

Nigel Wilson: Thank you, everyone, for joining us this morning. I'm just going to make three very short comments and then open it to questions. First, we're all feeling very positive about our businesses, our five lines of businesses. Not only have they been robust and resilient during 2020 but we've seen great prospects for growth going forward.

We're also seeing that the perceived risks that many of you and, indeed, many of our shareholder have had, are fading away and we've tried to answer those risks in the presentation.

We've retained our progressive dividend policy. We've given greater clarity of that. I'm sure there'll be questions on that but we've tried to give much greater certainty to that going forward, having pause year for this year and then low to middle digit growth for the next five years.

I think the third thing and this is that we do have a great team. We have a great team, a fantastic collaboration between all of the executive team and, indeed, my colleagues across the whole of Legal & General.

And, as you'll have seen from the five presentations on each of the businesses, they have huge opportunities to grow and it's really we can self-determine our success and it's all about our execution capabilities, which have been fantastic over the last ten years and we're feeling confident about further great execution in the future.

We'll now cover questions. Just to alert you, the first question is from Andy Sinclair, the second one Jon Hocking, the third one Andrew Baker, fourth Oliver Steel, and fifth Greg Patterson. There's a whole bunch of others who have put their hands up, so I'd encourage people to put their hands up quickly because there is a queue and we're very cognisant that Générale are starting at 11 o'clock and we want to try and finish ours a fraction before 11:00 and try and cover as much ground as possible during the call. So, thank you. Over to you, Andy.

Andrew Sinclair: Thanks, Nigel, and three from me, as usual, if that's okay. Firstly, just on the £8.0-9.0 billion cash generation number. I just wondered if you could confirm if you're allowing for any significant one-offs, like longevity releases, in that number.

Second question was on debt leverage. You've indicated that leverage should come down over the plan period. I just really wondered if you could put some numbers around that, remind us of your key metrics and where you'd like to sit on them over the plan period.

Thirdly, it was just on solvency. Mid-170s today. You've committed to growing the business, growing the dividend and deleveraging over the next few years. I just wondered if you can confirm that you keep the Solvency II ratio at least flat, ex-market moves, if not increasing, over of the course of that plan period, alongside all of that. Thanks.

Nigel Wilson: I'm going to answer the first one because that's the easiest question and I've already delegated the other two to Jeff Davies, who is looking very enthused about it. On the £8.0-9.0 billion, that's without the one-offs of mortality releases. I think a lot of people forget that we've generated over £1.6 billion cash from disposals over the last few years and that the longevity releases are now at £1.0 billion, and pretty much all of that turns into cash.

That's one of the reasons that Kerrigan has a got a huge amount of cash sitting within LGC and that we can deploy that cash to help grow the earnings on a go-forward basis. Jeff, do you want to answer the other two?

Jeff Davies: Yes. On the debt leverage, we talked about that coming down as the balance sheet grows, which is exactly what's happened in the last years since I've been here. We're very conscious of the rating agency metrics. The one that has historically really been a main focus is the Moody's-adjusted, which runs about 30% for a AA is the limit. We monitor all of those. We're probably there or thereabouts at the moment on the Moody's one. We would see that reducing over time.

Our strategy is let those run down as the balance sheet grows and then to go back to debt markets when it makes sense in order to optimise the ROE, the balance between debt and equity, to give the optimal return to shareholders, always staying at or below those maximum levels that are implied for the rating agencies, so that 30% drop and below.

I think, on average, we've been about 27% over the last four years. Every time I ask Frank, that's the answer he gives me. So, that's sort of roughly where we aim at being and the plan shows a sort of similar progression for that.

On the solvency, well, you know as well as I do that obviously, saying all things being equal on the solvency involves a lot of caveats but, yes, the summary of what you're saying is the sense that we have, that solvency over that four/five years you've been talking about is broadly level.

It's that sort of broadly level, flat solvency we'd be looking at sustaining with those massive caveats that so many things move, but absent market movements, everything else, building a plan that does that over that period.

Nigel Wilson: Jon Hocking.

Jon Hocking: Good morning, everybody. I've got three questions, please. Firstly, on capital generation. Jeff, in your slide section there's a chart showing that 55% of capital generation came from LGR. Over the course of the plan period, would you expect the proportion of contribution for LGR to go up or down because I see that if you look at the LGIM targets, for example, you've got EPS growth broadly in line with the dividend which suggests that maybe LGR becomes more important in terms of proportion of capital generation?

