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Company Number 00166055

# Legal and General Assurance Society Limited
# Report and Accounts 2021

**Contents**

The directors present their strategic report for Legal and General Assurance Society Limited ("LGAS" or "the Company") for the year ended 31 December 2021.

The Company is a composite insurance company authorised in the UK, whose ultimate controlling party is Legal & General Group Plc (the "Group").

The principal activity of the Company is life and pensions business. The Company's registered office is at One Coleman Street, London, EC2R 5AA. It is registered in England and Wales under company registration number 00166055 and domiciled in the UK.

**Review of the business**
The Company's total profit before tax for the year from continuing operations was £1,914m (2020: £1,094m).

The Company's continuing operations consist of the following four broad business areas – Retirement, Workplace Pensions, Insurance and Capital Investment. On 1 January 2022, the Company's Retail Retirement and Insurance businesses came together to form a new Retail division, this new division will focus on serving the savings, protection and retirement needs of the Company's retail customers and will provide a joined up approach in terms of our customers, data and technology.

**Retirement**
The Company provides guaranteed retirement income for corporate pension scheme members and transforms individuals' pension savings so they can live a colourful retirement. For both institutional and individual customers, deep expertise in the science of life expectancy is used to accurately assess the risks associated with each contract and, therefore, how much income is expected to be provided to customers. A margin is charged on the initial amount received in exchange for assuming the risk over the lifetime of the policy. The margin and a proportion of the Company's customers' pension savings is invested in high quality assets. This generates returns whilst ensuring policyholder pensions are able to be paid in full as they fall due.

The annuity business continues to deliver consistently strong results. The reliable performance of the growing annuity portfolio and resilient Pension Risk Transfer (PRT) and individual annuity new business volumes make this possible.

2021 was another successful year for PRT, having written £6.2bn of premiums (2020: £7.6bn) demonstrating an agile and efficient operating model. Despite writing slightly lower volumes than in 2020, our overall profits were not adversely affected due to our competitive advantage in originating assets via Legal & General Capital, lifetime mortgages via Legal & General Home Finance and sourcing assets via Legal & General Investment Management.

Individual annuity sales were up 5% to £957m in 2021 (2020: £910m), as the market saw a partial recovery following the COVID impacts seen in 2020.

**Workplace Pensions**
Workplace Pensions provide corporate pension scheme solutions to enable companies to meet their auto-enrolment obligations and look after the pensions of four million members. Many significant schemes continued to be on-boarded from major employers during the year, and we are the fastest growing of all the £1bn-plus providers[1]. Our Master Trust product remains very attractive and we are seeing increased consolidation of Bundled Trust schemes driven by value for money regulatory considerations which is driving trends in the market. [[1] Source: Corporate Advisor Workplace Savings Report November 2021].

Assets under administration (AUA) grew by 29% to £65.7bn (2020: £50.8bn) on the back of new wins and strong flows, and is also reflective of markets continuing to perform well during 2021. Workplace Pensions has one of the fastest growing and largest Master Trusts with AUA increasing to £17.1bn in 2021 from £12.5bn in 2020.

**Insurance**
The Retail Protection business provides life insurance, critical illness and income protection for individuals. The Group Protection business offers life insurance and income protection products to individuals through their employers. Premiums are collected for policies that make payments upon death (life insurance), diagnosis of a critical illness (critical illness cover) or inability to work due to illness or injury (income protection).

UK Retail Protection gross premium income increased to £1,444m (2020: £1,374m), with new business Annual Premium Equivalent (APE) of £200m (2020: £175m), up 14% on prior year driven by strong customer demand following COVID-related disruption in 2020. Protection sales were particularly strong during the first part of 2021 with both a strong housing market and the increased customer awareness of protection needs during the pandemic driving up demand. We held a market share of 25% in Q3 2021 [source ABI data] and maintained our position as the leading provider of retail protection in the UK, delivering a point of sale decision for more than 80% of our customers. Our new business premium growth was supported by our innovation over the period, including enhancements to our income protection benefit and good progress on critical illness cover.

UK Group Protection gross premium income increased to £405m (2020: £382m), with new business APE of £88m (2020: £117m). New business volumes did not reach the record levels of 2020 as typically fewer large schemes are tendered in odd years than in even years. However, retention was strong resulting in premium income growth of 6% on 2020. Through improved service and more refined pricing we are attracting a wider range of scheme sizes and actively dealing with more advisers in the group protection market, enabling us to gain market share and grow new business premiums. During 2021 we launched an automated application portal which will further support growth in the smaller scheme segment.

**Capital Investment**
The Company's shareholder capital is used to generate long-term value and attractive financial returns through investing in key sectors where there has been a shortage of investment and innovation. Within the direct investment portfolio, investments continue to be made in alternative assets aligned to the Group's strategic priorities, such as clean energy and developing our housing platform. The traded portfolio reflects positive equity returns driven by greater stability in the market central banks carefully managing expectations of tapering of support, with inflation expectations rising significantly in the recent months. The investments within the portfolio improve the carbon footprint of the portfolio in line with the Group's Task Force on Climate Related Financial Disclosures (TCFD) commitments.

**Key performance indicators**
The directors review a range of performance indicators for the Company, with the following regarded as key performance indicators:

| | | 2021 £m | 2020 £m |
|---|---|---|---|
| **IFRS profit before tax**[1] | This measures the profit or loss in a single period before deducting tax | 1,914 | 1,094 |
| **Shareholder funds** | This represents the assets that remain once all the Company's liabilities have been accounted for | 7,530 | 6,882 |
| **Net cash flows from operating activities** | This represents the net cash inflow for the Company from ongoing, regular business activities | 739 | 1,300 |
| **Company capital surplus**[2,3] | This represents the Company's Solvency II capital surplus | 3,551 | 3,200 |
| **Standard & Poor financial strength rating** | External credit rating demonstrating the Company's financial strength | AA- | AA- |

[1]The 2021 and 2020 IFRS profit before tax is from continuing operations and excludes profit from discontinued operations.
[2]The Solvency II results are estimated and unaudited; see Note 43 of the financial statements for more information.
[3]The £351m increase in capital surplus was due to a £222m decrease in Solvency Capital Requirement and a £129m increase in Own Funds. The increase in capital surplus is largely due to market movements over 2021, of which the most material impact related to increases in interest rates partially offset by inflation, and model changes.

Further details of the Group's key performance indicators can be found in the Strategic Report, in the Group's Annual Report and Accounts which can be found at www.legalandgeneral.com/investors.

**Capital performance**
The Company's capital resources are managed on a Solvency II basis and its Solvency II capital requirements are calculated using a Partial Internal Model. The vast majority of the risk to which the Company is exposed to is assessed on the Internal Model basis approved by the PRA.

The Company's capital position remains strong with a £3.6bn Solvency II surplus (2020: £3.2bn) and a coverage ratio of 155% (2020: 148%), after paying a dividend of £902m (2020: £936m) to the Company's immediate parent company Legal & General Insurance Holdings Limited. The Company's coverage ratio has remained resilient to market conditions during 2021. The Company's capital position is covered further in Note 43.

**Principal risks and uncertainties**
A detailed review of the Company's inherent exposures to market, credit, insurance, liquidity and operational risks, together with the framework for their management and control is set out in Note 45 of the financial statements.

The principal risks and uncertainties facing the Company are:

**1) Legislation and regulation**
The markets in which the Company operates are highly regulated. Legislation and government fiscal policy influence the Company's product design and the period of retention of products. Regulation defines the overall framework for the design, marketing, taxation and distribution of products; and the capital that the Company holds. Significant changes in legislation or regulation may increase its cost base, reduce its future revenues and impact profitability or require it to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on its in-force books of business, impacting the value of embedded future profits.

The Company bases its business strategy upon prevailing legislation and regulation, and known/anticipated change. To mitigate the risk, the Company engages with legislative authorities where appropriate to assist in the evaluation of change on the sector and its stakeholders. However, sudden changes and/or retrospective changes in legislation and fiscal policy, or the differing interpretation and application of regulation over time, may have a detrimental effect on the delivery of the Company's strategy and profitability.

**2) Financial market and economic conditions**
The Company holds a broad range of investment assets to meet the obligations arising from writing insurance business. The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of these assets as well as the value of the underlying obligations. A potential mismatch of assets and liabilities may impact the earnings, profitability and the capital requirements of the Company although this is closely monitored and managed as described below. Significant falls in investment asset values can also impact management fee income. Interest rate expectations leading to falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II Balance Sheet than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital.

The Company seeks to match asset and liability cash flows to reduce the impact of changing economic conditions. Additionally, a range of risk management strategies are used with the aim of managing volatility in returns from the investment of assets and the broader effects of adverse market conditions. The effect of market and economic conditions upon management fee income are sought to be mitigated through the utilisation of a low cost scalable business model and by maintaining a diversified portfolio of products.

2022 has seen a range of geopolitical risks come to the fore, with the potential for significant disruption to global economic activity. We are carefully monitoring the impacts for our businesses from a range of geopolitical scenarios and to ensure we remain financially and operationally resilient to adverse events.

**3) Counterparty and third party risk**
The Company is exposed to default risk in respect of the issuers of corporate debt and financial instruments, through money market and reassurance transactions and as part of its banking arrangements. Third party risk arises with regard to reliance upon external suppliers of certain administration and information technology (IT) services.

The Company seeks to limit the potential exposure to loss from counterparty and third party failure through pre-selection criteria for those counterparties with which it will do business, the setting of pre-defined risk based exposure limits, and the active management of positions. The Company also has the ability to withhold premiums on certain reassurance transactions to limit the exposure to counterparty failure. Specific reserves have been set up, and continue to be held for defaults which help mitigate financial impacts should counterparties fail. Exposures against limits are actively monitored, with trigger levels being set and management action being taken to pre-empt loss from default events. However, in extreme circumstances, an event causing widespread default may impact the Company's profitability, whilst the loss of crucial suppliers may impact operational effectiveness.

Under Solvency II, a widening of credit spreads and downgrades can also result in a reduction in our Solvency II Balance Sheet surplus, despite already setting aside significant capital for credit risk, although management actions are available to manage this risk.

**4) Mortality, catastrophe and other assumption uncertainties**
The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.

The Company regularly appraises the assumptions underpinning the business we write. We remain, however, inherently exposed to certain extreme events that could require us to adjust our reserves. For example, in our Pensions Risk Transfer and Annuities business a dramatic advance in medical science beyond that anticipated may lead to an unexpected change in life expectancy, or for the protection business an event causing widespread mortality/morbidity claims, coupled with a reinsurer default, which may impact profitability and require adjustment to reserves.

The Company undertakes significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks taken on, and that reserves continue to remain appropriate for factors including mortality, morbidity, lapse rates, valuation interest rates, expenses and credit defaults. The Company also seeks to acquire appropriate investment assets to support the pricing of future new business. In seeking a comprehensive understanding of longevity science, the Company aims to anticipate long-term trends in mortality, and continues to evolve and develop underwriting capabilities for the protection business. The selective use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality.

**5) Operational Risk**
The Company's business processes can be complex, with significant reliance placed upon a combination of IT systems and manual processes. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.

The Company has constructed a framework of internal controls to minimise the risk of unanticipated loss or damage to our reputation. The Company seeks to continually review and improve our framework. The Legal & General Group Internal Audit function also provides independent assurance on the adequacy and effectiveness of the internal controls operated by the Company. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.

**6) New entrants**
New entrants may disrupt the markets in which we operate. There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. In particular, as has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial services products emerge with lower cost business models or innovative service propositions and capital structures which disrupt the current competitive landscape. Changes in regulation or legislation can also influence the competitive landscape.

We closely monitor the factors that may impact the markets in which we operate, including governmental initiatives, developing industry practices and competitor activity. The Company is executing its digital strategy and continues to focus on ensuring that customer engagement is at the heart of the digital experience.

**7) COVID-19**
Although vaccines have had a significant effect in reducing mortality rates from the most recent variant of COVID, uncertainty remains to future virus mutations, the long term efficacy of vaccines and the effects of "long COVID", and the outlook for mortality and morbidity rates. The deferral of some non-COVID medical treatments during the course of the pandemic may also impact trends in future mortality. Whilst global and UK economic activity is returning to pre-pandemic levels, financial markets remain susceptible to shocks and re-appraisal of asset values, particularly should the emergence of vaccine resistant strains of COVID lead stringent disease control measures seen in 2020 and 2021. A range of industries directly impacted by COVID disease control measures including leisure, transport, travel and retail consumer cyclical sectors, also remain at risk of credit downgrade and default, particularly as governments withdraw economic support measures. The effect of COVID related mortality on reinsurance counterparties also remains a risk factor, albeit we assess default among strongly rated reinsurers to be a more remote risk. While continuing COVID disease control measures have had some impact on our business operations, we have been able to continue the majority of our business services without material disruption. We remain, however, alert to the operational risks in the current environment.

**8) Emerging threats from climate change for our investment portfolios and wider business**
As a significant investor in financial markets and commercial real estate, we are exposed to climate related transition risks, particularly should abrupt shifts in the political and technological landscape impact the value of those investment assets associated with higher levels of greenhouse gas emissions. We believe that climate change has not yet been fully priced in by financial markets. While national governments are setting goals to support a smooth transition to low carbon economies, delays in making the necessary changes increases the risk of sudden late policy action, in turn leading to potentially large and unanticipated shifts in asset valuations for those industries and sectors that will need to take action. We are embedding the assessment of climate risks in our investment process and are developing our risk metrics and framework for oversight and taking opportunities. We have already set carbon intensity targets for our investment portfolios and along with specific exclusions for thermal coal we have implemented controls around the acquisition of high carbon investments.

A full description of the Group's emerging threats from climate change for investment portfolios and wider business can be found in the Group Annual Report & Accounts, which can be found here:
https://www.legalandgeneralgroup.com/investors/results-reports-and-presentations/

**Section 172(1) Statement & Stakeholder engagement**
The s.172(1) statement has been set out on the next page. This statement provides details of key stakeholder engagement undertaken by the Board during the year and how this helps the Board to factor potential impacts on stakeholders in the decision making process.

By Order of the Board

DocuSigned by:
Andrew Fairhurst
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A. D. Fairhurst
On behalf of Legal & General Co Sec Limited
Company Secretary
7 March 2022

## Section 172 (1) Statement and Stakeholder Engagement

The Board of Legal and General Assurance Society Limited ("LGAS" or "the Company") considers that it has adhered to the requirements of section 172 of the Companies Act 2006 and has, in good faith, acted in a way that it considers would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, has had regard to, and recognised, the importance of considering all stakeholders and other matters (as set out in s.172(1)(a-f) of the Act) in its decision-making.

As part of the wider Legal & General Group (the "Group"), taking into account the relative size and complexity of LGAS and centralised nature of the Group, the Board may consider it reasonable for decision making to be conducted by the Group Board. In such cases, this will be articulated in the Statement and reference provided to the Group's Annual Report & Accounts for the year ended 2021 ('Group Annual Report & Accounts').

The reporting legislation around stakeholder engagement is welcomed by the Board and the commentary and table below sets out our s.172(1) Statement. This statement provides details of key stakeholder engagement undertaken by the Board during the year and how this helps the Board to factor potential impacts on stakeholders in the decision-making process. Additional details of the Group's key stakeholders and why they are important to us are set out in the Group's Annual Report & Accounts for the year-ended 31 December 2021, which can be found here: www.legalandgeneralgroup.com/investors/results-reports-and-presentations

**General**

The Group promotes the highest standards of governance and ensures that these standards cascade throughout the Group and its subsidiaries. Guiding principles are in place for the relationship between the Group Board and the Boards of the Group's principal subsidiaries. This framework promotes full and effective interaction across all levels of the Group to support the delivery of strategy and business objectives within a framework of best corporate governance practice. A full description of the Group's governance arrangements can be found in the Group Annual Report & Accounts.

Corporate governance underpins how we conduct ourselves as a Board, our culture, values, behaviours and how we do business. As a Board we are conscious of the impact that our business and decisions have on our direct stakeholders, as well as our wider societal impact.

As part of the director induction process, directors are briefed on their duties, including their duty under s.172 of the Companies Act 2006. The directors are entitled to request from the Company all such information they may reasonably require in order to be able to perform their duties as directors, including professional advice from either the Company Secretary or from an independent advisor at the Company's expense. On-going training is provided to the directors, as required, to ensure that their knowledge remains up to date and they continue to be able to discharge their duties as directors.

Stakeholder considerations are embedded in the decision-making of the Board and all key decision making forums throughout the Group. As part of the paper submissions, all Group and subsidiary board papers must demonstrate that any potential impacts to stakeholders have been considered. Details of the potential impacts to our key stakeholders are included in the cover sheet for each Group and subsidiary Board paper throughout the year, where relevant. For each transaction approved by the Board, including but not limited to material acquisitions and strategic expansion, discussion takes place in relation to the employee impact and impact on other stakeholders, such as customers. The Board seeks to understand the views, priorities and issues of each stakeholder group so that these can be carefully considered by the Board. Whilst not all decisions affect every stakeholder group, the Board endeavours to balance the sometimes, conflicting needs of its stakeholders, to ensure that all groups are treated consistently and fairly Additionally, the Group or subsidiary Company Secretary is on hand to provide support to the Board in ensuring that sufficient consideration and time is given to stakeholder issues during these discussions.

**Principal decisions**

For the year ended 31 December 2021, the Board consider that the following are examples of principal decisions that it made in the year:

- Approval of the Annual Business Plan for 2022-2026
- Approval of the Company's Capital Budget
- Declaration of the interim half year and year end dividends
- Approval of significant Pension Risk Transfer transactions
- Additional investment by the Company's Shareholder Fund in the Suburban Build-to-Rent (SBTR) assets
- Investments in and oversight of the shareholder direct investment portfolio
- Approval of the Company's Risk Framework, including changes to the Company's risk appetite
- Approval of the Shareholder Fund Investment Strategy
- Approval of a change of Company Investment Advisor

The table below sets out our key stakeholders and provides examples of how we have engaged with them in the period, as well as demonstrating stakeholder consideration in the decision-making process.

## Section 172 (1) Statement and Stakeholder Engagement (continued)



| Stakeholders & their importance to us | The Board's approach to stakeholder engagement | Outcomes and Stakeholder consideration in the Board's decision making |
|---|---|---|
| **Shareholders**<br><br>Our shareholders are vital to the future success of our business, providing funds which aid business growth and the generation of sustainable returns. | Our ultimate shareholder is Legal & General Group Plc, whose shareholders are institutional and individual investors who own Legal & General shares or bonds.<br><br>Performance metrics and updates are provided by the Board to our parent company, with subsidiary performance cascaded up the Group.<br><br>As a significant subsidiary, LGAS is closely overseen by the Group Board and its Business Plan forms a substantive part of the Group Plan. The Chair of the Board is also a Non-Executive Director on the Group Board and a member of the Group Risk Committee. At every meeting, the Board considers and recommends items requiring escalation to the Group Board to ensure robust and regular reporting. | As a Board, we aim to provide clear information to our parent company and ultimate shareholders, being honest and transparent as to the performance of the business.<br><br>Value is generated for shareholders by achieving the Business Plan, providing a sustainable, progressive dividend (where appropriate) and through share price performance of the ultimate shareholder, Legal & General Group Plc. |
| **Customers**<br><br>Listening to our customers helps us to better understand their needs and provide suitable and reliable products and services. | Our Group teams are dedicated to making sure we constantly refine what we do – making customers feel confident that we're delivering our promises to them in everything we do.<br><br>At every meeting, the Board receives the latest customer management information. Annually, the Board considers and approves the Customer Strategy, including digital communications. | At our annual Board Strategy Day, we considered our Technology Strategy, including our continued plans to embed digital value to enhance the customer experience through our modernisation programme. We also discussed our Customer Strategy and approved the focus areas for the coming year.<br><br>The Board received regular customer MI, including updates on Covid-19, where relevant. Throughout the year we received regular updates on telephony and administration performance, customer satisfaction scores and our progress towards the agreed 2021 core KPIs for Digital Self Service, amongst other areas. |

## Section 172 (1) Statement and Stakeholder Engagement (continued)



| Stakeholders & their importance to us | The Board's approach to stakeholder engagement | Outcomes and Stakeholder consideration in the Board's decision making |
|---|---|---|
| **Workforce**<br><br>Engaging with our people enables us to create an inclusive company culture and a positive working environment. | Engagement with employees through the Group-wide 'Voice Survey' continued.<br><br>With the shift in focus from managing the acute crisis of the Covid-19 pandemic towards planning for a post-lockdown future, we also engaged with our employees through our Future of Work surveys in March 2021. The surveys also provided insight into our employee's wellbeing and maintained an alignment with the Group's cultural values<br><br>Following these surveys, action plans at Group, divisional and local level were devised and implemented. At a Group-level, we have a Designated Workforce Director on the Group Board who actively engages with employees and provides insights gained, as well as bringing together various mechanisms to enable better employee representation across the Group. A more detailed explanation of the activities of the Group Designated Workforce Director can be found in the Group Report & Accounts.<br><br>These methods of engagement ensure that we continue to foster an inclusive and supportive working environment for our employees, thus ensuring the sustainability of the Company in the long term.<br><br>The Group HR Director attends Board meetings on a regular basis to provide updates on employee engagement, culture and the voice survey results. | In September 2021, the Board hosted a celebratory employee lunch to mark the 25th anniversary of the Group's presence in Cardiff. This enabled the Board members to meet with, and listen to insights from, a range of employees from the Group's Cardiff employees who support the Company's businesses The Board also visited The Interchange building in Cardiff Central Square, the new office for our Cardiff employees .<br><br>Our robust, well-embedded remote working solutions continued to keep employees engaged, working efficiently and servicing our customers effectively whilst working remotely.<br><br>Throughout the year, employee satisfaction scores and response rates from the Group 'Your Voice' survey remained strong and stable.<br><br>The Board received updates on the implementation of the Technology Strategy which sought to modernise and enhance the digital experience and the remote capabilities of the workforce.<br><br>Throughout the year, the Group continued to promote the availability of wellbeing support mechanisms and, to recognise its importance, Jeff Davies, was named as the Group Executive Sponsor for wellbeing. |

**Section 172 (1) Statement and Stakeholder Engagement (continued)**



| Stakeholders & their importance to us | The Board's approach to stakeholder engagement | Outcomes and Stakeholder consideration in the Board's decision making |
|---|---|---|
| **Suppliers**<br><br>Interaction with our suppliers and treating our suppliers fairly allows us to drive high standards and reduce risk in our supply chain whilst also benefitting from cost efficiencies and generating positive outcomes for the environment and wider society. | As a Group we hold regular meetings with our key suppliers to ensure that risks are proactively managed and that our suppliers are up to date on latest developments and best practice. We strive to work with like-minded businesses, requiring suppliers to comply with our Supplier Code of Conduct. This safeguards the relationship and establishes standards that ensure suppliers operate ethically, are environmentally responsible and that their workers are treated with respect and dignity.<br><br>A more detailed explanation of the activities undertaken at a Group level with our suppliers can be found in the Group Report & Accounts. | The Group CFO and the Board of Legal & General Resources Limited Board, our main supplier contracting entity , received regular Procurement updates throughout the year. This included updates on our journey in sustainable sourcing and supplier management<br><br>The Board, as part of its oversight of the digital and technology strategy, received updates on the external IT service providers capability and operational efficiency during the remote working environment.<br><br>On a quarterly basis, the Board receives detailed supplier dashboards on service performance and contract governance as part of the Quarterly IT Update. |
| **Regulators**<br><br>Active engagement with the government and regulators helps to ensure that standards across our business and across the industry are maintained in order to protect our customers. | As would be expected of a large, diversified group, Legal & General is proactively supervised by the primary regulators in the UK. Our engagement consists of regular scheduled meetings with senior managers, routine deep dive activity, and occasional inclusion in thematic reviews. Legal & General places high importance on having an open and transparent relationship with all regulators and promotes a collaborative approach through on-going regulatory interactions.<br><br>As a Group, we recognise the value of strong regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies to develop responses to developing issues that meet the needs of all stakeholders. | As a regulated Board we value the on-going engagement with our regulators. The dialogue plays an important part in Board discussions and debate.<br><br>The Board, as part of its decision making, takes into consideration the impact of its decisions on, among other things, its Risk Appetite and Solvency position.<br><br>During the year, there was active engagement with regulators on managing new business flows, and capital budgets which influenced the major decision making of the Board.<br><br>The Non-Executive Directors of the Board also met with regulators individually, further enhancing the relationship and ongoing commitment to openness and transparency. |

| Stakeholders & their importance to us | The Board's approach to stakeholder engagement | Outcomes and Stakeholder consideration in the Board's decision making |
|---|---|---|
| **Community/wider society**<br><br>Contributing positively to wider society enables us to create stronger communities and have a positive environmental impact. | Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities. Our approach to inclusive capitalism takes our belief in responsible behavior and extends it into investing in communities and cities to change people's lives for the better.<br><br>We use our own capital and our policyholder's assets to make long term investments in real assets. This allows us to create value for shareholders, provide stability for pension customers and benefits communities right across the UK.<br><br>The Group's full Corporate Responsibility Report can be found here: [www.legalandgeneralgroup.com/csr] | As part of the Company's focus on inclusive capitalism, the Board approved an increase in its level of investment in Suburban Build-to-Rent assets and has maintained a high-level of oversight of investments in the wider community. Examples of this are detailed below.<br><br>During the year, the Board members visited numerous development sites in Bristol to see first-hand how the Company's direct investment was positively impacting local communities. This included a tour of Bristol Temple Island, a tour of the newest Build to Rent Fund Scheme buildings and the Bristol Modular Homes site. The Board heard first-hand from architects and employees how the development sites would regenerate unused areas of the city and produce high-quality, affordable housing for the local Bristol community.<br><br>The Board also visited The Interchange Building in Cardiff Central Square. The Interchange is a testament to our purpose of inclusive capitalism, as we continue to invest pension money in the future of cities and towns across the UK and develop buildings with net zero carbon targets.<br><br>At the Board Strategy Day, the Board received an update on how the Group was approaching the challenges and opportunities associated with the climate change crisis. The update helped to enhance the Board's awareness of such considerations to assist in future decision-making.<br><br>Following our review of the Board skills matrix, this year we were pleased to welcome our new Non-Executive Director, Patricia Rodrigues, to the Board to enhance the Board's overall knowledge and expertise in relation to direct investment and ESG matters.<br><br>The Non-Executive Directors on the Board attend an ESG session led by the Group's Investment Management business on a bi-annual basis. Following the success of the latest session in December 2021 which focused on Net-Zero commitments and sustainable property funds, the Board requested for bi-annual ESG updates to be formally presented in Board meetings going forward. This demonstrates the Board's continued interest in driving positive environmental impacts. |

Further information on how the Legal & General Plc Group Board have engaged with stakeholders can be found in the Group s.172(1) Statement, which can be found here:

**[www.legalandgeneralgroup.com/investors/results-reports-and-presentations.]**

The directors present their annual report together with the audited financial statements of Legal and General Assurance Society Limited ('the Company') for the year ended 31 December 2021.

