

# LEGAL & GENERAL

A MODERN GROWING BUSINESS

# 2016

Legal & General Group plc

Bank of America Merrill Lynch Conference 2016

September 2016



Media City, Salford 2015

## **Our Vision: In a Complex World, We are a Simple Business**

We are one of the ten largest asset managers in the world and a leader in financial solutions, trusted by over 10m customers. We make a promise to our customers that we will support their critical financial decisions.

We integrate the pooling of risk with long term investments, this not only generates attractive returns for customers and investors, but also addresses some of the greatest challenges facing society including: pension solutions, protection, urban regeneration and housing.

# We are a focused, high performing business...

## 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 2,700\*

## 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

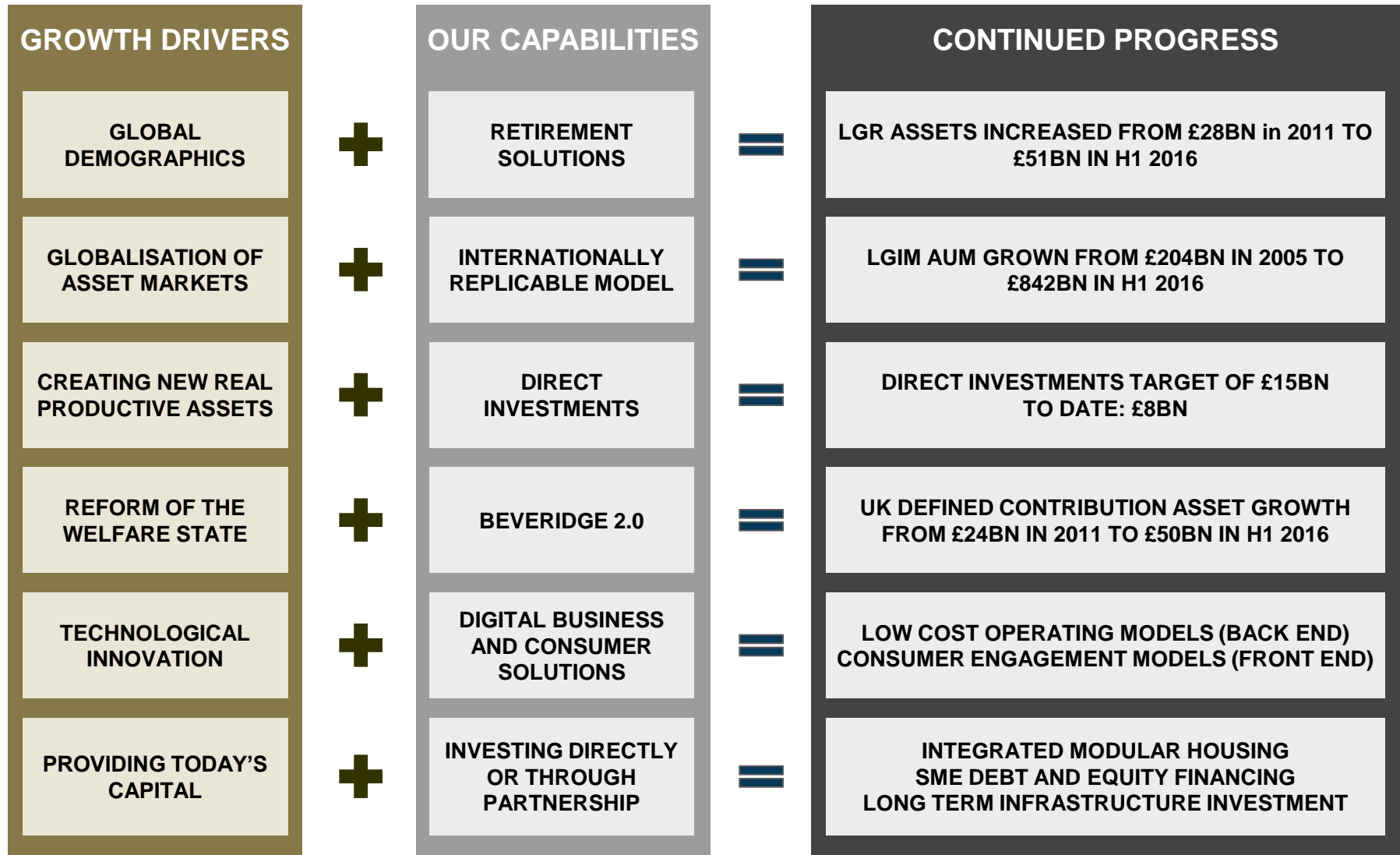
49    55

**TOTAL**

230    281

Number of employees = about 4,500\*

...aligned to key long term structural growth drivers



**DRIVING SUSTAINABLE EARNINGS AND DIVIDEND GROWTH**

## De-cluttering our business has helped us to focus

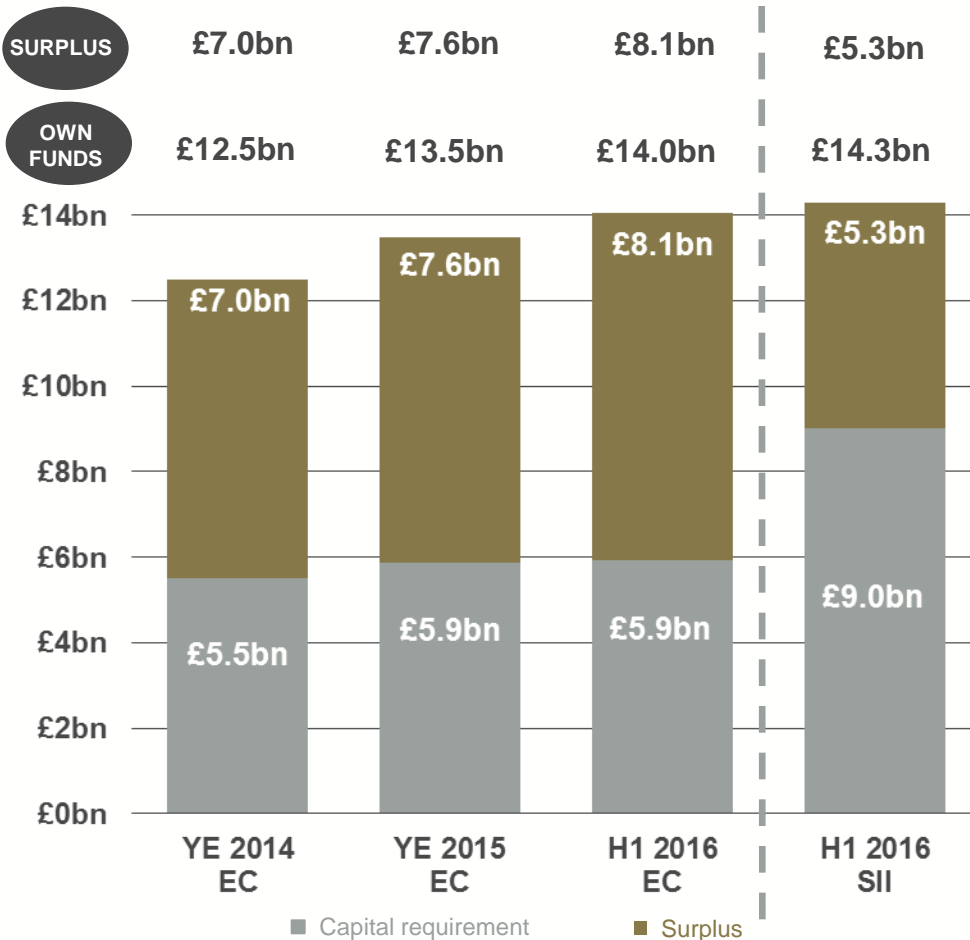
### DISPOSALS, CLOSURES & SIMPLIFICATIONS

