LEGAL & GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT

31 December 2020

Contents

Summary

This document

This Solvency and Financial Condition Report (SFCR) for Legal and General Assurance Society Limited (the Company) is a regulatory document, required by the reporting and group supervision parts of the Prudential Regulation Authority (PRA) Rulebook for Solvency II firms and Directive 2009/138/EC of the European Parliament (Solvency II directive) Articles 51 and 256. All values are (unless otherwise stated) as at 31 December 2020.

Who we are

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.

What we do

We enable our stakeholders and customers, who range from some of the world's largest companies and pension funds to millions of individuals and families, to manage their financial futures whether by protecting against unforeseen events, helping to save for and support retirement or investing money to deliver growth over time. We deploy our strong balance sheet, our ability to understand and pool risk, our market insight and our capacity to create good value customer propositions for every customer, large or small. Our strong social purpose means that we strive at all times to do the right thing not just for our customers and shareholders, but for the broader economy and society at large. The Company strategy is aligned to the Legal & General Group's six growth drivers that affect everyone: ageing demographics; globalisation of asset markets; investing in the real economy; welfare reforms; technological innovation; and addressing climate change. In responding to these long-term drivers 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. Environmental, social and governance issues are central to our strategy and are inherent to all six growth drivers.

Our business

The group, which includes the Company as its major insurance subsidiary, is managed across business divisions rather than legal entities. We describe our business as the following four broad business areas which deliver our strategy.

Key area	What we do
Retirement	We provide guaranteed retirement income for our retail customers in the UK and for members of corporate pension schemes in both the UK and the US.
Investment management	We manage the assets our clients hold to cover their DB pension scheme liabilities and manage their risk through matching their assets to their liabilities. We are a leading defined contribution (DC) pension manager, aiming to invest DC customers' pension assets to generate returns.
Capital investment	We use some of our customers pension assets, as well as the group's shareholder capital, to make long-term investments in assets such as future cities, housing and SME finance.
Insurance	We started offering life insurance cover in 1836 and are the UK's number one individual life insurance provider. We also offer 'level-term' life insurance in the US and our group protection business in the UK offers life insurance and income protection products to individuals through their employers.

Our Solvency position and performance

The Company's key solvency and performance measures as at 31 December 2020 were:

Measure	2020	2019
Operating profit (£m)	**1,620**	1,415
Eligible Own Funds (£m)	**9,887**	10,697
Solvency II Regulatory Surplus (£m)	**3,200**	4,130
Solvency II Coverage ratio on a regulatory basis	**148%**	163%
Solvency II Coverage ratio on a shareholder basis	**148%**	165%

The Company uses Operating profit as its measure of underwriting performance. The Operating profit of £1,620m (2019: £1,415m) is inclusive of discontinued operations and primarily reflects:

- strong performance in annuity business written in Legal & General Retirement Institutional (LGRI) and Legal & General Retirement Retail (LGRR) from front and back books;
- a positive impact relating to mortality reserve releases arising due to changes in the longevity improvement assumptions to align to adjusted CMI 2018 tables;

The Solvency II coverage ratio is defined as the Eligible Own Funds divided by the Solvency Capital Requirement (SCR).

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 effected by way of a Part VII transfer under the Financial Services and Markets Act 2000.

In 2019, the Company Own Funds and SCR were presented on a "shareholder" basis. This basis excluded the contribution that the with-profits fund would normally make to the Company position. Following the transfer of the with-profits fund to ReAssure Limited, the "shareholder view" of Company's Own Funds and SCR as at 31st December 2020 is now aligned with the regulatory basis position.

The surplus on a regulatory basis as disclosed in this document, incorporates the impacts of a recalculation of the Transitional Measure on Technical Provisions (TMTP) based on 31 December 2020 economic conditions. The Company obtained regulatory approval to recalculate its TMTP at this date, as its risk profile materially changed following the completion of the sale of the Mature Savings business in 2020. This complies with current regulatory requirements to recalculate the TMTP every two years, unless there are significant market movements or significant changes in the Company's risk profile triggering an earlier recalculation. The next recalculation on a regulatory basis will be due on 31 December 2021.

Further details on the Company's business and performance can be found in Section A: Business and Performance.

Change in Own Funds

Over the reporting period the Company's Own Funds decreased by £810m to £9,887m (2019: £10,697m). The movement reflects the surplus generated from the books of existing and new business, offset by the dividend payment to Legal & General Insurance Holdings Limited (the Company's immediate parent) and adverse operating and non-operating variances.

A more detailed analysis of the movement in Own Funds can be found in Section E: Capital Management.

Further details on our business and performance can be found in Section A: Business and performance.

OUR GOVERNANCE

The role of the Board of Legal & General Group Plc is to lead the group and oversee the governance of the group. It plays a key role in ensuring that the tone for the group's culture and values is set from the top. The role of management is to deliver the strategy within the framework and standards set by the Group Board.

The separate Board of Legal and General Assurance Society Limited is accountable for the long-term success of the Company by setting the Company's strategic objectives, monitoring performance against those objectives and directly overseeing the business activities undertaken by the Company, whilst operating within the framework and overall strategy defined by the Group Board. The Board of the Company is led by an Independent Non-Executive Director as the Board's chair and comprises three Executive Directors (the Group Chief Executive, the Group Chief Financial Officer and the Chief Executive Officer, Legal & General Retirement Institutional) and three Non-Executive Directors, including the chair.

Risk management framework

Our risk management framework supports informed risk taking by our businesses, setting out those rewarded risks that we are prepared to be exposed to and the risks that we want to avoid, together with risk limits and required standards of internal control to ensure exposures remain within our overall risk appetite.

We deploy a 'three lines of defence' risk governance model. Our operating businesses are our first line of defence, responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with risk policies. Our second line of defence is our risk oversight function under the direction of our Group Chief Risk Officer. The team of risk professionals provides our businesses with expert advice and guidance on risk and capital management, alongside ensuring risk taking remains within acceptable parameters. Our Group Internal Audit function is our third line of defence, providing independent assurance on the effectiveness of business risk management and the overall operation of our risk framework.

Own Risk and Solvency Assessment (ORSA)

Our risk management identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' process, our on-going assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of capital resources to sustain the business strategy over the horizon of the Company's plan. The process considers how the financial and broader business risks to which we are exposed may evolve over the planning cycle.

Further details on our systems of governance can be found in Section B: Systems of governance.

OUR RISK PROFILE

The Company is exposed to a number of risks through the normal course of its business. These risks are primarily:

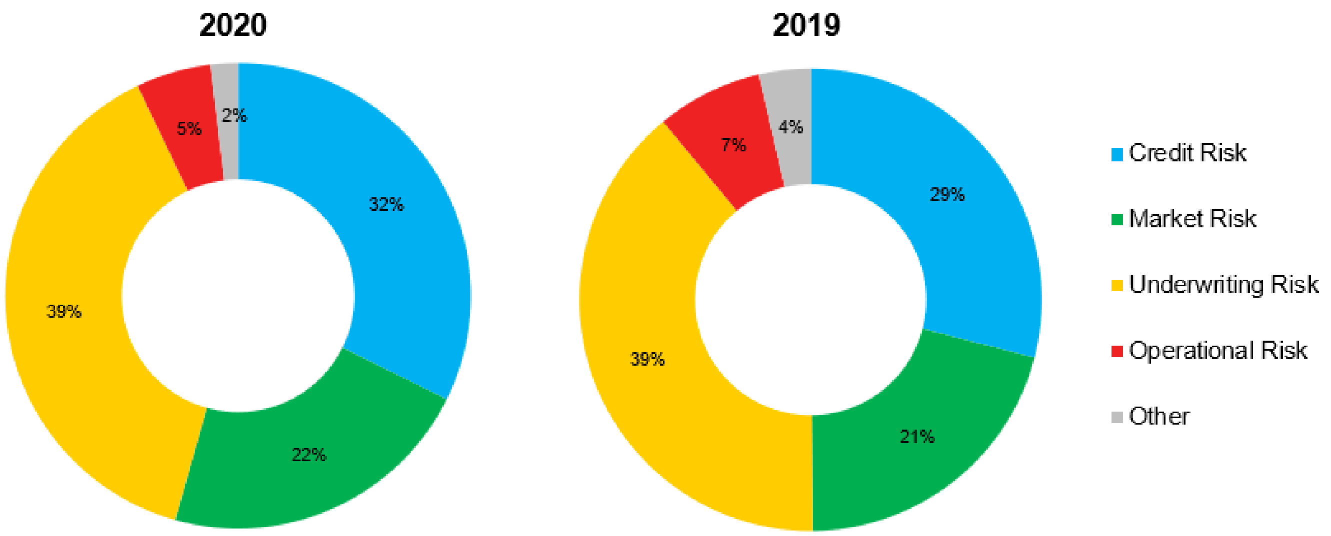
- Longevity, mortality and morbidity risks that are transferred to us by the customers of our pension risk transfer, annuities and protection businesses. The period that customers continue their life insurance protection policies is also important for profitability.
- Investment, credit and counterparty risks from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and liquidity risks from contingent events.
- Operational risks in respect of our business processes and IT systems, as well as broader regulatory and legislative risks that can arise in the environments in which we operate.

OUR RISK-BASED CAPITAL MODEL

We assess, on an on-going basis, the capital that we need to hold above our liabilities to meet the Company's strategic objectives and ensure continued solvency.

Our risk-based capital model seeks to provide a quantitative assessment of the Company's risk exposures. Our model forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our capital model to assess significant transactions, including large pension risk transfer deals. We calibrate our model to ensure that we hold sufficient capital to survive our assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit (including counterparty credit) and underwriting (longevity, mortality & morbidity) risks remain our most significant risks. Market risk, which encompasses equity, property and interest rate risks, is another material risk for which we hold capital. One of the uses of our model is to calculate our regulatory capital requirement. We have chosen to adopt a partial internal model (the Internal Model) approach to calculate the Solvency Capital Requirement (SCR) for all of the material insurance companies in the group, including the Company.

The chart below shows a breakdown of the Company's SCR by major risk type, before diversification, on a regulatory basis.



Further details on our risk profile can be found in Section C: Risk profile. A breakdown of SCR is provided in Annex 1: Quantitative Reporting Templates S.25.02.01.

Valuation for Solvency II purposes

Assets, technical provisions and other liabilities are valued on the Company's Solvency II balance sheet in accordance with Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

As at 31 December 2020, the excess of the Company's assets over its liabilities was £9,887m (2019: £10,697m) on a Solvency II basis, which is £3,005m higher than the value under IFRS. The difference is primarily driven by the overall value of technical provisions being lower on a Solvency II basis.

Technical provisions are calculated as the sum of Best Estimate Liabilities (BEL) plus Risk Margin (RM) less any TMTP. The BEL represents our best estimate of future cash flows on the in-force business as at 31 December 2020, taking into account the time value of money, and is calculated without any deductions for the amounts recoverable from reinsurance contracts. Where the PRA has granted approval for the use of a Matching Adjustment (MA) when calculating the BEL, this has been applied in line with the approved application. Further details can be found in Section D.2 Technical provisions.

The Company has taken advantage of the TMTP, which allows for the recognition of a deduction from technical provisions calculated as the difference between their value under the current and previous Solvency regimes. This transitional measure will apply for sixteen years from 1 January 2016 and the deduction will be fully amortised over that period. The value of the deduction as at 31 December 2020 was £4,228m (2019: £4,321m).

Our capital management

The primary objective of capital management is to optimise the balance between risk and return, whilst maintaining capital in accordance with risk appetite and regulatory requirements.

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's SCR as at 31 December 2020 was £6,687m (2019: £6,567m). The SCR has been calculated in line with the group's approved Internal Model. Further details can be found in Section E.2 Solvency Capital Requirement and Minimum Capital Requirement.

As at 31 December 2020 the Company held £3,200m (2019: £4,130m) of Own Funds in excess of the Company's regulatory solvency requirements, representing a capital coverage ratio of 148% (2019: 163%). This buffer ensures that the Company has resources over and above what would be needed to meet its insurance obligations after a 1-in-200 year event. In line with our risk management approach, we maintained an appropriate capital buffer throughout the year.

The Company's solvency position is set out below, showing the capital coverage ratio on a regulatory basis.

(£m)	2020	2019
Solvency II Own Funds	**9,887**	10,697
Solvency Capital Requirement	**6,687**	6,567
Solvency II Surplus	**3,200**	4,130
Regulatory capital coverage ratio	**148%**	163%

Additional information on the regulatory Solvency II coverage ratio can be found in Section E: Capital management.

ANY OTHER INFORMATION

Covid-19

Covid-19 has resulted in considerable disruption to the global economy, and whilst vaccines and treatments offer hope for a return to economic growth there is potential that certain sectors will be disrupted for an extended period of time. There is also significant short and medium term uncertainty for both interest rates and inflation, and the approaches that central banks may take to stimulate economic growth, including the deployment of negative rates.

We are monitoring the impacts of Covid-19 on the lives we insure and the impacts for longevity and other insurance assumptions. To date Covid-19 mortality is lower than our 1-in-200 pandemic modelling scenario, and although we have experienced adverse mortality in our protection business, we have seen an offsetting effect in our annuities portfolio; however, uncertainty remains. While the availability of vaccines and treatments for Covid-19 are increasing, understanding of virus mutations and the efficacy of vaccines is still evolving. The deferral of non Covid-19 medical treatments may also impact future rates of mortality, and it is too early to assess the effects of 'long Covid' on morbidity.

The impact of Covid-19 related lockdowns on the global economy is highly uncertain, and whilst the roll out of Covid-19 vaccines has seen a resurgence in investment markets from the lows of 2020, they remain highly susceptible to shocks and the re-appraisal of asset values, particularly from actions to control the spread of Covid-19. Associated valuation uncertainty is also likely to persist in commercial property markets for the foreseeable future and interest rates look set to continue at ultra-low or negative levels. The significant deterioration in the global economic outlook in 2020 saw a widening of credit spreads and rating downgrades, particularly in industries directly impacted by global lockdowns including the leisure, transport, travel and retail consumer cyclical sectors, with the UK Sovereign rating also seeing downgrades in response to greatly increased levels of government debt.

As economies emerge from the downturn, there remains risk of further downgrade rating actions and debt defaults as governments withdraw current economic support measures. The effect of Covid-19 on reinsurance counterparties, both from mortality payments and unanticipated business interruption claims, also has potential to impact the ratings of weaker reinsurers, although default generally remains a more remote risk. The impact of economic downturn on businesses combined with increased unemployment potentially may also affect our Group Protection and Workplace Pensions businesses.
Although Covid-19 lockdowns 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 including the increased risk of cyber threats and the potential for on-going disruption from further waves of Covid-19.

The impact of Covid-19 on the company is discussed in Section C.6. Other material risks.

DIRECTORS' CERTIFICATE

Legal and General Assurance Society Limited – financial year ended 31 December 2020

The Directors acknowledge their responsibility for the proper preparation of the Solvency and Financial Condition Report in all material respects in accordance with the PRA rules and Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2020, the firm has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the firm; and

(b) it is reasonable to believe that in respect of the period from 31 December 2020 to the date of the publication of the Solvency and Financial Condition Report, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2021.

Stuart Jeffrey Davies

Group Chief Financial Officer

31 March 2021

Auditors' report

Report of the external independent auditor to the Directors of Legal and General Assurance Society Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by Legal and General Assurance Society Limited as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Legal and General Assurance Society Limited as at 31 December 2020, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S12.01.02, S17.01.02, S22.01.21, S23.01.01, S28.02.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S05.02.01, S.25.02.21.

- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Legal and General Assurance Society Limited as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of Legal and General Assurance Society Limited in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

The Directors have prepared the Solvency and Financial Condition Report on the going concern basis as they do not intend to liquidate the Company or to cease its 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 its ability to continue as a going concern for at least a year from the date of approval of the Solvency and Financial Condition Report ("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, 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 indicated by the Company's financial forecasts.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate; and
- 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.

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, above conclusions are not a guarantee that the Company will continue in operation.

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.
- Considering remuneration incentive schemes and performance targets for management.
- Consulting with professionals with forensic knowledge to assist us in identifying fraud risks based on discussions of the circumstances of the Company.

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, 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 best estimate liabilities and the valuation of harder to value (level 3) investments.

We performed procedures including:

- Evaluating the business purpose of significant unusual transactions.
- 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 SFCR 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 SFCR varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the SFCR including financial reporting legislation (including related companies legislation), PRA Rules and Solvency II regulations, 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 SFCR 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 SFCR, 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 recognizing 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 SFCR, 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 SFCR, 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.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is 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 for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a

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 the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.
A fuller description of our responsibilities is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter
The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements
In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Legal and General Assurance Company Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities
This report of the external auditor is made solely to the Company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.
Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) 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 through its governing body, for our audit, for this report, or for the opinions we have formed.

Salim Tharani

for and on behalf of KPMG LLP

15 Canada Square
Canary Wharf,
London, E15 5GL

31 March 2021

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template S.28.02.01
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

A. Business and Performance

A.1 BUSINESS

A.1.1 COMPANY DETAILS

This report is prepared in respect of Legal and General Assurance Society Limited (the Company) for the financial year ended 31 December 2020.

The Company	Legal and General Assurance Society Limited One Coleman Street London EC2R 5AA
The ultimate parent entity	Legal & General Group Plc One Coleman Street London EC2R 5AA
The supervisory authority responsible for financial supervision	Prudential Regulation Authority 20 Moorgate London EC2R 6DA
The external auditor	KPMG LLP 15 Canada Square London E14 5GL

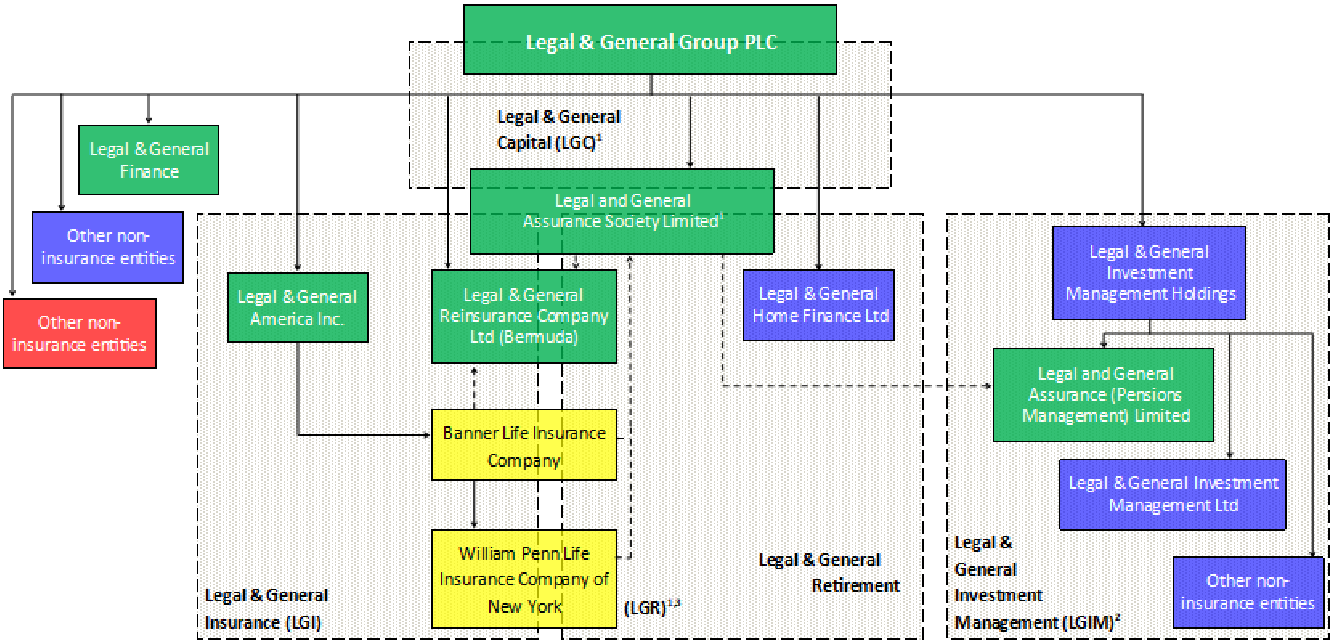
A.1.1.1 QUALIFYING HOLDINGS

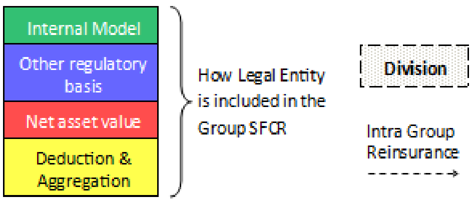
The Company is wholly owned by Legal & General Group Plc (the group) which has its registered office at One Coleman Street London EC2R 5AA.

A.1.1.2 GROUP STRUCTURE

A simplified group structure chart is shown in Diagram 1 below. The chart summarises the relationship between entity and divisional responsibilities (on a forward-looking basis), further details of the principal products written by each division is provided in A.1.2 below. The Company is a principal operating subsidiary of the group and is the regulated entity through which the majority of the group's UK individual and group insurance, pensions and annuities business is executed

Diagram 1: Business division and entity overview





Notes:

1. Legal & General Capital uses pension assets, as well as Group's shareholder capital, to make long-term investments in assets such as future cities, housing and SME finance.
2. Legal & General Investment Management also manages workplace pensions that are written in Legal and General Assurance Society entity. In early 2021, the Workplace Savings business was transferred from LGIM to LGRR.
3. Legal & General Retirement (LGR) includes both Legal & General Retirement Institutional (LGRI) and Legal & General Retirement Retail (LGRR) divisions.

A.1.2 MATERIAL RELATED UNDERTAKINGS

The particulars of the Company's subsidiaries as at 31 December 2020 are listed in Note 37 of the Company's statutory financial statements.

A.1.3 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 is outlined below. The Company seeks to manage its exposure to risk through control techniques which ensure that the residual exposures are within acceptable

tolerances agreed by the Board. The Company's risk appetite framework and the methods used to monitor risk exposures can be found in Section B: Systems of governance and C: Risk profile.
Details of the risks associated with the Company's principal products and the control techniques used to manage these risks can be found in Section C: Risk profile.

A.1.3.1 LEGAL & GENERAL RETIREMENT (LGR)

LGR comprises two businesses, LGR Institutional (LGRI) which transacts pension risk transfer business, including longevity insurance, and LGR Retail (LGRR), which transacts individual retirement business and lifetime mortgages. In early 2021, the Workplace Savings business was transferred from LGIM to LGRR.

Annuities
Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. Immediate and deferred annuity contracts are offered. 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. The income stream from a deferred annuity is delayed until a specified future date. Pension Risk Transfer (PRT) solutions are also offered, where the Company accepts the assets and liabilities of a company pension scheme or a life fund, predominantly for UK clients, but also for Irish clients.

