IFRS 17 Transition Update

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- For the purposes of this presentation, “at transition” references are to the Group’s expected opening balance sheet information as of 1 January 2022 as calculated under IFRS 17 and IFRS 9. “Post-transition” refers to the Group’s financial reporting from 1 January 2022.
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- **All figures in this presentation are preliminary, unaudited and subject to change.**

Contents

Recap of key messages

No change in intent to deliver on our 2020-2024 capital generation and dividend ambitions

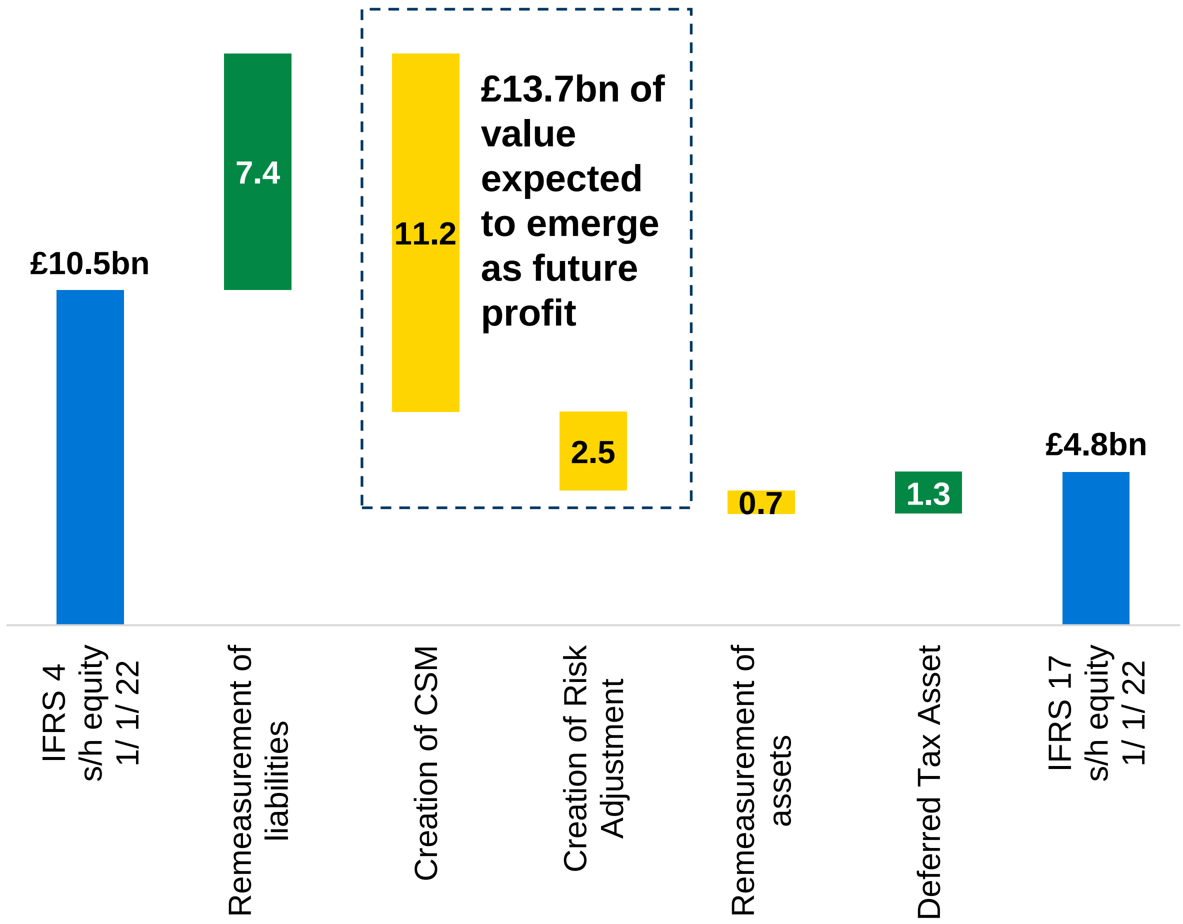
The Board's confidence in the Group achieving its 5 year ambitions is unchanged. The Board's aim is to continue to grow the dividend at 5% per annum to FY24

2020-2024 Ambition	Status
£8-9bn of cumulative capital generation[1]	We are on track to achieve our cumulative capital ambition, even under a zero-growth scenario. As at FY22, we had generated cumulative capital of £4.9bn
EPS to grow faster than DPS[2]	More stable and predictable profits under IFRS 17 give confidence in EPS growth
Net surplus generation (NSG) to exceed dividends over the period	£0.7bn of net surplus over dividend (2020-2022)
Dividends to grow at 3-6% per annum	The Board intends to grow the dividend at 5% per annum to FY24, i.e. 20.34p at FY23 and 21.36p at FY24[3]

1. As disclosed in November 2022, we have chosen to retire the cash generation ambition going forward as 'net release from operations' will no longer exist under IFRS 17
2. FY22 EPS will be restated under IFRS 17
3. In stating this intention, the Board has carefully considered the Group's financial position and had regard to the general economic outlook for the UK and the other countries in which the Group operates

IFRS 17 creates a 'transition day' CSM and RA stock of £14bn[1]: future value that will unwind into profits

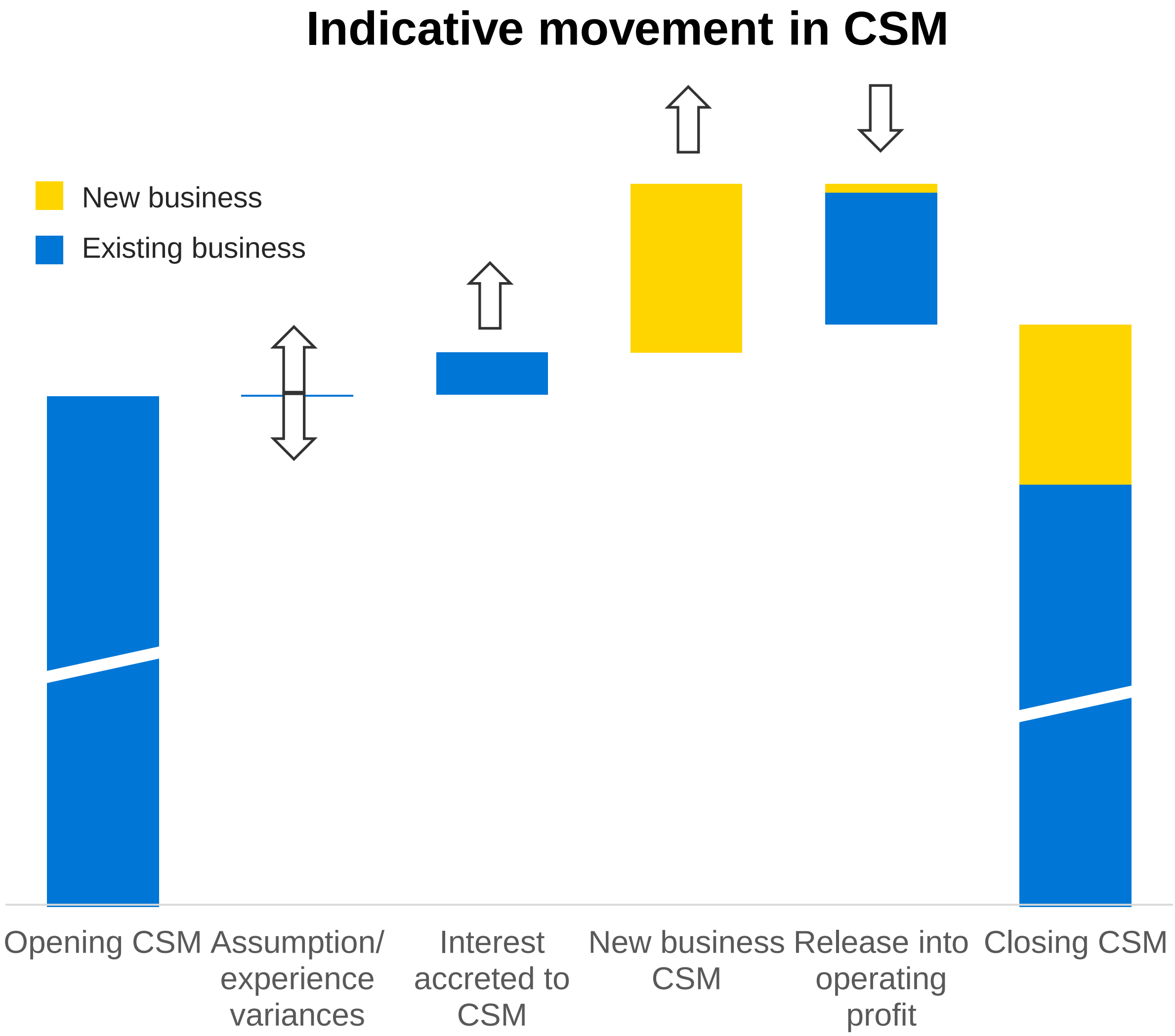
Indicative Group Shareholders' equity impact at 1.1.22



