LEGAL & GENERAL

CREATING POSSIBILITIES

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Berenberg Demographics Conference

Legal & General

Our vision and equity narrative

- We are a leader in financial solutions and a globally trusted brand. We make a promise to our customers that we will support their critical financial decisions.
- We are one of the ten largest asset managers in the world and market leaders in integrating the pooling of risk with long term investments.
- Our growth strategy is supported by demographic and macro trends delivering economically and socially relevant solutions. We are addressing some of the greatest challenges facing society including: pension solutions, protection, urban regeneration and housing.
- Our high performing and low cost businesses have leading positions in UK and US markets – exportable to other markets.
- The Group has a strong AA- rated balance sheet and delivers18-20% ROE[1].
- From 2011 - 2015,
  - EPS has increased by 11% p.a. to 18.58p[2]
  - DPS has increased by 20% p.a. to 13.4p

1. Applicable to 2015 actual and 2016 consensus. Return on equity (ROE) is calculated by dividing full year profit after tax attributable to equity holders of the Company by the average shareholders' equity during each reporting period
2. Represents FY15 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. This excludes a £25m net loss arising on the disposal of subsidiary and joint venture investments. Unadjusted FY15 EPS is 18.16p.

Macro and demographic customer trends

- Living longer but less healthy and less financially prepared, trapped housing wealth
- Real median wages zero growth, productivity poor
- Intergenerational unfairness rising as is inequality between individuals and also across and within cities
- Public sector pensions largely unfunded and have deficit of £1.5trn, funded private sector pension deficit is £400bn - £700bn
- State pensions unfunded represents growing proportion of UK GDP
- "Monetary Methadone" to be replaced by "Fiscal Supercharging"?

“Money, money everywhere, nor any drop to drink”

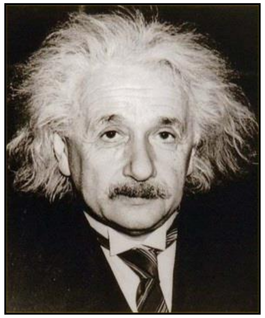
- Monetary methadone, regulatory restraints, political uncertainty and Brexit make investing extraordinarily challenging
- New insurance regulation, Solvency II, is having unintended consequences e.g. unfair asset capital calibration, lack of infrastructure investment
- We need to create growth assets around technology, infrastructure and ageing populations
- There is a requirement for transparent positive constructive collaboration between politicians, regulators, business and finance – We intend to step up

What are the right growth assets in a 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	0
Wages - Nominal - Real - Hyper	4 – 6 2 – 3 10 – 30	0
Currency	Fixed with "crashes"	Volatile

