

Regulatory News Service

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 Legal & General Group plc
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LEGAL & GENERAL UPDATES ON ITS SOLVENCY II POSITION: SURPLUS INCREASED TO £7.0BN, COVERAGE RATIO INCREASED TO 188%

ADDITIONALLY LEGAL & GENERAL PUBLISHES ITS 2016 SOLVENCY AND FINANCIAL CONDITION REPORTS

- £7.0bn current estimated Solvency II surplus with a 188% coverage ratio¹, on shareholder basis with a recalculated dynamic Transitional Measures for Technical Provisions (“TMTP”); the basis on which the business is managed
- First annual Solvency and Financial Condition Reports (“SFCR”) for the year ended 2016 have been published today

We have a strong regulatory capital balance sheet and based on current market conditions, the Group’s Solvency II surplus is estimated to be c.£7.0bn with Eligible Own Funds of c.£14.9bn and a Solvency Capital Requirement (“SCR”) of c.£7.9bn and hence a shareholder basis coverage ratio of 188%².

At our full year results we disclosed our year-end 2016 Solvency II surplus of £5.7bn and coverage ratio of 171% on a shareholder basis. This was following a year of record new business for Legal & General including £7.0bn of new annuity sales. The Group’s diversified business model delivered total Solvency II new business strain of £96m for the year.

Changes since the year-end position include:

	Solvency II coverage ratio	Change/impact
Year-end 2016, shareholder basis	171%	
Solvency II net surplus generated in year to date		8.2%
Sale of Cofunds and Dutch business ³		2.5%
Debt: \$1,350m Tier 2 debt raised (£1,100m), £600m Tier 1 debt called		6.3%
Current estimated position¹, shareholder basis	188%	
Recommended final 2016 dividend (£616m) not yet approved or paid ^{Ref 1}		(7.7)%
Current estimated position ¹ , shareholder basis excluding dividend	180%	

Our strong and high quality capital position is reflected in Standard & Poor’s AA- credit rating. £11bn (81%) of the year-end’s Eligible Own Funds is Tier 1 capital; £12bn (78%) following the debt changes mentioned above.

Solvency and Financial Condition Reports

The first annual regulatory filings, the SFCRs, which are published today on the Group’s website⁴ are the new, Solvency II compliant, regulatory returns required by the Prudential Regulation Authority (“PRA”). The contents are prescribed by the Solvency II Directive and include data analysing the Solvency II balance sheet position at 31 December 2016.

¹ Estimated position at 15 May 2017

² In line with our practice, this assumes that Transitional Measures for Technical Provisions are recalculated to current market conditions, as we believe this provides the most up to date and meaningful view of our Solvency II position. The shareholder basis adjusts for the Own Funds and SCR attributable to our With-profits fund and the final salary pension scheme

³ The Cofunds disposal completed on 1 January 2017 and Legal & General Netherlands completed on 6 April 2017

⁴ Legal & General’s Group website: www.legalandgeneralgroup.com/investors/library.html

In the Group SFCR, we disclose our regulatory Solvency II surplus as £5.4bn with a coverage ratio of 163% for the year ended 31 December 2016^{Ref 2}.

Solvency II requires all insurance companies to hold a Risk Margin above their best estimate liabilities. This Risk Margin is designed to allow a theoretical institution to take on the risks of the company after a 1-in-200 year event occurs. The TMTP smooths the transition from Solvency I to the new Solvency II regime and predominantly offsets the risk margin. The TMTP is amortised over 16 years from 1 January 2016. The Risk Margin⁵ applied to the Group in the SFCR (including new business written since the start of 2016) is £6,434m^{Ref 3} with the offsetting TMTP impact on technical provisions at £6,687m^{Ref 3}. There is no TMTP attached to business written after 1 January 2016. The SFCR requires us to show an analysis of Own Funds with and without the TMTP^{Ref 4}. The PRA has made it clear that the £6.7bn TMTP is fully eligible Tier 1 capital and has no impact on paying dividends.

Legal & General has approval to use a matching adjustment (“MA”) to calculate the best estimate liabilities (“BEL”) for certain illiquid liabilities. The MA is the approved method of discounting annuity liabilities, reducing those BELs. The SFCR requires the disclosure of Own Funds with and without the MA, despite the loss of approval being a remote risk^{Ref 5}. Our extensive control framework ensures our on-going MA compliance and we have regular dialogue with the PRA about our MA strategy.

