# 2022 Results: Operating profit up 12% to £2.5bn, EPS up 12% to 38.3p, ROE of 21% and Solvency coverage of 236%

## Strong financial performance[1]

- **Operating profit of £2,523m, up 12%** (2021: £2,262m)
- **Profit after tax[2] of £2,291m, up 12%** (2021: £2,050m)
- **EPS of 38.33p, up 12%** (2021: 34.19p)
- **Return on equity of 20.7%** (2021: 20.5%)
- **Solvency II coverage ratio of 236%** (2021: 187%)
- **As at 3rd March 2023 we estimate the coverage ratio was 240%**[3]
- **Full year dividend of 19.37p, up 5%** (2021: 18.45p), consistent with our ambition

## On track to achieve our five-year (2020-2024) ambitions[4]

- **Cash generation of £1.9bn, up 14%. Capital generation of £1.8bn, up 10%**
- **Cumulative cash and capital generation on track with strong dividend headroom. To date:**
  - **Cash generation of £5.1bn and capital generation of £4.9bn (£8.0-9.0bn by 2024)**
  - **Dividends of £3.3bn (£5.6-5.9bn by 2024)**
  - **Net surplus generation[5] over dividends of £0.7bn**

## Good new business volumes and rapidly increasing international presence

- **Global PRT new business premiums of £9.5bn** (2021: £7.2bn), of which 23% international
- **LGC alternative AUM up 21% to £4.2bn** (2021: £3.4bn), of which 12% international
- **LGIM AUM of £1.2tn**, of which £441bn (37%) international
- **LGIM external net flows of £49.6bn** (2021: £34.6bn), of which 43% international
- **Protection gross premiums up 8% to £3.1bn** (2021: £2.9bn), of which 39% international

**"We have delivered another strong result in 2022, ahead of market expectations, with operating profit of £2.5bn and EPS of 38.3p, both up 12%, cash generation of £1.9bn up 14%, capital generation of £1.8bn up 10%, dividends up 5% to 19.37p and an ROE of 21%. Our diversified and highly synergistic business model continues to deliver significant benefits. Our balance sheet is strong and highly resilient, with a record solvency ratio of 236% and we have once again received 100% of cash flows due from our Direct Investments. At a time when many households are being affected by the rising cost of living, our commitment to inclusive capitalism is more important than ever to help improve the lives of our customers, build a better society for the long-term and create value for our shareholders."**

**Sir Nigel Wilson, Group Chief Executive**

1. The Group uses a number of Alternative Performance Measures (including operating profit, net release from operations, return on equity and LGIM AUM) to enhance understanding of the Group's performance. These are defined in the glossary, on pages 89 to 92 of this report.
2. Profit after tax attributable to equity holders.
3. Coverage ratio before the payment of the 2022 final dividend.
4. Cash generation defined as net release from operations and Capital generation defined as Solvency II operational surplus generation.
5. Net surplus generation defined as Solvency II operational surplus generation less new business strain.

## Financial summary

| £m | 2022 | 2021 | Growth % |
|---|---|---|---|
| **Analysis of operating profit** | | | |
| Legal & General Retirement Institutional (LGRI) | 1,257 | 1,154 | 9 |
| Legal & General Capital (LGC) | 509 | 461 | 10 |
| Legal & General Investment Management (LGIM) | 340 | 422 | (19) |
| Retail[1] | 825 | 620 | 33 |
| **Operating profit from divisions** | **2,931** | **2,657** | **10** |
| Group debt costs | (214) | (230) | 7 |
| Group investment projects and expenses | (194) | (165) | (18) |
| **Operating profit[2]** | **2,523** | **2,262** | **12** |
| Investment and other variances (incl. minority interests) | 136 | 226 | n/a |
| **Profit before tax attributable to equity holders[3]** | **2,659** | **2,488** | **7** |
| **Profit after tax attributable to equity holders** | **2,291** | **2,050** | **12** |
| **Earnings per share (p)** | **38.33** | **34.19** | **12** |
| **Book value per share (p)** | **194** | 174 | 11 |
| **Full year dividend per share (p)** | **19.37** | 18.45 | 5 |

1. From 1 January 2022, our insurance (LGI) and retail retirement (LGRR) businesses have come together to form Retail. The new division will focus on the savings, protection and retirement needs of our c13m retail policyholders and workplace members.
2. Operating profit is an Alternative Performance Measure and represents Adjusted operating profit as defined on page 89.
3. Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 89.

