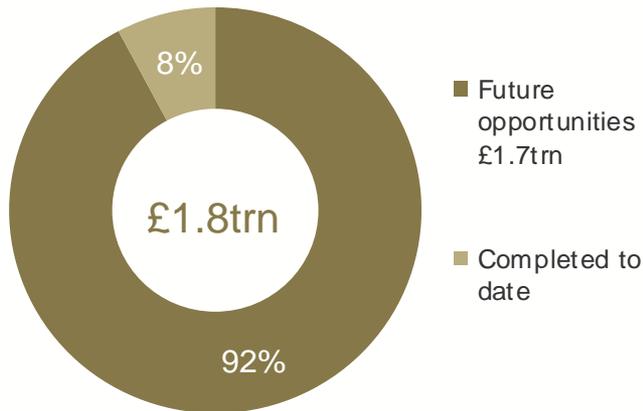


Pension solutions: unique, comprehensive suite of de-risking solutions in LGR, LGIM and LGC



UK - private sector DB opportunities £1.7trn

US - private sector DB opportunities \$2.5trn



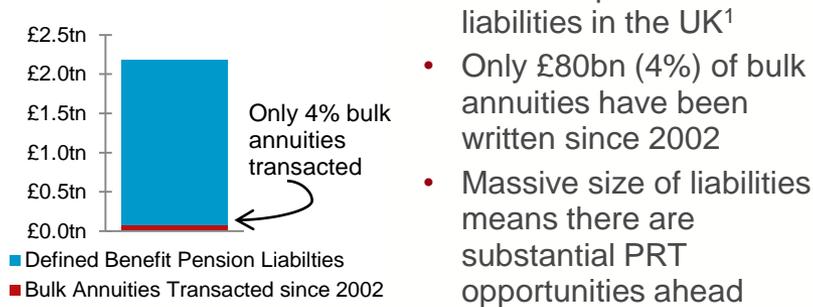
* As at 30 June 2016

LGR equity narrative: investment case

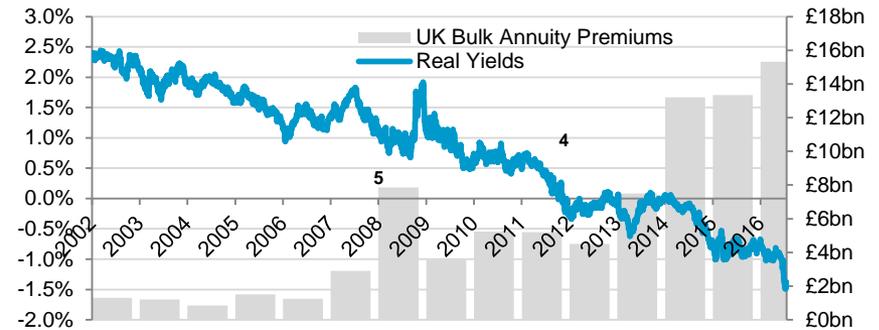
THE DEMAND FOR UK PRT REMAINS STRONG

UK DEFINED BENEFIT PENSION LIABILITIES ARE ENORMOUS

UK Defined Benefit Pensions



FALLING RATES HAVE NOT HISTORICALLY PREVENTED THE GROWTH OF UK PRT



THERE IS STRONG DEMAND FOR PRT INSURANCE PRODUCTS IN THE UK

2/3

of large pension plans plan to use PRT in the next 5 years²

