An introduction to IFRS 17

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Forward-looking statements

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

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 2023.

Cautionary statements

Our current estimate of shareholders' equity at transition has been included in this presentation. This is based on what we currently expect to include in our opening balance sheet under IFRS 17 and IFRS 9 as of 1 January 2022. All future IFRS 17/9 related assessments and expectations included in this presentation are based on L&G’s estimates as of today and there can be no assurance that they will not be updated as implementation progresses.

All figures in this presentation are preliminary, unaudited and subject to change.

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 in a range of 220-225%[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 £13-14bn – a significant store of future value

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

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. 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	Demonstrated at the HY that we are on track to achieve our cumulative cash and capital ambitions, even under a zero-growth scenario. As at HY22, we had generated cumulative capital of £4.1bn
£8-9bn of cumulative cash generation[1]	
EPS to grow faster than DPS[2]	More stable and predictable profits under IFRS 17 give even more confidence in EPS growth
Net surplus generation (NSG) to exceed dividends over the period	On course cumulatively to generate c£0.5bn of net surplus over dividend (2020-2022)
Dividends to grow at 3-6% per annum	Committed to grow the dividend at 5% to 2024[3]

1. Note: Our cash generation metric relates to our IFRS 4 'net release from operations' and will no longer be produced under IFRS 17. Therefore, we have chosen to retire the cash generation ambition going forward
2. FY22 EPS will be restated under IFRS 17
3. In stating this aim, 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 and IFRS 9: timeline and our planned communications approach

IFRS 17 is a new insurance accounting standard, replacing IFRS 4, that delays the timing of profit recognition so that profits materialise gradually over the duration of the insurance contract

IFRS 9 (already implemented by all other sectors in 2018) is the accounting standard for financial instruments, replacing IAS 39, addressing the classification, measurement and impairment model for certain assets

L&G is implementing IFRS 9 at the same time as IFRS 17

IFRS 17 & 9 are effective on 1st January 2023:

- FY22 results (March 2023) will be reported on the existing IFRS 4 / IAS 39 basis
- HY23 results (August 2023) will adopt the new IFRS 17 & 9 reporting standards, with restated comparatives for 2022

A further education session will be held in May 2023. We plan to provide:

- HY22 results restated on an IFRS 17 & 9 basis
- Further detail to support analyst forecasts under IFRS 17

What does IFRS 17 mean for L&G?

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

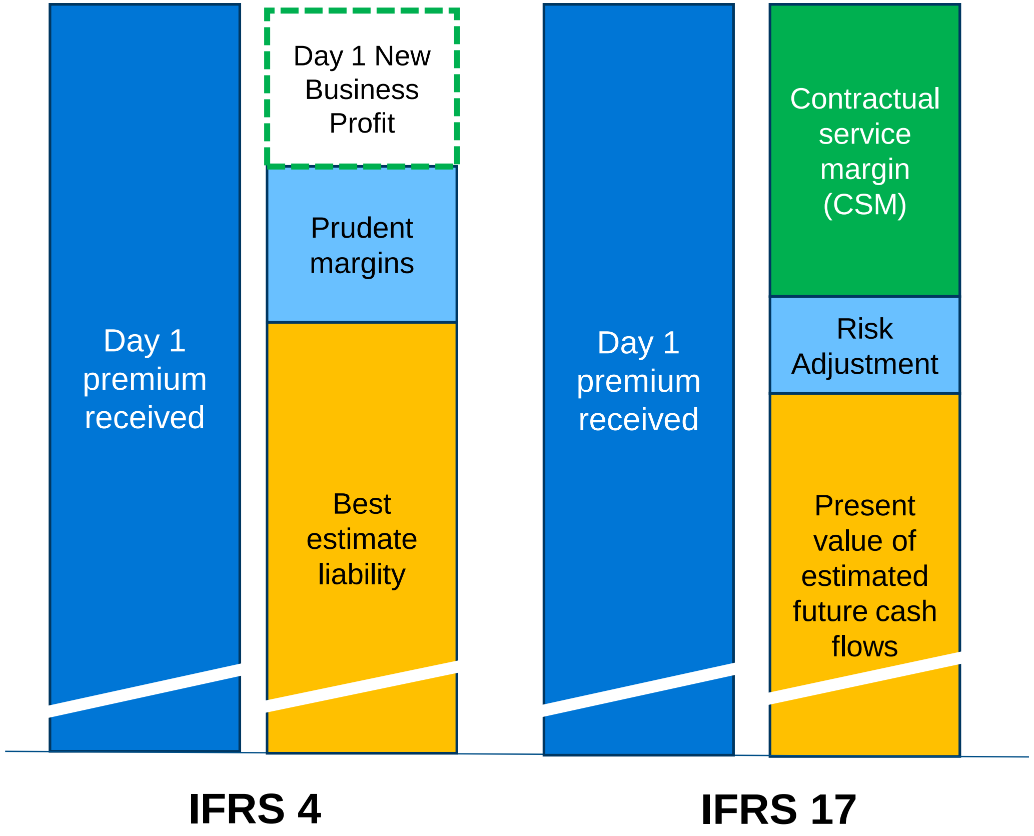
This means that we derecognise profits that relate to future services, already held in the IFRS 4 shareholder equity, and spread them over the remaining lifetime of the contract. This creates a stock of contractual service margin (CSM) which is released into operating profit as the insurance contracts 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 c.65% of the FY21 divisional operating profit (under IFRS 4)
- The accounting treatment on the remaining c.35% of FY21 divisional operating profit is not impacted

