Company Number 00166055

Legal and General Assurance Society Limited
Report and Accounts 2020

Contents

Strategic Report

The directors present their strategic report on the Company for the year ended 31 December 2020.

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

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

Review of the business
The Company's total profit before tax for the year from continuing operations was £1,094m (2019: £1,341m).

The Company's continuing operations consist of the following four broad business areas – Retirement, Workplace Pensions, Insurance and Capital Investment.

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

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

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

Individual annuity sales were down 6% to £910m in 2020 (2019: £970m), reflecting COVID-19 impacts on new business volumes, particularly transaction frictions in the immediate aftermath of the UK lockdown. Lifetime mortgage advances were down 18% to £790m (2019: £965m), again reflecting COVID-19 impacts on new business volumes, as well as the broader competitive environment. Throughout this period, pricing and underwriting discipline has been maintained while building customer-focused innovation, such as virtual valuations and electronic signatures.

Workplace Pensions
Workplace Pensions provide corporate pension scheme solutions to enable companies to meet their auto-enrolment obligations, and look after the pensions of four million members. Many significant schemes continued to be on-boarded from major employers during the year, with the Master Trust and Bundled Trust remaining the most popular choices, including the on-boarding of two large consultancy Own Trust schemes.

Assets under administration (AUA) grew by 26% to £50.8bn (2019: £40.3bn) on the back of new wins and strong flows and is also reflective of markets picking up during the last few months of 2020. Workplace Pensions has one of the fastest growing and largest Master Trusts with AUA increasing to £12.5bn in 2020 from £8.9bn in 2019, accounting for 21%[1] share of the Master Trust market. [[1]Source: Growing Pains Mastertrusts beyond auto-enrollment, by Richard Parkin Consulting for the Defined Contribution Investment Forum, November 2019].

Insurance
The Retail Protection business provides life insurance, critical illness and income protection for individuals. The Group Protection business offers life insurance and income protection products to individuals through their employers. Premiums are collected for policies that make payments upon death (life insurance), diagnosis of a critical illness (critical illness cover) or inability to work due to illness or injury (income protection). Prices are set using experience of mortality and morbidity risks, and these risks are managed over time. Value is generated through accurate pricing and the margin we charge. Value is further enhanced through the selective purchase of reinsurance at competitive rates.

In 2020, UK Retail Protection gross premium income increased to £1,374m (2019: £1,327m) with new business annual premiums of £175m (2019: £174m). This level of premium was achieved despite the interruption from COVID-19 for a number of our distribution partners, particularly those that depend on the mortgage market or in-person advice. Market share increased to 27% in Q3 2020 (up from 21% a year earlier)[2]. Legal & General remains the leading provider of retail protection in the UK, delivering a point of sale decision for more than 80% of our customers. An innovative approach helped grow market share, for instance further enhancements to the Income Protection Benefit attracted new customers in 2020. These factors added resilience to sales during the turbulence following the emergence of COVID-19 and positioned Legal & General well as the Retail Protection market recovered in the second half of the year. [[2]Source: ABI Statistics]

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

Capital investment
The Company's shareholder capital is used to generate long-term value and attractive financial returns through investing in key sectors where there has been a shortage of investment and innovation. Within the direct investment portfolio, investments continued to be made in alternative assets aligned to the Group's strategic priorities, such as clean energy. The traded portfolio was particularly adversely impacted by the initial market reaction to the COVID-19 pandemic, but recovered to deliver profit before tax of c. £104m. Within the traded portfolio, the Company holds investments that improves the carbon footprint of the portfolio in line with the Group's Task Force on Climate Related Financial Disclosures (TCFD) commitments.

Significant business or other events

Sale of Mature Savings
On 6 December 2017 the Group announced the sale of its Mature Savings business to ReAssure Limited for £650m. The Part VII transfer became effective on 7 September 2020. The Company recognised a pre-tax gain on disposal attributable to equity holders of £338m which has been included in profit from discontinued operations in the Income Statement for the year ended 31 December 2020.

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

		2020 £m	2019 £m
IFRS profit before tax[1,2]	This measures the profit or loss in a single period before deducting tax	1,094	1,341
Shareholder funds	This represents the assets that remain once all the Company's liabilities have been accounted for	6,882	6,623
Net cash flows from operating activities	This represents the cash inflow for the Company from ongoing, regular business activities	1,300	606
Company capital surplus[3,4]	This represents the Company's Solvency II capital surplus	3,200	4,035
Standard & Poor financial strength rating	External credit rating demonstrating the Company's financial strength	AA-	AA-

[1]The 2020 and 2019 IFRS profit before tax is from continuing operations and excludes profit from discontinued operations, see Note 24 of the financial statements for more information.
[2]The IFRS profit before tax includes £148m (2019: £139m) relating to mortality reserve releases arising due to changes in the longevity improvement assumptions to align to CMI 2018 tables.
[3]The Solvency II results are estimated and unaudited; see Note 45 of the financial statements for more information.
[4]The £835m decrease in capital surplus was due to a £522m increase in Solvency Capital Requirement and a £313m decrease in Own Funds. The reduction in capital surplus is largely due to market movements over 2020, of which the most material impact related to a fall in interest rates.

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

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

The Company's capital position remains strong with a £3.2bn Solvency II surplus (2019: £4.0bn) and a coverage ratio of 148% (2019: 165%), after paying a dividend of £936m (2019: £774m) to the Company's immediate parent company Legal & General Insurance Holdings Limited. The Company's coverage ratio has remained resilient to market conditions during 2020. The Company's capital position is covered further in Note 45.

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 47 of the financial statements.

The principal risks and uncertainties facing the Company are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although COVID-19 lockdowns have had some impact on our business operations, we have been able to continue the majority of our business services without material disruption. We remain, however, alert to the operational risks in the current environment including the increased risk of cyber threats and the potential for on-going disruption from further waves of COVID-19.

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

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

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

By Order of the Board

DocuSigned by:
Andrew Fairhurst
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A. D. Fairhurst
On behalf of Legal & General Co Sec Limited
Company Secretary
8 March 2021

Section 172 (1) Statement and Stakeholder Engagement

The Board of Legal and General Assurance Society Limited ("LGAS" or "the Company") consider that they have adhered to the requirements of section 172 of the Companies Act 2006 and have, in good faith, acted in a way that they consider would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so, have 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 appropriate section of the Group's Annual Report & Accounts.

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

General

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

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.

In 2019 we implemented a new standard practice across the Group which requires that all Group and subsidiary Board papers demonstrate that stakeholders have been considered. Details of this have been 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 around employee impact and impact on other stakeholders, such as customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision-making. Additionally, the Group or subsidiary Company Secretary is on hand to provide support to the Board in ensuring that sufficient consideration and time is given to stakeholder issues during these discussions.

Principal decisions

For the year ended 31 December 2020, the Board consider that the following are examples of principal decisions that it made in the year:

- Approval of the Annual Business plan
- Approval of the Company's Capital Budget
- Declaration of the interim half year and year end dividends
- Approval of significant Pension Risk Transfer transactions
- The completion of the sale of the Mature Savings business
- Additional investment by the Company's Shareholder Fund in the Company's Affordable Homes subsidiary
- Investments in and oversight of the shareholder direct investment portfolio

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 Group Risk and Audit Committees. 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.

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

Stakeholders & their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
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. The Group's designated Customer Champion also reports to the Board on a quarterly basis. Annually, the Board considers and approves the Customer Strategy including digital communications. A detailed case study of the actions taken, at a Group level, to continue to service our customers effectively during the Covid-19 outbreak can be found in the Group Report & Accounts.	As a Board, we approved the Digital Customer Communications strategy which will improve our customer engagement through Digital solutions. The Board received regular customer MI and additional updates as part of regular Covid-19 briefings during the pandemic. During the year, the Board received regular updates on the potential impact on customers of the United Kingdom's departure from the European Union. Following customer research and industry benchmarking exercise, the Board approved the new approach on how the Board monitors telephony services to our customers. The Board monitored and oversaw the successful transition of the Mature Savings Business to ReAssure. The Board identified ReAssure as a trusted life and pensions company which could continue to service policyholders.
Workforce Engaging with our people enables us to create an inclusive company culture and a positive working environment.	In 2019 the Group moved from a traditional annual employee survey to a 'Voice Survey' of more frequent digital listening, giving real-time employee feedback and allowing us to create a better dialogue with the workforce. This regular engagement was particularly important during the COVID-19 pandemic to ensure we were able to meet our employees needs and that they were able to work effectively in a remote environment. The surveys also provided insight into our employee's wellbeing and maintain an alignment with the Group's cultural values Following these surveys, action plans at Group, divisional and local level are put into place. At Group level there is a Designated Workforce Director on the Board. During the year, this Director has actively engaged with employees and reported back 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 six-monthly basis to provide updates on employee engagement and culture. The Board were particularly interested in how the Company was maintaining morale and wellbeing during a difficult year.	We have maintained all Legal & General employees' jobs on full pay without relying on the UK Government's Job Retention Scheme. Our robust, well-embedded remote working solutions have helped keep employees engaged, working effectively and servicing our customers efficiently and effectively throughout the shift to remote working. Employees appreciate the support provided. This was reflected in a 7-percentage point increase in the employee engagement score since the start of the first COVID-19 lockdown. The Board received regular updates on the implementation of the 2020 IT programme which sought to modernise and enhance the digital experience and the remote capabilities of the workforce. During 2020, we took material steps to put in place and communicate the availability of support mechanisms including helplines, a mental wellbeing app and our network of Mental Health First Aiders: employees who have trained to support their colleagues, an especially important resource during these exceptional times.
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 ensuring risks are proactively managed and they 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 Report & Accounts.	The Group CFO and the Legal & General Resources Board received updates on supplier performance during the COVID-19 pandemic, including an exercise undertaken with suppliers to mitigate any risks. The Board, as part of its oversight of the digital and technology strategy, received updates on the external IT service providers capability and operational efficiency during the remote working environment.

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

Stakeholders & their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
Suppliers (continued)		Group Procurement held a collaborative Microsoft Teams event with a number of our key suppliers in order to maintain engagement during lockdown and explore new ways of working and maintaining effective relationships in a remote environment.
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.
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 behaviour and extends it into investing in communities and cities to change people's lives for the better. The Group's full Corporate Responsibility Report can be found here: www.legalandgeneralgroup.com/csr	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. As part of the Board's housing investment strategy, we considered the commitment to be a leader in the delivery of Zero Carbon Ready Homes and ongoing investment into renewable energy within the Company's Annuity funds. As part of the Company's focus on inclusive capitalism, the Board approved an increase in its level of investment in Legal & General Affordable Homes and has also increased its oversight of investments in the wider community. The Group has supported research and testing by accelerating components of our £20m partnership with Edinburgh University's research into the future of elderly care and being one of the UK's largest COVID-19 testing sites through our investment in Bruntwood SciTech Alderley Park. Additionally, we are looking to support the needs of local communities in dealing with the challenges presented by COVID-19; this includes establishing a £500,000 Community Fund and we are stepping up support for relevant Corporate Social Responsibility projects which particularly address the impact of the pandemic on the older population and those using social care.

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

www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

The directors present their annual report together with the audited financial statements of Legal and General Assurance Society Limited ('the Company') for the year ended 31 December 2020.

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 new 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 11.

Energy and Carbon Report
The Company's ultimate controlling party is preparing a group Energy and Carbon Report for the year ended 31 December 2020, 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 www.legalandgeneralgroup.com/media-centre/reports/tcfd-report-2019/.

Results for the year and dividend
The results of the Company are set out on page 20.

Total interim dividends paid in the year were £935m (2019: £774m). An additional dividend of £0.5m was authorised but not paid as at December 2020 (2019: £nil). A final dividend of £nil was proposed in respect of 2020 (2019: £nil).

Financial risk management objectives
The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in Notes 46 & 47 of the financial statements.

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

H. C. Baldock (Non-Executive Chair)
S. J. Davies
C. W. T. Dinesen (Non-Executive Director)
C. L. Mason
K. P. Murphy (Non-Executive Director)
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 comprises H. C. Baldock, C. W. T Dinesen and K. P. Murphy. The purpose of the Committee is to review the effectiveness of the Company's systems of Internal Control, review the Company's financial statements and other statutory and regulatory reporting obligations and receive reports from the Company's external and internal auditors in relation to the Company's business.

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

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

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

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

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

Post balance sheet events
As at 31 December 2020, the company had declared but not paid a £0.5m dividend. This dividend was paid in January 2021.

The UK Government's Budget announcement on 3 March 2021 included an increase in the headline rate of UK corporation tax to 25% from 1 April 2023. Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force at the time when the temporary difference is expected to unwind. This rate change is not expected to have a material impact on the Company

There were no other adjusting or non-adjusting post balance sheet events between 31 December 2020 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 International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) in conformity with the requirements of the Companies Act 2006. 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 IFRSs issued by the International Accounting Standards Board (IASB);
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

By Order of the Board

DocuSigned by:
Andrew Fairhurst
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A. D. Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
8 March 2021

Statement of Corporate Governance Arrangements

For the year ended 31 December 2020, 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, which can be found here:
https://www.legalandgeneralgroup.com/investors/results-reports-and-presentations/

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

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

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

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

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

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 three independent non-executive directors and three executive directors with clearly defined statements of responsibilities for both the Chair and the Chief Executive, which are reviewed as part of the annual governance review undertaken by the Board. The Company's independent non-executive directors regularly meet the Chair without the Company's executive directors being present, in order that the non-executive directors can appraise and scrutinise the performance of all its Board members.

The Board receives the support and advice of the Company's Chief Actuary, General Counsel, Company Secretary and Group Chief Risk Officer, who 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 the approval of a sub-committee of 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 2020, the Board conducted an externally facilitated Board evaluation. The evaluation's findings were presented to the Board and an action plan agreed to address development needs identified.

Audit, risk and internal control
The Company has its own Audit Committee comprising three 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 47, Risk management and control, of the Notes to the Financial Statements.

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

Remuneration
As the Company has no direct employees, the Board consider 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 31st December 2020 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31st December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 three financial years ended 31st December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£70.0m (2019:£70.0m) 1.0% (2019: 1.1%) of net assets	
Key audit matters		**vs 2019**
Recurring Risks	Valuation of non-participating insurance contract liabilities	▲
	Valuation of hard to value (Level 3) investments	▲

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

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

The risk		Our response
Insurance Contract Liabilities Annuity policyholder liabilities included with non-participating contract liabilities of £79,367 million. (2019: Annuity and protection policyholder liabilities included with non-participating contract liabilities of £76,011 million) *Refer to page 24 (accounting policy) and pages 51 (financial disclosures).*	**Subjective valuation:** The valuation of annuity liabilities is an inherently subjective area, requiring management judgement in the setting of key assumptions. The longevity, expense and credit risk assumptions involve the greatest level of subjectivity. A small change in these assumptions can have a significant impact on the liabilities. We consider the risk to have increased in the current year due to the higher degree of estimation uncertainty resulting from changes in both demographic and economic conditions caused by the Coronavirus pandemic (COVID-19). *Longevity assumptions* Longevity assumptions have two main components which include mortality base assumptions and the rate of mortality improvements. Changing trends in longevity and emerging medical trends means that there is a high level of uncertainty in the assumptions. This uncertainty is heightened in the current year due to the potential longer term impacts of COVID-19 on trends in longevity. *Credit assumptions* The valuation discount rate ("Valuation Interest rate", or "VIR") is derived from the yield on the assets backing the annuity liabilities. In setting the valuation interest rate, 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 risk is heightened in the current year due to the potential impact of COVID-19 on credit risk within the Company's investments.	With the assistance of our actuarial specialists, our procedures included: — **Control design and reperformance:** testing of reconciliation controls to completeness of data flows from policy administration systems to the actuarial 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 the historical data input into the actuarial valuation model by comparing the data used for reporting as at 31 December 2020 to the data used for reporting as at 31 December 2019 in relation to policies that were still 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. — **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. — **Methodology choice**: assessing the appropriateness of the methodology for selecting assumptions by applying our understanding of developments in the business and expectations derived from market experience, including consideration of the effects of COVID-19 on policyholder mortality and credit risk. — **Benchmarking assumptions**: assessing mortality improvement assumptions against industry data on expected future mortality rate improvements and industry historic mortality improvement rates and assessing the appropriateness of the credit risk assumptions by comparing to industry practice and our expectations derived from market experience.

The risk (cont.)		Our response (cont.)
Insurance Contract Liabilities Annuity policyholder liabilities included with non-participating contract liabilities of £79,367 million. (2019: Annuity and protection policyholder liabilities included with non-participating contract liabilities of £76,011 million) *Refer to page 24 (accounting policy) and page 51 (financial disclosures).*	*Expense assumptions* Management 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. **Data Capture:** There is a risk that incomplete and inaccurate data is used in the calculation of annuity liabilities resulting from inaccurate transfer or conversion of aggregate data from the policy administration systems into model point files used to value the liabilities in the actuarial models. In addition there is a risk that incomplete or inaccurate asset data is used to calculate the default adjustment applied to the Valuation Interest Rate. **Calculation error:** Management 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 47) estimated by the Company.	— **Historical comparisons**: evaluating the mortality base assumptions used in the valuation of the annuity liabilities by comparing to the Company's historic mortality experience, assessing the credit default assumptions by comparing to the historical performance of the asset portfolio; and assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing the allocations of the forecast 2021 costs to maintenance expenses, with reference to historical allocations and planned actions; — **Test of detail:** testing that changes to the actuarial model from the prior year have been appropriately reviewed and approved; and evaluating the appropriateness of the financial impact of the changes made to the model during the year; and — **Assessing transparency:** considering whether the disclosures in relation to the assumptions used in the calculation of 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 non-participating insurance contract liabilities to be acceptable (2019 result: acceptable).
Level 3 Investments Lifetime mortgages, private credit, income strip assets and sale and leaseback loan notes , included within the Level 3 investments of: £23,866 million (2019: Lifetime mortgages, private credit, investment property, income strip assets and unlisted fund investments , included within the Level 3 investments of: £28,877 million) *Refer to page 25 (accounting policy) and page 38 (financial disclosures).*	**Valuation of hard to value (Level 3) investments** **Subjective valuation:** 27.6% of the investment portfolio is classified as Level 3 assets, of which we consider the valuation of lifetime mortgages, private credit, income strips and sale and leaseback loan notes involve the greatest level of subjectivity. This subjectivity is heightened in the current year due to the economic impacts of COVID-19 on asset valuations.	Our procedures included: — **Control design and reperformance:** testing of the design and implementation of key controls over the valuation process for the hard to value (Level 3) investments, including the testing of operating effectiveness of key controls relating to the valuation of private credit assets and lifetime mortgages. — **Our valuation expertise:** — using actuarial specialists to evaluate the appropriateness of the assumptions used in the valuation of lifetime mortgages with reference to market data and industry benchmarks.

