LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

31 DECEMBER 2019

CONTENTS

SUMMARY

THIS DOCUMENT

This Solvency and Financial Condition Report (SFCR) for Legal and General Assurance Society Limited (the Company) is a regulatory document, required by the reporting and group supervision parts of the Prudential Regulation Authority (PRA) Rulebook for Solvency II firms and Directive 2009/138/EC of the European Parliament (Solvency II directive) Articles 51 and 256. All values are (unless otherwise stated) as at 31 December 2019.

WHO WE ARE

The Company is a composite insurance company authorised in the UK, whose ultimate controlling party is Legal & General Group Plc (the group). The principal activity of the Company is Life and Pensions business.

WHAT WE DO

We enable our stakeholders and customers, who range from some of the world's largest companies and pension funds to millions of individuals and families, to manage their financial futures whether by protecting against unforeseen events, helping to save for and support retirement or investing money to deliver growth over time. We deploy our strong balance sheet, our ability to understand and pool risk, our market insight and our capacity to create good value customer propositions for every customer, large or small. Our strong social purpose means that we strive at all times to do the right thing not just for our customers and shareholders, but for the broader economy and society at large. The Company strategy is aligned to the Legal & General Group's six growth drivers that affect people's lives across the globe: ageing demographics; globalisation of asset markets; investing in the real economy; welfare reforms; technological innovation; and addressing climate change. Our strategic priorities are set to deliver sustainable profits as well as positive social and environmental outcomes, ensuring we derive maximum benefit for our stakeholders and customers.

OUR BUSINESSES

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

Business division	Purpose
Legal & General Retirement: Institutional (LGRI)	Pension risk transfer business
Legal & General Retirement: Retail (LGRR)	Individual retirement and lending, financial advice, and retirement living solutions
Legal & General Investment Management (LGIM)	Institutional and retail investment management, and workplace savings businesses
Legal & General Capital (LGC)	Investments in future cities, housing, SME finance, clean energy and traded portfolio
Legal & General Insurance (LGI)	UK retail and group protection, US protection business, UK mortgage club and Fintech solutions

OUR SOLVENCY POSITION AND PERFORMANCE

The Company's key solvency and performance measures as at 31 December 2019 were:

Measure	2019	2018
Operating profit (£m)	**1,415**	1,566
Solvency II Own Funds (£m)	**10,697**	11,290
Solvency II Regulatory Surplus (£m)	**4,130**	4,251
Solvency II Coverage ratio on a Regulatory basis	**163%**	160%
Solvency II Coverage ratio on a Shareholder basis	**165%**	153%

The Company uses Operating profit as its measure of underwriting performance. The Operating profit of £1,415m (2018: £1,566m) is inclusive of discontinued operations and primarily reflects:

- strong performance in annuity business written in LGRI and LGRR from front and back books;
- a positive impact of £139m relating to mortality reserve releases arising due to changes in the longevity improvement assumptions to align to adjusted CMI 2017 tables and introducing improvement assumptions by socio-economic class (2018: £390m);
- the offsetting impact of an increase in quota share reinsurance with Legal & General Reinsurance Company Limited, another group subsidiary, from 10% to 25% for new and existing business.

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

In line with market practice, the ratio on a shareholder basis excludes the contribution that the with-profits fund would normally make to the Company's Solvency II position. This is calculated by reducing the Company's Own Funds and the Company's SCR by the amount of the SCR for the with-profits fund.

The surplus on a regulatory basis as disclosed in this document and the surplus on a shareholder basis, as disclosed in the Company's full-year statutory accounts, incorporate the impacts of a recalculation of the Transitional Measure on Technical Provisions (TMTP) based on 31 December 2019 economic conditions. This complies with current regulatory requirements to recalculate the TMTP every two years, unless there are significant market movements or significant changes in the Company's risk profile triggering an earlier recalculation.

On 6 December 2017 the group announced the sale of its Mature Savings business, including with-profits fund, to ReAssure Limited (a subsidiary of Swiss Re). The sale of the Mature Savings business is subject to a Part VII transfer under the Financial Services Markets Act 2000 and court sanction. At the time of writing this report the Part VII transfer of the Mature Savings business is expected to complete in 2020.

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

CHANGE IN OWN FUNDS

Over the reporting period the Company's Own Funds decreased by £593m to £10,697m (2018: £11,290m). The movement reflects the surplus generated from the books of existing and new business, offset by the dividend payment to Legal & General Insurance Holdings Limited (the Company's immediate parent) and adverse operating and non-operating variances. With effect from 31 December 2019, the Company increased its share of quota share reinsurance with L&G Reinsurance Company Limited, a subsidiary of the Group, from 10% to 25%. The increase in the quota share reinsurance strengthened the Capital position of the Company and provides the platform for the Company to continue to write significant volumes of Annuity business in future years. The impact of the transaction on own funds was a £489m decrease, which, combined with a £897m decrease in solvency capital requirement, resulted in a 13% increase in Solvency II coverage ratio.

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

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

OUR GOVERNANCE

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

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

Risk management framework

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

OUR RISK PROFILE

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

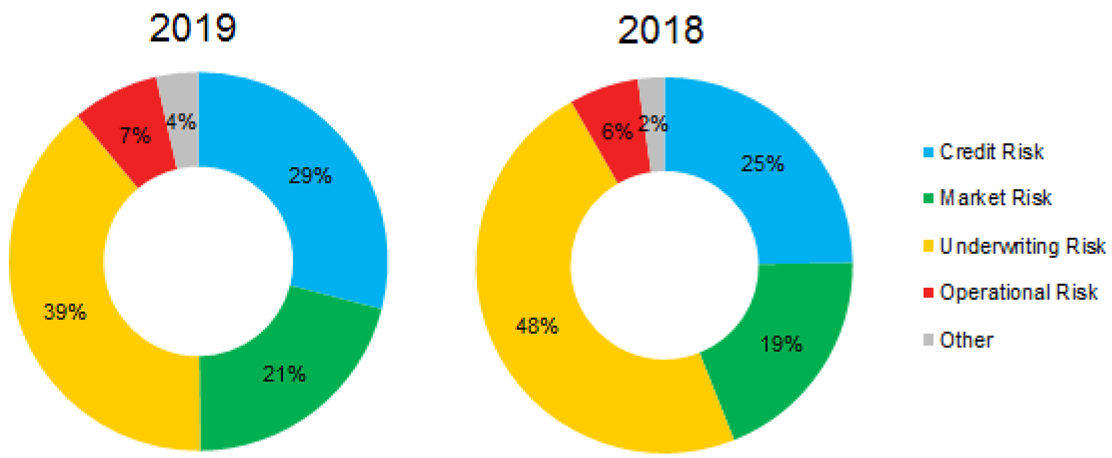
- Longevity, mortality and morbidity risks that are transferred to us by the customers of our pension risk transfer, annuities and protection businesses. The period that customers continue their life insurance protection policies is also important for profitability.
- Investment, credit and counterparty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

OUR RISK-BASED CAPITAL MODEL

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

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

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



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

VALUATION FOR SOLVENCY II PURPOSES

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

As at 31 December 2019, the Company's excess of assets over liabilities was £10,697m (2018: £11,290m) on a Solvency II basis, which is £4,074m higher than the value under IFRS. The difference is primarily driven by the overall value of technical provisions being lower on a Solvency II basis

Technical provisions are calculated as the sum of Best Estimate Liabilities (BEL) plus Risk Margin (RM) less any TMTP. The BEL represents our best estimate of future cash flows on the in-force business as at 31 December 2019, taking into account the time value of money, and is calculated without any deductions for the amounts recoverable from reinsurance contracts. Where the PRA has granted approval for the use of a Matching Adjustment (MA) when calculating the BEL, this has been applied in line with the approved application. Further details can be found in Section D.2 Technical provisions.

The Company has taken advantage of the TMTP, which allows for the recognition of a deduction from technical provisions calculated as the difference between their value under the current and previous Solvency regimes. This transitional measure will apply for sixteen years from 1 January 2016 and the deduction will be fully amortised over that period. The value of the deduction as at 31 December 2019 was £4,321m (2018: £5,513m).

OUR CAPITAL MANAGEMENT

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

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

The Company's SCR as at 31 December 2019 was £6,567m (2018: £7,039m). The SCR has been calculated in line with the group's approved Internal Model. Further details can be found in Section E.2 Solvency Capital Requirement and Minimum Capital Requirement.

As at 31 December 2019 the Company held £4,130m (2018: £4,251m) of Own Funds in excess of the Company's regulatory solvency requirements, representing a capital coverage ratio of 163% (2018: 160%). This buffer ensures that the Company has resources over and above what would be needed to meet its insurance obligations after a 1-in-200 year event. In line with our risk management approach, we maintained an appropriate capital buffer throughout the year.

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

(£m)	**2019**	2018
Solvency II Own Funds	**10,697**	11,290
Solvency capital requirement	**(6,567)**	(7,039)
Solvency II surplus	**4,130**	4,251
Regulatory capital coverage ratio	**163%**	160%
Impact of amortisation of TMTP	-	(4)%
Impact of recalculation of the TMTP	-	(6)%
Impact of exclusion of the contribution to SCR of with-profits fund	2%	3%
Shareholder basis capital coverage ratio	**165%**	153%

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

ANY OTHER INFORMATION

Legal & General Insurance Limited

On 31 May 2019 the group announced the sale to Allianz of its General Insurance (GI) business, which is transacted through Legal & General Insurance Limited, a subsidiary of the Company. The transaction completed on 31 December 2019. The impact of completion of sale on the Company's Solvency II coverage ratio was an increase of circa 1%.

Covid-19

The recent outbreak of Covid-19 pandemic exposes the business to risk in a number of areas, namely operational risk, insurance risk and market/credit risk (including asset valuation uncertainty).

The impact of Covid-19 on the group is discussed in Section C.6.

DIRECTORS' CERTIFICATE

Legal and General Assurance Society Limited – financial year ended 31 December 2019

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

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

(a) throughout the financial year to 31 December 2019, the firm has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the firm; and

(b) it is reasonable to believe that in respect of the period from 31 December 2019 to the date of the publication of the Solvency and Financial Condition Report, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2020.

Stuart Jeffrey Davies

Group Chief Financial Officer

7 April 2020

AUDITORS’ REPORT

Legal and General Assurance Society Limited – financial year ended 31 December 2019

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

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

Opinion

Except as stated below, we have audited the following documents prepared by Legal and General Assurance Society Limited as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Legal and General Assurance Society Limited as at 31 December 2019, ('**the Narrative Disclosures subject to audit**'); and

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

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

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

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

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

- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.02.21, S.25.03.21;

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

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

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

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Legal and General Assurance Society Limited as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Emphasis of Matter – special purpose basis of accounting

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Solvency and Financial Condition Report. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of COVID-19, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter

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

Report on Other Legal and Regulatory Requirements

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

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

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Salim Tharani for and on behalf of KPMG LLP

15 Canada Square
Canary Wharf,
London, E15 5GL
7 April 2020

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

Solo internal model

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

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

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

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

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

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

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

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

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 COMPANY DETAILS

This report is prepared in respect of Legal and General Assurance Society Limited (the Company) for the financial year ended 31 December 2019.

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

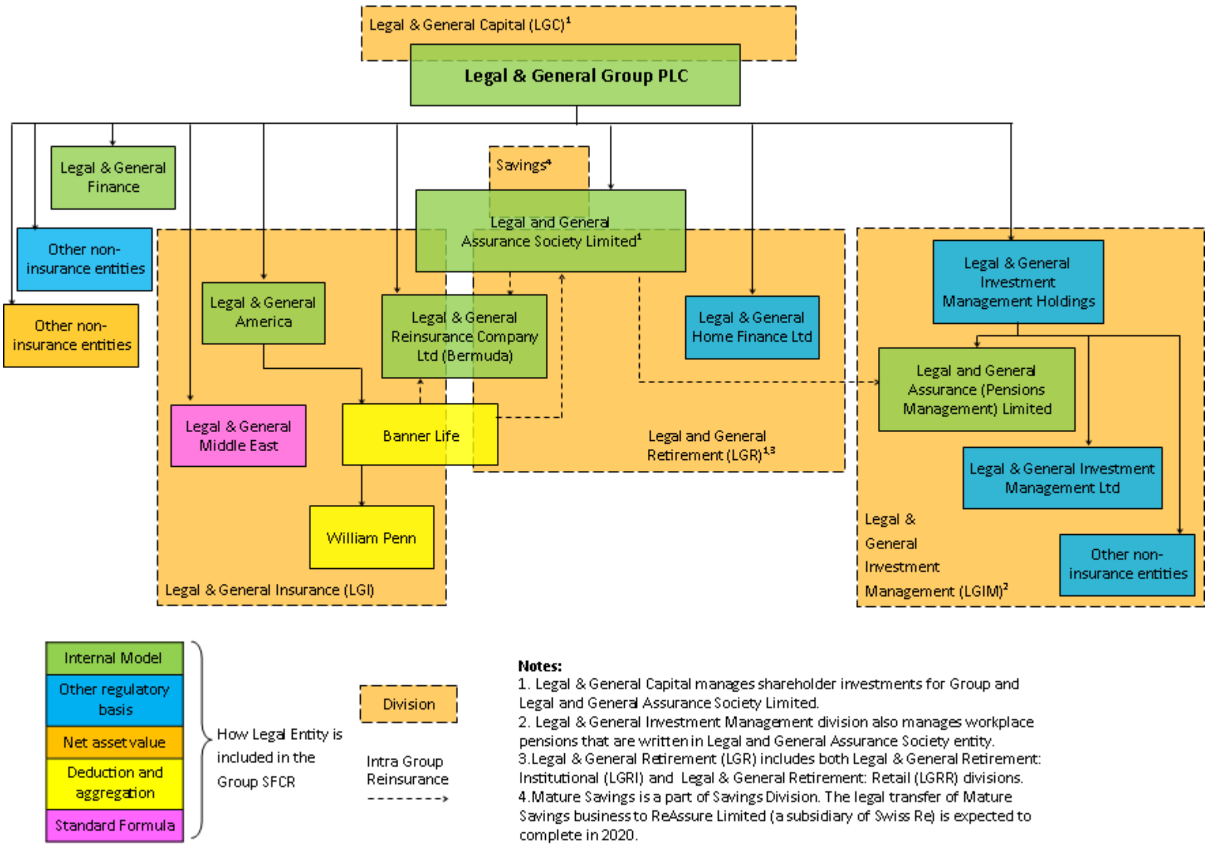
A.1.1.1 QUALIFYING HOLDINGS

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

A.1.1.2 GROUP STRUCTURE

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

Diagram 1: Business division and entity overview



A.1.2 MATERIAL RELATED UNDERTAKINGS

The particulars of the Company's subsidiaries as at 31 December 2019 are listed in Note 37 of the Company's statutory financial statements. On 31 December 2019 the Company disposed of its material insurance undertaking Legal & General Insurance Limited to Allianz.

