Legal & General

2023 full year results

António Simões, Group CEO

Legal & General

Forward looking statements

This document may contain certain forward-looking statements relating to Legal & General, 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 acquisitions or combinations within relevant industries. As a result Legal & General'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 document 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.

Record new business volumes, resilient in-year profit generation

Record new business volumes, including

£13.7bn

Institutional annuities

2022: £9.5bn

A resilient performance in a challenging market

£1,667m

Operating profit

2022: £1,663m

Supported by a strong balance sheet

224%

Solvency ratio

2022: 236%

9% growth in our store of future profit

£14.7bn

CSM & RA balance

2022: £13.5bn

On track to meet five-year capital generation ambition

£6.8bn

Capital generation to FY23

2020-24 ambition: £8-9bn

5% growth in our dividend

20.34p

Full year dividend

2022: 19.37p

Store of future profit refers to the gross of tax combination of established Contractual Service Margin “CSM” and Risk Adjustment “RA” (net of reinsurance) under IFRS 17

Financial highlights

Jeff Davies, Group CFO

Resilient performance in 2023

Metric	2023	2022
Operating profit from divisions (£m)	**2,078**	**2,071**
Group debt costs (£m)	(212)	(214)
Group investment projects & expenses (£m)	(199)	(194)
Operating profit (£m)	**1,667**	**1,663**
Investment & other variances (incl. minority interests) (£m)[1]	(1,106)	(628)
Profit before tax (£m)[1]	561	1,035
Earnings per share (p)[1]	**13.96**	**15.28**
Return on equity (%)[1]	18.1	18.5
SII operational surplus generation (£bn)	**1.8**	**1.8**
SII coverage ratio (%)	224	236

1. Excluding the accounting impacts of a longevity assumption change (see page 6 and 8 of the Earnings Release) and the buyout of the L&G pension scheme (see disclosure note 3.14.iii in the Earnings Release).