**Statement of Corporate Governance Arrangements**
Under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has, as part of the wider Legal and General Group (the "Group"), applied the principles of the 2018 UK Corporate Governance Code (the "Code") as the standard against which we measure ourselves. In addition to the Group's full statement of compliance with the Code, a high level explanation of how the Company have applied these principles in practice during the year have been set out on page 13.

**Energy and Carbon Report**
The Company's ultimate controlling party is preparing a group Energy and Carbon Report for the year ended 31 December 2021, therefore the Company has elected not to report its energy and carbon information. Legal & General's full Climate Report can be found at https://group.legalandgeneral.com/en/sustainability/sustainability-reporting-centre/task-force-on-climate-related-financial-disclosures-tcfd-report-2020/.

**Results for the year and dividend**
The results of the Company are set out on page 21.

Total interim dividends paid in the year were £902m (2020: £935m). An additional dividend of £nil was authorised but not paid as at December 2021 (2020: £0.5m). A final dividend of £nil was proposed in respect of 2021 (2020: £nil).

**Financial risk management objectives**
The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in Notes 44 & 45 of the financial statements.

**Directorate**
The directors of the Company, who were in office during the year and up to the date of signing the financial statements, are shown below:

H. C. Baldock (Non-Executive Chair)
S. J. Davies
C. W. T. Dinesen (Non-Executive Director)
K. P. Murphy (Non-Executive Director)
Sir N. D. Wilson
P. M. Rodrigues (Non-Executive Director) (Appointed 16 June 2021)
C. L. Mason (Resigned 29 June 2021)

**Directors' indemnities and insurance**
As permitted by the Company's Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and remains in force. The ultimate parent company, Legal & General Group Plc, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Legal & General Group Plc and its global subsidiaries ("Legal & General") recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free. Legal & General's full modern slavery statement can be found at www.legalandgeneralgroup.com.

**Audit committee**
The Company's Audit Committee is chaired by K. P. Murphy and also comprises H. C. Baldock, C. W. T Dinesen and P.M. Rodrigues. The purpose of the Committee is to review the effectiveness of the Company's systems of Internal Control, review the Company's financial statements and other statutory and regulatory reporting obligations and receive reports from the Company's external and internal auditors in relation to the Company's business.

**Independent auditors**
The Company has appointed KPMG LLP as the Company's external auditors. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Legal & General Group Plc Annual General Meeting.

There is no requirement under the Companies Act or the Company's Articles of Association to hold an Annual General Meeting or present the Company's Report and Accounts before the shareholders.

**Future developments**
The Company strategy is aligned to the Legal & General Group's six established long term growth drivers: ageing demographics; globalisation; investing in the real economy; welfare reform; technological innovation; and addressing climate change. Our strategic priorities are set to deliver sustainable profits as well as positive social and environmental outcomes, ensuring we derive maximum benefit for our stakeholders.

UK demand for pension de-risking strategies remains strong and we expect our UK leading retail protection business to continue to provide good customer outcomes and attractive returns.

Increasingly, defined contribution schemes are considering moving to Master Trust structures as it offers a full outsourcing solution, including independent governance and the Company is very well placed to take advantage of this trend.

**Post balance sheet events**
There were no other adjusting or non-adjusting post balance sheet events between 31 December 2021 and the approval of the report and accounts of the Company that require disclosure.

**Statement of directors' responsibilities**
The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, each director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB);
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given in accordance with Section 418(2) of the Companies Act 2006.

By Order of the Board

DocuSigned by:
Andrew Fairhurst
A81EC9B7E7BC47F...
A. D. Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
7 March 2022

## Statement of Corporate Governance Arrangements

For the year ended 31 December 2021, under the Companies (Miscellaneous Reporting) Regulations 2018, Legal and General Assurance Society Limited (the "Company") has, as part of the wider Legal and General Group (the "Group"), applied the principles of the 2018 UK Corporate Governance Code (the "Code") as the standard against which we measure ourselves.

The Group promotes the highest standards of governance and ensures that these standards cascade throughout the Group and its subsidiaries. Guiding principles are in place for the relationship between the Group Board and the Boards of the Group's principal subsidiaries. This framework promotes full and effective interaction across all levels of the Group to support the delivery of strategy and business objectives within a framework of best corporate governance practice. A full description of the Group's governance arrangements and application of the Code can be found in the Group Annual Report & Accounts for the year ended 31 December 2021 (Group Annual Report & Accounts), which can be found here: https://www.legalandgeneralgroup.com/investors/results-reports-and-presentations/

In addition to the Group's full statement of compliance with the Code, the following is a high-level explanation of how the Company has applied these principles in practice during the year:

**Board leadership and company purpose**
The Board's agenda is designed to address and achieve the Company's purpose, as articulated in the Strategic Report on page 2. It is set by the Chair, who also sits on the Group Board, and deals with those matters relating to strategic plan, risk appetite, and systems of internal control and corporate governance policies.

There is a formal schedule of matters reserved for the Board, which sets out the structure under which the Board manages its responsibilities and provides guidance on how it discharges its authority and manages the Board's activities. Additionally, a protocol is in place that defines the working principles and relationships between the Group Board and the Company. The Board adopts the Group Diversity Policy which is reviewed and approved on an annual basis.

These measures together ensure that the Board engages effectively with and understands the views of its shareholder and the wider Group. Our governance framework means we have a robust decision-making process and a clear framework within which decisions can be made and strategy can be delivered.

As the Company has no direct employees, the Board consider it appropriate that application of the Code for workforce engagement is achieved at Group-level, including through the work of the Group Designated Workforce Director. Further information on this work can be found in the Employee Engagement section of the Group Annual Report and Accounts. Notwithstanding the fact that the Company has no direct employees, during the year the Board hosted a celebratory lunch for employees of the Group in Cardiff to mark the 25th anniversary of the Group's presence in the city. This enabled the Board members to meet with, and listen to insights from, a range of employees of the Group.

**Division of responsibilities**
The Chair, as well as managing the meeting, encourages an open and constructive dialogue, inviting the views of all Board members. The Board comprises four independent non-executive directors and two executive directors with clearly defined statements of responsibilities for both the Chair and the Chief Executive, which are reviewed as part of the annual governance review undertaken by the Board. The Company's independent non-executive directors regularly meet the Chair without the Company's executive directors being present, in order that the non-executive directors can appraise and scrutinise the performance of all its Board members.

The Board receives the support and advice of the Company's Chief Actuary, General Counsel, Company Secretary and Chief Risk Officer, each of whom are standing attendees at all Board meetings. The Board also has access to independent advice at the expense of the Company.

**Composition, succession and evaluation**
The Directors, as part of the annual Board evaluation, assess the composition of the Board. In making recommendations for appointments, the Board will consider the balance of skills, experience and knowledge needed in order to enhance the Board and support the Company in the execution of its strategy and pursuance of the Company's wider purpose.

All Board appointments are subject to regulatory clearance and approval from the Group Nominations and Corporate Governance Committee, the involvement of whom represents a more effective means of ensuring orderly succession within the Group, by allowing concentration of knowledge, expertise and planning with regards to board and senior level succession.

An assessment of the Board's effectiveness is undertaken on an annual basis. In 2021, the Board conducted an internal Board evaluation which was externally facilitated by Lintstock, an independent board evaluator. The evaluation's findings were presented to the Board and an action plan agreed to address development needs identified.

**Audit, risk and internal control**
The Company has its own Audit Committee comprising four independent non-executive directors, to which the Board delegates a number of responsibilities, including oversight of the financial reporting processes, reviewing the Company's internal control systems and monitoring and reviewing the work undertaken by external and internal auditors and the effectiveness of the Company's internal and external audit functions.

The Board sets the Company's risk appetite and annually reviews the effectiveness of the Company's risk management and internal control systems. The Board carries out a robust assessment of emerging and principal risks, details of which can be found in Note 45, Risk management and control, of the Notes to the Financial Statements.

Taking into account the relative size and complexity of the Company and centralised nature of the Group, the Board consider it appropriate that the Group Risk Committee, on which the Chair sits, is responsible for assessments of the Group's current risk profile and emerging risk factors. A description of principal risks faced by the Group and the processes in place to identify emerging risks can therefore be found in the Group Risk Committee Report in the Group Annual Report and Accounts. The key Group issues that impact the Company, as proposed by the Group Risk Committee, are clearly communicated to the Board so that the Board can consider such risks and manage or mitigate them where appropriate.

**Remuneration**
As the Company has no direct employees, the Board considers it appropriate that the Group Remuneration Committee, on which the Chair sits, be responsible for determining remuneration policies and practices and setting remuneration for all executive directors of Group companies. The application of the Code through a Group Remuneration Committee allows for harmonisation of remuneration packages across Group companies, such that clarity and simplicity of directors' remuneration packages are ensured. Further information and a description of the work done by the Group Remuneration Committee can be found in the Directors' Report on Remuneration in the Group Annual Report and Accounts.

KPMG

# Independent auditor's report

## to the members of Legal and General Assurance Society Limited

### 1. Our opinion is unmodified

We have audited the financial statements of Legal and General Assurance Society Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 17 May 2018. The period of total uninterrupted engagement is for the four financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

| Overview | | |
|---|---|---|
| **Materiality:** financial statements as a whole | £70.0m (2020:£70.0m)<br>0.9% (2020: 1.1%) of net assets | |
| **Key audit matters** | | **vs 2020** |
| **Recurring risks** | Valuation of non-participating insurance contract liabilities | ◄► |
| | Valuation of hard to value (Level 3) investments | ▼ |

### 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | The risk | Our response |
|---|---|---|
| **Valuation of non-participating insurance contract liabilities**<br><br>Annuity policyholder liabilities included within non-participating insurance contract liabilities of £85,920 million; (2020: £85,713 million)<br><br>*Refer to page 26 (accounting policy) and page 50 (financial disclosures).* | **Subjective valuation:**<br><br>The valuation of the annuity liabilities is an inherently subjective area, requiring management judgement in the setting of key assumptions. The longevity, expense and credit risk assumptions involve the greatest level of subjectivity. A small change in these assumptions can have a significant impact on the liabilities. We consider the risk remains increased in the current year due to the higher degree of estimation uncertainty resulting from changes in demographic and economic conditions caused by the Coronavirus pandemic (Covid-19).<br><br>*Longevity assumptions:*<br><br>Longevity assumptions have two main components which include mortality base assumptions and the rate of mortality improvements. Changing trends in longevity and emerging medical trends means that there is a high level of uncertainty in the assumptions. This uncertainty remains heightened in the current year due to the potential longer term impacts of Covid-19 on trends in longevity. There is also a high degree of reliance on Continuous Mortality Investigations ('CMI') models, and convergence across the industry on its parameterisation. Hence there is a risk that other mortality and health data sources are not appropriately considered under the assumption setting methodology.<br><br>*Credit assumptions*<br><br>The valuation discount rate (Valuation Interest Rate, 'VIR') is derived from the yield on the assets backing the annuity liabilities. In setting the VIR, an explicit allowance for credit risk is deducted from the yield on debt and other fixed income securities.<br><br>The assumptions surrounding this deduction require significant judgement and there is a risk that changes in investment yields, market spreads, current actual default experience and anticipated trends are not appropriately reflected.<br><br>*Expense assumptions*<br><br>Management judgement is required in setting the maintenance expense assumption which is based on the directors' long term view of the expected future costs of administering the underlying policies. | Our procedures included:<br><br>— **Control design and operation:** testing of reconciliation controls to assess completeness of data flows from policy administration systems to the actuarial valuation models;<br><br>— **Test of detail:** testing the completeness of data used in the valuation of annuity liabilities by reconciling the data from the policy administration system to the data used in the actuarial models;<br><br>— **Test of detail:** By utilising data and analytics procedures, testing the accuracy of the historical data input into the actuarial valuation model by comparing the data used for reporting as at 31 December 2021 to the data used for reporting as at 31 December 2020 in relation to policies that were still in force at that time;<br><br>— **Test of detail:** Tracing a sample of new business policyholder data inputs into the actuarial valuation model to the underlying policy documents;<br><br>— **Test of detail:** Reconciling the completeness and accuracy of the assets used in the calculation of the VIR to the assets used to back the insurance liabilities; and<br><br>— **Test of detail:** For a sample of assets, validating the accuracy of the asset data used to project the cash flows used in the calculation of the VIR and, with the assistance of our valuation specialists, re-projecting these cash flows.<br><br>We used our own actuarial specialists to assist us in performing our procedures in this area, including:<br><br>— **Methodology choice:** assessing the appropriateness of the methodology for selecting assumptions by applying our understanding of developments in the business and expectations derived from market experience, including consideration of the effects of Covid-19 on policyholder mortality and credit risk. For longevity assumptions, this includes consideration of the cause of death modelling performed by the Company and other non-CMI sources alongside the CMI modelling used across the industry.<br><br>— **Benchmarking assumptions:** assessing mortality improvement assumptions against industry data on expected future mortality rate improvements and industry historic mortality improvement rates and assessing the appropriateness of the credit risk assumptions by comparing to industry practice and our expectations derived from market experience. |

| | The risk (cont.) | Our response (cont.) |
|---|---|---|
| **Valuation of non-participating insurance contract liabilities**<br><br>Annuity policyholder liabilities included within non-participating insurance contract liabilities of £85,920 million; (2020: £85,713 million)<br><br>*Refer to page 26 (accounting policy) and page 50 (financial disclosures).* | **Data Capture:**<br><br>There is a risk that incomplete and inaccurate data is used in the calculation of liabilities resulting from inaccurate transfer or conversion of aggregate data from the policy administration systems into model point files used to value the liabilities in the actuarial models. In addition there is a risk that incomplete or inaccurate asset data is used to calculate the default adjustment applied to the VIR.<br><br>**Calculation error:**<br><br>The Company uses actuarial models to calculate policyholder liabilities. There is a risk that unauthorised or erroneous changes to the models may occur.<br><br>**Estimation uncertainty:**<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities (Note 45) estimated by the Company. | — **Historical comparisons:** evaluating the mortality base assumptions used in the valuation of the annuity liabilities by comparing to the Company's historic mortality experience; assessing the credit default assumptions by comparing to the historical performance of the asset portfolio; and assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing the allocations of the forecast 2022 costs to maintenance expenses, with reference to historical allocations.<br><br>— **Test of detail:** testing that changes to the actuarial model from the prior year have been appropriately approved within the Company; and evaluating the appropriateness of the financial impact of the changes made to the model during the year.<br><br>— **Assessing transparency:** considering whether the disclosures in relation to the assumptions used in the calculation of valuation of UK annuity policyholder liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs.<br><br>**Our results**<br><br>— We found the resulting estimate of the valuation of annuity policyholder liabilities within non-participating insurance contract liabilities to be acceptable (2020 result: acceptable). |
| **Valuation of hard to value (Level 3) investments**<br><br>Lifetime mortgages of £7,114m (2020: £6,286m), private credit loans of £13,400m (2020: £11,889m), income strip assets of £1,291m (2020: £1,159m) and sale and leaseback notes of £5,154m (2020: £4,532m), included within the remaining Level 3 investments of: £35,570 million (2020: £31,158 million)<br><br>*Refer to page 28 (accounting policy) and page 39 (financial disclosures).* | **Subjective valuation:**<br><br>32.4% (2020:27.6%) of the investment portfolio is classified as Level 3 assets, of which we consider the valuation of lifetime mortgages, private credit, income strip assets and sale and leaseback notes involve the greatest level of subjectivity. The subjectivity due to Covid-19 on asset valuations remains heightened<br><br>However, we consider the subjectivity to have decreased from the prior year, driven by actual experience to date and significant developments made in the UK with its response to Covid-19.<br><br>For these positions a reliable third party price from a recent market transaction is not readily available and therefore the application of expert judgement from the Company in the valuations adopted is required. | Our procedures included:<br><br>— **Control design and operation:** testing of the design and implementation of key controls over the valuation process for the hard to value (Level 3) investments, including the testing of operating effectiveness of key controls relating to the valuation of private credit assets and lifetime mortgages.<br><br>— **Assessing valuers' credentials:** assessing the objectivity, professional qualifications and competence of external valuers of private credit, income strip assets and sale and leaseback notes used by the Company and reconciling the valuations provided by them to the valuations recorded in the financial statements.<br><br>— **Methodology choice:** assessing the appropriateness of the pricing methodologies for private credit, income strip assets and sale and leaseback notes with reference to relevant accounting standards and the Company's own valuation guidelines as well as industry practice. |

| | The risk (cont.) | Our response (cont.) |
|---|---|---|
| **Valuation of hard to value (Level 3) investments**<br><br>Lifetime mortgages of £7,114m (2020: £6,286m), private credit loans of £13,400m (2020: £11,889m), income strip assets of £1,291m (2020: £1,159m) and sale and leaseback notes of £5,154m (2020: £4,532m), included within the remaining Level 3 investments of: £35,570 million (2020: £31,158 million)<br><br>*Refer to page 28 (accounting policy) and page 39 (financial disclosures).* | The key assumptions underlying the valuations are:<br><br>— Lifetime mortgages: property price at valuation date, property price inflation, property index volatility, voluntary early redemption rate and the illiquidity premium added to the risk free rate;<br><br>— Private credit: yields of selected comparator securities and credit ratings derived from credit rating models; and<br><br>— Sale and leaseback notes and income strip assets: estimated rental value, discount rate and yield of the underlying property.<br><br>**Data capture:**<br><br>*Lifetime mortgages*<br><br>There is a risk that incomplete data is used in the calculation of lifetime mortgages because data does not transfer appropriately from the policyholder system to the actuarial models.<br><br>**Calculation error:**<br><br>*Lifetime mortgages*<br><br>The Company uses a complex actuarial model to calculate the valuation of lifetime mortgages. There is a risk that unauthorised or erroneous changes to the model may occur.<br><br>**Estimation uncertainty**<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hard to value (Level 3) investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 16) disclose the sensitivity estimated by the Company. | — **Our valuation expertise:**<br><br>— using our own valuation specialists to assess the suitability of the valuation and credit rating methodologies; to independently revalue a sample of the private credit investments and assess the suitability of comparator securities utilised in the valuation on a sample basis;<br><br>— using our own valuation specialists to assess the suitability of the valuation methodologies used by the Company; and<br><br>— using our own actuarial specialists to evaluate the appropriateness of the assumptions used in the valuation of lifetime mortgages with reference to market data and industry benchmarks<br><br>— **Benchmarking assumptions:** evaluating and challenging the key assumptions upon which the valuations of lifetime mortgages, income strip assets and sale and leaseback notes were based, including consideration of the impacts of the Covid-19 pandemic, by making a comparison to our own understanding of the market, comparable evidence relied on by the valuers used by the Company and to industry benchmarks.<br><br>— **Test of detail:**<br><br>— Testing that changes to the actuarial model for lifetime mortgages from the prior year have been appropriately approved within the Company; and evaluating the appropriateness of the financial impact of the changes made to the model during the year; and<br><br>— Testing the completeness of data used in the valuation of lifetime mortgages by reconciling the data from the policy administration system to the data used in the actuarial valuation models.<br><br>— **Assessing transparency:** assessing whether the disclosures in relation to the valuation of hard to value (Level 3) investments are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuations to alternative assumptions.<br><br>**Our results**<br><br>— We found the resulting estimate of the valuation of hard to value (Level 3) investments to be acceptable (2020 result: acceptable). |

## 3. Our application of materiality and an overview of the scope of our audit

Legal and General Assurance Society Limited is part of a Group headed by Legal & General Group plc. Materiality of £70m, as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to net assets and represents 0.9% (2020: 1.0%) of the Company's net assets. We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £45.5 million (2020: £45.5 million). We applied this percentage in our determination of performance materiality based on the level of identified immaterial unadjusted differences and control deficiencies noted during prior periods.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3.15 million (2020: £3.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

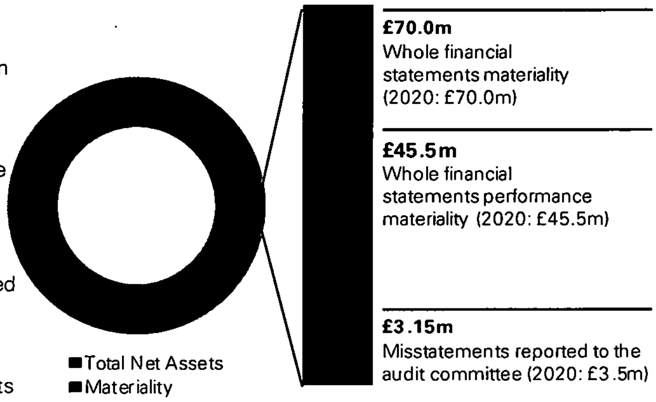
In addition, we applied materiality of £507 million (2020: £402 million) to the classification of unit-linked assets and liabilities in the balance sheet and related notes, determined with reference to a benchmark of total unit-linked financial investments, of which it represents 0.7% (2020: 0.8%). This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom.

We agreed to report to the Audit Committee any corrected or uncorrected classification misstatements in unit-linked assets and liabilities exceeding £25.4 million (2020: £20.1 million).

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

**Total Net Assets**
£7,530m (2020: £6,882m)

**Materiality**
£70.0m (2020: £70.0m)




## 4. The impact of climate change on our audit

In planning our audit, we have considered the potential impact of climate change on the Company's business and its financial statements.