A.1.3 PRINCIPAL PRODUCTS

A significant part of the Company's business involves the acceptance and management of risk.

A description of the principal products offered by the Company is outlined below. The Company seeks to manage its exposure to risk through control techniques which ensure that the residual exposures are within acceptable tolerances agreed by the Board. The Company's risk appetite framework and the methods used to monitor risk exposures can be found in Section B: Systems of governance and C: Risk profile.

Details of the risks associated with the Company's principal products and the control techniques used to manage these risks can be found in Section C: Risk profile.

A.1.3.1 LEGAL & GENERAL RETIREMENT (LGR)

LGR comprises two businesses, LGR Institutional which transacts worldwide pension risk transfer business, including longevity insurance, and LGR Retail, which transacts individual retirement business and lifetime mortgages.

ANNUITIES

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. Immediate and deferred annuity contracts are offered. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. Bulk annuities are also offered, where the Company accepts the assets and liabilities of a company pension scheme or a life fund, predominantly for UK clients, but also for Irish clients. A small portfolio of immediate annuities has been written as participating business[1].

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

The Company wrote its first Assured Payment Policy (APP) during 2019. An APP is a long term contract under which the policyholder (a registered UK pension scheme) pays a day-one premium and in return receives a contractually fixed and/or inflation-linked set of payments over time from the insurer.

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

LONGEVITY INSURANCE CONTRACTS

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

[1] This small portfolio of immediate annuities written as participating business is part of the Mature Savings business. The legal transfer of the Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re) is expected to complete in 2020.

LIFETIME MORTGAGES

Lifetime Mortgages are a form of equity release mortgage that provide non-commercial borrowers with a loan secured against their main residence, without the need for regular repayments. They are regulated retail mortgages offered only to borrowers over the age of 55 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. All Lifetime Mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

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

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

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

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

INTRAGROUP REINSURANCE ARRANGEMENTS

The Company accepts reinsurance from Banner Life Insurance Company, a fellow group subsidiary. The reinsurance covers specific pension risk transfer contracts.

LIFETIME CARE PLAN

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

A.1.3.2 LEGAL & GENERAL INSURANCE (LGI)

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

UK PROTECTION BUSINESS (RETAIL AND GROUP)

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

INTRAGROUP REINSURANCE ARRANGEMENTS

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

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

A.1.3.3 GENERAL INSURANCE

The Company's direct subsidiary Legal & General Insurance Limited (LGIL) provided household and other personal insurances such as pet and short-term income protection. During 2019, the Company provided quota share reinsurance to LGIL's household risk. The Company completed the sale of LGIL on 31 December 2019 to Allianz, following which the quota share reinsurance ceased from effect. The Company has agreed with Allianz to reinsure a small proportion of the business whilst it runs off via a residual reinsurance arrangement. Additionally, a small amount of general insurance remained with the Company after the sale of the LGIL business.

A.1.3.4 SAVINGS

A range of contracts are offered in a variety of different forms to meet customers' long-term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. The majority of the Savings products are closed to new business. Following the sale of its Mature Savings business as disclosed in Section A.1.4, the Company's future involvement in savings product areas will be solely through Workplace Savings.

WORKPLACE SAVINGS

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

A.1.4 SIGNIFICANT BUSINESS OR OTHER EVENTS

Quota share reinsurance treaty

With effect from 31 December 2019 the Company increased its quota share reinsurance with Legal & General Reinsurance Company Limited, another group subsidiary, from 10% to 25%. The Company paid a reinsurance premium of £10.6bn, on a funds withheld basis, and recognised changes in technical provisions, the corresponding reinsurance asset and a reduction in the solvency capital requirement. The transaction resulted in an increase in the Company's Solvency II coverage ratio of 13%.

LEGAL & GENERAL INSURANCE LIMITED

On 31 December 2019, the Company completed the disposal of its General Insurance subsidiary to Allianz. The impact of the disposal was an increase in the Company's Solvency II coverage ratio of circa 1%.

MATURE SAVINGS

On 6 December 2017 the Company announced the sale of its Mature Savings business, including a ring fenced With-Profits Fund, to the ReAssure Limited (a subsidiary of Swiss Re) for £650m, the proceeds of which were received in cash in January 2018. At the time of writing this report the Part VII transfer of the Mature Savings business is expected to complete in 2020.

A.2 UNDERWRITING PERFORMANCE

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

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

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

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

A.2.1 OPERATING PROFIT BY DIVISION

The table below shows the total operating profit for the Company, analysed on a business area basis.

(£m)	**2019**	2018
Retirement (LGRI & LGRR)	**1,044**	1,193
Capital (LGC)	**169**	158
Insurance (LGI)	**144**	147
Savings*	**58**	68
Operating profit from divisions	**1,415**	1,566

* Includes Mature Savings classified as discontinued operations. The legal transfer of the Mature Savings business is expected to complete in 2020.

The Company's Mature Savings business has been classified as discontinued operations in the Company's statutory financial statements as at 31 December 2019. Total profit after tax of discontinued operations as disclosed in these financial statements is £28m (2018: £53m).

A.2.1.1 RETIREMENT AND CAPITAL (LGRI, LGRR AND LGC)

Operating profit for Retirement decreased by 12% to £1,044m (2018: £1,193m). This was primarily driven by a £288m reduction arising from the impact of the increased quota share reinsurance arrangement with Legal & General Reinsurance Company Limited, a fellow group subsidiary. The decrease was partially offset by an improvement in future mortality assumptions and a one off release from an update in the longevity trend assumptions from an adjusted CMI 2016 to adjusted CMI 2017, as well as continued strong performance from the front and back book.

Bulk annuity sales in 2019 increased by 23% to £10.3bn (2018: £8.4bn) including a £4.6bn pension buy-out for Rolls-Royce UK pension fund. Individual annuity sales were up 22% to £970m in 2019 (2018: £795m), benefiting from the Company's improved enhanced annuity proposition and increased intermediary presence.

In 2019, the annuity business acquired £965m (2018: £1,197m) of mortgage securities from Legal & General Home Finance Limited, which saw new advances reduce by 19%, as the Company focused on managing risk by maintaining pricing and underwriting discipline in a competitive market.

The Company's Shareholder investment business, managed by LGC, aims to increase the risk adjusted returns on the Company's shareholder assets and delivered an operating profit of £169m (2018: £158m). The traded portfolio benefited from a strong rally in equity markets over 2019 which positively contributed c. £300m to profit before tax. Within the traded portfolio, the Company has invested further to improve the carbon footprint of the portfolio in line with the group's commitments to decarbonise the assets on our balance sheet. Our Taskforce on Climate-related Financial Disclosures (TCFD) provides an understanding of our business exposure to climate risk and strategic resilience.

A.2.1.2 INSURANCE (LGI)

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

UK Retail Protection gross premium income increased 4% to £1,327m (2018: £1,279m) with new business annual premiums of £174m (2018: £175m). The Company remains the leading provider of retail protection in the UK, delivering straight through processing for more than 80% of our customers. UK Retail Protection continued to see strong sales performance despite operating in a very competitive environment. Distribution through our bank partners benefited from our investments in these partnerships.

UK Group Protection gross premium income increased 5% to £345m (2018: £329m) with new business annual premiums of £76m (2018: £83m), reflecting improvements in service to our customers, and an increased share in the SME segment.

A.2.1.3 SAVINGS

Workplace Pensions provides corporate pension scheme solutions to enable companies to meet their auto-enrolment obligations. Workplace Pensions business assets under administration (AUA) increased to £40.3bn (2018: £30bn) with over 3.5 million members. Many significant schemes from major employers were on-boarded during the year, with master trust or bundled trust being the most popular choices.

Workplace Pensions has one of the fastest growing and largest master trusts in the market and was one of the first to be authorised in Q1 2019. Legal & General Mastertrust AUA has reached £8.9bn, with 1m members and 134 participating employers. Increasingly, defined contribution schemes are considering moving to master trust as it offers a full outsourcing solution, including independent governance and the Company is very well placed to take advantage of this trend. During 2019, our Mastertrust was the first master trust to launch a multi-asset ESG fund as a default option, and in October 2019 the Company announced enhancements to our target date fund range to include further integration of ESG considerations.

Following the completion of the sale of its Mature Savings business, the Company's future involvement in savings product areas will be solely through Workplace Savings.

A.3 INVESTMENT PERFORMANCE

The Company earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders and as shareholder funds.

Policyholder assets are invested in line with the fund choices made by unit-linked policyholders and the investment risk is borne by the policyholder. The Company's shareholder exposure to these assets arises from the fact that some of the income received is a proportion of the assets under management.

The total investment return for the Company, including discontinued operations, over 2019 was £9,940m (2018: £(2,377)m).

The total investment return includes the expected investment return included in the IFRS operating profit and the variance between the actual and expected investment performance. As such, there is some element of duplication with the underwriting performance reported in A.2 Underwriting performance, above.

Financial investment return includes fair value gains and losses, dividends and interest. Net gains/(losses) (excluding interest and dividend income) of £6,873m (2018: £(3,867)m) arose on financial investments designated as fair value through profit or loss and £110m (2018: £(26)m) arose on derivative contracts classified as held for trading. Investment income of £6m (2018: £5m) arose on loans and receivables.

Property investment return includes £75m (2018: £93m) of rental income excluding investment income from property partnerships.

Investment return relating to funds withheld payable to other group companies is recognised as an expense and reported within finance costs. Total finance income over 2019 was £19m (2018: £39m).

A.3.1 INVESTMENT INCOME AND EXPENSES

The table below presents the actual investment income and expenses split by Solvency II asset class:

As at 31 December 2019 (£m)	**Income 2019**	**Gains and losses 2019**	Income 2018	Gains and losses 2018
Debt Securities	**1,861**	**4,372**	1,764	(1,607)
Equity	**197**	**644**	176	(385)
Derivatives	**-**	**(11)**	-	(1,381)
Other assets	**265**	**9**	182	234
Assets held for index-linked and unit-linked contracts	**537**	**2,066**	719	(2,079)
Total	**2,860**	**7,080**	2,841	(5,218)

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

A.3.2 INVESTMENTS IN SECURITISATION

The Company holds securitisations with a market value of £1.0bn as at 31 December 2019 (2018: £1.1bn), of which £35m (2018: £36m) is held for index-linked and unit-linked contracts.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 OPERATIONAL INCOME

Operational income of £412m (2018: £44m) includes dividend income, the profit on disposal of LGIL and rebates of unit trust management fees received from Legal & General Investment Management Limited. In 2019, operational income included £282m of dividend in specie from the Company's subsidiary Legal & General International (Holdings) Limited (LGIHL). The Company simultaneously recognised an impairment of £281m against the carrying value of the subsidiary following LGIHL's announcement for voluntary liquidation.

A.4.2 OTHER EXPENSES

Other expenses of £850m (2018: £495m) comprise administrative expenses, management fees, corporate expenses and other charges. In 2019, an impairment of £281m was recognised within other expenses in relation to LGIHL as stated in A.4.1.

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

The Company does not hold any material finance leases.

A.5 ANY OTHER INFORMATION

There were no significant events other than those covered above.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 THE STRUCTURE OF THE BOARD

The Company's Board is accountable for the long-term success of the Company by setting the Company's strategic objectives within the overall strategy defined by the Group Board and by monitoring performance against those objectives. The Board is led by an Independent Non-Executive Director as the Board's Chair, and as at 31 December 2019 comprised three Executive Directors (the Group Chief Executive, the Group Chief Financial Officer and the Chief Executive Officer, Legal & General Retirement Institutional) and three Non-Executive Directors, including the chair. The day-to-day management of the Company is led by the Group Chief Executive. The Group Chief Risk Officer (who is also the Company's Chief Risk Officer) and the Company's Chief Actuary are standing attendees.

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

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

The Company is managed across divisions rather than legal entities: Legal & General Retirement; Legal & General Insurance and Savings. Legal & General Investment Management manages its Workplace Pensions business and Legal & General Capital manages the shareholder funds of the Company.

B.1.1.1 CHANGES OVER THE REPORTING PERIOD

There were no significant changes to the overall system of governance.

B.1.2 DELEGATED AUTHORITIES

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

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

Matters delegated to LGAS Audit Committee are as follows:

- to review the effectiveness of the Company's systems of Internal Control,
- to review the Company's statutory financial statements and other statutory and regulatory reporting obligations and receive reports from the Company's external and internal auditors in relation to the Company's business.

Matters delegated to Group level Committees (Committees of the Group Board) are as follows:

- **Group Risk Committee (GRC):** The purpose of the Committee is to assist the Board in the oversight of the risks to which the group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures of the group. This includes reviewing the group's risk appetite and risk profile, and assessing the effectiveness of the group's risk management framework.

- **Group Remuneration Committee:** Responsible for determining and approving the framework of the remuneration policy for the group and its subsidiaries and specifically to manage executive director remuneration and the remuneration of other designated senior managers, including those undertaking business activities on behalf of the Company.

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

- to the Group Capital Committee which has a group-wide remit and joint decision-making responsibility in relation to certain capital allocation decisions for new product lines, large transactions and capital investments, and other material group-wide capital management and allocation matters that may arise; and

- to individuals, being the Group CEO's direct reports and divisional MDs/ CEOs.

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

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

The Company has the following committees in place to assist the Board in the management of the Company's with-profits, Savings and Workplace Pensions businesses:

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

  The IGC meet six times per annum. The IGC produces an annual report to the Company Board which is presented by the IGC's Chairman. The minutes of the IGC together with a summary of the key points discussed at the meeting are provided to the Board.

- **The Fund Risk Oversight Committee (FROC):** The FROC meets quarterly and is chaired by the Head of Workplace Product Strategy & Development. The FROC provides oversight of the operation and management of the Workplace Savings unit-linked Pension funds. The Chief Actuary and Head of DC, who are also key function holders of LGAS, are members of the committee. A FROC update is presented to the Board on a quarterly basis.

