Legal & General

H1 2023 Results: £0.95bn of operating profit and capital generation, stock of deferred profits up to £13.8bn, DPS up 5% to 5.71p and SII ratio of 230%

Resilient financial performance[1]

- **Operating profit of £941m** (H1 2022: £958m)
- **Solvency II coverage ratio[2] of 230%, with surplus of £9.2bn** (H1 2022: 212%)
- **Solvency II operational surplus generation of £947m (H1 2022: £946m)**
- **Profit after tax[3] of £316m** (H1 2022: £575m)
- **Interim dividend of 5.71p, up 5%** (H1 2022: 5.44p)

£947m capital generation with significant dividend headroom[4]

- **We are on track to achieve our five-year (2020-2024) ambitions. To date:**
  - **Capital generation of £5.9bn (£8.0-9.0bn by 2024)**
  - **Dividends of £3.6bn (£5.6-5.9bn by 2024)**
  - **Net surplus generation over dividends of £0.6bn[5]**
- **The Board's intention is to continue to grow the dividend at 5% per annum to FY24[6]**

Stock of deferred profits up to £13.8bn as new business outpaces backbook release[7]

- **New business deferred profits of £0.6bn**
  - **LGRI premiums of £5.0bn** (H1 2022: £4.4bn) generating deferred profit of £0.4bn[8]
  - **In H2, LGRI has already written a further £1.8bn UK and $1.0bn US PRT**

"We remain on track to achieve our five-year ambitions and deliver attractive returns for our shareholders. In H1, we delivered £0.95bn of both IFRS operating profit and capital generation, together with a Solvency II ratio of 230% and a surplus of £9.2bn. The dividend is up by 5%. LGRI and LGC performed strongly, LGIM results stabilised, and Retail's performance – while impacted by competition in some areas – was bolstered by growing annuity sales and progress in US protection. We wrote £4.9bn of UK PRT, deploying just £106m of capital, underlining the benefits of our synergistic business model. I'd like to thank my colleagues for their contribution and ongoing commitment to inclusive capitalism, serving our shareholders, customers and wider society."

Sir Nigel Wilson, Group Chief Executive

1. The Group uses a number of Alternative Performance Measures (including adjusted operating profit, return on equity and LGIM AUM) to enhance understanding of the Group's performance. These are defined in the glossary, on pages 102 to 110 of this report. This is the first time we are reporting under IFRS 17. Comparatives have been restated accordingly. For further information please see Note 2.01.
2. Solvency II coverage ratio of 230% is post £0.8bn payment of 2022 final dividend.
3. Profit after tax attributable to equity holders.
4. Capital generation defined as Solvency II operational surplus generation. Cash generation previously defined as net release from operations is no longer reported under IFRS 17.
5. Net surplus generation defined as Solvency II operational surplus generation less new business strain.
6. In stating this aim, the Board has carefully considered the Group's financial position and had regard to the general economic outlook for the UK and the other countries in which the Group operates.
7. Stock of deferred profit refers to the gross of tax combination of established Contractual Service Margin "CSM" (net of reinsurance) and Risk Adjustment "RA" under IFRS 17
8. Figures presented include an adjustment for the new business CSM/RA uplift associated with the L&G pension schemes' partial buy-in transaction in H1, which is eliminated in the 30 June 2023 consolidated balance sheet. In H2 we expect to move to a full buy-out of the pension schemes and recognise a further c£0.1bn of CSM/RA.

Legal & General

Financial summary

£m	H1 2023	H1 2022	Growth %
Analysis of operating profit			
Legal & General Retirement Institutional (LGRI)	471	395	19
Retail	230	295	(22)
Legal & General Capital (LGC)	296	263	13
Legal & General Investment Management (LGIM)	142	200	(29)
Operating profit from divisions	**1,139**	1,153	(1)
Group debt costs	(106)	(108)	2
Group investment projects and expenses	(92)	(87)	(6)
Operating profit[1]	**941**	958	(2)
Investment and other variances (incl. minority interests)	(617)	(261)	n/a
Profit before tax attributable to equity holders[2]	**324**	697	(53)
Profit after tax attributable to equity holders	**316**	575	(45)
Earnings per share (p)	**5.16**	9.52	(46)
CSM[3]	**12,352**	11,546	7
CSM (net of tax) + Book Value	**14,490**	14,426	-
CSM + Book value per share (p)	**241**	240	-
Solvency II			
Operational surplus generation	**947**	946	-
New business strain[4]	**(195)**	(121)	
Net surplus generation	**752**	825	
Solvency II Own Funds	**16,197**	17,374	
Solvency Capital Requirement	**(7,036)**	(8,193)	
Solvency II Surplus	**9,161**	9,181	
Coverage ratio (%)	**230**	212	18
Interim dividend per share (p)	**5.71**	5.44	5

1. Operating profit is an Alternative Performance Measure and represents Adjusted operating profit as defined on page 102.
2. Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 103.
3. CSM (gross of tax, net of reinsurance) includes the new business CSM uplift associated with the L&G pension schemes' partial buy-in transaction in H1. In H2 we expect to move to a full buy-out of the pension schemes.
4. This does not reflect the anticipated reduction in the Risk Margin (part of planned reforms to the Solvency regime) which is estimated to reduce H1 New business strain by £55-60m.

H1 2023 Financial performance

Income statement

Year to date operating performance is resilient with H1 2023 operating profit from divisions of £1,139m (H1 2022: £1,153m). All four of our divisions remain well-positioned to continue to execute on compelling structural market opportunities to deliver further profitable growth over the medium and long-term.

LGRI operating profit increased by 19% to £471m (H1 2022: £395m) underpinned by the growing scale of backbook earnings and the consistent investment performance of our annuity portfolio. LGRI executed higher new business volumes to address growing demand while maintaining pricing discipline, writing £4,992m of global PRT (H1 2022: £4,449m) at a Solvency II new business margin (8.0%)[1] in line with our long-term average. H2 has started well, with £1.8bn of UK PRT and $1.0bn of US PRT completed to date.

Retail delivered operating profit of £230m (H1 2022: £295m). Whilst insurance operating profit is up 4% (H1 2023: £243m, H1 2022: £234m), driven by resilient ongoing profit releases in the UK and US, total operating profit is down given the lower contribution from Fintech, as valuation uplifts from H1 2022 did not repeat. The Retail Retirement business again delivered good new business volumes, and we continue to focus on disciplined pricing to ensure attractive shareholder returns.

LGC operating profit increased by 13% to £296m (H1 2022: £263m) driven by our alternative asset portfolio, where operating profit increased to £230m (H1 2022: £202m). Our Alternative Finance business, led by Pemberton, continues to perform strongly, and in our Specialist Commercial Real Estate portfolio, our targeted investments in infrastructure and science & technology-focussed assets proved more resilient than the general commercial property market. Our diversified, multi-tenure housing portfolio also remained resilient with Cala, our largest housing business, continuing to perform well in the face of a challenging market.

LGIM delivered operating profit of £142m (H1 2022: £200m) primarily reflecting the impact of rising interest rates on assets under management, which decreased by £132bn to £1,158bn (H1 2022: £1,290bn). Despite significant inflationary impacts, we have taken action to keep absolute costs flat on an FX-adjusted basis.

Profit before tax attributable to equity holders[2] was £324m (H1 2022: £697m), reflecting investment variance of £(617)m (H1 2022: £(261)m). H1 2023 investment variance was driven by the unrealised mark to market impact of higher rates on our portfolio, the cost relating to our announced Modular Homes closure and the write-down of our investment in Onto.

Balance sheet and asset portfolio

Group's Solvency II operational surplus generation (OSG) was level at £947m (H1 2022: £946m) despite rising interest rates which reduced SCR releases. Net surplus generation (NSG) was £752m (H1 2022: £825m). We operate a capital light PRT business: in H1 2023, PRT capital strain was just over 2%. New business strain does not include risk margin reforms, which have an estimated H1 benefit of £55-60m for PRT and Individual annuities combined. We have scope to write up to £11bn of UK PRT volumes and for the UK annuity portfolio to be self-sustaining again in 2023, as it has been for the last three years.

The Group reported a **Solvency II coverage ratio[3] of 230%** at H1 2023 (FY 2022: 236%, H1 2022: 212%), slightly ahead of our recent disclosure[4] (c225%) which reflected some degree of prudence as we continue to optimise our asset liability management.

Our IFRS return on equity of 13.0% (H1 2022: 22.8%) reflects the unrealised mark to market impact of investment and other variances on the total result.[5] Looking at the result before investment variance, return on equity would be 37.1% (H1 2022: 31.4%). We expect investment variance to average to zero over the longer term.[6]

Our stock of deferred profit increased 3% to £13.8bn (H1 2022: £13.4bn), with CSM up 7% to £12.4bn, reflecting contributions from our growing annuity businesses and routine longevity updates in H2 2022, partially offset by the Risk Adjustment (£1.5bn) reducing from H1 2022 (£1.9bn) as a result of rising interest rates.[7]

Our diversified, actively managed annuity portfolio has continued to perform resiliently. In H1 2023 our annuity portfolio experienced no downgrades to sub-investment grade and more upgrades than downgrades. There were no material property or credit write downs. The annuity portfolio's direct investments have received 100% of scheduled cash-flows year to date, reflecting the high quality of our counterparty exposure.

[1] Solvency II margin on UK pension risk transfer volumes only.
[2] Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 103.
[3] Solvency II coverage ratio incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2023.
[4] ifrs17-rns-july-2023-final.pdf (legalandgeneral.com)
[5] Calculated using annualised profit for the year and average equity attributable to the owners of the parent of £4,853m.
[6] Calculated using the Group's effective tax rate.
[7] Total stock of deferred profit represents the closing H1 2023 Contractual Service Margin "CSM" (net of reinsurance) and Risk Adjustments "RA", gross of tax. Figures include the new business CSM/RA uplift associated with the L&G pension schemes' partial buy-in transaction in H1. In H2 we expect to move to a full buy-out of the pension schemes.

Group Strategy

Legal & General has established expertise in asset origination (LGC) and asset management (LGIM), and in the provision of retirement and protection solutions to corporates and individuals (LGRI and Retail). We operate at scale and are strongly positioned to capitalise on significant growth opportunities across our chosen markets through our four divisions:

Division	Provision	Description
LGRI	Retirement Solutions	A leading international manager of institutional Pension Risk Transfer (PRT) business
Retail	Retirement & Protection Solutions	A leading provider of UK retail retirement and protection solutions and US term life insurance[8]
LGC	Asset Origination	An alternative asset origination platform generating attractive shareholder returns
LGIM	Asset Management	A global £1.2tn asset manager with deep pensions expertise

A powerful business model

We have a unique and highly synergistic business model, which continues to drive a strong return on equity. Legal & General provides powerful asset origination and management capabilities directly to clients. These capabilities also underpin our leading retirement and protection solutions:

- **LGRI** is a market leader in UK PRT and a top ten player in the US PRT market, with annuity assets of £55.5bn.[9] It provides long-term captive AUM to LGIM, and the annuity portfolio is continually enhanced through the supply of alternative assets originated by LGC.
- **Retail** is a leading provider of UK retail retirement and protection solutions, and US term life insurance. The UK retail retirement product offerings include workplace savings, annuities, income drawdown and lifetime mortgages (LTM). Workplace savings benefits from LGIM's existing DC relationships and distribution team to win new schemes and the retail annuity business provides captive AUM to LGIM Retail is also an internal centre of excellence in technology, and manages a portfolio of complementary Fintech investments.
- **LGC** invests across four main asset classes (Specialist Commercial Real Estate, Clean Energy, Housing and Alternative Finance) to generate attractive risk-adjusted shareholder returns and to create alternative assets to (i) back our annuity portfolios in LGRI and Retail and (ii) meet the growing third-party demand for alternative assets. LGC is increasingly attracting third-party capital either directly through existing investments, or through collaboration with LGIM.
- **LGIM** is a leading global asset manager, ranking 11th in the world[10] with £1.2tn of AUM of which £457bn, or 39%, are international assets[11]. LGIM is a leading provider of UK and US Defined Benefit (DB) de-risking solutions. It is uniquely positioned to support DB clients across the full range of pension 'Endgame' destinations, including PRT with LGRI. 81% of LGRI's PRT transactions over the past three years were from existing LGIM clients.[12] LGIM is also the market leader in UK Defined Contribution (DC) pension scheme clients with DC AUM of £146bn – a market with significant growth potential, with total UK DC assets expected to surpass £1.2tn by 2031.[13]

The synergies within and across our businesses drive profits and fuel future growth.

The integrated nature of our business model means we have relationships with clients and customers that can and do last for decades. A corporate client in LGIM has historically become a PRT client after 14 years, however this is now expected to accelerate due to improved funding levels. We are working with LGIM clients to reconfigure their portfolios to lock in any funding gains that have been made, by better matching to a typical insurance pricing portfolio and to position the assets to be more easily transferred as part of a buy-in or buyout transaction. Once moved to PRT, LGRI will then typically have a relationship with that client for another 30 to 40 years. Similarly, Retail Retirement and LGIM may have a 30-40 year relationship with a customer during the DC accumulation phase, and then extend that relationship for another 15-30 years during the decumulation phase across a suite of decumulation products including individual annuities, lifetime mortgages and drawdowns.

The Group continues to build out, in a measured fashion, its international franchise. We have made excellent progress in the US over the last decade and will continue to grow all four divisions in that market. LGIM continues to make good progress against its international expansion plans in the US, Europe and Asia. Kerrigan Procter continues to coordinate the Group's expansion plans in Asia building on the $167bn of regional assets already under management (FY 2022: $150bn).

[8] In the independent (brokerage) channel
[9] Total annuity assets of £72.6bn, with an estimated split of £55.5bn LGRI, £17.1bn Retail retirement.
[10] IPE, Top 500 Asset Managers 2022.
[11] International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.
[12] Three year average (H2 2020-H1 2023) measured by UK PRT new business volumes. Three year average measured by UK PRT deal count from LGIM clients is 63%.
[13] Broadridge, UK Defined Contribution and Retirement Income report 2021. 2021 UK DC Assets: £515bn.

A long-term commitment to Sustainability and Inclusive Capitalism

Our purpose is to improve the lives of our customers, create value for our shareholders and to build a better society for our customers, our shareholders, and our communities. This inspires us to invest our assets in an economically, environmentally and socially useful way to benefit society for the long-term – what we call **Inclusive Capitalism**. We believe investing in fundamental pillars of society will enable strong shareholder returns and improve the lives of our customers.

Our philosophy underpins our approach to sustainability.[14] We think about sustainability in terms of:

1. **How we invest proprietary assets**.[15] Our ambition is to reduce our group investment portfolio economic carbon intensity by half by 2030 and to net zero carbon by 2050. In 2022, our group investment portfolio economic carbon intensity fell by 5% versus 2021, through a combination of market movements, partially offset by a muted emissions increase as business activity increased. While the reduction of 23% from 2019 is ahead of our 2022 target, we may still see further volatility from future global events – as experienced through the pandemic and the ongoing conflict in Ukraine – and therefore remain focused on delivery of our mid-to-long-term decarbonisation targets. We continue to make environmentally and socially useful investments. As at H1 2023, we have invested £1.4bn in clean energy and £8.7bn in social infrastructure. For more information, please see our latest Climate Report, compliant with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD), and our latest Social Impact Report, which describes our activity in investing for positive social, economic and health outcomes.[16]
2. **How we influence as one of the world's largest asset managers with £1.2 trillion AUM**. We have £331.6bn AUM in ESG strategies, and in H1 2023, our investment stewardship team engaged with around 630 companies, holding them to account on the issues that matter most to our clients.[17,18] In June 2023, we reported on the latest cycle of our Climate Impact Pledge engagement programme, which we have expanded to include a quantitative assessment of over 5,000 companies across 20 climate-critical sectors, alongside in-depth engagement with around 100 'dial mover' companies. LGIM is proud to have received a 5 star ranking from the UN Principles for Responsible Investment (UN PRI) for investment stewardship and policy, and to have scored over 75% in each section of the latest UN PRI report.[19] In addition to being among the highest rated managers for engagement by FinanceMap, LGIM has also been highlighted by MajorityAction for its approach to holding companies to account on climate change.
3. **How our businesses operate**. We are committed to supporting our customers, employees, suppliers, shareholders and society at large. In the current economic environment, we recognise that support is more critical now than ever. For information on how we are supporting our stakeholders, please see our Social Impact report.[16Error! Bookmark not defined.] We have committed to reducing the carbon emission intensity of our operating businesses. Our ambition is to operate our offices and business travel with net zero emissions from 2030, and for all our new homes to be net zero operational carbon from 2030. ESG criteria are included in executives' objectives and remuneration schemes.

CEO succession plans

In June, we were pleased to announce António Simões as the Group's next Chief Executive Officer, subject to regulatory approval.

António will join from Banco Santander where he has been Regional Head of Europe since September 2020. In this role, he leads Santander's businesses in the UK, Spain, Portugal and Poland, working across retail and commercial banking, corporate and investment banking, wealth management and insurance. Prior to joining Santander, António spent 13 years at HSBC, including as CEO of UK and Europe, and latterly CEO of Global Private Banking, based in London and Hong Kong. He is a former McKinsey & Company partner.

António's appointment follows a rigorous, global, selection process managed by Sir John Kingman, Group Chair. He will succeed Sir Nigel Wilson as Group CEO. Sir Nigel has been Group CEO of Legal & General since 2012, and in January announced his intention to retire from executive life.

Since Sir Nigel joined Legal & General, the Group has delivered a consistently strong financial performance with a total shareholder return of over 600% driven by significant growth in dividends, earnings per share and ROE. During his time as Chief Executive, Sir Nigel has executed numerous strategic initiatives to grow and re-focus the business, consistently exceeding financial and operational targets while also ensuring Legal & General has delivered Inclusive Capitalism with positive outcomes for shareholders, customers and the broader economy.

António will take up his new post formally on 1 January 2024. Sir Nigel will remain as Chief Executive in the meantime, continuing to focus on delivering the strategy of the Group. Sir Nigel will work closely with António to ensure a comprehensive handover and a smooth transition. António will join the Board of Legal & General Group plc on appointment, at which point Sir Nigel will step down from the Board.

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[14] For more information please refer to https://group.legalandgeneral.com/en/sustainability
[15] Proprietary assets relate to Investments to which shareholders are directly exposed (excluding client and policyholder assets, derivatives, cash, cash equivalents and loans), as disclosed in Note 6.01.
[16] Our 2022 Climate Report and our 2022 Social Impact Report were released on 16th March 2023 and can be found here: Sustainability reporting centre
[17] AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. Mandates which only invest in government bonds are not included, however where LGIM manages a mandate (for a third-party client) which is invested in a broad asset exposure that includes, but is not limited to, government bonds, these mandates would be included subject to that mandate having a deliberate and positive expression of ESG criteria.
[18] Represents voting instructions for main FTSE pooled index funds.
[19] PRI assessment report: 2021-assessment-report-for-legal--general-investment-management-holdings.pdf (lgim.com)

Outlook

Confident in achieving our ambitions; well-positioned to deliver long-term profitable growth

Our strategy has delivered strong compounding returns for our shareholders over time. It has demonstrated resilience and positions us well to navigate – and even benefit from – the prevailing market environment. We are confident we can continue to deliver profitable growth as we execute on our strategy.

We set out five-year ambitions at our Capital Markets event in November 2020. Cumulatively, over the period 2020-2024, our financial ambitions[20] are for:

- Capital generation (of £8.0bn - £9.0bn) significantly to exceed dividends (of £5.6bn - £5.9bn)[21]
- Earnings per share to grow faster than dividends, with the dividend growing at 5% per annum to FY 2024[22]
- Net capital surplus generation (i.e., including new business strain) to exceed dividends

We made further progress against these ambitions in H1 2023 and remain confident in achieving them. In H1 2023, we achieved £947m in capital generation (H1 2022: £946m), and from the start of the ambition period to H1 2023, we have now achieved £5.9bn of cumulative capital generation while declaring dividends of £3.6bn.

We remain highly confident in our strategy and in our ability to deliver resilient, organic growth, supported by our strong competitive positioning in attractive and growing markets. Our confidence in our dividend paying capacity is underpinned by the Group's strong earnings and strong balance sheet, which has Solvency II surplus regulatory capital of £9.2bn over a capital requirement of £7.0bn.

Business segment outlook

Legal & General Institutional Retirement (LGRI)

LGRI participates actively in the global pension risk transfer (PRT) market, focusing on corporate defined benefit (DB) pension plans in the UK, the US, Canada, Ireland and the Netherlands, which together have more than £6 trillion of pension liabilities.

We write direct business in both the UK and US and are top-tier providers in both markets. We are supported by LGIM's long-standing client relationships, investment sourcing and asset management capabilities as well as LGC's asset origination capabilities and Retail's lifetime mortgage origination.

The UK is our primary market and is the most mature PRT market globally with £1.4 trillion of UK DB pension liabilities, of which an estimated c15% has been transferred to insurance companies to date.[23] The addressable market therefore remains significant and demand for PRT is growing as rising interest rates and widening credit spreads reduce pension deficits and allow more funds to consider de-risking options.

Our stated ambition is to write circa £8-10bn of UK PRT per annum and we are confident of achieving this. We have demonstrated that this level of new business is self-sustaining, i.e. the growing amount of capital generated by our in-force UK annuity book more than offsets both the capital investment required to fund new business and the portfolio's contribution to our progressive Group dividend.

The UK annuity portfolio achieved self-sustainability in 2020, 2021 and 2022. Over the period from the beginning of 2020 to H1 2023, Group net surplus generation has exceeded dividends by a total of £0.6bn. For 2023 as a whole, we currently have capacity to write up to £11bn of UK PRT and still achieve self-sustainability for the UK annuity portfolio.

The US represents another significant market opportunity, with $3.2 trillion of DB liabilities, of which an estimated c11% have transacted to date.[24] Since our market entry in 2015, our US business has completed 96 transactions and written $8.6bn of business.

Canada is a market that has potential and where we have seen a growing acceleration of pension schemes looking to de-risk. The market is estimated to have CAD $1.8tn of DB liabilities with only c10% of $0.5 trillion private sector DB liabilities having transacted to date.[25] Since our market entry in 2019, we have written CAD $1.2bn of liabilities through our reinsurance entity, L&G Re.

In the Netherlands, pension reform legislation could result in significant PRT business coming to market over the next 3-4 years. With pension liabilities of over €1 trillion[26], we continue to actively monitor this market and have announced plans to enter into a long-term strategic relationship with Lifetri in order to participate, should attractive opportunities arise.

[20] The ambitions are based on the aggregate performance over a five-year period. Performance may vary from year to year and individual statements may not be met in each year on a standalone basis.
[21] Capital generation is Solvency II operational surplus generation. Dividends on a declared basis and originally on the basis of a flat final 2020 dividend, and 3-6% annual growth thereafter. Note: dividends have grown at 5% since HY21 and the Board stated publicly in November 2022 its aim to "continue to grow the dividend at 5% per annum to FY 2024": ifrs17-rns-final.pdf (legalandgeneral.com). Dividend decisions are subject to final Board approval. Note: we previously also had an ambition to generate cumulatively £8.0bn - £9.0bn cash over the period. However, under IFRS 17 we will no longer be producing 'Net release from operations' on which our cash generation metric is based. We have therefore chosen to retire the cash generation ambition from FY 2022.
[22] EPS based on IFRS 17 from FY22.
[23] LCP pensions de-risking report 2022, PPF 7800 Index at 30 June 2023 and L&G estimates.
[24] LIMRA & ICI Q1 2023 retirement market data and L&G estimates.
[25] Statistics Canada, Mercer Pension Health Pulse 2022, WTW Group Annuity Market Pulse – 2022 Annual Review and L&G estimates.
[26] De Nederlandsche Bank (DNB), Q1 2023 and L&G estimates

Our ambition is to write at least $10bn of international PRT over the five years from 2020-2024. We have written $5.7bn of International PRT from 2020 through H1 2023, and we have written $1.0bn so far in H2. There remains significant opportunity in these markets and we are well-positioned to continue to execute where the margins justify.

Legal & General Retail Division (Retail)

Across all our Retail businesses, we continue to focus on our customers, with a particular focus on the technology that supports providing a more efficient and more personalised service.

Insurance

We leverage our **technological innovation, operational strength and scale efficiencies** to offer market leading product offerings.

Our data and tech-led strategy makes our products more accessible to customers and supports further product and pricing enhancements. Our retail protection business is supported by our strong distribution relationships, investment in our systems and platforms, and product enhancements.

We expect the retail protection market to continue to be impacted by a softer housing market and by affordability considerations for consumers. Our medium-term ambition remains unchanged. **We continue to target mid-single digit growth in revenues across our UK protection businesses to 2025.**

In the US, we anticipate our ongoing technology investments and new partnerships will position us for premium growth. We are already the largest provider of term life assurance in the independent channel[27] and number three in overall US market share[1], and our digital first approach is aiming to achieve, on average, **double digit growth in new business sales to 2025**.

Retirement

Workplace savings is a core part of the Group's proposition. The business is a growth area for the Group, and we expect the market to continue to expand, driven by **ageing demographics** and **welfare reforms**. Our core focus is on better assisting our 5.0 million Workplace members to plan for their retirement whilst they are saving with us, as well as when they come to retirement.

There are currently c£600bn in UK Defined Contribution (DC) accumulation assets (of which LGIM manage £146bn including those administrated by Workplace Savings), and this is expected to more than double over the next ten years.[28] As a market leading provider in Workplace Savings, we are well placed to benefit from this expected increase in DC pension assets, and to grow administration revenues for the Retail division and fund management revenues for LGIM.

The 'at retirement' market is growing with the amount of DC assets at retirement now reaching c£45.6bn per year. The individual annuity market is continuing to perform well as interest rate rises make the cost of an annuity more attractive. Retail Retirement has a strong market share in individual annuities – 15.4% over Q1 2023[29] and an external market share of 20.4%[29] .

The UK lifetime mortgage (LTM) market continues to represent a sizeable long-term opportunity, with UK housing equity in over 55s at £4.4 trillion.[30] Higher interest rates have reduced the attractiveness of LTM's compared to last year, and we continue to remain disciplined on pricing to deliver assets that add value to our portfolio.

Fintech

We've been making strategic investments in adjacent market Fintechs for many years. Despite headwinds from current economic conditions, the majority of our investment portfolio remains resilient, and we expect attractive new opportunities to invest to arise. **We are targeting double digit growth to 2025 for our Fintech businesses.**

Legal & General Capital (LGC)

LGC, the Group's alternative asset origination platform, will continue to deploy shareholder capital in a range of underserved areas of the real economy which are backed by long-term structural trends. LGC has three fundamental objectives: 1) profit and value generation within LGC for shareholders; 2) asset creation to back LGRI and Retail annuity liabilities and to meet demand from like-minded investors; and 3) a focus on high-return sustainability and impact-focused investments, securing long lasting value for shareholders, customers and society.

As previously communicated, our ambition is to build LGC's diversified alternative AUM to c£5bn by 2025 (H1 2023: £4.2bn), with a blended portfolio return target of 10-12%. In combination with the contribution from the Traded Portfolio, LGC's ambition is to deliver operating profit of £600-700m in 2025. Additionally, we plan to increase third party capital to £25-30bn (H1 2023: £16.8bn).

LGC's asset classes, which include Specialist Commercial Real Estate, Clean Energy, Housing, and Alternative Finance, have all been selected given their long-term need for capital. They offer compelling opportunities to attract third party capital and meet the needs of co-investors and internal capital sources.

[27] Ranked number one in the independent channel in Q1 2023 by APE and new policies issued.
[28] Broadridge, UK Defined Contribution and Retirement Income report 2022.
[29] ABI Q1 2023 Report. External annuities include all incoming external transfers from either Personal Pension Arrangements or Occupational Pension Schemes
[30] For further information see link here: Lifetime Mortgages | Legal & General (legalandgeneral.com).

We expect our existing platforms such as Pemberton and NTR to underpin our ambitions for third party AUM, building on their impressive growth to-date, but our newer platforms such as Ancora, ImpactA and Affordable Homes have the capability to accelerate this in future.

- We are investing into the **Specialist Commercial Real Estate** (SCRE) of the future in the UK and US, including laboratory and real estate developments for the life sciences and technology sectors, and mixed-use regeneration of towns and cities. These investments include significant funding from LGRI. Our SCRE portfolio also includes an increasing focus on **Digital Infrastructure**, which is critical for both corporations and governments. Data management is one of the fastest growing sectors from a structural perspective, and our state-of-the-art data centres are central to meeting this increase in demand.
- In the **Clean Energy** sector, we are focused on investing selectively into attractive growth equity and clean energy infrastructure opportunities. We are confident that our selective approach to investing will continue to yield positive results.
- LGC's significant **Housing** platform continues to expand, and make further acquisitions across its broad tenure mix, including build to sell, build to rent, social housing, shared ownership and later living. We are well positioned to scale this platform further, in support of our long-term ambitions. Whilst 2023 presents a more challenging outlook for the sector, our multi-tenure, need-driven and diversified approach continues to provide opportunities and we will continue to invest thoughtfully through the cycle.
- In **Alternative Finance**, we are continuing to support UK and European innovation through two key areas. Firstly, through our growing **GP Investing** platform, where we continue to work alongside ambitious, impact-oriented alternative asset managers, and secondly, through our **Venture Capital** business, where we continue to invest in the real economy and technological innovation.

Our alternative asset strategies represent Inclusive Capitalism at work – generating long-term value for shareholders and society.

Legal & General Investment Management (LGIM)

LGIM is a global asset manager with a diversified asset and client base, underpinned by clear demand for our solutions-oriented approach. As the asset manager for L&G, LGIM has structural advantages and plays a core part in delivering the Group's successful synergistic business model, including creating a pipeline of fully funded DB pension schemes for LGRI; the origination and management of assets for the annuity portfolio and access to third-party clients for LGC's alternative asset creation platform.

LGIM has grown organically to be one of the largest managers of corporate pension funds globally. We are a UK leader in Defined Benefit (DB) pensions, the UK's number-one Defined Contribution (DC) manager, consistently rank in the top 4 in UK Wholesale[31] and manage assets for many of the largest corporate pension schemes in the US. Our strategy is to maintain our strong position in the UK while deliberately broadening our reach internationally.

2022 was a profoundly challenging year for all asset managers given the market environment. We have seen a partial recovery in global equity markets in the first half of 2023, however, this has been offset by further rises in interest rates and inflation remains high in many developed economies.

Asset management is a long-term business, and we remain confident in our strategy which positions LGIM for sustainable future growth. Our medium-term ambition is underpinned by the three strategic pillars, to **modernise**, **diversify** and **internationalise:**

Modernise: We are evolving the business, investing in our people, our platform and our data capabilities to improve operating effectiveness and deliver scale benefits. We are transforming our operating model, using State Street/Charles River to build a global investment and middle office platform. In H1 2023, we transferred 172 employees to State Street in advance of completing the first phase of delivery.

Diversify: We are building on our core capabilities to improve business mix, by selectively adding to our investment offering, with a focus on higher-margin areas such as private markets and active fixed income. To meet client objectives, we are increasingly integrating ESG into our investment portfolios with around 88% of new pooled products developed for clients in 2023 being ESG-related.

Internationalise: LGIM aims to be an innovator in regions and countries where our strengths align to client needs. Since 2018, LGIM's International AUM has grown by 78%, $581bn (£457bn) – 39% of LGIM's total AUM. Our ambition is to continue growing International AUM profitably and at pace in the US, Europe and Asia.

[31] Pridham Q1 2018 – Q2 2023

Our approach to capital allocation

The Board believes it has considerable opportunities available to deliver attractive returns to shareholders by retaining and investing capital within the Group.

The Board will at the same time continually assess these investment opportunities against the relative attractiveness of returning capital to shareholders either through a buyback or a programme of buybacks.

If at any point the Board believes that capital would be best deployed in this way, or if the Board believed it had surplus capital, it would not hesitate to return capital to shareholders. Any incremental capital investment could also, over time, increase the likelihood of these returns to shareholders.

Dividend

The Group's dividend policy states: "We are a long-term business and set our dividend annually, according to agreed principles. The Board's intention for the future is to maintain its progressive dividend policy, reflecting the Group's expected medium-term underlying business growth, including measurement of Capital generation and Adjusted operating profit."

The Board adopts a formulaic approach to the interim dividend which grows by the same percentage as the total dividend for the prior year.

Consistent with our stated ambition to grow the dividend at 5% per annum to FY 2024, the Board has declared an interim dividend of 5.71p, up 5% from the prior year (5.44p).

LGR – Institutional

FINANCIAL HIGHLIGHTS[1] £m	H1 2023	H1 2022
Contractual service margin release	**266**	239
Risk adjustment release	**54**	68
Expected investment margin	**213**	139
Experience variances	**1**	9
Non-attributable expenses	**(66)**	(65)
Other	**3**	5
Operating profit	**471**	395
Investment and other variances	**(186)**	17
Profit before tax attributable to equity holders	**285**	412
Contractual service margin (CSM)	**7,843**	7,207
Risk adjustment (RA)	**623**	854
Total stock of deferred profit[2]	**8,466**	**8,061**
New business CSM	**402**	331
New business RA	**25**	42
Total new business deferred profit[2]	**427**	373
UK PRT	4,866	3,715
International PRT	126	734
Total new business	**4,992**	4,449
Institutional annuity assets[3] (£bn)	**55.5**	59.5

1. This is the first time we are reporting under IFRS 17. Comparatives have been restated accordingly. For further information please see Note 2.01.
2. Includes the new business CSM/RA uplift associated with the L&G pension schemes' partial buy-in transaction in H1. In H2 we expect to move to a full buy-out of the pension schemes.
3. In the UK, annuity assets across LGRI and Retail are managed together. We show here LGRI estimated annuity assets.

