

# Legal & General acquisition of £3bn UK annuity portfolio from Aegon

23 May 2016

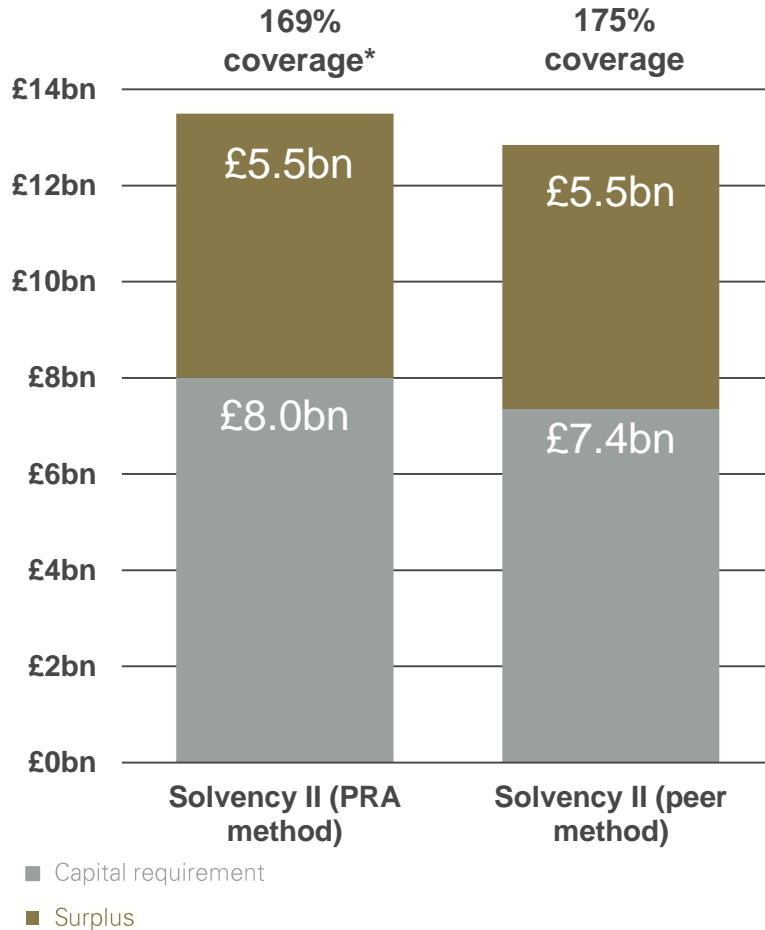


## LGR: Back book consolidation one of nine sources of profit

<h3>TRANSACTION DETAILS</h3>	<ul style="list-style-type: none"> <li>• Acquisition of £3bn of annuity portfolio from Scottish Equitable, subsidiary of Aegon NV; UK's 2<sup>nd</sup> largest backbook consolidation transaction</li> <li>• c.27,000 in-payment policy holders covered</li> <li>• Initially a reinsurance contract; to be followed by Part VII transfer</li> </ul>
<h3>FINANCIAL</h3>	<ul style="list-style-type: none"> <li>• Pricing consistent with our cost of capital hurdle rate</li> </ul>
<h3>SOLVENCY II</h3>	<ul style="list-style-type: none"> <li>• Transitional benefits available to offset the Solvency II risk margin</li> <li>• 'Day 1' impact of this transaction: decreases Solvency II coverage ratio c. 3ppts and surplus by c.£50m*</li> </ul>
<h3>STRATEGY</h3>	<ul style="list-style-type: none"> <li>• Back book acquisitions part of continued execution of Legal &amp; General Retirement's established nine sources of profit strategy</li> <li>• c.£100bn of UK individual annuity back books</li> <li>• Track record of successful integration: Lucida in 2013</li> </ul>

# Capital position remains strong

## CAPITAL POSITION AS AT 31 DECEMBER 2015



- Year end position £13.5bn, 169% coverage
- On proforma basis, impact of transaction c.3ppt<sup>1</sup> on Solvency II coverage ratio with decrease of surplus by c.£50m
- Transitional benefit available to offset risk margin
- Legal & General ratio reported on regulatory method not shareholder funds method e.g. including the With-profits and pension scheme assets and corresponding Solvency II capital requirement