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 has written in both 2019 and 2020 an Assured Payment Policy (APP) which 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.

The Company has also written some deferred annuity contracts with guaranteed minimum pensions. These options expose the Company to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity.

Longevity insurance contracts
The Company 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. The value of these guarantees 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. All Lifetime Mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

Lifetime mortgages are written in Legal & General Home Finance Limited, a subsidiary of the group. However, the Company acquires the mortgages to hold as assets backing the annuities book. The risk associated with such assets is detailed in Section C: Risk Profile.

The Company also offers Retirement Interest Only (RIO) mortgages, 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 borrower only has to prove that 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.

The product is written in Legal & General Home Finance Limited, and is then acquired by the Company.

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.

A.1.3.2 LEGAL & GENERAL INSURANCE (LGI)

The LGI business comprises UK retail and group protection business, as well as reinsurance of protection and universal life business written in the US.

UK protection business (retail and group)
The Company offers protection products which provide mortality or morbidity benefits. These 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.

Intragroup reinsurance arrangements
The Company accepts reinsurance from Banner Life Insurance Company and William Penn Life Insurance Company of New York, fellow group subsidiaries.

The reinsurance covers both individual term assurance which provides death benefits, and universal life contracts which provide savings and death benefits.

A.1.3.3 WORKPLACE SAVINGS

Following the sale of its Mature Savings business as disclosed in Section A.1.4, the Company's future involvement in savings product areas will be solely through Workplace Savings. In early 2021, the Workplace Savings business was transferred from LGIM to LGRR.

Workplace savings are a range of workplace pension solutions, focusing on the UK auto enrolment market. These schemes offer a wide choice of investment options, including a self-investment option.

A.1.4 SIGNIFICANT BUSINESS OR OTHER EVENTS

Mature savings

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 are reflected in both Own Funds and SCR.

A.2 UNDERWRITING PERFORMANCE

We consider operating profit to be an appropriate measure of the Company's underwriting performance. This is the key metric used to manage our business.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items and includes expected investment return. Operating profit therefore reflects longer-term economic assumptions and changes in insurance risks such as mortality and longevity for the Company's insurance business and shareholder funds.

The Company's operating profit is presented in the following sections. Information on premiums, claims and changes in technical provisions, which can be considered as key elements of underwriting performance, is presented by Solvency II line of business in QRT S.05.01 in Annex 1 of this report.

Over 90% of the business written by the Company is within the UK.

(£m)	2020	2019
Retirement (LGRI & LGRR)	**1,304**	1,044
Capital (LGC)	**185**	169
Insurance (LGI)	**108**	144
Savings*	**23**	58
Operating profit from divisions	**1,620**	1,415

* Includes Mature Savings classified as discontinued operations. The legal transfer of the Mature Savings business has completed in September 2020.

The Company's Mature Savings business has been classified as discontinued operations in the Company's statutory financial statements as at 31 December 2020.

A.2.1.1 RETIREMENT (LGRI, LGRR)

This is dominated by LGR, which delivered a 25% increase in operating profit to £1,304m (2019: £1,044m). The reliable performance of the growing annuity portfolio and resilient PRT new business volumes made this possible.

2020 was another successful year for PRT, having written £7.6bn of premiums (2019: £10.3bn) demonstrating an agile and efficient operating model. The decrease in premiums compared to the prior year was mainly due to 2019 including the record-breaking partial buyout PRT deal with the Rolls-Royce Pension Fund.

Individual annuity sales were down 6% to £910m in 2020 (2019: £970m), reflecting Covid-19 impacts on new business volumes, particularly transaction frictions in the immediate aftermath of the UK lockdown. Lifetime mortgage advances were down 18% to £791m (2019: £965m), again reflecting Covid-19 impacts on new business volumes, as well as the broader competitive environment.

A.2.1.2 CAPITAL (LGC)

The Company's shareholder capital is used to make long-term investments. The Company's direct shareholder investment business aims to increase the risk adjusted returns on the Company's shareholder assets and is continuing to invest in lower volatility, higher returning Alternative Investments. The traded portfolio was particularly adversely impacted by the initial market reaction to the Covid-19 Pandemic, but recovered to deliver profit before tax of c.£104m. Within the traded portfolio, investments continued to be made in investments that would improve the carbon footprint of the portfolio in line with the Group's Task Force on Climate Related Financial Disclosures (TCFD) commitments.

A.2.1.3 INSURANCE (LGI)

The Company's insurance business helps people safeguard their families' financial future by providing insurance covering life, long-term sickness and critical illness and disability, with a strategic aim to build on its current strong position through becoming truly digitally enabled.

In 2020, UK Retail Protection gross premium income increased to £1,374m (2019: £1,327m) with new business annual premiums of £175m (2019: £174m). This level of premium was achieved despite the interruption from Covid-19 for a number of our distribution partners, particularly those that depend on the mortgage market or in-person advice. Market share increased to 27% in Q3 2020 (up from 21% a year earlier)[1]. Legal & General remains the leading provider of retail protection in the UK, delivering a point of sale decision for more than 80% of our customers. An innovative approach helped grow market share, for instance further enhancements to the Income Protection Benefit attracted new customers in 2020. These factors added resilience to sales during the turbulence following the emergence of COVID-19 and positioned Legal & General well as the Retail Protection market recovered in the second half of the year.

UK Group Protection gross written premiums increased by 11% to £382m (2019: £345m) with new business annual premiums of £117m (2019: £76m). The combination of more refined pricing attracting a wider range of both scheme size and activity, improved customer service, and dealing with a wider range of advisers in the Group Protection market, enabled market share gains and growing new business premiums.

A.2.1.4 SAVINGS

Workplace Savings business assets under administration (AUA) increased to £50.8bn (2019: £40.3bn), looking after pensions of four million members. Many significant schemes continued to be on-boarded from major employers during the year, with the Master Trust and Bundled Trust remaining the most popular choices, including the on-boarding of two large consultancy Own Trust schemes.

The overall Workplace Savings AUA grew by 26% on the back of new wins and strong flows and is also reflective of markets picking up during the last few months of 2020, following the impact of Covid-19. Workplace Pensions has one of the fastest growing and largest Master Trusts with AUA increasing to £12.5bn in 2020 from £8.9bn in 2019, accounting for 21% share of the Master Trust market.

[1] Source: ABI Statistics

With the sale of its Mature Savings business, the Company's future growth in savings product areas will be through Workplace Savings. This business was transferred to LGRR at the beginning of 2021.

A.3 INVESTMENT PERFORMANCE

The Company earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders and as shareholder funds.
Policyholder assets are invested in line with the fund choices made by unit-linked policyholders and the investment risk is borne by the policyholder. The Company's shareholder exposure to these assets arises from the fact that some of the income received is a proportion of the assets under management.

The total investment return for the Company, including discontinued operations, over 2020 was £6,130m (2019: £9,940m).

The total investment return includes the expected investment return included in the IFRS operating profit and the variance between the actual and expected investment performance. As such, there is some element of duplication with the underwriting performance reported in A.2 Underwriting performance, above.
Financial investment return includes fair value gains and losses, dividends and interest. Net gains/(losses) (excluding interest and dividend income) of £3,154m (2019: £6,873m) arose on financial investments designated as fair value through profit or loss and £85m (2019: £110m) arose on derivative contracts classified as held for trading. Investment income of £5m (2019: £6m) arose on loans and receivables.

Property investment return includes £46m (2019: £75m) of rental income excluding investment income from property partnerships.

Investment return relating to funds withheld payable to other group companies is recognised as an expense and reported within finance costs. Total finance income over 2020 was £nil (2019: £19m).

A.3.1 INVESTMENT INCOME AND EXPENSES

The table below presents the actual investment income and expenses (including discontinued operations) split by Solvency II asset class:

As at 31 December (£m)	**Income 2020**	**Gains and losses 2020**	Income 2019	Gains and losses 2019
Debt Securities	**2,059**	**3,114**	1,861	4,372
Equity	**118**	**8**	197	644
Derivatives	-	**401**	-	(11)
Other assets	**301**	**1,045**	265	9
Assets held for index-linked and unit-linked contracts	**259**	**(1,175)**	537	2,066
Total	**2,737**	**3,393**	2,860	7,080

All investment gains and losses are recognised in the income statement. There are no amounts recognised directly in equity.

A.3.2 INVESTMENTS IN SECURITISATION

The Company holds securitisations with a market value of £817m as at 31 December 2020 (2019: £947m), of which £NIL (2019: £35m) is held for index-linked and unit-linked contracts.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 OPERATIONAL INCOME

Operational income of £300m (2019: £412m) includes rebates of unit trust management fees received from Legal and General Investment Management Limited and gain on disposal of the mature savings business.

A.4.2 OTHER EXPENSES

Other expenses of £562m (2019: £849m) comprise administrative expenses, management fees payable, corporate expenses and other charges. In 2019, £281m was recognised within other expenses in relation to the sale of General Insurance referred to in section A1.3.3.

The Company leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. None of the leases are considered material.

The Company does not hold any material finance leases.

A.5 ANY OTHER INFORMATION

As announced in December 2017, the Company's Mature Savings business is being sold to ReAssure Limited and has been classified as held for sale and discontinued operations in the Company's financial statements. The transfer date of the business was the 6th September 2020. Total profit after tax of discontinued operations as disclosed in these financial statements is £292m (2019: £28m).

B. System of Governance

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 THE STRUCTURE OF THE BOARD

The Company's Board is accountable for the long-term success of the Company by setting the Company's strategic objectives within the overall strategy defined by the Group Board and by monitoring performance against those objectives. The Board is led by an Independent Non-Executive Director as the Board's Chair, and as at 31 December 2020 comprised three Executive Directors (the Group Chief Executive, the Group Chief Financial Officer and the Chief Executive Officer, Legal & General Retirement Institutional) and three Non-Executive Directors, including the chair. The day-to-day management of the Company is led by the Group Chief Executive. The Group Chief Risk Officer (who is also the Company's Chief Risk Officer) and the Company's Chief Actuary are standing attendees.

The Company's Board meets formally on a regular basis. At each Board meeting the Group Chief Financial Officer provides the Board with an update on the underlying business performance of each of the business divisions as part of the presentation of the monthly board management information report. Each of the Divisional Managing Directors (MD)/Chief Executive Officers (CEO) is invited on a cyclical basis to give the Company's Board a more in-depth presentation on their Division's underlying performance. On a regular basis the Board receives formal reports from the Group Chief Risk Officer and Group Internal Audit on Risk and Compliance issues impacting the Company.

The Company operates within a clearly defined delegated authority framework. The delegated authority framework ensures that there is an appropriate level of Board contribution to and oversight of key decisions and that the day-to-day business is managed effectively.

The Company's ongoing activities are managed across divisions of the Legal & General Group: Legal & General Retirement Institutional; Legal & General Retirement Retail (which manages Workplace Pensions business from early 2021); Legal & General Insurance; Legal & General Investment Management; and Legal & General Capital (which manages the shareholder funds of the Company). The company's legacy life and pensions products administered by the L&G Savings division was transferred to Reassure on 7 September 2020 by Part VII transfer.

B.1.2 DELEGATED AUTHORITIES

The Board delegated authority framework consists of a clearly defined schedule of matters reserved for the Company's Board. The types of matters reserved for the Board include, amongst other things, matters relating to the Company's strategic plan, material transactions, risk appetite, and oversight of systems of internal control and corporate governance policies. Those matters which are not reserved are delegated by the Board to the Group Chief Executive, who then onward delegates decision making to the Group Capital Committee, an executive decision making forum, and his direct reports. The Board is supported on matters relating to audit, risk and remuneration by the Company's audit committee and group level committees.

All delegated authorities have been reviewed and approved by both the Group Capital Committee and the Company's Board.

Matters delegated to LGAS Audit Committee are as follows:

- to review the effectiveness of the Company's systems of Internal Control,
- to review the Company's statutory 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.

Matters delegated to Group level Committees (Committees of the Legal & General Group Plc Board) are as follows:

- **Group Risk Committee (GRC):** The purpose of the Committee is to assist the Board in the oversight of the risks to which the group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures of the group. This includes reviewing the group's risk appetite and risk profile, and assessing the effectiveness of the group's risk management framework.
- **Group Remuneration Committee:** Responsible for determining and approving the framework of the remuneration policy for the group and its subsidiaries and specifically to manage executive director remuneration and the remuneration of other designated senior managers, including those undertaking business activities on behalf of the Company.

The Group Chief Executive delegates day-to-day operations and decision making in the following way:

- to the Group Capital Committee which has a group-wide remit and joint decision-making responsibility in relation to certain capital allocation decisions for new product lines, large transactions and capital investments, and other material group-wide capital management and allocation matters that may arise; and
- to individuals, being the Group CEO's direct reports and divisional MDs/ CEOs.

Each of the divisional MDs/ CEOs then onward delegates to their direct reports the matters for which they have decision-making responsibility in relation to their area.

Each individual's schedule of delegated authorities operates in conjunction with their job description and relevant Risk and Capital Mandate. The Risk and Capital Mandates set the parameters of acceptable risk-taking as regards the Company's core product lines and investment risk.

During the year the Company has the following committees in place to assist the Board in the management of the Company's Savings and Workplace Pensions businesses:

- **Independent Governance Committee (IGC)**: The IGC is chaired by an Independent Chairman and is comprised of a majority of independent members, who have been appointed because of their significant pension's industry experience. The IGC provides oversight of the Workplace Pension products specifically to assess the on-going value for money for relevant policyholders delivered by these Registered Pension Schemes.

  The IGC meet six times per annum. The IGC produces an annual report to the Company Board which is presented by the IGC's Chairman. The minutes of the IGC together with a summary of the key points discussed at the meeting are provided to the Board.
- **The Fund Risk Oversight Committee (FROC):** The FROC meets quarterly and is chaired by the Product Strategy & Proposition Manager (L&G Retirement Solutions). The FROC provides oversight of the development, management and operation of Unit-Linked Pension funds which are accessible through LGAS Workplace Pension products. The Chief Actuary and Head of DC, who are also key function holders of LGAS, are members of the committee. A FROC update is presented to the Board on a half yearly basis.

To provide the Company Board with the appropriate assurances that the Committees are discharging their responsibilities effectively as delegated to them by the Board, the Board receives the minutes of meetings of these Committees in the Board papers for noting.

The Company's business divisions are supported by the Group Risk, Legal, Finance, HR, IT and Procurement and Internal Audit Functions.

The diagram in Annex 2 illustrates the Company's governance framework.

B.1.3 SUBSIDIARY INSURANCE COMPANY GOVERNANCE

The Company, which is a principal operating subsidiary of the group, is the regulated entity through which the vast majority of the group's individual and group insurance, pensions and annuities business is executed. The Board of the Company reports into the Group Board and the minutes of the Company Board meetings are submitted to the Group Board following each meeting.

B.1.4 REMUNERATION POLICY AND PRACTICES

B.1.4.1 PRINCIPLES OF THE REMUNERATION POLICY

The group's remuneration policy is consistent across the group including the Company and, in line with our remuneration principles, it is designed to reward, motivate and retain high performers in line with the risk appetite of the group. The group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans.

A summary of the remuneration structure for employees is shown below.

Base salary	The group aims to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • the nature, size and scope of the role; • the knowledge, skills and experience of the individual; • individual and overall business performance; • pay and conditions elsewhere in the group; and • appropriate external market data. Salary levels for all employees are reviewed on an annual basis taking into account the above factors. However, this does not mean there is an annual increase for all employees.
Annual variable pay	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on the role. An employee will be considered for a discretionary bonus award based on performance over a one-year period, covering achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. Variable pay awards are set to ensure an appropriate balance between fixed and variable pay, and are designed to reward performance at the individual, business division, and overall group levels.

Performance Share Plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving group performance, as well as their individual contribution. Participation in the plan for one year does not guarantee participation in future years. Where appropriate, grants under the PSP may also be made for new employees who join the group during the year in key roles.
Other share plans and long-term incentives	The group operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in some cases and also allows for a limited number of awards of shares to high-potential individuals and those with critical skills.
Benefits	All UK employees have access to private medical insurance as well as life insurance and income protection and family friendly policies (maternity, paternity, adoption and shared parental leave).
Employee share plans	All employees are given the opportunity to participate in a Sharesave plan and an Employee Share Purchase plan. These are both HMRC approved plans which offer all UK employees the opportunity to share in the success of the business.

Further details on the remuneration policy can be found in the Directors' Remuneration Report of the Legal and General Group Plc Annual Report and Accounts.

B.1.4.2 PERFORMANCE CRITERIA FOR REMUNERATION

Annual incentives are designed to reward financial and non-financial performance that supports the business strategy, taking into account the group's risk appetite and personal contribution in the business context that it was delivered. Targets are specific, measurable, set at the beginning of the year and communicated to employees.

For Code Staff[2] in the control functions (Internal Audit, Regulatory Compliance and Risk), separate performance measures have been designed which exclude any direct linkage to financial performance.

Individual performance assessment is supported by a structured performance management framework. In reviewing an individual's performance against their objectives, the individual's approach to risk management (including environmental, social or governance risks) is considered when determining the overall level of bonus pay out. The bonus policy allows for zero bonus payments to be made when appropriate.

Deferred bonus

Under the group-wide deferral arrangements a significant proportion of the annual bonus for senior employees is deferred into group shares over a three-year period. The purpose of the deferral plan is to promote the sustainable long-term performance of the group and to align the interests of our senior management with our shareholders.

Deferred awards for senior employees may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect or in the event of personal misconduct. Annual incentive awards (including any deferred element) are subject to malus and clawback for material risk takers.

[2] Code Staff is a category of role defined under various applicable European Directives (CRDIII & IV, AIFMD, UCITS V, and Solvency II). The name is taken from the FCA's Remuneration Code that interprets and applies these Directives for the UK. Broadly, Code Staff includes roles that are considered to have the authority to take risks that could directly, or indirectly, affect one or more firms within the group and its investors.

Long-term incentives

The group provides long-term incentives which link reward with the long-term success and growth in value of Legal & General. Long-term incentive awards for most group staff are conditional on the satisfaction of total shareholder return (TSR), and financial performance conditions which clearly aligns reward to the interests of shareholders and provides a degree of risk management (TSR reflects both underlying financial performance and the market's assessment of the quality and sustainability of those earnings). Since 2018, financial performance has been assessed based on growth in earnings per share. In addition, there is an assessment of the overall Solvency II performance.

The group Remuneration Committee may exercise its discretion to scale back the vesting of awards if it was felt that the group's financial performance did not justify the level of vesting (the Committee may not increase the award). The parameters which the Committee uses in making this assessment include market share, partnerships entered into and maintained, cost constraint, capital management, risk and shareholder perception.

Awards under the group long-term incentive plan are subject to malus and clawback provisions.

B.1.4.3 SUPPLEMENTARY PENSION OR EARLY RETIREMENT SCHEMES

All employees in the UK have the opportunity to participate in a defined contribution pension plan, or receive a cash allowance in lieu of pension, or receive a combination thereof.

There are no supplementary or early retirement schemes.

B.1.5 MATERIAL TRANSACTIONS

There were no material transactions between key management personnel and the Legal & General group of companies during the period. All transactions between the group and its key management personnel are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £105m (2019: £66m) for all employees acting on behalf of the Company.

At 31 December 2020 there were no loans outstanding to officers of the Company.

B.1.6 SOLVENCY II KEY FUNCTIONS

The Solvency II key functions within the group's overall system of governance are the Risk Management and Solvency II Compliance functions led by the Group Chief Risk Officer; the Internal Audit function led by the Group Chief Internal Auditor; and the Group Actuarial Function, led by the Group Chief Actuary. The activities of the Risk Management and Solvency II Compliance functions are mandated by the Group Board Risk Committee (GRC). The Group Board Audit Committee establish the role of the Group Internal Audit function through a formal Audit Charter. The overall resourcing and effectiveness of the Risk Management, Solvency II Compliance, and Actuarial functions are assessed through a combination of Internal Audit review activity and by the governance forums to which the functions report. The effectiveness of the Internal Audit function is considered by the Group Board Audit Committee which may periodically seek independent external assurance.

Further information, which describes how these functions are executed within the Company, is disclosed in Section B.5 (Internal Audit) and Section B.6 (Actuarial Function).

Risk management
The Group Chief Risk Officer (Group CRO) leads the Risk Management function, including the Solvency II Compliance function. The Group CRO reports functionally to the Chair of the GRC. Administratively, the Group CRO reports to the Group Chief Executive Officer. The Risk Management function is aligned to the divisional structure, with each division having their own risk management functions. The Group CRO has been appointed as the Chief Risk Officer (CRO) for the Company.

The Group CRO is:

- Independent of the business line, with an independent reporting line to the Chair of the GRC;
- A provider of objective advice and guidance, oversight and challenge for all of the Company's risks; and
- Involved, where appropriate, in all material decisions to influence and provide objective challenge (e.g. products, pricing, projects, strategy, etc.).

The Group CRO has a right to be heard in the setting of business strategy, product approval and capital planning activities, and may request revision to business proposals that may otherwise result in the group operating outside agreed risk appetite. The Group CRO has authority to set and further refine risk limits within the parameters of the risk appetite agreed by the GRC. The Group CRO has the right of escalation to the GRC on any appropriate matters as they see fit.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 APPLICATION OF THE POLICY

The group has in place a fit and proper policy, the purpose of which is to set out the procedures required by regulated firms within the group to assess the fitness and propriety of individuals who run these undertakings or who hold other key functions in them.

B.2.2 KEY REQUIREMENTS

In summary the policy requires that each insurance regulated entity, including the Company, shall establish, implement and maintain documented policies and adequate procedures to ensure that all persons who are responsible for running the entity or who are responsible for other key functions are at all times fit and proper.

The assessment of fitness and propriety covers the following factors:

- honesty, integrity and reputation;
- competence and capability; and
- financial soundness.

B.2.2.1 LEGAL & GENERAL ASSESSMENT PROCEDURES

In support of the group policy, defined processes are in place to ensure that the fitness and propriety of applicants is carefully considered before an application to the regulators to grant approval is submitted. An assessment will also be made before a notification is made to the regulators in relation to the appointment of a key function holder.

The group will not support an application for approval or a notification if it is believed that the candidate fails to meet any element of the fit and proper test.

Each application will be looked at on its own merits, on a case-by-case basis, but the following principle generally applies to all applications:

- has the candidate been open and honest with Legal & General and disclosed all relevant matters?