- **Unit-Linked Management Committee (ULMC)[2]:** The ULMC meets every other month and is chaired by the Mature Savings Product Director. The ULMC provides oversight of the management of the Company's unit-linked funds. The Chief Actuary is a member alongside representation from Product, Finance, Tax and Governance. The Chief Risk Officer and the Head of Internal Client Services (LGIM) are both standing attendees. The minutes of the ULMC are provided to the Board.

[2] Following the completion of the transfer of the Mature Savings business the ULMC will be dissolved.

- **With-Profits Management Committee (WPMC)[3]:** The WPMC meets monthly, is chaired by the Managing Director of Mature Savings and is responsible for the oversight of the management of the with-profits fund. The Managing Director Mature Savings, Finance Director Mature Savings, Commercial Director Mature Savings, Chief Operating Officer Mature Savings, and the LGAS Chief Actuary are all members. The With-Profits Actuary, Chief Risk Officer Mature Savings and the Group Legal Manager are all standing attendees.

- **With-Profits Committee (WPC)[3]:** The WPC is chaired by an Independent Chairman and is comprised of a majority of independent members. It meets on a bi-monthly basis and is responsible for providing independent oversight of the management of the with-profits fund from a policyholder perspective. The Managing Director Mature Savings is a standing attendee along with the With-Profits Actuary, Finance Director Mature Savings and the Chief Risk Officer Mature Savings. The Company Board considers reports, which take the form of minutes from the WPC meetings and a report highlighting issues discussed, from the WPC at each Board meeting. At certain points during the year the Company Board considers specific with-profits items such as the annual bonus declaration and compliance with the PPFM, all of which have been reviewed from a policyholder perspective by the WPC. On an annual basis the Chairman of the WPC makes a formal presentation to the Company Board on the activities of the WPC. The Chairman of the WPC also has access to the Chairman of the Company Board.

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

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

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

B.1.3 SUBSIDIARY INSURANCE COMPANY GOVERNANCE

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

LGIL[4] had been a direct subsidiary of the Company. The Board of LGIL reported in to the Company's Board via the submission of minutes for noting following each meeting. To the extent material issues arose in relation to the business of LGIL, the Group Board had line of sight of these through the Company. H.C. Baldock, a director of the Company, also served on the board of LGIL up until the point of disposal.

B.1.4 REMUNERATION POLICY AND PRACTICES

B.1.4.1 PRINCIPLES OF THE REMUNERATION POLICY

The group's remuneration policy is consistent across the group including the Company and, in line with our remuneration principles, it is designed to reward, motivate and retain high performers in line

[3] With-profits business forms part of the Mature Savings business which has been sold to ReAssure Limited. The legal transfer of the business is expected to complete in 2020. Following the completion of the transfer of the Mature Savings business the With-Profits Committees will be dissolved.

[4] On 31 December 2019 the group completed the sale of the Legal & General Insurance Limited (LGIL) to Allianz.

with the risk appetite of the group. The group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans.

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

Base salary	The group aims to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • the nature, size and scope of the role; • the knowledge, skills and experience of the individual; • individual and overall business performance; • pay and conditions elsewhere in the group; and • appropriate external market data. Salary levels for all employees are reviewed on an annual basis taking into account the above factors. However, this does not mean a flat increase annually for all employees.
Annual bonus	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. Variable pay awards are set to ensure an appropriate balance between fixed and variable pay, and are designed to reward performance at the individual, business division, and overall group levels.
Performance Share Plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving group performance, as well as their individual contribution. Participation in the plan for one year does not guarantee participation in future years. Where appropriate, grants under the PSP may also be made for new employees who join the group during the year in key roles.
Other share plans and long-term incentives	The group operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high-potential individuals and those with critical skills.
Benefits	In 2019, changes were made to the benefits provided to UK employees. Private medical insurance is now available to every UK employee, with increased life insurance, improved holiday and family friendly policies (maternity, paternity, adoption and shared parental leave).
Employee share plans	All employees are given the opportunity to participate in a Sharesave plan and an Employee Share Purchase plan. These are both HMRC approved plans which offer all UK employees the opportunity to share in the success of the business.

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

B.1.4.2 PERFORMANCE CRITERIA FOR REMUNERATION

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

For Code Staff[5] in the control functions (Internal Audit, Regulatory Compliance and Risk), separate performance measures have been designed which exclude any direct linkage to financial performance.

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

Deferred bonus

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

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

Long-term incentives

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

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

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

B.1.4.3 SUPPLEMENTARY PENSION OR EARLY RETIREMENT SCHEMES

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

There are no supplementary or early retirement schemes.

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

B.1.5 MATERIAL TRANSACTIONS

There were no material transactions between key management personnel and the Legal & General group of companies during the period. All transactions between the group and its key management personnel are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £66m (2018: £60m) for all employees acting on behalf of the Company.

At 31 December 2019 there were no loans outstanding to officers of the Company.

B.1.6 SOLVENCY II KEY FUNCTIONS

The Solvency II key functions within the group's overall system of governance are the Risk Management and Compliance functions led by the Group Chief Risk Officer; the Internal Audit function led by the Group Chief Internal Auditor; and the Actuarial Function, led by the Chief Actuary. The functions operate independently from the business line with the activities of the Risk Management and Compliance function being mandated by the GRC and the Group Audit Committee establishing the role of the Group Internal Audit function through a formal Audit Charter. The Chief Actuary has the authority of the Board to report on those matters defined by legislation and regulation. The overall resourcing and effectiveness of the risk management, compliance and actuarial functions are assessed through a combination of Internal Audit review activity and by the governance forums to which the functions report. The effectiveness of the internal audit function is considered by the Group Board Audit Committee which may periodically seek independent external assurance.

Further information is disclosed on the Internal Audit in Section B.5 and the Actuarial Function in Section B.6.

Risk management

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

The Group CRO is:

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

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

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 APPLICATION OF THE POLICY

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

B.2.2 KEY REQUIREMENTS

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

The assessment of fitness and propriety covers the following factors:

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

B.2.2.1 LEGAL & GENERAL ASSESSMENT PROCEDURES

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

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

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

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

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

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

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

The criteria are:

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

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

B.2.2.2 MAINTAINING FITNESS AND PROPRIETY

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

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

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

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

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

B.3.1 RISK MANAGEMENT SYSTEM

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

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

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

B.3.1.1 RISK APPETITE

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

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

B.3.1.2 RISK TAKING AUTHORITIES

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

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

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

B.3.1.3 RISK POLICIES

Risk control

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

Risk mitigation

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

B.3.1.4 RISK IDENTIFICATION AND ASSESSMENT

Review process

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

Own risk and solvency assessment (ORSA)

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

B.3.1.5 RISK MANAGEMENT INFORMATION

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

B.3.1.6 RISK OVERSIGHT

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

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

B.3.1.7 RISK COMMITTEES

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

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

The Company's Board:

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

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

The Executive Directors are accountable for:

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

The Group CRO leads the risk management function which provides the second line of defence across the group.

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

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

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

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

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

B.3.2 OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

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

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

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

Both the group and the Company Boards are active in the ORSA and risk and capital management processes during the year. The ORSA policy was last reviewed by the GRC and the Company Board in July 2019. The last ORSA report was approved, on behalf of the Group Board, by the GRC and by the Company Board in February 2020.

Integration of group and subsidiary ORSA processes

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

The core stages to the ORSA process are as follows:

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

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

B.3.3 GOVERNANCE OF THE INTERNAL MODEL

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

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

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

This approach has ensured the implementation of adequate controls over the on-going appropriateness of the design and operation of the Internal Model, and these controls are subject to effective governance and oversight.

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

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

Board/Committee	Responsibilities
Group Board	Ensuring the ongoing appropriateness of the design and operation of the Internal Model. This responsibility is discharged through the GRC, subject to certain matters being reserved for its direct attention.
Legal entity boards	Ensuring the ongoing appropriateness of the design and operation of their parts of the Internal Model; use and challenge of the model in decision-making; ensuring that the model's scope remains appropriate; and ensuring that appropriate validation is performed.
Group Risk Committee (GRC)	Monitoring the performance and appropriateness of the Internal Model, including ensuring that related controls are adequate, effective, and implemented in line with the group's Internal Control Policy. Primarily, the GRC discharges these responsibilities through acting on the receipt of recommendations, analysis and reports from the Group CRO and the GIMC.
Group Internal Model Committee (GIMC)	Overseeing the design, development and operation of the Internal Model to ensure that it operates as expected on a continuous basis to meet the group's regulatory and economic requirements for risk-based capital management. This includes reviewing the effectiveness of internal controls as they relate to the Internal Model through the receipt of relevant reports and management information (MI).

B.3.3.1 INTERNAL MODEL CONTROLS

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

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

B.3.3.1.1 CHANGES OVER THE REPORTING PERIOD

There have been no significant changes to the internal model governance over the reporting period.

B.3.3.1.2 INTERNAL MODEL VALIDATION

The group's validation policy and associated standards define the group's validation framework, and capture the requirements of the PRA Rulebook and relevant EU regulations. The framework requires an annual validation cycle for the group's partial internal model (the Internal Model). This has been performed in relation to the production of the SCR as at 31 December 2019. The objective is to produce a robust, proportionate and demonstrably complete approach to validation overseen by the Group Chief Risk Officer.

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

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

B.3.3.1.3 VALIDATION ACTIVITY

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

B.4 INTERNAL CONTROL SYSTEM

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

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

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

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

B.4.1 SOLVENCY II COMPLIANCE FUNCTION

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

- advising the Company Board and its sub committees on compliance with the requirements of the Solvency II Directive[6] and its associated laws, regulations and administrative provisions;
- advising the Company Board on the possible impact of any changes in the legal environment on operations of the undertaking concerned and the identification and assessment of compliance risk;
- developing and managing the Group's Solvency II Compliance Policy, which inter alia sets out the responsibilities, competencies and reporting duties of the (Solvency II) compliance function; and
- establishing and operating the Group's Solvency II Compliance Plan that details the activities the function will undertake in relation to compliance risk.

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

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

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

B.5 INTERNAL AUDIT FUNCTION

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

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

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

GIA carries out:

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

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

GIA is responsible for the development of an internal audit plan, with a corresponding delivery timetable and budget. The plan typically details proposed audits over the next twelve months. GIA reviews the plan regularly and advises the Board, through the Audit Committee, of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the Company and Group Audit Committees.

The Internal Audit plan is developed using a risk-based methodology, including input from executive and non-executive senior management. Any significant deviation from the approved internal audit plan is communicated through the activity reporting process.

Internal control objectives considered by GIA include:

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

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

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

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

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

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

B.6 ACTUARIAL FUNCTION

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

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

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

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

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

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

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

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

B.7 OUTSOURCING

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

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

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

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

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

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

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

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

B.8 ANY OTHER INFORMATION

B.8.1 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Company operates within the group's risk management framework. The Group Executive Risk Committee (a sub-committee of the GRC) undertakes an annual review of the group's risk management framework and broader system of governance to confirm its adequacy given the nature, scale and complexity of the risks inherent in its business. The most recent review was in February 2020, where the Committee concluded that the group's risk framework aligns with the group's key risk exposures, and operated effectively during 2019 in identifying material risk exposures.

B.8.2 SENIOR MANAGERS AND CERTIFICATION SCHEME

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

B.8.3 ANY OTHER INFORMATION

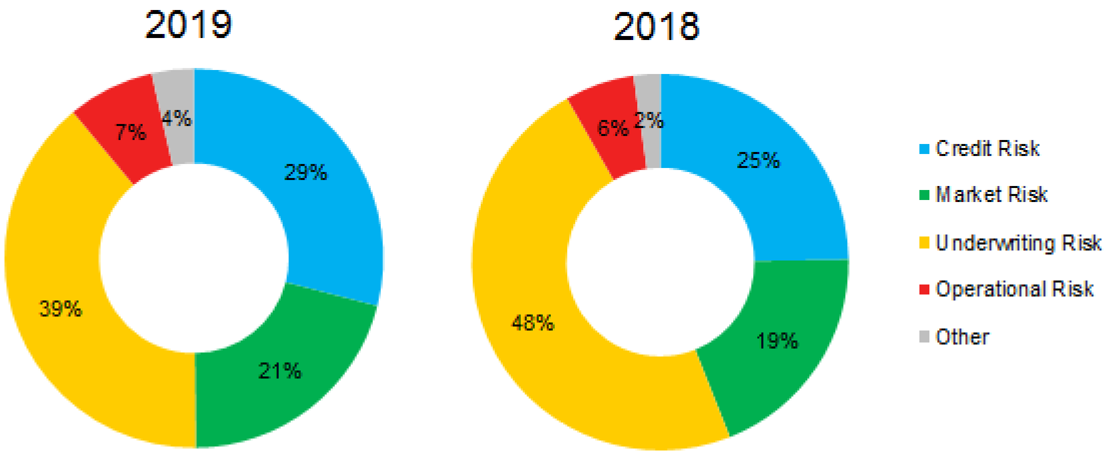
There were no significant events other than those covered above.

C. RISK PROFILE

MEASURES USED TO ASSESS RISKS

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

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



PRUDENT PERSON PRINCIPLE

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

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

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

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

All divisions are required to invest their assets in line with group policies. Compliance with the group policies is monitored through the group's risk framework described in Section B. System of

Governance above. The following processes support the group in ensuring it meets the Prudent Person Principle:

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

C.1 UNDERWRITING RISK

C.1.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to underwriting (also known as insurance) risk as a consequence of offering the principal products outlined in Section A.1.3. Underwriting risk is the exposure to loss arising from experience being different to that anticipated. Detailed below are the principal underwriting risks to which the Company is exposed, presented by reference to the group's business divisions, with associated mitigating activities:

UNDERWRITING RISK

Principal risks	Division	Control to mitigate the risk
Longevity, mortality & morbidity risks For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	LGI	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings[1]	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Savings[1]	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The group has limited ability to control the take up of these options. Although the number of policies has reduced over the year, the value of guarantees has increased mainly due to a large reduction in interest rates over the year. As at 31 December 2019 the value of guarantees is estimated to be £39m (31 December 2018: £35m).
For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	LGR	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.