Operating profit of £471m

LGRI continues to deliver strong operating profit of £471m, up 19% (H1 2022: £395m).

Profit growth was underpinned by the release of CSM added by profitable new business written in 2022 and H1 2023, and by the performance of our global annuity portfolio, which included asset optimisation actions taken over H1.

Contractual Service Margin (CSM) release increased 11% to £266m (H1 2022: £239m). The CSM release reflects the release of unearned insurance profits as the insurance service is provided over time. The growth is supported by profitable new business written in 2022 and H1 2023 and routine longevity reserve releases in H2 2022. In H1 2023 3.3% of the closing CSM pre-release (£8.1bn) has released into profit.

Risk Adjustment (RA) release of £54m (H1 2022: £68m). The RA reflects compensation for taking non-financial risks. The RA is released if experience plays out as expected over time.

Expected investment margin increased to £213m (H1 2022: £139m). The expected investment margin incorporates the release of the prudence in the discount rate, the expected returns on surplus assets and the impact of back book asset optimisation actions taken over H1.

Non-attributable expenses of £66m (H1 2022: £(65)m). Reflects non-attributable expenses i.e overheads, as the insurance liabilities reflect only expenses deemed directly attributable to the insurance contract.

Profit before tax was £285m (H1 2022: £412m) predominantly impacted by investment variances from the unrealised mark to market impact of higher rates on our portfolio.

Good volumes at consistent SII & IFRS margins, adding £0.4bn of deferred profit to the CSM and RA

During H1 2023, we wrote £5.0bn of global pension risk transfer (PRT) new business across 20 deals (H1 2022: £4.4bn, 25 deals). UK volumes increased 31% to £4.9bn (H1 2022: £3.7bn) and international volumes were £0.1bn (H1 2022: £0.7bn).

Under IFRS 17, new business profits are now deferred to the CSM and RA on the balance sheet and recognised in operating profit over the lifetime of the contract. This associated volume added **£0.4bn of deferred profit to the CSM and RA**[8], contributing to the growth of the CSM over H1 2023.

The £4.9bn of UK PRT delivered an 8.0% UK Solvency II new business margin (H1 2022: 8.7%) in line with our long-term average.

We continue to be disciplined in our pricing and deployment of capital. We operate a capital light business and have successfully executed transactions over the last few years at strains comfortably below our 4% target. In H1 2023, overall PRT capital strain was just over 2%.

Successful execution in the UK over H1 2023

The UK market saw significant activity in H1. There has been a step-up in the number of pension schemes approaching the insurance market alongside an increase in £1bn+ transactions, with several such pension schemes intending to complete transactions this year. The global pipeline for 2023 is the largest we have seen, and we are predicting record PRT market volumes for the full year. We are well-placed to capitalise on this opportunity. We have been proactive in managing the levels of capital deployment, including use of reinsurance, to generate strong margins over time.

LGRI's brand, scale and asset origination capabilities – through synergies and expertise within **LGIM** and **LGC** – are critical to our market leadership in the UK PRT market. Long-term client relationships, typically created and fostered by LGIM, have allowed us to help many pension plans achieve their de-risking goals. In H1 2023, we demonstrated our market leadership and solutions capabilities by writing a series of innovative transactions, including:

- c£2.7bn follow-on transaction with the British Steel Pension Scheme, executed under an umbrella agreement. Legal & General has now insured £7.5bn of the scheme's liabilities and, in doing so, the scheme becomes the largest pension scheme in the UK to have fully insured all its members' benefits.
- c£1.0bn conversion to buy-in of the Assured Payment Policies (APP) held by Legal & General's Group UK Pension and Assurance Fund and Legal & General's UK Senior Pension Scheme. This is expected to move to a full buy-out in H2.
- A continued flow of small scheme solutions. With 74% of our transactions falling into this category, we leverage **technological innovation** to serve smaller pension plans efficiently.

Well positioned to execute in H2 in the US and International markets; largest ever US deal in July

LGRI delivered **US PRT new business premiums of $163m (H1 2023: £126m**, H1 2022: $729m; £593m) in a market that is typically slower over H1. This included a transaction that secured the pension benefits of more than 4,000 retirees and beneficiaries.

In July, we completed our largest ever US transaction for c$790m, followed by a further c$200m deal in August. We are actively pricing in the Canadian and Dutch markets too.

As the only insurer providing PRT to pension plans globally, **Legal & General is uniquely positioned to offer holistic, multinational pension de-risking solutions**.

Retail Division

FINANCIAL HIGHLIGHTS[1] £m	H1 2023	H1 2022
Contractual service margin release	**210**	206
Risk adjustment release	**49**	44
Expected investment margin	**49**	38
Experience variances	**(26)**	(11)
Non-attributable expenses	**(39)**	(43)
Insurance profit	**243**	**234**
Other (Non-insurance profit)	**(13)**	61
Operating profit	**230**	295
- US/UK Insurance[2]	108	164
- Retail Retirement[3]	122	131
Investment and other variances	(86)	57
Profit before tax attributable to equity holders	**144**	352
Contractual service margin (CSM)	**4,509**	4,339
Risk adjustment (RA)	**861**	1,011
Total stock of deferred profit	**5,370**	**5,350**
New business CSM	**163**	158
New business RA	**13**	18
Total new business deferred profit	**176**	**176**
Protection new business annual premiums	199	196
Individual annuities single premium	575	453
Workplace Savings net flows[4] (£bn)	3.0	4.3
Lifetime & Retirement Interest Only mortgage advances	163	338
Retail retirement annuity assets[5] (£bn)	17.1	19.3
UK Retail protection gross premiums	752	740
UK Group protection gross premiums	295	291
US protection gross premiums	633	574
Total protection gross premiums	**1,680**	1,605
Protection New Business Value	**85**	92
Annuities New Business Value	**34**	32
Solvency II New Business Value	**119**	124

1. This is the first time we are reporting under IFRS 17. Comparatives have been restated accordingly. For further information please see Note 2.01.
2. UK Insurance includes Retail Protection, Group Protection, Fintech and Mortgage Services.
3. Retail Retirement includes Individual Annuities, Lifetime mortgages, Workplace Admin, Personal Investing and Advice.
4. This represents the Workplace Savings administration business. Profits on the fund management services we provide are included in LGIM's asset management operating profit.
5. In the UK, annuity assets across LGRI and Retail are managed together. Estimated proportion of annuity assets belonging to Retail Retirement.

Operating profit of £230m

During the first half of 2023, Retail operating profit was £230m (H1 2022: £295m). Whilst insurance operating profit is up 4% (H1 2023: £243m, H1 2022: £234m) driven by resilient on-going profit releases in the UK and US, total operating profit is down given the lower contribution from Fintech (reflected in "Other" above), as valuation uplifts from H1 2022 did not repeat. In the US, mortality experience continued to be elevated but lower relative to the prior year. We have fully utilised the $40m provision established at FY2022.

Contractual Service Margin (CSM) release increased 2% to £210m (H1 2022: £206m). The CSM release reflects the release of previously unearned insurance profits as the insurance service is provided over time. In H1 2023 4.6% of the closing CSM pre-release (£4.7bn) has released into profit.

Risk Adjustment (RA) release of £49m (H1 2022: £44m). The RA reflects compensation for taking non-financial risks. The RA is released if experience plays out as expected over time.

Expected investment margin increased to £49m (H1 2022: £38m). This incorporates the release of the prudence in the discount rate, the expected returns on surplus assets and the impact of back book asset optimisation actions taken within the annuity portfolio over H1.

Experience variances of £(26)m (H1 2022: £(11)m). This primarily reflects higher UK death rates in Q1 on the minority of business where we are not fully reinsured and also includes £8m of onerous contract unwind on legacy policies.

Non-attributable expenses of £(39)m (H1 2022: £(43)m). Reflects non-attributable expenses i.e overheads, as the insurance liabilities reflect only expenses deemed directly attributable to the insurance contract.

Profit before tax was £144m (H1 2022: £352m) predominantly impacted by investment variances from the unrealised mark to market impact of higher rates on our annuity portfolio and the write-down of our investment in Onto.

Solvency II New Business Value decreased by £5m to £119m (H1 2022: £124m) with growth in Retail Annuities and US protection being offset by lower margins in UK protection due to higher interest rates and lower new business volumes. We continue to operate with a focus on disciplined pricing and on maintaining strong distribution channels.

Navigating a competitive landscape in H1

UK Retail protection gross premium income increased to £752m (H1 2022: £740m), with new business annual premiums of £76m (H1 2022: £85m) in what is an increasingly competitive market. L&G continues to lead this market with a share of 19.4%[32], delivering a point-of-sale decision for more than 80% of our customers.

UK Group protection gross premium income increasing 1% to £295m (H1 2022: £291m) thanks to strong retention and new business annual premiums of £53m (H1 2022: £63m). Our online “quote and apply” platform for smaller schemes continues to perform well, processing 4,512 new clients over the first half of the year (H1 2021: 3,308) and we continue to see growth in this part of the market. Group Protection supported 1,512 members of income protection schemes to return to work during the first half of the year.

US protection (LGIA) new business annual premiums increased 40% to $87m (H1 2022: $62m), with strong new business margins of 11.2% (H1 2022: 10.7%). Gross written premiums increased 5% (up 10% on a sterling basis, benefiting from FX movements) to $781m (H1 2022: $746m). Our digital new business platform, Horizon, is making it easier for customers and their advisors to apply and buy our term products. This is driving up our market share: LGIA ranked number one in the independent channel in the first quarter and grew to number three in overall US term market share. We expect to drive further sales growth and to reduce unit costs over the coming years. Over two thirds of new business is now submitted through our Horizon platform.

Legal & General Mortgage Club facilitated £48bn of mortgages, (H1 2022: £50bn) reflecting reduced demand in the mortgage market due to higher interest rates. We remain the largest participant in the UK intermediated mortgage market and are involved in around one in five of all UK mortgage transactions. Our Surveying Services business facilitated just under 172,000 surveys and valuations (H1 2022: 276,000). Since buying a new house is often a catalyst for purchasing life insurance, the Legal & General Mortgage Club is a supporting component of our overall offering to customers.

Retail annuity sales were £575m (H1 2022: £453m). Fixed term annuity (“FTA”) sales were particularly strong and make up the largest proportion of new business growth. Customers who might have previously moved into drawdown are choosing FTA’s given improved annuity prices as a result of the higher interest rate environment, and we expect ongoing growth in this market as a result.

Lifetime mortgage advances, including Retirement Interest Only mortgages, were £163m (H1 2022: £338m) reflecting a decline in demand related to higher interest rates. Throughout this period we have maintained pricing and underwriting discipline.

Workplace Savings net flows were £3.0bn (H1 2022: £4.3bn), down year on year, but positive as a result of continued client wins and increased contributions. Workplace pension platform members increased to 5.0 million in H1 2023. We are continuing to focus on improving efficiency and scalability as the business grows.

[32] ABI Q1 2023 Report.

Legal & General

Legal & General Capital (LGC)

FINANCIAL HIGHLIGHTS £m	H1 2023	H1 2022
Operating profit	**296**	263
- *Alternative asset portfolio*	230	202
- *Traded investment portfolio & Treasury*	66	61
Investment and other variances[2]	(192)	(308)
Profit before tax attributable to equity holders[2]	**104**	(45)
ALTERNATIVE ASSET PORTFOLIO £m		
Specialist commercial real estate	761	662
Clean energy	345	199
Residential property	2,246	2,190
Alternative Finance	868	688
	4,220	3,739
TRADED ASSET PORTFOLIO £m		
Equities	1,052	1,714
Fixed income	222	66
Multi-asset	155	199
Cash[1]	1,374	1,285
	2,803	3,264
LGC investment portfolio	**7,023**	7,003
Treasury assets at holding company	901	1,247
Total	**7,924**	8,250

1. Includes short term liquid holdings
2. Excludes costs relating to the announced Modular Homes closure

Total operating profit increased 13% to £296m

LGC operating profit increased 13% to £296m[33] (H1 2022: £263m) reflecting a strong contribution from our alternative asset portfolio of £230m (H1 2022: £202m).

Profit before tax[2] was £104m, with investment and other variances of £(192)m, which is most notably driven by the impact of higher interest rates on the LGC portfolio.

Alternative asset portfolio grew 13% to £4.2bn

LGC has continued to strengthen its capabilities across a diversified range of alternative assets that are underpinned by structural growth drivers. Our alternative asset portfolio increased to £4,220m (H1 2022: £3,739m) as we deployed a further £0.3bn into new and existing investments. Through these investments, we originate assets that generate returns for shareholders, create attractive Matching Adjustment (MA)-eligible assets for our annuity portfolio, and supply attractive alternative assets to third-party clients.

Specialist commercial real estate: supporting the levelling up agenda through strategic partnerships

Across the UK and US, we are investing in **Specialist Commercial Real Estate** (SCRE), including laboratory and real estate developments for the life sciences and technology sectors, mixed-use regeneration for towns and cities (such as through our £4bn partnership with Oxford University), and digital infrastructure for data warehousing and computer processing.

In H1 2023, Kao Data, our wholesale data centre platform, has continued to develop its existing three sites as well as announcing a new site in Manchester which will be powered by 100% renewable energy. Through Bruntwood SciTech, the UK's leading innovation, science and technology focused platform, we have continued to develop world-leading diagnostic and life sciences infrastructure. This year, the partnership announced a £1.7bn Strategic Regeneration Framework with the University of Manchester, to deliver a mixed-use city centre innovation district. Our 50:50 partnership with US real estate developer and asset manager, Ancora, continues to grow with 3 sites now planned, which are dedicated to driving life sciences, research and technology growth in North America. In summer 2023, Ancora L&G expects to begin construction on a life sciences centre in Providence, Rhode Island, providing 80,000 sq ft of world-class research space for the Rhode Island Department of Health.

[33] Excludes costs relating to the announced Modular Homes closure.

Our Clean Energy portfolio expanded into new sectors

Supporting the Group's ambitions to address climate change and deliver shareholder returns, we invest in early-stage innovative clean technology companies and clean energy infrastructure which are needed to meet UK and global UN climate targets and Sustainable Development Goals.

In our growth equity portfolio, Kensa, our ground source heat pump provider has made significant progress. In December 2022, Kensa opened the UK's largest production facility dedicated to ground source heat pumps, increasing output by 50%. In May 2023, the business announced a partnership with Octopus Energy, which provided an additional £70 million investment. Kensa is now the country's leading manufacturer and installer of ground source heat pumps.

In our clean energy infrastructure portfolio, we continue to deploy significant capital into new and existing renewable energy projects across wind, solar and battery storage, creating opportunities for our annuity business and for third party investment. As part of this deployment, LGC provided seed capital to support the first close of L&G NTR Clean Power Fund, which raised €390 million in April 2023, putting private capital to work to drive Europe's decarbonisation and energy security agenda.

We also have a substantial pipeline of new investment opportunities across several geographies, including energy storage, electric vehicle technology and renewables, and expect to accelerate our pace of deployment into the sector in coming years.

Housing: Multi tenure platform continues to generate a profitable return

LGC continues to scale up its delivery across all housing tenures. Diversified across affordability and life stages, LGC's investments meet the UK's long-term social and economic need for quality housing for all demographics. During H1 2023, our housing portfolio grew to £2,246m (H1 2022: £2,190m) reflecting sustained long-term demand for our offering.

LGC's **Build to Sell** business, Cala, has continued to perform well over H1 2023, in the face of a challenging market. Having grown to become the 10th largest housebuilder in the UK by revenue, in H1 2023 Cala delivered residential house sale revenue of £619m (H1 2022: £619m) and profit before tax of £73m (H1 2022: £98m) through the sale of 1,428 units (H1 2022: 1,527 home completions). Reservations on private units currently stand at 75% of the full year, providing confidence in the delivery of Cala's FY 2023 targets.

Our **Affordable Homes** business has continued to establish itself as one of the UK's leading institutional developers and managers of affordable housing, with a total operational pipeline of 6,766 and a Gross Asset Value of around £1.2bn. The business is well placed to create opportunities both for our annuity portfolio and for third party investors.

Growth in our **Inspired Villages** business has continued into 2023, driven by the partnership with NatWest Group Pension Fund. Our Later Living platform has made good planning and development progress, and Inspired Villages is on track to deliver over 5,000 homes for older people over the life of the partnership.

In H1 2023, we reluctantly announced our intention to cease production at our **Modular Homes** factory. Unfortunately, long planning delays mean that we have not been able to secure the necessary scale in our pipeline.

Accelerating the growth of private asset managers through Alternative Finance

By investing in the real economy and technological advancements through our General Partners (GP) Investing and Venture Capital platforms, we are continuing to support growth businesses and deliver enhanced returns, whilst boosting job creation and innovation.

Through partnerships such as those with Pemberton, NTR and ImpactA, we are accelerating the growth of mid-size private asset managers, providing institutional rigour and a network of relationships.

We continue to support UK and European mid-market lending through our GP investment in Pemberton, a leading European credit manager, in which we hold a 40% stake. The Pemberton platform has raised over €17.5bn (H1 2022: €14.9bn) from 187 investors globally across seven strategies since we first invested in 2014. In H1 2023 it delivered €52m in revenue (H1 2022: €45m). As the market evolves, Pemberton continues to innovate and add new products to its platform. In 2022 Pemberton launched NAV Financing, which will provide financing solutions to private equity funds' performing investment portfolios and the Risk Sharing Strategy, which will invest in junior tranches of loan portfolios originated by global banks. These follow the launch of the Working Capital Finance strategy which hit the $1billion of committed funds milestone in Feb 2023.

In March 2023, we invested in ImpactA Global, a new women-led Impact asset management firm. ImpactA Global will provide debt financing for sustainable infrastructure projects helping to bridge funding gaps in transformational projects and unlock critical investment to drive climate transition and reduce inequalities in emerging markets. LGC intends to provide up to $100m in cornerstone capital to ImpactA's inaugural fund.

Our Venture Capital funds portfolio supports the growth of over 600 early-stage companies. The university spin-out market is an area of particular focus for us, where we are able to leverage our long-standing relationships with the UK's leading research institutions to help create the outstanding businesses of the future.

Legal & General

Legal & General Investment Management (LGIM)

FINANCIAL HIGHLIGHTS £m	H1 2023	H1 2022
Management fee revenue	**431**	485
Transactional revenue	**9**	9
Total revenue	**440**	494
Total costs	**(298)**	(294)
Operating profit	**142**	200
Investment and other variances	**(11)**	(7)
Profit before tax	**131**	193
Asset Management cost:income ratio (%)	**68**	59

NET FLOWS AND ASSETS £bn		
External net flows	**(12.3)**	65.6
- Of which External net flows excluding UK DB solutions[3]	***7.4***	*40.3*
PRT Transfers	**(5.1)**	(0.4)
Internal net flows	(1.9)	(0.5)
Total net flows	**(19.3)**	64.7
- Of which international[1]	***(2.7)***	*34.5*
Persistency[34] **(%)**	**87**	91
Average assets under management	***1,180***	*1,361*
Assets under management as at 30 June	**1,158**	1,290
Of which:		
- International assets under management[2]	***457***	*468*
- UK DC assets under management	***146***	*130*

1. International asset net flows are shown on the basis of client domicile.
2. International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.
3. Derivative overlays associated with UK DB net flows.

Operating profit of £142m, reflecting higher interest rates

Operating profit of £142m (H1 2022: £200m) reflects the impact of higher interest rates on assets under management, and therefore revenues, and is in line with H2 2022 (£140m). Despite significant inflationary pressure, we have taken action to keep absolute costs flat on an FX-adjusted basis.

Assets under management (AUM) decreased by 10% to £1,158.1bn (H1 2022: £1,289.7bn), reflecting the impact of market conditions and external net outflows over H1 2023 of £(12.3)bn (H1 2022: inflows of £65.6bn). This includes £19.7bn of overlay net flows relating to our UK DB Solutions business[3], which is a partial reversal of positive flows in 2022, where we supported clients to achieve more efficient hedging strategies as part of preparing for 'Endgame' de-risking solutions. Excluding UK DB Solutions[3], LGIM delivered positive external net flows of £7.4bn with a continued focus on higher-margin capabilities, generating £8.4m of annualised net new revenue (ANNR) in respect of net flows into ETF, Multi-Asset and Real Assets.

Management fee revenue decreased by 11% to £431m (H1 2022: £485m). Transactional revenue was robust at £9m (H1 2022: £9m) including execution fees from hedging activity and performance fees. The decrease in management fees is primarily linked to rising interest rates, particularly in the UK, which caused average AUM to fall by 13% over the past year.

We are maintaining a disciplined approach to cost management whilst continuing to invest deliberately and for the long-term. We took expense actions over H1 2023, including selective reshaping of the workforce and restraint on recruitment and variable compensation to combat the impact of higher inflation and market movements on revenue. Costs of £298m in H1 2023 were flat on an FX-adjusted basis compared to H1 2022 (£294m).

Expanding our global footprint with International AUM of £457bn

We are successfully building internationally, with international AUM having grown by 78% since 2018 to £457bn, 39% of AUM. Our goal is for International AUM to represent more than half of our total AUM by the end of this decade.

We are a leading corporate pension manager in the US, working with clients to devise pensions de-risking strategies. We have refocused our index capabilities efforts on Index Solutions and have seen early success with $6.7bn in higher margin Index Plus

[34] Persistency is a measure of LGIM client asset retention, calculated as a function of net flows and closing AUM.

mandates in H1. We are adding to securitised capabilities to broaden our Fixed Income offering and are building a real estate equity platform for the US market, creating a significant opportunity to mirror our success in the UK and provide a broader range of de-risking opportunities for our DB clients.

In Europe, our growth is being led by expertise in ETFs, Active Fixed Income and responsible investing. We have expanded the number of relationships with clients, consultants and intermediaries in our core markets of Germany, Italy, Switzerland and the Nordics, and have opened an office in Zurich. Our AUM across mainland Europe is £68.7bn.

This year, we have opened an office in Singapore to serve south-east Asian clients, onboarded our first client in Thailand and are expecting new mandates in Korea and Taiwan to fund in H2 2023. In Japan our AUM has more than doubled since 2019 and we are now Japan's 7th largest asset manager.[35] Our AUM in Asia and Japan has reached $167bn and we now have clients across 9 countries in the region.

Supporting our institutional defined benefit clients achieve 'Endgame' objectives

In UKDB, we are supporting c2,000 clients to achieve their 'Endgame' objectives. Many are likely to choose LGRI as a pension risk transfer partner. An example of this is the British Steel Pension Scheme, which took its final step in fully reinsuring the £7.5bn of pension liabilities with LGRI via a £2.7bn buy-in. In H1 2023 79% of LGRI UK PRT transactions were with LGIM clients. In the US, improved funding ratios due to higher interest rates have increased demand for customised liability hedging strategies.

We are well positioned to support our global DB clients by delivering capabilities to help them manage their illiquid portfolios, to implement effective hedging strategies and to manage matching asset portfolios as they prepare for 'Endgame'. With over 75% of defined benefit pension schemes now recognising buy-out as their likely ultimate end-state, we expect to grow AUM and profits from providing these asset management services. As the UK DB market continues to consolidate, we are also supporting clients who are not yet fully funded by developing an enhanced proposition, ensuring that their assets are managed with a view to achieving their 'Endgame' goals.

Ongoing strength in Defined Contribution

The Defined Contribution (DC) business continues to attract new assets, with external net flows of £5.5bn, supported by the ongoing growth in Retail's Workplace pension business, which now has 5.0 million members. Annualised net new revenue was £6.5m and total UK DC AUM is £146bn (H1 2022: £130bn). This success is underpinned by LGIM's strong customer focus and innovative product proposition, as shown by a 93% persistency rate among our DC customers.

L&G also has one of the largest and fastest-growing UK Master Trusts, which now has £22.1bn of AUM, making it the first commercial Master Trust to surpass £20bn of assets under management. The growth reflects the increasing appeal of the structure for DC plans wishing to outsource their governance, investment and administration. Our UK Master Trust supports growth in Multi-Asset flows: this is the default option for many of our clients. Our ability to offer investors an integrated blend of high-quality investment solutions, pensions administration and Master Trust governance is a significant source of competitive advantage. In June, L&G's Master Trust won the coveted Corporate Advisor award for Best Master Trust for the third year in a row.

Accelerating growth in Global Wholesale

In UK Wholesale, we achieved our highest ever gross sales and ranked 2nd over H1 2023.[36] Our Strategic Bond Fund attracted strong inflows in the period totalling £200m demonstrating our strong Fixed Income credentials. Higher margin Multi-Asset funds now have over £10.5bn in AUM from UK retail investors. We continued to expand our Model Portfolio Service (MPS), further extending the successful Multi-Asset proposition into the maturing advisory market.

A key driver of our Global Wholesale growth strategy is our ETF products which continue to perform well. Since acquisition of the ETF business in 2018, revenue has more than tripled. The range has continued to show resilience, against a challenging backdrop, with $1.2bn of external net flows in H1 2023 delivering an annualised net new revenue of $1.5m. LGIM is ranked second on AUM in the European thematic ETF market. Our diversified range consisting of Equity Thematic, Fixed Income, and Commodities ETFs has supported our strategy of growth into higher-margin areas. We are deepening our retail footprint in Germany through a partnership with Gerd Kommer Invest and recently launched our first co-branded ETF to provide broad diversified multi-factor exposure to global equities. In May, we announced a partnership with Widiba Bank in Italy, who are now distributing our thematic ETFs through their financial advisor network. Our targeted product pipeline for H2 continues to focus on thematic investments, climate and energy transition.

[35] Ranked seventh by AUM, Japanese industry publication (Pension News) March 2022.
[36] Pridham Q1 & Q2 2023 report

Building a Real Assets Platform

Real Assets saw total net flows of £1.5bn (H1 2022: £0.7bn) driven by £2.1bn of Private Credit transactions of which the majority support LGRI's PRT proposition. Private Credit AUM reached £17.0bn[37] in H1 2023 and we expect it to be core to future growth in flows as clients seek diversification of secure income and value protection. UK DB investors are now accessing these capabilities through our successful SIAF and STAFF private credit funds[38], and DC investors are also starting to show interest in our illiquid strategies.

Our Real Estate and Infrastructure Equity platform continues to grow with AUM of £19.7bn[37]. In H1 2023 we raised €390m in the first close of the Clean Power (Europe) Fund working in partnership with NTR. We have hired a team in the US to focus on real estate markets where we see potential. Our property fund for UK retail investors is one of the market leaders with over £1.3bn of AUM. Our strategy is to externalise capabilities that we have built in collaboration with other parts of L&G.

Investment performance

40% of revenue comes from actively managed funds. The relative performance of our UK-managed Active Fixed Income strategies was strong with 64% of strategies out-performing over 1 year, 87% of strategies out-performing over 3 years and 84%[39] over 5 years. US-managed Active Fixed Income strategies have also performed well with 73% of strategies out-performing over 1 year, 83% of strategies out-performing over 3 years and 64% over 5 years. Multi-Asset strategies outperformed by 79% over 1 year, 54% over 3 years and 75% over 5 years.[40] Within Private Markets, 86%[41] of our Real Estate Equity funds have outperformed over 3 years and our Private Credit performance remains strong.

Leading in responsible investing

We are an active steward of our clients' assets and are committed to raising standards in addressing the environmental and social challenges arising from a rapidly changing world. As at 30th June 2023, LGIM managed £331.6bn (H1 2022: £271.2bn) in responsible investment strategies explicitly linked to ESG criteria for a broad range of clients.[42]

ESG innovation continues to be core to our product agenda. We have recently launched the Future World ESG Developed Fossil Fuels Exclusion Index Fund, developed in collaboration with the National Trust, the largest conservation charity in Europe. H1 also saw the launch of a Global Diversified Credit fund aligned to the UN's Sustainable Development Goals, and a suite of Net Zero, Paris Aligned and bespoke ESG exclusion funds helping clients meet their own climate commitments.

As responsible investors, LGIM aims to vote every share that we hold and publish our voting activities on our dedicated website.[43] We rate around 17,000 companies through our proprietary scoring system, the LGIM ESG Score, and capture over 5,000 companies across 20 climate critical sectors within our flagship corporate engagement programme, the Climate Impact Pledge. We are active collaborators with our peers through global organisations such as the CA100+ and the IPDD (Investors Policy Dialogue on Deforestation). LGIM recently won the Sustainability Provider of the Year Award at the Pensions Age awards. This year we have added dedicated Investment Stewardship resources in Asia for the first time, as our reach and influence continue to expand globally.

[37] Figures reflect total managed assets including AUM from fund of fund structures. As at 30 June 2023 of the total Real Assets AUM (£36.7bn), £35.6bn was invested directly by clients in Real Assets capabilities
[38] SIAF = Secure Income Assets Fund. STAFF = Short Term Alternative Finance Fund.
[39] Net fund performance data versus key comparators (benchmark or generic peer groups as per the relevant prospectuses, and benchmark per the relevant prospectus or custom peer group for Active Strategies - Bonds) sourced from Lipper for the LGIM UCITS. All data as at 30 June 2023.
[40] Multi Asset - Net fund performance data versus key comparators (benchmark or generic (IA) peer groups as per the relevant prospectuses or internal custom peer groups) sourced from Lipper/Bloomberg for the LGIM UCITS and Gross fund versus key comparators (benchmark or generic (ABI) peer groups) for PMC Pooled "Standard" Funds. All data as at 30 June 2023
[41] Based on Q1 2023 position.
[42] AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. Mandates which only invest in government bonds are not included, however where LGIM manages a mandate (for a third-party client) which is invested in a broad asset exposure that includes, but is not limited to, government bonds, these mandates would be included subject to that mandate having a deliberate and positive expression of ESG criteria.
[43] https://www.lgim.com/uk/en/responsible-investing/

Borrowings

The Group's outstanding core borrowings totalled £4.3bn at 30 June 2023 (FY 2022: £4.3bn; H1 2022: £4.4bn). There is also a further £1.3bn (FY 2022: £1.2bn; H1 2022: £1.2bn) of operational borrowings including £1.1bn (FY 2022: £1.0bn; H1 2022: £1.0bn) of non-recourse borrowings.

Group debt costs of £106m (H1 2022: £108m) reflect an average cost of debt of 4.7% per annum (H1 2022: 4.9% per annum) on an average nominal value of debt balances of £4.5bn (H1 2022: £4.5bn).

Taxation

Equity holders' Effective Tax Rate (%)	**H1 2023**	H1 2022
Equity holders' total Effective Tax Rate	**4.3**	17.5
Annualised rate of UK corporation tax	**23.5**	19

The H1 2023 effective tax rate reflects the different rates of taxation that apply to Legal & General's overseas operations.

Solvency II

As at 30 June 2023, the Group had an estimated Solvency II surplus of £9.2bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 230%.

Capital (£m)	H1 2023	2022
Own Funds	16,197	17,226
Solvency Capital Requirement (SCR)	(7,036)	(7,311)
Solvency II surplus	**9,161**	**9,915**
SCR coverage ratio (%)	**230**	**236**

Analysis of movement from 1 January 2023 to 30 June 2023[1] (£m)	Solvency II Own Funds	Solvency II SCR	Solvency II Surplus
Operational surplus generation	**835**	**112**	**947**
New business strain	188	(383)	(195)
Net surplus generation	**1,023**	**(271)**	**752**
Operating variances			(543)
Mergers, acquisitions and disposals			(150)
Market movements			18
Subordinated debt			-
Dividends paid			(831)
Total surplus movement (after dividends paid in the period)	**(1,029)**	**275**	**(754)**

1. Please see disclosure note 6.01(c) for further detail.

Operational surplus generation was level at £947m (H1 2022: £946m), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £(195)m, primarily reflecting PRT volumes written at a capital strain of just over 2%. This resulted in net surplus generation of £752m (H1 2022: £825m).

Dividends paid represent the payment of the 2022 final dividend in June 2023, which is the larger of the two dividends paid during the year.

Operating variances include the impact of experience variances, changes to assumptions and management actions. The net impact of operating variances over the period was negative and predominantly reflects timing differences which we expect to reverse in H2 (e.g. the execution of external and intragroup reinsurance).

Market movements of £18m primarily reflect the impact of rising rates on the valuation of our balance sheet, partially offset by other, smaller variances such as credit spread dispersion in sub-investment grade assets, exchange rates, inflation and property.

The movements shown above incorporate the impact of recalculating the TMTP as at 30 June 2023.

Sensitivity analysis[2]

	Impact on net of tax Solvency II capital surplus H1 2023 £bn	Impact on net of tax Solvency II coverage ratio H1 2023 %
100bps increase in risk-free rates	0.3	15
100bps decrease in risk-free rates	(0.4)	(16)
Credit spreads widen by 100bps assuming an escalating addition to ratings	0.4	13
Credit spreads narrow by 100bps assuming an escalating addition to ratings	(0.6)	(17)
Credit spreads widen by 100bps assuming a flat addition to ratings	0.4	14
Credit spreads of sub-investment grade assets widen by 100bps assuming a level addition to ratings	(0.2)	(7)
Credit migration	(0.7)	(10)
25% fall in equity markets	(0.4)	(3)
15% fall in property markets	(0.9)	(11)
50bps increase in future inflation expectations	(0.1)	(4)
Substantially reduced Risk Margin	0.6	8

2. Please see disclosure 6.01 (f) for further details.

The above analysis does not reflect all possible management actions which could be taken to reduce the impact of each sensitivity due to the complex nature of the modelling. In practice, the Group actively manages its asset and liability positions to respond to market movements. Other than in the interest rate and inflation stresses, we have not allowed for the recalculation of TMTP. The impacts of these stresses are not linear therefore these results should not be used to interpolate or 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 would be different if performed at an alternative reporting date.

