Company Number 00166055

Legal and General Assurance Society Limited
Report and Accounts 2022

Contents

The directors present their strategic report for Legal and General Assurance Society Limited ("LGAS" or "the Company") for the year ended 31 December 2022.

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

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

Review of the business
The Company's total profit before tax for the year was £2,049m (2021: £1,914m).

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

Institutional Retirement
The institutional retirement business provides pension risk transfer ('PRT') services, helping defined benefit pension funds to secure their members' retirement income. It utilises its deep expertise in the science of life expectancy to accurately assess the risks associated with each contract and, therefore, how much income is expected to be provided to customers. A margin is charged on the initial amount received in exchange for assuming the risk over the lifetime of the policy. The funds received are invested in high quality assets, which generate returns whilst ensuring policyholder pensions are able to be paid in full as they fall due.

2022 was another successful year for PRT, having written £7.3bn of premiums (2021: £6.2bn) demonstrating an agile and efficient operating model. Profit growth was underpinned by the performance of our global annuity portfolio and robust new business volumes aided by our competitive advantage in originating assets via Legal & General Capital, lifetime mortgages via Legal & General Home Finance and sourcing assets via Legal & General Investment Management ("LGIM").

Retail
Individual Annuities
Individual annuity sales were £954m (2021: £957m) in what has been a challenging market during 2022, with the macro-economic environment impacting the timing of retirement. Our performance has remained strong with a combination of our operational service, competitive pricing and intermediary presence enabling LGAS to maintain a market share of 20.3% in Q3 2022 (source: ABI data). Following the increase in interest rates over the second half of the year, LGAS saw demand for individual annuities, and in particular fixed term annuities, increase towards the end of the year and this is expected to continue into 2023.

Protection
Retail protection gross premium income increased 3% to £1,485m (2021: £1,444m), with new business Annual Premium Equivalent ("APE") of £171m (2021: £200m) in a smaller market (2021 benefitted from a buoyant housing market driven by stamp duty relief). L&G held a market share of 23% in Q3 2022 (source: ABI data) and maintained the position as the leading provider of retail protection in the UK, delivering a point-of-sale decision for more than 81% of our customers.

Group protection new business APE was £107m (2021: £88m) with gross written premiums increasing 5% to £427m (2021: £405m). Our online "quote and apply" platform for smaller schemes continues to perform well, processing 600 new clients over the year (2021: 80) and we are seeing strong growth in this part of the market. Group protection supported 3,223 members of income protection schemes to return to work during 2022.

Workplace Savings
Workplace Savings net flows in 2022 were £7.3bn (2021: £8.5bn), driven by continued client wins and increased contributions. Members on the Workplace pension platform increased to 4.9 million at the end of the year (2021: 4.4 million). Our core focus is on better assisting these members to plan for their retirement whilst they are saving with us, as well as when they come to retirement. This will drive better customer outcomes and, at the same time, help us to retain more of our customers in retirement. There is currently c£600bn in UK Defined Contribution ("DC") accumulation assets and this is expected to more than double over the next ten years (source: Broadridge, UK Defined Contribution and Retirement Income report 2021). As a market leading provider in Workplace Savings, we are well placed to benefit from this expected increase in DC pension assets, and to grow administration revenues for the Retail division and fund management revenues for LGIM.

Capital investment
The Company's shareholder capital is used to generate long-term value and attractive financial returns through investing in key sectors where there has been a shortage of investment and innovation. Capital is also deployed to support the Company in originating eligible assets to back annuity liabilities, whilst operating within agreed portfolio risk appetite levels. The direct investment portfolio delivered positive returns in 2022. Investments continue to be made in alternative assets aligned to the Group's strategic priorities, such as clean energy, life sciences and developing our housing platform. The traded portfolio reflects negative equity returns driven by macro-economic factors impacting equity markets, notably global increases in central bank interest rates, persistent high inflation and near term recession risks across the US, UK and Europe. The investments within the portfolio are in line with the Group's Task Force on Climate Related Financial Disclosures (TCFD) commitments.

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

		2022 £m	2021 £m
IFRS profit before tax	This measures the profit or loss in a single period before deducting tax	2,049	1,914
Shareholder funds	This represents the assets that remain once all the Company's liabilities have been accounted for	8,413	7,530
Net cash flows from operating activities	This represents the net cash inflow for the Company from ongoing, regular business activities	1,178	739
Company capital surplus[1,2]	This represents the Company's Solvency II capital surplus	5,091	3,551
Standard & Poor financial strength rating	External credit rating demonstrating the Company's financial strength	AA-	AA-

[1]The Solvency II results are estimated and unaudited; see Note 42 of the financial statements for more information.
[2]The £1,540m increase in capital surplus was due to a £1,728m decrease in Solvency Capital Requirement offset by a £188m decrease in Own Funds. The increase in capital surplus is primarily due to the impact of increases in interest rates in 2022.

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

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

The Company's capital position remains strong with a £5.1bn Solvency II surplus (2021: £3.6bn) and a coverage ratio of 207% (2021: 155%), after paying a dividend of £784m (2021: £902m) to the Company's immediate parent company Legal & General Insurance Holdings Limited. The Company's capital position is covered further in Note 42.

Principal risks and uncertainties
A detailed review of the Company's inherent exposures to market, credit, insurance, liquidity and operational risks, together with the framework for their management and control is set out in Note 44 of the financial statements.

The principal risks and uncertainties facing the Company are:

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

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

The Company has assessed the impact of FCA's Consumer Duty rules, which come into effect in 2023, and is implementing changes to comply with the new requirements. The implementation is not expected to have a material effect on strategy or profitability.

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

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

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

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

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

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

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

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

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

There remains uncertainty about the long-term impact of Covid-19 on mortality and morbidity rates. Vaccines have had a significant effect in reducing mortality rates from Covid-19, however uncertainty remains to future virus mutations, the long-term efficacy of vaccines and the effects of "long COVID". The deferral of some non-Covid-19 medical treatments during the course of the pandemic may also impact trends in future mortality.

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

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

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

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

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

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

Section 172(1) Statement & Stakeholder engagement

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

By Order of the Board

L. Cornish
On behalf of Legal & General Co Sec Limited
Company Secretary
6 March 2023

Section 172 (1) Statement and Stakeholder Engagement

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

As part of the wider Legal & General Group (the "Group"), taking into account the relative size and complexity of LGAS and centralised nature of the Group, the Board may consider it reasonable for decision making to be handled by the Group Board. In such cases, this will be articulated in the Statement and reference provided to the Group's Annual Report & Accounts for the year ended 2022 ('Group Annual Report & Accounts'), which can be found here: www.legalandgeneralgroup.com/investors/results-reports-and-presentations

The reporting legislation around stakeholder engagement is welcomed by the Board and the commentary and table below sets out our s.172(1) Statement. This statement provides details of key stakeholder engagement undertaken by the Board during the year and how this helps the Board to factor potential impacts on stakeholders in the decision-making process. Additional details of the Group's key stakeholders and why they are important to us are set out in the Group's Annual Report & Accounts.

General

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

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

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

Stakeholder considerations are embedded in the decision-making of the Board and all key decision making forums throughout the Group. As part of the paper-submission process, all business propositions must demonstrate that potential impacts to all stakeholder groups have been considered. Details of the potential impacts to our key stakeholders are included in the cover sheet for each Group and subsidiary Board paper throughout the year, where relevant. For each transaction approved by the Board, including but not limited to material acquisitions and strategic expansion, discussion takes place in relation to the impact on stakeholders. The Board seeks to understand the views, priorities and issues of each stakeholder group so that these can be carefully considered by the Board. Whilst not all decisions affect every stakeholder group, the Board endeavours to balance the sometimes, conflicting needs of its stakeholders, to ensure that all groups are treated consistently and fairly.

Principal decisions

For the year ended 31 December 2022, the Board consider that the following are examples of principal decisions that it made in the year:

- Approval of the Annual Report and Accounts for the year ended 31 December 2021
- Approval of the Annual Business Plan for 2023-2027
- Declaration of the interim half year and year end dividends
- Approval of significant Pension Risk Transfer transactions, such as the various transactions with the British Steel Pension Scheme under an umbrella contract totalling approximately £5bn of pension liabilities
- Approval of the AAF 01-20 Assurance Report for 2020 to 2021
- Approval of investments by the Company's Shareholder Fund in 100% owned subsidiaries holding a portfolio of construction-ready solar photovoltaic parks and 50% equity stake in Bruntwood SciTech Limited
- Approval of the LGAS Own Risk & Solvency Assessment (ORSA)
- Approval of investment and expenditure in technology within the Workplace Savings business area
- Approval of an in-house 'At-Retirement' advice service proposition
- Approval of the implementation of the Build to Rent (BTR) Notes Programme
- Approval of the Climate Roadmap and Climate Report
- Approval of the Consumer Duty Implementation Plan
- Approval of Non-Executive Director re-appointments to the Company's Board and various appointments to the Mastertrust Board of Trustees and Independent Governance Committee
- Approval of the appointment of a new Chief Actuary

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

Stakeholders & their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
Shareholders Our shareholders are vital to the future success of our business, providing funds which aid business growth and the generation of sustainable returns.	Our ultimate shareholder is Legal & General Group Plc, whose shareholders are institutional and individual investors who own Legal & General shares or bonds. Performance metrics and updates are provided by the Board to our parent company, with subsidiary performance cascaded up the Group. As a significant subsidiary, LGAS is closely overseen by the Group Board and its Business Plan forms a substantive part of the Group Plan. The Chair of the Board is also a Non-Executive Director on the Group Board and a member of the Group Risk Committee. At every meeting, the Board considers and recommends items requiring escalation to the Group Board to ensure robust and regular reporting.	As a Board, we aim to provide clear information to our parent company and ultimate shareholders, being honest and transparent as to the performance of the business. Value is generated for shareholders by achieving the Business Plan, providing a sustainable, progressive dividend (where appropriate) and through share price performance of the ultimate shareholder, Legal & General Group Plc.
Customers Listening to our customers helps us to better understand their needs and provide suitable and reliable products and services.	Our Group teams are dedicated to making sure we constantly refine what we do – making customers feel confident that we're delivering our promises to them in everything we do. At every meeting, the Board receives the latest customer management information and, from December 2022, progress updates on the implementation of the Customer Duty Programme (in line with the FCA's new regulation that requires firms to act to deliver good outcomes for retail customers).	The Board received regular customer MI throughout the year, including updates on telephony and administration performance, customer satisfaction scores and digital service performance. Customer research activity remains ongoing across the group, including a specific customer segmentation research project within our Retail division to help provide us with a more detailed understanding of each of our customer segments' product holding needs, behaviours and attitudes. Relevant insights are shared with the Board.

Stakeholders & their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
Workforce Engaging with our people enables us to create an inclusive company culture and a positive working environment.	Engagement with employees through the Group-wide 'Voice Survey' continued. The survey provided insight into our employees' engagement and productivity and maintained an alignment with the Group's cultural values. Following this survey, action plans at Group, divisional and local level were devised and implemented. At a Group-level, we have a Designated Workforce Director on the Group Board who actively engages with employees and provides insights gained, as well as bringing together various mechanisms to enable better employee representation across the Group. A more detailed explanation of the activities of the Group Designated Workforce Director can be found in the Group Report & Accounts. These methods of engagement ensure that we continue to foster an inclusive and supportive working environment for our employees, thus ensuring the sustainability of the Company in the long term. The Group HR Director attends Board meetings on a regular basis to provide updates on employee engagement, culture and the voice survey results.	Our robust, well-embedded remote working solutions continued to keep employees engaged, working efficiently and servicing our customers effectively whilst working remotely. Throughout the year, employee satisfaction scores and response rates from the Group 'Your Voice' survey remained strong and stable. The Board received updates on the implementation of, and key milestones in relation to, the Future of Work Programme which was created in response to changing candidate and employee expectations resulting from the Covid-19 pandemic to enable productivity, resilience and wellbeing through how we work. In December 2022, the Director of Talent and Capability hosted a Board session on Talent Succession and Development.

Stakeholders & their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
Suppliers Interaction with our suppliers and treating our suppliers fairly allows us to drive high standards and reduce risk in our supply chain whilst also benefitting from cost efficiencies and generating positive outcomes for the environment and wider society.	As a Group we hold regular meetings with our key suppliers to ensure that risks are proactively managed and that our suppliers are up to date on latest developments and best practice. We strive to work with like-minded businesses, requiring suppliers to comply with our Supplier Code of Conduct. This safeguards the relationship and establishes standards that ensure suppliers operate ethically, are environmentally responsible and that their workers are treated with respect and dignity. A more detailed explanation of the activities undertaken at a Group level with our suppliers can be found in the Group Annual Report & Accounts.	The Group CFO and the Board of Legal & General Resources Limited Board, our main supplier contracting entity, received regular Procurement updates throughout the year. This included updates on material procurements, relationships with suppliers and associated performance. The Board receives detailed supplier dashboards on service performance and contract governance as part of the Bi-Annual IT Update from the Group Chief Technology Officer. The use of suppliers continued to be a key area of consideration for the Board in the approval of funding for major change programmes. In October 2022, the Board received a detailed update on the services provided by, and relationship between, the investment manager, LGIM, to the Company.
Regulators Active engagement with the government and regulators helps to ensure that standards across our business and across the industry are maintained in order to protect our customers.	As would be expected of a large, diversified group, Legal & General is proactively supervised by the primary regulators in the UK. Our engagement consists of regular scheduled meetings with senior managers, routine deep dive activity, and occasional inclusion in thematic reviews. Legal & General places high importance on having an open and transparent relationship with all regulators and promotes a collaborative approach through on-going regulatory interactions. As a Group, we recognise the value of strong regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies to develop responses to developing issues that meet the needs of all stakeholders.	As a regulated Board we value the on- going engagement with our regulators. The dialogue plays an important part in Board discussions and debate. The Board, as part of its decision making, takes into consideration the impact of its decisions on, among other things, its Risk Appetite and Solvency position. During the year, there was active engagement with regulators on managing new business flows, and capital budgets which influenced the major decision making of the Board. The Non-Executive Directors of the Board also met with regulators individually, further enhancing the relationship and ongoing commitment to openness and transparency.

Stakeholders & their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
Community/wider society Contributing positively to wider society enables us to create stronger communities and have a positive environmental impact.	Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities. Our approach to inclusive capitalism takes our belief in responsible behavior and extends it into investing in communities and cities to change people's lives for the better. We use our own capital and our policyholder's assets to make long term investments in real assets. This allows us to create value for shareholders, provide stability for pension customers and benefits communities right across the UK. For more information on the Group's oversight of, and engagement with, climate and environmental issues, please see our Climate Report which can be found on the group corporate website. For more information on the non-environmental aspects of the Group's sustainability agenda, please see our new Social Impact Report which can be found on the group corporate website.	As part of the Company's focus on inclusive capitalism, the Board has maintained a high-level of oversight of investments in the wider community. Examples of this are detailed below. During the year, the Board members visited numerous development sites across the UK to see first-hand how the Company's direct investment was positively impacting local communities by creating affordable housing and enhancing amenities. The Board also visited Oxford University to gain a deeper understanding of how the Company's direct investment had helped contribute to the development and enhancement of the Begbroke Science Park and Life and Mind Building. The Board also toured the Sky Studios development site in Elstree & Borehamwood to gain a first-hand understanding of how the Company's direct investment had been used. Bi-annual ESG sessions led by the Group's Investment Management business were held during the year, demonstrating the Board's continued interest in driving positive environmental impacts.

Further information on how the Legal & General Plc Group Board have engaged with stakeholders can be found in the Group s.172(1) Statement, which can be found here: www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

The directors present their annual report together with the audited financial statements of Legal and General Assurance Society Limited ("LGAS" or "the Company") for the year ended 31 December 2022.

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

Energy and Carbon Report
The Company's ultimate controlling party is preparing a group Energy and Carbon Report for the year ended 31 December 2022, therefore the Company has elected not to report its energy and carbon information. Legal & General's full Climate Report can be found at: https://group.legalandgeneral.com/en/sustainability/sustainability-reporting-centre

Results for the year and dividend
The results of the Company are set out on page 24.

Total interim dividends paid in the year were £784m (2021: £902m). An additional interim dividend of £0.3m was authorised but not paid on the 24th February 2023. A final dividend of £nil was proposed in respect of 2022 (2021: £nil).

Financial risk management objectives
The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in Notes 43 & 44 of the financial statements.

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

H. C. Baldock (Non-Executive Chair)
C. W. T. Dinesen (Non-Executive Director)
K. P. Murphy (Non-Executive Director)
P. M. Rodrigues (Non-Executive Director)
S. J. Davies
Sir N. D. Wilson

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

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

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

Independent auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will therefore continue in office.

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

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

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

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

Post balance sheet events
An additional interim dividend of £0.3m was authorised but not paid on the 24th February 2023 constituting a non-adjusting event.

There were no other adjusting or non-adjusting post balance sheet events between 31 December 2022 and the approval of the report and accounts of the Company that require disclosure.

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

By Order of the Board

L. Cornish
For and on behalf of Legal & General Co Sec Limited
Company Secretary
6 March 2023

Statement of Corporate Governance Arrangements

For the year ended 31 December 2022, under the Companies (Miscellaneous Reporting) Regulations 2018, Legal and General Assurance Society Limited (the "Company") has, as part of the wider Legal and General Group (the "Group"), applied the principles of the 2018 UK Corporate Governance Code (the "Code") as the standard against which we measure ourselves.

The Group promotes the highest standards of governance and ensures that these standards cascade throughout the Group and its subsidiaries. Guiding principles are in place for the relationship between the Group Board and the boards of the Group's principal subsidiaries. This framework promotes full and effective interaction across all levels of the Group to support the delivery of strategy and business objectives within a framework of best corporate governance practice. A full description of the Group's governance arrangements and application of the Code can be found in the Group Annual Report & Accounts for the year ended 31 December 2022 (Group Annual Report & Accounts), which can be found here: https://www.legalandgeneralgroup.com/investors/results-reports-and-presentations/.