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

Level 3 Investments

Lifetime mortgages, private credit, income strip assets and sale and leaseback loan notes , included within the Level 3 investments of: £23,866 million

(2019: Lifetime mortgages, private credit, investment property, income strip assets and unlisted fund investments , included within the Level 3 investments of: £28,877 million)

Refer to page 25 (accounting policy) and page 38 (financial disclosures).

For these positions a reliable third party price from a recent market transaction was 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:

— Lifetime mortgages: property price at valuation date, property price inflation, property index volatility, voluntary early redemption rate and the illiquidity premium added to the risk free rate.

— Private credit: yields of selected comparator securities and credit ratings derived from credit rating models.

— Income strip assets and sale and leaseback loan notes: underlying valuations of investment property including the yield of the property.

Data capture:

Lifetime mortgages
There is a risk that incomplete data is used in the calculation of lifetime mortgages because data does not transfer appropriately from the policyholder system to the actuarial models.

Calculation error:

Lifetime mortgages
The Company uses complex actuarial models to calculate the valuation of lifetime mortgages. 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 hard to value (Level 3) investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 17 disclose the sensitivity estimated by the Company.

  — using 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 valuation specialists to assess the suitability of the valuation methodologies used by management.

— **Assessing valuers' credentials**: assessing the objectivity, professional qualifications and competence of external valuers of private credit, income strip assets and investment property valuations supporting the loan note valuations 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, income strip assets and sale and leaseback loan 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, income strip assets and sale and leaseback loan notes were based, including consideration of the impacts of the COVID-19 pandemic by making a comparison to our own understanding of the market, comparable evidence relied on by the valuers and to industry benchmarks.

— **Test of detail:**

  — testing that changes to the actuarial model for lifetime mortgages from the prior year have been appropriately reviewed and approved; and evaluating the appropriateness of the financial impact of the changes made to the model during the year.

  — testing the completeness of data used in the valuation of lifetime mortgages by reconciling the data from the policy administration system to the data used in the actuarial valuation models.

The risk (cont.)	Our response (cont.)
Level 3 Investments Lifetime mortgages, private credit, income strip assets and sale and leaseback loan notes , included within the Level 3 investments of: £23,866 million (2019: Lifetime mortgages, private credit, investment property, income strip assets and unlisted fund investments , included within the Level 3 investments of: £28,877 million) *Refer to page 25 (accounting policy) and page 38 (financial disclosures).*	— **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 (2019 result: acceptable).

KPMG

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 1.0% (2019:1.1%) of the Company's net assets. We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £45.5m (2019: £45.5m). We applied this percentage in our determination of performance materiality based on the increased estimation uncertainty in relation to credit risk and mortality trends due to COVID-19 and the level of identified immaterial unadjusted misstatements and control deficiencies noted during prior periods.

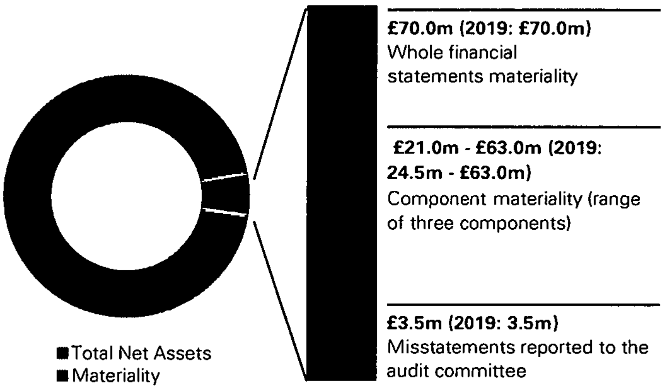
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3.5m (2019: £3.5m), in addition to other identified misstatements that warranted reporting on qualitative grounds .

In addition, we applied materiality of £402.1 million (2019: £297.9 million) to the classification of unit-linked assets and liabilities in the Balance Sheet and related notes, determined with reference to a benchmark of total financial investments and investment property, of which it represents 0.8% (2019: 1.0%). This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom. We agreed to report to the Audit Committee any corrected or uncorrected classification misstatements in unit-linked assets and liabilities exceeding £20.1 million (2019: £14.9 million).

Of the Company's three reporting components, we subjected three to full scope audits. Component materialities ranged from £21million to £63 million, having regard to the mix of size and risk profile across the components. The work on all three components was performed by the Company audit team.

Total Net Assets
£6,882m (2019: £6,623m)

Materiality
£70.0m (2019: £70.0m)



Our audit of the Company was undertaken to the materiality level specified above.

4. 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, wider credit spreads and defaults which affect regulatory capital solvency coverage ratios, liquidity ratios, the valuations of the Company's investments and valuation of policyholder liabilities; and

— Severely adverse policyholder lapse or claims experience.

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

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

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

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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

— Reading Board, audit committee and risk committee meeting minutes.

— Considering remuneration incentive schemes and performance targets for management.

— Consulting with professionals with forensic knowledge to assist us in identifying fraud risks based on discussions of the circumstances of the Company.

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

As required by auditing standards, 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 non-participating insurance contract liabilities and the valuation of harder to value (level 3) investments.

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

We also identified fraud risks related to the valuation of non-participating insurance contract liabilities and valuation of hard to value (Level 3) investments in response to possible pressures to meet profit targets. Further detail in respect of the valuation of non-participating insurance contract liabilities and valuation of hard to value (Level 3) investments is set out in the two key audit matters in section 2 of this report.

We performed procedures including:

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

— Evaluating the business purpose of significant unusual transactions.

— Assessing significant accounting estimates for bias.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the 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.

6. 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.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, 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.

9. 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:

Salim Tharani (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP

15 Canada Square

London, E14 5GL

8 March 2021

Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Revenue			
Gross written premiums	1F,G/2	**10,494**	13,531
Outward reinsurance premiums	11	**(4,026)**	(14,325)
Net change in provision for unearned premiums	1AA	**12**	(12)
Net premiums earned		**6,480**	(806)
Fees from fund management and investment contracts	1G	**80**	73
Investment return	1X/3	**7,009**	6,309
Other income	1Z/4	**8**	393
Total revenue		**13,577**	5,969
Expenses			
Claims and change in insurance liabilities		**15,191**	17,348
Reinsurance recoveries		**(5,627)**	(14,572)
Net claims and change in insurance liabilities	1F/5	**9,564**	2,776
Change in investment contract liabilities	1G	**39**	(46)
Acquisition costs	1F,G	**689**	685
Finance costs	1AB	**1,714**	525
Other expenses	1Y/6	**477**	688
Total expenses		**12,483**	4,628
Profit before income tax		**1,094**	1,341
Tax attributable to policyholder returns	10	**(14)**	8
Profit before tax attributable to equity holders of the Company		**1,080**	1,349
Total tax expense	1R/10	**(191)**	(241)
Tax attributable to policyholder returns	10	**14**	(8)
Tax expense attributable to equity holders	10	**(177)**	(249)
Profit for the year from continuing operations attributable to equity holders of the Company		**903**	1,100
Profit for the year from discontinued operations attributable to equity holders of the Company	1N/24	**292**	28
Other comprehensive income after tax		**-**	-
Total comprehensive income for the year attributable to equity holders of the Company		**1,195**	1,128
Total comprehensive income for the year attributable to equity holders of the Company arises from:			
Continuing operations		**903**	1,100
Discontinued operations		**292**	28
		1,195	1,128

Balance Sheet

As at 31 December 2020

	Notes	2020 £m	2019 £m
Assets			
Investment in subsidiaries	1C/12	**113**	42
Investment in joint venture	1D/13	**78**	87
Purchased interest in long term businesses and other intangible assets	1J/14	**144**	58
Deferred acquisition costs	1F,G/15	**44**	51
Plant and equipment	1L/16	**37**	41
Investment property	1K/17	**29**	23
Financial investments	1K/17	**112,736**	91,015
Reinsurers' share of contract liabilities	1I/20	**75,855**	62,525
Income tax recoverable	1R/22	**232**	129
Other assets	23	**5,493**	3,428
Assets of operations classified as held for sale	1N/24	**-**	30,223
Cash and cash equivalents	1O/25	**442**	237
Total assets		**195,203**	187,859
Equity			
Share capital	1T/26	**651**	651
Share premium	26	**1,049**	1,049
Retained earnings and capital reserve		**5,182**	4,923
Total shareholders' equity		**6,882**	6,623
Liabilities			
Non-participating insurance contract liabilities	1F/27(i)	**85,784**	76,011
Non-participating investment contract liabilities	1G/28(i)	**51,705**	40,592
Borrowings	1Q/30	**1**	-
Provisions	1U/31	**24**	58
Deferred tax liabilities	1R/21	**223**	145
Income tax liabilities	1R/22	**-**	100
Payables and other financial liabilities	1V/32	**49,894**	33,871
Other liabilities	33	**690**	298
Liabilities of operations classified as held for sale	1N/24	**-**	30,161
Total liabilities		**188,321**	181,236
Total equity and liabilities		**195,203**	187,859

The notes on pages 24 to 79 are an integral part of these financial statements.

The financial statements on pages 20 to 23 were approved by the board of directors on 8 March 2021 and were signed on their behalf by:

DocuSigned by:
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H.C. Baldock
Chair

DocuSigned by:
4B7F09789E75448...

S. J. Davies
Director

Statement of Changes in Equity

For the year ended 31 December 2020	Notes	Share capital £m	Share premium £m	Capital reserve £m	Retained earnings £m	Total equity £m
As at 1 January		651	1,049	168	4,755	6,623
Total comprehensive income for the year		-	-	-	1,195	1,195
Dividends	11	-	-	-	(936)	(936)
As at 31 December		651	1,049	168	5,014	6,882
For the year ended 31 December 2019						
As at 1 January		651	1,049	168	4,401	6,269
Total comprehensive income for the year		-	-	-	1,128	1,128
Dividends	11	-	-	-	(774)	(774)
As at 31 December		651	1,049	168	4,755	6,623

Cash Flow Statement

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Profit for the year		**1,195**	1,128
Adjustments for non-cash movements in profit for the year			
Realised and unrealised gains on financial investments and investment properties		**(5,324)**	(7,709)
Reduction in carrying value of investments in subsidiaries		**-**	413
Share in loss/(profit) of joint venture	13	**5**	-
Investment income		**(2,316)**	(2,145)
Interest expense		**1,746**	577
Tax expense		**118**	471
In specie dividend received		**-**	(282)
Other adjustments		**(8)**	11
Changes in operational assets			
Investments held for trading or designated as fair value through profit or loss		**(13,988)**	(9,761)
Other assets		**(15,247)**	(24,573)
Changes in operational liabilities			
Insurance contracts		**8,313**	11,967
Transfer (from)/to unallocated divisible surplus		**(63)**	80
Investment contracts		**9,016**	10,854
Value of in-force non-participating contracts		**29**	(4)
Other liabilities		**15,763**	17,846
Cash used in operations		**(761)**	(1,127)
Interest paid		**(7)**	(8)
Interest received		**2,121**	1,696
Income tax paid		**(353)**	(396)
Dividends received		**300**	441
Net cash flows from operating activities		**1,300**	606
Cash flows from investing activities			
Net acquisition of plant and equipment and intangible assets		**(74)**	(67)
Net disposal of operations	24	**(248)**	242
Net investment in subsidiary and joint venture undertakings		**-**	(129)
Subscription to new share capital	12	**(71)**	-
Net cash flows from investing activities		**(393)**	46
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(935)**	(774)
Proceeds from borrowings		**1**	(56)
Other cash flows from financing activities		**(7)**	(4)
Net cash flows from financing activities		**(941)**	(834)
Net increase/(decrease) in cash and cash equivalents		**(34)**	(182)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**476**	658
Cash and cash equivalents (before reallocation of held for sale cash)	10/25	**442**	476
Cash and cash equivalents classified as held for sale		**-**	(239)
Cash and cash equivalents at 31 December	10/25	**442**	237

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 International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) in conformity with the requirements of the Companies Act 2006. The Company financial statements comply with IFRSs, issued by the International Accounting Standards Board (IASB). The Company financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through Income Statement.

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

Going Concern

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

The Directors have made an assessment of the Company's going concern, considering both the Company's current performance and the Company's outlook for a period of at least, but not limited to, 12 months from the date of approval of these financial statements, which takes account of the current and future impact of the COVID-19 pandemic, using the information available up to the date of issue of the Company's financial statements.

The Company manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on our capital position from a range of stresses is disclosed on Note 47. These stresses, including the additional considerations and stresses applied in response to COVID-19, 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. Despite the current increased level of uncertainty from COVID-19, the Company remains financially strong and well diversified.

Having reassessed the principal risks and uncertainties, both financial and operational, in light of COVID-19 and the current economic climate, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

Significant accounting policies

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

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

B Critical accounting policies and the use of estimates

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

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

Insurance and investment contract liabilities (Notes 1F, 1G, 27 and 28)
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.

Certain contracts, which are both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits under certain conditions, being:

- that the additional benefits are a significant portion of the total contractual benefits;
- the amount and timing of the additional benefits is at the discretion of the Company; and
- that the additional benefits are contractually dependent upon the performance of a company, fund or specified pool of assets.

Insurance contracts and investment contracts with such discretionary participation features are accounted for under IFRS 4, while investment contracts without discretionary participation features are accounted for as financial instruments under IAS 39.

Judgement is therefore required in order to establish whether any additional benefits in an insurance or investment contract meet the above requirements for being considered discretionary participation features.

1. Summary of significant accounting policies (continued)

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

Valuation of investment property (Notes 1K and 17)
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 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 1K and 17)
Determination of fair value of unquoted and illiquid assets, involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets. For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

Insurance and investment contract liabilities (Notes 1F, 1G, 27 and 28) and associated balances
The determination of long-term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The assumptions for the rate of future longevity, mortality and morbidity are based on the Company's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities that represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs. The main estimates and assumptions used in calculating insurance liabilities are disclosed in more detail in Note 29.

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.

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

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

C Investments in subsidiary undertakings

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

D Investment in joint venture

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

E Product classification

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

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

Non-participating investment contracts comprise the following:
- lifetime mortgages;
- fixed term individual annuities;
- assured payment policies; and
- retirement Interest Only Mortgages

1. Summary of significant accounting policies (continued)

Prior to the sale of the Mature Savings business, a number of insurance and investment contracts contained discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits. Certain conditions apply to these features to qualify as DPF, being:

- the amount or timing of the additional benefit is at the discretion of the Company; and
- which are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts are classified as participating. Insurance contracts and investment contracts with DPF are accounted for under IFRS 4 'Insurance contracts', while investment contracts without DPF are accounted for under IAS 39 'Financial Instruments: Recognition and Measurement'.

F Long term insurance contracts

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

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

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. Some acquisition costs relating to non-participating insurance contracts written outside the with-profits fund which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the Income Statement when incurred.

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

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

For non-participating 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.

For participating contracts, the liabilities to policyholders are determined on a realistic basis in accordance with guidance set out in Financial Reporting Standard (FRS) 27 "Life Assurance". Although FRS 27 is no longer an operational standard, the Company has grandfathered the provisions into its IFRS reserving methodology. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with the Company's Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (PVFP) for this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

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

Following the sale of the Mature Savings business to ReAssure, there are no participating insurance contract liabilities recognised as at 31 December 2020. The performance of these contracts, which are part of the Mature Savings business, has been recognised up to the point of the transaction completing on 7 September 2020 and presented within discontinued operations in the financial statements.

G Investment contracts

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

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

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

1. Summary of significant accounting policies (continued)

Acquisition costs
For participating 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.

For non-participating investment contracts, only directly attributable acquisition costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the service is provided on a straight line basis. All other costs are recognised as expenses when incurred.

Trail commission
Trail commission represents a liability for the present value of future commission costs on distribution agreements with intermediaries, recognised in the Balance Sheet on inception of the contract. The present value of future commission costs is deferred as an asset and amortised over the period during which the related revenue will be recognised. At each subsequent reporting date the liability is remeasured, with changes reflected in profit or loss.

Investment contract liabilities
Under current IFRS requirements, participating investment contract liabilities are measured using UK GAAP at the date of transition, as permitted by IFRS 4 (see above for insurance contract liabilities). Participating investment contract liabilities are determined in accordance with guidance previously set out in FRS 27, including a value for guarantees, in the same way as participating insurance contracts. Although FRS 27 is no longer an operational standard, the Company has grandfathered the provisions into its IFRS reserving methodology

Non-participating 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 group's unitised investment funds at the Balance Sheet date. For non linked liabilities, fair value is based on a discounted cash flow analysis which incorporates an appropriate allowance for credit default risk .

H Liability adequacy tests

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

I Reinsurance

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

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

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

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

J Intangible assets

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

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

Other intangible assets
Other intangible assets mainly consist of capitalised software costs or project costs. Intangible assets acquired via business combinations are recognised at fair value and are subsequently amortised on a straight line method over their estimated useful life. Where software or project costs are separately identifiable and measurable they are capitalised at cost and amortised over their expected useful life.

K Investments

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

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

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

1. Summary of significant accounting policies (continued)

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. Assets backing participating and non-participating policyholder liabilities are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The Company's non-participating investment contract liabilities are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the Income Statement.