The differences between the SFCR disclosure and the full year 2016 disclosure in March of £5.7bn Solvency II surplus and coverage ratio of 171% include:

	Solvency II coverage ratio	Change/impact
Year end 2016 shareholder basis	171%	
Effect of With-profits and Pension fund adjustments		(6)%
TMTP recalculation		(5)%
6 months amortisation of TMTP to 1 Jan 2017		2%
Other		1%
Year end 2016 SFCR regulatory basis	163%	

- The shareholder basis excludes the Own Funds and SCR attributable to our With-profits fund of £0.5bn and the final salary pension scheme of £0.2bn. These had a combined impact on the Solvency II coverage ratio of c.6% increase.
- The TMTP included in the SFCR was recalculated at 30 June 2016 following the significant movement in interest rates seen over the first half of 2016. The TMTP used in the March disclosures was updated to 31 December 2016 as we believe this provides the most up to date and meaningful view of our Solvency II position.
 - o This ‘dynamic’ TMTP included a further six months amortisation reducing the coverage ratio by c.2%^{Ref 6}.
 - o Additionally the ‘dynamic’ TMTP included changes in market conditions, management actions and assumption changes in the second half of the year after the June recalculation. In total this increased the benefit of the TMTP by £0.5bn and the coverage ratio by c.5%.

As well as the Group SFCR, Legal & General has also published SFCRs for its regulated entities: Legal and General Assurance Society (“LGAS”), Legal and General Assurance (Pensions Management) Ltd (“PMC”) and Legal & General Insurance Ltd (“GI”) on its website⁶. We manage capital on a Group basis allowing for fungibility of capital and the strong diversification benefits we enjoy, however all of the subsidiaries on a standalone basis demonstrate strong regulatory capital positions. For year-end 2016, LGAS had a Solvency II surplus of £4.4bn with a coverage ratio of 162% on a shareholder basis^{Ref 7} and 154% on an SFCR regulatory basis^{Ref 7}. PMC had a coverage ratio of 246% on both a shareholder and an SFCR regulatory basis^{Ref 8} and GI had a coverage ratio of 156% on both a shareholder and an SFCR regulatory basis^{Ref 9}.

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⁵ The calculation of the risk margin involves assessing the long-dated liabilities such as annuities using the current interest rate. This has meant it is currently too sensitive to the level of risk-free rates. We welcome the PRA and EIOPA’s commitment to reviewing the calculation in the future

⁶ Legal & General’s Group website: www.legalandgeneralgroup.com/investors/library.html. Legal & General Nederland Levensverzekering Maatscappij NV’s SFCR separately disclosed as it is no longer owned by Legal & General

NOTES TO EDITORS:

Solvency and Financial Condition Report references:

PowerPoint slides illustrating the above points are available on our website: www.legalandgeneralgroup.com.

- Ref 1 Disclosed on page 91, schedule E6 of the Group SFCR
Ref 2 Disclosed on page 5, schedule A of the Group SFCR
Ref 3 Disclosed on page 74, schedule D2 of the Group SFCR
Ref 4 Disclosed on page 72, schedule D2.1.4 of the Group SFCR
Ref 5 Disclosed on page 72, schedule D2.1.6 of the Group SFCR
Ref 6 Disclosed on page 80, schedule D5 of the Group SFCR
Ref 7 Disclosed on page 4 of the LGAS SFCR
Ref 8 Disclosed on page 4 of the PMC SFCR
Ref 9 Disclosed on page 5 of the GI SFCR

Legal & General Group Plc:

1. Established in 1836, Legal & General is a leading provider of insurance, savings and investment management products in the UK. The Group has a market capitalisation of £14.9bn (as at 18 May 2017) and is responsible for investing £894bn worldwide (as at 31 December 2016) on behalf of investors, policyholders and shareholders.
2. Legal & General has over seven million customers in the UK for life assurance, pensions, investments and general insurance plans and over one million customers in the US who rely on us for life assurance.
3. For full year 2016, Legal & General's adjusted operating profit (IFRS basis) was £1,628m and adjusted earnings per share were 22.20p for the period, an increase of 11% and 19% respectively. Net release from operations (net cash) was up 12% to £1,411. Full year dividend was up 7% to 14.35p, with adjusted return on equity at 19.6%. Legal & General Retirement new business was £8.5bn, and annuity assets were up 25% to £54.4bn. Group wide direct investments were up 39% to £10bn.
4. Legal & General is listed on the London Stock Exchange with the ticker symbol LGEN.LN and has an American Depository Receipt ticker symbol OTC:LGGNY. Further information on our ADR program can be found here: <http://www.legalandgeneralgroup.com/investors/adr.html>

For more information on Legal & General, please see <http://www.legalandgeneralgroup.com/>

FORWARD-LOOKING STATEMENTS

This announcement 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 acquisition 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 announcement 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 announcement or any other forward-looking statement it may make.