The impacts of credit spreads and risk-free rate sensitivities are primarily non-economic arising from movements in balance sheet items that result from changes in the discount rates used to calculate the value of assets and liabilities. The credit migration stress, in the absence of defaults, delays the emergence of operating surplus generation, but does not reduce the actual quantum of future releases. Similarly, equity and property stresses only result in losses if assets are sold at depressed values.

Solvency II new business contribution

Management estimates of the present value of new business (PVNBP) and the margin as at 30 June 2023 are shown below[1]:

£m	PVNBP	Contribution from new business	Margin %
LGRI - UK annuity business	**4,050**	**326**	**8.0**
Retail Retirement – UK annuity business	**575**	**34**	**5.9**
UK Protection Total	**621**	**17**	**2.8**
US Protection	**605**	**68**	**11.2**

The key economic assumptions as at 30 June 2023 are as follows:

	%
Margin for risk	**4.1**
Risk-free rate	
- UK	**3.9**
- US	**3.8**
Risk discount rate (net of tax)	
- UK	**8.0**
- US	**7.9**
Long-term rate of return on non-profit annuities	**5.5**

1. Please see disclosure 6.02 for further details.

The future earnings are discounted using duration-based discount rates, which is the sum of a duration-based risk-free rate and a flat margin for risk. The risk-free rates have been based on a swap curve net of the PRA-specified Credit Risk Adjustment. The risk-free rate shown above is a weighted average based on the projected cash flows.

Other than updating for recent experience, all other economic and non-economic assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from those previously used by the group for its European Embedded Value reporting, other than the cost of currency hedging which has been updated to reflect current market conditions and hedging activity in light of Solvency II.

Principal risks and uncertainties

Legal & General runs a portfolio of risk-taking businesses; we accept risk in the normal course of business and aim to deliver sustainable returns on risk-based capital to our investors in excess of our cost of capital. We manage the portfolio of risk that we accept to build a sustainable franchise for the interests of all our stakeholders; we do not aim to eliminate that risk. We have an appetite for risks that we understand and are rewarded for, and which are consistent with delivery of our strategic objectives. Risk management is embedded within the business. The Group's Principal Risks and Uncertainties summarise key matters that may impact the delivery of Group's strategy earnings or profitability. The risks are expected to remain applicable for the remaining six months of the year.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability, or surplus capital. The performance and liquidity of financial and property markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and to meet the obligations from insurance business; the movement in certain investments directly impacts profitability. Interest rate movements and inflation can also change the value of our obligations and although we seek to match assets and liabilities, losses can still arise from adverse markets. Falls in the risk-free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet, potentially impacting capital requirements and surplus capital. Falls in investment values can reduce our investment management fee income.	We cannot eliminate the downside impacts on our earnings, profitability or surplus capital from investment market volatility and adverse economic conditions, although we seek to position our investment portfolios and wider business plans for a range of plausible economic scenarios and investment market conditions to ensure their resilience across a range of outcomes. This includes setting risk limits on exposures to different asset classes and where hedging instruments exist, we seek to remove interest rate and inflation risk on a financial reporting basis. Our ORSA is integral to our risk management approach, supporting assessment of the financial impacts of risks associated with investment market volatility and adverse economic scenarios for our Solvency II balance sheet, capital sufficiency, and liquidity requirements. The global economic outlook remains highly uncertain with potential for a sustained period of very low growth and elevated levels of inflation, particularly in the UK. Asset values remain susceptible to reappraisal should the current economic outlook deteriorate, as well as from a range of geo-political factors including the on-going war in Ukraine and potential further ruptures in the US-China relationship. The UK commercial property markets continued to reflect the broader uncertainty in the economic outlook. Within our construction businesses supply chain, cost inflation and labour shortages also continue to present risk. There are questions on the efficacy of traditional monetary policy transmission mechanisms in lowering inflation. As a result, there is a danger that excessive central bank rate rises lead to significant unintended damage to the wider economy including through reduced consumer spending and pressure on residential property markets.
In dealing with issuers of debt and other types of counterparty, the group is exposed to the risk of financial loss. Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody, and other bespoke business services. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	We manage our exposure to downgrade and default risks within our bond portfolios, through setting selection criteria and exposure limits, and using LGIM's global credit team's capabilities to ensure risks are effectively controlled, where appropriate trading out to improve credit quality. In our property lending businesses, our loan criteria take account of borrower default and movements in the value of security. We manage our reinsurer exposures with the vast majority of our reinsurers having a minimum A- rating, setting rating-based exposure limits, and where appropriate taking collateral. Similarly, we seek to limit aggregate exposure to banking, money market and service providers. Whilst we manage risks to our balance sheet, we can never eliminate downgrade or default risks, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. The risk of credit default increases in periods of low economic growth, and we continue to closely monitor the factors that may lead to a widening of credit spreads including the outlook for interest rates. A sustained period of elevated inflation, reducing real incomes, will particularly impact economic activity in sectors reliant on discretionary spending. The UK owner-occupied residential property market is also showing signs of weaker confidence, and we continue to carefully monitor the medium to long term outlook.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
We fail to respond to the emerging threats from climate change for our investment portfolios and wider businesses. As a significant investor in financial markets, commercial real estate and housing, we are exposed to climate related transition risks, particularly should abrupt shifts in the political and technological landscape impact the value of those investment assets associated with higher levels of greenhouse gas emissions. Our interests in property assets may also expose us to physical climate change related risks, including flood risks. We are also exposed to reputation and climate related litigation risks should our responses to the threats from climate change be judged not to align with the expectations of environment, social and governance (ESG) groups. Our risk management approach is also reliant upon the availability of verifiable consistent and comparable emissions data. The impacts of climate change could also be felt in terms of "physical" risks, both to the valuation of assets at risk from extreme climate outcomes, and in terms of the potential longer-term impacts on mortality.	We recognise that our scale brings a responsibility to act decisively in positioning our balance sheet to the threats from climate change. We continue to embed the assessment of climate risks in our investment process, including in the management of real assets. We measure the carbon intensity targets of our investment portfolios, and along with specific investment exclusions for carbon intensive sectors, we have set overall reduction targets aligned with a 1.5°C interpretation of the Paris Agreement, including setting near term science-based targets and a transition plan to support our long-term emission reduction goals. Alongside managing exposures, we closely monitor the political and regulatory landscape, and as part of our climate strategy we engage with regulators and investee companies in support of climate action. As we change how we invest, the products and services we offer, and how we operate, we are also mindful of the need to ensure that we have the right skills for the future. We are increasingly building in the potential physical impacts of climate change on both assets and liabilities into our modelling and projections work. Over the next decade, the change necessary to meet global carbon reduction targets will require societal adjustments on an unprecedented scale. A failure by governments to ensure an orderly transition to low carbon economies increases the risk for sudden late policy action and large, unanticipated shifts in the asset values of impacted industries. Whilst our transition plans seek to minimise our overall exposure to this risk, their execution is dependent on the delivery of the policy actions and the climate reduction targets of the firms we invest in. The actions governments take will also to some extent inform how we can deliver upon the commitments we have made, and as the science of climate change evolves, we may need to adapt our actions. Anti ESG sentiment, particularly within countries with a high dependency on fossil fuel related industries, may also constrain global ambition in addressing climate change as well as limiting investment opportunities. As recent events in the northern hemisphere summer have shown, the impacts of increased climate volatility can be significant and will sometimes emerge rapidly.
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation. The pricing of long-term business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, increasing the level of reserves and impacting reported profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, and expenses, as well as credit default in the assets backing our insurance liabilities. We also aim to pre-fund and warehouse appropriate investment assets to support the pricing of long-term business. We seek to have a comprehensive understanding of longevity, mortality and morbidity risks, and we continue to evaluate wider trends in life expectancy. However, we cannot remove the risk that adjustment to reserves may be required, although the selective use of reinsurance acts to reduce the impacts to us of significant variations in life expectancy and mortality. We are seeing elevated levels of mortality in both the UK and the US, reflecting the ongoing direct and indirect impacts of Covid 19 related illness, including the deferral of diagnostics and medical treatments for other conditions, and there remains continued uncertainty to the impacts of "long covid" .Cost of living pressures and government spending decisions also have the potential to affect mortality outcomes. Along with the emergence of new diseases and changes in immunology impacting mortality and morbidity assumptions, other risk factors that may impact future reserving requirements include a dramatic advance in medical science, beyond that anticipated, requiring adjustment to our longevity assumptions. Whilst at present we do not believe climate change to be material driver for mortality and longevity risk in the medium term, we continue to keep this under review.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products, and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues, and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies to assist in the evaluation of change to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure on-going compliance with relevant legislation and regulation. Residual risk remains, however, that controls may fail or that historic financial services industry accepted practices may be reappraised by regulators, resulting in sanctions against the group. Regulatory driven change remains a significant risk factor across our businesses. Key areas of change include HM Treasury's consultation on Solvency II, with reforms to areas such as the risk margin and the management of matching adjustment portfolios, albeit the detailed outcome remains somewhat uncertain, and regulatory frameworks for the governance of Pensions Dashboards services. We are making good progress in meeting the requirements of the UK's financial conduct regulator's new Consumer Duty. There have been regulatory guidance papers published by the Bank of England (via the Financial Policy Committee), the Financial Conduct Authority and The Pensions Regulator all issuing recommendations designed to further improve LDI resilience to future volatility. We have continued to identify and strengthen the resiliency of our LDI strategies specifically and broader processes. Regulatory focus also continues on the operational resilience of financial services firms; the management of third parties; and approaches being taken in response to the threats from climate change, including most recently proposed sustainability labelling for investment funds. We are also monitoring changes in UK fiscal policy and global minimum tax environment; and within our property construction businesses, we are implementing relevant requirements of the Building Safety Bill and the Environment Act 2021.
New entrants and/or technology may disrupt the markets in which we operate. There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. It is possible that alternative digitally enabled financial services providers emerge with lower cost business models or innovative service propositions and disrupt the current competitive landscape. We are also cognisant of competitors who may have lower return on capital requirements or be unconstrained by Solvency II. The continued evolution of AI has the potential to be significant disrupting force across our businesses, for example by enabling new entrants to compete with potentially lower costs, and more efficient processes. The technology itself could have an impact on asset valuations, and on our liabilities including through its impact on life sciences and health care systems effectiveness.	We continuously monitor the factors that may impact the markets in which we operate, including evolving domestic and internal capital standards, and are maintaining our focus on developing our digital platforms. We observe a continued acceleration of a number of trends, including greater consumer engagement in digital business models and on-line servicing tools. The post pandemic operating environment has also seen businesses like ours transform working practices, and we expect to continue to invest in automation, using robotics and machine learning to improve business efficiency. We are deepening our understanding of the impacts of AI on our businesses and in the wider sector. Our businesses are also well positioned for changes in the competitive landscape that may arise from the roll out of defined benefit 'superfund' consolidation schemes, pension dashboards and 'collective' pension scheme arrangements.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions, or reputational damage. We are also inherently exposed to cyber threats including the risks of data theft and fraud. There is also strong stakeholder expectation that our core business services are resilient to operational disruption.	Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group Chief Risk Officer, with independent assurance from Group Internal Audit. Whilst we seek to maintain a control environment commensurate with our risk profile, we recognise that residual risk will always remain across the spectrum of our business operations and we aim to develop response plans so that when adverse events occur, appropriate actions are deployed. We continue to remain alert to evolving operational risks and invest in our system capabilities, including those for the management of cyber risks, to ensure that our business processes are resilient. We also remain cognisant of the risks as we implement a new global operating model and IT platform for LGIM and have structured the migration in phases to minimise change risks.
The success of our operations is dependent on the ability to attract and retain highly qualified professional people. The Group aims to on recruit, develop and retain high quality individuals. We are inherently exposed to the risk that key personnel or teams of expertise may leave the Group, with an adverse effect on the Group's businesses. As we increasingly focus on the digitalisation of our businesses, we are also competing for data and digital skill sets with other business sectors as well as our peers.	We seek to ensure that key personnel dependencies do not arise, through employee training and development programmes, remuneration strategies and succession planning. Our processes include the active identification and development of talent within our workforce, and by highlighting our values and social purpose, promoting Legal & General as a great place to work. As well as investing in our people, we are also transforming how we engage and develop capabilities, with new technologies and tools to support globalisation, increase productivity and provide an exceptional employee experience. Competition for talent remains strong with skills in areas such as technology and digital particularly sought after across many business sectors, including those in which we operate. We also recognise the risks posed by the outlook for inflation in salary expectations across the wider employment market, and internally we have taken steps to help our employees through direct financial support and by providing advice and resources to help them manage their financial well-being.

Legal & General

Notes

A copy of this announcement can be found in “Results, Reports and Presentations”, under the “Investors” section of our shareholder website at www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

A presentation to analysts and investors will take place at 10:30am UK time today at One Coleman Street, London, EC2R 5AA. There will also be a live webcast of the presentation that can be accessed at www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

A replay of the presentation will be made available on this website by 18th August 2023.

Financial Calendar	Date
2023 interim results announcement	**15 August 2023**
Ex-dividend date (2023 interim dividend)	**24 August 2023**
Record date	**25 August 2023**
Dividend payment date	**26 September 2023**
2023 preliminary results announcement	**6 March 2024**

Definitions

Definitions are included in the Glossary on pages 105 to 110 of this release.

Forward-looking statements

This announcement may contain ‘forward-looking statements’ with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Company and the Group that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as ‘may’, ‘could’, ‘will’, ‘expect’, ‘intend’, ‘estimate’, ‘anticipate’, ‘believe’, ‘plan’, ‘seek’, ‘continue’ or other words of similar meaning. By their very nature, forward-looking statements are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group’s plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to): changes in global, political, economic, business, competitive and market forces or conditions; future exchange and interest rates; changes in environmental, social or physical risks; legislative, regulatory and policy developments; risks arising out of health crises and pandemics; changes in tax rates, future business combinations or dispositions; and other factors specific to the Group. Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future. No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

The information, statements and opinions contained in this announcement do not constitute an offer to sell or buy or the solicitation of an offer to sell or buy any securities or financial instruments nor do they constitute any advice or recommendation with respect to such securities or other financial instruments or any other matter

Caution about climate information

This announcement contains climate and ESG disclosures which use a large number of judgments, assumptions and estimates. These judgments, assumptions and estimates are likely to change over time. In addition, the Group’s climate risk analysis and net zero strategy remain under development and the data underlying the analysis and strategy remain subject to evolution. As a result, certain climate and ESG disclosures made in this announcement are likely to be amended, updated, recalculated or restated in future announcements. This statement should be read together with the cautionary statement contained in the Group’s 2022 Climate Report.

Going concern statement

Going concern statement is included on disclosure note 4.01(i) on page 46 of this release.

Directors' responsibility statement

We confirm to the best of our knowledge that:

i. The consolidated interim financial statements have been prepared in accordance with UK-adopted IAS 34 Interim Financial Reporting;

ii. The interim management report includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the financial year and their impact on the consolidated interim financial statements, as well as a description of the principal risks and uncertainties faced by the company and undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;

iii. The interim management report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report and Accounts; and

iv. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report and Accounts for 31 December 2022. A list of current directors is maintained on the Legal & General Group Plc website: https://group.legalandgeneral.com/en/about-us/our-management/group-board.

By order of the Board

Sir Nigel Wilson Group Chief Executive 14 August 2023	Stuart Jeffrey Davies Group Chief Financial Officer 14 August 2023

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Independent review report to Legal & General Group Plc

Conclusion

We have been engaged by Legal & General Group Plc ("the company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the company to cease to continue as a going concern, and the above conclusions are not a guarantee that the company will continue in operation.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 4.01, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusions, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Philip Smart
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
14 August 2023

IFRS Disclosures on performance

2.01 IFRS 17 and IFRS 9 restatement

The group has applied IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' for the first time from 1 January 2023. These standards have brought significant changes to the accounting for insurance and reinsurance contracts and financial instruments respectively, and have had a material impact on the group's financial statements in the period of initial application.

IFRS 17, 'Insurance Contracts' was originally issued in May 2017 by the IASB, and subsequent amendments were issued in June 2020. Endorsement for use in the UK was granted in May 2022. The standard replaced IFRS 4, 'Insurance Contracts', and has been applied retrospectively, in line with the transitional options provided for in the standard. IFRS 17 provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure.

IFRS 9, 'Financial Instruments' was issued in July 2014 by the IASB, effective for annual periods beginning on or after 1 January 2018. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allowed entities that met certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17, 'Insurance Contracts' or 1 January 2021, whichever is the earlier. In June 2020, the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The group qualified for, and made use of this deferral option, and has therefore applied IFRS 9 for the first time on 1 January 2023. The standard replaced IAS 39, 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the previous model based on incurred losses) and new requirements on hedge accounting. IFRS 9 has been applied retrospectively.

Note 4.01 Basis of preparation includes the new accounting policies adopted by the group for IFRS 17 and IFRS 9, together with information relating to the transition to the new standards.

IFRS 17 and IFRS 9 have been applied retrospectively, and prior period comparative information has been restated. These restatements resulted in comparative figures for the financial year ended 31 December 2022 which are not the group's statutory accounts for that financial year, but are derived from those accounts. Therefore, prior periods comparative information is unaudited. More information is provided in Note 4.01.

Restatements due to the implementation of IFRS 17 and IFRS 9 have been clearly marked as such throughout this report.

As at the transition date of 1 January 2022, the impacts on the key line items in the group's Consolidated Balance Sheet are set out below. The restated balances are aligned to those disclosed in the Annual Report and Accounts for the year ended 31 December 2022, with some minor adjustments for rounding.

Balance sheet item	31 December 2021 (as reported) £m	Reclassification due to adoption of IFRS 9 and IFRS 17 £m	Impact of the adoption of IFRS 9 £m	Impact of the adoption of IFRS 17 £m	1 January 2022 (restated) £m
Financial investments	**538,374**	**(29)**	**(716)**	**–**	**537,629**
Net insurance contract liabilities[1]	**(82,645)**	**(199)**	**–**	**(6,185)**	**(89,029)**
Net deferred tax (liabilities)/assets	**(249)**	**–**	**178**	**1,209**	**1,138**
Other	**(444,994)**	**228**	**–**	**(31)**	**(444,797)**
Equity attributable to owners of the parent	**10,486**	**–**	**(538)**	**(5,007)**	**4,941**

1. Net insurance contract liabilities reflect insurance contract assets and liabilities, net of reinsurance contracts.

The adoption of the new accounting standards does not change the total profit recognised over the life of the group's insurance contracts, nor the underlying economics or cash generation of the group's businesses. It does not change the group's strategy, solvency position nor dividend paying capacity or appetite.

IFRS Disclosures on performance

2.02 Operating profit#

For the six month period to 30 June 2023	Notes	6 months 2023 £m	Restated 6 months 2022 £m	Restated Full year 2022 £m
Legal & General Retirement Institutional (LGRI)	2.03	**471**	395	828
Legal & General Capital (LGC)	2.04	**296**	263	509
Legal & General Investment Management (LGIM)	2.05	**142**	200	340
Retail	2.03	**230**	295	416
- Insurance		108	164	165
- Retail Retirement		122	131	251
Operating profit from divisions		**1,139**	1,153	2,093
Group debt costs[1]		**(106)**	(108)	(214)
Group investment projects and expenses		**(92)**	(87)	(194)
Operating profit		**941**	958	1,685
Investment and other variances	2.06	**(611)**	(261)	(751)
Losses attributable to non-controlling interests		**(6)**	–	(1)
Adjusted profit before tax attributable to equity holders		**324**	697	933
Tax expense attributable to equity holders	4.04	**(14)**	(122)	(88)
Profit for the period	3.01	**310**	575	845
Total tax expense	3.01	**128**	195	159
Profit before tax	3.01	**438**	770	1,004
Profit attributable to equity holders		**316**	575	846
Earnings per share:				
Basic (pence per share)[2]	2.08	**5.16**	9.52	13.91
Diluted (pence per share)[2]	2.08	**5.04**	9.16	13.47

1. Group debt costs exclude interest on non-recourse financing.
2. All earnings per share calculations are based on profit attributable to equity holders of the company.

This supplementary adjusted operating profit information (one of the group's key performance indicators) provides additional analysis of the results reported under IFRS, and the group believes that it provides stakeholders with useful information to enhance their understanding of the performance of the business in the period. While the calculation of adjusted operating profit has been updated to reflect the accounting and presentational impacts of IFRS 17, the key principles of what is measured by adjusted operating profit, as set out below and except as noted, remain unchanged from the prior year.

Adjusted operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes caused by changes in market conditions or expectations and exceptional items. Key considerations in relation to the calculation of adjusted operating profit for the group's long-term insurance businesses and shareholder funds are set out below.

Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition and start-up costs, are excluded from adjusted operating profit.

Long-term insurance

Adjusted operating profit reflects longer-term economic assumptions for the group's retirement and insurance businesses. Variances between actual and long-term expected investment return on traded and real assets are excluded from adjusted operating profit, as well as economic assumption changes caused by changes in market conditions or expectations (e.g. credit default and inflation) and any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business. Assets held for future new pension risk transfer business are excluded from the asset portfolio used to determine the discount rate for annuities on insurance contract liabilities. The impact of investment management actions that optimise the yield of the assets backing the back book of annuity contracts is now included within adjusted operating profit; prior to the implementation of IFRS17 the impact of such actions was not included in operating profit.

For the group's long-term insurance businesses, reinsurance mismatches are also excluded from adjusted operating profit. Reinsurance mismatches arise where the reinsurance offset rules in IFRS 17 do not reflect management's view of the net of reinsurance transaction. In particular, during a period of reinsurance renegotiation, reinsurance gains cannot be recognised to offset any inception losses on the underlying contracts where they are recognised before the new reinsurance agreement is signed. In these circumstances, the onerous contract losses are reduced to reflect the net loss (if any) after reinsurance, and future contractual service margin (CSM) amortisation is reduced over the duration of the contracts.

All references to 'Operating profit' throughout this report represent 'Adjusted operating profit', an alternative performance measure defined in the glossary.

2.02 Operating profit# (continued)

Shareholder funds

Shareholder funds include both the group's traded equity portfolio and certain direct investments for which adjusted operating profit is based on the long-term economic return expected to be generated. For these direct investments, as well as for the group's traded equity portfolio, deviations from such long-term economic return are excluded from adjusted operating profit. Direct investments for which adjusted operating profit is reflected in this way include the following:

- Development assets, predominantly in the specialist commercial real estate and housing sectors within the LGC alternative asset portfolio: these are assets under construction and contracted to either be sold to other parts of the group or for other commercial usage, and on which LGC accepts development risks and expects to realise profits once construction is complete.
- 'Scale-up' investments, predominantly in the alternative finance sector within the LGC alternative asset portfolio as well as the fintech business within Retail: these are investments in early-stage ventures in a fast-growing phase of their life cycle, but which have not yet reached a steady-state level of earnings.

Shareholder funds also includes other direct investments for which adjusted operating profit reflects the IFRS profit before tax. Direct investments for which adjusted operating profit is reflected in this way include the following:

- 'Start-up' investments: these are companies in the beginning stages of their business lifecycle (i.e. typically less than 24 months) and which therefore have limited operating history available and typically are in a pre-revenue stage.
- Mature assets: these are companies in their final stages of business lifecycle. They are stable businesses and have sustainable streams of income, but the growth rate in their earnings is expected to remain less pronounced in the future.

2.03 Analysis of LGRI and Retail operating profit#

	LGRI 6 months 2023 £m	**Retail 6 months 2023 £m**	LGRI 6 months 2022 £m	Retail 6 months 2022 £m	LGRI Full year 2022 £m	Retail Full year 2022 £m
Amortisation of the CSM in the period[1]	**266**	**210**	239	206	522	425
Release of risk adjustment in the period	**54**	**49**	68	44	136	85
Experience variances	**1**	**(18)**	9	(6)	14	(92)
Development of losses on onerous contracts	**–**	**(8)**	–	(5)	1	(7)
Other expenses	**(66)**	**(39)**	(65)	(43)	(131)	(113)
Insurance investment margin[2]	**213**	**49**	139	38	277	60
Investment contracts and non-insurance operating profit	**3**	**(13)**	5	61	9	58
Total LGRI and Retail operating profit	**471**	**230**	395	295	828	416

1. Contractual service margin (CSM) amortisation for Retail has been reduced by £8m (H1 22: £9m; FY 22: £17m) to exclude the impact of reinsurance mismatches.
2. Insurance investment margin comprises the expected investment return on assets backing insurance contract liabilities, the unwind of the discount rate on insurance contract liabilities and the optimisation of the assets backing the annuity back book.

2.04 LGC operating profit#

	6 months 2023 £m	6 months 2022 £m	Full year 2022 £m
Direct investments[1]	**230**	202	400
Traded investment portfolio including treasury assets[2]	**66**	61	109
Total LGC operating profit	**296**	263	509

1. Direct investments represents LGC's portfolio of assets across specialist commercial real estate, clean energy, housing and alternative finance. Direct investments includes operating profit in relation to CALA Homes of £68m (H1 22: £98m; FY 22: £172m).
2. The traded investment portfolio holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash.

2.05 LGIM operating profit#

	6 months 2023 £m	6 months 2022 £m	Full year 2022 £m
Asset management revenue (excluding third-party market data)[1]	**431**	485	944
Asset management transactional revenue[2]	**9**	9	26
Asset management expenses (excluding third-party market data)[1]	**(298)**	(294)	(630)
Total LGIM operating profit	**142**	200	340

1. Asset management revenue and expenses exclude income and costs of £13m in relation to the provision of third-party market data (H1 22: £15m; FY 22: £30m).
2. Transactional revenue from external clients includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees.

All references to 'Operating profit' throughout this report represent 'Adjusted operating profit', an alternative performance measure defined in the glossary.

IFRS Disclosures on performance

2.06 Investment and other variances

	6 months 2023 £m	Restated 6 months 2022 £m	Restated Full year 2022 £m
LGRI and Retail			
- Net impact of investment returns (less than)/in excess of expectation and change in liability discount rates	**(186)**	66	(72)
- Other	**(36)**	8	–
Total LGRI and Retail	**(222)**	74	(72)
LGC investment variance	**(163)**	(308)	(428)
Other investment variance[1]	**(48)**	(8)	(119)
Investment variance	**(433)**	(242)	(619)
M&A related and other variances[2]	**(178)**	(19)	(132)
Total investment and other variances	**(611)**	(261)	(751)

1. Other investment variance includes the current service costs and net interest expense of the group's defined benefit pension schemes.
2. M&A related and other variances includes gains and losses, expenses and intangible amortisation relating to acquisitions, disposals and restructuring as well as business start-up costs. The total for the 6 months ended 30 June 2023 includes £163m of costs incurred relating to the announced intent to cease production within the Modular Homes business and impairment of the group's investment in Onto.

Investment variance includes differences between actual and long-term expected investment return on traded and real assets (including development assets and scale-up equity direct investments within LGC and Retail's Insurance business), the impact of economic assumption changes caused by changes in market conditions or expectations (e.g. credit default and inflation), the impact of any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business, and the yield associated with assets held for future new pension risk transfer business.

The long-term expected investment return is based on opening economic assumptions applied to the assets at the start of the reporting year. The assumptions underlying the calculation of the expected returns for traded equity, commercial property and residential property are based on market consensus forecasts and long-term historic average returns expected to apply through the cycle.

The long-term expected investment returns are:

	6 months 2023	6 months 2022	Full year 2022
Equities	**7%**	7%	7%
Commercial property	**5%**	5%	5%
Residential property	**3.5%**	3.5%	3.5%

For fixed interest securities measured at FVTPL, the expected investment returns are based on average prospective yields for the actual assets held less an adjustment for credit risk (assessed on a best estimate basis). Where securities are measured at amortised cost or FVOCI, the expected investment return comprises interest income on an effective interest rate basis.

For equity direct investments, the LGC alternative asset portfolio and Retail's Insurance business comprise investments in housing, specialist commercial real estate, clean energy, alternative finance and fintech. Where used for the determination of adjusted operating profit, the long-term expected investment return is on average between 10% and 12%, in line with our stated investment objectives. Rates of return specific to each asset are determined at the point of underwriting and reviewed and updated annually. The expected investment return includes assumptions on appropriate discount rates and inflation as well as sector specific assumptions including retail and commercial property yields and power prices.

IFRS Disclosures on performance

2.07 Contractual service margin (CSM) analysis

	Gross LGRI £m	Gross Retail £m	Re-insurance LGRI £m	Re-insurance Retail £m	Net LGRI £m	Net Retail £m
As at 1 January 2023	**9,403**	**4,224**	**(1,718)**	**283**	**7,685**	**4,507**
CSM recognised for services provided/received	**(313)**	**(215)**	**47**	**(3)**	**(266)**	**(218)**
Changes in estimates which adjust the CSM	**(105)**	**90**	**38**	**(42)**	**(67)**	**48**
Contracts initially recognised in the period	**274**	**185**	**15**	**(22)**	**289**	**163**
Finance expenses/(income) from insurance contracts	**123**	**61**	**(21)**	**1**	**102**	**62**
Effect of movements in exchange rates	**(12)**	**(58)**	**(1)**	**5**	**(13)**	**(53)**
As at 30 June 2023	**9,370**	**4,287**	**(1,640)**	**222**	**7,730**	**4,509**

	Gross LGRI £m	Gross Retail £m	Re-insurance LGRI £m	Re-insurance Retail £m	Net LGRI £m	Net Retail £m
As at 1 January 2022	8,349	3,814	(1,294)	355	7,055	4,169
CSM recognised for services provided/received	(273)	(203)	34	(12)	(239)	(215)
Changes in estimates which adjust the CSM	(31)	69	(11)	10	(42)	79
Contracts initially recognised in the period	245	169	86	(11)	331	158
Finance expenses/(income) from insurance contracts	95	46	(15)	4	80	50
Effect of movements in exchange rates	20	112	2	(14)	22	98
As at 30 June 2022	8,405	4,007	(1,198)	332	7,207	4,339

	Gross LGRI £m	Gross Retail £m	Re-insurance LGRI £m	Re-insurance Retail £m	Net LGRI £m	Net Retail £m
As at 1 January 2022	8,349	3,814	(1,294)	355	7,055	4,169
CSM recognised for services provided/received	(621)	(418)	99	(24)	(522)	(442)
Changes in estimates which adjust the CSM	913	293	(621)	(11)	292	282
Contracts initially recognised in the year	542	315	126	(28)	668	287
Finance expenses/(income) from insurance contracts	197	98	(29)	7	168	105
Effect of movements in exchange rates	23	122	1	(16)	24	106
As at 31 December 2022	9,403	4,224	(1,718)	283	7,685	4,507

IFRS Disclosures on performance

2.08 Earnings per share

(i) Basic earnings per share

	After tax 6 months 2023 £m	Per share[1] 6 months 2023 p	Restated After tax 6 months 2022 £m	Restated Per share[1] 6 months 2022 p	Restated After tax Full year 2022 £m	Restated Per share[1] Full year 2022 p
Profit for the period attributable to equity holders	**316**	**5.34**	575	9.71	846	14.30
Less: coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	**(11)**	**(0.18)**	(11)	(0.19)	(23)	(0.39)
Total basic earnings	**305**	**5.16**	564	9.52	823	13.91

1. Basic earnings per share is calculated by dividing profit after tax by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares.

(ii) Diluted earnings per share

For the six month period to 30 June 2023	**After tax £m**	**Weighted average number of shares m**	**Per share[1] p**
Profit for the period attributable to equity holders	**316**	**5,913**	**5.34**
Net shares under options allocable for no further consideration	**–**	**53**	**(0.05)**
Conversion of restricted Tier 1 notes	**–**	**307**	**(0.25)**
Total diluted earnings	**316**	**6,273**	**5.04**

For the six month period to 30 June 2022	Restated After tax £m	Weighted average number of shares m	Restated Per share[1] p
Profit for the period attributable to equity holders	575	5,922	9.71
Net shares under options allocable for no further consideration	–	46	(0.07)
Conversion of restricted Tier 1 notes	–	307	(0.48)
Total diluted earnings	575	6,275	9.16

For the year ended 31 December 2022	Restated After tax £m	Weighted average number of shares m	Restated Per share[1] p
Profit for the year attributable to equity holders	846	5,917	14.30
Net shares under options allocable for no further consideration	–	55	(0.13)
Conversion of restricted Tier 1 notes	–	307	(0.70)
Total diluted earnings	846	6,279	13.47

1. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees and conversion of restricted Tier 1 notes.

IFRS Disclosures on performance

2.09 Segmental analysis

The group has five reportable segments, comprising LGRI, LGC, LGIM, Retail Retirement and Insurance as set out in Note 2.02. Group expenses and debt costs continue to be reported separately. Transactions between segments are on normal commercial terms and are included within the reported segments.

In the UK, annuity liabilities relating to LGRI and Retail Retirement are backed by a single portfolio of assets, and once a transaction has been completed the assets relating to any particular transaction are not tracked to the related liabilities. Investment variance is allocated to the two business segments based on the relative average size of the underlying insurance contract liabilities for the period.

Reporting of assets and liabilities by reportable segment has not been included, as this is not information that is provided to key decision makers on a regular basis. The group's asset and liabilities are managed on a legal entity rather than a segment basis, in line with regulatory requirements.

Financial information on the reportable segments is further broken down where relevant in order to better explain the drivers of the group's results.