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

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

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

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

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

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

L Plant and equipment

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

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

M Impairment policy

Financial assets, other than those at FVTPL, are assessed for impairment at each Balance Sheet date. They are impaired where there is objective evidence that, as a result of one or more events after initial recognition of the financial asset, the estimated future cash flows have been affected.

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

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

N Discontinued operations and held for sale assets

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is expected to be recovered principally through a sale transaction and a sale is considered highly probable. The Company applies the measurement requirements of IFRS 5 "Non-current assets held for sale and discontinued operations" to non-financial assets within the disposal group. Where the measurement requirements of IFRS 5 do not apply to other assets and liabilities in the disposal group, the measurement criteria of the relevant other standards are applied. The overall disposal group is stated at the lower of the carrying amount and fair value less costs to sell. Non-current assets (or disposal groups) that represent a separate major line of business are also classified as discontinued operations.

O 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.

P 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.

1. Summary of significant accounting policies (continued)

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.

Q 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.

R Income taxes

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

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

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

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

Tax attributable to policyholders and equity holders
The total tax expense shown in the Income Statement includes income tax borne by both policyholder and shareholders. This been apportioned between tax attributable to policyholders' returns and equity holders' profits. The Company's long-term business pays tax on policyholder investment return, in addition to the corporation tax charge on shareholder profit. The separate presentation is intended to provide more relevant information about the tax the Company pays on the profit it makes.

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

Deferred tax assets and liabilities are not discounted.

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

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

S Leases

Lessor accounting
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.

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.

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

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

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

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

1. Summary of significant accounting policies (continued)

T 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.

U 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.

V 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.

W 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.

X 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.

Y 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.

Z Other income

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

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

AA 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.

AB 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.

AC Changes in accounting policy

Amendment to accounting policy for premiums from Insurance contracts (Note 1F)
During the year, the Company has changed its accounting policy for premium income relating to the annuity business, which was previously to recognise income when consideration was received. From 1 January 2020, the Company has recognised these premiums as income when due for payment. This change means that the revenue recognition date is aligned with the associated liability recognition date.

The above represents a voluntary change in accounting policy. The prior year impact was immaterial and has therefore not been applied retrospectively. As a result, prior year retained earnings remain unadjusted.

AD 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 2020.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: 'Definition of Material'
These amendments, issued in October 2018, clarify the definition of 'material', and align the definition used in the Conceptual Framework and the standards themselves. These amendments did not have any material impact on the Company's financial statements.

1. Summary of significant accounting policies (continued)

Amendments to References to the Conceptual Framework in IFRS Standards
These amendments, issued in March 2018, update the current conceptual framework with the aim to assist preparers of financial reports to develop consistent accounting policies for transactions. These amendments did not have any material impact on the Company's financial statements.

Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement, and IFRS 7 – Financial Instruments: Disclosures: 'Interest Rate Benchmark Reform'
These amendments were issued in September 2019. They modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. These amendments did not have any material impact on the Company's financial statements.

Amendment to IFRS 16 Leases: 'COVID-19-Related Rent Concessions'
The amendment, issued in May 2020, provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. This amendment did not have any material impact on the Company's financial statements.

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

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2021 or later periods but which the Company has not adopted early, as disclosed below.

IFRS 17 – Insurance Contracts
IFRS 17, 'Insurance Contracts' was originally issued in May 2017 and subsequent amendments were issued in June 2020. The standard is expected to be effective for annual periods beginning on or after 1 January 2023. This reflects a two year delay to the original 2017 timetable confirmed by the IASB in their June 2020 amendments and remains subject to endorsement for use in the UK. The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their measurement, Income Statement presentation and disclosure. The Company has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout 2021 to ensure technical compliance and to develop the required system and operational capability to implement the standard.

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2
These amendments, issued in August 2020, address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual reporting periods beginning on or after 1 January 2021. The Company does not expect the impact to be significant.

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

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

Amendments to IAS 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. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, subject to UK endorsement. The Company does not expect the impact to be significant.

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

2. Analysis of revenue

Long term business

Gross written premiums

	Notes	Non-Participating 2020 £m	Participating 2020 £m	Investment linked 2020 £m	Total 2020 £m	Non-Participating 2019 £m	Participating 2019 £m	Investment linked 2019 £m	Total 2019 £m
Individual									
- Periodic		1,504	6	3	1,513	1,490	12	6	1,508
- Single		792	-	-	792	873	-	-	873
		2,296	6	3	2,305	2,363	12	6	2,381
Group									
- Periodic		1,012	1	-	1,013	1,102	1	-	1,103
- Single		7,202	-	-	7,202	10,089	-	-	10,089
		8,214	1	-	8,215	11,191	1	-	11,192
Total gross written premiums		10,510	7	3	10,520	13,554	13	6	13,573
Less gross written premiums from discontinued operations	24	(16)	(7)	(3)	(26)	(23)	(13)	(6)	(42)
Gross written premiums from continuing operations		10,494	-	-	10,494	13,531	-	-	13,531

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

The above figures include inward reinsurance premium of £286m (2019: £365m) from Banner Life Insurance Company, £11m premium (2019: £12m) from William Penn Life Insurance Company of New York and £42m premium (2019: £36m) from New Ireland Assurance Company Plc.

New business (gross of reinsurance)
New business is presented for all long term business written by the Company, including both insurance and investment contracts. Investment contracts are accounted for on a deposit accounting basis and are not included in gross written premiums in the above table.

	Non-Participating 2020 £m	Participating 2020 £m	Investment linked 2020 £m	Total 2020 £m	Non-Participating 2019 £m	Participating 2019 £m	Investment linked 2019 £m	Total 2019 £m
Individual								
- Periodic	175	-	1,801	1,976	174	1	1,944	2,119
- Single	910	1	4,403	5,314	970	2	2,348	3,320
	1,085	1	6,204	7,290	1,144	3	4,292	5,439
Group								
- Periodic	117	-	-	117	76	-	-	76
- Single	7,593	-	-	7,593	10,315	-	-	10,315
	7,710	-	-	7,710	10,391	-	-	10,391
Total	8,795	1	6,204	15,000	11,535	3	4,292	15,830

New periodic premiums arise where the terms and conditions anticipate more than one premium being paid over the period of the policy; new single premiums comprise all premiums which do not fall to be categorised as periodic premiums.

3. Investment return

	Notes	2020 £m	2019 £m
Financial investment return[1]		**6,144**	9,817
Property investment return[2]		**(12)**	123
Investment return		**6,132**	9,940
Plus/(less) investment return from discontinued operations	24	**877**	(3,631)
Investment return from continuing operations		**7,009**	6,309

[1]Financial investment return includes fair value gains and losses, dividends and interest. Net gains / losses (excluding interest and dividend income) of £3,154m (2019: £6,873m) arose on financial investments designated at FVTPL and £85m (2019: £110m) arose on derivative contracts classified as HFT. Investment income of £5m (2019: £6m) arose on loans and receivables. Inter-company dividends are presented within other income (Note 4).
[2] Property investment return includes £46m (2019: £75m) of rental income offset by £(53)m of unrealised losses (2019: £17m unrealised gain) and £(5)m of realised losses (2019: £31m realised gain).

4. Other income

	Notes	2020 £m	2019 £m
Rebates of unit trust management fees		**13**	5
Profit on disposal of investment in subsidiary	12	**-**	102
Company's share of profit/(loss) from joint venture	13	**(5)**	4
Dividend income		**-**	282
Total other income		**8**	393

5. Net claims and change in insurance liabilities

	Notes	2020 £m	2019 £m
Claims paid			
- gross		**5,663**	5,917
- reinsurance recoveries		**(3,009)**	(2,499)
		2,654	3,418
Change in insurance liabilities			
- gross		**9,578**	11,968
- reinsurance recoveries		**(2,673)**	(12,185)
Net claims and change in insurance liabilities		**9,559**	3,201
Plus/(less) net claims and change in insurance liabilities from discontinued operations	24	**5**	(425)
Net claims and change in insurance liabilities from continuing operations		**9,564**	2,776

The roll-forward of the insurance contract liabilities is provided in Note 27.
Net claims and change in insurance liabilities relate wholly to long term insurance.

6. Other expenses

	Notes	2020 £m	2019 £m
Auditors' remuneration - audit services	7	**2**	2
Auditors' remuneration - assurance services	7	**1**	-
Depreciation of plant and equipment	16	**5**	2
Impairment of investment in subsidiaries	12	**-**	281
Amortisation of purchased interest in long term businesses and other intangibles	14	**6**	5
Direct operating expenses arising from investment properties which generate rental income		**6**	12
Lease rental costs		**11**	10
Other administrative expenses		**531**	538
Total other expenses		**562**	850
Less other expenses from discontinued operations	24	**(85)**	(162)
Other expenses from continuing operations		**477**	688

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

	2020 £'000	2019 £'000
Remuneration receivable by the Company's auditor for the audit of the Company's financial statements	**2,422**	1,935
Audit related assurance services - required by legislation	**589**	494
Non audit services (excl. required by legislation)		
-Audit related assurance services - other	**79**	-
-Other assurance services	**-**	-
-Other services not covered above	**-**	-
Total non audit services (excl. required by legislation)	**79**	-
Total remuneration	**3,090**	2,429

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 losses of £40m (2019: gains of £83m) arising on conversion of monetary assets and liabilities to functional currencies.

Principal rates of exchange used for translation are:

	2020		2019	
	Closing	**Average**	Closing	Average
United States Dollar	**1.37**	**1.29**	1.33	1.28
Euro	**1.12**	**1.11**	1.18	1.15

10. Income tax expense

	Notes	2020 £m	2019 £m
Current tax		**213**	274
Deferred tax			
- Origination and reversal of temporary differences		**(67)**	189
- Adjustments in respect of prior years' tax		**(21)**	(1)
- Rate differential on movements in deferred tax balances		**1**	-
Total deferred tax		**(87)**	188
Adjustment to equity holders tax in respect of prior years		(8)	9
Total tax expense[1]		**118**	471
Less tax attributable to policyholder returns from:			
- Continuing operations		**(14)**	8
- Discontinued operations	24	**142**	(224)
		128	(216)
Income tax expense attributable to equity holders		**246**	255
Less tax from discontinued operations attributable to equity holders	24	**(69)**	(6)
Tax from continued operations attributable to equity holders		**177**	249

[1] Total tax expense comprises tax attributable to continuing operations of £191m (2019: £241m) and a discontinued operations credit of £73m (2019: charge of £230m).

The total tax expense shown in the Income Statement includes income tax borne by both policyholders and shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the Company's long-term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the Company pays on the profits that it makes.

10. Income tax expense (continued)

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

The tax attributable to equity holders differs from the tax calculated at the standard corporation tax rate applicable to companies operating in the UK of 19% (2019: 19%). The differences are explained below:

	Continuing Operations 2020 £m	**Total 2020 £m**	Continuing Operations 2019 £m	Total 2019 £m
Profit before income tax attributable to equity holders of the Company	**1,080**	**1,441**	1,349	1,383
Equity holders' income tax expense calculated at 19% (2019: 19%)	**205**	**274**	256	262
Effects of:				
Disallowable expenditure for tax purposes	**-**	**-**	8	8
Non taxable income such as dividends	**-**	**-**	(24)	(24)
Adjustments in respect of prior years' tax[1]	**(29)**	**(29)**	9	9
Impact of revaluation of deferred tax balances to 19% (2019: 17%)	**1**	**1**	-	-
Income tax expense attributable to equity holders	**177**	**246**	249	255
Equity holders' effective tax rate[2]	**16.4%**	**17.1%**	18.4%	18.5%

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

The planned reduction in the UK Corporation tax rate to 17% enacted by the 2016 Finance Act to be effective from 1 April 2020 was removed by the 2020 Finance Act. The prevailing rate of UK corporation tax for the year therefore remained at 19%. The enacted rate of 19% has been used in the calculation of UK's deferred tax assets and liabilities, being 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% (2019: 19%), which is the average rate of corporation tax applicable for the year.

11. Dividends

	Per share 2020 Pence	**Total 2020 £m**	Per share 2019 Pence	Total 2019 £m
Ordinary share dividends paid in the year				
- Final dividend	**-**	**-**	-	-
- Interim dividend[1]	**143.68**	**936**	118.82	774
Total dividends paid in year	**143.68**	**936**	118.82	774

[1] Interim dividends of £276m and £659m were paid and £0.5m were approved but not paid, during the year (2019: Interim dividends of £8m, £307m and £459m were paid during the year).

12. Investment in subsidiaries

	2020 £m	2019 £m
As at 1 January	**42**	413
Acquisitions[1]	**-**	33
Disposals[2]	**-**	(132)
Subscription to new share capital[3]	**71**	9
Net reduction in carrying value[4]	**-**	(281)
As at 31 December	**113**	42

[1] The Company purchased 100% shareholding in Legal & General Affordable Homes Limited in December 2019.
[2] Legal & General Insurance Limited was sold on 31 December 2019. The gain on disposal of £102m was recognised within Other Income on the Statement of Comprehensive Income for the year ended 31 December 2019.
[3] During the year, the Company acquired additional shares in Legal & General Affordable Homes Limited. This company remains a 100% owned subsidiary.
[4] In March 2019, the Company's subsidiary Legal & General International (Holdings) Limited ("LGIHL") made the announcement for voluntary liquidation. An impairment of £281m was recognised on the carrying value of LGIHL was recognised in the prior year within Other Expenses on the Statement of Comprehensive Income for the year ended 31 December 2019.

13. Joint ventures

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

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

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

	Equity method	
Joint ventures	**2020 £m**	2019 £m
Current assets	**51**	36
Non-current assets	**563**	573
Current liabilities	**(27)**	(17)
Non-current liabilities	**(431)**	(420)
(Loss) / profit from continuing operations – total	**(10)**	8
(Loss) / profit from continuing operations - Company's share	**(5)**	4
Total comprehensive income – total	**(10)**	8
Total comprehensive income - Company's share	**(5)**	4

The joint venture has no significant contingent liabilities to which the Company is exposed to. The Company has no commitments to provide funding to the joint venture.

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

	PILTB 2020 £m	Other intangible assets 2020 £m	Total 2020 £m	PILTB 2019 £m	Other intangible assets 2019 £m	Total 2019 £m
Net Book Value						
As at 1 January	**1**	**57**	**58**	1	32	33
Additions[1]	**-**	**92**	**92**	-	30	30
Amortisation	**(1)**	**(5)**	**(6)**	-	(5)	(5)
As at 31 December	**-**	**144**	**144**	1	57	58

[1]Additions comprise of £35m software (2019: £4m) and £57m ongoing projects costs (2019: £26m). During the year, only software was subject to amortisation, with the amortisation of project costs yet to commence.

15. Deferred acquisition costs

	Notes	2020 £m	2019 £m
As at 1 January		**489**	471
Acquisition costs deferred		**49**	57
Amortisation charged to income		**(56)**	(41)
Disposals[1]	24	**(438)**	-
Other[2]		**-**	2
As at 31 December (including held for sale assets)		**44**	489
Less assets classified as held for sale		**-**	(438)
As at 31 December		**44**	51
To be amortised within 12 months[3]		**24**	29
To be amortised after 12 months[3]		**20**	22
Assets classed as held for sale and no longer amortised		**-**	438

Included in deferred acquisition costs is £21m (2019: £27m) relating to reinsurance contracts.

[1] Disposal relates to the sale of the Mature Savings business, which completed on 7 September 2020.
[2] There was a £nil (2019: £2m) movement relating to the remeasurement of the fair value of trail commission.
[3] The maturity analysis of the assets between within and after 12 months is based on Total as at 31 December.

16. Plant and equipment

	Notes	2020 £m	2019 £m
Cost			
As at 1 January		**33**	24
Additions		**12**	9
Disposals		**(2)**	-
Intra Group transfer		**(7)**	-
As at 31 December		**36**	33
Accumulated Depreciation			
As at 1 January		**17**	15
Provided during the year		**5**	2
Disposals		**(2)**	-
As at 31 December		**20**	17
Net book value of owned plant and equipment at 31 December		**16**	16
Net book value of right of use asset at 31 December	34	**21**	25
Net book value of plant and equipment at 31 December		**37**	41

17. Financial investments and investment property

	Notes	Shareholder 2020 £m	Non profit non-unit linked 2020 £m	With-profits 2020 £m	Unit linked 2020 £m	Total 2020 £m
Financial investments at fair value classified as:						
Fair value through profit or loss		3,991	92,441	-	4	96,436
Held for trading	18	19	16,225	-	-	16,244
Financial investments at fair value		4,010	108,666	-	4	112,680
Investment property		28	1	-	-	29
Loans at amortised cost[1]		56	-	-	-	56
Total financial investments and investment property (including held for sale)		4,094	108,667	-	4	112,765
Less assets of operations classified as held for sale	24	-	-	-	-	-
Total financial investments and investment property		4,094	108,667	-	4	112,765
Expected to be received within 12 months[2]						1,792
Expected to be received after 12 months[2]						110,973

	Notes	Shareholder 2019 £m	Non profit non-unit linked 2019 £m	With-profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Financial investments at fair value classified as:						
Fair value through profit or loss		4,454	78,591	9,856	17,559	110,460
Held for trading	18	50	7,859	114	9	8,032
Financial investments at fair value		4,504	86,450	9,970	17,568	118,492
Investment property		22	1	95	905	1,023
Loans at amortised cost[1]		56	-	-	-	56
Total financial investments and investment property (including held for sale)		4,582	86,451	10,065	18,473	119,571
Less assets of operations classified as held for sale	24	-	-	(10,065)	(18,468)	(28,533)
Total financial investments and investment property		4,582	86,451	-	5	91,038
Expected to be received within 12 months[2]						4,112
Expected to be received after 12 months[2]						115,459

[1] The loans at amortised cost are made up of £1m (2019: £1m) deposits with credit institutions and £55m (2019: £55m) other loans to a related party. See Note 44 for further details.
[2] The maturity analysis of the assets between within and after 12 months is based on Total financial investments and investment property.

Investment risks on unit linked assets are borne by the policyholders. The remaining risks are outlined in the risk management note in Note 47.