If the candidate has disclosed any incidents pertaining to their fitness and propriety, the following will be considered:

- the seriousness of the issue and the relevance to the specific role applied for;
- the passage of time since the incident occurred; and
- whether the issue relates to an isolated incident or whether there is a pattern of adverse behaviour.

Fit and proper assessment criteria have been developed and each application will be considered against these criteria, regardless of the current approved status of the individual.

The criteria are:

- knowledge – does the individual have generic knowledge of the industry sector and specific knowledge of the firm;
- qualifications – does the individual have prerequisite or supporting relevant qualifications;
- skills – does the individual demonstrate the appropriate level of business and interpersonal skills;
- behaviour – does the individual demonstrate the appropriate attitudes and standards of ethical behaviour; and
- expertise – does the individual achieve positive and fair outcomes and meet performance standards expected of the post.

The assessment criteria are also relevant in assessing the continuing fitness and propriety of approved persons.

B.2.2.2 MAINTAINING FITNESS AND PROPRIETY

From time to time, individuals will be required to certify that there has been no change to the information provided at the point of approval and consequently, the fitness and propriety status is unchanged.

The group's Policies and Procedures place an obligation on approved persons to notify the Group Conduct Risk and HR Director in the event of any pending or actual criminal, civil or other disciplinary charges, judgements, petitions for bankruptcy, or other actions or disciplinary measures whatsoever, against them or any entity, body or other entity with which he/she is, or has been associated.

Should such a notification occur, the group will assess the information to decide whether the individual remains fit and proper. If the assessment ultimately concludes that the individual can no longer remain as an approved person, a notification will be made to the regulators in line with the regulatory requirements.

The group's performance management process is the primary mechanism for tracking ongoing competency and the group will take appropriate steps to monitor an individual's financial soundness on an ongoing basis.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 RISK MANAGEMENT SYSTEM

Legal & General deploys a 'three lines of defence' risk governance model, whereby:

- business divisions are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with our risk policies;
- risk functions led by the Group Chief Risk Officer (Group CRO), who also acts as the Company CRO, provide objective challenge and guidance on risk matters; and
- Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

Understanding the risks that we may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business. We seek to deeply embed the necessary capabilities to assess and price for those risks that we believe offer sustainable returns within each of our operating businesses; as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes. Our risk management framework supports informed risk taking by our businesses, setting out those rewarded risks for which we accept exposure; and the risks that we want to avoid; together with risk limits and standards of internal control to ensure exposures remain within our overall risk appetite.

B.3.1.1 RISK APPETITE

The Company's risk appetite statement sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking. The GRC leads an annual review of the group's risk appetite, assessing the continued appropriateness of our key measures and tolerances relative to the risk exposures of the group. Additionally, as part of the annual planning cycle, assessment is made of the level of risk-taking proposed in the group plan and the capacity for risk-taking within the overall appetite framework.

The Company's risk appetite is approved by the Company's Board. The Company's risk appetite is set with regard to, but not limited by, the Group Board. The regular management information received by the Group Board and GRC includes the Company's risk appetite dashboard setting out actual positions relative to the key targets and limits set in our risk appetite.

B.3.1.2 RISK TAKING AUTHORITIES

The parameters of acceptable risk taking defined within the Company's risk appetite are cascaded to business managers through 'Risk and Capital Mandates', empowering managers to make decisions that are consistent with the group's appetite for risk.

Mandates articulate the product types and features that may be written; the asset classes that may be held; the target capital positions and ranges of earnings volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in a business operating outside agreed parameters require formal approval.

In conjunction with the Divisional Chief Risk Officers and the Group Chief Risk Officer, the Managing Directors have developed, and the Company Board has approved, the risk appetites for the divisions within the overall group risk appetite and specifically the risk appetite of the Company.

B.3.1.3 RISK POLICIES

Risk control

We set formal policies for the management of market, insurance, credit, liquidity and operational risks. The policies specify our overall strategies for ensuring each risk type is managed in line with our risk appetite and the minimum control standards that should be applied in managing our significant risk exposures.

Risk mitigation

We deploy a range of risk management techniques to manage and mitigate risks, so as to control risk exposures in line with our risk limits. For example, we use derivative instruments to hedge unrewarded risks as part of our asset liability management activity, and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures. Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our liabilities, guarantees and other embedded options given to policyholders.

B.3.1.4 RISK IDENTIFICATION AND ASSESSMENT

Review process

We operate a risk identification and assessment process under which all our businesses regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in our products as well as those that are presented from changes in the environments that we operate in.

Own Risk and Solvency Assessment (ORSA)

Our risk identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' process, our ongoing assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Company plan.

B.3.1.5 RISK MANAGEMENT INFORMATION

Our risk management information framework is structured to support the review of ongoing and emerging risks and assess actual risk positions relative to the risk limits and targets that we set.

B.3.1.6 RISK OVERSIGHT

The Group CRO, who is independent of the business line, supports the Group Board, its Risk Committee and the Company board, in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. This includes ongoing assessment of the Company's capital requirements to confirm that they meet regulatory solvency requirements.

The Group CRO also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with the Company's overall risk appetite.

B.3.1.7 RISK COMMITTEES

The Company operates within the group's Risk Management framework. The Company's Board has ultimate responsibility for ensuring that the group's Risk Management framework is appropriate for the Company. The Group Board's Risk Committee supported by the Group CRO, serves as the focal point for risk management activities. Details of the operation of the GRC are set out in the Legal & General Group Plc Annual Report and Accounts.

Beneath the GRC is a structure of formal risk oversight committees providing more focused review and challenge of specific risks to the group, and reviewing the effectiveness of frameworks in place to manage those risks.

The Company's Board:

- Owns the overall Risk Management Framework of the company;
- Owns the Company's risk appetite statements; and
- Is the ultimate owner of the Company's regulatory responsibilities.

The GRC ensures the effectiveness of the overall risk management system and recommends to the Group Board material changes in risk appetite.

The Executive Directors are accountable for:

- The implementation and operation of the risk management system;
- Identifying, measuring, managing, monitoring and reporting risks within the business;
- Ensuring all business decisions are informed by risk-based measures by reference to the agreed risk appetite statements wherever appropriate; and
- Ensuring appropriate risk taking and risk assurance resources are in place.

The Group CRO leads the risk management function which provides the second line of defence across the group. Group Internal Audit provides the third line of defence across the group. It provides assurance to the Group Audit Committee, Executive Directors and risk management function that the design and operation of the risk management system is appropriate for all risk types.

B.3.1.8 INTEGRATION OF RISK MANAGEMENT INTO THE DECISION MAKING PROCESS

Understanding the risks that the Company may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business.

The Company seeks to deeply embed the necessary capabilities to assess and price for those risks that it believes offer sustainable returns within each of its divisions, as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes.

Our Risk Management framework supports informed risk taking by our businesses, setting out those rewarded risks that we are prepared to be exposed to, and the risks that we want to avoid, together with risk limits and standards of internal control to ensure exposures remain within our overall risk appetite.

B.3.2 OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

The purposes of the Own Risk and Solvency Assessment (ORSA) are to assess our risks and to evaluate whether we have sufficient financial resources to sustain the business strategy over the plan horizon across a range of scenarios. The group ORSA process covers each Solvency II regulated insurer and the group as a whole, including non-EU entities and non-insurance entities.

The ORSA process brings together, and is integrated with, our risk and capital management processes by which we identify, assess, monitor and measure our risks, review our business against risk appetite and tolerances, and project the solvency position over the business plan.

The ORSA cycle is aligned with the strategic and business planning process so that the key elements can interact and inform forward-looking decision-making.

Both the group and the Company Boards are active in the ORSA and risk and capital management processes during the year. The ORSA policy was last reviewed by the GRC and the Company Board in July 2020. The last ORSA report was approved, on behalf of the Group Board, by the GRC and by the Company Board in March 2021.

Integration of group and subsidiary ORSA processes

The group is managed on a divisional basis. As such, ORSA (i.e. risk and capital management) responsibilities follow the group's divisional management structure. Regular ORSA processes are aligned with the strategic and business planning process, with various group functions coordinating and/or aggregating and divisions providing key ORSA inputs in line with the planning timetable. In line with previous ORSAs and our PRA waiver, the group and LGAS ORSA report is a single document. This reflects the involvement of LGAS in most of the group's businesses.

The core stages to the ORSA process are as follows:

- Q1: review ORSA framework and policy along with lessons learned and feedback from the GRC and Company Board from the previous ORSA cycle
- Q2: stress and scenario tests determined and recommended in order to provide divisions with sufficient time to model the results of those tests
- Q3: projections of capital requirements (as part of the annual planning process); stress and scenario testing results inform the review of the plan
- Q4: formal ORSA reporting, including the CRO's review of the Plan and ORSA report

Throughout the year, both the group and the Company monitor performance against the current plan as well as monitoring risk and capital management information (MI).

B.3.3 GOVERNANCE OF THE INTERNAL MODEL

The Group Board is ultimately responsible for ensuring the continued appropriateness of the design and operation of the group's partial internal model (the Internal Model). This responsibility is discharged through the GRC, whilst the Group Internal Model Committee (GIMC) oversees Internal Model activities. The Company's Board is responsible for ensuring the continued appropriateness of the design and operation of the Internal Model for the Company.

The overall appropriateness and effectiveness of the Internal Model depends upon the effective operation of the group's established internal control system.

First line business management are responsible for implementing adequate and effective controls over the Internal Model as well as the group's material product risk exposures, with the on-going application and effectiveness of these overseen by second line group and divisional risk teams and by Group Internal Audit in the third line of defence. Material concerns are escalated to operational and senior management for resolution. The status of remediation activity is monitored by Group and divisional risk teams, with significant issues escalated to the GIMC and where necessary to the GRC.

This approach has ensured the implementation of adequate controls over the on-going appropriateness of the design and operation of the Internal Model, and these controls are subject to effective governance and oversight. The Group Internal Model Governance Policy sets out the governance framework in place for the group's internal model designed to mitigate model risk. This complements the group's existing system of governance, highlighting specific requirements in respect of the Internal Model to ensure that it operates properly on a continuous basis, including ensuring that controls relating to the Internal Model are implemented in accordance with the Group Internal Control Policy and are adequate and effective at all times.

The Internal Model governance framework is outlined in the table below:

Board/Committee	Responsibilities
Group Board	Ensuring the ongoing appropriateness of the design and operation of the Internal Model. This responsibility is discharged through the GRC, subject to certain matters being reserved for its direct attention.
Legal entity boards	Ensuring the ongoing appropriateness of the design and operation of their parts of the Internal Model; use and challenge of the model in decision-making; ensuring that the model's scope remains appropriate; and ensuring that appropriate validation is performed.
Group Risk Committee (GRC)	Monitoring the performance and appropriateness of the Internal Model, including ensuring that related controls are adequate, effective, and implemented in line with the group's Internal Control Policy.
Group Internal Model Committee (GIMC)	Primarily, the GRC discharges these responsibilities through acting on the receipt of recommendations, analysis and reports from the Group CRO and the GIMC.

B.3.3.1 INTERNAL MODEL CONTROLS

The first line business divisions are responsible for operating a robust control framework to manage exposures and mitigate unacceptable outcomes (per the group's risk appetite). This includes the implementation of controls to mitigate key risks associated with the processes that they are responsible for, and to ensure that these are regularly reviewed and remain fit for purpose. Day-to-day responsibility for ensuring that internal controls are in place and are operating effectively over Internal Model related processes is delegated to Internal Model Controllers (IMCs). IMCs provide first line management coverage of the Internal Model across all relevant legal entities and business divisions. Key responsibilities include ensuring compliance of their area with the requirements of the Group Internal Model Governance Policy and the Group Internal Control Policy.

Oversight of the internal control system is provided by the group and divisional risk teams.

B.3.3.1.1 CHANGES OVER THE REPORTING PERIOD

There have been no significant changes in respect of Internal Model governance over the reporting period.

B.3.3.1.2 INTERNAL MODEL VALIDATION

The group's validation policy and associated standards define the group's validation framework, and capture the requirements of the PRA Rulebook and relevant EU regulations. The framework requires an annual validation cycle for the group's partial internal model (the Internal Model). This has been performed in relation to the production of the SCR as at 31 December 2020. The objective is to produce a robust, proportionate and demonstrably complete approach to validation overseen by the Group Chief Risk Officer.

There is an annual assessment of which aspects of the Internal Model must be independently validated. Independent validation is carried out mainly by the second line, sometimes by a first line team from a different business division, or sometimes by an external party. Independent validators must demonstrate how independence is met and state any limitations on independence.

Requirements for each annual cycle are specified in the Validation Terms of Reference. Respective validators outline approach, activities, tools and aspects of the model in Validation Work Programmes. The results, conclusions and consequences including remediation are detailed in independent validation reports or validation reports prepared by the first line. These are presented to GIMC for approval.

B.3.3.1.3 VALIDATION ACTIVITY

Internal Model validation activity for the reporting period covered the whole of the Internal Model. The level of validation undertaken was consistent with the level of risk incurred. Independent validation was performed on those areas identified as most material to the Internal Model's operation and results. The outputs are validation reports, highlighting key findings, strengths, weaknesses, limitations and remediation actions.

B.4 INTERNAL CONTROL SYSTEM

The group's internal control policy requires that each division's internal control system shall at least include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking, and a compliance function.

The group's internal control framework seeks to ensure that:

- an organisational structure is defined, with clarity of roles, responsibilities and reporting lines;
- appropriate management information and reporting processes are defined;
- frameworks for decision making (including the delegation of authority) are articulated;
- clear segregation of duties is in place;
- conflicts of interest are managed;
- administrative and accounting procedures are aligned with group requirements;
- personnel have sufficient skills, knowledge and expertise to discharge their responsibilities (including those relating to the regulatory environment);
- adequate and orderly records of business are maintained;
- the security of customer data and other internal records is ensured;
- business procedures combat financial crime;
- processes are in place to deal with policyholder claims and complaints;

- the integrity of manual and computerised business systems is ensured; and
- processes ensure assessment of the possible impact of any changes in the legal environment.

The group's principal subsidiary boards and the Group and Company Audit Committees oversee the adequacy and effectiveness of the internal control framework, primarily through the receipt of assurances in support of the UK Corporate Governance Code, and reports from Group Internal Audit, external auditors, and risk teams in the second line of defence.

B.4.1 SOLVENCY II COMPLIANCE FUNCTION

The group has defined the Solvency II Compliance function as being responsible for:

- advising the Company Board and its sub committees on compliance with the requirements of the Solvency II Directive[3] and its associated laws, regulations and administrative provisions;
- advising the Company Board on the possible impact of any changes in the legal environment on operations of the undertaking concerned and the identification and assessment of compliance risk;
- developing and managing the Group's Solvency II Compliance Policy, which inter alia sets out the responsibilities, competencies and reporting duties of the (Solvency II) compliance function; and
- establishing and operating the Group's Solvency II Compliance Plan that details the activities the function will undertake in relation to compliance risk.

The group has defined the Group Chief Risk Officer role as the functional head of Solvency II Compliance at the Group level, with the Risk, Actuarial, Group Finance and HR functions delivering activities in support of the Solvency II Group Level Compliance Function.

The Group's Solvency II Compliance Plan is defined as the review activities performed by the Compliance function to support it in advising the Company Board on compliance in relation to Solvency II matters.

B.5 INTERNAL AUDIT FUNCTION

Group Internal Audit's (GIA) responsibilities towards the Company align with its responsibilities towards the Group.

GIA is an independent and objective assurance and advisory function whose primary role is to support the Board and Executive Management in the protection of the assets, reputation and sustainability of the Company and Group.

GIA also supports Executive Management in accomplishing business objectives by adopting a systematic and disciplined approach to the evaluation and improvement of the design and effectiveness of the risk management, control and governance processes.

[3] Directive 2009/138/EC of the European Parliament.

GIA carries out:

- independent reviews and audits of the controls mitigating the key risks in all areas of the business, prioritised according to the relative risk of each assignment as determined by the Group Chief Internal Auditor in conjunction with senior management;
- reviews of major Business Change Initiatives; and
- reviews of the risk management and internal control processes.

GIA's work may also include reviewing relevant 'lessons learned' analyses following significant adverse events. The role of GIA's involvement in any events will generally be determined as part of the audit planning process or on an ad hoc basis, where required.

GIA is responsible for the development of an internal audit plan, with a corresponding delivery timetable and budget. The plan typically details proposed audits over the next twelve months. GIA reviews the plan regularly and advises the Board, through the Audit Committee, of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the Company and Group Audit Committees.
The Internal Audit plan is developed using a risk-based methodology, including input from executive and non-executive senior management. Any significant deviation from the approved internal audit plan is communicated through the activity reporting process.

Internal control objectives considered by GIA include:

- effectiveness of design and operation of processes and their actual outcomes, assessed against the Group's established values, ethics, risk appetite and policies;
- the appropriateness of the organisation's risk and control culture, including the attitude and approach taken by all levels of management to risk management and internal control;
- efficiency of operations, and use of resources;
- compliance with laws and regulations;
- reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
- safeguarding of assets.

The Group Chief Internal Auditor reports functionally to the Chairman of the Group Audit Committee and administratively to the Group CEO.

The Internal Audit activity remains free from interference by anyone within the Company. This includes the choice of business areas to audit, procedures, frequency, timing, or the content of the GIA reports. This ensures that GIA can maintain a necessary independent and objective perspective.

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditors' judgement.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and will not lose their objectivity when forming judgements.

The Group Chief Internal Auditor confirms to the Group and Company Audit Committees, at least annually, the organisational independence of Internal Audit activity.

B.6 ACTUARIAL FUNCTION

The PRA has specified that firms should appoint a Chief Actuary who should fulfil the role of Head of Actuarial Function (a role that is not required by the Directive) and hold the Chief Actuary role as set out under PRA's senior insurance managers regime.

The Company's Chief Actuary presents an annual report to the Board summarising the activities of the actuarial function that:

- Supported compliance with the requirements on the calculation of technical provisions (TP);
- Provided the opinions on the underwriting policy and reinsurance arrangements; and
- Contributed to the effectiveness of the risk management systems more widely.

The requirements covering TP calculations are addressed through various activities, including actuarial function review of divisional and entity level calculations and the membership of oversight committees. A number of reports during the year are provided to the Board on the data, models, methodologies, assumptions and results of the Solvency II TP calculations.

Oversight of underwriting and reinsurance by the Actuarial Function is provided by regular discussions with key business division personnel from both the first and second lines, review of papers and attendance of pricing and capital committees (or sub-committees) to provide input and challenge to pricing, reinsurance and capital requirements for new business. Business division reports are produced annually on underwriting and reinsurance. The Company Chief Actuary provides an overall report and opinion on these areas to the Board.

The Actuarial Function contributes to the effective implementation of the risk management system through various activities and the membership of a number of key divisional, entity and group Committees with risk and financial reporting responsibilities. Areas of focus include: the Internal Model and SCR; the ORSA; identifying, measuring and monitoring risks; Asset Liability Matching (including Matching Adjustment and liquidity management); product pricing; financial reporting; business plans; and Part VII transfers.

The Chief Actuary has a right to be heard in the setting of business strategy, product approval and capital planning activities, and may request revision to business proposals that may otherwise conflict with the overall underwriting policy or the adequacy of reinsurance arrangements. The Chief Actuary reports functionally to the Director of Group Finance and is a standing attendee at the Company's Board.

A Group Chief Actuary is required for the group actuarial function. The Company Chief Actuary shares copies of all actuarial function reports with the Group Chief Actuary. The Group Chief Actuary has the right of escalation to the GRC on any appropriate matters as he or she sees fit.

B.7 OUTSOURCING

The group's Outsourcing and Essential Supplier Services Policy sets out the framework and minimum standards of control and governance that the group expects to be applied in the management of risks associated with outsourced supplier service arrangements across the group, including the Company. The policy specifies that an activity should not be outsourced where it would materially impair the quality of the group's system of governance; unduly increase the group's exposure to operational risk; impair the ability of supervisory authorities to monitor the group's compliance with its obligations; or undermine continuous and satisfactory service to the group's policyholders.

The policy requires that for all outsourced arrangements a rigorous evaluation and supplier selection process is undertaken having regard for the financial stability, expertise, ability and capacity of the supplier to deliver the required service. The policy also specifies that a written contract must be in place which includes: a service level agreement; the conditions under which the arrangement may be terminated; provisions for the orderly transition of services to another provider or the group if the contract is terminated; a defined mechanism to resolve disputes arising out of or relating to the contract; appropriate contingency plans should the supplier be unable to provide the required service; and provisions for the continued availability of any software upon which the group is reliant. Contracts must also ensure access to the providers' premises, business management and any data relating to the outsourced activity, by the Group's Internal Audit, Risk and Compliance functions, its external auditors and supervisory authorities; and appropriate warranties that Legal & General and client data is adequately protected against unauthorised access at all times. All outsourced arrangements must be managed under the direction of a named Legal & General relationship manager. The Risk Function maintains oversight of the management of outsourcing arrangements established by the first line business operations.

A number of outsourcing arrangements are used by the Company either directly or through relationships established by the broader Legal & General Group. The material outsourcing arrangements include those for the provision of the following:

- IT infrastructure, operations support and development;
- Data storage and hosting;
- Telephony and data connectivity services;
- Document printing and fulfilment activities;
- Fund pricing and valuations

Service providers for these activities are primarily based in the UK, Ireland and India.

Insourcing is the use by one group company of another group company for the supply of business facilities or services. The Company's core insourced relationships are as follows:

- Investment management services provided by Legal & General Investment Management Limited (LGIM);
- Treasury services by Legal & General Finance Plc; and
- Employment, IT (through the group's shared service IT function) and procurement services by Legal & General Resources Limited.

Legal & General Resources Limited is the main employment company for staff in the UK, and is also the company through which group-wide contracts for the supply of goods and services for Legal & General's UK businesses are placed.

B.8 ANY OTHER INFORMATION

B.8.1 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Company operates within the group's risk management framework. The Group Executive Risk Committee (a sub-committee of the GRC) undertakes an annual review of the group's risk management framework and broader system of governance to confirm its adequacy given the nature, scale and complexity of the risks inherent in its business. The most recent review was in February 2021, where the Committee concluded that the group's risk framework aligns with the group's key risk exposures and operated effectively during 2020 in identifying material risk exposures.

B.8.2 SENIOR MANAGERS AND CERTIFICATION SCHEME

In line with requirements of the Senior Managers and Certification Regime, which was introduced from 10 December 2018, the Company has implemented a framework identifying material risk takers, the annual certification of senior managers of prescribed functions, prescribed responsibilities, individual accountability, the reporting of breaches to the regulator and additional training.

