Legal & General

2020 Half year results

Delivering value through Inclusive Capitalism

Robust, resilient and relevant

Forward looking statements

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Robust, resilient and relevant

Nigel Wilson
Chief Executive Officer

Financial highlights

We remain a robust, resilient and relevant business

£1,128m

Operating profit from divisions[1]
H1 2019: £1,154m

4.93p

Interim dividend

H1 2019: 4.93p

173%

Solvency II coverage ratio
H1 2019: 171%

£0.8bn

SII operational surplus generation[1]
H1 2019: £0.7bn

- Our balance sheet is **robust**: H1 2020 solvency ratio of 173%. Unutilised credit default reserve of £3.5bn
- Our operating earnings are **resilient**: LGRI, LGRR and LGIM had higher operating earnings than in 2019
- Our products, services and their strategic growth drivers are more **relevant** than ever

1. Excludes discontinued operations

Financial summary

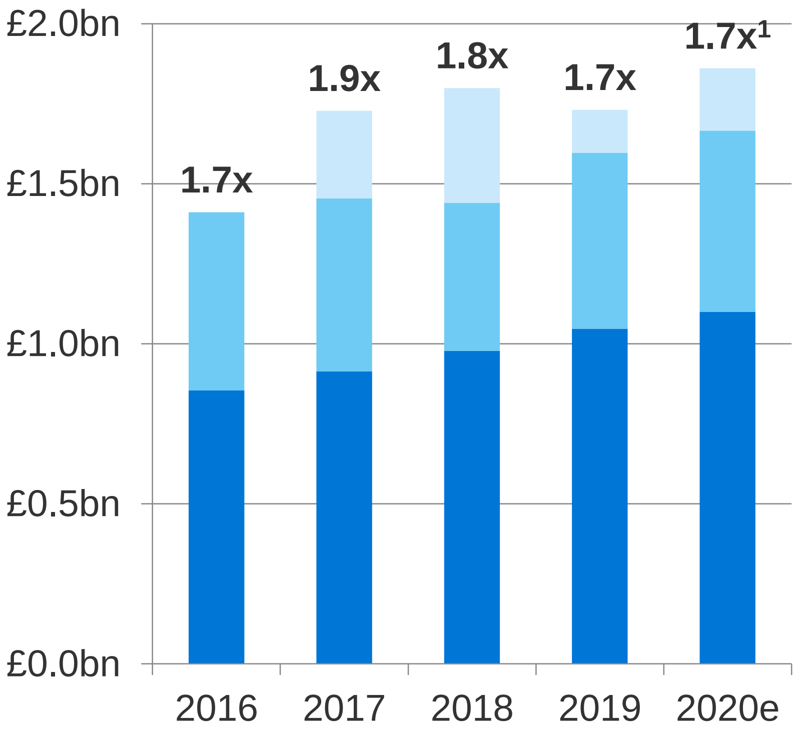
COVID-19 impact of £129m on H1 Operating profit, H2 outlook Resilient and Robust

£m	H1 2019	H1 2020	H1 estimated Covid-19 impact	H2 Outlook
LGRI	524	585	32	Pipeline (£18bn)
LGRR	131	136		Resilient volumes
LGIM	192	196		Consistent performance
LGC	173	123	(60)	UK housing uncertainty
LGI	134	88	(80)[1]	US mortality uncertainty
Operating profits from continuing divisions	**1,154**	**1,128**	**(108)**	
Operating profit	**1,005**	**946**		
Exceptional COVID-19 related expenses			(21)	IT infrastructure, Health & Safety, etc
Total COVID-19 impact			**(129)**	
“Underlying” H1 2020 Operating profit			**1,075**	

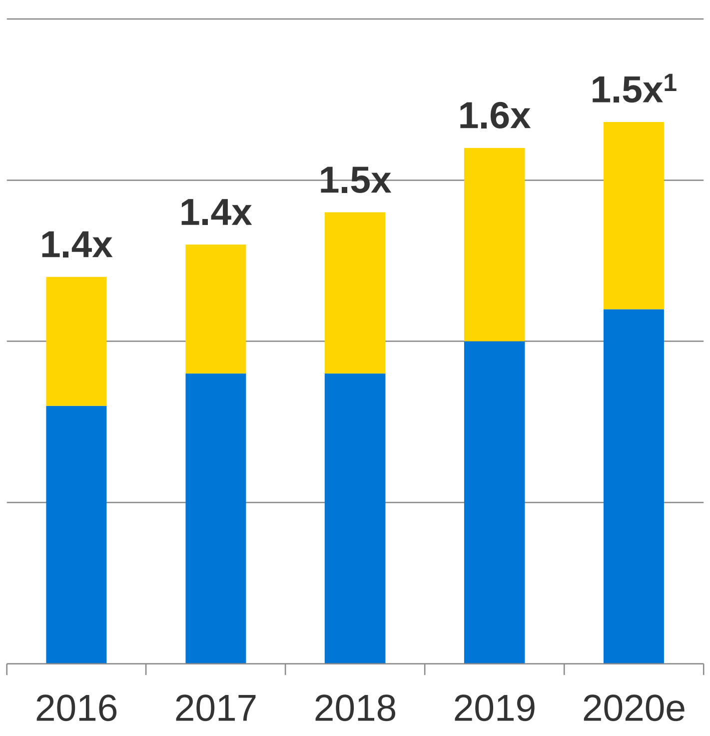
1. Includes £44m COVID-19 future claims reserve