- At transition, **shareholders' equity reduced by c.£5.6bn**, primarily due to the requirement to set up a CSM with offset from changes to the measurement of liabilities
- **Remeasurement of existing liabilities** to reflect removal of prudent margins and provisions held under IFRS 4, changes to discount rates and removal of non-attributable expenses
- The CSM on transition provides a view of the **stored value of our insurance business** that is expected to unwind into profits
- The **magnitude of the CSM,** at transition, **demonstrates the level of future value in our insurance businesses**
- The **Risk Adjustment replaces IFRS 4 prudent margins,** and will be released into profit if experience plays out as expected

 1. CSM and RA stock gross of tax

The CSM represents a key driver of future insurance business accounting profits



- The CSM balance is expected to release into profit over time
- The CSM provides a view of both stored value of our in-force insurance business, in addition to the growth derived from new business in the current year
- Interest will be added to the CSM each year based on the average weighted locked-in rate from inception
- The closing CSM will also include the impact of changes in demographic assumptions implemented over the period
- The CSM release (into operating profit) will include a small proportion of release from new business sold over the year as well as a small proportion of the impact from any assumption changes made in the current year
- **Growth in the CSM balance will result in growth in future CSM releases and, therefore, future operating profit**

IFRS 17 does not change strategy, capital generation, solvency or dividends

IFRS 17:

- Is an accounting change, which does not change the underlying economics of our insurance contracts
- Will change the timing of recognition of insurance earnings, not the quantum
- Will result in more stable and predictable earnings from our insurance products
- Will impact the financial reporting of our annuity / life insurance businesses (i.e. LGRI, Retail)
- Will not impact our non-insurance / asset management businesses (i.e. LGIM, LGC)

- Does not change our:
  - Ability to generate cash and capital
  - Ability to invest in future growth
  - Solvency position (currently estimated to be approximately 225%[1])
  - Creditworthiness (Fitch AA-, Moody's AA3, S&P AA-, AM Best A+)[2]
  - Dividend-paying capacity

Will create a 'transition day' CSM / RA stock of £14bn – a significant store of future value

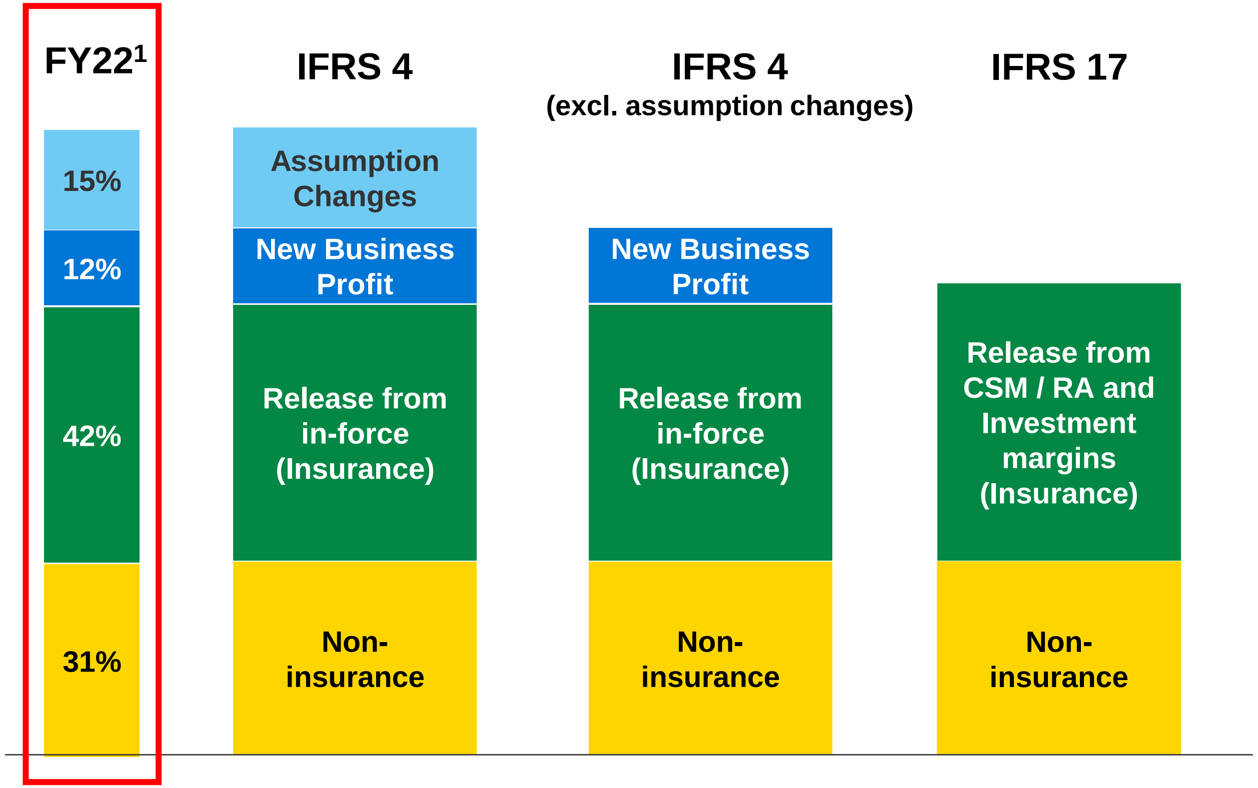
1. As at 30th June. Excluding any benefit from proposed Solvency II reform
2. Ratings shown are Legal and General Assurance Society Limited Financial strength rating

IFRS 17 FY 2022 financials

Initial reduction in FY22 operating profit due to deferral of new business profits and assumption review impacts