Climate change, and the associated initiatives and commitments, impact the Company in a variety of ways including the potential financial risks which could arise from the associated physical and transitional risks and the greater narrative and disclosure of the impact of climate change risk that is incorporated into the annual report. The Company's exposure to climate change is primarily through climate related transition risks which impact its investments and potential reputational risk associated with the Company's delivery of its climate related commitments.

As a part of our audit we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Company's financial statements, including how climate is considered as part of the investment making and monitoring processes, and the Company's preparedness for this. We have performed a risk assessment of how the impact of climate change may affect the financial statements and our audit. We conducted internal consultations including with our own climate change and sustainability professionals to challenge our risk assessment. There was no significant impact of this on our key audit matters.

## 5. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment in which it operates to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that were considered most likely to adversely affect the Company's available financial resources over this period were:

— Adverse impacts arising from fluctuations or negative trends in the economic environment including, but not limited to, increasing inflation, changes in interest rates, wider credit spreads and defaults which affect regulatory capital solvency coverage ratios, liquidity ratios, the valuations of the Company's investments and valuation of policyholder liabilities; and

— Severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as the failure of counterparties who have transactions with the Company (such as banks and reinsurers), which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources by the Company's financial forecasts.

We considered whether the going concern disclosure in Note 1A to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period;

— we have nothing material to add or draw attention to in relation to the directors' statement in Note 1A to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in Note 1A to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## 6. Fraud and breaches of laws and regulations – ability to detect

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— enquiring of directors, the audit committee, internal audit, Financial Crime team and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;

— reading Board, Audit Committee and Risk Committee meeting minutes; and

— considering remuneration incentive schemes and performance targets for management.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of annuity policyholder liabilities and the valuation of hard to value (Level 3) investments.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgement involved in the recognition and measurement of the transaction price for all material revenue streams.

We also identified fraud risks related to the valuation of annuity policyholder liabilities and valuation of hard to value (Level 3) investments in response to possible pressures to meet profit targets.

Further detail in respect of the valuation of annuity policyholder liabilities and valuation of hard to value (Level 3) investments is set out in the two key audit matters disclosures in section 2 of this report.

We also performed procedures including:

— identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, journals posted by unauthorized personnel, those posted to unexpected accounts relating to revenue and those posted with unusual descriptions; and

— assessing significant accounting estimates for bias.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity requirements, conduct regulation and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## 7. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## 8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 9. Respective responsibilities

*Directors' responsibilities*

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

## 10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

AC5DB077AD524E5...

**Salim Tharani (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

KPMG LLP

15 Canada Square, London, E14 5GL

7 March 2022

**Company Number 00166055**



## Statement of Comprehensive Income

For the year ended 31 December 2021

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| **Revenue** | | | |
| Gross written premiums | 1F,G/2 | **8,618** | 10,494 |
| Outward reinsurance premiums | 11 | **(4,043)** | (4,026) |
| Net change in provision for unearned premiums | 1Z | **42** | 12 |
| **Net premiums earned** | | **4,617** | 6,480 |
| Fees from fund management and investment contracts | 1G | **97** | 80 |
| Investment return | 1W/3 | **1,110** | 7,009 |
| Other income | 1Y/4 | **27** | 8 |
| **Total revenue** | | **5,851** | 13,577 |
| **Expenses** | | | |
| Claims and change in insurance liabilities | | **5,887** | 15,191 |
| Reinsurance recoveries | | **(3,324)** | (5,627) |
| **Net claims and change in insurance liabilities** | 1F/5 | **2,563** | 9,564 |
| Change in investment contract liabilities | 1G | **(81)** | 39 |
| Acquisition costs | 1F,G | **721** | 689 |
| Finance costs | 1AA | **203** | 1,714 |
| Other expenses | 1X/6 | **531** | 477 |
| **Total expenses** | | **3,937** | 12,483 |
| **Profit before income tax** | | **1,914** | 1,094 |
| Tax attributable to policyholder returns | 10 | **-** | (14) |
| **Profit before tax attributable to equity holders of the Company** | | **1,914** | 1,080 |
| Total tax expense | 1Q/10 | **(364)** | (191) |
| Tax attributable to policyholder returns | 10 | **-** | 14 |
| **Tax expense attributable to equity holders** | 10 | **(364)** | (177) |
| **Profit for the year from continuing operations attributable to equity holders of the Company** | | **1,550** | 903 |
| Profit for the year from discontinued operations attributable to equity holders of the Company | | **-** | 292 |
| **Total comprehensive income for the year attributable to equity holders of the Company** | | **1,550** | 1,195 |
| Total comprehensive income for the year attributable to equity holders of the Company arises from: | | | |
| Continuing operations | | **1,550** | 903 |
| Discontinued operations | | **-** | 292 |
| | | **1,550** | 1,195 |

## Balance Sheet

As at 31 December 2021

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| **Assets** | | | |
| Investment in subsidiaries | 1C/12 | **203** | 113 |
| Investment in joint venture | 1D/13 | **-** | 78 |
| Purchased interest in long term businesses and other intangible assets | 1J/14 | **181** | 144 |
| Deferred acquisition costs | | **21** | 44 |
| Plant and equipment | 1L/15 | **34** | 37 |
| Investment property | 1K/16 | **29** | 29 |
| Financial investments | 1K/16 | **109,846** | 112,736 |
| Reinsurers' share of contract liabilities | 1I/19 | **91,118** | 75,855 |
| Income tax recoverable | 1Q/21 | **-** | 232 |
| Other assets | 22 | **4,742** | 5,493 |
| Cash and cash equivalents | 1N/23 | **232** | 442 |
| **Total assets** | | **206,406** | 195,203 |
| **Equity** | | | |
| Share capital | 1S/24 | **651** | 651 |
| Share premium | 24 | **1,049** | 1,049 |
| Retained earnings and capital reserve | | **5,830** | 5,182 |
| **Total shareholders' equity** | | **7,530** | 6,882 |
| **Liabilities** | | | |
| Non-participating insurance contract liabilities | 1F/25(i) | **85,990** | 85,784 |
| Non-participating investment contract liabilities | 1G/26(i) | **67,324** | 51,705 |
| Borrowings | 1P/28 | **-** | 1 |
| Provisions | 1T/29 | **33** | 24 |
| Deferred tax liabilities | 1Q/20 | **-** | 223 |
| Income tax liabilities | 1Q/21 | **18** | - |
| Payables and other financial liabilities | 1U/30 | **45,039** | 49,894 |
| Other liabilities | 31 | **472** | 690 |
| **Total liabilities** | | **198,876** | 188,321 |
| **Total equity and liabilities** | | **206,406** | 195,203 |

The notes on pages 25 to 75 are an integral part of these financial statements.

The financial statements on pages 21 to 24 were approved by the board of directors on 7 March 2022 and were signed on their behalf by:

DocuSigned by:
H. C. Baldock
0B7BE57F06B0470...
H.C. Baldock
Chair

DocuSigned by:
4B7F09789E75448...
S. J. Davies
Director

## Statement of Changes in Equity

| For the year ended 31 December 2021 | Notes | Share capital £m | Share premium £m | Capital reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| As at 1 January | | **651** | **1,049** | **168** | **5,014** | **6,882** |
| Total comprehensive income for the year | | **-** | **-** | **-** | **1,550** | **1,550** |
| Dividends | 11 | **-** | **-** | **-** | **(902)** | **(902)** |
| **As at 31 December** | | **651** | **1,049** | **168** | **5,662** | **7,530** |

| For the year ended 31 December 2020 | Notes | Share capital £m | Share premium £m | Capital reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| As at 1 January | | 651 | 1,049 | 168 | 4,755 | 6,623 |
| Total comprehensive income for the year | | - | - | - | 1,195 | 1,195 |
| Dividends | 11 | - | - | - | (936) | (936) |
| **As at 31 December** | | 651 | 1,049 | 168 | 5,014 | 6,882 |

## Cash Flow Statement

For the year ended 31 December 2021

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year** | | **1,550** | 1,195 |
| **Adjustments for non-cash movements in profit for the year** | | | |
| Realised and unrealised gains on financial investments and investment properties | | **865** | (5,324) |
| Share of (profit)/loss in joint venture | 13 | **(10)** | 5 |
| Investment income | | **(2,032)** | (2,316) |
| Interest expense | | **202** | 1,746 |
| Tax expense | | **364** | 118 |
| Other adjustments | | **48** | (8) |
| **Changes in operational assets** | | | |
| Investments held for trading or designated as fair value through profit or loss | | **1,938** | (13,988) |
| Other assets | | **(14,489)** | (15,247) |
| **Changes in operational liabilities** | | | |
| Insurance contracts | | **207** | 8,313 |
| Transfer (from)/to unallocated divisible surplus | | **-** | (63) |
| Investment contracts | | **15,620** | 9,016 |
| Value of in-force non-participating contracts | | **-** | 29 |
| Other liabilities | | **(5,257)** | 15,763 |
| **Cash used in operations** | | **(994)** | (761) |
| Interest paid | | **(3)** | (7) |
| Interest received | | **1,994** | 2,121 |
| Income tax paid | | **(336)** | (353) |
| Dividends received | | **78** | 300 |
| **Net cash flows from operating activities** | | **739** | 1,300 |
| **Cash flows from investing activities** | | | |
| Acquisition of plant, equipments, intangibles and other assets | | **(89)** | (81) |
| Disposal of plant, equipment, intangibles and other assets | | **1** | 7 |
| Disposal of operations | | **-** | (248) |
| Proceeds from disposal of joint ventures | | **140** | - |
| Investment in subsidiaries | 12 | **(90)** | (71) |
| **Net cash flows (used in) investing activities** | | **(38)** | (393) |
| **Cash flows from financing activities** | | | |
| Dividend distributions to ordinary equity holders of the Company during the year | | **(903)** | (935) |
| (Repayment)/proceeds from borrowings | | **(1)** | 1 |
| Other cash flows from financing activities | | **(7)** | (7) |
| **Net cash flows (used in) financing activities** | | **(911)** | (941) |
| Net (decrease) in cash and cash equivalents | | **(210)** | (34) |
| Cash and cash equivalents at 1 January | | **442** | 476 |
| **Cash and cash equivalents at 31 December** | 1N/23 | **232** | 442 |

The Company's cash flow statement includes all cash and cash equivalent flows, including those relating to the UK policyholders.

## 1. Summary of significant accounting policies

### A Basis of preparation

Legal and General Assurance Society Limited, a private limited company incorporated and domiciled in the United Kingdom (UK), transacts life and pensions business in the UK, the United States and other countries throughout the world.

The Company financial statements have been prepared in accordance with UK-adopted international accounting standards. The Company financial statements also comply with interpretations by the International Financial Reporting Standards (IFRSs) Interpretations Committee as issued by the International Accounting Standards Board (IASB) and as adopted by the UK. The Company financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through Income Statement.

The financial statements contain information about Legal and General Assurance Society Limited as an individual company and do not contain consolidated financial information. The Company is included in the group accounts of Legal & General Group Plc and has taken advantage of the exemption under Section 400 of the Companies Act 2006.

**Going Concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in the Company's financial statements. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Company's results. Principal risks and uncertainties are detailed in the Strategic Report.

The Directors have made an assessment of the Company's going concern, considering both the Company's current performance and the Company's outlook for a period of at least, but not limited to, 12 months from the date of approval of these financial statements, which takes account of the current and future impact of the COVID pandemic, using the information available up to the date of issue of the Company's financial statements.

The Company manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on our capital position from a range of stresses is disclosed on Note 45. These stresses, including the additional considerations and stresses applied in response to COVID, do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the directors consider that the Company has the plans and resources to manage its business risks successfully and remains financially strong and well diversified.

Having reassessed the principal risks and uncertainties, both financial and operational, in light of COVID and the current economic environment, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

**Significant accounting policies**

The Company has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented unless otherwise stated.

Financial assets and financial liabilities are disclosed gross in the Balance Sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or International Financial Reporting Interpretations Committee (IFRIC) interpretation, as detailed in the applicable accounting policies of the Company.

### B Critical accounting policies and the use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, material adjustments could be made to the carrying amounts of assets and liabilities within the next financial year. The Group and Company Audit Committees review the reasonableness of judgements associated with and the application of significant accounting policies.

The major areas of critical accounting judgement on policy application are considered below:

**Insurance and investment contract liabilities (Notes 1F, 1G, 25 and 26)**
Assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance or investment contract. Contracts which transfer significant insurance risk to the Company are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the Company but not significant insurance risk are classified as investment contracts.

Judgement is required in order to assess the significance of the transfer of insurance risk within a contract. This assessment is based on whether the occurrence of an insured event could cause the Company to make significant additional payments, i.e. does the occurrence of the event cause significantly higher cash out flow for the Company than its non-occurrence.

Insurance contracts are accounted for under IFRS 4, while investment contracts are accounted for as financial instruments under IAS 39.

The areas of the financial statements that are susceptible to changes in estimates and assumptions are detailed on the next page.

**Valuation of investment property (Notes 1K and 16)**
Determination of fair value of investment property involves judgements, in model valuations, through the incorporation of both observable and unobservable market inputs, which include assumptions that lead to the existence of a range of plausible valuations for financial assets. Investment property in the UK is valued at least bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and Balance Sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

## 1. Summary of significant accounting policies (continued)

**The determination of fair values of unquoted and illiquid financial investments (Notes 1K and 16)**
Determination of fair value of unquoted and illiquid assets, involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets. For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

**Insurance and investment contract liabilities (Notes 1F, 1G, 25 and 26) and associated balances**
The determination of long-term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The assumptions for the rate of future longevity, mortality and morbidity are based on the Company's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities that represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs. The main estimates and assumptions used in calculating insurance liabilities are disclosed in more detail in Note 27.

Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic internal data. The valuation interest rate is also sensitive to the selection of assets chosen to back the liabilities.

Determination of the target long-term asset portfolio at certain period ends, depending on the quantum and timing of pension risk transfer (PRT) volumes; this assumption is used to present the retirement new business metrics.

The Company has selected accounting policies which state fairly its financial position and financial performance for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

The principal accounting policies adopted in preparing these financial statements are set out below.

### C Investments in subsidiary undertakings

Investments in subsidiary undertakings are held at cost less accumulated impairment losses, and are considered for impairment at each reporting date. The company has interests in investment vehicles which form part of an investment portfolio. In accordance with the choice permitted by IAS 28, 'Investments in associates', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the Company's Income Statement under 1K.

### D Investment in joint venture

The Company had joint control in an entity which was classified as a joint venture. In accordance with the choice permitted by IAS 28, "Investments in associates", investment in joint venture was accounted for under the equity method of accounting. The joint venture was initially recorded at cost and subsequently adjusted to reflect the investor's share of the net profit or loss of the joint venture.

### E Product classification

The Company's products are classified for accounting purposes as either insurance contracts or investment contracts. Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Contracts which do not transfer significant insurance risk to the insurer are classified as investment contracts. Following the sale of the Mature Savings business, the Company no longer has participating insurance or investment contracts.

Insurance contracts comprise the following:
- pension risk transfers;
- individual annuities;
- longevity insurance;
- retail protection products;
- group protection products; and
- lifetime Care Plan

Investment contracts comprise the following:
- lifetime mortgages;
- fixed term individual annuities;
- assured payment policies;
- retirement Interest Only Mortgages; and
- workplace savings

### F Long term insurance contracts

**Premium income**
Gross written premium represents the total premiums written by the Company before deductions for reinsurance. Premiums are recognised as income when due for payment.

**Claims**
Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

## 1. Summary of significant accounting policies (continued)

**Acquisition costs**
The Company incurs costs to obtain and process new business. Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Acquisition costs are charged to the Income Statement when incurred.

**Insurance contract liabilities**
Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using the requirements of FRS 27 under former UK Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'. Insurance contract liabilities are determined following an annual investigation in accordance with regulatory requirements.

For insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

### G Investment contracts

**Premium income**
Premiums received relating to investment contracts are not recognised as income, but are included in the Balance Sheet investment contract liability.

**Revenue from investment contracts**
Fees charged on investment management services are based on the contractual fee arrangements applied to assets under management and recognised as earned when the service has been provided or as they are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which the services will be provided.

**Claims**
Claims are not included in the Income Statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the Balance Sheet and the investment return credited to policyholders.

**Acquisition costs**
For investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the Income Statement when incurred.

**Investment contract liabilities**
Investment contract liabilities are measured at fair value. For unit linked liabilities, fair value is determined by reference to the value of the underlying net asset values of the Company's unitised investment funds at the Balance Sheet date. For non linked liabilities, fair value is based on a discounted cash flow analysis which incorporates an appropriate allowance for credit default risk .

### H Liability adequacy tests

The Company performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the Income Statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

### I Reinsurance

The Company cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing.

Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the Balance Sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to significant transfer of insurance risk to the reinsurer are considered to be financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

### J Intangible assets

**Purchased interest in long term businesses**
Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Purchased interest in long term businesses and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## 1. Summary of significant accounting policies (continued)

**Other intangible assets**
Other intangible assets mainly consist of capitalised software costs or project costs. Intangible assets acquired via business combinations are recognised at fair value and are subsequently amortised on a straight line method over their estimated useful life. Costs incurred to internally develop software are only capitalised if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete such development and to use or sell the asset. Otherwise, such costs are recognised in profit or loss as incurred.

The estimated amortisation periods for intangible assets with finite useful lives are as follows:
• IT development and software 3 -10 years
• Customer relationship 3 years

Amortisation methods, useful lives and any expected residual values are reviewed at each reporting date and adjusted if appropriate. The amortisation charge for the year is included in the Statement of Comprehensive Income.

For impairment testing, other intangible assets are tested either individually or at the cash-generating unit level. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with finite useful lives are tested when there are indications of impairment. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairments are charged in Other expenses.

**K Investments**

**Investment property**
Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the Income Statement within investment return.

Investment property in the UK is valued at least bi-annually by external chartered surveyors on the basis of open market value as defined in the 'Appraisal and Valuation Manual' of the Royal Institute of Chartered Surveyors. Valuation techniques may include discounted cash flow calculations using net current rent, and estimated and terminal values; they may also include yield methodology calculations using market rental values capitalised with a market capitalisation rate. Both of these are then further validated against actual market transactions to produce a final valuation.

Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and Balance Sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

**Financial investments**
The Company classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), or loans at amortised cost, where appropriate. Initial recognition of financial investments is on the trade date.

The Company's policy is to measure investments at FVTPL. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the Company's investment strategy. Assets designated as FVTPL include debt securities and equity instruments and reverse repurchase agreements within loans which would otherwise be designated at amortised cost.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, and reference to similar listed investments, discounted cash flow models or option pricing models.

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined by stressing key assumptions used in the valuation models.

Financial investments classified as HFT and designated at FVTPL are measured at fair value with gains and losses reflected in the Income Statement. Transaction costs are expensed as incurred.

Loans and receivables are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method.

Investments in the share capital of investment vehicles are designated at fair value through the Income Statement.

Financial investments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the Company transfers substantially all the risks and rewards of ownership to another entity.

**L Plant and equipment**

**Plant and equipment**
The initial cost of an item of plant or equipment is capitalised where it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost is then depreciated on a straight-line basis over the item's estimated useful working life. This ranges from 3-20 years.

**Leases**
The accounting policy for right of use assets recognised within Plant and Equipment on the Company's Balance Sheet is disclosed in Note 1S.

## 1. Summary of significant accounting policies (continued)

### M Impairment policy

Financial assets, other than those at FVTPL, are assessed for impairment at each Balance Sheet date. Assets are tested either individually or at the cash-generating unit level. Intangible assets with indefinite useful lives and intangible assets not yet available for use are reviewed for impairment at least annually. They are impaired where there is objective evidence that, as a result of one or more events after initial recognition of the financial asset, the estimated future cash flows have been affected.

The Company reviews the carrying value of its financial assets (other than those held at FVTPL) at each Balance Sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Income Statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

### N Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with original maturities of three months or less from the date of acquisition.

### O Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the Income Statement.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

Cash inflows and outflows are presented on a net basis where the Company is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

### P Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the Income Statement over the borrowing period using the effective interest method.

### Q Income taxes

The tax shown in the Income Statement comprises current and deferred tax.

**Current tax**
Current tax comprises tax payable and receivable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Income Statement unless it relates to items which are recognised in the Statement of Other Comprehensive Income or directly in equity.

**Deferred tax**
Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Income Statement, except when it relates to items recognised in the Statement of Other Comprehensive Income or directly in equity.

Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.

**Tax Attributable to policyholders and equity holders**
The total tax expense shown in the Income Statement consists of income taxes borne by equity holders. The prior year comparative statement is apportioned between tax attributable to policyholders' returns and equity holders' profits. The Company's long-term business paid tax on policyholder investment return, in addition to the corporation tax charge on equity holder profit. Following the disposal of the Mature Savings business in 2020, this separate presentation is no longer applicable. The separate presentation in the comparative is intended to provide more relevant information about the tax the Company pays on the profit it makes.

For this apportionment, the equity holders' tax on long-term business was estimated by applying the statutory tax rate to profits attributed to equity holders. This is considered to approximate the corporation tax attributable to equity holders as calculated under UK tax rules. The balance of income tax associated with UK long-term business was attributed to income tax attributable to policyholders' returns and approximated the corporation tax attributable to policyholders as calculated under UK tax rules.

Deferred tax assets and liabilities are not discounted.

**Use of estimates**
Tax balances include the use of estimates and assumptions which affect items reported in the Balance Sheet and Income Statement. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates.

For tax this includes the determination of liabilities/recoverable assets for uncertain tax positions and estimation of future taxable income supporting deferred tax asset recognition.

## 1. Summary of significant accounting policies (continued)

### R Leases

**Lessor accounting**
The Company leases certain investment properties to third parties. Under these agreements the lessee is considered to retain all the risks and rewards of ownership, therefore the contracts have been classified as finance leases. At the lease commencement date, the Company has recognised a receivable asset in its Balance Sheet to reflect the net investment in the lease, equal to the present value of the lease payments. The Company recognises finance income over the lease term to reflect the rate of return on the net investment in the lease.

Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made by lessees under operating leases (net of any incentives from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

**Lessee accounting**
The Company takes head office accommodation on lease. The Company has elected to take the exemptions available on lease contracts for which the lease terms ends within 12 months as of the commencement date, and lease contracts for which the underlying asset is of low value. Such leases are not recognised on the Balance Sheet but the Company recognises the associated lease payments as an expense over the lease term.

As a lessee, the Company recognises leases on the Balance Sheet as 'right-of-use' assets and lease liabilities. The right-of-use assets are either classified as Plant and Equipment or investment property. The carrying value of the right-of-use assets is recognised within Plant and Equipment on the Company's Balance Sheet.

The right-of-use assets' value is initially recognised as the calculated value of the lease liabilities with several additional adjustments, including initial direct costs. The right-of use assets are subsequently accounted for in accordance with the cost model in IAS 16 – Property, Plant and Equipment. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The initial measurement of the lease liabilities is made up of the present value of lease payments to be made over the lease term, including fixed and variable lease payments and excluding lease incentive receivables. The Company uses the incremental borrowing rates as a discount rate for calculating the lease liabilities. The lease liabilities are unwound over the term of the lease giving rise to an interest expense. Additionally, the liabilities are reduced when lease payments are made. The Company re-assesses the carrying amount of lease liabilities and right-of-use assets if certain events occur that modify the original assumptions used to calculate the lease balances upon initial recognition.

### S Share capital

**Dividend recognition**
Interim dividends on ordinary shares are deducted from retained earnings in the period in which they are paid and/or approved. Final dividends on ordinary shares are recognised as a liability in the period in which they have been approved by shareholders.

### T Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

### U Payables and other financial liabilities

Payables and other financial liabilities comprise derivative liabilities, collateral received from banks and other liabilities. The derivative liabilities comprise a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps and credit default swaps measured at fair value. Collateral repayable on short position reverse repurchase agreements and other financial liabilities balances, including FX spots, broker and other payables, are measured at amortised cost. The carrying value of these liabilities approximates their fair value.