Dividend coverage is strong under IFRS and Solvency II

IFRS surplus over dividend



SII surplus over dividend



	IFRS	SII
Cumulative surplus over the period	**£3.6bn**	**£2.5bn**

Dividend declared (IFRS)

IFRS Net Release - surplus over dividend

Mortality Release

Dividend paid (SII)

SII OSG – surplus over dividend

- Dividends have been – and continue to be – well covered under both IFRS and Solvency II
- We carefully manage Solvency II new business strain against our other obligations. New PRT business creates significant shareholder value, but is discretionary
- The Board's decision to hold the interim dividend flat maintains flexibility as the economic effect of COVID-19 becomes clearer
- Over the longer-term we expect to maintain our progressive dividend policy, reflecting the Group's expected underlying business growth

1. 2020e is IFRS and SII analyst consensus

Note: Under IFRS, the dividend is reported on a declared basis. Under SII, the dividend is reported on a paid basis.

Financial highlights
Resilient through uncertainty

Jeff Davies
Chief Financial Officer

Financial highlights: Limited real economic impact

Metric	H1 2019	H1 2020	%
Operating profit from continuing divisions (£m)	1,154	**1,128**	**(2)**
Discontinued operations (£m)	19	**26**	
Operating profit from divisions (£m)	1,173	**1,154**	**(2)**
Group debt costs (£m)	(108)	(115)	
Group investment projects & expenses (£m)	(60)	(72)	
COVID-19 costs (£m)	-	(21)	
Operating profit (£m)	1,005	**946**	**(6)**
Investment & other variances (£m)	48	**(661)**	
Of which: LGI IV (formulaic impact of UK and US rates)	*(177)*	***(483)***	
Profit before tax (£m)	1,053	**285**	
Earnings per share (p)	14.74	**4.89**	
Return on equity (%)	20.2	**6.3**	
SII operational surplus generation from continuing operations (£bn)	0.7	**0.8**	
SII coverage ratio (%)	171	**173**	

LGR: Consistently delivering despite challenging environment

Financial Highlights	H1 2019	H1 2020
Operating profit (£m)	655	**721**
- LGR Institutional	524	**585**
- LGR Retail	131	**136**
Profit before tax (£m)	638	**801**
Total LGR new business (£m)	7,663	**4,207**
- LGR Institutional	6,677	**3,424**
- LGR Retail	986	**783**
Total annuity AUM (£bn)	72.1	**80.7**
Of which: Direct investments (£bn)	18.4	**23.6**
Solvency II New business value[1] (£m)	533	**382**
Solvency II New business margin[1] (%)	7.8	**10.6**

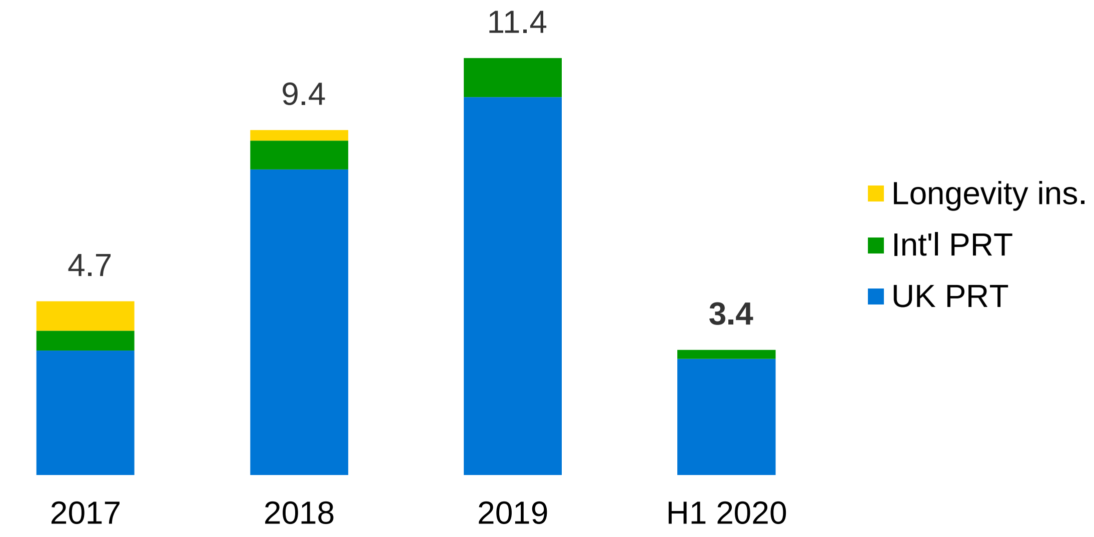
- **Operating profit of £721m up 10%**, reflecting:
  - Strong performance from back book prudential margin unwind
  - PRT new business volumes of £3.4bn, Individual annuity volumes of £421m and Lifetime mortgage advances of £362m
  - Heavier mortality experience as a result of COVID-19
  - Positive variances driven by assumption changes
  - Volumes for Individual annuities and Lifetime mortgages temporarily impacted by lockdown measures. Positive signs of recovery for both markets, with applications increasing over June
- In UK PRT, we have maintained pricing discipline in a competitive market and kept associated **SII new business strain at c.4%**
- UK annuities achieved a **SII new business margin of 10.6%**, reflecting longer duration transactions vs. shorter than average duration transactions in H1 2019
- Carefully considering the current and longer-term impacts of COVID-19, both direct and indirect, on the mortality of our annuitants. Alongside this, we continue to analyse the impact of incorporating the next actuarial table (CMI-18), which, in isolation, would imply a release of c.£200m

