



Legal & General: Continued positive momentum and a robust balance sheet despite market volatility

Legal & General Group Plc (“Legal & General” or the “Group”) has maintained the positive momentum seen over the first half of the year and is continuing to deliver into H2, despite the prevailing macro conditions. Volatility has increased significantly in H2, but this has limited economic impact on our businesses.

Update on LGIM’s UK LDI business

Recent extraordinary increases in interest rates, and the unprecedented speed of those increases, have caused challenges for the pension fund clients and counterparties of LGIM’s UK LDI (Liability Driven Investment) business.

The Bank of England announced last Wednesday its intention, in line with its financial stability objectives, to carry out purchases of long dated gilts in a temporary and targeted way to restore orderly market conditions. Interest rates have reduced as a result.

These steps have helped to alleviate the pressure on our clients. We are continuing to work closely with them to achieve appropriate hedging levels in their portfolios. LGIM acts as an agent between our LDI clients and market counterparties and therefore has no balance sheet exposure.

Legal & General’s Annuity Portfolio

The Group’s annuity portfolio continues to perform well and demand for global PRT is accelerating.

Despite volatile markets, the Group’s annuity portfolio has not experienced any difficulty in meeting collateral calls and we have not been forced sellers of gilts or bonds. One of the strengths of the UK insurance regime is that we regularly monitor and stress our capital and liquidity requirements to a 1 in 200 stress level so that we can withstand shocks like we have seen in the past few days. We hold considerable buffers over these prudent requirements and have a wide array of tools available to manage collateral calls – for example, being able to post a variety of different types of assets, or assets in different currencies, as collateral.

Demand for global PRT continues to increase, with funding deficits reducing because of rising interest rates and widening credit spreads. LGRI (Legal & General Retirement Institutional) has transacted or is in exclusive negotiations with a further £1.3bn of PRT since H1, including two transactions signed last week, taking the total written year to date to £5.8bn. The global pipeline for the remainder of 2022 and into 2023 is the busiest we have ever seen, and we are on track to deliver another strong result this year.

Volumes continue to be written at margins and capital strain in line with our long-term average, and we expect the UK annuity portfolio to be self-sustaining again in 2022.

International growth

We have a strong PRT pipeline in the US and Canada. We have started to source two new areas of Direct Investment in the US to support that pipeline, and we are further building out our US Alternative asset origination capabilities via Ancora L&G, LGC’s first US investment, which is focused on developing life science and technology assets alongside anchor institutions. The partnership with Ancora is progressing well and we expect to announce details of our first two schemes shortly.

Solvency, Leverage and Liquidity

The Group estimates its **Solvency coverage ratio as at 30 September 2022 to be between 235-240%**, up at least 23 percentage points from HY 2022 (212%), principally reflecting the contribution from higher interest rates and strong ongoing operational surplus generation, and after paying the 2022 interim dividend.

Group liquidity remains strong with c£2.3bn of available cash across the Treasury and the LGC Traded portfolio and is in addition to the large amount of cash and gilts held by the annuity portfolio. All our businesses continue to generate high levels of cash. **IFRS and Solvency II leverage ratios continue to reduce as the balance sheet grows.** Ratings from Fitch (AA-), Moody's (Aa3) and S&P (AA-) remain strong and unchanged¹.

Expectations for FY22 operating profit and capital generation unchanged

In line with the guidance provided at HY, we expect to deliver FY operating profit growth in line with the growth delivered in H1 (8%) and FY capital generation of £1.8bn. We expect interest rate increases to continue to have a positive impact on our earnings per share and on our solvency coverage ratio.

Sir Nigel Wilson, Group Chief Executive, Legal & General said:

“Our businesses are resilient, and we are on track to deliver good growth in key financial metrics for FY 2022. Rising interest rates are having a positive impact on demand for PRT, and on our EPS and solvency coverage ratio. Our balance sheet and liquidity position remain strong, and our businesses are highly cash generative. We continue to work closely with our customers to support them through this period of increased market volatility.”

¹ Ratings shown are Legal and General Assurance Society (LGAS) Limited financial strength rating

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 3 October 2022, Legal & General has a market capitalisation of £13.3 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 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 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 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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