Chief Financial Officer's Q&A

"
Our commitments to customers are underpinned by a strong balance sheet."

Jeff Davies
Group CFO

You have described 2020 as a 'pause year'. What do you mean by this and what can we expect for 2021?
2020 saw the first truly global pandemic in more than a century. Its impact is unprecedented, and, as it continues to play out, still uncertain. The human cost of Covid-19 is enormous, and as an insurance company, we are more committed than ever to helping provide financial security to our customers through these difficult times.

We describe 2020 as a 'pause year' because operating profit reduced (2020: £2,218 million; 2019: £2,286 million) compared to a 10 year track record of double digit growth, and our 2020 dividend is flat against 2019, compared to a progressive dividend ambition from 2021.

Our insurance and capital investment businesses were most impacted by the challenging market environment, driving the 13% fall in profit for the year to £1,571 million, and reflecting the impact of falling interest rates on claims reserves in our insurance business and unrealised reductions in asset valuations in our direct investment portfolio. However, there are strong tailwinds for 2021 for both insurance and capital investment:

- Our insurance business has provisioned for £110 million of anticipated 2021 Covid-19 claims in its 2020 results compared to £76 million of Covid-19 related claims in 2020.
- Our capital investment business has had a strong start to 2021 and while the latest lockdown may have some impact on sales in the first half of the year, we do not expect the impact to be as significant as last year and remain optimistic for 2021 housing sales as a whole.

Despite the challenges faced by our insurance and capital investment businesses, three of our five businesses delivered year on year earnings growth (institutional retirement, retail retirement and investment management) and the return on equity of 17.3% reflects a resilient operating performance.

Looking forward, we have reasons to be positive. Our businesses generate predictable cash and capital flows, with high proportions of repeatable earnings, specifically in the unwind of the retirement annuity portfolio, the high retention of investment management assets and insurance total premium income.

Although we have had a strong start to 2021, we recognise uncertainty remains around the global recovery from Covid-19. This will depend on the speed of vaccine roll-out, the efficacy of available vaccines against emerging virus strains, and coordination between governments, communities and businesses. As a company with 185 years of insurance experience, we understand the importance of acting prudently and maintaining flexibility through uncertainty to play lead in the post-pandemic recovery and to deliver on our five year growth ambitions as outlined at our November Capital Markets Event.

How has Covid-19 impacted your business?
We are committed to helping all our stakeholders through the challenges presented by the pandemic. We are leveraging our technology investments to support our employees, while providing the best service to our customers, for example, by quadrupling our digital self-service infrastructure capacity during the first week of the March 2020 lockdown.

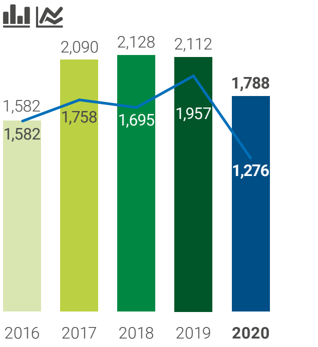
Demonstrating our commitment to shareholders, we paid the 2019 final dividend and we are supporting society in a range of ways, including using our Alderley Park lab as a mass testing site.

Our business model protects us from some of the financial impacts of Covid-19:

- As a multi-line insurer, our risks are more balanced, with offsets between our insurance business and our retirement businesses (institutional and retail). As a result, the impact of Covid-19 has been broadly neutral across these three businesses during 2020.
- Our synergistic business model includes Legal & General Investment Management (LGIM), which as a diversified asset manager, is less directly impacted by Covid-19. By having a mix of asset types, LGIM's total asset value increased over the year from market movements.
- Our capital investment business was significantly impacted by the pandemic and lockdown. The three month pause in build to sell housing operations was the primary factor in the £100 million Covid-19 impact to our capital investment business's profit.

Our commitments to customers are underpinned by a robust balance sheet. As at the end of 2020, our Solvency II surplus was £7.4 billion (before paying the 2020 final dividend) and our £87.0 billion annuity portfolio has not been materially impacted by the pandemic. Just 0.9% of our traded credit assets have downgraded to sub-investment grade compared to c.1.8% for the total market. Although we experienced no defaults in the portfolio during the year, as further protection we continue to hold a credit default reserve of £3.5 billion.

Adjusted profit before tax (PBT) attributable to equity holders £m



£1,788m

(2019: £2,112m)

KPI purpose: To measure the actual distributable earnings (before tax) attributable to shareholders of the Group. This includes discontinued operations and reflects actual returns on investments.