1. UK business only

LGRI: PRT market remains open and attractive. Five year ambition of £40-50bn UK PRT remains

Total Sales (£m)	H1 2019	H1 2020
UK PRT	6,316	**3,176**
US PRT	223	**248**
Other International PRT	138	**-**
Total LGRI New Business	6,677	**3,424**

LGRI New Business (£bn)

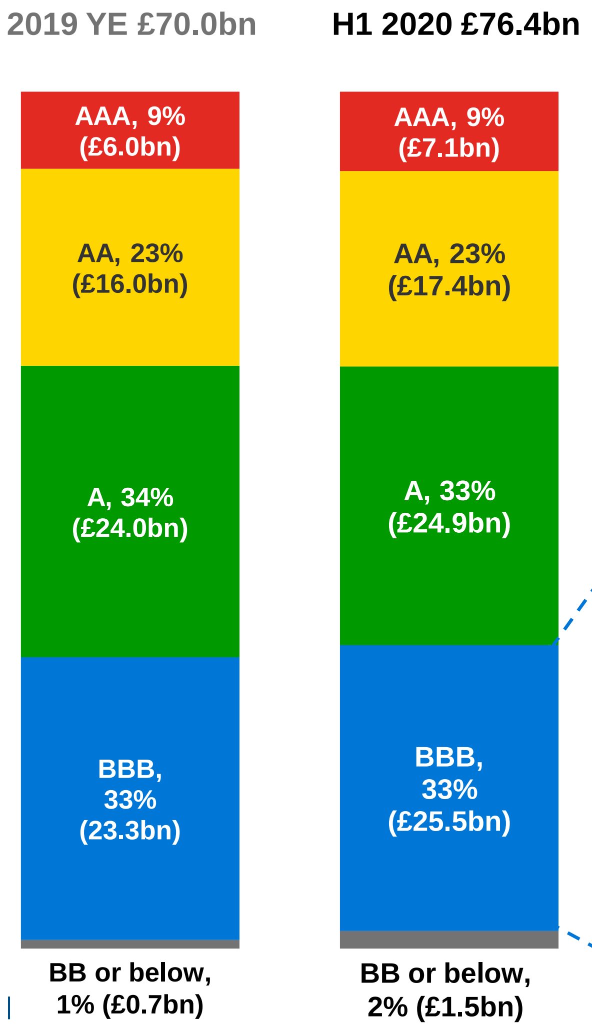


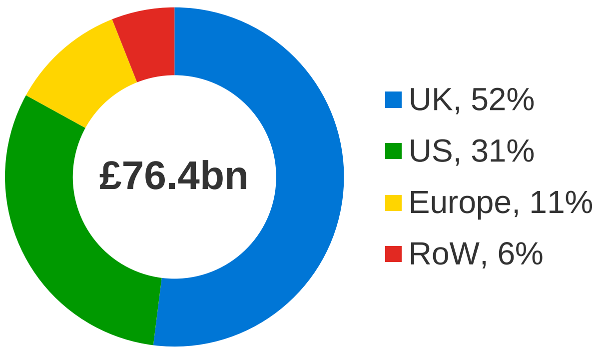
- **£3.4bn premium for global PRT** across 29 transactions, vs. 18 transactions in H1 2019, demonstrating the resilience of the market and our agile and efficient operating model
  - **£0.7bn** bulk annuity with 3i Group Pension Plan
  - A ninth bulk annuity for ICI, one of our largest PRT clients
  - First global transaction simultaneously covering IHS Markit's UK and US pension schemes
  - Continuing to service the whole market, leveraging technological innovation for smaller schemes. Over 40% of transactions were less than £25m
- **Continued progress in the US**, with premiums up 11%
- Despite COVID-19, **2020 is anticipated to be the second largest on record, with £20bn to £25bn of UK PRT expected to transact**