IFRS 17 introduces the concept of CSM: a store of future profits held on the balance sheet to be released over time

Illustrative (simplified) measurement of an annuity contract under IFRS 4 vs IFRS 17



The contractual service margin (CSM) created on writing new business is set up to ensure no day 1 profit is recognised. The CSM is released into operating profit as the benefits and services of insurance contracts are fulfilled

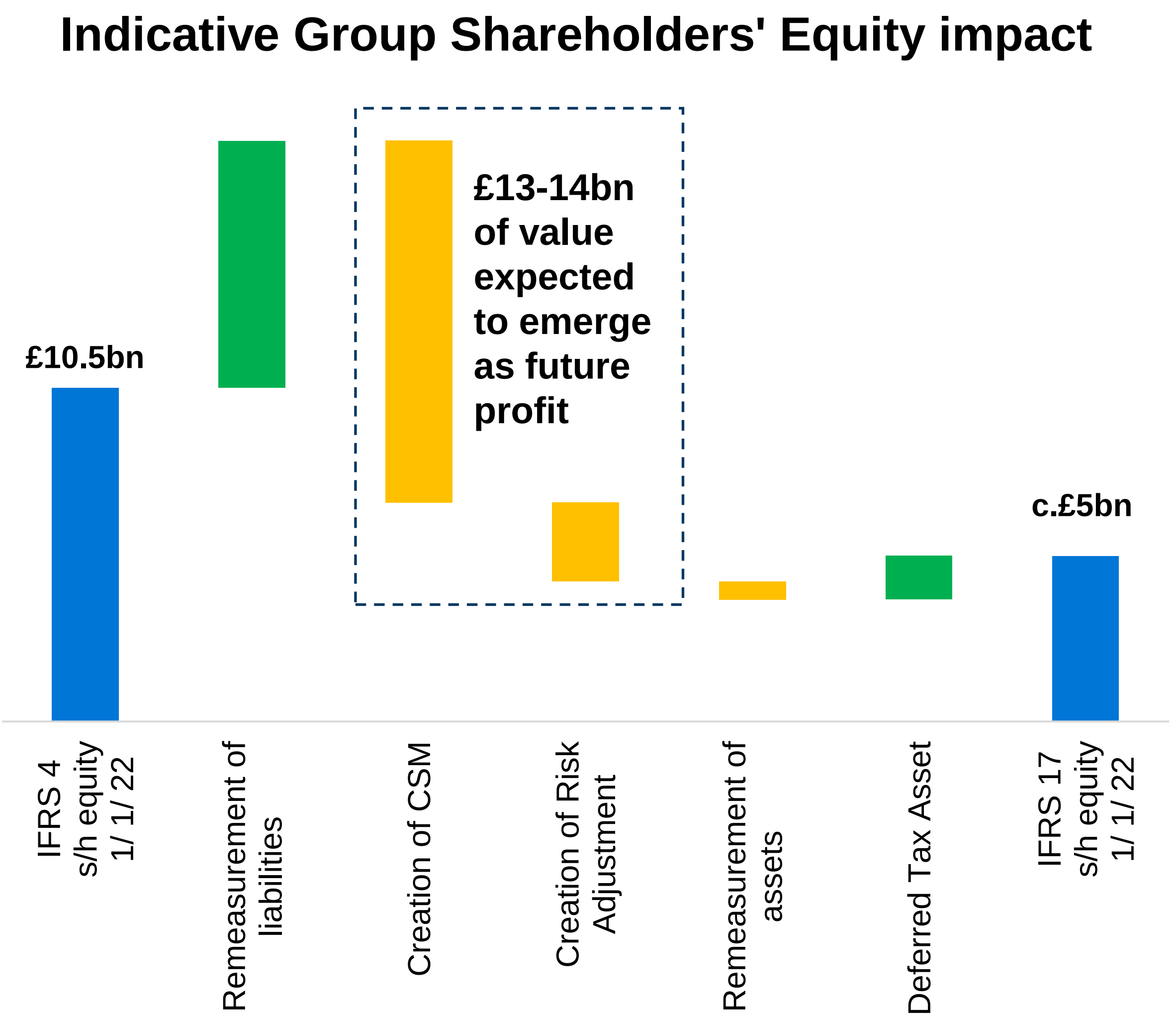
The Risk Adjustment (RA) will be released into profit if experience plays out as expected

The estimated future cashflows include adjustments to reflect the time value of money and financial risks. IFRS 17 excludes non-attributable expenses from the liabilities, these are recognised in P&L as they are incurred