Principal risks	Division	Control to mitigate the risk
Persistency risk In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.	LGI and Savings[1]	The pricing basis for protection business includes provision for policy lapses. The persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. For insured savings contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the group has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.
Expense risk In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	LGR, LGI and Savings[1]	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.
Concentration (catastrophe) risk Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	LGI and General Insurance[2]	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
Epidemic (catastrophe) risk The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.	LGI and LGR	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events risk Significant weather events such as windstorms and coastal and river floods can lead to a higher instance of claims than anticipated.	General Insurance[2]	The financial impacts of significant weather events are managed using excess of loss catastrophe treaties under which a portion of the costs of claims may be recovered from external insurers, although the group retains an element of the risk internally. The reinsurance is designed to provide financial protection against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.
Subsidence risk The incidence of subsidence can have a significant impact on the level of claims on household policies.	General Insurance[2]	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted in line with industry practice.

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer until the legal transfer of the Mature Savings business is complete. The legal transfer of the Mature Savings business is expected to complete in 2020.

2. On 31 May 2019, the group announced the sale of its General Insurance business to Allianz group. The sale completed on 31 December 2019.

C.1.2 INSURANCE SPECIAL PURPOSE VEHICLES (SPVS)

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

C.1.3 RISK CONCENTRATION AND MANAGEMENT

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

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

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

C.2 MARKET RISK

C.2.1 RISK EXPOSURE AND CONTROLS

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

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

MARKET RISK

Principal risks	Product/ business segment	Controls to mitigate the risk
Investment performance risk The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	Annuities and Protection	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments.	With-profits[1]	These risks are managed by maintaining capital sufficient to cover the consequences of mismatches under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets.

Principal risks	Product/ business segment	Controls to mitigate the risk
		The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the Company's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Savings[1]	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives is subject to regular monitoring. Periodic assessment is also made of the long term profitability to the Company of these funds. For some contracts the Company has discretion over the level of management charges levied.
Property risk		
Lifetime mortgages include a no-negative equity guarantee which transfers an exposure to loss to the Company as a result of low house price inflation and an exposure to specific properties which may experience lower house price inflation for whatever reason.	Lifetime mortgages	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property type and geographic region seek to control exposures to specific aspects of the property market.
LGC businesses build homes across the residential market, invest in large commercial and residential development projects and manage several developed real-estate assets. LGC's revenue streams are exposed to residential sales achieved, as well as the volume of transactions, both of which may be affected by the performance of the housing market. Independent valuations of real-estate assets, either in development or developed, also depend on an assessment of the wider real-estate market.	LGC	Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market. Sites are developed in a number of phases to spread the risk to a local market over several years and where possible we seek to co-invest with local experts to manage assets. The purchasing of new land for development requires approval from LGC's Investment Committee and the Group Capital Committee. Where appropriate, key methods are adopted to further manage the risk, such as fixed price construction contracts, forward sales and pre-letting. These businesses can also benefit from flexible funding arrangements available through the group.
Currency risk		
To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. LGC also invest in overseas assets. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in sterling could result in unforeseen loss.	Annuities, LGC and LGI	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. The hedges do not eliminate all currency risk and the Company retains some residual risk.

Principal risks	Product/ business segment	Controls to mitigate the risk
Inflation risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	Annuities	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefit payments. The hedges do not eliminate all inflation risk and the Company retains some residual risk.
Interest rate risk Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	Annuities	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.	LGC	Asset liability matching significantly reduces the group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in Note 20 of the group's annual report and accounts.

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer until the legal transfer of the Mature Savings business is complete. The legal transfer of the Mature Savings business is expected to complete in 2020.

C.2.2 RISK CONCENTRATION AND MANAGEMENT

The Company holds a significant portfolio of investment assets to meet its obligations to policyholders. Investment classes include equities, bonds, properties and cash. Some exposure to concentration risk is an inherent aspect of operating significant portfolios of investment assets.

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

C.3 CREDIT RISK

C.3.1 RISK EXPOSURE AND CONTROLS

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

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

CREDIT RISK

Principal risks	Product/ business segment	Controls to mitigate the risk
Bond default risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing general insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with the possibility of financial loss.	Annuities and General Insurance[1]	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure to a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Company's own internal analysis. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in possible financial loss. Credit risk syndication also exposes the group to counterparty default risks. The group is required to carry an element of associated credit risk capital on its balance sheet should the business not be re-brokered on the same terms.	Protection, Annuities and General Insurance[1]	When selecting new reinsurance partners for its protection business, the Company considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	Annuities and LGC	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with each investment transaction

1. On 31 May 2019, the group announced the sale of its General Insurance business to Allianz. The sale completed on 31 December 2019.

C.3.2 RISK CONCENTRATION AND MANAGEMENT

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

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

C.4 LIQUIDITY RISK

C.4.1 RISK EXPOSURE

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

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

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

C.4.2 LIQUIDITY RISK

LIQUIDITY RISK

Principal risks	Product/ business segment	Controls to mitigate the risk
Contingent event risk Events that result in liquidity risk include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	LGI and General Insurance[1]	The Company seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is, however, an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the Company operates and the executions of investment management strategies. However, the Company's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events and the profile of actual liquid assets is regularly compared to the required liability profile. The group's treasury function provides formal facilities to other areas of the group, including the Company, to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable.
Collateral liquidity risk Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties at short notice.	LGR and LGC	Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets specified in the agreements with counterparties is maintained. As at 31 December 2019, LGR held eligible collateral worth four times the total amount of outstanding collateral (using the most representative definition of collateral contained within the group's different collateral agreements).
Investment liquidity risk Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	Savings[2]	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.

Principal risks	Product/ business segment	Controls to mitigate the risk
Investment liquidity risk (continued) Unit linked savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a reduced value.	Savings[2]	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Direct lending, sale and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms	LGR and LGC	Given the illiquid nature of the annuity and other liabilities the group is able and willing to take advantage of the premium offered by illiquid assets. The group, however, sets limits on the overall exposure to illiquid investments taking account of the nature and type of liabilities that the assets are held to meet.

1. On 31 May 2019, the group announced the sale of its General Insurance business to Allianz group. The sale completed on 31 December 2019.

2. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer until the legal transfer of the Mature Savings business is complete. The legal transfer of the Mature Savings business is expected to complete in 2020.

C.4.3 LIQUIDITY RISK MANAGEMENT

The Company does not seek direct exposure to liquidity risk as a part of its business model, but accepts that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

The Company maintains sufficient funds for business as usual purposes. It also seeks to ensure that exposures to liquidity risk which arise across the Company are effectively managed so that the Company is able to meet payment and collateral obligations under unlikely but plausible, extreme liquidity scenarios.

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

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

C.4.4 LIQUIDITY STRESS TESTING

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

The LCR is defined as total sources of liquidity divided by total liquidity requirements and is calculated separately for each business division, entity, and Group Treasury.

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

C.4.5 EXPECTED PROFIT IN FUTURE PREMIUMS

The total amount of the expected profit included in future premiums (EPIFP) as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulation[7] was £1,818m as at 31 December 2019 (2018: £2,023m).

C.5 OPERATIONAL RISK

C.5.1 RISK EXPOSURE AND MANAGEMENT

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

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

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

C.6 OTHER MATERIAL RISKS

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

We are exposed to the risk that our business operations could be disrupted as Covid-19 becomes more widespread in the UK or US, for example, and should our employees or those who work in our supply chains become unwell. We are additionally exposed to the resilience of certain suppliers with respect to their ability to continue to deliver services with new ways of working and infrastructure limitations. We have already taken action to support the resilience of our business operations, for example extending the capability and capacity for most employees to work from home (including those employees in customer facing roles), and we have well established management procedures to respond to such scenarios as they develop.

From an insurance risk perspective, based on current data, the impact of Covid-19 on the mortality for those that we insure is difficult to predict, although we are continuing to monitor the developing situation and potential range of outcomes. Pandemic risk is considered within the pricing of our protection business and is a key part of our reinsurance and liquidity management strategies, and the capital we hold in excess of regulatory requirements. As part of our ongoing monitoring of Covid-19, we are in close contact with our reinsurance partners to ensure we have a common understanding of the emerging experience, and that they are both operationally and financially ready to support the Company as the pandemic evolves.

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

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

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

C.7 ANY OTHER INFORMATION

C.7.1 SENSITIVITIES

As part of the ORSA process a range of stress tests are carried out. The following sensitivities are provided to give an indication of how the Company's Solvency II surplus as at 31 December 2019 would have changed in a variety of events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be different from adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse scenarios would occur as a combination of stresses to different risks.

Risk	Description	Impact on net of tax capital surplus as at 31 December 2019 (£bn)	Impact on Solvency II coverage ratio as at 31 December 2019 (%)
CREDIT	Credit spreads widen by 100bps assuming a level addition to all ratings[1]	0.2	8
	Credit spreads widen by 100bps assuming an escalating addition to all ratings[1,2]	0.2	7
	Credit spreads narrow by 100bps assuming a level addition to all ratings[1]	(0.3)	(9)
	Credit spreads narrow by 100bps assuming an escalating addition to all ratings[1,2]	(0.3)	(8)
	Credit migration[3]	(0.6)	(10)
MARKET	15% fall in property markets[4]	(0.2)	(3)
	15% rise in property markets[4]	0.2	2
	25% fall in property markets[4]	(0.5)	(7)
	25% fall in equity markets[5]	(0.3)	(4)
	25% rise in equity markets[5]	0.3	4
	100bps decrease in risk free rates[6,7]	(0.9)	(18)
	100bps increase in risk free rates[6]	0.8	20
	50bps decrease in risk free rates[6,7]	(0.5)	(10)
	50bps increase in gilt spreads over EIOPA risk free rates	(0.0)	(0)
	50bps increase in future inflation expectation[6]	(0.1)	(3)
	GBP exchange rates fall by 25%	0.0	0
UNDER-WRITING	Substantially reduced risk margin[8]	0.4	6
	1% increase in annuitant base mortality[6]	0.1	2
	1% decrease in annuitant base mortality[6]	(0.1)	(2)

1. The spread sensitivity applies to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations. Restructured Lifetime Mortgages are excluded.

2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100 basis points.

3. 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, Sale & Leaseback rental strips and LTM senior notes).

4. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.

5. 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.

6. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.

7. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.

8. Assuming a 2/3 reduction in the Risk Margin, allowing for offset from the Transitional Measure on Technical Provisions.

9. Excluding the impact from the Mature Savings business (including the with-profits fund) as the risks have been transferred to ReAssure limited (a subsidiary of Swiss Re) from 1 January 2018 via a risk transfer agreement.

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

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

The sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the Company actively manages its asset and liability positions to respond to market movements. Other than in the interest rate 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 extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results could be different if performed at an alternative reporting date.

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

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

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

D. VALUATION FOR SOLVENCY II PURPOSES

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

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

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

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

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

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

D.1 ASSETS

The Company's assets as at 31 December 2019 are as below:

Assets as at 31 December 2019 (£m)	**Reference**	**Solvency II**	**IFRS**	**Variance**
Deferred acquisition costs	D.1.1.1	**-**	**489**	**(489)**
Intangible assets	D.1.1.1	**-**	**58**	**(58)**
Deferred tax assets		**-**	**1**	**(1)**
Property, plant and equipment held for own use	D.1.1.5	**41**	**41**	**-**
Investments (other than assets held for index-linked and unit-linked contracts)		**95,216**	**95,216**	**-**
Property (other than for own use)		***118***	***118***	**-**
Holdings in related undertakings, including participations	D.1.1.2	***517***	***517***	**-**
Equities		***3,133***	***3,133***	**-**
Bonds		***70,950***	***70,950***	**-**
Collective investments undertakings		***12,473***	***12,473***	**-**
Derivatives		***8,023***	***8,023***	**-**
Deposits other than cash equivalents		***2***	***2***	**-**
Assets held for index-linked and unit-linked contracts		**18,609**	**18,609**	**-**
Loans and mortgages		**6,013**	**6,013**	**-**
Reinsurance recoverables	D.1.1.3	**59,940**	**62,879**	**(2,939)**
Deposits to cedants		**789**	**789**	**-**
Insurance and intermediaries receivables		**53**	**53**	**-**
Reinsurance receivables		**307**	**307**	**-**
Receivables (trade, not insurance)	D.1.1.5	**3,124**	**3,124**	**-**
Cash and cash equivalents		**274**	**274**	**-**
Total Assets		**184,366**	**187,853**	**(3,487)**

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

Assets as at 31 December 2018 (£m)	Reference	Solvency II	IFRS	Variance
Deferred acquisition costs	D.1.1.1	-	471	(471)
Intangible assets	D.1.1.1	-	33	(33)
Deferred tax assets		-	1	(1)
Property, plant and equipment held for own use		9	9	-
Investments (other than assets held for index-linked and unit-linked contracts)		79,534	79,490	44
Property (other than for own use)		*188*	*188*	-
Holdings in related undertakings, including participations	D.1.1.2	*827*	*783*	*44*
Equities		*3,061*	*3,061*	-
Bonds		*60,836*	*60,836*	-
Collective investments undertakings		*10,668*	*10,668*	-
Derivatives		*3,953*	*3,953*	-
Deposits other than cash equivalents		*1*	*1*	-
Assets held for index-linked and unit-linked contracts		18,766	18,766	-
Loans and mortgages		4,269	4,269	-
Reinsurance recoverables	D.1.1.3	36,807	39,906	(3,099)
Deposits to cedants		753	753	-
Insurance and intermediaries receivables		58	58	-
Reinsurance receivables		212	212	-
Receivables (trade, not insurance)		1,471	1,471	-
Cash and cash equivalents		504	504	-
Total Assets		142,383	145,943	(3,560)

D.1.1 SOLVENCY II VALUATION DIFFERENCES

D.1.1.1 DEFERRED ACQUISITION COSTS (DAC) AND INTANGIBLES

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

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

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

D.1.1.2 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

The Company has participations that are not quoted in active markets. Under Solvency II, these are valued using an adjusted equity method where the value of the investment is determined as the Company's share of the subsidiary's net assets valued in accordance with the Solvency II valuation rules. With the General Insurance sale completion at year end 2019, there are no technical provisions valuation differences under Solvency II for any of the participations.

D.1.1.3 REINSURANCE RECOVERABLES

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

D.1.1.4 CHANGES IN ASSUMPTIONS AND VALUATION BASES

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

D.1.1.5 LEASES

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

The Company acts as a lessor for one property accounted for as a finance lease. The lease which relates to the provision of healthcare services is included in the Solvency II balance sheet under Receivables (trade, not insurance) at a value equal to the present value of future lease payments £90m (2018: £91m).