Growing our store of future profit

CSM + RA are expected to unwind as future profits

Growing store of future profit…

£14.7bn

CSM + RA

2022: £13.5bn, **+9%**

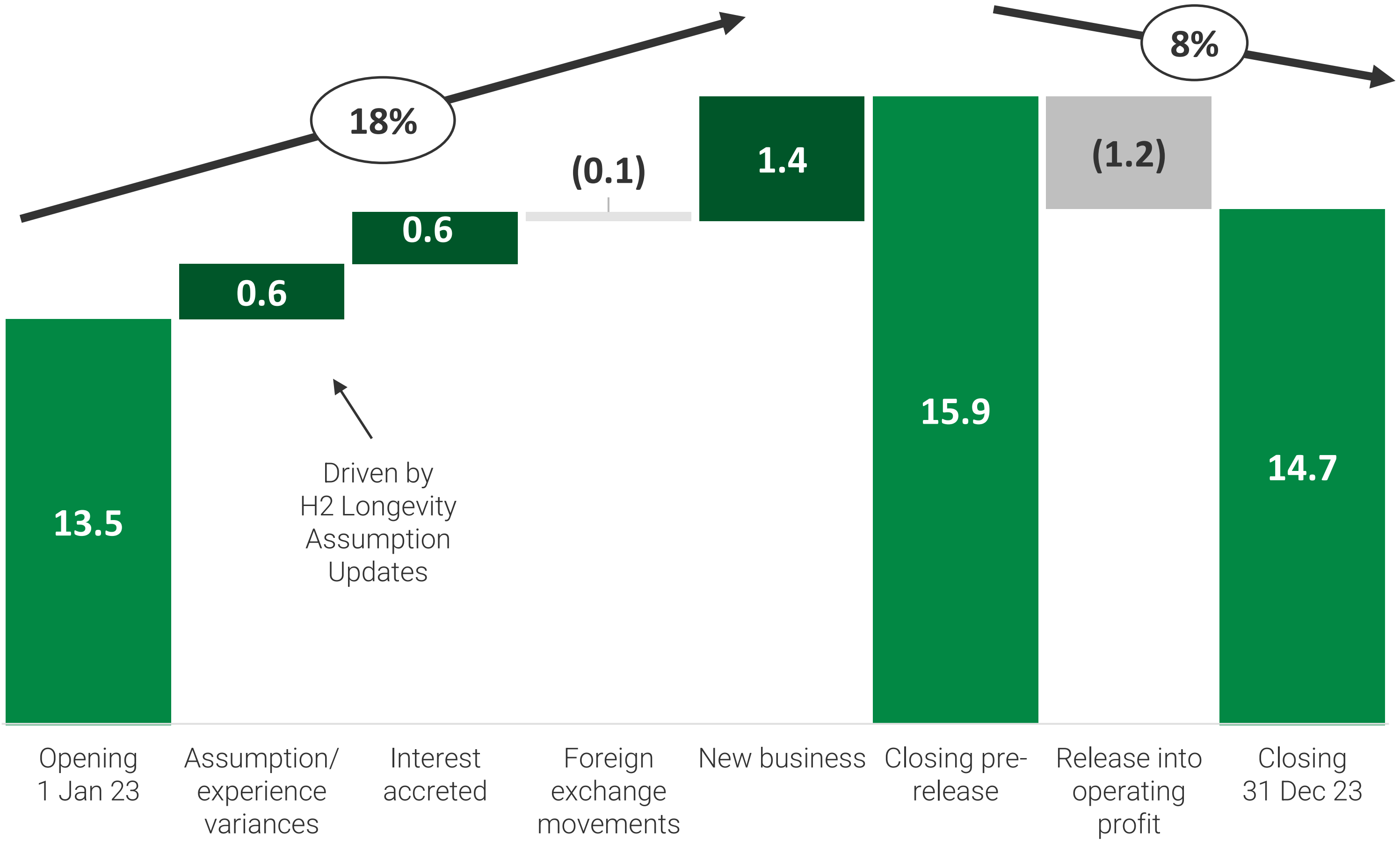
With strong new business contribution…

£1,378m

New Business CSM + RA

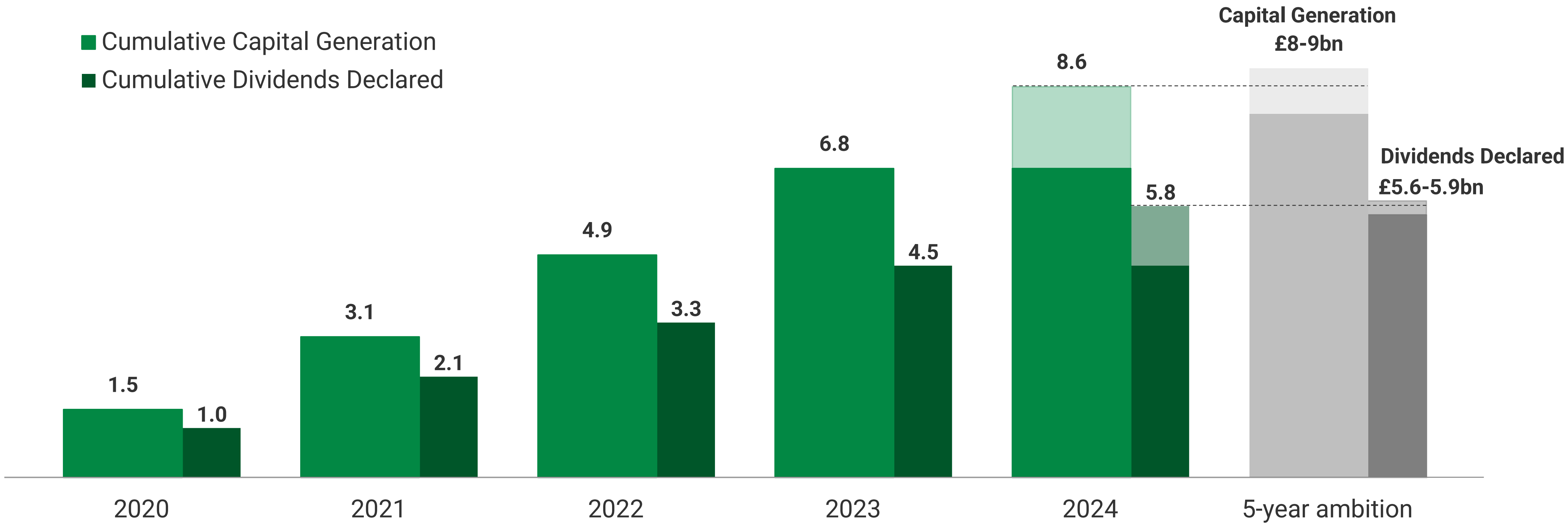
2022: £1,008m, **+37%**

Movements in our store of future profit over 2023 (£bn)



We are set to achieve our ambition

Growing capital faster than our dividend commitment



We would comfortably meet our ambition if we generated £1.8bn of capital again in 2024.
Our cumulative net capital surplus generation (NSG) over dividends is £0.8bn 2020-2023.

2024 does not represent a forecast and is for illustrative purposes only.
NSG represents Capital Generation (i.e. Operational Surplus Generation) in excess of New Business Strain.

LGRI

Higher profit reflects business growth and effective asset sourcing

Financial Highlights	2023	2022
CSM release	591	497
Risk Adjustment (RA) release	119	136
Expected investment margin	344	280
Experience variances	(13)	16
Non-attributable expenses[1]	(160)	(130)
Other	5	8
LGRI Operating profit	**886**	**807**
Investment & other variances	(449)	(137)
Profit before tax	437	670
LGRI annuity assets[2]	**68.9**	**60.1**

1. Overhead costs not specifically attributable to insurance liabilities are recognised as incurred in the year
2. In the UK, annuity assets across LGRI and Retail are managed together. We show above estimated LGRI annuity assets.

- Operating profit grew **+10%** to **£886m** driven by:
  - CSM release reflecting the provision of insurance services

    6.6% of the closing CSM pre-release **£8.9bn** has released into profit. Growth in the CSM release is supported by profitable new business written in 2022 and 2023, and longevity reserve releases in 2023.
  - Expected investment margin which incorporates the:
    - release of the prudence in the discount rate
    - expected returns on surplus assets
    - impact of back book asset optimisation
- Investment and other variances are primarily driven by:
  - £(249)m accounting impacts relating to longevity assumption updates in H2
  - Unrealised mark-to-market impact of higher rates on the surplus assets in our annuity portfolio.

LGRI

Higher demand has driven increased profit and value

New Business Sales	2023	2022
United Kingdom	12,048	7,319
United States	1,463	1,763
Other International	208	459
LGRI new business (£m)	**13,719**	**9,541**
Solvency II new business value[1] (£m)	**654**	**575**
Solvency II new business margin[1,2] (%)	7.4	8.9
IFRS New business future profit[3]	**1,026**	**693**
IFRS new business margin[2,3,4] (%)	9.0	8.3

1. UK PRT business only
2. Calculated as a percentage of premium net of funded reinsurance
3. Represents the new business CSM and RA
4. IFRS new business margin adjusted to remove timing constraints on reinsurance imposed by IFRS17

- Record 2023 volumes growing **+44% to £13.7bn** (£10.5bn net of funded reinsurance) across 43 transactions, including our largest ever US transaction for $789m.
- In the UK, continued momentum and financial discipline:
  - c£12bn of UK PRT premium across 33 transactions. Committed presence across all market segments, with our largest deal a £4.8bn buy-in with the Boots Pension Scheme, a long-term LGIM client.
  - New business margins in line with long-term expectations; demonstrating pricing discipline, good asset origination and proactive use of reinsurance.
  - We wrote UK new business at a strain below 4% and we will continue to be disciplined in our pricing and deployment of capital.
- Going into 2024, we continue to see attractive growth opportunities and are well positioned to execute.
  - Demand is accelerating and, as a result, we have an exceptionally strong global pipeline.