B.8.3 ANY OTHER INFORMATION

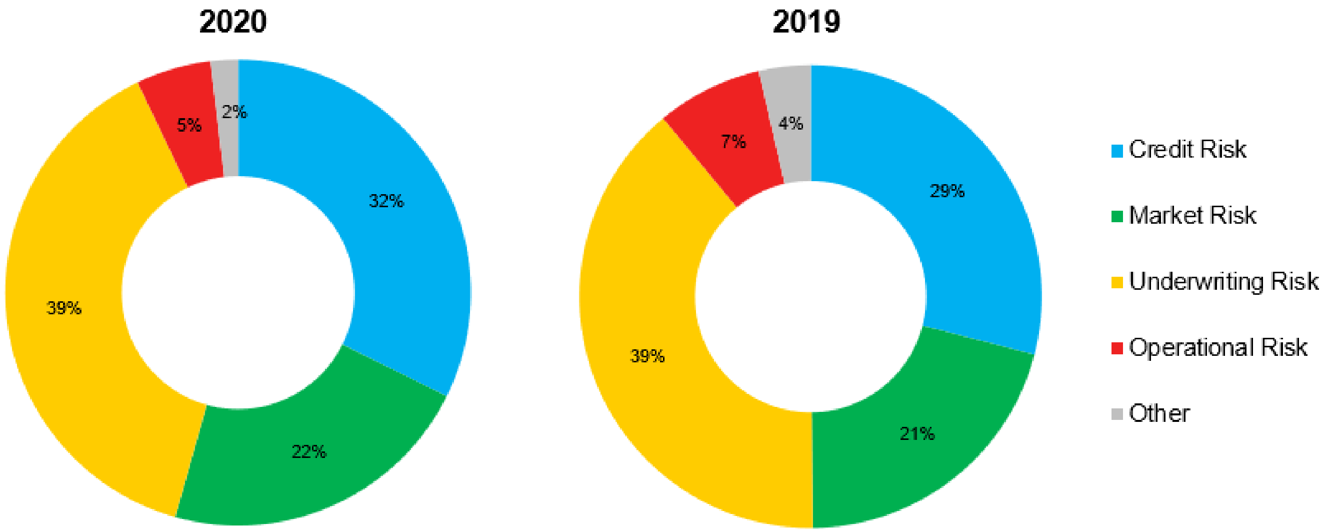
The implementation of a Model & Financial Control Framework (MFCF) started during 2019 and was ongoing in 2020. The MFCF focuses on establishing appropriate processes and procedures in order to mitigate the risk of material financial reporting misstatement. It aligns to the existing System of Governance but is identifying and enhancing risks and controls relating to financial reporting together with their dependent IT applications and End User Computing tools. When fully implemented, it will lead to the performance of operating effectiveness testing that will provide additional assurance to Management and the Group Audit Committee over the Group's Financial Statements as well as LGAS Audit Committee over the Company's Financial Statements.

C. Risk Profile

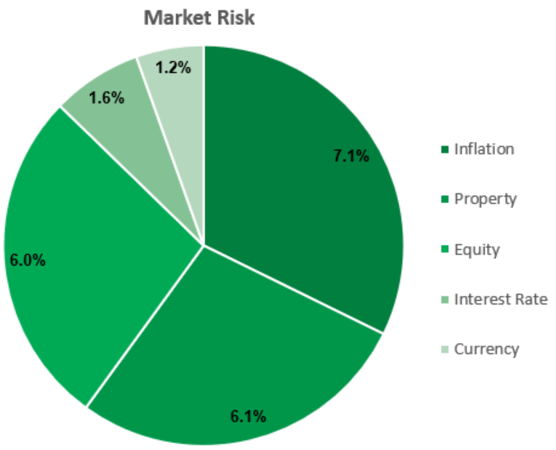
MEASURES USED TO ASSESS RISKS

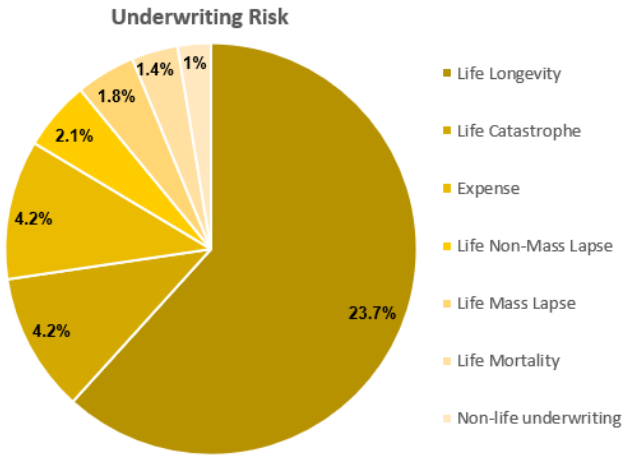
Our risk-based capital model (the Internal Model) seeks to provide a quantitative assessment of the Company's risk exposures. It forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our capital model to assess significant transactions, including large pension risk transfer deals. The key output from our capital model is the generation of capital requirements. We calibrate our model to a 99.5% value at risk confidence level over one year, equivalent to ensuring that we hold sufficient capital to survive our assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit and insurance (longevity) risks remain our most significant risks. Market risks, which include equity, property and interest rate risks, are also material risks for which we hold capital.

Below is the percentage breakdown of the Company's pre-diversified Solvency Capital Requirement by major risk categories on a regulatory basis:



A further breakdown of market risk and underwriting risks in 2020 is shown below:





Prudent person principle

All investments held by insurance and reinsurance undertakings should be managed in accordance with the 'Prudent Person Principle'. The Prudent Person Principle requires companies to only invest in assets and instruments:

- whose risks can be properly identified, measured, monitored, managed, controlled and reported;
- that ensure the security, quality, liquidity and profitability of the portfolio as a whole;
- that are appropriate to the nature and duration of insurance and reinsurance liabilities; and
- are in the best interest of policyholders and beneficiaries.

The group and Company's risk appetite for credit and market risk is set in accordance with the Prudent Person Principle.

Group Credit Risk, Market Risk and Asset Liability Matching policies define the group's policy for the management of assets and the framework that supports its practical application, and have been defined in line with the group risk appetite and the Prudent Person Principle. The policies are applicable to all entities in the Legal & General Group and any exemptions from the policy must be authorised by the Group CRO.

All divisions are required to invest their assets in line with group policies. Compliance with the group policies is monitored through the group's risk framework described in Section B. System of Governance above. The following processes support the group in ensuring it meets the Prudent Person Principle:

- Risk & Capital Mandates set out the parameters of acceptable risk taking, including the approach taken to ensuring investment decisions are made in accordance with the Prudent Person Principles;
- it is the responsibility of each business division to ensure that adherence to the Risk and Capital Mandates are appropriately monitored with any exceptions escalated to the divisional risk committees and relevant group committees; and
- the group's Investment and Market Risk Committee oversees the effectiveness of the overall framework for managing compliance with Prudent Person Principle.

C.1 UNDERWRITING RISK

C.1.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to underwriting (also known as insurance) risk as a consequence of offering the principal products outlined in Section A.1.3. Underwriting risk is the exposure to loss arising from experience being different to that anticipated.

Detailed below are the principal underwriting risks to which the Company is exposed, presented by reference to the group's business divisions, with associated mitigating activities:

Principal risks	Division	Control to mitigate the risk
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 group 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 has some explicit 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 group 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 group, 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	LGR and LGI	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment,

product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.		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.
Concentration (catastrophe) risk		
Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. 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		
The spread of an epidemic could cause large aggregate claims across the group'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 for 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. Provision for future Covid-19 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.

C.1.2 INSURANCE SPECIAL PURPOSE VEHICLES (SPVS)

The Company has no SPVs authorised under Article 211 of the Solvency II Directive.

C.1.3 RISK CONCENTRATION AND MANAGEMENT

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. 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 counterparty risk with mortality and morbidity exposures.

While exposure to concentration risk is an inherent aspect of writing insurance business, we have limited appetite for the scale or frequency of events anticipated in product pricing materially diverging from expectations as a consequence of significant accumulations of exposure to a single event or counterparty. Where required, we will set limits on the aggregate values for individual lives that we will insure, and the minimum geographic spread of insurance business that we will accept. Reinsurance arrangements are also used to mitigate our risk.

Concentrations of risk are reported as part of the group's risk monitoring and reporting framework. The risk management reports presented at divisional and group risk committees provide both qualitative and quantitative information on concentration risks, as well as on material risk drivers and mitigating actions taken where exposures are outside acceptable tolerances.

C.2 MARKET RISK

C.2.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to market risk as a consequence of offering the principal products outlined in section A.1.3. Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in interest rates, foreign currency exchange rates, equity indices and property prices. Market Risk arises due to fluctuations in both the value of liabilities and the value of investments held.

Detailed below are the principal market risks to which the Company is exposed:

Principal risks	Product/ Division	Controls to mitigate the risk
Investment performance risk		
The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	LGR 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 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 group of these funds. For some contracts the group 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 group as a result of low house price inflation and an exposure to specific properties which may experience lower house price inflation for whatever reason.	LGRR (Lifetime mortgages)	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	LGC and LGR	Diversification by geographic region and property type avoids concentration of exposures to specific areas of

commercial and residential development projects and manage several developed real-estate assets. The group's revenue streams are exposed to residential sales prices achieved, as well as the volume of transactions, both of which many be affected by the performance of the housing market. Commercial property assets are subject to construction, leasing and valuation risks. Independent valuations of real-estate assets, either in development or developed, also depend on an assessment of the wider real-estate market.		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.
Currency risk		
To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. LGC also invest in overseas assets. 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 group retains some residual risk.
Inflation risk		
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 group retains some residual risk.
Interest rate risk		
Interest rate risk is the risk that the group 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 non-participating 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.

C.2.2 RISK CONCENTRATION AND MANAGEMENT

The Company holds a significant portfolio of investment assets to meet its obligations to policyholders. Investment classes include equities, bonds, properties and cash. Some exposure to concentration risk is an inherent aspect of operating significant portfolios of investment assets.
Concentrations of risk are reported as part of the group's risk monitoring and reporting framework. The risk management reports presented at divisional and group risk committees provide both qualitative and quantitative information on concentration risks, as well as on material risk drivers and mitigating actions taken where exposures are outside acceptable tolerances.

C.3 CREDIT RISK

C.3.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to credit risk as a consequence of offering the principal products outlined in section A.1.3. Credit risk is the risk of a financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks.

Detailed below are the principal credit risks to which the Company is exposed:

Principal risks	Product/ Division	Controls to mitigate the risk
Bond default risk		
A significant portfolio of corporate bonds and commercial loans is 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	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 group'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		
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 group to counterparty default risks. The group 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 group 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 group 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		

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.
Banking counterparty risk		
The group 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 group 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 group may have. Limits are subject to regular review with actual exposures monitored against limits. The group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

C.3.2 RISK CONCENTRATION AND MANAGEMENT

A significant portfolio of corporate bonds is held to back the liabilities arising from writing annuities business. The Company can be exposed to concentrations of credit risk within the portfolio from events impacting a specific sector or geography or through concentrations of exposure to an individual counterparty. Accumulations of exposures to credit risk in relation to individual counterparties can also arise through holdings in cash, equities, bonds and property and through reinsurance and as a result of delegated premium collection arrangements. We have limited appetite for the scale or frequency of events anticipated in investment management strategies materially diverging from expectations as a consequence of significant accumulations of exposure to a single event or counterparty. Where required, we will set limits on the maximum aggregate exposures to investment, banking and reinsurance counterparties, sectors and geographies.

The Company manages the credit concentration risk by setting quantitative limits on maximum exposures to counterparties. The Group Credit Risk Committee (GCRC) is responsible for reviewing the aggregate exposures for the group and the credit portfolios backing the Company's annuity liabilities and the extent to which specific limits are required for concentrations by counterparty, sector and geographic areas. Where exposures are identified as being outside acceptable ranges adjudicated by the Group Credit Risk Committee, it will initiate action with the relevant businesses to manage the exposure.

C.4 LIQUIDITY RISK

C.4.1 RISK EXPOSURE

Liquidity and collateral risk is 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. The Company's exposure to liquidity risk primarily arises from contingent events including pandemic mortality and cash flow timing differences, such as claims due to policyholders and other operational cash flows. The Company is also exposed to 'collateral risk' under its derivatives contracts which could require the firm to post assets eligible as collateral at short notice.

Detailed below are the principal liquidity risks to which the Company is exposed:

C.4.2 LIQUIDITY RISK

Principal risks	Product/ business segment	Controls to mitigate the risk
Contingent event risk		
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 group 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 group operates and the execution of investment management strategies. However, the group'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. The group’s treasury function provides formal facilities to other areas of the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable.
Collateral liquidity risk		
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 2020, 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 group's different collateral agreements).
Investment liquidity risk		
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 group is able and willing to take advantage of the premium offered by illiquid assets. The group, 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.

C.4.3 LIQUIDITY RISK MANAGEMENT

The Company does not seek direct exposure to liquidity risk as a part of its business model, but accepts that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.
The Company maintains sufficient funds for business as usual purposes. It also seeks to ensure that exposures to liquidity risk which arise across the Company are effectively managed so that the Company is able to meet payment and collateral obligations under unlikely but plausible, extreme liquidity scenarios.

It is the group's policy that business divisions remain self-sufficient from a liquidity perspective by maintaining sufficient liquid assets and assessing the appropriateness of the composition of the assets in terms of their nature, duration and liquidity to meet obligations as they fall due. The business divisions also need to maintain sufficient eligible assets to meet collateral requirements that arise from their normal business activities and under two defined liquidity stress scenarios. To the extent that a business division has insufficient liquid assets to meet its obligations it is required to have a committed credit facility (standby facility) with the Group Treasury function to cover the risk exposure.

The primary sources of liquidity across the Company are cash and gilts. In addition, the group has a committed, syndicated revolving credit facility.

C.4.4 LIQUIDITY STRESS TESTING

The exposure to liquidity risk is measured by a liquidity coverage ratio (LCR) under two prescribed liquidity stress scenarios. The main purpose of the liquidity stress testing is to ensure that the Company maintains adequate liquidity for stress events and compliance with the approved risk appetite defined in the Group Liquidity Risk Policy. As a group standard the liquidity stress testing is performed monthly or more frequently if needed.
The LCR is defined as total sources of liquidity divided by total liquidity requirements and is calculated separately for each business division, entity, and Group Treasury.

The Group Treasury function works with the business divisions to ensure that, at a local and entity level, businesses have developed and implemented their own liquidity risk framework and models, based on the assumptions and processes set out in the Group Liquidity Risk Policy. The frameworks and assumptions are reviewed and reaffirmed annually.

C.4.5 EXPECTED PROFIT IN FUTURE PREMIUMS

The contribution of EPIFP to Own Funds is relevant from a liquidity perspective as the extent of future premiums assumed in the liability valuation may not emerge in practice, thus potentially lowering the available Own Funds to cover the SCR.

The total amount of the expected profit included in future premiums (EPIFP) as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulation[4] was £1,885m as at 31 December 2020 (2019: £1,818m).

[4] Commission Delegated Regulation (EU) 2015/35.

C.5 OPERATIONAL RISK

C.5.1 RISK EXPOSURE AND MANAGEMENT

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 of the group's businesses. The group 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.

Mitigation techniques are deployed via the group's internal control framework, which comprises the systems, processes and procedures that ensure business operations are conducted so as to meet our obligations to all stakeholders, comply with regulation and legislation, and minimise the risk of material error or fraud. We aim to implement effective controls (both preventative and detective) to reduce operational risk exposures, except where the costs of such controls exceed the expected benefits. We accept that no system of control will fully eliminate the risk of financial loss or reputational damage, and we expect all employees to report weaknesses and deficiencies as soon as they are identified.

Dependency on a single supplier (both internal and external to the Company) to supply a product or service supporting a critical business function can give rise to concentrations of operational risk. Techniques deployed to mitigate this include business continuity and recovery plans in the event of supplier failure, a defined mechanism to resolve disputes relating to a contract and orderly exit and termination plans. Further details are provided in section B.7 Outsourcing.

C.6 OTHER MATERIAL RISKS

The developments in 2020 with respect to the Covid-19 pandemic expose the business to risk in a number of areas, namely operational risk, insurance risk and market/credit risk (including asset valuation uncertainty).

Covid-19 continues to impact our customers, employees and society. Our business model has proved to be robust in the face of the pandemic. As well as having an unprecedented impact on our customers, employees and society at large, Covid-19 has resulted in considerable disruption to the global economy, and whilst vaccines and treatments offer hope for a return to economic growth there is potential that certain sectors will be disrupted for an extended period of time. There is also significant short and medium term uncertainty for both interest rates and inflation, and the approaches that central banks may take to stimulate economic growth, including the deployment of negative rates.

As described above the Company is exposed to market and credit risk and has strong mitigants in place to manage these risks. In 2020, markets have been extremely volatile as the scale and impact of the Covid-19 outbreak on the global economy has started to emerge. The sensitivities in section C7.1 provide an indication of the impact of market movements on the Solvency II coverage ratio of the Company.

It is noted that these simple sensitivities cannot perfectly capture the actual market movements, which for example may vary by sector or in the case of the credit spread sensitivity the impact can vary significantly if the spread widening varies by rating; as can be seen in C7.1, an escalating addition across ratings has a more adverse impact on the coverage ratio of the Company; different levels in the addition across ratings will vary the impact.

The Board regularly considers the potential financial and reputational impact of the Company's principal risks on our ability to deliver the business plan, and we regularly refresh our principal risks to reflect current market and economic conditions as well as changes in our risk profile.

Quantitative stress and scenario testing is undertaken to enable the Board to consider the Company's ability to respond to a number of plausible individual and combined shocks, both financial and operational, which could adversely impact the profits, capital and liquidity projections in the Company plan. For example, during 2020, the Board considered the impacts of additional market stresses commensurate with a stalled post Covid-19 recovery, as well as a severe market event. These stresses included a severe global shock set with reference to the Bank of England's latest 'Annually Cyclical Scenario', but modified to reflect the Company's underlying risk profile. The scenario is broadly based on the Global Financial Crises of 2008 for market risks exposures and 2002 experience for rating transitions (downgrades and spreads).

In addition to the above, specific adverse scenarios of increasing severity which may arise as a result of the economic consequences of the Covid-19 pandemic have been tested, with the most adverse one being more severe than the global shock described above.

The scenarios tested showed that the Company would continue to have sufficient headroom to maintain viability over the five year planning period, after taking into account mitigating actions to manage the impacts on capital and liquidity. This includes maintaining the Company's current dividend policy under the late cycle market shock scenario, but this and other commitments would be reassessed if the circumstances determined this to be necessary over the longer term. In response to the potential severe economic downturn caused by Covid-19, credible buffers and a suite of specific appropriate management actions are at the Company's disposal to maintain resilience and preserve the Company's viability. It is clearly possible that shocks could be more severe, occur sooner and/or last longer than we have currently considered plausible. The Board has maintained strong engagement with management throughout the year in monitoring the impact of Covid-19 and together with additional scenario analyses performed to understand any impact on the Company's balance sheet, and is expected to continue to do so.

Additionally, reverse stress testing and contingency planning gives the Board a solid understanding of the Company's resilience to extremely severe scenarios which could threaten the Company's business model and viability. This analysis assists in identifying any mitigating actions that could be taken now, or triggers to put in place for future actions. Potential scenarios that were explored included severe capital market stresses, adverse regulatory changes, reputational and internal/external events causing falls in business volumes, and severely adverse claims experience. The results confirmed that the Company remains resilient to extreme stresses as a result of the risk management system in place and the diverse range of mitigating actions available, such as the raising of capital or reduction in the payment of dividends.

C.7 ANY OTHER INFORMATION

There were no significant events other than those covered above.

C.7.1 SENSITIVITIES

As part of the ORSA process a range of stress tests are carried out. The following sensitivities are provided to give an indication of how the Company's Solvency II surplus as at 31 December 2020 would have changed in a variety of events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be different from adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse scenarios would occur as a combination of stresses to different risks.

Risk	Description	Impact on net of tax capital surplus as at 31 Dec 2020 (£bn) [12]	Impact on Solvency II coverage ratio as at 31 Dec 2020 (%)[12]
CREDIT	Credit spreads widen by 100bps assuming a level addition to all ratings[1]	0.5	11
	Credit spreads widen by 100bps assuming an escalating addition to all ratings[1,2]	0.4	9
	Credit spreads narrow by 100bps assuming a level addition to all ratings[1]	(0.6)	(12)
	Credit spreads narrow by 100bps assuming an escalating addition to all ratings[1,2]	(0.5)	(11)
	Credit spreads of sub investment grade assets widen by 100bps assuming a level addition to ratings[1,3]	(0.3)	(5)
	Credit migration[4]	(0.9)	(13)
MARKET	15% fall in property markets[5]	(0.2)	(3)
	15% rise in property markets[5]	0.2	2
	25% fall in property markets[5]	(0.4)	(6)
	25% fall in equity markets[6]	(0.3)	(5)
	25% rise in equity markets[6]	0.3	4
	100bps decrease in risk free rates[7,8]	(1.2)	(22)
	100bps increase in risk free rates[7]	0.8	18
	50bps decrease in risk free rates[7,8]	(0.5)	(10)
	50bps increase in gilt spreads over EIOPA risk free rates	(0.1)	(1)
	50bps increase in future inflation expectation[7]	(0.1)	(2)
	GBP exchange rates fall by 25%	0.0	0
UNDER-WRITING	Substantially reduced risk margin[9]	0.3	5
	1% increase in annuitant base mortality[10]	0.1	2
	1% decrease in annuitant base mortality[10]	(0.2)	(2)
	10% increase in maintenance expenses[11]	(0.2)	(3)

1. The spread sensitivity applies to the group's corporate bond (and similar) holdings, with no change in long-term default expectations. Restructured lifetime mortgages are excluded as the underlying exposure is mostly to property.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100 basis points. To give a 100bps increase on the total portfolio, the spread stress increases in steps of 32bps, i.e. 32bps for AAA, 64bps for AA etc.
3. No stress for bonds rated BBB and above. For bonds rated BB and below the stress is 100bps. The spread widening on the total portfolio is 2bps as the group holds only 2% in bonds rated BB and below. The impact is primarily an increase in SCR arising from the modelled cost of trading downgraded bonds back to a higher rating in the stress scenarios in the SCR calculation.
4. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds, and sale and leaseback rental strips; lifetime mortgage senior notes are excluded). Downgraded assets are assumed to be traded to their original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
5. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
6. This relates primarily to equity exposure in LGC but will also include equity-based mutual funds and other investments that receive an equity stress (for example, certain investments in subsidiaries). Some assets have factors that increase or decrease the stress relative to general equity levels via a beta factor.
7. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
8. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
9. Assuming a 2/3 reduction in the Risk Margin, allowing for offset from an equivalent reduction in the Transitional Measure on Technical Provisions.
10. The stress assumes that the full impact of the change in base mortality is immediately recognised.
11. A 10% increase in the assumed unit costs and future costs of investment management across all long term insurance business lines.
12. Sensitivities exclude the impact from the Mature Savings business (including the With-Profits fund) as the risks were transferred to ReAssure Limited from 1 January 2018.