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 transferred to LGIM: was 13 <sup>th</sup> now 2 <sup>nd</sup> in net flows	Simplified	-
Workplace integrated into LGIM's DC business, now £50bn AUM	Simplified	-

# L&G has a strong balance sheet supporting growth and returns...

...but unfamiliarity with Solvency II has created nervousness for investors in the sector

## CAPITAL POSITION



- Economic capital ratio 235%; Shareholder Solvency II ratio 163% - both strong
- Economic capital requirement has been stable and surplus grown sequentially over past two years
- S&P credit rating AA-
- S&P assessment of Legal & General's 'Management and Governance' upgraded to strong

Taking management action to improve SII capital requirement towards economic level through model optimisation and regulatory interventions

## Solvency II and Regulation

“We do not intend to use Solvency II to increase the aggregate level of required capital”

“Firms have to survive a 1 in 200 stress using their capital held to meet their SCR and then have the risk margin available to provide for the costs incurred in an orderly transfer of liabilities”

Sam Woods  
Deputy Governor and CEO, PRA, 2016

“Brexit provides an opportunity for the UK to assume greater control of insurance regulation”

“The Solvency II Directive came into force in January, only after a heap of concerns had been expressed about it.”

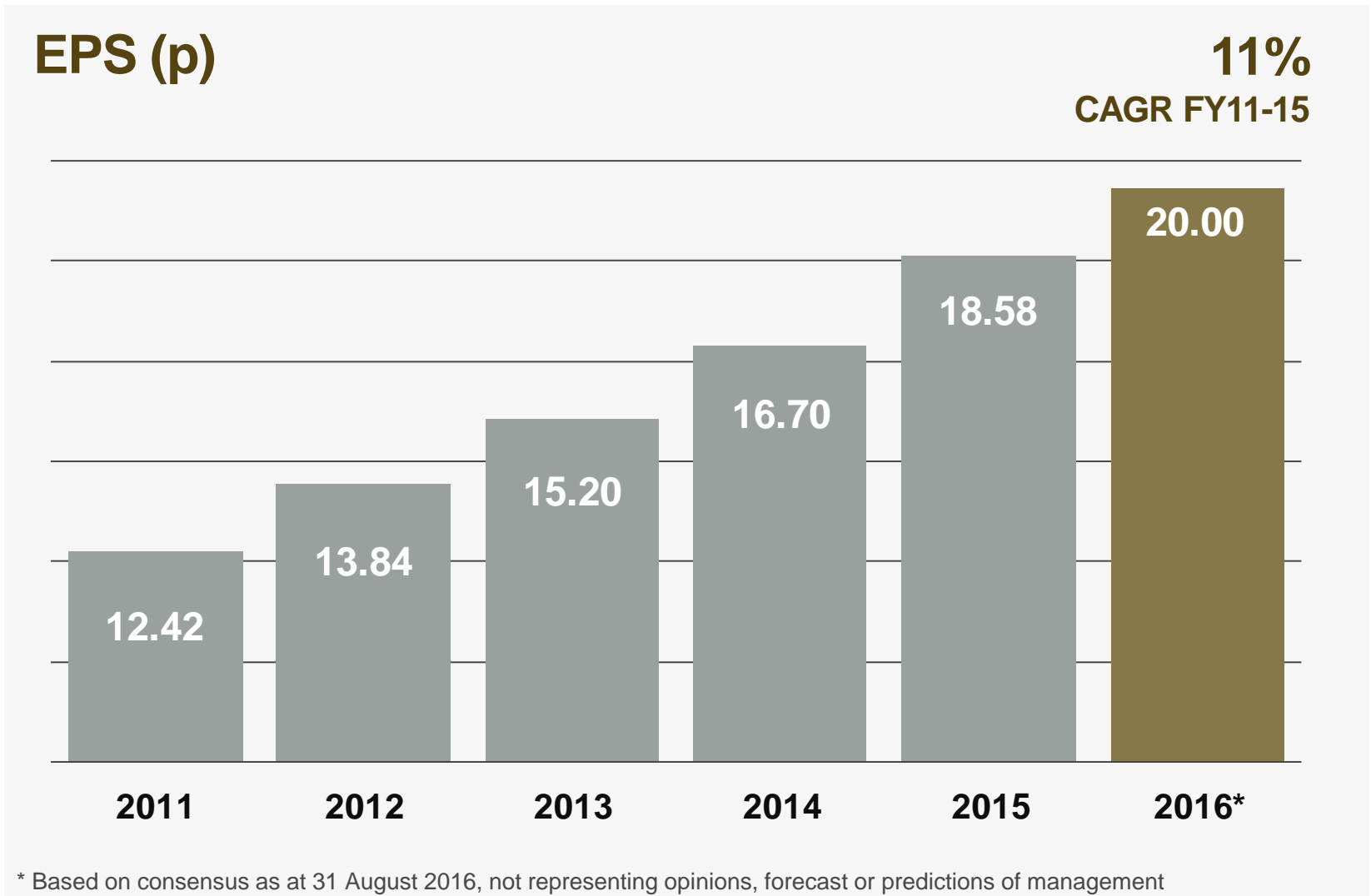
Rt Hon Andrew Tyrie MP  
Chairman of the Treasury Committee, 2016