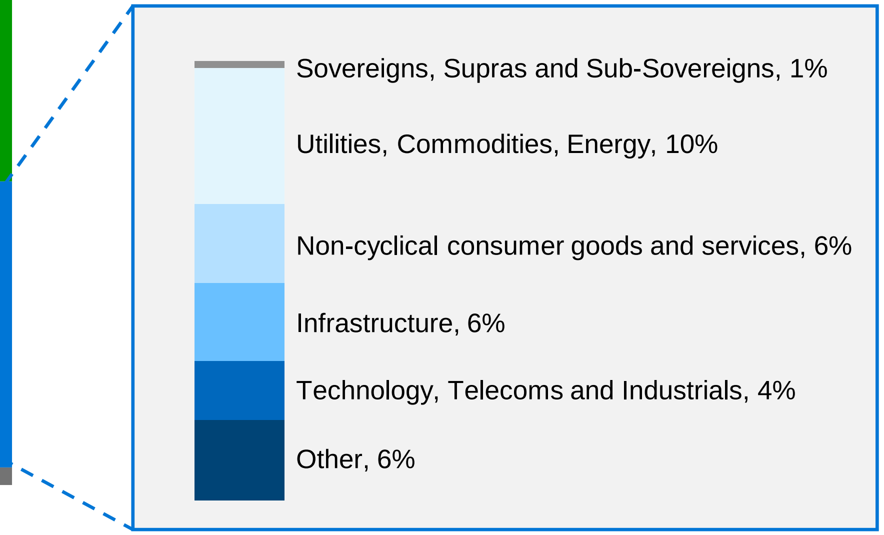
1. Lane Clark Peacock, "Pensions de-risking report: Buy-ins, buy-outs and longevity swaps", 1 July 2020

LGR: Defensive Bond portfolio – limited downgrades to sub-investment grade and no defaults

LGR Bond Portfolio: £76.4bn





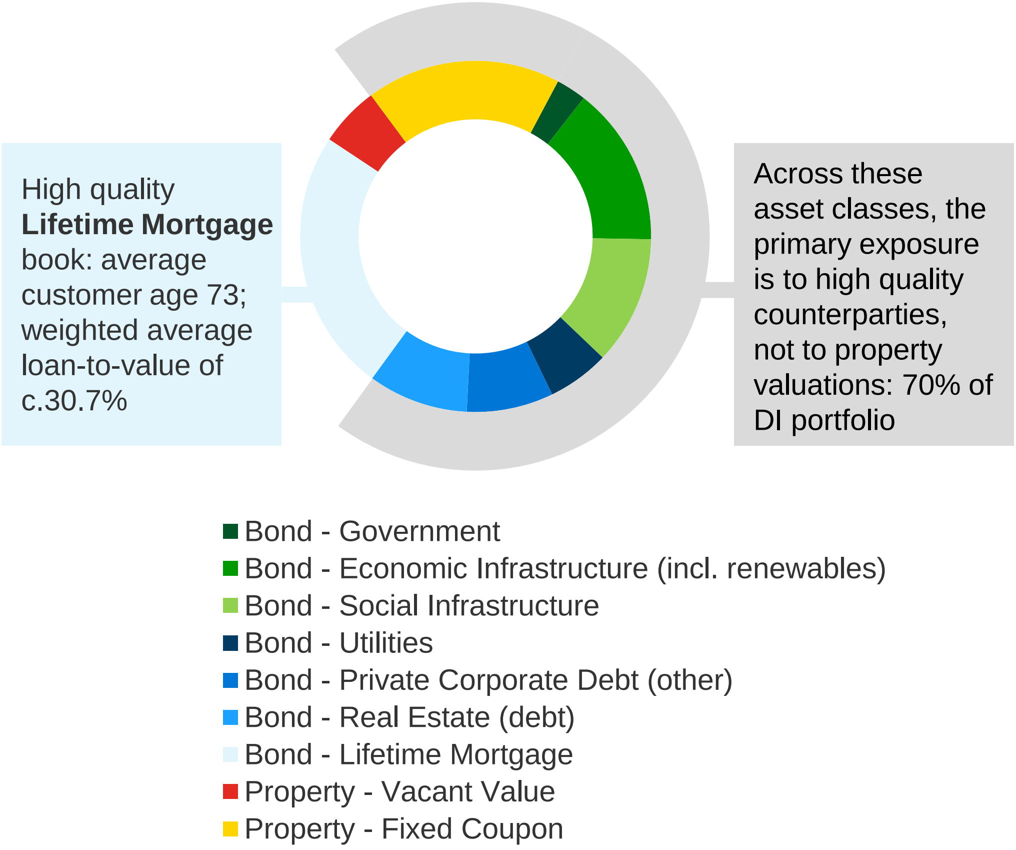


- **Defensively positioned, high quality portfolio not materially impacted by COVID-19**
- **The traded credit portfolio (excluding gilts), which is actively managed, has had no defaults and has seen net downgrades to sub-investment grade of 0.6% since the start of COVID-19; compared to the index which saw 1.5%**
- **£3.5bn** IFRS credit default reserve remains unutilised
- Proactive risk management, executed a cost effective de-risking programme in 2019 and H1 2020 by utilising market opportunities
- Approximately two-thirds **A rated or better**, only c.10% of BBB are BBB-
- **18%** of bonds in Sovereign-like assets
- Lower-rated, cyclical exposures kept to a minimum: <1% airlines, hotels, leisure and traditional retail combined
- Geographically diversified portfolio. Non-GBP FX exposure hedged