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

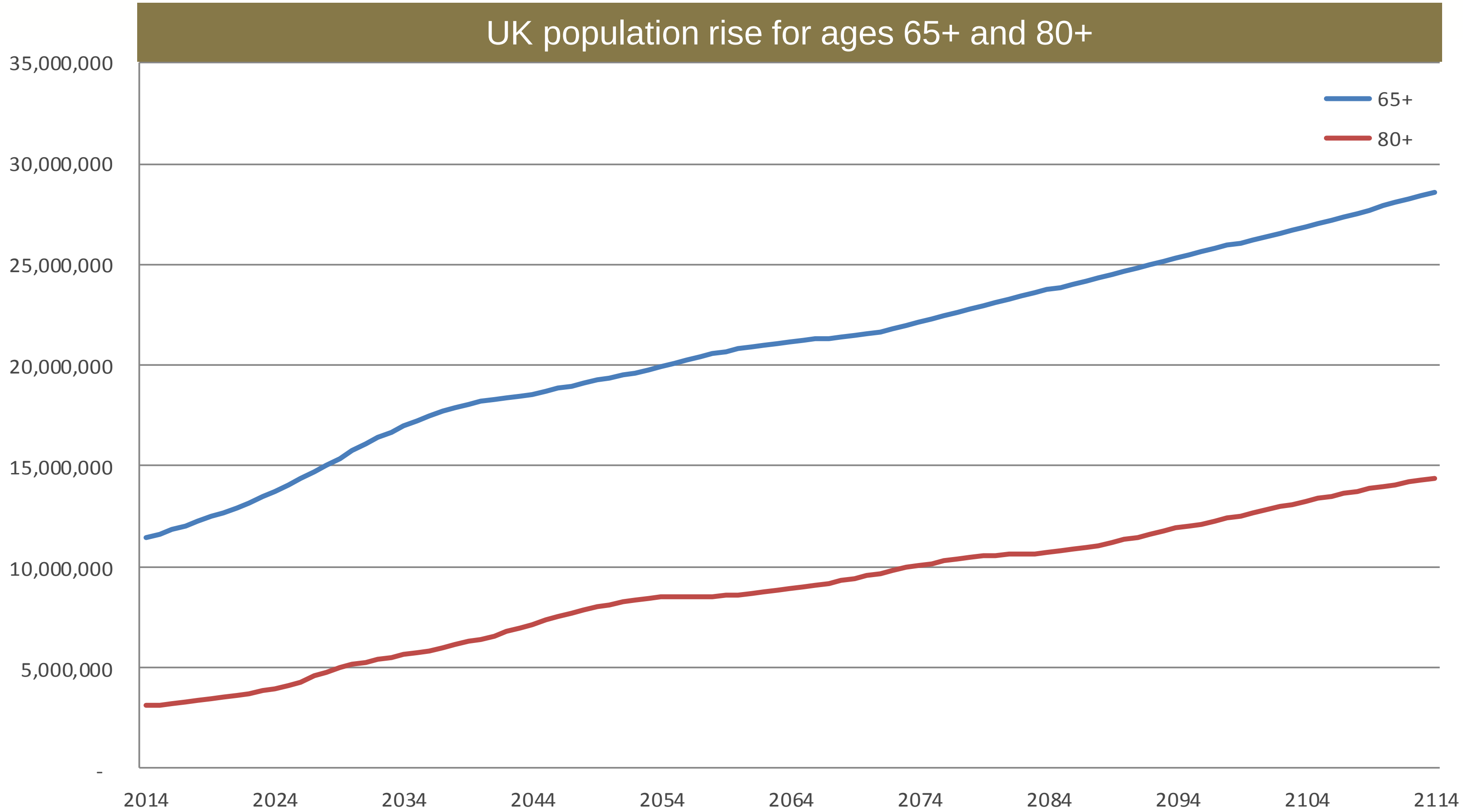
Albert Einstein



Declining interest rates, have not resulted in increased investment

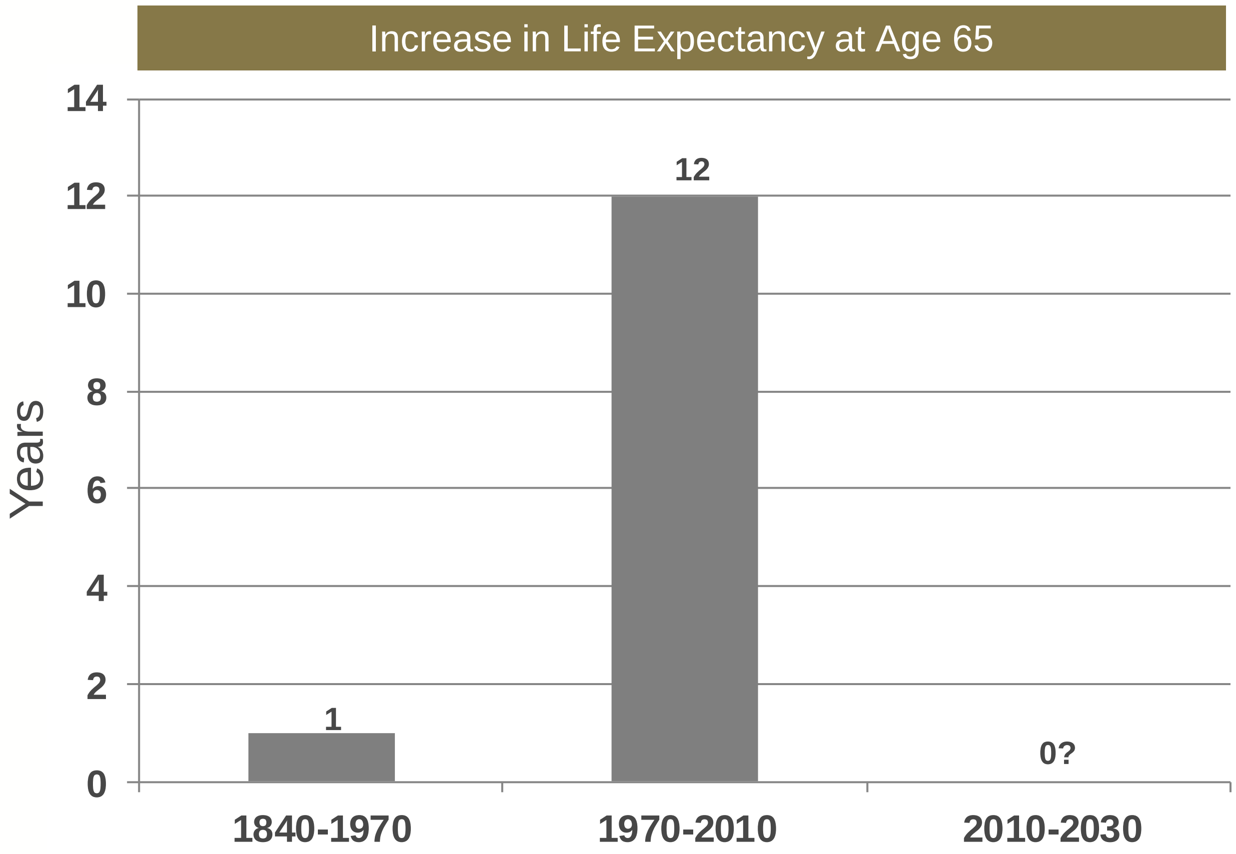
Money printing has not resulted in increased inflation

UK ageing population: older people should be encouraged to work longer



- This decade we are transitioning to an ageing population in which the population of people aged 65+ is set to grow faster than that of working age

Why are we not “accurately” predicting key trends?



Key Trends:

- Longevity
- Mortality
- Workplace stress and depression
- Suicides

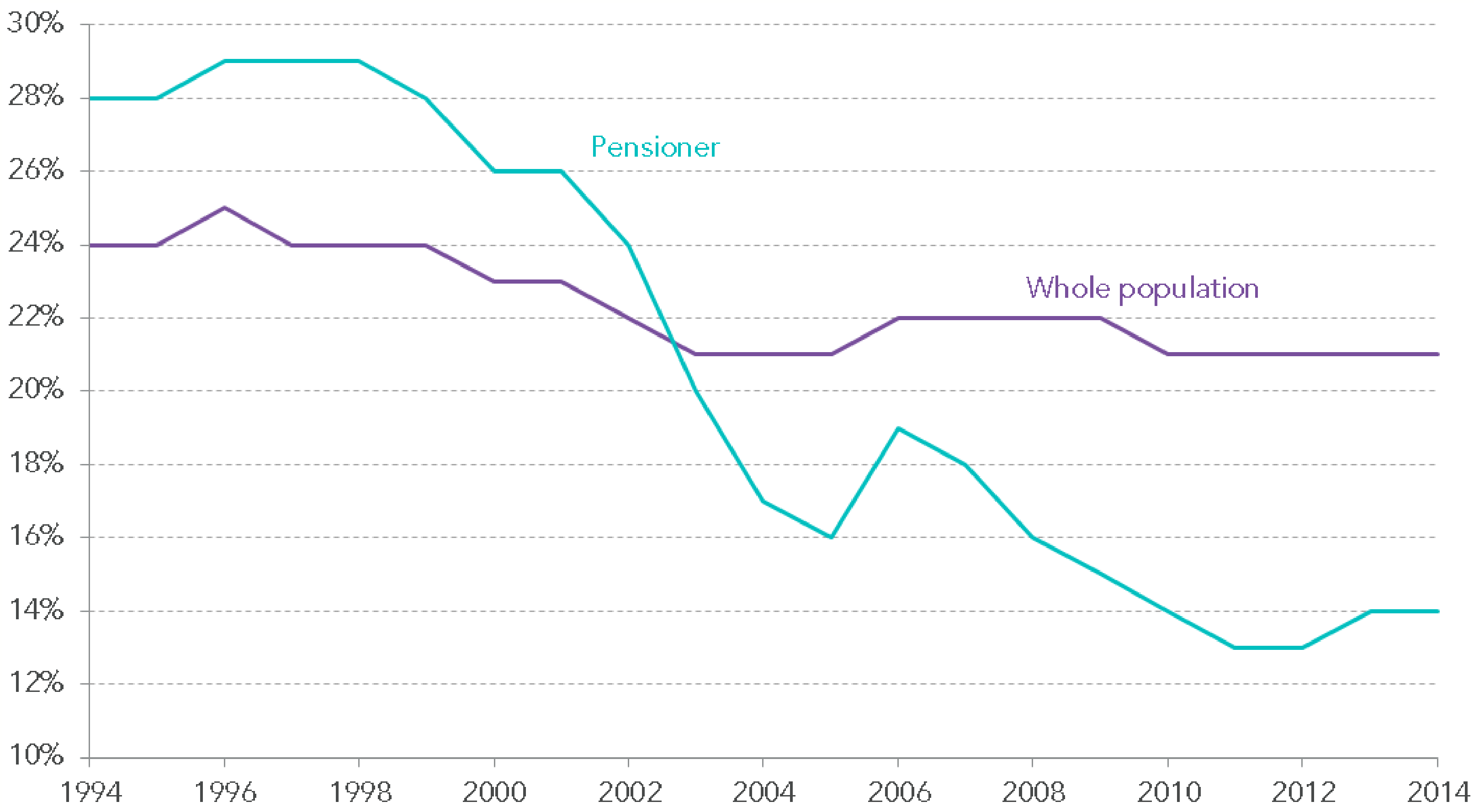
- Life expectancy increased by one fifth in just four generations – but what next?