Profit on each contract will be from the release of CSM, the release of the RA and through earning investment returns[1] over the duration of the contract, less non-attributable expenses

1. Similar to IFRS 4, expected return on surplus assets and investment margins on assets backing liabilities (i.e., the prudence in the discount rate) are recorded through operating profit. See slide 14

Indicatively, IFRS 17 will create a 'transition day' CSM and RA stock of £13-14bn[1]: future value that will unwind into profits

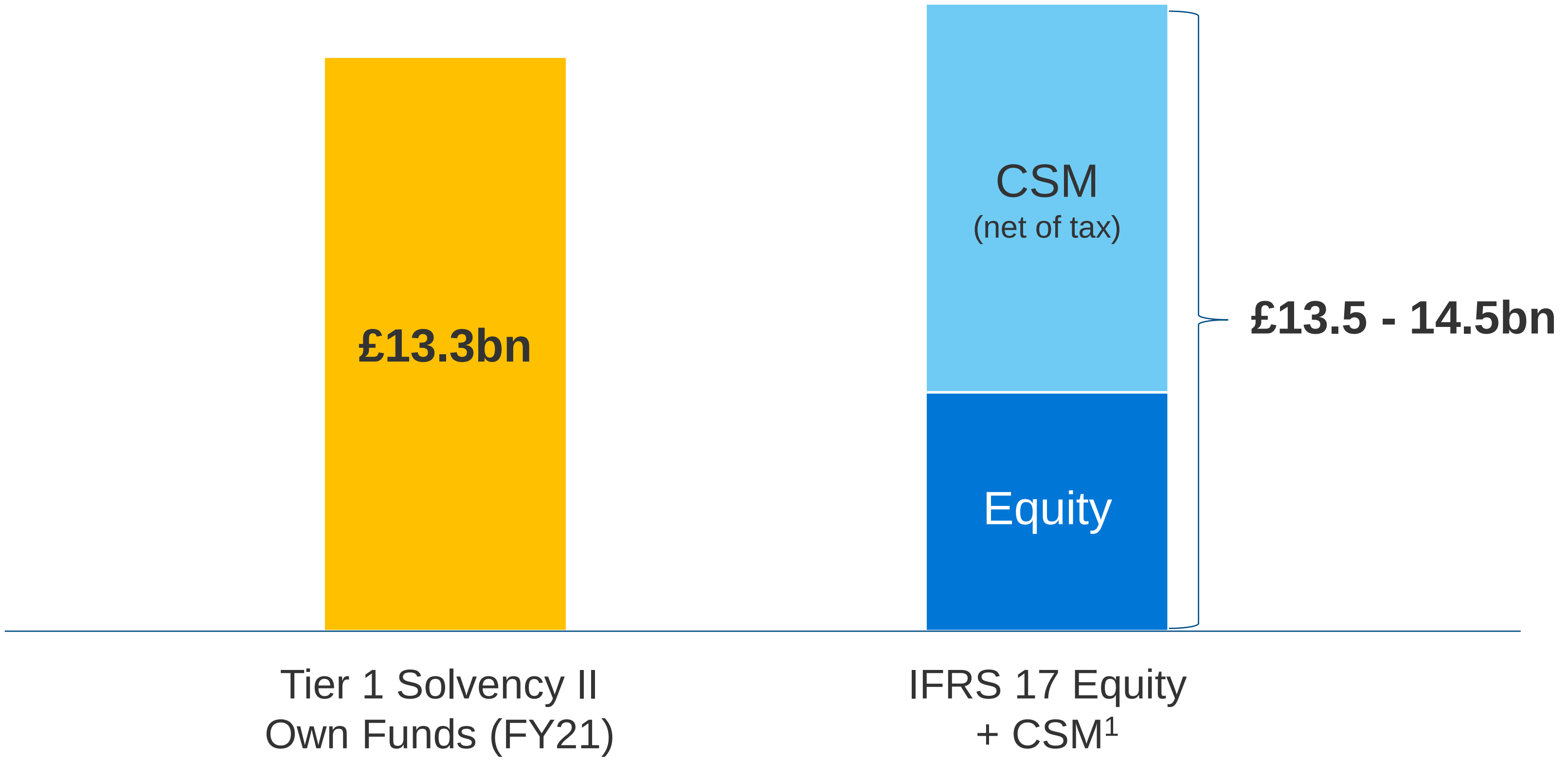


- At transition, **we expect shareholders' equity to reduce by c.£5.5bn**, primarily due to the requirement to set up a CSM with offset from changes to the measurement of liabilities
- **Remeasurement of existing liabilities** to reflect removal of prudent margins and provisions held under IFRS 4, changes 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
- We have reclassified the measurement of a small portion (c.8%) of our proprietary assets[2], to amortised cost under IFRS 9, allowing better matching of our IFRS 17 liabilities
- Overall, this will have a neutral impact on our effective tax rate. A deferred tax asset will be set up and will unwind at the same rate at which we utilise the tax losses from the reduction in equity