Additionally, the Company leases office buildings, vehicles, IT equipment and investment properties under non-cancellable operating lease agreements. From 1 January 2019, following the implementation of the new IFRS lease standard, such leases are recognised in the Solvency II balance sheet under Property, plant & equipment held for own use with a corresponding lease liability under Payables (trade, not insurance). The right of use assets and lease liabilities are valued in line with IFRS on the grounds of materiality. The values of those lease assets and liabilities as at 31 December 2019 have been £25m and £33m respectively. Lease arrangements where the Company acts as the lessee are disclosed in section A.4.

D.1.2 VALUATION UNCERTAINTY

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

D.2 TECHNICAL PROVISIONS[8]

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

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

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

Technical provisions (£m) As at 31 December 2018	With-profit participation	Index-linked and unit-linked insurance	Other life insurance	Accepted reinsurance	Health insurance	Non-life non-proportional property reinsurance	Total[1,2]
Best estimate liability	8,787	48,287	56,215	964	433	14	114,700
Risk margin	55	45	4,636	116	1	2	4,855
Transitional measure on technical provisions	(55)	(21)	(5,351)	(86)	-	-	(5,513)
Technical provisions total	8,787	48,311	55,500	994	434	16	114,042
IFRS	9,425	49,154	61,661	1,605	730	54	122,629
IFRS to SII BEL variance	(638)	(867)	(5,446)	(641)	(297)	(40)	(7,929)
IFRS to SII Technical provisions variance	(638)	(843)	(6,161)	(611)	(296)	(38)	(8,587)

1. Refer to note D.2.2 for reconciliation between the valuation of IFRS technical provisions and solvency II gross BEL.
2. The non-life general liability insurance is negligible (< £0.5m) and is not split out in the table above.

D.2.1 SOLVENCY II VALUATION BASIS

D.2.1.1 METHODOLOGY

The Technical Provisions (TPs) are calculated as the sum of the Best Estimate Liabilities (BEL) and the Risk Margin (RM) less the Transitional Measure on Technical Provisions (TMTP), which has been calculated in line with PRA approvals and allows for the change in technical provisions from the old Solvency I regime.

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

The BEL reflects the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows) using the relevant risk-free interest rate term structure (including applying the Matching Adjustment where relevant). Deterministic and stochastic valuation techniques are used to calculate the BEL.

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

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

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

Business not included in the full cash flow projections on materiality grounds is explicitly allowed for in the BEL through manual adjustments. The most material un-modelled business reflects non-participating conventional pensions business within the with-profits BEL. Modelling simplifications have been used in the calculation of the BEL, such as the allowance for catastrophe risk (e.g. epidemic and event risks) and mass lapse risk is not allowed for in the BEL, as data is limited. For these risks there is some offsetting movement in the Company's SCR.

The RM is the cost that would be incurred in holding Eligible Own Funds (as defined in the PRA Rulebook for Solvency II firms) to cover the SCR necessary to support the insurance and reinsurance obligations over their lifetime, determined using a cost of capital rate. The RM is calculated separately from the BEL. The RM is the present value of the cost of capital required, to cover the SCR for certain defined risks (referred to here as the RM capital requirement), to meet adverse deviations on the underlying best estimate cash flows over the full run-off of the business. The RM capital requirement covers underwriting risk, credit risk associated with reinsurance contracts and operational risk. Future new business is not allowed for in the RM capital requirement. No allowance is made for the loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC.

The RM is calculated for the Company as a whole, allowing for diversification between the risks within the entity. The discount rate used in the cost of capital calculation is the relevant basic risk-free rate (excluding Matching Adjustment). The cost of capital rate is set to 6% as prescribed in Article 39 of the Delegated Regulation.

Where investment management agreements are in place with Legal and General Investment Management Limited, the TPs are calculated using investment expenses on a fees (rather than costs) basis.

The calculation of the TPs is dependent on the quality of the data underlying the calculations. The data has been assessed in line with Article 48 of Directive 2009/138/EC. This assessment has concluded that the quality and sufficiency of data used in the preparation of the above TPs is such as to enable a reliable and adequate calculation of the technical provisions.

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

D.2.1.1.1 LEGAL & GENERAL RETIREMENT (LGR)

BEST ESTIMATE LIABILITIES (BEL)

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

In addition, insurance undertakings are permitted to apply a Matching Adjustment (MA) to the relevant risk-free interest rate term structure when calculating the best estimate of a portfolio of life insurance obligations, subject to prior approval by the supervisory authorities. The Company has been approved by the PRA to use a MA when calculating the BEL for the majority of annuity business held by the Company. This has been applied in line with the approved application.

RISK MARGIN (RM)

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

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

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

D.2.1.1.2 LEGAL & GENERAL INSURANCE (LGI)

BEST ESTIMATE LIABILITIES (BEL)

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

RISK MARGIN (RM)

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

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

D.2.1.1.3 SAVINGS INCLUDING WORKPLACE SAVINGS

BEST ESTIMATE LIABILITIES (BEL)

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

Stochastic valuation techniques are used where the cash flows exhibit the presence of material financial options and guarantees and management actions that are employed in the management of the With-Profits Fund. Deterministic actuarial projection models are used for all other BEL calculations.

For unit-linked business, the total BEL is split by unit and non-unit components. The unit BEL is the actuarially funded value of current units, including guaranteed additional units.

The with-profits fund has the ability to employ a range of management actions in the management of its business, as set out in the Company's Principles and Practices of Fund Management (PPFM).

The surplus funds in respect of with-profits business relate to accumulated profits which have not been made available for distribution to participating policyholders at the valuation date. The surplus funds reflect the Own Funds, excluding the effect of the RM and the TMTP, and also excluding the present value of future shareholder transfers defined in relation to future discretionary benefits. Surplus funds are shown in Annex 1 QRT S.23 Own funds in R0070.

RISK MARGIN (RM)

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

D.2.1.1.4 GENERAL INSURANCE

The Company's general insurance subsidiary, Legal & General Insurance Limited was sold as at 31 December 2019 to Allianz. The Company has agreed with Allianz to reinsure a small proportion of the business whilst it runs off via a residual reinsurance agreement. Additionally, a small amount of general insurance remained with the Company after the sale of the LGIL business.

D.2.1.2 MAIN ASSUMPTIONS

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

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

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

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

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

D.2.1.2.1 ECONOMIC ASSUMPTIONS

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

RISK FREE YIELD CURVE

The valuation interest rate is based on a risk-free yield curve. The risk-free rate used is calculated based on the methodology implemented by EIOPA, which is applied to construct zero coupon base rates from the underlying swap rates plus a credit risk adjustment. The Company uses a continuously compounding version of this rate.

The Company has received approval from the PRA to apply a Matching Adjustment, which allows for an increase to be applied to the risk-free yield curve for the MA portfolios. No other adjustments have been made to the risk-free rate.

INFLATION

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

UNIT GROWTH

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

PARTICIPATING BUSINESS (MATURE SAVINGS)[9]

The stochastic model is based on a large number of market consistent economic scenarios derived from assumptions consistent with the deterministic assumptions. The model is calibrated using market data from a variety of sources. This enables assumptions to be determined for the term structure of risk-free interest rates, and for property and equity volatility.

Risk-free interest rates are determined as described above. Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

D.2.1.2.2 NON-ECONOMIC ASSUMPTIONS

EXPENSES

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

[9] In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). The legal transfer of the Mature Savings business is expected to complete in 2020.

MORTALITY AND MORBIDITY

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

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

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

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

PERSISTENCY

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

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

PARTICIPATING BUSINESS (MATURE SAVINGS)[10]

Participating business requires additional assumptions on future management and policyholder actions.

FUTURE BONUSES

Future reversionary and terminal bonuses are consistent with the assumed future investment returns and bonus policies set out in the Company's Principles and Practices of Financial Management (PPFM).

GUARANTEED ANNUITY OPTIONS

The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

GUARANTEED CASH OPTIONS

The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

[10] In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). The legal transfer of the Mature Savings business is expected to complete in 2020.

SPOUSE DEMOGRAPHY

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

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

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

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

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

- Base annuitant mortality assumptions have been updated to reflect the most recent experience, and annuitant mortality trend assumptions have been updated to the CMI 2017 model, with no change to the long-term improvement rates (reduction in BEL of £560m gross of reinsurance, £214m net of reinsurance);
- The persistency and mortality assumptions underlying the US Protection business reinsured into the Company have been reviewed, as the book continues to mature and more experience becomes available. (total BEL impact is an increase of £34m);
- Unit Cost expense assumptions were updated to reflect the latest expectations for future expense levels and future expense inflation (increase in BEL of £95m); and
- A reduction in the assumption for future investment fees on the annuity asset portfolio (decrease in BEL of £255m).

D.2.1.4 TRANSITIONAL MEASURES

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

The Company applies the Transitional Measure on Technical Provisions (TMTP). The TMTP was recalculated in accordance with Article 308d of Directive 2009/138/EC at 31 December 2019. The impact of not applying the transitional measure as at the balance sheet date is provided in the table below:

As at 31 December 2019 (£m)	Regulatory basis	Impact	Adjusted balance
Technical provisions	138,096	4,321	142,417
SCR[1]	6,567	609	7,176
MCR	1,642	152	1,794
Basic Own Funds	10,697	(3,595)	7,102
Eligible Own Funds for SCR	10,697	(3,595)	7,102
Eligible Own Funds for MCR	10,697	(3,595)	7,102
Capital coverage ratio	163%	(64)%	99%
MCR coverage ratio	652%	(256)%	396%

1. The Solvency Capital Requirement is not subject to audit

D.2.1.5 VOLATILITY ADJUSTMENT

The Company does not apply a volatility adjustment.

D.2.1.6 MATCHING ADJUSTMENT (MA)

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

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

As at 31 December 2019 the impact of setting the MA to zero is provided in the table below:

As at 31 December 2019 (£m)	Regulatory basis	Impact	Adjusted balance
Technical provisions	138,096	6,953	145,049
SCR[1]	6,567	9,938	16,505
MCR	1,642	2,485	4,127
Basic Own Funds	10,697	(5,771)	4,926
Eligible Own Funds for SCR	10,697	(5,771)	4,926
Eligible Own Funds for MCR	10,697	(5,771)	4,926
Capital coverage ratio	163%	(133)%	30%
MCR coverage ratio	652%	(533)%	119%

1. The Solvency Capital Requirement is not subject to audit

The impact is measured as the change due to setting the MA to zero. The impact has been calculated assuming no recalculation of the TMTP.

Losing MA approval is a remote risk for the business; however Article 296(2d) of the Solvency II Delegated Regulation requires the disclosure of the impact of a change to zero of the Matching Adjustment. We have an extensive controls framework to ensure our on-going MA compliance and we have a regular dialogue with the PRA about our MA strategy.

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

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

As at 31 December 2019 (£m)	2019	2018
Closing gross IFRS Technical provisions *	**145,493**	122,629
Data changes	**(76)**	(142)
Model changes	**(51)**	(51)
Non-economic assumptions	**(7,430)**	(6,420)
Economic assumptions	**3,191**	1,556
Methodology changes	**(3,041)**	(2,871)
Closing Solvency II Gross BEL	**138,086**	114,701

* The gross IFRS Technical Provisions in the table above are consistent with the insurance and investment contract liabilities in the year ended 2019 Legal and General Assurance Society Limited statutory accounts excluding outstanding claims liability of c.£487m, but allowing for with-profits fund unallocated distributable surplus of c.£718m and the value of in-force non-participating business in the with-profits fund of c.£71m.

The reduction in liabilities from non-economic assumptions primarily relates to the removal of margins for adverse deviation allowed for in the IFRS liabilities. The BEL is calculated using best estimate assumptions excluding these prudent margins.

The increase in liabilities from economic assumption differences primarily relates to the move from discounting the cash flows at a prudent valuation interest rate (VIR) under IFRS to using the risk free interest rate term structure plus Matching Adjustment (MA) for eligible liabilities under Solvency II.

Implicit within this step is the allowance for investment expenses, which changes from an implicit allowance within the IFRS VIR to being an explicit cash flow under Solvency II. The same assumption applies under IFRS and under Solvency II; the only difference is in how it is allowed for, which should have very little impact.

The £3bn methodology difference is mainly driven by the difference between floating and fixed legs on longevity swaps (£0.8bn), as the IFRS basis includes prudent margins on the floating leg liabilities; inclusion of (£0.7bn) of unallocated distributable surplus for with-profits business, which is not applicable under Solvency II; and a release of additional provisions for default risk and exchange rates that are held as IFRS liabilities, but under Solvency II are held within the capital requirement (£0.4bn). The remainder (£1.1bn) is mainly due to the difference in accounting treatment as under IFRS a negative non-unit liability for investment business is not permitted, while under Solvency II it is.

D.2.3 REINSURANCE RECOVERABLES

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

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

As at 31 December 2018 (£m)	Gross technical provisions	Reinsurance recoverables	Net technical provisions
With-profit participation	(8,787)	-	(8,787)
Index-linked and unit-linked insurance	(48,311)	29,850	(18,461)
Other life insurance	(55,500)	6,702	(48,798)
Accepted reinsurance	(994)	180	(814)
Health insurance	(434)	75	(359)
Non-life non-proportional property reinsurance	(16)	-	(16)
Total	(114,042)	36,807	(77,235)

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

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

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

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

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

The level of uncertainty in TPs is mitigated through the use of reinsurance to reduce exposure to particularly significant risks such as life expectancy.

The Company calculates the amount of expected profit in the premiums not yet received into the Company (EPIFP). This shows the level of margin that is expected to emerge, if the current assumptions are borne out in practice.