\* Estimated proforma basis as announced at Full Year Results on 15 March 2016

<sup>1</sup> Assumes TMTP is recalculated to include the acquired business

# Legal & General Retirement



## LGR: Market leading, successful growth business

FINANCIAL HIGHLIGHTS	2015	2014	2013	2012
Operational cash generation (£m)	<b>372</b>	292	260	243
New business surplus (£m)	<b>45</b>	51	33	14
Net cash generation (£m)	<b>417</b>	343	293	257
Operating profit (£m)	<b>639</b>	428	310	281
Total annuity assets (£bn)	<b>43.4</b>	44.2	34.4	32.2
Annuity single premiums (£m)	<b>2,744</b>	6,578	4,089	2,339
New business EEV margin (%)	<b>9.8</b>	9.3	8.7	8.8
Lifetime mortgages (£m)	<b>201</b>	n/a	n/a	n/a

FINANCIAL HIGHLIGHTS	Q1 2016
New bulk annuity business written (£m)	<b>410</b>
Number of bulk transactions	<b>5</b>
Number of new members	<b>2,274</b>
Total annuity assets (£bn)	<b>45.5</b>

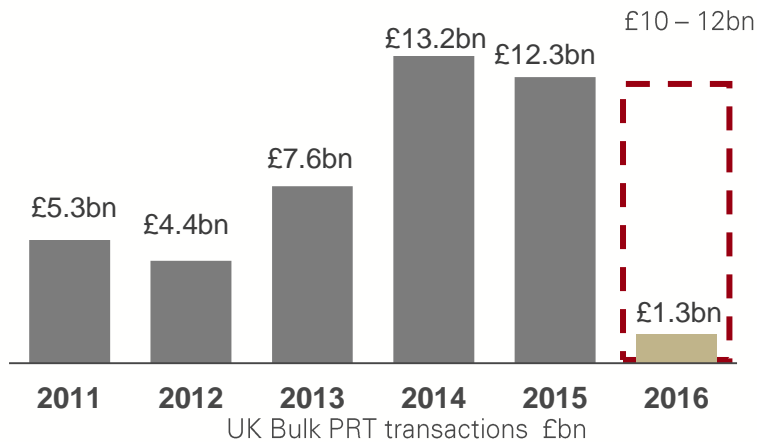
- Reinsurance strategy of longevity risk has been running for a number of years for UK business
- No change post Solvency II implementation
- Economics proven attractive and above our strict hurdle rate criteria
- US deals also priced to achieve cost of capital hurdle rates

# LGR: Nine sources of profit

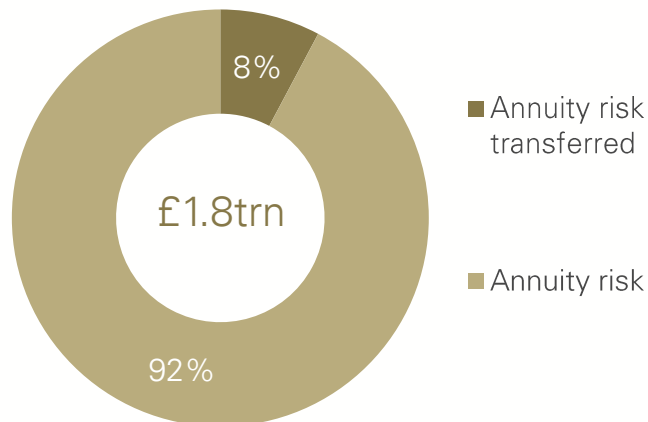
			Capital characteristics
1	BACK BOOK FOR CASH	<ul style="list-style-type: none"> <li>£43bn annuity portfolio at Dec 2015 – generated £372m operational cash and £417m net cash in 2015; expected to throw off £10bn of undiscounted cash over 60 years</li> <li>Asset strategy being optimised with direct investments and lifetime mortgages</li> </ul>	S1-like release
2	BACK BOOK ACQUISITIONS	<ul style="list-style-type: none"> <li>Acquisition of £3bn Aegon UK back book, H1 2016</li> <li>Successfully completed £1.4bn Lucida transaction in 2013</li> <li>c.£100bn of UK individual annuity back books</li> </ul>	S1-like release
3	UK CAPITAL-LITE FRONT BOOK	<ul style="list-style-type: none"> <li>Evolving to meet anticipated demand, £2trn of DB liabilities in the UK</li> <li>UK's largest medically underwritten bulk annuity deal in Dec 2015, £230m for Kingfisher</li> <li>Further buy-in with ICI in excess of £300m</li> </ul>	S2 capital-lite
4	US PENSION RISK TRANSFER	<ul style="list-style-type: none"> <li>US has estimated \$2.6trn of DB liabilities</li> <li>First deal announced in Oct 2015 (\$450m) with Phillips US, first solo deal in Feb 2016 (\$65m)</li> <li>Utilising LGIMA's asset management and LGA's back office capabilities</li> </ul>	US RBC
5	LONGEVITY INSURANCE	<ul style="list-style-type: none"> <li>£5.6bn of longevity insurance deals completed to date</li> </ul>	S2 facilitating risk transfer
6	LIFETIME MORTGAGES	<ul style="list-style-type: none"> <li>£1.4trn of housing equity owned by the over 65's in the UK</li> <li>Long term illiquid asset creation for our annuity fund</li> <li>Entered market Q215, £201m written in 2015, on track for £500m target in 2016</li> </ul>	S2
7	GLOBAL REINSURANCE HUB	<ul style="list-style-type: none"> <li>L&amp;GRe A+ rated with S2 equivalence and registered reinsurer status in Netherlands</li> <li>European Pension Risk Transfer: First Dutch deal written in Dec 2015 for €200m</li> </ul>	S2 capital-lite
8	INDIVIDUAL ANNUITIES	<ul style="list-style-type: none"> <li>£327m written in 2015. Upside following industry consolidation</li> </ul>	S2
9	SECONDARY ANNUITY MARKET	<ul style="list-style-type: none"> <li>Entry in 2017</li> <li>Profit and diversification benefits</li> </ul>	S2

