The PRT industry in 2020 and beyond

RBC Bulk Annuity Conference 2020
Legal & General’s PRT business is profitable, large and growing

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<tbody>
<tr>
<td>Institutional</td>
<td>516</td>
<td>651</td>
<td>716</td>
<td>832</td>
<td>1,116</td>
<td></td>
<td></td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Retail</td>
<td>123</td>
<td>158</td>
<td>199</td>
<td>283</td>
<td>298</td>
<td></td>
<td></td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>LGR underlying</td>
<td>281</td>
<td>310</td>
<td>428</td>
<td>639</td>
<td>809</td>
<td>915</td>
<td>1,115</td>
<td>1,414</td>
<td>26</td>
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<tr>
<td>Mortality Releases</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>332</td>
<td>433</td>
<td>155</td>
<td></td>
<td>n/a</td>
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<tr>
<td>Total LGR</td>
<td>281</td>
<td>310</td>
<td>428</td>
<td>639</td>
<td>809</td>
<td>1,247</td>
<td>1,548</td>
<td>1,569</td>
<td>28</td>
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<table>
<thead>
<tr>
<th>Premiums (£m)</th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Institutional</td>
<td>1,019</td>
<td>2,812</td>
<td>5,987</td>
<td>2,862</td>
<td>7,078</td>
<td>4,661</td>
<td>9,984</td>
<td>11,392</td>
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<tr>
<td>Retail</td>
<td>1,320</td>
<td>1,277</td>
<td>591</td>
<td>327</td>
<td>378</td>
<td>671</td>
<td>795</td>
<td>970</td>
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**Ambition**

To write £40-50bn over the next 4-5 years

*LGRI has achieved a similar performance over the past 4 years (£38.7bn)*
2020 is off to a strong start

**Institutional**

£2.0bn written YTD across 18 transactions  
£1.0bn exclusive  
£26bn actively pricing pipeline

**Retail**

£273m of annuity premiums written YTD
Looking at COVID-19 deaths in context

Weekly reported deaths (England & Wales)

Cumulative reported deaths (England & Wales)

Source: ONS
The big picture…

Higher mortality rates for older and disadvantaged people

Legal & General is responding to the needs of those most impacted by COVID-19 by:
• Investing more than £300m in later living facilities in April
• Investing c£130m in Affordable Housing since February
• Accelerating components of our £20 million sponsorship of Edinburgh University’s research into elderly care

Supporting the real economy through the lockdown

Legal & General is supporting the real economy through:
• >£700m invested since the start of the COVID-19 crisis, in Later Living, BTR, Affordable Housing, Clean Energy, and urban regeneration
• 35k retail investors rely on L&G dividends
L&G confirmed its 2019 Final Dividend, while 45% of the FTSE 100 have suspended dividends
The big picture...

Testing Solvency II

• “Banks and insurers are not the same and neither are all insurers”, Sam Woods, Times

• “Solvency resilient, better positioned than for any previous downturn”, RBC

• Legal & General’s balance sheet remains strong and the solvency ratio robust

Avoiding pro-cyclicality

• Solvency stress scenarios in an already stressed environment

• Limited exposure to impacted sectors
  • <2% aggregate exposure to airlines, hotel, leisure and traditional retail
  • Limited exposure to cyclical BBBs

UK businesses, 6 – 19 Apr. 2020 (ONS Survey)
The bigger picture... Legal & General is not a bank

A long term business
Minimal liquidity and maturity transformation risk

- Annuities cannot be redeemed early, reducing liquidity risk
- Closely matched asset and liability cashflows, removing market risk and maturity transformation risk
- Liquidity risk further reduced by collateral terms that allow us to post corporate bonds

Our asset cashflows closely match our pension liabilities

![Chart showing asset cashflows and pension liabilities over time](chart.png)
The bigger picture… Legal & General is not a bank
Reserves nearly double those of banks
We hold 22% surplus assets over our life technical provisions, meanwhile banks’ required reserve ratio is only 12.5%

**LGR Bond Portfolio**

High quality assets with a £3.2bn default reserve

- A-rated, diversified
- 17% sovereigns, <0.5% SMEs
- Reserve equivalent to 5% of corporate debt holdings on a portfolio that has outperformed the market in downgrade and defaults
- Reserve has been unused over the past decade and released to shareholders over time as positive experience variance

