



## Legal & General: IFRS 17 investor and analyst event

Legal & General Plc (“Legal & General” or the “Group”) will provide an update on IFRS 17 to investors and analysts, releasing a recorded video and accompanying slides at 14:00 GMT followed by virtual Q&A at 14:45 GMT today, Tuesday 29 November. Access to both is here: [link](#)

IFRS 17 – a global standard due to be implemented by the sector on 1 January 2023 – is an accounting change which does not change our strategy, solvency or dividends. The introduction of a CSM (Contractual Service Margin) and Risk Adjustment (RA) creates a significant store of future value (£13-14bn) that will result in more predictable and growing Insurance profits from a lower base.

### No change in commitment to delivering on our 2020-2024 capital generation and dividend ambitions

The Board’s confidence in the Group achieving its 5 year ambitions is unchanged. IFRS 17 does not change the underlying economics of our Insurance contracts. It will not impact LGIM or LGC. It will impact the reporting of our annuity and protection businesses (LGRI, Retail), changing the timing of recognition of earnings from these products but not the quantum. It does not change our:

- **Ability to generate cash and capital:** We demonstrated at the interims that we are on track to achieve our cumulative cash and capital ambitions, even under a zero-growth scenario. We are aiming to generate £8-9bn of cumulative capital generation between 2020-2024. As at HY22, we had generated cumulative capital of £4.1bn. Neither cash nor capital generation are impacted by IFRS 17, which is an accounting measure.
- **Strategy:** The Group has established expertise in asset origination (LGC) and asset management (LGIM), and in the provision of retirement and protection solutions to corporates and individuals (LGRI and Retail). We operate at scale and are strongly positioned to capitalise on significant growth opportunities across our chosen markets and geographies.
- **Ability to invest in future growth:** We demonstrated at the interims that we have capacity to write £8-12bn of UK PRT and Retail Annuities in 2022 and for the UK annuity portfolio still to be self-sustaining. We are on course to generate £0.5bn of cumulative net surplus over the dividend (2020-2022). IFRS17 will not change our ability to invest in future growth or the margins on that business.
- **Solvency position:** The Group’s Solvency position is currently estimated to be in a range of 220-225%, excluding any benefit from proposed Solvency II reform (FY21: 187%). This provides a significant buffer and attractive optionality to capitalise on our growth opportunities.
- **Creditworthiness:** Our credit ratings are strong (Fitch: AA-, Moody’s Aa3, S&P AA-, AM Best: A+)¹. Rating agencies have noted that the introduction of IFRS 17 does not change the underlying economics of insurers and is therefore unlikely to change creditworthiness.
- **Dividend-paying capacity or appetite:** IFRS 17 does not change the Board’s view on the strength of the Group’s cash and capital generation profile. We are therefore today giving more specific dividend guidance which underlines the Board’s commitment to a progressive dividend, the Board having carefully considered the Group’s financial position and having had regard to the general economic outlook for the UK and the other countries in which the Group operates. The Group set out an ambition at its 2020 capital markets day to grow the dividend at 3-6% per annum to FY24². Whilst dividend decisions are made annually, **the Board’s aim is to continue to grow the dividend at 5% per annum to FY24.**³

### The CSM and RA are a significant store (£13-14bn) of predictable future value

IFRS 17 introduces the balance sheet concepts of a contractual service margin (CSM) and risk adjustment (RA). These represent discounted, future value that will unwind into profits over time. We expect the CSM to be an important driver of Insurance earnings. Based on transition at 1 January 2022 we expect to create a CSM and RA

¹ Ratings shown are Legal and General Assurance Society Limited Financial strength rating

² Dividends declared

³ Absent market shocks / events outside of our control

stock of around £13.5 billion – a significant store of future value. We expect equity to reduce by around £5.5bn. We expect return on equity to increase under IFRS 17 due to the reduction in equity.

IFRS 17 also introduces a more stable and predictable profit profile through the CSM release. For L&G, this benefit emerges through the deferral of new business profit and demographic assumption changes to the CSM, which will then be spread and released into profit consistently over the lifetime of the contract. Historically, these two components have made a meaningful contribution to Group operating profit from divisions.

Indicatively, the removal of these two components, with an adjustment to reflect the higher anticipated release from the in-force book, would reduce divisional operating profit by c20-25%.<sup>4</sup> We expect Insurance earnings to grow in a more stable and predictable way from this new base.

We are confident in our ability to continue to write profitable new annuity and protection business, and therefore to grow the CSM and related profits over time. Indicatively, writing £10bn of UK PRT per annum would result in 6-7% CAGR in related operating profit over five years. This would be higher if we wrote more than £10bn per annum. We continue to see compelling investment opportunities across all our businesses, providing further scope to deliver growth beyond this level.

### **Expectations for FY22 operating profit and capital generation unchanged**

Consistent with the guidance provided at HY22, we expect to deliver resilient FY22 operating profit growth in line with the 8% delivered in H1 (£1.16bn vs £1.08bn) and FY22 capital generation of £1.8bn.

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<sup>4</sup> Based on average new business premiums and assumption changes over last 3 years

## Notes to editors

### About Legal & General

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with around £1.3 trillion in total assets under management (as at H1 2022) of which a third is international. We also provide powerful asset origination capabilities. Together, these underpin our leading retirement and protection solutions: we are a leading international player in pension risk transfer, in UK and US life insurance, and in UK workplace pensions and retirement income. Through inclusive capitalism, we aim to build a better society by investing in long-term assets that benefit everyone. As at 28 November 2022, Legal & General has a market capitalisation of £15.3 billion.

### 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, results, strategy and objectives. Forward-looking statements often use words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they are subject 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. Please see Legal & General's most recent Annual Report and Accounts for further details of risks, uncertainties and other factors relevant to the business and its securities (available at: <https://group.legalandgeneral.com/en>). 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 undue 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 does not undertake to update forward-looking statements contained in this announcement or any other forward-looking statement it may make.

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