(i) Profit/(loss) for the period

For the six month period to 30 June 2023	**LGRI £m**	**LGC £m**	**LGIM £m**	**Retail Retirement £m**	**Insurance £m**	**Group expenses and debt costs £m**	**Total £m**
Operating profit/(loss)#	**471**	**296**	**142**	**122**	**108**	**(198)**	**941**
Investment and other variances	**(186)**	**(291)**	**(11)**	**(39)**	**(47)**	**(37)**	**(611)**
Losses attributable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Profit/(loss) before tax attributable to equity holders	**285**	**5**	**131**	**83**	**61**	**(241)**	**324**
Tax (expense)/credit attributable to equity holders	**(26)**	**19**	**(32)**	**(5)**	**(23)**	**53**	**(14)**
Profit/(loss) for the period	**259**	**24**	**99**	**78**	**38**	**(188)**	**310**

For the six month period to 30 June 2022 (Restated)	LGRI £m	LGC £m	LGIM £m	Retail Retirement £m	Insurance £m	Group expenses and debt costs[1] £m	Total £m
Operating profit/(loss)#	395	263	200	131	164	(195)	958
Investment and other variances[1]	17	(308)	(7)	6	51	(20)	(261)
Losses attributable to non-controlling interests	–	–	–	–	–	–	–
Profit/(loss) before tax attributable to equity holders	412	(45)	193	137	215	(215)	697
Tax (expense)/credit attributable to equity holders	(88)	2	(39)	(28)	(15)	46	(122)
Profit/(loss) for the period	324	(43)	154	109	200	(169)	575

For the year ended 31 December 2022 (Restated)	LGRI £m	LGC £m	LGIM £m	Retail Retirement £m	Insurance £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)#	828	509	340	251	165	(408)	1,685
Investment and other variances	(105)	(428)	(81)	(36)	69	(170)	(751)
Losses attributable to non-controlling interests	–	–	–	–	–	(1)	(1)
Profit/(loss) before tax attributable to equity holders	723	81	259	215	234	(579)	933
Tax (expense)/credit attributable to equity holders	(123)	(26)	(30)	(32)	(11)	134	(88)
Profit/(loss) for the year	600	55	229	183	223	(445)	845

1. Investment and other variances within Group expenses and debt costs has been restated for the six month period to 30 June 2022. The restatement reflects a change in approach for the consolidation of the annuities purchased by the group's defined benefit pension schemes from Legal and General Assurance Society Limited (as described in Note 4.15), to better reflect the underlying economics of the pension scheme obligations in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income. The change has no impact on the group's total equity as at 30 June 2022. The approach is consistent with that applied for the six month period to 30 June 2023 and the year ended 31 December 2022.

Operating profit for total continuing operations represents 'Adjusted operating profit', an alternative performance measure defined in the glossary.

2.09 Segmental analysis (continued)

(ii) Revenue

(a) Total revenue - summary

Total revenue includes insurance revenue, fees from fund management and investment contracts and other operational income from contracts with customers. Further details on the components of insurance revenue are disclosed in Note 4.13. Other operational income from contracts with customers is a component of other operational income, and excludes the share of profit/loss from associates and joint ventures, as well as gains/losses on disposal of subsidiaries, associates, joint ventures and other operations.

	6 months 2023 £m	Restated 6 months 2022 £m	Restated Full year 2022 £m
Insurance revenue	**4,647**	4,234	8,708
Fees from fund management and investment contracts	**409**	461	899
Other operational income from contracts with customers	**782**	829	1,584
Total revenue	**5,838**	5,524	11,191

(b) Total revenue – internal/external analysis

For the six month period to 30 June 2023	**LGRI £m**	**LGIM[1,2] £m**	**Retail Retirement £m**	**Insurance £m**	**LGC and other[3] £m**	**Total £m**
Internal revenue	**–**	**81**	**–**	**–**	**(81)**	**–**
External revenue	**2,470**	**358**	**703**	**1,583**	**724**	**5,838**
Total revenue	**2,470**	**439**	**703**	**1,583**	**643**	**5,838**

For the six month period to 30 June 2022 (Restated)	LGRI £m	LGIM[1,2] £m	Retail Retirement £m	Insurance £m	LGC and other[3] £m	Total £m
Internal revenue	–	92	–	–	(92)	–
External revenue	2,104	412	675	1,570	763	5,524
Total revenue	2,104	504	675	1,570	671	5,524

For the year ended 31 December 2022 (Restated)	LGRI £m	LGIM[1,2] £m	Retail Retirement £m	Insurance £m	LGC and other[3] £m	Total £m
Internal revenue	–	178	–	–	(178)	–
External revenue	4,518	801	1,334	3,086	1,452	11,191
Total revenue	4,518	979	1,334	3,086	1,274	11,191

1. LGIM internal income relates to investment management services provided to other segments.
2. LGIM external income primarily includes fees from fund management.
3. LGC and other includes LGC income, inter-segmental eliminations and group consolidation adjustments.

(c) Fees from fund management and investment contracts

For the six month period to 30 June 2023	**LGIM £m**	**Retail Retirement £m**	**LGC and other[1] £m**	**Total £m**
Investment contracts	**–**	**51**	**–**	**51**
Investment management fees	**430**	**–**	**(81)**	**349**
Transaction fees	**9**	**–**	**–**	**9**
Total fees from fund management and investment contracts	**439**	**51**	**(81)**	**409**

For the six month period to 30 June 2022	LGIM £m	Retail Retirement £m	LGC and other[1] £m	Total £m
Investment contracts	–	49	–	49
Investment management fees	495	–	(92)	403
Transaction fees	9	–	–	9
Total fees from fund management and investment contracts	504	49	(92)	461

For the year ended 31 December 2022	LGIM £m	Retail Retirement £m	LGC and other[1] £m	Total £m
Investment contracts	–	98	–	98
Investment management fees	953	–	(178)	775
Transaction fees	26	–	–	26
Total fees from fund management and investment contracts	979	98	(178)	899

1. LGC and other includes inter-segmental eliminations and group consolidation adjustments.

2.09 Segmental analysis (continued)

(ii) Revenue (continued)

(d) Other operational income from contracts with customers

For the six month period to 30 June 2023	Retail Retirement £m	Insurance £m	LGC and other £m	Total £m
House building	–	–	702	702
Professional services fees	4	27	22	53
Insurance broker	–	27	–	27
Total other operational income from contracts with customers	**4**	**54**	**724**	**782**

For the six month period to 30 June 2022	Retail Retirement £m	Insurance £m	LGC and other £m	Total £m
House building	–	–	763	763
Professional services fees	4	41	–	45
Insurance broker	–	21	–	21
Total other operational income from contracts with customers	4	62	763	829

For the year ended 31 December 2022	Retail Retirement £m	Insurance £m	LGC and other £m	Total £m
House building	–	–	1,429	1,429
Professional services fees	7	78	23	108
Insurance broker	–	47	–	47
Total other operational income from contracts with customers	7	125	1,452	1,584

IFRS Primary Financial Statements

3.01 Consolidated Income Statement (unaudited)

For the six month period to 30 June 2023	Notes	**6 months 2023 £m**	Restated 6 months 2022 £m	Restated Full year 2022 £m
Insurance revenue	4.13	**4,647**	4,234	8,708
Insurance service expenses	4.13	**(3,997)**	(3,646)	(7,415)
Insurance service result before reinsurance contracts held		**650**	588	1,293
Net expense from reinsurance contracts held	4.13	**(53)**	(8)	(145)
Insurance service result	4.13	**597**	580	1,148
Investment return		**8,288**	(74,130)	(98,352)
Finance income from insurance contracts issued		**432**	12,460	19,136
Finance income/(expense) from reinsurance contracts		**67**	(47)	24
Change in investment contract liabilities		**(8,208)**	62,297	80,043
Insurance and investment result		**1,176**	1,160	1,999
Other operational income		**758**	846	1,646
Fees from fund management and investment contracts	2.09	**409**	461	899
Acquisition costs		**(55)**	(59)	(103)
Other finance costs		**(173)**	(145)	(290)
Other expenses		**(1,677)**	(1,493)	(3,147)
Total other income and expenses		**(738)**	(390)	(995)
Profit before tax		**438**	770	1,004
Tax expense attributable to policyholder returns		**(114)**	(73)	(71)
Profit before tax attributable to equity holders		**324**	697	933
Total tax expense		**(128)**	(195)	(159)
Tax expense attributable to policyholder returns		**114**	73	71
Tax expense attributable to equity holders	4.04	**(14)**	(122)	(88)
Profit for the period		**310**	575	845
Attributable to:				
Non-controlling interests		**(6)**	–	(1)
Equity holders		**316**	575	846
Dividend distributions to equity holders during the period	4.02	**831**	792	1,116
Dividend distributions to equity holders proposed after the period end	4.02	**340**	324	829
		p	p	p
Total basic earnings per share[1]	2.08	**5.16**	9.52	13.91
Total diluted earnings per share[1]	2.08	**5.04**	9.16	13.47

1. All earnings per share calculations are based on profit attributable to equity holders of the company.

IFRS Primary Financial Statements

3.02 Consolidated Statement of Comprehensive Income (unaudited)

For the six month period to 30 June 2023	6 months 2023 £m	Restated 6 months 2022 £m	Restated Full year 2022 £m
Profit for the period	**310**	575	845
Items that will not be reclassified subsequently to profit or loss			
Actuarial remeasurements on defined benefit pension schemes	**(2)**	150	26
Tax expense on actuarial remeasurements on defined benefit pension schemes	**–**	(38)	(6)
Total items that will not be reclassified subsequently to profit or loss	**(2)**	112	20
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**(7)**	6	(20)
Movement in cross-currency hedge	**24**	5	40
Tax on movement in cross-currency hedge	**(6)**	(1)	(10)
Movement in financial investments measured at FVOCI	**13**	(96)	(132)
Tax on movement in financial investments measured at FVOCI	**(2)**	20	28
Insurance finance income for insurance contracts issued applying the OCI option	**95**	1,212	1,753
Reinsurance finance expense for reinsurance contracts issued applying the OCI option	**(104)**	(655)	(1,030)
Tax on movement in finance income/(expense) for insurance and reinsurance contracts	**2**	(147)	(169)
Total items that may be reclassified subsequently to profit or loss	**15**	344	460
Other comprehensive income after tax	**13**	456	480
Total comprehensive income for the period	**323**	1,031	1,325
Total comprehensive income/(expense) for the period attributable to:			
Non-controlling interests	**(6)**	–	(1)
Equity holders	**329**	1,031	1,326

IFRS Primary Financial Statements

3.03 Consolidated Balance Sheet (unaudited)

	Notes	As at 30 Jun 2023 £m	Restated As at 30 Jun 2022 £m	Restated As at 31 Dec 2022 £m
Assets				
Goodwill		**71**	71	71
Other intangible assets		**454**	406	441
Deferred acquisition costs		**5**	5	7
Investment in associates and joint ventures accounted for using the equity method		**553**	387	554
Property, plant and equipment		**362**	311	326
Investment property	4.03	**9,227**	10,976	9,372
Financial investments	4.03	**454,967**	462,807	446,558
Reinsurance contract assets	4.13	**5,398**	3,969	4,685
Deferred tax assets	4.04	**1,367**	1,283	1,469
Current tax assets		**908**	699	802
Receivables and other assets		**11,922**	17,634	13,202
Cash and cash equivalents		**14,537**	24,774	35,784
Total assets		**499,771**	523,322	513,271
Equity				
Share capital	4.05	**149**	149	149
Share premium	4.05	**1,027**	1,017	1,018
Employee scheme treasury shares		**(143)**	(138)	(144)
Capital redemption and other reserves		**346**	201	338
Retained earnings		**3,214**	3,908	3,751
Attributable to owners of the parent		**4,593**	5,137	5,112
Restricted Tier 1 convertible notes	4.06	**495**	495	495
Non-controlling interests	4.07	**(35)**	(36)	(29)
Total equity		**5,053**	5,596	5,578
Liabilities				
Insurance contract liabilities	4.13	**78,378**	82,892	78,171
Reinsurance contract liabilities	4.13	**138**	13	52
Investment contract liabilities		**299,135**	305,780	286,830
Core borrowings	4.08	**4,278**	4,356	4,338
Operational borrowings	4.09	**1,272**	1,182	1,219
Provisions	4.15	**1,626**	781	890
Deferred tax liabilities	4.04	**160**	155	206
Current tax liabilities		**68**	81	69
Payables and other financial liabilities	4.11	**91,056**	95,824	93,905
Other liabilities		**705**	654	762
Net asset value attributable to unit holders		**17,902**	26,008	41,251
Total liabilities		**494,718**	517,726	507,693
Total equity and liabilities		**499,771**	523,322	513,271

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3.04 Consolidated Statement of Changes in Equity (unaudited)

For the six month period to 30 June 2023	**Share capital £m**	**Share premium £m**	**Employee scheme treasury shares £m**	**Capital redemption and other reserves[1] £m**	**Retained earnings £m**	**Equity attributable to owners of the parent £m**	**Restricted Tier 1 convertible notes £m**	**Non-controlling interests £m**	**Total equity £m**
As at 1 January 2023	**149**	**1,018**	**(144)**	**338**	**3,751**	**5,112**	**495**	**(29)**	**5,578**
Profit for the period	**–**	**–**	**–**	**–**	**316**	**316**	**–**	**(6)**	**310**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**(7)**	**–**	**(7)**	**–**	**–**	**(7)**
Net movement in cross-currency hedge	**–**	**–**	**–**	**18**	**–**	**18**	**–**	**–**	**18**
Net actuarial remeasurements on defined benefit pension schemes	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**–**	**–**	**(2)**
Net movement in financial investments measured at FVOCI	**–**	**–**	**–**	**11**	**–**	**11**	**–**	**–**	**11**
Net insurance finance income/(expense)	**–**	**–**	**–**	**(7)**	**–**	**(7)**	**–**	**–**	**(7)**
Total comprehensive income for the period	**–**	**–**	**–**	**15**	**314**	**329**	**–**	**(6)**	**323**
Options exercised under share option schemes	**–**	**9**	**–**	**–**	**–**	**9**	**–**	**–**	**9**
Shares purchased	**–**	**–**	**(13)**	**–**	**–**	**(13)**	**–**	**–**	**(13)**
Shares vested	**–**	**–**	**14**	**(35)**	**–**	**(21)**	**–**	**–**	**(21)**
Employee scheme treasury shares: - Value of employee services	**–**	**–**	**–**	**28**	**–**	**28**	**–**	**–**	**28**
Share scheme transfers to retained earnings	**–**	**–**	**–**	**–**	**(9)**	**(9)**	**–**	**–**	**(9)**
Dividends	**–**	**–**	**–**	**–**	**(831)**	**(831)**	**–**	**–**	**(831)**
Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	**–**	**–**	**–**	**–**	**(11)**	**(11)**	**–**	**–**	**(11)**
Movement in third party interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
As at 30 June 2023	**149**	**1,027**	**(143)**	**346**	**3,214**	**4,593**	**495**	**(35)**	**5,053**

1. Capital redemption and other reserves as at 30 June 2023 include share-based payments £92m, foreign exchange £40m, capital redemption £17m, hedging £92m, insurance and reinsurance finance £194m and financial assets at FVOCI reserves £(89)m.

For the six month period to 30 June 2022	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Restricted Tier 1 convertible notes £m	Non-controlling interests £m	Total equity £m
As at 1 January (as previously reported)	149	1,012	(99)	196	9,228	10,486	495	(38)	10,943
Impact of initial application of IFRS 17	–	–	–	(334)	(4,673)	(5,007)	–	–	(5,007)
Impact of initial application of IFRS 9	–	–	–	3	(541)	(538)	–	–	(538)
As at 1 January 2022 (Restated)	149	1,012	(99)	(135)	4,014	4,941	495	(38)	5,398
Profit for the period	–	–	–	–	575	575	–	–	575
Exchange differences on translation of overseas operations	–	–	–	6	–	6	–	–	6
Net movement in cross-currency hedge	–	–	–	4	–	4	–	–	4
Net actuarial remeasurements on defined benefit pension schemes	–	–	–	–	112	112	–	–	112
Net movement in financial investments measured at FVOCI	–	–	–	(76)	–	(76)	–	–	(76)
Net insurance finance income/(expense)	–	–	–	410	–	410	–	–	410
Total comprehensive income for the period	–	–	–	344	687	1,031	–	–	1,031
Options exercised under share option schemes	–	5	–	–	–	5	–	–	5
Shares purchased	–	–	(50)	–	–	(50)	–	–	(50)
Shares vested	–	–	11	(33)	–	(22)	–	–	(22)
Employee scheme treasury shares: - Value of employee services	–	–	–	25	–	25	–	–	25
Share scheme transfers to retained earnings	–	–	–	–	10	10	–	–	10
Dividends	–	–	–	–	(792)	(792)	–	–	(792)
Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	–	–	–	–	(11)	(11)	–	–	(11)
Movement in third party interests	–	–	–	–	–	–	–	2	2
As at 30 June 2022 (Restated)	149	1,017	(138)	201	3,908	5,137	495	(36)	5,596

1. Capital redemption and other reserves as at 30 June 2022 include share-based payments £78m, foreign exchange £62m, capital redemption £17m, hedging £52m, insurance and reinsurance finance £71m and financial assets at FVOCI reserves £(79)m.

3.04 Consolidated Statement of Changes in Equity (unaudited) (continued)

For the year ended 31 December 2022	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Restricted Tier 1 convertible notes £m	Non-controlling interests £m	Total equity £m
As at 1 January (as previously reported)	149	1,012	(99)	196	9,228	10,486	495	(38)	10,943
Impact of initial application of IFRS 17	–	–	–	(334)	(4,673)	(5,007)	–	–	(5,007)
Impact of initial application of IFRS 9	–	–	–	3	(541)	(538)	–	–	(538)
As at 1 January 2022 (Restated)	149	1,012	(99)	(135)	4,014	4,941	495	(38)	5,398
Profit for the year	–	–	–	–	846	846	–	(1)	845
Exchange differences on translation of overseas operations	–	–	–	(20)	–	(20)	–	–	(20)
Net movement in cross-currency hedge	–	–	–	30	–	30	–	–	30
Net actuarial remeasurements on defined benefit pension schemes	–	–	–	–	20	20	–	–	20
Net movement in financial investments measured at FVOCI	–	–	–	(104)	–	(104)	–	–	(104)
Net insurance finance income/(expense)	–	–	–	554	–	554	–	–	554
Total comprehensive income for the year	–	–	–	460	866	1,326	–	(1)	1,325
Options exercised under share option schemes	–	6	–	–	–	6	–	–	6
Shares purchased	–	–	(59)	–	–	(59)	–	–	(59)
Shares vested	–	–	14	(41)	–	(27)	–	–	(27)
Employee scheme treasury shares: - Value of employee services	–	–	–	54	–	54	–	–	54
Share scheme transfers to retained earnings	–	–	–	–	10	10	–	–	10
Dividends	–	–	–	–	(1,116)	(1,116)	–	–	(1,116)
Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	–	–	–	–	(23)	(23)	–	–	(23)
Movement in third party interests	–	–	–	–	–	–	–	10	10
As at 31 December 2022 (Restated)	149	1,018	(144)	338	3,751	5,112	495	(29)	5,578

1. Capital redemption and other reserves as at 31 December 2022 include share-based payments £99m, foreign exchange £44m, capital redemption £17m, hedging £78m, insurance and reinsurance finance £205m and financial assets at FVOCI reserves £(105)m.

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3.05 Consolidated Statement of Cash Flows (unaudited)

For the six month period to 30 June 2023	Notes	6 months 2023 £m	Restated 6 months 2022 £m	Restated Full year 2022 £m
Cash flows from operating activities				
Profit for the period		**310**	575	845
Adjustments for non-cash movements in net profit for the period				
Net (gains)/losses on financial investments and investment property		**(2,125)**	78,802	107,469
Investment income		**(6,163)**	(4,672)	(9,117)
Interest expense		**173**	145	290
Tax expense		**128**	195	159
Other adjustments		**116**	88	113
Net (increase)/decrease in operational assets				
Investments held for trading or designated as fair value through profit or loss		**(7,732)**	14,750	22,052
Investments measured at FVOCI		**456**	(518)	(1,025)
Investments measured at amortised cost		**(233)**	(33)	(93)
Other assets		**1,334**	(9,290)	(5,194)
Net (decrease)/increase in operational liabilities				
Insurance contracts		**(78)**	(10,354)	(15,691)
Investment contracts		**12,308**	(67,182)	(86,132)
Other liabilities		**(24,341)**	2,492	(972)
Cash (utilised in)/generated from operations		**(25,847)**	4,998	12,704
Interest paid		**(167)**	(139)	(290)
Interest received		**3,408**	1,808	3,525
Rent received		**224**	185	404
Tax paid[1]		**(184)**	(376)	(570)
Dividends received		**2,338**	2,491	4,691
Net cash flows from operations		**(20,228)**	8,967	20,464
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangibles and other assets		**(171)**	(60)	(187)
Acquisition of operations, net of cash acquired		**–**	(2)	(2)
Investment in joint ventures and associates		**(44)**	(34)	(101)
Disposal of joint ventures and associates		**8**	40	64
Net cash flows utilised in investing activities		**(207)**	(56)	(226)
Cash flows from financing activities				
Dividend distributions to ordinary equity holders during the period	4.02	**(831)**	(792)	(1,116)
Coupon payment in respect of restricted Tier 1 convertible notes, gross of tax	4.06	**(14)**	(14)	(28)
Options exercised under share option schemes	4.05	**9**	5	6
Treasury shares purchased for employee share schemes		**(13)**	(50)	(59)
Payment of lease liabilities		**(32)**	(18)	(44)
Proceeds from borrowings	4.10	**408**	385	945
Repayment of borrowings	4.10	**(299)**	(210)	(737)
Net cash flows utilised in financing activities		**(772)**	(694)	(1,033)
Net (decrease)/increase in cash and cash equivalents		**(21,207)**	8,217	19,205
Exchange gains on cash and cash equivalents		**(40)**	70	92
Cash and cash equivalents at 1 January		**35,784**	16,487	16,487
Total cash and cash equivalents at 30 June/31 December		**14,537**	24,774	35,784

1. Tax paid comprises UK corporation tax of £38m (H1 22: £223m; FY 22: £358m), withholding tax of £143m (H1 22: £147m; FY 22: £204m) and overseas corporate tax of £3m (H1 22: £6m; FY 22: £8m).

4.01 Basis of preparation

The group financial information for the six months ended 30 June 2023 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The group's financial information, a condensed set of financial statements which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related explanatory notes, has also been prepared in line with the accounting policies which the group expects to adopt for the 2023 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2022 consolidated financial statements, except where policy changes have been outlined below in "New standards, interpretations and amendments to published standards that have been adopted by the group". Accounting policies are in line with UK-adopted international accounting standards, as issued by the International Accounting Standards Board and adopted by the UK Endorsement Board for use in the United Kingdom.

The preparation of the Interim Management Report includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Consolidated Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance represent an area of critical accounting judgement on policy application. Following the implementation of IFRS 17, 'Insurance Contracts' on 1 January 2023, economic and non-economic assumptions have been updated in line with the new requirements, and applied for half year financial reporting and retrospectively to comparative periods presented.

The results for the half year ended 30 June 2023 are unaudited but have been reviewed by KPMG LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results from the full year 2022 and half year 2022 have been restated to reflect the retrospective application of IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' from 1 January 2023, as outlined below in 'New standards, interpretations and amendments to published standards that have been adopted by the group'. The comparative figures for the financial year ended 31 December 2022 are not the group's statutory accounts for that financial year but are derived from those accounts. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Key technical terms and definitions

The interim management report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the Glossary of these interim financial statements.

Alternative performance measures

The group uses a number of alternative performance measures (APMs), including adjusted operating profit, in the discussion of its business performance and financial position, as the group believes that they, complemented with figures determined according to other regulations, enhance understanding of the group's performance. Definitions and further information in relation to the group's APMs can be found in the Alternative Performance Measures section of these interim financial statements.

Tax attributable to policyholders and equity holders

The total tax expense shown in the group's Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been split between tax attributable to policyholders' returns and equity holders' profits. Policyholder tax comprises the tax suffered on policyholder investment returns, while shareholder tax is corporation tax charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes.

Climate change

At the current time, the group does not consider climate risk to represent a significant area of judgement or of estimation uncertainty. As at 30 June 2023, no material impacts on the group's financial position, nor on the valuation of assets or liabilities on the group's Consolidated Balance Sheet as a result of climate change risk have been identified. Further detail on how the group arrives at this determination is disclosed in the basis of preparation of the group's 2022 consolidated financial statements.

(i) Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position in the current economic environment are set out in this Interim Management Report. The financial position of the group, its cash flows, liquidity position and borrowing facilities as at 30 June 2023 are described in the IFRS Primary Financial Statements and IFRS Disclosure Notes. Principal risks and uncertainties are detailed on pages 23 to 26.

The directors have made an assessment of the group's going concern, considering both the current performance and the outlook for a period of at least, but not limited to, 12 months from the date of approval of the interim financial information using the information available up to the date of issue of this Interim Management Report.

The group manages and monitors its capital and liquidity, and applies various stresses, including adverse inflation and interest rate scenarios, to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on our capital position from a range of stresses are disclosed in Note 6.01. These stresses do not give rise to any material uncertainties over the ability of the group to continue as a going concern. Based upon the available information, the directors consider that the group has the plans and resources to manage its business risks successfully and that it remains financially strong and well diversified.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of the current economic environment, as detailed on pages 23 to 26, the directors are confident that the group and company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

(ii) New standards, interpretations and amendments to published standards that have been adopted by the group

As introduced in Note 2.01 Restatement of financial information, the group has applied IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' on 1 January 2023.

IFRS Disclosure Notes

4.01 Basis of preparation (continued)

IFRS 17, 'Insurance Contracts' - material accounting policies

Long term insurance contracts – initial measurement
Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

At inception, the group separates the following components from an insurance or reinsurance contract and accounts for them as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance or reinsurance contract as a stand-alone instrument; and
- distinct investment components, i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the group separates any promises to transfer to policyholders distinct goods or services other than insurance coverage and investment services and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the group provides a significant service of integrating the good or service with the insurance component.

All of the group's in scope insurance contracts are accounted for under the general measurement model which measures a group of insurance contracts as the total of:

- fulfilment cash flows; and
- a contractual service margin (CSM) representing the unearned profit the group will recognise as it provides services under the insurance contract.

Fulfilment cash flows
Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk. The group's objective in estimating future cash flows is to determine the expected value, or the probability weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. The group estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.

When estimating future cash flows, the group includes all cash flows that are within the contract boundary. The cash flows include:

- premiums and related cash flows;
- claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims;
- investment management costs incurred in the provision of an investment return service or to enhance the benefits of an insurance contract;
- payments to policyholders resulting from embedded surrender value options;
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs;
- claims handling costs;
- policy administration and maintenance costs, including recurring commissions that are expected to be paid to intermediaries for future services;
- an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts; and
- transaction-based taxes.

The group incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. The group estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- information about claims already reported by policyholders;
- other information about the known or estimated characteristics of the insurance contracts;
- historical data about the group's own experience, supplemented when necessary, with data from other sources (historical data is adjusted to reflect current conditions); and
- current pricing information, when available.

The measurement of fulfilment cash flows includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract. Insurance acquisition cash flows are considered for impairment at each reporting date.

Risk adjustment
The risk adjustment for non-financial risk for a group of insurance contracts reflects the compensation that the group would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk after diversification. We have calibrated the group's risk adjustment using a Value at Risk (VAR) methodology. In some cases, the compensation for risk on reinsured business is linked directly to the price paid for reinsurance.

4.01 Basis of preparation (continued)

Discounting
The insurance contract fulfilment cash flows are discounted at rates that reflect the characteristics of the insurance contract liabilities. These have been determined using the top-down approach, starting from an appropriate asset portfolio with deductions to remove risks in the assets that are not present in the insurance liabilities.

Contractual service margin (CSM)
The group's CSM is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the group will recognise as it provides services in the future. The group measures the CSM on initial recognition at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- initial recognition of the fulfilment cash flows;
- any cash flows arising from the contracts in the group at that date;
- the derecognition at the date of initial recognition of:
  - any asset for insurance acquisition cash flows; and
  - any other asset or liability previously recognised related to the group of insurance contracts.

Recognition and level of aggregation
An insurance contract is recognised at the earliest of the following:
(a) the beginning of the coverage period;
(b) the date when the first payment from a policyholder becomes due; and
(c) for onerous contracts, when the contract becomes onerous.

The level of aggregation determines the unit of account at which IFRS 17 calculations are performed. This is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of subsequently becoming onerous, and the remainder. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

Onerous contracts
For groups of contracts assessed as onerous, the group recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the CSM of the group being zero. A loss component is established by the group for the liability for remaining coverage for an onerous group, which represents the losses recognised.

Reinsurance contracts – initial measurement
The initial measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued, with the exception of the following:

- reinsurance contracts are recognised from the earlier of the following:
  - the beginning of the coverage period; and
  - the date the entity recognises an onerous group of underlying insurance contracts, if the entity entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.
- measurement of the cash flows includes an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes;
- the group determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer;
- both day one gains and day one losses are not recognised at initial recognition in the statement of financial position but are deferred into the CSM and released to profit or loss as the reinsurer renders services, except for any portion of a day 1 loss that relates to events before initial recognition; and
- if the reinsurance contract is recognised prior to a loss-making underlying contract, the reinsurance CSM can be adjusted to offset a portion of the inception loss (the loss recovery component).

Long term insurance contracts – subsequent measurement
The group measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of:
(i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and the CSM of the group at that date; and
(ii) the liability for incurred claims for the group reflecting the fulfilment cash flows related to past service allocated to the group at that date.

Contractual service margin – measurement
The CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts the carrying amount of the CSM of that group at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted for:

4.01 Basis of preparation (continued)

- the effect of any new contracts added;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition;
- the changes in fulfilment cash flows relating to future service, except to the extent that:
  - such increases in the fulfilment cash flows exceed the current carrying amount of the CSM, giving rise to a loss; or
  - such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage;
- the amount recognised as insurance revenue because of the transfer of services in the period, determined by allocation of the contractual service margin at the end of the period over the current and remaining coverage period; and
- the effect of any currency exchange differences on the CSM.

The changes in fulfilment cash flows relating to future service that adjust the CSM comprise of:

- experience adjustments that arise from the difference between the premium receipts (net of refunds) and any related cash flows such as insurance acquisition cash flows and insurance premium taxes and the estimate, at the beginning of the period, of the amounts expected. Differences related to premiums received (or due) in respect of current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted in the CSM;
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, except those relating to the time value of money and changes in financial risk (which are instead recognised in the statement of profit or loss and other comprehensive income);
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period; and
- changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments to the CSM noted above are measured at discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition (i.e. the weighted average of the rates applicable at the date of initial recognition of contracts that joined a group over a 12-month period).

Onerous contracts
Groups of contracts that were not onerous at initial recognition can subsequently become onerous if assumptions and experience changes. The group establishes a loss component for any onerous group depicting the future losses recognised. The loss component is released based on a systematic allocation of the subsequent changes in the fulfilment cash flows to: (i) the loss component; and (ii) the liability for remaining coverage excluding the loss component. The loss component is also updated for subsequent changes in estimates of the fulfilment cash flows related to future service. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss component will have materialised in the form of incurred claims). The loss component ensures that over the duration of the contract, the correct amounts are recognised as insurance revenue and insurance service expenses.

Contractual service margin – recognition
The amount of contractual service margin recognised in the income statement for a group of insurance contracts reflects the insurance contract services provided. The proportion of the CSM earned is calculated as the amount of coverage units provided in the period divided by the sum of all the future and current period coverage units. The group has elected to discount the future coverage units in this calculation. The table below indicates the main insurance contracts services provided under the group's insurance contracts and selected coverage unit(s) used to measure those services.

Insurance contract	Insurance service	Coverage unit(s)
Immediate annuity	Payment of insurance claims	Expected annual claims payments
Deferred annuity	Payment of insurance claims (payment phase) Investment return service (deferral phase) Lump sum death benefits (deferral phase)	Expected annual claims payments Expected investment return on backing assets Sum assured
Longevity swaps	Payment of floating leg of swap	Expected annual floating leg payments
Retail Protection	Potential mortality or morbidity claims	Sum assured
Group Protection	Potential mortality or morbidity claims	Sum assured

Where a specific unit of account contains a mixture of services, and therefore coverage units, it is necessary to weight the coverage units so that the resulting profile of CSM release reflects the overall package of benefits provided. This is particularly pertinent to units of account incorporating a combination of immediate and deferred annuities. Under IFRS 17, deferred annuities usually provide multiple services, split between the two phases of benefit provision (the deferral phase and the payment phase). Significant judgement is therefore required to combine the different coverage units so that they fairly reflect the services provided. The weighting between the deferral phase and the payment phase coverage units is calculated so that the services provided in the deferral phase reflect the investment return provided and the probability weighted delivery of any lump sum death benefits, both adjusted so that all of the CSM is earned in the deferral phase for all contracts which do not enter the payment phase either through transfer out, withdrawal of funds or death.

Investment components
The group identifies the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance. Investment components are not included in insurance revenue and insurance service expenses.

4.01 Basis of preparation (continued)

Insurance finance income and expense
IFRS 17 requires an accounting policy decision as to whether to recognise all finance income or expense in profit or loss, or whether to disaggregate the income or expense that relates to changes in financial assumptions into other comprehensive income. All finance income and expense will be included in profit or loss except for protection business where this is disaggregated. Changes in the risk adjustment for non-financial risk have been disaggregated between insurance service result and insurance finance income and expenses.

Reinsurance contracts held – subsequent measurement
The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued except that changes in the fulfilment cash flows are recognised in profit or loss if the related changes arising from the underlying ceded contracts are recognised in profit or loss.

Derecognition and contract modification of insurance contracts
The group derecognises a contract when it is extinguished, i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the group entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the group received the premium that it would have charged less any additional premium charged for the modification.

Transition to IFRS 17
On transition to IFRS 17, the group has applied the full retrospective approach unless impracticable. The full retrospective approach requires the group to:
- identify, recognise and measure each group of insurance and reinsurance contracts as if IFRS 17 had always applied;
- derecognise any existing balances that would not exist had IFRS 17 always applied; and
- recognise any resulting net difference in equity.