Second, also in your section, Jeff, you mentioned potential tailwinds for capital generation from risk margin reform and matching adjustment changes. Can you be a little bit more specific about what the expectations are there, please.

Then, just finally, Kerrigan, in your section there was a comment about an expected blended portfolio return in LGC of 8-10%, which seems pretty high given where yields are. How should we think about benchmarking that? Is that a running yield or is it more of an IRR is the way we should think about that return target? Thank you.

Jeff Davies: On LGR, Jon, yes, I show that proportion. I'd say over the planning period, actually, the LGR contribution is probably level to probably slightly lower, I would say, but again many, many, many assumptions on that and it depends on exactly timing of when we see the growth in the other areas, but I'd say it's stable to
Issue 1.0 13/11/2020

reducing, certainly not, in the core plan, accelerating.

The tailwinds risk margin and matching adjustment. There was a short three-four-page consultation paper put out by PRA around this. We were obviously in the middle of a lot of conversations and looking to put forward suggestions, as well as working the ABI around that. We can't put a number on where the risk margin would reduce to.

They're obviously committed to reducing that figure and that will give us more optionality in how we write new business, how much capital we use, how much reinsurance we use, and we will welcome that. We obviously feed into the process where that risk margin needs to land in order for us to have that freedom around risk management. It's a pure cost of capital decision.

And, the matching adjustment is, in particular, about removing a lot of the operational overhead and then having more freedom in the types of assets that can be invested in, removing some of the straightjackets and requirements that probably don't serve anyone any benefit, as long as you have the right risk management around it, and so would open more assets universe for Laura to put the money into and for us to develop and create more of those assets, as well.

Kerrigan Procter: Jon, and then just on the blended return, think of it more of as an IRR than a running yield and just bearing in mind your comment that it looks higher relative to yields at the moment, there's a whole range of different assets in there at different stages. We've got development assets in there where you'd expect to earn, let's say, double-digits, certainly in terms of IRRs and then some more stabilised assets that are a bit further along the maturity schedule that are a bit lower. So, it's a blended range that gets you to that IRR-type figure.

Jon Hocking: Okay, excellent. Thank you very much.

Nigel Wilson: Oliver?

Oliver Steel: Yes, good morning. First question is on timing of the returns over the next five years. LGIM looks as if it's back-end loaded. Equally, on slide 92, there seems to be quite a sharp drop coming in, in the back book OSG from the annuity book. I'm just wondering if you can give us a bit more guidance as to how the individual years over the next five years develop, whether there's any sort of imbalance there.

Second question, coming back on Jon's question about diversification of the business. If LGR is going to decrease the percentage of the total over the next five years, which part of the business is actually going to be growing faster than the rest because, based on the targets you've set for LGIM, it doesn't sound as if it's that.

Nigel Wilson: I'll take the last question, then Michelle is going to talk a little bit about LGIM specifically, and Jeff is going to find slide 92 and come back with some detailed comments on it. I hope that's the right way of dealing with it. Do you want to go first Michelle and talk a little bit about LGIM?

Michelle Scrimgeour: Sure. It's a good question. The strategy that we've described today and restated is to modernise, diversify and internationalise. That's a continuation of the foundation that the business has laid over the last few years, and really using those capabilities.

What you are going to see, and which I think we've been clear about, is we are going to continue to invest in the business. We think that's an appropriate thing to do and that's in all three of those pillars. So, will continue to see an elevated cost/income ratio for the next couple years before that trends back down again. But, the growth that we're also looking for and we are ambitious for is in line, as we've said, with what Jeff has said today as a restated ambition for the group dividend.

Nigel Wilson: Yes. And, just going back to the group in its entirety and relative growth rates, if we go back to our plans from five, six, seven, eight years ago, we had pretty much balanced growth in those plans, the variance typically of, say, between 6% annual growth and 10% annual growth.

What happened was that Laura's business and Chris's business both had much bigger opportunities than we thought they would have and the PRC market has opened up much bigger and the turnaround that we've had in Chris's business has been huge. And, that resulted in 20%-plus growth. They're clearly not going to grow at that level going forward.

Similarly, LGI grew at 2% whereas, actually, we think from where it is today, it's got very good growth prospects, both in the United States where early results are very promising but also in the adjacencies of the business.

And, LGIM has managed 3% over a number of years. Well, clearly, Michelle has been here a short while, made a lot of changes to the management team, spending a lot more time on the operating economics and further investing in activities which make us a bigger, more robust business and better platform to expand internationally and modernise and diversify, as she talked about.