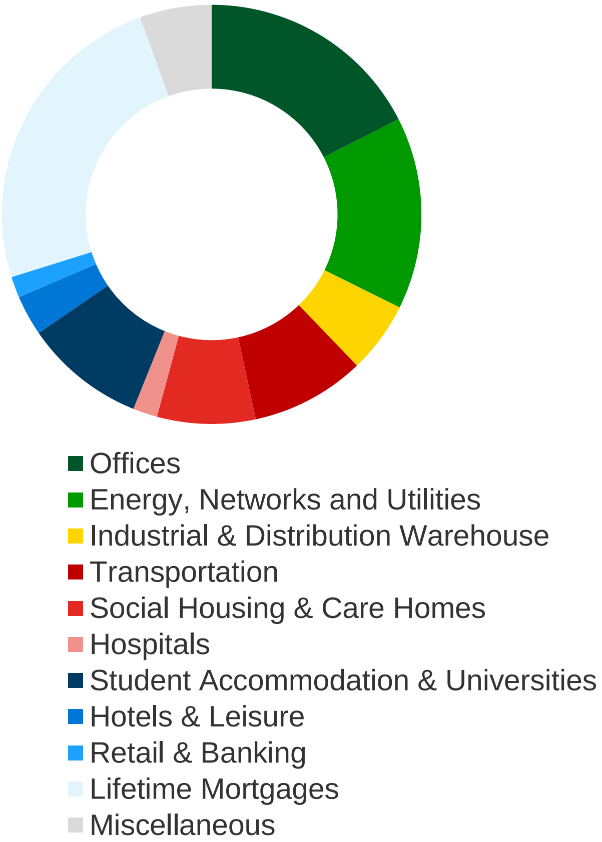
LGR: Direct Investment portfolio – high quality and diversified counterparty exposure, with 99.5% of scheduled cash-flows paid

LGR Direct Investment portfolio: £23.6bn, 29% of total LGR assets

Direct investments by type



Direct investments by sector



- The portfolio has continued to perform strongly in H1. **No defaults** and 99.5% of scheduled cash-flows paid, reflecting the high quality of our counterparty exposure
- **Primary exposure is to the underlying high quality tenant** on rental income, e.g. Amazon, not to property risk
- Office Property exposure is primarily:
  - HMRC Buildings
  - Secretary of State
- Limited exposure to affected sectors such as hotels, leisure and non-essential consumer goods c.3%
- Continue to benefit from LGC asset creation via affordable homes and Build-to-Rent

LGIM: Strong performance with AUM and profit growth

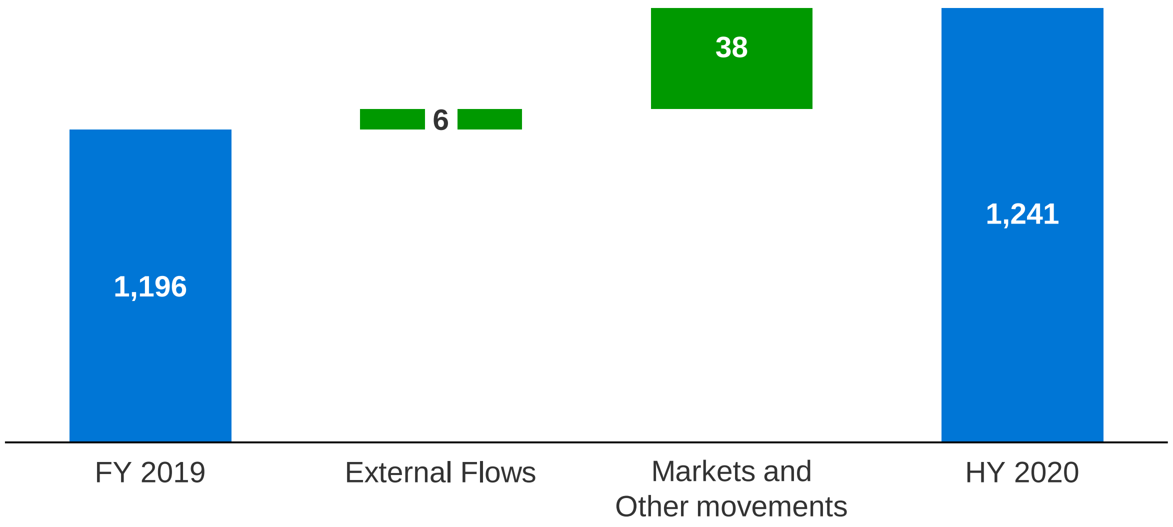
Financial Highlights	H1 2019	H1 2020
Asset management revenue[1] (£m)	434	**467**
Asset management expenses[1] (£m)	(240)	**(270)**
Workplace Savings operating profit (£m)	(2)	**(1)**
Total LGIM operating profit (£m)	192	**196**
Closing AUM (£bn)	1,135	**1,241**
International AUM (£bn)	343	**385**
UK DC AUM (£bn)	86	**97**
Retail AUM (£bn)	36	**39**
Asset management cost : income ratio (%)	55	**58**