If it was impracticable to apply a full retrospective approach to a group of contracts then the group has chosen between the modified retrospective approach and the fair value approach. If the group could not obtain reasonable and supportable information necessary to apply the modified retrospective approach, then the fair value approach has been chosen.

The group has applied the following transition approaches to its material insurance contract portfolios on transition to IFRS 17, by year of issue:

Transition approach	Annuities	UK Protection	US Protection
Full retrospective	2021	2021	2021
Modified retrospective	2016-2020	2012-2020	2011-2020
Fair value	Pre-2016	Pre-2012	Pre-2011

Full retrospective approach
The full retrospective approach has been determined to be impracticable where the effects of retrospective application are not determinable because information required has not been collected (or not with sufficient granularity), application would require the application of hindsight, or information is unavailable because of system migrations, data retention requirements or other reasons. Specific examples include:

- historic calibration of IFRS 17 specific judgements, such as the scale of the risk adjustment;
- expectations about a contract's profitability and risks of becoming onerous required for identifying groups of contracts;
- information about historical cash flows and discount rates required for determining the estimates of cash flows on initial recognition and their subsequent changes on a retrospective basis;
- information required to allocate fixed and variable overheads to groups of contracts, because the group's current accounting policies do not require such information; and
- information about certain changes in assumptions and estimates because they were not documented on an ongoing basis.

Modified retrospective approach
The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort.

The only modification applied by the group is that for some groups of contracts issued before 2020, the risk adjustment for non-financial risk on initial recognition has been determined by adjusting the amount at 1 January 2022 for the expected release of risk before that date. The expected release has been determined with reference to the release of risk of similar contracts that the group issued in 2022. This modification has been used to avoid the application of hindsight to the calibration of the risk adjustment in prior periods.

4.01 Basis of preparation (continued)

Fair value approach

The group has applied the fair value approach on transition for certain groups of contracts as, prior to transition, it grouped contracts from multiple cohorts and years into a single unit for accounting purposes. Obtaining reasonable and supportable information to apply the full retrospective approach was impracticable without undue cost or effort. The group has determined the CSM of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the group has applied the requirements of IFRS 13, 'Fair Value Measurement', except for the demand deposit floor requirement. The fair value attributed to the in-scope annuity business is calculated with reference to a price generated using the group's pricing models and pricing assumptions at the transition date. This incorporates an expected internal rate of return that has been validated against relevant market transactions.

The group has aggregated contracts issued more than one year apart in determining groups of insurance contracts under the fair value approach at transition, applying the permitted transition simplification. The group did not have reasonable and supportable information to aggregate groups into those including only contracts issued within one year.

For portfolios of protection contracts, the group has elected to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income. For these portfolios, the cumulative amount of insurance finance income or expense recognised in other comprehensive income at the transition date and has been reset to zero in line with the provisions of the standard.

Financial impact of transition

The increase in insurance liabilities on adoption of IFRS 17 at 1 January 2022 can be attributed to the following:

	Impact on net insurance contract liabilities on transition to IFRS 17 £m
Remeasurement of liabilities: the IFRS 17 cash flows are best estimate and exclude all prudent margins included in the IFRS 4 liabilities. Removal of these margins coupled with other changes to the insurance contract measurement, including discount rates and the exclusion of non-attributable expenses, results in a lower best estimate liability	**7,540**
Creation of a risk adjustment: IFRS 17 incorporates a specific risk adjustment for non-financial risk	**(2,501)**
Creation of CSM: determined using the transition approaches described above and reflecting the unearned profit of these contracts	**(11,224)**
Total	**(6,185)**

IFRS 9, 'Financial Instruments' – material accounting policies

Recognition and derecognition

Initial recognition of financial assets and liabilities is on the trade date, which is the date on which the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the group recognises the difference as follows:

- when the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss; and
- in all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs or realised through settlement.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when the group transfers substantially all the risks and rewards of ownership to another entity. This is the case for cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, and which is derecognised from the Consolidated Balance Sheet and a corresponding receivable recognised for its return.

The group enters into transactions whereby it transfers assets recognised in its Consolidated Balance Sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised. Examples of such transactions are repurchase agreements and non-cash collateral pledged, unless the group defaults on its obligations under the relevant agreement.

In transactions in which the group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The group derecognises a financial liability when its contractual obligations expire or are discharged or cancelled. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial asset or financial liability, the difference between the carrying amount at the date of derecognition and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Modification

If the terms of a financial asset are modified, then the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

4.01 Basis of preparation (continued)

Classification and measurement
Financial assets
The group classifies its financial investments on initial recognition as measured at amortised cost (AC), fair value through Other Comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL).

The classification and measurement of financial assets depends on their contractual cash flow characteristics and how they are managed (the entity's business model). The contractual cash flow characteristics test aims to identify those assets with cash flows consistent with a basic lending arrangement, i.e. which are 'solely payments of principal and interest' (SPPI). The business model test refers to how an entity manages its financial assets with the objectives of generating cash flows. These factors determine whether the financial assets are measured at amortised cost, FVOCI or FVTPL. Assets are therefore typically characterised as follows:

- amortised cost: financial assets with contractual terms that give rise solely to interest and principal cash flows, and which are held in a business model whose objective is to hold the assets to collect their cash flows. They are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss;
- FVOCI: financial assets with contractual terms that give rise solely to interest and principal cash flows, and which are held in a business model whose objective is achieved by holding the assets to collect their cash flows and selling them. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss;
- FVTPL: all other financial assets. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments in net investment hedges.

Notwithstanding the above, on initial recognition the group may irrevocably designate to FVTPL a financial asset that would otherwise be measured at amortised cost or FVOCI if doing so eliminates or greatly reduces an accounting mismatch.

In making the SPPI assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (that is, interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). This includes evaluating whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. Examples of such contractual terms to be considered are contingent events that would change the amount or timing of cash flows, leverage features, prepayment and extension features, non-recourse asset arrangements and features that modify consideration for the time value of money (e.g. periodic reset of interest rates).

The business model reflects how the group manages assets in order to generate cash flows, i.e. it reflects whether the group's objective is solely to collect the contractual cash flows from assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (for example, financial assets are held for trading purposes), the business model is 'other' and the financial asset is measured at FVTPL. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

The objective of the group's business model for certain debt instruments, in particular those instruments backing annuity or investment contract liabilities, including surplus assets, is to fund its liabilities. Consistent with the group's investment strategy their performance is evaluated on a total return basis, as significant buying and selling activity is undertaken on a regular basis to rebalance its portfolio and to ensure that contractual cash flows from those assets are sufficient to settle the underlying liabilities. These investments do not follow a 'held to collect' or 'held to collect and sell' business model, and are therefore accounted for at FVTPL. This business model is also applicable to reverse repurchase agreements and to derivatives. Equity instruments are accounted for at FVTPL.

Certain debt securities are held in separate portfolios for longer-term yield. These include long dated debt instruments backing annuities liabilities, but in surplus to the IFRS 17 best estimate liability and risk adjustment, used to manage interest and inflation rate exposure, as well as assets backing protection liabilities. These assets represent instruments consistent with the SPPI principles, and are accounted for at amortised cost or FVOCI depending on the expected level of trading. Receivables are accounted for at amortised cost.

Financial liabilities
The group classifies and subsequently measures financial liabilities at amortised cost or FVTPL.

Non-participating investment contract liabilities are measured at FVTPL. This is because these liabilities as well as the related assets are managed and their performance is evaluated on a fair value basis. For unit linked liabilities, fair value is determined by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date. For non-linked liabilities, fair value is based on a discounted cash flow analysis which incorporates an appropriate allowance for credit default risk. Deposits collected and claims are not included in the income statement but are added or deducted from investment contract liabilities.

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

Other financial liabilities include derivative liabilities, repurchase agreements and trail commission, which are measured at FVTPL, while other payable balances are measured at amortised cost.

4.01 Basis of preparation (continued)

Derivatives
Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into. The group's derivatives, other than those designated as hedging instruments in net investment hedges, are instruments held for trading, as they are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together, and for which there is evidence of a recent actual pattern of short-term profit-taking. They are therefore accounted for at FVTPL.

Derivatives may be embedded in another contractual arrangement. If such a hybrid contract contains a host that is a financial asset, the group assesses the entire contract for classification and measurement purposes. Otherwise, the group accounts for an embedded derivative separately from the host contract when:

- its economic characteristics and risks are not closely related to those of the host contract;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the hybrid contract is not measured at FVTPL.

These embedded derivatives are separately accounted for at FVTPL, unless the group chooses to designate the entire hybrid contract at FVTPL.

A derivative embedded in a host insurance or reinsurance contract is not accounted for separately from the host contract if the embedded derivative itself meets the definition of an insurance or reinsurance contract.

Impairment
The group assesses on a forward-looking basis the expected credit loss (ECL) associated with its financial assets measured at amortised cost and FVOCI, and recognises a loss allowance for such losses at each reporting date. Expected credit losses are defined as the present value of the difference between all contractual cash flows that are due and all cash flows that the entity expects to receive (i.e. the cash shortfall), weighted based on their probability of occurrence. The loss allowance recognised under the new standard can be equal to an amount corresponding to a 12-month ECL or a lifetime ECL. A lifetime ECL is the ECL resulting from all possible default events over the expected life of the financial asset; a 12-month ECL is the portion of lifetime ECL resulting from default events on a financial asset that are possible within the 12 months after the reporting date.

The group defines default on a financial asset as the inability to meet in full and on time an original promise of expected cash flows, the amount and timing of which are defined with certainty. Any breach of this promise, by any amount or time (in excess of any potential planned grace period), constitutes a default. This is consistent with the definition of default used for internal credit risk management purposes.

The ECL model is run from the date of initial recognition of a financial asset, and its output updated at every reporting period, even if no actual loss events have taken place. The impact of updating the inputs of the ECL model in the reporting period is recognised in profit or loss directly where it affects the carrying value of financial assets at amortised cost, while for assets at FVOCI an equal and opposite movement is recorded in other comprehensive income.

In order to determine whether the group measures ECLs at an amount equal to 12-month ECL or lifetime ECL, at each reporting period the group is required to assess which 'stage' a financial asset falls into. Stages reflect the general pattern of deterioration in credit risk of a financial instrument that ultimately defaults, as follows:

- Stage 1 includes financially healthy financial assets that are expected to perform in line with their contractual terms, and which have no signs of increased credit risk;
- Stage 2 includes financial assets for which a significant increase in credit risk has occurred since initial recognition, but which are not credit-impaired; and
- Stage 3 applies to credit-impaired financial instruments.

When financial assets are under Stage 1, 12-month ECLs are recognised. When financial assets are under Stage 2 or 3, lifetime ECLs are recognised. An instrument moves down (or up) the stages when a significant increase in credit risk (SICR) has happened (or has reversed).

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the group considers reasonable and supportable information, both qualitative and quantitative, that is relevant and is available without undue cost or effort, including forward-looking information at its disposal. Key indicators used in order to determine whether a SICR has occurred (either in isolation or in combination) are:

- deterioration in rating grade between origination date and reporting date. The level of deterioration required by an individual asset is determined using a relative rating matrix;
- exposure is identified on the investment managers' 'watchlist';
- exposure is identified on internal 'credit watchlists'; and
- a manual shift of an exposure to Stage 2 on an exceptional basis (where required, using management judgement).

The provisions of IFRS 9 include a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, which is taken into account for this assessment.

The group makes use of a practical expedient available in IFRS 9 whereby it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (e.g. investment grade as determined by the group's asset managers). This allows recognition of 12-month ECLs as opposed to, potentially, lifetime ECLs. This is deemed to be the case where assets that have been downgraded remain of good credit quality (i.e. investment grade as determined by the group's asset managers) as at the reporting date, to the extent that the group's internal credit risk ratings are considered to be consistent with a globally understood definition of 'low credit risk'.

4.01 Basis of preparation (continued)

The group estimates ECLs on its financial investments at amortised cost and debt instruments at FVOCI by using the probability of default approach. Based on this method, the ECLs are a probability-weighted estimate of the present value of estimated cash shortfalls, i.e. the weighted average of credit losses, with the respective risks of a default occurring used as the weightings. For this purpose, the key elements to be calculated are the Probability of Default (PD), i.e. the estimate of the likelihood of default over a given time horizon (either 12 months or lifetime); the respective Loss Given Default (LGD); and the Exposure at Default (EAD).

In order to determine 12-month or lifetime PDs the group's models utilise historical data obtained from S&P and Moody's in order to evaluate transitions (i.e. the probability that a security changes rating in a given year) and defaults, plus scenario-specific annual scaling factors which adjust the PDs for forward-looking information. The final PDs produced by the model are unconditional, i.e. they incorporate both the probability of not defaulting until the start of the period, and the subsequent probability of default in that period, conditional on the position not having defaulted to that point. This allows them to be summed over 12 months to provide 12-month PD estimates, or over all remaining months to produce lifetime PD estimates.

LGD is the magnitude of the likely loss if there is a default, based on the history of recovery rates of claims against defaulted counterparties, and taking into account collateral values where applicable.

EAD represents the expected exposure in the event of a default. The group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. Appropriate haircuts are applied to baseline unsecured LGDs and used in conjunction with forecast collateral values to estimate LGD for assets secured by collateral.

The group has adopted a simplified approach for trade receivables, contract assets and finance and operating lease receivables. This allows measurement of lifetime ECLs only, thereby removing the need to identify SICRs. For these balances, the group makes use of provision matrices in order to calculate such lifetime ECLs. This is a practical expedient allowed by IFRS 9 whereby historical credit loss experience and fixed loss rates are applied to the balances outstanding. Historical loss rates are adjusted to allow for forward looking information.

Hedge accounting
The group uses hedge accounting, provided the prescribed criteria are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. Hedge accounting can be applied in order to:

- hedge the exposure to fair value movements of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect the Consolidated Income Statement;
- hedge the exposure to variability in cash flows attributable to a particular risk associated with all, or a component of, a recognised asset or liability, or a highly probable forecast transaction, that could affect the Consolidated Income Statement; and
- hedge the exposure to the currency risk associated with a net investment in a foreign operation.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented formally at the inception of the transaction. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

Currently, the group hedges part of the foreign exchange translation exposure on its net investment in certain overseas subsidiaries, using forward foreign exchange contracts. It recognises the effective portion of the gain or loss on the hedging items, together with the gain or loss on translation of the foreign subsidiaries, in the Consolidated Statement of Comprehensive Income and in a separate reserve within equity. Gains and losses accumulated in equity are included in the Consolidated Income Statement on disposal of the relevant hedged item.

Transition to IFRS 9
On transition, changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

In line with IFRS 17 the group has chosen to restate comparative periods under IFRS 9. While the standard does not apply to financial assets already derecognised by 1 January 2023, the group has applied a 'classification overlay' as allowed by the standard. When applying IFRS 9 and IFRS 17 at the same time, the classification overlay permits presentation of comparative information as if the classification, measurement and impairment requirements of IFRS 9 had been applied to such assets, irrespective of derecognition date.

For the purpose of classification and measurement, financial assets' business models have been assessed as at the date of initial application and have been applied consistently in all periods presented. If an asset was in scope of the classification overlay described above, the group aligned the classification and measurement of each financial asset in the comparative periods with what it expected it would have been on 1 January 2023. Such assessment was performed based on reasonable and supportable information available at 1 January 2022, the transition date. Any difference between the IAS 39 carrying amount of a financial asset and the carrying amount at the transition date that results from applying IFRS 9 or the classification overlay was recognised in opening retained earnings.

IFRS Disclosure Notes

4.01 Basis of preparation (continued)

For the purpose of impairment, the group assessed whether as at 1 January 2023 there had been a SICR as compared to the date that a financial instrument was initially recognised, and applied a 12-month or lifetime ECL accordingly. The group chose to apply the impairment requirements of IFRS 9 consistently to all of the applicable financial instruments on its books during the comparative periods. To the extent the classification overlay applied and therefore an asset was derecognised by 1 January 2023, any expected credit losses recognised in the comparative periods were reversed upon disposal. The low credit risk practical expedient described previously was also available for the purpose of transition, and the group made use of this in line with set criteria. On transition to IFRS 9, any additional provision recognised when compared to IAS 39 was recognised in opening retained earnings. However, if this related to a financial asset at FVOCI, an equal and opposite movement was reflected in the OCI reserve.

Changes to hedge accounting policies have been applied prospectively from 1 January 2023. All hedging relationships designated under IAS 39 at 31 December 2022 met the criteria for hedge accounting under IFRS 9 at 1 January 2023 and were therefore regarded as continuing hedging relationships.

Classification and measurement

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets as at 1 January 2023, including the reasons for any reclassifications out of the FVTPL category. No changes to classification and measurement of financial liabilities have resulted from the implementation of IFRS 9.

	31 December 2022 IAS 39 measurement		Reclassification (before remeasurement)	Remeasurement		1 January 2023 IFRS 9 measurement	
	Category	Amount £m	£m	ECL £m	Other £m	Category	Amount £m
Financial investments at FVTPL							
Equity securities	**FVTPL**	**167,335**				**FVTPL**	**167,335**
Debt securities	**FVTPL**	**217,613**	**(6,425)**			**FVTPL**	**211,188**
- To debt securities at amortised cost			(5,946)				
- To debt securities at FVOCI			(479)				
Loans	**FVTPL**	**14,283**				**FVTPL**	**14,283**
Derivative assets - held for trading	**FVTPL**	**45,427**				**FVTPL**	**45,427**
Total financial investments at FVTPL		**444,658**	**(6,425)**				**438,233**
Financial investments - available for sale							
Debt securities	**AFS[1]**	**789**	**(789)**				
- To debt securities at amortised cost			(789)				
Total financial investments AFS		**789**	**(789)**				
Financial investments at FVOCI							
Debt securities			**479**			**FVOCI**	**479**
- From debt securities at FVTPL			479				
Total financial investments at FVOCI			**479**				**479**
Total financial investments at fair value		**445,447**	**(6,735)**				**438,712**
Financial investments at amortised cost							
Loans	**L&R[2]**	**28**			**(27)[3]**	**AC**	**1**
Debt securities			**6,735**	**(35)**	**1,145**	**AC**	**7,845**
- From debt securities AFS			789				
- From debt securities at FVTPL			5,946				
Total financial investments at amortised cost		**28**	**6,735**	**(35)**	**1,118**		**7,846**
Other financial assets							
Reinsurance receivables	**L&R[2]**	**291**			**(291)[3]**	**N/A**	
Insurance and intermediaries receivables	**L&R[2]**	**76**			**(76)[3]**	**N/A**	
Other receivables	**L&R[2]**	**9,632**			**(9)[3]**	**AC**	**9,623**
Cash and cash equivalents	**L&R[2]**	**35,784**				**AC**	**35,784**
Total other financial assets		**45,783**			**(376)**		**45,407**
Total financial assets		**491,258**		**(35)**	**742**		**491,965**

1. Available-for-sale. Under IAS 39, financial assets classified as available-for-sale were measured at fair value with unrealised gains and losses recognised in a separate reserve within equity.
2. Loans and receivables. Under IAS 39, loans and receivables were non-derivative financial assets with fixed or determinable payments not quoted in an active market. These excluded assets held for trading and those designated as available-for sale or fair value through profit or loss.
3. Derecognition of balances that do not exist under IFRS 17 as they are now included in the insurance contract liability on an IFRS 17 basis.

4.01 Basis of preparation (continued)

Remeasurement from FVTPL to amortised cost:
As part of the implementation of IFRS 9, the group has reassessed the classification and measurement of certain financial assets backing annuity liabilities, in order to better match interest rate and inflation sensitivities to IFRS 17 liabilities, and reclassified a portion of its portfolio of debt securities previously held at FVTPL. This is because, while the best estimate liability and risk adjustment under IFRS 17 for annuities are measured with current financial assumptions, the CSM is measured with locked-in discount rates. Therefore, a sub-portfolio of long dated debt instruments amounting to £5,603m (including accrued interest, as at 1 January 2023) backing annuity contracts but in surplus to the IFRS 17 best estimate liability and risk adjustment, and passing the SPPI test, was separately identified. Starting 1 January 2023 these assets have been used to manage interest and inflation rate exposure. They are held to maturity in a 'held to collect' business model and accounted for at amortised cost. Other assets reclassified in the group's Insurance business, notably private placements and commercial mortgage loans in the US business, were previously accounted for at FVTPL in order to eliminate or reduce an accounting mismatch. Following the implementation of IFRS 17 this is no longer required as finance income and expense on the insurance liabilities that these assets are held to back are presented in OCI. The assets pass the SPPI test and are held in a 'held to collect' business model, and are therefore accounted for at amortised cost.

Had such assets remained at FVTPL after 1 January 2023, the group would have recorded fair value losses in the Consolidated Income Statement of £425m during the period. Interest income recognised in the Consolidated Income Statement in the period was £52m, and the effective interest rate as at 1 January 2023 was 3.59%. The fair value as at 30 June 2023 of these assets is £5,627m.

Remeasurement from FVTPL to FVOCI
Under IAS 39, bonds (including US Treasury bonds) backing certain protection liabilities were held at FVTPL in order to eliminate or reduce an accounting mismatch. Following the implementation of IFRS 17 this is no longer required, as finance income and expense on the insurance liabilities that these assets are held to back, are presented in OCI. The assets pass the SPPI test and are held in a 'held to collect and sell' business model, and are therefore accounted for at FVOCI.

Had such assets remained at FVTPL after 1 January 2023, the group would have recorded fair value gains in the Consolidated Income Statement of £7m during the period. Interest income recognised in the Consolidated Income Statement in the period was £8m, and the effective interest rate as at 1 January 2023 was 2.75%. The fair value of these assets as at the end of the reporting period is £427m.

Impairment
The following table reconciles the closing impairment allowance under IAS 39 as at 31 December 2022 with the opening loss allowance under IFRS 9 as at 1 January 2023 for financial assets subject to the impairment requirements of IFRS 9.

	31 December 2022 IAS 39 loan loss provision £m	Remeasurement £m	1 January 2023 IFRS 9 loan loss provision £m
Debt securities at FVOCI / Debt securities AFS	–	3	3
Debt securities at amortised cost	–	35	35
Other receivables	4	–	4
Total	**4**	**38**	**42**

Other standards

The group has also applied the following standards and amendments for the first time in its six months reporting period commencing 1 January 2023, which did not give rise to a material impact on the group's consolidated financial statements.

- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2).

The group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

4.02 Dividends and appropriations

	Dividend 6 months 2023 £m	Per share[1] 6 months 2023 p	Dividend 6 months 2022 £m	Per share[1] 6 months 2022 p	Dividend Full year 2022 £m	Per share[1] Full year 2022 p
Ordinary dividends paid and charged to equity in the period:						
- Final 2021 dividend paid in June 2022	–	–	792	13.27	792	13.27
- Interim 2022 dividend paid in September 2022	–	–	–	–	324	5.44
- Final 2022 dividend paid in June 2023	831	13.93	–	–	–	–
Total dividends[2]	**831**	**13.93**	792	13.27	1,116	18.71

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. The dividend proposed at 31 December 2022 was £829m based on the current number of eligible equity shares on that date.

Subsequent to 30 June 2023, the directors declared an interim dividend of 5.71 pence per ordinary share. This dividend will be paid on 26 September 2023. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2023 and is not included as a liability in the Consolidated Balance Sheet as at 30 June 2023.

4.03 Financial investments and investment property

	30 Jun 2023 £m	Restated 30 Jun 2022 £m	Restated 31 Dec 2022 £m
Equities[1]	**177,368**	182,847	167,335
Debt securities[2,3]	**218,749**	238,483	219,512
Derivative assets[4]	**46,749**	28,017	45,427
Loans[5]	**12,101**	13,460	14,284
Financial investments	**454,967**	462,807	446,558
Investment property	**9,227**	10,976	9,372
Total financial investments and investment property	**464,194**	473,783	455,930

1. Equity securities include investments in unit trusts of £18,522m (30 June 2022: £17,572m; 31 December 2022; £16,524m).
2. Debt securities include accrued interest of £1,691m (30 June 2022: £1,497m; 31 December 2022: £1,635m) and include £7,545m (30 June 2022: £7,775m; 31 December 2022: £7,845m) of assets valued at amortised cost.
3. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 7.03.
4. Derivatives are used for efficient portfolio management, particularly the use of interest rate swaps, inflation swaps, currency swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £49,939m (30 June 2022: £34,044m; 31 December 2022: £51,190m).
5. Loans include £5m (30 June 2022: £72m; 31 December 2022: £1m) of loans valued at amortised cost.

4.03 Financial investments and investment property (continued)
(i) Fair value hierarchy

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

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

The levels of fair value measurement bases are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

All of the group's Level 2 assets have been valued using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have therefore classified them as Level 2.

The group's investment properties are valued by appropriately qualified external valuers using unobservable inputs, resulting in all investment property being classified as Level 3.

The group's policy is to re-assess categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time. At 30 June 2023 debt securities totalling net £3.7bn transferred from Level 1 to Level 2 in the fair value hierarchy (30 June 2022: net £0.8bn from Level 1 to Level 2; 31 December 2022: net £6.0bn from Level 2 to Level 1).

For the six month period to 30 June 2023	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**3,077**	**1,171**	**13**	**1,893**
Debt securities	**65,818**	**22,701**	**25,882**	**17,235**
Derivative assets	**42,307**	**107**	**42,200**	**–**
Loans at fair value	**2,049**	**–**	**2,049**	**–**
Investment property	**5,762**	**–**	**–**	**5,762**
Total Shareholder	**119,013**	**23,979**	**70,144**	**24,890**
Unit linked				
Equity securities	**174,291**	**173,276**	**527**	**488**
Debt securities	**145,386**	**113,411**	**30,994**	**981**
Derivative assets	**4,442**	**136**	**4,306**	**–**
Loans at fair value	**10,047**	**–**	**10,047**	**–**
Investment property	**3,465**	**–**	**–**	**3,465**
Total Unit linked	**337,631**	**286,823**	**45,874**	**4,934**
Total financial investments and investment property at fair value	**456,644**	**310,802**	**116,018**	**29,824**
Debt securities at amortised cost[1]	**6,300**	**–**	**42**	**6,258**
Loans at amortised cost[1]	**5**	**5**	**–**	**–**

1. This table includes debt securities and loans which are held at amortised cost in the Consolidated Balance Sheet at a total value of £7,550m.

4.03 Financial investments and investment property (continued)
(i) Fair value hierarchy (continued)

For the six month period to 30 June 2022 (Restated)	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	3,492	1,995	22	1,475
Debt securities	69,546	27,622	27,213	14,711
Derivative assets	25,071	6	25,065	–
Loans at fair value	1,701	–	1,701	–
Investment property	6,156	–	–	6,156
Total Shareholder	105,966	29,623	54,001	22,342
Unit linked				
Equity securities	179,355	178,691	25	639
Debt securities	161,162	129,689	30,836	637
Derivative assets	2,946	125	2,821	–
Loans at fair value	11,687	–	11,687	–
Investment property	4,820	–	–	4,820
Total Unit linked	359,970	308,505	45,369	6,096
Total financial investments and investment property at fair value	465,936	338,128	99,370	28,438
Debt securities at amortised cost[1]	7,257	–	52	7,205
Loans at amortised cost[1]	72	72	–	–

1. This table includes debt securities and loans which are held at amortised cost in the Consolidated Balance Sheet at a total value of £7,847m.

For the year ended 31 December 2022 (Restated)	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	3,071	1,236	41	1,794
Debt securities	63,928	17,239	31,295	15,394
Derivative assets	41,978	106	41,872	–
Loans at fair value	1,072	–	1,072	–
Investment property	5,644	–	–	5,644
Total Shareholder	115,693	18,581	74,280	22,832
Unit linked				
Equity securities	164,264	163,727	24	513
Debt securities	147,739	105,955	40,757	1,027
Derivative assets	3,449	164	3,285	–
Loans at fair value	13,211	–	13,211	–
Investment property	3,728	–	–	3,728
Total Unit linked	332,391	269,846	57,277	5,268
Total financial investments and investment property at fair value	448,084	288,427	131,557	28,100
Debt securities at amortised cost[1]	6,717	–	44	6,673
Loans at amortised cost[1]	1	1	–	–

1. This table includes debt securities and loans which are held at amortised cost in the Consolidated Balance Sheet at a total value of £7,846m.

IFRS Disclosure Notes

4.03 Financial investments and investment property (continued)
(ii) Level 3 assets measured at fair value

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

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

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

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

	Equity securities 2023 £m	**Other financial investments 2023 £m**	**Investment property 2023 £m**	**Total 2023 £m**	Equity securities 2022 £m	Restated Other financial investments 2022 £m	Investment property 2022 £m	Restated Total 2022 £m
As at 1 January	**2,307**	**16,421**	**9,372**	**28,100**	1,988	16,599	10,150	28,737
Total gains/(losses) for the period								
- realised gains or (losses)[1]	**(19)**	**(157)**	**2**	**(174)**	6	(3)	30	33
- unrealised gains or (losses)[1]	**3**	**(399)**	**(510)**	**(906)**	144	(2,489)	571	(1,774)
Purchases/Additions	**169**	**2,929**	**752**	**3,850**	179	2,110	330	2,619
Sales/Disposals	**(78)**	**(714)**	**(425)**	**(1,217)**	(266)	(1,069)	(105)	(1,440)
Transfers into Level 3	**6**	**241**	**–**	**247**	67	–	–	67
Transfers out of Level 3	**(3)**	**–**	**–**	**(3)**	(10)	–	–	(10)
Foreign exchange rate movements	**(4)**	**(105)**	**36**	**(73)**	6	200	–	206
As at 30 June	**2,381**	**18,216**	**9,227**	**29,824**	2,114	15,348	10,976	28,438

	Equity securities 2022 £m	Restated Other financial investments 2022 £m	Investment property 2022 £m	Restated Total 2022 £m
As at 1 January	1,988	16,599	10,150	28,737
Total gains/(losses) for the year				
- realised gains or (losses)[1]	28	(78)	81	31
- unrealised gains or (losses)[1]	83	(4,381)	(1,796)	(6,094)
Purchases/Additions	504	10,922	1,307	12,733
Sales/Disposals	(381)	(6,908)	(377)	(7,666)
Transfers into Level 3	84	72	–	156
Transfers out of Level 3	(41)	–	–	(41)
Foreign exchange rate movements	42	195	7	244
As at 31 December	2,307	16,421	9,372	28,100

1. Amounts presented in realised and unrealised gains/(losses) are recognised in Investment return in the Consolidated Income Statement.

4.03 Financial investments and investment property (continued)
(ii) Level 3 assets measured at fair value (continued)

Equity securities

Level 3 equity securities amount to £2,381m (30 June 2022: £2,114m; 31 December 2022: £2,307m), of which the majority is made up of holdings in investment property vehicles and private investment funds. They are valued at the proportion of the group's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are valued by a number of third party specialists using a range of techniques which are often dependent on the maturity of the underlying investment but can also depend on the characteristics of individual assets. Such techniques include transaction values underpinned by analysis of milestone achievement and cash runway for early/start-up stage investments, discounted cash flow models for investments at the next stage of development and earnings multiples for more mature investments.

Other financial investments

Lifetime mortgage (LTM) loans and retirement interest only mortgages amount to £4,937m (30 June 2022: £5,758m; 31 December 2022: £4,844m). Lifetime mortgages are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounted using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 250bps. This ensures the value of loans at outset is consistent with the purchase price of the loan and achieves consistency between new and in-force loans. Lifetime mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the property and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include short-term and long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 30 June 2023 reflects a combination of short-term and long-term property growth rate assumptions equivalent to a flat rate of 2.9% annually, after allowing for the effects of dilapidation. The values of the properties collateralizing the LTM loans are updated from the date of the last property valuation to the valuation date by indexing using UK regional house price indices.

Private credit loans (including commercial real estate loans) amount to £9,446m (30 June 2022: £5,984m; 31 December 2022: £7,858m). Their valuation is determined by discounted future cash flows which are based on the yield curve of the LGIM approved comparable bonds and the initial spread, both of which are agreed by IHS Markit who also provide an independent valuation of comparable bonds. Unobservable inputs that go into the determination of comparators include rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments, which were executed as far back as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 7.4 years, with a weighted average life of 10.1 years. Maturities in the portfolio currently extend out to 2061. The private credit portfolio of assets has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to BB-.

Private placements held by the US business amount to £1,309m (30 June 2022: £976m; 31 December 2022: £1,320m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk-free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement. The valuation as at 30 June 2023 reflects illiquidity premiums between 20 and 70bps.

Income strip assets amount to £1,350m (30 June 2022: £1,580m; 31 December 2022: £1,414m). Their primary valuation is provided by appropriately qualified external valuers who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. The valuation as at 30 June 2023 reflects equivalent yield ranges between 3% and 9% and estimated rental values (ERV) between £10 and £310 per sq.ft.

Commercial mortgage loans amount to £771m (30 June 2022: £814m; 31 December 2022: £768m) and are determined by incorporating credit risk for performing loans at the portfolio level and adjusted for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk-free rate paths and are inclusive of an Option Adjusted Spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. The valuation as at 30 June 2023 reflects illiquidity premiums between 20 and 30bps.

Other debt securities which are not traded in an active market amount to £403m (30 June 2022: £236m; 31 December 2022: £217m). They have been valued using third party or counterparty valuations, and these prices are considered to be unobservable due to infrequent market transactions.

Investment property

Level 3 investment property amounting to £9,227m (30 June 2022: £10,976m; 31 December 2022: £9,372m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon market sentiment based on historic transactional comparables. The valuation of investment properties also includes an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. The valuation as at 30 June 2023 reflects equivalent yield ranges between 2% and 20% and ERV between £1 and £357 per sq.ft.