## 2022 Financial performance

### Income statement

**Legal & General's diversified business model has delivered a record set of results and resilient balance sheet, with operating profit up 12% to £2,523m (2021: £2,262m).** All four divisions are well positioned to execute on compelling structural market opportunities and collectively to deliver profitable growth over the medium and long-term.

**LGRI** operating profit increased by 9% to £1,257m (2021: £1,154m) underpinned by the growing scale of backbook earnings and the consistent performance of our annuity portfolio. LGRI also maintained pricing discipline and executed at higher volumes to address growing demand, writing £9,541m of global PRT (2021: £7,176m) at attractive Solvency II new business margins (8.9%)[1], which is in line with our long-term average.

**LGC** operating profit increased by 10% to £509m (2021: £461m) driven by strong performance in our alternative asset portfolio, where operating profit increased to £400m (2021: £350m). Our diversified, multi-tenure housing portfolio has delivered another set of strong results, driven by Cala. Science and technology infrastructure investments through our Bruntwood SciTech joint venture (JV) and Urban regeneration projects such as Sky Studios in Borehamwood continue to generate attractive returns. Our Alternative Finance business (Pemberton) also continues to perform strongly.

**LGIM** delivered lower operating profit of £340m (2021: £422m) primarily due to the impact of market movements on assets under management, which decreased by £225bn to £1,196bn since the start of the year. External net flows remained strong, increasing by 43% to £49.6bn (2021: £34.6bn). 43% of these flows were from international clients, and we have seen continued growth in higher margin areas such as thematic ETFs and multi-asset. However, the positive impact of these higher margin flows has been offset by Defined Benefit flows, with clients selling higher fee-generating products to meet collateral requirements. The impact of inflation and market movements, alongside lower revenues, increased the cost income ratio to 65% (2021: 58%). We are carefully balancing cost control with selective ongoing investment to modernise, diversify and internationalise LGIM.

**Retail** operating profit increased by 33% to £825m (2021: £620m). Our US life insurance business saw a return to profit, driven by robust new business volumes and the benefit from reinsuring the in-force universal life book. After significant Covid mortality experience over Q1 2022, the market continued to see elevated levels of mortality over the year, leading to claims exceeding the provision raised at FY 2021. The retail retirement business delivered strong new business volumes in addition to a significant prudence release from updating base mortality assumptions, and our Fintech business benefitted from valuation uplifts following successful fundraising in Salary Finance and Smartr365 over 2022.

Group costs were elevated compared to prior year, driven by the IFRS 17 programme and related workstreams.

**Profit before tax attributable to equity holders[2] increased by 7% to £2,659m** (2021: £2,488m) reflecting a strong operating result and positive investment variance of £137m (2021: £233m). The key drivers of this positive investment variance are from the formulaic impact of rising interest rates on insurance reserves, partially offset in LGC by global equity market falls and the revaluation of some land assets and development projects as a result of higher interest rates.

### Balance sheet and asset portfolio

**The Group's Solvency II operational surplus generation was up 10% at £1,805m** (2021: £1,636m). New business strain was £(352)m (2021: £(354)m) resulting in net surplus generation of £1,453m (2021: £1,282m). UK PRT volume was written at a capital strain of less than 4% and we achieved self-sustainability on the UK annuity portfolio again, as we did in 2020 and 2021.