We expect to deliver consistent growth in Insurance Operating Profit from the new base

Operating Profit from divisions



On restatement to IFRS 17

In-force CSM is recalibrated to reflect best estimate assumption changes. The additional CSM is released into profit over the remaining lifetime of the contracts

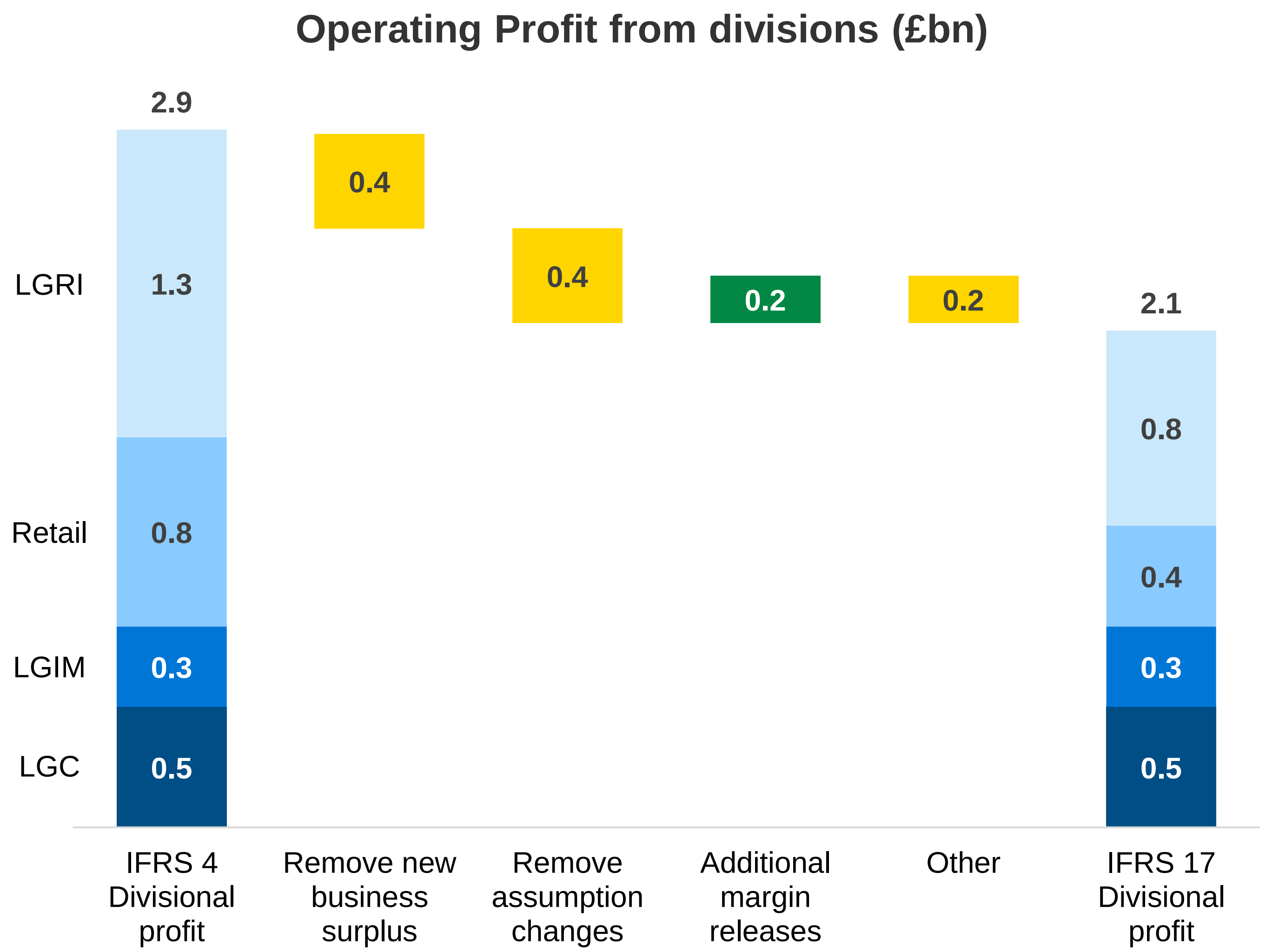
Additional CSM is created each year for new business and the new business CSM is released over the lifetime of the contract

The release from in-force business is higher under IFRS 17 as the expected CSM and RA releases are larger than the expected release of prudent margins under IFRS 4