The table below shows the valuation of investment property by sector:

	30 Jun 2023 £m	30 Jun 2022 £m	31 Dec 2022 £m
Retail	**1,257**	951	780
Leisure	**460**	505	461
Distribution	**1,071**	1,613	1,104
Office space	**3,117**	4,688	4,069
Industrial and other commercial	**1,815**	2,005	1,624
Accommodation	**1,507**	1,214	1,334
Total	**9,227**	10,976	9,372

4.03 Financial investments and investment property (continued)
(iii) Effect of changes in assumptions on Level 3 assets

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

Where material, the group assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impact of applying these sensitivities to the fair value of Level 3 assets as at 30 June 2023. Further disclosure on how these sensitivities have been applied can be found in the descriptions following the table.

		Sensitivities	
	Fair value 30 June 2023 £m	Positive impact £m	Negative impact £m
Lifetime mortgages	**4,937**	**176**	**(247)**
Private credit portfolios	**11,526**	**501**	**(501)**
Investment property	**9,227**	**748**	**(738)**
Other investments[1]	**4,134**	**478**	**(432)**
Total Level 3 assets	**29,824**	**1,903**	**(1,918)**

1. Other investments include equity securities, income strip assets and other traded debt securities.

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

Lifetime mortgages
Key assumptions used in the valuation of lifetime mortgage assets are listed in Note 4.03 (ii) and sensitivities are applied to each assumption which are used to derive the values in the above table. The most significant decrease in value is an instantaneous 10% reduction in property valuations across the portfolio which, applied in isolation produces a sensitised value of £(126)m. The most significant increase in value is a 20bps reduction to the discount rate which, applied in isolation produces a sensitised value of £124m.

Private credit portfolios
The sensitivity in the private credit portfolio has been determined through a method which estimates investment spread value premium differences as compared to the institutional investment market. Individual investment characteristics of each holding, such as credit rating and duration are used to determine spread differentials for the purposes of determining alternate values. Spread differentials are determined to be lower for highly rated and/or shorter duration assets as compared to lower rated and/or longer duration assets. A significant component of the spread differential is in relation to the selection of comparator bonds, which is the potential difference in spread of the basket of relevant comparators determined by respective investors. If we were to take an AA rated asset it may attract a spread differential of 15bps on the selection of comparator bonds as opposed to 40bps for a similar duration BBB rated asset. Applied in isolation the sensitivity used to reflect the spread in comparator bond selection results in sensitised values of £166m and £(166)m.

Investment property
Investment property holdings are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors (RICS). As such, sensitivities are calculated through a mixture of asset level and portfolio level methodologies which make reference to individual investment characteristics of the holding but do not flex individual assumptions used by the independent expert in valuing the holdings. Each method is applied individually and aggregated with equal weighting to determine the overall sensitivity determined for the portfolio. One method is similar to that used in the private credit portfolio as it determines the impact of an alternate property yield determined in reference to credit ratings, remaining term and other characteristics of each holding. In this methodology we would apply a lower yield sensitivity to a highly rated and/or shorter remaining term asset compared with a lower rated and/or longer remaining term asset. If we were to take an AA rated asset with remaining term of 25 years in normal market conditions this would lead to a 15bps yield flex (as opposed to a 35bps yield flex for a BBB rated asset with 30 year remaining term). The methodology which leads to the most significant sensitivity at the balance sheet date is related to an example in case law where it was found that an acceptable margin of error in a valuation dispute is 10% either way, subject to the valuation being undertaken with due care. If this sensitivity were to be taken without a weighting it would produce sensitised values of £593m and £(593)m.

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

IFRS Disclosure Notes

4.04 Tax

(i) Tax expense in the Consolidated Income Statement

The tax expense attributable to equity holders differs from the tax calculated on profit before tax at the standard UK corporation tax rate as follows:

	6 months 2023 £m	Restated 6 months 2022 £m	Restated Full year 2022 £m
Profit before tax attributable to equity holders	**324**	697	933
Tax calculated at 23.5%[1]	**76**	132	177
Adjusted for the effects of:			
Recurring reconciling items:			
Different rate of tax on profits and losses taxed overseas[2]	**(53)**	29	9
Income not subject to tax	**(2)**	–	(3)
Non-deductible expenses	**8**	–	(4)
Differences between taxable and accounting investment gains	**(9)**	(6)	(9)
Other taxes on property and foreign income	**1**	4	6
Unrecognised tax losses	**1**	1	17
Double tax relief[3]	**–**	–	(20)
Non-recurring reconciling items:			
Adjustments in respect of prior years[4]	**(6)**	(1)	(21)
Impact of the revaluation of deferred tax balances[1]	**(2)**	(37)	(64)
Tax expense/(credit) attributable to equity holders	**14**	122	88
Equity holders' effective tax rate	**4.3%**	17.5%	9.4%

1. The Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year has increased to 23.5% (H1 22: 19.0%; FY 22: 19.0%). The enacted tax rate of 25% has been used in the calculation of UK deferred tax assets and liabilities, as the rate of corporation tax that is expected to apply when the majority of those deferred tax balances reverse.
2. The lower rate of tax on overseas profits and losses is principally driven by the 0% rate of taxation arising in our Bermudan reinsurance company, which provides the group with regulatory capital flexibility for both our PRT business and our US term insurance business. This also includes the impact of our US operations which are taxed at 21%.
3. Double tax relief represents a UK tax credit available for overseas withholding tax suffered on dividend income.
4. Adjustments in respect of prior years relate to revisions of prior estimates.

The Organisation for Economic Co-operation and Development (OECD) released a framework in December 2021 to address concerns at a global level about tax contributions of large multinational corporations, and to introduce a global minimum tax rate of 15%. The UK has enacted legislation to implement these new rules, which will take effect from 1 January 2024. Under these rules, the group is expected to be liable to top-up tax on profits arising from our operations in territories with low tax rates. The group is assessing the impact of this in the UK and other territories in which it operates.

4.04 Tax (continued)

(ii) Deferred tax

Deferred tax (liabilities)/assets	30 Jun 2023 £m	Restated 30 Jun 2022 £m	Restated 31 Dec 2022 £m
Overseas deferred acquisition expenses[1]	**116**	110	116
Difference between the tax and accounting value of insurance contracts	**413**	515	487
- UK[2]	1,148	1,188	1,266
- Overseas	(735)	(673)	(779)
Realised and unrealised gains on investments	**128**	79	145
Excess of depreciation over capital allowances	**22**	20	21
Accounting provisions and other	**58**	36	59
Trading losses[3]	**474**	410	463
Pension fund deficit	**(1)**	(42)	(26)
Acquired intangibles	**(3)**	–	(2)
Net deferred tax asset	**1,207**	1,128	1,263
Presented on the Consolidated Balance Sheet as:			
- Deferred tax assets	**1,367**	1,283	1,469
- Deferred tax liabilities[4]	**(160)**	(155)	(206)
Net deferred tax asset	**1,207**	1,128	1,263

1. Deferred tax assets arising on deferred acquisition expenses relate solely to US balances as at 30 June 2023.
2. The UK deferred tax asset reflects the impact of transition to IFRS 17.
3. Trading losses consist solely of US operating losses. The losses are not time restricted, and we expect to recover them over a period of 15 to 20 years, commensurate with the lifecycle of the underlying insurance contracts. In reaching this conclusion, we have considered past results, the different basis under which US companies are taxed, temporary differences that are expected to generate future profits against which the deferred tax can be offset, management actions, and future profit forecasts. The recoverability of deferred tax assets is routinely reviewed by management.
4. The deferred tax liability is comprised of balances of £157m relating to the US (H1 22: £155m; FY 22: £206m), and £3m relating to the UK (H1 22: £nil; FY 22: £nil) that are not capable of being offset against other deferred tax assets.

4.05 Share capital and share premium

Authorised share capital	**Number of shares**	**£m**
At 30 June 2023, 30 June 2022 and 31 December 2022: ordinary shares of 2.5p each	**9,200,000,000**	**230**

Issued share capital, fully paid	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2023	**5,973,253,500**	**149**	**1,018**
Options exercised under share option schemes	**4,560,068**	**–**	**9**
As at 30 June 2023	**5,977,813,568**	**149**	**1,027**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2022	5,970,415,817	149	1,012
Options exercised under share option schemes	2,162,898	–	5
As at 30 June 2022	5,972,578,715	149	1,017
Options exercised under share option schemes	674,785	–	1
As at 31 December 2022	5,973,253,500	149	1,018

There is one class of ordinary shares of 2.5p each. All shares issued carry equal voting rights.

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

4.06 Restricted Tier 1 convertible notes

On 24 June 2020, Legal & General Group Plc issued £500m of 5.625% perpetual restricted Tier 1 contingent convertible notes. The notes are callable at par between 24 March 2031 and 24 September 2031 (the First Reset Date) inclusive and every 5 years after the First Reset Date. If not called, the coupon from 24 September 2031 will be reset to the prevailing five year benchmark gilt yield plus 5.378%.

The notes have no fixed maturity date. Optional cancellation of coupon payments is at the discretion of the issuer and mandatory cancellation is upon the occurrence of certain conditions. The Tier 1 notes are therefore treated as equity and coupon payments are recognised directly in equity when paid. During the period coupon payments of £14m were made (H1 22: £14m; FY 22: £28m). The notes rank junior to all other liabilities and senior to equity attributable to owners of the parent. On the occurrence of certain conversion trigger events the notes are convertible into ordinary shares of the Issuer at the prevailing conversion price.

The notes are treated as restricted Tier 1 own funds for Solvency II purposes.

4.07 Non-controlling interests

Non-controlling interests represent third party interests in direct equity investments, including private equity, which are consolidated in the group's results.

As at 30 June 2023, non-controlling interests primarily represent third party ownership in Thorpe Park Holdings, a mixed residential/commercial retail space in which the group holds 50%.

4.08 Core borrowings

	Carrying amount 30 Jun 2023 £m	Fair value 30 Jun 2023 £m	Carrying amount 30 Jun 2022 £m	Fair value 30 Jun 2022 £m	Carrying amount 31 Dec 2022 £m	Fair value 31 Dec 2022 £m
Subordinated borrowings						
5.5% Sterling subordinated notes 2064 (Tier 2)	**590**	**549**	590	546	590	541
5.375% Sterling subordinated notes 2045 (Tier 2)	**605**	**577**	604	610	605	593
5.25% US Dollar subordinated notes 2047 (Tier 2)	**678**	**648**	707	690	712	665
5.55% US Dollar subordinated notes 2052 (Tier 2)	**397**	**376**	414	416	417	389
5.125% Sterling subordinated notes 2048 (Tier 2)	**400**	**364**	400	391	400	377
3.75% Sterling subordinated notes 2049 (Tier 2)	**599**	**489**	598	523	599	507
4.5% Sterling subordinated notes 2050 (Tier 2)	**500**	**424**	500	456	500	439
Client fund holdings of group debt (Tier 2)[1]	**(77)**	**(69)**	(50)	(46)	(74)	(67)
Total subordinated borrowings	**3,692**	**3,358**	3,763	3,586	3,749	3,444
Senior borrowings						
Sterling medium term notes 2031-2041	**603**	**613**	602	707	609	649
Client fund holdings of group debt[1]	**(17)**	**(16)**	(9)	(10)	(20)	(19)
Total senior borrowings	**586**	**597**	593	697	589	630
Total core borrowings	**4,278**	**3,955**	4,356	4,283	4,338	4,074

1. £94m (30 June 2022: £59m; 31 December 2022: £94m) of the group's subordinated and senior borrowings are held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

The presented fair values of the group's core borrowings reflect quoted prices in active markets and they have been classified as Level 1 in the fair value hierarchy.

IFRS Disclosure Notes

4.08 Core borrowings (continued)

Subordinated borrowings

5.5% Sterling subordinated notes 2064
In 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. These notes mature on 27 June 2064.

5.375% Sterling subordinated notes 2045
In 2015, Legal & General Group Plc issued £600m of 5.375% dated subordinated notes. The notes are callable at par on 27 October 2025 and every five years thereafter. These notes mature on 27 October 2045.

5.25% US Dollar subordinated notes 2047
On 21 March 2017, Legal & General Group Plc issued $850m of 5.25% dated subordinated notes. The notes are callable at par on 21 March 2027 and every five years thereafter. These notes mature on 21 March 2047.

5.55% US Dollar subordinated notes 2052
On 24 April 2017, Legal & General Group Plc issued $500m of 5.55% dated subordinated notes. The notes are callable at par on 24 April 2032 and every five years thereafter. These notes mature on 24 April 2052.

5.125% Sterling subordinated notes 2048
On 14 November 2018, Legal & General Group Plc issued £400m of 5.125% dated subordinated notes. The notes are callable at par on 14 November 2028 and every five years thereafter. These notes mature on 14 November 2048.

3.75% Sterling subordinated notes 2049
On 26 November 2019, Legal & General Group Plc issued £600m of 3.75% dated subordinated notes. The notes are callable at par on 26 November 2029 and every five years thereafter. These notes mature on 26 November 2049.

4.5% Sterling subordinated notes 2050
On 1 May 2020, Legal & General Group Plc issued £500m of 4.5% dated subordinated notes. The notes are callable at par on 1 November 2030 and every five years thereafter. These notes mature on 1 November 2050.

All of the above subordinated notes are treated as Tier 2 own funds for Solvency II purposes unless stated otherwise.

Senior borrowings

Between 2000 and 2002 Legal & General Finance Plc issued £600m of senior unsecured Sterling medium term notes 2031-2041 at coupons between 5.75% and 5.875%. These notes have various maturity dates between 2031 and 2041.

IFRS Disclosure Notes

4.09 Operational borrowings

	Carrying amount 30 Jun 2023 £m	Fair value 30 Jun 2023 £m	Carrying amount 30 Jun 2022 £m	Fair value 30 Jun 2022 £m	Carrying amount 31 Dec 2022 £m	Fair value 31 Dec 2022 £m
Euro Commercial Paper	**50**	**50**	50	50	50	50
Bank loans and overdrafts	**7**	**7**	91	91	3	3
Non-recourse borrowings	**1,050**	**1,050**	1,004	1,004	910	910
Operational borrowings[1]	**1,107**	**1,107**	1,145	1,145	963	963

1. Unit linked borrowings with a carrying value of £165m (30 June 2022: £37m; 31 December 2022: £256m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,272m (30 June 2022: £1,182m; 31 December 2022: £1,219m).

Syndicated credit facility

The group has in place a £1.5bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in August 2028. No amounts were outstanding at 30 June 2023.

4.10 Movement in borrowings

	30 Jun 2023 £m	30 Jun 2022 £m	31 Dec 2022 £m
As at 1 January	**5,557**	5,188	5,188
Cash movements:			
- Proceeds from borrowings	**408**	265	691
- Repayment of borrowings	**(227)**	(210)	(737)
- Net (decrease)/increase in bank loans and overdrafts	**(72)**	120	254
Non-cash movements:			
- Amortisation	**1**	1	2
- Foreign exchange rate movements	**(93)**	184	201
- Other	**(24)**	(10)	(42)
Core and operational borrowings	**5,550**	5,538	5,557

4.11 Payables and other financial liabilities

	30 Jun 2023 £m	30 Jun 2022 £m	31 Dec 2022 £m
Derivative liabilities	**49,939**	34,044	51,190
Repurchase agreements[1]	**28,347**	47,103	31,533
Other financial liabilities[2]	**12,770**	14,677	11,182
Total payables and other financial liabilities	**91,056**	95,824	93,905

1. Repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The significant majority of repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, lease liabilities, FX spots and the value of short positions taken out to cover reverse repurchase agreements. The value of short positions as at 30 June 2023 was £4,966m (30 June 2022: £4,779m; 31 December 2022: £4,960m). Other financial liabilities have been restated for 30 June 2022 and 31 December 2022.

Fair value hierarchy

As at 30 June 2023	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost[1] £m**
Derivative liabilities	**49,939**	**445**	**49,472**	**22**	**–**
Repurchase agreements	**28,347**	**–**	**28,347**	**–**	**–**
Other financial liabilities	**12,770**	**4,933**	**29**	**–**	**7,808**
Total payables and other financial liabilities	**91,056**	**5,378**	**77,848**	**22**	**7,808**

As at 30 June 2022	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost[1] £m
Derivative liabilities	34,044	291	33,713	40	–
Repurchase agreements	47,103	–	47,103	–	–
Other financial liabilities[2]	14,677	4,815	81	–	9,781
Total payables and other financial liabilities	95,824	5,106	80,897	40	9,781

As at 31 December 2022	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost[1] £m
Derivative liabilities	51,190	448	50,717	25	–
Repurchase agreements	31,533	–	31,533	–	–
Other financial liabilities[2]	11,182	4,319	253	–	6,610
Total payables and other financial liabilities	93,905	4,767	82,503	25	6,610

1. The carrying value of payables and other financial liabilities at amortised cost approximates its fair value.
2. Other financial liabilities have been restated for 30 June 2022 and 31 December 2022.

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the period ended 30 June 2023 (30 June 2022 and 31 December 2022: no significant transfers).

4.12 Long-term insurance valuation assumptions

The group's insurance assumptions, described below, relate to the UK insurance (both annuities and protection) business and material lines of the US insurance (both annuities and protection) business. Other non-UK businesses do not constitute a material component of the group's operations and consideration of geographically determined assumptions is therefore not included.

The 31 December 2022 assumptions have been rebased to those used for the preparation of the restated comparatives under IFRS 17 and hence differ from the IFRS 4 assumptions published in the 2022 Annual Report and Accounts. For the purpose of producing IFRS 17 best estimate liabilities, the group seeks to make best estimate assumptions about future experience based on current market conditions and recent experience.

(i) Mortality and morbidity

Mortality and morbidity assumptions for the UK businesses are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMI), a subsidiary of the Institute and Faculty of Actuaries, and/or UK death registrations. US assumptions are set with reference to standard tables drawn up by the American Academy of Actuaries. Tables are based on industry-wide mortality and morbidity experience for insured lives.

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

The higher mortality experience observed in 2020 as a result of Covid-19 is considered to be mostly exceptional and potential endemic impacts on long-term mortality assumptions are still under investigation. Long-term mortality assumptions have not been revised to reflect this experience. Most allowances made in respect of higher expected short-term mortality were released in 2022.

In most cases, mortality rates are set separately for gender and smoker status, and the percentage of mortality table will vary for the first 2-5 years of the policy’s duration to allow for underwriting selection. Demographic assumptions are generally updated on an annual basis and are unchanged from those used at 31 December 2022.

Mortality tables	**30 June 2023**	31 December 2022
Non-linked individual assurance business		
UK term assurances[1]	**90% - 92% TM08/TF08 Sel 5**	90% - 92% TM08/TF08 Sel 5
UK term assurances with terminal illness[1]	**58% - 86% TM08/TF08 Sel 5**	58% - 86% TM08/TF08 Sel 5
UK term assurances with critical illness[2]	**89% - 132% ACL08 Sel 2**	89% - 132% ACL08 Sel 2
US term assurances[3]	**Adjusted SOA 2014 VBT**	Adjusted SOA 2014 VBT
Whole of Life Protection Plan[4]	**Bespoke Tables based on TM08/TF08 and UK death registrations**	Bespoke Tables based on TM08/TF08 and UK death registrations
Whole of Life over 50[4]	**Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions**	Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions
Annuity business		
UK Annuities in deferment[5]	**75.7%-85.6% PNMA00/PNFA00**	75.7%-85.6% PNMA00/PNFA00
UK Vested annuities[6]		
Pension risk transfer	**75.7%-85.6% PCMA00/PCFA00**	75.7%-85.6% PCMA00/PCFA00
Other annuities	**66.4%-105.5% PCMA00/PCFA00**	66.4%-105.5% PCMA00/PCFA00
US annuities[7]	**Bespoke tables based on RP-2014 Healthy Annuitant Total table**	Bespoke tables based on RP-2014 Healthy Annuitant Total table

1. Improvement assumptions applied of 1.0% p.a. for males and females.
2. Morbidity rates are assumed to deteriorate at a rate of 0.5% p.a. for males and 0.75% p.a. for females.
3. Adjustments are made for gender, select period, smoker status, policy size, policy duration and year, issue year and age.
4. Mortality rates are assumed to reduce based on CMI 2020 model with a long-term annual improvement rate of 1.5% for males and 1.0% for females.
5. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
6. Mortality rates are assumed to reduce according to an adjusted version of the mortality improvement model CMI 2020 with the following parameters:
   Males: Long-term Rate of 1.5% 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 Legal & General bespoke population data up to 2020. The resulting initial rates are then adjusted to reflect socio economic class.
   For individual annuities distributed through retail channels, a further allowance is made for the effect of initial selection.
   The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards.
7. Improvement table is MP2018 for Females and MP2019 for Males.

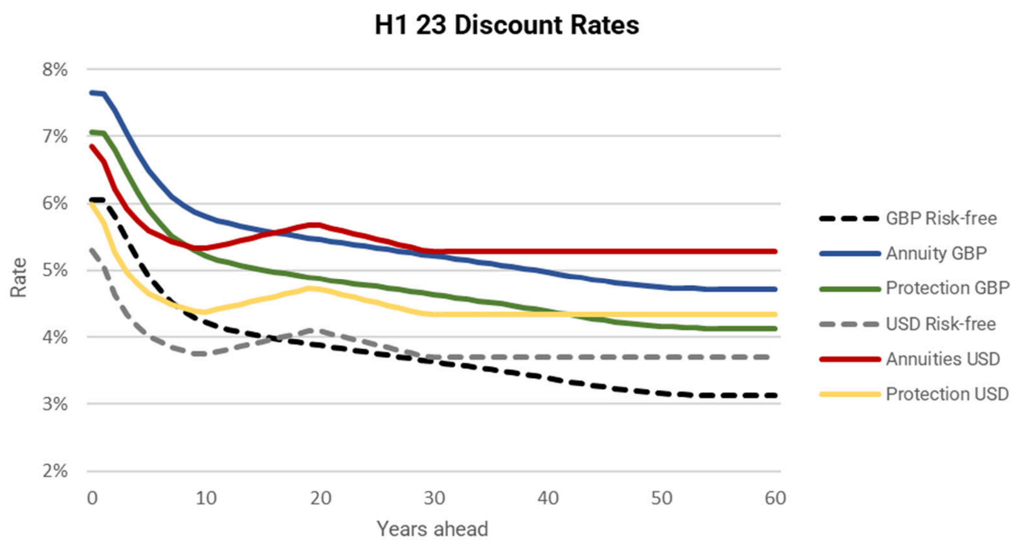
4.12 Long-term insurance valuation assumptions (continued)
(ii) Valuation rates of interest and discount rates

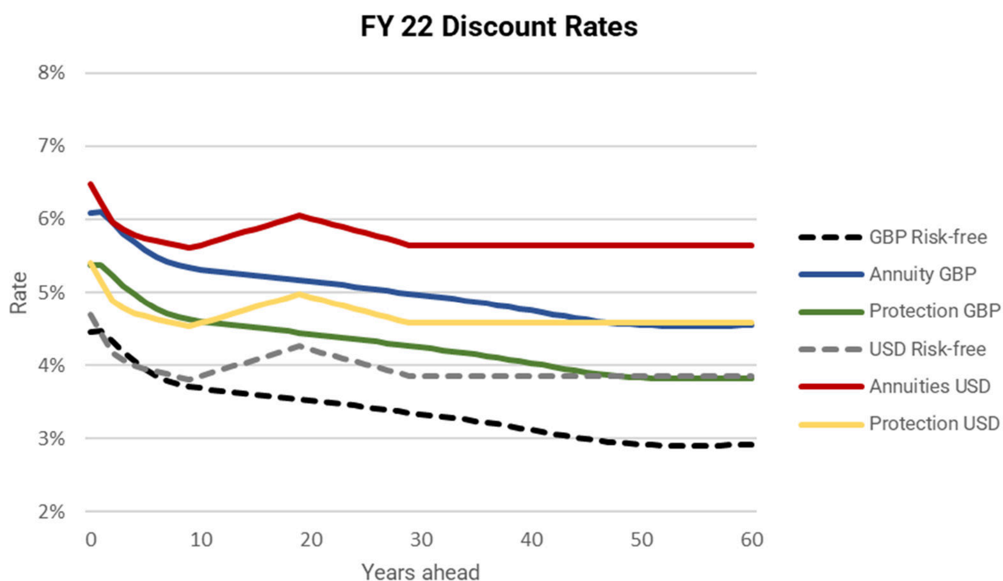
The interest rates used to discount the cash flows for the purpose of valuing insurance contract liabilities should reflect the timing and liquidity characteristics of those insurance liability cash flows and current market conditions. The valuation interest rate assumptions are derived as interest rate curves with full term structure.

In deriving the valuation interest rate assumptions for annuity business, an explicit allowance for risk is deducted from the yield on the assets backing annuity liabilities. The allowance for risk comprises long-term assumptions about defaults and the market risk premiums for taking credit risk. In the case of lifetime mortgage assets a best estimate expectation of losses arising from the no negative equity guarantee, and the market risk premiums for this risk, are deducted from the yield. For the UK annuity business, the deduction for risk of default for corporate bonds and direct investments equated to 40bps (31 December 2022: 42bps). For lifetime mortgages the deductions equated to £0.3bn (31 December 2022: £0.3bn).

For US and UK protection business, the yield is calculated based on notional asset portfolios of AA rated corporate bonds and cash, which reflect the characteristics of the liability cashflows. An explicit allowance for risk is deducted from the yield, to reflect the default risk associated with the notional portfolio assets.

The discount rate curves used for the material product lines are shown below. The discount rate curves are used to discount the cashflows on the underlying contracts and the reinsurance cashflows on those contracts. The graph displays the underlying spot rates:





4.12 Long-term insurance valuation assumptions (continued)

(iii) Persistency

The group monitors its persistency experience and carries out detailed investigations annually. Persistency experience can be volatile and past experience may not be an appropriate future indicator. The group tries to balance past experience and assessments of potential future conditions in setting assumptions about expected long-term average persistency levels.

Lapse Rates	30 June 2023	31 December 2022
UK Level term	**2.0% - 29.1%**	2.0% - 29.1%
UK Decreasing term	**4.4% - 15.0%**	4.4% - 15.0%
UK Accelerated critical illness cover	**3.2% - 31.5%**	3.2% - 31.5%
Pensions term	**2.9% - 3.3%**	2.9% - 3.3%
Whole of Life (conventional non profit)	**0.6% - 8.5%**	0.6% - 8.5%
US term – 10 year guarantee period	**7.1% - 8.1%**	7.1% - 8.1%
US term – 15 year guarantee period	**4.2% - 5.8%**	4.2% - 5.8%
US term – 20 year guarantee period	**3.0% - 6.1%**	3.0% - 6.1%
US term – 30 year guarantee period	**2.1% - 6.5%**	2.1% - 6.5%
US Universal Life	**2.7%**	2.7%

(iv) Expenses

The group monitors its expense experience and carries out detailed investigations regularly to determine the expenses directly incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the group's business plan, as well as for changes in allocations. An allowance for expense inflation in the future is also made in line with best estimate inflation assumptions, taking account of both salary and price information.

(v) Risk Adjustment

The group calculates its risk adjustment using a Provision for Adverse Deviations (PADs) approach, where adjustments are applied to best estimate non-financial risk assumptions to calculate the risk adjustment required over and above the best estimate liability. The size of adjustments and approach vary by risk depending on the group's attitude to the compensation required for that risk. For the majority of risks, the group's view on the compensation required for non-financial risks is calibrated to an 85th percentile confidence level, calculated using a one-year Value-at-Risk (VaR) measure. The calculation uses capital bases appropriate for the territory, the type of business and how the risk is priced.

4.13 Insurance contracts
(i) Insurance service results

For the six month period to 30 June 2023	**Annuities £m**	**Protection £m**	**Total £m**
Insurance revenue			
Amounts relating to changes in liabilities for remaining coverage:			
- CSM recognised for services provided	**397**	**131**	**528**
- Expected incurred claims and other insurance service expenses	**2,536**	**1,319**	**3,855**
- Change in the risk adjustment for non-financial risk for the risk expired	**174**	**23**	**197**
Recovery of insurance acquisition cashflows	**8**	**65**	**73**
Premium experience variance relating to past and current service	**2**	**(8)**	**(6)**
Total insurance revenue	**3,117**	**1,530**	**4,647**
Total insurance service expenses	**(2,472)**	**(1,525)**	**(3,997)**
Allocation of reinsurance premiums	**(1,310)**	**(501)**	**(1,811)**
Amounts recoverable from reinsurers for incurred claims	**1,139**	**619**	**1,758**
Net (expense)/income from reinsurance contracts held	**(171)**	**118**	**(53)**
Total insurance service result	**474**	**123**	**597**

For the six month period to 30 June 2022	Annuities £m	Protection £m	Total £m
Insurance revenue			
Amounts relating to changes in liabilities for remaining coverage:			
- CSM recognised for services provided	347	129	476
- Expected incurred claims and other insurance service expenses	2,193	1,304	3,497
- Change in the risk adjustment for non-financial risk for the risk expired	181	19	200
Recovery of insurance acquisition cashflows	6	59	65
Premium experience variance relating to past and current service	–	(4)	(4)
Total insurance revenue	2,727	1,507	4,234
Total insurance service expenses	(2,156)	(1,490)	(3,646)
Allocation of reinsurance premiums	(1,113)	(396)	(1,509)
Amounts recoverable from reinsurers for incurred claims	994	507	1,501
Net (expense)/income from reinsurance contracts held	(119)	111	(8)
Total insurance service result	452	128	580

For the year ended 31 December 2022	Annuities £m	Protection £m	Total £m
Insurance revenue			
Amounts relating to changes in liabilities for remaining coverage:			
- CSM recognised for services provided	788	251	1,039
- Expected incurred claims and other insurance service expenses	4,585	2,557	7,142
- Change in the risk adjustment for non-financial risk for the risk expired	359	31	390
Recovery of insurance acquisition cashflows	14	123	137
Premium experience variance relating to past and current service	2	(2)	–
Total insurance revenue	5,748	2,960	8,708
Total insurance service expenses	(4,494)	(2,921)	(7,415)
Allocation of reinsurance premiums	(2,331)	(803)	(3,134)
Amounts recoverable from reinsurers for incurred claims	2,060	929	2,989
Net (expense)/income from reinsurance contracts held	(271)	126	(145)
Total insurance service result	983	165	1,148

4.13 Insurance contracts (continued)
(ii) Insurance and reinsurance contracts

	Assets 30 Jun 2023 £m	Liabilities 30 Jun 2023 £m	Assets 30 Jun 2022 £m	Liabilities 30 Jun 2022 £m	Assets 31 Dec 2022 £m	Liabilities 31 Dec 2022 £m
Insurance contracts issued						
Annuities						
Insurance contract balances	–	74,061	–	77,944	–	73,686
Assets for insurance contract acquisition cash flows[1]	–	(39)	–	(18)	–	(20)
Protection						
Insurance contract balances	–	4,391	–	4,991	–	4,533
Assets for insurance contract acquisition cash flows[1]	–	(35)	–	(25)	–	(28)
Total insurance contracts issued	–	78,378	–	82,892	–	78,171
Reinsurance contracts held						
Annuities						
Reinsurance contracts balances	3,174	13	1,376	4	2,467	–
Assets for insurance contract acquisition cash flows[1]	8	–	2	–	5	–
Protection						
Reinsurance contracts balances	2,216	125	2,591	9	2,213	52
Assets for insurance contract acquisition cash flows[1]	–	–	–	–	–	–
Total reinsurance contracts held	5,398	138	3,969	13	4,685	52

1. In accordance with IFRS 17, assets for insurance and reinsurance acquisition cash flows are presented within the carrying amount of the related insurance and reinsurance contract liabilities.

4.14 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	30 Jun 2023	30 Jun 2022	31 Dec 2022
United States dollar	**1.27**	1.22	1.21
Euro	**1.16**	1.16	1.13

Average exchange rates	6 months 2023	6 months 2022	Full year 2022
United States dollar	**1.23**	1.30	1.24
Euro	**1.14**	1.19	1.17

4.15 Provisions

(i) Analysis of provisions

	Notes	30 Jun 2023 £m	30 Jun 2022 £m	31 Dec 2022 £m
Other provisions	4.15(ii)	**210**	182	273
Retirement benefit obligations	4.15(iii)	**1,416**	599	617
Total provisions		**1,626**	781	890

(ii) Other provisions

Included within Other provisions are amounts relating to new and existing M&A and restructuring transactions. These include costs that Legal & General Investment Management (LGIM) is committed to incur on the extension of its existing partnership with State Street announced in 2021, to increase the use of Charles River technology across the front office and to deliver middle office services going forward. Costs include the transfer of data and operations to State Street, as well as the implementation of the new operating model. The amounts included in the provision have been determined on a best estimate basis by reference to a range of plausible scenarios, taking into account the multi-year implementation period for the project. As at 30 June 2023, the outstanding provision was £75m (30 June 2022: £69m; 31 December 2022: £111m).

(iii) Retirement benefit obligations

	Fund and Scheme 30 Jun 2023 £m	CALA Homes and Overseas 30 Jun 2023 £m	Fund and Scheme 30 Jun 2022 £m	CALA Homes and Overseas 30 Jun 2022 £m	Fund and Scheme 31 Dec 2022 £m	CALA Homes and Overseas 31 Dec 2022 £m
Gross pension obligations included in provisions	**1,411**	**5**	594	5	612	5
Annuity obligations insured by LGAS	**(1,420)**	**–**	(769)	–	(718)	–
Gross defined benefit pension (surplus)/deficit	**(9)**	**5**	(175)	5	(106)	5
Deferred tax on defined benefit pension (surplus)/deficit	**2**	**(1)**	44	(1)	27	(1)
Net defined benefit pension (surplus)/deficit	**(7)**	**4**	(131)	4	(79)	4

The Legal & General Group UK Pension and Assurance Fund (Fund) and the Legal & General Group UK Senior Pension Scheme (Scheme) account for the majority of the UK and worldwide assets of, and contributions to, such arrangements. The Fund and Scheme were closed to future accrual on 31 December 2015.