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

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

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

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

As the Company has no direct employees, the Board consider it appropriate that application of the Code for workforce engagement is achieved at Group-level, including through the work of the Group Designated Workforce Director. Further information on this work can be found in the Group Annual Report and Accounts.

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

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

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

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

An assessment of the Board's effectiveness is undertaken on an annual basis. In 2022, the Board conducted an internal Board evaluation which was externally facilitated by Lintstock, an independent board evaluator. The evaluation's findings were presented to the Board and an action plan agreed to address development needs identified. The progress against the action plan was noted by the Board at each Board meeting.

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

The Board sets the Company's risk appetite and annually reviews the effectiveness of the Company's risk management and internal control systems. The Board carries out a robust assessment of emerging and principal risks, details of which can be found in Note 44, Risk management and control, of the Notes to the Financial Statements.

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

Remuneration

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

KPMG

Independent auditor's report

to the members of Legal and General Assurance Society Limited

1. Our opinion is unmodified

We have audited the financial statements of Legal and General Assurance Society Limited ("the Company") for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 17 May 2018. The period of total uninterrupted engagement is for the five financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£70m (2021:£70m) 0.8% (2021: 0.9%) of net assets	
Key audit matters	**vs 2021**	
Recurring risks	Valuation of non-participating insurance contract liabilities	◄►
	Valuation of hard to value (Level 3) investments	◄►
	New: Pre-transition IFRS17 Insurance contract disclosures	▲

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. In the current year, we have added a KAM relating to the pre-transition IFRS17 Insurance contract disclosure which is predominantly driven by the inherent subjectivity associated with the determination of LGR discount rates, the LGR CSM calculated on the basis of the fair value approach, and the determination of coverage units for LGAS deferred annuities.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of non-participating insurance contract liabilities Annuity policyholder liabilities included within non-participating insurance contract liabilities of £64,658 million; (2021: £85,920 million) *Refer to page 31 (accounting policy) and page 61 to 63 (financial disclosures).*	**Subjective valuation** The valuation of the UK annuity liabilities is an inherently subjective area, requiring management judgement in the setting of key assumptions. The longevity, credit risk, and expense assumptions involve the greatest level of subjectivity. A small change in these assumptions can have a significant impact on the liabilities. We consider the risk to remain elevated in the current year due to the higher degree of estimation uncertainty resulting from changes in demographic trends, including those triggered by the Coronavirus pandemic (COVID-19) and ongoing economic uncertainties as a result of high inflation and higher market interest rates. *Longevity assumptions* Longevity assumptions have two main components: mortality base assumptions and the rate of mortality improvements. The changing trends in longevity and emerging medical trends mean there is a high level of uncertainty in the assumptions. This uncertainty continues to be heightened in the current year due to the potential medium and long-term impacts of a variety of factors that are driving excess deaths. There is also a high degree of reliance on Continuous Mortality Investigations (CMI) models, and convergence across the industry on its parameterisation. Hence, there is a risk that other mortality and health data sources are not appropriately considered under the assumption setting methodology. *Credit assumptions* The valuation discount rate (Valuation Interest Rate, 'VIR') is derived from the yield on the assets backing the annuity liabilities. In setting the VIR, an explicit allowance for credit risk is deducted from the yield on debt and other fixed income securities. The assumptions surrounding this deduction require significant judgement and there is a risk that changes in investment yields, market spreads, current actual default experience and anticipated trends are not appropriately reflected. This is particularly significant during the current uncertain economic conditions of high inflation and higher market interest rates.	**Our procedures included:** — **Control design and reperformance:** testing reconciliation controls designed to ensure completeness of data flows from policy administration systems to the actuarial models. With the assistance of our IT audit specialists, testing controls over the accuracy of data flows and data conversions from policy administration systems to the actuarial valuation models; — **Test of detail:** testing the completeness of data used in the valuation of annuity liabilities by reconciling the data from the policy administration system to the data used in the actuarial models; — **Test of detail:** by utilising data and analytics procedures, testing the accuracy of historical data input into the actuarial model by comparing the data used for reporting as at 31 December 2022 to the data used for reporting as at 31 December 2021 in relation to policies that were in force at that time; — **Test of detail:** tracing a sample of new business policyholder data inputs into the actuarial valuation model to the underlying policy documents; — **Test of detail:** reconciling the completeness and accuracy of the assets used in the calculation of the VIR to the assets used to back the insurance liabilities; and — **Test of detail:** for a sample of assets, validating the accuracy of the asset data used to project the cash flows used in the calculation of the VIR and, with the assistance of our valuation specialists, re-projecting these cash flows. We used our own actuarial specialists to assist us in performing our procedures in this area, including: — **Methodology choice:** assessing the appropriateness of the methodology for selecting assumptions by applying our understanding of developments in the business and expectations derived from market experience, including consideration of the effects of uncertain economic conditions on policyholder mortality and credit risk. For longevity assumptions, this includes

The risk (cont.)	Our response (cont.)

Expense assumptions

Judgement is required in setting the maintenance expense assumption which is based on management's long term view of the expected future costs of administering the underlying policies and the allocation of these costs to maintaining the existing business. This requires judgements to be taken in respect of cost allocations and expected future inflation.

Data Capture

There is a risk that incomplete and inaccurate data is used in the calculation of liabilities resulting from error in input of data into the policy administration systems or inaccurate transfer or conversion of aggregate data from the policy administration systems into model point files used to value the liabilities in the actuarial models. In addition, there is a risk that incomplete or inaccurate asset data is used to calculate the VIR.

Calculation error

The Company uses actuarial models to calculate policyholder liabilities. There is a risk that unauthorised or erroneous changes to the models may occur.

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities (Note 44) estimated by the Company.

consideration of the cause of death modelling performed by management and other non-CMI sources alongside the CMI modelling used across the industry.

- **Benchmarking assumptions:** assessing mortality improvement assumptions against industry data on expected future mortality rate improvements and industry historic mortality improvement rates and assessing the appropriateness of the credit risk assumptions by comparing to industry practice and our expectations derived from market experience.
- **Historical comparisons:** evaluating the mortality base assumptions used in the valuation of the annuity liabilities by comparing to the Company's historic mortality experience; and assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by considering the historical accuracy of management's forecast expenses and analysing the allocations of the forecast 2023 costs to maintenance expenses with reference to the historical allocations.
- **Test of detail:** testing a sample of changes to the actuarial models from the prior year have been appropriately reviewed and approved within the Company and evaluating the financial impact of the changes made to the model during the year.
- **Assessing transparency:** considering whether the disclosures in relation to the assumptions used in the calculation of the valuation of non-participating insurance contract liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs.

Our results

- We found the resulting estimate of the valuation of annuity policyholder liabilities within insurance contract liabilities to be acceptable (2021 result: acceptable)

	The risk (cont.)	Our response (cont.)

Valuation of hard to value (Level 3) investments
 	
Lifetime mortgages of £5,139m (2021: £7,114m), private credit loans of £12,737m (2021: £13,400m) and sale and leaseback notes of £4,454m (2021: £5,154m), included within the Level 3 investments of: £31,051 million (2021: £35,570 million)
 	
Refer to page 32 (accounting policy) and page 50 (financial disclosures).
	Subjective valuation
	
	26.1% or £31.1bn of the investment portfolio (as at 31 December 2022) was classified as Level 3 assets, of which we consider the valuation of lifetime mortgages, private credit and sale and leaseback notes involve the greatest level of subjectivity. The subjectivity of the asset valuations remains heightened due to the current economic conditions caused by the ongoing uncertainties as a result of high inflation and higher market interest rates.
	For these positions a reliable third-party price from a recent market transaction is not readily available and therefore the application of expert judgement from management in the valuations adopted is required.
	
	The key assumptions underlying the valuations are:
	
	— **UK lifetime mortgages:** property price at the valuation date, property price inflation, property price volatility, voluntary redemption rate and the illiquidity premium added to the risk-free rate.
	— **Private credit:** yield of selected comparator securities and credit ratings derived from credit rating models.
	— **Sale and leaseback notes:** estimated rental value, discount rate and yield of the property.
	
	Data capture
	
	Lifetime mortgages
	
	There is a risk that incomplete data is used in the calculation of the valuation of the lifetime mortgages because data does not transfer appropriately from the policyholder system to the actuarial models
	
	Calculation error
	
	Lifetime mortgages
	
	The Company uses a complex actuarial model to calculate the valuation of lifetime mortgages. There is a risk that unauthorised or erroneous changes to the model may occur.
	
	Estimation uncertainty
	
	The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hard to value (Level 3) investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.
		— **Control design and reperformance:** testing of the design and implementation of key controls over the valuation process of lifetime mortgages and sale and leaseback notes and testing of operating effectiveness of key controls relating to the valuation of private credit assets.
		— **Our valuation expertise:**
		  — Using our own valuation specialists to assess the suitability of the valuation and credit rating methodologies, to independently revalue a sample of the private credit investments and assess the suitability of comparator securities utilised in the valuation on a sample basis;
		  — Using our own valuation specialists to assess the suitability of the valuation methodologies used by the Company; and
		  — Using our own actuarial specialists to evaluate the appropriateness of the assumptions used in the valuation of lifetime mortgages with reference to market data and industry benchmarks.
		— **Assessing valuers' credentials:** assessing the objectivity, professional qualifications and competence of external valuers of private credit, and investment property investments and reconciling the valuations provided by them to the valuations recorded in the financial statements.
		— **Methodology choice:** assessing the appropriateness of the pricing methodologies for private credit and sale and leaseback notes with reference to relevant accounting standards and the Company's own valuation guidelines as well as industry practice.
		— **Benchmarking assumptions:** evaluating and challenging the key assumptions upon which the valuations of lifetime mortgages, private credit and sale and leaseback notes were based, including consideration of the impacts of economic uncertainties, by making a comparison to our own understanding of the market, comparable evidence relied on by the valuers used by the Company and to industry benchmarks.
		— **Test of detail:**
		  — Assessing whether all changes to the actuarial model for lifetime mortgages from the prior year have been appropriately approved within the Company; and evaluating the

	The risk (cont.)	Our response (cont.)
		— appropriateness of the financial impact of the changes made to the model during the year; and — Evaluating the completeness of data used in the valuation of lifetime mortgages by reconciling the data from the policy administration system to the data used in the actuarial valuation models. — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of hard to value (Level 3) investments are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions. **Our results** — We found the resulting estimate of the valuation of hard to value (Level 3) investments to be acceptable (2021 result: acceptable).
Pre-transition IFRS17 Insurance contract disclosures Disclosure of estimated reduction in equity on transition of £3.2bn, comprised of reduction in liabilities of £6.0bn, creation of a risk adjustment of £1.6bn, and creation of contractual service margin of £8.0bn (2021: N/A) *Refer to page 36 (accounting policy and disclosures).*	IFRS17 *Insurance contracts*, which is applicable for the period beginning 1 January 2023, is a new and complex accounting standard requiring considerable judgement and interpretation in its implementation, and which will have a significant impact on the reported financial position and performance of the Company. IAS 8 *Accounting policies, changes in accounting estimates and errors*, requires disclosure of the nature and effect of IFRS 17 in the period of initial application. The disclosures are dependent upon these judgements, in particular, the fair value of pre-2016 annuity business on transition, the selection of the discount rate and the determination of the deferred annuity coverage unit methodology are both highly subjective and can have a significant impact on the pre-transition disclosures. The Company has made certain accounting policy choices and has disclosed various financial effects of adopting IFRS 17, including the estimated expected effect on opening retained earnings of £3.2bn and recognition of contractual service margin ("CSM") of £8.0bn within the liability for remaining coverage, as at the transition date. **Subjective valuation** *Transition fair value approach* The Company has disclosed the estimated transition CSM for UK annuity liabilities written pre-2016 on the basis of the 'fair value approach'. The determination of the fair value of this portfolio of business is inherently subjective, particularly in the setting of key assumptions, and small changes in certain assumptions can have a material impact on the estimated transition CSM.	**Our procedures included:** — We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the various effects disclosed is such that we would expect to obtain audit evidence primarily through the detailed procedures described. — We used our own actuarial specialists to assist us in performing our procedures in this area: *Transition fair value:* — **Our sector experience:** evaluating management's approach to the fair value calculation and in particular the assertion that the methodology the Company applies in pricing bulk annuity transactions, including the application of a pricing IRR, is appropriate to be used in the valuation of the pre-2016 UK annuity portfolio given the Company's participation in the bulk annuity market; — **Benchmarking assumptions:** evaluating and challenging the proposed IRR by comparing to the rate implied by recent bulk annuity transactions.; — **Benchmarking assumptions:** validating that the Company's assumption that the primary constraint is Solvency II capital requirements is consistent with the market through benchmarking against other annuity writers; and

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The risk (cont.)	Our response (cont.)

Expected internal rate of return

The fair value referred to above is determined by discounting the expected future capital releases emerging from the pre-2016 annuity business at the expected internal rate of return ("IRR"). Under IFRS13 Fair Value Measurement, this should be the return that another market participant would demand to assume the liabilities. In determining this IRR, the Company assumes that the primary constraint is the Solvency II capital requirement. Whilst the UK bulk annuity market is relatively active, there are no previous transactions of this size, and as such significant judgement is applied in setting the IRR assumption.

Subjective estimate

Discount rates

The Company discounts the fulfilment cash flows in order to calculate the best estimate of liabilities, both at the transition date to calculate remaining future liabilities, and at the inception of an insurance contract in order to calculate the contractual service margin recognised on transition. The Company's discount rate is derived by adjusting a reference asset portfolio for risks not present in the related insurance liabilities, in particular credit risk, such that the discount rate includes a yield above the risk-free rate that appropriately reflects the risks in the liabilities, in particular the illiquid nature of the liabilities. The method applied to determine the credit risk deduction is judgmental and small changes in this can have a significant impact on the inception CSM and best estimate of insurance liabilities at transition.

Subjective interpretation

Deferred annuity coverage units

The CSM recognised at the inception of an insurance contract should be released to profit over the duration of the contract to reflect the insurance services provided to the policyholder. Under IFRS17, 'coverage units' represent those insurance contract services. The determination of coverage units for UK deferred annuities in the deferral phase is highly subjective given the mix of services delivered in this phase of the contract. The Company has disclosed the estimated CSM for UK deferred annuities on the basis of retrospective approaches and as such the disclosed CSM is dependent on this judgement.

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the quantitative disclosures in the IFRS17 transition disclosures have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

- **Evaluating external valuations:** the Company engaged an external expert to report on the valuation of the pre-2016 annuity liabilities; we evaluated this report including assessing the expert's competence and objectivity, and comparing the Company's valuation, resulting from the application of the IRR, to the valuation range determined by an external expert.

Discount rate:

- **Accounting analysis:** Assessing whether management's proposed methodology for determining the credit deduction and reference portfolios is consistent with the requirements of IFRS17; and
- **Independent reperformance:** Recalculating the credit deductions through our own methods and models.

Deferred annuity coverage units:

- **Accounting analysis:** assessing whether management's proposed deferred annuity coverage unit methodology is consistent with IFRS17 and related guidance;
- **Our sector experience:** evaluating whether management's proposed deferred annuity coverage unit methodology is consistent with our understanding of the services delivered to the policyholder over the duration of the annuity contract; and
- **Scenario analysis:** assessing whether the impact of possible changes in inputs to the calculation of coverage units, and their associated weightings, produces impacts on the profile of profit recognition that were consistent with our expectations based on our understanding of the services delivered to the policyholder over the duration of the annuity contract.

- **Assessing transparency:** Assessing the disclosures in relation to the IFRS 17 pre-transition elements referred to above are compliant with the relevant financial reporting requirements.

Our results

- We found the resulting Pre-transition IFRS17 Insurance contract disclosures to be acceptable (2021 result: N/A)

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

Legal and General Assurance Society Limited is part of a Group headed by Legal & General Group plc. Materiality of £70m, as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to net assets and represents 0.8% (2021: 0.9%) of the Company's net assets.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2021 : 65%) of materiality for the financial statements as a whole, which equates to £52.5m (2021 : £45.5m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3.5m (2021: £3.15m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

In addition, we applied materiality of £657m (2021: £507m) to the classification of unit-linked assets and liabilities in the balance sheet and related notes, determined with reference to a benchmark of total unit-linked financial investments, of which it represents 1.0% (2021: 0.7%). This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom.

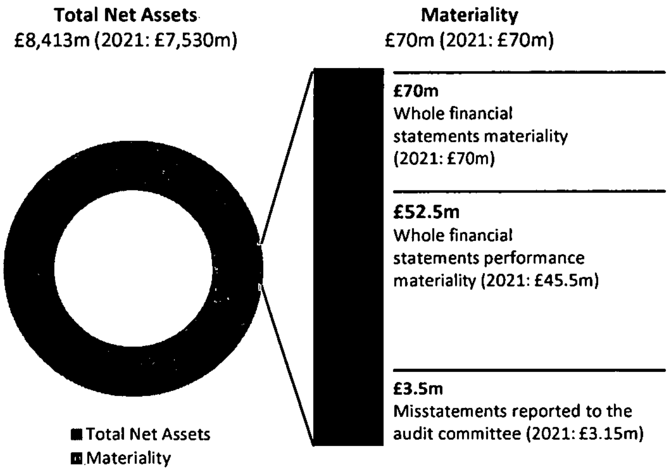
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

4. The impact of climate change on our audit

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

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

As a part of our audit we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Company's financial statements, including how climate is considered as part of the investment making and monitoring processes, and the Company's preparedness for this.



We have performed a risk assessment of how the impact of climate change may affect the financial statements and our audit. We conducted internal consultations including with our own climate change and sustainability professionals to challenge our risk assessment. There was no significant impact of this on our key audit matters.

5. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease 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 financial statements ("the going concern period").