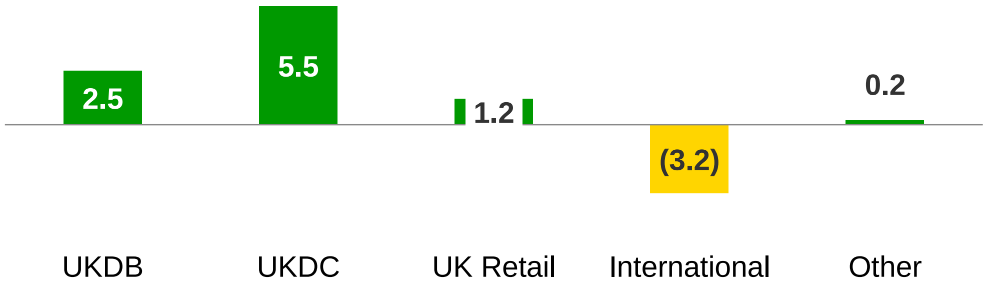
- Operating profit up **2% to £196m**
- **AUM up to £1.2tn** against a challenging external market backdrop
  - **International AUM of £385bn**
  - A market leader in **UK DC with £97bn of AUM, and 3.7m Workplace members**.
  - Retail AUM at £39bn – top 3 in gross UK retail sales[2] in H1 2020
- LGIM-related project expenditure, previously reflected in Group expenses, has been allocated to the LGIM segmented results from 2020, as highlighted in our FY19 results (£13m H1 2019, £29m FY 2019)
- **Cost : income ratio of 58%** reflects our **continued investment** in areas to drive future growth and where increased automation and simplification will generate operational leverage

1. Revenue and expenses exclude income and costs of £13m in relation to the provision of 3rd party market data (HY 19: £11m)
2. Pridham Report H1 2020

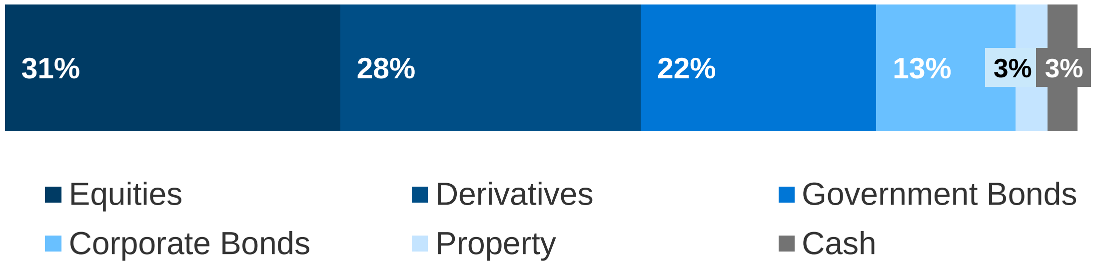
LGIM: Resilient AUM and positive flows underpinned by diverse asset exposure

AUM progression from FY19





AUM by underlying asset exposure[1]



- AUM up 4% from FY19, driven by positive net flows and market movements
- **Diversified asset base** has resulted in **AUM resilience** during period of market volatility
- Derivatives AUM less volatile as largely represents notional amounts for instruments used for hedging purposes
- **Positive external net flows of £6.2bn** from predominantly institutional client base in DB, DC and Asia
- Strong UK DC net flows of £5.5bn with 41 scheme wins over H1, 64% higher than H1 2019 (25)
- **International** outflows driven by the US, with pension plans rebalancing their portfolios away from fixed income
- £174bn in responsible investment strategies explicitly linked to ESG criteria

1. Estimated asset %'s as at 30th June 2020

LGC: Housing sales impacted by lockdown measures

Financial Highlights	H1 2019	H1 2020
Operating profit (£m)	173	**123**
- Direct Investments	99	**36**
- Traded portfolio and Treasury	74	**87**
Investment and other variances (£m)	105	**(307)**
Profit before tax (£m)	278	**(184)**
Assets (£m)	7,814	**8,962**
- Direct Investments	2,638	**3,033**
- Traded portfolio and Treasury	5,176	**5,929**
of which: Cash and Treasury assets	3,064	**3,462**