### Our position:

**Growth:** We are writing business that has limited day 1 Solvency II strain and has strong returns

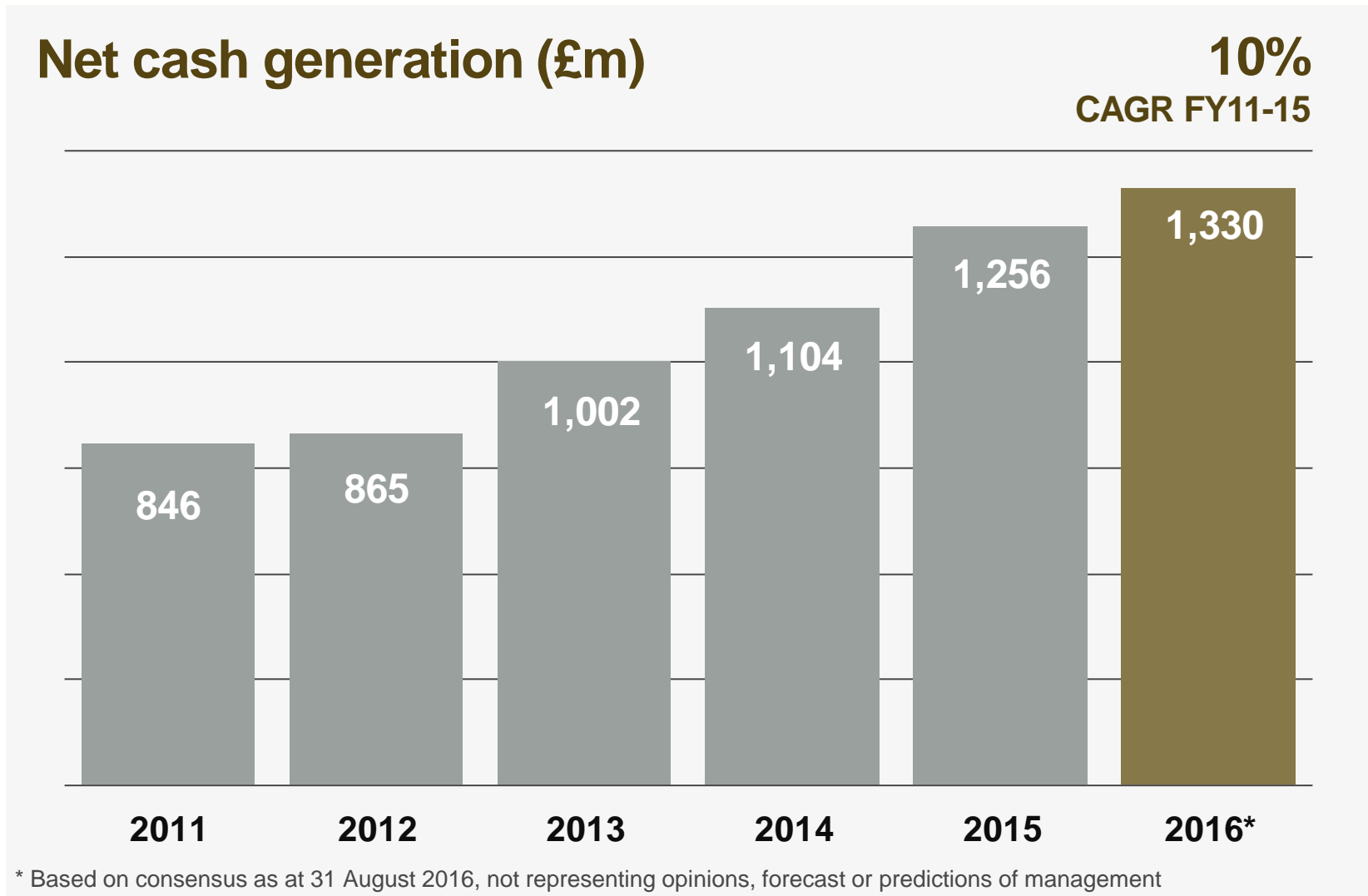
**Dividends:** Our policy is progressive based on medium term net cash generation and operating earnings