1. CSM and RA stock gross of tax
2. Total investments to which shareholders are directly exposed, minus derivative assets, loans, and cash and cash equivalents at YE 2021

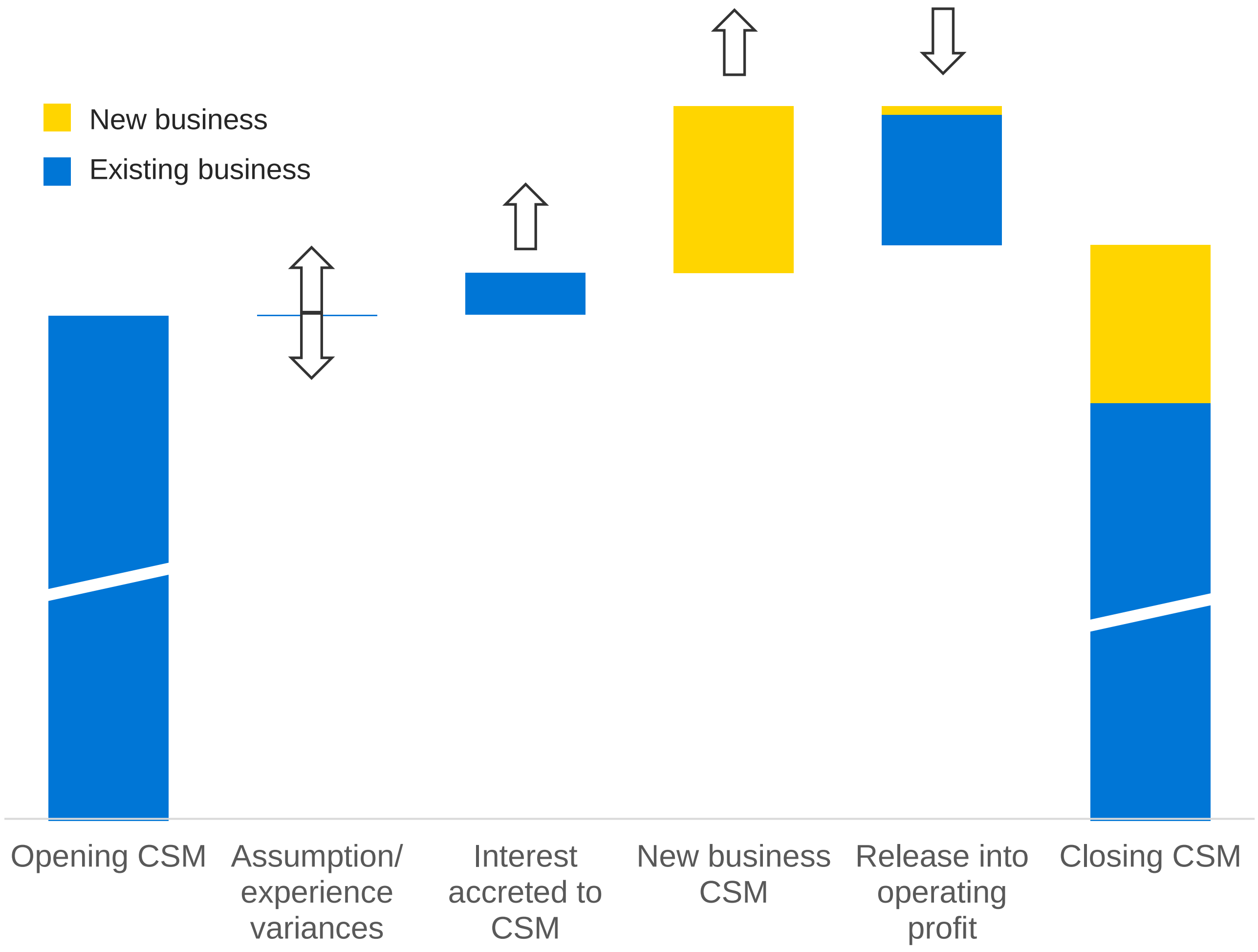
The CSM represents a discounted store of future value that can be added to IFRS 17 equity from a valuation perspective

The combination of CSM (net of tax) and IFRS 17 equity is broadly comparable to Tier 1 Solvency II Own Funds