- **Operating profit of £123m,** impacted primarily by a pause in house building activities as a result of COVID-19
- As with other house builders, under conditions similar to today, we expect to experience a c.30% reduction in sales across the year, much of which has been reflected in the first half
- Profit before tax of £(184)m, was additionally driven by volatile equity markets, alongside some less significant asset valuation reductions, primarily our two retail assets within the Direct Investment portfolio
- Continuing to prudently develop the Direct Investment portfolio, which is up **15% to £3.0bn**
- **Over the next 3 to 5 years we expect to build our diversified direct investment AUM up to c.£5bn with a target blended portfolio return of 8% to 10%**

DI portfolio by Sector:

- **Homes £1.6bn:** meeting the UK's long term need for more homes across all demographics, and by affordability, tenure and life-stage
- **Future Cities £0.9bn:** Addressing a shortage of investment in **specialist commercial real estate** (urban regeneration, science & tech focused real estate, data centres) and **climate & energy** investments
- **SME Finance £0.5bn:** Continuing to support UK and European mid-market lending via Pemberton[1], and by supporting start-up businesses through new, diversified VC funds

DI portfolio distribution by Business model:

- **52% invested in wholly-owned** operating businesses, principally, CALA
- **31% in joint ventures or partnerships,** such as the SciTech partnership with Bruntwood
- **17% in externally-managed funds,** including our investments in SME finance and VC funds

1. LGC owned a 40% share in Pemberton as at 30 June 2020

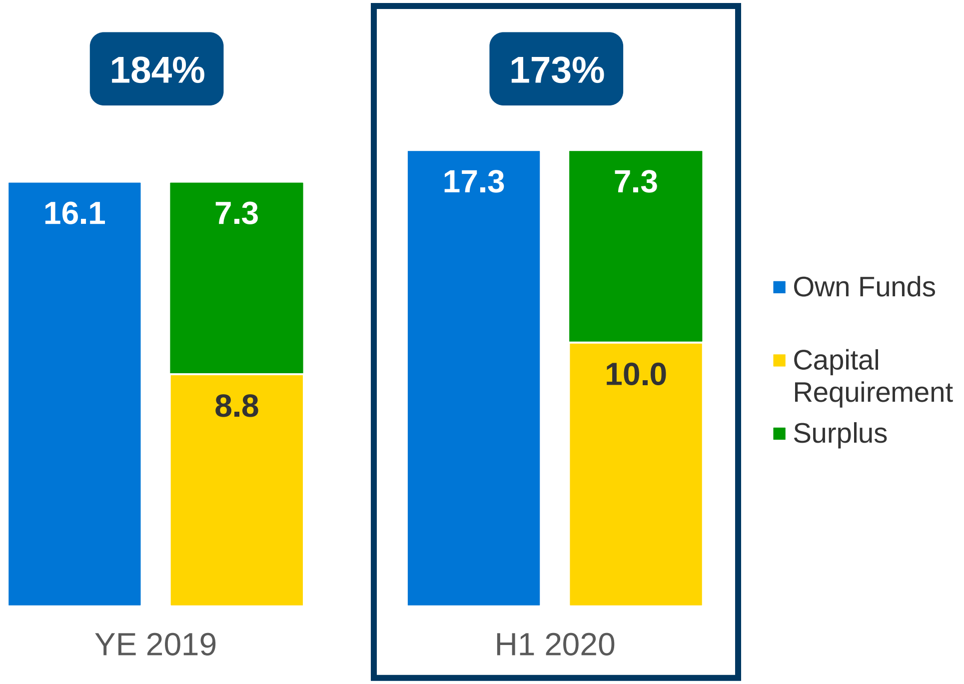
LGI: Supporting customers through unprecedented times

Financial Highlights	H1 2019	H1 2020
Operating profit (£m)	134	**88**
- UK	93	**57**
- US	41	**31**
Investment and other variances (£m)	(134)	**(483)**
Profit before tax (£m)	0	**(395)**
Gross written premium (£m)	1,409	**1,475**
- UK	891	**925**
- US	518	**550**
Solvency II New business value (£m)	116	**138**
- UK	68	**86**
- US	48	**52**

- **Operating Profit of £88m,** largely impacted by adverse mortality experience arising as a result of COVID-19
  - **UK Operating Profit of £57m**. Adverse mortality experience in Group Protection. As in previous years, a change in intra-group reinsurance of US business has segmented profits away from the UK to the US
  - **US Operating Profit of £31m**. Adverse mortality experience as a result of COVID-19. Excluding COVID, underlying mortality experience was slightly favourable
- Profit before tax down to £(395)m, formulaic impact on reserves of falling government yields in both the UK and US
- Gross claims of £939m paid out in the first half
- **Growth in gross written premium, up 5% to £1.5bn**, despite temporary impacts from lockdown measures in both the UK and US
- **SII NBV up 19% to £138m**, reflecting improved margins as a result of business mix and expense efficiencies
- $109m dividend paid by LGIA on 27 Feb 2020 (2019: $107m)