And, LGC grew at double digits for the last five years. There's noise this year in the performance, particularly on the housing side, but we very much see that as a very high growth business going forward because it has so many options for growth and starting afresh in lots of areas. You don't have the legacy issue that several of my colleagues have to deal with on a monthly basis. Jeff looks as though he's now fully researched page 92.

Jeff Davies: Yes, Oliver. There isn't a drop in OSG that comes from that. As I said in the self-sustaining part of the presentation, even when we reach that self-sustaining level, then we see growth in that underlying LGR portfolio for 20 years beyond that, just writing the £10 billion, £11 billion that we talk about.

So, the OSG grows broadly with that portfolio, really, as credit spread unwinds and capital release. As you see growth in the portfolio, you continue to see OSG growth. Clearly, the speed of that growth depends on the mix of business you write, defers, etc, how long the duration is, but we still see that underlying growth and there's no drop off.

Oliver Steel: Thank you.

Nigel Wilson: Thank you. Can we move on to Andrew Baker, please?

Andrew Baker: Hi. Thanks for taking my questions. Three from me please. The first one is on the £8.0-9.0 billion capital generation target. This excludes new business strain. I can see that you have, including new business

strain, the target is just to grow surplus in excess of dividends. Are you able to give any insight as to how much you expect capital generation after strain to be in excess of dividends over the planning period?

The second one is on the cash target, £8.0-9.0 billion, this is based on the net release from operations, excluding mortality releases. Can we expect actual remittances, so internal dividends to be roughly in line with this?

Then, thirdly, are you able just to give a quite update on the UK PRT competitive environment? Specifically, you've seen some ownership changes or additional capital at some of your peers. Has this changed the competitive dynamic in any way and are you seeing any potential new competitors looking to enter the space? Thank you.

Nigel Wilson: Thank you, Andrew. Jeff, do you want to answer the first two and Laura can answer the third question?

Jeff Davies: Yes. Hi, Andrew. As you say, part of our target ambition is to manage the business such that the surplus generation is greater than the dividend, as we've shown we've done from 2016 to 2019, whilst writing £34 billion of annuities. There's a wide range there, depending on how much we manage the strain versus the dividend. As you can appreciate, if we're at the 3% or the 6%, it means a deviation in the dividend.

What we've done is we've put the numbers there. You know the volumes, you know what the average strain looks like, so you can project those out. We will be very capital efficient in the business we write. We will continue to pull the levers as appropriate. This year, we've been very efficient on the capital used on the PRT business, the circa 4% strain still holds. We've probably beaten that this year.

So, you can apply that to the £40-50 billion. That gives you an answer and then you get a number above that, but there's so many variables in that, that we felt it didn't make sense to give a target on that. We will manage it and, obviously, as we're going through, we we'll manage that number.

The net release and remittances, there's a bit of a yes and no is the answer to that because our usual comment is that we bring out as much out of the insurance company, out of LGAS as is required. We don't necessarily want it to sit in the group. And, so a lot of that is the net release in respect of LGI and in respect of the annuity business. Obviously, we pay a dividend across from the US for that part of LGI, as well.

But, of course, for LGIM the answer is yes because the vast majority of profits, which are also their version of net release, are simply paid up and to the extent that there's net remittances from LGC, then that would be helpful but, of course, we're investing in that business to grow it and get more assets under management and that's where we're trying to put the capital to work alongside the PRT business.

Nigel Wilson: Thanks, Jeff. And, Laura?

Laura Mason: Thanks, Andrew. As you rightly point out, we're aware that a couple of our competitors have had new ownership and new capital put in. Do we expect that to change the competitive dynamics of the UK PRT market? Not particularly. I think, as we cover in the presentation, we're expecting that there could be the potential of £240 billion of PRT coming to market over the next five years. So, I think in that context we are still pretty happy

with our competitive position.

I think the other thing we cover, we are still the only player in the UK market that is whole of market, so is covering from the smallest to the largest schemes and don't expect that to change too quickly.

Nigel Wilson: Thank you, Laura. Greg?

Greg Patterson: Good morning, everybody. I hope everyone is safe. Three questions. One is of the annuity assets, and when I say this I mean the traded portfolio and the direct investments. I was wondering what the amount or percentage is in the bucket immediately above BBB-, because you mentioned BBB-, and what are the collaterals and the risks there of downgrade.