In the above sensitivity analysis, the following management actions are assumed to reduce the SCR impacts, which are in-line with the Company's practice of managing the asset portfolio:

- The credit migration stress assumes a rebalancing of the annuity portfolio back to the original credit rating;
- The fall in property stress assumes a rebalancing of the structured bonds from the Lifetime Mortgages to the original credit rating and;
- A dynamic rebalancing of currency hedges in the annuity business.

The sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the Company actively manages its asset and liability positions to respond to market movements. Where material, a recalculation of the TMTP is assumed to partially offset the impact on Risk Margin.

The impacts of these stresses are not linear therefore these results should not be used to extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results could be different if performed at an alternative reporting date.

In addition to the sensitivities in the table above, the Company also considers other highly unlikely events in managing the business.

C.7.2 MATERIAL CHANGES TO THE RISK PROFILE OVER THE REPORTING PERIOD

As part of the ORSA the Company has reviewed all material risks and continues to recognise longevity improvements, credit and market risks as our key risk exposures. It is expected that these will continue to be the primary risk exposures for the Company.

D. Valuation for Solvency II Purposes[5]

Unless otherwise stated, assets and liabilities have been recognised in conformity with International Financial Reporting Standards (IFRS), as adopted by the EU.

Individual assets and liabilities have been valued separately and can offset each other, where permitted, in accordance with IFRS accounting principles. These include deferred tax asset and liabilities where there is a right to offset and linked derivative liabilities with index-linked and unit-linked assets.

Assets and liabilities (other than deferred tax) have been valued:

- on a going concern basis;
- in accordance with Article 75 of the Solvency II Directive and where specifically provided for by Delegated Acts:
  - where IFRS valuation is consistent with Article 75 this shall be adopted, therefore Solvency II economic value is equal to IFRS fair value in line with IFRS unless otherwise stated; and
  - where more than one valuation method is prescribed by IFRS, only valuation methods that are consistent with Article 75 shall be applied.

Under IFRS, held for sale assets and liabilities are presented in the balance sheet separately to all other assets and liabilities at a value that is the lower of their carrying amount or fair value less costs to sell. In the Solvency II balance sheet the held for sale treatment is not recognised and therefore all assets and liabilities classified as held for sale under IFRS are recorded as normal in the relevant asset and liability categories. In order to make the IFRS numbers more comparable to the Solvency II numbers we have adjusted the IFRS numbers as presented in the Company's statutory accounts to reallocate the held for sale assets and liabilities back to their respective categories.

Where the valuation of assets and liabilities is the same under IFRS, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of the Company's statutory accounts. Where there are material differences in valuation, these are set out in the relevant sections below.

[5] The calculation of the Risk Margin, Solvency Capital Requirement and Transitional Measures on Technical Provisions, referenced within this section, are not subject to audit.

D.1 ASSETS

The Company's assets as at 31 December 2020 are as below:

Assets as at 31 December 2020 (£m)	**Reference**	**Solvency II**	**IFRS**	**Variance**
Deferred acquisition costs	D.1.1.1	**-**	**44**	**(44)**
Intangible assets	D.1.1.1	**-**	**144**	**(144)**
Deferred tax assets		**-**	**-**	**-**
Property, plant and equipment held for own use	D.1.1.5	**37**	**37**	**-**
Investments (other than assets held for index-linked and unit-linked)		**105,504**	**105,506**	**(2)**
Property (other than for own use)		***29***	***29***	**-**
Holdings in related undertakings, including participations	D.1.1.2	***278***	***280***	***(2)***
Equities		***300***	***300***	**-**
Bonds		***79,573***	***79,573***	**-**
Collective investments undertakings		***9,079***	***9,079***	**-**
Derivatives		***16,244***	***16,244***	**-**
Deposits other than cash equivalents		***1***	***1***	**-**
Assets held for index-linked and unit-linked contracts		**4**	**4**	**-**
Loans and mortgages		**7,445**	**7,445**	**-**
Reinsurance recoverables	D.1.1.3	**72,611**	**75,519**	**(2,908)**
Deposits to cedants		**787**	**787**	**-**
Insurance and intermediaries receivables		**57**	**57**	**-**
Reinsurance receivables		**376**	**376**	**-**
Receivables (trade, not insurance)	D.1.1.5	**4,841**	**4,841**	**-**
Cash and cash equivalents		**442**	**442**	**-**
Total Assets		**192,104**	**195,202**	(3,098)

Assets as at 31 December 2019 (£m)	Reference	Solvency II	IFRS	Variance
Deferred acquisition costs	D.1.1.1	-	489	(489)
Intangible assets	D.1.1.1	-	58	(58)
Deferred tax assets		-	1	(1)
Property, plant and equipment held for own use		41	41	-
Investments (other than assets held for index-linked and unit-linked contracts)		95,216	95,216	-
Property (other than for own use)		*118*	*118*	-
Holdings in related undertakings, including participations	D.1.1.2	*517*	*517*	-
Equities		*3,133*	*3,133*	-
Bonds		*70,950*	*70,950*	-
Collective investments undertakings		*12,473*	*12,473*	-
Derivatives		*8,023*	*8,023*	-
Deposits other than cash equivalents		*2*	*2*	-
Assets held for index-linked and unit-linked contracts		18,609	18,609	-
Loans and mortgages		6,013	6,013	-
Reinsurance recoverables	D.1.1.3	59,940	62,879	(2,939)
Deposits to cedants		789	789	-
Insurance and intermediaries receivables		53	53	-
Reinsurance receivables		307	307	-
Receivables (trade, not insurance)		3,124	3,124	-
Cash and cash equivalents		274	274	-
Total Assets		184,366	187,853	(3,487)

Note: Assets held for index-linked and unit-linked contracts under IFRS have been adjusted to reflect the same presentational requirements of linked derivative liabilities under Solvency II. This has resulted in a decrease in the IFRS liabilities balance by £6m, and a corresponding decrease in derivative liabilities.

D.1.1 SOLVENCY II VALUATION DIFFERENCES

D.1.1.1 DEFERRED ACQUISITION COSTS (DAC) AND INTANGIBLES

Intangible assets, including DAC, are valued at zero unless:

- the intangible asset can be sold separately; and
- it can be demonstrated that there is a value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets).

None of the intangible assets (including DAC) that the Company holds meet these criteria and therefore are valued at zero on the Solvency II balance sheet. The associated DAC cash flows are included in the measurement of the Solvency II technical provisions.

D.1.1.2 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

The Company has participations that are not quoted in active markets. Under Solvency II, these are valued using an adjusted equity method where the value of the investment is determined as the Company's share of the subsidiary's net assets valued in accordance with the Solvency II valuation rules.

D.1.1.3 REINSURANCE RECOVERABLES

The reinsurance recoverables and gross liabilities are calculated consistently with the best estimate liability in all cases, except that there is an allowance for the probability weighted best estimate of external reinsurer default. The lower valuation of reinsurance recoverables under Solvency II is primarily driven by the different valuation methodology used in calculating the Solvency II Technical Provisions.

D.1.1.4 CHANGES IN ASSUMPTIONS AND VALUATION BASES

There have been no significant changes in assumptions, valuation bases or estimations for assets in the reporting period.

D.1.1.5 LEASES

There are directly held investment properties which appear on the Company's Solvency II balance sheet where the Company acts as a lessor. The investment properties are carried at fair value and the group's policy is to let investment properties to tenants through operating leases. The leases have varying terms, escalation clauses and renewal rights.

The Company acts as a lessor for one property accounted for as a finance lease. The lease which relates to the provision of healthcare services is included in the Solvency II balance sheet under Receivables (trade, not insurance) at a value equal to the present value of future lease payments £87m (2019: £90m).

Additionally, the Company leases office buildings, vehicles, IT equipment and investment properties under non-cancellable operating lease agreements. From 1 January 2019, following the implementation of the new IFRS lease standard, such leases are recognised in both the IFRS and Solvency II balance sheets under Property, plant & equipment held for own use with a corresponding lease liability under Payables (trade, not insurance). There are no valuation differences recognised between IFRS and Solvency II in respect of these assets and liabilities. Lease arrangements where the Company acts as the lessee are disclosed in section A.4.

D.1.2 VALUATION UNCERTAINTY

The Company values its assets in accordance with Article 10 of the Solvency II Delegated Regulation. Valuations of assets are underpinned by a system of processes and controls to ensure that the Company complies with Article 267 of the Solvency II Delegated Regulations. Included within these processes is an assessment of valuation uncertainty and the extent to which asset valuations are appropriate in light of uncertainties that exist. This process focuses on, although is not limited to, assets that are valued using alternative valuation techniques. The Company has concluded that its assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

The uncertainty contained within the reinsurance recoverables will be similar to the uncertainty in technical provisions, covered in section D.2.4.

D.2 TECHNICAL PROVISIONS[6]

A summary of the Company's technical provisions by Solvency II line of business (LoB) is set out below:

Technical provisions (£m) As at 31 December 2020	**With-profit participation**	**Index-linked and unit-linked insurance**	**Other life insurance**	**Accepted reinsurance**	**Health insurance**	**Non-life non-proportional property reinsurance**	**Total[1]**
Best estimate liability	-	**50,166**	**77,981**	**1,299**	**503**	**36**	**129,985**
Risk margin	-	**45**	**4,358**	**85**	**2**	**1**	**4,491**
Transitional measure on technical provisions	-	-	**(4,155)**	**(74)**	-	-	**(4,229)**
Technical provisions total	-	**50,211**	**78,184**	**1,310**	**505**	**37**	**130,247**
IFRS	-	**50,665**	**83,577**	**1,872**	**848**	**71**	**137,033**
IFRS to SII BEL variance	-	**(499)**	**(5,596)**	**(573)**	**(345)**	**(35)**	**(7,048)**
IFRS to SII TP variance	-	**(454)**	**(5,393)**	**(562)**	**(343)**	**(34)**	**(6,786)**

1. Refer to note D.2.2 for reconciliation between the valuation of IFRS technical provisions and solvency II gross BEL.

Technical provisions (£m) As at 31 December 2019	With-profit participation	Index-linked and unit-linked insurance	Other life insurance	Accepted reinsurance	Health insurance	Non-life non-proportional property reinsurance	Total[1]
Best estimate liability	8,578	58,662	69,123	1,200	480	43	138,086
Risk margin	47	61	4,133	87	2	1	4,331
Transitional measure on technical provisions	(47)	(18)	(4,182)	(74)	-	-	(4,321)
Technical provisions total	8,578	58,705	69,074	1,213	482	44	138,096
IFRS	9,295	59,694	73,847	1,796	784	77	145,493
IFRS to SII BEL variance	(717)	(1,032)	(4,724)	(596)	(304)	(34)	(7,407)
IFRS to SII TP variance	(717)	(989)	(4,773)	(583)	(302)	(33)	(7,397)

1. Refer to note D.2.2 for reconciliation between the valuation of IFRS technical provisions and solvency II gross BEL.

6 Risk Margin and Transitional Measures on Technical Provisions are not subject to audit.

D.2.1 SOLVENCY II VALUATION BASIS

D.2.1.1 METHODOLOGY

The Technical Provisions (TP) are calculated as the sum of the Best Estimate Liabilities (BEL) and the Risk Margin (RM) less the Transitional Measure on Technical Provisions (TMTP), which has been calculated in line with PRA approvals and allows for the change in technical provisions from the old Solvency I regime.
The BEL reflects the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows) using the relevant risk-free interest rate term structure (including applying the Matching Adjustment where relevant). Deterministic valuation techniques are used to calculate the BEL.

The main cash flows cover premiums, future financial obligations of policyholder benefits, and expenses of running the business (including investment expense and commission payments). Future management actions are allowed for, where these are deemed to be objective, realistic and verifiable. The management actions used in the calculation of the TP consider the time delays and costs applicable to their implementation.

The BEL is calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, but includes expenses in respect of these arrangements. The BEL is calculated at a level deemed appropriate for homogeneous risk groupings, at a minimum by line of business segmented according to Article 80 of directive 2009/138/EC.

Future premiums are only considered for the period up to where the policyholder or the Company has the option to establish, renew, extend, increase or resume the insurance contract. For Legal & General America (LGA) business ceded to the Company, the contract boundary is the maximum age in the contract, typically age 95 for Term assurance business.

Business not included in the full cash flow projections on materiality grounds is explicitly allowed for in the BEL through manual adjustments. Modelling simplifications have been used in the calculation of the BEL, such as the allowance for catastrophe risk (e.g. epidemic and event risks) and mass lapse risk is not allowed for in the BEL, as data is limited. For these risks there is some offsetting movement in the Company's SCR.

The Risk Margin (RM) represents the amount that a market participant would expect to pay as compensation for risk in excess of the Best Estimate Liability (as defined in the PRA Rulebook for Solvency II firms) is calculated separately from the BEL. In practice, it is calculated as the present value of the cost of capital, to the firm of holding the SCR for certain defined risks (referred to here as the RM capital requirement), to meet adverse deviations on the underlying best estimate cash flows over the full run-off of the business. The RM capital requirement covers underwriting risk, credit risk associated with reinsurance contracts and operational risk. Future new business is not allowed for in the RM capital requirement. No allowance is made for the loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC.

The RM is calculated for the Company as a whole, allowing for diversification between the risks within the entity. The discount rate used in the cost of capital calculation is the relevant basic risk-free rate (excluding Matching Adjustment). The cost of capital rate is set to 6% as prescribed in Article 39 of the Delegated Regulation.
Where investment management agreements are in place with Legal and General Investment Management Limited, the TP are calculated using investment expenses on a fees (rather than costs) basis.
The calculation of the TP is dependent on the quality of the data underlying the calculations. The data has been assessed in line with Article 48 of Directive 2009/138/EC. This assessment has concluded that the quality and

sufficiency of data used in the preparation of the above TP is such as to enable a reliable and adequate calculation of the technical provisions.

Further information on material elements of the technical provisions by division is set out below.

D.2.1.1.1 LEGAL & GENERAL RETIREMENT (LGR)

Best Estimate Liabilities (BEL)

Deterministic actuarial projection models are used, in line with the methodology described above.
In addition, insurance undertakings are permitted to apply a Matching Adjustment (MA) to the relevant risk-free interest rate term structure when calculating the Best Estimate Liability of certain portfolios of life insurance obligations, subject to prior approval by the supervisory authorities. The Company has been approved by the PRA to use a MA when calculating the BEL for the majority of annuity business held by the Company. This has been applied in line with the approved application.

Risk Margin (RM)

The RM capital requirement is projected forward for each future year over the run-off of the business.

Longevity is the most material component of the RM capital requirement and the calculation of the projection of future longevity risk allows for more accuracy than for other risks. Best estimate and stressed future cash flows are projected to capture the capital requirement at future points in time and the discounted cost of capital is derived. The capital requirement for other risk sub-groups are projected using a proxy approach i.e. the projected capital requirements are estimated using appropriate carrier variables.

The Matching Adjustment Portfolio in LGR is not assumed to be ring-fenced for the purpose of the Risk Margin calculation.

D.2.1.1.2 LEGAL & GENERAL INSURANCE (LGI)

Best Estimate Liabilities (BEL)

Deterministic actuarial projection models are used, in line with the methodology described above.

Risk Margin (RM)

The RM capital requirement is projected for each future year over the run-off of the business by risk sub-group. The projected RM capital requirement is estimated, using appropriate proxy carrier variables, e.g. sum assured.

For reinsurance accepted from Legal & General America (LGA), the RM capital requirement is projected over the run-off of the business, with run-off factors determined by projecting the in-force business with real world best estimate assumptions to discrete points in the future. The capital requirement in intermediate years is calculated using linear interpolation. Stresses are applied to the individual non-hedgeable risk types. The RM capital requirement as at the valuation date is projected forward using these run-off factors.

D.2.1.1.3 WORKPLACE SAVINGS

Best Estimate Liabilities (BEL)

Deterministic valuation techniques are used, in line with the methodology described above.

For unit-linked business, the total BEL is split by unit and non-unit components.

Risk Margin (RM)
The RM capital requirement is projected forward for each future year over the run-off of the business. The RM capital requirement is estimated using appropriate proxy carrier variables, e.g. percentage of BEL.

D.2.1.2 MAIN ASSUMPTIONS

This section covers the assumptions used in the calculation of the BEL for the Company's long-term insurance business.

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. The assumptions used in the valuation of the BEL are the same best estimate assumptions as the basis for calculating IFRS assumptions, excluding any margin for prudence included within the IFRS assumptions. In some cases where the class of business is immaterial the BEL uses the same assumptions as used in the IFRS reserves.

The best estimate assumptions are derived by reference to the most recent experience and any relevant market data, e.g. future mortality improvement factors issued by the Continuous Mortality Investigation.

Assumptions are set by following an established methodology which has been discussed with the Board.

Assumptions are set for homogeneous risk groups to avoid introducing distortions that might arise from combining business with different characteristics. At a minimum, these groupings are by line of business segmentation stipulated by the European Insurance and Occupational Pensions Authority (EIOPA).

D.2.1.2.1 ECONOMIC ASSUMPTIONS

The economic assumptions have been set such that they reflect the economic conditions at the valuation date.

Risk free yield curve
The valuation interest rate is based on a risk-free yield curve calculated based on the methodology implemented by EIOPA. This is applied to construct zero coupon base rates from the underlying swap rates plus a credit risk adjustment. The Company uses a continuously compounding version of this rate.
The Company has received approval from the PRA to apply a Matching Adjustment, which allows for an increase to be applied to the risk-free yield curve for the MA portfolios. No other adjustments have been made to the risk-free rate.

Inflation
Expense and unit cost inflation rates have been set by reference to external indicators as at the valuation date. Claims inflation, such as RPI-linked annuities, is set using an assessment of inflation implied by UK government bond yields or inflation swap curves.

Unit growth
For the calculation of the non-unit BEL on linked contracts, an assumption regarding the rate of future unit growth is required. The assumption made is that the growth rate before charges is the same as the risk free discount rate.

D.2.1.2.2 NON-ECONOMIC ASSUMPTIONS

Expenses

The cash flow projection used to calculate the BEL takes into account administrative, investment, claims and acquisition expenses, allowing for future expense inflation. The assumptions for long-term maintenance unit costs are set based on the forecast expenses, suitably adjusted where necessary, and include overhead expenses in line with the approved methodology.

Mortality and morbidity

Regular investigations of mortality and morbidity experience against appropriate base tables are conducted, with the portfolio segmented by groups of contracts that are expected to exhibit similar mortality and/or morbidity trends. An investigation is carried out from time to time (typically every three years) to review the fit of the experience to an appropriate base mortality table. In other years, assumptions are compared to the results of the most recent experience investigations and revised where the experience implies a shift that is likely to be due to more than random fluctuation. The best estimate assumption allows for claims incurred but not reported by the investigation date.

The assumption for annuitant mortality is set as a combination of a base table (i.e. the rate of mortality currently experienced by annuitants) plus future improvements (i.e. how the rates of mortality will change over time).

The mortality basis for retail protection business is set as a base table plus an allowance for deterioration in respect of contracts with critical illness cover benefits. Future mortality improvement assumptions are made for term and whole of life products.

For some classes where the reserves are insensitive to the chosen level of mortality, no investigation is carried out but an assumption is set in line with available data.

No adjustment has been made to the long-term bases for the impact of Covid-19. However, provisions were held for future excess claims in the short term.

Persistency

Persistency experience can include lapses, partial withdrawals and early retirement, where relevant. Persistency rates are reviewed annually for most products to determine the best estimate.

This investigation generally uses three years of data with a six month delay, to allow for lapses that the Company has not been notified of at the date of the investigation, to generate weighted average (by premium) lapse rates. The long-term persistency assumptions are set using these lapse rates. Alternative approaches are used if it is considered that the exposure is insufficient for the experience to be credible, observed lapse rates are excessively volatile or it is expected that the lapse experience will change in future.

Spouse demography

For bulk purchase annuities, assumptions are required where an annuitant's spousal data is not available. These assumptions include the proportion of annuitants within the portfolio who are eligible for a spouse's benefit at the valuation date, and the difference in age between married couples at the time of death of the primary annuitant.

Regular investigations are carried out (at least every three years) to determine these assumptions by examining the experience of the portfolio and comparing these to published population projections.

Further details of the main assumptions are provided in Annex 3 of this report.

D.2.1.3 MATERIAL CHANGES IN ASSUMPTIONS COMPARED TO THE PREVIOUS REPORTING PERIOD

The most material changes to assumptions from the previous reporting period to the current reporting period are listed below, including the impact of these changes:

- Base annuitant mortality assumptions have been updated to reflect the most recent experience, and annuitant mortality trend assumptions have been updated to the CMI 2018 model, with no change to the long-term improvement rates (reduction in BEL of £459m gross of reinsurance, £154m net of reinsurance).
- The assumptions underlying the calculation of inflation-linked annuity benefits were updated to better reflect expected inflation volatility (reduction in BEL of £300m gross of reinsurance, £224m net of reinsurance).
- Assumptions underlying the uplift assumed on deferred annuitants following late retirement were updated (reduction in BEL of £136m gross of reinsurance, £102m net of reinsurance).
- Unit Cost expense assumptions on unit linked business were updated to reflect the latest expectations for future expense levels and future expense inflation (increase in BEL of £38m gross of reinsurance, £37m net of reinsurance).

D.2.1.4 TRANSITIONAL MEASURES

The Company does not apply the transitional risk-free interest rate-term structure.

The Company applies the Transitional Measure on Technical Provisions (TMTP). The TMTP was recalculated in accordance with Article 308d of Directive 2009/138/EC at 31 December 2020. The Company obtained regulatory approval to recalculate its TMTP at this date, as its risk profile materially changed following the completion of the sale of the Mature Savings business in 2020. As at 31 December 2020, the impact of not applying the transitional measure is provided in the table below:

As at 31 December 2020 (£m)	Regulatory basis	Impact of removing TMTP	Adjusted balance
Technical provisions	130,247	4,229	134,476
SCR[1]	6,687	665	7,352
MCR	1,672	166	1,838
Basic Own Funds	9,887	(3,425)	6,462
Eligible Own Funds for SCR	9,887	(3,425)	6,462
Eligible Own Funds for MCR	9,887	(3,425)	6,462
Capital coverage ratio	148%	(60)%	88%
MCR coverage ratio	591%	(239)%	352%

1. The Solvency Capital Requirement is not subject to audit

D.2.1.5 VOLATILITY ADJUSTMENT

The Company does not apply a volatility adjustment.