Financial investments, cash and cash equivalents include £3,654m (2019: £3,103m) 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 (2019: 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. A loss of £58m (2019: loss of £68m) has been recognised in the Income Statement in respect of the movement in fair value of these investments.

17. Financial investments and investment property (continued)

(i) Fair value hierarchy

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

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.
The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).
The following table presents the Company's assets by IFRS 13 hierarchy levels.

For the year ended 31 December 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	3,631	2,836	-	795
Debt securities	357	342	4	11
Accrued interest	3	3	-	-
Derivative assets	19	19	-	-
Investment property	28	-	-	28
Non profit non-unit linked				
Equity securities	5,781	5,690	-	91
Debt securities	83,299	26,443	26,668	30,188
Accrued interest	489	208	239	42
Derivative assets	16,225	-	16,225	-
Investment property	1	-	-	1
Loans at fair value	2,872	-	2,872	-
With-profits				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Accrued interest	-	-	-	-
Derivative assets	-	-	-	-
Investment property	-	-	-	-
Unit linked				
Equity securities	4	2	-	2
Debt securities	-	-	-	-
Accrued interest	-	-	-	-
Derivative assets	-	-	-	-
Investment property	-	-	-	-
Total financial investments and investment property	112,709	35,543	46,008	31,158

The table above excludes loans at amortised cost of £56m (2019: £56m).

17. Financial investments and investment property (continued)

For the year ended 31 December 2019	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	4,247	3,512	-	735
Debt securities	204	183	10	11
Accrued interest	3	3	-	-
Derivative assets	50	1	49	-
Investment property	22	-	-	22
Non profit non-unit linked				
Equity securities	5,884	5,872	-	12
Debt securities	72,228	7,102	38,733	26,393
Accrued interest	479	28	417	34
Derivative assets	7,859	-	7,855	4
Investment property	1	-	-	1
With-profits				
Equity securities	5,770	5,188	-	582
Debt securities	4,043	1,460	2,583	-
Accrued interest	43	11	32	-
Derivative assets	114	8	106	-
Investment property	95	-	-	95
Unit linked				
Equity securities	15,652	13,645	1,932	75
Debt securities	1,891	932	951	8
Accrued interest	16	4	12	-
Derivative assets	9	4	5	-
Investment property	905	-	-	905
Total financial investments and investment property	119,515	37,953	52,685	28,877

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.

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.

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 mortgages.

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

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

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

Asset valuation approach at 31 December 2020
While recognising the volatility within asset markets, our approach to the valuation of assets as at 31 December 2020 was substantially consistent with our usual processes, policies and methodologies. However, we have applied increased focus on the valuation of those assets more directly impacted by the COVID-19 pandemic, particularly Level 3 assets. Given the diversity of our portfolio, the impact has been varied with certain asset classes and market sectors more exposed to the impact of COVID-19 than others. In assessing the valuation of such assets, in line with applicable standards and guidance (including compliance with Royal Institution of Chartered Surveyors (RICS) and International Private Equity and Venture Capital (IPEV) guidelines), we have both projected the short-term impact on earnings and cash flows of the current market volatility, while continuing to review the assets' ability to deliver longer term returns aligned to their investment cases.

Equity securities
Level 3 equity securities amount to £888m (2019: £1,404m), 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. 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.

17. Financial investments and investment property (continued)

Other financial investments
Lifetime mortgage (LTM) loans amount to £6,286m (2019: £4,953m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan and achieves consistency between new and in-force loans. The mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the house and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 31 December 2020 reflects a long-term property growth rate assumption of RPI + 0.5%, 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.

Private credit loans (including commercial real estate loans) amount to £11,889m (2019: £10,997m). 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 monthly 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 11.0 years, with a weighted average life of 14.0 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets is not externally rated but 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 £1,159m (2019: £1,060m). 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 2020 would reflect similar equivalent yield ranges to Group between 2% and 7% and estimated rental values (ERV) between £10 and £337 per square foot.

Sale and leaseback (S&L) loans amount to £4,532m (2019: £4,269). The underlying investment properties are held within a special purpose vehicle (SPV) which is not consolidated into LGAS. These assets are restructured into a Rental Income Note (RIN) and a Residual Value Note (RVN) 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 a RIN and RVN. In the valuation, Risk Analytics treat the RIN 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.

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

Investment property
Level 3 investment property amounting to £29m (2019: £1,023m) 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 2020 would reflects similar equivalent yield ranges to Group between 2% and 18% and ERV between £1 and £356 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.

During the year the Company engaged with Bloomberg to enhance the availability of market data used to determine the observability of valuation inputs, as a result a significant number of debt securities totalling £6,977m transferred from level 1 to level 2 in the fair value hierarchy.

17. Financial investments and investment property (continued)

(iii) Level 3 assets measured at fair value

	Equity securities 2020 £m	Other financial investments 2020 £m	Investment property 2020 £m	Total 2020 £m	Equity securities 2019 £m	Other financial investments 2019 £m	Investment property 2019 £m	Total 2019 £m
As at 1 January	**1,404**	**26,450**	**1,023**	**28,877**	1,461	19,093	1,311	21,865
Total gains/(losses) for the period:								
Realised/unrealised in profit and loss	**(110)**	**1,979**	**(58)**	**1,811**	(90)	1,888	48	1,846
Purchases/additions	**253**	**3,871**	**4**	**4,128**	181	6,318	58	6,557
Sales/Disposals	**(664)**	**(1,968)**	**(940)**	**(3,572)**	(151)	(839)	(394)	(1,384)
Transfers into Level 3	**6**	**-**	**-**	**6**	3	-	-	3
Transfers out of level 3	**(1)**	**(87)**	**-**	**(88)**	-	(10)	-	(10)
Other	**-**	**(4)**	**-**	**(4)**	-	-	-	-
As at 31 December	**888**	**30,241**	**29**	**31,158**	1,404	26,450	1,023	28,877

Other financial investment analysis includes derivatives assets of £nil as at 31 December 2020 (2019: £4m).

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

(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 2020. In light of COVID-19, we have reviewed and reflected changes in those sensitivities, and further disclosure of how these sensitivities have been applied can be found in the sensitivity descriptions following the table below.

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

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

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

Key assumptions used in the valuation of the Lifetime mortgages are listed in section (i) and sensitivities are applied to each assumption to arrive at the overall sensitised values in the above table. The most significant sensitivity by value is +/-10% instant reduction in property valuation across the portfolio which, applied in isolation produces sensitised values of £311m and -£349m. During the early stages of the COVID-19 pandemic an increased dispersion in pricing coupled with general market uncertainty resulted in a higher level on uncertainty associated with these assets, while pricing has largely contracted at the balance sheet date and continued market uncertainty has been reflected in the sensitivities.

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 higher for highly rated and/or shorter duration assets as compared to lower rated and/or longer duration assets. Factors influencing the sensitivities under normal conditions are further adjusted during more volatile market conditions, as seen during the COVID-19 pandemic, in order to acknowledge an anticipated wider range of investor value determination. If we were to take an A rated asset in normal market conditions with an estimated premium difference of 15bps (as opposed to 30bps for a similar duration BBB rated asset) this would be increased by 15bps under stressed market conditions. Applied in isolation the additional sensitivity used to reflect the uncertainty caused by the COVID-19 pandemic produces sensitised values of approximately £200m and -£200m.

The sensitivities for Sale & Leaseback notes are determined by looking through to the underlying investment property holdings in the Sale & Leaseback SPVs. These holdings are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors (RICS). As such, sensitivities are calculated through a mixture of asset level and portfolio level methodologies which make reference to individual investment characteristics of the holding but do not flex individual assumptions used by the independent expert in valuing the holdings. Each method is applied individually and aggregated with equal weighting to determine the overall sensitivity determined for the portfolio. One method is similar to that used in the private credit portfolio as it determines the impact of an alternate property yield 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 a remaining term of 25 years, in normal market conditions this would lead to a 15bps yield flex (as opposed to

17. Financial investments and investment property (continued)

a 35bps yield flex for a BBB rated asset with a 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 £557m and -£557m.

As a result of the uncertainty caused by the COVID-19 pandemic, a number of property valuations were provided at half year on the basis of "material valuation uncertainty" as per VPS3 and VPG10 of the RICS Red Book Global. Independent valuers confirmed that the inclusion of "material valuation uncertainty" clauses does not mean that the valuations cannot be relied upon. Consequently, less certainty and a higher degree of caution should be attached to the valuations provided than would normally be the case. Rather, the clause is used to be clear and transparent with all parties that, in the context of the market conditions, less certainty can be attached to valuations than would otherwise be the case. At half year this was reflected as an addition to the sensitivities applied, increasing the range. At the balance sheet date all "material uncertainty" clauses have been withdrawn by the independent valuers and therefore the additional sensitivity has been removed.

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.

18. Derivative assets and liabilities

	Fair values		Fair values	
	Assets 2020 £m	**Liabilities[1] 2020 £m**	Assets 2019 £m	Liabilities[1] 2019 £m
Shareholder derivatives:				
Forward foreign exchange contracts - held for trading	19	-	49	-
Other derivatives - held for trading	-	-	1	4
Total shareholder derivatives	19	-	50	4
Non profit non-unit linked derivatives:				
Interest rate contracts - held for trading	13,357	13,445	6,345	6,126
Forward foreign exchange contracts - held for trading	31	75	38	69
Inflation swap contracts - held for trading	1,762	2,883	976	1,750
Credit derivatives - held for trading	-	28	28	3
Currency swap contracts - held for trading	1,060	289	447	144
Other derivatives - held for trading	15	175	25	86
Total non profit non-unit linked derivatives	16,225	16,895	7,859	8,178
With-profits derivatives[2]:				
Interest rate contracts - held for trading	-	-	88	20
Forward foreign exchange contracts - held for trading	-	-	18	-
Equity/index derivatives - held for trading	-	-	8	8
Total with-profits derivatives	-	-	114	28
Unit linked derivatives[2]:				
Forward foreign exchange contracts - held for trading	-	-	4	4
Equity/index derivatives - held for trading	-	-	4	3
Other derivatives - held for trading	-	-	1	-
Total unit linked derivatives	-	-	9	7
Total derivative assets and liabilities (including held for sale)	16,244	16,895	8,032	8,217

[1] Derivative liabilities are reported in the Balance Sheet within payables and other financial liabilities. See Note 32.
[2] Balances have reduced to £nil during the year as a result of the Mature Savings business sale. See Note 24.

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.

18. Derivative assets and liabilities (continued)

		Maturity profile of undiscounted cash flows					
As at 31 December 2020	**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							
Shareholder derivatives							
Derivative assets	19	830	-	-	-	-	830
Derivative liabilities	-	1	-	-	-	-	1
Non profit non-unit linked derivatives							
Derivative assets	16,225	9,158	12,552	20,590	12,089	10,089	64,478
Derivative liabilities	(16,895)	5,287	2,865	12,072	6,741	7,155	34,120
Total	(651)	15,276	15,417	32,662	18,830	17,244	99,429
Cash outflows							
Shareholder derivatives							
Derivative assets	19	(811)	-	-	-	-	(811)
Derivative liabilities	-	(1)	-	-	-	-	(1)
Non profit non-unit linked derivatives							
Derivative assets	16,225	(7,607)	(9,035)	(15,709)	(8,789)	(7,018)	(48,158)
Derivative liabilities	(16,895)	(6,559)	(7,065)	(17,253)	(9,588)	(10,474)	(50,939)
Total	(651)	(14,978)	(16,100)	(32,962)	(18,377)	(17,492)	(99,909)
Net shareholder derivatives cash flows		19	-	-	-	-	19
Net non profit non-unit linked derivatives cash flows		279	(683)	(300)	453	(248)	(499)
Net with-profits derivatives cash flows		-	-	-	-	-	-

		Maturity profile of undiscounted cash flows					
As at 31 December 2019	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							
Shareholder derivatives							
Derivative assets	50	836	-	-	-	-	836
Derivative liabilities	(4)	-	-	-	-	-	-
Non profit non-unit linked derivatives							
Derivative assets	7,859	5,457	7,794	19,321	9,185	6,142	47,899
Derivative liabilities	(8,178)	4,631	5,902	12,774	7,737	5,937	36,981
With-profits derivatives							
Derivative assets	114	754	73	127	64	34	1,052
Derivative liabilities	(28)	25	15	27	13	7	87
Total	(187)	11,703	13,784	32,249	16,999	12,120	86,855
Cash outflows							
Shareholder derivatives							
Derivative assets	50	(785)	-	-	-	-	(785)
Derivative liabilities	(4)	(4)	-	-	-	-	(4)
Non profit non-unit linked derivatives							
Derivative assets	7,859	(5,014)	(7,012)	(19,127)	(8,233)	(5,060)	(44,446)
Derivative liabilities	(8,178)	(5,124)	(8,614)	(16,113)	(9,765)	(7,565)	(47,181)
With-profits derivatives							
Derivative assets	114	(720)	(43)	(101)	(50)	(23)	(937)
Derivative liabilities	(28)	(36)	(21)	(33)	(16)	(10)	(116)
Total	(187)	(11,683)	(15,690)	(35,374)	(18,064)	(12,658)	(93,469)
Net shareholder derivatives cash flows		47	-	-	-	-	47
Net non profit non-unit linked derivatives cash flows		(50)	(1,930)	(3,145)	(1,076)	(546)	(6,747)
Net with-profits derivatives cash flows		23	24	20	11	8	86

19. 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] 2020 £m	**All other financial assets[3] 2020 £m**	Financial assets passing the SPPI test[1,2] 2019 £m	All other financial assets[3] 2019 £m
Equity securities	**-**	**9,416**	-	31,553
Debt securities	**-**	**83,656**	-	78,366
Accrued interest	**-**	**492**	-	541
Derivative assets	**-**	**16,244**	-	8,032
Loans at fair value	**-**	**2,872**	-	-
Total financial investments at fair value	**-**	**112,680**	-	118,492
Loans at amortised cost	**56**	**-**	56	-
Reinsurance receivables	**40**	**-**	67	-
Insurance receivables	**57**	**-**	53	-
Other financial assets [4]	**4,285**	**836**	2,352	832
Total fair value of financial assets [5]	**4,438**	**836**	2,528	832

[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 2020 there was no change in fair value (2019: decrease £6m).
[3] For all other financial assets held at 31 December 2020 there was an increase of fair value movement in the year of £3.2bn (2019: increase £7bn).
[4] Management have assessed that funds withheld receivables previously included within "Financial assets passing SPPI test" are more appropriately classified as "All other financial assets". The comparative figures have therefore been updated to reclassify £789m.
[5] 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 2020	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB and below[1] £m**	**Other[2] £m**	**Total £m**
Loans at amortised cost	-	-	1	-	-	**55**	**56**
Reinsurance receivables	-	-	-	-	-	**40**	**40**
Insurance and intermediaries receivables	-	-	-	-	-	**57**	**57**
Other financial assets [3]	-	-	**454**	-	-	**3,831**	**4,285**
Total carrying value of financial assets passing the SPPI test [4]	**-**	**-**	**455**	**-**	**-**	**3,983**	**4,438**

As at 31 December 2019	AAA £m	AA[3] £m	A £m	BBB £m	BB and below[1] £m	Other[2] £m	Total £m
Loans at amortised cost	-	-	-	-	-	56	56
Reinsurance receivables	-	-	-	-	-	67	67
Insurance and intermediaries receivables	-	-	-	-	-	53	53
Other financial assets [3]	-	2	405	-	-	1,945	2,352
Total carrying value of financial assets passing the SPPI test [4]	-	2	405	-	-	2,121	2,528

[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 2020 is £15m (2019: £14m).
[3] Management have assessed that funds withheld receivables previously included within "Financial assets passing SPPI test" are more appropriately classified as "All other financial assets". The comparative figures have therefore been updated to reclassify £789m.
[4] Financial assets exclude cash and cash equivalents and receivables under finance leases. The fair value of these assets approximates to their carrying value.

20. Reinsurers' share of contract liabilities

	Notes	Non profit non-unit linked 2020 £m	With-profits 2020 £m	Unit linked 2020 £m	Total 2020 £m
Reinsurers' share of:					
Insurance contract liabilities	27	**25,079**	**-**	**-**	**25,079**
Investment contract liabilities	28/44	**155**	**-**	**50,621**	**50,776**
Reinsurers' share of contract liabilities (including held for sale assets)		**25,234**	**-**	**50,621**	**75,855**
Less Reinsurers' share of contract liabilities classified as held for sale[1]	24	**-**	**-**	**-**	**-**
Reinsurers' share of contract liabilities		**25,234**	**-**	**50,621**	**75,855**

	Notes	Non profit non-unit linked 2019 £m	With-profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Reinsurers' share of:					
Insurance contract liabilities	27	22,406	-	-	22,406
Investment contract liabilities	28/44	52	-	40,661	40,713
Reinsurers' share of contract liabilities (including held for sale assets)		22,458	-	40,661	63,119
Less Reinsurers' share of contract liabilities classified as held for sale	24	(25)	-	(569)	(594)
Reinsurers' share of contract liabilities		22,433	-	40,092	62,525

[1] Assets and liabilities relating to the Mature Savings business were previously classified as held for sale during 2019. The sale completed on 7 September 2020.

21. Deferred tax asset / (liability)

The deferred tax balances are as follows:

	Notes	As at 31 December 2020 £m	As at 31 December 2019 £m
Deferred tax liability		**(223)**	(327)
As at 31 December (including held for sale deferred tax liability)		**(223)**	(327)
Less held for sale deferred tax liability	24	**-**	182
As at 31 December		**(223)**	(145)

21. Deferred tax asset / (liability) (continued)

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

	Net tax liability as at 1 January 2019 £m	Tax (charged)/ credited to the income statement £m	Acquisitions / disposals £m	Net tax liability as at 31 December 2019 £m
Realised and unrealised gains on investments	(82)	(103)	-	(185)
Excess of depreciation over capital allowances	9	(2)	-	7
Expenses	(20)	(1)	-	(21)
Difference in tax and accounting valuation of assets	(44)	(80)	-	(124)
Other	(2)	(2)	-	(4)
Deferred tax liabilities	(139)	(188)	-	(327)

Unrecognised deferred tax assets

The Company has the following unrelieved tax losses carried forward as at 31 December 2020. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2020 or 31 December 2019, 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 2020 is £14m (2019: £14m).