Second question is, I wonder if you could just remind us of what percentage of the annuity portfolio is currently in direct illiquids, private debt, and what you see the optimal level at the end of the planning period, in other words to what extent that you can increase that.

Then, third question, I note and you've mentioned this before, you speak about launching and developing this insured self-sufficient and assured payment policy. I wonder if you could just remind us what that brings to the table. Is that something to do with the new pension superfunds? Is that in response to the pension superfunds? What are you doing there? Thank you.

Nigel Wilson: Jeff answers the first one and Laura answers the second and third one. I think that's probably the best way of pulling that together. Jeff, do you want to go first?

Jeff Davies: Sure. Hi, Greg. In terms of credit, we give the breakdown. You can see the total, BBB is roughly a third of the portfolio, 33% or so at the half year. The one we focus the most is the BBB- where we give the 3%. In the BBB/BBB+, I think it's probably broadly equal. It's not that sensitive. A lot of where we look to invest would be BBB+ or very resilient BBB because we obviously want to avoid that chance of moving to sub-investment grade where we can. So, we're happy where we are and the names in those and the type of bucket.

And, even more so in DIs where, I think we've talked before, when we're looking to go into those investments, we look for very, very resilient, so we would push back on BBB-. We would almost anticipate what is the risk if this was downgraded. Would we still invest in it. These are typically 25-year investments and so we tend to be aiming more at the higher end of the rating categories when we're looking at the DI.

Greg Patterson: Sorry, that includes the trading portfolio and the DI together, yes?

Jeff Davies: Yes, that's the total portfolio. Sorry, I did have the slide number. I just closed it.

Greg Patterson: Thank you.

Laura Mason: On your second question, Greg, at the moment we're about 29% of DI in the portfolio and assuming that there are no changes to the MA, as Jeff has said that we expect there will be some, we would be quite

happy to go up to about a level of 50%, taking into account the capital benefit that MA gives us. So, if the MA rules changed a bit, we might increase that.

On your questions on ISS and APP, I guess, yes, you could potentially think of them as competition or products that could be competing with the consolidated. They don't give the whole buy-out or buy-in but they certainly help schemes on their way to buy-out or buy-in by giving them protection. And, also on APP, locking to assets is effectively insuring the asset returns of the scheme, which then gives them a nice path to buy-in or buy-out.

Nigel Wilson: Thank you. Greg, if you remember, investment grade credit hardly ever defaults. It's usually a fraud or something that causes the default. We've still got our £3.5 billion credit default reserve. We've never used it in all the years that, certainly, I've been here and we've only had one minor default, £23 million, back in 2008 against a portfolio of £80 billion.

And, that's a combination of, A, the skill of our LGIM colleagues, but also the nature of the Solvency II regime, which is structured in such a way that it results in very high quality assets going into the portfolio with a high degree of certainty around their cash flow. Move on to Gordon Aitken now, and then Andrew Crean.

Gordon Aitken: Thanks. Three questions, please. First on the dividends, and you're holding it flat in 2020 and that's pretty good in the context of UK PLC, but I know myself and others had pencilled in some growth in the final. Can you talk us through the decision? How much of that is due to pressure from the regulator and maybe social and media pressure and how much of it is driven by cash generation pressure? That's the first question.

The second question is on mortality and your move to CMI-18 for protections in the 2020 numbers. Now, CMI-18 was, as you know, six months of reduction, three months for life expectancy, three months for smoothing, against the CMI-17, which was just two months. Does flat earnings, the target you've given, does mean you're going to hold some of CMI-18 back?

The final question is to Laura. You talked about the PPI forecast for the UK buyout market over the next five years, £240 billion. I know you said it was at the top end of your expectations but that could require, in very simple terms, about £20 billion of capital. I know some of that will obviously come off back books.

Given the numbers, the forecast that you've set, you're going to be writing about 17-20% of that and that's a wee bit lower than your usual market share. How do you see the market panning out? Who is writing the rest? And, would you encourage third party capital into this space? Thank you.

Nigel Wilson: Jeff does the second one and Laura does the third one. The discussions with the regulator have always been very constructive and open and they've gone through a process with ourselves, with M&G and with Phoenix which is very, very similar, just looking at various forward projections, lots of sensitivity, exactly the process that we go through with our board.

We listened to shareholders a lot, as well, in the discussions that we had and the shareholder feedback was very much in line with what we've actually done, which is zero for this year. We thought we'd flagged that pretty clearly

at the half-year when we said the choice is really zero or seven, given all the circumstances that were going round.