## Strong earnings per share growth





## Strong growth in net cash generation

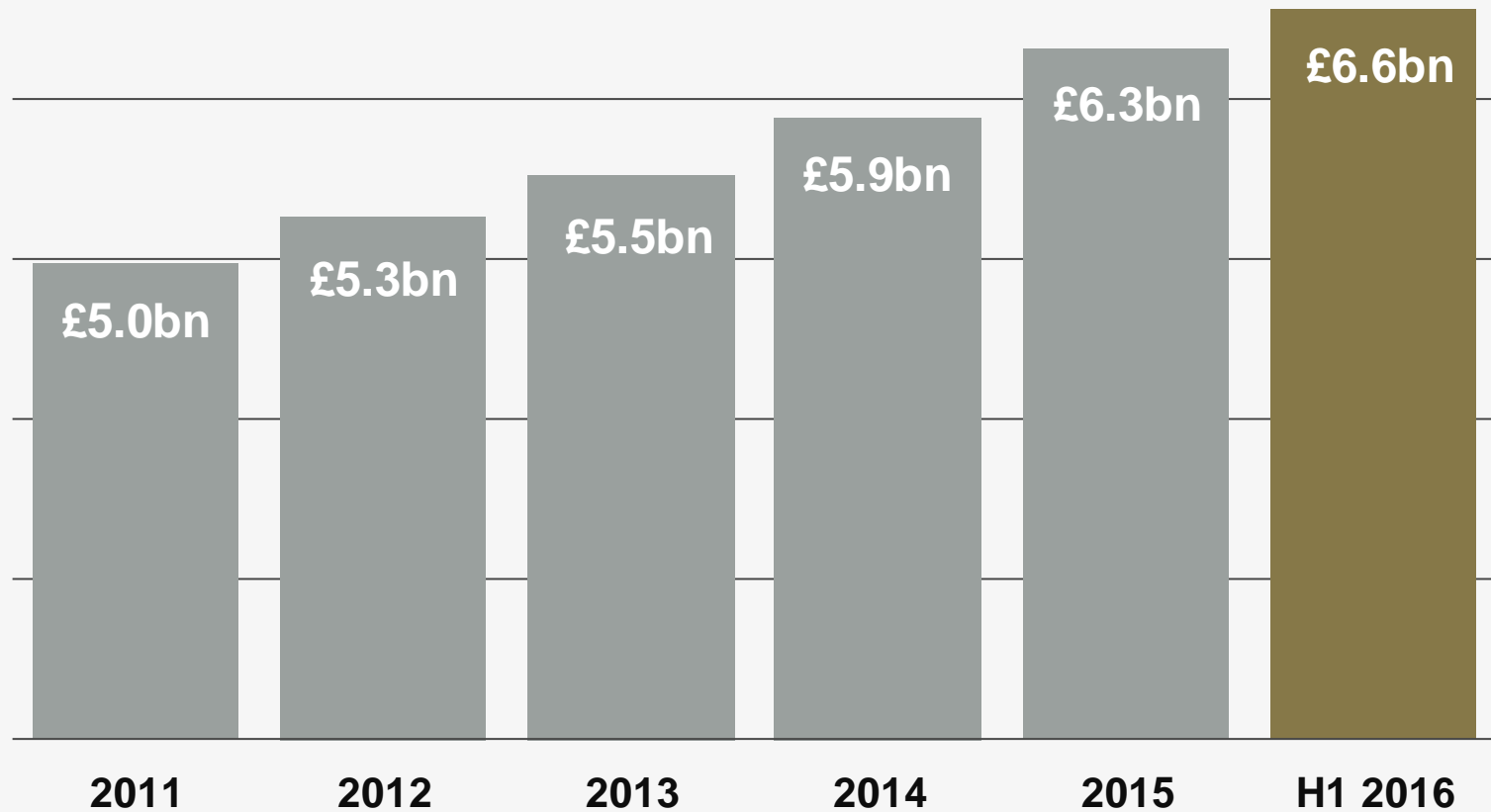


## Strong growth in book value

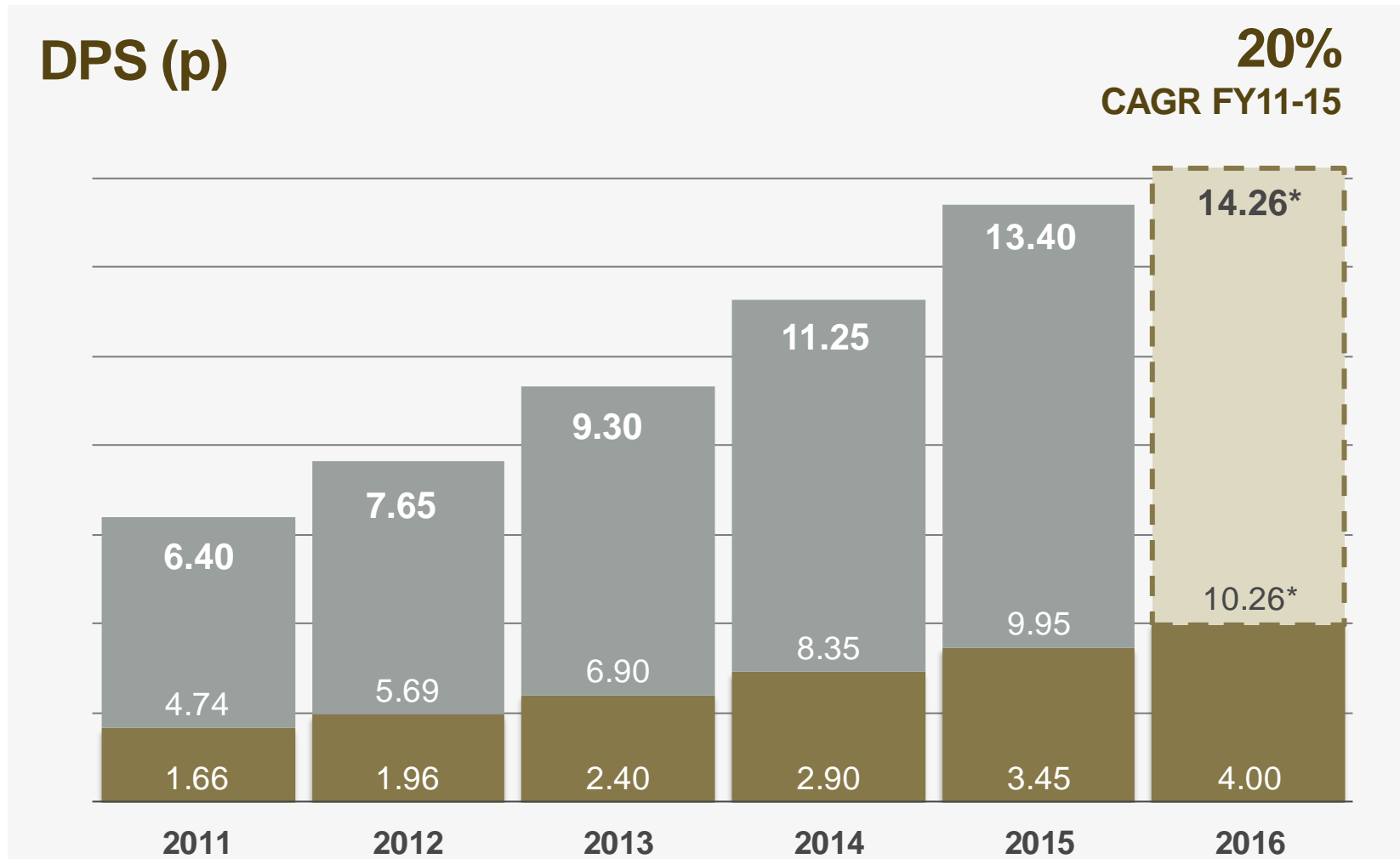
### IFRS book value (£bn)