The Group reported a **Solvency II coverage ratio[3] of 236%** at the end of 2022 (FY 2021: 187%) which, in addition to the contribution from net surplus generation, reflects the impact of market movements, principally from the non-economic impact of higher interest rates on the valuation of our balance sheet[4], partially offset by payment of the 2021 final and 2022 interim dividend (£1,116m).

**Our IFRS return on equity** of 20.7% reflects the impact of operating profit growth and positive investment variance (2021: 20.5%).[5] Book value per share has increased by 11% to 194p.

**Our diversified, actively managed annuity portfolio has continued to perform resiliently with no defaults.** The annuity portfolio's direct investments continue to perform strongly, with 100% of scheduled cash-flows paid in 2022, reflecting the high quality of our counterparty exposure.

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[1] Solvency II margin represents UK pension risk transfer volume only.
[2] Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 89.
[3] Solvency II coverage ratio incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2022.
[4] For example, UK 10 year Gilts at 3.67% at the end of the period, having increased 270bps between 31 December 2021 and 31 December 2022.
[5] Calculated using annualised profit for the year and average equity attributable to the owners of the parent of £11,079.5m.

## Group Strategy

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

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

## A powerful business model

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

- **LGRI** is a market leader in UK PRT and a top ten player in the US PRT market, with annuity assets of £55bn.[6] It provides long-term, captive AUM to LGIM. As noted, the annuity portfolio is continually being enhanced through the supply of alternative assets originated by LGC.

- **LGC** invests across four main asset classes (Specialist Commercial Real Estate, Clean Energy, Housing and SME Finance) to generate attractive risk-adjusted shareholder returns and to create alternative assets with which to back our annuity portfolio. LGC is also increasingly attracting third party capital investment directly, and through collaboration with LGIM, to meet the growing client demand for alternative assets.

- **LGIM** is a leading global asset manager, ranking 11th in the world[7] with £1.2tn of AUM of which £441bn, or 37%, are international assets. LGIM is a leading provider of UK and US Defined Benefit (DB) de-risking solutions. It is uniquely positioned to support DB clients across the full range of pension endgame destinations, including PRT with LGRI. 77% of LGRI's PRT transactions over the past three years were from existing LGIM clients.[8] LGIM is also the market leader in UK Defined Contribution (DC) pension scheme clients with DC AUM of £135bn – the leading player in a market with significant growth potential, with total UK DC assets expected to surpass £1.2tn by 2031.[9]

- **Retail** is a leading provider of UK retail retirement and protection solutions, and US term life insurance. The UK retail retirement business offers Workplace Savings, annuities, income drawdown and lifetime mortgages (LTM). Our UK and US insurance businesses generate day one surplus capital which partially offsets annuity new business strain. Retail is also an internal centre of excellence in technology, and manages a portfolio of successful, strategic Fintech business investments.

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

The integrated nature of our business model means we have relationships with clients and customers that can and do last for decades. A corporate client in LGIM typically becomes a PRT client after 14 years. LGRI will then typically have a relationship with that client for another 30 to 40 years. Equally, Retail Retirement and LGIM may have a 30-40 year relationship with a customer during the DC accumulation phase, and then extend that relationship for another 15-30 years during the decumulation phase across a suite of decumulation products including individual annuities, lifetime mortgages and drawdown.

The Group continues to build out, in a measured fashion, its international retirement solutions franchise. We have made excellent progress in the US over the last decade and will continue to grow our established businesses (LGRI, LGIM, Retail) in that market. LGIM continues to make good progress against its international expansion plans in the US, Europe and Asia. Kerrigan Procter is co-ordinating the Group's expansion plans in Asia building on the $150bn of regional assets already under management.

[6] Total annuity assets of £72.4bn, with an estimated split of £55bn LGRI, £17.4bn Retail retirement.
[7] IPE, Top 500 Asset Managers 2022.
[8] Three year average (2020- 2022) measured by UK PRT new business volumes. Three year average measured by UK PRT deal count from LGIM clients is 63%.
[9] Broadridge, UK Defined Contribution and Retirement Income report 2021. 2021 UK DC Assets: £515bn.