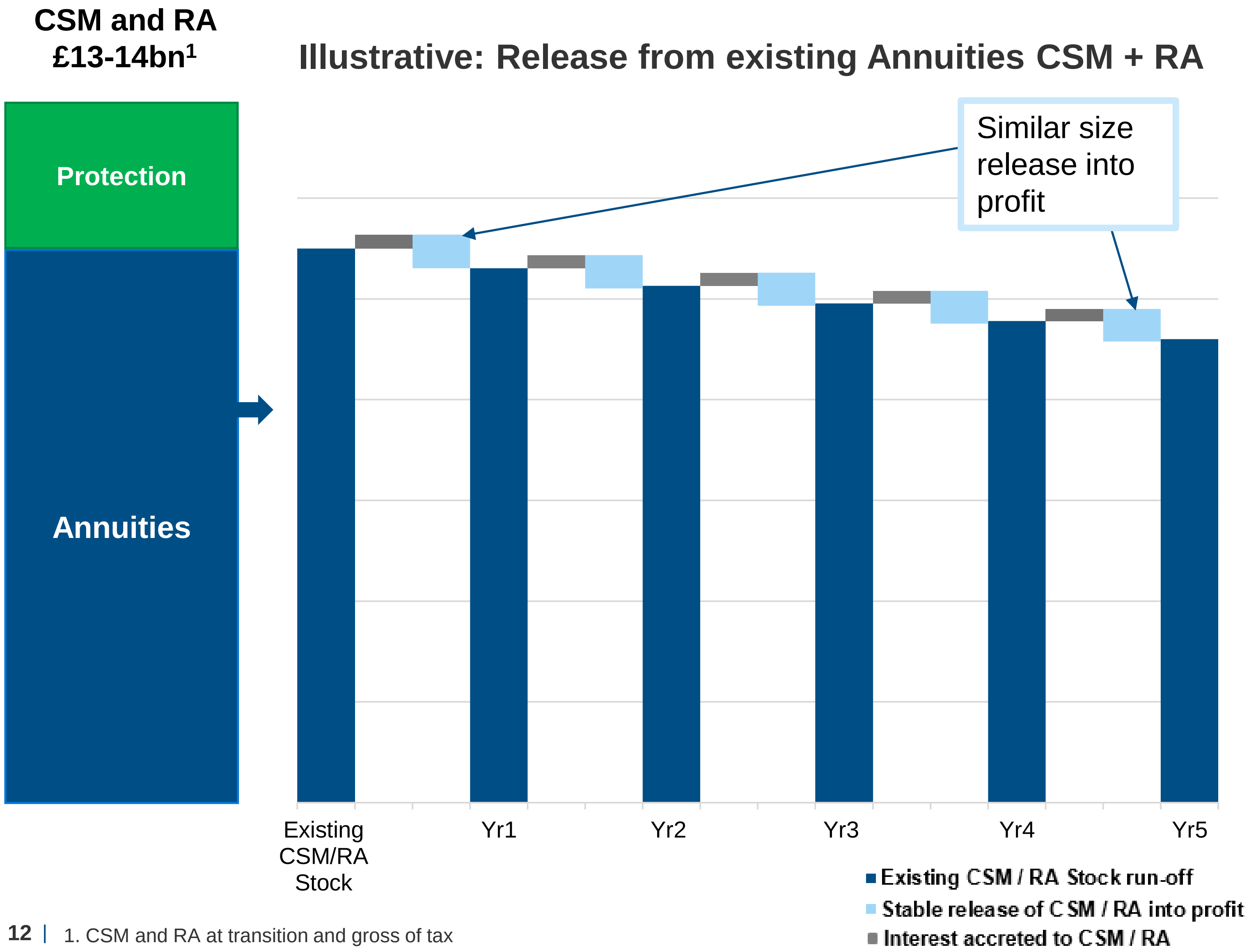
1. There are other potential sources of value not indicated here, e.g., investment margin, risk adjustment, franchise value and non-insurance businesses