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

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

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

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1A to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the audit committee, internal audit, financial crime team and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee and Risk Committee minutes; and
- Considering remuneration incentive schemes and performance targets for management.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of annuity policyholder liabilities, the valuation of hard to value (Level 3) investments and those in respect of pre-transition IFRS17 insurance contract disclosures.

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

We also identified a fraud risk related to the valuation of annuity policyholder liabilities, the valuation of hard to value (Level 3) investments and the pre-transition IFRS17 insurance contract disclosures in response to possible pressures to meet profit targets.

Further detail in respect of the valuation of annuity policyholder liabilities, the valuation of hard to value (Level 3) investments and the pre-transition IFRS17 insurance contract disclosures is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, those posted by unauthorized personnel, those posted to unexpected accounts relating to revenue and those posted with unusual descriptions; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

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

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

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

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

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

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

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

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

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

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

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

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

DocuSigned by:
Caroline Gilbertson
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Caroline Gilbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square, London, E14 5GL
6 March 2023

Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Revenue			
Gross written premiums	1E,F/2	**10,494**	8,618
Outward reinsurance premiums	1H	**(5,366)**	(4,043)
Net change in provision for unearned premiums	1Y	**10**	42
Net premiums earned		**5,138**	4,617
Fees from fund management and investment contracts	1F	**98**	97
Investment return	1V/3	**(20,397)**	1,110
Other income	1X/4	**17**	27
Total revenue		**(15,144)**	5,851
Expenses			
Claims and change in insurance liabilities		**(15,266)**	5,887
Reinsurance recoveries		**2,251**	(3,324)
Net claims and change in insurance liabilities	1E/5	**(13,015)**	2,563
Change in investment contract liabilities	1F	**(451)**	(81)
Acquisition costs	1E,F	**685**	721
Finance costs/(income)	1Z	**(4,959)**	203
Other expenses	1W/6	**547**	531
Total expenses		**(17,193)**	3,937
Profit before income tax		**2,049**	1,914
Tax expense	10	**(382)**	(364)
Total comprehensive income for the year		**1,667**	1,550

Company Number 00166055

Balance Sheet

As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Investment in subsidiaries	1C/12	**533**	203
Intangible assets	1I/13	**242**	181
Deferred acquisition costs		**23**	21
Plant and equipment	1K/14	**28**	34
Investment property	1J/15	**259**	29
Financial investments	1J/15	**118,614**	109,846
Reinsurers' share of contract liabilities	1H/18	**86,112**	91,118
Deferred tax asset	1P/19	**26**	-
Other assets	21	**5,797**	4,742
Cash and cash equivalents	1M/22	**207**	232
Total assets		**211,841**	206,406
Equity			
Share capital	1R/23	**651**	651
Share premium	23	**1,049**	1,049
Retained earnings and capital reserve		**6,713**	5,830
Total shareholders' equity		**8,413**	7,530
Liabilities			
Non-participating insurance contract liabilities	1E/24(i)	**64,720**	85,990
Non-participating investment contract liabilities	1F/25(i)	**67,778**	67,324
Borrowings	1O/27	**2**	-
Provisions	1S/28	**65**	33
Income tax liabilities	1P/20	**49**	18
Payables and other financial liabilities	1T/29	**70,601**	45,039
Other liabilities	30	**213**	472
Total liabilities		**203,428**	198,876
Total equity and liabilities		**211,841**	206,406

The notes on pages 28 to 86 are an integral part of these financial statements.
The financial statements on pages 24 to 27 were approved by the board of directors on 6 March 2023 and were signed on their behalf by:

H.C. Baldock
Chair

S. J. Davies
Director

Statement of Changes in Equity

For the year ended 31 December 2022	Notes	Share capital £m	Share premium £m	Capital reserve £m	Retained earnings £m	Total equity £m
As at 1 January		**651**	**1,049**	**168**	**5,662**	**7,530**
Total comprehensive income for the year		-	-	-	**1,667**	**1,667**
Dividends	11	-	-	-	**(784)**	**(784)**
As at 31 December		**651**	**1,049**	**168**	**6,545**	**8,413**
For the year ended 31 December 2021						
As at 1 January		651	1,049	168	5,014	6,882
Total comprehensive income for the year		-	-	-	1,550	1,550
Dividends	11	-	-	-	(902)	(902)
As at 31 December		651	1,049	168	5,662	7,530

Cash Flow Statement

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the year		**1,667**	1,550
Adjustments for non-cash movements in profit for the year			
Net losses on financial investments and investment properties		**21,079**	865
Share of profit in joint venture		**-**	(10)
Investment income		**(682)**	(2,032)
Interest (income) / expense		**(4,959)**	202
Tax expense		**382**	364
Other adjustments		**30**	48
Changes in operational assets			
Investments held for trading or designated as fair value through profit or loss		**2,135**	1,938
Other assets		**3,922**	(14,489)
Changes in operational liabilities			
Insurance contracts		**(21,270)**	207
Investment contracts		**454**	15,620
Other liabilities		**(1,266)**	(5,257)
Cash generated from / (used in) operations		**1,492**	(994)
Interest paid[1]		**(1,910)**	(3)
Interest received		**1,888**	1,994
Income tax paid		**(349)**	(336)
Dividends received		**57**	78
Net cash flows from operating activities		**1,178**	739
Cash flows from investing activities			
Acquisition of plant, equipment and intangible assets		**(91)**	(89)
Disposal of plant, equipment and intangible assets		**5**	1
Proceeds from disposal of joint ventures and subsidiaries		**2**	140
Investment in subsidiaries	12	**(330)**	(90)
Net cash flows (used in) investing activities		**(414)**	(38)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(784)**	(903)
Proceeds / (repayments) from borrowings		**2**	(1)
Other cash flows from financing activities		**(7)**	(7)
Net cash flows (used in) financing activities		**(789)**	(911)
Net decrease in cash and cash equivalents		**(25)**	(210)
Cash and cash equivalents at 1 January		**232**	442
Cash and cash equivalents at 31 December	1M/22	**207**	232

[1] Interest paid comprises interest paid on borrowings and other financial instruments.

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

1. Summary of significant accounting policies

A Basis of preparation

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

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

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

Going Concern

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

The directors have made an assessment of the Company's going concern status, considering both the Company's current performance and the Company's outlook, using the information available up to the date of issue of this Annual Report & Accounts.

The Company manages and monitors its capital and liquidity, applies various stresses, including high inflationary scenarios, to those positions to understand potential impacts from market downturns. These stresses do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the directors consider that the Company has the plans and resources to manage its business risks successfully and that it remains financially strong and well diversified.

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

Consideration of climate change

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

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

The Group is committed to net zero, targeting a 1.5°C 'Paris' outcome. In order to meet its environmental goals, the Group has set for itself a number of metrics and targets, clearly linked with its business strategy and risk management controls. These are based on a three-pillar climate strategy encompassing 'Invest, Influence and Operate'. Metrics and targets have been defined around the Group's operational carbon footprint, investment portfolio economic carbon intensity, and implied portfolio temperature alignment. These are being targeted through the decarbonisation of the Group's consolidated balance sheet, investments in clean energy and start-ups, development of climate friendly investment products, and focus on own operations. The Group also continues to use its influence as a large investor to promote the transition.

Scenario analysis is performed to help understand the strategic implications of possible climate pathways, including the key features of a transition to a net zero economy. Plausible scenarios have been developed based on estimations of how the energy system may evolve over the next 30 years, using the most recent carbon budgets from the IPCC's Sixth Assessment Report (AR6) and incorporated latest data on technology costs. These include two different pathways to 'below 2°C', and a scenario assuming achievement of net zero. Given the Group's long term climate risk relates to transition risk, a fourth scenario assuming global failure to act on climate change and emissions growth at historical rates, has been modelled but the impacts have not been applied to our portfolio. Such impacts are driven by physical risks which tend to be highly localised and manifest further into the future and are therefore more uncertain.

In preparing the consolidated financial statements, the Group has considered the impact of climate change, and in particular the transition to a lower carbon economy, on the valuation of the Group's asset and liabilities. In the Strategic report, and more fully in the Group's Climate report, we have set out in detail the various risks and opportunities that are created by this transition, and how they may impact the Group across various time horizons. In the Group's Climate report, in line with the recommendations of the Task Force on Climate-related Financial Disclosures, we have further described the resilience of the Group's strategy, taking into consideration different climate related scenarios, as described above. There is no one single scenario that underpins the financial statements. The scenarios help challenge the Group's perspectives on the future business and economic environment as a result of the transition to a lower carbon economy, including consideration of events that may be only remotely possible. As a result, scenarios included in the Group's Climate report are not intended to be predictions of likely future events or outcomes and are not the basis on which the Group's consolidated financial statements have been prepared.

1. Summary of significant accounting policies (continued)

At the current time, the Company does not consider climate risk to represent a significant area of judgement or of estimation uncertainty. As at 31 December 2022, no material impacts on the Company's financial position, nor on the valuation of assets or liabilities on the Company's Balance Sheet as a result of climate change risk have been identified. In arriving at this determination, the Company has in particular taken into account the following areas of judgement, which we consider to be those most exposed to the potential impact of climate change in the preparation of the financial statements:

Going concern and viability
In preparing the financial statements, the directors are required to assess the Company's ability to continue as a going concern, by taking into account all available information related to at least 12 months from the date of their approval. Climate-related matters have been considered as part of this assessment, and have not been deemed to create material uncertainties as to their conclusions or to require specific disclosure.

Valuation of Level 3 financial investments and investment property
The valuation of unquoted illiquid assets and investment property has been separately identified as an area of significant estimation uncertainty. The assumptions used in the models underpinning these assets' valuation, such as cash flows forecasts, discount rates, and multiples, are often unobservable. Due to the need to apply significant judgements, these assumptions can be impacted by transition risk, with climate related inputs gaining more traction (e.g. construction methods and materials, EPC ratings, ESG credentials and climate resilience). This is particularly relevant for the Company's direct investments portfolio, including alternative assets. Where possible, the Company's assets are valued using standard market pricing sources or appropriately qualified external valuers, and therefore reflect current market sentiments around climate risk. In this respect market and investor expectations have also been evolving, with greater demand towards net zero-aligned assets, and away from traditional carbon-intensive methods, impacting expected investor returns and therefore discount rates and multiples. Exposure to the risks of climate change is minimised, through rigorous assessment of potential investments and active monitoring of the carbon intensity of the current portfolio. Additionally, investment properties are being reviewed by independent third parties, where applicable, with regards to potential retrofitting, to help reduce carbon emissions and make them more efficient and sustainable for the future.

Asset impairment and residual economic life
The carrying value of certain tangible and intangible assets on the Balance Sheet which are subject to impairment testing could be affected by climate change risk.

Property, plant and equipment, right-of-use assets, and other intangible assets may see their recoverable amount decrease in light of climate change, and significant changes in the environment (including for example changes in regulation) in which the Company operates, where adverse effects can represent an indication of impairment. The estimation of recoverable amount as 'value in use' requires an assessment of future expected cash flows based on assumptions potentially affected by climate related matters, particularly for intangible assets, which are subject to a higher degree of judgement. Where assets are subject to amortisation or depreciation, consideration needs to be given to whether climate risk suggests that the residual economic life is shorter than anticipated, which would give rise to increased charges in the income statement. Due to the nature of the Company's tangible and intangible assets, we do not anticipate any material additional impairments or increased amortisation and depreciation charges to arise from climate change. Risks will continue to be monitored against judgements and estimates used in the assessment of impairment.

Provisions and contingent liabilities
The recognition, measurement and disclosure of provisions and contingent liabilities is subject to setting assumptions around future events and the probability of their occurrence. Climate related matters could affect these elements, for example by requiring recognition or disclosure of a legal obligation (e.g. levies imposed for failing climate related targets) or of a constructive obligation (e.g. requirements to remediate environmental damage caused by the Company's operations and investment portfolios).

Deferred tax assets
Deferred tax assets are recognised for deductible temporary differences and unused tax losses and credits, to the extent it is probable that future taxable profit will be available, against which those amounts can be utilised. Climate related matters could affect the Company's estimate of future taxable profits, and therefore it may be required to derecognise deferred tax assets previously on the balance sheet.

Financial instruments
Under IFRS 9, 'Financial Instruments', effective from 1 January 2023, expected credit losses are required to be recognised on receivables and certain financial investments, representing the counterparty's probability of default over a certain time horizon. Climate related matters may affect the Company's exposure to these losses, for example by negatively affecting the borrower's ability to meet their obligations, or by affecting assumptions used in the models adopted to estimate expected credit losses.

Significant accounting policies

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

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

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

1. Summary of significant accounting policies (continued)

B Critical accounting policies and the use of estimates

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

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

Insurance and investment contract liabilities (Notes 1E, 1F, 24 and 25)
Assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance or investment contract. Contracts which transfer significant insurance risk to the Company are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the Company but not significant insurance risk are classified as investment contracts.

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

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

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

Valuation of investment property (Notes 1J and 15)
Determination of fair value of investment property involves judgements, in model valuations, through the incorporation of both observable and unobservable market inputs, which include assumptions that lead to the existence of a range of plausible valuations for financial assets. Investment property in the UK is valued at least bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and Balance Sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

The determination of fair values of unquoted and illiquid financial investments (Notes 1J and 15)
Determination of fair value of unquoted and illiquid assets, involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets. For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

Insurance and investment contract liabilities (Notes 1E, 1F, 24 and 25) and associated balances
Estimating the value of insurance contract liabilities requires a number of assumptions to be made, the main estimates and assumptions used in calculating insurance liabilities are disclosed in more detail in Note 26. The determination of long-term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The assumptions for the rate of future longevity, mortality and morbidity are based on the Company's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities that represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs.

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

Determination of the target long-term asset portfolio at certain period ends, depending on the quantum and timing of pension risk transfer (PRT) volumes; this assumption is used to present the retirement new business metrics and influence the assets chosen to back annuity liabilities within the valuation interest rate.

C Investments in subsidiary undertakings

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

1. Summary of significant accounting policies (continued)

D Product classification

The Company's products are classified for accounting purposes as either insurance contracts or investment contracts. Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Contracts which do not transfer significant insurance risk to the insurer are classified as investment contracts.

Insurance contracts comprise the following:

- pension risk transfers;
- individual annuities;
- longevity insurance;
- retail protection products;
- group protection products; and
- lifetime Care Plan

Investment contracts comprise the following:

- lifetime mortgages;
- fixed term individual annuities;
- assured payment policies;
- retirement interest only mortgages; and
- workplace savings

E Long term insurance contracts

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

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

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

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

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

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

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

F Investment contracts

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

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

1. Summary of significant accounting policies (continued)

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

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

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

G Liability adequacy tests

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

H Reinsurance

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

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

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

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

I Intangible assets

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

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

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

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

J Investments

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

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

1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

K Plant and equipment

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

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

L Impairment policy

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

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

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

M Cash and cash equivalents

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

1. Summary of significant accounting policies (continued)

N Derivative financial instruments

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

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

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

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

O Borrowings

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

P Income taxes

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

Current tax
Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the income statement unless it relates to items which are recognised directly to equity or other comprehensive income.

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

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

To calculate the current tax on profits, the rate of tax used is 19.0% (2021: 19.0%), which is the average rate of Corporation Tax applicable for the year.

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

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

Q Leases

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

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

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

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

1. Summary of significant accounting policies (continued)

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

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

R Share capital

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

S Provisions

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

T Payables and other financial liabilities

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

U Foreign currency transactions

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

V Investment return

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

W Other expenses

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

X Other income

Other income includes the following:
- Company's share of profit from joint venture accounted for under the equity method;
- Profit from sale of joint ventures and subsidiaries; and
- Fees and commissions

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

Y General insurance premium

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

Z Finance income and costs

Interest income is recognised using the effective interest method and presented within Investment Return. Investment return relating to funds withheld receivable or payable from or to other Group companies is recognised as an income or expense on an accruals basis and reported within Finance income and costs and is analysed in note 41.

1. Summary of significant accounting policies (continued)

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

The Company has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2022, which did not give rise to a material impact on the Company's financial statements.

Annual Improvements to IFRS Standards 2018-2020
These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial instruments', IAS 41 'Agriculture' and the Illustrative Examples accompanying IFRS 16 'Leases'.

Amendments to IAS 16 – Property, plant and equipment
These amendments, issued in May 2020, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets
These amendments, issued in May 2020, specify which costs a company includes when assessing whether a contract will be loss-making.

Amendments to IFRS 3 – Business Combinations
These amendments, issued in May 2020, update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

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

The Company will apply IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have a material impact on the Company's financial statements in the period of initial application.

(a) Introduction

IFRS 17 – 'Insurance Contracts'
IFRS 17, 'Insurance Contracts' was originally issued in May 2017 by the IASB, and subsequent amendments were issued in June 2020. The standard is effective for annual periods beginning on or after 1 January 2023 following endorsement for use in the UK in May 2022. The standard, which replaces IFRS 4, 'Insurance Contracts' will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure.

The key general principles of IFRS 17 are that an entity:

- Identifies insurance contracts as those under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct non-insurance goods or services from insurance contracts and accounts for them in accordance with other accounting standards;
- aggregates the insurance contracts into groups it will recognise and measure (by portfolio, year of inception and profitability);
- recognises and measures groups of insurance contracts at:
  - a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows; and
  - an amount representing the unearned profit in the group of contracts (the contractual service margin or CSM);
- recognises profit from a group of insurance contracts over the period the group provides insurance coverage. If a group of contracts is expected to be onerous (i.e. loss making) over the remaining coverage period, a loss is recognised immediately;
- presents insurance service results (including insurance revenue) separately from insurance finance income or expenses with an accounting policy choice to disaggregate insurance income and expense for the period between profit or loss and other comprehensive income.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which was effective for annual periods beginning on or after 1 January 2018. The standard replaced IAS 39, 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allowed entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17, 'Insurance Contracts' or 1 January 2021, whichever is the earlier. In June 2020, the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The Company has qualified for, and has made use of this deferral option, and will therefore apply IFRS 9 for the first time on 1 January 2023, with a restatement of 2022 comparatives.