### V Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the Company's foreign operations is the currency of the primary economic environment in which these entities operate. Foreign exchange gains and losses are recognised in the Income Statement, except when recognised in equity as qualifying cash flow or net investment hedges.

### W Investment return

Investment return comprises fair value gains and losses, excluding fair value movements attributable to dividends, interest and rent. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as FVTPL is recognised using the effective interest method.

### X Other expenses

Other expenses comprise administrative expenses, management fees payable, corporate expenses and other charges, which are recognised on an accruals basis. Other costs are accounted for as they arise.

### Y Other income

Other income includes the following:
- rebates of unit trust management fees received from Legal & General Investment Management Limited;
- Company's share of profit from joint venture accounted for under the equity method;
- Profit from sale of investment in subsidiary; and
- Dividends received from group companies (recognised in the period in which the dividends are declared and approved at the general meeting or paid).

## 1. Summary of significant accounting policies (continued)

Other income is recognised on an accruals basis and accounted for in the period as they arise.

**Z General insurance premium**

General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provisions made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of year are carried forward as unearned premiums.

**AA Finance income and costs**

Interest income is recognised using the effective interest method and presented within Investment Return. Investment return relating to funds withheld receivable or payable from or to other Group companies is recognised as an income or expense on an accruals basis and reported within Finance income and costs.

**AB New standards, amendments and interpretations to published standards that have been applied by the Company**

The Company has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2021.

**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2**
These amendments, issued in August 2020, address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. In particular, they offer practical expedients, under certain conditions, when a financial contract is modified due to a change resulting directly from IBOR reform. They also allow a series of exemptions from the current rules around hedge accounting. The amendments will be considered as new interest rate benchmarks are introduced.

New disclosure requirements have also been introduced as part of Phase 2, and in line with these the group has provided the below details around the nature and extent of risks to which it is exposed arising from financial instruments subject to IBOR reform, how such risks are managed and the group's progress in completing its transition to alternative benchmark rates.

In the UK, GBP LIBOR has been replaced by SONIA from the end of 2021, and USD LIBOR is expected to be replaced by mid-2023. Euribor will remain but will be administered by EMMI (Euro Money Markets Institute).

The key challenges for the group arise in the following areas:
- All financial contracts that reference LIBOR needed to be amended;
- Derivatives and assets on balance sheet that were exposed to changes in market value when the reference rate changes needed to be considered;
- Discount rates that were based on risk free curves, if the risk free curves were based on LIBOR changed. This primarily impacted the Solvency II balance sheet, but the resulting impact was small;
- Customers needed to understand the implications for the products and agree the necessary changes.

To deal with these risks and to manage the groupwide conversion, the group initiated a project in 2019 to transition away from LIBOR by 31 December 2021. LGIM is the reportable segment whose operations were most impacted regarding investments linked to LIBOR. Business as usual processes were enhanced to include increased market surveillance on LIBOR trading, added record-keeping specific to LIBOR trades, increased client communications and additional complaints monitoring processes.

The largest shareholder exposures related to LIBOR-linked derivates that are used for hedging the annuity business. In 2021 the group stopped trading assets referenced to LIBOR (except in some very limited circumstances) and initiated a programme of replacing legacy assets denominated in LIBOR with new SONIA based positions.

For GBP LIBOR in late summer it was decided to allow remaining cross currency positions maturing in March 2022 to roll off rather than actively transition to a new risk-free rate. A residual amount of floating-rate notes remains which will reference a 'synthetic' LIBOR as permitted, and this will be reviewed annually.

Trading out of USD LIBOR has been more gradual as a result of the transition date moving to 23 June 2022, however this has now accelerated following guidance that no new USD LIBOR investments should be made from 1 January 2022.

The following table contains details of all of the financial instruments currently subject to the IBOR reform that the group holds on its balance sheet at 31 December 2021 which have not yet transitioned to SONIA or an alternative interest rate benchmark. The amounts of non-derivative financial assets are shown at their carrying amounts and derivatives are shown at their notional amounts.

| | 31 December 2021 | | |
|---|---|---|---|
| | **GBP £m** | **USD £m** | **Total £m** |
| Debt securities | **229** | **55** | **284** |
| Derivatives | **743** | **58,624** | **59,367** |

## 1. Summary of significant accounting policies (continued)

### AC Standards, amendments and interpretations to published standards which are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2022 or later periods but which the Company has not adopted early, as disclosed below.

**IFRS 17 – Insurance Contracts**
IFRS 17, 'Insurance Contracts' was originally issued in May 2017 and subsequent amendments were issued in June 2020. The standard is expected to be effective for annual periods beginning on or after 1 January 2023 but remains subject to endorsement for use in the UK. The standard will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure.

IFRS 17 is an accounting change and therefore while it will have an impact on the timing and profile of profit recognition, we expect the underlying economics and cash generation of the Company's businesses will remain the same. While the Company is still refining its methodology and completing the development of models and operational capabilities, it is not possible to provide a reliable estimate of the impact on adopting IFRS 17, nor of the ongoing impact on the Company's financial results.

In terms of key accounting policies and approaches, the Company is able to set out the following at this time:

- The Company will be applying the General Measurement Model to all business measured under IFRS 17.
- On transition to IFRS 17, the Company will apply the fully retrospective approach unless impracticable. In some instances, this will lead to the modified retrospective and fair value approaches being used for specific groups of insurance contracts.
- For annuity business the selection of a rate at which to discount future cashflows for groups of insurance contracts is a key determinant in the valuation of the insurance liability. We intend to apply a top down discount rate to such groups, starting from an appropriate asset portfolio with economic deductions.
- IFRS 17 requires an accounting policy decision as to whether to recognise all finance income or expense in the profit and loss or whether to disaggregate the income or expense that relates to changes in financial assumptions into other comprehensive income. All finance income and expense will be included in profit or loss except for protection business where we intend to disaggregate such changes.

The Company has a fully mobilised programme to implement the standard. Work will continue throughout 2022 to ensure technical compliance as well as to test and embed the required systems and operational capability. Communication and training plans are in place for impacted employees, and the impact on resources across the Finance function is being assessed to ensure the business is ready to implement the new standard.

**IFRS 9 – Financial Instruments**
In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 'Insurance Contracts' or 1 January 2021, whichever is the earlier. In June 2020 the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The Company qualifies for, and is making use of, this deferral option.

In December 2021, in order to alleviate operational complexities and potential one-off accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17, the IASB issued an amendment to IFRS 17 titled 'Initial Application of IFRS 9 and IFRS 17—Comparative Information'. If an entity applies IFRS 17 and IFRS 9 at the same time, this amendment permits it to present comparative information about financial assets derecognised in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to them. The Company has chosen to restate comparative information and to apply this classification overlay to all financial assets in scope. While the Company is still refining its methodology and completing the development of models and operational capabilities, it is not possible to provide a reliable estimate of the impact on adopting IFRS 9, nor of the ongoing impact on the Company's financial results.

IFRS 9 classifies financial assets into the following three categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets is based on the entity's business model for managing them, as well as their contractual cash flow characteristics. The Company expects to reclassify a certain amount of financial assets as a result of these assessments, in order to better align the accounting treatment of assets that are backing insurance contract liabilities under IFRS 17.

With the exception of financial assets measured under FVTPL, the Company will apply an expected credit loss impairment model to all financial assets in scope (including lease receivables and contract assets). The new impairment model requires utilising not only past events and current conditions but also reasonable and supportable forward-looking information, in order to assess the credit risk profiles of those financial assets in scope. The Company will recognise either twelve months' or lifetime expected credit losses in the consolidated income statement at each reporting period. The Company intends to use the practical expedient for financial assets with low credit risk at the reporting date, which allows recognising twelve months' expected credit losses. Additionally, for trade receivables, contract assets and lease receivables, the Company plans to use a provision matrix method to calculate and recognise lifetime expected credit losses.

Financial liabilities are expected to be classified and measured under their current categories (FVTPL or amortised cost) under IFRS 9.

The Company has a fully mobilised programme to implement the standard. Work will continue throughout 2022 to ensure technical compliance as well as to test and embed the required systems and operational capability. Communication and training plans are in place for impacted employees, and the impact on resources across the Finance function is being assessed to ensure the business is ready to implement the new standard.

## 1. Summary of significant accounting policies (continued)

**Annual Improvements to IFRS Standards 2018-2020**
These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial instruments', IAS 41 'Agriculture' and the Illustrative Examples accompanying IFRS 16 'Leases'. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, subject to UK endorsement. The Company does not expect the impact to be significant.

**Amendments to IAS 16 - Property, plant and equipment**
These amendments, issued in May 2020, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, subject to UK endorsement. The Company does not expect the impact to be significant.

**Amendments to IAS 1 – Presentation of Financial statements**
These amendments, issued in January and July 2020, clarify the existing requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, subject to UK endorsement. The Company does not expect the impact to be significant.

**Amendments to IAS 1 – Presentation of Financial statements**
These amendments, issued in February 2021, intend to help preparers in deciding which accounting policies to disclose in their financial statements on or after 1 January 2023, subject to UK endorsement. The Company does not expect the impact to be significant.

**Amendments to IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors**
These amendments, issued in February 2021, aim to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, subject to UK endorsement. The Company does not expect the impact to be significant.

**Amendments to IAS 12 – Income Tax**
These amendments, issued in May 2021, clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, subject to UK endorsement. The Company does not expect the impact to be significant.

## 2. Analysis of revenue

**Long term business**

**Gross written premiums**

| | Non-Participating 2021 £m | Participating 2021 £m | Investment linked 2021 £m | Total 2021 £m | Non-Participating 2020 £m | Participating 2020 £m | Investment linked 2020 £m | Total 2020 £m |
|---|---|---|---|---|---|---|---|---|
| **Individual** | | | | | | | | |
| - Periodic | 1,553 | - | - | 1,553 | 1,504 | 6 | 3 | 1,513 |
| - Single | 813 | - | - | 813 | 792 | - | - | 792 |
| | 2,366 | - | - | 2,366 | 2,296 | 6 | 3 | 2,305 |
| **Group** | | | | | | | | |
| - Periodic | 938 | - | - | 938 | 1,012 | 1 | - | 1,013 |
| - Single | 5,314 | - | - | 5,314 | 7,202 | - | - | 7,202 |
| | 6,252 | - | - | 6,252 | 8,214 | 1 | - | 8,215 |
| **Total gross written premiums** | 8,618 | - | - | 8,618 | 10,510 | 7 | 3 | 10,520 |
| Less gross written premiums from discontinued operations | - | - | - | - | (16) | (7) | (3) | (26) |
| **Gross written premiums from continuing operations** | 8,618 | - | - | 8,618 | 10,494 | - | - | 10,494 |

Gross premiums written by destination are not materially different from gross premiums written by origin. The majority of business is written in the UK with the exception of the inward reinsurance premiums from the U.S. and Ireland, as detailed below.

The above figures include inward reinsurance premium of £213m (2020: £286m) from Banner Life Insurance Company, £10m premium (2020: £11m) from William Penn Life Insurance Company of New York and £nil premium (2020: £42m) from New Ireland Assurance Company Plc.

## 3. Investment return

| | 2021 £m | 2020 £m |
|---|---|---|
| Financial investment return[1] | 1,107 | 6,144 |
| Property investment return[2] | 3 | (12) |
| **Investment return** | 1,110 | 6,132 |
| Plus investment return from discontinued operations | - | 877 |
| **Investment return from continuing operations** | 1,110 | 7,009 |

[1]Financial investment return includes fair value gains and losses, dividends and interest. Net gains / (losses) (excluding interest and dividend income) of £(1,334)m (2020: £3,154m gain) arose on financial investments designated at FVTPL and £nil (2020: £85m gain) arose on derivative contracts classified as HFT. Investment income of £58m (2020: £5m) arose on loans and receivables. Inter-company dividends are presented within other income (Note 4).

[2] Property investment return includes £3m (2020: £46m) of rental income offset by £nil of unrealised gains (2020: £(53)m unrealised loss) and £nil of realised gains (2020: £(5)m realised loss).

## 4. Other income

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Rebates of unit trust management fees | | **12** | 13 |
| Company's share of profit/(loss) from joint venture | 13 | **10** | (5) |
| Other | | **5** | - |
| **Total other income** | | **27** | 8 |

## 5. Net claims and change in insurance liabilities

| | 2021 £m | 2020 £m |
|---|---|---|
| Claims paid | | |
| - gross | **5,540** | 5,663 |
| - reinsurance recoveries | **(3,142)** | (3,009) |
| | **2,398** | 2,654 |
| Change in insurance liabilities | | |
| - gross | **347** | 9,578 |
| - reinsurance recoveries | **(182)** | (2,673) |
| **Net claims and change in insurance liabilities** | **2,563** | 9,559 |
| Plus/(less) net claims and change in insurance liabilities from discontinued operations | - | 5 |
| **Net claims and change in insurance liabilities from continuing operations** | **2,563** | 9,564 |

The roll-forward of the insurance contract liabilities is provided in Note 25.
Net claims and change in insurance liabilities relate wholly to long term insurance.

## 6. Other expenses

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Auditors' remuneration - audit services | 7 | **2** | 2 |
| Auditors' remuneration - assurance services | 7 | **1** | 1 |
| Depreciation of plant and equipment | 15 | **5** | 5 |
| Amortisation of purchased interest in long term businesses and other intangibles | 14 | **12** | 6 |
| Direct operating expenses arising from investment properties which generate rental income | | - | 6 |
| Lease rental costs | | - | 11 |
| Other administrative expenses | | **511** | 531 |
| **Total other expenses** | | **531** | 562 |
| Less other expenses from discontinued operations | | - | (85) |
| **Other expenses from continuing operations** | | **531** | 477 |

The Company does not have direct staff costs. Other group entities contract staff for the needs of the Company's activities and then recharge a proportion of those costs to the Company. The recharged costs are part of "Other administrative expenses" above. Refer to Note 8 Employee information.

## 7. Auditors' remuneration

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Remuneration receivable by the Company's auditor for the audit of the Company's financial statements | 2,276 | 2,422 |
| Audit related assurance services - required by legislation | 705 | 589 |
| Non audit services (excl. required by legislation) | | |
| -Audit related assurance services - other | 97 | 79 |
| -Other assurance services | - | - |
| -Other services not covered above | - | - |
| **Total non audit services (excl. required by legislation)** | **97** | 79 |
| **Total remuneration** | **3,078** | 3,090 |

## 8. Employee information

The Company does not have direct employees since they are employed by a fellow subsidiary of Legal & General Group Plc, Legal & General Resources Limited. The Company is recharged a proportion of the staff costs.

## 9. Foreign exchange and exchange rates

Profit for the year includes foreign exchange gains and losses on financial instruments. The profit for the year also includes foreign exchange gains of £107m (2020: losses of £40m) arising on conversion of monetary assets and liabilities to functional currencies.

Principal rates of exchange used for translation are:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Closing | Average | Closing | Average |
| United States Dollar | 1.35 | 1.37 | 1.37 | 1.29 |
| Euro | 1.19 | 1.17 | 1.12 | 1.11 |

## 10. Income tax expense

| | 2021 £m | 2020 £m |
|---|---|---|
| **Current tax** | **583** | 213 |
| **Deferred tax** | | |
| - Origination and reversal of temporary differences | (219) | (67) |
| - Adjustments in respect of prior years' tax | (3) | (21) |
| - Rate differential on movements in deferred tax balances | (1) | 1 |
| **Total deferred tax** | **(223)** | (87) |
| Adjustment to equity holders tax in respect of prior years | 4 | (8) |
| **Total tax expense[1]** | **364** | 118 |
| **Less tax attributable to policyholder returns from:** | | |
| - Continuing operations | - | (14) |
| - Discontinued operations | - | 142 |
| | - | 128 |
| **Income tax expense attributable to equity holders** | **364** | 246 |
| Less tax from discontinued operations attributable to equity holders | - | (69) |
| **Tax from continued operations attributable to equity holders** | **364** | 177 |

[1] Total tax expense comprises tax attributable to continuing operations of £364m (2020: £191m) and a discontinued operations credit of £nil (2020: credit of £73m).

The 2021 total tax expense shown in the Income Statement is wholly attributable to shareholders. The prior year comparative apportions the total tax expense shown in the Income Statement between both policyholders and shareholders. Following the disposal of the Mature Savings business in 2020, all tax is attributable to shareholders.

The tax attributable to equity holders differs from the tax calculated at the standard corporation tax rate applicable to companies operating in the UK of 19% (2020: 19%). The differences are explained below:

## 10. Income tax expense (continued)

| | Total 2021 £m | Continuing Operations 2020 £m | Total 2020 £m |
|---|---|---|---|
| Profit before income tax attributable to equity holders of the Company | **1,914** | 1,080 | 1,441 |
| Equity holders' income tax expense calculated at 19% (2020: 19%) | **364** | 205 | 274 |
| Effects of: | | | |
| Adjustments in respect of prior years' tax[1] | **1** | (29) | (29) |
| Differences between taxable and accounting investment gains | **(1)** | - | - |
| Higher rate of tax on profits taxed overseas | **1** | - | - |
| Impact of revaluation of deferred tax balances | **(1)** | 1 | 1 |
| **Income tax expense attributable to equity holders** | **364** | 177 | 246 |
| **Equity holders' effective tax rate[2]** | **19.0%** | 16.4% | 17.1% |

[1] Adjustments in respect of prior years relate to revisions to earlier estimates.
[2] Equity holders' effective tax rate is calculated by dividing the tax expense attributable to equity holders over profit before income tax attributable to equity holders of the Company.

Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year therefore remained at 19%. The future enacted tax rate of 25% has been used in the calculation of certain UK deferred tax assets and liabilities, as the rate of corporation tax that is expected to apply when substantially all of those deferred tax balances are expected to reverse.

To calculate the current tax on profits, the rate of tax used is 19.0% (2020: 19.0%), which is the average rate of corporation tax applicable for the year.

## 11. Dividends

| | Per share 2021 Pence | Total 2021 £m | Per share 2020 Pence | Total 2020 £m |
|---|---|---|---|---|
| Ordinary share dividends paid in the year | | | | |
| - Final dividend | **-** | **-** | - | - |
| - Interim dividend[1] | **138.46** | **902** | 143.68 | 936 |
| **Total dividends paid in year** | **138.46** | **902** | 143.68 | 936 |

[1] Interim dividends of £604m and £298m were approved and paid during the year, dividends of £0.5m were paid in respect to dividends approved but not paid in 2020 (2020: Interim dividends of £276m, £659m were paid and £0.5m were approved but not paid during the year).

## 12. Investment in subsidiaries

| | 2021 £m | 2020 £m |
|---|---|---|
| As at 1 January | **113** | 42 |
| Acquisitions[1] | **1** | - |
| Subscription to new share capital[2] | **89** | 71 |
| **As at 31 December** | **203** | 113 |

[1] The Company purchased 100% shareholding in Legal & General Residential (Holdco) Limited in December 2021.
[2] During 2021 and 2020, the Company acquired additional shares in Legal & General Affordable Homes Limited. This company remains a 100% owned subsidiary.

## 13. Joint Ventures

In November 2021, the Company disposed of its 50% stake in Peel Holdings (Media) Limited (MediaCity) to LandSec.

| Company name | Country of incorporation | Accounting treatment | Investment type | Year end reporting date | Share Class | % of equity shares held by the company |
|---|---|---|---|---|---|---|
| Peel Holdings (Media) Limited | England and Wales[1] | Equity method | Joint venture | 31-Mar | Ordinary | 50 |

[1] Registered address: Venus Building 1 Old Park Lane, Traffordcity, Manchester, England, M41 7HA

Summarised financial information for the joint venture accounted for under the equity method is shown below:

| Joint ventures | Equity method 2021 £m | 2020 £m |
|---|---|---|
| Current assets | - | 51 |
| Non-current assets | - | 563 |
| Current liabilities | - | (27) |
| Non-current liabilities | - | (431) |
| Profit / (loss) from continuing operations – total | 19 | (10) |
| Profit / (loss) from continuing operations - Company's share | 10 | (5) |
| Total comprehensive income – total | 19 | (10) |
| Total comprehensive income - Company's share | 10 | (5) |

## 14. Purchased interest in long term business and other intangible assets

| | PILTB 2021 £m | Other intangible assets 2021 £m | Total 2021 £m |
|---|---|---|---|
| Net Book Value | | | |
| As at 1 January | - | 144 | 144 |
| Additions[1] | - | 81 | 81 |
| Impairment | - | (32) | (32) |
| Amortisation | - | (12) | (12) |
| **As at 31 December** | - | 181 | 181 |

| | PILTB 2020 £m | Other intangible assets 2020 £m | Total 2020 £m |
|---|---|---|---|
| Net Book Value | | | |
| As at 1 January | 1 | 57 | 58 |
| Additions[1] | - | 92 | 92 |
| Amortisation | (1) | (5) | (6) |
| **As at 31 December** | - | 144 | 144 |

Other intangible assets comprises of software and ongoing project work (which has yet to be completed).

[1]Additions comprise of £29m software (2020: £35m) and £52m ongoing projects costs (2020: £57m). During the year, only software was subject to amortisation, with the amortisation of project costs yet to commence.

## 15. Plant and equipment

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| **Cost** | | | |
| As at 1 January | | **36** | 33 |
| Additions | | **8** | 12 |
| Disposals | | **(5)** | (2) |
| Intra Group transfer | | **-** | (7) |
| **As at 31 December** | | **39** | 36 |
| **Accumulated Depreciation** | | | |
| As at 1 January | | **20** | 17 |
| Provided during the year | | **5** | 5 |
| Disposals | | **(4)** | (2) |
| **As at 31 December** | | **21** | 20 |
| **Net book value of owned plant and equipment at 31 December** | | **18** | 16 |
| **Net book value of right of use asset at 31 December** | 32 | **16** | 21 |
| **Net book value of plant and equipment at 31 December** | | **34** | 37 |

## 16. Financial investments and investment property

| | Notes | Shareholder 2021 £m | Unit linked 2021 £m | Total 2021 £m |
|---|---|---|---|---|
| **Financial investments at fair value classified as:** | | | | |
| Fair value through profit or loss | | **96,839** | **-** | **96,839** |
| Held for trading | 17 | **13,006** | **-** | **13,006** |
| Financial investments at fair value | | **109,845** | **-** | **109,845** |
| Investment property | | **29** | **-** | **29** |
| Loans at amortised cost[1] | | **1** | **-** | **1** |
| **Total financial investments and investment property** | | **109,875** | **-** | **109,875** |
| Expected to be received within 12 months[2] | | | | **4,008** |
| Expected to be received after 12 months[2] | | | | **105,867** |

| | Notes | Shareholder 2020 £m | Unit linked 2020 £m | Total 2020 £m |
|---|---|---|---|---|
| **Financial investments at fair value classified as:** | | | | |
| Fair value through profit or loss | | 96,432 | 4 | 96,436 |
| Held for trading | 17 | 16,244 | - | 16,244 |
| Financial investments at fair value | | 112,676 | 4 | 112,680 |
| Investment property | | 29 | - | 29 |
| Loans at amortised cost[1] | | 56 | - | 56 |
| **Total financial investments and investment property** | | 112,761 | 4 | 112,765 |
| Expected to be received within 12 months[2] | | | | 1,792 |
| Expected to be received after 12 months[2] | | | | 110,973 |

[1] The loans at amortised cost are made up of £1m (2020: £1m) deposits with credit institutions and £nil (2020: £55m) other loans to a related party. See Note 42 for further details.

## 16. Financial investments and investment property (continued)

Investment risks on unit linked assets are borne by the policyholders. The remaining risks are outlined in the risk management note in Note 45.

Financial investments, cash and cash equivalents include £3,339m (2020: £3,654m) of assets pledged as collateral against net derivative liability counterparty positions. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA, AA, A, BBB Corporate Bonds and Cash (2020: Treasury Gilts, Foreign Government Bonds, AAA, AA, A, BBB Corporate Bonds and Cash). Collateral may be posted to counterparties to transactions either on a security (pledge) basis or a full title transfer basis. Collateral posted will be received back in the form of the same assets originally posted, upon settlement of the relevant contract(s) or when changes in counterparty exposure require collateral to be returned. The Company is entitled to receive all of the cash flows from the asset (dividends, coupons, etc.) during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The Company can request to substitute an asset which is designated as collateral at any time. Requests for substitutions will generally need to be approved by the relevant counterparty and the replacing assets will need to comply with the terms agreed under the relevant transaction documentation.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. £nil (2020: loss of £57m) has been recognised in the Income Statement in respect of the movement in fair value of these investments.