It was unanimous at our board and, indeed, across the executive team, that we should go for zero this year and then have a progressive policy going forward where we've provided lots of details on that. We are cognisant, as well, of the current yield on the shares, which is extraordinarily high, a massive premium to the FTSE 100 and we have to believe that we've got better prospects than the majority of the constituents of the FTSE 100, as we've absolutely shown over the last ten years.

Hopefully, you'll all get time to listen to my colleagues' presentations because they really cover a lot of detail, the opportunities which we usually don't get the chance to do when we're doing the year-end results. That's why we're very optimistic for all five businesses right now.

We have great teams, great opportunities. We've got the capital and we've got the bandwidth to execute on these and the doors that we're opening up are opening up even further right now. Jeff, do you want to answer the second and Laura the third?

Jeff Davies: Yes, sure. I wouldn't characterise it as holding back, Gordon, but on the other hand we have looked at where does CMI-19 take you. Obviously, that wouldn't be as far as the full CMI-18 that you talk about. Then, we've looked at the level of uncertainty in 2020, and not so much in a risk way as just a lot of noise in the data.

So, a prudent implementation of 18 with a view of what 19 was telling you and then probably a change of approach, which we may well talk more about in terms of thinking what does 2020 look like? What are now the drivers of change? And, can we just disaggregate a lot of what happens in underlining flu, from COVID, from other causes in 2020? That's going to take quite a while to play out.

We want to understand a lot of that a lot better before we use the full potential of what could be there for some of these but, equally, we want to fully understand the drivers. But, not any particular concern about it. I would say it's more let's understand what's in '20.

The days of just implementing a table I think have gone for a while, while we clean up what's happened in '20 and will be in the start of '21 I'm sure, obviously, as well. So, it's just a slightly different approach whilst implementing 18 in a prudent way with a view to what 19 tells us.

Laura Mason: On your third question, Gordon, as you say the £240 billion and I think as we say in the presentation that seems at the upper end of what might happen but, I guess, in theory it could. In terms of who we see as being our competitors, it is the usual suspects. We are seeing some of the more traditional UK insurers being a little bit more active than they have been over the last few years.

I think, as we've covered and implied ever since Solvency II, we have been using reinsurance to manage capital and we are seeing more, quote, share/asset reinsurance players coming into the market to support the names that you would recognise doing the front end of the deals and I would expect that to continue, all else being equal, with Solvency II.

Nigel Wilson: Thank you. Andrew.

Andrew Crean: Morning, all. Three questions, also, from me. Firstly, you talked about increasing the direct portfolio behind the annuities from 29% to 50%. What yield pick-up does that imply? If you did it overnight, how much would that increase your profit?

Secondly, you talk about operating capital generation of £8.0-9.0 billion and a dividend of 5.5 to 6.0-ish. The difference there is presumably the new business strain, and if you do £40-50 billion in the UK and \$10 billion in the US, even using just your 4% capital, that would use that difference, which implies that the solvency margin would slowly depreciate down.

So, why do you think you can keep the solvency margin in the 170s if you write down the minor business? Thirdly, it sounds a little bit of a silly question but what are the key drivers which would determine 3% dividend growth versus 6% dividend growth?

Nigel Wilson: Why don't I go through the first one because this depends really on lots of factors. We typically see premiums in the 50-150 basis points. I've got colleagues looking at me here around that but that's very much what I think we can deliver. They're beginning to nod now so I'm a bit happier about that, but that's the sort of numbers that we're looking at, Andrew.

Now, we don't get to keep all of that. We get to keep it if we retrospectively do something with the back book, which is still an opportunity. So, if we create opportunities put them in a back book, we would keep all of that. When we do in the front book, we give a proportion of that to our customers, so we'd reward us with a proportion, Andrew, with customers.

We do see the opportunity for many, many new asset classes. Jeff mentioned that very briefly in one of the answers to his questions but Laura, myself, and indeed the rest of the team, have been looking at all the new emerging asset classes.

Affordable housing is one, build-to-rent housing is another. Scitech is another one we've very excited with. We saw the Life and Mind building in Oxford happening and we've obviously got the Sky-NBCUniversal happening as well. Life sciences is going to be another very exciting area. And, the whole area of climate is going to produce a ton of assets for us on a go-forward basis. So, we're very confident of having a yield pick-up. Why doesn't Jeff have a go at two and three.

Jeff Davies: Hi, Andrew.

Andrew Crean: Hi.