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

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

D.3 OTHER LIABILITIES

As at 31 December 2019 the Company had other liabilities as follows:

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

1 IFRS include the provision recognised on an onerous contract which reflected in the BELs under SII

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

Other liabilities as at 31 December 2018 (£m)	Reference	Solvency II	IFRS	Variance
Provisions other than technical provisions		21	21	-
Deposits from reinsurers		6,104	6,104	-
Deferred tax liabilities	D3.1	924	139	785
Derivatives		2,942	2,942	-
Insurance and intermediaries payables		473	473	-
Reinsurance payables	D3.2	92	698	(606)
Payables (trade, not insurance)	D3.3	6,439	6,565	(126)
Any other liabilities, not shown elsewhere	D3.4	-	48	(48)
Total		16,995	16,990	5

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

D.3.1 DEFERRED TAX LIABILITIES

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

The Company has a total deferred tax liability on the Solvency II balance sheet of £926m (2018: £924m), comprised of the following material components:

(£m)	**Solvency II 2019**	**IFRS 2019**	Solvency II 2018	IFRS 2018
Realised and unrealised gains/(losses) on investments	**311**	**311**	126	126
Excess of depreciation over capital allowances	**(7)**	**(7)**	(9)	(9)
Spread acquisition expenses	**(19)**	**21**	(20)	20
Other	**(15)**	**4**	(12)	2
Difference between tax and accounting value of insurance contracts	**656**	**-**	839	-
Total deferred tax (asset)/liability	**926**	**329**	924	139

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

The Company has the following tax losses for which no deferred tax asset has been recognised:

(£m)	**Gross 2019**	**Net 2019**	Gross 2018	Net 2018
Tax losses in respect of equity and property assets	**61**	**12**	69	14
Trade losses in respect of business transferred in	**12**	**2**	12	2

D.3.2 REINSURANCE PAYABLES

The advance claim liability (ACL) in respect of the Risk Transfer Agreement (RTA) between the Company and ReAssure Limited, which has arisen as part of the sale of the Mature Savings business, is recognised as part of reinsurance payables under IFRS. Under Solvency II, this liability is derecognised and replaced with an RTA liability valued on a discounted best estimate projected cash flow basis as part of the Solvency II reinsurance recoverables (reducing the asset). As at 31 December 2019, the value of the derecognised IFRS RTA liability was £566m (2018: £606m). Following the completion of the sale of the Mature Savings business the RTA will cease to remain in effect.

D.3.3 PAYABLES (TRADE, NOT INSURANCE)

There is a £129m (2018: £126m) valuation difference within payables (trade, not insurance) relating to trail commission which is inadmissible under Solvency II as it is deemed to be intangible (in line with deferred acquisition costs and deferred income liability).

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

D.3.4 ANY OTHER LIABILITIES, NOT SHOWN ELSEWHERE

Under IFRS there is £48m (2018: £48m) of deferred income liabilities, which are intangible and therefore inadmissible under Solvency II. These deferred income liabilities represent initial charges which are spread over the lifetime of the savings contracts, and are recognised under IFRS on contracts where there are no actuarial reserves in order that there is no day 1 profit. Under Solvency II these charges are allowed for in the BEL.

D.4 ALTERNATIVE METHODS FOR VALUATION

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

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

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

PRIVATE CREDIT (INCLUDING COMMERCIAL REAL ESTATE LOANS)

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

INCOME STRIPS

These are property investment assets with lease durations typically in excess of 30 years. This asset class is valued using a discounted future cash flow approach based on comparator bond durations and investment grades, combined with assumptions on initial spread and future inflation factors. The valuation uncertainty element has been assessed by calculating sensitivities to fixed income and property yields.

LIFETIME MORTGAGES LOANS

There is no market-observable value for Lifetime Mortgage assets. However, the amount paid to acquire the assets at outset is objective, and is assumed to be the market value of the loan at the start date.

Each Lifetime Mortgage loan is valued by projecting the expected proceeds and discounting at an appropriate discount rate. The main component of the spread is an estimate of the expected spread if the loan were issued on terms currently offered on new loans (with comparable LTVs). This spread will change over time, and aims to capture movements in the illiquidity premium available from investing in such Lifetime Mortgage assets.

To project the expected proceeds, we make assumptions about: expected future property prices, volatility of property price growth, costs of selling the properties, decrement rates (mortality, morbidity and prepayment, as well as timing lags), running expenses. Valuation uncertainty has been assessed by applying sensitivities to these key valuation assumptions.

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

INVESTMENT PROPERTY

Due to the non-heterogeneity of the property portfolio, the valuation of the Company's property assets are provided by external valuation experts on a quarterly basis which are calibrated to recent precedent transactions in the market place. The external valuations are performed in line with professional valuation standards as prescribed by the Royal Institute of Chartered Surveyors. The valuation uncertainty element has been calculated by using various sensitivity analyses by property type to expected rental yields, property yields, credit ratings and other key inputs.

SALE AND LEASEBACK ARRANGEMENTS

These are in relation to investment property and are accordingly valued in line with those assets. The Sale and Leaseback transactions are valued quarterly by CBRE who also provide a market value and a vacant possession value, both of which are used to split the value of the Sale & Leaseback assets into a rental cash flow stream and a property residual value.

NON TRADED OR ILLIQUID BONDS AND EQUITIES

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

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

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

D.4.1 ADEQUACY OF THE VALUATION COMPARED TO EXPERIENCE

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

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

D.5 ANY OTHER INFORMATION

There were no significant events other than those covered above.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 OBJECTIVES FOR MANAGING OWN FUNDS

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

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

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

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

E.1.2 QUANTITATIVE EXPLANATION OF OWN FUNDS

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

(£m)	**IFRS equity 2019**	**Solvency II Own Funds 2019**	IFRS equity 2018	Solvency II Own Funds 2018
Ordinary shares	**651**	**651**	651	651
Share premium	**1,049**	**1,049**	1,049	1,049
Retained earnings	**4,923**	**-**	4,569	-
Surplus funds	**-**	**443**	-	394
Reconciliation reserve	**-**	**8,554**	-	9,196
Total	**6,623**	**10,697**	6,269	11,290

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

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

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

As at 31 December 2019, the ratio of Eligible Own Funds to cover SCR and the MCR coverage ratio are shown in the table below:

(£m)	Total 2019	Total 2018
Solvency Capital Requirement	**6,567**	7,039
Solvency Surplus	**4,130**	4,251
Ratio of Eligible Own Funds to SCR	**163%**	160%
Minimum Capital Requirement	**1,642**	1,760
Minimum Capital Surplus	**9,055**	9,531
Ratio of Eligible Own Funds to MCR	**652%**	642%

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

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

E.1.4.1 ORDINARY SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2019 the Company had an aggregate issued and paid up ordinary share capital of £651m (2018: £651m) and share premium of £1,049m (2018: £1,049m).

E.1.4.2 SURPLUS FUNDS

The Company recognised £443m (2018: £394m) of surplus funds as at 31 December 2019 which represents the excess assets over liabilities excluding Risk Margin and Transitional Measures on Technical Provisions, of the With-Profits Fund after deducting the present value of expected future shareholder transfers. The surplus funds are available to fully support the With-Profits funds SCR, thereby meeting the criteria for classification as Tier 1 own funds.

The largest contributors to the increase in surplus funds during the year were market movements, partially offset by a distribution of the With-Profits estate.

E.1.4.3 RECONCILIATION RESERVE

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

The calculation of the reconciliation reserve is as follows:

(£m)	**2019**	2018
Excess of assets over liabilities	**10,697**	11,290
Ordinary share capital	**(651)**	(651)
Share premium account	**(1,049)**	(1,049)
Surplus funds	**(443)**	(394)
Reconciliation reserve	**8,554**	9,196

E.1.4.4 ANALYSIS OF CHANGE IN OWN FUNDS

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

(£m)	**Own Funds**
Own Funds as at 31 December 2018	**11,290**
Net surplus generation	**851**
Dividends Paid	**(774)**
Other Operating and non Operating variances	**(670)**
Own Funds as at 31 December 2019	**10,697**

Over 2019, total Own Funds decreased by £593m. Net surplus of £851m was generated from the books of existing and new business.

This was more than offset by the dividend payment of £774m to Legal & General Insurance Holdings Limited (the Company's immediate parent) and £670m of other operating and non-operating variances during the year.

£670m of other operating and non-operating variances during the year is, most notably, due to a £489m decrease of Own Funds following an increase in the quota share reinsurance of annuity business to Legal & General Reinsurance Company Ltd, another group subsidiary. The remaining movement is driven by market movements, trading actions, experience variances and assumption changes (as detailed in D 2.1.3).

E.1.5 RESTRICTIONS ON OWN FUNDS

As at 31 December 2019 there were no restrictions on the Own Funds for any of the Matching Adjustment Portfolios (MAPs) or the ring-fenced funds (RFF) within the Company (2018: nil).

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

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

(£m)	Reference	2019	2018
IFRS equity		**6,623**	6,269
Solvency II Excess of assets over liabilities		**10,697**	11,290
Difference		**4,074**	5,021
Explained by:			
Elimination of intangibles[1]		**(370)**	(330)
Difference in the valuation of technical provisions		**5,024**	6,094
- Valuation differences on technical provisions	D.2	7,397	8,587
- Valuation differences on reinsurance recoverables	D.1	(2,939)	(3,099)
- Valuation differences on reinsurance payables	D.3.2	566	606
Other valuation differences[2]		**18**	43
Deferred tax impacts[3]	D.3	**(598)**	(786)
Total		**4,074**	5,021

1. Includes £489m (2018: £471m) of deferred acquisition costs, £58m (2018: £33m) of intangible assets less £129m (2018: £126m) of trail commission payable and £48m (2018: £48m) of deferred income liabilities.

2. Other valuation differences include fair value adjustments.

3. Includes £1m of deferred tax assets valuation differences.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT[11]

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

The total SCR for the Company as at 31 December 2019 was £6,567m (2018: £7,039m). This was calculated using the group's approved partial internal model. No element of the SCR is subject to supervisory assessment.

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

(£m)	Total SCR
SCR as at 31 December 2018	**7,039**
Net surplus generation	**354**
Market movements	**457**
Other Operating/ Non Operating variances	**(1,283)**
SCR as at 31 December 2019	**6,567**

- Net Surplus Generation includes SCR release from the back-book and the addition from new business written during the year;
- Market Movements represents the impact of changes in investment market conditions over the period and changes to future economic assumptions; and
- Other operating and non-operating variances include a £897m decrease of SCR following an increase in the quota share reinsurance of annuity business to Legal & General Reinsurance Company Ltd, another group subsidiary, from 10% to 25%. Additionally, it includes the impact of experience variances, changes to valuation and capital calibration assumptions, changes to planned volumes of new business, tax rate changes, PRA approval of changes to the Internal Model and Matching Adjustment and other management actions including changes in

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

asset mix, hedging strategies, Matching Adjustment optimisation and updates to the longevity assumptions.

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

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR for the Company is calculated in accordance with the Solvency II Directive and Delegated regulation. The total MCR for the Company as at 31 December 2019 was £1,642m (2018: £1,760m).

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

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

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

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

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

E.4.1 INTERNAL MODEL

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

E.4.1.1 USE OF THE INTERNAL MODEL

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

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

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

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

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

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

E.4.1.2 SCOPE OF THE INTERNAL MODEL

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

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

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

The output of the Internal Model is used:

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

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

E.4.1.3 METHODS USED IN THE INTERNAL MODEL

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

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

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

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

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

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

By ordering the results (i.e. changes in net assets) the empirical aggregated loss distribution can be constructed. If the number of simulations is too small then the estimate of the percentile can be volatile and methods (such as smoothing) are required to stabilise results.

Whilst capital calculations are based upon a one-year VaR approach, the stresses applied in Algo are effectively carried out assuming that the event occurs exactly at the valuation date. An adjustment is made to allow for the investment return (using pre and post stress risk-free rates) that would be earned over the year on the Eligible Own Funds (EOF). For prudence it is assumed that the assets earn a risk free rate of return from the balance sheet date. At the point of the SCR event the EOFs will reduce by the size of the SCR and will then only yield a return at the post stress risk free rate. The 1-in-200 event could occur at any point over the year, however to simplify the calculation of the adjustment, only month-ends are considered.

A simple average of the possible returns (each relating to the event occurring at the end of a different month) gives the expected return, on the assumption that the probability of the event occurring is uniformly distributed across the year.

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

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

E.4.3 MAIN DIFFERENCES AGAINST THE STANDARD FORMULA APPROACH

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

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

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

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

- Property risk capital requirement is lower (pre-diversification between risks) for Standard Formula than Internal Model primarily due to different classifications of certain assets;

- Loss absorbing capacity of deferred taxes (LACoDT) is proportionately lower for Standard Formula as the Standard Formula SCR is materially higher overall, and there are insufficient deferred tax liabilities or sources of future profits to support full LACoDT recoverability under Standard Formula;

- The Internal Model has a non-market risk capital requirement on the group's defined benefit pension schemes, whereas Standard Formula has no requirement for this risk;

- The Internal Model uses a copula approach to aggregate the components rather than the matrix multiplication specified in the Standard Formula. This enables the Internal Model to more accurately allow for interactions between risks and non-normal risk distribution shapes and results in different diversification benefit under the Internal Model; and

- The Internal Model also allows for diversification between the business inside and outside the Matching Adjustment portfolio upon aggregation, whereas the Standard Formula does not.

E.4.4 INTERNAL MODEL DATA

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

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

Data are used to assess:

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

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

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

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

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

E.6 ANY OTHER INFORMATION

LEGAL & GENERAL INSURANCE LIMITED

On 31 December 2019 the Company completed the sale of the General Insurance business to Allianz. The impact of completion of sale on the Company's Solvency II coverage ratio was an increase of circa 1%.

MATURE SAVINGS

On 6 December 2017 the group announced the sale of the Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement (RTA). The impact of the risk transfer agreement has been reflected in the Own Funds and SCR. At the time of writing this report the Part VII transfer of the Mature Savings business is expected to complete in 2020.