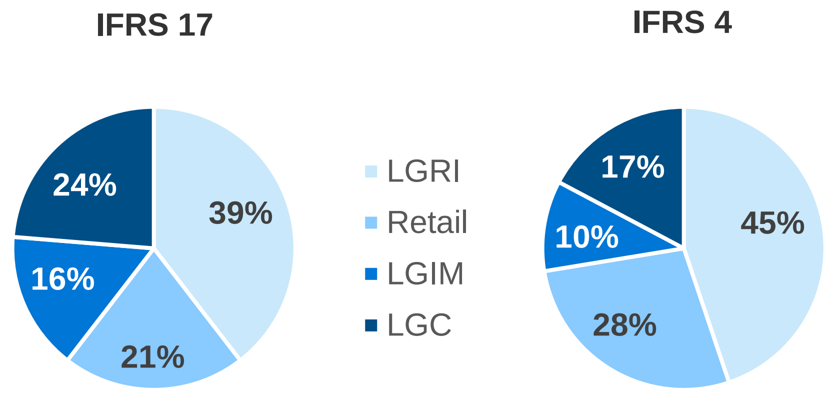
Non-insurance profits are unchanged

1. Based on the FY22 IFRS 4 disclosure

FY22 IFRS 17 operating profit from divisions estimated to be £2.1bn



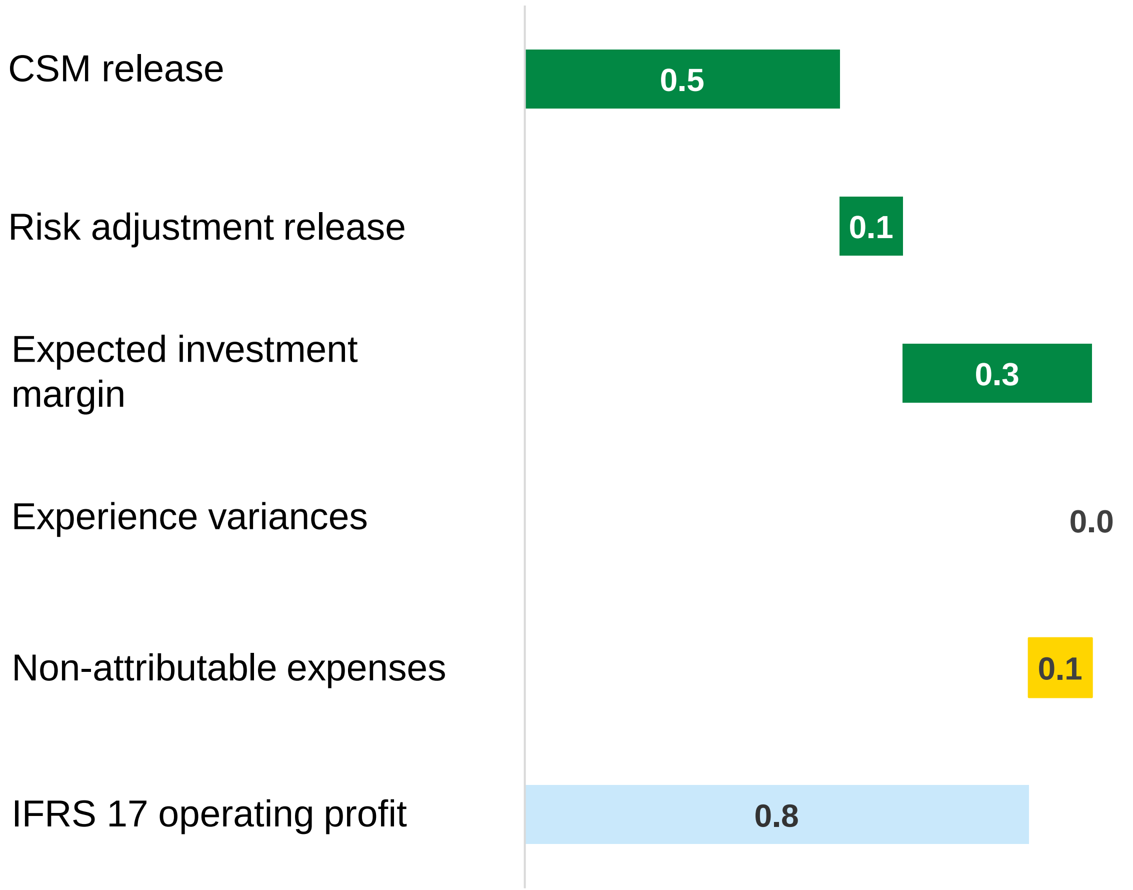
- The main drivers of the change are the removal of £0.4bn new business profits and £0.4bn of assumption changes, both of which are now deferred and released over the lifetime of the contract
- Under IFRS 17 we will have a more balanced mix of earnings



 | Note: Numbers in the chart above do not sum due to rounding

LGRI IFRS 17 FY22 estimated result

Key drivers of FY22 LGRI IFRS 17 operating profit (£bn)



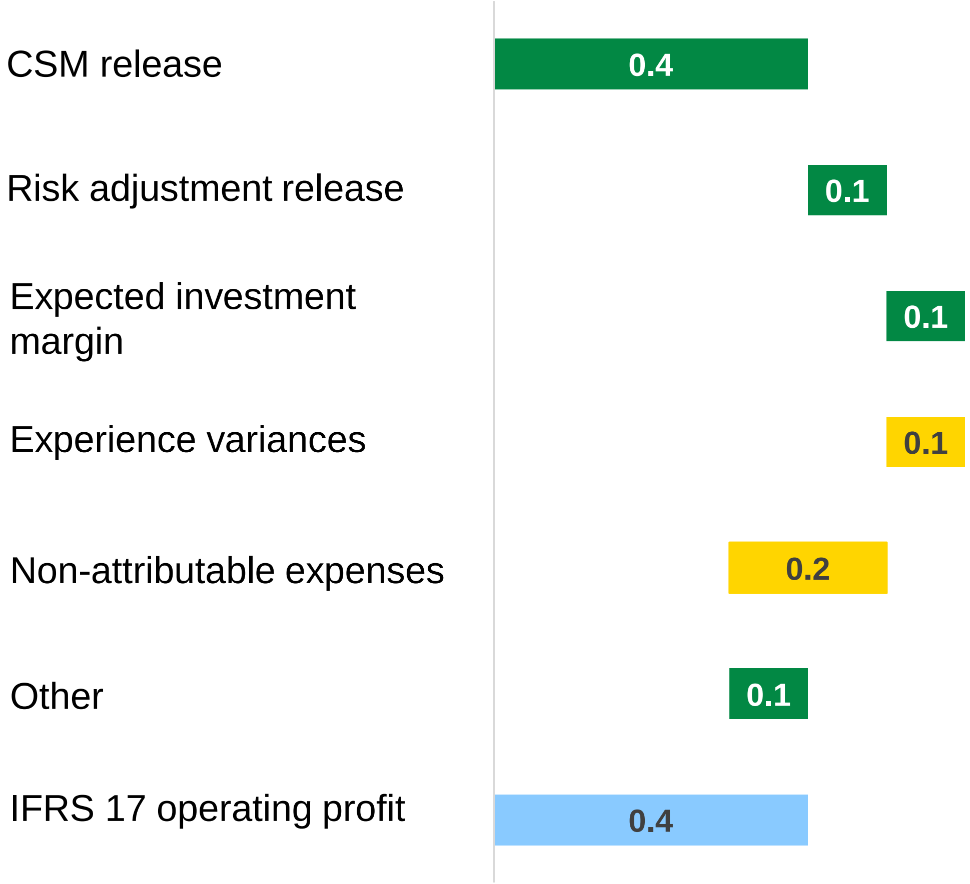
- The CSM release reflects the provision of insurance service and has run-off at approximately 6% of the closing CSM pre-release (c£8.1bn). This incorporates a small benefit from the positive assumption changes in the year and the impact of new business (NB)
- The Risk adjustment release of c£0.1bn is expected to be consistent year on year
- The Expected investment margin incorporates the release of the prudence in the discount rate, the expected returns on surplus assets and the impact of back book asset optimisation actions
- Experience variances only reflect the difference between the expected and actual in-year cash flows. The impact of experience on future cash flows is reflected in the CSM
- Expenses which are not included in the insurance liabilities are recognised as incurred

Indicatively, writing £10bn of UK PRT per annum will generate around £0.8-0.9bn of CSM and RA in that year, with an average duration of typically around 12-14 years[1]. Broadly, this would result in **6-7% CAGR in UK PRT operating profit over five years**