Jeff Davies: It's just in the top end of your range, right in the £40-50 billion and don't forget the ten is in dollars, in the US. It does leave that as slightly positive in terms of total surplus. It's very dependent in the model, as we showed on the self-sustaining portfolio, the difference between what's been released from capital in the back book and that's then funding the capital of the new business in terms of what happens to the ratio, rather than just

Issue 1.0 13/11/2020

looking at pure surplus numbers. The mix between capital and own funds is very important within that calculation.

But, if you look at those, applying the 4%, applying a bit more, then at the top end of the range it looks balanced. Obviously, at the bottom of the range we will have levers, a bit like your second question, levers between a lower dividend versus more strain, etc.

We do also say in any period it may not hold in a single year. Interestingly, if we write more business faster, then you get to the self-sustaining portfolio quicker and so there is a benefit in doing that. We weigh that up at each point in time and, obviously, we'd explain our thinking if that's the route that we go down. So, we're confident that, all things being equal and all the caveats I gave to Andy at the beginning, that you do end up with a reasonably level trajectory in that.

In terms of what drives the dividend, we have the progressive dividend policy underlying the numbers that we talk about. We continue to look at our underlying IFRS metrics, our core metrics, the net surplus generation, what is that sustaining, as well as an eye to in certain stress scenarios and Solvency II. So, it's very much the progression.

This year we said operating earnings were going to be pretty flat and we've gone with a zero growth on the dividend but we would look through over the planning period and that's exactly what we provide to the board. What's the affordability in a single year? What's the confidence in the next year? What does that look like in different scenarios.

There isn't a single metric that we'll say if that is lower in one year, then we'll be at the lower end of the range. It's more a case of what the trajectory looks like. How resilient is that? Are we delivering in line with what we put together in the plan? If we're not, can we catch up or is something else outperforming? I'm sorry, we can't be more specific on a single metric for that.

Nigel Wilson: Andrew, one of the others is that Laura and her team have just done an outstanding job this year, in particular, in terms of capital efficiency, and if you were very quick you will have picked up Jeff mentioned that in the second half of a sentence about 20 minutes.

We're definitely seeing that we can develop new ways of improving the capital efficiency which, again, if you compound that over a few years, that does give us a bit more upside. Is there anything else you want to add, Laura, or not?

Laura Mason: No, no. I guess the only thing I'd add in terms of this year, we've been able to use the volatility in the markets to get very good metrics, capital efficiency and pricing for our customers.

Nigel Wilson: Before we go on to other questioners, a couple of questions have been emailed in. One of them is for Bernie. Can you just give a bit more detail on the plans for the United States and why you're so bullish about the prospects for America? And, by the way, this isn't a question from Andy Sinclair.

Bernie Hickman: Sure. I think what we've done well in the UK is applied tech and data in, particularly, our UK retail protection business and the evidence of that has been growing strengths. We've been delivering growth consistently in mature, competitive markets and throughout the pandemic we've been continuing to deliver growth

and our new business profits are growing, as well. So, we've been demonstrating already the benefits of that strategy.

In the US, obviously a much bigger market. We've got a sizeable business but a relatively small share and it's less digitised. It's a more analogue market and that, in simple terms, is where we see the opportunity, is applying all our learnings and capabilities from the UK, obviously adapting them as appropriate for the US market. But, it's just wide open with many opportunities for us to really digitise and open up some operational leverage and to create much stronger competitive advantages and therefore deliver much faster earnings growth which, as L&G, we've very focused on doing.

Very happy with the consistent growth in revenue and profits but not happy with the pace of that operating profit growth, in particular, and so our tech and data strategy, as I cover in my video, is all focused around delivering growth in the UK and then much faster growth in the US and from our emerging fintech portfolio, where we're using tech and data to transform in our adjacent markets, as well.

Nigel Wilson: Thank you, Bernie. Steven Haywood, from HSBC.

Steven Haywood: Thank you very much and good morning, everybody. Just a few questions from me, as well. Going through your presentation, there's a lot of talk about growth, internationalisation, acquisitions in adjacent markets, replicating retirement solutions internationally. Could you give a more clearer picture on how you're going to internationalise, what adjacent markets you're looking to grow in, and what business that L&G have currently in the UK would be best suited to each market in the future?

Secondly, you're talking about penetration into the wealthy retirees. How are you going to do this in the UK? Are you going head-to-head with St James's Place, Quilters, etc, or are you targeting this from a lifetime mortgage perspective?