Legal & General's increasing role in an ageing society

Working age	Retirement	
Saving and insurance	**Income for retirement**	**Housing wealth**
Low cost investments and platforms	DB pension	Lifetime mortgage
Investment in infrastructure to boost local jobs and growth	DC pension	Affordable housing
Protection to pay: ill health and death	Localised investment	Retirement homes

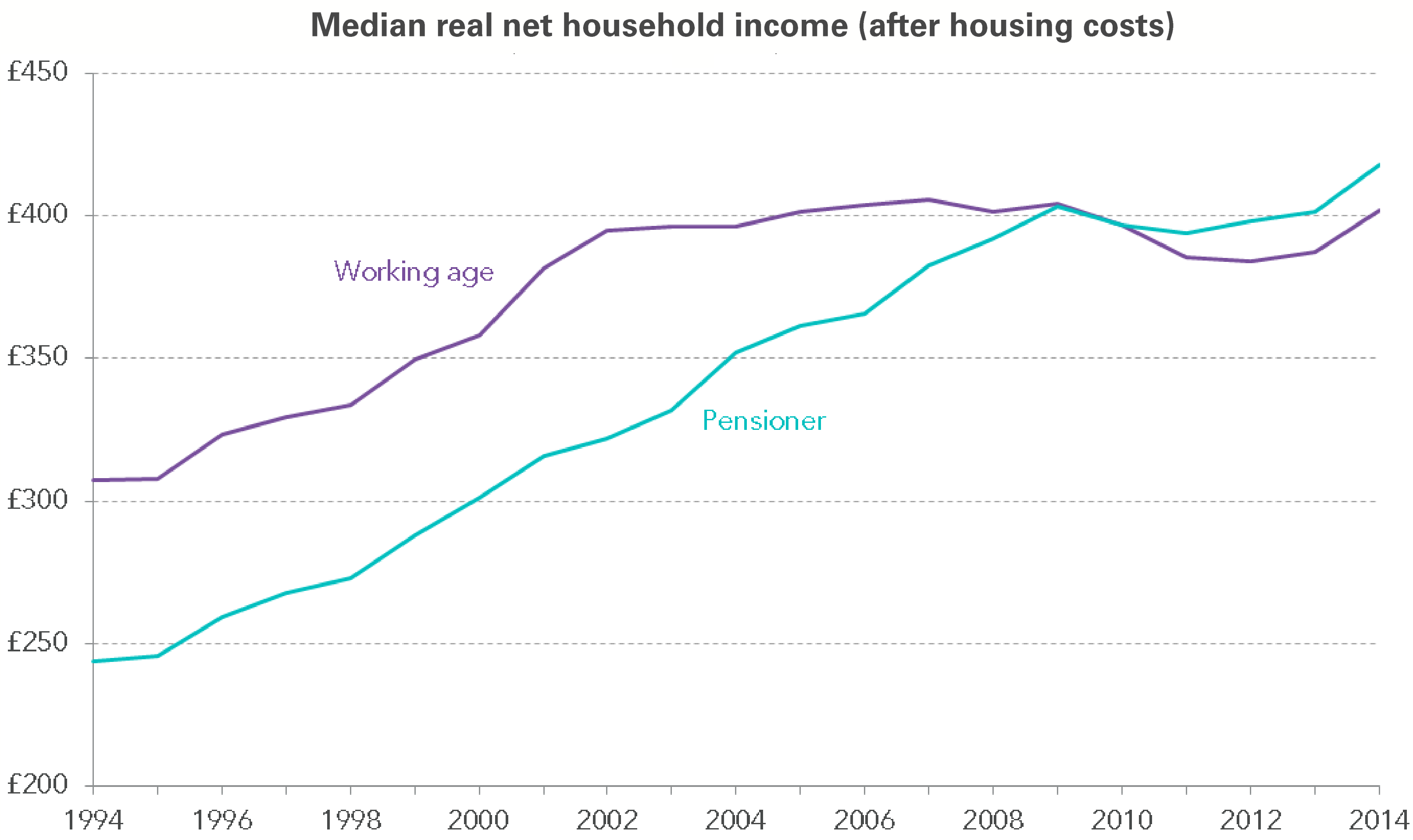
Pensioner poverty has declined – but where next?

Relative low income poverty (households below 60% of median income, after housing costs)



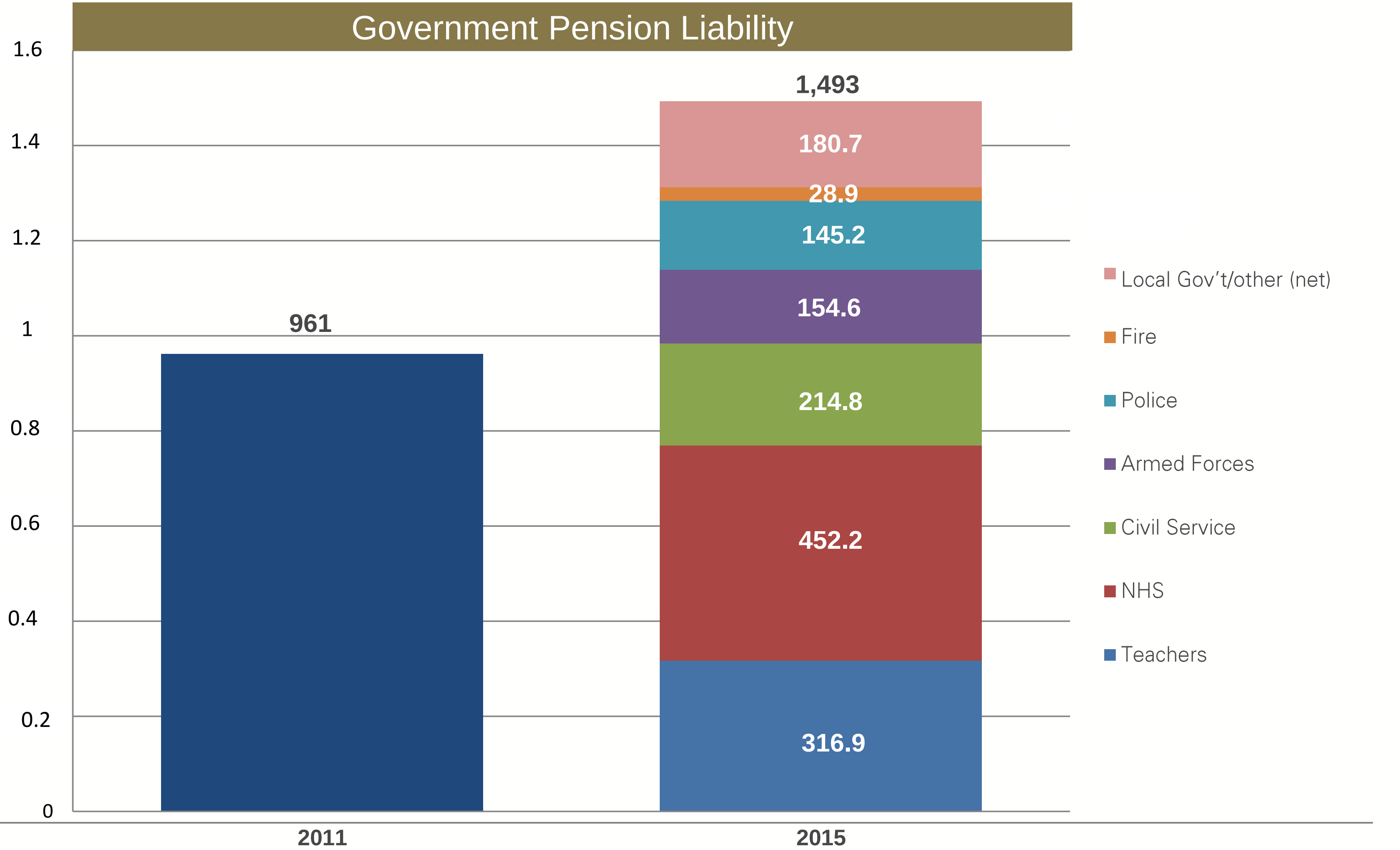
Source: Resolution Foundation, January 2017