1. The quantum of CSM and RA will be dependent on a number of factors, notably the amount of funded reinsurance employed

Retail IFRS 17 FY22 estimated result

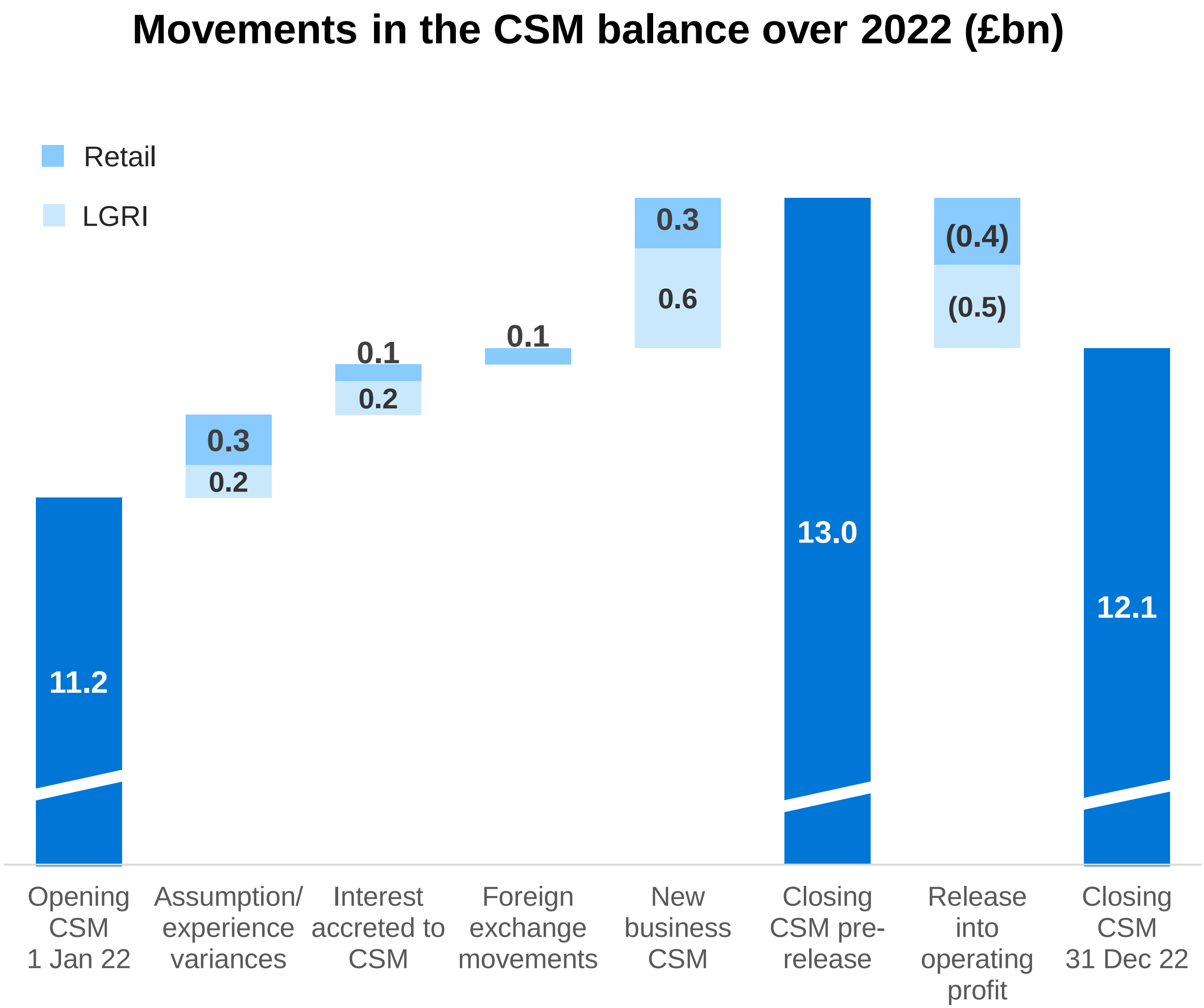
Key drivers of FY22 Retail IFRS 17 operating profit (£bn)



- CSM release reflects the provision of insurance service and has run-off at approximately 9% of the closing CSM pre-release (c£4.9bn). This incorporates a small benefit from the positive assumption changes in the year and the impact of new business (NB)
- The Risk adjustment release of c£0.1bn is expected to be consistent year on year
- Experience variances largely relate to adverse mortality experience in the US
- Expenses which are not included in the insurance liabilities are recognised as incurred
- Other includes non-insurance earnings. NB: this represents valuation uplifts following successful funding rounds in SalaryFinance and Smartr365 in 2022

Long-term value creation from high quality new business

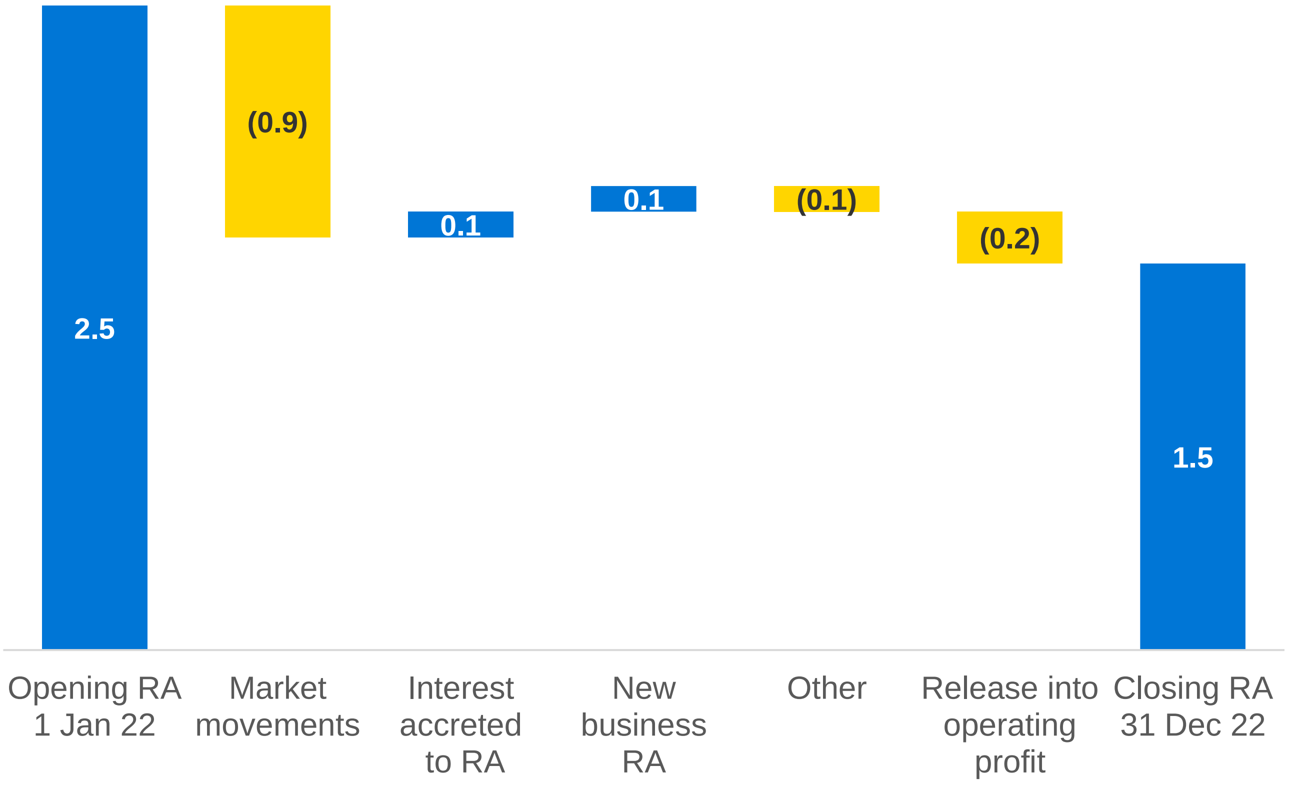
The CSM represents a key driver of future insurance business accounting profits



- The CSM balance is expected to release into profit over time
- Assumption changes of c£0.5bn largely reflect the routine base longevity update in Retail and Institutional annuities
- Interest will be added to the CSM each year based on the average weighted locked-in rate from inception
- New business contributed c£0.9bn to the CSM balance
- c£0.9bn released into operating profit, which is c7% of the closing CSM pre-release balance
- The CSM is calculated using inception discount rates which do not change, therefore the CSM balance is not impacted by market movements
- H1 releases into operating profit only include the relevant proportion of new business written over H1 and do not include the benefit of assumption changes, which are typically undertaken in H2