- excludes goodwill

**6%**  
CAGR FY11-15



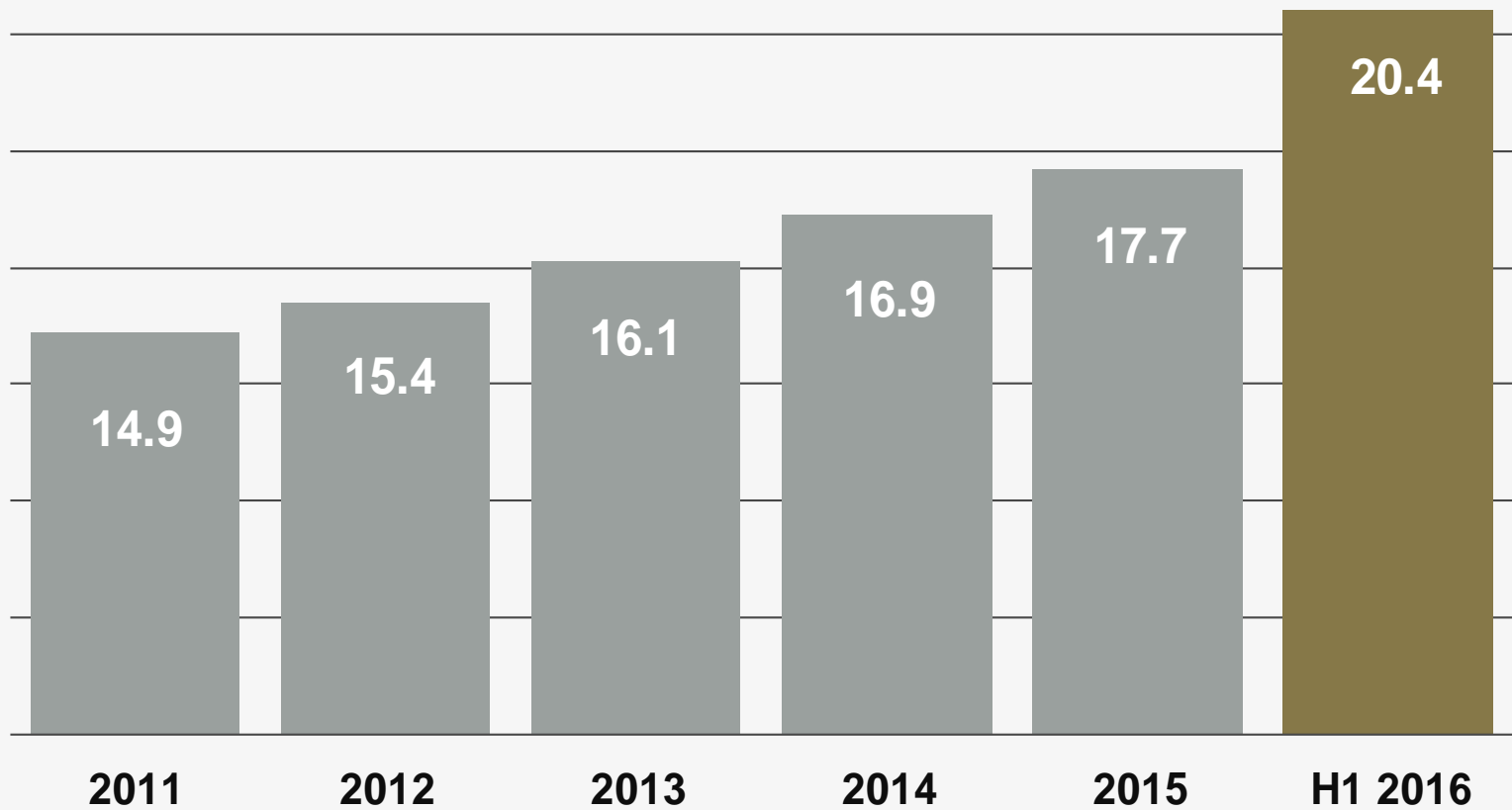
## Strong growth in dividend per share



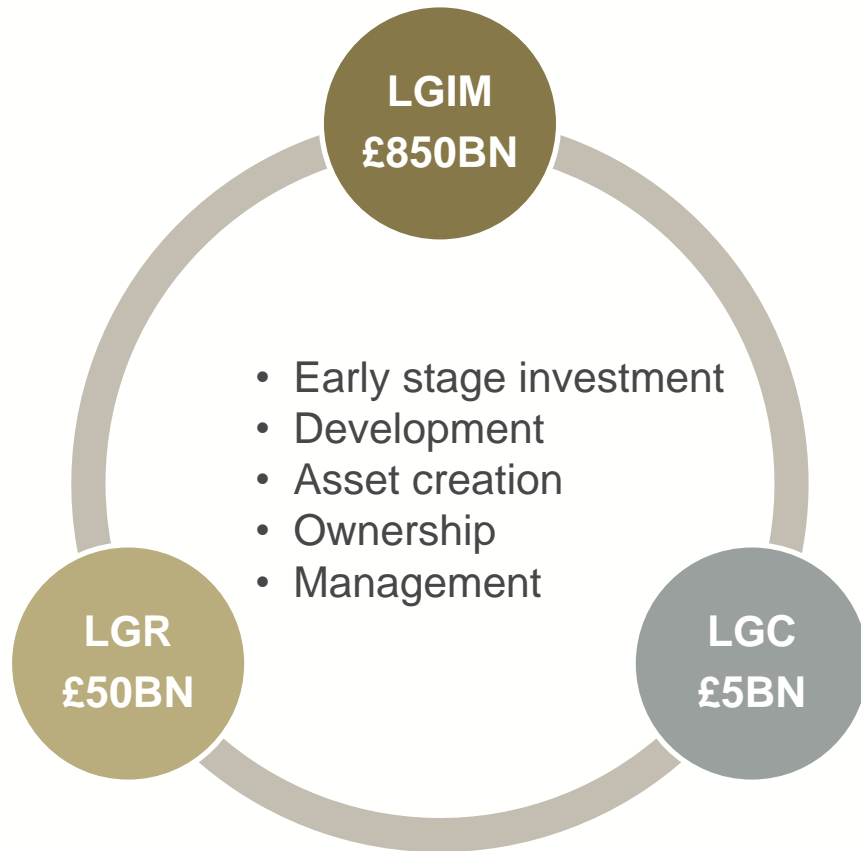
\* Based on consensus as at 31 August 2016, not representing opinions, forecast or predictions of management

Return on equity increased to 20%

## Return on equity (%)



# Our unique investment business model: capturing maximum value



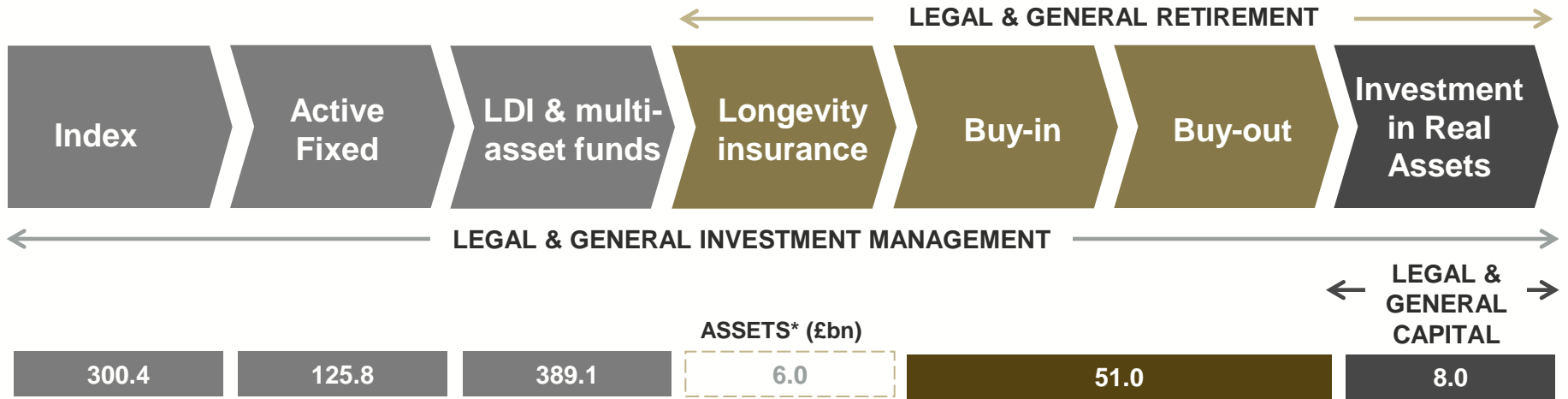
**Delivering economically and socially valuable solutions to benefit customers, investors and society**

<b>LGIM</b>	<b>LGR</b>	<b>LGC</b>
Fund manager: multi-asset investor	Annuity Funds: Secure income investor	Shareholder capital: Strategic investor with global partners

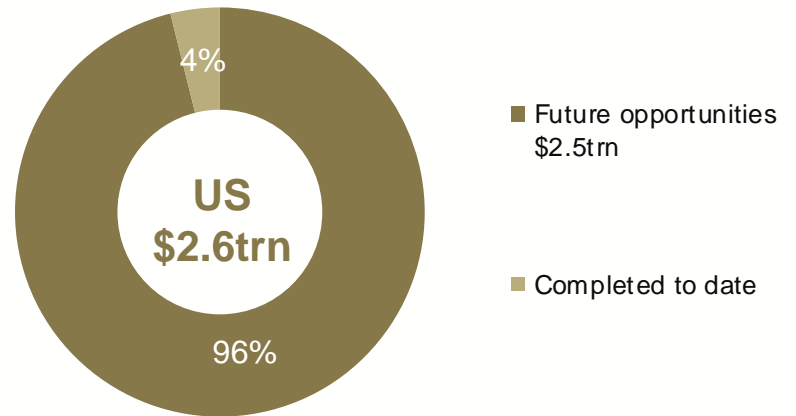
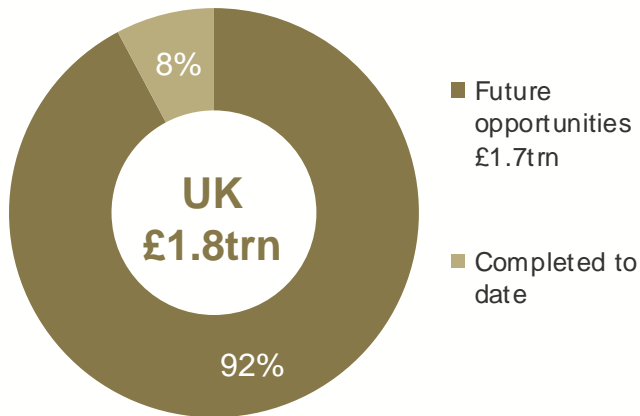
The illiquidity of our liabilities and our asset expertise allows us to create unique investment opportunities

# Our unique investment business model: example 1

Leading positions across the full spectrum of de-risking solutions enables us to optimise returns on investment and differentiates us for our customers.