D.2.1.6 MATCHING ADJUSTMENT (MA)

In common with other UK annuity providers, the Company has received approval from the PRA to apply a Matching Adjustment, in line with Article 77b of Directive 2009/138/EC.

The MA is applied as an addition to the risk-free interest rate term structure and applies to individual annuities and bulk purchase annuity schemes that meet the approved eligibility criteria. The assets contained within the Matching Adjustment Portfolios are predominantly corporate bonds, but also long-term direct investments held in MA-eligible structures, such as infrastructure investments and lifetime mortgages.

As at 31 December 2020 the impact of removing the approval to use a MA is provided in the table below:

As at 31 December 2020 (£m)	Regulatory basis	Impact of removing MA approval	Adjusted balance
Technical provisions	130,247	7,774	138,021
SCR[1]	6,687	11,303	17,990
MCR	1,672	2,826	4,498
Basic Own Funds	9,887	(6,297)	3,590
Eligible Own Funds for SCR	9,887	(6,297)	3,590
Eligible Own Funds for MCR	9,887	(6,297)	3,590
Capital coverage ratio	148%	(128)%	20%
MCR coverage ratio	591%	(511)%	80%

1. The Solvency Capital Requirement is not subject to audit

Losing MA approval is a remote risk for the business; however Article 296(2d) of the Solvency II Delegated Regulation requires the disclosure of the impact assuming that a firm does not have approval to use a MA. We have an extensive controls framework to ensure our on-going MA compliance and we have a regular dialogue with the PRA about our MA strategy.

D.2.2 RECONCILIATION BETWEEN THE VALUATION OF IFRS TECHNICAL PROVISIONS AND SOLVENCY II GROSS BEL

The table below bridges the BEL under Solvency II to the IFRS technical provisions.

As at 31 December (£m)	2020	2019
Closing gross IFRS Technical provisions *	**137,033**	145,493
Data changes	**(38)**	(76)
Model changes	**-**	(51)
Non-economic assumptions	**(8,544)**	(7,430)
Economic assumptions	**2,901**	3,191
Methodology changes	**(1,367)**	(3,041)
Closing Solvency II Gross BEL	**129,985**	138,086

* The gross IFRS Technical Provisions in the table above are consistent with the insurance and investment contract liabilities in the year ended 2020 Legal and General Assurance Society Limited statutory accounts excluding outstanding claims liability of c.£413m.

The reduction in liabilities from non-economic assumptions primarily relates to the removal of margins for adverse deviation allowed for in the IFRS liabilities. The BEL is calculated using best estimate assumptions excluding these prudent margins.
The increase in liabilities from economic assumption differences primarily relates to the move from discounting the cash flows at a prudent valuation interest rate (VIR) under IFRS to using the risk free interest rate term structure plus Matching Adjustment (MA) for eligible liabilities under Solvency II.

The £1.4bn methodology difference is mainly driven by the difference in treatment on reinsurance accepted (£0.5bn)and a release of additional provisions for default risk and exchange rates that are held as IFRS liabilities, but under Solvency II are held within the capital requirement (£0.3bn). A change of (£0.5bn) is due to the difference in accounting treatment of unit linked business, as under IFRS a negative non-unit liability for investment business is not permitted, while under Solvency II a negative balance is permitted.

The methodology changes line is materially lower than in previous years because of the sale of Mature Savings business.

D.2.3 REINSURANCE RECOVERABLES

The calculation of the reinsurance recoverable asset is consistent with the calculation of the gross BEL described above, except that where a Matching Adjustment is applied to the gross BEL on eligible business, the equivalent reinsurance recoverable asset will be discounted at the risk-free interest rate term structure, excluding Matching Adjustment. The reinsurance recoverable asset is adjusted for the best estimate probability of reinsurer default and includes an allowance for the timing difference between recoveries and reinsurance payments.

As at 31 December 2020 (£m)	**Gross technical provisions**	**Reinsurance recoverables**	**Net technical provisions**
With-profit participation	**-**	**-**	**-**
Index-linked and unit-linked insurance	**(50,211)**	**50,620**	**409**
Other life insurance	**(78,184)**	**21,597**	**(56,587)**
Accepted reinsurance	**(1,310)**	**254**	**(1,056)**
Health insurance	**(505)**	**140**	**(365)**
Non-life non-proportional property reinsurance	**(37)**	**-**	**(37)**
Total	**(130,247)**	**72,611**	**(57,636)**

As at 31 December 2019 (£m)	Gross technical provisions	Reinsurance recoverables	Net technical provisions
With-profit participation	(8,578)	-	(8,578)
Index-linked and unit-linked insurance	(58,705)	40,661	(18,044)
Other life insurance	(69,074)	18,937	(50,137)
Accepted reinsurance	(1,213)	241	(972)
Health insurance	(482)	101	(381)
Non-life non-proportional property reinsurance	(44)	-	(44)
Total	(138,096)	59,940	(78,156)

Reinsurance recoverables are described in section D.1.1.3 above. The Company has no SPVs authorised under Article 211 of the Solvency II Directive.

D.2.4 LEVEL OF UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS (TP)

The assumptions underpinning the Technical Provision calculations are the best estimate view of the Company. As one of the UK's largest life insurers, the Company has a significant amount of data regarding its own historic experience. Experience investigations using this data are undertaken regularly and the results are used to inform the choice of best estimate assumptions. This is augmented by expert judgement, in particular where past experience is not considered to be an appropriate reflection of future expectations.

The Company remains exposed to certain key areas of risk, including:

- future levels of mortality for UK annuity business. This remains a material source of uncertainty, but experience is closely monitored and assumptions are reviewed regularly, taking into account the latest available data;
- market conditions. TP can be very sensitive to changes in certain economic conditions, including inflation, interest rates, credit default rates, and equity markets. The Company has strategies in place to limit the exposure to these risks, but a certain level of uncertainty remains; and
- early termination rates. Policyholder behaviour can be unpredictable. In some cases, decisions made by policyholders to terminate policies can have a significant impact on TP. This is a particular risk for US Term business (which is reinsured into the company) where lapse rates are subject to a shock lapse at the end of the level term period.

The level of uncertainty in TP is mitigated through the use of reinsurance to reduce exposure to particularly significant risks such as life expectancy.
The Company calculates the amount of expected profit in the premiums not yet received into the Company (EPIFP). This shows the level of margin that is expected to emerge, if the current assumptions are borne out in practice.

A framework to assess the confidence in the methodology and assumptions used to calculate the TP has been established by the Group Audit Committee and latterly adopted by the LGAS Audit Committee. The framework allocates a status to the confidence in each of the assumptions or methodologies, based on a mixture of qualitative and quantitative criteria. The criteria set out in the framework and the initial assessments have been challenged and validated by experienced actuaries and accountants throughout the business.

Where there is a high level of expert judgement required this has been highlighted in the confidence assessment. For example, confidence in the base annuitant mortality is reasonably high, but due to the reliance on expert judgement, when selecting the longevity trend assumption within a range of plausible alternatives, the longevity improvements have been highlighted as an area of future uncertainty. Overall the Company has a high degree of confidence in the assumptions underpinning technical provisions and the level of uncertainty in the technical provisions is expected to be low.

D.3 OTHER LIABILITIES

As at 31 December 2020 the Company had other liabilities as follows:

Other liabilities as at 31 December 2020 (£m)	**Reference**	**Solvency II**	**IFRS**	**Variance**
Provisions other than technical provisions[1]		**14**	**14**	**-**
Deposits from reinsurers		**20,262**	**20,262**	**-**
Deferred tax liabilities	D3.1	**928**	**224**	**704**
Derivatives		**16,895**	**16,895**	**-**
Insurance and intermediaries payables		**448**	**448**	**-**
Reinsurance payables	D3.2	**41**	**41**	**-**
Payables (trade, not insurance)	D3.3	**13,381**	**13,392**	**(11)**
Any other liabilities, not shown elsewhere	D3.4	**-**	**1**	**(1)**
Total		**51,969**	**51,277**	**692**

Other liabilities as at 31 December 2019 (£m)	Reference	Solvency II	IFRS	Variance
Provisions other than technical provisions		38	58	(20)
Deposits from reinsurers		17,851	17,851	-
Deferred tax liabilities	D3.1	926	329	597
Derivatives		8,210	8,210	-
Insurance and intermediaries payables		498	498	-
Reinsurance payables	D3.2	102	668	(566)
Payables (trade, not insurance)	D3.3	7,946	8,075	(129)
Any other liabilities, not shown elsewhere	D3.4	-	48	(48)
Total		35,571	35,737	(166)

1. IFRS includes the provision recognised on an onerous contract which is reflected in the BELs under SII

Note: Assets held for index-linked and unit-linked contracts under IFRS have been adjusted to reflect the same presentational requirements of linked derivative liabilities under Solvency II. This has resulted in a decrease in the IFRS liabilities balance by £6m, and a corresponding decrease in derivative liabilities.

The following sections provide a quantitative and qualitative analysis of the material differences in valuation between IFRS and Solvency II, as well as a description of the valuation methods used.

D.3.1 DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are recognised and valued in accordance with IFRS principles, except that deferred tax assets and liabilities in respect of temporary differences are valued based upon the differences between the value of assets and liabilities in the Solvency II balance sheet and their value for tax purposes. Deferred tax is recognised on unused losses to the extent that it is probable that future taxable profits will arise against which the losses can be utilised.

The Company has a total deferred tax liability on the Solvency II balance sheet of £928m (2019: £926m), comprised of the following material components:

(£m)	Solvency II 2020	IFRS 2020	Solvency II 2019	IFRS 2019
Realised and unrealised gains/(losses) on investments	**229**	**230**	311	311
Excess of depreciation over capital allowances	**(12)**	**(12)**	(7)	(7)
Spread acquisition expenses	**-**	**-**	(19)	21
Other	**(25)**	**5**	(15)	4
Difference between tax and accounting value of insurance contracts	**736**	**-**	656	-
Total deferred tax (asset)/liability	**928**	**223**	926	329

None of the above deferred tax assets or liabilities have an expiration date.

D.3.2 REINSURANCE PAYABLES

The advance claim liability (ACL) in respect of the Risk Transfer Agreement (RTA) between the Company and ReAssure Limited, which arose as part of the sale of the Mature Savings business, was recognised as part of reinsurance payables under IFRS. Under Solvency II, this liability was derecognised and replaced with an RTA liability valued on a discounted best estimate projected cash flow basis as part of the Solvency II reinsurance recoverables (reducing the asset). As at 31 December 2019, the value of the derecognised IFRS RTA liability was £566m. Following the completion of the sale of the Mature Savings business, the RTA was no longer in effect resulting in no valuation difference in 2020.

D.3.3 PAYABLES (TRADE, NOT INSURANCE)

There is a £11m (2019: £129m) valuation difference within payables (trade, not insurance) relating to trail commission which is inadmissible under Solvency II as it is deemed to be intangible (in line with deferred acquisition costs and deferred income liability). Most of the balance in 2019 related to Mature Savings and therefore decreased in 2020 post the Part VII transfer.

The trail commission represents the present value of future commission payments under IFRS, and these amounts are taken into account in the calculation of the Solvency II BEL. All other payables within this line item are valued at fair value in line with IFRS.

D.3.4 ANY OTHER LIABILITIES, NOT SHOWN ELSEWHERE

Under IFRS there is £1m (2019: £48m) of deferred income liabilities, which are intangible and therefore inadmissible under Solvency II. These deferred income liabilities represent initial charges which are spread over the lifetime of the savings contracts, and are recognised under IFRS on contracts where there are no actuarial reserves in order that there is no day 1 profit. Under Solvency II these charges are allowed for in the BEL.

D.4 ALTERNATIVE METHODS FOR VALUATION

Legal & General has in place a group-wide asset valuation policy, which sets out the policy to ensure that all assets across the group, valued using alternative valuation methods, are governed, controlled and valued in a manner that is appropriate and consistent with the requirements of Article 263 of the Delegated Regulation. These policies include a requirement for ensuring valuation models are reviewed on a timely basis and that independent review of the models and outputs is obtained on a regular basis.

A Group Asset Valuation Committee ("the Committee") monitors the application of the processes and compliance with the group policy. This includes setting the policies to ensure appropriate documentation, including documentation of the models, significant assumptions and limitations, sensitivities and an assessment of the resulting valuations. The Committee is responsible for the oversight of asset valuations from each of the Solvency II regulated entities and its remit includes the Company's assets.

Whilst the Committee reviews all assets to which the shareholder has some exposure, its main focus is on assets which present the highest level of valuation uncertainty. These assets include:

Private credit (including commercial real estate loans)

These are illiquid private assets and valuations are derived by using a discounted future cash flow approach with yields based on selected comparator bonds with similar durations and investment grades, combined with an assumption on the initial spread of the investment. Valuation uncertainty is assessed by adjusting the discount rate for reasonable alternative assumptions in relation to duration and credit quality of the counterparty.

Income strips

These are property investment assets with lease durations typically in excess of 30 years. This asset class is valued using a discounted future cash flow approach based on comparator bond durations and investment grades, combined with assumptions on initial spread and future inflation factors.

The valuation uncertainty element has been assessed by calculating sensitivities to fixed income yields, property yields and a fixed sensitivity in line with applicable case law. Each sensitivity is then weighted appropriately to determine an overall sensitised value.

Lifetime mortgages loans

There is no relevant market-observable value for Lifetime Mortgage assets. However, the amount paid to acquire the assets at outset is objective, and is assumed to be the market value of the loan at the start date. The Lifetime Mortgage assets are held through securitised notes and classified as debt instruments.

Each Lifetime Mortgage loan is valued by projecting the expected proceeds and discounting at an appropriate discount rate. The main component of the spread is an estimate of the expected spread if the loan were issued on terms currently offered on new loans (with comparable LTVs). This spread will change over time, and aims to capture movements in the illiquidity premium available from investing in such Lifetime Mortgage assets.
To project the expected proceeds, we make assumptions about: expected future property prices, volatility of property price growth, costs of selling the properties, the expected impact of the no negative equity guarantee, decrement rates (mortality, morbidity and prepayment, as well as timing lags), running expenses. Valuation uncertainty has been assessed by applying sensitivities to these key valuation assumptions.

The asset valuation has been subjected to a variety of sensitivity tests covering reasonable ranges.

Investment property

Following the legal transfer of Mature Savings business on 7 September 2020 the investment property portfolio is made up of a single development, the valuation of the development is provided by an external valuation expert on a quarterly basis which is calibrated to recent precedent transactions in the market place. External property valuations are performed in line with professional valuation standards as prescribed by the Royal Institute of Chartered Surveyors. The valuation uncertainty element has been calculated by using alternative ranges for expected rental yields, property yields and other key inputs which were used in the valuation.

Sale and leaseback arrangements
The Sale and Leaseback transactions 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 Sale & Leaseback assets into a rental cash flow stream and a property residual value. External property valuations are performed in line with professional valuation standards as prescribed by the Royal Institute of Chartered Surveyors. The Sale & Leaseback assets are held through securitised notes and classified as debt instruments.

Non traded or illiquid bonds and equities
Illiquid fixed income securities are valued using a price from the counterparty broker to the deal where possible. Where this is not available, the group uses the purchase or issue price.

Illiquid equity valuations are derived in line with IPEV guidelines, by establishing a valuation with reference to relevant market, income and cost factors. These valuations are subject to internal review through independent asset valuation committees. Where possible, the valuations are reviewed by independent expert valuation companies.

Following the completion of these processes the Company has concluded that its assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

D.4.1 ADEQUACY OF THE VALUATION COMPARED TO EXPERIENCE

Where possible, the group aims to value its assets, which includes the Company's assets, using prices obtained from independent pricing providers. Where independent pricing is obtained, quality checks are performed to ensure valuations are appropriate. These include comparisons to like prices received from multiple providers, comparisons to previous day or period reported prices, spread tolerances built within the pricing, benchmarking to relevant indices and other tolerance based analyses. Deviations from tolerances are investigated and reported through the relevant asset governance process.

For assets where mark-to-market valuations from independent pricing providers are not available, the group performs reviews to validate and verify the continued suitability of the model for valuation purposes. This includes verification of the information, data, assumptions and output of the model, and a review of the model to ensure that it is still appropriate. The latter might consider external factors such as developments in standard modelling techniques for the asset in question, or internal factors such as evidence of the valuation against purchases or disposals of similar assets.

D.5 ANY OTHER INFORMATION

On 3 March 2021, the Chancellor of the Exchequer announced a planned increase in the headline rate of UK corporation tax to 25%, from 19% currently, from 1 April 2023.

Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force at the time when the temporary difference is expected to unwind. The Solvency II balance sheet follows the accounting principles set out in IAS12, which requires balance to be recognised at the rate in force at 31 December 2020, which was 19%. The impact of the change in rate has therefore not been reflected in the deferred tax balances at 31 December 2020 and will be recognised once it has been substantively enacted by the UK Parliament.

The Solvency II balance sheet and capital position recognise deferred tax assets and liabilities associated with the taxable differences between the IFRS and Solvency II balance sheets. The estimated impact of the change in deferred tax rate is a small increase in the company's coverage ratio.

There were no significant events other than those covered above.

E. Capital Management[7]

E.1 OWN FUNDS

E.1.1 OBJECTIVES FOR MANAGING OWN FUNDS

The Company's Board has established a risk appetite statement to set the Company's overall objective for capital; the Company aims to maintain an appropriate buffer of capital resources over the minimum regulatory capital requirements. The Company's Board sets a quantitative risk appetite for the Solvency II coverage ratio and this is used to monitor the position relative to the risk appetite.

The Group Capital Committee considers and approves matters such as capital allocation, new product lines, large transactions and capital investments, mergers and acquisition transactions, direct investments and other material matters that may arise under delegated authority from the Board and Group Chief Executive Officer.

Each year the Company prepares a five-year Capital Plan, consistent with the Company's Strategic and Business Plans, to forecast how the capital position is expected to develop over the business planning period and to consider the impact of the Company's strategy on the capital position. Performance against the Capital Plan is monitored on a regular basis and is used to inform decisions on the Company's capital structure and dividend policy.

There have been no significant changes in the objectives for managing own funds in the year.

E.1.2 QUANTITATIVE EXPLANATION OF OWN FUNDS

The components of IFRS equity and Solvency II Own Funds as at 31 December are set out below:

(£m)	**IFRS equity 2020**	**Solvency II Own Funds 2020**	IFRS equity 2019	Solvency II Own Funds 2019
Ordinary shares	**651**	**651**	651	651
Share premium	**1,049**	**1,049**	1,049	1,049
Retained earnings	**5,182**	**-**	4,923	-
Surplus funds	**-**	**-**	-	443
Reconciliation reserve	**-**	**8,187**	-	8,554
Total	**6,882**	**9,887**	6,623	10,697

E.1.3 STRUCTURE, AMOUNT, AND QUALITY OF BASIC OWN FUNDS

All of the Company's Own Funds have been assessed as Basic Own Funds. There are no Ancillary Own Fund items included in total Own Funds. Basic Own Funds have been assessed against Article 71 of the Delegated Regulation and have accordingly all been categorised as Tier 1 unrestricted own funds.

There are no items of Own Funds subject to transitional arrangements for the Company.

[7] The calculation of the Risk Margin, Solvency Capital Requirement and Transitional Measures on Technical Provisions, referenced within this section, are not subject to audit.

As at 31 December 2020, the ratio of Eligible Own Funds to cover SCR and the MCR coverage ratio are shown in the table below:

(£m)	Total 2020	Total 2019
Solvency Capital Requirement	**6,687**	6,567
Solvency Surplus	**3,200**	4,130
Ratio of Eligible Own Funds to SCR	**148%**	163%
Minimum Capital Requirement	**1,672**	1,642
Minimum Capital Surplus	**8,215**	9,055
Ratio of Eligible Own Funds to MCR	**591%**	652%

An analysis of significant movements during the period is provided in Section E.1.4.4

E.1.4 DETAILS OF OWN FUNDS ITEMS AND ANALYSIS OF SIGNIFICANT MOVEMENTS DURING THE YEAR

E.1.4.1 ORDINARY SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2020 the Company had an aggregate issued and paid up ordinary share capital of £651m (2019: £651m) and share premium of £1,049m (2019: £1,049m).

E.1.4.2 SURPLUS FUNDS

The surplus funds as at 31 December 2020 were £nil (2019: £443m), following the legal transfer of Mature Savings business on 7 September 2020. For 2019 this represented the excess assets over liabilities, excluding Risk Margin and Transitional Measures on Technical Provisions, of the With-Profits Fund after deducting the present value of expected future shareholder transfers.

E.1.4.3 RECONCILIATION RESERVE

The reconciliation reserve, which is a core component of Basic Own Funds, is made up of the excess of assets over liabilities seen on the Balance Sheet QRT S.02.01.02 (shown in Annex 1 of this report), adjusted for ordinary share capital, surplus funds and the share premium account, which are presented as separate components of Own Funds.

The calculation of the reconciliation reserve is as follows:

(£m)	2020	2019
Excess of assets over liabilities	**9,887**	10,697
Ordinary share capital	**(651)**	(651)
Share premium account	**(1,049)**	(1,049)
Surplus funds	**-**	(443)
Reconciliation reserve	**8,187**	8,554

E.1.4.4 ANALYSIS OF CHANGE IN OWN FUNDS

An analysis of significant movements in Own Funds during the year is shown below:

(£m)	Own Funds
Own Funds as at 31 December 2019	**10,697**
Net surplus generation	**884**
Dividends Paid	**(935)**
Other Operating and Non-Operating variances	**(759)**
Own Funds as at 31 December 2020	**9,887**

Over 2020, total Own Funds decreased by £810m. Net surplus of £884m was generated from the books of existing and new business. This was more than offset by the dividend payment of £935m to Legal & General Insurance Holdings Limited (the Company's immediate parent) and £759m of other operating and non-operating variances during the year.

The other operating and non-operating variances include a material reduction in Own Funds following the sale of the Mature Savings business to ReAssure. This was partly offset by £120m increase from the changes in annuitant mortality assumptions, primarily from the introduction of the adjusted CMI 2018 model for longevity trend. The remaining movement is driven by market movements, trading actions, experience variances and other assumption changes (as detailed in D 2.1.3).

E.1.5 RESTRICTIONS ON OWN FUNDS

As at 31 December 2020 there were no restrictions on the Own Funds for any of the Matching Adjustment Portfolios (MAPs) within the Company (2019: nil).