### (i) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

The following table presents the Company's assets by IFRS 13 hierarchy levels.

| For the year ended 31 December 2021 | Total £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|---|---|---|---|
| **Shareholder** | | | | |
| Equity securities | 9,163 | 8,145 | - | 1,018 |
| Debt securities | 86,196 | 30,745 | 20,976 | 34,475 |
| Accrued interest | 511 | 279 | 184 | 48 |
| Derivative assets | 13,006 | - | 13,006 | - |
| Investment property | 29 | - | - | 29 |
| Loans at fair value | 969 | - | 969 | - |
| **Total Shareholder** | 109,874 | 39,169 | 35,135 | 35,570 |
| **Unit linked** | | | | |
| Equity securities | - | - | - | - |
| Debt securities | - | - | - | - |
| Accrued interest | - | - | - | - |
| Derivative assets | - | - | - | - |
| Investment property | - | - | - | - |
| Loans at fair value | - | - | - | - |
| **Total Unit linked** | - | - | - | - |
| **Total financial investments and investment property** | 109,874 | 39,169 | 35,135 | 35,570 |

The table above excludes loans at amortised cost of £1m (2020: £56m).

## 16. Financial investments and investment property (continued)

| For the year ended 31 December 2020 | Total £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|---|---|---|---|
| **Shareholder** | | | | |
| Equity securities | 9,412 | 8,526 | - | 886 |
| Debt securities | 83,656 | 26,785 | 26,672 | 30,199 |
| Accrued interest | 492 | 211 | 239 | 42 |
| Derivative assets | 16,244 | 19 | 16,225 | - |
| Investment property | 29 | - | - | 29 |
| Loans at fair value | 2,872 | - | 2,872 | - |
| Total Shareholder | 112,705 | 35,541 | 46,008 | 31,156 |
| **Unit linked** | | | | |
| Equity securities | 4 | 2 | - | 2 |
| Debt securities | - | - | - | - |
| Accrued interest | - | - | - | - |
| Derivative assets | - | - | - | - |
| Investment property | - | - | - | - |
| Loans at fair value | - | - | - | - |
| Total Unit linked | 4 | 2 | - | 2 |
| **Total financial investments and investment property** | 112,709 | 35,543 | 46,008 | 31,158 |

The Company's financial assets are valued, where possible, using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. In normal market conditions, we would consider these market prices to be observable and therefore classify them as Level 1. Where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as Level 2. Refer to Level 3 assets section below for methodology.

**Level 3 assets**
Level 3 assets, where modelling techniques are used, comprise property, unquoted securities, untraded debt securities and securities where unquoted prices are provided by a single broker. Unquoted securities include suspended securities, investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans, income strips and lifetime and retirement interest only mortgages.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified within Level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, and liquidity and risk margins on unobservable inputs.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

**Asset valuation approach at 31 December 2021**
The Company's asset portfolio can be exposed to climate change through both:
- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

Exposure to the physical risks of climate change are minimised in the direct investment portfolios through rigorous assessment of potential investments, particularly in ensuring there is low susceptibility to extreme weather events. The Company's ultimate controlling party is preparing a group Energy and Carbon Report for the year ended 31 December 2021; therefore the Company has elected not to report its energy and carbon information. *Legal & General's full Task Force on Climate-related Financial Disclosures (TCFD) Report can be found at* https://group.legalandgeneral.com/en/sustainability/sustainability-reporting-centre/task-force-on-climate-related-financial-disclosures-tcfd-report-2020.

The Company's assets are valued, where possible, using standard market pricing sources or appropriately qualified external valuers and are by nature reflective of current market sentiments around climate risk; as such no additional overlays have been applied.

**Equity securities**
Level 3 equity securities amount to £1,018m (2020: £888m), of which the majority is made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the Company's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are also included that are valued by a number of third party specialists using a range of techniques which depend on the maturity of the underlying investment but can also depend of the characteristics of individual investments. Primarily discounted cash flow models are utilised but for some early stage investments alternate valuation techniques are used such as earnings multiples and transaction values underpinned by analysis of milestone achievement and cash runway.

**Debt securities**
Lifetime mortgage (LTM) loans amount to £7,114m (2020: £6,286m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 300bps. This ensures the value of loans at outset is consistent with the purchase price of the loan and achieves consistency between new and in-force loans. The mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the house and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the

## 16. Financial investments and investment property (continued)

Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 31 December 2021 reflects a long-term property growth rate assumption of 2.9% annually, after allowing for the effects of dilapidation. The values of the properties collateralising the LTM loans are updated from the date of the last property valuation to the valuation date by indexing using UK regional house price indices.

The LTM structured notes consist of £7,264m of rated notes and £16m of unrated notes. The valuation of the rated notes is based on the value of the fixed contractual cashflows of the notes, discounted using a spread based on the credit rating of the notes and in line with the Company's corporate bond portfolio. The valuation of the unrated notes are based on projected cashflows that would be released to the unrated noteholders using a cashflow waterfall model.

Private credit loans (including commercial real estate loans) amount to £13,400m (2020: £11,889m). Their valuation is determined by discounted future cash flows which are based on the yield curve of the LGIM approved comparable bonds and the initial spread, both of which are agreed by IHS Markit who also provided independent valuation of comparable bonds. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments, which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 10.9 years, with a weighted average life of 13.2 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to BB.

Income strip assets amount to £1,292m (2020: £1,159m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. It is expected that the Company's property valuation as at 31 December 2021 would reflect similar equivalent yield ranges to Group between 1% and 9% and estimated rental values (ERV) between £10 and £338 per square foot.

Sale and leaseback (S&L) loans amount to £5,154m (2020: £4,532m). The underlying investment properties are held within special purpose vehicles (SPVs) which are not consolidated into LGAS. These assets are restructured into Rental Income Notes (RINs) and Residual Value Notes (RVNs) which are issued to LGAS. These are recorded on the Company's Balance Sheet as debt securities at fair value. The underlying investment properties are valued quarterly by CBRE who also provide a market value and a vacant possession value, both of which are used to split the value of the S&L assets into RINs and RVNs. In the valuation, Risk Analytics treat the RINs as corporate bonds, while making allowance for relevant market spreads to combine these cash flows. The RVNs represent the projected value of a vacant possession value at the end of its lease. This is projected using a real spread to inflation which is sector dependent. The RINs were restructured via an SPV to pay matching adjustment eligible flows to LGAS under Solvency II.

LGAS has invested in RINs and RVNs in relation to Affordable Rent (AR) and Suburban Build to Rent (SBTR) assets. Similar to the S&L loans, the investments are classified as FVTPL and the underlying assets are held within LLPs which are not consolidated into LGAS. Investments amount to £77m for AR and £116m for SBTR assets.

Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

**Investment property**
Level 3 investment property amounting to £29m (2020: £29m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also includes an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. It is expected that the Company's property valuation as at 31 December 2021 would reflects similar equivalent yield ranges to Group between 1% and 13% and ERV between £1 and £338 per square foot.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The Company's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

**(ii) Significant transfers between Level 1 and Level 2**

The Company's policy is to re-assess categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

As a Company we hold regular discussions with our pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process.

## 16. Financial investments and investment property (continued)

**(iii) Level 3 assets measured at fair value**

| | Equity securities 2021 £m | Other financial investments 2021 £m | Investment property 2021 £m | Total 2021 £m | Equity securities 2020 £m | Other financial investments 2020 £m | Investment property 2020 £m | Total 2020 £m |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January** | **888** | **30,241** | **29** | **31,158** | 1,404 | 26,450 | 1,023 | 28,877 |
| Total gains/(losses) for the period: | | | | | | | | |
| - realised gains/(losses) | **1** | **(3)** | **-** | **(2)** | (12) | (52) | (5) | (69) |
| - unrealised gains/(losses) | **25** | **585** | | **610** | (98) | 2,031 | (53) | 1,880 |
| Purchases/additions | **151** | **5,388** | **-** | **5,539** | 253 | 3,871 | 4 | 4,128 |
| Sales/disposals | **(47)** | **(1,586)** | **-** | **(1,633)** | (664) | (1,968) | (940) | (3,572) |
| Transfers into level 3 | **-** | **10** | **-** | **10** | 6 | - | - | 6 |
| Transfers out of level 3 | **-** | **(112)** | **-** | **(112)** | (1) | (87) | - | (88) |
| Other | **-** | **-** | **-** | **-** | - | (4) | - | (4) |
| **As at 31 December** | **1,018** | **34,523** | **29** | **35,570** | 888 | 30,241 | 29 | 31,158 |

**(iv) Effect on changes in significant unobservable inputs (Level 3) to reasonably possible alternative assumptions**

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Where material, the Company assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impact of applying these sensitivities on the fair value of Level 3 assets as at 31 December 2021. Further disclosure on how these sensitivities have been applied can be found in the descriptions following the table.

| | Fair value 2021 £m | Sensitivities Positive impact £m | Sensitivities Negative impact £m |
|---|---|---|---|
| Lifetime mortgages | **7,114** | **243** | **(379)** |
| Lifetime mortgage structuring notes[1] | **7,280** | **249** | **(388)** |
| Private credit loans | **13,400** | **733** | **(733)** |
| Sale and leaseback | **5,154** | **423** | **(370)** |
| Other investments[2] | **2,622** | **178** | **(181)** |
| **Total Level 3 investments** | **35,570** | **1,826** | **(2,051)** |

| | Fair value 2020 £m | Sensitivities Positive impact £m | Sensitivities Negative impact £m |
|---|---|---|---|
| Lifetime mortgages | 6,286 | 408 | (444) |
| Lifetime mortgage structuring notes[1] | 6,260 | 406 | (442) |
| Private credit loans | 11,889 | 892 | (892) |
| Sale and leaseback | 4,532 | 302 | (302) |
| Other investments[2] | 2,191 | 174 | (208) |
| Total Level 3 investments | 31,158 | 2,182 | (2,288) |

[1] Investment under consolidated debt vehicles issued by the Company's investment vehicle Legal & General LTM Structuring (SPV) Limited.
[2] Other investments include level 3 equity securities, income strip assets, investment property and other traded debt securities which are level 3.

The sensitivities are not a function of sensitising a single variable relating to the valuation of the asset, but rather a function of flexing multiple factors often at individual asset level. The following sets out a number of key factors by asset type, and how they have been flexed to derive reasonable alternative valuations.

**Lifetime mortgages**
Key assumptions used in the valuation of the Lifetime mortgages assets are listed in section (i) and sensitivities are applied to each assumption to arrive at the overall sensitised values in the above table. The most significant sensitivity by value is +/-10% instant reduction in property valuation across the portfolio which, applied in isolation produces sensitised values of £133m and £(271)m.

The approach used for the valuation of the Lifetime mortgage structured notes are listed in section (i) and sensitivities are applied in line with the sensitivities applied to the underlying lifetime mortgages. The most significant sensitivity by value is +/-10% instant reduction in property valuation across the portfolio which, applied as an assumptions stress in isolation produces values of £132m and £(268)m respectively.

## 16. Financial investments and investment property (continued)

**Private credit portfolios**

The sensitivity in the private credit portfolio has been determined through a method which estimates investment spread value premium differences as compared to the institutional investment market. Individual investment characteristics of each holding, such as credit rating and duration are used to determine spread differentials for the purposes of determining alternate values. Spread differentials are determined to be lower for highly rated and/or shorter duration assets as compared to lower rated and/or longer duration assets. A significant component of the spread differential is in relation to the selection of comparator bonds, which is the potential difference in spread of the basket of relevant comparators determined by respective investors. If we were to take an AA rated asset it may attract a spread differential of 15bps on the selection of comparator bonds as opposed to 40bps for a similar duration BBB rated asset. Applied in isolation the sensitivity used to reflect the spread in comparator bond selection results in sensitised values of £289m and £(289)m.

The sensitivities for Sale & Leaseback notes are determined by looking through to the underlying investment property holdings in the Sale & Leaseback SPVs. These holdings are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors (RICS). As such, sensitivities are calculated through a mixture of asset level and portfolio level methodologies which make reference to individual investment characteristics of the holding but do not flex individual assumptions used by the independent expert in valuing the holdings. Each method is applied individually and aggregated with equal weighting to determine the overall sensitivity determined for the portfolio. One method is similar to that used in the private credit portfolio as it determines the impact of an alternate property yield determined in reference to credit ratings, remaining term and other characteristics of each holding. In this methodology we would apply a lower yield sensitivity to a highly rated and/or shorter remaining term asset compared with a lower rated and/or longer remaining term asset. If we were to take an AA rated asset with remaining term of 25 years in normal market conditions this would lead to a 15bps yield flex (as opposed to a 35bps yield flex for a BBB rated asset with 30 year remaining term). The methodology which leads to the most significant sensitivity at the balance sheet date is related to an example in case law where it was found that an acceptable margin of error in a valuation dispute is 10% either way, subject to the valuation being undertaken with due care. If this sensitivity were to be taken without a weighting it would produce sensitised values of £645m and £(645)m.

It should be noted that some sensitivities described above are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

## 17. Derivative assets and liabilities

| | **Fair values** | | Fair values | |
|---|---|---|---|---|
| | **Assets 2021 £m** | **Liabilities[1] 2021 £m** | Assets 2020 £m | Liabilities[1] 2020 £m |
| Forward foreign exchange contracts - held for trading | **38** | **19** | 50 | 75 |
| Interest rate contracts - held for trading | **9,751** | **10,087** | 13,357 | 13,445 |
| Inflation swap contracts - held for trading | **2,787** | **2,717** | 1,762 | 2,883 |
| Credit derivatives - held for trading | **-** | **23** | - | 28 |
| Currency swap contracts - held for trading | **416** | **663** | 1,060 | 289 |
| Other derivatives - held for trading | **14** | **325** | 15 | 175 |
| **Total derivative assets and liabilities** | **13,006** | **13,834** | 16,225 | 16,895 |

[1] Derivative liabilities are reported in the Balance Sheet within payables and other financial liabilities. See Note 30.

The contractual undiscounted cash flows in relation to non-unit linked derivatives have not been included, as shareholders are not directly exposed to liquidity risks.

## 17. Derivative assets and liabilities (continued)

| As at 31 December 2021 | Fair values £m | Maturity profile of undiscounted cash flows: Within 1 year £m | 1-5 years £m | 5-15 years £m | 15-25 years £m | Over 25 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cash inflows** | | | | | | | |
| Derivative assets | 13,006 | 6,525 | 9,878 | 22,562 | 14,022 | 13,363 | 66,350 |
| Derivative liabilities | (13,834) | 5,267 | 9,094 | 22,622 | 12,570 | 11,081 | 60,634 |
| **Total** | (828) | 11,792 | 18,972 | 45,184 | 26,592 | 24,444 | 126,984 |
| **Cash outflows** | | | | | | | |
| Derivative assets | 13,006 | (5,998) | (8,063) | (18,580) | (10,896) | (9,895) | (53,432) |
| Derivative liabilities | (13,834) | (6,216) | (11,981) | (27,738) | (15,137) | (13,163) | (74,235) |
| **Total** | (828) | (12,214) | (20,044) | (46,318) | (26,033) | (23,058) | (127,667) |
| **Net derivatives cash flows** | | (422) | (1,072) | (1,134) | 559 | 1,386 | (683) |

| As at 31 December 2020 | Fair values £m | Maturity profile of undiscounted cash flows: Within 1 year £m | 1-5 years £m | 5-15 years £m | 15-25 years £m | Over 25 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cash inflows** | | | | | | | |
| Derivative assets | 16,244 | 9,988 | 12,552 | 20,590 | 12,089 | 10,089 | 65,308 |
| Derivative liabilities | (16,895) | 5,288 | 2,865 | 12,072 | 6,741 | 7,155 | 34,121 |
| **Total** | (651) | 15,276 | 15,417 | 32,662 | 18,830 | 17,244 | 99,429 |
| **Cash outflows** | | | | | | | |
| Derivative assets | 16,244 | (8,418) | (9,035) | (15,709) | (8,789) | (7,018) | (48,969) |
| Derivative liabilities | (16,895) | (6,560) | (7,065) | (17,253) | (9,588) | (10,474) | (50,940) |
| **Total** | (651) | (14,978) | (16,100) | (32,962) | (18,377) | (17,492) | (99,909) |
| **Net derivatives cash flows** | | 298 | (683) | (300) | 453 | (248) | (480) |

## 18. IFRS 9 'Financial Instruments' deferral

(i) Fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. passing the 'SPPI' test):

| | Financial assets passing the SPPI test[1,2] 2021 £m | All other financial assets[3] 2021 £m | Financial assets passing the SPPI test[1,2] 2020 £m | All other financial assets[3] 2020 £m |
|---|---|---|---|---|
| Equity securities | - | 9,163 | - | 9,416 |
| Debt securities | - | 86,196 | - | 83,656 |
| Accrued interest | - | 511 | - | 492 |
| Derivative assets | - | 13,006 | - | 16,244 |
| Loans at fair value | - | 969 | - | 2,872 |
| **Total financial investments at fair value** | - | 109,845 | - | 112,680 |
| Loans at amortised cost | 1 | - | 56 | - |
| Reinsurance receivables | 43 | - | 40 | - |
| Insurance and intermediaries receivables | 43 | - | 57 | - |
| Other financial assets [4] | 3,694 | 714 | 4,285 | 836 |
| **Total fair value of financial assets** | 3,781 | 110,559 | 4,438 | 113,516 |

[1] Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'Other financial assets'.
[2] For financial assets which pass the SPPI test held at 31 December 2021 there was no change in fair value during the year (2020: £nil).
[3] For all other financial assets held at 31 December 2021 there was a decrease of fair value movement in the year of £(1.3)bn (2020: increase £3.2bn).
[4] Other financial assets exclude cash and cash equivalents and receivables under finance leases.

(ii) Credit risk information of financial assets passing the SPPI test:

| **As at 31 December 2021** | AAA £m | AA £m | A £m | BBB £m | BB and below[1] £m | Other[2] £m | Total £m |
|---|---|---|---|---|---|---|---|
| Loans at amortised cost | - | - | 1 | - | - | - | 1 |
| Reinsurance receivables | - | - | - | - | - | 43 | 43 |
| Insurance and intermediaries receivables | - | - | - | - | - | 43 | 43 |
| Other financial assets [3] | - | - | 414 | - | - | 3,280 | 3,694 |
| **Total carrying value of financial assets passing the SPPI test** | - | - | 415 | - | - | 3,366 | 3,781 |

| As at 31 December 2020 | AAA £m | AA £m | A £m | BBB £m | BB and below[1] £m | Other[2] £m | Total £m |
|---|---|---|---|---|---|---|---|
| Loans at amortised cost | - | - | 1 | - | - | 55 | 56 |
| Reinsurance receivables | - | - | - | - | - | 40 | 40 |
| Insurance and intermediaries receivables | - | - | - | - | - | 57 | 57 |
| Other financial assets [3] | - | - | 454 | - | - | 3,831 | 4,285 |
| Total carrying value of financial assets passing the SPPI test | - | - | 455 | - | - | 3,983 | 4,438 |

[1] Financial assets classified as 'BB or below' are considered to be lower than investment grade, and therefore are not deemed to have low credit risk under IFRS 9. The carrying value of these assets approximates their fair value.
[2] Other financial assets are made up of unrated and short-term receivables for which a formal credit rating is not assigned. The fair value of financial assets in this category that are not deemed to have low credit risk as at 31 December 2021 is £30m (2020: £15m).
[3] Other financial assets exclude cash and cash equivalents and receivables under finance leases.

## 19. Reinsurers' share of contract liabilities

| | Notes | Shareholder 2021 £m | Unit linked 2021 £m | Total 2021 £m |
|---|---|---|---|---|
| **Reinsurers' share of:** | | | | |
| Insurance contract liabilities | 25/42(ii) | 25,303 | - | 25,303 |
| Investment contract liabilities | 26/42(ii) | 353 | 65,462 | 65,815 |
| **Reinsurers' share of contract liabilities** | | 25,656 | 65,462 | 91,118 |

| | Notes | Shareholder 2020 £m | Unit linked 2020 £m | Total 2020 £m |
|---|---|---|---|---|
| **Reinsurers' share of:** | | | | |
| Insurance contract liabilities | 25/42(ii) | 25,079 | - | 25,079 |
| Investment contract liabilities | 26/42(ii) | 155 | 50,621 | 50,776 |
| **Reinsurers' share of contract liabilities** | | 25,234 | 50,621 | 75,855 |

## 20. Deferred tax asset / (liability)

The deferred tax balances are as follows:

| | As at 31 December 2021 £m | As at 31 December 2020 £m |
|---|---|---|
| Deferred tax liability | - | (223) |
| **As at 31 December** | - | (223) |

Deferred tax assets and (liabilities) have been recognised / (provided) for the following types of temporary differences and unused tax losses. The movement in these balances during the year is as follows:

| | Net tax liability as at 1 January 2021 £m | Tax (charged)/ credited to the income statement £m | Acqusitions / disposals £m | Net tax liability as at 31 December 2021 £m |
|---|---|---|---|---|
| Realised and unrealised gains on investments | (17) | 1 | - | (16) |
| Excess of depreciation over capital allowances | 12 | - | - | 12 |
| Difference in tax and accounting valuation of assets[1] | (213) | 213 | - | - |
| Other | (5) | 9 | - | 4 |
| **Deferred tax liabilities** | (223) | 223 | - | - |

## 20. Deferred tax asset / (liability) (continued)

| | Net tax liability as at 1 January 2020 £m | Tax (charged)/ credited to the income statement £m | Acquisitions / disposals £m | Net tax liability as at 31 December 2020 £m |
|---|---|---|---|---|
| Realised and unrealised gains on investments | (185) | 141 | 27 | (17) |
| Excess of depreciation over capital allowances | 7 | 5 | - | 12 |
| Expenses | (21) | 31 | (10) | - |
| Difference in tax and accounting valuation of assets | (124) | (89) | - | (213) |
| Other | (4) | (1) | - | (5) |
| **Deferred tax liabilities** | (327) | 87 | 17 | (223) |

[1] The temporary difference arising on the difference in tax and accounting valuation of assets has been revalued at 0%, giving rise to a deferred tax credit in the period. The corresponding current tax balance has also been revalued at 0%, giving rise to an equal and opposite current tax charge in the period. The rate of 0% reflects the rate at which the Company now expects to settle the tax balances that result from this temporary difference. Equal and opposite adjustments have been made in the related counterparties resulting in nil impact to the Group.

**Unrecognised deferred tax assets**

The Company has the following unrelieved tax losses carried forward as at 31 December 2021. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2021 or 31 December 2020, as it is probable that there will be no suitable taxable profits emerging in future periods against which to relieve them. Relief for these tax losses will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2021 is £3m (2020: £14m).

| | **Gross 2021 £m** | **Tax 2021 £m** | Gross 2020 £m | Tax 2020 £m |
|---|---|---|---|---|
| Excess management expenses | **-** | **-** | 60 | 12 |
| Trade losses in respect of business transferred in | **12** | **3** | 12 | 2 |
| **Unrecognised deferred tax asset** | **12** | **3** | 72 | 14 |

## 21. Income tax

| | 2021 £m | 2020 £m |
|---|---|---|
| Tax (payable) / recoverable within 12 months | **(23)** | 14 |
| Tax recoverable after 12 months[1] | **5** | 218 |
| **Income tax (payable) / recoverable[2]** | **(18)** | 232 |

[1]£5m (2020: £5m) relates to tax recoverable in respect of overseas tax reclaims.
[2]Income tax (payable) / recoverable represents the net position of income tax recoverable and income tax liabilities on the Company's balance sheet.