	Gross 2020 £m	**Tax 2020 £m**	Gross 2019 £m	Tax 2019 £m
Tax losses in respect of equity and property assets	**-**	**-**	61	12
Excess management expenses	**60**	**12**	-	-
Trade losses in respect of business transferred in	**12**	**2**	12	2
Unrecognised deferred tax asset	**72**	**14**	73	14

22. Income tax

	Notes	2020 £m	2019 £m
Tax payable within 12 months		14	(129)
Tax recoverable after 12 months[1]		218	230
Income tax recoverable / (payable) (including held for sale income tax recoverable)		**232**	101
Less held for sale income tax recoverable[2]	24	-	(72)
Income tax recoverable / (payable)[3]		**232**	29

[1] £5m (2019: £106m) relates to tax recoverable in respect of UK and overseas tax reclaims.
[2] Assets and liabilities relating to the Mature Savings business were previously classified as held for sale during 2019. The sale completed on 7 September 2020.
[3] Income tax (payable) / recoverable represents the net position of income tax recoverable and income tax liabilities on the Company's balance sheet.

23. Other assets

	Shareholder 2020 £m	Non profit non-unit linked 2020 £m	With-profits[1] 2020 £m	Unit linked[1] 2020 £m	Total 2020 £m
Reinsurance receivables	-	**40**	-	-	**40**
Accrued interest and rent	-	**104**	-	-	**104**
Prepayments and accrued income	**51**	-	-	-	**51**
Insurance receivables	-	**57**	-	-	**57**
Other receivables[2]	**681**	**4,560**	-	-	**5,241**
Other assets	**732**	**4,761**	-	-	**5,493**
Due within 12 months					**4,265**
Due after 12 months					**1,228**

	Notes	Shareholder 2019 £m	Non profit non-unit linked 2019 £m	With-profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Reinsurance receivables		39	28	-	-	67
Accrued interest and rent		-	150	10	53	213
Prepayments and accrued income		83	-	-	-	83
Insurance receivables		-	52	1	-	53
Reverse repurchase agreements		-	-	-	-	-
Other receivables[2]		599	2,556	91	81	3,327
Other assets (including held for sale assets)		721	2,786	102	134	3,743
Less assets classified as held for sale	24	-	(79)	(102)	(134)	(315)
Other assets		721	2,707	-	-	3,428
Due within 12 months						2,463
Due after 12 months						1,280

[1] Balances have reduced to £nil during the year as a result of the Mature Savings business sale. See Note 24.
[2] Other receivables includes collateral held by third parties of £1,532m (2019: £1,529m), a funds withheld receivable from Legal & General America Inc. of £787m (2019: £789m), amounts due from other Group companies of £729m (2019: £771m) (see Note 44), receivables due under finance leases of £87m (2019: £90m), and receivables due on sub-lease agreements of £7m (2019: £8m). The future minimum lease payments of the finance lease and sub-lease under the arrangement, together with the present value, are disclosed on the following page.

23. Other assets (continued)

(i) Receivables under finance leases

	Total future payments 2020 £m	Unearned interest income 2020 £m	Total 2020 £m	Total future payments 2019 £m	Unearned interest income 2019 £m	Total 2019 £m
Within 1 year	6	(3)	3	6	(3)	3
1-2 years	7	(3)	4	6	(3)	3
2-3 years	7	(3)	4	7	(3)	4
3-4 years	7	(3)	4	7	(3)	4
4-5 years	7	(3)	4	7	(3)	4
After 5 years	92	(17)	75	99	(19)	80
Total finance lease receivables	126	(32)	94	132	(34)	98

24. Disposal and discontinued operations

On 6 December 2017 the Group announced the sale of its Mature Savings business to ReAssure Limited ("ReAssure") for £650m. While the Part VII transfer became effective on 7 September 2020, the economic effective date of completion and the date on which the assets and liabilities of the Mature Savings business, previously classified as held for sale, were fully derecognised was 31 August 2020. The Company recognised a pre-tax gain on disposal of £338m which has been included in profit from discontinued operations in the Income Statement for the year ended 31 December 2020[1].

(i) Profit on the sale of the Mature Savings business

	2020 £m
Consideration received[2]	650
Less: Unwind of expected underlying profits before disposal[2]	(106)
Less: Final settlement[3]	(55)
Less: Transaction and separation costs	(60)
Net proceeds from sale	429
Carrying value of net assets disposed	137
Profit on the sale of the Mature Savings business before tax[1]	292

[1] As set out in Note 10, the Company's total tax expense in the Income Statement includes income tax borne by both policyholders and shareholders. This is apportioned between that attributable to policyholders' returns and equity holders' profits. Under this methodology, the profit on disposal attributable to equity holders is £338m.
[2] From 1 January 2018 up until the completion of the transaction, the Company recognised the unwind of expected profits from the Mature Savings business through the Income Statement, totalling £106m. This reduces the amount of consideration attributable to the final profit on sale by an equivalent amount.
[3] The final settlement is an amount payable from the Company to ReAssure, reflecting the residual net position of assets and liabilities transferred at the date of the Part VII.

24. Disposal and discontinued operations (continued)

(ii) Carrying value of net assets disposed

	Notes	2020 £m
Deferred acquisition costs		438
Investment property		926
Financial investments		25,092
Reinsurers' share of contract liabilities [1]		550
Income tax recoverable		101
Cash and cash equivalents		248
Other assets		117
Total assets		**27,472**
Participating insurance contracts		(4,297)
Participating investment contracts		(4,352)
Unallocated divisible surplus		(655)
Present value of future profits		42
Non-participating insurance contracts		(837)
Non-participating investment contracts		(16,804)
Provisions		(1)
Deferred tax liabilities	21	(17)
Payables and other financial liabilities		(253)
Other liabilities		(161)
Total liabilities		**(27,335)**
Carrying value of net assets disposed		**137**

[1] Consists of £527m investment contract reinsurance and £23m insurance contract reinsurance.

The results of Mature Savings have been classified as discontinued operations.

(iii) Financial performance of discontinued operations

	2020 £m	2019 £m
Revenue[1]	(855)	3,790
Expenses[2]	(782)	3,532
Profit on the sale of the Mature Savings business	292	
Profit / (loss) before tax	219	258
Tax (expense) / credit	73	(230)
Profit after tax from discontinued operations	**292**	28
Total comprehensive income from discontinued operations	**292**	28

[1]Revenue includes investment return.
[2]Expenses include change in insurance and investment contract liabilities.

This is represented as:

	2020 £m	2019 £m
Profit before tax	219	258
Policyholder tax	142	(224)
Equity holders share of profit before tax	361	34
Equity holders tax	(69)	(6)
Profit after tax	292	28

(iv) Cash flow information of discontinued operations

	2020 £m	2019 £m
Net cash inflow/(outflow) from operating activities	9	25
Net cash inflow/(outflow) from investing activities	-	-
Net cash inflow/(outflow) from financing activities	-	-

25. Cash and cash equivalents

	Shareholder 2020 £m	Non profit non-unit linked 2020 £m	With-profits[1] 2020 £m	Unit linked[1] 2020 £m	Total 2020 £m
Cash at bank and in hand[2]	6	436	-	-	442
Cash equivalents	-	-	-	-	-
Cash and cash equivalents	**6**	**436**	**-**	**-**	**442**

	Shareholder 2019 £m	Non profit non-unit linked 2019 £m	With-profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Cash at bank and in hand[2]	58	179	95	100	432
Cash equivalents	-	-	1	43	44
Cash and cash equivalents (including held for sale assets)	58	179	96	143	476
Less cash and cash equivalents classified as held for sale	-	-	(96)	(143)	(239)
Cash and cash equivalents	58	179	-	-	237

[1] Balances have reduced to £nil during the year as a result of the Mature Savings business sale. See Note 24.
[2] Included in cash at bank and in hand are cash collateral balances of £267m (2019: £60m). The Company is entitled to use this cash for other purposes during the period when it is pledged as collateral.

26. Share capital and share premium

	2020 Number of shares '000	2020 £m	2019 Number of shares '000	2019 £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. All shares issued carry equal voting rights. There has been no change in the authorised share capital during the year.

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.

27. Insurance contract liabilities

(i) Analysis of insurance contract liabilities

		Gross 2020 £m	Re-insurance 2020 £m	Gross 2019 £m	Re-insurance 2019 £m
Non-participating insurance contracts		85,713	(25,079)	76,845	(22,406)
General insurance contracts[1]		71	-	77	-
Insurance contract liabilities (including held for sale liabilities)		85,784	(25,079)	76,922	(22,406)
Less liabilities classified as held for sale[2]	24	-	-	(911)	25
Insurance contract liabilities		85,784	(25,079)	76,011	(22,381)

[1] The Company continues to provide reinsurance to the general insurance business that was sold in 2019.
[2] Assets and liabilities relating to the Mature Savings business were previously classified as held for sale during 2019. The sale completed on 7 September 2020.

27. Insurance contract liabilities (continued)

(ii) Expected insurance contract liability cash flows

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

	Date of undiscounted cash flows					
As at 31 December 2019	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Non-participating insurance contracts	12,187	24,382	17,287	16,090	69,946	53,818

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

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

(iii) Movement in non-participating insurance contract liabilities

	Notes	**Gross 2020 £m**	**Re-insurance 2020 £m**	Gross 2019 £m	Re-insurance 2019 £m
As at 1 January		**76,845**	**(22,406)**	64,737	(10,221)
New liabilities in the year		**8,120**	**(2,738)**	10,619	(2,305)
New liabilities in respect of back book[1]	44	**-**	**-**	-	(10,263)
Liabilities discharged in the year		**(5,330)**	**1,381**	(3,458)	679
Unwinding of discount rates		**1,421**	**(82)**	1,633	(270)
Effect of change in non-economic assumptions	29	**(897)**	**310**	(1,153)	594
Effect of change in economic assumptions[2]	29	**5,605**	**(1,609)**	4,823	(676)
Foreign exchange		**(1)**	**(13)**	(100)	13
Model and methodology changes		**(66)**	**103**	(272)	35
Other		**16**	**(25)**	16	8
As at 31 December (including held for sale liabilities)		**85,713**	**(25,079)**	76,845	(22,406)
Less liabilities classified as held for sale[3]	24	**-**	**-**	(911)	25
As at 31 December		**85,713**	**(25,079)**	75,934	(22,381)
Expected to be settled within 12 months (net of reinsurance)		**2,329**		2,521	
Expected to be settled after 12 months (net of reinsurance)		**58,305**		51,918	

[1] In 2019 the company increased the proportion of liabilities reinsured for both existing and new business. See Note 44.
[2] The change in economic assumptions reflects changes in valuation interest rates over the year, as detailed in Note 29.
[3] Assets and liabilities relating to the Mature Savings business were previously classified as held for sale during 2019. The sale completed on 7 September 2020.

During the year, the Company entered into prospective reinsurance arrangements which resulted in a profit of £497m (2019: profit of £345m). 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.

28. Investment contract liabilities

(i) Analysis of investment contract liabilities

	Notes	Gross 2020 £m	Re-insurance 2020 £m	Gross 2019 £m	Re-insurance 2019 £m
Non-participating investment contracts		**51,705**	**(50,776)**	59,270	(40,713)
Less liabilities classified as held for sale[1]	24	**-**	**-**	(18,678)	569
Investment contract liabilities		**51,705**	**(50,776)**	40,592	(40,144)
Expected to be settled within 12 months (net of reinsurance)[2]		**68**		693	
Expected to be settled after 12 months (net of reinsurance)[2]		**861**		17,864	

[1] Assets and liabilities relating to the Mature Savings business were previously classified as held for sale during 2019. The sale completed on 7 September 2020.
[2] The expected maturity analysis between within and after 12 months is based on the total non-participating investment contract liabilities.

(ii) Movement in investment contract liabilities

	Notes	Gross 2020 £m	Re-insurance 2020 £m	Gross 2019 £m	Re-insurance 2019 £m
As at 1 January		**63,844**	**(40,713)**	52,991	(29,851)
Reserves in respect of new business		**10,766**	**(10,007)**	7,939	(5,715)
Reserves in respect of back book		**-**	**-**	-	(809)
Amounts paid on surrenders and maturities during the year		**(3,487)**	**2,048**	(4,827)	851
Investment return and related benefits[1]		**1,844**	**(2,631)**	7,955	(5,189)
Management charges		**(180)**	**-**	(235)	-
Other[2 3]		**(21,082)**	**527**	21	-
As at 31 December (including held for sale liabilities)		**51,705**	**(50,776)**	63,844	(40,713)
Less liabilities classified as held for sale[4]	24	**-**	**-**	(23,252)	569
As at 31 December		**51,705**	**(50,776)**	40,592	(40,144)

[1] Investment return and related benefits is disclosed on a total basis including discontinued operations. In the Statement of Comprehensive Income, the investment return for discontinued operations is included within 'Profit for the year from discontinued operations attributable to equity holders of the Company'.
[2] Reserves relating to the Mature Savings business sale, which completed on 7 September 2020. See note 24.
[3] Gross liabilities of £(21,082)m exclude outstanding claims totalling £(74)m.
[4] Assets and liabilities relating to the Mature Savings business were previously classified as held for sale during 2019. The sale completed on 7 September 2020.

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

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

Non-participating investment contracts	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
As at 31 December 2019	59,270	59,270	-	-	-

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

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

29. 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 Bureau (CMIB), 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.

For the year ended 31 December 2020 the Company has concluded that there is insufficient certainty to revise long-term assumptions in response to emerging claims experience relating to COVID-19. For protection contracts, certain short-term allowances have been made to account for the higher mortality and morbidity expected from the pandemic in 2021 based on applying projections from the Institute for Health Metrics and Evaluation to our insured population.

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	**2020**	2019
Non-linked individual assurance business		
UK term assurances[1]	**99% - 101% TM08/TF08 Sel 5**	98% - 104% TM08/TF08 Sel 5
UK term assurances with terminal illness[1]	**63% - 95% TM08/TF08 Sel 5**	62% - 104% TM08/TF08 Sel 5
UK term assurances with critical illness[2]	**107% - 159% ACL08Sel 2**	112% - 164% ACL04 Sel 2
LGA reinsured[3]	**Adjusted SOA 2014 VBT**	Adjusted SOA 2014 VBT
Whole of Life Protection Plan[4]	**Bespoke Tables based on TM08/TF08, AM92/AF92 and UK death registrations**	Bespoke Tables based on TM08/TF08, AM92/AF92 and UK death registrations
Whole of Life over 50[4]	**Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions**	Bespoke Tables based on ELT15 and Whole of Life Protection Plan assumptions
Annuity business		
UK Annuities in deferment[5]	**71.9%-81.9% PNMA00/PNFA00**	73.1% - 82.9% PNMA00/PNFA00
UK Vested annuities[6]		
Pension risk transfer	**72.7%-81.9% PCMA00/PCFA00**	73.9% - 82.9% PCMA00/PCFA00
Other annuities	**57.6%-105.1% PCMA00/PCFA00**	58.5% -95% PCMA00/PCFA00

[1] Improvement assumptions applied for 2020 of 0.6% p.a. for males and females (2019: 1% 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 (2019: 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 2018 model with a long term annual improvement rate of 1.5% for males and 1.0% for females. (2019: Mortality rates are assumed to reduce based on CMI 2016 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 2018 (2019: CMI 2017) with the following parameters:
- Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110 (2019: 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 (2019: 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 2018. The resulting initial rates are then adjusted to reflect socio economic class. (2019: smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2017).
For individual annuities distributed through retail channels, a further allowance is made for the effect of initial selection.
The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards.

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

For annuity business, an explicit allowance for risk is deducted from the yield. The allowance for risk comprises long-term assumptions about defaults on a prudent basis or, in the case of lifetime mortgage assets, a prudent expectation of losses arising from the No-Negative-Equity Guarantee. These allowances vary by asset category and for some asset classes by rating. The allowance for risk for government backed bonds equated to 9bps (2019: 9bps) and 45bps for corporate bonds and direct investments (2019: 47bps). This is equivalent to a default provision of £3.5bn at 31 December 2020 (2019: £3.2bn). For lifetime mortgage business, the allowance for risk in respect of lifetime mortgage assets is equivalent to £0.6bn at 31 December 2020 (2019: £0.5bn).

29. Long term insurance valuation assumptions (continued)

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 the USD curve specified by EIOPA for Solvency II) 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	2020	2019
UK Life assurances	**0.72% - 2.24% p.a.**	1.07% - 2.88% p.a.
UK Pension assurances	**0.25% - 2.15% p.a.**	1.00% - 2.76% p.a.
LGA reinsured	**0.84% p.a.**	1.21% p.a.
UK Annuities – Fixed	**1.26% p.a.**	1.93% p.a.
UK Annuities – Index Linked	**-1.87% p.a.**	-1.28% 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	2020	2019
UK Level term	**2.3% - 25.7%**	2.2% - 25.3%
UK Decreasing term	**6.1% - 14.6%**	6.1% - 15.3%
UK Accelerated critical illness cover	**2.6% - 26.4%**	2.6% - 26.8%
Pensions term	**2.3% - 3.8%**	2.2% - 3.8%
Whole of Life (conventional non profit)	**0.5% - 6.1%**	0.5% - 5.3%
LGA reinsured business – 10 year guarantee period	**5.7% - 6.5%**	6.1% - 6.4%
LGA reinsured business – 15 year guarantee period	**3.4% - 4.6%**	3.4% - 4.7%
LGA reinsured business – 20 year guarantee period	**2.4% - 4.9%**	2.4% - 4.6%
LGA reinsured business – 30 year guarantee period	**1.7% - 5.2%**	1.8% - 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.