Retail

Strong profit releases from large books of business

Financial Highlights	2023	2022
CSM release	446	424
Risk Adjustment (RA) release	74	85
Expected investment margin	81	60
Experience variances	(44)	(99)
Non-attributable expenses	(121)	(113)
Insurance profit	**436**	**357**
Other	(28)	58
Retail Operating profit	**408**	**415**
Investment & other variances	(200)	22
Profit before tax	208	437

- Insurance operating profit grew **+22%** to **£436m** driven by:
  - The CSM release reflecting the provision of insurance service

    8.8% of the closing CSM pre-release (£5.1bn) has released into profit.
- Total operating profit is down **2%** to **£408m** driven by non-repeating gains from the Fintech portfolio in 2022 (reflected in "Other").
- Investment & other variances is primarily driven by the accounting impacts relating to longevity assumption updates in H2.

Retail

Strong proposition and higher demand has driven increased new business volume and value

Total Retail Sales	2023	2022
Protection NB Annual premium (£m)	412	382
Protection Gross written premium (£m)	3,264	3,134
Individual annuities single premium (£m)	1,431	954
Retirement annuity assets[1] (£bn)	17.2	16.5
Workplace Savings net flows (£bn)	6.3	7.3
Lifetime Mortgage advances[2]	299	632
Solvency II new business value (£m)	**265**	**226**
UK & US Protection	165	166
Individual annuities	100	60
IFRS new business future profit[3]	**352**	**315**

1. In the UK, annuity assets across LGRI and Retail are managed together. We show above estimated Retail annuity assets.
2. Includes Retirement interest only (RIO) mortgages
3. Represents the new business CSM and RA

- Record new business volumes:
  - US protection continues to benefit from our technological advantage (US Annual premium up 36% to $175m).
  - Individual annuity volumes of **£1.4bn** reflecting increased demand for annuities, given the higher rates on offer.
- Workplace net flows of £6.3bn driven by continued client wins and increased contributions. Workplace pension members increased to 5.2m.
- Solvency II NBV up 17% to **£265m**, with growth in US Protection and individual annuities being partially offset by lower margins in UK Protection, reflecting the impact of higher interest rates and lower volumes.
- Going into 2024, we expect demand for individual annuities to remain high, US protection volume to continue growing and UK protection margins to improve.

LGC

Delivering financial performance, positive impact and increasing our third-party capital

Financial Highlights	2023	2022
Operating profit (£m)	**510**	**509**
Alternative asset portfolio	371	400
Traded portfolio and treasury	139	109
Investment and other variances[1]	(381)	(428)
Profit before tax (£m)[1]	**129**	**81**
Assets(£m)	**8,023**	**8,416**
Alternative asset portfolio	4,494	4,142
Traded portfolio	1,192	1,541
Cash and treasury assets	2,337	2,733

1. Excludes 2023 costs relating to the announced Modular Homes closure

- Operating profit of **£510m** is flat in a challenging environment for alternative assets. Cala's profit is down against prior year, offset by continued strong performance of Pemberton.
- Profit before tax **£129m**, with investment and other variances of **£(381)m**, driven by the unrealised mark-to-market impact of higher interest rates on our portfolio.
- The alternative asset portfolio is up **8.5%** to **£4,494m** (2022: £4,142m). We remain on track to build our diversified alternative AUM to £5bn by 2025.
- We continue to achieve scale through our strategic partnerships. We are committed to delivering strong financial returns with positive social and environmental outcomes:
  - We grew our third-party managed capital to **£18.1bn** (2022: £16.6bn), securing £500 million of additional investment into Bruntwood SciTech from Greater Manchester Pension Fund (GMPF). We remain on track to hit our target of £25bn of third-party capital by 2025.
  - Creation of matching adjustment (MA) eligible assets continued with our developments at Affordable Homes, and the Life and Mind Building (part of our Oxford University Partnership), which achieved a significant milestone this year.

LGIM

Adverse markets have impacted profitability

Financial Highlights	2023	2022
Asset management revenue[1] (£m)	902	970
Asset management expenses[1] (£m)	(628)	(630)
LGIM operating profit (£m)	**274**	**340**
Closing AUM (£bn)	**1,159**	**1,196**
International AUM (£bn)	465	441
UK DC AUM (£bn)	163	135
External net flows (£bn)	**(38.4)**	**49.6**
External net flows ex UK DB (£bn)	**0.9**	**37.2**
Asset management cost:income ratio (%)	70	65

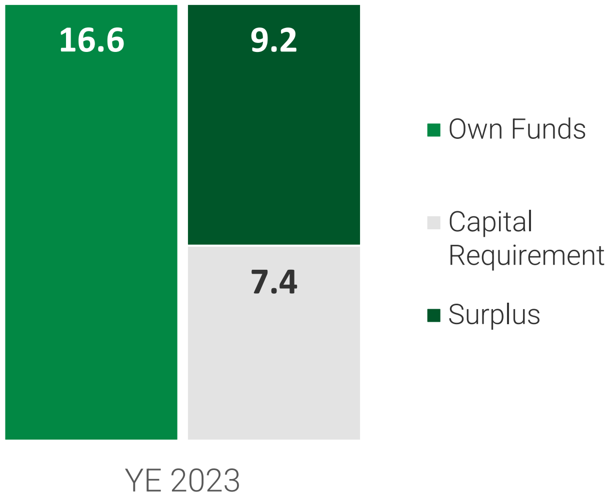
1. Revenue and expenses exclude income and costs of £26m in relation to the provision of 3rd party market data (2022: £30m).