Pensioner incomes have grown faster than working age incomes since 2002



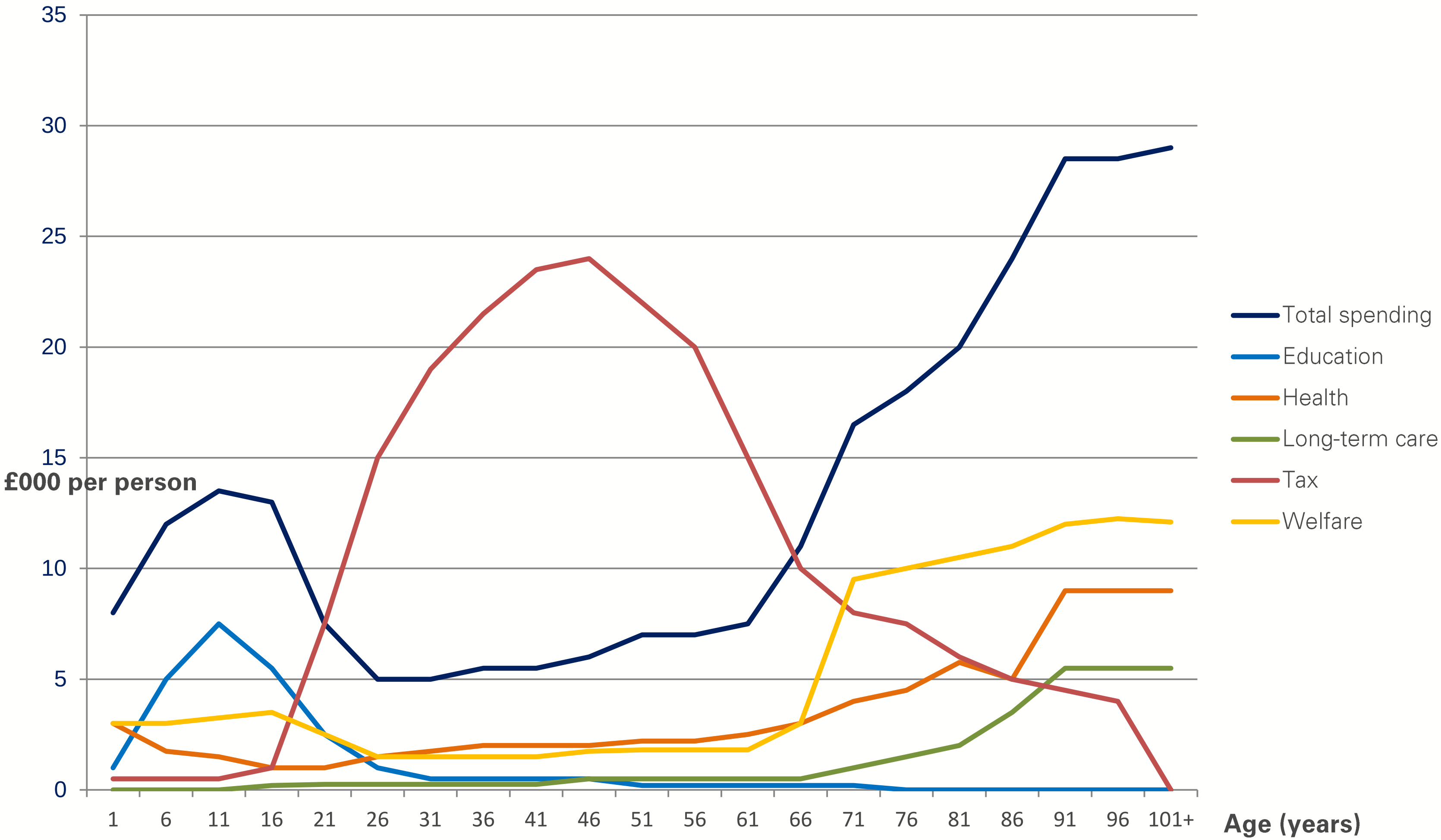
Source: Resolution Foundation, January 2017

Who pays for pensions? Can we deliver tremendous growth in GDP that is required to pay for pensions?



Source: Whole of Government Accounts 2015

Beveridge 2.0 does not exist. We have no solution to Long Term Care, Healthcare & Welfare



Source: OBR

Personal balance sheet at retirement: more people are “half millionaires”

	ASSETS (£’000)
Housing equity	190
State pension, £155pw index-linked	200
Pension savings, DB £50k, DC £30k	80
Lifetime value of bus pass, rail card, TV Licence, winter fuel, Xmas bonus, prescriptions	15
Savings	20
TOTAL	**c.505**

Typical cost of retirement

£13,599
Basic cost of living in retirement per annum[1]

65
Current state retirement age (male)

83.8
Current UK life expectancy[2]

18.8 years
Post retirement **life** expectancy

£250,000
Basic cost of retirement

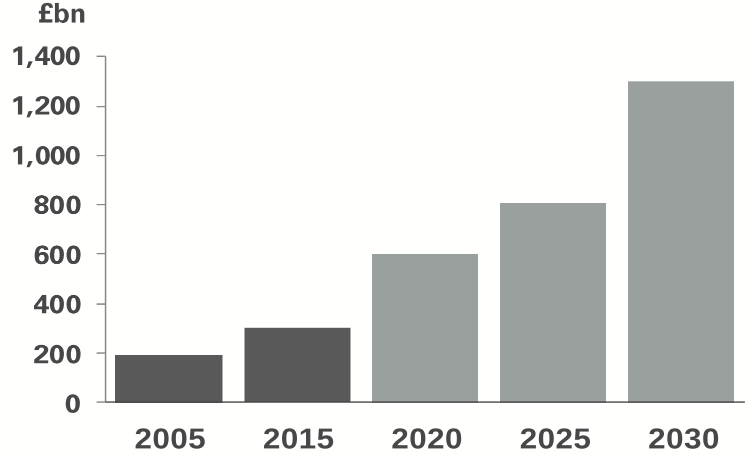
£117,000
Cost of care[3]