IFRS 9 classifies financial assets into the following three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets is based on the entity's business model for managing them, as well as their contractual cash flow characteristics. With the exception of financial assets measured under FVTPL, an expected credit loss impairment model applies to all financial assets in scope (including lease receivables and contract assets). The new impairment model requires utilising not only past events and current conditions but also reasonable and supportable forward-looking information, in order to assess the credit risk profiles of those financial assets in scope.

1. Summary of significant accounting policies (continued)

Most requirements around financial liabilities in IAS 39 have been retained by IFRS 9, and hedge accounting requirements have been revised by replacing some of the prescriptive rules in IAS 39 with more principle-based requirements, to better align with the entity's risk management activities.

b) Estimated impacts of the adoption of IFRS 17 and IFRS 9

The Company has assessed the estimated impact that the initial application of IFRS 17 and IFRS 9 will have on its financial statements at the transition date of 1 January 2022. The total adjustment to the total shareholders' equity is estimated to be a reduction of £3.2bn. The estimated impacts on the key line items in the Company's balance sheet are set out below.

Balance sheet item	31 December 2021 (as reported) (£bn)	Adjustments due to adoption of IFRS9 (£bn)	Adjustments due to adoption of IFRS17 (£bn)	1 January 2022 (restated) (£bn)
Financial investments	109.8	(0.5)	-	109.3
Net insurance contract liabilities[1]	(80.4)	-	(3.6)	(84.0)
Net deferred tax (liabilities)/assets	-	0.1	1.0	1.1
Other	(21.9)	-	(0.2)	(22.1)
Total Shareholders' Equity	7.5	(0.4)	(2.8)	4.3

[1] Net insurance contract liabilities reflects insurance contract assets and liabilities, net of reinsurance contracts.

While the adoption of these accounting standards will have an impact on the timing and profile of profit recognition, the underlying economics and cash generation of the Company's businesses do not change.

The financial impacts noted above will be reflected, where appropriate, in the Company's Report and Accounts for the year ending 31 December 2023. The financial impacts relating to the year ended 31 December 2022 have not yet been finalised and are not reasonably estimable for the purpose of inclusion in these financial statements.

(i) Adjustments due to the adoption of IFRS 17

The different timing of profit recognition will result in an increase in liabilities, and therefore decrease in shareholder equity on adoption of IFRS 17. This reflects that a portion of profits previously recognised and accumulated in equity under IFRS 4 will be included in the measurement of the liabilities under IFRS 17. This increase in liabilities can be attributed to the following:

Changes from IFRS 4	Estimated impact on net insurance contract liabilities on transition to IFRS 17
Remeasurement of liabilities: The IFRS 17 cash flows are best estimate and exclude all prudent margins included in the IFRS 4 liabilities. Removal of these margins coupled with other changes to the insurance contract measurement, including discount rates and the exclusion of non-attributable expenses, results in a lower best estimate liability.	Decrease of £6.0bn
Creation of a risk adjustment - IFRS 17 incorporates a specific risk adjustment for non-financial risk (which is lower than the prudent margins included within the IFRS 4 liabilities)	Increase of £1.6bn
Creation of a contractual service margin (CSM), determined using the transition approaches described below and reflecting the unearned profit of these contracts. Under IFRS 4 profit could be recognised at inception.	Increase of £8.0bn
	Total increase of £3.6bn

(ii) Adjustments due to the adoption of IFRS 9

Upon transition to IFRS 9 on 1 January 2022, the Company's total shareholders' equity will decrease by c£0.5bn (before tax). This predominantly reflects the remeasurement of assets following the reclassification of a proportion of financial investments from fair value through profit or loss to amortised cost in order to better align the accounting treatment of assets that are backing the CSM component of insurance contract liabilities, which is measured at locked-in discount rates under IFRS 17. The application of the expected credit loss impairment requirements does not have a material impact on the Company equity at the point of transition.

(c) Significant accounting policies – IFRS 17, 'Insurance Contracts'

Long term insurance contracts – initial measurement

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS 17 are classified as investment contracts and are measured under IFRS 9. The scope of IFRS 17 is very closely aligned to IFRS 4.

1. Summary of significant accounting policies (continued)

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

- fulfilment cash flows
- a CSM representing the unearned profit the Company will recognise as it provides service under the insurance contracts

Fulfilment cash flows
Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk. The Company's objective in estimating future cash flows is to determine the expected value, or the probability weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. The Company estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.
When estimating future cash flows, the Company includes all cash flows that are within the contract boundary. The contract boundary for the Company's contracts is very closely aligned with that applied under IFRS 4. The cash flows include:

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

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

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

The measurement of fulfilment cash flows-includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract.

Risk adjustment
The risk adjustment for non-financial risk for a group of insurance contracts reflects the compensation that the Company would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk after diversification. We have calibrated the Company's risk adjustment using a Value at Risk (VAR) methodology. The total Company risk adjustment at transition was £1.6bn.

Discounting
The insurance contract fulfilment cash flows are discounted at rates that reflect the characteristics of the insurance contract liabilities. These have been determined using the top down approach, starting from an appropriate asset portfolio with deductions to remove risks in the assets that are not present in the insurance liabilities. As is the case under IFRS 4, the discount rate is a key determinant of the measurement of the insurance liability, particularly for annuity business. At transition, the average credit default deduction was c41bps compared with c43bps under IFRS 4.

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

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

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

1. Summary of significant accounting policies (continued)

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

Long term insurance contracts – subsequent measurement

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

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

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

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

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

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

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

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

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

1. Summary of significant accounting policies (continued)

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

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

Earning the CSM over the coverage period will slow down profit recognition for annuities in comparison to IFRS 4 which allowed the recognition of profit on inception and more closely linked revenue recognition to risk release rather than the provision of service.

Investment components
Investment components will not be included in insurance revenue and insurance service expenses under IFRS 17. As a result, revenue from some annuity and universal life contracts will be reduced in comparison with the premium recognised under IFRS 4. The Company will identify the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance.

Insurance finance income and expense
IFRS 17 requires an accounting policy decision as to whether to recognise all finance income or expense in profit or loss, or whether to disaggregate the income or expense that relates to changes in financial assumptions into other comprehensive income. All finance income and expense will be included in profit or loss except for protection business where we will disaggregate.

Reinsurance contracts held

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

- measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes
- the Company determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer
- both day 1 gains and day 1 losses are not recognised at initial recognition in the statement of financial position but are deferred into CSM and release to profit or loss as the reinsurer renders services, except for any portion of a day 1 loss that relates to events before initial recognition
- if the reinsurance contract is recognised prior to a loss making underlying contract, the reinsurance CSM can be adjusted to offset a portion of the inception loss (the loss recovery component); and
- subsequent changes in the fulfilment cash flows are recognised in profit or loss if the related changes arising from the underlying ceded contracts are recognised in profit or loss. Alternatively, changes in the fulfilment cash flows adjust the CSM.

Transition

On transition to IFRS 17, the Company has applied the fully retrospective approach unless impracticable. The full retrospective approach requires the Company to:

- identify, recognise and measure each group of insurance and reinsurance contracts as if IFRS 17 had always applied.
- derecognise any existing balances that would not exist had IFRS 17 always applied.
- recognise any resulting net difference in equity.

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

1. Summary of significant accounting policies (continued)

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

Transition approach	Annuities	Protection
Full retrospective	2021	2021
Modified retrospective	2016-2020	2012-2020
Fair Value	Pre 2016	Pre-2012

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

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

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

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

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

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

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

(c) Significant accounting policies – IFRS 9, 'Financial Instruments'

Financial assets – classification and measurement

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

- amortised cost: financial assets with contractual terms that give rise solely to interest and principal cash flows and which are held in a business model whose objective is to hold the assets to collect their cash flows;
- fair value through other comprehensive income (FVOCI): financial assets with contractual terms that give rise solely to interest and principal cash flows and which are held in a business model whose objective is achieved by holding the assets to collect their cash flows and selling them;
- fair value through profit or loss (FVTPL): all other financial assets.

1. Summary of significant accounting policies (continued)

Notwithstanding the above, on initial recognition the Company may irrevocably designate to FVTPL a financial asset that would otherwise be measured at amortised cost or FVOCI if doing so eliminates or greatly reduces an accounting mismatch. Additionally, on initial recognition of an equity investment not held for trading the Company may irrevocably elect to present its subsequent changes in fair value through OCI.

Based on the new requirements, IFRS 9 will affect the classification and measurement of financial assets as follows:

- financial assets continuing to be measured at FVTPL:
  - equity investments, measured at FVTPL under IAS 39, will continue to be measured at FVTPL under IFRS 9;
  - derivative assets are held-for-trading instruments under both IAS 39 and IFRS 9, and will therefore continue to be measured at FVTPL, unless designated as hedging items as part of a hedge accounting relationship;
  - debt instruments backing annuity liabilities, including surplus assets, are currently accounted for at FVTPL as they are managed on a fair value basis. Most of these will retain the same measurement under IFRS 9 as their business model does not naturally fit a 'held to collect' or 'held to collect and sell' business model, irrespective of their contractual cash flows characteristics;
  - other debt securities backing investment contract liabilities and surplus shareholder assets will continue to be accounted for at FVTPL as they are managed on a fair value basis, consistent with their IAS 39 measurement.

- financial assets remeasured to amortised cost:
  - as the date of transition to IFRS 9 for the Company is the same time as that for IFRS 17, the Company has reassessed the classification and measurement of certain financial assets backing annuity liabilities, in order to better match interest rate and inflation sensitivities. This is because, while the annuities best estimate liability and risk adjustment under IFRS 17 are measured with current financial assumptions, the CSM is measured with locked-in discount rates. Therefore, a sub-portfolio of long dated debt instruments backing annuity contracts but in surplus to the IFRS 17 best estimate liability and risk adjustment, and passing the SPPI test, was separately identified. These assets will be used to manage interest and inflation rate exposure. They will be held to maturity in a 'held to collect' business model and accounted for at amortised cost;
  - assets backing protection liabilities are measured at FVTPL under IAS 39. Based on the IFRS 9 criteria, these assets pass the SPPI test and will be measured at amortised cost or FVOCI, depending on their business model.
  - receivable balances are accounted for at amortised cost under both IAS 39 and IFRS 9.

Financial assets – impairment

IFRS 9 replaces the incurred losses impairment model in IAS 39 with a new impairment model, based on expected credit losses ('ECLs'). The new impairment model applies to the Company's financial assets measured at amortised cost or FVOCI, as well as lease receivables in scope of IFRS 16 'Leases' and contract assets in scope of IFRS 15 'Revenue from Contracts with Customers'.

Under IFRS 9, expected credit losses are defined as the present value of the difference between all contractual cash flows that are due and all cash flows that the entity expects to receive (i.e., the cash shortfall), weighted based on their probability of occurrence. The loss allowance recognised under the new standard can be equal to an amount corresponding to a 12-month ECL or lifetime ECL. A lifetime ECL is the ECL resulting from all possible default events over the expected life of the financial asset; a 12-month ECL is the portion of lifetime ECL resulting from default events on a financial asset that are possible within the 12 months after the reporting date. The ECL model is run from the date of initial recognition of a financial asset, and its output updated at every reporting period, even if no actual loss events have taken place. The impact of updating the inputs of the ECL model in the reporting period is recognised in profit or loss directly where it affects the carrying value of financial assets at amortised cost.

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

- Stage 1 includes financially healthy financial assets that are expected to perform in line with their contractual terms, and which have no signs of increased credit risk;
- when the credit risk of a certain financial asset has significantly increased since initial recognition, the instrument no longer falls into Stage 1. In that case, if the instrument is not credit-impaired, the instrument will fall into Stage 2;
- Stage 3 applies to credit-impaired financial instruments.

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

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information, both qualitative and quantitative, that is relevant and is available without undue cost or effort, including forward-looking information at its disposal.

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

Additionally, the Company makes use of a practical expedient available in IFRS 9 whereby it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (e.g. investment grade as determined by the Company's asset managers). This allows recognition of 12-month ECLs as opposed to, potentially, lifetime ECLs.

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

1. Summary of significant accounting policies (continued)

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

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

EAD represents the expected exposure in the event of a default, based on the current exposure to the counterparty and potential changes to the current amount allowed under the contract.

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

Owing predominantly to the high credit rating across the Company's financial assets in scope of the new impairment model, the calculation of ECLs as at the date of initial application of IFRS 9 did not give rise to a material impact.

Financial liabilities

IFRS 9 largely retains the requirements of IAS 39 for the classification and measurement of financial liabilities, which can be at either amortised cost or FVTPL. In contrast with IAS 39, under IFRS 9 the amount of fair value changes for financial liabilities at FVTPL attributable to changes in the credit risk of the liability is presented in OCI. However, if this treatment creates, or enlarges, an accounting mismatch in profit or loss, the Company must present all gains or losses for that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

The new requirements for financial liabilities did not affect the Company's classification and measurement of its instruments.

Hedge accounting

When initially applying IFRS 9, the Company may choose to either continue to apply hedge accounting requirements in IAS 39 or move to the new IFRS 9 principles. The Company will update its accounting policies to adopt IFRS 9 requirements. These requirements are better aligned with the risk management activities of the Company and therefore it is expected that going forward more risk management strategies will qualify for hedge accounting. Changes to hedge accounting requirements are not currently expected to have a significant impact on the Company's results.

Transition

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

For the Company, IFRS 9 has a date of initial application of 1 January 2023, which coincides with the implementation with IFRS 17. Despite this, on initial application, while IFRS 17 requires the presentation of at least one restated comparative period, IFRS 9 permits, but does not require, restatement of comparative periods. In line with IFRS 17 the Company has chosen to restate comparative periods under IFRS 9. The standard does not apply to financial assets already derecognised by 1 January 2023, however the Company has applied a 'classification overlay' introduced by the IASB per an amendment to IFRS 17 titled 'Initial Application of IFRS 9 and IFRS 17 – Comparative Information'. This allows an entity applying IFRS 17 and IFRS 9 at the same time to present comparative information as if the classification and measurement and impairment requirements of IFRS 9 had been applied to them, irrespective of derecognition date.

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

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

Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2: 'Making Materiality Judgements: Disclosure of Accounting Policies'
These amendments, issued in February 2021, intend to help preparers in deciding which accounting policies to disclose in their financial statements, by applying materiality judgements. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The group is currently revisiting its accounting policy disclosures to ensure compliance and consistency with the new requirements.

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

1. Summary of significant accounting policies (continued)

Amendments to IAS 12 – Income Tax: 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'
These amendments, issued in May 2021, clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The group does not expect the impact to be significant.

Amendments to IAS 1 – Presentation of Financial Statements: 'Classification of Liabilities as Current or Non-Current'
These amendments, issued in January 2020, clarify the existing requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2024, subject to UK endorsement.

Amendments to IAS 1 – Presentation of Financial Statements: 'Non-current Liabilities with Covenants'
These amendments, issued in October 2022, clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2024, subject to UK endorsement.

Amendments to IFRS 16 – Leases: 'Lease Liability in a Sale and Leaseback'
These amendments, issued in September 2022, specify requirements for seller-lessees to measure the lease liability in a sale and leaseback transaction. The amendments are effective for annual reporting periods beginning on or after 1 January 2024, subject to UK endorsement.

2. Analysis of revenue

Long term business

Gross written premiums

	2022 £m	2021 £m
Individual		
- Periodic	**1,486**	1,553
- Single	**781**	813
	2,267	2,366
Group		
- Periodic	**1,000**	938
- Single	**7,227**	5,314
	8,227	6,252
Gross written premiums	**10,494**	8,618

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

The above figures include inward reinsurance premium of £164m (2021: £213m) from Banner Life Insurance Company. The inward reinsurance of William Penn Life Insurance Company of New York had a net £21m expense following recapture of a line of business (2021: £10m premium).

3. Investment return

	2022 £m	2021 £m
Financial investment return[1]	**(20,391)**	1,107
Property investment return[2]	**(6)**	3
Investment return	**(20,397)**	1,110

[1] Financial investment return includes fair value gains and losses, dividends and interest. Net (losses) / gains (excluding dividend and interest income) of £(18,261)m (2021: £(1,334)m) arose on financial investments designated at FVTPL and £(2,808)m (2021: £nil) on HFT assets. Investment income of £63m (2021: £58m) arose on loans and receivables. Inter-company dividends are presented within other income (Note 4).

[2] Property investment return includes £4m (2021: £3m) of rental income offset by £(10)m of unrealised loss (2021: £nil unrealised gains / losses).

4. Other income

	2022 £m	2021 £m
Company's share of profit from joint venture	-	10
Profit on disposal of joint ventures and subsidiaries	2	5
Fees and commission	12	8
Other	3	4
Total other income	**17**	**27**

5. Net claims and change in insurance liabilities

	2022 £m	2021 £m
Claims paid		
- gross	5,934	5,540
- reinsurance recoveries	(3,517)	(3,142)
	2,417	2,390
Change in insurance liabilities		
- gross	(21,200)	347
- reinsurance recoveries	5,768	(182)
Net claims and change in insurance liabilities	**(13,015)**	**2,563**

The roll-forward of the insurance contract liabilities is provided in Note 24.
Net claims and change in insurance liabilities relate wholly to long term insurance.

6. Other expenses

	Notes	2022 £m	2021 £m
Auditors' remuneration - audit services	7	6	2
Auditors' remuneration - assurance services	7	1	1
Depreciation of plant and equipment	14	5	5
Amortisation of intangible assets	13	13	12
Other administrative expenses		522	511
Total other expenses		**547**	**531**
Other expenses from continuing operations		**547**	**531**

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

7. Auditors' remuneration

	2022 £'000	2021 £'000
Remuneration receivable by the Company's auditor for the audit of the Company's financial statements[1]	**6,402**	2,276
Audit related assurance services - required by legislation	**770**	705
Non audit services (excl. required by legislation)		
- Audit related assurance services - other	**102**	97
- Other assurance services	**–**	–
- Other services not covered above	**–**	–
Total non audit services (excl. required by legislation)	**102**	97
Total remuneration	**7,274**	3,078

[1] Included in remuneration receivable by the Company's auditor for the audit of the Company's financial statements in 2022 is £3.6m for work completed on the IFRS 17 transition.