950 pension plans are overfunded on an s179 basis – they are prime for PRT³

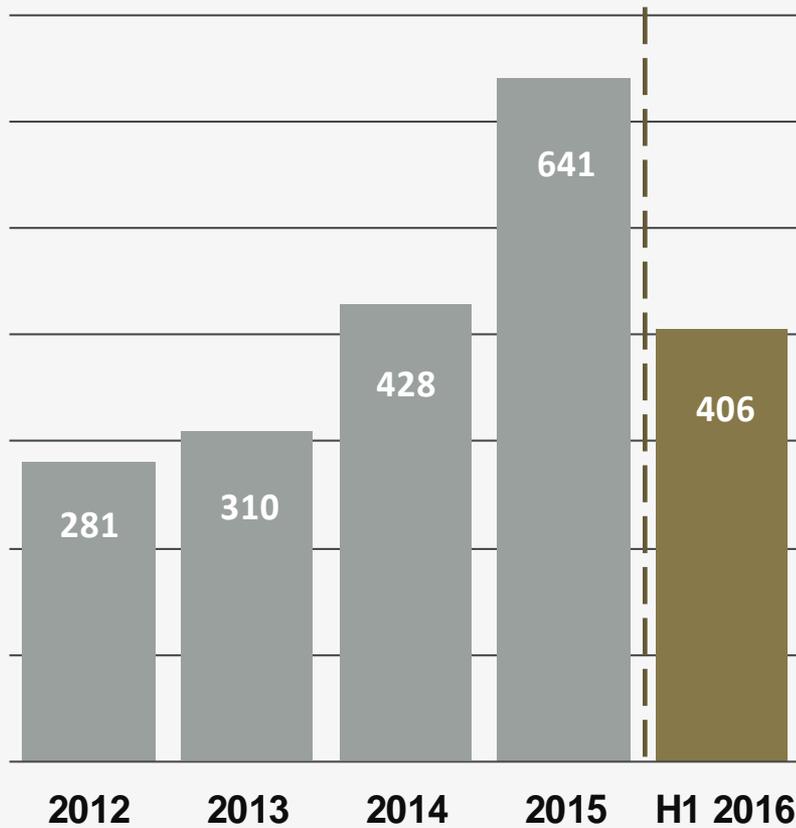
PENSION PLANS ARE EAGER TO COMPLETE THEIR DE-RISKING JOURNEY

- £57.4bn of longevity insurance at year end 2015
- Many of these pension plans are expected to further de-risk to bulk annuities to fully de-risk

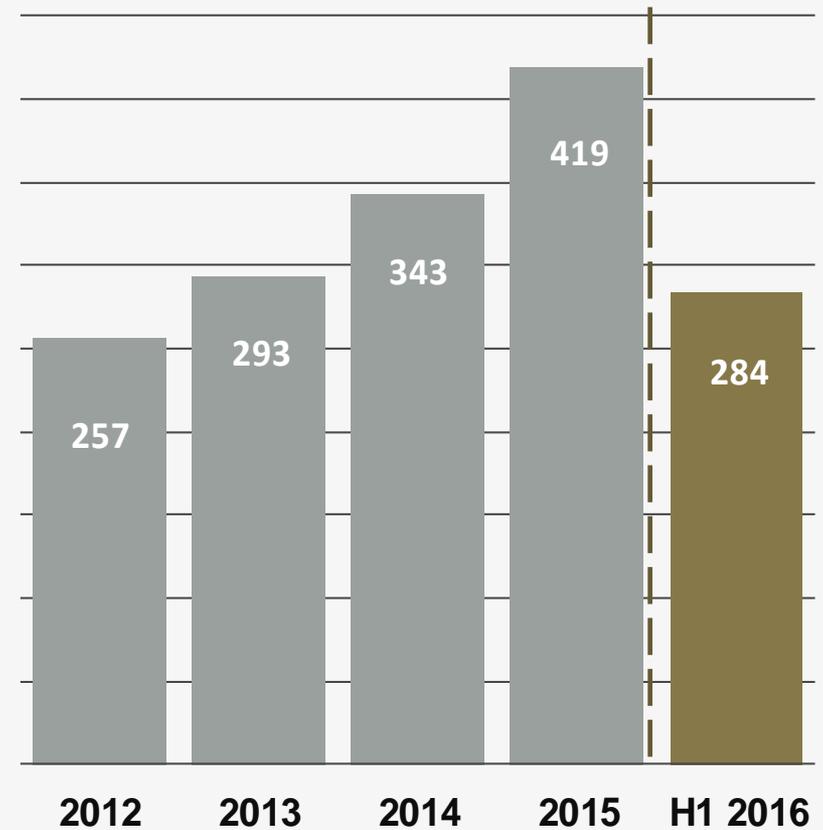
1. Pensions Purple Book 2015.
2. Legal & General & Engaged Survey, "The De-Risking Journeys of Large Schemes", 2015.
3. PPF 7800, 30 June 2016.
4. Pensions Purple Book 2015 and Mercer, "UK DB Bulk Pensions Insurance Market Review", Second Edition, July 2016
5. Barclays Index-Linked Gilt All Maturities Index

LGR: Delivering record profit growth

OPERATING PROFIT (£m)