ANNEX 1 – QUANTITATIVE REPORTING TEMPLATES (QRTS)

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	-
R0020	Deferred acquisition costs	-
R0030	Intangible assets	-
R0040	Deferred tax assets	-
R0050	Pension benefit surplus	-
R0060	Property, plant & equipment held for own use	40,880
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	95,216,075
R0080	*Property (other than for own use)*	117,637
R0090	*Holdings in related undertakings, including participations*	516,887
R0100	*Equities*	3,133,030
R0110	*Equities - listed*	3,117,560
R0120	*Equities - unlisted*	15,470
R0130	*Bonds*	70,950,398
R0140	*Government Bonds*	11,255,327
R0150	*Corporate Bonds*	58,782,723
R0160	*Structured notes*	-
R0170	*Collateralised securities*	912,348
R0180	*Collective Investments Undertakings*	12,472,966
R0190	*Derivatives*	8,023,487
R0200	*Deposits other than cash equivalents*	1,670
R0210	*Other investments*	-
R0220	Assets held for index-linked and unit-linked contracts	18,608,953
R0230	Loans and mortgages	6,013,429
R0240	*Loans on policies*	79
R0250	*Loans and mortgages to individuals*	4,953,258
R0260	*Other loans and mortgages*	1,060,092
R0270	Reinsurance recoverables from:	59,940,468
R0280	*Non-life and health similar to non-life*	-
R0290	*Non-life excluding health*	-
R0300	*Health similar to non-life*	-
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	19,278,983
R0320	*Health similar to life*	100,848
R0330	*Life excluding health and index-linked and unit-linked*	19,178,135
R0340	*Life index-linked and unit-linked*	40,661,485
R0350	Deposits to cedants	789,360
R0360	Insurance and intermediaries receivables	53,364
R0370	Reinsurance receivables	306,846
R0380	Receivables (trade, not insurance)	3,123,518
R0390	Own shares (held directly)	-
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
R0410	Cash and cash equivalents	273,796
R0420	Any other assets, not elsewhere shown	-
R0500	**Total assets**	184,366,689

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.02.01.02
Balance sheet

		Solvency II value	
	Liabilities	C0010	
R0510	Technical provisions - non-life	43,110	
R0520	*Technical provisions - non-life (excluding health)*	43,110	
R0530	*TP calculated as a whole*	-	
R0540	*Best Estimate*	42,610	Note 1
R0550	*Risk margin*	500	Note 2
R0560	*Technical provisions - health (similar to non-life)*	-	
R0570	*TP calculated as a whole*	-	
R0580	*Best Estimate*	-	Note 1
R0590	*Risk margin*	-	Note 2
R0600	Technical provisions - life (excluding index-linked and unit-linked)	79,335,862	
R0610	*Technical provisions - health (similar to life)*	482,241	
R0620	*TP calculated as a whole*	-	
R0630	*Best Estimate*	479,827	Note 1
R0640	*Risk margin*	2,414	Note 2
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	78,853,621	
R0660	*TP calculated as a whole*	-	
R0670	*Best Estimate*	78,041,732	Note 1
R0680	*Risk margin*	811,889	Note 2
R0690	Technical provisions - index-linked and unit-linked	58,717,942	
R0700	*TP calculated as a whole*	-	
R0710	*Best Estimate*	58,674,619	Note 1
R0720	*Risk margin*	43,323	Note 2
R0730	Other technical provisions	-	
R0740	Contingent liabilities	-	
R0750	Provisions other than technical provisions	38,166	
R0760	Pension benefit obligations	-	
R0770	Deposits from reinsurers	17,851,327	
R0780	Deferred tax liabilities	926,452	
R0790	Derivatives	8,210,430	
R0800	Debts owed to credit institutions	109	
R0810	Financial liabilities other than debts owed to credit institutions	-	
R0820	Insurance & intermediaries payables	498,107	
R0830	Reinsurance payables	101,848	
R0840	Payables (trade, not insurance)	7,945,775	
R0850	Subordinated liabilities	-	
R0860	*Subordinated liabilities not in BOF*	-	
R0870	*Subordinated liabilities in BOF*	-	
R0880	Any other liabilities, not elsewhere shown	-	
R0900	**Total liabilities**	173,669,128	
R1000	**Excess of assets over liabilities**	10,697,561	

Note 1
BELs are shown net of Transitional Measure on Technical Provisions (TMTP) applied.
The total BELs above sum to £137,239m. The total unadjusted BELs of £138,086m can be seen in Section D.2.

Note 2
Risk Margin is shown net of TMTP applied. The total Risk Margin above sums to £858m. The total unadjusted Risk Margin of £4,331m can be seen in Section D.2 .

In total, TMTP of £4,321m was applied, and can be seen in section D.2.1.4 of the report.

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.05.01.02
Premiums, claims and expenses by line of business

Non-life		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance	Total
		Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Property	
		C0060	C0070	C0080	C0160	C0200
	Premiums written					
R0110	*Gross - Direct Business*	-	-	-	-	-
R0120	*Gross - Proportional reinsurance accepted*	-	138,454	1,862	-	140,316
R0130	*Gross - Non-proportional reinsurance accepted*	-	-	-	38	38
R0140	*Reinsurers' share*	-	-	-	-	-
R0200	*Net*	-	138,454	1,862	38	140,354
	Premiums earned					
R0210	*Gross - Direct Business*	-	-	-	-	-
R0220	*Gross - Proportional reinsurance accepted*	-	122,194	3,133	-	125,327
R0230	*Gross - Non-proportional reinsurance accepted*	-	-	-	3,190	3,190
R0240	*Reinsurers' share*	-	-	-	-	-
R0300	*Net*	-	122,194	3,133	3,190	128,517
	Claims incurred					
R0310	*Gross - Direct Business*	-	-	-	-	-
R0320	*Gross - Proportional reinsurance accepted*	(42)	110,046	2,547	-	112,551
R0330	*Gross - Non-proportional reinsurance accepted*	-	-	-	-	-
R0340	*Reinsurers' share*	-	-	-	-	-
R0400	*Net*	(42)	110,046	2,547	-	112,551
	Changes in other technical provisions					
R0410	*Gross - Direct Business*	-	-	-	-	-
R0420	*Gross - Proportional reinsurance accepted*	-	-	-	-	-
R0430	*Gross - Non-proportional reinsurance accepted*	-	-	-	-	-
R0440	*Reinsurers' share*	-	-	-	-	-
R0500	*Net*	-	-	-	-	-
R0550	**Expenses incurred**	(8)	72,487	973	319	73,771
R1200	**Other expenses**					-
R1300	**Total expenses**					73,771

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.05.01.02
Premiums, claims and expenses by line of business

Life		Line of Business for: life insurance obligations				Life reinsurance obligations	Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0280	C0300
	Premiums written						
R1410	*Gross*	148,587	19,697	7,531,407	13,259,937	412,585	21,372,213
R1420	*Reinsurers' share*	30,194	922	7,296,184	14,282,381	91,362	21,701,043
R1500	*Net*	118,393	18,775	235,223	(1,022,444)	321,223	(328,830)
	Premiums earned						
R1510	*Gross*	148,587	19,697	-	12,852,148	412,585	13,433,017
R1520	*Reinsurers' share*	30,194	922	-	14,226,420	91,361	14,348,897
R1600	*Net*	118,393	18,775	-	(1,374,272)	321,224	(915,880)
	Claims incurred						
R1610	*Gross*	91,101	653,402	4,771,054	4,876,167	306,612	10,698,336
R1620	*Reinsurers' share*	19,620	659	1,679,437	2,500,659	9,884	4,210,259
R1700	*Net*	71,481	652,743	3,091,617	2,375,508	296,728	6,488,077
	Changes in other technical provisions						
R1710	*Gross*	53,624	(131,827)	8,014,682	11,836,305	183,193	19,955,977
R1720	*Reinsurers' share*	35,799	-	5,194,467	12,029,280	87,817	17,347,363
R1800	*Net*	17,825	(131,827)	2,820,215	(192,975)	95,376	2,608,614
R1900	**Expenses incurred**	41,605	36,448	172,454	771,185	-	1,021,692
R2500	**Other expenses**						84,394
R2600	**Total expenses**						1,106,086

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts with options or guarantees	Other life insurance	Other life insurance: Contracts without options and guarantees	Other life insurance: Contracts with options or guarantees	Accepted reinsurance	Accepted reinsurance: Insurance with profit participation	Accepted reinsurance: Index-linked and unit-linked insurance	Accepted reinsurance: Other life insurance	Total (Life other than health insurance, incl Unit-linked)
		C0020	C0030	C0050	C0060	C0070	C0080	C0100	C0110	C0120	C0130	C0150
R0010	**Technical provisions calculated as a whole**	-	-		-			-	-	-	-	-
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-	-		-			-	-	-	-	-
	Technical provisions calculated as a sum of BE and RM											
	Best estimate											
R0030	**Gross Best Estimate**	8,578,212		58,662,200		34,558,668	34,564,904	1,199,742	-	12,418	1,187,324	137,563,726
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-		40,661,485		10,902,151	8,034,811	241,172	-	-	241,172	59,839,619
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	8,578,212		18,000,715		23,656,517	26,530,093	958,570	-	-	-	77,724,107
R0100	**Risk margin**	46,720	60,920		4,133,183			87,336	-	-	87,336	4,328,159
	Amount of the transitional on Technical Provisions											
R0110	Technical Provisions calculated as a whole	-	-		-			-	-	-	-	-
R0120	Best estimate	-	-	-	-	(407,644)	(424,983)	(14,748)	-	-	-	(847,375)
R0130	Risk margin	(46,720)	(17,597)		(3,349,306)			(59,325)	-	-	-	(3,472,948)
R0200	**Technical provisions - total**	8,578,212	58,705,523		69,074,822			1,213,005	-	-	-	137,571,562

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.12.01.02
Life and Health SLT Technical Provisions

		Health insurance (direct business)			Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees	
		C0160	C0170	C0180	C0210
R0010	**Technical provisions calculated as a whole**	-			-
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-			-
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
R0030	**Gross Best Estimate**		165,745	314,082	479,827
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		47,117	53,731	100,848
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		118,628	260,351	378,979
R0100	**Risk margin**	2,414			2,414
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole	-			-
R0120	Best estimate	-	-	-	-
R0130	Risk margin	-			-
R0200	**Technical provisions - total**	482,241			482,241

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance	Total Non-Life obligation
		Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Non-proportional property reinsurance	
		C0070	C0080	C0090	C0170	C0180
R0010	**Technical provisions calculated as a whole**	-	-	-	-	-
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-	-	-	-	-
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	**Gross - Total**	-	28,912	-	-	28,912
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-	-	-	-
R0150	**Net Best Estimate of Premium Provisions**	-	28,912	-	-	28,912
	Claims provisions					
R0160	**Gross - Total**	-	13,355	342	-	13,697
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-	-	-	-
R0250	**Net Best Estimate of Claims Provisions**	-	13,355	342	-	13,697
R0260	**Total best estimate - gross**	-	42,267	342	-	42,609
R0270	**Total best estimate - net**	-	42,267	342	-	42,609
R0280	**Risk margin**	-	500	-	-	500
	Amount of the transitional on Technical Provisions					
R0290	TP as a whole	-	-	-	-	-
R0300	Best estimate	-	-	-	-	-
R0310	Risk margin	-	-	-	-	-
R0320	**Technical provisions - total**	-	42,767	342	-	43,109
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-	-	-	-	-
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	-	42,767	342	-	43,109

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.22.01.21
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	138,096,913	4,320,323	-	-	6,953,028
R0020	**Basic own funds**	10,697,561	(3,595,100)	-	-	(5,771,014)
R0050	**Eligible own funds to meet Solvency Capital Requirement**	10,697,561	(3,595,100)	-	-	(5,771,014)
R0090	**Solvency Capital Requirement**	6,567,239	608,699	-	-	9,938,321
R0100	**Eligible own funds to meet Minimum Capital Requirement**	10,697,561	(3,595,100)	-	-	(5,771,014)
R0110	**Minimum Capital Requirement**	1,641,810	152,175	-	-	2,484,580

Note
The information disclosed in this template is as defined in Annex I of Commission Implementing Regulation (EU) 2015/2542, and is at 31 December 2019.
Values in this table alone do not provide sufficient information to gain fair and transparent understanding of the company’s solvency position.

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

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	651,430	651,430		-	
R0030	Share premium account related to ordinary share capital	1,048,914	1,048,914		-	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	-	-		-	
R0050	Subordinated mutual member accounts	-		-	-	-
R0070	Surplus funds	442,513	442,513			
R0090	Preference shares	-		-	-	-
R0110	Share premium account related to preference shares	-		-	-	-
R0130	Reconciliation reserve	8,554,704	8,554,704			
R0140	Subordinated liabilities	-		-	-	-
R0160	An amount equal to the value of net deferred tax assets	-				-
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	-	-	-	-	-
R0290	**Total basic own funds after deductions**	10,697,561	10,697,561	-	-	-
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	-			-	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-			-	
R0320	Unpaid and uncalled preference shares callable on demand	-			-	-
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-			-	-
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-			-	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-			-	-
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	-
R0390	Other ancillary own funds	-			-	-
R0400	**Total ancillary own funds**	-			-	-
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	10,697,561	10,697,561	-	-	-
R0510	Total available own funds to meet the MCR	10,697,561	10,697,561	-	-	
R0540	Total eligible own funds to meet the SCR	10,697,561	10,697,561	-	-	-
R0550	Total eligible own funds to meet the MCR	10,697,561	10,697,561	-	-	
R0580	**SCR**	6,567,239				
R0600	**MCR**	1,641,810				
R0620	**Ratio of Eligible own funds to SCR**	163%				
R0640	**Ratio of Eligible own funds to MCR**	652%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	10,697,561
R0710	Own shares (held directly and indirectly)	-
R0720	Foreseeable dividends, distributions and charges	-
R0730	Other basic own fund items	2,142,857
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-
R0760	**Reconciliation reserve**	8,554,704
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	1,817,606
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,817,606

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.25.02.01
Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	
	C0010	C0020	C0030	C0070	
4	10300I	Interest rate risk (other than pension scheme)	66,005	66,005	
5	10400I	Equity risk (other than pension scheme)	994,782	994,782	
6	10600I	Property risk (other than pension scheme)	830,630	830,630	
7	10700I	Spread risk (other than pension scheme)	3,982,479	3,982,479	
8	10800I	Concentration risk (other than pension scheme)	-	-	
9	10900I	Currency risk (other than pension scheme)	234,677	234,677	
10	11000I	Other market risk (other than pension scheme)	721,653	721,653	
11	10300P	Interest rate risk (pension scheme)	-	-	
12	10400P	Equity risk (pension scheme)	-	-	
13	10600P	Property risk (pension scheme)	-	-	
14	10700P	Spread risk (pension scheme)	-	-	
15	10800P	Concentration risk (pension scheme)	-	-	
16	10900P	Currency risk (pension scheme)	-	-	
17	11000P	Other market risk (pension scheme)	-	-	
18	19900I	Diversification within market risk (including pension scheme)	(135,964)	(135,964)	Note 1
19	20100I	Type 1 counterparty risk	467,060	467,060	
20	20200I	Type 2 counterparty risk	-	-	
21	29900I	Diversification within counterparty risk	-	-	Note 1
22	30100I	Mortality risk	239,769	239,769	
23	30200I	Longevity risk (other than pension scheme)	3,223,837	3,223,837	
24	30200P	Longevity risk (pension scheme)	-	-	
25	30400I	Mass lapse	241,019	241,019	
26	30500I	Other lapse risk	291,097	291,097	
27	30600I	Expense risk	632,906	632,906	
28	30800I	Life catastrophe risk	613,584	613,584	
29	30900I	Other life underwriting risk	-	-	
30	39900I	Diversification within life underwriting risk	(1,820,147)	(1,820,147)	Note 1
31	41600I	Other health underwriting risk	160,418	160,418	
32	50100I	Premium risk	-	-	
33	50200I	Reserve risk	-	-	
34	50150I	Premium risk if premium risk covers premium provision and business planned to be written in coming 12 months combined	83,783	83,783	
35	50210I	Reserving risk if claims provision and premium provision combined	18,374	18,374	
36	50300I	Non-life catastrophe risk	82,075	82,075	
37	59900I	Diversification within non-life underwriting risk	(54,685)	(54,685)	Note 1
38	70100I	Operational risk	1,009,783	1,009,783	
39	80100I	Other risks	-	-	
40	80200I	Loss-absorbing capacity of technical provisions	-	-	
41	80300I	Loss-absorbing capacity of deferred tax	(1,269,999)	(1,269,999)	
42	80400I	Other adjustments	(126,773)	(126,773)	

	Calculation of Solvency Capital Requirement	C0100	
R0110	Total undiversified components	10,486,366	Sum of components above
R0060	Diversification[2]	(3,919,127)	Note 2
R0120	Adjustment due to RFF/MAP nSCR aggregation	-	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-	
R0200	**Solvency capital requirement excluding capital add-on**	6,567,240	
R0210	Capital add-ons already set	-	
R0220	**Solvency capital requirement**	6,567,240	Total plus diversification

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	(1,160,976)
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	(1,269,999)
R0400	Capital requirement for duration-based equity risk sub-module	-
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	2,434,536
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	497,912
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	4,344,655
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	4
R0460	Net future discretionary benefits	2,234,283

Note 1
These items represent diversification within individual risk categories. The total diversification within categories is £2,010,796k.