# UK pension risk transfer opportunity

## Annuity transactions



## Private sector defined benefit liabilities



- UK derisking demand driven by:
  - DB schemes largely a legacy issue for corporates, most closed to new entrants and closed to future accrual
  - Distraction to management who want to focus on their business not on the pension scheme
  - No company benefits from over-funding
- Volume driven by affordability of the corporate to make up the deficit and transfer risk to an insurance company
- Funded status will improve with a rise in real interest rates, high equity values and deficit repayment plans
- UK only c.£140bn has moved to pension risk transfer so far
- Main competitors: Rothesay Life; Pensions Insurance Corporation

### Recent significant deals:

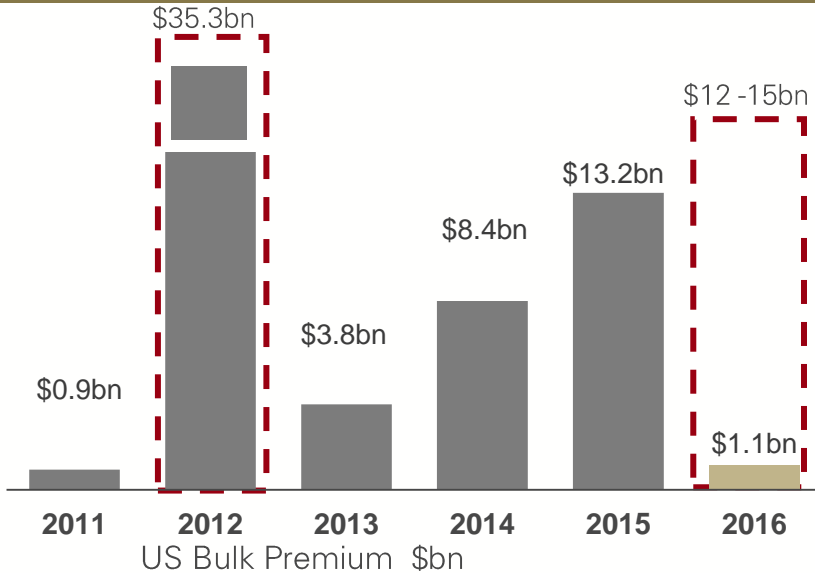
- In excess of £300m buy-in for ICI Mar 2016
- £230m medically underwritten buy-in for Kingfisher Dec 2015; UK's largest
- £2.5bn buy-out for TRW in Nov 2014; UK's largest
- £3.0bn buy-in for ICI in Mar 2014; UK's largest