30. Borrowings

	2020 £m	2019 £m
Operational borrowings	**1**	-

31. Provisions

	Notes	2020 £m	2019 £m
Other provisions[1]		**24**	59
Provisions (including held for sale)		**24**	59
Less provisions classified as held for sale	24	**-**	(1)
Provisions		**24**	58

[1] Other provisions include the provision recognised on an onerous contract of £10.3m (2019: £20.6m).

32. Payables and other financial liabilities

	Notes	2020 £m	2019 £m
Derivative liabilities	18	**16,895**	8,217
Intercompany balances due - funds withheld[1]		**20,262**	17,851
Intercompany balances due - LTM obligation[2]		**6,128**	4,834
Other financial liabilites		**6,609**	3,341
Payables and other financial liabilities (including held for sale liabilities)		**49,894**	34,243
Less liabilities classified as held for sale	24	**-**	(372)
Payables and other financial liabilities		**49,894**	33,871
Settled within 12 months		**6,482**	3,977
Settled after 12 months		**43,412**	30,266

[1] This represents a funds withheld payable to Legal & General Reinsurance Company Limited, also disclosed in Note 44(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 44(iii) Related Party Transactions.

Other financial liabilities include future commission payments which have contingent settlement provisions of £ 11m (2019: £129m). This liability has been determined using the net present value of the future commission which will be payable on fund values. This valuation technique uses assumptions which are consistent with the Company's effective rate of interest, investment return assumptions and persistency assumptions used in other valuations, but it is not determined by reference to published price quotations.

Other financial liabilities also include the trail commission liability which is the present value of future commission. Trail commission is amortised on a profile that is appropriate to the terms of both the bonds and pensions books. These terms are assessed regularly for their appropriateness and would be revised if there was a material change in the persistency of the business. The undiscounted value which is expected to be paid at maturity in respect of such commission is 24m (2019: £132m).

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 18, 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	**16,895**	**-**	**16,813**	**82**	**-**
Intercompany balances due - LTM obligation[1]	**6,128**	**-**	**-**	**6,128**	**-**
Other financial liabilites	**6,609**	**-**	**1,715**	**12**	**4,882**
As at 31 December 2020	**29,632**	**-**	**18,528**	**6,222**	**4,882**

Payables and other financial liabilities	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	8,217	15	8,200	2	-
Intercompany balances due - LTM obligation[1]	4,834	-	-	4,834	-
Other financial liabilites	3,341	2	621	130	2,588
As at 31 December 2019	16,392	17	8,821	4,966	2,588

[1] The LTM obligation is carried at fair value of £6,128m as at the balance sheet date (2019: £4,834m). Reasonably possible alternative assumptions can create increase in fair value of £306m (2019: £248m) or decrease in fair value of £ (351)m (2019: £(279)m). Reasonably possible alternative valuations have been determined using alternative cash flows and expected defaults.

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

There have been no significant transfers between levels.

33. Other liabilities

	Notes	2020 £m	2019 £m
Accruals		**262**	270
Deferred income liabilities		**1**	48
Intra Group balances[1]		**298**	101
Other payables		**129**	76
Other liabilities (including held for sale liabilities)		**690**	495
Less liabilities classified as held for sale	24	**-**	(197)
Other liabilities		**690**	298
Expected to be settled within 12 months		**583**	349
Expected to be settled after 12 months		**107**	146

[1] See Note 44 Related party transactions.

34. Leases

The table below presents the Company's leasing activities by type of right-of-use asset recognised on balance sheet[1]:

Right of use assets

	Head office Accom. 2020 £m	Total 2020 £m	Head office Accom. 2019 £m	Total 2019 £m
Carrying Amount - Right of use Assets				
Balance as at 1 January 2020	**25**	**25**	25	25
Additions	**1**	**1**	4	4
Depreciation for the period	**(5)**	**(5)**	(4)	(4)
Carrying Amount as at 31 December 2020	**21**	**21**	25	25

[1]The right-of-use assets are disclosed in plant and equipment, note 16.

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

As at 31 December	Undiscounted lease payments 2020 £m	Finance Charge 2020 £m	Total 2020 £m	Undiscounted lease payments 2019 £m	Finance Charge 2019 £m	Total 2019 £m
Within 1 year	**7**	**(1)**	**6**	7	(1)	6
1-2 years	**6**	**(1)**	**5**	7	(1)	6
2-3 years	**5**	**(1)**	**4**	6	(1)	5
3-4 years	**5**	**(1)**	**4**	5	(1)	4
4-5 years	**5**	**-**	**5**	5	(1)	4
After 5 years	**4**	**-**	**4**	8	-	8
Total lease liabilities	**32**	**(4)**	**28**	38	(5)	33

The lease liabilities from right-of-use of assets are included under other financial liabilities in payables and other financial liabilities. See note 32.

Lease contracts are typically entered into for fixed periods ranging from 1 to 7 years. Extension and termination options are included in various leases. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. 1 lease (2019: 1 lease) has an extension option and 10 leases (2019: 7 leases) have termination options.

Interest expense of £1m (2019: £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 (2019: £1m).

35. 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.

The Company receives claims and becomes involved in actual or threatened litigation and regulatory issues from time to time. The Company ensures that it makes 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.

The Company has given warranties, indemnities and guarantees as a normal part of its business and operating activities or in relation to capital market transactions or corporate disposals. The Company 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.

36.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 2020 are £74m (2019: £44m).*

Authorised future equity contribution commitments relating to Legal and General Affordable Homes Limited payable after 31 December 2020 are £486m (2019: £164m).

(ii) Lease Commitment Receivable – payments to be received under operating leases

Under other agreements, the company, as the lessor, is considered to substantially retain all the risks and reward of ownership of the underlying asset; therefore, these contracts have been classified as operating leases.

The future undiscounted minimum lease payments under such arrangements are disclosed below:

	Total future payments 2020 £m	Total future payments 2019 £m
Within 1 year	-	50
1-2 years	-	45
2-3 years	-	41
3-4 years	-	39
4-5 years	-	35
After 5 years	-	237
Total lease commitment receivable	-	447

All operating lease receivable commitments disclosed in the prior year relate to the Mature Savings business. The sale of the Mature Savings business completed on 7 September 2020 at which time the commitments were transferred.

(iii) Head Office Lease Commitments

All Head Office lease commitments are disclosed in Leases note 34.

37. 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 are 100% owned and all have a 31 December financial year end unless stated otherwise.

Held directly by the company	Nature of business	Incorporated in	Share class
Legal & General Affordable Homes Limited	Development of building projects	England & Wales[2]	Ordinary
Legal & General International (Holdings) Limited[6]	Holding Company	England & Wales[2]	Ordinary
Legal & General Pensions Limited	Property Holding Company	England & Wales[2]	Ordinary
Legal & General Trustees Limited	Dormant Company	England & Wales[2]	Ordinary
Synergy Gracechurch Holdings Limited[7]	Holding Company	Jersey[3]	Ordinary

Held indirectly through subsidiary undertakings	Nature of business	Incorporated in	Share class
Legal & General International Limited[8]	Holding Company	England & Wales[2]	Ordinary
Legal & General Overseas Holdings Limited[9]	Holding Company	England & Wales[2]	Ordinary
Synergy Gracechurch Limited[10]	Property Company	England & Wales[4]	Ordinary
Gracechurch Property Limited[11]	Property Company	Jersey[1]	Ordinary
Antham 1 Limited	Property Company	England & Wales[2]	Ordinary
Old Cornwall Limited[12]	Property Company	England & Wales[5]	Ordinary
LGPL Cornwall Limited[13]	Property Company	England & Wales[5]	Ordinary
Sapphire Campus Management Company Limited	Property Company	England & Wales[2]	Ordinary

[1]Registered address: Level 1, IFC1, Esplanade St Helier Jersey JE2 3BX.
[2]Registered address: One Coleman Street, London, EC2R 5AA.
[3]Registered address: 12 Castle Street, St Helier, Jersey, JE2 3RT.
[4]Registered address: 30 Finsbury Square, London, EC2P 2YU.
[5]Registered address: 30 Finsbury Square, London, EC2A 1AG.

[6]Legal & General International (Holdings) Limited was dissolved on 21 December 2020.
[7]Synergy Gracechurch Holdings Limited is currently in liquidation.
[8]Legal & General International Limited was dissolved on 21 December 2020.
[9]Legal & General Overseas Holdings Limited was dissolved on 21 December 2020.
[10]Synergy Gracechurch Limited was dissolved on 22 April 2020.
[11] Gracechurch Property Limited is currently in liquidation.
[12] Old Cornwall Limited is currently in liquidation.
[13] LGPL Cornwall Limited is currently in liquidation.

38. 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.

39. 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
Chineham Shopping Centre Unit Trust	Jersey[3]	100.00
Gresham Street Unit Trust	Jersey[5]	100.00
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
Bracknell Property Unit Trust	Jersey[4]	50.92
English Cities Fund	England & Wales[1]	35.44
Bishopsgate Long Term Property Fund Limited Partnership	Jersey[2]	24.75

The registered addresses for the investment vehicles above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 12 Castle Street, St Helier, Jersey, JE2 3RT
[3] 47 Esplanade, St Helier, Jersey, JE1 0BD
[4] 40 Esplanade, St Helier, Jersey, JE4 9WB
[5] 28 Esplanade, St Helier, Jersey, JE2 3QA

The following significant direct holdings in investment vehicles were transferred to ReAssure Limited as part of the sale of the Mature Savings business in September 2020.

Company name	Incorporated in	% equity shares held
103 Wardour Street Retail Investment Company Limited	England & Wales[1]	100.00
Northampton Shopping Centre Unit Trust	Jersey[2]	100.00
The Pathe Building Management Company	England & Wales[1]	100.00
Performance Retail Unit Trust	Jersey[2]	50.10
Central St Giles Unit Trust	Jersey[2]	25.00

The registered addresses for the investment vehicles above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 47 Esplanade, St Helier, Jersey, JE1 0BD

40. 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
US Liquidity Fund	Ireland[3]	31.20
English Cities Fund	England & Wales[1]	35.44
Legal & General APAC Excluding Japan Equity Index Fund	Ireland[3]	46.68

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

The Company had 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 were transferred to ReAssure Limited as part of the sale of the Mature Savings business in September 2020.

Company name	Incorporated in	% equity shares held
Central Saint Giles Unit Trust	Jersey[2]	25.00
Legal & General Emerging Markets Government Bond (Local Currency) Index Fund	England & Wales[1]	26.01
Legal & General Future World Multi Index 5 Fund	England & Wales[1]	27.36
Mithras Investment Trust PLC	England & Wales[4]	27.89
Legal & General Emerging Markets Short Duration Bond Fund	Luxembourg[3]	28.96
Legal & General Future World Multi Index 4 Fund	England & Wales[1]	30.65
Legal & General Global Emerging Markets Index Fund	England & Wales[1]	33.28
Legal & General Japan Index Trust	England & Wales[1]	35.50
Legal & General Fixed Interest Trust	England & Wales[1]	37.51
Legal & General Multi Manager Balanced Trust	England & Wales[1]	37.84

40. Related undertakings (continued)

Company name	Incorporated in	% equity shares held
Legal & General Emerging Markets Government Bond (US$) Index Fund	England & Wales[1]	38.05
Legal & General Equity Income Fund	England & Wales[1]	43.95
Legal & General Global Real Estate Dividend Index Fund	England & Wales[1]	45.40
Legal & General High Income Trust	England & Wales[1]	49.40

The registered addresses for the related undertakings above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 47 Esplanade, St Helier, Jersey, JE1 0BD
[3] 2-4, rue Eugene Ruppert, L-2453 Luxembourg, Grand-Duchy of Luxembourg, RCS Luxembourg: B 180761
[4] C/O Frp Advisory Llp, Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ

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

Company name	Incorporated in	% equity shares held	Financial statement year end date
Bracknell Property Unit Trust	Jersey[4]	50.92	31/03/2021
Legal & General Future World Gender in Leadership UK Index	England & Wales[1]	61.32	31/03/2021
Legal & General Future World Global Equity Focus Fund	Luxembourg[3]	69.31	31/12/2020
Legal & General Future World ESG UK Index Fund	England & Wales[1]	76.56	31/03/2021
Legal & General Diversified Fund	England & Wales[1]	87.35	15/08/2020
Legal & General Future World Sustainable Opportunities	England & Wales[1]	95.50	31/03/2021
Legal & General Multi Asset Core 45 Fund	England & Wales[1]	98.00	31/12/2020
Legal & General Multi Asset Core 75 Fund	England & Wales[1]	98.00	31/12/2020
Legal & General Multi Asset Core 20 Fund	England & Wales[1]	98.01	31/12/2020
Risk Management Solutions (QIAIF) - Hedging Fund AC	Ireland[2]	100.00	31/12/2020
West Bar Limited	England & Wales[1]	100.00	31/12/2020
Legal & General LTM Structuring (SPV) Limited	England &Wales[1]	100.00	31/12/2020
Legal & General FX Structuring (SPV) Limited	England &Wales[1]	100.00	31/12/2020

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

The Company had the following significant direct holdings in related undertakings greater than 50% of the nominal value of any class of shares, which were transferred to ReAssure Limited as part of the sale of the Mature Savings business in September 2020.

Company name	Incorporated in	% equity shares held	Financial statement year end date
Legal & General Ethical Trust	England & Wales[1]	50.01	12/12/2019
Performance Retail Unit Trust	Jersey[4]	50.10	31/12/2019
Legal & General Absolute Return Bond Plus Fund	Luxembourg[3]	51.66	31/12/2019
LGIM Authorised Contractual Scheme	England & Wales[1]	52.52	31/12/2019
Legal & General Dynamic Bond Trust	England & Wales[1]	58.81	31/12/2019
Legal & General Future World Equity Factors Index Fund	England & Wales[1]	60.56	31/12/2019
Legal & General US Index Trust	England & Wales[1]	65.38	05/12/2019
Sterling Liquidity Plus Fund	Ireland[2]	66.66	31/12/2019
Legal & General Multi-Asset Target Return Fund	England & Wales[1]	69.40	14/04/2019
Legal & General Euro High Alpha Corporate Bond Fund	Luxembourg[3]	71.07	31/12/2019
Legal & General European Index Trust	England & Wales[1]	73.41	31/07/2019
Legal & General Asian Income Trust	England & Wales[1]	74.31	10/09/2019
Legal & General Cash Trust	England & Wales[1]	75.95	05/02/2019
Legal & General UK Special Situations Trust	England & Wales[1]	77.30	14/09/2019
Legal & General UK Alpha Trust	England & Wales[1]	85.33	18/06/2019
Legal & General Future World ESG Developed Index Fund	England & Wales[1]	86.41	31/12/2019
Legal & General Real Income Builder Fund	England & Wales[1]	93.41	31/12/2019
Legal & General European Trust	England & Wales[1]	94.17	03/08/2019
Legal & General Growth Trust	England & Wales[1]	94.51	15/05/2019
Legal & General UK Smaller Companies Trust	England & Wales[1]	96.88	18/06/2019
Legal & General Future World Global Credit Fund	Luxembourg[3]	98.06	31/12/2019
Legal & General Future World Sustainable Opportunities	England & Wales[1]	99.04	31/03/2019
Legal & General European Equity Income Fund	England & Wales[1]	99.65	30/04/2019
Legal & General Real Capital Builder Fund	England & Wales[1]	99.90	31/12/2019
Legal & General Life Fund Limited Partnership	England & Wales[1]	100.00	31/12/2019
Northampton Shopping Centre Unit Trust	Jersey[4]	100.00	31/12/2019
103 Wardour Street Retail Investment Company Limited	England &Wales[1]	100.00	31/12/2019
The Pathe Building Management Company	England & Wales[1]	100.00	31/12/2019
Legal & General Investment Management Hedging - Fund AC	Ireland[2]	100.00	31/12/2019

The registered addresses for the related undertakings above are referenced via footnotes below:
[1] One Coleman Street, London, EC2R 5AA
[2] 33 Sir John Rogerson's Quay, Dublin 2, Ireland
[3] 2-4, rue Eugene Ruppert, L-2453 Luxembourg, Grand-Duchy of Luxembourg, RCS Luxembourg: B 180761
[4] 47 Esplanade, St Helier, Jersey, JE1 0BD

41. 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 2020, 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 £15,351m (2019: £28,945m). A summary of the Company's holdings at 31 December 2020, with prior year comparatives, is provided below:

	2020	2019
	£m	£m
Debt Securities		
Analysed as:		
Asset Backed Securities	**795**	857
Securitisations and Debentures	**70**	81
Other[1]	**6,031**	5,710
Collateralised Debt Obligations	**71**	80
Investments Funds		
Analysed as:		
Unit Trusts	**3,395**	10,282
Limited Partnerships	**642**	623
Liquidity Funds	**3,418**	7,764
Specialised Investment Vehicles		
Analysed as:		
OEICs	**-**	2,211
SICAVs	**120**	578
QIFs	**744**	680
ICAVs	**65**	79
Total (including held for sale)	**15,351**	28,945

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 and a portfolio of foreign exchange investments. Included here is £49m (2019: £43m) of economic benefit arising on a Liquidity and Expense Risk Agreement in relation to the sale and leaseback portfolio. These investments are in controlled entities.

42. 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 £8.1m (2019: £8.4m).

43. Directors' emoluments

	2020 £000	2019 £000
Short-term employee benefits	**1,599**	1,908
Share-based incentive awards	**948**	919
Aggregate emoluments (excl. retirement benefits)	**2,547**	2,827

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 (2019: no directors). During the year, one of the directors was a member of a defined contribution pension scheme and the value of the apportioned company contribution in the year was £45k (2019: £37k).

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

One of the directors has exercised share options under the Group's share schemes in the year (2019: none).

Highest paid director:

	2020 £000	2019 £000
Aggregate emoluments (incl. retirement benefits)	**1,003**	1,072

The highest paid director has accrued £45k (apportioned Company contribution) of retirement benefits in 2020 (2019: none).

Directors' loans

At 31 December 2020 there were no loans to directors (2019: 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 2020 (2019: none).

44. 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 8. 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 43.