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**

CSM + RA stock 'at transition' releases into profit over time

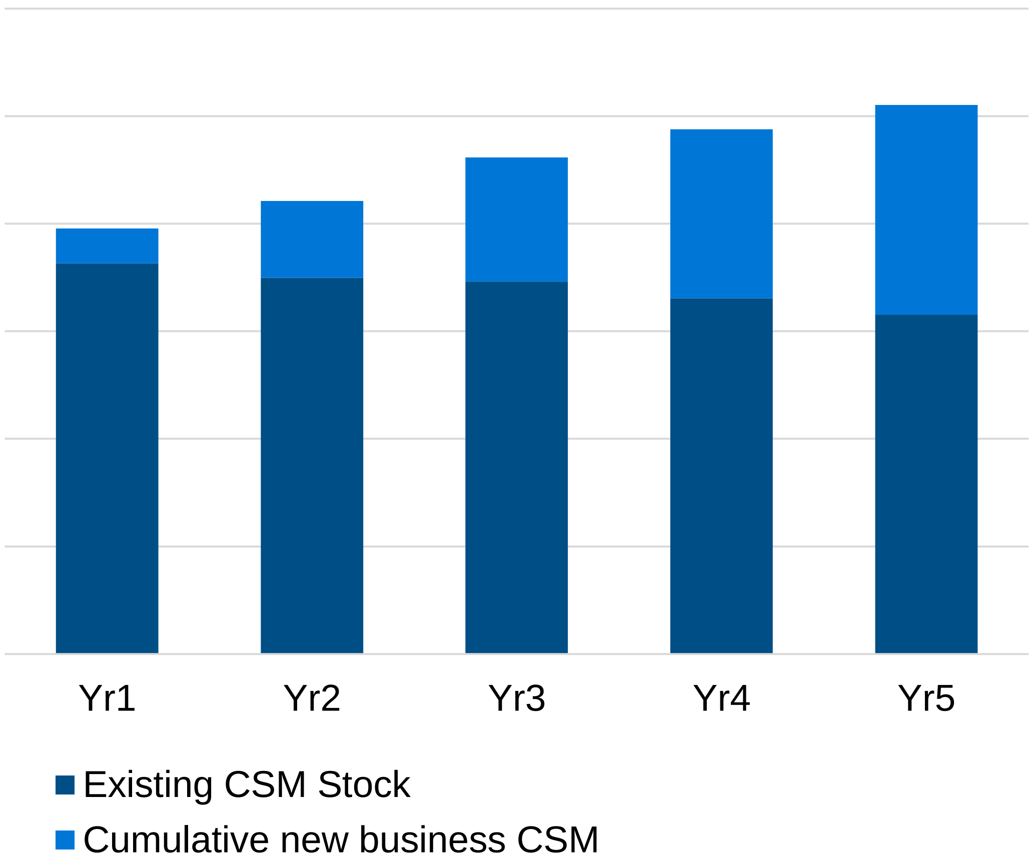


- **The annual release of CSM, release of RA and expected investment margins are the main drivers of operating profit under IFRS 17**
- For each cohort of Annuities, the annual rate of release (in broad terms, the % of CSM/RA stock contributing to profit each year) increases over time
- **This leads to a steady release of CSM and RA into profit (before including growth from new business)**

 1. CSM and RA at transition and gross of tax

The CSM will grow as we continue to write profitable business, creating growth in future profits

Illustrative movement in CSM from writing £10bn of UK PRT per annum



- We will continue to write profitable new business volumes in line with our stated ambitions
- This should result in growth in future CSM and RA releases into profit
- PRT business is long duration and the annual CSM release on existing business runs-off slowly
- Indicatively, writing £10bn of UK PRT per annum will generate around £900m of CSM and RA in that year[1], with an average duration of typically around 12-14 years[2]
- Broadly, this would result in 6-7% CAGR in UK PRT operating profit over five years

1. The level of CSM and RA added from new business will depend on the level of reinsurance transacted and current markets
2. Average duration of new business depends on the mix of business and current markets

Investment return continues to be a key driver of profit

Expected investment return on surplus assets and investment margins on assets backing liabilities (i.e. the prudence in the discount rate) of over £300m to be recorded through operating profit

We will continue to adopt a similar level of prudent credit default assumption under IFRS 17 as IFRS 4, which alongside other prudence in the discount rate, will release into profit over time

At transition (1/1/22)

	IFRS 4	IFRS 17
L&G prudent annual IFRS default assumption[1]	**43 bps**	**c.41 bps**

Equivalent to an IFRS credit default reserve of c.£2.9bn[2]

- Similar to IFRS 4, the credit default assumption reflects the overall allowance for default on our credit assets, reducing the discount rate used to calculate annuity liabilities
- This will be released into P&L each year and is available to offset adverse default experience. Historically, the L&G annual default rate experienced has been less than 1bp (2007-H1 2022)
- The overall prudence in the discount rate is recorded through operating profit. To the extent our actual return is different to the base return assumption[3], the difference is recorded through investment variances.

1. L&G prudent annual IFRS credit default assumption is for corporate bonds and direct investments
2. The credit default reserve is heavily dependent on the value of assets (which depends on the prevailing level of interest rates and credit spreads) and is in addition to the prudence allowed for in the discount rate in relation to other market risks, including the use of locked in rates on the CSM
3. For credit assets, this reflects a market-implied IFRS base default assumption, which is more conservative than our experience. This margin allows optionality to rebalance the portfolio if, and as, required