Then, finally, there's a comment about climate in your presentation adding 5% to your operating profit over five years and this is above your plan projections. Can you explain how and what is going to happen here? Thank you.

Nigel Wilson: Dual answers to some of these questions and on the first one, just to give you a flavour of what we're thinking through, I'm going to get Bernie to talk about Salary Finance as an adjacency and get Kerrigan to talk about the housing situation.

In the area of the wealth, Chris Knight will cover that for his business and on climate, if Laura and Michelle can each talk about what they're doing in their respective divisions around the opportunities we have. So, over to you first, Bernie.

Bernie Hickman: Great. Thanks, Nigel. Again, in my video, I've given some more colour on the Salary Finance investment. We own just over 40% of Salary Finance, which is a really great business in the financial wellbeing platform space. It's number one, clearly, in the UK, having acquired the assets of its major competitor in the UK and it's started to grow and expand in the US, and we see it's got real potential as a global fintech leader actually in the

employee benefits, employee financial wellbeing space, which is a very important area of growth at the minute.

So, I'd say Salary Finance is a good example of both an adjacent market in terms of employee benefits. Obviously, we're very active in that across both LGIM, LGR and LGI with our group protection business, one where we've got international potential there, particularly our investment in Salary Finance.

Kerrigan Procter: Perhaps, if I just pick up on the housing and some of the adjacencies there. We all know about the structural shortage in housing in the UK across every dimension that you can think about, by tenure, by age, by affordability. So, that's why we've really been thinking about expanding in affordable homes. That business is going very well.

With the aging demographic, expanding our later living businesses with really great operational businesses there now. Then, within build-to-rent, clearly, we've had an urban build-to-rent product for some years but really looking at suburban build-to-rent, so the need for family homes in the suburbs, if you like, as a rental proposition.

That's a true adjacency there in terms of how we can build out those housing businesses which have compound effects on the group, of course. It's not just about the shareholder fund returns, it's creating stabilised assets for LGR that helps improve the yield on that portfolio or, indeed, working with Michelle on assets for LGIM.

Chris Knight: Thank you. I think, generally speaking across our entire businesses we have a good position. Around 20% is the magic number. So, we have about 20% of the market share of the individual annuity market, which has been remarkably resilient given the very low interest rates. We have 20% later life lending market with the housing equity release, which has got a huge potential for growth.

And, along with LGIM, we have 20% or so share in workplace and DC pensions market, which is growing very rapidly in the accumulation phase and we're going to see in the next few years it growing very strongly in the decumulation phases, as well.

I think our heartland has traditionally been the mass market, mass affluent market, but we are seeing a lot of developments working with partners like SJP and others to bring our products to a slightly wealthier audience. For example, on housing equity, we are seeing a lot more advisers and their customers use equity release as a liquidity tool, a family wealth planning vehicle, and we see that continuing a lot next year.

On the retirement income, a lot of pension pots, especially those in the DC world coming to retirement now are relatively small, sub £30,000. They get cashed in. But, if we can help people as we are, accumulate pots of £50,000 more or obviously £100,000 more, they see them much more worth doing something with and we're seeing much better success in that era to provide higher margin products like annuities and like lifetime mortgages to those customers too.

Nigel Wilson: When you go through climate stuff, Michelle, will you also comment on the higher margin products that we're going to pivot towards.

Michelle Scrimgeour: Yes, I'd love to. Actually, just on internationalise if I could because I think it's a really

important future strategy for LGIM. European wholesale is something I'd add too. I'd say expanding in the US beyond corporate DB and also selectively in Asia.

On climate and related, Nigel, we run £174 billion today in ESG-related products. Climate is important for us. We have a really excellent investment stewardship team and one of the things we are definitely seeing is more engagement with companies and helping them think through their response to climate change. Then, in climate-tilted products, particularly on index, this week we launched a clean energy fund, ETF. So, I think, in the round, that it's extremely important to us.

More broadly, in terms of higher margin products, which I do refer to in my presentation, we've seen a bifurcation in the market between index, on the one hand, and the more specialised on the other. The good news is that LGIM plays across those areas and importantly is able, I think, to blend those together because we have fantastic solutions capability.

Maybe, just to point to a couple. Active credit, private credit, ETFs that are tilted and real assets more broadly. And, Nigel, I think that just wraps it together with that underlying ESG ethos, which I think goes across the entire company.

Nigel Wilson: Thank you, Michelle. Laura?