- Operating profit down to **£274m** reflecting the ongoing impact of higher interest rates on AUM, **average AUM down 12%**.
- Revenue of **£902m,** down 7%, has been impacted to a lesser extent, reflecting LGIM's conscious shift towards higher margin business.
- Expenses flat despite higher inflation. We continue to selectively invest in our strategic growth areas, whilst managing costs carefully.
- 2023 outflows driven by UK Defined Benefit as clients adjusted their portfolios in response to improved funding ratios, with many now positioning for PRT.
- Excluding UK DB, 2023's external net flows were positive, at **£0.9bn**, generating annualised net new revenue of **£24m,** reflecting our focus on attracting flows into higher margin areas such as ETF, Multi-Asset and Real Assets.
- International AUM has grown to **£465bn**, and we continue to be a market leader in UK DC with **£163bn** of AUM, and 5.2m Workplace members.
- Continuing to make progress across our three strategic pillars:
  - **Modernise:** Continued execution of the transformation to our strategic operating model through investment in technology and external partnerships.
  - **Diversify:** Expanding our offering with a focus on higher-margin product.
  - **Internationalise:** We continue to expand our global footprint with international AUM growing by 81% since 2018 and now representing 40% of our total AUM.

Solvency II

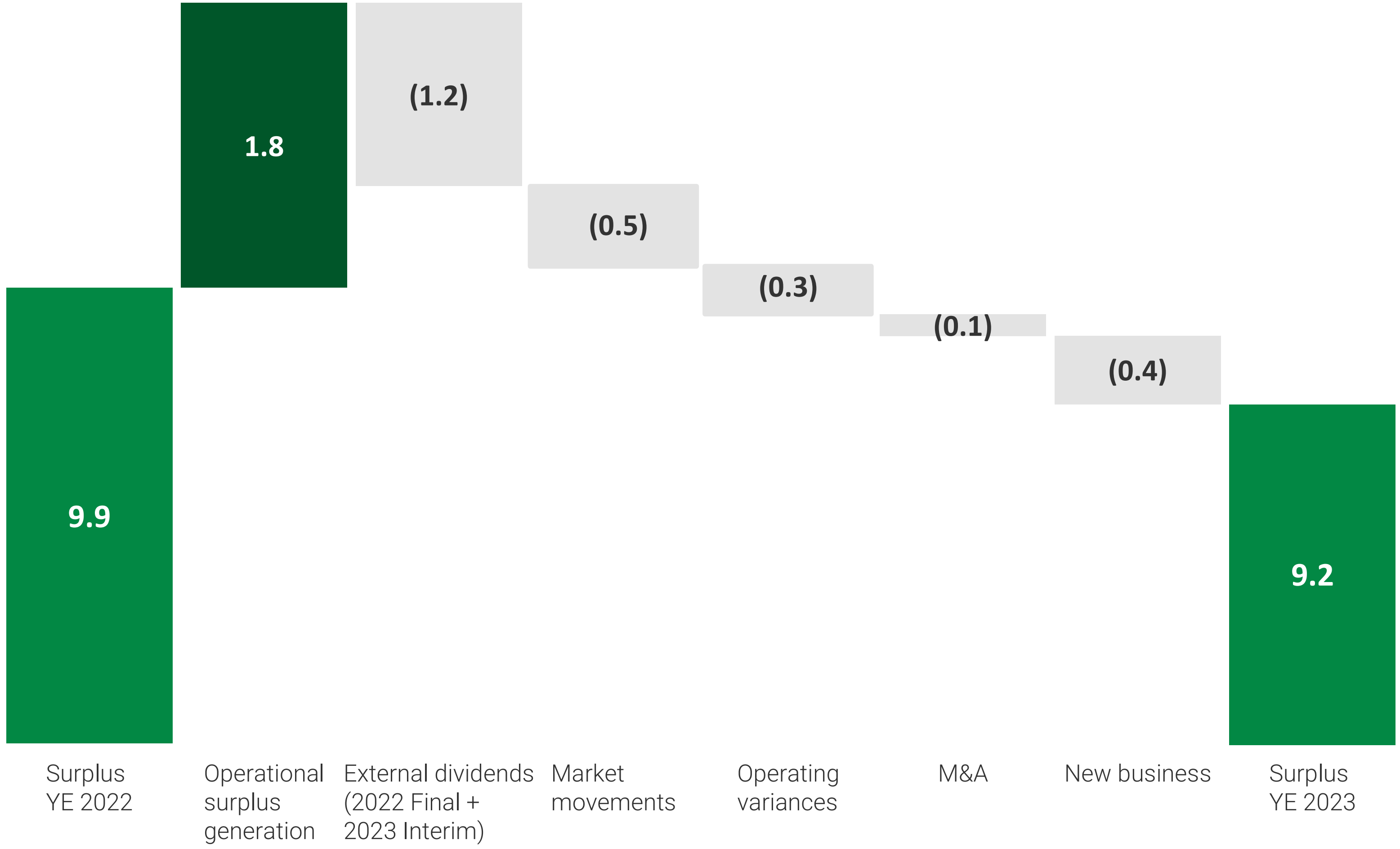
Strong balance sheet providing significant optionality

Solvency II Balance Sheet (£bn)



- Coverage ratio of **224%**
- Solvency II surplus of **£9.2bn**
- Tier 1 Own funds of **£13.3bn (80%)**

Solvency II surplus analysis of change (£bn)



In summary

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2020-24 ambition: £8-9bn

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Full year dividend

2022: 19.37p

Looking ahead

António Simões, Group CEO

Legal & General's strengths are clear

Purpose

Proud heritage and trusted brand

Deep customer relationships and partnerships

Authentic and compelling purpose

People

Passionate and talented

Strong leadership and culture

Straightforward, purposeful, collaborative

Performance

Market-leading, highly-synergistic businesses

Strong capital generation track record and balance sheet

Well-positioned to capitalise on long-term trends

The opportunities ahead are compelling

Macro trends

- Changing macro-economic environment
- Transition to Net Zero
- Technology transformation and AI
- Growing personal financial responsibility