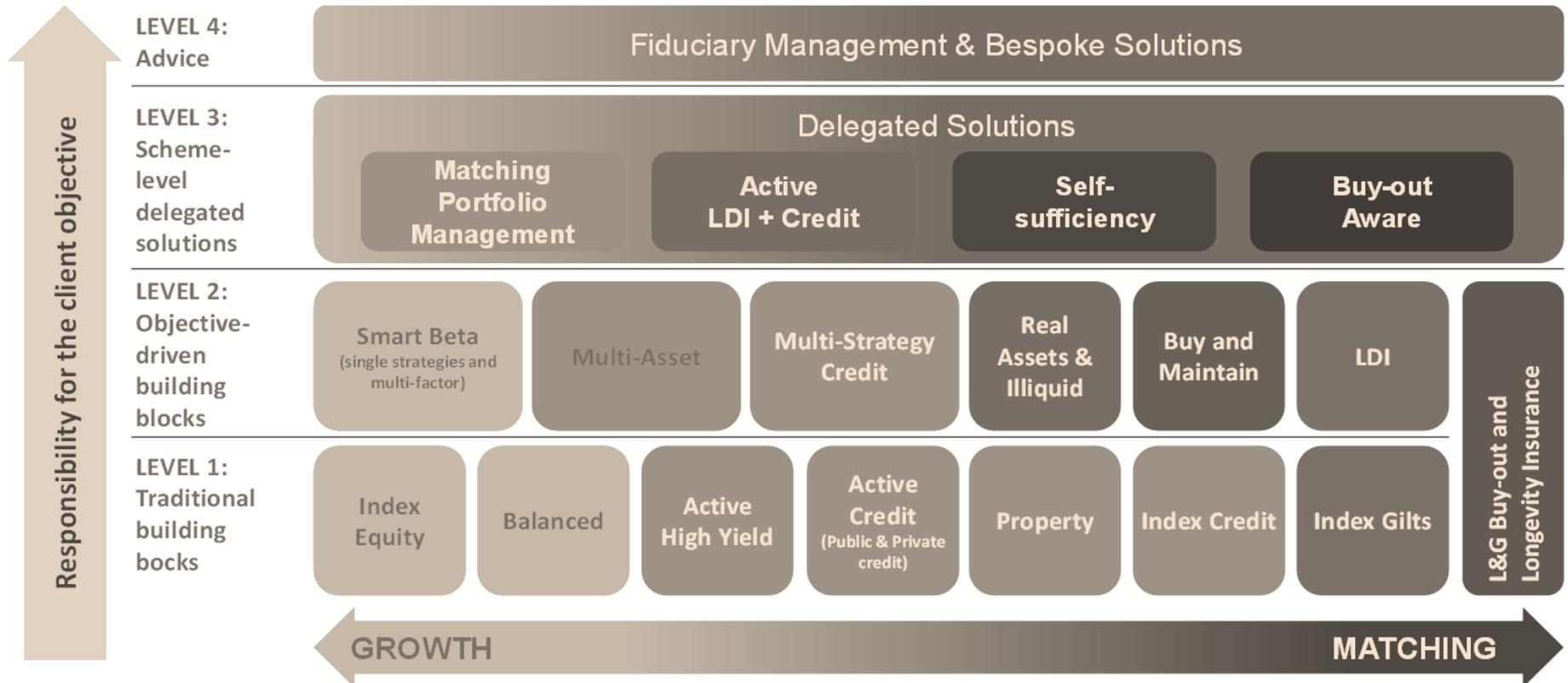
NET CASH GENERATION (£m)



LGIM equity narrative: investment case

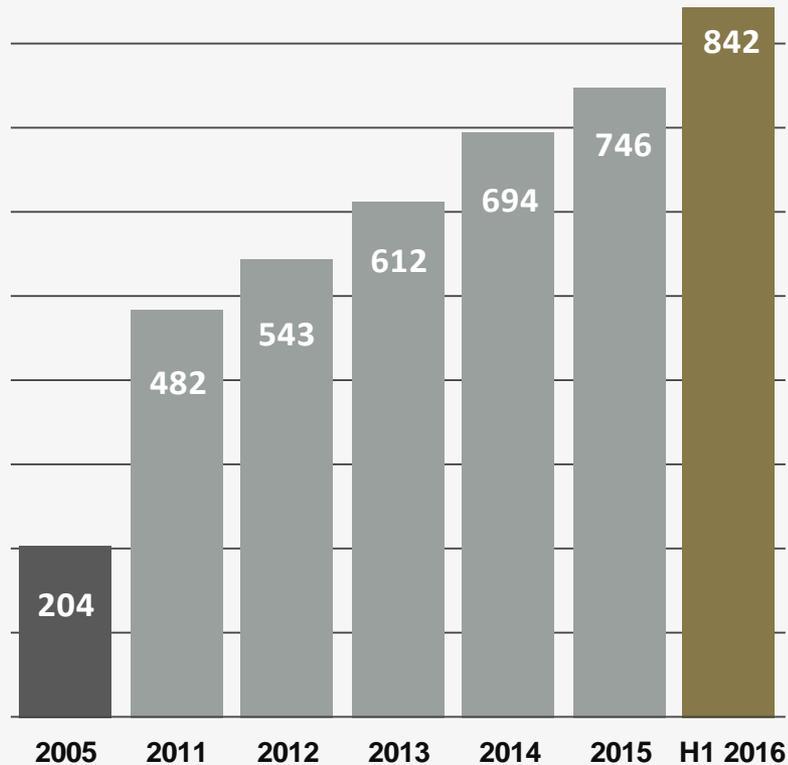
- AUM increased from £204bn in 2005 to £842bn in H1 2016 - moving us from 50th to the 10th largest fund manager in the world
- Profits increased from £103m in 2005 to £355m in 2015
- World's number 1 player in LDI solutions
- World number 5 in Index
- Persistency rate over 90%
- Rapidly growing businesses in Defined Contribution, Real Assets and Multi Assets
- Market leading cost/income ratio: fees of c.10bps with cost of c.5bps - a 50% margin
- Long term trends in our industry of increasing : solutions, index, multi asset and real assets all growing in demand - and lower fee pressure favours our business model
- U.S. a hugely attractive market to expand – LGIMA AUM is c.\$140bn and rising