£367,000
Typical cost of retirement

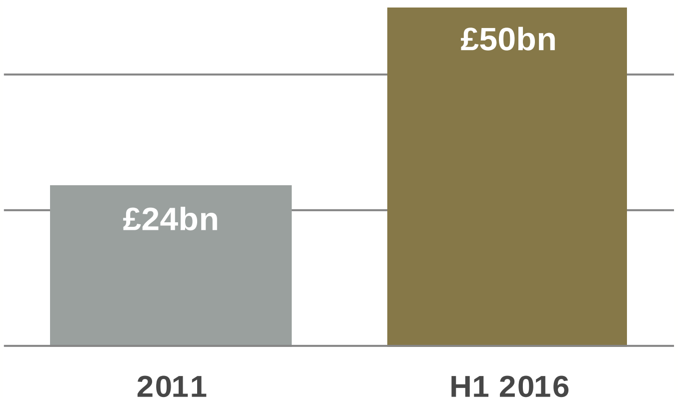
Sources: 1. Joseph Rowntree Foundation – minimal acceptable standard of living equating to £261.52 per week
2: Office of National Statistics, life expectancy for a 65 year old male
3. Laing & Buisson Care of Older People, UK Market Report 2014/15 – annual cost of care (excluding nursing) of £29,250, 4 year life expectancy in care for self-funded individuals

DC pensions: structural solution but where are the real assets?

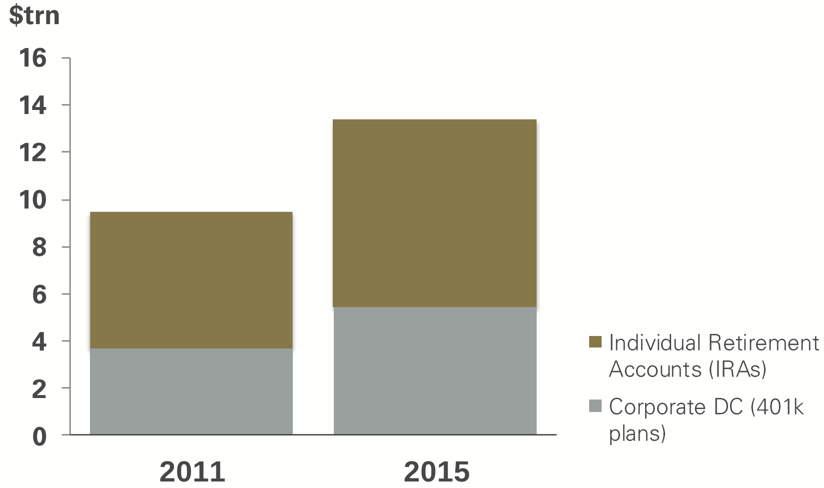
UK Corporate DC savings industry projections



LGIM UK DC AUM



US DC AUM



- UK auto-enrolment a huge success with 90% opt in
- 12 million expected to be enrolled by the end of the decade, c.5 million today
- L&G has over 2 million customers, 7,000 schemes
- Statutory minimum contribution rates increase from 2% to 5% in 2018, 8% in 2019 – is this enough?
- Further opportunities in Japan, China and Australia - homogenising markets?

Are we providing enough access to investment for our customers?

Technology: the second machine age, issues for investors

Globally

Digital supers

Apple ($615bn), Alibaba ($264bn)

Student start-up

Adult scale-up

2nd stage acquirer

YouTube, WhatsApp

Low growth, non-digital industries

Europe lacks digital supers

UK

Universities

Seven of top thirty globally

Student start-up

Adult scale-up

Acquired

Address VC Ecosystem

Connect capital and champions with start-ups

Shortage of long term patient capital is an issue

Equity is currently underused in the UK

1. **Seamless operation of banks & capital markets** – to provide the optimal financing framework for productivity growth.
2. **Equity finance best placed to support innovation** – due to risk assessment, banks are often unable to provide loans.
3. **Pension funds & large insurers** – natural providers of long term patient capital, but constrained by regulation.
4. **Equity is over taxed** – SMEs require equity to scale-up, ***but*** we tax equity four times vs. debt is tax deductible.

- Increases cost of raising capital
- Therefore only **3%** use equity finance vs. **55%** use credit cards

Regulation

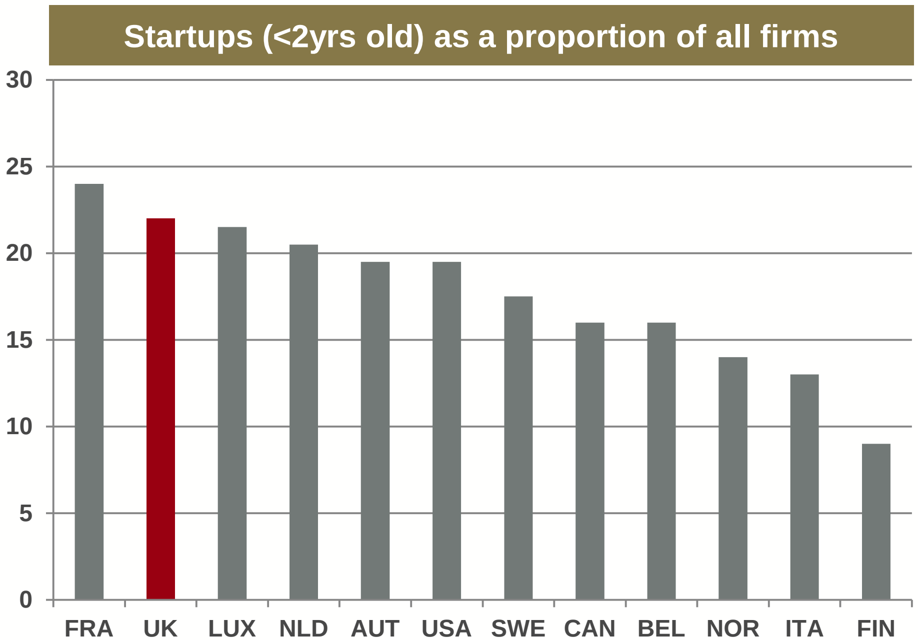
— Planning and procurement prevents or delays infrastructure partnerships
— Regulators don't define infrastructure asset class for large insurers
— Capital buffers are six times higher for equity than debt