E.1.6 RECONCILIATION BETWEEN IFRS EQUITY AND EXCESS ASSETS OVER LIABILITIES

An explanation of the difference in each of the component parts of IFRS equity and the Solvency II excess of assets over liabilities is presented in Section D: Valuation for Solvency II purposes, including a qualitative explanation for all valuation adjustments. The overall reconciliation is shown below:

(£m)	Reference	2020	2019
IFRS equity		**6,882**	6,623
Solvency II Excess of assets over liabilities		**9,887**	10,697
Difference		**3,005**	4,074
Explained by:			
Elimination of intangibles[1]		**(176)**	(370)
Difference in the valuation of technical provisions		**3,878**	5,024
- Valuation differences on technical provisions	D.2	6,786	7,397
- Valuation differences on reinsurance recoverables	D.1	(2,908)	(2,939)
- Valuation differences on reinsurance payables	D.3.2	-	566
Other valuation differences[2]		**7**	18
Deferred tax impacts	D.3	**(704)**	(598)
Total		**3,005**	4,074

1. Includes £44m (2019: £489m) of deferred acquisition costs, £144m (2019: £58m) of intangible assets less £11m (2019: £129m) of trail commission payable and £1m (2019: £48m) of deferred income liabilities.
2. Other valuation differences include fair value adjustments.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT[8]

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

The total SCR for the Company as at 31 December 2020 was £6,687m (2019: £6,567m), net of the loss-absorbing capacity of deferred taxes (as detailed in E.2.2). This was calculated using the group's approved partial internal model. No element of the SCR is subject to supervisory assessment.

The table below provides an analysis of material changes to the SCR during the year:

(£m)	Total SCR
SCR as at 31 December 2019	6,567
Net surplus generation	236
Market movements	862
Other Operating/ Non-Operating variances	(978)
SCR as at 31 December 2020	**6,687**

- Net Surplus Generation includes SCR release from the back-book and the addition from new business written during the year;
- Market Movements represents the impact of changes in investment market conditions over the period and changes to future economic assumptions; and
- The other operating and non-operating variances include a material reduction in SCR following the sale of the Mature Savings business to ReAssure as well as various model and assumption changes.

Further information on the SCR by risk categories is provided in the QRT S.25.02.01 in Annex 1 of this report.

E.2.2 LOSS-ABSORBING CAPACITY OF DEFERRED TAXES (LACoDT)

The total SCR for the Company has been adjusted for the loss-absorbing capacity of deferred taxes (LACoDT). At 31 December 2020 the amount of the adjustment was £1,522m (2019: £1,270m).
LACoDT is a deferred tax benefit, reflecting the tax relief that would be available following a loss equal to the SCR. The tax relief is determined by considering tax payable on any expected future profits, plus any existing deferred tax liabilities.

LACoDT support arises from the following sources:

- Deferred tax liabilities included in the Solvency II Own Funds of the Company, largely arising from differences between the Solvency II Own Funds and IFRS equity. Any deferred tax assets on the base balance sheet are deducted from the deferred tax liabilities, to avoid double counting;
- Carry back: the UK tax regime permits carry back of trading losses against profits made in the current and previous tax years;
- Expected future taxable profits arising from 5 years of future new business, allowing for the expected new business volumes in a post-loss environment;
- Profit on future investment income expected to arise on assets not required to back Technical Provisions or SCR; and

[8] The Internal Model and SCR are not subject to audit.

- Profits arising from the release of prudence in the calculation of the TP where Solvency II regulations require a prudent approach.

E.2.3 MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR for the Company is calculated in accordance with the Solvency II Directive and Delegated regulation. The total MCR for the Company as at 31 December 2020 was £1,672m (2019: £1,642m).

The change in the amount of the MCR over the year is reflective of the increase in the SCR.

Details on the inputs used to calculate the MCR are provided in the QRT S.28.02.01 in Annex 1 of this report.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The duration-based equity risk sub module is not used in the calculation of the Company's Solvency Capital Requirement.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

E.4.1 INTERNAL MODEL

The group uses a Group Partial Internal Model (referred to as the Internal Model), as approved by the PRA. The Internal Model is used to calculate the capital requirements for the Company. The following sections describe the Internal Model used by the Company to assess its solo solvency requirements.

E.4.1.1 USE OF THE INTERNAL MODEL

The Internal Model is a key tool within the risk management system. It plays a central role in the measurement of risks, as the internal model translates identified risk exposures into risk-based capital requirements. The Internal Model models the material and quantifiable risks that are identified as part of the group's risk identification and review process.

The Internal Model's primary calculation engine, Algorithmics (Algo), has been designed to generate output at the level at which it will be used, i.e. at both a divisional and entity level, and by risk sub-category. This is important in ensuring its use and also helps to improve understanding and decision-making. In addition to being the Internal Model's calculation engine, Algo is also employed by the group for operational Asset Liability Management purposes.

Output from the Internal Model is used to formulate risk tolerances for the following group level risk appetite statements which are reviewed annually:

- The measure of return on risk-based capital;
- The appropriate additional capital resources to be held over the minimum regulatory capital requirements; and
- Management of earnings volatility.

Output from the Internal Model is essential for effectively monitoring risk exposures across both the group and the Company. Effective management information (MI) informs and supports the decision-making, oversight and risk assessment responsibilities of the group's and Company's risk and capital management committees.

The group level approach also serves as a model for the MI required for lower-level (i.e. divisional and entity) committees.

E.4.1.2 SCOPE OF THE INTERNAL MODEL

We have chosen to adopt an Internal Model approach to calculate the Solvency Capital Requirement (SCR) for material insurance companies in the group. The Internal Model covers all of the group's material and quantifiable risk exposures, which are identified as falling into the following categories:

- Insurance;
- Credit;
- Market;
- Counterparty credit;
- Operational; and
- Diversification between risks.

Our Internal Model is integrated into our risk management and governance systems. The material risks identified through the risk framework are also those covered by the Internal Model and vice versa. Actual risk exposures relative to Internal Model derived risk limits are reported and monitored.

The output of the Internal Model is used:

- to measure and rank the relative profile of the group's and the Company's core risk exposures;
- in determining the group's strategies, risk limits and tolerances for managing different types of risk exposure relative to risk appetite;
- in the own risk and solvency assessment (ORSA) for the group and the Company;
- as a key factor in decisions such as those covering capital allocations, product pricing and asset class selection; and
- in the assessment of significant transactions.

The group and Company Boards are assured of the adequacy and effectiveness of the integration and use of the Internal Model through regular reporting to the GRC, both as part of the formal management information received by the Committee and through briefings on the operation and development of the Internal Model.

E.4.1.3 METHODS USED IN THE INTERNAL MODEL

The calculation approach used generates 500,000 simulations of 'risk drivers' such as equity returns and interest rates. The simulations are constructed in such a way that each risk driver follows a predefined distribution and that the relationship between any two risk drivers follows a predefined correlation assumption. The simulations can be looked at as a sample generated from a multidimensional distribution. This is sometimes referred to as a 'marginal distribution'.

The multidimensional distribution is built from the risk driver distributions, correlation assumptions and a t-copula function which represents the dependency structure between the risks.

Each scenario is fed into an asset valuation module, which is capable of revaluing the Company's assets for each of these scenarios. The output is the total asset value under each scenario. This module covers the vast majority of assets required for capital calculation purposes.

Similarly, the scenarios are fed into a liability valuation module (and for certain situations the results from the asset valuation are also fed into the liability valuation module). Due to run time constraints, the liability valuation module is a simplified model (referred to as a 'proxy model').

The results of the liability valuation and the asset valuation module are combined for each scenario to give the resulting net asset position and the change in net asset value compared to the starting position. These results cover existing business, as well as the new business expected to be written over the following 12 months.

The risk measure used for the purpose of the Internal Model is a 'value-at-risk' measure (VaR); the VaR is defined as the estimated loss for a given probability over a one-year period.

By ordering the results (i.e. changes in net assets) the empirical aggregated loss distribution can be constructed.

E.4.2 THE RISK MEASURE AND TIME PERIOD USED IN THE INTERNAL MODEL

In line with Article 101 of the Solvency II Directive the Internal Model SCR is the 1-in-200 value-at-risk (VaR) of Own Funds over a one-year period.

E.4.3 MAIN DIFFERENCES AGAINST THE STANDARD FORMULA APPROACH

As described above, the Internal Model calibration standard is the same as for the Standard Formula. However, the detailed calculations differ in their sophistication and the extent to which they have been tailored to Legal & General's own risk profile. As part of the review of the Internal Model an annual exercise is carried out to assess the Group Standard Formula result.

Standard Formula is not the Company's regulatory basis. The production of a Company Standard Formula result is not carried out as part of the year-end valuation cycle, and has been carried out on a proportionate basis. It is not subject to the level of rigour as the Internal Model result validation.

The most significant (pre-diversification between risks) differences are as follows:

- Standard Formula has no inflation risk capital requirement, whereas the Internal Model has a non-zero amount;
- The capital requirement arising from spread risk (net of Matching Adjustment) is significantly higher (pre-diversification) for the Standard Formula than for the Internal Model. Aside from this, the Internal Model calibration is significantly stronger than the Standard Formula, but there is an offsetting impact from lower than 100% correlation between the various Internal Model spread risk drivers. Also, differing treatments for asset types will influence the relative strength;
- There are stronger calibrations in the Internal Model compared to Standard Formula for longevity risk and operational risk;
- There are stronger calibrations in the Standard Formula compared to the Internal Model for lapse risk and mortality risk;

- Equity risk capital requirement is higher (pre-diversification between risks) for Standard Formula than Internal Model primarily due to different classifications of certain assets;
- Property risk capital requirement is lower (pre-diversification between risks) for Standard Formula than Internal Model primarily due to different classifications of certain assets;
- Loss absorbing capacity of deferred taxes (LACoDT) is proportionately lower for Standard Formula as the Standard Formula SCR is materially higher overall, and there are insufficient deferred tax liabilities or sources of future profits to support full LACoDT recoverability under Standard Formula;
- The Internal Model has a non-market risk capital requirement on the group's defined benefit pension schemes, whereas Standard Formula has no requirement for this risk;
- The Internal Model uses a copula approach to aggregate the components rather than the matrix multiplication specified in the Standard Formula. This enables the Internal Model to more accurately allow for interactions between risks and non-normal risk distribution shapes and results in different diversification benefit under the Internal Model; and
- The Internal Model also allows for diversification between the business inside and outside the Matching Adjustment portfolio upon aggregation, whereas the Standard Formula does not.

E.4.4 INTERNAL MODEL DATA

In order to calculate our Solvency Capital Requirement our Internal Model is provided with data about our assets, liabilities and the risks associated with each of these. The majority of assets are modelled on an individual asset terms and conditions basis, providing readily validated valuations and granular modelling of how assets respond under different scenarios. Insurance liabilities are provided by our proven process for the calculation of Best Estimate Liabilities; the same process provides figures for our IFRS reporting and calculation of technical provisions.

In order to assess the risks associated with our assets and liabilities a wide range of economic, market and insurance data and operational risk experience is used. Internal and external historical and experience data are used to project possible future scenarios, and external forecasts are used for example in life longevity, causes of death, epidemic risks and event catastrophe risks.

Data are used to assess:

- the likelihood and scale of individual risks; and
- how these risks are correlated, i.e. the extent to which a change in one risk is likely to coincide with a change in another risk.

Our Solvency II data governance framework has been designed to instil best practice in managing data risk and improving data quality to add robustness to model processes and outputs. The Solvency II Data Management Policy sets out the group's requirements for managing data risk on data used to develop, populate, operate and validate the Internal Model. The data management control framework provides the conditions for business areas to ensure that all Internal Model data are recorded and that associated data risks and quality are managed effectively. The framework includes regular assessments of data quality and controls effectiveness.

The appropriateness of all internal and external data is considered and justified by the experts in each area of risk, and these justifications are independently validated.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

There have been no instances of non-compliance with either the MCR or SCR for the Company over the reporting period.

E.6 ANY OTHER INFORMATION

Mature savings

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 effected by way of a Part VII transfer under the Financial Services and Markets Act 2000.

Annex 1 – Quantitative Reporting Templates (QRTS)

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020
Values are shown in £'000
S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	-
R0020	Deferred acquisition costs	-
R0030	Intangible assets	-
R0040	Deferred tax assets	-
R0050	Pension benefit surplus	-
R0060	Property, plant & equipment held for own use	36,592
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	105,504,685
R0080	*Property (other than for own use)*	29,146
R0090	*Holdings in related undertakings, including participations*	277,885
R0100	*Equities*	299,680
R0110	*Equities - listed*	299,548
R0120	*Equities - unlisted*	132
R0130	*Bonds*	79,574,966
R0140	*Government Bonds*	12,305,857
R0150	*Corporate Bonds*	66,451,790
R0160	*Structured notes*	-
R0170	*Collateralised securities*	817,319
R0180	*Collective Investments Undertakings*	9,078,715
R0190	*Derivatives*	16,243,523
R0200	*Deposits other than cash equivalents*	770
R0210	*Other investments*	-
R0220	Assets held for index-linked and unit-linked contracts	4,463
R0230	Loans and mortgages	7,444,739
R0240	*Loans on policies*	-
R0250	*Loans and mortgages to individuals*	6,285,504
R0260	*Other loans and mortgages*	1,159,235
R0270	Reinsurance recoverables from:	72,611,298
R0280	*Non-life and health similar to non-life*	-
R0290	*Non-life excluding health*	-
R0300	*Health similar to non-life*	-
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	21,990,584
R0320	*Health similar to life*	139,758
R0330	*Life excluding health and index-linked and unit-linked*	21,850,826
R0340	*Life index-linked and unit-linked*	50,620,714
R0350	Deposits to cedants	787,058
R0360	Insurance and intermediaries receivables	56,728
R0370	Reinsurance receivables	375,660
R0380	Receivables (trade, not insurance)	4,841,094
R0390	Own shares (held directly)	-
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
R0410	Cash and cash equivalents	441,670
R0420	Any other assets, not elsewhere shown	-
R0500	**Total assets**	**192,103,987**

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020
Values are shown in £'000
S.02.01.02 (continued)
Balance sheet

		Solvency II value	
	Liabilities	C0010	
R0510	Technical provisions - non-life	36,068	
R0520	*Technical provisions - non-life (excluding health)*	36,068	
R0530	*TP calculated as a whole*	-	
R0540	*Best Estimate*	35,568	Note 1
R0550	*Risk margin*	500	Note 2
R0560	*Technical provisions - health (similar to non-life)*	-	
R0570	*TP calculated as a whole*	-	
R0580	*Best Estimate*	-	
R0590	*Risk margin*	-	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	79,988,021	
R0610	*Technical provisions - health (similar to life)*	504,953	
R0620	*TP calculated as a whole*	-	
R0630	*Best Estimate*	502,600	Note 1
R0640	*Risk margin*	2,353	Note 2
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	79,483,068	
R0660	*TP calculated as a whole*	-	
R0670	*Best Estimate*	78,828,454	Note 1
R0680	*Risk margin*	654,614	Note 2
R0690	Technical provisions - index-linked and unit-linked	50,223,089	
R0700	*TP calculated as a whole*	-	
R0710	*Best Estimate*	50,177,618	Note 1
R0720	*Risk margin*	45,471	Note 2
R0730	Other technical provisions	-	
R0740	Contingent liabilities	-	
R0750	Provisions other than technical provisions	13,755	
R0760	Pension benefit obligations	-	
R0770	Deposits from reinsurers	20,262,174	
R0780	Deferred tax liabilities	927,768	
R0790	Derivatives	16,895,104	
R0800	Debts owed to credit institutions	1,174	
R0810	Financial liabilities other than debts owed to credit institutions	-	
R0820	Insurance & intermediaries payables	448,270	
R0830	Reinsurance payables	40,525	
R0840	Payables (trade, not insurance)	13,381,496	
R0850	Subordinated liabilities	-	
R0860	*Subordinated liabilities not in BOF*	-	
R0870	*Subordinated liabilities in BOF*	-	
R0880	Any other liabilities, not elsewhere shown	-	
R0900	**Total liabilities**	**182,217,444**	
R1000	**Excess of assets over liabilities**	**9,886,543**	

Note 1
BELs are shown net of Transitional Measure on Technical Provisions (TMTP) applied.
The total BELs above sum to £129,544m. The total unadjusted BELs of £129,985m can be seen in section D.2 of the report.

Note 2
Risk Margin is shown net of TMTP applied. The total Risk Margin above sums to £703m.
The total unadjusted Risk Margin of £4,491m can be seen in section D.2 of the report.

In total, TMTP of £4,229m was applied, and can be seen in section D.2 of the report.

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020

Values are shown in £'000

S.05.01.02

Premiums, claims and expenses by line of business

	Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Medical expense insurance	Income protection insurance	Fire and other damage to property insurance	
		C0010	C0020	C0070	C0200
	Premiums written				
R0110	*Gross - Direct Business*	-	-	-	-
R0120	*Gross - Proportional reinsurance accepted*	-	-	114,139	114,139
R0130	*Gross - Non-proportional reinsurance accepted*				-
R0140	*Reinsurers' share*	-	-	5,757	5,757
R0200	*Net*	-	-	108,382	108,382
	Premiums earned				
R0210	*Gross - Direct Business*	-	-	-	-
R0220	*Gross - Proportional reinsurance accepted*	-	-	125,885	125,885
R0230	*Gross - Non-proportional reinsurance accepted*				-
R0240	*Reinsurers' share*	-	-	5,757	5,757
R0300	*Net*	-	-	120,128	120,128
	Claims incurred				
R0310	*Gross - Direct Business*	-	-	-	-
R0320	*Gross - Proportional reinsurance accepted*	-	-	79,937	79,937
R0330	*Gross - Non-proportional reinsurance accepted*				-
R0340	*Reinsurers' share*	-	-	-	-
R0400	*Net*	-	-	79,937	79,937
	Changes in other technical provisions				
R0410	*Gross - Direct Business*	-	-	-	-
R0420	*Gross - Proportional reinsurance accepted*	-	-	-	-
R0430	*Gross - Non-proportional reinsurance accepted*				-
R0440	*Reinsurers' share*	-	-	-	-
R0500	*Net*	-	-	-	-
R0550	**Expenses incurred**	-	-	55,258	55,258
R1200	**Other expenses**				6,407
R1300	**Total expenses**				61,665

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020

Values are shown in £'000

S.05.01.02

Premiums, claims and expenses by line of business

	Life	Line of Business for: life insurance obligations				Life reinsurance obligations	Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0280	C0300
	Premiums written						
R1410	*Gross*	169,148	10,545	10,207,079	10,445,178	339,809	21,171,759
R1420	*Reinsurers' share*	32,024	427	8,599,816	4,183,849	10,566	12,826,682
R1500	*Net*	137,124	10,118	1,607,263	6,261,329	329,243	8,345,077
	Premiums earned						
R1510	*Gross*	169,148	10,545	-	9,886,271	339,809	10,405,773
R1520	*Reinsurers' share*	32,024	427	-	4,087,596	10,565	4,130,612
R1600	*Net*	137,124	10,118	-	5,798,675	329,244	6,275,161
	Claims incurred						
R1610	*Gross*	89,705	371,242	3,272,306	5,088,238	295,308	9,116,799
R1620	*Reinsurers' share*	16,210	281	744,054	2,976,703	15,063	3,752,311
R1700	*Net*	73,495	370,961	2,528,252	2,111,535	280,245	5,364,488
	Changes in other technical provisions						
R1710	*Gross*	43,094	243,653	503,526	9,785,580	84,649	10,660,502
R1720	*Reinsurers' share*	64,599	-	2,103,467	2,587,619	27,715	4,783,400
R1800	*Net*	(21,505)	243,653	(1,599,941)	7,197,961	56,934	5,877,102
R1900	**Expenses incurred**	103,720	21,625	140,881	747,377	-	1,013,603
R2500	**Other expenses**						56,908
R2600	**Total expenses**						1,070,511

Values are shown in £'000

S.12.01.02

Life and Health SLT Technical Provisions

		Index-linked and unit-linked insurance	Contracts with options or guarantees	Other life insurance	Contracts without options and guarantees	Contracts with options or guarantees	Accepted reinsurance	Total (Life other than health insurance, incl Unit-linked)	Health insurance (direct business)	Contracts without options and guarantees	Contracts with options or guarantees	Total (Health similar to life insurance)
		C0030	C0050	C0060	C0070	C0080	C0100	C0150	C0160	C0170	C0180	C0210
R0010	**Technical provisions calculated as a whole**	-		-			-	-	-			-
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-		-			-	-	-			-
	Technical provisions calculated as a sum of BE and RM											
	Best estimate											
R0030	**Gross Best Estimate**		50,166,176		37,018,598	40,961,964	1,299,364	129,446,102		147,959	354,641	502,600
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		50,620,714		11,771,603	9,825,104	254,119	72,471,540		72,613	67,145	139,758
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		(454,538)		25,246,995	31,136,860	1,045,246	56,974,563		75,346	287,496	362,842
R0100	**Risk margin**	45,471		4,357,917			85,135	4,488,523	2,353			2,353
	Amount of the transitional on Technical Provisions											
R0110	Technical Provisions calculated as a whole	-		-			-	-	-			-
R0120	Best estimate	-	-	-	(196,692)	(235,680)	(7,658)	(440,030)	-	-	-	-
R0130	Risk margin	-		(3,722,503)			(65,935)	(3,788,438)	-			-
R0200	**Technical provisions - total**	50,211,647		78,183,605			1,310,906	129,706,158	504,953			504,953

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020

Values are shown in £'000

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Fire and other damage to property insurance	
		C0020	C0030	C0080	C0180
R0010	**Technical provisions calculated as a whole**	-	-	-	-
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-	-	-	-
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	**Gross - Total**	-	-	20,368	20,368
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-	-	-
R0150	**Net Best Estimate of Premium Provisions**	-	-	20,368	20,368
	Claims provisions				
R0160	**Gross - Total**	-	-	15,200	15,200
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-	-	-
R0250	**Net Best Estimate of Claims Provisions**	-	-	15,200	15,200
R0260	**Total best estimate - gross**	-	-	35,568	35,568
R0270	**Total best estimate - net**	-	-	35,568	35,568
R0280	**Risk margin**	-	-	500	500
	Amount of the transitional on Technical Provisions				
R0290	TP as a whole	-	-	-	-
R0300	Best estimate	-	-	-	-
R0310	Risk margin	-	-	-	-
R0320	**Technical provisions - total**	-	-	36,068	36,068
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-	-	-	-
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	-	-	36,068	36,068

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020

Values are shown in £'000

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	130,247,178	4,228,468	-	-	7,774,040
R0020	**Basic own funds**	9,886,544	(3,425,059)	-	-	(6,296,972)
R0050	**Eligible own funds to meet Solvency Capital Requirement**	9,886,544	(3,425,059)	-	-	(6,296,972)
R0090	**Solvency Capital Requirement**	6,686,617	665,010	-	-	11,303,276
R0100	**Eligible own funds to meet Minimum Capital Requirement**	9,886,544	(3,425,059)	-	-	(6,296,972)
R0110	**Minimum Capital Requirement**	1,671,654	166,252	-	-	2,825,819

Note

The information disclosed in this template is as defined in Annex I of Commission Implementing Regulation (EU) 2015/2542, and is as at 31 December 2020.
Values in this table alone do not provide sufficient information to gain a fair and transparent understanding of the Group's solvency position

Additional information on the Transition Measure on Technical Provisions and the Matching Adjustment can be found in section D.2 of the report.