(ii) Reinsurance
As at 31 December 2020, the Company held reinsurance assets of £50,618m (2019: £40,512m) with respect to reinsurance ceded to a related party, Legal and General Assurance (Pensions Management) Limited. The Company's net policyholder transactions in respect of investment contracts reinsured to Legal and General Assurance (Pensions Management) Limited amounted to £7,458m (2019: £5,254m). The policyholders earned £2,648m in investment return (2019: £5,590m) on these assets.

As at 31 December 2020, the Company held reinsurance assets of £19,386m (2019: £17,230m) with respect to reinsurance ceded to a related party, Legal & General Reinsurance Company Limited. The Company paid £1,532m (2019: £11,411m) of reinsurance premium and received £618m (2019: £244m) in claims in respect of annuity business. The Company also recognised a liability of £20,262m (2019: £17,851m), paid £1,706m (2019: £575m) in interest charges and received £7m in commission (2019: £2m) in respect of Legal & General Reinsurance Company Limited.

With regards to its transactions with Legal & General America Inc., a related party belonging to Legal & General Group Plc, the Company accepted £297m (2019: £377m) of reinsurance premium for reinsuring term life and whole of life business, paid £29m (2019: £38m) in commission, received £32m (2019: £14m) in investment income and paid £239m (2019: £230m) in claims. A reinsurance liability of £809m (2019: £793m) is held to cover this business. The Company refunded £nil (2019: £nil) of reinsurance premiums, received £30m (2019: £42m) in investment income, paid £1m (2019: £1m) in commission and paid £26m (2019: £27m) in claims for reinsuring the annuity business. A reinsurance liability of £306m (2019: £332m) is held to cover this business. The comparative term life and whole of life reinsurance premiums quoted are inclusive of refunds in respect of 2 years of business recaptured by Legal & General America Inc. (via, it's subsidiary Banner Life Insurance Company), please see Note 2.

The Company held a reinsurance debtor of £nil (2019: £39m) in respect of a reinsurance agreement with its former subsidiary Fairmead Insurance Limited (previously known as Legal & General Insurance Limited). During the year, the Company accepted £120m (2019: £129m) premium net of 10% commission and held a reinsurance liability of £71m (2019: £77m). The Company was refunded £50m expenses (2019: incurred £39m expenses) with respect to the commission on this business and paid £nil (2019: £nil) in claims.

44. Related party transactions (continued)

(iii) Financial Investments
The Company held £7,104m (2019: £17,474m) in investments in unit trusts, controlled and managed by Group companies that are classified as other related parties. In 2020 the Company made a £225m profit (2019: £1,110m profit) from investing in those trusts.

As at 31 December 2020, the Company held £4,654m (2019: £4,699m) of investment under Consolidated Property Vehicles, predominantly from Legal & General Pensions Limited. The Company held £6,260m (2019: £4,914m) in Investments under Consolidated Debt Vehicles offset by an investment liability, in respect of securitised assets, of £6,128m (2019: £4,834m) with Legal & General LTM Structuring (SPV) Limited. The Company held £1,499m (2019: £1,441m) of Investments under Consolidated Debt Vehicles from Legal & General FX Structuring (SPV) Limited. In 2020, the Company made a net profit of £304m (2019: £146m) from investing in the Property Vehicles and £155m (2019: £57m) on Consolidated Debt Vehicles..

The Company holds £55m of loans and receivables held at amortised cost from Peel Holdings (Media) Limited (2019: £55m).

The Company acquired £843m of lifetime mortgage loans from Legal & General Home Finance Limited in 2020 (2019: £1,037m).

(iv) Receivable

As at 31 December	2020 £m	2019 £m
From ultimate parent company (Legal & General Group Plc)	43	19
From other related parties		
- Legal & General America Inc. - funds withheld balance on reinsurance	787	789
- Legal & General Finance Plc	411	385
- Other related parties	275	367
	1,516	1,560

None of the receivables above are impaired. The Company received £5m (2019: £4m) of interest income on the above receivables.

(v) Payables

As at 31 December	2020 £m	2019 £m
To ultimate parent company (Legal & General Group Plc)	175	86
To subsidiaries	16	-
To other related parties		
- Legal & General Reinsurance Company Limited (mentioned under reinsurance)	20,262	17,851
- Property investment vehicles	145	-
- Other related parties	86	87
Total[1]	20,684	18,024

[1]This total includes £298m (2019: £101m) of Intra Group loans referenced in Note 33.

(vi) Other charges

As at 31 December	2020 £m	2019 £m
Charges due to parent companies		
- Interest charges	1	1
Charges due to other related parties		
- Legal & General Investment Management (Holdings) Limited - investment management charges	180	173
- Legal & General Partnership Holdings Limited	3	4
- Legal & General America Inc. (mentioned under reinsurance)	29	38
- Legal & General Reinsurance Company Limited (interest charges mentioned under reinsurance)	1,706	575
- Other	2	2
	1,921	793

(vii) Other income
The Company received £nil (2019: £19m) intragroup income from Legal & General Investment Management (Holdings) Limited.

(viii) Dividends
- The Company approved and paid £935m (2019: £774m) in dividends to its parent company, Legal & General Insurance Holdings Limited. An additional dividend of £0.5m was authorised but not paid as at December 2020 (2019: £nil).
- The Company received £nil (2019: £282m) of dividend income from Legal & General International (Holdings) Limited.
- The Company received £nil (2019: £5m) of dividend income from its joint venture Peel Holdings (Media) Limited.

44. Related party transactions (continued)

(ix) Acquisitions
There have been no acquisitions in the year.

(x) Group Pension Schemes
The Group UK defined benefit pension schemes have purchased annuity contracts issued by the Company for consideration of £50m (2019: £78m) during the period, priced on an arm's length basis. At inception a premium of £403m was paid by the Scheme to LGAS and LGAS and the Scheme recognised an investment contract liability and an APP plan asset respectively of the same amount. As at 31 December 2020, LGAS recognised a liability related to the APP transaction with the scheme of £396m which is included in the group's non-participating investment contract liabilities. The Scheme holds a transferable plan asset of the same amount which does not eliminate on consolidation.

45. Management of capital resources

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

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

The table below shows the Company Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at end December 2020).

The Solvency II results are estimated and unaudited.

As at 31 December 2020, and on the above basis, the Company had a Solvency II surplus of £3,200m (2019: £4,035m) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio of 148% (31 December 2019: 165%).

The Solvency II capital position is as follows:

	2020 £m	2019 £m
Core tier 1 own funds	**9,887**	10,200
Own Funds	**9,887**	10,200
Solvency Capital Requirement (SCR)	**6,687**	6,165
Surplus Own Funds	**3,200**	4,035
SCR coverage ratio	**148%**	165%

Solvency II Own Funds allow for a risk margin of £4.5bn (31 December 2019: £4.3bn) and TMTP of £4.2bn (31 December 2019: £4.3bn).

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

In 2019, the Company Own Funds and SCR were presented on a "shareholder view" basis. This basis excluded the contribution that the with-profits fund would normally make to the Company position. On a regulatory basis, which includes the contribution of with-profits fund in the Company's Own Funds and SCR, the coverage ratio at 31 December 2019 was 163%. Following the aforementioned transfer of the with-profits fund to ReAssure Limited, the "shareholder view" of Company's Own Funds and SCR as at 31st December 2020 is now aligned with the Company regulatory position.

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.

	2020 £m	2019 £m
Capital and reserves attributable to equity holders on an IFRS basis	**6,882**	6,623
Elimination of intangible assets and associated liabilities[1]	**(177)**	(370)
Difference in valuation of insurance contracts[2]	**3,889**	5,044
Impact of valuation differences on net deferred tax	**(704)**	(599)
Difference in valuation of subsidiaries	**(3)**	-
Shareholder view adjustment for WP	**-**	(498)
Own Funds	**9,887**	10,200

[1] Associated liabilities include deferred income liabilities and trail commissions.
[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.

45. 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.

46. 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. During the year, various arrangements were in place as a mechanism to mitigate the risks, including a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re) which transferred all economic risks and rewards of the Mature Savings business from 1 January 2018 onwards. With the sale of the Mature Savings business during the year, the risk transfer agreement has also come to an end. The four 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. Detailed risk disclosures have not been presented for unit linked assets and liabilities.

With-profits
With-Profits assets were transferred as part of the sale of the Mature Savings business to ReAssure Limited. The Part VII transfer became effective on 7 September 2020. Prior to the transfer, policyholders and shareholders shared in the risks and returns of the with-profits fund. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the Company's with-profit fund and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. The with-profits classification excludes unit linked contracts.

Non-profit non-unit linked
Shareholders are exposed to the risk and rewards of ownership of assets backing non-profit non-unit linked business.

Shareholder
All other assets are classified as shareholder assets. Shareholders of the Company are directly exposed to market and credit risk on these assets. The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 47(Risk management and control) have been provided using this categorisation.

46. Assets analysis (continued)

	Shareholder £m	Non-profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Investment in subsidiaries	113	-	-	-	113
Investment in joint venture	78	-	-	-	78
Purchased interest in long term businesses and other intangible assets	144	-	-	-	144
Plant and equipment	37	-	-	-	37
Investments	4,100	109,103	-	4	113,207
Other operational assets[1]	1,013	29,990	-	50,621	81,624
As at 31 December 2020	5,485	139,093	-	50,625	195,203
Liabilities					
Non-participating contract liabilities	71	86,741	-	50,677	137,489
Senior borrowings	-	1	-	-	1
Other financial liabilities	899	49,932	-	-	50,831
As at 31 December 2020	970	136,674	-	50,677	188,321

	Notes	Shareholder £m	Non-profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets						
Investment in subsidiaries		42	-	-	-	42
Investment in joint venture		87	-	-	-	87
Purchased interest in long term businesses and other intangible assets		58	-	-	-	58
Plant and equipment		41	-	-	-	41
Investments		4,640	86,631	-	4	91,275
Other operational assets[1]		894	25,031	-	40,208	66,133
Assets of operations classified as held for sale	24	-	521	10,448	19,254	30,223
As at 31 December 2019		5,762	112,183	10,448	59,466	187,859
Liabilities						
Non-participating contract liabilities		77	76,376	-	40,150	116,603
Senior borrowings		-	-	-	-	-
Other financial liabilities		1,408	32,973	-	91	34,472
Liabilities of operations classified as held for sale	24	-	511	10,427	19,223	30,161
As at 31 December 2019		1,485	109,860	10,427	59,464	181,236

[1] Other operational assets are mainly comprised of reinsurance assets.

47. 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.

Risk management approach
A significant part of the Company's business involves the acceptance and management of risk. The Company is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed. The 5 risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

1. Insurance risk: exposure to loss arising from claims experience being different to that anticipated.
2. Market risk: exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.
3. Credit risk: exposure to loss if another party fails to perform its financial obligations to the Company.
4. 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.
5. Operational risk: exposure to loss arising from inadequate or failed internal processes, people, systems, or from external events.

47. Risk management and control (continued)

Management of risks
The Company seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances. The key control techniques for the major categories of risk exposure are summarised in the following sections.

Insurance risk
Insurance risk is implicit in the Company's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. A detailed review of the Company's inherent residual risks associated with insurance products is included within the long term insurance risks section on page 76. Insurance risk is managed using the following techniques:

Policies and delegated authorities for underwriting, pricing and reinsurance
Legal & General Group's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place. Pricing is based on assumptions, such as mortality and persistency, which have regard to past experience and to current and future trends. Insurance exposures are limited through the use of reinsurance. An underwriting policy sets out for which the Company has no appetite and the terms that are applicable for non-standard risks.

Reinsurance is used to reduce potential loss to the Company from individual large risks. It may also be used to manage capital or to provide access to specialist underwriting expertise. The Company makes extensive use of reinsurance for its individual protection business, placing a proportion of all risks meeting prescribed criteria, and also within its portfolio of annuity business.

Reserving Policy
Actuarial liabilities are calculated in line with locally established actuarial techniques and relevant legislation, and the Company has a strong governance system in place for approval of any changes in methodology. Further details on the assumption setting process are included in Note 29.

Market risk
The Company's exposure to market risk is influenced by one or more external factors, including changes in specified interest rates, financial instrument prices, foreign exchange rates, and indices of prices or rates.

Significant areas where the Company is exposed to these risks are:
• assets backing insurance and investment contracts other than unit linked contracts;
• assets and liabilities denominated in foreign currencies; and
• other financial assets and liabilities.

The Group's market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

The Company manages market risk using the following methods:

Asset liability matching
The Company manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has in each business.

For business such as immediate annuities, which is sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes materially in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. Interest rate risk cannot be completely eliminated, due to the nature of the liabilities and early redemption options contained in the assets.

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. The four categorisations presented are:

1. Derivatives
The Company uses derivatives to reduce market risk. The Company may use futures to facilitate efficient asset allocation. In addition, derivatives are used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is the Company's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets, and that swaps are collateralised as appropriate to reduce counterparty exposure.

2. 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.

The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.

To mitigate the risk that guarantees and commitments are not met, the Company purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.

Asset liability matching significantly reduces the Company's exposure to interest rate risk. Sensitivity to interest rate changes is included in Table 5 on page 78.

3. Inflation risk
Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. The Company is exposed to inflation risk in that certain non-linked contracts, such as annuities, may provide for future benefits to be paid taking account of changes in the level of inflation. Contracts in payment may also include an annual adjustment for movements in price indices.

47. Risk management and control (continued)

The investment strategy for the annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefit payments. The hedges do not eliminate all inflation risk and the Company retains some residual risk.

4. 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. The Company manages its currency risk exposure in respect of long term business assets and liabilities denominated in non-sterling currencies by backing obligations with investments in the same currency and through hedging using derivatives.

The Company is not directly exposed to risks on unit linked contracts, other than unit box positions which are not considered material. Detailed risk disclosures have not been presented for unit linked assets and liabilities.

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 either insurance or investment contract liabilities or hedging.

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.

Businesses aim to maintain sufficient assets in relevant currencies to meet foreign 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 are used to manage exposures within the limits that have been set.

As at 31 December 2020, the Company held net assets of £245m in US Dollar (2019: net liabilities of £(438)m) and net assets of £330m Euro (2019: £868m). 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	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Net assets attributable to USD exposures	**(22)**	40	**27**	(49)

	A 10% increase in EUR:GBP FX rate		A 10% decrease in EUR:GBP FX rate	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Net assets attributable to EUR exposures	**(30)**	(79)	**37**	96

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

The Company holds non-unit linked property investments totalling £29m (2019: £118m) all of which are located in the UK. The reduction compared to 2019 is primarily due to investments transferred as part of the Mature Savings business sale – see note 24.

47. Risk management and control (continued)

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

	Share-holder 2020 £m	Non profit non-unit linked 2020 £m	With-profits 2020[1] £m	Total 2020 £m	Share-holder 2019 £m	Non profit non-unit linked 2019 £m	With-profits 2019 £m	Total 2019 £m
UK	109	4	-	113	310	47	954	1,311
North America	121	27	-	148	97	47	426	570
Europe	188	-	-	188	196	56	620	872
Japan	25	-	-	25	21	-	157	178
Asia Pacific	28	-	-	28	26	12	323	361
Other	27	-	-	27	11	-	218	229
Listed equities	498	31	-	529	661	162	2,698	3,521
Unlisted UK equities	-	-	-	-	-	7	305	312
Holdings in unit trusts	3,133	5,750	-	8,883	3,586	5715	2,767	12,068
Total equities	3,631	5,781	-	9,412	4,247	5,884	5,770	15,901

[1] The With-profits Fund was disposed of as part of the sale of the Mature Savings business, which completed on 7 September 2020.

Credit risk
The Group's credit risk policy defines the overall framework for the management of credit risk. Significant areas where the Company is exposed to credit risk are:

Bond default risk
A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from the 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. Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region to limit exposure to a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Company's own internal analysis. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.

Reinsurance counterparty risk
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. When selecting new reinsurance partners for its protection business, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits.

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.

47. Risk management and control (continued)

Table 2 - Exposure to credit risk

As at 31 December 2020	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated £m	Total £m
Shareholder								
Government securities		-	341	-	-	-	-	341
Other fixed rate securities		-	-	-	-	-	12	12
Variable rate securities		-	-	4	-	-	-	4
Total debt securities		-	341	4	-	-	12	357
Accrued interest		-	3	-	-	-	-	3
Loans		-	-	1	-	-	55	56
Derivative assets	18	-	-	16	3	-	-	19
Cash and cash equivalents	25	(1)	-	7	-	-	-	6
Financial assets excluding equities		(1)	344	28	3	-	67	441
Reinsurers' share of contract liabilities		-	-	-	-	-	-	-
Other assets	23	68	-	-	-	-	664	732
Total		67	344	28	3	-	731	1,173
Non profit non-unit linked								
Government securities		1,667	7,043	55	344	-	134	9,243
Other fixed rate securities		1,222	3,976	14,509	17,092	843	11,200	48,842
Variable rate securities		33	1,517	2,434	1,263	54	13,627	18,928
Lifetime mortgages		-	-	-	-	-	6,286	6,286
Total debt securities		2,922	12,536	16,998	18,699	897	31,247	83,299
Accrued interest		20	49	151	214	11	44	489
Loans		-	2,872	-	-	-	-	2,872
Derivative assets	18	-	36	15,637	509	-	43	16,225
Cash and cash equivalents	25	-	4	361	10	-	61	436
Financial assets excluding equities		2,942	15,497	33,147	19,432	908	31,395	103,321
Reinsurers' share of contract liabilities	20	-	5,232	237	-	-	19,765	25,234
Other assets	23	6	14	437	37	-	4,267	4,761
Total		2,948	20,743	33,821	19,469	908	55,427	133,316
With-profits[1]								
Government securities		-	-	-	-	-	-	-
Other fixed rate securities		-	-	-	-	-	-	-
Variable rate securities		-	-	-	-	-	-	-
Total debt securities		-	-	-	-	-	-	-
Accrued interest		-	-	-	-	-	-	-
Loans and receivables		-	-	-	-	-	-	-
Derivative assets	18	-	-	-	-	-	-	-
Cash and cash equivalents	25	-	-	-	-	-	-	-
Financial assets excluding equities		-	-	-	-	-	-	-
Reinsurers' share of contract liabilities	20	-	-	-	-	-	-	-
Other assets	23	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-

[1] The With-profits Fund was disposed of as part of the sale of the Mature Savings business, which completed on 7 September 2020.