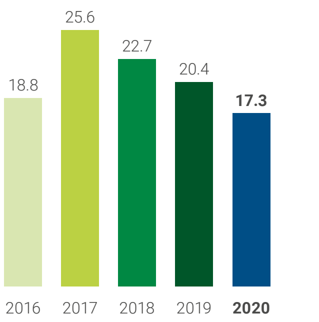
PBT attributable to equity holders decreased by 15%. Excluding the gain of £335 million on the completion of the Part VII transfer of our Mature Savings business and, in line with previous practice, the £177 million impact of mortality releases (2019: £155 million) following a review of life expectancy improvement assumptions, the adjusted PBT decreased by 35%.

Profitability was dominated by our institutional retirement business, which swiftly adapted to remote working and executed on a significant number of transactions. Our diversified asset base and increased revenue flows in our investment management business supported year on year growth whilst we continue to invest in the business.

Housing sales were affected during the early stages of lockdown, impacting our capital investment business, and our diversified investment portfolio was impacted by valuation write-downs on our retail-related assets. In our protection businesses, Covid-19 related claims and the impact of lower long-term interest rates on the reserves held more than offset growth in premiums and margins.

We also incurred additional operational expenses to keep our customers and employees safe and to ensure continuing operational resilience.

Return on equity (ROE) %



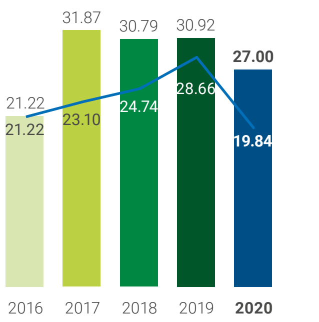
17.3%

(2019: 20.4%)

KPI purpose: To show how efficiently we are using our financial resources to generate a return for shareholders.

The return on equity of 17.3% reflects a resilient operational earnings performance. The impact from unrealised negative investment variances was partially offset by the gain on the completion of the Part VII transfer of our Mature Savings business.

Earnings per share (EPS) p



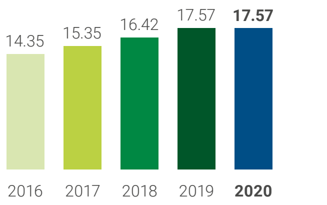
27.00p

(2019: 30.92p)

KPI purpose: To illustrate the profitability associated with each share owned by our investors.

EPS reduced by 8.8 pence to 19.8 pence on excluding the impact of mortality releases in the retirement business of £153 million net of tax (2019: £134m) and the IFRS gain on the Part VII transfer of our Mature Savings business of £271 million net of tax. On including these items, EPS reduced by only 3.9 pence.

Full year dividend p



17.57p

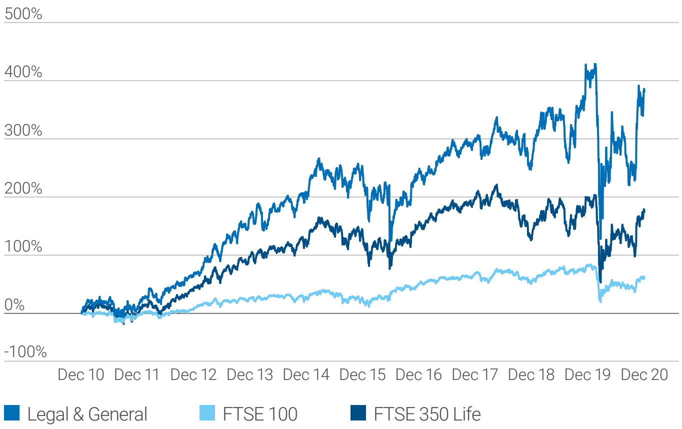
(2019: 17.57p)

KPI purpose: To show the level of distribution to shareholders.

The Board has recommended a flat year-on-year growth in full year dividend of 17.57 pence, consistent with 2020 operational earnings performance and the messaging of a 'pause' year. The cost of the full year dividend is £1,048 million (2019: £1,048 million) and is covered by net release from operations 1.5 times. Our stated ambition is for low to mid single digit growth in dividends from 2021.

Total shareholder return %

As at 31 December 2020



-7%

(2019: 40%)

KPI purpose: To measure the total return to shareholders, including dividends and share price movements, over time.

While the one-year negative total shareholder return is disappointing, 2020 was a difficult year for equity markets, with the FTSE 100 as a whole providing a negative return of 12%. The chart indicates the TSR over the last 10 years.

Our key performance indicators (KPIs)

Management consider that the measures presented on pages 17 and 18 are KPIs, some of which are also used for executive remuneration as explained below.