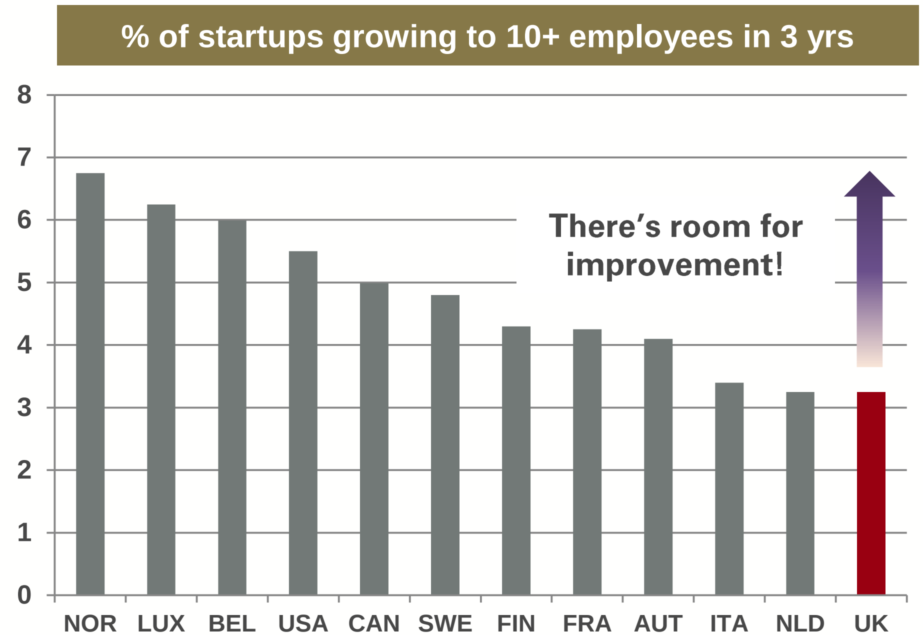
Tax

— **Tax on purchase**
Stamp Duty/SDRT - 0.5% on purchase of shares in UK companies
— **Tax on company paying dividend**
Corporation Tax on profits – 20%
— **Tax on dividend income**
Dividend Tax - 20% /40%/ 45% rate depending on income
— **Tax on sale**
Capital Gains Tax - 18% /28% rate depending on income

L&G response: Encourage long terms investing / Stop quarterly reporting

The UK VC market is too small?
Investment opportunity: growing start-ups into scale-ups





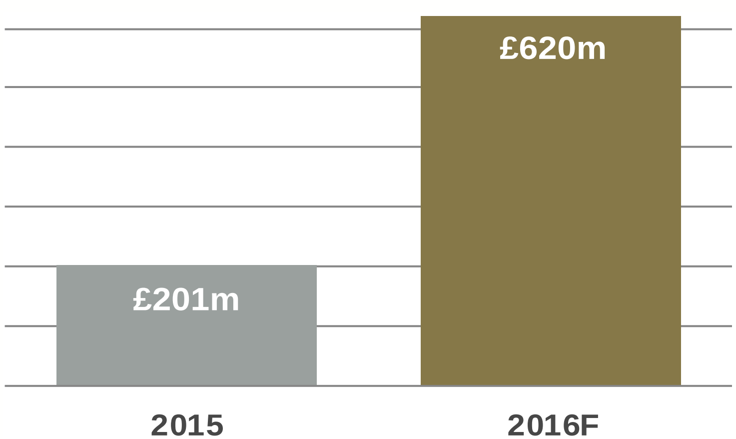
L&G response:
- **JV with Woodford Investment management and British Business Bank**
- **Investment in Oxford and Cambridge**

Source: OECD

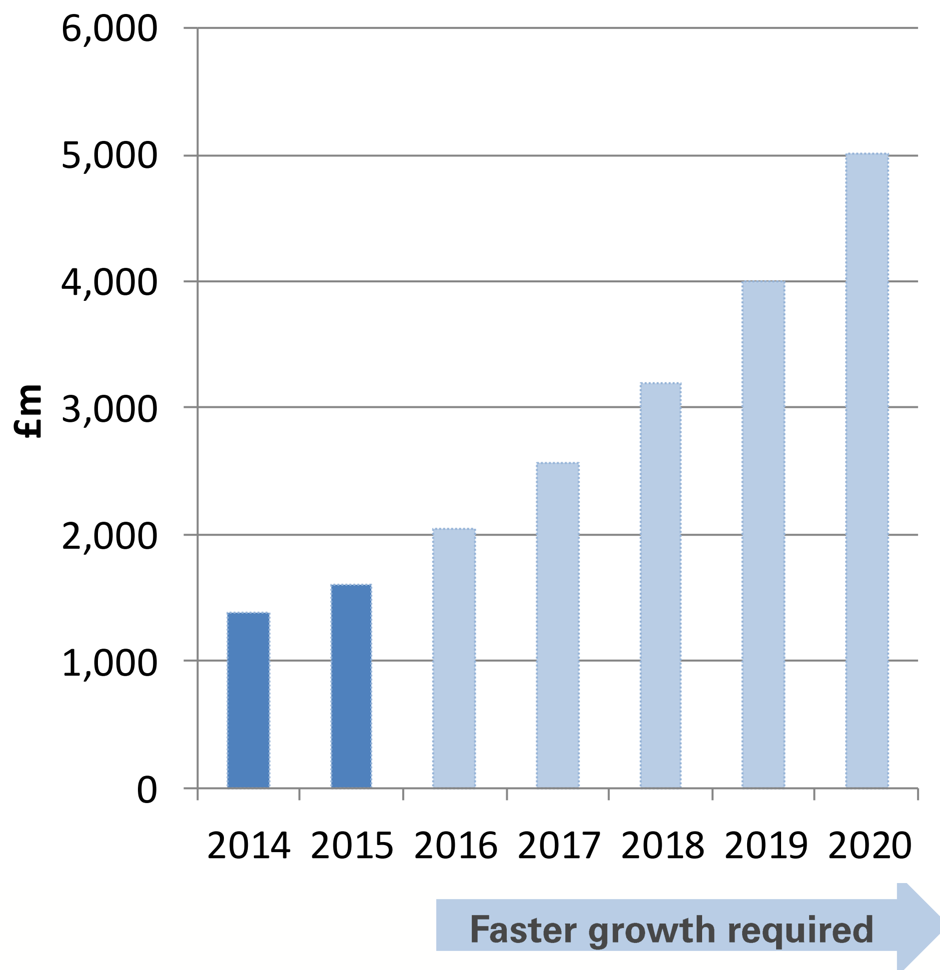
Lifetime Mortgage market is growing fast and could grow faster

- £1.5 trillion of housing equity owned by over 55s*
- Ageing Population and continued house price growth will drive further growth
- £18 billion has been released over last 25 years**