## 22. Other assets

| | 2021 £m | 2020 £m |
|---|---|---|
| Reinsurance receivables | **43** | 40 |
| Accrued interest and rent | **8** | 104 |
| Prepayments and accrued income | **104** | 51 |
| Insurance receivables | **43** | 57 |
| Other receivables[1] | **4,544** | 5,241 |
| **Other assets** | **4,742** | 5,493 |
| Due within 12 months | **3,521** | 4,265 |
| Due after 12 months | **1,221** | 1,228 |

[1]Other receivables includes collateral held by third parties of £1,914m (2020: £1,532m), a funds withheld receivable from Legal & General America Inc. of £714m (2020: £787m), amounts due from other Group companies of £814m (2020: £729m) (see Note 42), receivables due under finance leases of £85m (2020: £87m), and receivables due on sub-lease agreements of £6m (2020: £7m). The future minimum lease payments of the finance lease and sub-lease under the arrangement, together with the present value, are disclosed below.

### (i) Receivables under finance leases

| | Total future payments 2021 £m | Unearned interest income 2021 £m | Total 2021 £m | Total future payments 2020 £m | Unearned interest income 2020 £m | Total 2020 £m |
|---|---|---|---|---|---|---|
| Within 1 year | **7** | **(3)** | **4** | 6 | (3) | 3 |
| 1-2 years | **7** | **(3)** | **4** | 7 | (3) | 4 |
| 2-3 years | **7** | **(3)** | **4** | 7 | (3) | 4 |
| 3-4 years | **7** | **(3)** | **4** | 7 | (3) | 4 |
| 4-5 years | **7** | **(2)** | **5** | 7 | (3) | 4 |
| After 5 years | **85** | **(15)** | **70** | 92 | (17) | 75 |
| **Total finance lease receivables** | **120** | **(29)** | **91** | 126 | (32) | 94 |

## 23. Cash and cash equivalents

| | Total 2021 £m | Total 2020 £m |
|---|---|---|
| *Cash at bank and in hand*[1] | **232** | 442 |
| Cash equivalents | **-** | - |
| **Cash and cash equivalents** | **232** | 442 |

[1] Included in cash at bank and in hand are cash collateral balances of £69m (2020: £267m). The Company is entitled to use this cash for other purposes during the period when it is pledged as collateral.

## 24. Share capital and share premium

| | 2021 Number of shares '000 | 2021 £m | 2020 Number of shares '000 | 2020 £m |
|---|---|---|---|---|
| **Authorised share capital:** | | | | |
| Ordinary shares of £1 each | **1,000,000** | **1,000** | 1,000,000 | 1,000 |
| **Issued share capital:** | | | | |
| Fully paid ordinary shares of £1 each | **651,430** | **651** | 651,430 | 651 |
| Share premium | | **1,049** | | 1,049 |

There is one class of ordinary shares of £1 each. All shares issued carry equal voting rights.

The holders of the Company's ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings of the Company.

## 25. Insurance contract liabilities

**(i) Analysis of insurance contract liabilities**

| | Notes | Gross 2021 £m | Re-insurance 2021 £m | Gross 2020 £m | Re-insurance 2020 £m |
|---|---|---|---|---|---|
| Non-participating insurance contracts | 25(iii) | **85,920** | **(25,261)** | 85,713 | (25,079) |
| General insurance contracts[1] | | **70** | **(42)** | 71 | - |
| **Insurance contract liabilities** | | **85,990** | **(25,303)** | 85,784 | (25,079) |

[1] The Company continues to provide reinsurance to the general insurance business that was sold in 2019. The Company also utilises outward reinsurance on the general insurance contract liabilities.

**(ii) Expected insurance contract liability cash flows**

| | **Date of undiscounted cash flows** | | | | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2021** | **0-5 years £m** | **5-15 years £m** | **15-25 years £m** | **Over 25 years £m** | **Total £m** | **Carrying value £m** |
| Non-participating insurance contracts | **13,908** | **27,714** | **18,583** | **16,866** | **77,071** | **60,646** |

| | Date of undiscounted cash flows | | | | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2020** | 0-5 years £m | 5-15 years £m | 15-25 years £m | Over 25 years £m | Total £m | Carrying value £m |
| Non-participating insurance contracts | 12,558 | 25,469 | 17,684 | 16,307 | 72,018 | 60,622 |

Insurance contract undiscounted cash flows are based on the expected date of settlement and are shown net of reinsurance.

Amounts under unit linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

## 25. Insurance contract liabilities (continued)

**(iii) Movement in non-participating insurance contract liabilities**

| | Notes | Gross 2021 £m | Re-Insurance 2021 £m | Gross 2020 £m | Re-insurance 2020 £m |
|---|---|---|---|---|---|
| **As at 1 January** | | **85,713** | **(25,079)** | 76,845 | (22,406) |
| New liabilities in the year | | **6,230** | **(2,399)** | 8,120 | (2,738) |
| Liabilities discharged in the year | | **(4,567)** | **1,453** | (5,330) | 1,381 |
| Unwinding of discount rates | | **1,133** | **(395)** | 1,421 | (82) |
| Effect of change in non-economic assumptions | 27 | **(686)** | **470** | (897) | 310 |
| Effect of change in economic assumptions[1] | 27 | **(1,834)** | **751** | 5,605 | (1,609) |
| Foreign exchange | | **(91)** | **29** | (1) | (13) |
| Model and methodology changes | | **(67)** | **16** | (66) | 103 |
| Other | | **89** | **(107)** | 16 | (25) |
| **As at 31 December** | | **85,920** | **(25,261)** | 85,713 | (25,079) |
| Expected to be settled within 12 months (net of reinsurance) | | **2,594** | | 2,329 | |
| Expected to be settled after 12 months (net of reinsurance) | | **58,065** | | 58,305 | |

[1] The change in economic assumptions reflects changes in valuation interest rates over the year, as detailed in Note 27.

During the year, the Company entered into prospective reinsurance arrangements which resulted in a profit of £654m (2020: profit of £497m). This profit has been reflected in the Statement of Comprehensive Income for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

## 26. Investment contract liabilities

**(i) Analysis of investment contract liabilities**

| | Gross 2021 £m | Re-insurance 2021 £m | Gross 2020 £m | Re-insurance 2020 £m |
|---|---|---|---|---|
| Non-participating investment contracts | **67,324** | **(65,815)** | 51,705 | (50,776) |
| **Investment contract liabilities** | **67,324** | **(65,815)** | 51,705 | (50,776) |
| Expected to be settled within 12 months (net of reinsurance)[1] | **121** | | 68 | |
| Expected to be settled after 12 months (net of reinsurance)[1] | **1,388** | | 861 | |

[1] The expected maturity analysis between within and after 12 months is based on the total non-participating investment contract liabilities.

**(ii) Movement in investment contract liabilities**

| | Gross 2021 £m | Re-insurance 2021 £m | Gross 2020 £m | Re-insurance 2020 £m |
|---|---|---|---|---|
| As at 1 January | **51,705** | **(50,776)** | 63,844 | (40,713) |
| Reserves in respect of new business | **13,023** | **(10,358)** | 10,766 | (10,007) |
| Amounts paid on surrenders and maturities during the year | **(3,612)** | **1,703** | (3,487) | 2,048 |
| Investment return and related benefits | **6,305** | **(6,384)** | 1,844 | (2,631) |
| Management charges | **(97)** | **-** | (180) | - |
| Other | **-** | **-** | (21,082) | 527 |
| **As at 31 December** | **67,324** | **(65,815)** | 51,705 | (50,776) |

## 26. Investment contract liabilities (continued)

**(iii) Non-participating investment contract liability fair value hierarchy**

| Non-participating investment contracts | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Amortised cost £m |
|---|---|---|---|---|---|
| **As at 31 December 2021** | **67,324** | **67,324** | **-** | **-** | **-** |

| Non-participating investment contracts | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Amortised cost £m |
|---|---|---|---|---|---|
| As at 31 December 2020 | 51,705 | 51,705 | - | - | - |

Amounts under unit linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions.

A maturity analysis would show investment contract liabilities within 0-5 years as they are repayable on demand. Accordingly, cash flows of unit linked liabilities have not been reported.

## 27. Long term insurance valuation assumptions

The Company's insurance assumptions, described below, relate to the UK insurance business and material lines of the US insurance business, Legal and General America (LGA) reinsured into the Company. Other non-UK businesses do not constitute a material component of the Company's operations and consideration of geographically determined assumptions is therefore not included.

The Company seeks to make prudent assumptions about future experience based on current market conditions and recent experience. Assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed.

**(i) Mortality and morbidity**

Mortality and morbidity assumptions for the UK business are set with reference to standard tables drawn up by the Continuous Mortality Investigation (CMI), a subsidiary of the Institute and Faculty of Actuaries, and/or UK death registrations. LGA reinsured assumptions are set with reference to standard tables drawn up by the American Academy of Actuaries. Assumptions include an appropriate allowance for prudence. Tables are based on industry-wide mortality and morbidity experience for insured lives.

The Company conducts statistical investigations of its mortality and morbidity experience, the majority of which are carried out at least annually. Investigations determine the extent to which the Company's experience differs from that underpinning the standard tables and suggest appropriate adjustments which need to be made to the valuation assumptions.

The higher mortality experience observed in 2021 as a result of COVID is considered to be exceptional, and long-term mortality and morbidity assumptions have not been revised to reflect this experience. Certain allowances continue to be made for higher mortality and morbidity expected in the short-term.

In most cases, mortality rates are set separately for sex and smoker status, and the percentage of mortality table will vary for the first 2-5 years of the policy's duration to allow for underwriting selection.

| **Mortality tables** | **2021** | 2020 |
|---|---|---|
| **Non-linked individual assurance business** | | |
| UK term assurances[1] | **99% - 101% TM08/TF08 Sel 5** | 99% - 101% TM08/TF08 Sel 5 |
| UK term assurances with terminal illness[1] | **63% - 95% TM08/TF08 Sel 5** | 63% - 95% TM08/TF08 Sel 5 |
| UK term assurances with critical illness[2] | **107% - 159% ACL08Sel 2** | 107% - 159% ACL08Sel 2 |
| LGA reinsured[3] | **Adjusted SOA 2014 VBT** | Adjusted SOA 2014 VBT |
| Whole of Life Protection Plan[4] | **Bespoke Tables based on TM08/TF08, AM92/AF92 and UK death registrations** | Bespoke Tables based on TM08/TF08, AM92/AF92 and UK death registrations |
| Whole of Life over 50[4] | **Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions** | Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions |
| **Annuity business** | | |
| UK Annuities in deferment[5] | **70.9%-81.1% PNMA00/PNFA00** | 71.9%-81.9% PNMA00/PNFA00 |
| UK Vested annuities[6] | | |
| Pension risk transfer | **71.6%-81.1% PCMA00/PCFA00** | 72.7%-81.9% PCMA00/PCFA00 |
| Other annuities | **59.3%-98.4% PCMA00/PCFA00** | 57.6%-105.1% PCMA00/PCFA00 |

[1] Improvement assumptions applied for 2021 of 0.6% p.a. for males and females (2020: 0.6% p.a. for males and females).
[2] Morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females (2020: 0.50% p.a. for males and 0.75% p.a. for females).
[3] *Adjustments are made for sex, select period, smoker status, policy size, policy duration and year, issue year and age.*
[4] Mortality rates are assumed to reduce based on CMI 2019 model with a long term annual improvement rate of 1.5% for males and 1.0% for females. (2020: Mortality rates are assumed to reduce based on CMI 2018 model with a long term annual improvement rate of 1.5% for males and 1.0% for females).
[5] Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.

## 27. Long term insurance valuation assumptions (continued)

[6] Mortality rates are assumed to reduce according to an adjusted version of the mortality improvement model CMI 2019 (2020: CMI 2018) with the following parameters:
- Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110 (2020: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110).
- Females: Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110 (2020: Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110).

Smoothing is applied to derive initial rates using a smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2019. The resulting initial rates are then adjusted to reflect socio economic class. (2020: smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2018).
For individual annuities distributed through retail channels, a further allowance is made for the effect of initial selection.
The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards.

**(ii) Valuation rates of interest and discount rates**
The valuation interest rate used to discount the cash flows for the purpose of valuing insurance contract liabilities is based on the yield on the assets backing the contract.

For annuity business, an explicit allowance for risk is deducted from the yield. The allowance for risk comprises long-term assumptions about defaults on a prudent basis or, in the case of lifetime mortgage assets, a prudent expectation of losses arising from the No-Negative-Equity Guarantee. These allowances vary by asset category and for some asset classes by rating. The allowance for risk for government backed bonds equated to 9bps (2020: 9bps) and 43bps for corporate bonds and direct investments (2020: 45bps). This is equivalent to a default provision of £3.4bn at 31 December 2021 (2020: £3.5bn). For lifetime mortgage business, the allowance for risk in respect of lifetime mortgage assets is equivalent to £0.6bn at 31 December 2021 (2020: £0.6bn).

For UK assurance business, different rates apply depending on whether the liabilities are positive or negative. An appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high to low. The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level.

For LGA reinsured business, the valuation interest rate is derived by combining the risk-free yield curve (based on US Treasuries) plus a risk adjusted spread addition based on the portfolio of assets LGA invest in. It includes prudent adjustments for default and reinvestment risk.

| Rate of interest / discount rate | 2021 | 2020 |
|---|---|---|
| UK Life assurances | **1.40% - 2.52% p.a.** | 0.72% - 2.24% p.a. |
| UK Pension assurances | **1.40% - 2.52% p.a.** | 0.25% - 2.15% p.a. |
| LGA reinsured | **1.24% p.a.** | 0.84% p.a. |
| UK Annuities – Fixed | **1.76% p.a.** | 1.26% p.a. |
| UK Annuities – Index Linked | **-1.90% p.a.** | -1.87% p.a. |

**(iii) Persistency**
The Company monitors its persistency experience and carries out detailed investigations annually. Persistency experience can be volatile and past experience may not be an appropriate future indicator.

The Company tries to balance past experience and potential future conditions by making prudent assumptions about expected long term average persistency levels.

Where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

For UK term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For the LGA reinsured business, a single margin is used across guaranteed period durations for a given policy. All contracts are assumed to lapse at the end of the guaranteed period. Policies past the guaranteed period as of the valuation date are assumed to lapse on the next premium due date.

| Lapse Rates | 2021 | 2020 |
|---|---|---|
| UK Level term | **1.6% - 34.5%** | 2.3% - 25.7% |
| UK Decreasing term | **5.3% - 18.0%** | 6.1% - 14.6% |
| UK Accelerated critical illness cover | **2.6% - 37.3%** | 2.6% - 26.4% |
| Pensions term | **2.3% - 3.8%** | 2.3% - 3.8% |
| Whole of Life (conventional non profit) | **0.5% - 6.1%** | 0.5% - 6.1% |
| LGA reinsured business – 10 year guarantee period | **5.7% - 6.5%** | 5.7% - 6.5% |
| LGA reinsured business – 15 year guarantee period | **3.4% - 4.6%** | 3.4% - 4.6% |
| LGA reinsured business – 20 year guarantee period | **2.4% - 4.9%** | 2.4% - 4.9% |
| LGA reinsured business – 30 year guarantee period | **1.7% - 5.2%** | 1.7% - 5.2% |

**(iv) Expenses**
The Company monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the Company's business plan. An allowance for expense inflation in the future is also made in line with RPI, taking account of both salary and price information. The expense assumptions and expense inflation assumption include an appropriate allowance for prudence.

## 28. Borrowings

| | 2021 £m | 2020 £m |
|---|---|---|
| **Operational borrowings** | - | 1 |

## 29. Provisions

| | 2021 £m | 2020 £m |
|---|---|---|
| Other provisions[1] | 33 | 24 |
| **Provisions** | 33 | 24 |

[1] Other provisions include the provision recognised on an onerous contract of £6.8m (2020: £10.3m).

## 30. Payables and other financial liabilities

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Derivative liabilities | 17 | 13,834 | 16,895 |
| Intercompany balances due - funds withheld[1] | | 20,723 | 20,262 |
| Intercompany balances due - LTM obligation[2] | | 6,998 | 6,128 |
| Other financial liabilites | | 3,484 | 6,609 |
| **Payables and other financial liabilities** | | 45,039 | 49,894 |
| Settled within 12 months | | 3,601 | 6,482 |
| Settled after 12 months | | 41,438 | 43,412 |

[1] This represents a funds withheld payable to Legal & General Reinsurance Company Limited, also disclosed in Note 42(v) Related Party Transactions. Premiums payable to Legal & General Reinsurance in respect of the reinsurance treaty are not cash settled. The Company instead cedes an interest in its financial investments representing approximately 25% of the Company's non-profit non-unit linked financial investments and investment property. The assets ceded as premium to Legal & General Reinsurance are included within the assets reported of the Company, as well as separately as a payable, on a funds withheld basis.
[2] This relates to the Lifetime Mortgages (LTM) obligation payable to Legal & General LTM Structuring (SPV) Limited. The LTM obligation represents the right to the LTM assets reflected in the Company non-profit non-unit linked financial investments. It is also disclosed in Note 42(iii) Related Party Transactions.

Payables and other financial liabilities settled after 12 months are expected to be settled within five years with the exception of derivative liabilities, as disclosed in Note 17, and intercompany balances that relate to funds withheld under the Legal & General Reinsurance Company Limited treaty for which there is no anticipated settlement.

**Fair value hierarchy**

| **Payables and other financial liabilities** | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Amortised cost £m |
|---|---|---|---|---|---|
| Derivative liabilities | 13,834 | 221 | 13,543 | 70 | - |
| Intercompany balances due - LTM obligation[1] | 6,998 | - | - | 6,998 | - |
| Other financial liabilites | 3,484 | 640 | 777 | - | 2,067 |
| As at 31 December 2021 | 24,316 | 861 | 14,320 | 7,068 | 2,067 |

| **Payables and other financial liabilities** | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Amortised cost £m |
|---|---|---|---|---|---|
| Derivative liabilities | 16,895 | - | 16,813 | 82 | - |
| Intercompany balances due - LTM obligation[1] | 6,128 | - | - | 6,128 | - |
| Other financial liabilites | 6,609 | 2,216 | 1,715 | 12 | 2,666 |
| As at 31 December 2020 | 29,632 | 2,216 | 18,528 | 6,222 | 2,666 |

[1] The LTM obligation is carried at fair value of £6,998m as at the balance sheet date (2020: £6,128m). Reasonably possible alternative assumptions can create increase in fair value of £171m (2020: £306m) or decrease in fair value of £(259)m (2020: £(351)m). Reasonably possible alternative valuations have been determined using alternative cash flows and expected defaults.

Derivative liabilities are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

## 30. Payables and other financial liabilities (continued)

The carrying value of payables and other financial liabilities at amortised cost approximates its fair value.

There have been no significant transfers between levels. For 2020, £2,216m of Other financial liabilities have been reclassified from Amortised cost to Level 1 in the Fair value hierarchy, such that they are consistent with their treatment in the current year.

## 31. Other liabilities

| | **2021 £m** | 2020 £m |
|---|---|---|
| Accruals | **144** | 262 |
| Deferred income liabilities | **18** | 1 |
| Intra Group balances[1] | **160** | 298 |
| Other payables | **150** | 129 |
| **Other liabilities** | **472** | 690 |
| Expected to be settled within 12 months | **203** | 583 |
| Expected to be settled after 12 months | **269** | 107 |

[1] See Note 42 Related party transactions.

## 32. Leases

The table below presents the Company's leasing activities by type of right-of-use asset recognised on balance sheet:

| | **Head office Accom. 2021 £m** | **Total 2021 £m** | Head office Accom. 2020 £m | Total 2020 £m |
|---|---|---|---|---|
| **Carrying Amount - Right of use Assets** | | | | |
| Balance as at 1 January | **21** | **21** | 25 | 25 |
| Additions | **-** | **-** | 1 | 1 |
| Depreciation for the period | **(5)** | **(5)** | (5) | (5) |
| **Carrying Amount as at 31 December** | **16** | **16** | 21 | 21 |

[1]The right-of-use assets are disclosed in plant and equipment, Note 15.

The maturity profile of the lease liabilities is presented in the table below:

| **As at 31 December** | **Undiscounted lease payments 2021 £m** | **Finance Charge 2021 £m** | **Total 2021 £m** | Undiscounted lease payments 2020 £m | Finance Charge 2020 £m | Total 2020 £m |
|---|---|---|---|---|---|---|
| Within 1 year | **6** | **(1)** | **5** | 7 | (1) | 6 |
| 1-2 years | **5** | **(1)** | **4** | 6 | (1) | 5 |
| 2-3 years | **5** | **(1)** | **4** | 5 | (1) | 4 |
| 3-4 years | **5** | **-** | **5** | 5 | (1) | 4 |
| 4-5 years | **4** | **-** | **4** | 5 | - | 5 |
| After 5 years | **-** | **-** | **-** | 4 | - | 4 |
| **Total lease liabilities** | **25** | **(3)** | **22** | 32 | (4) | 28 |

The lease liabilities are included under other financial liabilities in payables and other financial liabilities. See note 30.

Lease contracts are typically entered into for fixed periods ranging from 1 to 7 years. Extension and termination options are included in various leases. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. 1 lease (2020: 1 lease) has an extension option and 7 leases (2020: 10 leases) have termination options.

Interest expense of £1m (2020: £1m) on lease liabilities is included in finance costs. Expenses relating to short term lease payments not included in the measurement of the lease liability above amounted to £nil (2020: £nil).

## 33. Contingent liabilities, guarantees and indemnities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the PRA, FCA, ombudsman rulings, industry compensation schemes and court judgments.

Various group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

Group companies have given warranties, indemnities and guarantees as a normal part of their business and operating activities or in relation to capital market transactions or corporate disposals. Legal & General Group Plc has provided indemnities and guarantees in respect of the liabilities of group companies in support of their business activities including Pension Protection Fund compliant guarantees in respect of certain group companies' liabilities under the group pension Fund and Scheme. LGAS has provided indemnities, a liquidity and expense risk agreement, a deed of support and a cash and securities liquidity facility in respect of the liabilities of group companies to facilitate the group's matching adjustment reorganisation pursuant to Solvency II.

## 34. Commitments

### (i) Capital Commitments

Authorised and contracted commitments not provided for in respect of investments, relating to property development and private equity, payable after 31 December 2021 are £606m (2020: £74m).

Authorised future equity contribution commitments relating to Legal and General Affordable Homes Limited payable after 31 December 2021 are £397m (2020: £486m).

### (ii) Head Office Lease Commitments

All Head Office lease commitments are disclosed in Leases note 32.

## 35. Subsidiary undertakings

The subsidiary undertakings of Legal and General Assurance Society Limited are listed below. Each undertaking operates mainly in its country of incorporation and has only one class of issued ordinary shares, unless stated otherwise. All subsidiaries have a 31 December financial year end unless stated otherwise.

| Held directly by the company | Nature of business | Incorporated in | Share class |
|---|---|---|---|
| Legal & General Affordable Homes Limited | Development of building projects | England & Wales[1] | Ordinary |
| Legal & General Pensions Limited | Property Holding Company | England & Wales[1] | Ordinary |
| Legal & General Trustees Limited | Dormant Company | England & Wales[1] | Ordinary |
| Synergy Gracechurch Holdings Limited[6] | Holding Company | Jersey[2] | Ordinary |
| Legal & General Residential (BTR) 1 LLP[7] | Development of building projects | England & Wales[1] | - |
| Legal & General Residential (BTR) 2 LLP[8] | Development of building projects | England & Wales[1] | - |
| Legal & General Residential (Holdco) Limited[9] | Holding Company | England & Wales[1] | Ordinary |
| Legal & General Affordable Homes (SO) LLP[10] | Development of building projects | England & Wales[1] | - |
| Legal & General Affordable Homes (AR) LLP[11] | Development of building projects | England & Wales[1] | - |
| Legal & General Suburban BTR (Property) LLP[12] | Development of building projects | England & Wales[1] | - |

| Held indirectly through subsidiary undertakings | Nature of business | Incorporated in | Share class |
|---|---|---|---|
| Gracechurch Property Limited[13] | Property Company | Jersey[3] | Ordinary |
| Antham 1 Limited | Property Company | England & Wales[1] | Ordinary |
| Old Cornwall Limited[14] | Property Company | England & Wales[4] | Ordinary |
| LGPL Cornwall Limited[15] | Property Company | England & Wales[4] | Ordinary |
| Sapphire Campus Management Company Limited | Dormant Company | England & Wales[1] | Ordinary |
| LGPL No.2 Limited[16] | Fund Management Activities | England & Wales[1] | Ordinary |
| Swindon (The Hub) Management Company Limited[17] | Management of Real Estate | England & Wales[5] | Ordinary |

[1] Registered address: One Coleman Street, London, EC2R 5AA.
[2] Registered address: 12 Castle Street, St Helier, Jersey, JE2 3RT.
[3] Registered address: Level 1, IFC1, Esplanade St Helier Jersey JE2 3BX.
[4] Registered address: 30 Finsbury Square, London, EC2A 1AG.
[5] Registered address: 6th Floor Lansdowne House, Berkeley Square, London, United Kingdom, W1J 6ER.