## Huge private sector DB market opportunities in both the UK and US



\* As at 30 June 2016

## Our unique investment business model example 2: Cardiff



### OUR PROPERTY EXPERTISE

- Initial infrastructure development, £20,000 in Stockton and Hartlepool Railway in 1841
- LGIM the 3<sup>rd</sup> largest property asset manager in the UK - £18bn plus

### Central Cardiff mixed-use redevelopment scheme

Sep  
2015

1 JV with Cardiff County Council and local developer, RightAcres – initial equity investment by LGC

LGC

2 First building: £83m BBC Wales HQ, pre-let on 20 year lease – matching adjustment compliant in LGR

LGR

3 Second building: No. 1 Central Square, multi-tenanted – mixture of leases, not matching adjustment compliant so will be sold by LGC

LGC

LGIM

4 LGIM earns management fees for managing the whole complex

LGIM

5 JV gives L&G right of first refusal to invest

LGC

LGR

LGIM

2017  
and  
beyond

MODEL BEING REPLICATED ACROSS THE UK

## LGIM: a top ten global asset manager

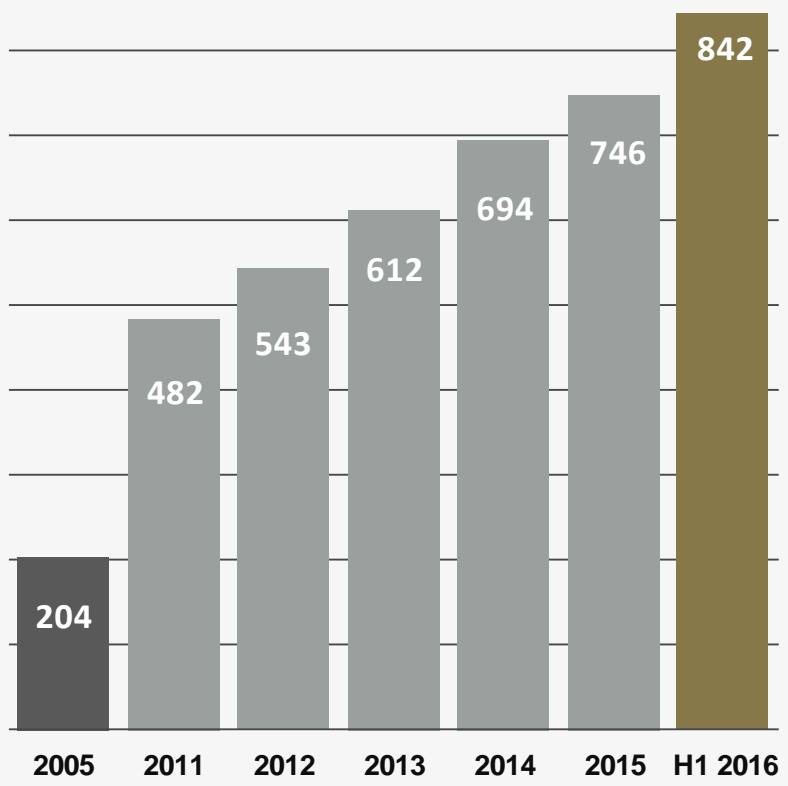
- One of the ten largest asset managers in the world (from 43<sup>rd</sup> in 2004)
  - World leader in LDI
  - World number 5 in Index
  - Persistency rate over 90%
- AUM more than quadrupled to £842bn\* from £204bn in 2005
- Profits increased from £103m in 2005 to £355m in 2015
- Market-leading cost/income ratio: fees of c.10bps with cost of c.5bps = 50% margin
- Well-placed to benefit from long term structural growth drivers in asset management
- U.S. a hugely attractive market to expand – LGIMA AUM is c.\$140bn\* and rising

Digitalisation, globalisation and industrialisation are driving significant growth across our business

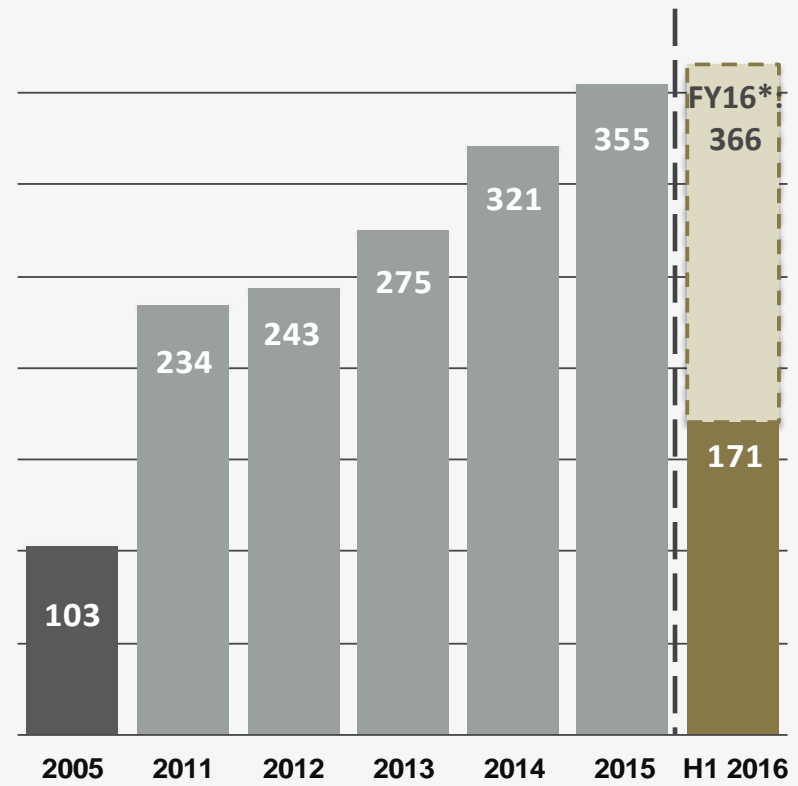


# LGIM: digitalisation, globalisation and industrialisation has driven significant growth across our business

### AUM (£bn)



### OPERATING PROFIT (£m)

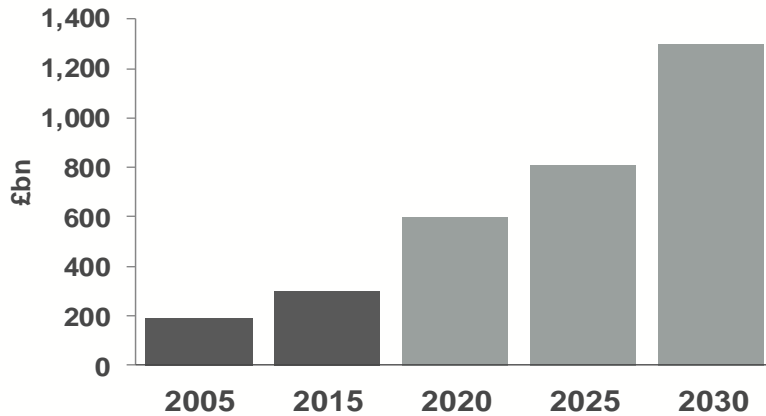


Market leading cost/income ratio: a 50% margin

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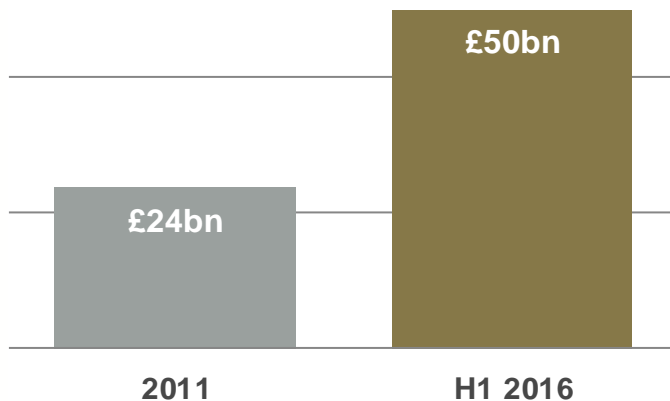
# DC pensions: a leading UK player with a global opportunity