47. Risk management and control (continued)

As at 31 December 2019	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated £m	Total £m
Shareholder								
Government securities		-	181	-	-	-	-	181
Other fixed rate securities		-	-	-	-	-	12	12
Variable rate securities		-	-	5	6	-	-	11
Total debt securities		-	181	5	6	-	12	204
Accrued interest		-	3	-	-	-	-	3
Loans and receivables		-	-	1	-	-	55	56
Derivative assets	18	-	-	41	9	-	-	50
Cash and cash equivalents	25	8	-	50	-	-	-	58
Financial assets excluding equities		8	184	97	15	-	67	371
Other assets	23	58	-	52	-	-	611	721
Total		66	184	149	15	-	678	1,092
Non profit non-unit linked								
Government securities		1,329	5,315	-	171	-	2	6,817
Other fixed rate securities		880	3,670	12,505	15,548	417	10,510	43,530
Variable rate securities		273	1,466	2,587	707	32	11,863	16,928
Lifetime mortgages		-	-	-	-	-	4,953	4,953
Total debt securities		2,482	10,451	15,092	16,426	449	27,328	72,228
Accrued interest		21	49	150	221	4	34	479
Derivative assets	18	-	25	7,423	397	-	14	7,859
Cash and cash equivalents	25	-	-	123	1	-	55	179
Financial assets excluding equities		2,503	10,525	22,788	17,045	453	27,431	80,745
Reinsurers' share of contract liabilities	20	-	4,706	178	-	-	17,522	22,406
Other assets	23	3	16	58	73	-	2,636	2,786
Total		2,506	15,247	23,024	17,118	453	47,589	105,937
With-profits								
Government securities		22	1,161	19	45	23	17	1,287
Other fixed rate securities		384	383	769	1,110	27	63	2,736
Variable rate securities		-	5	12	2	1	-	20
Total debt securities		406	1,549	800	1,157	51	80	4,043
Accrued interest		7	10	8	16	1	1	43
Loans and receivables		-	-	-	-	-	-	-
Derivative assets	18	-	-	114	-	-	-	114
Cash and cash equivalents	25	-	1	95	-	-	-	96
Financial assets excluding equities		413	1,560	1,017	1,173	52	81	4,296
Reinsurers' share of contract liabilities	20	-	-	-	-	-	-	-
Other assets	23	-	1	3	-	-	98	102
Total		413	1,561	1,020	1,173	52	179	4,398

At year end, the Company held £1,713m (2019: £1,178m) of collateral in respect of non-unit linked net derivative asset counterparty positions.

Table 3 provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. The Company reviews the carrying value of its financial assets (other than those held at FVTPL) at each Balance Sheet date. If carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income. Unit linked assets have not been included as shareholders are not directly exposed to the investment risks from unit linked policies.

47. Risk management and control (continued)

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

As at 31 December 2020	Neither past due nor impaired £m	Financial assets that are past due but not impaired 0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	1,172	1	-	-	-	-	1,173
Non profit non-unit linked	133,118	183	3	1	11	-	133,316
With-profits[1]	-	-	-	-	-	-	-

As at 31 December 2019	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	1,090	1	-	1	-	-	1,092
Non profit non-unit linked	105,739	185	3	-	10	-	105,937
With-profits	4,385	12	-	-	1	-	4,398

[1] The With-profits Fund was disposed of as part of the sale of the Mature Savings business, which completed on 7 September 2020.

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

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

47. Risk management and control (continued)

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 2020	**Gross and net amounts reported in the Balance Sheet £m**	**Related financial instru-ments[1] £m**	**Cash collateral £m**	**Securities collateral pledged £m**	**Net amount 2020 £m**
Derivative assets	16,244	(14,780)	(733)	(979)	(248)
Reverse repurchase agreement assets	2,872	-	-	(2,873)	(1)
Total financial assets	19,116	(14,780)	(733)	(3,852)	(249)
Derivative liabilities	(16,895)	14,780	1,800	371	56
Repurchase agreement liabilities	(1,715)	-	-	1,718	3
Total financial liabilities	(18,610)	14,780	1,800	2,089	59

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2019	Gross and net amounts reported in the Balance Sheet £m	Related financial instru-ments[1] £m	Cash collateral £m	Securities collateral pledged £m	Net amount 2019 £m
Derivative assets	8,023	(6,871)	(502)	(676)	(26)
Reverse repurchase agreement assets	-	-	-	-	-
Total financial assets	8,023	(6,871)	(502)	(676)	(26)
Derivative liabilities	(8,210)	6,871	1,418	291	370
Repurchase agreement liabilities	(620)	-	-	621	1
Total financial liabilities	(8,830)	6,871	1,418	912	371

[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.

Liquidity risk

The Group's liquidity risk policy defines the framework for the management of liquidity risk. The Company does not seek exposure to liquidity risk in its own right but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

The liquidity risks to which the Company may be exposed primarily stem from low probability events that if not adequately planned for may result in unanticipated liquidity requirements. Such events may include a pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected and extreme market conditions impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe. Collateral requirements for derivative/futures transactions and other types of financial instrument can also give rise to liquidity risk if sufficient cash or suitable alternative assets are not available to meet collateral calls when due.

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Company 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 to be maintained by insurance funds is identified using techniques including cash flow analysis for ranges of extreme scenarios and stress tests for shock events.

To ensure an appropriate pool of liquid assets are maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business are structured to include an appropriate proportion of cash and other readily realisable assets. The required profile is formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmarks. The level of insurance funds held in cash and other readily realisable assets at 31 December 2020 was £1,852m (2019: £1,397m).

In addition to maintaining a pool of liquid assets, the Group's Treasury function provides formal facilities to the Group's operating subsidiaries to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The facility available to each subsidiary is determined through analysis of potential shock events and the potential timing differences that may arise in cash flows.

Specific liquidity risks associated with the Company's core product lines and the risk mitigation techniques are as follows:

47. Risk management and control (continued)

Protection: Potential for liquidity risk within the Company's protection businesses may arise should the rate of claims diverge significantly from that anticipated, typically as a consequence of an extreme event.

The risk of being unable to settle claims as they fall due is actively managed with provision being made and cash pools maintained within investment portfolios for a prudent estimate of the potential claims that may arise from in-force business, taking account of extreme events. Such provisions are validated using stress tests for shock events. The use of reassurance also acts to mitigate liquidity risk, the effect of the treaties being to limit the Company's liability for the overall sums assured, with a recovery being made from the reinsurance counterparty for that element of the claim covered by the treaty. Whilst timing differences can arise between the payment of claims and reimbursement by reinsurance counterparties, the Company seeks to ensure that these are accommodated from cash pools.

Annuities: Potential for liquidity risk arises within two specific aspects of the annuity business – (i) changes in future pension commitments and (ii) collateral requirements for risk hedging strategies.

(i) Changes in future pension commitments - Once business has been written, cash outflows for pensions in payment are generally predictable, enabling the Company to structure the liquidity, income and maturity profile of investment assets backing long term liabilities to meet projected cash outflows. Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies.

(ii) Collateral requirements for risk hedging strategies - As part of the asset and liability management strategy for the Company's annuity business, financial instruments are utilised to manage exposure to fluctuations in interest rates, inflation and foreign currency, which may otherwise result in long term liabilities being unmatched. Financial instruments are also used to mitigate the impact of rating downgrades and defaults within corporate bond portfolios. The use of such financial instruments can require the posting of liquid collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available. In this context, the Company's annuities portfolio held eligible assets worth 5 times (2019: 4 times) the outstanding collateral as at 31 December 2020.

Various pension risk transfer deals include collateralised structures. £7,890m (2019: £7,667m) of Corporate Bonds and Treasury Gilts and cash are pledged as collateral in relation to those.

Collateral of £760m (2019: £nil) 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

Please also refer to Notes 27 & 28 which discloses the expected insurance / investment contract liability cash flows.

Unit linked business: Investment risks associated with unit linked business, including those associated with liquidity, are generally borne by the holders of units in these funds. Liquidity risk specifically arises for unit holders in that certain asset classes in which the funds invest such as property in certain market conditions may not be readily realisable or only realisable in a specified timeframe at a diminution of value. Liquidity risks associated with these asset classes are documented and communicated to customers in product literature. Product terms & conditions also highlight that for certain product types that include asset classes that may be illiquid, the Company retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests. To minimise the need to invoke these terms, the funds seek to maintain holdings in cash assets to meet foreseeable withdrawal activity.

Operational risk
There are a number of categories under which operational risk and its management across the Company can be considered:

Internal process failure
The Company is potentially exposed to the risk of loss from failure of the internal processes with which it transacts its business. The Company seeks to ensure the adequacy of the controls over its processes through regular reviews and assessment of their appropriateness and effectiveness.

People
The Company is potentially exposed to the risk of loss from inappropriate actions by its staff. The risk is managed by business management and human resource (HR) functions. Recruitment is managed centrally by HR functions, and all new recruits undergo a formal induction programme. Employees have job descriptions setting out their accountabilities and reporting lines, and are appraised annually in accordance with agreed performance management frameworks. Employees are provided with appropriate training to enable them to meet the relevant regulatory requirements. Risks relating to health and safety and other legislation are managed through the provision of relevant training to all staff.

Outsourcing
The Company is potentially exposed to the actions or failure of suppliers contracted to provide services on an outsourced basis. The required minimum standards of control for outsourced arrangements are set out in Legal & General Group PLC's outsourcing and essential supplier policy.

Legal
Legal risk is the risk of loss from unclear or deficient product documentation; inadequate documentation in support of material contracts such as reassurance treaties; the incorrect interpretation of changes in legislation; employment related disputes and claims; and commercial disputes with suppliers. The risks are managed through the Legal & General Group PLC legal risk framework, which defines minimum standards of control to be applied to minimise the risk of loss.

Compliance
Compliance risk within the Company relates to the risk of non-adherence to legislative requirements, regulations and internal policies and procedures. Responsibility for ensuring adherence to relevant legal and regulatory requirements is vested in individual business managers. Training and guidance is provided with central oversight performed on the management of these risks.

Event
Event risk relates to the potential for loss arising from significant external events such as terrorism, financial crisis and major changes in fiscal systems or disasters. Typically, such events have a low likelihood of occurrence, a material impact and can be difficult to prevent. The Company's risk mitigation focuses on minimising the business disruption and potential financial loss which may ensue from such an event. This includes maintaining a framework for the management of major incidents, the maintenance and regular testing of detailed business, technical and location recovery plans and the provision of insurance cover for the loss of buildings, contents and information technology systems and for the increased cost of working in the event of business disruption.

47. Risk management and control (continued)

Fraud
The Company is potentially exposed to the risk of internal fraud, claims-related fraud, and external action by third parties. The risk of internal fraud is managed through a number of processes including the screening of staff at recruitment, segregation of duties and management oversight. The activities of Internal Audit also act to counter the risk. Claims-related fraud is managed by seeking to ensure business processes are designed to validate claims and that only bona fide claims are settled. Anti-fraud techniques are regularly updated to mitigate risks and emerging threats. The Company's approach to mitigating fraud and other dishonest acts is supported by promoting an open and honest culture in all dealings between employees, managers and those parties with which the Company has contact. A formal Legal & General Group code of ethics sets out the Company's expectations in this respect. Effective and honest communication is essential if malpractice is to be effectively dealt with. The Company has defined whistle blowing procedures to enable all employees and those who work with the Company to raise matters of concern in confidence. Personnel independent of the business reporting line act as designated whistle blowing contacts.

Technology
The Company places a high degree of reliance on IT in its business activities. The failure of IT systems could potentially expose the Company to significant business disruption and loss. To mitigate the risk, the Company works with its IT providers in ensuring appropriate standards and methodologies. Disaster recovery facilities seek to ensure enable IT operations may continue to be conducted at remote locations in the event of the loss of computer facilities at a principal site.

Concentration of risk
As part of the ongoing risk assessment processes the Company considers the concentration of risk. The Company seeks to manage concentrations by setting limits around the maximum exposure to loss that it can tolerate from a series of related events. Limits set include maximum exposures to single lives, geographic locations, financial instruments and reinsurance balances.

Long term insurance risks
Long term insurance products are structured as either participating or non-participating. The level of shareholders' interest in the value of policies and their share of the related profit or loss varies depending upon the contract structure.

The Company has historically offered a range of products to meet customers' long term savings objectives, including: non-participating savings, pension and endowment contracts; participating savings business (comprising endowment contracts, with-profit pensions, with-profit annuities and with-profit bonds); and unit-linked savings contracts and collective investment savings products. All balances and exposures in relation to these products have been removed from the group's balance sheet following the completion of the sale of the Mature Savings business on 7 September 2020.

Non-participating contracts
In non-participating business profits accrue solely to shareholders.

(i) Protection business (individual 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.

(ii) Pensions (corporate)
These are long term, unit linked savings contracts through which policyholders accumulate pension benefits.

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

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

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

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

There is a block of immediate and deferred annuities within the UK non-profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total annual annuity value of such annuities in payment at 31 December 2020 was £1,170m (2019: £930m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £12m (2019: £9m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

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

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

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

47. Risk management and control (continued)

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

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

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

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

Unit linked contracts
The Company's primary exposure to financial risk from these contracts is the risk of volatility in asset management fees 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. The Company is also exposed to the risk of an expense overrun should the market depress the level of charges which could be imposed, although for some contracts the Company has discretion over the level of management charges levied.

Key risk factors

(a) Insurance risk

(i) Mortality: For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. 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.

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.

(ii) Persistency: In the early years of a protection 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.

The pricing basis for protection business includes provision for policy lapses. The persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation.

(iii) Morbidity rates: The cost of health related claims may depend 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.

The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.

(iv) Expenses: 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

In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.

(v) Geographic concentrations of 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 the group protection business, where a single event could result in a large number of related claims.

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.

(vi) Epidemics: The spread of an epidemic could cause large aggregate claims across the Company's portfolio of protection businesses.

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. The management of associated counterparty risks from the use of reinsurance is set out in Note 44. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business. As in the current pandemic, we can update the pricing for new business to reflect the change in expected claims. The provision for future Covid-19 claims relies on assumptions about the future developments of the pandemic, including the impact of new variants, vaccines, social distancing and treatment, all of which could result in a higher or lower loss than assumed.

47. Risk management and control (continued)

(vii) 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. However, there are potentially material correlations of insurance risk with other types of risk exposure. These correlations are difficult to estimate though they 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.

(b) Market risk

Investment of the assets backing the Company liabilities reflects the nature of the liabilities being supported. For non-participating business, the strategy is to invest in fixed income securities and similar assets of appropriate maturity dates. The risk of default on fixed interest securities and similar assets is managed through diversified portfolios with exposure limits for individual economies, sectors and counterparties.

Interest rate risk is reduced by managing the duration and maturity structure of each investment portfolio in relation to the estimated cash flows of the liabilities it supports. A number of derivatives are held to enable the closer matching of assets and liabilities and to mitigate further exposure to interest rate movements, in particular, to limit the exposure to any options and guarantees in contracts.

In addition, the exposure to these risks is allowed for in the actuarial valuation of liabilities under these contracts.

Sensitivity analysis
Table 5 shows the impacts on LGAS pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The disclosure reflects management's view of key risks in current economic conditions.

The table below has been updated to reflect all LGAS business, not just the long-term insurance. This includes the impact of shareholder assets not backing insurance liabilities, primarily in property and equity. The 2019 figures have been updated to be consistent with this change in approach.

Table 5 - long term business IFRS sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2020 £m	**Impact on equity net of reinsurance 2020 £m**	Impact on pre-tax profit net of reinsurance 2019[1] £m	Impact on equity net of reinsurance 2019[1] £m
Economic Sensitivity				
Long Term Insurance				
100bps increase in interest rates	**393**	**318**	291	235
50bps decrease in interest rates	**(251)**	**(203)**	(191)	(155)
50bps increase in long term inflation expectation	**(148)**	**(120)**	10	8
Credit spread widens by 100bps with no change in expected defaults	**(115)**	**(93)**	(134)	(109)
25% rise in equities	**417**	**338**	425	345
25% fall equities	**(417)**	**(338)**	(425)	(345)
15% rise in property values	**455**	**369**	385	312
15% fall in property values	**(512)**	**(414)**	(429)	(348)
10bps increase in credit default assumption	**(578)**	**(468)**	(501)	(406)
10bps decrease in credit default assumption[2]	**571**	**463**	491	398
Non-Economic Sensitivity				
Long Term Insurance				
1% increase in annuitant mortality	**151**	**122**	143	115
1% decrease in annuitant mortality	**(158)**	**(128)**	(147)	(119)
5% increase in assurance mortality	**(173)**	**(140)**	(199)	(161)
10% increase in maintenance expense	**(170)**	**(137)**	(147)	(119)

[1]The 2019 figures have been updated to include shareholder funds.
[2]Following improvements to the modelling of market risk sensitivities during the current year, the 2019 impact has been restated to be on a basis consistent with the end 2020 results. The restatement does not impact any items reported in the Income Statement or Balance Sheet.

In calculating the sensitivity 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 ignores any second order effects of the assumption change, including the potential impact on the company asset and liability position and any second order tax effects.

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

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

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

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

47. Risk management and control (continued)

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 below.

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

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

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

48. Post balance sheet events

As at 31 December 2020, the company had declared but not paid a £0.5m dividend. This dividend was paid in January 2021.

The UK Government's Budget announcement on 3 March 2021 included an increase in the headline rate of UK corporation tax to 25% from 1 April 2023. Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force at the time when the temporary difference is expected to unwind. This rate change is not expected to have a material impact on the Company.

There were no other adjusting or non-adjusting post balance sheet events between 31 December 2020 and the approval of the report and accounts of the Company that require disclosure.