Assured Payment Policies (APPs), previously transacted between the group's defined benefit pension schemes and Legal and General Assurance Society Limited (LGAS), have now been surrendered and converted to annuity contracts. Unlike APPs, these annuity contracts are not admissible as assets of the schemes, and both the gross pension obligation and obligations insured by LGAS have increased accordingly.

4.16 Contingent liabilities, guarantees and indemnities

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

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

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

4.17 Related party transactions

(i) Key management personnel transactions and compensation

All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. There were no material transactions between key management and the Legal & General group of companies during the period. Contributions to the post-employment defined benefit plans were £128m (30 June 2022: £51m; 31 December 2022: £105m) for all employees.

At 30 June 2023, 30 June 2022 and 31 December 2022 there were no loans outstanding to officers of the company.

The aggregate compensation for key management personnel, including executive and non-executive directors, is as follows:

	6 months 2023 £m	6 months 2022 £m	Full year 2022 £m
Salaries	**4**	3	11
Share-based incentive awards	**7**	5	6
Key management personnel compensation	**11**	8	17

(ii) Services provided to and by related parties

All transactions between the group and associates, joint ventures and other related parties during the period are on commercial terms which are no more favourable than those available to companies in general.

The group has the following material related party transactions:

- Assured Payment Policies (APPs), previously transacted between the group's UK defined benefit pension schemes and Legal and General Assurance Society Limited (LGAS), were surrendered at their carrying value of £839m and converted into annuity contracts. An additional top-up consideration of £178m, priced on an arm's length basis, was paid to LGAS by the defined benefit pension schemes as part of the transaction, making a total contribution for new annuities of £1,017m (30 June 2022: £nil; 31 December 2022: £61m); and

- Total payments by LGAS to the pension schemes for insured pension benefits were £25m (30 June 2022: £29m; 31 December 2022: £56m).

Loans and commitments to related parties are made in the normal course of business. As at 30 June 2023, the group had:

- Loans outstanding from related parties of £46m (30 June 2022: £20m; 31 December 2022: £58m), with a further commitment of £5m; and

- Total other commitments of £1,232m to related parties (30 June 2022: £1,061m; 31 December 2022: £1,265m), of which £1,048m has been drawn (30 June 2022: £736m; 31 December 2022: £1,010m).

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Asset flows and new business

5.01 LGIM total assets under management[1] (AUM)

For the six month period to 30 June 2023	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2023	**444.7**	**156.8**	**73.9**	**485.9**	**34.4**	**1,195.7**
External inflows[3]	37.6	8.8	5.5	13.6	0.8	66.3
External outflows[3]	(35.1)	(9.2)	(3.4)	(10.6)	(1.0)	(59.3)
Overlay net flows	–	–	–	(19.3)	–	(19.3)
External net flows[4]	**2.5**	**(0.4)**	**2.1**	**(16.3)**	**(0.2)**	**(12.3)**
PRT transfers[5]	(0.3)	(0.3)	–	(4.5)	–	(5.1)
Internal net flows[6]	(0.5)	(3.1)	(0.1)	0.1	1.7	(1.9)
Total net flows	**1.7**	**(3.8)**	**2.0**	**(20.7)**	**1.5**	**(19.3)**
Market movements	24.4	2.6	1.1	(32.4)	(0.3)	(4.6)
Other movements[7]	(0.8)	(1.7)	–	(11.2)	–	(13.7)
As at 30 June 2023	**470.0**	**153.9**	**77.0**	**421.6**	**35.6**	**1,158.1**
Assets attributable to:						
External						1,068.6
Internal						89.5

For the six month period to 30 June 2022	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2022	502.4	198.8	78.0	605.1	37.2	1,421.5
External inflows[3]	63.2	7.0	6.8	21.3	1.4	99.7
External outflows[3]	(38.2)	(4.2)	(3.7)	(12.5)	(1.1)	(59.7)
Overlay net flows	–	–	–	25.6	–	25.6
External net flows[4]	25.0	2.8	3.1	34.4	0.3	65.6
PRT transfers[5]	–	–	–	(0.4)	–	(0.4)
Internal net flows[6]	(0.4)	0.2	–	(0.7)	0.4	(0.5)
Total net flows	24.6	3.0	3.1	33.3	0.7	64.7
Market movements	(57.8)	(25.2)	(8.0)	(102.4)	(1.9)	(195.3)
Other movements[7]	0.4	1.6	–	(3.2)	–	(1.2)
As at 30 June 2022	469.6	178.2	73.1	532.8	36.0	1,289.7
Assets attributable to:						
External						1,190.7
Internal						99.0

1. Assets under management (AUM) includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £285.3bn (30 June 2022: £386.9bn) of derivative notionals associated with the Solutions business.
3. External inflows and outflows include £2.1bn (30 June 2022: £2.3bn) of external investments and £1.1bn (30 June 2022: £2.0bn) of redemptions in the ETF business.
4. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 30 June 2023 was £62.3bn (30 June 2022: £68.8bn).
5. PRT transfers represent the reduction in AUM associated with UK defined benefit pension schemes that transacted PRT business with LGRI in the reporting period.
6. Internal net flows include flows associated with legacy Mature Savings business that were sold to Reassure in 2020.
7. Other movements include movements of external holdings in money market funds, other cash mandates and short-term solutions assets.

Asset flows and new business

5.01 LGIM total assets under management[1] (AUM) (continued)

For the year ended 31 December 2022	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2022	502.4	198.8	78.0	605.1	37.2	1,421.5
External inflows[3]	95.8	16.0	13.5	90.0	2.5	217.8
External outflows[3]	(102.6)	(23.5)	(9.3)	(27.2)	(2.1)	(164.7)
Overlay net flows	–	–	–	(3.5)	–	(3.5)
External net flows[4]	(6.8)	(7.5)	4.2	59.3	0.4	49.6
PRT transfers[5]	(0.2)	(0.4)	–	(2.5)	–	(3.1)
Internal net flows[6]	(1.1)	(0.4)	(0.2)	(1.2)	3.0	0.1
Total net flows	(8.1)	(8.3)	4.0	55.6	3.4	46.6
Market movements	(50.2)	(33.1)	(8.1)	(173.9)	(6.2)	(271.5)
Other movements[7]	0.6	(0.6)	–	(0.9)	–	(0.9)
As at 31 December 2022	444.7	156.8	73.9	485.9	34.4	1,195.7
Assets attributable to:						
External						1,103.4
Internal						92.3

1. Assets under management (AUM) includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £336.6bn of derivative notionals associated with the Solutions business.
3. External inflows and outflows include £3.9bn of external investments and £3.3bn of redemptions in the ETF business.
4. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2022 was £69.1bn.
5. PRT transfers represent the reduction in AUM associated with UK defined benefit pension schemes that transacted PRT business with LGRI in the reporting period.
6. Internal net flows include flows associated with legacy Mature Savings business that were sold to Reassure in 2020.
7. Other movements include movements of external holdings in money market funds, other cash mandates and short-term solutions assets.

Asset flows and new business

5.02 LGIM total external assets under management and net flows

	Assets under management at			Net flows for the six months ended[1]		
	30 Jun 2023 £bn	30 Jun 2022 £bn	31 Dec 2022 £bn	**30 Jun 2023 £bn**	30 Jun 2022 £bn	31 Dec 2022 £bn
International[2]	**371.8**	377.0	363.6	**(2.7)**	34.5	(13.1)
UK Institutional						
- Defined contribution	**146.1**	129.7	135.2	**5.5**	7.0	4.6
- Defined benefit	**489.6**	630.1	547.8	**(17.3)**	22.4	(10.0)
Wholesale[3]	**51.2**	45.5	48.3	**1.3**	1.4	2.2
ETF[4]	**9.9**	8.4	8.5	**0.9**	0.3	0.3
Total external	**1,068.6**	1,190.7	1,103.4	**(12.3)**	65.6	(16.0)

1. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability.
2. International assets are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £457bn as at 30 June 2023 (30 June 2022: £468bn; 31 December 2022: £441bn).
3. Wholesale represents assets from the Retail Intermediary business and £0.3bn of assets from Personal Investing customers that did not migrate to Fidelity International Limited.
4. ETF reflects external AUM and Flows invested on the platform. Total AUM managed on the platform is £11.7bn ($14.9bn) in H1 23 (H1 22: £9.9bn ($12.0bn); FY 22: £10.2bn ($12.3bn)) and Flows of £1.0bn ($1.3bn) in H1 23 (H1 22: £0.6bn ($0.8bn); FY 22: £1.0bn ($1.3bn)) which include internal investment from other LGIM asset classes.

5.03 Reconciliation of assets under management to Consolidated Balance Sheet

	30 Jun 2023 £bn	Restated 30 Jun 2022 £bn	Restated 31 Dec 2022 £bn
Assets under management[1]	**1,158**	1,290	1,196
Derivative notionals[2]	**(285)**	(387)	(337)
Third party assets[3]	**(446)**	(429)	(412)
Other[4]	**52**	24	45
Total financial investments, investment property and cash and cash equivalents	**479**	498	492

1. These balances are unaudited.
2. Derivative notionals are included in the assets under management measure but are not for IFRS reporting and are thus removed.
3. Third party assets are those that LGIM manage on behalf of others which are not included on the group's Consolidated Balance Sheet.
4. Other includes assets that are managed by third parties on behalf of the group, other assets and liabilities related to financial investments, derivative assets and pooled funds. It also includes measurement differences between assets under management, which are on a market value basis, and total investments on an IFRS basis.

Asset flows and new business

5.04 Assets under administration

	Workplace[1] 30 Jun 2023 £bn	Annuities[2] 30 Jun 2023 £bn	Workplace[1] 30 Jun 2022 £bn	Annuities[2] 30 Jun 2022 £bn	Workplace[1] 31 Dec 2022 £bn	Annuities[2] 31 Dec 2022 £bn
As at 1 January	**66.6**	**72.4**	65.7	89.9	65.7	89.9
Gross inflows	**4.9**	**5.5**	6.1	5.0	10.7	10.7
Gross outflows	**(1.9)**	**–**	(1.8)	–	(3.4)	–
Payments to pensioners	**–**	**(3.6)**	–	(2.4)	–	(5.0)
Net flows	**3.0**	**1.9**	4.3	2.6	7.3	5.7
Market and other movements	**2.1**	**(1.7)**	(6.9)	(13.7)	(6.4)	(23.2)
As at 30 June	**71.7**	**72.6**	63.1	78.8	66.6	72.4

1. Workplace assets under administration as at 30 June 2023 includes £71.5bn (30 June 2022: £63.0bn; 31 December 2022: £66.4bn) of assets under management included in Note 5.01.
2. Annuities assets under administration as at 30 June 2023 includes £63.3bn (30 June 2022: £69.9bn; 31 December 2022: £63.8bn) of assets under management included in Note 5.01.

5.05 LGRI new business

	6 months 30 Jun 2023 £m	6 months 30 Jun 2022 £m	6 months 31 Dec 2022 £m	Full year 31 Dec 2022 £m
UK[1,2]	**4,866**	3,715	3,604	7,319
US	**126**	593	1,170	1,763
Bermuda	**–**	141	318	459
Total LGRI new business	**4,992**	4,449	5,092	9,541

1. UK includes £nil (H1 22: £nil; H2 22: £93m) of Assured Payment Policies (APPs).
2. UK includes a transaction with the group's UK defined benefit pension schemes as disclosed in Note 4.17 Related party transactions.

5.06 Retail new business

	6 months 30 Jun 2023 £m	6 months 30 Jun 2022 £m	6 months 31 Dec 2022 £m	Full year 31 Dec 2022 £m
Individual annuities	**575**	453	501	954
Lifetime mortgage loans and retirement interest only mortgages	**163**	338	294	632
Total Retail Retirement new business	**738**	791	795	1,586
UK Retail protection	**76**	85	86	171
UK Group protection	**53**	63	44	107
US protection[1]	**70**	48	56	104
Total Insurance new business	**199**	196	186	382
Total Retail new business	**937**	987	981	1,968

1. In local currency, US protection reflects new business of $87m for 2023 (H1 22: $62m; H2 22: $67m).

Capital

6.01 Group regulatory capital – Solvency II

The group complies with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) in the UK and measures and monitors its capital resources on this basis.

The Solvency II results are estimated and unaudited. Further explanation of the underlying methodology and assumptions are set out in the sections below.

The group calculates its Solvency II capital requirements using a Partial Internal Model. The vast majority of the risk to which the group is exposed is assessed on the Partial Internal Model basis approved by the PRA. Capital requirements for a few smaller entities are assessed using the Standard Formula basis on materiality grounds. The group's US insurance businesses and Legal & General Reinsurance Company No. 2 are valued on a local statutory basis, following the PRA's approval to use the Deduction and Aggregation method of including these businesses in the group solvency II calculation.

The table below shows the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) as at 30 June 2023.

(i) Capital position

As at 30 June 2023, and on the above basis, the group had a surplus of £9,161m (31 December 2022: £9,915m) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio of 230% (31 December 2022: 236%). The Solvency II capital position is as follows:

	30 Jun 2023 £m	31 Dec 2022 £m
Unrestricted Tier 1 Own Funds	**12,631**	13,393
Restricted Tier 1 Own Funds[1]	**495**	495
Tier 2 Subordinated liabilities	**3,304**	3,448
Eligibility restrictions	**(233)**	(110)
Solvency II Own Funds[2,3]	**16,197**	17,226
Solvency Capital Requirement	**(7,036)**	(7,311)
Solvency II surplus	**9,161**	9,915
SCR Coverage ratio	**230%**	236%

1. Restricted Tier 1 Own Funds represent Perpetual restricted Tier 1 contingent convertible notes.
2. Solvency II Own Funds do not include an accrual for the interim dividend of £340m (31 December 2022: £829m) declared after the balance sheet date.
3. Solvency II Own Funds allow for a Risk Margin of £2,729m (2022: £2,753m) and TMTP of £1,901m (2022: £2,136m).

6.01 Group regulatory capital – Solvency II (continued)
(ii) Methodology and assumptions

The methodology, assumptions and Partial Internal Model underlying the calculation of Solvency II Own Funds and associated capital requirements are broadly consistent with those set out in the group's 2022 Annual Report and Accounts and Full Year Results.

Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any margins for prudence. Future investment returns and discount rates are those defined by the PRA, using risk-free rates based on SONIA market swap rates for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 30 June 2023 the Matching Adjustment for UK GBP denominated liabilities was 144 basis points (31 December 2022: 141 basis points) after deducting an allowance for the fundamental spread equivalent to 56 basis points (31 December 2022: 55 basis points).

(iii) Analysis of change

Operational Surplus Generation is the expected surplus generated from the assets and liabilities in-force at the start of the year. It is based on assumed real world returns and best estimate non-market assumptions. It includes the impact of management actions to the extent that, at the start of the year, these were reasonably expected to be implemented over the period.

New Business Strain is the cost of acquiring business and setting up Technical Provisions and SCR (net of any premium income), on actual new business written over the period. It is based on economic conditions at the point of sale.

The table below shows the movement (net of tax) during the six month period ended 30 June 2023 in the group's Solvency II surplus.

	6 months 30 Jun 2023 Own Funds £m	6 months 30 Jun 2023 SCR £m	6 months 30 Jun 2023 Surplus £m
Opening Position	**17,226**	**(7,311)**	**9,915**
Operational Surplus Generation[1]	**835**	**112**	**947**
New business strain	**188**	**(383)**	**(195)**
Net surplus generation	**1,023**	**(271)**	**752**
Operating variances[2]			**(543)**
Mergers, acquisitions and disposals[3]			**(150)**
Market movements[4]			**18**
Dividends paid[5]			**(831)**
Total surplus movement (after dividends paid in the period)	**(1,029)**	**275**	**(754)**
Closing Position	**16,197**	**(7,036)**	**9,161**

1. Operational Surplus Generation includes a £104m release of Risk Margin and £(103)m amortisation of the TMTP.
2. Operating variances include the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix. The net impact of operating variances over the period was negative and predominantly reflects timing differences which we expect to reverse in H2.
3. Mergers, acquisitions and disposals for the 6 months ended 30 June 2023 includes costs incurred relating to the announced intent to cease production within the Modular Homes business and impairment of the group's investment in Onto, along with the associated change in SCR.
4. Market movements represent the impact of changes in investment market conditions during the period and changes to future economic assumptions. The movement during the period primarily reflects the impact of rising rates on the valuation of the balance sheet, partially offset by a number of other, smaller variances.
5. Dividends paid are the amounts from the 2022 final dividend paid in H1 2023.

6.01 Group regulatory capital – Solvency II (continued)

(iii) Analysis of change (continued)

The table below shows the movement (net of tax) during the year ended 31 December 2022 in the group's Solvency II surplus.

	Full year 31 Dec 2022 Own Funds £m	Full year 31 Dec 2022 SCR £m	Full year 31 Dec 2022 Surplus £m
Opening Position	17,561	(9,376)	8,185
Operational Surplus Generation[1]	1,409	396	1,805
New business strain	333	(685)	(352)
Net surplus generation	1,742	(289)	1,453
Operating variances[2]			(327)
Mergers, acquisitions and disposals			–
Market movements[3]			1,720
Dividends paid[4]			(1,116)
Total surplus movement (after dividends paid in the period)	(335)	2,065	1,730
Closing Position	17,226	(7,311)	9,915

1. Operational Surplus Generation includes a £358m release of Risk Margin and £(342)m amortisation of the TMTP.
2. Operating variances include the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix.
3. Market movements represent the impact of changes in investment market conditions over the year and changes to future economic assumptions.
4. Dividends paid are the amounts from the 2021 final dividend and the 2022 interim dividend.

(iv) Reconciliation of IFRS equity to Solvency II Own Funds

A reconciliation of the group's IFRS equity to Solvency II Own Funds is given below:

	30 Jun 2023 £m	Restated 31 Dec 2022 £m
IFRS equity[1]	**5,088**	5,607
CSM net of tax	**9,812**	9,766
IFRS equity plus CSM net of tax	**14,900**	15,373
Remove DAC, goodwill and other intangible assets and associated liabilities	**(502)**	(502)
Add IFRS carrying value of subordinated borrowings[2]	**3,769**	3,823
Insurance contract valuation differences[3]	**(1,793)**	(1,668)
Difference in value of net deferred tax liabilities	**74**	335
Other	**(18)**	(25)
Eligibility restrictions	**(233)**	(110)
Solvency II Own Funds[4]	**16,197**	17,226

1. IFRS equity represents equity attributable to owners of the parent and restricted Tier 1 convertible debt note as per the Consolidated Balance Sheet.
2. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
3. Differences in the measurement of technical provisions between IFRS and Solvency II.
4. Solvency II Own Funds do not include an accrual for the interim dividend of £340m (31 December 2022: £829m) declared after the balance sheet date.

6.01 Group regulatory capital – Solvency II (continued)
(v) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 30 June 2023 would have changed in a variety of adverse 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 larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus 30 Jun 2023 £bn	**Impact on net of tax Solvency II coverage ratio 30 Jun 2023 %**	Impact on net of tax Solvency II capital surplus 31 Dec 2022 £bn	Impact on net of tax Solvency II coverage ratio 31 Dec 2022 %
100bps increase in risk-free rates[1]	**0.3**	**15**	0.5	18
100bps decrease in risk-free rates[1,2]	**(0.4)**	**(16)**	(0.6)	(19)
Credit spreads widen by 100bps assuming an escalating addition to ratings[3,4]	**0.4**	**13**	0.3	13
Credit spreads narrow by 100bps assuming an escalating deduction from ratings[3,4]	**(0.6)**	**(17)**	(0.4)	(16)
Credit spreads widen by 100bps assuming a flat addition to ratings[3]	**0.4**	**14**	0.3	14
Credit spreads of sub investment grade assets widen by 100bps assuming a level addition to ratings[3,5]	**(0.2)**	**(7)**	(0.3)	(7)
Credit migration[6]	**(0.7)**	**(10)**	(0.8)	(10)
25% fall in equity markets[7]	**(0.4)**	**(3)**	(0.4)	(3)
15% fall in property markets[8]	**(0.9)**	**(11)**	(0.9)	(11)
50bps increase in future inflation expectations	**(0.1)**	**(4)**	(0.1)	(3)
Substantially reduced Risk Margin[9]	**0.6**	**8**	0.5	7

1. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
2. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
3. 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.
4. 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.
5. 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 smaller than 1bps as the group holds less than 1% 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.
6. 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 in our annuities portfolio 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.
7. 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.
8. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
9. Assuming a 2/3 reduction in the Risk Margin, allowing for offset from an equivalent reduction in the Transitional Measure on Technical Provisions.

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. Other than in the interest rate and inflation stresses, we have not allowed for the recalculation of TMTP. Allowance is made for the recalculation of the Loss Absorbing Capacity of Deferred Tax for all stresses, assuming full capacity remains available post stress.

The impacts of these stresses are not linear therefore these results should not be used to interpolate or 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 would be different if performed at an alternative reporting date.

6.02 Estimated Solvency II new business contribution

(i) New business by product[1]

Management estimates of the present value of new business premium (PVNBP) and the margin for selected lines of business are provided below:

	PVNBP[2] 6 months 2023 £m	Contribution from new business[3] 6 months 2023 £m	Margin[4] 6 months 2023 %	PVNBP[2] Full year 2022 £m	Contribution from new business[3] Full year 2022 £m	Margin[4] Full year 2022 %
LGRI - UK annuity business[5]	**4,050**	**326**	**8.0**	6,484	575	8.9
Retail Retirement - UK annuity business	**575**	**34**	**5.9**	954	60	6.3
UK Protection Total	**621**	**17**	**2.8**	1,512	82	5.4
US Protection[6]	**605**	**68**	**11.2**	796	84	10.6

1. Selected lines of business only.
2. PVNBP excludes a quota share reinsurance single premium of £816m (31 December 2022: £835m) relating to LGRI new business.
3. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the year using the risk discount rate applicable at the end of the year.
4. Margin is based on unrounded inputs.
5. LGRI UK annuity business includes a transaction with the group's UK defined benefit pension schemes as disclosed in Note 4.17 Related party transactions.
6. In local currency, US protection business reflects PVNBP of $748m (31 December 2022: $985m) and a contribution from new business of $84m (31 December 2022: $104m).

(ii) Basis of preparation

Solvency II new business contribution reflects the portion of Solvency II value added by new business written in the period. It has been calculated in a manner consistent with principles and methodologies which were adopted in the group's 2022 Annual Report and Accounts and Full Year Results.

Solvency II new business contribution has been calculated for the group's most material insurance-related businesses, namely, LGRI, Retail Retirement and Insurance.

Intra-group reinsurance arrangements are in place between US, UK and Bermudan businesses and it is expected that these arrangements will be periodically extended to cover recent new business. The US protection new business margin assumes that the new business will continue to be reinsured in 2023 and looks through the intra-group arrangements.

6.02 Estimated Solvency II new business contribution (continued)

(iii) Assumptions

The key economic assumptions are as follows:

	30 Jun 2023 %	31 Dec 2022 %
Margin for Risk	**4.1**	4.4
Risk-free rate		
- UK	**3.9**	3.6
- US	**3.8**	3.9
Risk discount rate (net of tax)		
- UK	**8.0**	8.0
- US	**7.9**	8.3
Long-term rate of return on annuities	**5.5**	5.7

The future earnings are discounted using duration-based discount rates, which is the sum of a duration-based risk-free rate and a flat margin for risk. The risk-free rates have been based on a swap curve net of the PRA-specified Credit Risk Adjustment. The risk-free rate shown above is a weighted average based on the projected cash flows.

Other than updating for recent experience, all other economic and non-economic assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from those previously used by the group for its European Embedded Value reporting, other than the cost of currency hedging which has been updated to reflect current market conditions and hedging activity in light of Solvency II. In particular:

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2023 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 20 basis points.

- Non-economic assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding development costs). An allowance is made for future mortality improvement. For new business, mortality assumptions may be modified to take certain scheme specific features into account.

The profits on the new business are presented gross of tax.

(iv) Reconciliation of PVNBP to total LGRI and Retail new business

	Notes	6 months 2023 £bn	Full year 2022 £bn
PVNBP	6.02 (i)	**5.9**	9.7
Effect of capitalisation factor		**(1.1)**	(1.5)
New business premiums from selected lines		**4.8**	8.2
Other[1]		**1.1**	3.3
Total LGRI and Retail new business	5.05, 5.06	**5.9**	11.5

1. Other principally includes annuity sales in the US, lifetime mortgage loans and retirement interest only mortgages, and quota share reinsurance premiums.

Investments

7.01 Investment portfolio

	30 Jun 2023 £m	Restated 30 Jun 2022 £m	Restated 31 Dec 2022 £m
Worldwide total assets under management[1]	**1,165,186**	1,295,640	1,202,676
Client and policyholder assets	**(1,034,454)**	(1,175,344)	(1,073,126)
Investments to which shareholders are directly exposed (market value)	**130,732**	120,296	129,550
Adjustment from market value to IFRS carrying value[2]	**1,245**	478	1,083
Investments to which shareholders are directly exposed (IFRS carrying value)	**131,977**	120,774	130,633

1. Worldwide total assets under management include LGIM AUM and other group assets not managed by LGIM.
2. Adjustments reflect measurement differences for a portion of the group's financial investments designated as amortised cost.

Analysed by investment class:

	Notes	Annuity[1] investments 30 Jun 2023 £m	LGC[2] investments 30 Jun 2023 £m	Other shareholder investments 30 Jun 2023 £m	Total 30 Jun 2023 £m	Restated Total 30 Jun 2022 £m	Restated Total 31 Dec 2022 £m
Equities		**112**	**2,557**	**408**	**3,077**	3,492	3,071
Bonds	7.03	**69,361**	**1,354**	**2,648**	**73,363**	77,321	71,773
Derivative assets[3]		**42,033**	**274**	**–**	**42,307**	25,071	41,978
Property	7.04	**5,123**	**639**	**–**	**5,762**	6,156	5,644
Loans[4]		**1,727**	**287**	**40**	**2,054**	1,773	1,073
Financial investments		**118,356**	**5,111**	**3,096**	**126,563**	113,813	123,539
Cash and cash equivalents		**1,622**	**1,051**	**641**	**3,314**	4,973	4,834
Other assets[5]		**157**	**1,931**	**12**	**2,100**	1,988	2,260
Total investments		**120,135**	**8,093**	**3,749**	**131,977**	120,774	130,633

1. Annuity investments includes products held within the LGRI and Retail Retirement annuity portfolios, and includes lifetime mortgage loans & retirement interest only mortgages.
2. LGC investments includes £89m (30 June 2022: £Nil; 31 December 2022: £95m) of Legal & General Reinsurance Company Limited's assets managed by LGC, along with £169m (30 June 2022: £60m; 31 December 2022: £122m) of bonds and equities that belong to other shareholder funds.
3. Derivative assets are shown gross of derivative liabilities of £46.0bn (30 June 2022: £28.4bn; 31 December 2022: £46.1bn). Exposures arise from use of derivatives for efficient portfolio management, particularly the use of interest rate swaps, inflation swaps, currency swaps and foreign exchange forward contracts for assets and liability management.
4. Loans include reverse repurchase agreements of £2,049m (30 June 2022: £1,701m; 31 December 2022: £1,072m).
5. Other assets include finance leases of £157m (30 June 2022: £85m; 31 December 2022: £110m), associates and joint ventures of £553m (30 June 2022: £387m; 31 December 2022: £554m) and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

Investments

7.02 Direct investments

(i) Total investments analysed by asset class

	Direct[1] investments 30 Jun 2023 £m	**Traded[2] securities 30 Jun 2023 £m**	**Total 30 Jun 2023 £m**	Restated Direct[1] investments 30 Jun 2022 £m	Restated Traded[2] securities 30 Jun 2022 £m	Restated Total 30 Jun 2022 £m	Restated Direct[1] investments 31 Dec 2022 £m	Restated Traded[2] securities 31 Dec 2022 £m	Restated Total 31 Dec 2022 £m
Equities	**1,782**	**1,295**	**3,077**	1,431	2,061	3,492	1,704	1,367	3,071
Bonds[3]	**24,596**	**48,767**	**73,363**	22,280	55,041	77,321	23,171	48,602	71,773
Derivative assets	**–**	**42,307**	**42,307**	–	25,071	25,071	–	41,978	41,978
Property[4]	**5,762**	**–**	**5,762**	6,156	–	6,156	5,644	–	5,644
Loans	**4**	**2,050**	**2,054**	71	1,702	1,773	–	1,073	1,073
Financial investments	**32,144**	**94,419**	**126,563**	29,938	83,875	113,813	30,519	93,020	123,539
Cash and cash equivalents	**213**	**3,101**	**3,314**	116	4,857	4,973	56	4,778	4,834
Other assets	**2,100**	**–**	**2,100**	1,988	–	1,988	2,260	–	2,260
Total investments	**34,457**	**97,520**	**131,977**	32,042	88,732	120,774	32,835	97,798	130,633

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but excluded hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a direct investment, then it is classed as a traded security.
3. Bonds include lifetime mortgage loans of £4,937m (30 June 2022: £5,758m; 31 December 2022: £4,844m).
4. A further breakdown of property is provided in Note 7.04.

7.02 Direct investments (continued)

(ii) Direct investments analysed by asset portfolio

	Annuity[1] 30 Jun 2023 £m	Shareholder[2] 30 Jun 2023 £m	Insurance[3] 30 Jun 2023 £m	Total 30 Jun 2023 £m
Equities	**54**	**1,491**	**237**	**1,782**
Bonds[4]	**23,224**	**119**	**1,253**	**24,596**
Property	**5,123**	**639**	**–**	**5,762**
Loans	**–**	**4**	**–**	**4**
Financial investments	**28,401**	**2,253**	**1,490**	**32,144**
Other assets, cash and cash equivalents	**157**	**2,136**	**20**	**2,313**
Total direct investments	**28,558**	**4,389**	**1,510**	**34,457**

	Annuity[1] 30 Jun 2022 £m	Shareholder[2] 30 Jun 2022 £m	Insurance[3] 30 Jun 2022 £m	Total 30 Jun 2022 £m
Equities	42	1,192	197	1,431
Bonds[4]	21,014	5	1,261	22,280
Property	5,632	524	–	6,156
Loans	–	71	–	71
Financial investments	26,688	1,792	1,458	29,938
Other assets, cash and cash equivalents	94	2,010	–	2,104
Total direct investments (restated)	26,782	3,802	1,458	32,042

	Annuity[1] 31 Dec 2022 £m	Shareholder[2] 31 Dec 2022 £m	Insurance[3] 31 Dec 2022 £m	Total 31 Dec 2022 £m
Equities	51	1,417	236	1,704
Bonds[4]	21,840	88	1,243	23,171
Property	5,037	607	–	5,644
Loans	–	–	–	–
Financial investments	26,928	2,112	1,479	30,519
Other assets, cash and cash equivalents	110	2,189	17	2,316
Total direct investments (restated)	27,038	4,301	1,496	32,835

1. Annuity includes products held within the LGRI and Retail Retirement annuity portfolios.
2. Shareholder primarily includes the LGC direct investment portfolio and £89m (30 June 2022: £Nil; 31 December 2022: £95m) of Legal & General Reinsurance Company Limited's assets managed by LGC, along with £169m (30 June 2022: £60m; 31 December 2022: £122m) of bonds and equities that belong to other shareholder funds.
3. Insurance primarily includes assets backing the group's US protection business.
4. Bonds include lifetime mortgage loans of £4,937m (30 June 2022: £5,758m; 31 December 2022: £4,844m).

Investments

7.03 Bond portfolio summary
(i) Sectors analysed by credit rating

As at 30 June 2023	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	908	6,259	857	101	2	2	8,129	11
Banks:								
- Tier 1	–	–	–	–	–	1	1	–
- Tier 2 and other subordinated	–	95	93	59	1	–	248	–
- Senior	–	1,488	2,995	820	–	–	5,303	7
- Covered	79	–	–	–	–	–	79	–
Financial Services:								
- Tier 2 and other subordinated	–	449	160	22	7	4	642	1
- Senior	139	235	610	714	–	–	1,698	3
Insurance:								
- Tier 2 and other subordinated	56	124	23	40	1	–	244	1
- Senior	9	183	294	393	–	–	879	1
Consumer Services and Goods:								
- Cyclical	–	13	1,321	1,669	35	20	3,058	4
- Non-cyclical	293	836	2,988	3,075	78	–	7,270	10
- Healthcare	12	733	933	734	3	–	2,415	3
Infrastructure:								
- Social	167	867	3,974	1,104	67	–	6,179	9
- Economic	264	148	967	3,758	59	–	5,196	7
Technology and Telecoms	121	331	1,382	2,610	12	3	4,459	6
Industrials	–	58	664	668	24	–	1,414	2
Utilities	547	660	4,546	4,612	17	–	10,382	14
Energy	–	13	370	916	32	–	1,331	2
Commodities	–	–	329	582	24	20	955	1
Oil and Gas	–	500	673	316	14	60	1,563	2
Real estate	–	20	2,171	2,066	31	–	4,288	6
Structured finance ABS / RMBS / CMBS / Other	565	912	538	575	45	8	2,643	3
Lifetime mortgage loans[1]	3,235	887	449	353	–	13	4,937	7
CDOs	–	40	–	10	–	–	50	–
Total £m	6,395	14,851	26,337	25,197	452	131	73,363	100
Total %	9	20	36	34	1	–	100	

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by investments backing LGRI's and Retail Retirement's annuity business. These account for £69,374m, representing 95% of the total group portfolio.