L&G response: Entered LTM market in 2015



Lifetime Mortgage Market Forecast

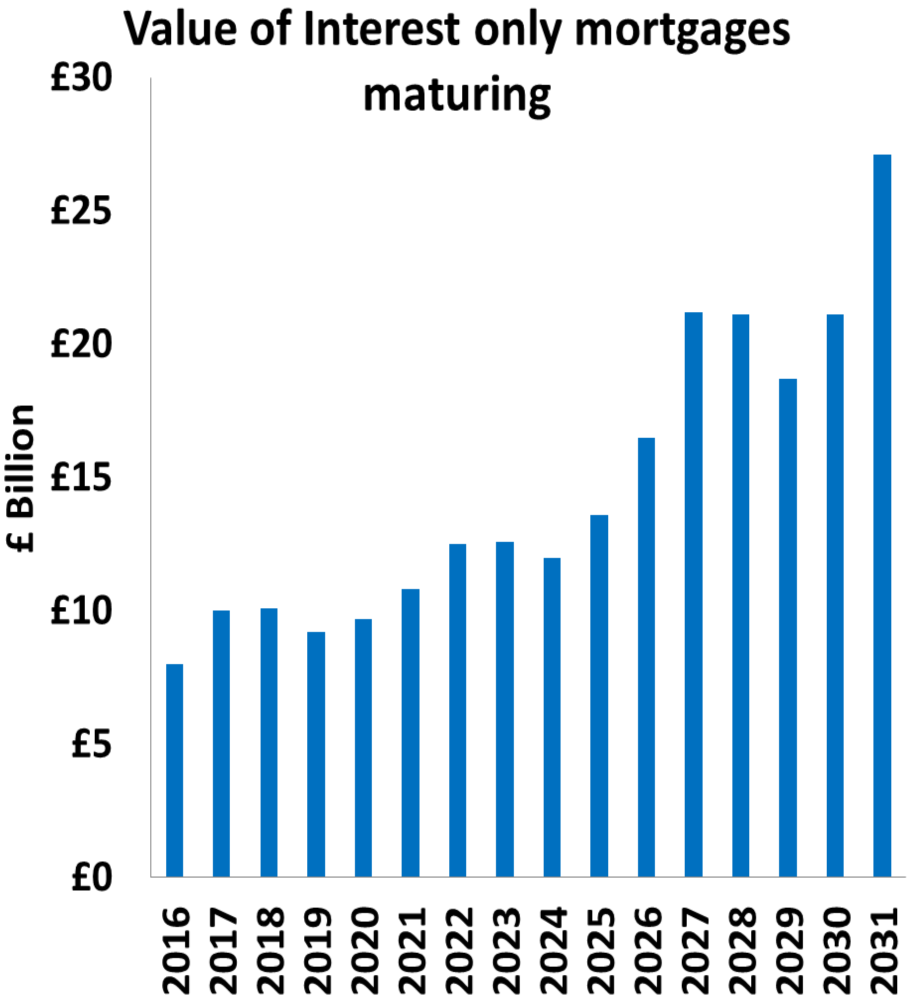


Sources: *Age Partnership, **Equity release council

Later life lending: drivers for growth

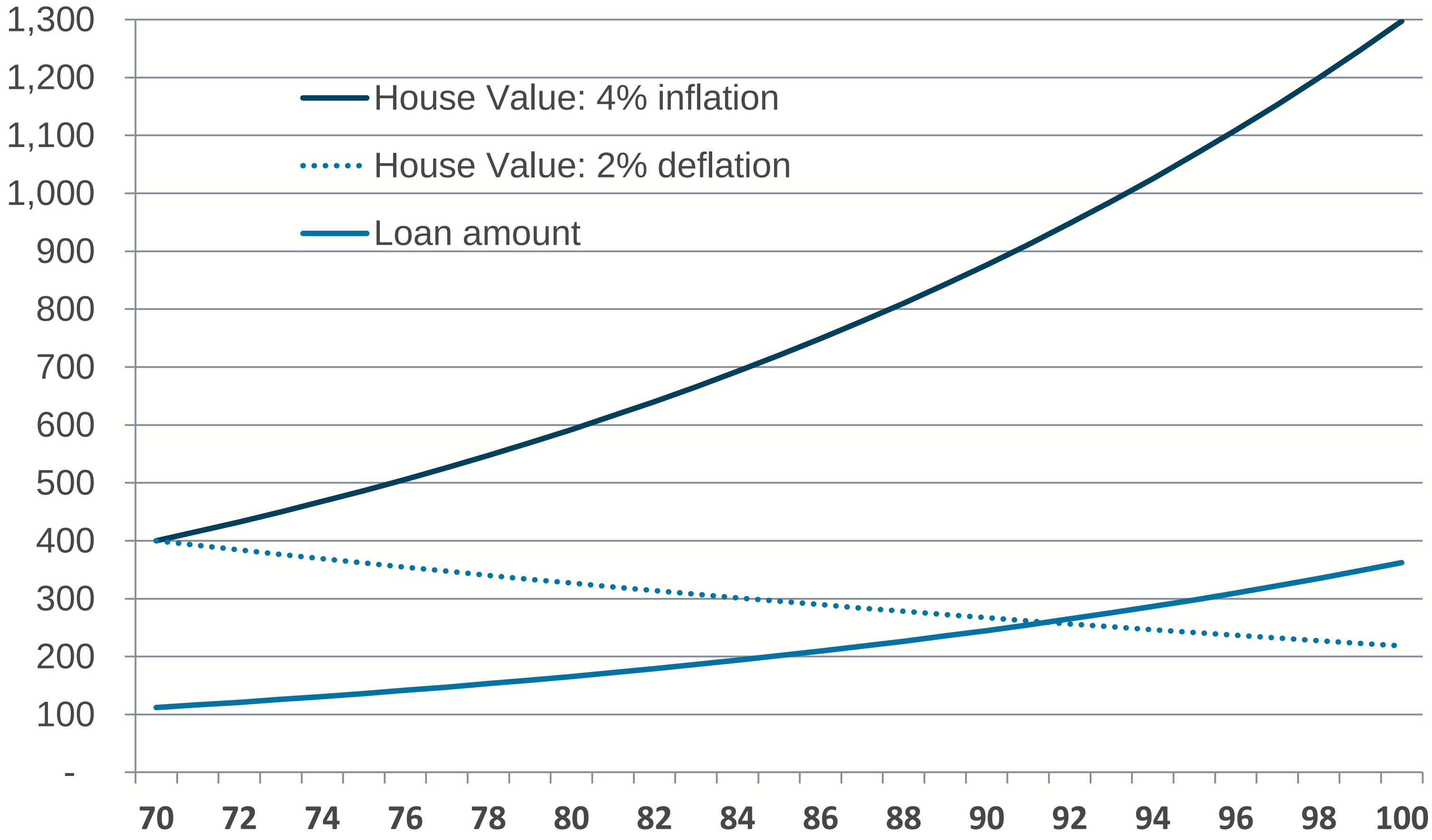
1. Home is likely to be the biggest asset owned
2. Changing attitudes towards legacies
3. Low long term fixed rates: 3.99% fixed for life
4. Financial cost of an ageing population
5. Pensions savings gap and DB demise
6. Pension freedoms should drive more holistic planning and thinking
7. End of term Interest only mortgages
8. SVR Captives
9. Later life singles

L&G response: Signed agreements with number of banks



Negative equity a remote risk for low LTV Lifetime mortgages

Typical Lifetime mortgage: 28% LTV for 70 year old and 3.99% fixed for life interest



- House prices need to be 40% lower in 20 years for the loan to be in negative equity

Shortage of suitable retirement housing in the mid-market

Particularly stark shortage of purpose built accommodation for mid-wealthy older people falling outside state-funded support