LGIM: comprehensive solutions for the UK and US DB and DC pension markets

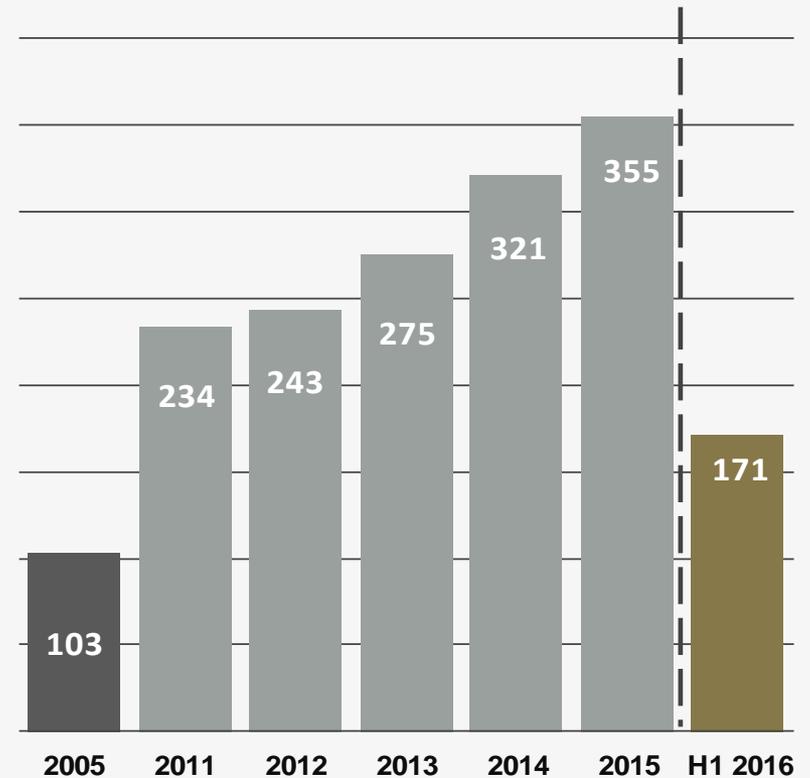


LGIM: Significant growth across the business

AUM (£bn)

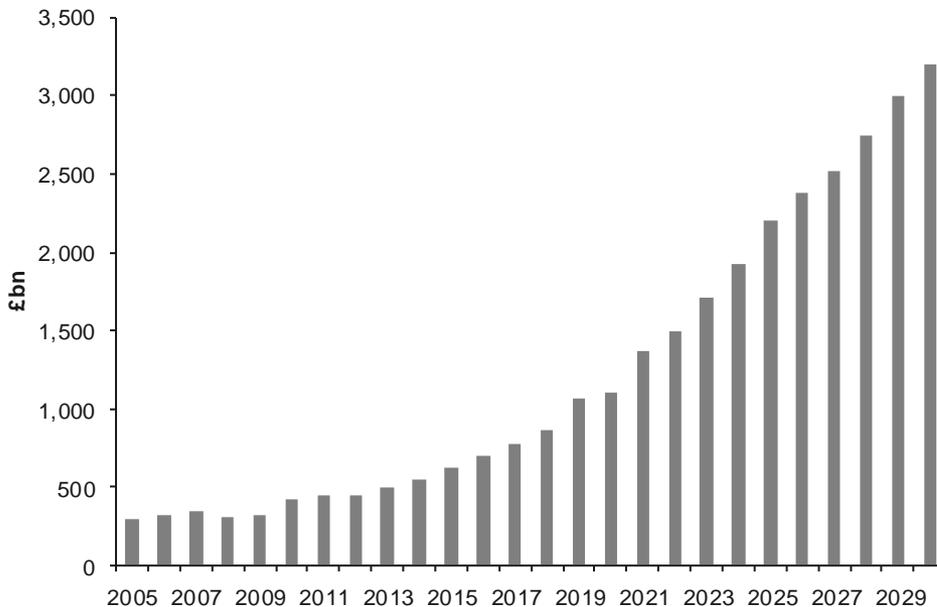


OPERATING PROFIT (£m)