8. Employee information

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

9. Foreign exchange and exchange rates

Profit for the year includes foreign exchange gains and losses on financial instruments. The profit for the year also includes foreign exchange gains of £64m (2021: gains of £107m) arising on conversion of monetary assets and liabilities to functional currencies.

Principal rates of exchange used for translation are:

	2022		2021	
	Closing	**Average**	Closing	Average
United States Dollar	**1.21**	**1.21**	1.35	1.37
Euro	**1.13**	**1.15**	1.19	1.17

10. Income tax expense

	2022 £m	2021 £m
Current tax	**409**	583
Deferred tax		
- Origination and reversal of temporary differences	**(18)**	(219)
- Adjustments in respect of prior years' tax	**(4)**	(3)
- Rate differential on movements in deferred tax balances		(1)
Total deferred tax	**(22)**	(223)
Impact of corporation tax rate changes on deferred tax balances	**(5)**	4
Tax expense	**382**	**364**

The tax expense differs from the tax calculated at the standard corporation tax rate applicable to companies operating in the UK of 19% (2021: 19%). The differences are explained below:

10. Income tax expense (continued)

	Total 2022 £m	Total 2021 £m
Profit before income tax	**2,049**	1,914
Tax expense calculated at 19% (2020: 19%)	**389**	364
Effects of:		
Disallowable expenditure for tax purposes	**1**	–
Adjustments in respect of prior years' tax[1]	**(4)**	1
Recognition of tax losses	**(1)**	–
Differences between taxable and accounting investment gains	**–**	(1)
Foreign taxes	**1**	1
Impact of revaluation of deferred tax balances	**(4)**	(1)
Tax expense	**382**	364
Effective tax rate[2]	**18.7%**	19.0%

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

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

To calculate the current tax on profits, the rate of tax used is 19.0% (2021: 19.0%), which is the average rate of corporation tax applicable for the year.

11. Dividends

	Per share 2022 Pence	Total 2022 £m	Per share 2021 Pence	Total 2021 £m
Ordinary share dividends paid in the year				
- Final dividend	**–**	**–**	–	–
- Interim dividend[1]	**120.35**	**784**	138.46	902
Total dividends paid in year	**120.35**	**784**	138.46	902

[1] Interim dividends of £303m and £481m were approved and paid during the year. An additional interim dividend of £0.3m was authorised but not paid on the 24th February 2023. (2021: Interim dividends of £604m and £298m were approved and paid during the year, dividends of £0.5m were paid in respect to dividends approved but not paid in 2020).

12. Investment in subsidiaries

	2022 £m	2021 £m
As at 1 January	**203**	113
Acquisitions[1]	**219**	1
Subscription to new share capital[2]	**111**	89
As at 31 December	**533**	203

[1] The Company purchased 100% shareholding in Legal & General Science and Tech (Holdings) Limited and Legal & General UK Solar Investments (Holdings) Limited in 2022.
[2] During 2022, the Company acquired additional shares in Legal & General Affordable Homes Limited and Legal & General Residential (Holdco) Limited. These companies remain as 100% owned subsidiaries.

13. Intangible assets

	Capitalised software costs 2022 £m	Other 2022 £m	Total 2022 £m
Cost			
As at 1 January	**208**	**–**	**208**
Additions	**80**	**–**	**80**
Disposals	**(6)**	**–**	**(6)**
As at 31 December[2]	**282**	**–**	**282**
Accumulated amortisation and impairment			
As at 1 January	**(27)**	**–**	**(27)**
Amortisation for the year	**(13)**	**–**	**(13)**
As at 31 December	**(40)**	**–**	**(40)**
Total net book value as at 31 December	**242**	**–**	**242**
To be amortised within 12 months	**14**	**–**	**14**
To be amortised after 12 months	**228**	**–**	**228**

	Capitalised software costs 2021 £m	Other[1] 2021 £m	Total 2021 £m
Cost			
As at 1 January	167	22	189
Additions	81	–	81
Disposals	(40)	(22)	(62)
As at 31 December	208	–	208
Accumulated amortisation and impairment			
As at 1 January	(23)	(22)	(45)
Amortisation for the year	(12)	–	(12)
Disposals	40	22	62
Impairment	(32)	–	(32)
As at 31 December	(27)	–	(27)
Total net book value as at 31 December	181	–	181
To be amortised within 12 months	11	–	11
To be amortised after 12 months	170	–	170

[1]Other includes the disposal of a purchased interest in long term business that was fully amortised and retired in 2021.
[2]Total capitalised software costs include £162m of work in progress that are not yet available for use as at 31 December 2022.

14. Plant and equipment

	Notes	2022 £m	2021 £m
Cost			
As at 1 January		**39**	36
Additions		**11**	8
Disposals		**(2)**	(5)
Intra Group transfer		**(5)**	–
As at 31 December		**43**	39
Accumulated Depreciation			
As at 1 January		**21**	20
Provided during the year		**5**	5
Disposals		**(2)**	(4)
As at 31 December		**24**	21
Net book value of owned plant and equipment at 31 December		**19**	18
Net book value of right of use asset at 31 December	31	**9**	16
Net book value of plant and equipment at 31 December		**28**	34

15. Financial investments and investment property

	Notes	Shareholder 2022 £m	Total 2022 £m
Financial investments at fair value classified as:			
Fair value through profit or loss		**77,318**	**77,318**
Held for trading	16	**41,295**	**41,295**
Financial investments at fair value		**118,613**	**118,613**
Investment property		**259**	**259**
Loans at amortised cost[1]		**1**	**1**
Total financial investments and investment property		**118,873**	**118,873**
Expected to be received within 12 months			**2,874**
Expected to be received after 12 months			**115,999**

	Notes	Shareholder 2021 £m	Total 2021 £m
Financial investments at fair value classified as:			
Fair value through profit or loss		96,839	96,839
Held for trading	16	13,006	13,006
Financial investments at fair value		109,845	109,845
Investment property		29	29
Loans at amortised cost[1]		1	1
Total financial investments and investment property		109,875	109,875
Expected to be received within 12 months			4,008
Expected to be received after 12 months			105,867

[1] The loans at amortised cost are made up of £1m (2021: £1m) deposits with credit institutions.

15. Financial investments and investment property (continued)

Financial investments, cash and cash equivalents include £5,434m (2021: £3,339m) of assets pledged as collateral against net derivative liability counterparty positions. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA, AA, A, BBB Corporate Bonds and Cash (2021: Treasury Gilts, Foreign Government Bonds, AAA, AA, A, BBB Corporate Bonds and Cash). Collateral may be posted to counterparties to transactions either on a security (pledge) basis or a full title transfer basis. Collateral posted will be received back in the form of the same assets originally posted, upon settlement of the relevant contract(s) or when changes in counterparty exposure require collateral to be returned. The Company is entitled to receive all of the cash flows from the asset (dividends, coupons, etc.) during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The Company can request to substitute an asset which is designated as collateral at any time. Requests for substitutions will generally need to be approved by the relevant counterparty and the replacing assets will need to comply with the terms agreed under the relevant transaction documentation.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. £469m (2021: £nil) has been recognised in the Income Statement in respect of the movement in fair value of these investments.

(i) Fair value hierarchy

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

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

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

The following table presents the Company's assets held at fair value by IFRS 13 hierarchy levels.

For the year ended 31 December 2022	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**6,881**	**5,470**	**4**	**1,407**
Debt securities	**70,042**	**16,287**	**24,370**	**29,385**
Derivative assets	**41,295**	**98**	**41,197**	**–**
Investment property	**259**	**–**	**–**	**259**
Loans at fair value	**395**	**–**	**395**	**–**
Total Shareholder	**118,872**	**21,855**	**65,966**	**31,051**
Total financial investments and investment property	**118,872**	**21,855**	**65,966**	**31,051**

The table above excludes loans at amortised cost of £1m (2021: £1m).

15. Financial investments and investment property (continued)

For the year ended 31 December 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	9,163	8,145	–	1,018
Debt securities	86,707	31,024	21,160	34,523
Derivative assets	13,006	–	13,006	–
Investment property	29	–	–	29
Loans at fair value	969	–	969	–
Total Shareholder	109,874	39,169	35,135	35,570
Total financial investments and investment property	109,874	39,169	35,135	35,570

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

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

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

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

Asset valuation approach at 31 December 2022
The Company's asset portfolio can be exposed to climate change through both:
- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

Exposure to the physical risks of climate change are minimised in the direct investment portfolios through rigorous assessment of potential investments, particularly in ensuring there is low susceptibility to extreme weather events. The Company's ultimate controlling party is preparing a group Energy and Carbon Report for the year ended 31 December 2022; therefore the Company has elected not to report its energy and carbon information. Legal & General's full Task Force on Climate-related Financial Disclosures (TCFD) Report can be found at: https://group.legalandgeneral.com/en/sustainability/sustainability-reporting-centre

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

Equity securities
Level 3 equity securities amount to £1,407m (2021: £1,018m), of which the majority is made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the Company's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are also included that are valued by a number of third party specialists using a range of techniques which depend on the maturity of the underlying investment but can also depend of the characteristics of individual investments. Primarily discounted cash flow models are utilised but for some early stage investments alternate valuation techniques are used such as earnings multiples and transaction values underpinned by analysis of milestone achievement and cash runway.

15. Financial investments and investment property (continued)

Debt securities
Lifetime mortgage (LTM) loans and retirement interest only mortgages amount to £5,139m (2021: £7,114m). Lifetime mortgages are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounted using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 250bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. The mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the property and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include short-term and long-term property growth rate assumptions equivalent to a flat rate of 2.6% annually, after allowing for the effects of dilapidation. The values of the properties collateralising the LTM loans are updated from the date of the last property valuation to the valuation date by indexing using UK regional house price indices.

The LTM structured notes consist of £5,545m of rated notes and £11m of unrated notes. The valuation of the rated notes is based on the value of the fixed contractual cashflows of the notes, discounted using a spread based on the credit rating of the notes and in line with the Company's corporate bond portfolio. The valuation of the unrated notes are based on projected cashflows that would be released to the unrated noteholders using a cashflow waterfall model.

Private credit loans (including commercial real estate loans) amount to £12,737m (2021: £13,400m). Their valuation is determined by discounted future cash flows which are based on the yield curve of the LGIM approved comparable bonds and the initial spread, both of which are agreed by IHS Markit who also provided independent valuation of comparable bonds. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments, which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 8.0 years, with a weighted average life of 10.6 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to BB.

Income strip assets amount to £1,107m (2021: £1,292m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. It is expected that the Company's property valuation as at 31 December 2022 would reflect similar equivalent yield ranges to Group between 3% and 9% and estimated rental values (ERV) between £5 and £310 per square foot.

Sale and leaseback (S&L) loans amount to £4,454m (2021: £5,154m). The underlying investment properties are held within special purpose vehicles (SPVs) which are not consolidated into LGAS. These assets are restructured into Rental Income Notes (RINs) and Residual Value Notes (RVNs) which are issued to LGAS. These are recorded on the Company's Balance Sheet as debt securities at fair value. The underlying investment properties are valued quarterly by CBRE who also provide a market value and a vacant possession value, both of which are used to split the value of the S&L assets into RINs and RVNs. In the valuation, the RINs are treated as corporate bonds, while making allowance for relevant market spreads to combine these cash flows. The RVNs represent the projected value of a vacant possession value at the end of its lease. This is projected using a real spread to inflation which is sector dependent. The RINs were restructured via an SPV to pay matching adjustment eligible flows to LGAS under Solvency II.

Affordable Rent (AR) loans amount to £173m (2021: £77m). The underlying investment properties are held within a limited liability partnership (LLP) which is not consolidated into LGAS. These assets are restructured into RINs and RVNs which are issued to LGAS. These are recorded on the Company's Balance Sheet as debt securities at fair value and are valued using similar valuation methods to the S&L loans.

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

Investment property
Level 3 investment property amounting to £259m (2021: £29m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also includes an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. It is expected that the Company's property valuation as at 31 December 2022 would reflect similar equivalent yield ranges to Group between 2% and 20% and ERV between £1 and £357 per square foot.

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

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

(ii) Significant transfers between Level 1 and Level 2

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

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

15. Financial investments and investment property (continued)

In 2022 there has been transfers of shareholder assets into level 1 from level 2 of £1,415m (2021: 7,283m) and transfers from level 2 to level 1 of £7,462m (2021: £2,095m).

(iii) Level 3 assets measured at fair value

	Equity securities 2022 £m	**Other financial investments 2022 £m**	**Investment property 2022 £m**	**Total 2022 £m**	Equity securities 2021 £m	Other financial investments 2021 £m	Investment property 2021 £m	Total 2021 £m
As at 1 January	**1,018**	**34,523**	**29**	**35,570**	888	30,241	29	31,158
Total gains/(losses) for the period:								
- realised gains/(losses)	**15**	**49**	**–**	**64**	1	(3)	–	(2)
- unrealised gains/(losses)	**(54)**	**(9,224)**	**(10)**	**(9,288)**	25	585	–	610
Purchases/additions	**576**	**10,691**	**240**	**11,507**	151	5,388	–	5,539
Sales/disposals	**(136)**	**(6,726)**	**–**	**(6,862)**	(47)	(1,586)	–	(1,633)
Transfers into level 3	**–**	**72**	**–**	**72**	–	10	–	10
Transfers out of level 3	**(10)**	**–**	**–**	**(10)**	–	(112)	–	(112)
Other	**(2)**	**–**	**–**	**(2)**	–	–	–	–
As at 31 December	**1,407**	**29,385**	**259**	**31,051**	1,018	34,523	29	35,570

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

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

Where material, the Company assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impact of applying these sensitivities on the fair value of Level 3 assets as at 31 December 2022. Further disclosure on how these sensitivities have been applied can be found in the descriptions following the table.

		Sensitivities	
	Fair value 2022 £m	**Positive impact £m**	**Negative impact £m**
Lifetime mortgages	**5,139**	**200**	**(200)**
Lifetime mortgage structuring notes[1]	**5,556**	**216**	**(216)**
Private credit loans	**12,737**	**680**	**(680)**
Sale and leaseback	**4,454**	**370**	**(416)**
Other investments[2]	**3,165**	**174**	**(186)**
Total Level 3 investments	**31,051**	**1,640**	**(1,698)**

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

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

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

Lifetime mortgages
Key assumptions used in the valuation of the Lifetime mortgages assets are listed in section (i) and sensitivities are applied to each assumption which are used to derive the values in the above table. The most significant reduction in value is -10% instant reduction in property valuation across the portfolio which, applied in isolation produces a sensitised value of £(75)m. The most significant increase in value is -10bps to discount rate which, applied in isolation produces a sensitised value of £65m.

15. Financial investments and investment property (continued)

The approach used for the valuation of the Lifetime mortgage structured notes are listed in section (i) and sensitivities are applied in line with the sensitivities applied to the underlying lifetime mortgages. The most significant sensitivity by value is +/-10% instant reduction in property valuation across the portfolio which, applied as an assumptions stress in isolation produces values of £35m and £(74)m respectively.

Private credit portfolios
The sensitivity in the private credit portfolio has been determined through a method which estimates investment spread value premium differences as compared to the institutional investment market. Individual investment characteristics of each holding, such as credit rating and duration are used to determine spread differentials for the purposes of determining alternate values. Spread differentials are determined to be lower for highly rated and/or shorter duration assets as compared to lower rated and/or longer duration assets. A significant component of the spread differential is in relation to the selection of comparator bonds, which is the potential difference in spread of the basket of relevant comparators determined by respective investors. If we were to take an AA rated asset it may attract a spread differential of 15bps on the selection of comparator bonds as opposed to 40bps for a similar duration BBB rated asset. Applied in isolation the sensitivity used to reflect the spread in comparator bond selection results in sensitised values of £255m and £(255)m.

The sensitivities for Sale & Leaseback notes are determined by applying stresses to the vacant posession value and the property growth index used in valuing the notes, the valuation of which is linked to the underlying investment property holdings. These holdings are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors (RICS). As such, sensitivities are calculated through a mixture of asset level and portfolio level methodologies which make reference to individual investment characteristics of the holding but do not flex individual assumptions used by the independent expert in valuing the holdings. Each method is applied individually and aggregated with equal weighting to determine the overall sensitivity determined for the portfolio. One method is similar to that used in the private credit portfolio as it determines the impact of an alternate property yield determined in reference to credit ratings, remaining term and other characteristics of each holding. In this methodology we would apply a lower yield sensitivity to a highly rated and/or shorter remaining term asset compared with a lower rated and/or longer remaining term asset. If we were to take an AA rated asset with remaining term of 25 years in normal market conditions this would lead to a 15bps yield flex (as opposed to a 35bps yield flex for a BBB rated asset with 30 year remaining term). The methodology which leads to the most significant sensitivity at the balance sheet date is related to an example in case law where it was found that an acceptable margin of error in a valuation dispute is 10% either way, subject to the valuation being undertaken with due care. If this sensitivity were to be taken without a weighting it would produce sensitised values of £445m and £(445)m.

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

(v) Interest rate benchmark reform

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

The Company transitioned away from GBP LIBOR by 31 December 2021, with only a few remaining cross currency positions which matured and rolled off in March 2022. As at 31 December 2022, a residual amount of floating-rate notes remains which reference a 'synthetic' LIBOR, as permitted.