[6] Synergy Gracechurch Holdings Limited is currently in liquidation.
[7] Legal & General Residential (BTR) 1 LLP was incorporated on 8 April 2021.
[8] *Legal & General Residential (BTR) 2 LLP was incorporated on 8 April 2021.*
[9] Legal & General Residential (Holdco) Limited was incorporated on 25 February 2021.
[10] Legal & General Affordable Homes (SO) LLP was incorporated on 26 February 2021.
[11] Legal & General Affordable Homes (AR) LLP was incorporated on 27 February 2021.
[12] Legal & General Suburban BTR (Property) LLP was incorporated on 22 July 2021.
[13] Gracechurch Property Limited was dissolved on 19 October 2021.
[14] Old Cornwall Limited was dissolved on 2 March 2021.
[15] LGPL Cornwall Limited was dissolved on 2 March 2021.
[16] LGPL No.2 Limited was incorporated on 15 January 2021.
[17] Swindon (The Hub) Management Company Limited was dissolved on 7 September 2021.

## 36. Parent companies and fellow subsidiaries

The immediate parent company of Legal and General Assurance Society Limited is Legal & General Insurance Holdings Limited, a company incorporated in England and Wales. The ultimate holding company for both of those entities is Legal & General Group Plc. The results of Legal and General Assurance Society Limited are included in the Legal & General Group Plc's consolidated financial statements and therefore the Company does not prepare consolidated financial statements. These accounts provide information about Legal and General Assurance Society Limited as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available, at the Registered Office, One Coleman Street, London, EC2R 5AA, on the Group website at www.legalandgeneralgroup.com or from the Company Secretary.

## 37. Investment vehicles

The Company has the following significant direct holdings in investment vehicles which have been included as investments designated as FVTPL.

| Company name | Incorporated in | % equity shares held |
|---|---|---|
| Legal & General FX Structuring (SPV) Limited | England & Wales[1] | 100.00 |
| Legal & General Life Fund Limited Partnership | England & Wales[1] | 100.00 |
| Legal & General LTM Structuring (SPV) Limited | England & Wales[1] | 100.00 |
| West Bar Square Limited | England & Wales[1] | 100.00 |
| Borehamwood Property Unit Trust | Jersey[2] | 99.94 |
| Bracknell Property Unit Trust | Jersey[3] | 50.92 |
| English Cities Fund | England & Wales[1] | 35.44 |
| Bishopsgate Long Term Property Fund Limited Partnership | Jersey[2] | 24.75 |

The registered addresses for the investment vehicles above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 12 Castle Street, St Helier, Jersey, JE2 3RT
[3] 40 Esplanade, St Helier, Jersey, JE4 9WB

## 38. Related undertakings

The Company has the following significant direct holdings in related undertakings greater than 20% but less than 50% of the nominal value of any class of shares, which have been included as investments designated at FVTPL.

| Company name | Incorporated in | % equity shares held |
|---|---|---|
| Bishopsgate Long Term Property Limited Partnership | Jersey[2] | 24.75 |
| Legal & General Multi-Asset Target Return Fund | England & Wales[1] | 22.30 |
| Legal & General Global Thematic Fund | England & Wales[1] | 29.10 |
| US Liquidity Fund | Ireland[3] | 30.09 |
| English Cities Fund | England & Wales[1] | 35.44 |

The registered addresses for the related undertakings above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 12 Castle Street, St Helier, Jersey, JE2 3RT
[3] 33 Sir John Rogerson's Quay, Dublin 2, Ireland

The Company has the following significant direct holdings in related undertakings greater than 50% of the nominal value of any class of shares, which have been included as investments designated at FVTPL.

| Company name | Incorporated in | % equity shares held | Financial statement year end date |
|---|---|---|---|
| Bracknell Property Unit Trust | Jersey[4] | 50.92 | 31/03/2022 |
| Legal & General Future World ESG UK Index Fund | England & Wales[1] | 53.94 | 31/12/2021 |
| Legal & General Future World Global Equity Focus Fund | Luxembourg[3] | 76.50 | 31/12/2021 |
| Legal & General World Global Credit Fund | Luxembourg[3] | 84.86 | 31/12/2021 |
| Legal & General Multi Asset Core 45 Fund | England & Wales[1] | 87.40 | 31/12/2021 |
| Legal & General Multi Asset Core 20 Fund | England & Wales[1] | 97.93 | 31/12/2021 |
| Legal & General Multi Asset Core 75 Fund | England & Wales[1] | 87.88 | 31/12/2021 |
| Legal & General Multi Asset Core 45 Fund | Ireland[2] | 98.02 | 31/12/2021 |
| Legal & General Multi Asset Core 20 Fund | Ireland[2] | 98.02 | 31/12/2021 |
| Legal & General Multi Asset Core 75 Fund | Ireland[2] | 98.03 | 31/12/2021 |
| Legal & General Future World Sustainable Opportunities | England & Wales[1] | 91.48 | 31/12/2021 |
| Borehamewood Property Unit Trust | Jersey[5] | 99.94 | 31/03/2022 |
| Risk Management Solutions (QIAIF) - Hedging Fund AC | Ireland[2] | 100.00 | 31/12/2021 |
| West Bar Limited | England & Wales[1] | 100.00 | 31/12/2021 |
| Legal & General LTM Structuring (SPV) Limited | England &Wales[1] | 100.00 | 31/12/2021 |
| Legal & General FX Structuring (SPV) Limited | England &Wales[1] | 100.00 | 31/12/2021 |
| Legal & General Life Fund Limited Partnership | England & Wales[1] | 100.00 | 31/12/2021 |

The registered addresses for the related undertakings above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 33 Sir John Rogerson's Quay, Dublin 2, Ireland
[3] 2-4, rue Eugene Ruppert, L-2453 Luxembourg, Grand-Duchy of Luxembourg, RCS Luxembourg: B 180761
[4] 40 Esplanade, St Helier, Jersey, JE4 9WB
[5] 12 Castle Street, St Helier, Jersey, JE2 3RT

## 39. Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The Company has interests in investment vehicles that are classified as structured entities. These interests are detailed below.

All of the Company's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

At 31 December 2021, the Company's total interest in structured entities, reflected on its Balance Sheet and classified as financial investments held at fair value through profit or loss, was £14,360m (2020: £15,351m). A summary of the Company's holdings at 31 December 2021, with prior year comparatives, is provided below:

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| **Debt Securities** | | |
| Analysed as: | | |
| Asset Backed Securities | **851** | 795 |
| Securitisations and Debentures | **61** | 70 |
| Interest in FX SPV | **-** | 1,499 |
| Sale and Leaseback Loans[1] | **5,347** | 4,532 |
| Collateralised Debt Obligations | **66** | 71 |
| **Investments Funds** | | |
| Analysed as: | | |
| Unit Trusts | **1,172** | 3,395 |
| Limited Partnerships | **683** | 642 |
| Liquidity Funds | **5,018** | 3,418 |
| **Specialised Investment Vehicles** | | |
| Analysed as: | | |
| OEICs | **-** | - |
| SICAVs | **127** | 120 |
| QIFs | **979** | 744 |
| ICAVs | **56** | 65 |
| **Total (including held for sale)** | **14,360** | 15,351 |

The Company does not manage the above investments and the maximum exposure to loss from the interests presented above is the carrying amount of the Company's investments.

[1] The Company invests in notes representing the economic benefit resulting from leases under sale and leaseback arrangements on real estate interests. These investments are in controlled entities.

## 40. Share based payments

Legal & General Group Plc (the Group) grants share based payments to employees within the Group. The Group recognises an expense for these payments measured indirectly by reference to the fair value of the equity instruments granted. The expense is recognised over the vesting period as the services are received. The relevant company has been recharged its share of this expense with reference to the benefits it receives from the employees. The full disclosures required by IFRS 2 are provided in the consolidated Group IFRS financial statements.

The total expense recharged to the Company in relation to share based payments was £5.8m (2020: £8.1m).

## 41. Directors' emoluments

| | **2021 £000** | 2020 £000 |
|---|---|---|
| Short-term employee benefits | **1,570** | 1,599 |
| Share-based incentive awards | **853** | 948 |
| Aggregate emoluments (excl. retirement benefits) | **2,423** | 2,547 |

Directors' emoluments for the Group during the year have been attributed to the Company on the basis of the time spent on Company business by each Director. No fees were paid by the Company to the Directors. Directors are not employees of the Company, but their services are reflected in a management charge levied by Legal & General Resources Limited. Emoluments relate to salaries and performance bonuses.

Retirement benefits are not accruing to any of the directors under a defined benefit pension scheme (2020: no directors). During the year, one of the directors was a member of a defined contribution pension scheme and the value of the apportioned company contribution in the year was £19k (2020: £45k).

Share based incentive awards includes share options vested during the year.

Two of the directors have exercised share options under the Group's share schemes in the year (2020: one director).

**Highest paid director:**

| | **2021 £000** | 2020 £000 |
|---|---|---|
| Aggregate emoluments (incl. retirement benefits) | **880** | 1,003 |

The highest paid director has not accrued any retirement benefits in 2021 (2020: 45k).

**Directors' loans**

At 31 December 2021 there were no loans to directors (2020: none).

**Directors' transactions and arrangements.**

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company during 2021 (2020: none).

## 42. Related party transactions

**(i) Employees and Key management personnel**
The Company's employees are employed by Legal & General Resources Limited and the Company is recharged its share of the staff costs, see Note 6. Key management personnel, represented by the members of the board of directors are listed in the Directors' Report. Director remuneration is discussed in detail in Note 41.

**(ii) Reinsurance**
As at 31 December 2021, the Company held reinsurance assets of £65,462m (2020: £50,618m) with respect to reinsurance ceded to a related party, Legal and General Assurance (Pensions Management) Limited. The Company's net policyholder transactions in respect of investment contracts reinsured to Legal and General Assurance (Pensions Management) Limited amounted to £7,934m (2020: £7,458m). The policyholders gained £6,910m in investment return (2020: gain of £2,648m) on these assets.

As at 31 December 2021, the Company held reinsurance assets of £19,646m (2020: £19,386m) with respect to reinsurance ceded to a related party, Legal & General Reinsurance Company Limited. The Company paid £1,020m (2020: £1,532m) of reinsurance premium and received £629m (2020: £618m) in claims in respect of annuity business. The Company also recognised a liability of £20,723m (2020: £20,262m), paid £198m (2020: £1,706m) in interest charges and received £5m in commission (2020: £7m) in respect of Legal & General Reinsurance Company Limited.

With regards to its transactions with Legal & General America Inc., a related party belonging to Legal & General Group Plc, the Company accepted £223m (2020: £297m) of reinsurance premium for reinsuring term life and whole of life business, paid £22m (2020: £29m) in commission, received £20m (2020: £32m) in investment income and paid £226m (2020: £239m) in claims. A reinsurance liability of £778m (2020: £809m) is held to cover this business. The Company refunded £nil (2020: £nil) of reinsurance premiums, paid £3m (2020: received £30m) in investment income, paid £nil (2020: £1m) in commission and paid £23m (2020: £26m) in claims for reinsuring the annuity business. A reinsurance liability of £279m (2020: £306m) is held to cover this business. The comparative term life and whole of life reinsurance premiums quoted are inclusive of refunds in respect of 2 years of business recaptured by Legal & General America Inc. (via, its subsidiary Banner Life Insurance Company), please see Note 2.

## 42. Related party transactions (continued)

**(iii) Financial Investments**
The Company held £6,742m (2020: £7,104m) in investments in unit trusts, controlled and managed by Group companies that are classified as other related parties. In 2021 the Company made a £130m profit (2020: £225m profit) from investing in those trusts.

As at 31 December 2021, the Company held £5,677m (2020: £4,654m) of investment under Consolidated Property Vehicles, predominantly from Legal & General Pensions Limited. The Company held £7,280m (2020: £6,260m) in investments under Consolidated Debt Vehicles offset by an investment liability, in respect of securitised assets, of £6,998m (2019: £6,128m) with Legal & General LTM Structuring (SPV) Limited. The Company held £nil (2020: £1,499m) of investments under Consolidated Debt Vehicles from Legal & General FX Structuring (SPV) Limited. In 2021, the Company made a net profit of £666m (2020: £304m) from investing in the Property Vehicles and £126m (2020: £155m) on Consolidated Debt Vehicles.

The Company holds £nil of loans and receivables held at amortised cost from Peel Holdings (Media) Limited (2020: £55m) following the disposal of the interest in the joint venture.

The Company acquired £886m of lifetime mortgage loans from Legal & General Home Finance Limited in 2021 (2020: £843m).

**(iv) Receivables**

| As at 31 December | 2021 £m | 2020 £m |
|---|---|---|
| From ultimate parent company (Legal & General Group Plc) | - | 43 |
| From other related parties | | |
| - Legal & General America Inc. - funds withheld balance on reinsurance | 714 | 787 |
| - Legal & General Finance Plc | 414 | 411 |
| - Other related parties | 400 | 275 |
| | 1,528 | 1,516 |

None of the receivables above are impaired. The Company received £4m (2020: £5m) of interest income on the above receivables.

**(v) Payables**

| As at 31 December | 2021 £m | 2020 £m |
|---|---|---|
| To ultimate parent company (Legal & General Group Plc) | 149 | 175 |
| To subsidiaries | - | 16 |
| To other related parties | | |
| - Legal & General Reinsurance Company Limited (mentioned under reinsurance) | 20,723 | 20,262 |
| - Property investment vehicles | 71 | 145 |
| - Other related parties | 86 | 86 |
| Total[1] | 21,029 | 20,684 |

[1]This total includes £160m (2020: £298m) of Intra Group loans referenced in Note 31.

**(vi) Other charges**

| As at 31 December | 2021 £m | 2020 £m |
|---|---|---|
| Charges due to parent companies | | |
| - Interest charges | 1 | 1 |
| Charges due to other related parties | | |
| - Legal & General Investment Management (Holdings) Limited - investment management charges | 162 | 180 |
| - Legal & General Partnership Holdings Limited | 4 | 3 |
| - Legal & General America Inc. (mentioned under reinsurance) | 22 | 29 |
| - Legal & General Reinsurance Company Limited (interest charges mentioned under reinsurance) | 198 | 1,706 |
| - Other | 3 | 2 |
| | 390 | 1,921 |

**(vii) Other income**
The Company received £1m (2020: £nil) intragroup income from Legal & General Investment Management (Holdings) Limited.

**(viii) Dividends**
- The Company approved and paid £902m (2020: £936m) in dividends to its parent company, Legal & General Insurance Holdings Limited.
- The Company received £7.5m (2020: £nil) of dividend income from its joint venture Peel Holdings (Media) Limited.

**(ix) Acquisitions**
The Company purchased 100% shareholding in Legal & General Residential (Holdco) Limited in December 2021.

## 42. Related party transactions (continued)

**(x) Group Pension Schemes**
The Group UK defined benefit pension schemes have purchased annuity contracts issued by the Company for consideration of £82m (2020: £50m) during the period, priced on an arm's length basis. At inception a premium of £403m was paid by the Scheme to LGAS. LGAS and the Scheme then recognised an investment contract liability and an Assured Payment Policy (APP) plan asset respectively of the same amount. As at 31 December 2021 the liability in relation to the scheme was £332m (2020: £396m).

During the year, the Legal and General Group UK Pension & Assurance Fund completed an APP transaction with LGAS. £925m was paid by the Fund to LGAS and LGAS and the Fund recognised an investment contract liability and an APP plan asset of the same amount respectively. As at 31 December 2021 the liability in relation to the fund was £882m.

## 43. Management of capital resources

The Company is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements established by the Solvency II Framework Directive and adopted by the Prudential Regulation Authority (PRA).

The Company calculates its Solvency II capital requirements using a Partial Internal Model. The vast majority of the risk to which the Company is exposed is assessed on the Partial Internal Model basis approved by the PRA.

The table below shows the Company Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at 31 December 2021).

The 2021 Solvency II results are estimated and unaudited.

As at 31 December 2021, and on the above basis, the Company had a Solvency II surplus of £3,551m (2020: £3,200m) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio of 155% (31 December 2020: 148%).

The Solvency II capital position is as follows:

| | **2021 £m** | 2020 £m |
|---|---|---|
| Core tier 1 own funds | **10,016** | 9,887 |
| **Own Funds** | **10,016** | 9,887 |
| Solvency Capital Requirement (SCR) | **6,465** | 6,687 |
| **Surplus Own Funds** | **3,551** | 3,200 |
| **SCR coverage ratio** | **155%** | 148% |

Solvency II Own Funds allow for a risk margin of £4.0 bn (31 December 2020: £4.5bn) and TMTP of £3.6bn (31 December 2020: £4.2bn).

On 6 December 2017 the group announced the sale of its Mature Savings business to ReAssure Limited. ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. The formal transfer of the business completed on 7 September 2020. The transfer was affected by way of a Part VII transfer under the Financial Services and Markets Act 2000. The impact of the risk transfer agreement up until the completion date and the profit on disposal were reflected in both Own Funds and SCR as at 31 December 2020.

A reconciliation of the capital and reserves attributable to ordinary equity holders of the Company on an IFRS basis to the Own Funds on a Solvency II basis is presented below.

| | **2021 £m** | 2020 £m |
|---|---|---|
| Capital and reserves attributable to equity holders on an IFRS basis | **7,530** | 6,882 |
| Elimination of intangible assets and associated liabilities[1] | **(184)** | (177) |
| Difference in valuation of insurance contracts[2] | **3,498** | 3,889 |
| Impact of valuation differences on net deferred tax | **(828)** | (704) |
| Difference in valuation of subsidiaries | **-** | (3) |
| **Own Funds** | **10,016** | 9,887 |

[1] Associated liabilities include deferred income liabilities and in 2020 also included trail commissions, which have been written down in 2021.
[2] Differences in the measurement of Technical provisions between IFRS and Solvency II. The Solvency II Risk Margin and the Transitional Measure on Technical provisions have been included within this line.

**Capital management policies and objectives**
The Company aims to manage its capital resources to maintain financial strength, policyholder security and relative external financial strength ratings advantage. The Company also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt and reinsurance.

## 43. Management of capital resources (continued)

**Capital measures**
The Company measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the Company operates and those which the directors consider most appropriate for managing the business. The measures used by the Company include:

• Accounting and Solvency II bases
Management use financial information prepared on both an IFRS and Solvency II basis to manage capital and cash flow usage and to determine dividend paying capacity.

The Company's approved internal model used for Solvency II capital calculations is also used to support the management of risk within the Company.

• Regulatory bases
The financial strength of the Company is measured under local regulatory requirements.

The regulatory required capital for the life business is based on the Solvency II Framework Directive, as adopted by the PRA. The Company has developed an internal model to meet the Solvency II capital requirements. Our Solvency II internal model is approved by the PRA. The internal model result has been used for the purpose of managing regulatory capital since Solvency II came into force.

The Company has not breached any regulatory capital requirements at any time during the year.

## 44. Assets analysis

The Company has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks. Various reinsurance arrangements are in place as a mechanism to mitigate the risks.

The two categorisations presented are:

**Unit linked**
For unit linked contracts, there is a direct link between the investments and the obligations. The financial risk on these contracts is borne by the policyholders. The Company is therefore not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

**Shareholder**
All non-unit linked assets are classified as shareholder assets. Shareholders of the Company are directly exposed to market and credit risk on these assets, including those backing the non-profit non-unit linked business.

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 45 (Risk management and control) have been provided using this categorisation.

## 44. Assets analysis (continued)

| | Shareholder £m | Unit linked £m | Total £m |
|---|---|---|---|
| Assets | | | |
| Investment in subsidiaries | **203** | **-** | **203** |
| Purchased interest in long term businesses and other intangible assets | **181** | **-** | **181** |
| Plant and equipment | **34** | **-** | **34** |
| Investments | **110,107** | **-** | **110,107** |
| Other operational assets[1] | **30,419** | **65,462** | **95,881** |
| **As at 31 December 2021** | **140,944** | **65,462** | **206,406** |
| Liabilities | | | |
| Non-participating contract liabilities | **87,831** | **65,483** | **153,314** |
| Other financial liabilities | **45,562** | **-** | **45,562** |
| **As at 31 December 2021** | **133,393** | **65,483** | **198,876** |

| | Shareholder £m | Unit linked £m | Total £m |
|---|---|---|---|
| Assets | | | |
| Investment in subsidiaries | 113 | - | 113 |
| Investment in joint venture[2] | 78 | - | 78 |
| Purchased interest in long term businesses and other intangible assets | 144 | - | 144 |
| Plant and equipment | 37 | - | 37 |
| Investments | 113,203 | 4 | 113,207 |
| Other operational assets[1] | 31,003 | 50,621 | 81,624 |
| **As at 31 December 2020** | 144,578 | 50,625 | 195,203 |
| Liabilities | | | |
| Non-participating contract liabilities | 86,812 | 50,677 | 137,489 |
| Senior borrowings | 1 | - | 1 |
| Other financial liabilities | 50,831 | - | 50,831 |
| **As at 31 December 2020** | 137,644 | 50,677 | 188,321 |

[1] Other operational assets mainly comprise reinsurance assets.
[2] The Company's investment in Peel Holdings (Media) Limited was disposed of in November 2021.

## 45. Risk management and control

This section describes the Company's approach to risk management. It covers the overall approach that applies to all risks, and includes a detailed review of risks within the Company's key businesses. Legal & General Group's suite of risk management policies sets out the overall framework for the management of risk and therefore the Company operates within this framework.

**Risk management objectives**
The Company's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures.

**Principal Products**

A significant part of the Company's business involves the acceptance and management of risk. A description of the principal products offered by the Company's segments are outlined below. The Company seeks to manage its exposure to risk through controls which ensure that the residual exposures are within acceptable tolerances agreed by the Board.

Details of the risks associated with the Company's principal products and the controls used to manage these risks can be found below.

**Legal & General Retirement (LGR)**

**Annuity contracts**
Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

Pension Risk Transfer (PRT) represents bulk annuities, whereby the Company accepts the assets and liabilities of a company pension scheme or a life fund. These are written predominantly to UK clients.

## 45. Risk management and control (continued)

Immediate annuity contracts are offered to individual policyholders. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. These annuities may include a guaranteed payment period.

Some deferred annuities sold by the Company contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options is currently immaterial.

There is a block of immediate and deferred annuities within the UK business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total annual annuity value of such annuities in payment at 31 December 2021 was £1,510m (2020: £1,170m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £15m (2020: £12m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The Company also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The Company writes Assured Payment Policies (APP). An APP is a long-term contract under which the policyholder (a registered UK pension scheme) pays a day-one premium and in return receives a contractually fixed and/or inflation-linked set of payments over time from the insurer.

**Longevity insurance contracts**
The Company also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

**Lifetime mortgages**
Lifetime mortgages are a form of equity release mortgage that provide non-commercial borrowers with a loan secured against their main residence, without the need for regular repayments. They are regulated retail mortgages offered only to borrowers over the age of 55 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. Loans can be advanced in a single lump sum amount or in several subsequent drawdowns of an agreed facility. All lifetime mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and if the net sale proceeds are lower than the balance of the loan, the Company will accept the net sale proceeds as full settlement.

**Lifetime Care Plan**
The Lifetime Care Plan provides a monthly payment to a UK registered care provider that helps meet the cost of care for the policyholder's life. A policyholder can choose to receive a fixed monthly payment or opt to have escalation built in. A death benefit exists within the product so that if a policyholder dies within the first 6 months of the start date a percentage of the original premium less any payments already made is payable to the estate.