Values are shown in £'000

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	651,430	651,430		-	
R0030	Share premium account related to ordinary share capital	1,048,914	1,048,914		-	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	-	-		-	
R0050	Subordinated mutual member accounts	-		-	-	-
R0070	Surplus funds	-	-			
R0090	Preference shares	-		-	-	-
R0110	Share premium account related to preference shares	-		-	-	-
R0130	Reconciliation reserve	8,186,200	8,186,200			
R0140	Subordinated liabilities	-		-	-	-
R0160	An amount equal to the value of net deferred tax assets	-				-
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	-	-	-	-	-
R0290	**Total basic own funds after deductions**	9,886,544	9,886,544	-	-	-
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	9,886,544	9,886,544	-	-	-
R0510	Total available own funds to meet the MCR	9,886,544	9,886,544	-	-	
R0540	Total eligible own funds to meet the SCR	9,886,544	9,886,544	-	-	-
R0550	Total eligible own funds to meet the MCR	9,886,544	9,886,544	-	-	
R0580	**SCR**	6,686,617				
R0600	**MCR**	1,671,654				
R0620	**Ratio of Eligible own funds to SCR**	148%				
R0640	**Ratio of Eligible own funds to MCR**	591%				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	9,886,544				
R0710	Own shares (held directly and indirectly)	-				
R0720	Foreseeable dividends, distributions and charges	-				
R0730	Other basic own fund items	1,700,344				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-				
R0760	**Reconciliation reserve**	8,186,200				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	1,885,454				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-				
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,885,454				

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020
Values are shown in £'000
S.25.02.21
Solvency Capital Requirement - for groups using the standard formula and partial internal model

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	
Row	C0010	C0020	C0030	C0070	
1	10300I	Interest rate risk (other than pension scheme)	236,107	236,107	
2	10400I	Equity risk (other than pension scheme)	877,326	877,326	
3	10600I	Property risk (other than pension scheme)	902,581	902,581	
4	10700I	Spread risk (other than pension scheme)	4,757,327	4,757,327	
5	10800I	Concentration risk (other than pension scheme)	-	-	
6	10900I	Currency risk (other than pension scheme)	176,618	176,618	
7	11000I	Other market risk (other than pension scheme)	1,043,712	1,043,712	
8	10300P	Interest rate risk (pension scheme)	-	-	
9	10400P	Equity risk (pension scheme)	-	-	
10	10600P	Property risk (pension scheme)	-	-	
11	10700P	Spread risk (pension scheme)	-	-	
12	10800P	Concentration risk (pension scheme)	-	-	
13	10900P	Currency risk (pension scheme)	-	-	
14	11000P	Other market risk (pension scheme)	-	-	
15	19900I	Diversification within market risk (including pension scheme)[1]	(690,535)	(690,535)	Note 1
16	20100I	Type 1 counterparty risk	233,242	233,242	
17	20200I	Type 2 counterparty risk	-	-	
18	29900I	Diversification within counterparty risk	-	-	Note 1
19	30100I	Mortality risk	208,875	208,875	
20	30200I	Longevity risk (other than pension scheme)	3,488,693	3,488,693	
21	30200P	Longevity risk (pension scheme)	-	-	
22	30400I	Mass lapse	268,106	268,106	
23	30500I	Other lapse risk	311,864	311,864	
24	30600I	Expense risk	619,846	619,846	
25	30800I	Life catastrophe risk	622,545	622,545	
26	30900I	Other life underwriting risk	-	-	
27	39900I	Diversification within life underwriting risk[1]	(1,811,861)	(1,811,861)	Note 1
28	41600I	Other health underwriting risk	93,450	93,450	
29	50100I	Premium risk	-	-	
30	50200I	Reserve risk	-	-	
31	50150I	Premium risk if premium risk covers premium provision and business planned to be written in coming 12 months combined	88,040	88,040	
32	50210I	Reserving risk if claims provision and premium provision combined	19,957	19,957	
33	50300I	Non-life catastrophe risk	101,216	101,216	
34	59900I	Diversification within non-life underwriting risk[1]	-63,356	-63,356	Note 1
35	70100I	Operational risk	768,701	768,701	
36	80100I	Other risks	-	-	
37	80200I	Loss-absorbing capacity of technical provisions	-	-	
38	80300I	Loss-absorbing capacity of deferred tax	(1,521,906)	(1,521,906)	
39	80400I	Other adjustments	(48,152)	(48,152)	

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020
Values are shown in £'000
S.25.02.21 (continued)
Solvency Capital Requirement - for groups using the standard formula and partial internal model

	Calculation of Solvency Capital Requirement	C0100	
R0110	Total undiversified components	10,682,396	Sum of components above
R0060	Diversification[2]	(3,995,779)	Note 2
R0120	Adjustment due to RFF/MAP nSCR aggregation	-	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-	
R0200	**Solvency capital requirement excluding capital add-on**	6,686,617	
R0210	Capital add-ons already set	-	
R0220	**Solvency capital requirement**	6,686,617	Total plus diversification (R0110 + R0060)
	Other information on SCR		
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	(1,521,906)	
R0400	Capital requirement for duration-based equity risk sub-module	-	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,878,413	
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	-	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	5,504,683	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-	
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	4	
R0460	Net future discretionary benefits	-	

Note 1
These items represent diversification within individual risk categories. The total diversification within categories is £2,566m.

Note 2
This item represents diversification between risk categories. The total diversification within and between risk categories is £6,562m.

Values are shown in £'000

S.28.02.01

Solvency Capital Requirement - for groups using the standard formula and partial internal model

		Non-life activities MCR(NL,NL) Result	Life activities MCR(NL,L) Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	11,472	-

		Non-life activities Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Non-life activities Net (of reinsurance) written premiums in the last 12 months	Life activities Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Life activities Net (of reinsurance) written premiums in the last 12 months			non-life	life
		C0030	C0040	C0050	C0060	α	β	α.D + β.E	α.F + β.G
R0020	Medical expense insurance and proportional reinsurance	-	-	-	-	4.7%	4.7%	-	-
R0030	Income protection insurance and proportional reinsurance	-	-	-	-	13.1%	8.5%	-	-
R0040	Workers' compensation insurance and proportional reinsurance	-	-	-	-	10.7%	7.5%	-	-
R0050	Motor vehicle liability insurance and proportional reinsurance	-	-	-	-	8.5%	9.4%	-	-
R0060	Other motor insurance and proportional reinsurance	-	-	-	-	7.5%	7.5%	-	-
R0070	Marine, aviation and transport insurance and proportional reinsurance	-	-	-	-	10.3%	14.0%	-	-
R0080	Fire and other damage to property insurance and proportional reinsurance	35,568	108,382	-	-	9.4%	7.5%	11,472	-
R0090	General liability insurance and proportional reinsurance	-	-	-	-	10.3%	13.1%	-	-
R0100	Credit and suretyship insurance and proportional reinsurance	-	-	-	-	17.7%	11.3%	-	-
R0110	Legal expenses insurance and proportional reinsurance	-	-	-	-	11.3%	6.6%	-	-
R0120	Assistance and proportional reinsurance	-	-	-	-	18.6%	8.5%	-	-
R0130	Miscellaneous financial loss insurance and proportional reinsurance	-	-	-	-	18.6%	12.2%	-	-
R0140	Non-proportional health reinsurance	-	-	-	-	18.6%	15.9%	-	-
R0150	Non-proportional casualty reinsurance	-	-	-	-	18.6%	15.9%	-	-
R0160	Non-proportional marine, aviation and transport reinsurance	-	-	-	-	18.6%	15.9%	-	-
R0170	Non-proportional property reinsurance	-	-	-	-	18.6%	15.9%	-	-
							TS MCR.12	11,472	-

		MCR(L,NL) Result	MCR(L,L) Result
		C0070	C0080
R0200	**Linear formula component for life insurance and reinsurance obligations**	-	1,561,460

LEGAL AND GENERAL ASSURANCE SOCIETY LTD – SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2020

Values are shown in £'000

S.28.02.01 (continued)

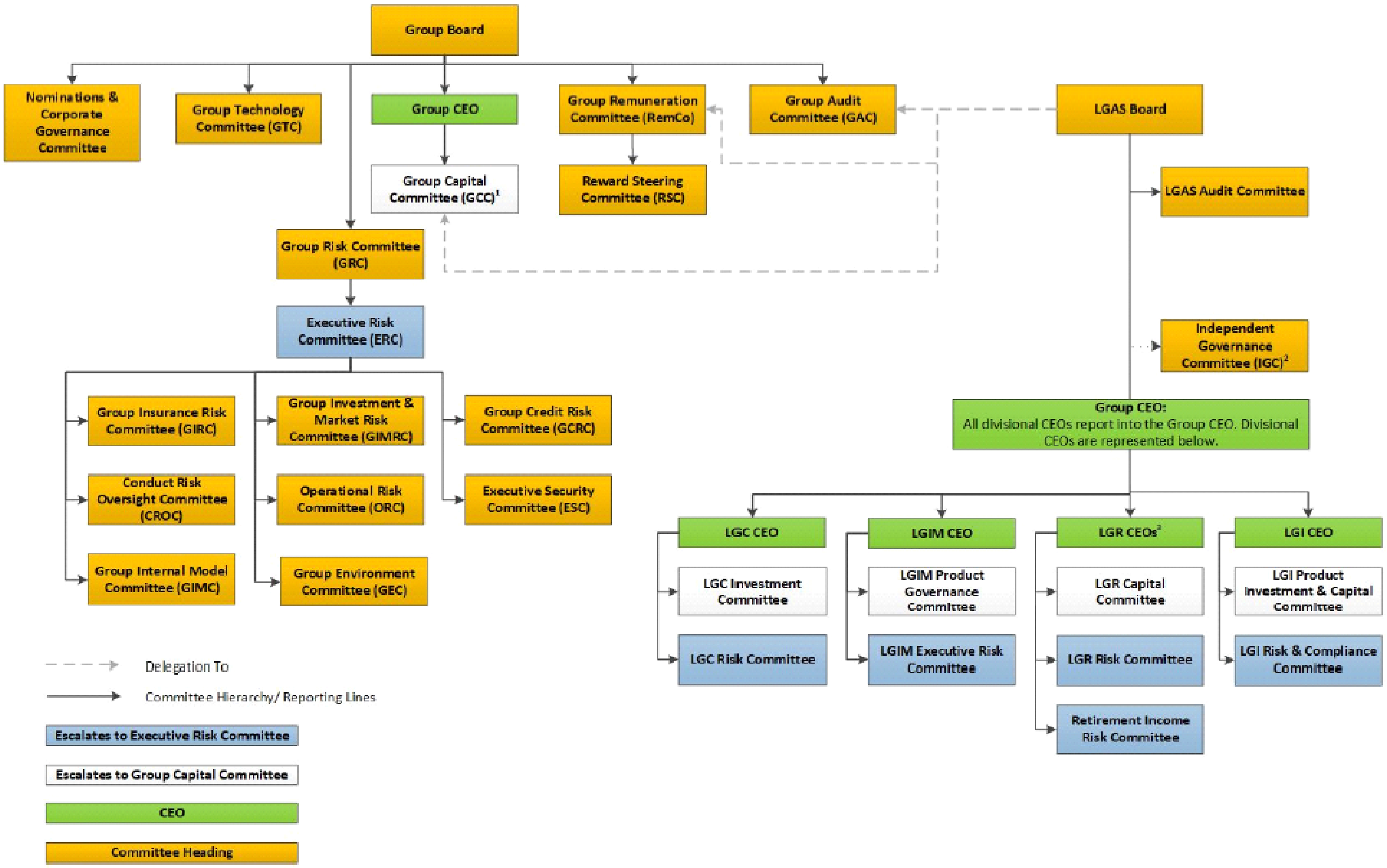
Solvency Capital Requirement - for groups using the standard formula and partial internal model

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk			
		C0090	C0100	C0110	C0120			
R0210	Obligations with profit participation - guaranteed benefits	-		-		3.7%	-	-
R0220	Obligations with profit participation - future discretionary benefits	-		-		-5.2%	-	-
R0230	Index-linked and unit-linked insurance obligations	-		-		0.7%	-	-
R0240	Other life (re)insurance and health (re)insurance obligations	-		57,340,469		2.1%	-	1,204,149
R0250	Total capital at risk for all life (re)insurance obligations		-		510,443,626	0.07%	-	357,311
						TS MCR.13	-	1,561,460

	Overall MCR calculation	C0130
R0300	Linear MCR	1,572,932
R0310	SCR	6,686,617
R0320	MCR cap	3,008,978
R0330	MCR floor	1,671,654
R0340	Combined MCR	1,671,654
R0350	Absolute floor of the MCR	5,593
R0400	**Minimum Capital Requirement**	1,671,654

		Non-life activities	Life activities
	Notional non-life and life MCR calculation	C0140	C0150
R0500	Notional linear MCR	11,472	1,561,460
R0510	Notional SCR excluding add-on (annual or latest calculation)	48,768	6,637,783
R0520	Notional MCR cap	21,946	2,987,002
R0530	Notional MCR floor	12,192	1,659,446
R0540	Notional combined MCR	12,192	1,659,446
R0550	Absolute floor of the notional MCR	2,255	3,338
R0560	**Notional MCR**	12,192	1,659,446

Annex 2 – Entity Governance Oversight Structure



[1] Management committee

[2] Does not act upon delegated authority but provides reports to LGAS Board in an advisory capacity

[3] LGR CEOs includes CEO of LGR-I and LGR-R

Annex 3 – Main Assumptions Underlying Technical Provisions

Non-linked individual term assurances [1]	
Smokers	90% TMS08/TFS08 Sel 5
Non-smokers	92% TMN08/TFN08 Sel 5
Non-linked individual term assurances with terminal illness[1]	
Smokers	58-84% TMS08/TFS08 Sel 5
Non-smokers	76-86% TMN08/TFN08 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012) [2]	
Smokers	89% - 120% ACMS08/ACFS08
Non-smokers	104% - 115% ACMN08/ACFN08
Non-linked individual term assurances with critical illness (Sold from 01/01/2013) [2]	
Smokers	91% - 125% ACMS08/ACFS08
Non-smokers	106% - 132% ACMN08/ACFN08
Whole of Life[3]	
Smokers	Bespoke tables based on TMS08/TFS08, AM92/AF92 and UK death registrations
Non-smokers	Bespoke tables based on TMN08/TFN08, AM92/AF92 and UK death registrations
Annuities	
Annuities in deferment[4, 5]	77.3% - 87.1% PNMA00/PNFA00
Bulk purchase annuities in payment[5]	77.3% - 87.1% PCMA00/PCFA00
Other annuities[5]	66.8% - 111.7% PCMA00/PCFA00

1. The percentage of the table varies with the duration that the policy has been in-force for the first five years. Mortality rates are assumed to improve at a rate of 1.00% p.a. for both males and females.

2. The percentage of the table varies with the duration that the policy has been in-force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females.

3. The percentage of the TM08/TF08 tables varies with the duration that the policy has been in-force for the first five years. Thereafter, a bespoke mortality table constructed based on TM08/TF08 tables, AM92/AF92 tables and UK death registrations. 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.

4. 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.

5. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of the mortality improvement model CMI 2018 with the following parameters:

Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110
Females: Long Term Rate of 1.0% 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 2018. The resulting initial rates are then adjusted to reflect socio economic class.

Different business classes have different effective dates for applying improvers.

For certain annuities, a further allowance is made for the effect of initial selection.

The improvement basis described above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards.

Lapse Rates:

	Years 1-5	Years 6-10	Years 11+
Level Term	6.8% - 21.4%	3.7% - 7.7%	2.8% - 4.8%
Decreasing Term	5.1% - 12.2%	6.9% - 9.5%	6.4% - 7.8%
Accelerated Critical Illness	6.3% - 22.0%	5.8% - 12.5%	3.2% - 8.8%

GLOSSARY

A

ALM
Asset liability management.

Annuity
A regular payment from an insurance company made for an agreed period of time (usually up to the death of the recipient) in return for either a cash lump sum or a series of premiums which the policyholder has paid to the insurance company during their working lifetime.

B

Basic Own Funds
The surplus of assets over liabilities and subordinated liabilities.

Best estimate liability (BEL)
The probability-weighted average of best estimate future cash flows, discounted using risk-free term structure of interest rates (adjusted for a matching adjustment where appropriate).

C

Capital coverage ratio
Also known as the solvency coverage ratio. The Eligible Own Funds on a regulatory basis divided by the group Solvency Capital requirement. This represents the number of times the SCR is covered by Eligible Own Funds.

CEO
Chief Executive Officer.

Code Staff
A category of role defined under various applicable European Directives (CRDIII & IV, AIFMD, UCITS V, and Solvency II). The name is taken from the FCA's Remuneration Code that interprets and applies these Directives for the UK. Broadly, Code Staff includes roles that are considered to have the authority to take risks that could directly, or indirectly, affect one or more firms within the group and its investors.

CRO
Chief Risk Officer.

D

DAC
Deferred acquisition costs.

E

EEA
European economic area.

EIOPA
European Insurance and Occupational Pensions Authority.

Eligible Own Funds (EOF)
The amount of Own Funds available to meet the SCR and MCR. This includes any adjustments for eligibility requirements as defined by the Solvency II regulations.

EPIFP
Expected profit included in future premiums.

G

GIMC
Group Internal Model Committee.

I

IFRS operating profit
Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions and changes in insurance risks such as mortality and longevity for the group's insurance business and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. Exceptional income and expenses which arise outside the normal course of business in the period,

such as merger and acquisition and start-up costs are excluded from operating profit.

Internal Model
A solvency calculation model tailored to the individual risk profile of a specific firm.

International financial reporting standards (IFRS)
These are accounting guidelines and rules that companies and organisations follow when completing financial statements. They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

L

LGA
Legal & General America.

LGAS
Legal and General Assurance Society Limited.

LG Re
Legal & General Reinsurance Limited.

LGC
Legal & General Capital division.

LGI
Legal & General Insurance division.

LGIM
Legal & General Investment Management division.

LGR
Legal & General Retirement division.

Lifetime Mortgages
An equity release product aimed at people aged 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long-term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

Liquidity coverage ratio (LCR)
The measure of exposure to liquidity risk. The LCR is defined as total sources of liquidity divided by total liquidity requirements.

Longevity
Risk associated with increasing life expectancy trends among policyholders and pensioners.

M

Matching adjustment (MA)
An adjustment to the risk-free interest rate term structure used to calculate the best estimate of a portfolio of eligible insurance obligations. Its use is subject to prior supervisory approval where certain eligibility criteria are met.

MAP
Matching Adjustment Portfolio.
A portfolio of assets created to back a certain set of liabilities, which is then eligible for a matching adjustment.

MCR
Minimum Capital Requirement is calculated using a prescribed formula and which is the minimum level of capital below which the amount of financial resources should not fall.

MI
Management Information

Mortality rate
Rate of death, influenced by age, gender and health, used in pricing and calculating liabilities for future policyholders of life and annuity products, which contain mortality risks.

N

Notional Solvency Capital Requirement
A Notional Solvency Capital requirement is calculated for a specific group of business, such as the With-Profits Fund, on a standalone basis.

O

ORSA
Own risk and solvency assessment, also known as the forward-looking assessment of own risks.

Own Funds
The amount of capital available to cover a firm's SCR.

P

Pension risk transfer (PRT)
PRT represents bulk annuities bought by entities that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

PIM
Partial internal model.

PMC
Legal and General Assurance (Pensions Management) Limited.

PPE
Property, plant and equipment.

PRA
Prudential Regulation Authority was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of insurance companies in the UK.

Q

QRTs
Quantitative reporting templates.
Templates defined by EIOPA for the regular reporting of financial information.

R

Reconciliation reserve
A Basic Own Funds item, comprising the excess of assets over liabilities, adjusted for other Basic Own Funds items comprising of own shares, foreseeable dividends, restricted Own Fund items, and other non-available Own Funds.

Ring-fenced funds (RFF)
Own Funds that can only be used to cover a particular segment of liabilities or particular risks and cannot be made available to cover liabilities or risks outside the ring-fenced fund.

Risk appetite
The aggregate level and types of risk a company is willing to assume in its exposures and business activities in order to achieve its business objectives.

Risk margin (RM)
The cost of providing funds to cover the Solvency Capital requirements over the lifetime of the associated insurance policies. The approach for calculating the risk margin is prescribed in Solvency II regulations.

S

SBP
Share bonus plan.

SCR
Solvency Capital Requirement is the amount of capital that insurance and reinsurance undertakings are required to hold and is calibrated to ensure that all quantifiable risks are taken into account in a 1-in-200 year risk event.

SFCR
Solvency and Financial Condition Report.

Solvency coverage ratio
Also known as the capital coverage ratio. The Eligible Own Funds on a regulatory basis divided by the group Solvency Capital Requirement. This represents the number of times the SCR is covered by Eligible Own Funds.

Solvency II
Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This

single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholders.

Solvency II Delegated Regulation
Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Solvency II Directive
Directive 2009/138/EC of the European Parliament (Solvency II Directive).

SPV
Special purpose vehicle.

Standard Formula (SF)
A standardised solvency calculation method, not tailored to the individual risk profile of a specific firm. It aims to capture the material quantifiable risks to which most undertakings are exposed.

Surplus
The excess of Eligible Own Funds on a regulatory basis over the Solvency Capital Requirement. This represents the amount of capital available to the company in excess of that required to sustain it in a 1-in-200 year risk event.

T

TMTP
Transitional measure on technical provisions.

Total shareholder return (TSR)
TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to the shareholder.

V

Value-at-risk (VaR)
The estimated loss for a given probability over a one-year period.

Y

Yield
A measure of the income received from an investment compared to the market value of the investment. It is usually expressed as a percentage.