## UK Corporate DC savings industry projections

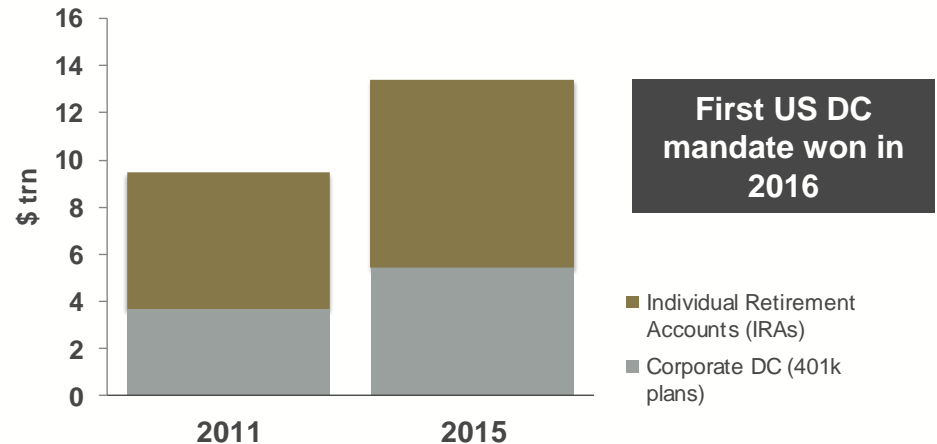


- Auto-enrolment has been a huge success in the UK with 90% plus of employees choosing to stay in workplace schemes.
- Increase in DC savings driven by auto-enrolment, with 12 million individuals ultimately expected to be enrolled in workplace savings schemes, compared to c.5 million today.
- Currently we have over 2 million customers in nearly 7,000 schemes.
- 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
- First US DC mandate won in 2016; Opportunities in Japan, China and Australia

## LGIM UK DC AUM



## US DC AUM



# LGR: strong demand for pension risk transfer in the UK and US

## 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 years<sup>1</sup>

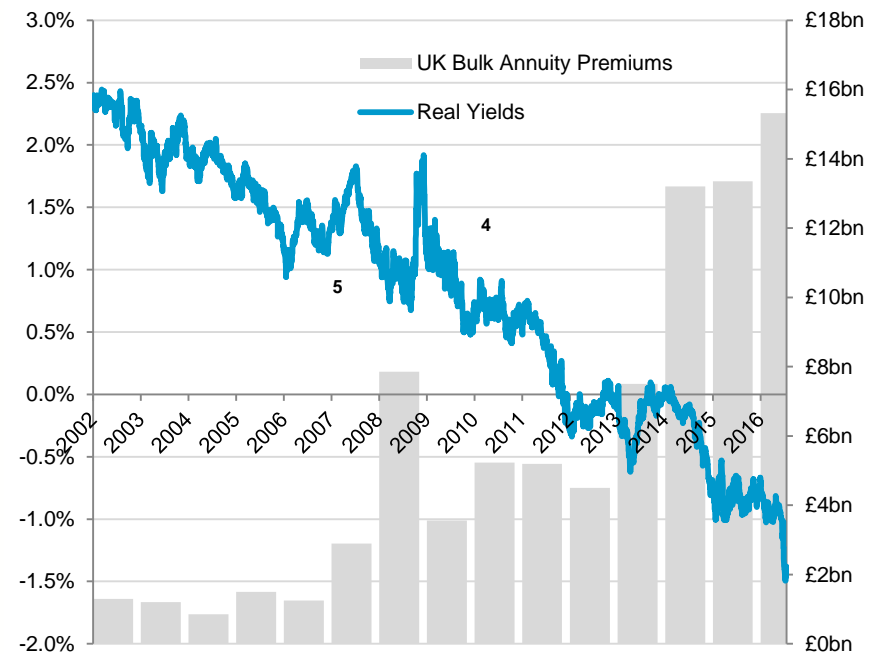
**44%**

market share of UK LDI market<sup>2</sup>

**950**

pension plans are overfunded on an s179 basis – they are prime for PRT<sup>3</sup>