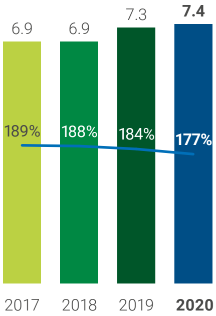
Guide to symbols used in these financial results

Alternative performance measure (APM), see page 254 for definitions

Key measure in the remuneration of executives, see pages 94 to 95 for definitions

Chief Financial Officer's Q&A
continued

Solvency II surplus and coverage* £bn



£7.4bn

(2019: £7.3bn)

177%

(2019: 184%)

KPI purpose: To demonstrate the capital position and risk profile of the Group.

The Group's capital position remains strong with a £7.4 billion Solvency II surplus (2019: £7.3 billion) and a 177% coverage ratio (2019: 184%) on a 'shareholder view' basis. The coverage ratio has decreased over the year primarily due to reductions in interest rates and new business strain. This is offset by increases due to backbook surplus generation and releases from longevity. When stated on a pro-forma basis the Group's coverage ratio is 175%** (2019: 179%).

* Represents Solvency II surplus and coverage on a 'shareholder view' basis. See page 205 for more details.

** This includes final salary pension schemes of £214 million, in both the Group's Own Funds and the SCR, and profit attributable to our with profit fund until 2019.

The Group achieved its 2015-2020 objectives a year early, what are Legal & General's ambitions for the next five years and what do they mean for investors?

At our Capital Markets Event in November we set out our new five year ambitions. Cumulatively, over the period from 2020 to 2024, we intend for:

1. Cash and capital generation to significantly exceed dividends – we intend to generate £8.0 billion to £9.0 billion of both cash and capital, to pay dividends of £5.6 billion to £5.9 billion.
2. Earnings per share to grow faster than dividends, with the dividend growing at low to mid-single digits from 2021.
3. Capital generation less new business strain to exceed dividends paid.

Our new ambitions are significant for investors because they (i) align the dividend to specific, cumulative cash and capital performance, as well as (ii) encourage growth to be less capital intensive by requiring the business to generate more capital net of new business than it pays in dividend.

In support of our ambition for less capital intensive growth, we expect our retirement business's (LGR) annuity portfolio to be self-sustaining within the next three to five years. This means LGR will be able to fund desired levels of new business, while both contributing to a progressive dividend and building the Group solvency coverage ratio over time. At that point, LGR will no longer be dependent on other divisions to fund its growth meaning, in turn, that incremental earnings growth for the Group as a whole will become increasingly capital light.

We have already made strong progress in the first year of the new targets, with net release from operations (cash generation) of £1,539 million and Solvency II operational surplus generation (capital generation) of £1.5 billion. Both cash and capital generation exceeded our total dividends in 2020 of £1.0 billion, which is broadly on track for our 5 year cumulative dividend ambition.

All of the Group's businesses appear to be well placed to take advantage of structural opportunities in their respective sectors. How do you expect them to contribute to the delivery of your ambitions and what does this mean for how Legal & General will look as a company in five years time?

We expect balanced growth across all our businesses with a view to further internationalise, with more opportunity in the US for our investment management, institutional retirement and insurance businesses. Our approach of using the skills and expertise we have built in our market leading UK businesses and deploying them in similar markets abroad has been successful and we intend to continue this approach to achieve our objectives:

- Our investment management business continues to focus on expansion in the US and Europe. Over the last five years LGIM's international assets under management (AUM) more than tripled to reach £388 billion – 30% of LGIM's total AUM.
- Our institutional retirement business plans to deliver $10 billion of international pension risk transfer over the next five years (2020: £1.3 billion).
- Our insurance business intends to more than double US protection new business volumes to £200 million by 2024 (2020: £80 million).

In addition to international expansion, we see significant scope for growth in our capital investment and retail retirement businesses, who currently represent 12% and 15% of the Group's operating profit respectively (excluding mortality releases).

Our capital investment business has generated attractive shareholder value creation over the past five years by delivering excess returns on shareholder assets and originating attractive alternative assets for LGR. We plan for the business to enter its next phase of growth by bringing in third-party capital with an ambition for this to reach over £14 billion by 2024 (2020: £5.2 billion).

Our retail retirement business (LGRR) operates across the full retail retirement journey in the UK. Each year in the UK, people retire with more than £40 billion in aggregate savings, but only about £4 billion is used to buy annuities. There is meaningful opportunity for LGRR to expand its addressable market and grow materially over the next five years as we help address this product gap for customers.

In five years, we expect to be an even more diversified, profitable company, with all businesses and regions working to deliver inclusive capitalism for shareholders, customers, and society.