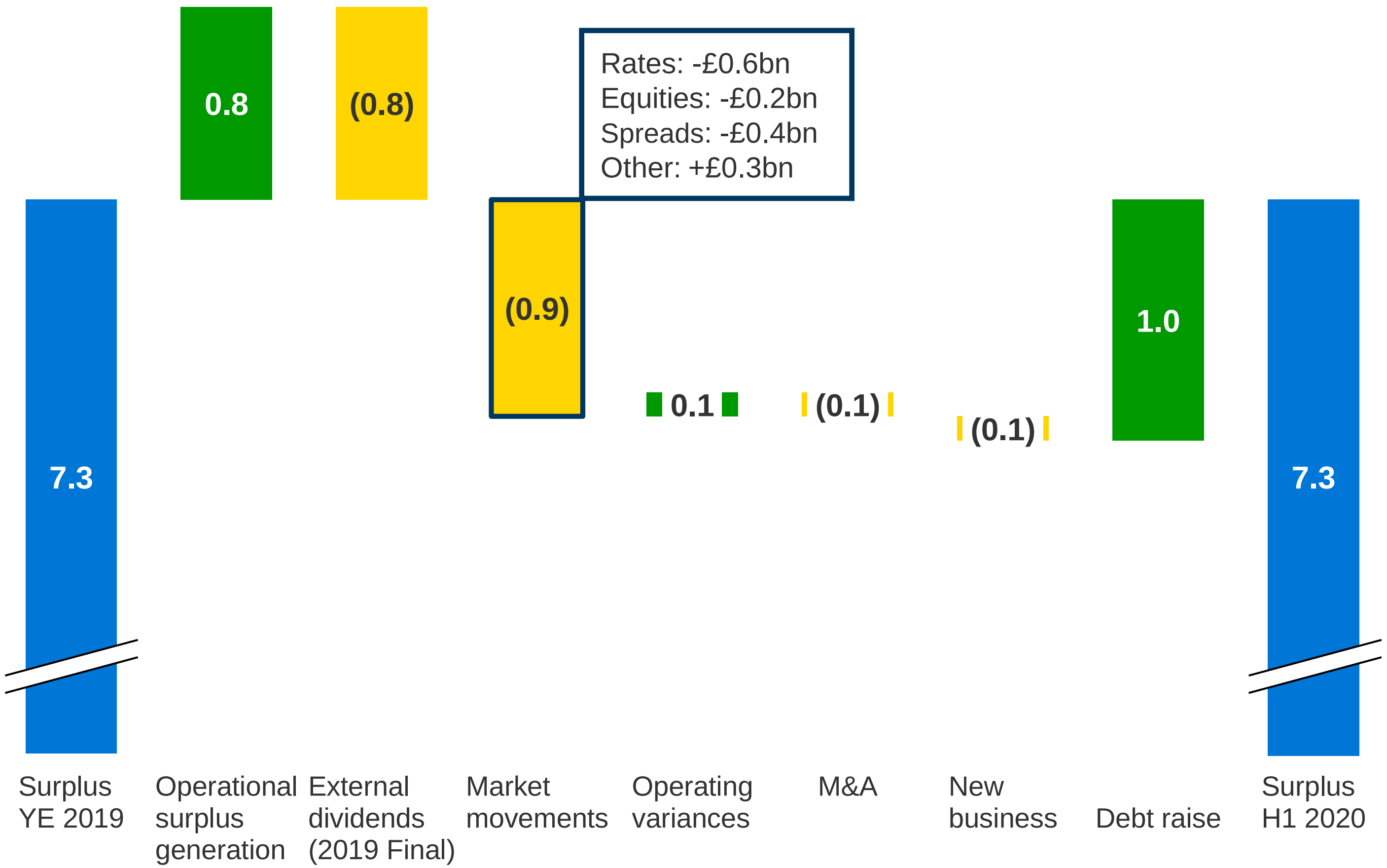
Robust Solvency II Balance sheet

Solvency II Balance Sheet (£bn)



- Solvency II surplus of **£7.3bn**
- Coverage ratio of **173% (H1 2019 : 171%)**
- Tier 1 Own funds of **£12.8bn (74%)**

Solvency II surplus analysis of change (£bn)



 Solvency II coverage ratio is on shareholder basis

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SII operational surplus generation[1]
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- We firmly believe that our business is **well placed to execute on opportunities in H2**, supported by **strong competitive positioning in growing and profitable markets**
- We remain **committed to delivering Inclusive Capitalism** and intend to be **a leader in the post-pandemic economic recovery**, supporting our society, shareholders and customers
- **Our ambition is for a similar performance in H2**
- We look forward to providing a further update at our **Capital Markets Event on 12th November**

1. Excludes discontinued operations

2020 Half year results

Delivering value through Inclusive Capitalism

Robust, resilient and relevant