1. Government industrial strategy: Supporting investment?
2. This Government, with its focus on Industrial Strategy, has an incredible opportunity to reform the UK economy
3. Financing framework required for physical and digital infrastructure for British high growth, scale up businesses
4. A boost of just one per cent to our high growth businesses should drive an additional 238,000 high skilled jobs and £38 billion to GVA within three years. Each new job in the high tech innovation sector creates 5 extra skilled jobs.
5. Productivity growth and investment. Capital needs to be appropriately assessed, not penalised
6. UK opportunities naturally appeal more to relative money investors with UK liabilities
7. Create a UK investment culture. Large insurers and pension funds can connect savers with investment opportunities

L&G response: Largest precision built modular housing factory in the world

Moving from “Monetary Methadone” to “Supercharging infrastructure”

- Infrastructure to support business success – investing in real assets, creating real jobs
- Clarity on OJEU to accelerate projects
- Alignment of regulation to economic purpose – regulators as “enablers”
- 50% reductions in S2 capital buffers for term investment in strategic infrastructure
- Positive constructive collaboration – move from NIMBYism to PIMBYism

Long term direct investments

£15 billion

direct investment programme with £8 billion invested as at 30 June 2016

We focus on direct investments in four key sectors:

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

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

Transparent, positive, constructive collaboration between all interested parties – “holistic” not “political” solutions

- Long term care
- Lifetime mortgages
- Downsizing and rightsizing
- Better value asset choices in accumulation and decumulation
- Use of digital devices to improve health
- Financial education

Legal & General: a winning proposition

Disrupting The Market

Our innovation:

1. Invested in Smart Pension fintech firm to broaden offering to small businesses.

2. First provider to offer 0.5% price pledge for Auto enrolment default fund

3. Integrated Investment Management from UK's largest Pension Provider

4. First provider to achieve Pension Quality Mark Ready status

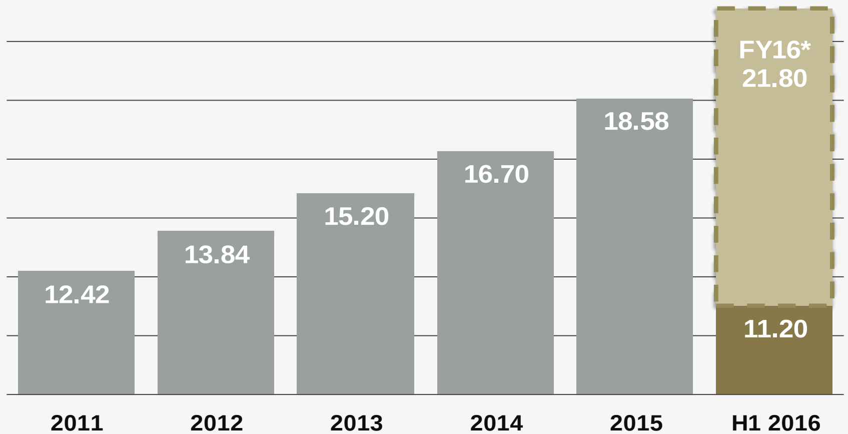
5. Pension Freedoms - Full flexibility and in-scheme options

6. £1.85b HSBC default "carbon" fund launched

Consistently delivering strong results

EPS (p)

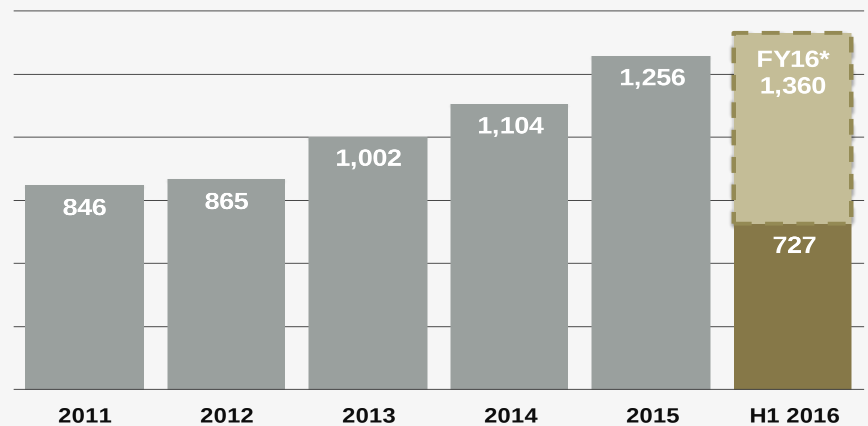
11%
CAGR FY11-15



* Based on consensus as at 30 December 2016, not representing opinions, forecast or predictions of management

Net cash generation (£m)

10%
CAGR FY11-15



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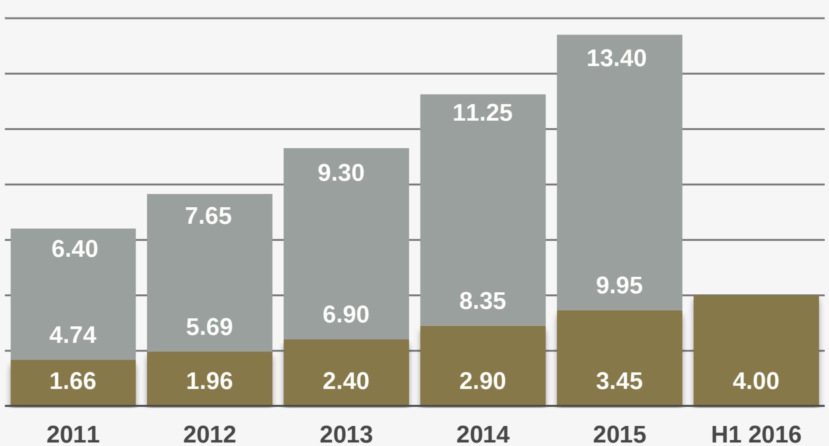
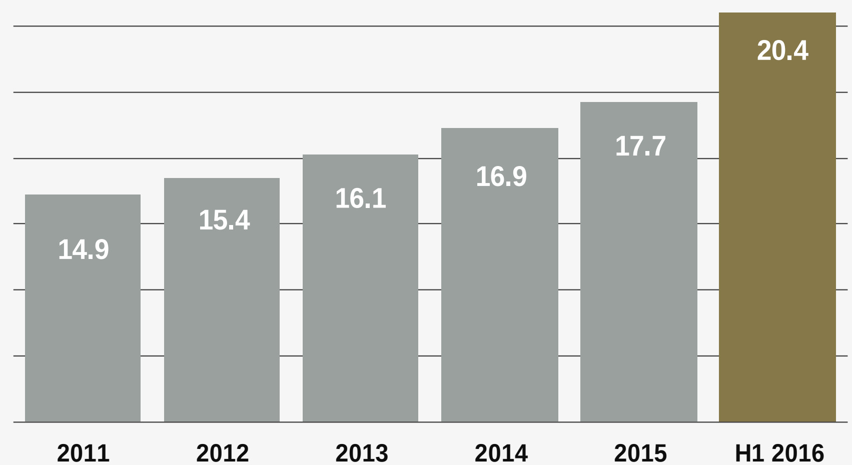
DPS (p)

20%
CAGR FY11-15



Return on equity (%)



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