Note 2
The item represents diversification between risk categories. The total diversification within and between risks categories is £5,929,923k.

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019
Values are shown in £'000
S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities	Life activities
		MCR(NL,NL) Result	MCR(NL,L) Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	14,642	-

		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months	Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance) written premiums in the last 12 months	α	β	non-life α.D + β.E	life α.F + β.G
		C0030	C0040	C0050	C0060				
R0020	Medical expense insurance and proportional reinsurance	-	-	-	-	4.7%	4.7%	-	-
R0030	Income protection insurance and proportional reinsurance	-	-	-	-	13.1%	8.5%	-	-
R0040	Workers' compensation insurance and proportional reinsurance	-	-	-	-	10.7%	7.5%	-	-
R0050	Motor vehicle liability insurance and proportional reinsurance	-	-	-	-	8.5%	9.4%	-	-
R0060	Other motor insurance and proportional reinsurance	-	-	-	-	7.5%	7.5%	-	-
R0070	Marine, aviation and transport insurance and proportional reinsurance	-	-	-	-	10.3%	14.0%	-	-
R0080	Fire and other damage to property insurance and proportional reinsurance	42,267	138,453	-	-	9.4%	7.5%	14,357	-
R0090	General liability insurance and proportional reinsurance	342	1,862	-	-	10.3%	13.1%	279	-
R0100	Credit and suretyship insurance and proportional reinsurance	-	-	-	-	17.7%	11.3%	-	-
R0110	Legal expenses insurance and proportional reinsurance	-	-	-	-	11.3%	6.6%	-	-
R0120	Assistance and proportional reinsurance	-	-	-	-	18.6%	8.5%	-	-
R0130	Miscellaneous financial loss insurance and proportional reinsurance	-	-	-	-	18.6%	12.2%	-	-
R0140	Non-proportional health reinsurance	-	-	-	-	18.6%	15.9%	-	-
R0150	Non-proportional casualty reinsurance	-	-	-	-	18.6%	15.9%	-	-
R0160	Non-proportional marine, aviation and transport reinsurance	-	-	-	-	18.6%	15.9%	-	-
R0170	Non-proportional property reinsurance	-	38	-	-	18.6%	15.9%	6	-
							TS MCR.12	14,642	-

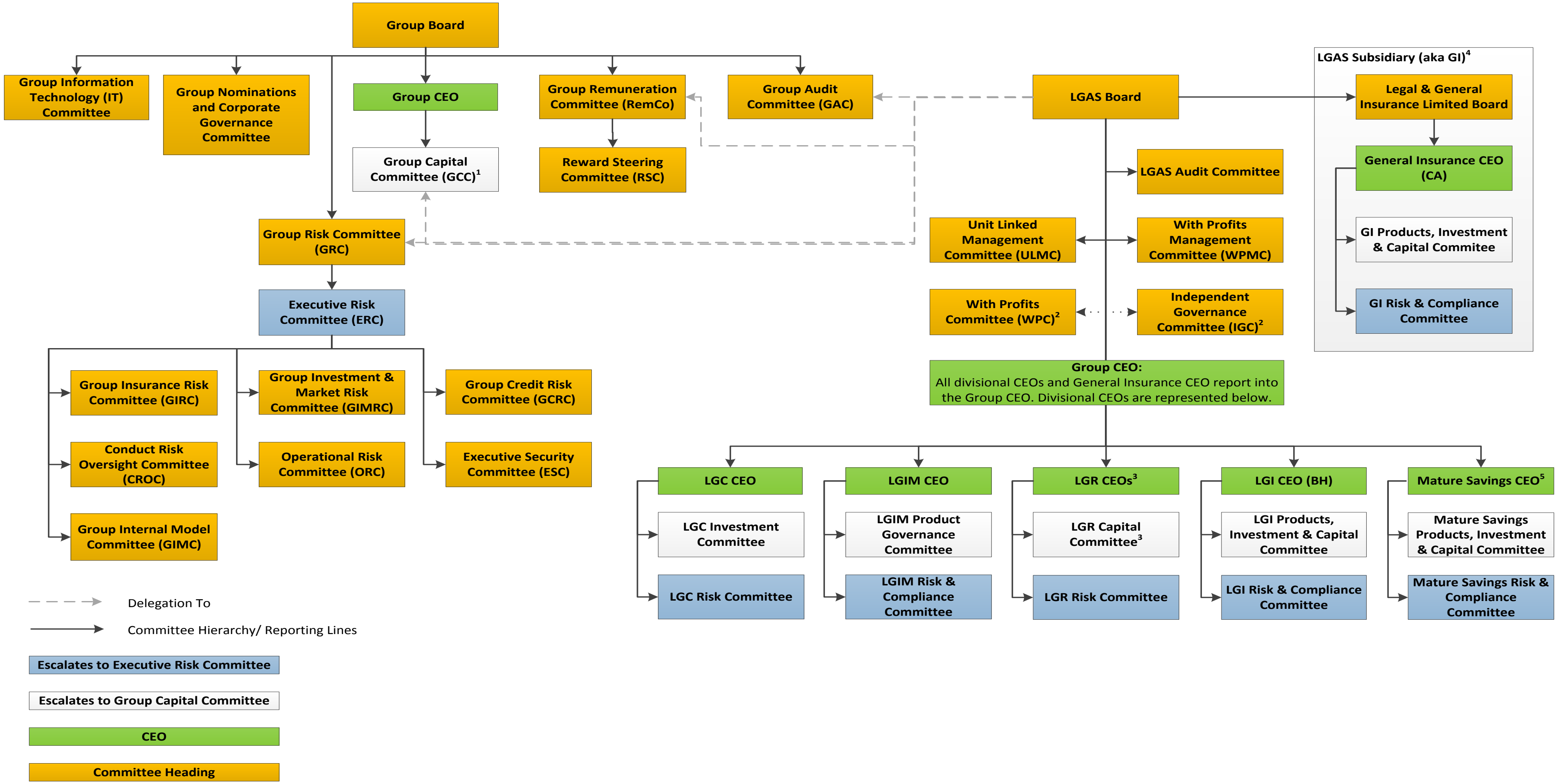
		MCR(L,NL) Result	MCR(L,L) Result
		C0070	C0080
R0200	**Linear formula component for life insurance and reinsurance obligations**	-	1,547,004

		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance/SPV) total capital at risk	Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/SPV) total capital at risk	α	non-life	life
		C0090	C0100	C0110	C0120			
R0210	Obligations with profit participation - guaranteed benefits	-		5,182,953		3.7%	-	191,769
R0220	Obligations with profit participation - future discretionary benefits	-		3,395,258		-5.2%	-	(176,553)
R0230	Index-linked and unit-linked insurance obligations	-		18,013,134		0.7%	-	126,092
R0240	Other life (re)insurance and health (re)insurance obligations	-		50,664,364		2.1%	-	1,063,952
R0250	Total capital at risk for all life (re)insurance obligations		-		488,205,869	0.07%	-	341,744
						TS MCR.13	-	1,547,004

	Overall MCR calculation	C0130
R0300	Linear MCR	1,561,646
R0310	SCR	6,567,239
R0320	MCR cap	2,955,257
R0330	MCR floor	1,641,810
R0340	Combined MCR	1,641,810
R0350	Absolute floor of the MCR	5,340
R0400	**Minimum Capital Requirement**	1,641,810

	Notional non-life and life MCR calculation	Non-life activities	Life activities
		C0140	C0150
R0500	Notional linear MCR	14,642	1,547,004
R0510	Notional SCR excluding add-on (annual or latest calculation)	61,576	6,505,662
R0520	Notional MCR cap	27,709	2,927,548
R0530	Notional MCR floor	15,394	1,626,416
R0540	Notional combined MCR	15,394	1,626,416
R0550	Absolute floor of the notional MCR	2,153	3,187
R0560	**Notional MCR**	15,394	1,626,416

ANNEX 2 – ENTITY GOVERNANCE OVERSIGHT STRUCTURE



[1] Management committee

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

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

[4] The General Insurance disposal completed on 31 December 2019

[5] The legal transfer of Mature Savings business is expected to complete in 2020.

ANNEX 3 – MAIN ASSUMPTIONS UNDERLYING TECHNICAL PROVISIONS

Non-linked individual term assurances [1]	
Smokers	86% TMS08/TFS08 Sel 5
Non-smokers	90% TMN08/TFN08 Sel 5
Non-linked individual term assurances with terminal illness[1]	
Smokers	54-90% TMS08/TFS08 Sel 5
Non-smokers	79-89% TMN08/TFN08 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012) [2]	
Smokers	93% - 118% ACMS04/ACFS04
Non-smokers	104% - 121% ACMN04/ACFN04
Non-linked individual term assurances with critical illness (Sold from 01/01/2013) [2]	
Smokers	97% - 123% ACMS04/ACFS04
Non-smokers	108% - 137% ACMN04/ACFN04
Whole of Life[3]	
Smokers	Bespoke tables based on TMS08/TFS08, AM92/AF92 and UK death registrations
Non-smokers	Bespoke tables based on TMN08/TFN08, AM92/AF92 and UK death registrations
Annuities	
Annuities in deferment[4, 5]	78.6% - 88.2% PNMA00/PNFA00
Bulk purchase annuities in payment[5]	78.6% - 88.2% PCMA00/PCFA00
Other annuities[5]	67.9% - 105.5% PCMA00/PCFA00

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

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

3. The percentage of the TM08/TF08 tables varies with the duration that the policy has been in-force for the first five years. Thereafter, a bespoke mortality table constructed based on TM08/TF08 tables, AM92/AF92 tables and UK death registrations. Mortality rates are assumed to reduce based on CMI2016 model with a long term annual improvement rate of 1.5% for males and 1.0% for females.

4. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.

5. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2017 with the following parameters:

Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110
Females: Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110

Smoothing is applied to derive initial rates using a smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2017. The resulting initial rates are then adjusted to reflect socio economic class. (2018: smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2016).

Different business classes have different effective dates for applying improvers. For certain annuities, a further allowance is made for the effect of initial selection. The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards

Lapse Rates

	Years 1-5	Years 6-10	Years 11+
Level Term	6.8% - 21.1%	3.7% - 7.7%	2.8% - 4.8%
Decreasing Term	5.1% - 12.7%	6.9% - 9.3%	6.4% - 8.0%
Investment Bond	1.1% - 4.1%	4.6% -11.4%	4.4% - 7.1%

Glossary

A

ALM

Asset liability management.

Annuity

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

B

Basic Own Funds

The surplus of assets over liabilities and subordinated liabilities.

Best Estimate Liability (BEL)

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

C

Capital coverage ratio

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

CEO

Chief Executive Officer.

Code Staff

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

CRO

Chief Risk Officer.

D

DAC

Deferred acquisition costs.

E

EEA

European economic area.

EIOPA

European Insurance and Occupational Pensions Authority.

Eligible Own Funds (EOF)

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

EPIFP
Expected profit included in future premiums.

G

GIMC
Group Internal Model Committee.

I

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

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

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

L

LGA
Legal & General America.

LGAS
Legal and General Assurance Society Limited.

LG Re
Legal & General Reinsurance Limited.

LGC
Legal & General Capital division.

LGI
Legal & General Insurance division.

LGIL
Legal & General Insurance Limited.

LGIM
Legal & General Investment Management division.

LGR
Legal & General Retirement division.

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 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long-term care or on death.

A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

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

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

M

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

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

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

MI
Management information.

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

N

Notional Solvency Capital Requirement
A Notional Solvency Capital requirement is calculated for a specific group of business, such as the with-profits fund, on a standalone basis.

O

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

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

P

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

PIM
Partial internal model.

PMC
Legal and General Assurance (Pensions Management) Limited.

PPE
Property, plant and equipment.

PPFM
The principles and practices of financial management (PPFM) used to manage the with-profits business.

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

Q

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

R

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

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

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

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

S

SBP
Share bonus plan.

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

SFCR
Solvency and Financial Condition Report.

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

Solvency II
Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholders.

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

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

SPV
Special purpose vehicle.

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

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

T

TMTP
Transitional measure on technical provisions.

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

U

ULMC
Unit-Linked Management Committee.

V

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

W

With-profits fund

Individually identifiable portfolios where policyholders have a contractual right to receive additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. An insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.

WPMC

With-Profits Management Committee.

Y

Yield

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