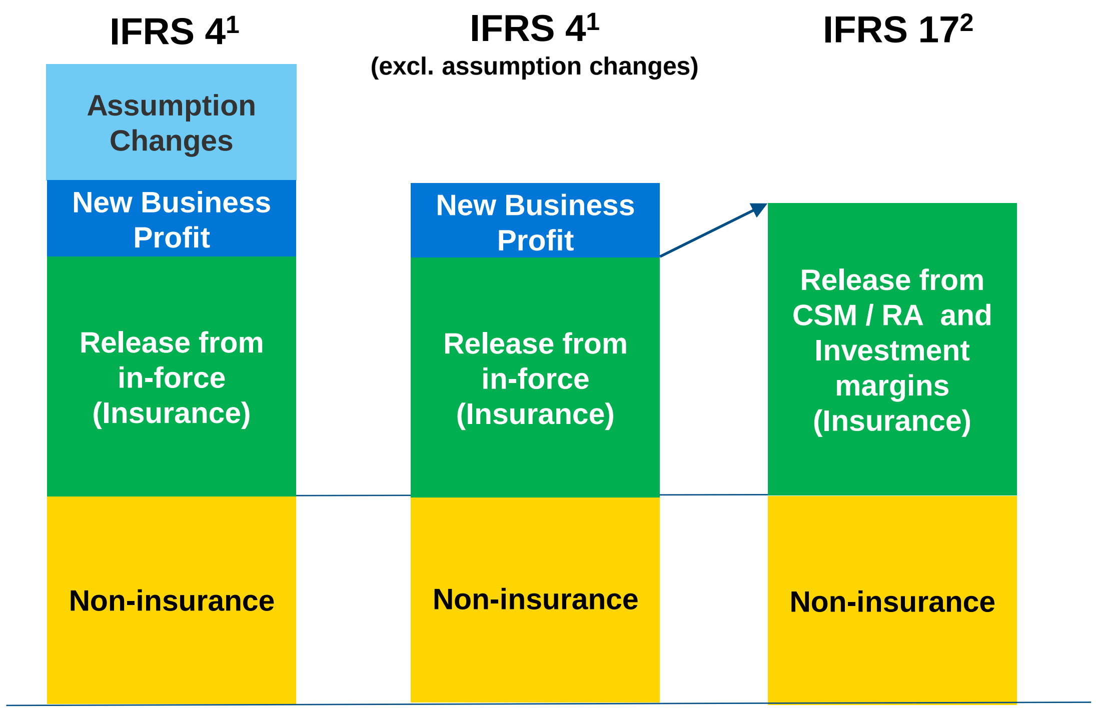
Financial metrics under IFRS 17

Initial reduction in Operating Profit due to deferral of new business profits and assumption review impacts

Deferral of new business profit and assumption review impacts, based on their average contribution over recent years, and after allowing for a higher release from in-force, indicatively reduces historic operating profit from divisions by c.20-25%

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

Operating Profit from divisions



On Adoption of 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. Indicative average contribution to IFRS 4 operating profits from divisions over recent years, assuming experience variances and 'other' smaller items are close to zero
2. Indicative IFRS 17 profits post-transition

RoE to increase under IFRS 17

RoE should increase due to the initial reduction in shareholders' equity at transition and a more gradual release of profit over time

No change to the definition:

$$\frac{\textbf{Profit after tax attributable to shareholders}}{\textbf{Average equity attributable to owners of the parent over the period}}$$

- Numerator: Profit after tax will initially reduce due to the deferral of new business profits and assumption review impacts
- Denominator: We expect Shareholders' equity to reduce to a greater extent, predominantly driven by the creation of the CSM and RA, partially offset by the remeasurement of best estimate liabilities
- This drives an expected higher return on equity result. The creation and subsequent unwind of the CSM should provide a more stable return metric over time

Rating agencies and debt leverage

L&G Credit Rating[1]:

AA-	Aa3	AA-	A+
Fitch	Moody's	S&P	AM Best

Fitch	Moody's	S&P
"Our expectation is that the introduction of IFRS 17 will have limited impact on our ratings, as it does not change the risk structure or the economic profitability of the underlying insurance operations."	*"IFRS 17…will transform insurance accounting but will not change insurers' underlying economic positions. Its introduction is therefore unlikely to alter our view of their creditworthiness."*	*"The accounting change is, by itself, unlikely to trigger rating actions. That said, if insurers change their risk appetite or capitalization strategy following the introduction of IFRS 17, these second-order effects could lead to rating actions."*

- Upon transition to IFRS 17, headline IFRS leverage ratios will decrease if CSM is included in the denominator. If CSM is not included leverage will increase, given the de-recognition of shareholders' equity
- The calculation approach is yet to be defined, although Fitch, for example, has stated that it expects to add CSM (net of tax) to shareholders' equity in financial leverage calculations
- SII leverage[2] provides a constant basis during this period and our IFRS 17 equity plus CSM is of a similar magnitude to SII Tier 1 Own Funds on transition
- Our recent ratio figures demonstrate our ability to grow our SII balance sheet and therefore reduce our leverage over time

£m	FY 20	FY 21	HY 22
Restricted Tier 1 debt	495	495	495
Tier 2 Subordinated debt	4,531	3,995	3,733
Senior debt[3]	600	600	593
Euro commercial paper	50	50	50
Total Debt	**5,676**	**5,140**	**4,871**
Unrestricted Tier 1 Own Funds	**12,478**	**13,254**	**13,255**
SII debt leverage	**31%**	**28%**	**27%**

1. Ratings shown are Legal and General Assurance Society Limited Financial strength rating
2. SII debt leverage = (SII total core borrowings + RT1) / (SII total core borrowings + RT1 + SII tier 1 own funds)
3. Senior debt figures represent IFRS carrying value, other debt figures represent Solvency II valuations