At the start of the transition project, the Company's holding of USD LIBOR was significantly smaller than the GBP LIBOR. Trading out of USD LIBOR has been more gradual and the company holds interest rate swaps and floating-rate notes which still reference the index. It is expected that these will be replaced by USD SOFR before the June 2023 transition date.

The following table contains details of all the financial instruments currently subject to the IBOR reform that the Company holds on its balance sheet at 31 December 2022 which have not yet transitioned to an alternative interest rate benchmark. The amounts of non-derivative financial assets are shown at their carrying amounts and derivatives are shown at their notional amounts.

	GBP LIBOR 2022 £m	**USD LIBOR 2022 £m**	**Total 2022 £m**	GBP LIBOR 2021 £m	USD LIBOR 2021 £m	Total 2021 £m
Non-derivative financial assets						
Debt securities	**64**	**110**	**174**	229	55	284
Derivatives	**-**	**32,460**	**32,460**	743	58,624	59,367

16. Derivative assets and liabilities

	Fair values Assets 2022 £m	**Fair values Liabilities[1] 2022 £m**	Fair values Assets 2021 £m	Fair values Liabilities[1] 2021 £m
Forward foreign exchange contracts	**37**	**34**	38	19
Interest rate contracts	**35,398**	**37,335**	9,751	10,087
Inflation swap contracts	**4,839**	**4,961**	2,787	2,717
Credit derivatives	**-**	**2**	–	23
Currency swap contracts	**913**	**2,800**	416	663
Other derivatives	**108**	**268**	14	325
Total derivative assets and liabilities	**41,295**	**45,400**	13,006	13,834

[1] Derivative liabilities, all held for trading, are reported in the Balance Sheet within payables and other financial liabilities. See Note 29.
The contractual undiscounted cash flows in relation to non-unit linked derivatives have not been included, as shareholders are not directly exposed to liquidity risks.

		Maturity profile of undiscounted cash flows					
As at 31 December 2022	**Fair values £m**	**Within 1 year £m**	**1-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**
Cash inflows							
Derivative assets	**41,295**	**12,180**	**30,600**	**38,962**	**16,807**	**10,701**	**109,250**
Derivative liabilities	**(45,400)**	**11,609**	**18,279**	**27,195**	**11,910**	**6,901**	**75,894**
Total	**(4,105)**	**23,789**	**48,879**	**66,157**	**28,717**	**17,602**	**185,144**
Cash outflows							
Derivative assets	**41,295**	**(8,316)**	**(17,699)**	**(24,453)**	**(11,326)**	**(7,997)**	**(69,791)**
Derivative liabilities	**(45,400)**	**(16,483)**	**(34,223)**	**(45,747)**	**(18,434)**	**(9,991)**	**(124,878)**
Total	**(4,105)**	**(24,799)**	**(51,922)**	**(70,200)**	**(29,760)**	**(17,988)**	**(194,669)**
Net derivatives cash flows		**(1,010)**	**(3,043)**	**(4,043)**	**(1,043)**	**(386)**	**(9,525)**

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

17. IFRS 9 'Financial Instruments' deferral

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

	Financial assets passing the SPPI test[1,2] 2022 £m	All other financial assets[3] 2022 £m	Financial assets passing the SPPI test[1,2] 2021 £m	All other financial assets[3] 2021 £m
Equity securities	–	6,881	–	9,163
Debt securities	–	70,042	–	86,707
Derivative assets	–	41,295	–	13,006
Loans at fair value	–	395	–	969
Total financial investments at fair value	–	118,613	–	109,845
Loans at amortised cost	1	–	1	–
Reinsurance receivables	266	–	43	–
Insurance and intermediaries receivables	36	–	43	–
Other financial assets [4]	4,486	588	3,694	714
Total fair value of financial assets	4,789	119,201	3,781	110,559

[1] Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'Other financial assets'.
[2] For financial assets which pass the SPPI test held at 31 December 2022 there was no change in fair value during the year (2021: £nil).
[3] For all other financial assets held at 31 December 2022 there was a decrease of fair value movement in the year of £(21)bn (2021: decrease £(1.3)bn).
[4] Other financial assets exclude cash and cash equivalents and receivables under finance leases.

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

As at 31 December 2022	AAA £m	AA £m	A £m	BBB £m	BB and below[1] £m	Other[2] £m	Total £m
Loans at amortised cost	–	–	1	–	–	–	1
Reinsurance receivables	–	207	–	–	–	59	266
Insurance and intermediaries receivables	–	–	–	–	–	36	36
Other financial assets [3]	–	–	502	9	–	3,975	4,486
Total carrying value of financial assets passing the SPPI test	–	207	503	9	–	4,070	4,789

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

[1] Financial assets classified as 'BB or below' are considered to be lower than investment grade, and therefore are not deemed to have low credit risk under IFRS 9. The carrying value of these assets approximates their fair value.
[2] Other financial assets are made up of unrated and short-term receivables for which a formal credit rating is not assigned. The fair value of financial assets in this category that are not deemed to have low credit risk as at 31 December 2022 is £42m (2021: £30m).
[3] Other financial assets exclude cash and cash equivalents and receivables under finance leases.

18. Reinsurers' share of contract liabilities

	Notes	Shareholder 2022 £m	Unit linked 2022 £m	Total 2022 £m
Reinsurers' share of:				
Insurance contract liabilities	24/41(ii)	**19,552**	**-**	**19,552**
Investment contract liabilities	25/41(ii)	**226**	**66,334**	**66,560**
Reinsurers' share of contract liabilities		**19,778**	**66,334**	**86,112**

	Notes	Shareholder 2021 £m	Unit linked 2021 £m	Total 2021 £m
Reinsurers' share of:				
Insurance contract liabilities	24/41(ii)	25,303	-	25,303
Investment contract liabilities	25/41(ii)	353	65,462	65,815
Reinsurers' share of contract liabilities		25,656	65,462	91,118

19. Deferred tax

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

The deferred tax balances are as follows:

	As at 31 December 2022 £m	As at 31 December 2021 £m
Deferred tax assets / (liabilities)	**26**	–
As at 31 December	**26**	–

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

	Net tax liability as at 1 January 2022 £m	Tax (charged)/ credited to the income statement £m	Net tax asset as at 31 December 2022 £m
Realised and unrealised losses on investments	**(16)**	**22**	**6**
Excess of depreciation over capital allowances	**12**	**–**	**12**
Other	**4**	**4**	**8**
Deferred tax assets / (liabilities)	**–**	**26**	**26**

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

19. Deferred tax (continued)

Unrecognised deferred tax assets

The Company has the following unrelieved tax losses carried forward as at 31 December 2022. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2022 or 31 December 2021, as it is probable that there will be no suitable taxable profits emerging in future periods against which to relieve them. Relief for these tax losses will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2022 is £2m (2021: £3m).

	Gross 2022 £m	**Tax 2022 £m**	Gross 2021 £m	Tax 2021 £m
Trade losses in respect of business transferred in	**9**	**2**	12	3
Unrecognised deferred tax asset	**9**	**2**	12	3

20. Income tax

Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the income statement unless it relates to items which are recognised directly to equity or other comprehensive income.

	2022 £m	2021 £m
Tax (payable) / recoverable within 12 months	**(54)**	(23)
Tax recoverable after 12 months[1]	**5**	5
Income tax (payable) / recoverable[2]	**(49)**	(18)

[1] £5m (2021: £5m) relates to tax recoverable in respect of overseas tax.
[2] Income tax (payable) / recoverable represents the net position of income tax recoverable and income tax liabilities on the Company's balance sheet.

21. Other assets

	2022 £m	2021 £m
Reinsurance receivables	**266**	43
Accrued interest and rent	**194**	8
Prepayments and accrued income	**112**	104
Insurance receivables	**36**	43
Other receivables[1]	**5,189**	4,544
Other assets	**5,797**	4,742
Due within 12 months	**5,091**	3,521
Due after 12 months	**706**	1,221

[1] Other receivables includes collateral held by third parties of £2,525m (2021: £1,914m), a funds withheld receivable from Legal & General America Inc. of £588m (2021: £714m), amounts due from other Group companies of £1,212m (2021: £814m) (see Note 41), receivables due under finance leases of £115m (2021: £91m), and receivables due on sub-lease agreements of £5m (2021: £6m). The future minimum lease payments of the finance lease and sub-lease under the arrangement, together with the present value, are disclosed below.

(i) Receivables under finance leases

	Total future payments 2022 £m	Unearned interest income 2022 £m	Total 2022 £m	Total future payments 2021 £m	Unearned interest income 2021 £m	Total 2021 £m
Within 1 year	**9**	**(5)**	**4**	7	(3)	4
1-2 years	**9**	**(5)**	**4**	7	(3)	4
2-3 years	**9**	**(5)**	**4**	7	(3)	4
3-4 years	**9**	**(4)**	**5**	7	(3)	4
4-5 years	**8**	**(4)**	**4**	7	(2)	5
After 5 years	**152**	**(58)**	**94**	85	(15)	70
Total finance lease receivables	**196**	**(81)**	**115**	120	(29)	91

22. Cash and cash equivalents

	Total 2022 £m	Total 2021 £m
Cash at bank and in hand[1]	**207**	232
Cash equivalents	**-**	-
Cash and cash equivalents	**207**	232

[1] Included in cash at bank and in hand are cash collateral balances of £6m (2021: £69m). The Company is entitled to use this cash for other purposes during the period when it is pledged as collateral.

23. Share capital and share premium

	2022 Number of shares '000	2022 £m	2021 Number of shares '000	2021 £m
Authorised share capital:				
Ordinary shares of £1 each	**1,000,000**	**1,000**	1,000,000	1,000
Issued share capital:				
Fully paid ordinary shares of £1 each	**651,430**	**651**	651,430	651
Share premium		**1,049**		1,049

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

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

24. Insurance contract liabilities

(i) Analysis of insurance contract liabilities

	Notes	Gross 2022 £m	Re-insurance 2022 £m	Gross 2021 £m	Re-insurance 2021 £m
Non-participating insurance contracts	24(iii)	**64,658**	**(19,494)**	85,920	(25,261)
General insurance contracts[1]		**62**	**(58)**	70	(42)
Insurance contract liabilities		**64,720**	**(19,552)**	85,990	(25,303)

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

(ii) Expected insurance contract liability cash flows

As at 31 December 2022	Date of undiscounted cash flows 0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Non-participating insurance contracts	**14,859**	**29,765**	**19,713**	**18,175**	**82,512**

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

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

Non-participating insurance contract liabilities include £12m (2021: £13m) of unit linked liabilities. Amounts under unit linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

(iii) Movement in non-participating insurance contract liabilities

	Notes	Gross 2022 £m	Re-insurance 2022 £m	Gross 2021 £m	Re-insurance 2021 £m
As at 1 January		**85,920**	**(25,261)**	85,713	(25,079)
New liabilities in the year		**7,078**	**(2,982)**	6,230	(2,399)
Liabilities discharged in the year		**(5,154)**	**1,559**	(4,567)	1,453
Unwinding of discount rates		**1,579**	**(482)**	1,133	(395)
Effect of change in non-economic assumptions	26	**(1,044)**	**722**	(686)	470
Effect of change in economic assumptions[1]	26	**(23,830)**	**6,975**	(1,834)	751
Foreign exchange		**115**	**(28)**	(91)	29
Model and methodology changes		**36**	**18**	(67)	16
Other		**(42)**	**(15)**	89	(107)
As at 31 December		**64,658**	**(19,494)**	85,920	(25,261)
Expected to be settled within 12 months (net of reinsurance)		**2,782**		2,594	
Expected to be settled after 12 months (net of reinsurance)		**42,382**		58,065	

[1] The change in economic assumptions reflects changes in valuation interest rates over the year, as detailed in Note 26.

During the year, the Company entered into prospective reinsurance arrangements which resulted in a profit of £1,127m (2021: profit of £654m). This profit has been reflected in the Statement of Comprehensive Income for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

25. Investment contract liabilities

(i) Analysis of investment contract liabilities

	Gross 2022 £m	**Re-insurance 2022 £m**	Gross 2021 £m	Re-insurance 2021 £m
Non-participating investment contracts	**67,778**	**(66,560)**	67,324	(65,815)
Investment contract liabilities	**67,778**	**(66,560)**	67,324	(65,815)
Expected to be settled within 12 months (net of reinsurance)	**88**		121	
Expected to be settled after 12 months (net of reinsurance)	**1,130**		1,388	

Non-participating investment contracts include £66,387m (2021: £65,470m) of unit linked liabilities and £(66,334)m (2021: £(65,462)m) of unit linked reinsurance assets. Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions.

Non-participating investment contract liabilities include £901m (2021: £1,413m) of Assured Payment Policies (APP) products, which are classified as Level 2 in the fair value hierarchy. The valuation of APP is determined through a discounted cash flows model, where the discount rate is derived from a risk-free rate, a credit benchmark spread, and a zero-volatility spread (Z-spread). The credit benchmark rate used is the A-rated credit spread curve which reflects the strategic portfolio mix. The Z-spread ensures that the fair value at inception is equal to the transaction price, therefore it is based on the premium on origination and remains constant over the life of the policy.

The presented fair values of the remaining non-participating investment contract liabilities reflect quoted prices in active markets, and they have been classified as Level 1 in the fair value hierarchy.

During the year there have been no transfers of non-participating investment contract liabilities between levels of the fair value hierarchy (2021: no transfers between levels of the fair value hierarchy).

(ii) Movement in investment contract liabilities

	Gross 2022 £m	**Re-insurance 2022 £m**	Gross 2021 £m	Re-insurance 2021 £m
As at 1 January	**67,324**	**(65,815)**	51,705	(50,776)
Reserves in respect of new business	**11,101**	**(7,916)**	13,023	(10,358)
Amounts paid on surrenders and maturities during the year	**(3,582)**	**652**	(3,612)	1,703
Investment return and related benefits	**(6,967)**	**6,519**	6,305	(6,384)
Management charges	**(98)**	**–**	(97)	–
As at 31 December	**67,778**	**(66,560)**	67,324	(65,815)

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

26. Long term insurance valuation assumptions

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

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

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

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

The higher mortality experience observed in 2020 as a result of Covid-19 is considered to be exceptional and, due to insufficient certainty in more recent data, long-term mortality assumptions have not taken this experience into account.

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

Mortality tables	2022	2021
Non-linked individual assurance business		
UK term assurances[1]	**99% - 101% TM08/TF08 Sel 5**	99% - 101% TM08/TF08 Sel 5
UK term assurances with terminal illness[1]	**63% - 95% TM08/TF08 Sel 5**	63% - 95% TM08/TF08 Sel 5
UK term assurances with critical illness[2]	**109% - 159% ACL08Sel 2**	107% - 159% ACL08Sel 2
LGA reinsured[3]	**Adjusted SOA 2014 VBT**	Adjusted SOA 2014 VBT
Whole of Life Protection Plan[4]	**Bespoke Tables based on TM08/TF08, PCMA00/PCFA00 and UK death registrations**	Bespoke Tables based on TM08/TF08, PCMA00/PCFA00 and UK death registrations
Whole of Life over 50[4]	**Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions**	Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions
Annuity business		
UK Annuities in deferment[5]	**70.4%-80.5% PNMA00/PNFA00**	70.9%-81.1% PNMA00/PNFA00
UK Vested annuities[6]		
Pension risk transfer	**71.2%-80.5% PCMA00/PCFA00**	71.6%-81.1% PCMA00/PCFA00
Other annuities	**59.8%-95.4% PCMA00/PCFA00**	59.3%-98.4% PCMA00/PCFA00

[1] Improvement assumptions applied for 2022 of 0.6% p.a. for males and females (2021: 0.6% p.a. for males and females).
[2] Morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females (2021: 0.50% p.a. for males and 0.75% p.a. for females).
[3] Adjustments are made for sex, select period, smoker status, policy size, policy duration and year, issue year and age.
[4] Mortality rates are assumed to reduce based on CMI 2020 model with a long term annual improvement rate of 1.5% for males and 1.0% for females. (2021: Mortality rates are assumed to reduce based on CMI 2019 model with a long term annual improvement rate of 1.5% for males and 1.0% for females).
[5] Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
[6] Mortality rates are assumed to reduce according to an adjusted version of the mortality improvement model CMI 2020 (2021: CMI 2019) with the following parameters:
- Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110 (2021: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110).
- Females: Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110 (2021: Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110).

Smoothing is applied to derive initial rates using a smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2020. The resulting initial rates are then adjusted to reflect socio economic class. (2021: smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2019).
For individual annuities distributed through retail channels, a further allowance is made for the effect of initial selection.
The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards.

26. Long term insurance valuation assumptions (continued)

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

For annuity business, an explicit allowance for risk is deducted from the yield. The allowance for risk comprises long-term assumptions about defaults on a prudent basis or, in the case of lifetime mortgage assets, a prudent expectation of losses arising from the NNEG. These allowances vary by asset category and for some asset classes by rating. The allowance for risk for government backed bonds equated to 9bps (2021: 9bps) and 42bps for corporate bonds and direct investments (2021: 43bps). This is equivalent to a default provision of £2.2bn at 31 December 2022 (2021: £3.4bn). For lifetime mortgage business, the allowance for risk in respect of lifetime mortgage assets is equivalent to £0.4bn at 31 December 2022 (2021: £0.6bn).

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

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

Rate of interest / discount rate	2022	2021
UK Life assurances	**4.23% - 5.09% p.a.**	1.40% - 2.52% p.a.
UK Pension assurances	**4.23% - 5.09% p.a.**	1.40% - 2.52% p.a.
LGA reinsured	**4.10% p.a.**	1.24% p.a.
UK Annuities – Fixed	**4.91% p.a.**	1.76% p.a.
UK Annuities – Index Linked	**1.17% p.a.**	-1.90% p.a.