Market dynamics

1. Improved DB funding positions
2. Demand for high quality asset management
3. Purposeful private investing
4. Focus on DC pension returns
5. Demand for long-term savings and retirement propositions

Complementary capabilities

We are taking a fresh perspective on strategy

1

Our future Group strategy

- Clear strategy and simpler investment case
- Leveraging our strong, authentic purpose
- Making the most of our synergistic strengths

2

Our priority growth drivers

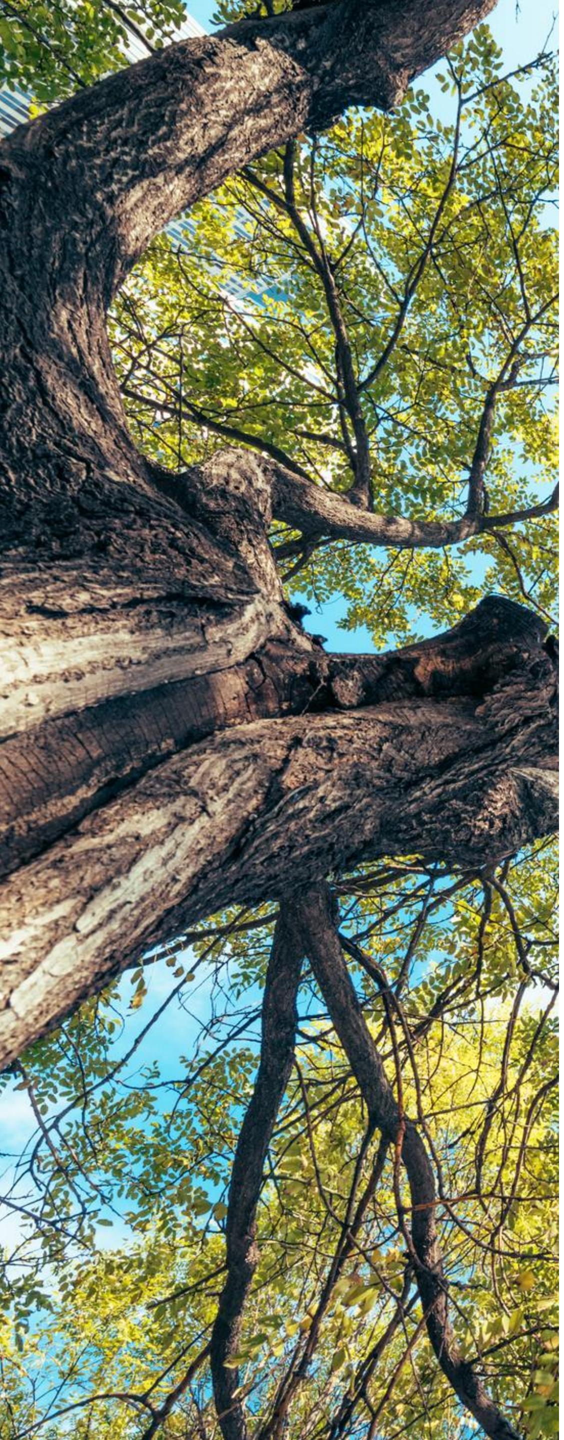
- Continued leadership in institutional retirement
- Additional avenues for growth
- Where we will invest, for what return

3

Our financial ambitions and management principles

- Focused capital allocation framework
- Future capital distribution policy
- The financial metrics we will track

Join us at our Capital Markets Event on 12 June 2024



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Q&A

António Simões
Group CEO

Jeff Davies
Group CFO

Laura Mason
LGC

Andrew Kail
LGRI

Bernie Hickman
Retail

Michelle Scrimgeour
LGIM

Thank you

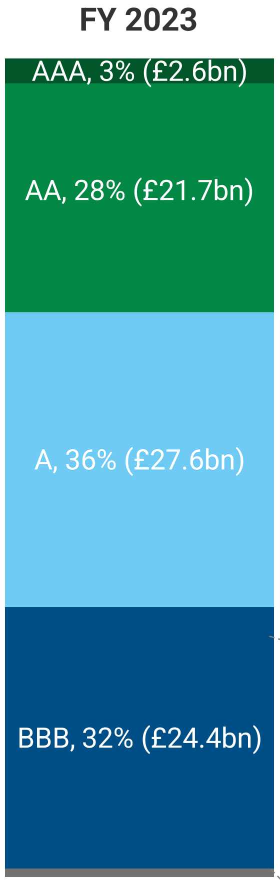
We look forward to welcoming you to our Capital Markets Event on 12 June 2024

Appendix

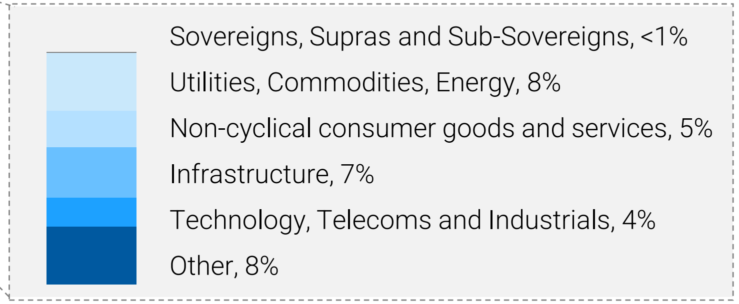
Annuity assets: A well-diversified bond portfolio