Laura Mason: From an LGR investment perspective. Recent figures I've seen suggest that to get to net zero by 2050 in the UK we're going to need £50 per annum investment now, rising to about £105 billion by 2030. As I cover in the presentation, we're a very obvious long-term investor in renewable assets.

Part of our strategy is to be working with LGC to create the types of direct investments in the renewables market that we can invest in, create extra direct investments for our business but also help the trajectory towards net zero by 2050.

Nigel Wilson: Thank you. We're going to have one last question from Ashik, and then I'm going to give a summing up so that all of you can get away in time to get on to the Générale call. Ashik?

Ashik Musaddi: Thank you and good morning, Nigel. Good morning, Jeff, and team. Just a couple of questions I have. One, on the debt leverage. Do you have any pound sterling amount in your mind as to how much you want to delever over the next three or four years in terms of sterling amount? It's obvious that natural progression and earnings retention will help delever but any thought on the absolute amount?

Secondly, I think that comment around moving some MA portfolio more into direct assets was very helpful following any Solvency II revenue into a new UK solvency regime but are there any hurdles that you expect to happen in that switch, especially on the back book rather than on the front book? Thank you.

Nigel Wilson: Have you got three or two, Ashik? Sorry.

Ashik Musaddi: Just two. Just two points, thanks.

Nigel Wilson: Just two questions. Okay. So, Jeff answers the first and I'll answer the second.

Jeff Davies: No, we don't have a sterling number, as such, we target. As I described, it's very much balance sheet growth which reduces the leverage ratio. We then look to optimise ROE by getting the right balance between debt and equity, so over that period it very much depends on how that plays out.

We would obviously see balance sheet growth over that period, so we would see potentially the number being roughly the same plus a bit over that period. It wouldn't change on that much dependent on the size of the book value growth and what feeds into the ratings calculations.

Nigel Wilson: On the regulated capital, indeed the relationship around this, we're having probably the most constructive discussions we've ever had on assets with the regulator because there's just a widespread recognition in the UK, at central government, a local government, the Treasury. They're all being hugely supportive of the things that we have been doing, that we've going on about for about ten years now.

ESG, climate change, regenerating towns and cities, building affordable housing, build-to-rent housing, investing in the life sciences and things like Life and Mind, are all things that we've been doing for a long, long time and there's a great recognition that we need more of that, not less of that, particularly with the local multiplier effects that we're seeing and experiencing right across the UK.

From a regulatory point of view, the regulators are happy because we're getting extra diversification across and so there's no issue about increasing the amount of DI and going to more asset classes because that's both in the interests of our solvency ratios but also from a customer point of view, an economic viewpoint and a competitive point of view because this, of course, gives us a competitive advantage in the marketplace, because we are the only firm that has synergies between the likes of its businesses. Everybody else is pretty much a monolithic competitor, so we feel very confident about our capability to both originate and use those assets that are opening up to us.

Just in summary, then, we've never had such good opportunities or such great opportunities since I've been here and we've now got an absolutely outstanding team, not just my colleagues who are here on the call, but actually my colleagues who are sitting right across the businesses.

We've got some unbelievable people with deep subject matter expertise in all sorts of new opportunities. Those opportunities are not going to go away. They're going to get bigger over the next few years, and Jeff and the rest of the team have developed incredibly robust and resilient capital models for us, and capital efficiency for us as a group.

We have a very, very strong balance sheet today. We're delighted with the cash flow, we're delighted with capital generation and, probably, for the first time since I've been with the group, we have real competition for capital across the company, which is great.

If you go through the five presentations, you'll see so many great ideas and Jeff and I have weaned out a lot of ideas during the budgeting and planning process but there's still a huge number of very exciting things where the markets



Transcript

Legal & General Capital Markets Event

**Thursday, 12 November
2020**

are opening up, we've definitely got tailwinds.

This rising tide is lifting, certainly the L&G boat, and we feel very confident about the future, notwithstanding that we're in the middle of a pandemic and Brexit is far from being finished because we just are really, really strong believers in the six macro and demographic drivers of our business, and 2020 is further evidence of that and we're looking forward immensely to the opportunities that we have in 2021 and beyond.

Thank you for everyone for listening to the call and asking such good questions. I'd encourage you all to listen to the video, see the slides, study it and engage with all of my colleagues, not just Jeff and the team, but all of my colleagues are here and willing to answer all of your questions. So, be safe, be happy and look forward to seeing you, if not later this year, certainly in 2021. Thank you.