No change in approach post Solvency II implementation

Reinsurance strategy in place for a number of years

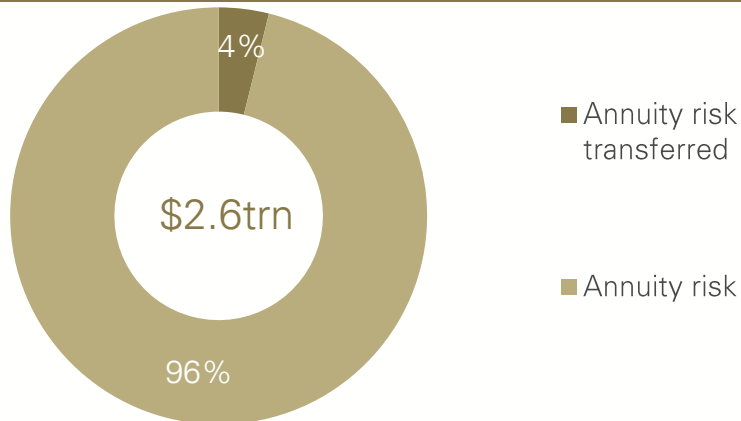
# US pension risk transfer opportunity

## Annuity transactions



- US behind the UK by several years in PRT market maturity
- US driven by same trends as UK, to the same conclusions
- However in the US, pension benefits are not linked to inflation, and so funded status will improve with a rise in nominal rates
- We have the same capital hurdle rate as UK
- US business uses equivalence under S2, which makes retaining longevity risk more attractive
- Main competitors: Prudential Financial; MetLife