More stable and predictable earnings

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

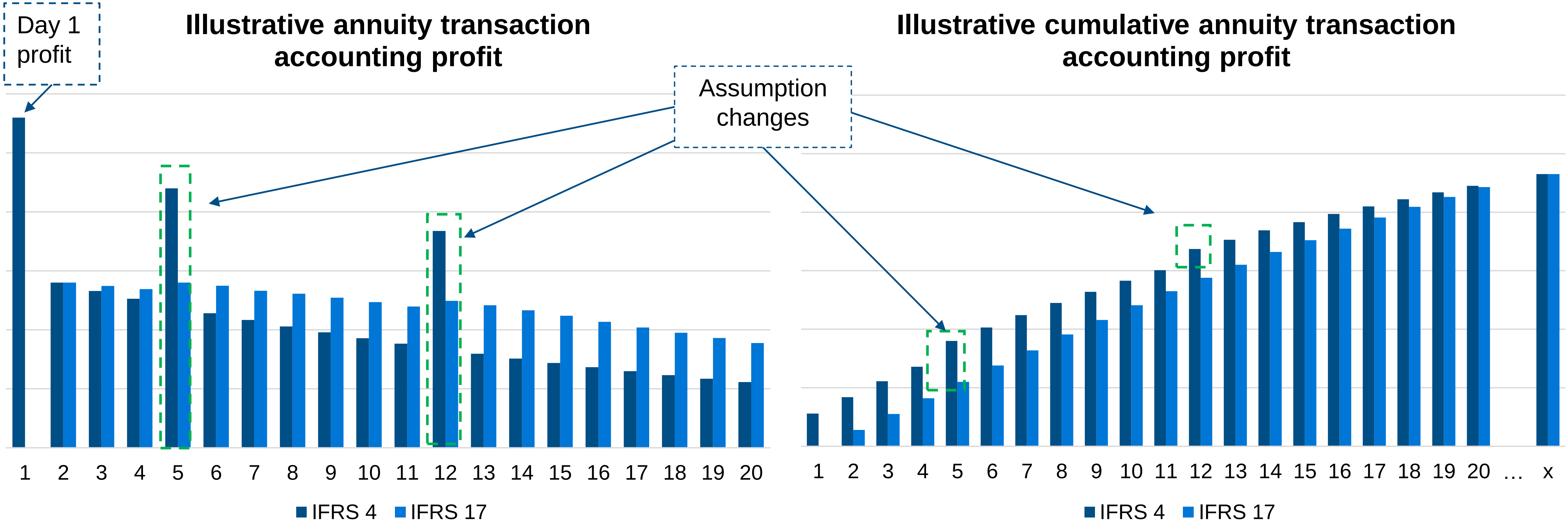
As previously highlighted, the impact of new business and changes in non-financial risk or best estimate assumptions will not materially impact in year earnings. Lower volatility is expected across several key components:

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 22 for detail on accounting choices that reduce areas of volatility in earnings

Insurance operating profit profile will be more stable and predictable under IFRS 17

IFRS 17 defers new business gains over the life of the contract, under IFRS 4 we recognised these up front. The impact of any assumption changes will also be spread over the remaining lifetime of the contract



IFRS 17 changes the timing of Insurance earnings recognition, not the quantum

P&L accounting choices reduce areas of volatility in earnings

c.£7.4bn 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

Closing comments

IFRS 17 doesn't change our strategy, solvency or dividends. We will hold a further education session in May 2023

Key messages

- This is just an accounting change
- It changes the timing of recognition of Insurance earnings, not the quantum
- It will result in more stable and predictable earnings from our insurance products
- It will impact our financial reporting of our annuity / life insurance business (i.e. LGRI, Retail)
- It will not 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**

Next Steps

- A further education session will be held in May 2023. We plan to provide:
  - HY22 results restated on an IFRS 17 & 9 basis
  - Further detail to support analyst forecasts under IFRS 17
- We will provide HY23 results next August in accordance with IFRS 17 & 9

Appendix

Our implementation choices and approach

Key areas	L&G approach
Measurement basis	Applying the General Measurement Model to all business measured under IFRS 17, this is the default model for the business we write
Accounting policy choices	Intend to use Other Comprehensive Income (OCI) for the vast majority of our liabilities within our protection business reducing volatility through the P&L
Transition approach	Broadly c55% of the CSM is calculated using the modified retrospective approach, c35% the fair value and c10% the fully retrospective approach
Discount rate	Intend to apply a top down discount rate, starting from an appropriate asset portfolio with economic deductions
Risk adjustment measurement	Value at risk (VaR) method will be used to derive the overall non-financial risk
Asset measurement basis	The determination of the financial assets measurement basis depends on the requirements of IFRS 9 around their contractual cash flow characteristics and the business model adopted in managing such assets. We have designated assets based on these rules, with c.6% of the LGR annuity portfolio moving to an amortised cost basis at transition.

The key drivers of IFRS 17 insurance operating profits

IFRS 17 key profit drivers	Explanation
CSM release	Reflects the release of un-earned insurance profits as the insurance service is provided over time
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 that assumed in the discount rates
Insurance experience variances	Reflects in-year actual vs. expected insurance experience from our underlying assumptions
Other	Includes non-attributable expenses as the insurance liabilities reflect only expenses deemed directly attributable to the insurance contract.

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
INSURANCE BUSINESSES	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.
INSURANCE BUSINESSES	Demographic Assumption changes	Recognised immediately in operating profit	Impact deferred on the balance sheet and spread over contract life through the release of CSM
INSURANCE BUSINESSES	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
INSURANCE BUSINESSES	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
INSURANCE BUSINESSES	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 22 for detail on P&L accounting choices that reduce areas of volatility in earnings.