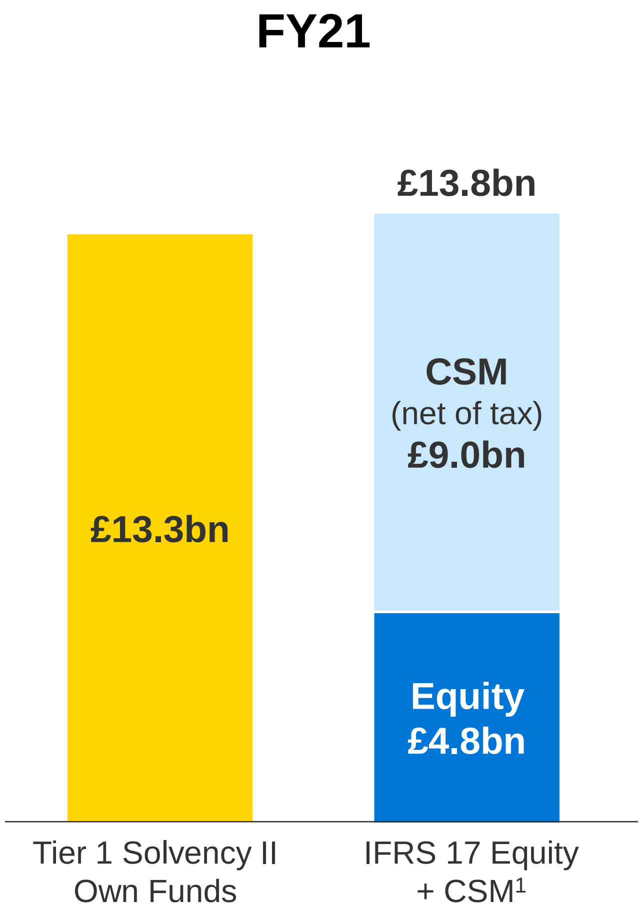
The Risk Adjustment is also expected to release into operating profit over time as risk releases

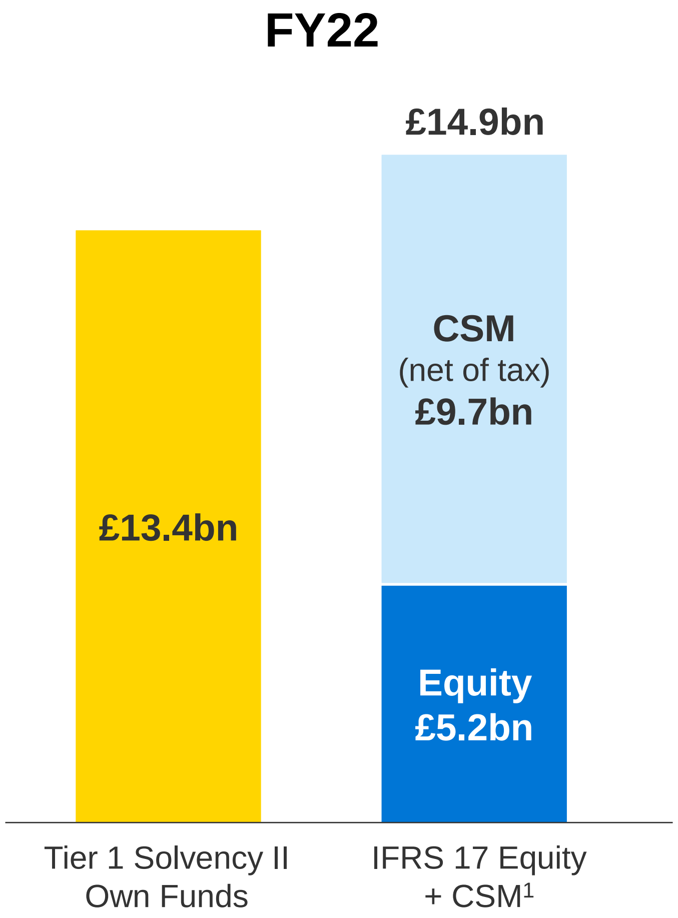
Movements in the RA balance over 2022 (£bn)



- The Risk Adjustment is remeasured to current discount rates
- Interest rate rises in 2022 significantly reduced the Risk Adjustment in present value terms but the expected releases in each future year are expected to remain at the same magnitude (c£0.2bn)
- Recalibration of the future risks is taken to the CSM
- As with the CSM, the release will include a small proportion of release from new business sold over the year

The CSM represents a discounted store of future value that can be added to IFRS 17 equity from a valuation perspective





- We believe it is important to consider CSM alongside equity, given the large stock of future earnings it represents
- This approach highlights the in-force value of our existing business
- Additional sources of value include: new business franchise value, investment margins for the annuity business and future non-insurance earnings

1. There are other potential sources of value not indicated here, e.g., investment margin, risk adjustment, franchise value and non-insurance businesses

Projecting IFRS 17 Operating profit

The key drivers of IFRS 17 insurance division operating profit

IFRS 17 key profit drivers	Explanation
CSM release	Reflects the release of un-earned insurance profits as the insurance service is provided over time. This is calculated at the end of the period and therefore includes an impact from both new business written and from assumption changes that have recalibrated the CSM
Risk adjustment release	Reflects compensation for taking non-financial risks. This is released if experience plays out as expected over time
Expected investment margin	This reflects expected return above the unwind of the insurance liability discount rates
Insurance experience variances	Reflects in-year actual vs. expected insurance experience from our underlying assumptions
Non-attributable expense	Expenses that are not included in the calculation of the insurance liabilities because they are not ‘directly attributable’ are expensed as incurred and are not offset by a release from the insurance liability
Other	Includes non-insurance earnings of LGRI (currently none) and Retail (Fintech, Workplace Savings, Lifetime mortgages and Mortgage Services)

Understanding future drivers of Insurance Profit

CSM release

For LGRI we expect c6% of the closing CSM pre-release to run-off each period[1]
For Retail we expect c9% of the closing CSM pre-release to run-off each period[1]
We expect our aggregate CSM to continue to grow over time

Risk Adjustment (RA) release

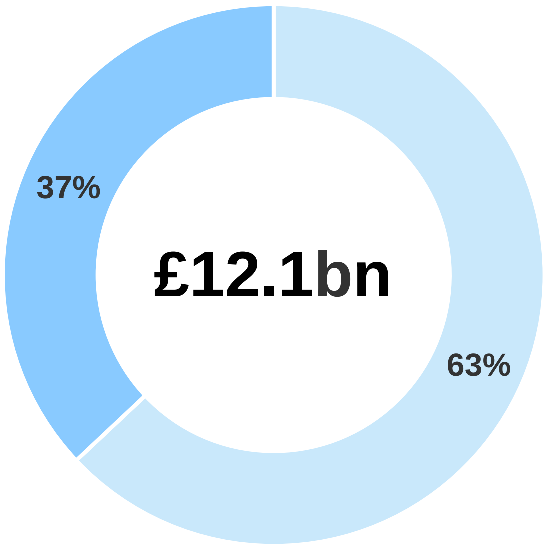
The proportion of RA earned in each period will change as discount rates change although we expect the overall release to remain broadly consistent year on year

The RA will increase as volumes grow and is dependent on changes in assumptions and our view of uncertainty. The RA will recalibrate with changes in discount rates