Complemented by high quality direct investments

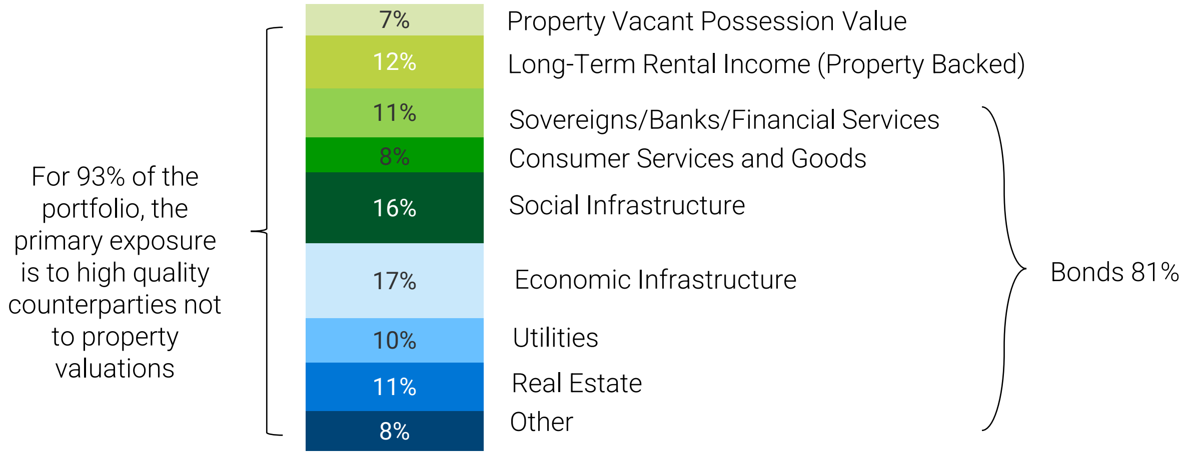
Annuity Bond Portfolio: £76.8bn



- Defensively positioned, high quality portfolio
- Approximately **two-thirds A-rated or better**. Only **14%** of BBB are BBB-
- **15%** of bonds in Sovereign-like assets
- **8%** of high quality Lifetime Mortgage book: average customer age 75; weighted average loan-to-value of c.31.9%
- Lower-rated, cyclical exposures kept to a minimum: <1% airlines, hotels, leisure and traditional retail combined
- Geographically diversified portfolio (47% UK, 34% US, 11% EU, 8% RoW)



Annuity DI portfolio: £24.8bn[1], 29% of total assets

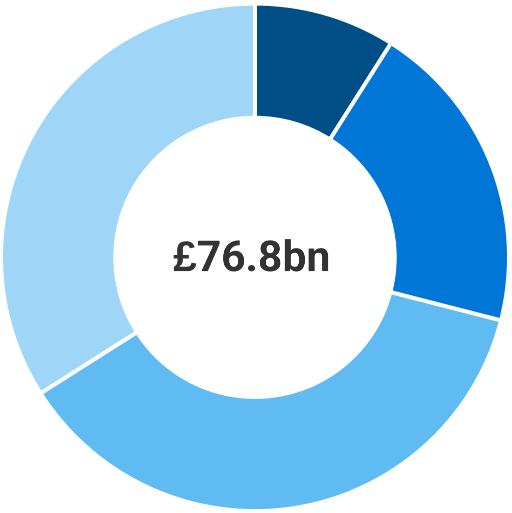


- No defaults and 100% of scheduled cash-flows paid. Primary exposure is to the underlying high quality tenant on rental income, e.g. Amazon. Around two-thirds of portfolio rated 'A' or above
- Direct exposure to property in the annuity portfolio is Property Vacant Possession Value: £1.8bn or 2% of the annuity portfolio
- Originated £3.9bn of new, high quality direct investments during 2023. Continue to benefit from LGC ESG-focused asset creation via Affordable Homes, Build to rent and Urban Regeneration

1. Annuity DI Bonds & Property portfolio of £24.8bn excludes Lifetime Mortgage assets of £5.8bn
2. Total annuity assets defined as Total Investments less Derivative Assets reported in Note 6.01 Investment Portfolio disclosure of the Analyst Pack

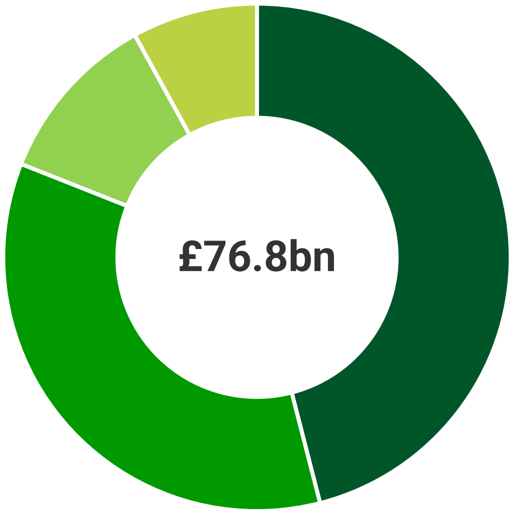
We have a high quality, diversified investment grade book

Bond portfolio by rating



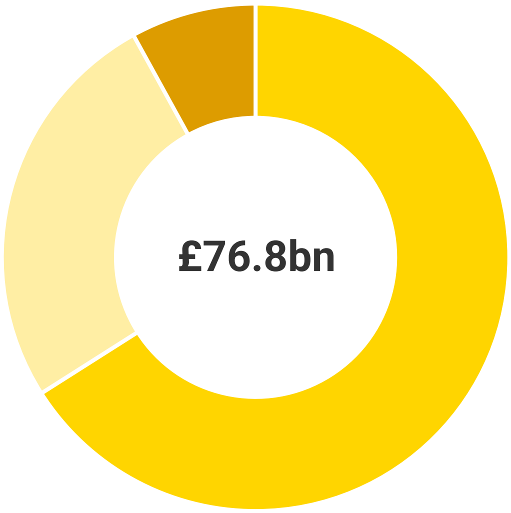
AAA	3%
AA	28%
A	36%
BBB	32%
BB or below	<1%