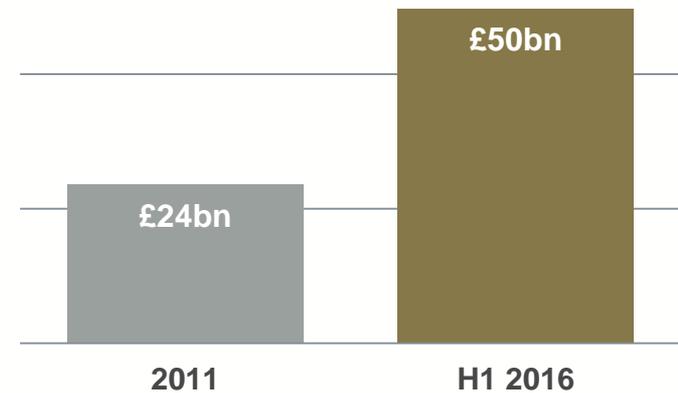


LGIM: Defined Contribution opportunities

UK DC savings industry projections



LGIM UK DC AUM

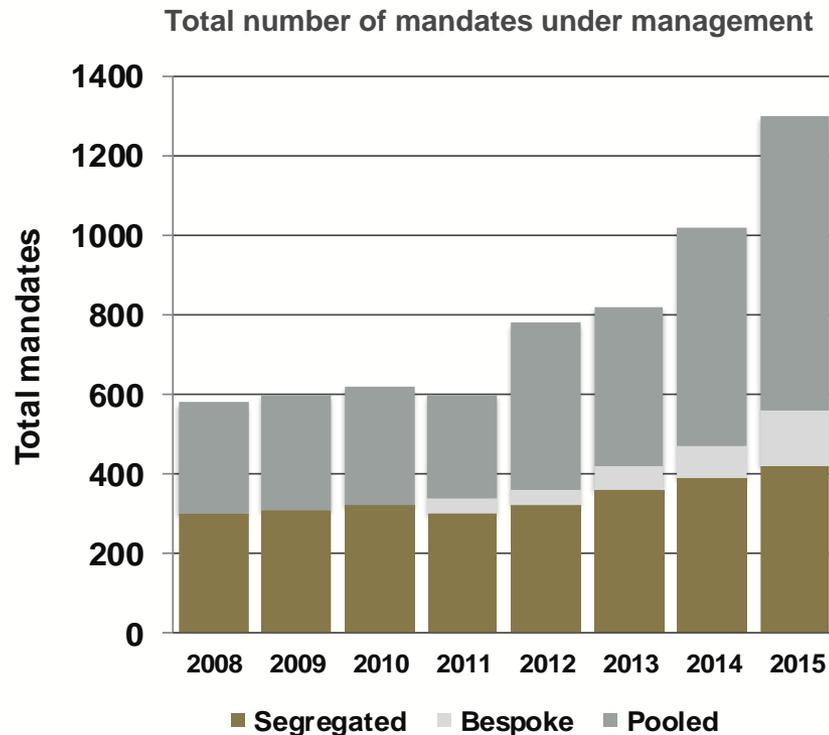


First US DC mandate won in 2016

- Auto-enrolment has been a huge success in the UK with 90% plus of employees choosing to stay in workplace schemes.
- 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.
- Currently we have 1.8 million customers, increasing to c.2 million customers by the end of 2016.
- Statutory minimum contribution rates will increase from 2% today to 5% in 2018 and up to 8% in 2019; likely to have to increase further to 12% e.g. Australia
- International opportunities in DC savings

LGIM LDI: Success in UK in has been followed by success in US

Market growth in UK¹

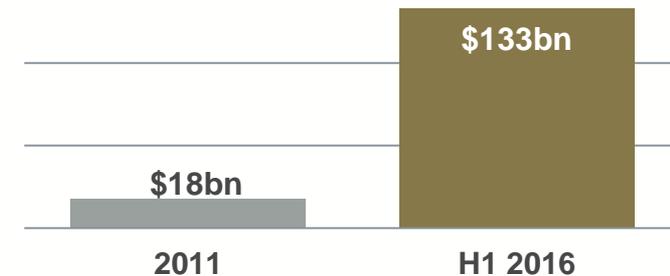


- Growth of 13% in UK liabilities hedged in 2015
- LGIM market leader with a 44% market share
- LGIMA a market leader in US; received the highest rating for funded-status attribution in recent CIO LDI survey