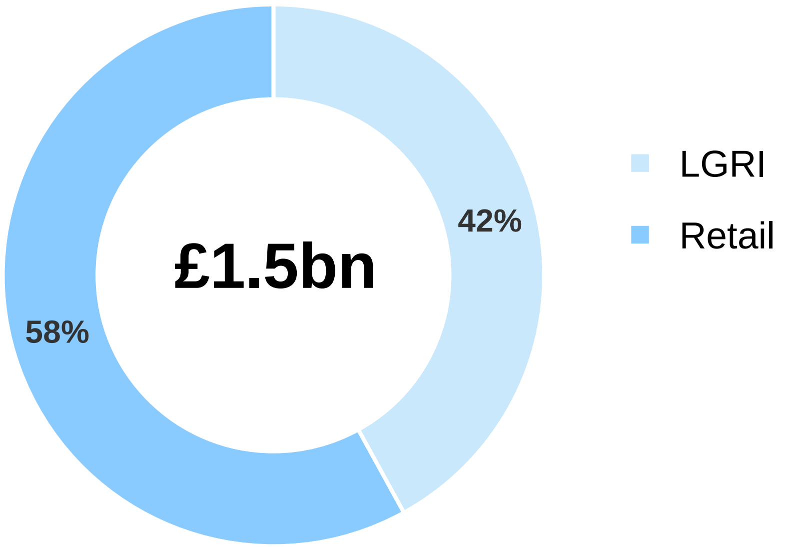
1. This constitutes nearer-term guidance. The run-off percentage may change over time and depending on the proportion of new business we write

FY22 CSM and Risk Adjustment by business lines

CSM



Risk Adjustment



Division	CSM[1] (£bn)	%	2022 release (£bn)	Closing CSM (£bn)
LGRI	c8.1	~6	c(0.5)	c7.6
Retail	c4.9	~9	c(0.4)	c4.5
Group	**c13.0**	**~7**	**c(0.9)**	**c12.1**

Division	RA[1] (£bn)	%	2022 release (£bn)	Closing RA (£bn)
LGRI	c0.7	~14	c(0.1)	c0.6
Retail	c1.0	~7	c(0.1)	c0.9
Group	**c1.7**	**~10**	**c(0.2)**	**c1.5**

1. Closing CSM & RA balances pre-release into operating profit

Understanding future drivers of Insurance Profit

Insurance Investment Margin

This reflects expected return over the unwind of the discount rate used to calculate liabilities, including the interest accredited in year to the CSM balance based on locked in historic discount rates

The Insurance Investment Margin will grow: a) with the growth of our back book and b) as we continue to optimise our back book asset portfolio over time

What we told you in November…

IFRS 17 adopts a similar level of prudence for credit default as IFRS 4.
We expect just over half of this prudence to unwind into operating profit.
When added to the market compensation for other risks within the discount rate and the expected return on our surplus assets, this equates to over £300m per annum

Understanding future drivers of Insurance Profit

Experience variances

Reflects in-year actual vs. expected insurance experience against our underlying long term assumptions

Over time we would expect variances to our long term assumptions to balance out although short term volatility can occur

Non-attributable Expenses

Non-attributable expenses are overhead-type expenses which are expensed as incurred. They are explicitly excluded from inclusion in the IFRS 17 insurance liability and are therefore not offset by releases from the liability, although pricing would ensure that at inception there is CSM to cover them

The non-attributable costs will remain fairly stable over time i.e. predominately reflecting inflationary increases

In closing…

IFRS 17 doesn't change our strategy, solvency or dividends. We will report our first set of IFRS 17 numbers in August 2023

Key messages

- This is just an accounting change
- It changes the <u>timing</u> of recognition of Insurance earnings, not the quantum
- It will result in <u>more stable and predictable earnings</u> from our insurance products
- It will impact our financial reporting of our annuity / life insurance business (i.e. LGRI, Retail)
- It <u>will not</u> impact our non-insurance / asset management businesses (i.e. LGIM, LGC)
- **It does not change our strategy, solvency position or our dividend paying capacity or appetite**
- **We are committed to delivering on our 2020-2024 capital generation and dividend ambitions**
- **Over our plan period, we expect to grow LGRI earnings by at least 6-7% CAGR. We continue to see compelling investment opportunities across all our businesses providing scope to deliver growth beyond this level**

Appendix

IFRS 17 FY22 summary (LGRI and Retail)

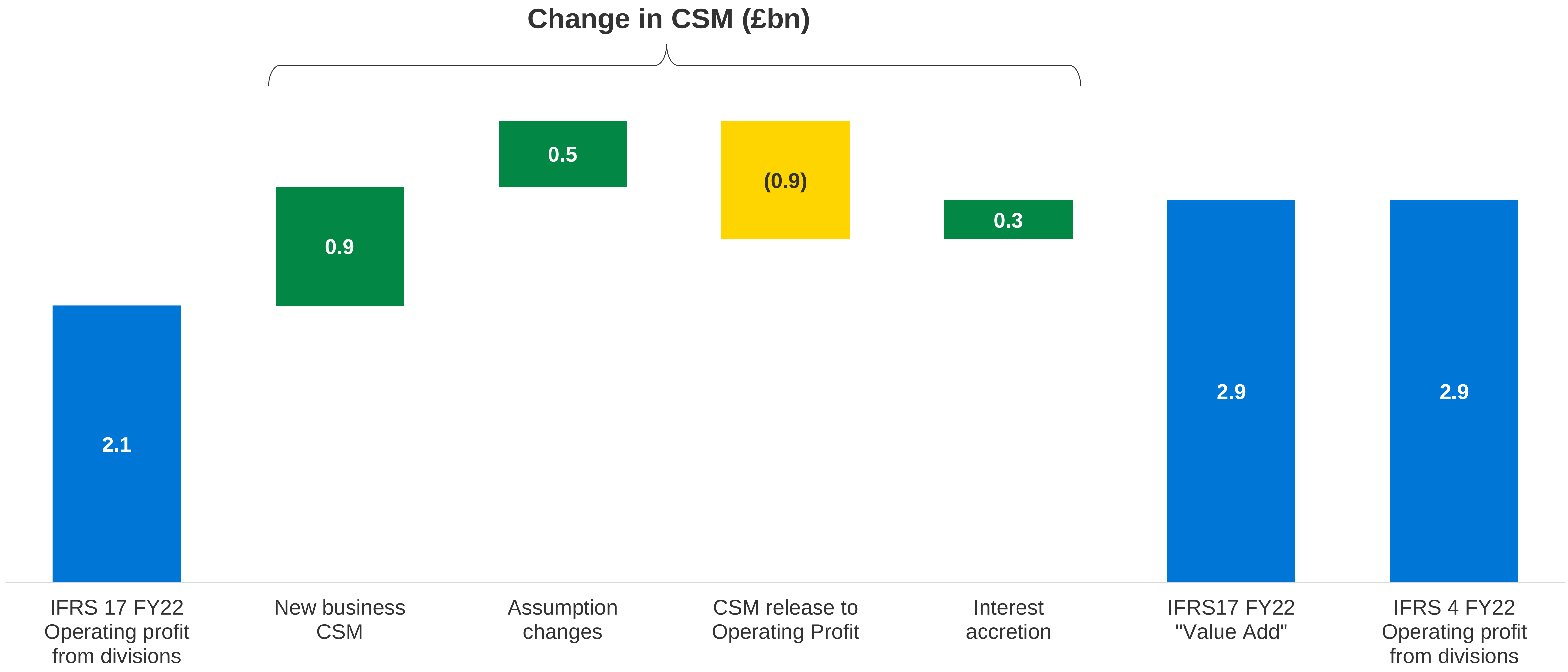
£bn	LGRI	Retail	Total
CSM release	c0.5	c0.4	c0.9
Risk Adjustment release	c0.1	c0.1	c0.2
Expected investment margin	c0.3	c0.1	c0.4
Experience variances	-	c(0.1)	c(0.1)
Non-attributable expenses	c(0.1)	c(0.2)	c(0.3)
Other	-	c0.1	c0.1
IFRS 17 operating profit	**c0.8**	**c0.4**	**c1.2**
CSM Opening Balance	**c7.1**	**c4.1**	**c11.2**
Assumptions/Experience	c0.2	c0.3	c0.5
Interest Credited	c0.2	c0.1	c0.3
Foreign Exchange	-	c0.1	c0.1
NB Value Created	c0.6	c0.3	c0.9
Closing CSM pre-release	**c8.1**	**c4.9**	**c13.0**
Earnings Released to Profit	c(0.5)	c(0.4)	c(0.9)
CSM Closing Balance	**c7.6**	**c4.5**	**c12.1**