Bond portfolio by geography



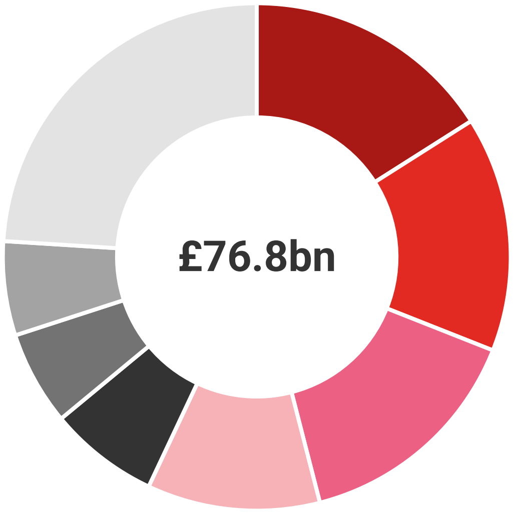
UK	47%
USA	34%
Europe	11%
RoW	8%

Bond portfolio by asset type



Traded credit	66%
Direct investments	26%
Lifetime mortgages	8%

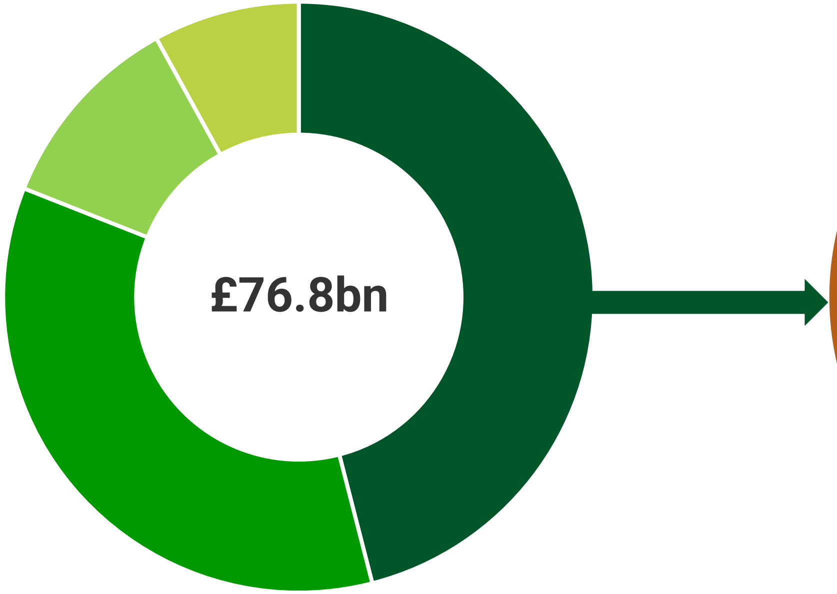
Bond portfolio by sector



Infrastructure	16%
Utilities	14%
Consumer services & goods	13%
Sovereign-like assets	15%
Lifetime mortgages	8%
Technology & telecoms	6%
Real Estate	6%
Other	22%

Our UK exposure is diversified

Annuity Bond portfolio by geography



UK	47%
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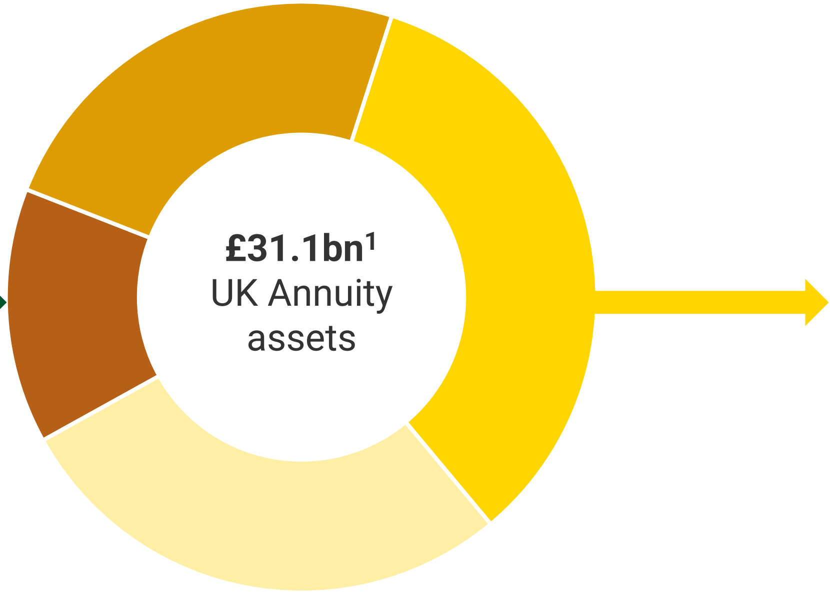
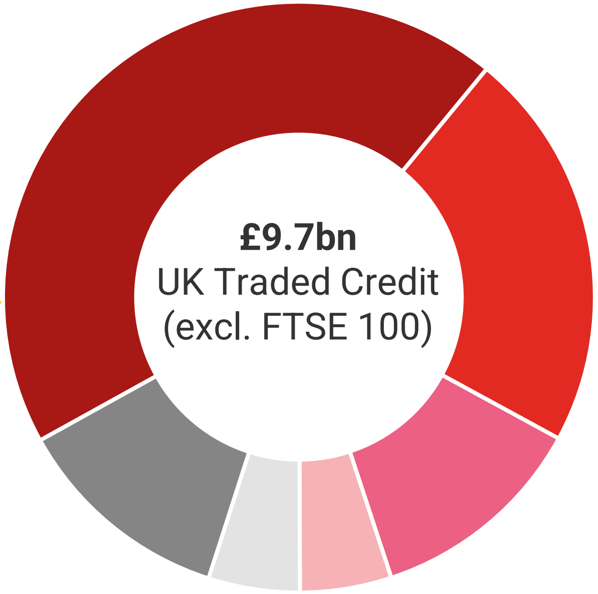
UK Annuity Bond portfolio by asset type



FTSE 100 exposure	13%
Government DI / Sovereigns	31%
Direct investments	25%
Traded credit	31%