## Private sector defined benefit liabilities

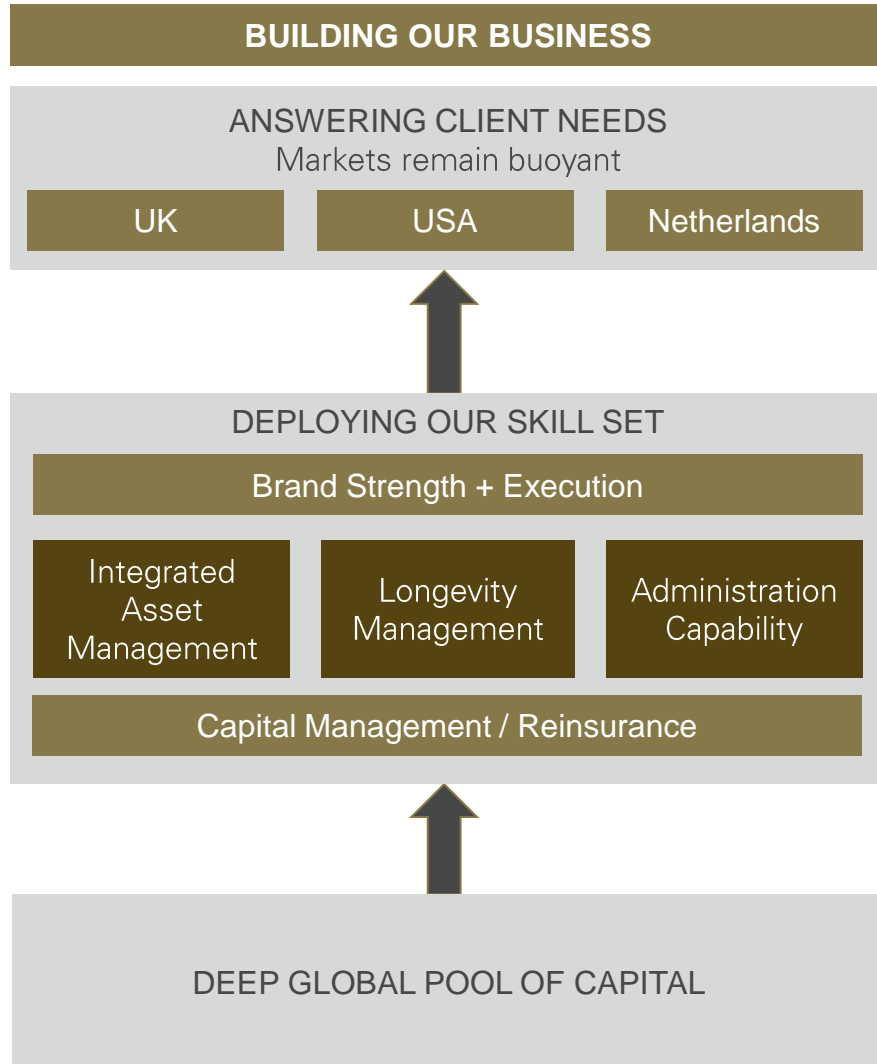


## Recent significant deals:

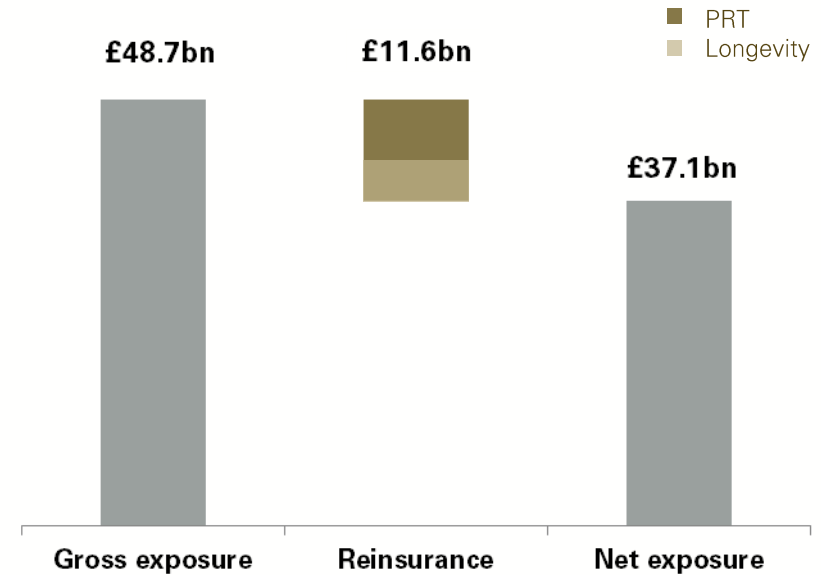
- First Legal & General US deal announced in October 2015 for Phillips US (\$450m)
- First solo deal in February 2016 (\$65m)



# Longevity reinsurance: our capital-lite strategy



## LONGEVITY EXPOSURE AS AT 31 DECEMBER 2015



- Reinsured £11.6bn of longevity risk over the past 5 years
- £3.8bn of longevity risk was reinsured with seven reinsurers during 2015; 11 on panel
- Less need to reinsure longevity in US as brought in on equivalence i.e. like the old model
- Increased level of capital in reinsurance market, currently estimated at £150bn\*
- Good quality disclosure and counterparty risk management key to PRA

## Our UK USPs

1. Most extensive UK client reach
  - 6,300 UK private sector schemes, around 3,000 are already our clients
  - We, uniquely, can offer clients all steps in pension derisking
2. Integrated asset management
  - Liability driven investment in its purest form
  - Global fixed income
  - Real assets and self-manufacturing
3. Longevity management
  - 29 years in the bulk market has given us seasoned longevity data and longevity expertise. We have 25 people dedicated to longevity research and analysis
  - We are an attractive reinsurance counterparty
    - Our longevity expertise, diversified business, financial strength, balance sheet size, client reach and structuring skills leads to excellent reinsurer relationships
4. Complex administrative capability
  - All plans, all benefit types
5. Big deal execution
  - Trusted brand, confidence in execution

## Back book to deliver material profits for many years

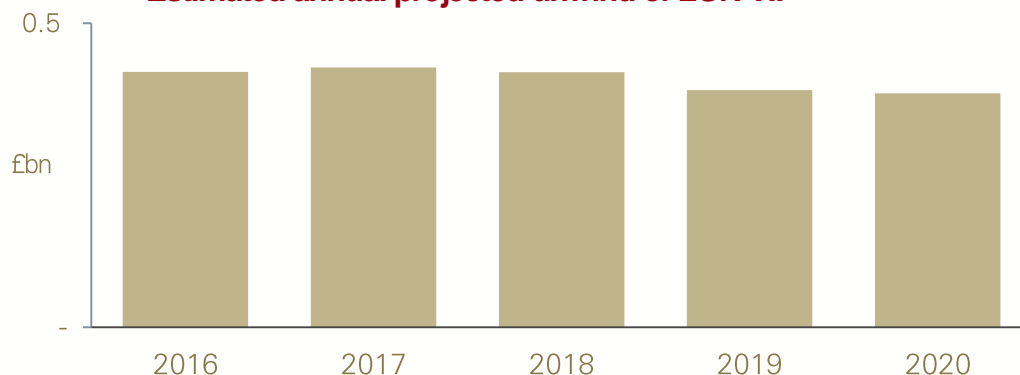
Projected future cashflow before backbook actions*	Undiscounted 2015	Discounted 2015
LGR	c.£10bn	c.£5bn

£m	2014	2015	2016
Operational cash	292	372	
New business surplus	51	45	
Net cash	343	417	
Operating profit	428	639	

Further upside	- Direct investments	
	- Lifetime mortgages	
	- Default outperformance	

- High degree of predictability and visibility of monetisation of the back book.
- Annuity assets £45.5bn at 31 Mar 2016 expected to deliver material levels of operational cash generation and profit for many years.

**Estimated annual projected unwind of LGR VIF\*\***



## Forward looking statements

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