LGIM LDI AUM



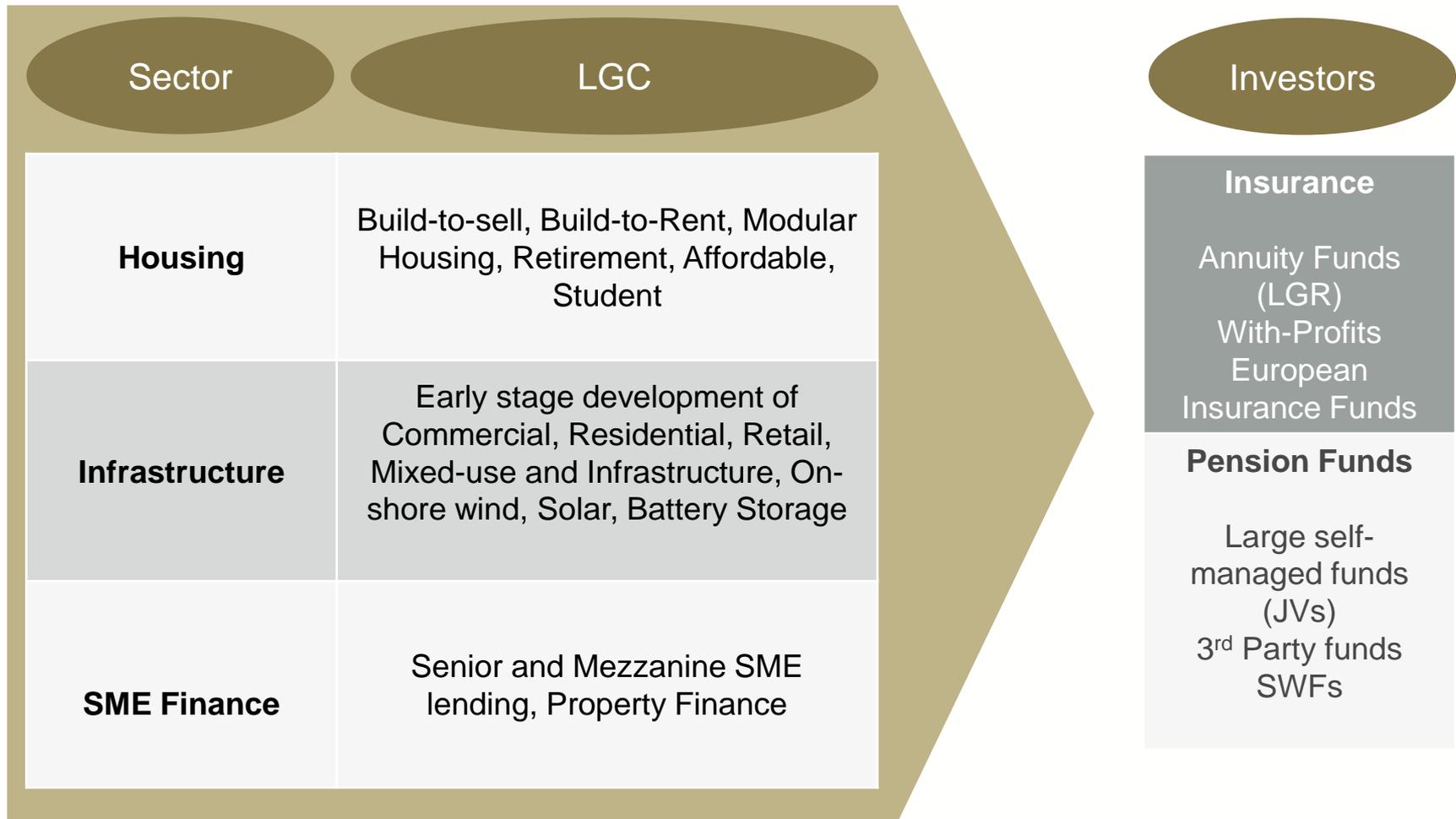
LGIMA AUM²



1.Source: KPMG 2016 LDI Survey

2.H1 2016 includes \$60bn of index assets transferred to the US in 2014.

LGC equity narrative: creating direct investments for long term investors



LGC: Direct investments driving profit growth

FINANCIAL HIGHLIGHTS	H1 2016		H1 2015	
	INVESTMENT (£m)	OPERATING PROFIT (£m)	INVESTMENT (£m)	OPERATING PROFIT (£m)
Equities	1,630	34	1,598	50
Fixed Income	499	9	805	11
Multi asset	472	6	221	7
Cash & cash equivalents	1,232	10	755	11
Total traded portfolio	3,833*	59	3,379	79
Housing	377	39	323	15
Infrastructure	506	24	371	15
SME Finance	181	6	88	2
Total direct investment	1,064	68	778	32
Treasury assets	1,021	8	621	4
Total (£m)	5,918	135	4,781	115
Profit before tax (£m)		195		111

- LGC operating profit up 17% at £135m
- LGC delivers multiple drivers of value across the Group including generation of assets for LGR and new client revenue streams for LGIM
- Cash & cash equivalents of c.£2.3bn (£18m operating profit), provide further investment optionality
- Direct investments operating profit up 112% at £68m

* LGC traded portfolio includes net non-financial receivables and payables of £15m, which are reported separately in the Group's consolidated financial statements.