UK Traded Credit portfolio by sector

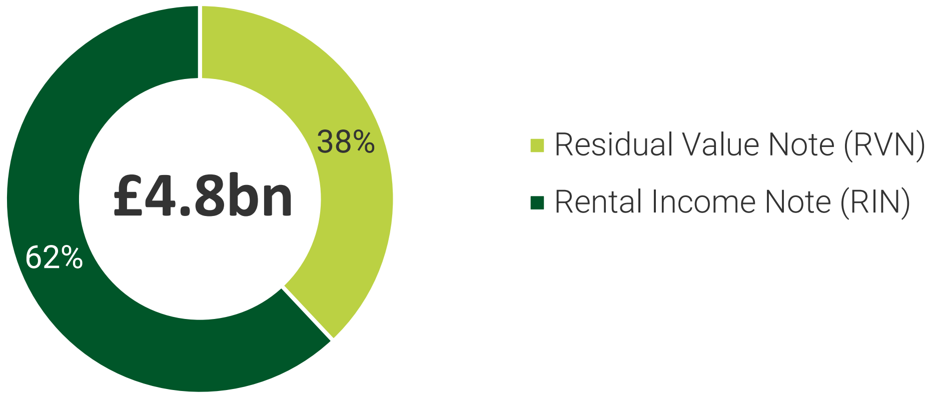


Utilities	41%
Social infrastructure	23%
Economic infrastructure	12%
Non-cyclical consumer services & goods	6%
Real estate	6%
Other	12%

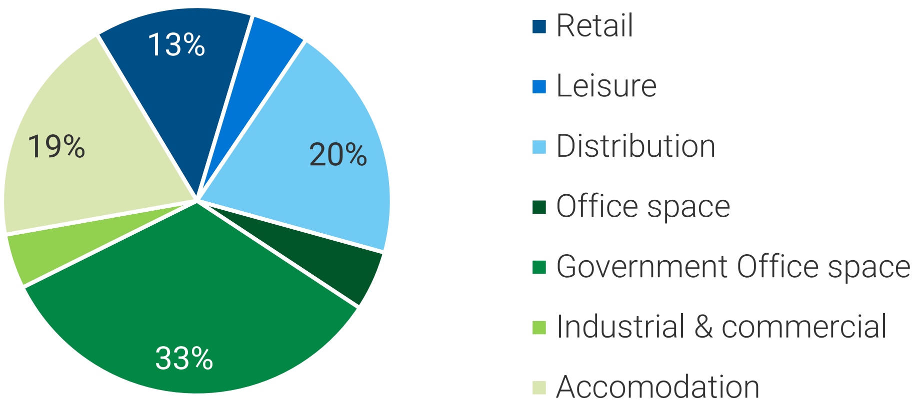
1. Excludes £5.4bn of Lifetime Mortgage assets – 2023 weighted average loan-to-value of c31.9%. Loan-to-value has to exceed 100% before losses occur

Direct property exposure in annuity portfolio is limited

Annuity Property



Sector Split



90%
Fully let

10%
In development

Annuity property exposure comprises:

- C.£2bn of RVNs. This is the present value estimate of the future vacant possession value of the property (i.e. the value at the end of the lease term) and represents our actual direct property exposure in the annuity portfolio
  - Not concerned with short-term mark-to-market valuations. Majority of property assets >20yr term to maturity
  - Our property exposure is wholly-owned, recently built and has no debt
- C.£3bn of RINs. Secured against inflation-linked, long-term leases with highly rated counterparties such as Amazon and Comcast
  - Our priority is the cashflow
  - 100% of cashflows received over 2022 and 2023
  - 87% of office space exposure is to UK government departments, with an average unexpired term of c20 years on the lease

Our BBB exposure is to high quality names

Annuity Portfolio: Top 10 BBB exposure

	Counterparty	Sector	Country of Risk	Investment value
1	FGP TopCo Ltd	Economic Infrastructure	UK	306
2	CK Hutchison Holdings Ltd	Utilities, Economic Infrastructure	UK	293
3	Deutsche Telekom AG	Communications & Technology	USA, Germany	236
4	Julian Holdings Ltd	Real Estate (Debt)	UK	217
5	E.ON SE	Utilities	Germany	199
6	Verizon Communications Inc	Communications & Technology	USA	192
7	Centrica PLC	Utilities	UK	191
8	TC Energy Corp	Energy	USA, Canada	180
9	Severn Trent PLC	Utilities	UK	179
10	Iberdrola SA	Utilities	UK, Spain	178
				£2,170m

9% of BBB portfolio

Our Direct Investments are with high quality counterparties

Annuity Portfolio: Top 15 Direct Investments by exposure*

	Counterparty	Sector	Year of Investment	Investment value
1	HMRC	Government	2016-2019	1,169
2	UK Govt	Government	2011-2019	699
3	UK Corporate Media	Media	2017	408
4	Student Accommodation Provider	Social Infrastructure	2023	389
5	University of Oxford	Social Infrastructure	2021-2022	378
6	UK Supermarket	Consumer, Non-cyclical	2012-2023	368
7	Amazon	Communications & Technology	2018-2020	352
8	Comcast Corp	Communications & Technology	2020	321
9	UK Railway	Economic Infrastructure	2021	282
10	Places for People Group Ltd	Economic Infrastructure	2014	266
11	F&C Commercial Trust	Real Estate (Debt)	2014	256
12	UK Water Utility A	Utilities	2016-2019	251
13	UK Water Utility B	Utilities	2018-2021	247
14	Hornsea Offshore Wind Farm	Economic Infrastructure	2018	242
15	International Transport & Logistics	Consumer, Non-cyclical	2015-2021	227
			Total	**£5,855m**

34% of DI portfolio

Assets are spread between different locations, with long duration cash flows secured against high quality tenants, with limited downside valuation risk e.g. HMRC, Amazon

 * Based on Direct Investments sourced in the UK