- **AAA, 9% (£6.0bn)**
- **AA, 23% (£16.0bn)**
- **A, 34% (£24.0bn)**
- **BBB, 33% (£23.3bn)**
- **BB or below, 1% (£0.7bn)**

**BB bonds in market have a default rate of 4%**
Defensively positioned portfolio that is outperforming the market

Limited exposure to emerging markets

Downgrades within IG have minimal impact on our solvency ratio

Downgrades to sub-IG are less than a third of those in the market (<£250m)

Group Bond Portfolio (£75.1bn)

- UK-listed corporate credit, 22% of which 46% are multi-nationals

- UK, 54%
- US, 29%
- Europe, 11%
- RoW, 6%

- Non-GBP FX exposure hedged
- Largest 5 RoW exposures: Mexico, Canada, Australia, Saudi Arabia, China
Defensively positioned portfolio that is outperforming the market

L&G has minimal exposure to troubled sectors, but the Covid crisis is a good test of our resilience

- Minimal portfolio exposure to sectors at risk of disruption, e.g. automotive and traditional retail together constitute <2%
- Strict limits on cyclical sectors, e.g. less than 3% of portfolio is cyclical consumer <A rating

Group Bond Portfolio (£75.1bn)

- Sovereigns, 17%
- Utilities, 15%
- Consumer Services & Goods (Non-Cyclical), 10%
- Social Infrastructure, 8%
- Banks (Senior), 7%
- Economic Infrastructure, 7%
- Technology and Telecoms, 6%
- Lifetime mortgage loans, 6%
- Consumer Services & Goods (Cyclical), 5%
- Real estate, 5%
- Oil and Gas, 3%
- Consumer Services & Goods (Healthcare), 2%
- Industrials, 2%
- Energy, 2%
- Structured finance ABS, 2%
- Financial Services (Senior), 1%
- Insurance (Senior), 1%
- Commodities, 1%

Downgrades within IG have minimal impact on our solvency ratio

Downgrades to sub-IG are less than a third of those in the market (<£250m)
Our capital position is robust

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**Solvency II Balance Sheet**

- **£16.1bn** Own Funds
- **£7.3bn** Capital Requirement
- **£8.8bn** Surplus

YE 2019

Feb 2020

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**Sensitivity analysis: Impact on coverage ratio**

- **February 2020 SII coverage ratio**: 174%
- **Credit spreads widen by 100bps**: 182%
- **Credit spreads narrow by 100bps**: 165%
- **Credit migration**: 165%
- **25% rise in equity markets**: 178%
- **25% fall in equity markets**: 169%
- **15% rise in property markets**: 180%
- **15% fall in property markets**: 168%
- **100bps increase in risk free rates**: 196%
- **50bps decrease in risk free rates**: 163%
- **Substantially reduced Risk Margin**: 180%

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**Our solvency ratio has moved in line with published sensitivities**

<table>
<thead>
<tr>
<th>Reference</th>
<th>28 Feb 2020</th>
<th>30 April 2020</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>10Y IG Credit Spreads (bps)</td>
<td>114.9</td>
<td>116.9</td>
<td>+2</td>
</tr>
<tr>
<td>FTSE 100 (p)</td>
<td>6581</td>
<td>5901</td>
<td>-10%</td>
</tr>
<tr>
<td>10Y Gilts (bps)</td>
<td>44.2</td>
<td>23.1</td>
<td>-21.1</td>
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</table>

Additionally, 1.5 to 2 percentage points of solvency surplus is generated each month
The global PRT market remains active and attractive

**UK DB Liabilities (c£2.1tn)**
- 89% On corporate balance sheets
- 11% Transferred to insurers

**US DB Liabilities (c$3.5tn)**
- 94% On corporate balance sheets
- 6% Transferred to insurers

**UK PRT market (£bn)**
- 2015: 12
- 2016: 10
- 2017: 12
- 2018: 24
- 2019*: 42
- 2020*: c25**

**US PRT market ($bn)**
- 2015: 14
- 2016: 14
- 2017: 23
- 2018: 27
- 2019*: 30
- 2020*: 42

**L&G 2020**
- £2.0bn written YTD across 18 transactions
- £1.0bn exclusive
- £26bn pipeline
- A vast global opportunity… the most developed market, the UK, is still only 11% insured