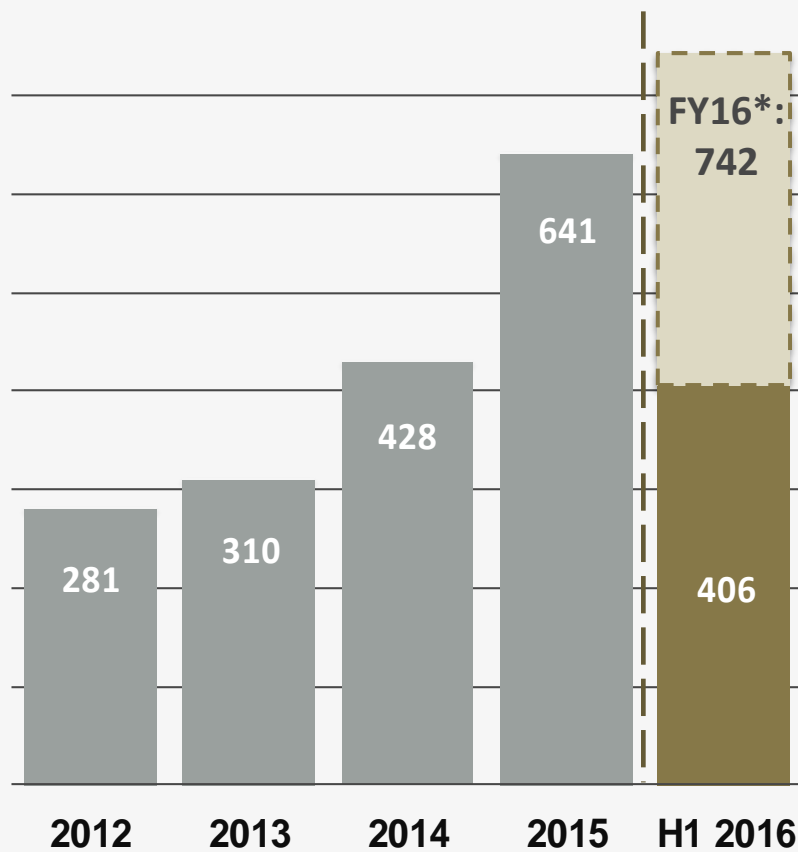
## FALLING RATES HAVE NOT HISTORICALLY PREVENTED THE GROWTH OF UK PRT



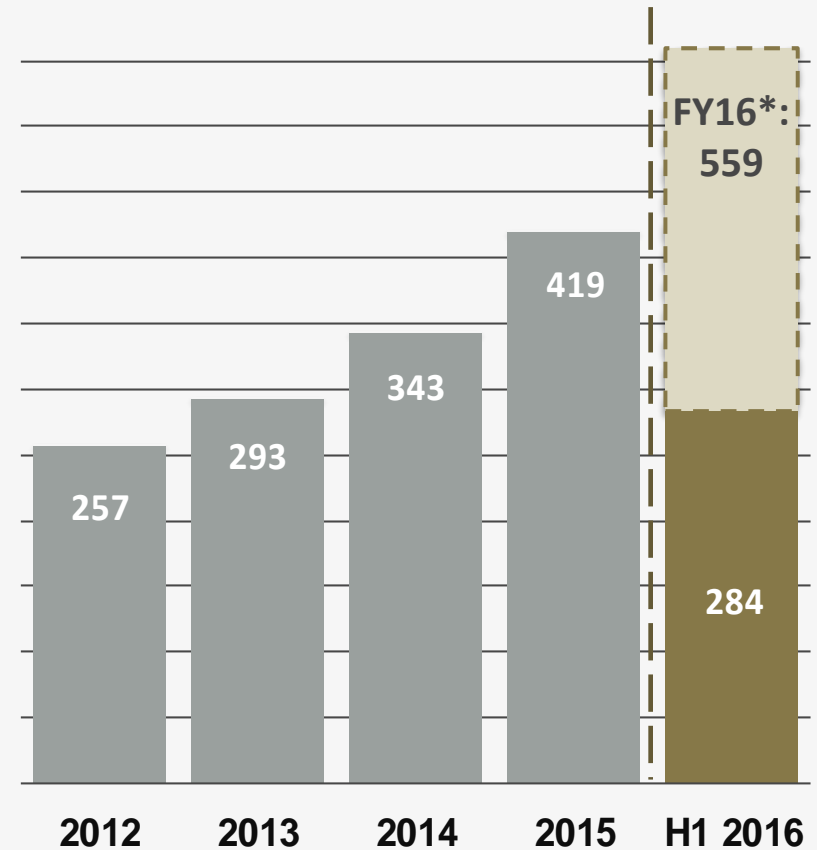
1. Legal & General & Engaged Survey , "The De-Risking Journeys of Large Schemes", 2015.
2. KPMG LDI Report June 2016: Powering ahead the current UK LDI market
3. PPF 7800, 30 June 2016.
4. Pensions Purple Book 2015 and Mercer, "UK DB Bulk Pensions Insurance Market Review", Second Edition, July 2016
5.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

## LGR: delivering record profit growth

### OPERATING PROFIT (£m)



### NET CASH GENERATION (£m)

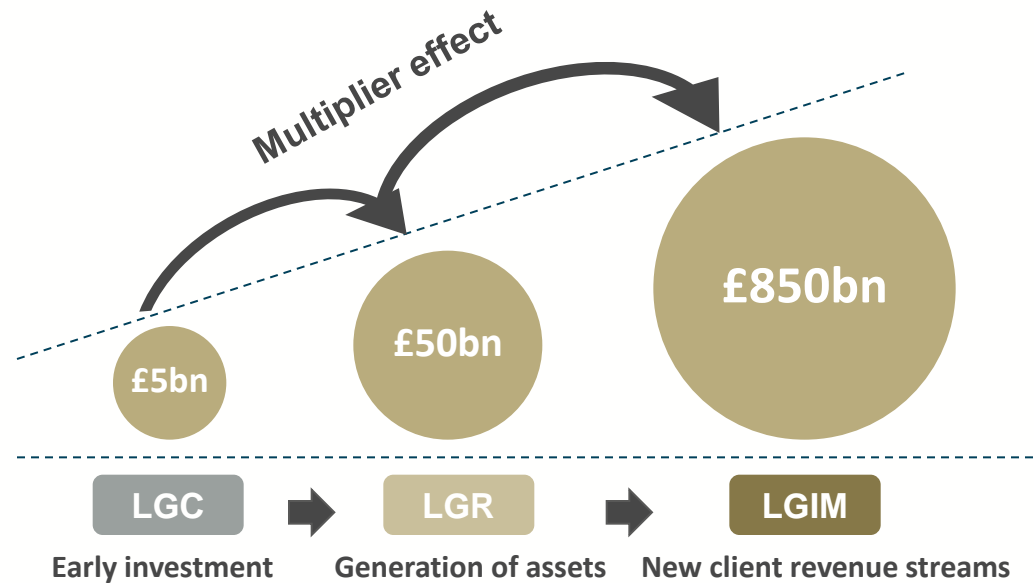


EEV%	2012	2013	2014	2015	H1 2016
	8.8	8.7	9.3	9.8	13 (est. H1)

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

## LGC: enables early access to investment opportunities...

FINANCIAL HIGHLIGHTS	H1 2016	
	INVESTMENT (£m)	OPERATING PROFIT (£m)
Equities	1,630	34
Fixed Income	499	9
Multi asset	472	6
Cash & cash equivalents	1,232	10
<b>Total traded portfolio</b>	<b>3,833</b>	<b>59</b>
Housing	377	39
Infrastructure	506	24
SME Finance	181	6
<b>Total direct investment</b>	<b>1,064</b>	<b>68</b>
Treasury assets	1,021	8
<b>Total (£m)</b>	<b>5,918</b>	<b>135</b>



- LGC operating profit up 17% at £135m
- Cash & cash equivalents of c.£2.3bn (£18m operating profit), provide further investment optionality
- Direct investments operating profit up 112% at £68m
- CALA: £512m revenue / £51m operating profit in 2015 vs. £256m revenue / £7m operating profit in 2012

...delivering multiples drivers of value across the Group

# Replicating our successful UK model in the US



# Half Year Results 2016

+16%

Net cash generation

£727m

+23%

Profit before tax

£826m

+14%

Earnings per share<sup>1</sup>

11.20p

1. Represents adjusted earnings per share (EPS) which is calculated by dividing profit after tax by the weighted average number of ordinary shares in issue during the period. H1 2016 excludes a £4m profit arising on the disposal of subsidiary and joint venture investments. H1 2015 excludes a £40m expense in relation to Legal & General France and Legal & General Gulf as a consequence of both operations being classified held for sale. Unadjusted EPS is 11.27p (H1 2015: 9.11p).

## Legal and General Group: a modern growing business

### Equity narrative

- Growth strategy supported by demographic and macro trends
- Focused, de-cluttered group with leading positions in the UK and fast growing international businesses
- Innovative and low cost business model
- Delivering economically and socially useful solutions
- Strong balance sheet and leading returns
- Globally well-respected and trusted brand
- Well positioned to continue to deliver strong operational and financial performance

**Strong balance sheet and structural growth drivers support sustainable earnings and cash growth through the cycle**



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## Forward looking statements

This document may contain certain forward-looking statements relating to Legal & General Group, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc. does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

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