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

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

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

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

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

Lapse Rates	2022	2021
UK Level term	**1.6% - 35.0%**	1.6% - 34.5%
UK Decreasing term	**5.3% - 18.0%**	5.3% - 18.0%
UK Accelerated critical illness cover	**2.6% - 37.8%**	2.6% - 37.3%
Pensions term	**2.3% - 3.5%**	2.3% - 3.8%
Whole of Life (conventional non profit)	**0.4% - 6.0%**	0.5% - 6.1%
LGA reinsured business – 10 year guarantee period	**5.7% - 6.5%**	5.7% - 6.5%
LGA reinsured business – 15 year guarantee period	**3.4% - 4.6%**	3.4% - 4.6%
LGA reinsured business – 20 year guarantee period	**2.4% - 4.9%**	2.4% - 4.9%
LGA reinsured business – 30 year guarantee period	**1.7% - 5.2%**	1.7% - 5.2%

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

27. Borrowings

	2022 £m	2021 £m
Operational borrowings	**2**	–

28. Provisions

	2022 £m	2021 £m
Other provisions[1]	**65**	33
Provisions	**65**	33

[1] Other provisions include the provision recognised on an onerous contract of £11.3m (2021: £6.8m).

29. Payables and other financial liabilities

	Notes	2022 £m	2021 £m
Derivative liabilities	16	**45,400**	13,834
Intercompany balances due - funds withheld[1]		**16,047**	20,723
Intercompany balances due - LTM obligation[2]		**5,038**	6,998
Other financial liabilities		**4,116**	3,484
Payables and other financial liabilities		**70,601**	45,039
Settled within 12 months		**3,699**	3,601
Settled after 12 months		**66,902**	41,438

[1] This represents a funds withheld payable to Legal & General Reinsurance Company Limited, also disclosed in Note 41(v) Related Party Transactions. Premiums payable to Legal & General Reinsurance in respect of the reinsurance treaty are not cash settled. The Company instead cedes an interest in its financial investments representing approximately 25% of the Company's non-profit non-unit linked financial investments and investment property. The assets ceded as premium to Legal & General Reinsurance are included within the assets reported of the Company, as well as separately as a payable, on a funds withheld basis.
[2] This relates to the Lifetime Mortgages (LTM) obligation payable to Legal & General LTM Structuring (SPV) Limited. The LTM obligation represents the right to the LTM assets reflected in the Company non-profit non-unit linked financial investments. It is also disclosed in Note 41(iii) Related Party Transactions.

Payables and other financial liabilities settled after 12 months are expected to be settled within five years with the exception of derivative liabilities, as disclosed in Note 16, and intercompany balances that relate to funds withheld under the Legal & General Reinsurance Company Limited treaty for which there is no anticipated settlement.

Fair value hierarchy

Payables and other financial liabilities	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**45,400**	**268**	**45,107**	**25**	-
Intercompany balances due - LTM obligation[1]	**5,038**	-	-	**5,038**	-
Other financial liabilities	**4,116**	-	**837**	-	**3,279**
As at 31 December 2022	**54,554**	**268**	**45,944**	**5,063**	**3,279**

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

[1] The LTM obligation is carried at fair value of £5,038m as at the balance sheet date (2021: £6,998m). Reasonably possible alternative assumptions can create increase in fair value of £35m (2021: £171m) or decrease in fair value of £(74)m (2021: £(259)m). Reasonably possible alternative valuations have been determined using alternative cash flows and expected defaults.

29. Payables and other financial liabilities (continued)

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

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

There have been no significant transfers between levels.

30. Other liabilities

	2022 £m	2021 £m
Accruals	**184**	144
Deferred income liabilities	**26**	18
Intra Group balances[1]	**–**	160
Other payables	**3**	150
Other liabilities	**213**	472
Expected to be settled within 12 months	**206**	203
Expected to be settled after 12 months	**7**	269

[1] See note 41 Related party transactions.

31. Leases

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

	Head office Accom. 2022 £m	**Total 2022 £m**	Head office Accom. 2021 £m	Total 2021 £m
Carrying Amount - Right of use Assets[1]				
Balance as at 1 January	**16**	**16**	21	21
Additions	**2**	**2**	–	–
Depreciation for the period	**(5)**	**(5)**	(5)	(5)
Revaluation of ROU asset	**(4)**	**(4)**	–	–
Carrying Amount as at 31 December	**9**	**9**	16	16

[1] The right-of-use assets are included in plant and equipment, Note 14.

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

As at 31 December	**Undiscounted lease payments 2022 £m**	**Finance Charge 2022 £m**	**Total 2022 £m**	Undiscounted lease payments 2021 £m	Finance Charge 2021 £m	Total 2021 £m
Within 1 year	**6**	**(1)**	**5**	6	(1)	5
1-2 years	**3**	**–**	**3**	5	(1)	4
2-3 years	**3**	**–**	**3**	5	(1)	4
3-4 years	**3**	**–**	**3**	5	–	5
4-5 years	**–**	**–**	**–**	4	–	4
Total lease liabilities	**15**	**(1)**	**14**	**25**	**(3)**	**22**

The lease liabilities are included under other financial liabilities in payables and other financial liabilities. See Note 29.

Lease contracts are typically entered into for fixed periods ranging from 1 to 7 years. Extension and termination options are included in various leases. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. No leases (2021: 1 lease) have extension options and 10 leases (2021: 7 leases) have termination options. A termination option was exercised in 2022 on 1 head office lease, in accordance with IFRS16 both the ROU asset and the associated liability were remeasured upon this option being exercised.

Interest expense of £1m (2021: £1m) on lease liabilities is included in finance costs. Expenses relating to short term lease payments not included in the measurement of the lease liability above amounted to £nil (2021: £nil).

32. Contingent liabilities, guarantees and indemnities

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

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

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

33. Commitments

(i) Capital Commitments

Authorised and contracted commitments not provided for in respect of investments, relating to property development and private equity, payable after 31 December 2022 are £941m (2021: £606m).

Authorised future equity contribution commitments relating to Legal and General Affordable Homes Limited payable after 31 December 2022 are £287m (2021: £397m).

Authorised future equity contribution commitments relating to Legal and General UK Solar Investments (Holdings) Limited payable after 31 December 2022 are £101m (2021: £nil).

Authorised future equity contribution commitments relating to Legal and General Science and Tech (Holdings) Limited payable after 31 December 2022 are £41m (2021: £nil).

(ii) Head Office Lease Commitments

All Head Office lease commitments are disclosed in Leases note 31.

34. Subsidiary undertakings

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

Held directly by the company	Nature of business	Incorporated in	Share class	% equity shares held
Legal & General Affordable Homes Limited	Development of building projects	England & Wales[1]	Ordinary	100.00
Legal & General Pensions Limited	Limited Company	England & Wales[1]	Ordinary	100.00
Legal & General Trustees Limited	Fund Trustee	England & Wales[1]	Ordinary	100.00
Legal & General Science and Tech (Holdings) Limited	Holding Company	England & Wales[1]	Ordinary	100.00
Legal & General Residential (Holdco) Limited	Holding Company	England & Wales[1]	Ordinary	100.00
Legal & General UK Solar Investments (Holdings) Limited	Holding Company	England & Wales[1]	Ordinary	100.00
Antham 1 Limited	Property Company	England & Wales[1]	Ordinary	100.00
Synergy Gracechurch Holdings Limited[9]	Holding Company	Jersey[8]	Ordinary	100.00
Legal & General Affordable Homes (AR) LLP	Development of building projects	England & Wales[1]	-	99.50
Legal & General Suburban BTR (Property) LLP	Development of building projects	England & Wales[1]	-	99.50
Court Place Gardens Holding LLP	Holding Company LLP	England & Wales[1]	-	99.50
Legal & General Affordable Homes (SO) LLP	Development of building projects	England & Wales[1]	-	99.00

Held indirectly through subsidiary undertakings	Nature of business	Incorporated in	Share class	% equity shares held
Low Farm Solar Limited	Production of electricity	England & Wales[3]	Ordinary	100.00
Siddington Solar Farm Limited	Production of electricity	England & Wales[3]	Ordinary	100.00
Beavor Grange Solar Farm Limited[7]	Production of electricity	England & Wales[3]	Ordinary	100.00
Alfreton Solar Limited[7]	Production of electricity	England & Wales[3]	Ordinary	100.00
LGPL No.2 Limited	Fund Management Activities	England & Wales[1]	Ordinary	100.00
Stratford City Offices (No.2) LP	Limited Partnership	England & Wales[1]	Ordinary-Partner Owned	99.99
Stratford City Offices Jersey Unit Trust (No.2)	Unit Trust	Jersey[2]	Ordinary	99.83
Swindon (The Hub) Management Company Limited[7]	Private Limited Company	England & Wales[4]	Ordinary	96.00
Bruntwood Scitech Limited[6]	Letting and operating of leased real estate	England & Wales[5]	Ordinary	50.00
Sapphire Campus Management Company Limited	Investment Vehicle	England & Wales[1]	Ordinary	9.52

[1] Registered address: One Coleman Street, London, EC2R 5AA.
[2] Registered address: 1st Floor, Waterloo House, Don Street, St Helier, Jersey, JE2 3BX.
[3] Registered address: 5 New Street Square, London, England, EC4A 3TW.
[4] Registered address: 6th Floor Lansdowne House, Berkeley Square, London, United Kingdom, W1J 6ER.
[5] Registered address: Union, Albert Square, Manchester, England, M2 6LW
[6] Year end of 30 September 2022
[7] Year end of 31 March 2023
[8] Registered address: 12 Castle Street, St Helier, Jersey, JE2 3RT.
[9] Synergy Gracechurch Holdings Limited was dissolved on 17 March 2022.

35. Parent companies and fellow subsidiaries

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

36. Investment vehicles

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

Company name	Incorporated in	% equity shares held
Legal & General FX Structuring (SPV) Limited	England & Wales[1]	100.00
Legal & General Life Fund Limited Partnership	England & Wales[1]	100.00
Legal & General LTM Structuring (SPV) Limited	England & Wales[1]	100.00
West Bar Square Limited	England & Wales[1]	100.00
Borehamwood Property Unit Trust	Jersey[2]	99.96
Legal & General Residential (BTR) 1 LLP	England & Wales[1]	99.50
Legal & General Residential (BTR) 2 LLP	England & Wales[1]	99.50
Bracknell Property Unit Trust	Jersey[3]	50.86
English Cities Fund	England & Wales[1]	35.44
Bishopsgate Long Term Property Fund Limited Partnership	Jersey[2]	24.75

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

37. Related undertakings

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

Company name	Incorporated in	% equity shares held
Bishopsgate Long Term Property Limited Partnership	Jersey[2]	24.75
Legal & General Multi-Asset Target Return Fund	England & Wales[1]	22.98
US Liquidity Fund	Ireland[3]	26.31
English Cities Fund	England & Wales[1]	35.44
Legal & General APAC Excluding Japan Equity Index Fund	Ireland[3]	29.10
Legal & General Future World Global Credit Fund	Luxembourg[4]	34.68
Legal & General Future World ESG UK Index Fund	England & Wales[1]	30.00
Legal & General Future World ESG Multi Index 6 Fund	England & Wales[1]	38.99

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

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

37. Related undertakings (continued)

Company name	Incorporated in	% equity shares held
Bracknell Property Unit Trust	Jersey[3]	50.86
Legal & General Future World ESG Japan Index Fund	England & Wales[1]	57.42
Legal & General Future World ESG Multi Index 7 Fund	England & Wales[1]	71.76
Legal & General Multi Asset Core 45 Fund	England & Wales[1]	77.47
Legal & General Multi Asset Core 75 Fund	England & Wales[1]	78.24
Legal & General Future World Sustainable Opportunities	England & Wales[1]	86.30
Legal & General Multi Asset Core 20 Fund	England & Wales[1]	88.74
Legal & General Residential (BTR) 1 LLP	England &Wales[1]	99.50
Legal & General Residential (BTR) 2 LLP	England &Wales[1]	99.50
Borehamewood Property Unit Trust	Jersey[4]	99.96
Risk Management Solutions (QIAIF) - Hedging Fund AC	Ireland[2]	100.00
West Bar Limited	England & Wales[1]	100.00
Legal & General LTM Structuring (SPV) Limited	England &Wales[1]	100.00
Legal & General FX Structuring (SPV) Limited	England &Wales[1]	100.00
Legal & General Life Fund Limited Partnership	England & Wales[1]	100.00

The registered addresses for the related undertakings above are referenced via footnotes below with their financial statement year end date of 31 December 2022 unless stated :

[1] 1 Coleman Street, London, EC2R 5AA
[2] 33 Sir John Rogerson's Quay, Dublin 2, Ireland
[3] 40 Esplanade, St Helier, Jersey, JE4 9WB Financial Statement year end 31 March 2023
[4] 12 Castle Street, St Helier, Jersey, JE2 3RT Financial Statement year end 31 March 2023

38. Interests in structured entities

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

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

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

At 31 December 2022, the Company's total interest in structured entities, reflected on its Balance Sheet and classified as financial investments held at fair value through profit or loss, was £11,575m (2021: £14,360m). A summary of the Company's holdings at 31 December 2022, with prior year comparatives, is provided below:

	2022 £m	2021 £m
Debt Securities		
Analysed as:		
Asset Backed Securities	**645**	851
Securitisations and Debentures	**139**	61
Sale and Leaseback Loans[1]	**4,454**	5,154
Collateralised Debt Obligations	**52**	66
Investments Funds		
Analysed as:		
Unit Trusts	**963**	1,172
Limited Partnerships	**783**	683
Liquidity Funds	**3,734**	5,018
Specialised Investment Vehicles		
Analysed as:		
SICAVs (Société d'Investissement à Capital Variables)	**107**	127
QIFs (Qualifying Investor Funds)	**454**	979
ICAVs (Irish Collective Asset-management Vehicles)	**19**	56
SIFs (Specialised Investment Funds)	**94**	–
Property Unit Trusts	**130**	–
QIAIF ICAVs (Qualifying Investor Alternative Investment Funds)	**1**	–
Total	**11,575**	14,167

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

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

39. Share based payments

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

The total expense recharged to the Company in relation to share based payments was £8m (2021: £6m).

40. Directors' emoluments

	2022 £000	2021 £000
Short-term employee benefits	**1,336**	1,570
Share-based incentive awards	**782**	853
Aggregate emoluments (excl. retirement benefits)	**2,118**	2,423

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

Retirement benefits are not accruing to any of the directors under a defined benefit pension scheme (2021: no directors). During the year, no director (2021: 1 director) was a member of a defined contribution pension scheme and the value of the apportioned company contribution in the year was nil (2021: £19k).

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

Two of the directors have exercised share options under the Group's share schemes in the year (2021: two directors).

Highest paid director:

	2022 £000	2021 £000
Aggregate emoluments (incl. retirement benefits)	**935**	880

The highest paid director has not accrued any retirement benefits in 2022 (2021: none).

Directors' loans

At 31 December 2022 there were no loans to directors (2021: none).

Directors' transactions and arrangements.

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company during 2022 (2021: none).

41. Related party transactions

(i) Employees and Key management personnel
The Company's employees are employed by Legal & General Resources Limited and the Company is recharged its share of the staff costs, see Note 6. Key management personnel, represented by the members of the board of directors are listed in the Directors' Report. Director remuneration is discussed in detail in Note 40.

(ii) Reinsurance
As at 31 December 2022, the Company held reinsurance assets of £66,334m (2021: £65,462m) with respect to reinsurance ceded to a related party, Legal and General Assurance (Pensions Management) Limited. The Company's net policyholder transactions in respect of investment contracts reinsured to Legal and General Assurance (Pensions Management) Limited amounted to £6,984m (2021: £7,934m). The policyholders lost £2,184m in investment return (2021: gain of £6,910m) on these assets.

As at 31 December 2022, the Company held reinsurance assets of £14,684m (2021: £19,646m) with respect to reinsurance ceded to a related party, Legal & General Reinsurance Company Limited. The Company paid £1,206m (2021: £1,020m) of reinsurance premium and received £631m (2021: £629m) in claims in respect of annuity business. The Company also recognised a liability of £16,047m (2021: £20,723m), received £4,965m (2021: paid £198m) in investment return and received £7m in commission (2021: £5m) in respect of Legal & General Reinsurance Company Limited. The investment return is recognised as finance income for LGAS in 2022 as a result of adverse performance on the assets backing the funds withheld liability.

With regards to its transactions with Legal & General America Inc., a related party belonging to Legal & General Group Plc, the Company accepted £144m (2021: £223m) of reinsurance premium for reinsuring term life, whole of life and annuity business, paid £20m (2021: £22m) in commission, received £27m (2021: £17m) in investment income and paid £273m (2021: £249m) in claims. A reinsurance liability of £842m (2021: £1,057m) is held to cover this business.

(iii) Financial Investments
The Company held £5,045m (2021: £6,742m) in investments in unit trusts, controlled and managed by Group companies that are classified as other related parties. In 2022 the Company made a £421m loss (2021: £130m profit) from investing in those trusts.

As at 31 December 2022, the Company held £4,490m (2021: £5,677m) of investment under Consolidated Property Vehicles, predominantly from Legal & General Pensions Limited. The Company held £5,832m (2021: £7,280m) in Investments under Consolidated Debt Vehicles offset by an investment liability, in respect of securitised assets, of £5,038m (2021: £6,998m) with Legal & General LTM Structuring (SPV) Limited. In 2022, the Company made a loss of £788m (2021: £666m profit) from investing in the Property Vehicles and £13m loss (2021: £126m profit) on Consolidated Debt Vehicles.

41. Related party transactions (continued)

The Company acquired £749m of lifetime mortgage loans from Legal & General Home Finance Limited in 2022 (2021: £886m).