* L&G estimate
** LCP estimate
As the only whole-of-market and international PRT provider, we can be selective in our capital allocation

UK PRT bulk annuity premiums in 2019¹ (£m)

<table>
<thead>
<tr>
<th>Deal count</th>
<th>Aviva</th>
<th>Canada Life</th>
<th>Legal &amp; General</th>
<th>PIC</th>
<th>Phoenix</th>
<th>Just</th>
<th>Rothesay Life</th>
<th>Scottish Widows</th>
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</thead>
<tbody>
<tr>
<td>&lt;£10m</td>
<td>28</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>1</td>
<td>5</td>
<td>16,300</td>
<td>2,030</td>
</tr>
<tr>
<td>£10-50m</td>
<td>15</td>
<td>8</td>
<td>14</td>
<td>2</td>
<td>1</td>
<td>14</td>
<td>7,260</td>
<td></td>
</tr>
<tr>
<td>£50 – 100m</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>2,230</td>
<td></td>
</tr>
<tr>
<td>£100-£1bn</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1,232</td>
<td></td>
</tr>
<tr>
<td>&gt;£1bn¹</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>2,230</td>
<td></td>
</tr>
<tr>
<td>Total count</td>
<td>53</td>
<td>9</td>
<td>28</td>
<td>17</td>
<td>6</td>
<td>23</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
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L&G Deal Count by Country

- UK: 28
- US: 10
- Canada: 1
- Ireland: 4

¹ Excludes internal transactions, namely the £1.7bn annuity with the Aviva Staff Pension
We are the only firm to operate across the full pension journey

Legal & General Investment Management

Index & multi-asset funds → LDI → Active fixed → Investing in Real Assets → Longevity insurance or Assured Payment Policy → Buy-in → Buyout

Legal & General Capital

A case study: Rolls Royce

1989
LGIM began providing investment management services to the Fund

2007
LGIM appointed to support the scheme’s de-risking activity as LDI manager

2016
Vickers Group Pension Scheme £1.1bn buyout, part of the Rolls-Royce group

2019
Rolls-Royce UK Pension Fund £4.6bn buyout

Future
Capital backing the buyouts invested in projects such as infrastructure, housing and urban regeneration
All of our businesses benefit from PRT

Capital benefits

Building client relationships

Providing asset management services

Creating Real assets

Insurance

Technology leadership

Structural and capital synergies result in ~20% ROE

Retirement
(PRT & Solutions)

Capital Investment

Investment Management

Structuring expertise

Providing capital

Providing seed capital

Contributing captive AUM

Providing asset management services

Co-investing

Creating
Real assets

Manufacturing SII-eligible assets

1. Three year average measured by UK PRT deal count. Three year average measured by UK PRT new business volumes from LGIM clients is 64%. 51% of LGR PRT deals come from LGIM clients.
Our businesses provide a secure, progressive dividend

**Dividend per share**

9% CAGR 2007 - 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>L&amp;G</th>
<th>FTSE 100</th>
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<tbody>
<tr>
<td>2007</td>
<td>5.97</td>
<td>2008</td>
</tr>
<tr>
<td>2008</td>
<td>6.40</td>
<td>2009</td>
</tr>
<tr>
<td>2009</td>
<td>4.75</td>
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<td>7.65</td>
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<td>2011</td>
<td>9.30</td>
<td>2012</td>
</tr>
<tr>
<td>2012</td>
<td>16.42</td>
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<td>2013</td>
<td>13.40</td>
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<td>2016</td>
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<td>2017</td>
<td>17.57</td>
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<td>2018</td>
<td>16.42</td>
<td>2019</td>
</tr>
<tr>
<td>2019</td>
<td>17.57</td>
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</table>

Since March 2016:
“The Board has adopted a progressive dividend policy, reflecting the Group’s expected medium-term underlying business growth, including net cash generation and operating earnings.”

**IFRS cash surplus over dividend**

Post-tax mortality releases (2019: £134m; 2018: £359m; 2017: £274m)