Investments

7.03 Bond portfolio summary (continued)
(i) Sectors analysed by credit rating (continued)

As at 30 June 2022 (Restated)	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	1,696	8,059	1,184	292	11	1	11,243	15
Banks:								
- Tier 1	–	–	–	–	–	–	–	–
- Tier 2 and other subordinated	–	–	68	52	3	1	124	–
- Senior	–	1,334	2,336	941	1	–	4,612	6
- Covered	120	–	–	–	–	–	120	–
Financial Services:								
- Tier 2 and other subordinated	–	118	50	32	–	17	217	–
- Senior	51	315	439	368	–	–	1,173	2
Insurance:								
- Tier 2 and other subordinated	59	175	32	51	–	–	317	–
- Senior	5	166	416	462	–	–	1,049	1
Consumer Services and Goods:								
- Cyclical	–	39	1,361	1,877	159	3	3,439	4
- Non-cyclical	323	886	2,536	3,733	247	–	7,725	10
- Healthcare	–	612	808	761	4	–	2,185	3
Infrastructure:								
- Social	184	895	3,750	927	79	–	5,835	8
- Economic	296	173	894	3,862	180	–	5,405	7
Technology and Telecoms	141	325	1,546	2,801	20	1	4,834	6
Industrials	–	52	613	660	29	–	1,354	2
Utilities	386	628	4,735	5,537	28	–	11,314	15
Energy	–	–	347	765	16	–	1,128	1
Commodities	–	–	337	781	25	8	1,151	2
Oil and Gas	–	505	873	320	226	24	1,948	3
Real estate	–	23	1,973	1,729	108	–	3,833	5
Structured finance ABS / RMBS / CMBS / Other	539	772	460	695	32	–	2,498	3
Lifetime mortgage loans[1]	3,721	1,146	497	381	–	13	5,758	7
CDOs	–	47	–	12	–	–	59	–
Total £m	7,521	16,270	25,255	27,039	1,168	68	77,321	100
Total %	10	21	33	35	1	–	100	

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by investments backing LGRI's and Retail Retirement's annuity business. These account for £73,692m, representing 95% of the total group portfolio.

7.03 Bond portfolio summary (continued)
(i) Sectors analysed by credit rating (continued)

As at 31 December 2022 (Restated)	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	1,718	5,561	844	111	7	3	8,244	12
Banks:								
- Tier 1	–	–	–	–	–	1	1	–
- Tier 2 and other subordinated	–	–	83	66	3	–	152	–
- Senior	–	1,179	2,300	996	2	–	4,477	6
- Covered	114	–	–	–	–	–	114	–
Financial Services:								
- Tier 2 and other subordinated	32	94	52	20	7	4	209	–
- Senior	49	246	592	561	–	–	1,448	2
Insurance:								
- Tier 2 and other subordinated	53	138	23	53	–	–	267	–
- Senior	6	186	342	407	–	–	941	1
Consumer Services and Goods:								
- Cyclical	–	18	1,129	1,871	161	8	3,187	5
- Non-cyclical	310	830	2,441	3,322	166	–	7,069	10
- Healthcare	–	634	916	754	4	–	2,308	3
Infrastructure:								
- Social	170	808	3,580	1,173	70	–	5,801	8
- Economic	288	151	999	3,606	173	–	5,217	7
Technology and Telecoms	134	365	1,201	2,687	17	1	4,405	6
Industrials	–	60	702	679	23	–	1,464	2
Utilities	531	582	4,699	4,997	27	–	10,836	15
Energy	–	–	351	802	42	–	1,195	2
Commodities	–	–	301	658	25	15	999	1
Oil and Gas	–	483	805	310	67	52	1,717	3
Real estate	–	24	2,004	1,984	91	2	4,105	6
Structured finance ABS / RMBS / CMBS / Other	683	855	566	587	22	8	2,721	4
Lifetime mortgage loans[1]	3,246	824	428	336	–	10	4,844	7
CDOs	–	41	–	11	–	–	52	–
Total £m	7,334	13,079	24,358	25,991	907	104	71,773	100
Total %	10	18	34	36	2	–	100	

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by investments backing LGRI's and Retail Retirement's annuity business. These account for £67,955m, representing 95% of the total group portfolio.

Investments

7.03 Bond portfolio summary (continued)
(ii) Sectors analysed by domicile

As at 30 June 2023	UK £m	US £m	EU £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	**6,127**	**1,283**	**266**	**453**	**8,129**
Banks	**1,521**	**1,979**	**1,021**	**1,110**	**5,631**
Financial Services	**302**	**595**	**1,266**	**177**	**2,340**
Insurance	**61**	**966**	**15**	**81**	**1,123**
Consumer Services and Goods:					
- Cyclical	**335**	**2,155**	**360**	**208**	**3,058**
- Non-cyclical	**1,711**	**4,683**	**346**	**530**	**7,270**
- Healthcare	**278**	**2,078**	**59**	**–**	**2,415**
Infrastructure:					
- Social	**5,269**	**690**	**144**	**76**	**6,179**
- Economic	**3,729**	**840**	**249**	**378**	**5,196**
Technology and Telecoms	**377**	**3,010**	**558**	**514**	**4,459**
Industrials	**194**	**783**	**295**	**142**	**1,414**
Utilities	**5,086**	**3,011**	**1,809**	**476**	**10,382**
Energy	**313**	**715**	**12**	**291**	**1,331**
Commodities	**46**	**402**	**132**	**375**	**955**
Oil and Gas	**248**	**425**	**542**	**348**	**1,563**
Real estate	**1,888**	**1,469**	**618**	**313**	**4,288**
Structured finance ABS / RMBS / CMBS / Other	**678**	**1,497**	**46**	**422**	**2,643**
Lifetime mortgage loans	**4,871**	**–**	**66**	**–**	**4,937**
CDOs	**–**	**–**	**–**	**50**	**50**
Total	**33,034**	**26,581**	**7,804**	**5,944**	**73,363**

Investments

7.03 Bond portfolio summary (continued)
(ii) Sectors analysed by domicile (continued)

As at 30 June 2022 (Restated)	UK £m	US £m	EU £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	7,708	1,774	768	993	11,243
Banks	1,514	1,846	812	684	4,856
Financial Services	349	403	380	258	1,390
Insurance	101	1,131	19	115	1,366
Consumer Services and Goods:					
- Cyclical	473	2,300	395	271	3,439
- Non-cyclical	1,894	5,316	355	160	7,725
- Healthcare	279	1,842	63	1	2,185
Infrastructure:					
- Social	5,104	524	158	49	5,835
- Economic	3,855	881	264	405	5,405
Technology and Telecoms	403	3,080	699	652	4,834
Industrials	189	800	313	52	1,354
Utilities	6,341	2,583	1,877	513	11,314
Energy	327	634	1	166	1,128
Commodities	37	449	151	514	1,151
Oil and Gas	167	567	690	524	1,948
Real estate	2,019	935	573	306	3,833
Structured Finance ABS / RMBS / CMBS / Other	704	1,503	11	280	2,498
Lifetime mortgage loans	5,758	–	–	–	5,758
CDOs	–	–	–	59	59
Total	37,222	26,568	7,529	6,002	77,321

7.03 Bond portfolio summary (continued)
(ii) Sectors analysed by domicile (continued)

As at 31 December 2022 (Restated)	UK £m	US £m	EU £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	5,261	1,754	614	615	8,244
Banks	1,089	1,897	717	1,041	4,744
Financial Services	410	539	520	188	1,657
Insurance	108	1,007	20	73	1,208
Consumer Services and Goods:					
- Cyclical	549	2,132	298	208	3,187
- Non-cyclical	1,830	4,775	296	168	7,069
- Healthcare	257	1,986	64	1	2,308
Infrastructure:					
- Social	4,890	704	150	57	5,801
- Economic	3,756	833	256	372	5,217
Technology and Telecoms	363	2,963	577	502	4,405
Industrials	192	824	292	156	1,464
Utilities	5,656	2,840	1,855	485	10,836
Energy	294	671	13	217	1,195
Commodities	35	415	113	436	999
Oil and Gas	158	508	650	401	1,717
Real estate	2,011	1,228	636	230	4,105
Structured Finance ABS / RMBS / CMBS / Other	641	1,674	44	362	2,721
Lifetime mortgage loans	4,801	–	43	–	4,844
CDOs	–	–	–	52	52
Total	32,301	26,750	7,158	5,564	71,773

7.03 Bond portfolio summary (continued)

(iii) Bond portfolio analysed by credit rating

As at 30 June 2023	Externally rated £m	Internally rated[1] £m	Total £m
AAA	**2,828**	**3,567**	**6,395**
AA	**12,285**	**2,566**	**14,851**
A	**16,753**	**9,584**	**26,337**
BBB	**17,781**	**7,416**	**25,197**
BB or below	**219**	**233**	**452**
Other	**16**	**115**	**131**
Total	**49,882**	**23,481**	**73,363**

As at 30 June 2022 (Restated)	Externally rated £m	Internally rated[1] £m	Total £m
AAA	3,472	4,049	7,521
AA	13,469	2,801	16,270
A	17,268	7,987	25,255
BBB	19,964	7,075	27,039
BB or below	777	391	1,168
Other	19	49	68
Total	54,969	22,352	77,321

As at 31 December 2022 (Restated)	Externally rated £m	Internally rated[1] £m	Total £m
AAA	3,741	3,593	7,334
AA	10,577	2,502	13,079
A	15,883	8,475	24,358
BBB	18,554	7,437	25,991
BB or below	529	378	907
Other	17	87	104
Total	49,301	22,472	71,773

1. Where external ratings are not available an internal rating has been used where practicable to do so.

7.03 Bond portfolio summary (continued)

(iv) Sectors analysed by Direct investments and traded securities

As at 30 June 2023	Direct investments £m	Traded £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	659	7,470	8,129
Banks	829	4,802	5,631
Financial Services	1,737	603	2,340
Insurance	98	1,025	1,123
Consumer Services and Goods:			
- Cyclical	641	2,417	3,058
- Non-cyclical	629	6,641	7,270
- Healthcare	512	1,903	2,415
Infrastructure:			
- Social	3,630	2,549	6,179
- Economic	3,945	1,251	5,196
Technology and Telecoms	213	4,246	4,459
Industrials	125	1,289	1,414
Utilities	1,960	8,422	10,382
Energy	460	871	1,331
Commodities	139	816	955
Oil and Gas	84	1,479	1,563
Real estate	2,857	1,431	4,288
Structured finance ABS / RMBS / CMBS / Other	1,141	1,502	2,643
Lifetime mortgage loans	4,937	–	4,937
CDOs	–	50	50
Total	24,596	48,767	73,363

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7.03 Bond portfolio summary (continued)

(iv) Sectors analysed by Direct investments and traded securities (continued)

As at 30 June 2022 (Restated)	Direct investments £m	Traded £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	770	10,473	11,243
Banks	739	4,117	4,856
Financial Services	515	875	1,390
Insurance	116	1,250	1,366
Consumer Services and Goods:			
- Cyclical	580	2,859	3,439
- Non-cyclical	501	7,224	7,725
- Healthcare	287	1,898	2,185
Infrastructure:			
- Social	3,092	2,743	5,835
- Economic	3,906	1,499	5,405
Technology and Telecoms	192	4,642	4,834
Industrials	100	1,254	1,354
Utilities	1,717	9,597	11,314
Energy	384	744	1,128
Commodities	70	1,081	1,151
Oil and Gas	65	1,883	1,948
Real estate	2,407	1,426	3,833
Structured Finance ABS / RMBS / CMBS / Other	1,081	1,417	2,498
Lifetime mortgage loans	5,758	–	5,758
CDOs	–	59	59
Total	22,280	55,041	77,321

7.03 Bond portfolio summary (continued)
(iv) Sectors analysed by Direct investments and traded securities (continued)

As at 31 December 2022 (Restated)	Direct investments £m	Traded £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	816	7,428	8,244
Banks	787	3,957	4,744
Financial Services	941	716	1,657
Insurance	111	1,097	1,208
Consumer Services and Goods:			
- Cyclical	598	2,589	3,187
- Non-cyclical	637	6,432	7,069
- Healthcare	443	1,865	2,308
Infrastructure:			
- Social	3,300	2,501	5,801
- Economic	3,913	1,304	5,217
Technology and Telecoms	123	4,282	4,405
Industrials	120	1,344	1,464
Utilities	2,012	8,824	10,836
Energy	385	810	1,195
Commodities	67	932	999
Oil and Gas	89	1,628	1,717
Real estate	2,719	1,386	4,105
Structured Finance ABS / RMBS / CMBS / Other	1,266	1,455	2,721
Lifetime mortgage loans	4,844	–	4,844
CDOs	–	52	52
Total	23,171	48,602	71,773

Investments

7.04 Property analysis

Property exposure within Direct investments by status

As at 30 June 2023	Annuity £m	Shareholder[1] £m	Total £m	%
Fully let[2]	**4,566**	**492**	**5,058**	**87**
Development	**557**	**111**	**668**	**12**
Land	**–**	**36**	**36**	**1**
Total	**5,123**	**639**	**5,762**	**100**

As at 30 June 2022	Annuity £m	Shareholder[1] £m	Total £m	%
Fully let[2]	5,190	–	5,190	84
Development	442	403	845	14
Land	–	121	121	2
Total	5,632	524	6,156	100

As at 31 December 2022	Annuity £m	Shareholder[1] £m	Total £m	%
Fully let[2]	4,568	462	5,030	89
Development	469	83	552	10
Land	–	62	62	1
Total	5,037	607	5,644	100

1. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Receivables and other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 30 June 2023, the group held a total of £2,022m (30 June 2022: £2,072m; 31 December 2022: £1,973m) of such assets.
2. £4.4bn (30 June 2022: £5.1bn; 31 December 2022: £4.5bn) fully let property were let to corporate clients, out of which £3.9bn (30 June 2022: £4.9bn; 31 December 2022: £4.0bn) were let to investment grade tenants.

Alternative Performance Measures

An alternative performance measure (APM) is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II. APMs offer investors and stakeholders additional information on the company's performance and the financial effect of 'one-off' events, and the group uses a range of these metrics to enhance understanding of the group's performance. However, APMs should be viewed as complementary to, rather than as a substitute for, the figures determined according to other regulations. The APMs used by the group are listed in this Note, along with their definition/explanation, their closest IFRS or Solvency II measure and, where relevant, the reference to the reconciliations to those measures.

The APMs used by the group may not be the same as, or comparable to, those used by other companies, both in similar and different industries. The calculation of APMs is consistent with previous periods, unless otherwise stated.

APMs derived from IFRS measures

Adjusted operating profit

Adjusted operating profit is an APM that supports the internal performance management and decision making of the group's operating businesses, and accordingly underpins the remuneration outcomes of the executive directors and senior management. The group considers this measure meaningful to stakeholders as it enhances the understanding of the group's operating performance over time by separately identifying non-operating items.

Adjusted operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes caused by changes in market conditions or expectations and exceptional items. Key considerations in relation to the calculation of adjusted operating profit for the group's long-term insurance businesses and shareholder funds are set out below.

Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition and start-up costs, are excluded from adjusted operating profit.

Long-term insurance
Adjusted operating profit reflects longer-term economic assumptions for the group's retirement and insurance businesses. Variances between actual and long-term expected investment return on traded and real assets are excluded from adjusted operating profit, as well as economic assumption changes caused by changes in market conditions or expectations (e.g. credit default and inflation) and any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business. Assets held for future new pension risk transfer business are excluded from the asset portfolio used to determine the discount rate for annuities on insurance contract liabilities. The impact of investment management actions that optimise the yield of the assets backing the back book of annuity contracts is now included within adjusted operating profit.

For the group's long-term insurance businesses, reinsurance mismatches are also excluded from adjusted operating profit. Reinsurance mismatches arise where the reinsurance offset rules in IFRS 17 do not reflect management's view of the net of reinsurance transaction. In particular, during a period of reinsurance renegotiation, reinsurance gains cannot be recognised to offset any inception losses on the underlying contracts where they are recognised before the new reinsurance agreement is signed. In these circumstances, the onerous contract losses are reduced to reflect the net loss (if any) after reinsurance, and future contractual service margin (CSM) amortisation is reduced over the duration of the contracts.

Shareholder funds
Shareholder funds include both the group's traded equity portfolio and certain direct investments for which adjusted operating profit is based on the long-term economic return expected to be generated. For these direct investments, as well as for the group's traded equity portfolio, deviations from such long-term economic return are excluded from adjusted operating profit. Direct investments for which adjusted operating profit is reflected in this way include the following:

- Development assets, predominantly in the specialist commercial real estate and housing sectors within the LGC alternative asset portfolio: these are assets under construction and contracted to either be sold to other parts of the group or for other commercial usage, and on which LGC accepts development risks and expects to realise profits once construction is complete.
- 'Scale-up' investments, predominantly in the alternative finance sector within the LGC alternative asset portfolio as well as the fintech business within Retail: these are investments in early-stage ventures in a fast-growing phase of their life cycle, but which have not yet reached a steady-state level of earnings.

Shareholder funds also includes other direct investments for which adjusted operating profit reflects the IFRS profit before tax. Direct investments for which adjusted operating profit is reflected in this way include the following:

- 'Start-up' investments: these are companies in the beginning stages of their business lifecycle (i.e. typically less than 24 months), which therefore have limited operating history available and typically are in a pre-revenue stage.
- Mature assets: these are companies in their final stages of business lifecycle. They are stable businesses and have sustainable streams of income, but the growth rate in their earnings is expected to remain less pronounced in the future.

Note 2.02 Operating profit reconciles adjusted operating profit with its closest IFRS measure, which is profit before tax attributable to equity holders. Further details on reconciling items between adjusted operating profit and profit before tax attributable to equity holders are presented in Note 2.06 Investment and other variances.

Alternative Performance Measures

Return on Equity (ROE)

ROE measures the return earned by shareholders on shareholder capital retained within the business. It is a measure of performance of the business, which shows how efficiently we are using our financial resources to generate a return for shareholders. ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds (by reference to opening and closing shareholders' funds as provided in the IFRS Consolidated statement of changes in equity for the period). In the current period, ROE was quantified using annualised profit attributable to equity holders of £632m (30 June 2022: £1,150m; 31 December 2022: £846m) and average equity attributable to the owners of the parent of £4,853m (30 June 2022: £5,039m; 31 December 2022: £5,027m), based on an opening balance of £5,112m and a closing balance of £4,593m (30 June 2022: based on an opening balance of £4,941m and a closing balance of £5,137m; 31 December 2022: based on an opening balance of £4,941m and a closing balance of £5,112m).

Assets under Management

Assets under management represent funds which are managed by our fund managers on behalf of investors. It represents the total amount of money investors have trusted with our fund managers to invest across our investment products. AUM include assets which are reported in the group Consolidated Balance Sheet as well as third-party assets that LGIM manage on behalf of others, and assets managed by third parties on behalf of the group.

Note 5.03 Reconciliation of assets under management to Consolidated Balance Sheet reconciles AUM with Total financial investments, investment property and cash and cash equivalents.

Adjusted profit before tax attributable to equity holders

Adjusted profit before tax attributable to equity holders measures the actual distributable earnings before tax attributable to shareholders of the group. It therefore incorporates actual investment returns experienced during the year. Adjusted profit before tax attributable to equity holders is equal to profit before tax attributable to equity holders plus the pre-tax results of discontinued operations.

Note 2.02 Operating profit reconciles adjusted profit before tax attributable to equity holders to profit for the year. In absence of discontinued operations, adjusted profit before tax attributable to equity holders is equal to profit before tax attributable to equity holders.

APMs derived from Solvency II measures

The group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a group level, Legal & General has to comply with the requirements established by the Solvency II Framework Directive, as adopted by the PRA.

Solvency II surplus

Solvency II surplus is the excess of Eligible Own Funds over the Solvency Capital Requirements. It represents the amount of capital available to the group in excess of that required to sustain it in a 1-in-200 year risk event. The group's Solvency II surplus is based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP).

Differences between the Solvency II surplus and its related regulatory basis include the impact of TMTP recalculation when it is not approved by the PRA, incorporating impacts of economic conditions as at the reporting date, and the inclusion of unaudited profits (or losses) of financial firms, which are excluded from regulatory Own Funds. This view of Solvency II is considered to be representative of the shareholder risk exposure and the group's real ability to cover the Solvency Capital Requirement (SCR) with Eligible Own Funds. It also aligns with management's approach to dynamically manage its capital position.

Further details on Solvency II surplus and its calculation are included in Note 6.01 Group regulatory capital – Solvency II. This note also includes a reconciliation between IFRS equity and Solvency II Own Funds.

Solvency II capital coverage ratio

Solvency II capital coverage ratio is one of the indicators of the group's balance sheet strength. It is determined as Eligible Own Funds divided by the SCR, and therefore represents the number of times the SCR is covered by Eligible Own Funds. The group's Solvency II capital coverage ratio is based on the Partial Internal Model, Matching Adjustment and TMTP.

Differences between the Solvency II capital coverage ratio and its related regulatory basis include the impact of TMTP recalculation when it is not approved by the PRA, incorporating impacts of economic conditions as at the reporting date, and the inclusion of unaudited profits (or losses) of financial firms, which are excluded from regulatory Own Funds. This view of Solvency II is considered to be representative of the shareholder risk exposure and the group's real ability to cover the SCR with Eligible Own Funds. It also aligns with management's approach to dynamically manage its capital position.

Further details on Solvency II capital coverage ratio and its calculation are included in Note 6.01 Group regulatory capital – Solvency II.

Alternative Performance Measures

Solvency II operational surplus generation

Solvency II operational surplus generation is the expected surplus generated from the assets and liabilities in-force at the start of the year. It is based on assumed real world returns and best estimate non-market assumptions, and it includes the impact of management actions to the extent that, at the start of the year, these were reasonably expected to be implemented over the year.

It excludes operating variances, such as the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix. It also excludes market movements, which represent the impact of changes in investment market conditions during the period and changes to future economic assumptions. The group considers this measure meaningful to stakeholders as it enhances the understanding of its operating performance over time, and serves as an indicator on the longer-term components of the movements in the group's Solvency II surplus.

Note 6.01 Group regulatory capital – Solvency II includes an analysis of change for the group's Solvency II surplus, showing the contribution of Solvency II operational surplus generation as well as other items to the Solvency II surplus during the reporting period.

Glossary

* These items represent an alternative performance measure (APM)

Adjusted operating profit*

Refer to the alternative performance measures section.

Adjusted profit before tax attributable to equity holders*

Refer to the alternative performance measures section.

Alternative performance measures (APMs)

A financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II.

Annual premiums

Premiums that are paid regularly over the duration of the contract such as protection policies.

Annuity

Regular payments 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.

Assets under administration (AUA)

Assets administered by Legal & General, which are beneficially owned by clients and are therefore not reported on the Consolidated Balance Sheet. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sales transactions and record keeping.

Assets under management (AUM)*

Refer to the alternative performance measures section.

Assured Payment Policy (APP)

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.

Back book acquisition

New business transacted with an insurance company which allows the business to continue to utilise Solvency II transitional measures associated with the business.

CAGR

Compound annual growth rate.

Common Contractual Fund (CCF)

An Irish regulated asset pooling fund structure. It enables institutional investors to pool assets into a single fund vehicle with the aim of achieving cost savings, enhanced returns and operational efficiency through economies of scale. A CCF is an unincorporated body established under a deed where investors are "co-owners" of underlying assets which are held pro rata with their investment. The CCF is authorised and regulated by the Central Bank of Ireland.

Contract boundaries

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the group can compel the policyholder to pay the premiums or has a substantive obligation to provide the policyholder with insurance contract services.

Contractual Service Margin (CSM)

The CSM represents the unearned profit the group will recognise for a group of insurance contracts, as it provides services under the insurance contract. It is a component of the asset or liability for the contracts and it results in no income or expense arising from initial recognition of an insurance contract. Therefore, together with the risk adjustment, the CSM provides a view of both stored value of our in-force insurance business, and the growth derived from new business in the current year. A CSM is not set up for groups of contracts assessed as onerous.

The CSM is released as profit as the insurance services are provided.

Coverage Period

The period during which the group provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract.

Glossary

Credit rating

A measure of the ability of an individual, organisation or country to repay debt. The highest rating is usually AAA. Ratings are usually issued by a credit rating agency (e.g. Moody's or Standard & Poor's) or a credit bureau.

Deduction and aggregation (D&A)

A method of calculating group solvency on a Solvency II basis, whereby the assets and liabilities of certain entities are excluded from the group consolidation. The net contribution from those entities to group Own Funds is included as an asset on the group's Solvency II balance sheet. Regulatory approval has been provided to recognise the (re)insurance subsidiaries in the US and Bermuda on this basis.

Defined benefit pension scheme (DB scheme)

A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

Defined contribution pension scheme (DC scheme)

A type of pension plan where the pension benefits at retirement are determined by agreed levels of contributions paid into the fund by the member and employer. They provide benefits based upon the money held in each individual's plan specifically on behalf of each member. The amount in each plan at retirement will depend upon the investment returns achieved as well as the member and employer contributions.

Derivatives

Contracts usually giving a commitment or right to buy or sell assets on specified conditions, for example on a set date in the future and at a set price. The value of a derivative contract can vary. Derivatives can generally be used with the aim of enhancing the overall investment returns of a fund by taking on an increased risk, or they can be used with the aim of reducing the amount of risk to which a fund is exposed.

Direct investments

Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.

Earnings per share (EPS)

A common financial metric which can be used to measure the profitability and strength of a company over time. It is calculated as total shareholder profit after tax divided by the weighted average number of shares outstanding during the year.

Eligible Own Funds

The capital available to cover the group's Solvency Capital Requirement. Eligible Own Funds comprise the excess of the value of assets over liabilities, as valued on a Solvency II basis, plus high quality hybrid capital instruments, which are freely available (fungible and transferable) to absorb losses wherever they occur across the group.

Employee satisfaction index

The Employee satisfaction index measures the extent to which employees report that they are happy working at Legal & General. It is measured as part of our Voice surveys, which also include questions on commitment to the goals of Legal & General and the overall success of the company.

ETF

LGIM's European Exchange Traded Fund platform.

Euro Commercial Paper

Short-term borrowings with maturities of up to 1 year typically issued for working capital purposes.

Expected credit losses (ECL)

For financial assets measured at amortised cost or FVOCI, a loss allowance defined as the present value of the difference between all contractual cash flows that are due and all cash flows expected to be received (i.e. the cash shortfall), weighted based on their probability of occurrence.

Fair value through other comprehensive income (FVOCI)

A financial asset that is measured at fair value in the Consolidated Balance Sheet and reports gains and losses arising from movements in fair value within the Consolidated Statement of Comprehensive Income as part of the total comprehensive income or expense for the year.

Fair value through profit or loss (FVTPL)

A financial asset or financial liability that is measured at fair value in the Consolidated Balance Sheet and reports gains and losses arising from movements in fair value within the Consolidated Income Statement as part of the profit or loss for the year.

Fulfilment cash flows

Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus the risk adjustment for non-financial risk.

Glossary

Full year dividend

Full year dividend is the total dividend per share declared for the year (including interim dividend but excluding, where appropriate, any special dividend).

Generally accepted accounting principles (GAAP)

A widely accepted collection of guidelines and principles, established by accounting standard setters and used by the accounting community to report financial information.

Gross written premiums (GWP)

An industry measure of the life insurance premiums due and the general insurance premiums underwritten in the reporting period, before any deductions for reinsurance.

Insurance new business

New business arising from new policies written on retail protection products and new deals and incremental business on group protection products.

Irish Collective Asset-Management Vehicle (ICAV)

A legal structure investment fund, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

Key performance indicators (KPIs)

These are measures by which the development, performance or position of the business can be measured effectively. The group Board reviews the KPIs annually and updates them where appropriate.

LGA

Legal & General America.

LGAS

Legal and General Assurance Society Limited.

LGC

Legal & General Capital.

LGIM

Legal & General Investment Management.

LGRI

Legal & General Retirement Institutional.

LGRI new business

Single premiums arising from pension risk transfers and the notional size of longevity insurance transactions, based on the present value of the fixed leg cash flows discounted at the SONIA curve.

Liability driven investment (LDI)

A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

Lifetime mortgages

An equity release product aimed at people aged 55 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.

Longevity

Measure of how long policyholders will live, which affects the risk profile of pension risk transfer, annuity and protection businesses.

Matching adjustment

An adjustment to the discount rate used for annuity liabilities in Solvency II balance sheets. This adjustment reflects the fact that the profile of assets held is sufficiently well-matched to the profile of the liabilities, that those assets can be held to maturity, and that any excess return over risk-free (that is not related to defaults) can be earned regardless of asset value fluctuations after purchase.

Glossary

Morbidity rate

Rate of illness, influenced by age, gender and health, used in pricing and calculating liabilities for policyholders of life products, which contain morbidity risk.

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.

Net zero carbon

Achieving an overall balance between anthropogenic carbon emissions produced and carbon emissions removed from the atmosphere.

Onerous contracts

An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition, in total are a net outflow.

Open Ended Investment Company (OEIC)

A type of investment fund domiciled in the United Kingdom that is structured to invest in stocks and other securities, authorised and regulated by the Financial Conduct Authority (FCA).

Overlay assets

Derivative assets that are managed alongside the physical assets held by LGIM. These instruments include interest rate swaps, inflation swaps, equity futures and options. These are typically used to hedge risks associated with pension scheme assets during the derisking stage of the pension life cycle.

Paris Agreement

An agreement within the United Nations Framework Convention on Climate Change effective 4 November 2016. The Agreement aims to limit the increase in average global temperatures to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Pension risk transfer (PRT)

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.

Persistency

Persistency is a measure of LGIM client asset retention, calculated as a function of net flows and closing AUM.

For insurance, persistency is the rate at which policies are retained over time and therefore continue to contribute premium income and asset under management.

Platform

Online services used by intermediaries and consumers to view and administer their investment portfolios. Platforms usually provide facilities for buying and selling investments (including, in the UK products such as Individual Savings Accounts (ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing an individual's entire portfolio to assess asset allocation and risk exposure.

Present value of future new business premiums (PVNBP)

PVNBP is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the new business value at the end of the financial period. The discounted value of longevity insurance regular premiums and quota share reinsurance single premiums are calculated on a net of reinsurance basis to enable a more representative margin figure. PVNBP therefore provides an estimate of the present value of the premiums associated with new business written in the year.

Proprietary assets

Total investments to which shareholders are directly exposed, minus derivative assets, loans, and cash and cash equivalents.

Qualifying Investor Alternative Investment Fund (QIAIF)

An alternative investment fund regulated in Ireland targeted at sophisticated and institutional investors, with minimum subscription and eligibility requirements. Due to not being subject to many investment or borrowing restrictions, QIAIFs present a high level of flexibility in their investment strategy.

Real assets

Real assets encompass a wide variety of tangible debt and equity investments, primarily real estate, infrastructure and energy. They have the ability to serve as stable sources of long-term income in weak markets, while also providing capital appreciation opportunities in strong markets.

Glossary

Retail Retirement new business

Single premiums arising from annuity sales and individual annuity back book acquisitions and the volume of lifetime and retirement interest only mortgage lending.

Retirement Interest Only Mortgage (RIO)

A standard retirement mortgage available for non-commercial borrowers above 55 years old. A RIO mortgage is very similar to a standard interest-only mortgage, with two key differences:
- The loan is usually only paid off on death, move into long-term care or sale of the house.
- The borrowers only have to prove they can afford the monthly interest repayments and not the capital remaining at the end of the mortgage term. No repayment solution is required as repayment defaults to sale of property.

Return on Equity (ROE)*

Refer to the alternative performance measures section.

Risk adjustment

The risk adjustment reflects the compensation that the group would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk after diversification. We have calibrated the group's risk adjustment using a Value at Risk (VAR) methodology. In some cases, the compensation for risk on reinsured business is linked directly to the price paid for reinsurance. The risk adjustment is a component of the insurance contract liability, and it is released as profit if experience plays out as expected.

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.

Single premiums

Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual and bulk annuity deals.

Société d'Investissement à Capital Variable (SICAV)

A publicly traded open-end investment fund structure offered in Europe and regulated under European law.

Solvency II

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 the policyholders' interest.

Solvency II capital coverage ratio*

Refer to the alternative performance measures section.

Solvency II capital coverage ratio – regulatory basis

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 new business contribution

Reflects present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.

Solvency II Operational Surplus Generation*

Refer to the alternative performance measures section.

Solvency II risk margin

An additional liability required in the Solvency II balance sheet, to ensure the total value of technical provisions is equal to the current amount a (re)insurer would have to pay if it were to transfer its insurance and reinsurance obligations immediately to another (re)insurer. The value of the risk margin represents the cost of providing an amount of Eligible Own Funds equal to the Solvency Capital Requirement (relating to non-market risks) necessary to support the insurance and reinsurance obligations over the lifetime thereof.

Glossary

Solvency II surplus*

Refer to the alternative performance measures section.

Solvency II surplus – regulatory basis

The excess of Eligible Own Funds on a regulatory basis over the SCR. 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.

Solvency Capital Requirement (SCR)

The amount of Solvency II capital required to cover the losses occurring in a 1-in-200 year risk event.

Specialised Investment Fund (SIF)

An investment vehicle regulated in Luxembourg targeted to well-informed investors, providing a great degree of flexibility in organization, investment policy and types of underlying assets in which it can invest.

Total shareholder return (TSR)

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.

Transitional Measures on Technical Provisions (TMTP)

An adjustment to Solvency II technical provisions to bring them into line with the pre-Solvency II equivalent as at 1 January 2016 when the regulatory basis switched over, to smooth the introduction of the new regime. This decreases linearly over the 16 years following Solvency II implementation but may be recalculated to allow for changes impacting the relevant business, subject to agreement with the PRA.

Yield

A measure of the income received from an investment compared to the price paid for the investment. It is usually expressed as a percentage.