**Retirement Interest Only mortgages**
A Retirement Interest Only (RIO) mortgage is a standard residential mortgage available for non-commercial borrowers above 55 years old. A RIO mortgage is very similar to a standard interest-only mortgage, with two key differences:

- The loan is usually only paid off on death, move into long term care or sale of the house.
- The borrowers only have to prove they can afford the monthly interest repayments and not the capital remaining at the end of the mortgage term. No repayment solution is required as repayment defaults to sale of property.

**Workplace Savings**
Workplace Savings provides corporate pension scheme solutions to enable companies to meet their auto-enrolment obligations. Workplace Savings acts as scheme operator and administrator for these products while the customers hold the individual or scheme level pension policies issued by the Company.

**Legal & General Insurance (LGI)**

**Protection business (retail and group)**
The Company offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

**Annuities**
Immediate annuities have similar characteristics as products sold by LGR.

**Legal & General Capital (LGC)**

**Investment strategy and implementation**
Legal & General Capital manages shareholder assets which are not directly required to meet contractual obligations to policyholders. LGC's investments fall into two distinct categories; direct investments and traded assets. The value of, and income from, both categories is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns is managed using a range of techniques, including foreign exchange and interest rate hedging, and exposure concentration limits by asset type, sector and geographic region.

**Direct investments and structuring**
Direct investments are an integral part of the wider Group strategy. LGC's direct investments are typically illiquid investments entered into through acquisition, joint venture with strategic partners or by the creation of new companies. LGC seeks to make direct investments in sectors where there are structural funding shortfalls, and is organised into four sectors: housing, Clean Energy, SME Finance, and Specialist Commercial Real Estate. LGC deploys capital and sector expertise to such investments to target attractive risk-adjusted returns which can deliver higher returns and / or lower volatility for our shareholder capital than listed equity.

## 45. Risk management and control (continued)

**Asset Risk**
The Company is exposed to the following categories of asset risk as a consequence of offering the principal products outlined. The Company is also exposed to insurance risk as a consequence of offering these products - more detail on insurance risk can be found within the long-term insurance risks section on page 72.

**Market risk**
Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

**Credit risk**
Exposure to loss if another party fails to perform its financial obligations to the Company.

**Liquidity risk**
The risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

**Climate risk**
The Company is exposed to climate change through two broad categories: transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy, and physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

The Legal & General Group has integrated climate risk management into the overall governance framework and have carried out a detailed assessment of how the Group could expect climate risk to emerge across our business model. The Legal & General Group risk mitigation strategy includes setting portfolio carbon intensity targets, integrating carbon controls into the investment processes through stock exclusions and high carbon escalation, corporate engagement and implementing high energy efficiency standards into the group directly owned commercial property and housing businesses.

**Market Risk**

| Principal Risks | Business Segment | Controls to mitigate |
|---|---|---|
| **Investment Performance Risk** | | |
| The Company is exposed to the risk that the income from, and value of, assets held to back insurance liabilities and capital requirements do not perform in line with investment and product pricing assumptions leading to a potential financial loss. | LGR, LGC and LGI | Models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For annuities, which are sensitive to interest rate and inflation risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change. |
| For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed. | Unit linked | The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives is subject to regular monitoring. Periodic assessment is also made of the long-term profitability to the Company of these funds. For some contracts the Company has discretion over the level of management charges levied. |
| **Property Risk** | | |
| Lifetime mortgages include a no-negative equity guarantee which transfers a potential loss exposure to the Company as a result of low house price inflation and an exposure to specific properties which may experience lower house price inflation for whatever reason. | LGR | To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. The diversification of lending by property type and geographic region seeks to control exposures to specific aspects in the property market. |
| LGC businesses build homes across the residential market, invest in large commercial and residential development projects and manage several developed real-estate assets. The Company's revenue streams are exposed to residential sales achieved, as well as the volume of transactions, both of which many be affected by the performance of the housing market. Revenue streams may also be impacted by significant increases in the cost of raw materials or disruption to supply chains. Independent valuations of real-estate assets, either in development or developed, also depend on an assessment of the wider real-estate market. | LGC | Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market. Sites are developed in a number of phases to spread the risk to local markets over several years and where possible we seek to co-invest with local experts to manage assets. The purchasing of new land for development requires approval from LGC's Investment Committee and the Group Capital Committee. Where appropriate, key methods are adopted to further manage the risk, such as fixed price construction contracts, forward sales and pre-letting. These businesses can also benefit from flexible funding arrangements available from the Group. |

## 45. Risk management and control (continued)

**Market Risk (Continued)**

| Principal Risks | Business Segment | Controls to mitigate |
|---|---|---|
| **Currency Risk**<br>To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in sterling could result in unforeseen foreign exchange losses. | LGR, LGC and LGI | To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. The hedges do not eliminate all currency risk and the Company retains some residual risk. |
| **Inflation Risk**<br>Inflation risk is the potential of realising a loss because of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices. | LGR | The investment strategy for the annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefit payments. The hedges do not eliminate all inflation risk and the Company retains some residual risk. |
| **Interest rate risk**<br>Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates. | LGR and LGI | To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the nature and terms of the expected policy benefits payable. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations of each asset class, relative to the liabilities they support. |

**Credit Risk**

| Principal Risks | Business Segment | Controls to mitigate |
|---|---|---|
| **Bond default risk**<br>A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with the possibility of financial loss. | LGR and LGI | Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region to limit exposure to a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Company's own internal analysis. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default. |
| **Reinsurance counterparty risk**<br>Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in possible financial loss. Credit risk syndication also exposes the Company to counterparty default risks. The Company is required to carry an element of associated credit risk capital on its balance sheet should the business not be re-brokered on the same terms. | LGR and LGI | When selecting new reinsurance partners for its protection business, the Company considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the Company targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring. |
| **Property lending counterparty risk**<br>As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant. | LGR and LGC | Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests by taking security over the underlying property associated with each investment transaction. |

## 45. Risk management and control (continued)

**Credit Risk (Continued)**

| Principal Risks | Business Segment | Controls to mitigate |
|---|---|---|
| **Banking counterparty risk**<br>The Company is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services. | LGR and LGC | The Company controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other bank counterparty exposures that the Company may have. Limits are subject to regular review with actual exposures monitored against limits. The Company has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed. |

**Liquidity Risk**

| Principal Risks | Business Segment | Controls to mitigate |
|---|---|---|
| **Contingent event risk**<br>Events that result in liquidity risk include a pandemic that could lead to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe. | LGI | The Company seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is, however, an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the Company operates and the execution of investment management strategies. However, the Company's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events and the profile of actual liquid assets is regularly compared to the required liability profile. In addition to maintaining a pool of liquid assets, the Group's Treasury function provides formal facilities to the Group's operating subsidiaries to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The facility available to each subsidiary is determined through analysis of potential shock events and the potential timing differences that may arise in cash flows. |
| **Collateral liquidity risk**<br>Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties at short notice. | LGR and LGC | Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets is maintained with counterparties as specified in the associated agreements. As at 31 December 2021, LGR held eligible collateral worth more than five times the total amount of outstanding collateral (using the most representative definition of collateral contained within the Company's different collateral agreements). |
| **Investment liquidity risk**<br>Direct lending, sale and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms. | LGR and LGC | Given the illiquid nature of the annuity and other liabilities the Company is able and willing to take advantage of the premium offered by illiquid assets. The Company, however, sets limits on the overall exposure to illiquid investments taking account of the nature and type of liabilities that the assets are held to meet. |

As at 31 December 2021, the Company had £232m (2020: £442m) of cash and cash equivalents in shareholder funds.

Various pension risk transfer deals include collateralised structures. £7,473m (2020: £7,890m) of Corporate Bonds and Treasury Gilts and cash are pledged as collateral in relation to those.

Collateral of £900m (2020: £760m) made up of Treasury Gilts, Foreign Government Bonds and Corporate Bonds (AAA, AA, A and BBB) was pledged out in respect of reinsurance agreements held in the annuity business. These assets are neither past due, not impaired. The carrying value of these assets reflects the full exposure value of these assets.

## 45. Risk management and control (continued)

**Market risk**

**Investment Performance Risk – Equity Securities**

The Company controls its exposure to geographic price risks by using internal country risk exposure limits. These exposure limits are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments.

Table 1 indicates the Company's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

**Table 1 - Exposure to worldwide equity markets**

| | **Shareholder 2021 £m** | Shareholder 2020 £m |
|---|---|---|
| UK | **131** | 113 |
| North America | **110** | 148 |
| Europe | **167** | 188 |
| Japan | **15** | 25 |
| Asia Pacific | **17** | 28 |
| Other | **18** | 27 |
| **Listed equities** | **458** | 529 |
| Holdings in unit trusts | **8,705** | 8,883 |
| **Total equities** | **9,163** | 9,412 |

**Currency Risk**

The Company is potentially exposed to loss as a result of fluctuations in the value of, or income/expense from, assets and liabilities denominated in foreign currencies.

Investments are held in currencies other than Sterling and as a result the Company is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies, of which the largest are the Euro and US Dollar.

The Company has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing insurance contract in the same currency, or are hedged back to GBP.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities, however movements may impact the value of the group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Company's regulatory capital requirements by currency. Currency borrowings and derivatives may be used to manage exposures within the limits that have been set.

As at 31 December 2021, the Company held net liabilities of £(873)m in US Dollar (2020: net assets of £245m) and net liabilities of £(232)m Euro (2020: net assets of £330m). The Company mitigates exchange rate risk through the use of derivatives, mainly forward currency contracts.

The Company's management of currency risk reduces shareholders' exposure to exchange rate fluctuations. The Company's exposures to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, where the values of economic hedging instruments are reflected at their carrying value as opposed to their notional amounts, are reflected below.

| | A 10% increase in USD:GBP exchange rate | | A 10% decrease in USD:GBP exchange rate | |
|---|---|---|---|---|
| | **2021 £m** | 2020 £m | **2021 £m** | 2020 £m |
| Net assets attributable to USD exposures | **79** | (22) | **(97)** | 27 |

| | A 10% increase in EUR:GBP FX rate | | A 10% decrease in EUR:GBP FX rate | |
|---|---|---|---|---|
| | **2021 £m** | 2020 £m | **2021 £m** | 2020 £m |
| Net assets attributable to EUR exposures | **21** | (30) | **(26)** | 37 |

**Other price risk**

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. These changes may be as a result of features of the individual instrument, its issuer, or factors affecting all similar financial instruments traded in the market.

The Company holds non-unit linked property investments totalling £29m (2020: £29m) all of which are located in the UK.

## 45. Risk management and control (continued)

**Credit Risk**
The credit profile of the Company's assets exposed to credit risk is shown in Table 2. The credit rating bands are provided by independent rating agencies. For unrated assets, the Company maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

The carrying amount of non-unit linked assets included in the balance sheet represents the maximum credit exposure.

**Table 2 - Exposure to credit risk**

| As at 31 December 2021 | Notes | AAA £m | AA £m | A £m | BBB £m | BB and below £m | Unrated £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Shareholder** | | | | | | | | |
| Government securities | | 1,157 | 6,076 | 99 | 306 | - | 201 | 7,839 |
| Other fixed rate securities | | 1,100 | 4,000 | 14,643 | 16,716 | 746 | 12,065 | 49,270 |
| Variable rate securities | | 26 | 1,786 | 2,353 | 1,734 | 58 | 16,016 | 21,973 |
| Lifetime mortgages | | - | - | - | - | - | 7,114 | 7,114 |
| **Total debt securities** | | 2,283 | 11,862 | 17,095 | 18,756 | 804 | 35,396 | 86,196 |
| Accrued interest | | 18 | 49 | 155 | 220 | 10 | 59 | 511 |
| Loans and receivables | | - | 969 | 1 | - | - | - | 970 |
| Derivative assets | 17 | - | - | 10,979 | 1,925 | - | 102 | 13,006 |
| Cash and cash equivalents | 23 | 3 | - | 156 | 65 | - | 8 | 232 |
| **Financial assets excluding equities** | | 2,304 | 12,880 | 28,386 | 20,966 | 814 | 35,565 | 100,915 |
| Reinsurers' share of contract liabilities | 19 | - | 5,368 | 270 | - | - | 20,018 | 25,656 |
| Other assets | 22 | 56 | 12 | 470 | 21 | - | 4,183 | 4,742 |
| **Total** | | 2,360 | 18,260 | 29,126 | 20,987 | 814 | 59,766 | 131,313 |

| As at 31 December 2020 | Notes | AAA £m | AA £m | A £m | BBB £m | BB and below £m | Unrated £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Shareholder** | | | | | | | | |
| Government securities | | 1,667 | 7,384 | 55 | 344 | - | 134 | 9,584 |
| Other fixed rate securities | | 1,222 | 3,976 | 14,509 | 17,092 | 843 | 11,212 | 48,854 |
| Variable rate securities | | 33 | 1,517 | 2,438 | 1,263 | 54 | 13,627 | 18,932 |
| Lifetime mortgages | | - | - | - | - | - | 6,286 | 6,286 |
| **Total debt securities** | | 2,922 | 12,877 | 17,002 | 18,699 | 897 | 31,259 | 83,656 |
| Accrued interest | | 20 | 52 | 151 | 214 | 11 | 44 | 492 |
| Loans and receivables | | - | 2,872 | 1 | - | - | 55 | 2,928 |
| Derivative assets | 17 | - | 36 | 15,653 | 512 | - | 43 | 16,244 |
| Cash and cash equivalents | 23 | (1) | 4 | 368 | 10 | - | 61 | 442 |
| **Financial assets excluding equities** | | 2,941 | 15,841 | 33,175 | 19,435 | 908 | 31,462 | 103,762 |
| Reinsurers' share of contract liabilities | 19 | - | 5,232 | 237 | - | - | 19,765 | 25,234 |
| Other assets | 22 | 74 | 14 | 437 | 37 | - | 4,931 | 5,493 |
| **Total** | | 3,015 | 21,087 | 33,849 | 19,472 | 908 | 56,158 | 134,489 |

At year end, the Company held £ 1,619m (2020: £1,713m) of collateral in respect of non-unit linked net derivative asset counterparty positions.

## 45. Risk management and control (continued)

The Company reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost or fair value of assets classified as available for sale.

Table 3 includes assets at FVTPL and held at amortised cost, which provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

**Table 3 - Ageing of financial assets that are past due but not impaired**

| As at 31 December 2021 | Neither past due nor impaired £m | Financial assets that are past due but not impaired: 0-3 months £m | 3-6 months £m | 6 months-1 year £m | Over 1 year £m | Financial assets that have been impaired £m | Carrying value £m |
|---|---|---|---|---|---|---|---|
| **Shareholder** | **131,182** | **101** | **17** | **2** | **11** | **-** | **131,313** |

| As at 31 December 2020 | Neither past due nor impaired £m | Financial assets that are past due but not impaired: 0-3 months £m | 3-6 months £m | 6 months-1 year £m | Over 1 year £m | Financial assets that have been impaired £m | Carrying value £m |
|---|---|---|---|---|---|---|---|
| **Shareholder** | 134,290 | 184 | 3 | 1 | 11 | - | 134,489 |

Table 4 provides information on financial assets and liabilities that are offset in the Balance Sheet when the Company has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and liability simultaneously.

The Company has not entered into any financial transactions resulting in financial assets and liabilities which have been offset in the Balance Sheet. The table below shows the financial assets and liabilities that are subject to master netting agreements in the shareholder, non-profit non-unit linked and with-profits. Unit linked assets and liabilities have not been included as shareholders are not exposed to the risks on these policies.

**Table 4 - Offsetting of financial assets and liabilities in the Balance Sheet**

| | Amounts subject to enforceable netting arrangements | | | | |
|---|---|---|---|---|---|
| | | Amounts under master netting arrangements but not offset | | | |
| As at 31 December 2021 | Amounts reported in the Balance Sheet £m | Related financial instru-ments[1] £m | Cash collateral[2] £m | Securities collateral pledged[2] £m | Net amount 2021 £m |
| Derivative assets | 13,006 | (11,611) | (762) | (857) | (224) |
| Reverse repurchase agreement assets | 969 | - | - | (968) | 1 |
| **Total financial assets** | **13,975** | **(11,611)** | **(762)** | **(1,825)** | **(223)** |
| Derivative liabilities | (13,834) | 11,611 | 1,785 | 647 | 209 |
| Repurchase agreement liabilities | (777) | - | - | 777 | - |
| **Total financial liabilities** | **(14,611)** | **11,611** | **1,785** | **1,424** | **209** |

[1] Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the International Swaps and Derivatives Association (ISDA) Master Agreement, could be offset and settled net following certain predetermined events.
[2] Cash and securities held may exceed target levels due the complexities of operational collateral management, timing and agreements in place with individual counterparties

## 45. Risk management and control (continued)

| | Amounts subject to enforceable netting arrangements | | | | |
|---|---|---|---|---|---|
| | | Amounts under master netting arrangements but not offset | | | |
| As at 31 December 2020 | Amounts reported in the Balance Sheet £m | Related financial instruments[1] £m | Cash collateral[2] £m | Securities collateral pledged[2] £m | Net amount 2020 £m |
| Derivative assets | 16,244 | (14,780) | (733) | (979) | (248) |
| Reverse repurchase agreement assets | 2,872 | - | - | (2,873) | (1) |
| **Total financial assets** | 19,116 | (14,780) | (733) | (3,852) | (249) |
| Derivative liabilities | (16,895) | 14,780 | 1,800 | 371 | 56 |
| Repurchase agreement liabilities | (1,715) | - | - | 1,718 | 3 |
| **Total financial liabilities** | (18,610) | 14,780 | 1,800 | 2,089 | 59 |

[1] Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the International Swaps and Derivatives Association (ISDA) Master Agreement, could be offset and settled net following certain predetermined events.
[2] Cash and securities held may exceed target levels due the complexities of operational collateral management, timing and agreements in place with individual counterparties

**Insurance risk**

The Company is exposed to insurance risk as a consequence of offering the principal products. Insurance risk is the exposure to loss arising from experience being different to that anticipated. Detailed below are the risks associated with each of the Company's segments and the associated controls operated. They are applicable to all stated products across the Company.

**Insurance Risk**

| **Principal Risks** | **Business Segment** | **Controls to mitigate** |
|---|---|---|
| **Longevity, mortality & morbidity risks** | | |
| For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities. | LGI | The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK retail protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation. |
| For annuity contracts, the Company is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers. | LGR | Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Company regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured. |
| **Persistency risk** | | |
| In the early years of a policy, lapses may result in a loss to the Company, as the acquisition costs associated with the contract would not have been recovered from product margins. | LGI | The pricing basis for protection business includes provision for policy lapses. The persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. |
| **Expense risk** | | |
| In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability. | LGR and LGI | In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated. |

## 45. Risk management and control (continued)

**Insurance Risk (Continued)**

| Principal Risks | Business Segment | Controls to mitigate |
|---|---|---|
| **Concentration (catastrophe) risk**<br>Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims | LGI | Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk. |
| **Epidemic (catastrophe) risk**<br>The spread of an epidemic could cause large aggregate claims across the Company's portfolio of protection businesses. | LGI | The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business. As in the current pandemic, we can update the pricing for new business to reflect the change in expected claims. The provision for future COVID claims relies on assumptions about the future developments of the pandemic, including the impact of new variants, vaccines, social distancing and treatment, all of which could result in a higher or lower loss than assumed. |

**Accumulation of risks**

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the Company. In particular, there is little significant overlap between the long term and short term insurance business written by the Company. However, there are potentially material correlations of insurance risk with other types of risk exposure. The Company's capital model seeks to measure risk correlations particularly those that would tend to be more acute as the underlying risk scenarios become more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk with mortality and morbidity exposures.

**Operational risk**

Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. Potential for exposure to operational risk extends to all the Company's businesses. The Company has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action or reputational damage.

## 45. Risk management and control (continued)

**Sensitivity analysis**
Table 5 shows the impacts on LGAS pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The Company pre-tax profit and equity impacts may arise from asset and / or liability movements under the sensitivities. The current disclosure reflects management's view of key risks in current economic conditions.

**Table 5 - long term business IFRS sensitivity analysis**

| | **Impact on pre-tax profit net of reinsurance 2021 £m** | **Impact on equity net of reinsurance 2021 £m** | Impact on pre-tax profit net of reinsurance 2020 £m | Impact on equity net of reinsurance 2020 £m |
|---|---|---|---|---|
| **Economic Sensitivity** | | | | |
| 100bps increase in interest rates | **201** | **163** | 393 | 318 |
| 50bps decrease in interest rates | **(150)** | **(121)** | (251) | (203) |
| 50bps increase in future inflation expectation | **(85)** | **(69)** | (148) | (120) |
| Credit spread widens by 100bps with no change in expected defaults | **(85)** | **(69)** | (115) | (93) |
| 25% rise in equities | **416** | **337** | 417 | 338 |
| 25% fall equities | **(416)** | **(337)** | (417) | (338) |
| 15% rise in property values | **564** | **457** | 455 | 369 |
| 15% fall in property values | **(615)** | **(498)** | (512) | (414) |
| 10bps increase in credit default assumption | **(535)** | **(433)** | (578) | (468) |
| 10bps decrease in credit default assumption | **530** | **429** | 571 | 463 |
| **Non-Economic Sensitivity** | | | | |
| 1% increase in annuitant mortality | **115** | **93** | 151 | 122 |
| 1% decrease in annuitant mortality | **(118)** | **(96)** | (158) | (128) |
| 5% increase in assurance mortality | **(153)** | **(124)** | (173) | (140) |
| 10% increase in maintenance expense | **(165)** | **(134)** | (170) | (137) |

In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Company's experience may be correlated.

The sensitivity analyses do not take into account management actions that could be taken to reduce the impacts. The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position and any second order tax effects.
The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

The change in interest rate test assumes a 100 basis point increase and a 50 basis point decrease in the gross redemption yield on fixed interest securities together with the same change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields, adjusted to allow for prudence calculated in a manner consistent with the base results.

The inflation stress adopted is a 0.5% pa increase in inflation, resulting in a 0.5% pa reduction in real yield and no change to the nominal yield. In addition, the expense inflation rate is increased by 0.5% pa.

In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions. All lifetime mortgages are excluded, as their primary exposure is to property risk, and therefore captured under the property stress above.

The equity stresses are a 25% rise and 25% fall in listed equity market values.

The property stresses adopted are a 15% rise and 15% fall in property market values, including lifetime mortgages. Rental income is assumed to be unchanged. Where property is being used to back liabilities, valuation interest rates move with property yields, and so the value of the liabilities will also move.

The credit default assumption is set based on the credit rating of individual bonds and their outstanding term using Moody's global credit default rates. The credit default stress assumes a +/-10bps stress to the current unapproved credit default assumption, which will have an impact on the valuation interest rates used to discount liabilities. Other credit default allowances are unchanged. All lifetime mortgages are excluded, as their primary exposure is to property risk, and therefore captured under the property stress above.

The annuitant mortality stresses are a 1% increase and 1% decrease in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates.

The assurance mortality stress is a 5% increase in the mortality and morbidity rates with no change to the mortality and morbidity improvement rates.

The maintenance expense stress is a 10% increase in all types of maintenance expenses in future years.

## 45. Risk management and control (continued)

The Company is exposed to climate change through two broad categories:

- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings or changes to insurance liabilities as a result of severe weather events and longer-term shifts in climate.

Climate change impacts will emerge through risks that we are already exposed to, with the key existing risk exposures covered by the economic and non-economic sensitivities shown in this section. In addition, given the uncertain nature of the risks from climate change, and the lack of historical data to support decision making, a specific scenario testing approach over a longer term time horizon has been developed by the company to manage the risks from climate change. To understand our exposures and how these risks may emerge we have developed our climate scenario modelling capabilities. Possible climate pathways and their impact are considered in the climate scenario analysis detailed in the 2021 Climate Report (TCFD).

## 46. Post balance sheet events

There were no adjusting or non-adjusting post balance sheet events between 31 December 2021 and the approval of the report and accounts of the Company that require disclosure.