(iv) Receivables

As at 31 December	2022 £m	2021 £m
- Legal & General America Inc. - funds withheld balance on reinsurance	**588**	714
- Legal & General Finance Plc	**502**	414
- Other related parties	**718**	400
	1,808	1,528

None of the receivables above are impaired. The Company received £9m (2021: £4m) of interest income on the above receivables

(v) Payables

As at 31 December	2022 £m	2021 £m
To ultimate parent company (Legal & General Group Plc)	**26**	149
To other related parties		
- Legal & General Reinsurance Company Limited (mentioned under reinsurance)	**16,047**	20,723
- Property investment vehicles	**443**	71
- Other related parties	**48**	86
Total[1]	**16,564**	21,029

[1]This total includes £nil (2021: £160m) of Intra Group loans referenced in Note 30

(vi) Other charges

As at 31 December	2022 £m	2021 £m
Charges due to parent company		
- Interest charges	**1**	1
Charges due to other related parties		
- Legal & General Investment Management (Holdings) Limited - investment management charges	**164**	162
- Legal & General Partnership Holdings Limited	**4**	4
- Legal & General America Inc. (mentioned under reinsurance)	**21**	22
- Legal & General Reinsurance Company Limited (interest charges mentioned under reinsurance)	**(4,965)**	198
- Other	**7**	3
	(4,768)	390

(vii) Other income
The Company received £1m (2021: £1m) intragroup income from Legal & General Investment Management (Holdings) Limited.

(viii) Dividends
The Company approved and paid £784m (2021: £902m) in dividends to its parent company, Legal & General Insurance Holdings Limited.

(ix) Acquisitions
The Company purchased 100% shareholding in Legal & General Science and Tech (Holdings) Limited and Legal & General UK Solar Investments (Holdings) Limited in 2022.

(x) Group Pension Schemes
The Group UK defined benefit pension schemes have purchased annuity contracts issued by the Company for consideration of £61m (2021: £82m) during the period, priced on an arm's length basis.

Assured Payment Policies (APPs) have been transacted between the group's defined benefit pension schemes and LGAS. An APP is an investment contract product sold by LGRI which, issued to a pension scheme, provides the scheme with a fixed or inflation-linked schedule of payments to match the scheme's expected liabilities. As at 31 December 2022, the liability related to the APP transactions was £820m (2021: £1,214m).

42. Management of capital resources

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

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

The table below shows the Company Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at 31 December 2022).

The 2022 Solvency II results set out below are estimated and unaudited.

As at 31 December 2022, and on the above basis, the Company had a Solvency II surplus of £5,091m (2021: £3,551m) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio of 207% (31 December 2021: 155%).

The Solvency II capital position is as follows:

	2022 £m	2021 £m
Core tier 1 own funds	**9,828**	10,016
Own Funds	**9,828**	10,016
Solvency Capital Requirement (SCR)	**4,737**	6,465
Surplus Own Funds	**5,091**	3,551
SCR coverage ratio	**207%**	155%

Solvency II Own Funds allow for a risk margin of £1.9bn (31 December 2021: £4.0bn) and TMTP of £1.6bn (31 December 2021: £3.6bn).

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

	2022 £m	2021 £m
Capital and reserves attributable to equity holders on an IFRS basis	**8,413**	7,530
Elimination of intangible assets and associated liabilities[1]	**(239)**	(184)
Difference in valuation of insurance contracts[2]	**2,146**	3,498
Impact of valuation differences on net deferred tax	**(476)**	(828)
Difference in valuation of subsidiaries	**(16)**	–
Own Funds	**9,828**	10,016

[1] Associated liabilities include deferred income liabilities.
[2] Differences in the measurement of Technical provisions between IFRS and Solvency II. The Solvency II Risk Margin and the Transitional Measure on Technical provisions have been included within this line.

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

42. Management of capital resources (continued)

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

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

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

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

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

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

43. Assets analysis

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

The two categorisations presented are:

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

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

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 44 (Risk management and control) have been provided using this categorisation.

	Shareholder £m	Unit linked £m	Total £m
Assets			
Investment in subsidiaries	533	-	533
Intangible assets	242	-	242
Plant and equipment	28	-	28
Investments	119,066	14	119,080
Other operational assets[1]	25,573	66,385	91,958
As at 31 December 2022	**145,442**	**66,399**	**211,841**
Liabilities			
Non-participating contract liabilities	66,099	66,399	132,498
Other financial liabilities	70,915	15	70,930
As at 31 December 2022	**137,014**	**66,414**	**203,428**

43. Assets analysis (continued)

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

[1] Other operational assets mainly comprise reinsurance assets.

44. Risk management and control

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

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

Principal Products

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

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

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

Institutional Retirement (LGRI)

Annuity contracts
Pension Risk Transfer (PRT) represents bulk annuities, whereby the Company accepts the assets and liabilities of a company pension scheme or a life fund. Annuities provide guaranteed income for a specified time, usually the life of the policyholder and may include a guaranteed payment period. PRT business consists of both immediate and deferred annuities.

Immediate annuities provide a regular income stream to the policyholder and are in payment at the date of the transaction.

Deferred annuities provide a regular income stream to the policyholder where the income stream starts at a future date after the transaction. Some deferred contracts accepted by the Company contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting.

There is a block of immediate and deferred annuities within the UK business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. Impact on profit due to increases in inflation can be found within the IFRS sensitivity analysis note.

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

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

Legal & General Capital (LGC)

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

44. Risk management and control (continued)

Direct investments and structuring
Direct investments are an integral part of the wider group strategy. LGC's direct investments are typically illiquid investments entered into through acquisition, joint venture with strategic partners or by the creation of new companies. LGC seeks to make direct investments in sectors where there are structural funding shortfalls, and is organised into six sectors: specialist commercial real estate, clean energy, digital infrastructure, housing, venture capital and GP investing. LGC deploys capital and sector expertise to such investments to target attractive risk-adjusted returns which can deliver higher returns and / or lower volatility for our shareholder capital than listed equity.

Retail
Retail business comprises Insurance and Retail Retirement business.

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

Annuities
Immediate annuities have similar characteristics as products sold by LGRI. 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.

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.

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

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

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

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

Asset Risk
The Company is exposed to the following categories of asset risk as a consequence of offering the principal products outlined. The Company is also exposed to insurance risk as a consequence of offering these products - more detail on insurance risk can be found within the long-term insurance risks section on page 75.

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

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

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

44. Risk management and control (continued)

Market Risk

Principal Risks	**Business Segment**	**Controls to mitigate**
Investment performance Risk		
The Company is exposed to the risk that the income from, and value of, assets held to back insurance liabilities and capital requirements do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	LGRI, LGC and Retail	Models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For annuities, which are sensitive to interest rate and inflation risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Retail	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives is subject to regular monitoring. Periodic assessment is also made of the long-term profitability to the Company of these funds. For some contracts the Company has discretion over the level of management charges levied.
Property Risk		
Lifetime mortgages include a no-negative equity guarantee which transfers a potential loss exposure to the Company as a result of low house price inflation and an exposure to specific properties which may experience lower house price inflation for whatever reason.	Retail	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. The diversification of lending by property type and geographic region seeks to control exposures to specific aspects in the property market.
LGC businesses build homes across the residential market, invest in large commercial and residential development projects and manage several developed real estate assets. The Company's revenue streams are exposed to residential sales achieved, as well as the volume of transactions, both of which may be affected by the performance of the housing market. Revenue streams may also be impacted by significant increases in the cost of raw materials or disruption to supply chains. Independent valuations of real estate assets, either in development or developed, also depend on an assessment of the wider real estate market.	LGC	Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market. Sites are developed in a number of phases to spread the risk to local markets over several years and where possible we seek to co-invest with local experts to manage assets. The purchasing of new land for development requires approval from LGC's Investment Committee and the Company Capital Committee. Where appropriate, key methods are adopted to further manage the risk, such as fixed price construction contracts, forward sales and pre-letting. These businesses can also benefit from flexible funding arrangements available from the Company.
Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market.	LGC and LGRI	Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market.
Currency Risk		
To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. LGC also invest in overseas assets. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in sterling could result in unforeseen foreign exchange losses.	LGRI, LGC and Retail	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds and equities denominated in currencies other than sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. The hedges do not eliminate all currency risk and the Company retains some residual risk.
Inflation Risk		
Inflation risk is the potential of realising a loss because of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	LGRI and Retail	The investment strategy for the annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap and floor on the annual increase in inflation linked benefit payments. The hedges do not eliminate all inflation risk and the Company retains some residual risk.

44. Risk management and control (continued)

Market Risk (Continued)

Principal Risks	Business Segment	Controls to mitigate
Interest rate risk Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	LGRI and Retail	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region to limit exposure to a default event. Exposures 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. If appropriate, actions are taken to trade out investments at risk of default – in some instances financial instruments may also be used to mitigate the impact of rating downgrades and defaults.

Credit Risk

Principal Risks	Business Segment	Controls to mitigate
Bond default risk A significant portfolio of corporate and infrastructure bonds and commercial loans are held to back the liabilities arising from writing insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with the possibility of financial loss.	LGRI and Retail	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region to limit exposure to a default event. Exposures 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. If appropriate, actions are taken to trade out investments at risk of default – in some instances financial instruments may also be used to mitigate the impact of rating downgrades and defaults.
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. The Company is required to carry an element of associated credit risk capital on its balance sheet should the business not be re-brokered on the same terms.	LGRI and Retail	When selecting new reinsurance partners for its protection business, the Company considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the Company targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of our asset diversification strategy, we hold commercial property loans and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	LGRI and Retail	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. In the case of commercial property lending we protect our interests by taking security over the underlying property associated with each investment transaction.
Banking counterparty risk The Company is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	LGRI and LGC	The Company controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other bank counterparty exposures that the Company may have. Limits are subject to regular review with actual exposures monitored against limits. The Company has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

44. Risk management and control (continued)

Liquidity Risk

Principal Risks	Business Segment	Controls to mitigate
Contingent event risk Events that result in liquidity risk include a pandemic that could lead to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	Retail	The Company seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is, however, an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the Company operates and the execution of investment management strategies. However, the Company's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events and the profile of actual liquid assets is regularly compared to the required liability profile. The Company's treasury function provides formal facilities to other areas of 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.	LGRI and LGC	Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets is maintained with counterparties as specified in the associated agreements. As at 31 December 2022, LGRI and Retail held eligible collateral worth more than five times the total amount of outstanding collateral (using the most representative definition of collateral contained within the Company's different collateral agreements).
Investment liquidity risk 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.	LGRI and LGC	Given the illiquid nature of the annuity and other liabilities the Company is able and willing to take advantage of the premium offered by illiquid assets. The Company, however, sets limits on the overall exposure to illiquid investments taking account of the nature and type of liabilities that the assets are held to meet.

As at 31 December 2022, the Company had £207m (2021: £232m) of cash and cash equivalents in shareholder funds.

Various pension risk transfer deals include collateralised structures. £5,538m (2021: £7,473m) of Corporate Bonds and Treasury Gilts and cash are pledged as collateral in relation to those.

Collateral of £673m (2021: £900m) made up of Treasury Gilts, Foreign Government Bonds and Corporate Bonds (AAA, AA, A and BBB) was pledged out in respect of reinsurance agreements held in the annuity business. These assets are neither past due, not impaired. The carrying value of these assets reflects the full exposure value of these assets.

Market risk

Investment Performance Risk – Equity Securities

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

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

Table 1 - Exposure to worldwide equity markets

	Shareholder 2022 £m	Shareholder 2021 £m
UK	**109**	131
North America	**115**	110
Europe	**219**	167
Japan	**10**	15
Asia Pacific	**83**	17
Other	**35**	18
Listed Equities	**571**	458
Unlisted Equities	**25**	–
Holdings in unit trusts	**6,285**	8,705
Total equities	**6,881**	9,163

44. Risk management and control (continued)

Currency Risk

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

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

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

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

As at 31 December 2022, the Company held net liabilities of £(5,355)m in US Dollar (2021: net liabilities of £(873)m) and net liabilities of £(846)m Euro (2021: net liabilities of £(232)m). The Company mitigates exchange rate risk through the use of derivatives, mainly forward currency contracts.

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

	A 10% increase in USD:GBP exchange rate		A 10% decrease in USD:GBP exchange rate	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Net assets attributable to USD exposures	**487**	79	**(595)**	(97)

	A 10% increase in EUR:GBP FX rate		A 10% decrease in EUR:GBP FX rate	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Net assets attributable to EUR exposures	**77**	21	**(94)**	(26)

Other price risk

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

The Company holds non-unit linked property investments totaling £259m (2021: £29m) all of which are located in the UK.

Credit Risk

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

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

44. Risk management and control (continued)

Table 2 - Exposure to credit risk

As at 31 December 2022	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated £m	Total £m
Shareholder								
Government securities		970	2,892	108	80	–	40	4,090
Other fixed rate securities		1,394	3,556	11,428	14,068	346	17,099	47,891
Variable rate securities		63	1,550	1,682	1,884	59	7,127	12,365
Lifetime mortgages		–	–	–	–	–	5,139	5,139
Total debt securities		2,427	7,998	13,218	16,032	405	29,405	69,485
Accrued interest		25	60	161	238	3	70	557
Loans and receivables		–	–	1	–	–	395	396
Derivative assets	16	–	29	38,172	2,916	–	178	41,295
Cash and cash equivalents	22	5	131	41	–	–	15	192
Financial assets excluding		2,457	8,218	51,593	19,186	408	30,063	111,925
Reinsurers' share of contract liabilities	18	–	18,299	1,030	–	–	223	19,552
Other assets	21	69	822	920	64	1	3,870	5,746
Total		2,526	27,339	53,543	19,250	409	34,156	137,223

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

At year end, the Company held £1,233m (2021: £1,619m) of collateral in respect of non-unit linked net derivative asset counterparty position.

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

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

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

		Financial assets that are past due but not impaired					
As at 31 December 2022	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	137,117	65	18	13	11	–	137,224

44. Risk management and control (continued)

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

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

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

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

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2022	**Amounts reported in the Balance Sheet £m**	**Related financial instru-ments[1] £m**	**Cash collateral[2] £m**	**Securities collateral pledged[2] £m**	**Net amount £m**
Derivative assets	**41,295**	**(40,583)**	**(765)**	**(101)**	**(154)**
Reverse repurchase agreement assets	**395**	**–**	**–**	**(367)**	**28**
Total financial assets	**41,690**	**(40,583)**	**(765)**	**(468)**	**(126)**
Derivative liabilities	**(45,400)**	**40,583**	**1,968**	**2,934**	**85**
Repurchase agreement liabilities	**(837)**	**–**	**–**	**866**	**29**
Total financial liabilities	**(46,237)**	**40,583**	**1,968**	**3,800**	**114**

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

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2021	Amounts reported in the Balance Sheet £m	Related financial instru-ments[1] £m	Cash collateral[2] £m	Securities collateral pledged[2] £m	Net amount 433 £m
Derivative assets	13,006	(11,611)	(762)	(857)	(224)
Reverse repurchase agreement assets	969	–	–	(968)	1
Total financial assets	13,975	(11,611)	(762)	(1,825)	(223)
Derivative liabilities	(13,834)	11,611	1,785	647	209
Repurchase agreement liabilities	(777)	–	–	777	–
Total financial liabilities	(14,611)	11,611	1,785	1,424	209

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

44. Risk management and control (continued)

Insurance risk

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

Insurance Risk

Principal Risks	Business Segment	Controls to mitigate
Longevity, mortality & morbidity risks		
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	Retail	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK retail protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For annuity contracts, the Company is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	LGRI and Retail	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Company regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Persistency risk		
In the early years of a policy, lapses may result in a loss to the Company, as the acquisition costs associated with the contract would not have been recovered from product margins.	Retail	The pricing and valuation assumptions for protection business include provision for policy lapses. Actual trends in policy lapse rates are monitored against these assumptions with variances being subject to actuarial investigation.
Expense risk		
In pricing long-term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	LGRI and Retail	In determining pricing assumptions, account is taken of expected price and wage inflation, 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 Company. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	Retail	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
Epidemic (catastrophe) risk		
The spread of an epidemic could cause large aggregate claims across the Company's portfolio of protection businesses.	Retail	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. Pricing for new business can also be updated to reflect the change in expected claims.

Accumulation of risks

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

44. Risk management and control (continued)

Operational risk

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

Sensitivity analysis

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

Table 5 - long term business IFRS sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2022 £m	**Impact on equity net of reinsurance 2022 £m**	Impact on pre-tax profit net of reinsurance 2021 £m	Impact on equity net of reinsurance 2021 £m
Economic Sensitivity				
100bps increase in interest rates	**(169)**	**(137)**	201	163
100bps decrease in interest rates	**150**	**122**	(332)	(269)
50bps increase in future inflation expectation	**(55)**	**(45)**	(85)	(69)
50bps decrease in future inflation expectation	**89**	**72**	88	71
Credit spread widens by 100bps with no change in expected defaults	**(177)**	**(143)**	(85)	(69)
25% rise in equities	**270**	**219**	416	337
25% fall equities	**(270)**	**(219)**	(416)	(337)
15% rise in property values	**496**	**402**	564	457
15% fall in property values	**(537)**	**(435)**	(615)	(498)
10bps increase in credit default assumption	**(379)**	**(307)**	(535)	(433)
10bps decrease in credit default assumption	**377**	**306**	530	429
Non-Economic Sensitivity				
1% increase in annuitant mortality	**92**	**75**	115	93
1% decrease in annuitant mortality	**(94)**	**(76)**	(118)	(96)
5% increase in assurance mortality	**(129)**	**(105)**	(153)	(124)
10% increase in maintenance expense	**(138)**	**(111)**	(165)	(134)

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

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

The sensitivity of profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

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

The inflation stresses adopted are a 0.5% per annum (pa) increase / decrease in inflation, resulting in a 0.5% pa reduction / rise in real yield and no change to the nominal yield. In addition, the expense inflation rate is increased / decreased by 0.5% pa.

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

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

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

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

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

44. Risk management and control (continued)

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

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

45. Post balance sheet events

An additional interim dividend of £0.3m was authorised but not paid on the 24th February 2023 constituting a non-adjusting event.

There were no adjusting or non-adjusting post balance sheet events between 31 December 2022 and the approval of the report and accounts of the Company that require disclosure.