FY22 Group Operating profit

£bn	LGRI	Retail	Total	Comments
CSM release	c0.5	c0.4	c0.9	Main driver of operating profit
Risk adjustment release	c0.1	c0.1	c0.2	
Expected investment margin	c0.3	c0.1	c0.4	
Insurance experience variances		c(0.1)	c(0.1)	
Non-attributable expenses	c(0.1)	c(0.2)	c(0.3)	
Other (incl. Retail non-insurance earnings)		c0.1	c0.1	FY22 includes Fintech revaluation gains
Operating Profit from Insurance Divisions			**c1.2**	
LGIM			0.3	No change
LGC			0.5	No change
Operating Profit from Divisions			**c2.1**	
Group debt costs			(0.2)	No change
Group investment projects & expenses			(0.2)	No change
Operating profit			**c1.7**	

 | Note: Numbers in the table above do not sum due to rounding

IFRS 17 “Value Add” arises from operating profit and the increase in the CSM



 1. There are other potential sources of value not indicated here, e.g., investment margin, risk adjustment, franchise value and non-insurance businesses

IFRS 17 will impact shareholders' equity and the timing of profit recognition for our annuity and protection businesses

We are required to apply IFRS 17 to all existing in-force contracts. We are applying the General Measurement Model to all our business measured under IFRS 17

This means that we derecognise profits that relate to future services, already held in the IFRS 4 shareholder equity, and spread them over the remaining lifetime of the contract. This creates a stock of contractual service margin (CSM) which is released into operating profit as the insurance contracts are fulfilled

Division	Product / service	Impacted by IFRS 17?
LGRI	Pension Risk Transfer	Yes
Retail	Workplace Savings Lifetime Mortgages Individual Annuities UK and US Life Insurance Fintech	No No Yes Yes No
LGIM	Asset Management	No
LGC	Asset Creation	No

- IFRS 17 will impact our shareholders' equity position at transition and the composition of profit on adoption
- To contextualise, this impacts businesses that contributed c69% of the FY22 divisional operating profit (under IFRS 4)
- The accounting treatment on the remaining c31% of FY22 divisional operating profit is not impacted

IFRS 4 vs. IFRS 17 differences in profit composition

		IFRS 4	IFRS 17
NON-INSURANCE		Earnings on our non-insurance businesses are unchanged	
INSURANCE BUSINESSES	New business profit	Expected profit recognised on day 1 in new business surplus net of acquisition costs	Day 1 profit deferred on the balance sheet and spread over contract life through release of CSM. Day 1 losses go through P&L, with some offset against reinsurance profits
	Allowance for risk	Margins and provisions for deviations from best estimate included within Insurance liabilities	Value at risk (VaR) method used to calculate a risk adjustment for non-financial risk. Non-financial risk is allowed for within the discount rates
	Demographic Assumption changes	Recognised immediately in operating profit	Impact deferred on the balance sheet and spread over contract life through the release of CSM[2]
	Discount rates	A valuation interest rate derived from the assets held with deductions for credit default and investment expense	Discount rates are based on appropriate asset portfolios with economic deductions similar to IFRS 4. CSM is recalibrated based on inception locked in rates
	Expenses	Attributable and non-attributable expenses are included with the insurance liabilities under IFRS 4	Non-attributable expenses are not included within the IFRS 17 insurance liabilities, these are recognised as they are incurred in P&L
	Investment variances	Variances to expected returns recorded in investment variance	Vast majority of Annuity portfolio: Variances to expected returns recorded in investment variance. Protection business: mostly recorded through OCI[1]

1. See slide 32 for detail on P&L accounting choices that reduce areas of volatility in earnings
2. Unless the CSM is exhausted in which case changes are reflected immediately

IFRS 17 earnings will be more predictable with less volatility

The biggest sources of insurance profit will emerge from the release of CSM and RA, as well as the expected return on assets above the discount rate

As previously highlighted, the impact of new business and changes in non-financial risk or best estimate assumptions will not materially impact in year earnings. Lower volatility is expected across several key components:

Earnings component	IFRS 4	IFRS 17	IFRS 17 impact
CSM release	n/a - new concept	Operating Profit	**Predictable**
Risk adjustment release	Operating Profit (prudence release)	Operating Profit	**Increased transparency and predictability**
New business profit	Operating Profit	Increases CSM	**Less volatile**
Future demographic assumption changes	Operating Profit (in full)	Recalibrate CSM[1] (if sufficient)	**Less volatile**
Risk adjustment (future)	Operating Profit (prudential margin changes)	Recalibrate CSM[1] (if sufficient)	**Less volatile**
Expected investment return	Operating Profit	Operating Profit	**Similar**
ALM	Investment variance	Investment variance (partially mitigated by use of OCI and amortised cost)[2]	**Less volatile**

1. Recalibrate CSM and spread release into operating profit over the remaining lifetime of the contract
2. See slide 33 for detail on accounting choices that reduce areas of volatility in earnings

P&L accounting choices reduce areas of volatility in earnings

c.£7.7bn of our proprietary assets[1] (£97.6bn) will be reclassified as amortised cost or fair value through OCI[2]

Accounting choices		L&G approach	Impact on earnings volatility
IFRS 9 – Asset classification	Assets are classified based on their characteristics and the business model	**Annuities:** A portion of annuity assets, broadly backing the CSM, are classified as amortised cost **Protection:** All assets backing the protection business have been classified as either fair value through OCI or amortised cost.	**Reduces volatility in Annuity earnings arising from differences in interest rate exposure between** expected asset returns (based on current market rates) and the unwind of the CSM (at inception locked-in discount rates) **Reduces volatility in Protection earnings from use of OCI for our liabilities**
IFRS 17 – Liabilities OCI option	Option to allow changes in financial assumptions (impacting the discount rate) to be reported through OCI	**Protection**: We have elected to use the OCI option for the vast majority of our liabilities in our protection business	For liabilities reported through OCI, the P&L records the unwind of the inception locked-in discount rates on the liabilities. Any changes in discount rate will be reflected in OCI (and not through investment variances in the P&L) **Reduces volatility in earnings vs. IFRS 4.** The impact of changes in government bond yields on the discount rate we use to calculate our protection liabilities will no longer be recorded through investment variances

1. Total investments to which shareholders are directly exposed, minus derivative assets, loans, and cash and cash equivalents at YE 2021
2. OCI = other comprehensive income, a component of equity but not earnings