Long term direct investments



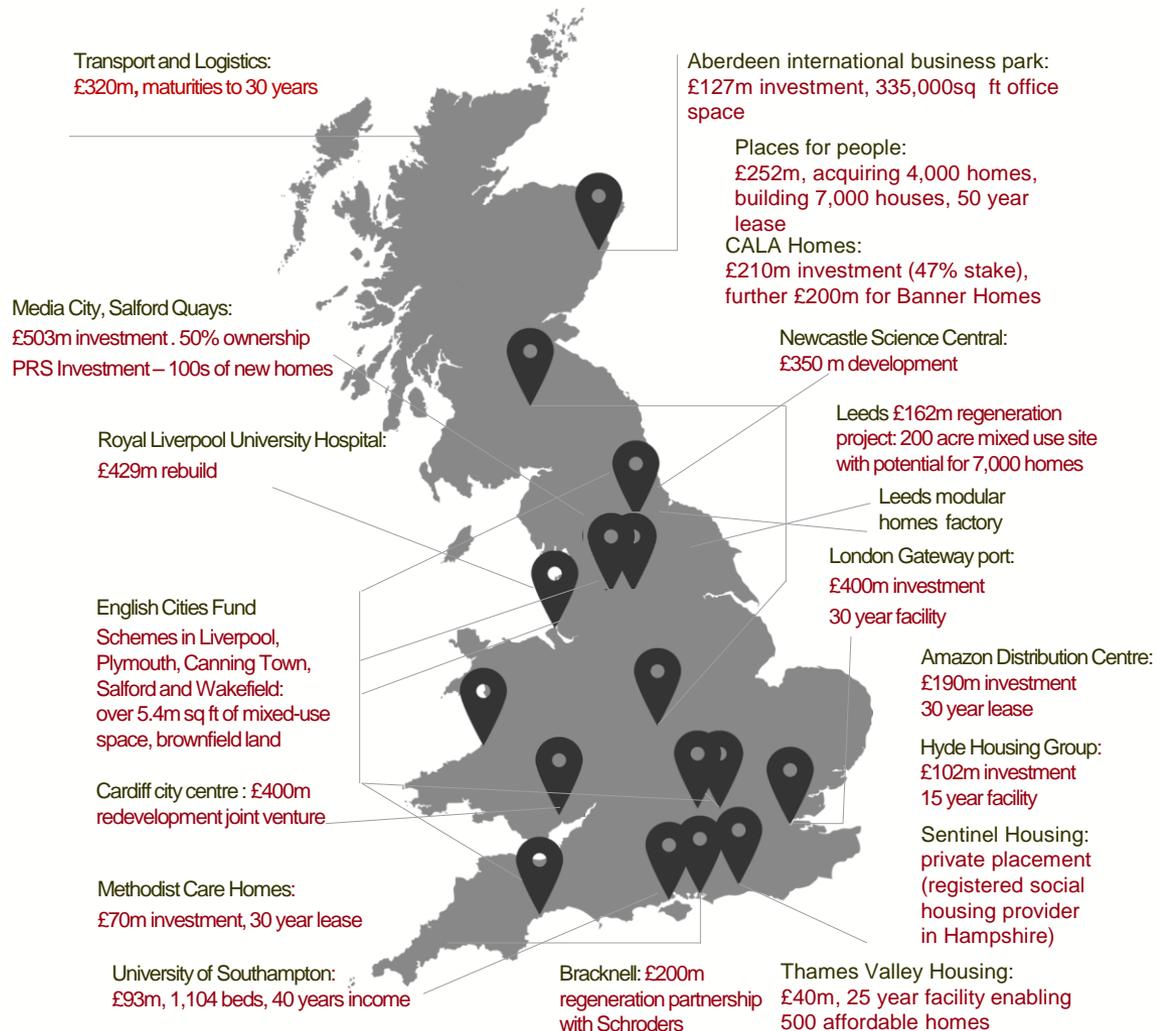
£15 billion
direct investment
programme with
£8 billion
invested to date



We focus on direct investments in four key sectors:

1. UK housing
2. UK urban regeneration
3. Alternative finance
4. Clean energy

“We aim to invest for the long term in economically and socially useful assets.”



De-cluttering and simplifying our business

DISPOSALS, CLOSURES & SIMPLIFICATIONS

Disposals	Status	Proceeds
Legal & General International Ireland – investment bonds (H2 2015)	Sold	£16m
Xperience: Estate agency business (H2 2014)	Sold	£6m
Insurance: France business (H2 2015)	Sold	£159m
Savings: Egypt business (H2 2015), 55% interest	Sold	\$54m (L&G share)
Savings: Gulf business (H2 2015)	Sold	-
Savings: Suffolk Life Group Limited (2016)	Sold	£45m
Savings: Cofunds (2016)	Sold	£140m
Legal & General Ventures (Snow & Rock, Liberation Ale, ABI)	Sold	£141m
With-profits closure to new business	Closed	-
Retail Investments and Workplace transferred to LGIM	Simplified	-
LGC: to maximise shareholder capital and incubate new businesses	Simplified	-

Replicating the successful L&G UK model in the US



Excellent execution around our six key growth drivers

GROWTH DRIVERS	2016 ACHIEVEMENTS
GLOBAL DEMOGRAPHICS	<ul style="list-style-type: none"> • Total LGR sales of £4bn in H1 2016, up 195%, including our second US pension risk transfer transaction • LGR back-book acquisition £2.9bn UK annuity portfolio (Aegon) and £750m pension buy-in (ICI) • Lifetime mortgages sales exceeded £200m with FY target of £500m, voted best equity release / lifetime lender • Agreement with Aegon to offer individual annuities to its vesting book of DC customers • Solutions assets of £389bn as at H1 2016, up 26%, UK LDI market leader with 44% share
GLOBALISATION OF ASSET MARKETS	<ul style="list-style-type: none"> • 183 US clients with \$133bn assets, 4 of top 5 US DB pension funds • Successfully winning US DC mandates, more to follow • LGIM entered a second distribution agreement in Japan with Nikko Asset Management, first with Meiji Yasuda • LGIM total AUM of £842bn, up 18%, international AUM of £152bn, up 31%
CREATING NEW REAL PRODUCTIVE ASSETS	<ul style="list-style-type: none"> • £8.0bn of group-wide direct investments, up 28% • 'Build to Rent' housing pipeline with over 800 new homes in Salford, Bristol and Walthamstow • First US DI investment: c\$100m with University of California, Merced
REFORM OF THE WELFARE STATE	<ul style="list-style-type: none"> • Market leading UK retail protection business, c.25% market share • UK DC assets £50bn, up 16% • DC bundled provider for Tesco Plc, with over 200,000 employees, more to follow • 2.0m customers in nearly 7,000 schemes
TECHNOLOGICAL INNOVATION	<ul style="list-style-type: none"> • Retail protection direct sales up 10%, General Insurance direct sales up 15% • My Account: 674k users at 30 June 2016, up 355% • IndiaFirst in partnership with Vodafone launching digital healthcare product • Investment and partnership with Smart Pension, a Fintech auto-enrolment pension provider
PROVIDING TODAY'S CAPITAL	<ul style="list-style-type: none"> • Investment in modular housing factory • UK infrastructure investments in London Gateway Port (£400m¹), Stratford (£246m), and Newcastle (£350m²) • Pemberton's first fund now at €594m, target of €1.2bn by 2017

1. L&G share of investment is £250m.

2. L&G initial investment is £65m.

Creating significant new options for Legal & General in UK and US

GROWTH DRIVERS	2025 AMBITION	EXAMPLES
GLOBAL DEMOGRAPHICS	<ul style="list-style-type: none"> 900 million over 60s today, 2 billion by 2050 Global pension liabilities in excess of c.\$9 trillion <p>Ambition: International leader in pension de-risking</p>	<p>Market leader in UK lifetime mortgages</p> <p>1st solo US PRT deal in Q1 2016</p>
GLOBALISATION OF ASSET MARKETS	<ul style="list-style-type: none"> Global asset markets c.\$78trillion Legal & General share c.1% (\$1.1 trillion) <p>Ambition: Double our global market share</p>	<p>Successful rollout of US Index proposition</p> <p>Market leading global LDI platform</p>
CREATING NEW REAL PRODUCTIVE ASSETS	<ul style="list-style-type: none"> Our integrated asset management business is uniquely placed to develop real assets Positive constructive collaboration between Government, Regulators and the industry is developing <p>Ambition: UK leader</p>	<p>1st US direct investment in California</p> <p>Two Japanese distribution agreements</p>
REFORM OF THE WELFARE STATE	<ul style="list-style-type: none"> DC business is a multi billion market opportunity, including US, China and Japan European welfare model is not affordable nor exportable <p>Ambition: International DC business</p>	<p>Won several US defined contribution mandates</p> <p>Working with 4 of top 5 US pension schemes</p>
TECHNOLOGICAL INNOVATION	<ul style="list-style-type: none"> Fintech to date has been disappointing in insurance Substantial friction costs will be reduced as our industry becomes more efficient including insurance and asset management <p>Ambition: Leading digital player in insurance</p>	<p>Investment in UK auto enrolment fintech – Smart Pension GI direct</p>
PROVIDING TODAY'S CAPITAL	<ul style="list-style-type: none"> Significant financing gap in regeneration, housing and clean energy projects (over £290bn) Funding gap of £125bn in SME finance <p>Ambition: Largest UK player in housing and infrastructure market; Significant provider of SME Finance</p>	<p>New infrastructure projects: Bracknell, Newcastle</p> <p>Modular housing factory investment</p>

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