## A long-term commitment to Sustainability and Inclusive Capitalism

Our purpose is to improve the lives of customers, build a better society for the long-term and create value for our shareholders. This inspires us to use our assets in an economically, environmentally and socially useful way to benefit society – what we call **Inclusive Capitalism**. At a time when many in society are facing increasing economic hardship, we believe Inclusive Capitalism matters more than ever.

Our philosophy underpins our approach to sustainability.[10] We think about sustainability in terms of:

- **How we invest proprietary assets**.[11] Our ambition is to reduce our group investment portfolio economic carbon intensity by half by 2030 and to net zero carbon by 2050. In 2022, our group investment portfolio economic carbon intensity fell by 5% versus 2021, through a combination of market movements, partially offset by a muted emissions increase as business activity increased. While the reduction of 23% from 2019 is ahead of our 2022 target, we may still see further volatility from future global events – as experienced through the pandemic and the ongoing conflict in Ukraine – and therefore remain focused on delivery of our mid-to-long-term decarbonisation targets. We continue to make environmentally and socially useful investments. As at FY 2022, we have invested £1.3bn in clean energy and £8.3bn in social infrastructure. For more information, please see our latest Climate Report, compliant with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD), and our latest Social Impact Report, which describes our activity in investing for positive social, economic and health outcomes.[12]
- **How we influence as one of the world's largest asset managers with £1.2 trillion AUM**. We have £332.2bn AUM in ESG strategies and in 2022 our investment stewardship team engaged with around 900 companies, holding them to account on the issues that matter most to our clients.[13,14] LGIM is proud to have received a 5 star ranking from the UN Principles for Responsible Investment (UN PRI) for investment stewardship and policy, and to have scored over 75% in each section of the latest UN PRI report.[15] In addition to being among the highest rated managers for engagement by FinanceMap, LGIM has also been highlighted by MajorityAction for its approach to holding companies to account on climate change.
- **How our businesses operate**. We are committed to supporting our customers, employees, suppliers, shareholders and society at large. In the current economic environment, we recognise that support is more critical now than ever. For information on how we are supporting our stakeholders, please see our Social Impact report.[12] We have committed to reducing the carbon emission intensity of our operating businesses. Our ambition is to operate our offices and business travel with net zero emissions from 2030, and for all our new homes to be net zero operational carbon from 2030. ESG criteria are included in executives' objectives and remuneration schemes.

## CEO retirement and succession plans

Sir Nigel Wilson has informed the Board of his decision to retire from executive life. He joined Legal & General as Chief Financial Officer in 2009 and was appointed as Chief Executive in 2012.

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

The Board has commenced a rigorous process to appoint a successor, considering both internal and external candidates. Sir Nigel has agreed to continue as Chief Executive until the new Chief Executive starts and he will support a smooth transition following their appointment. It is envisaged that this process will take up to a year. In the meantime, Sir Nigel will continue to focus on delivering the Group's strategy, supported by the executive team.

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

## Current Trading Update

We have made a good start to the year:

- LGRI: There has been a step-up in the number of pension schemes approaching the insurance market, with market movements in 2022 having generally increased funding levels and accelerated the ability of many pension schemes to de-risk. As a result, we currently have a strong global pipeline across all of our key markets. We remain well placed to achieve our volume ambitions.
- LGIM: We have started 2023 with further positive flows across higher margin areas, including Defined contribution and Wholesale. Our international progression continues, with positive flows in Japan and the US. We continue to work with our UK Defined Benefit clients to support them in repositioning their strategies in a higher interest rate environment.
- LGC: Our Housing portfolio has made a good start to the year against a tougher backdrop. Cala has completed 200 sales with reservations on private units at 41% of the target for the year. Whilst this is slightly below last year's exceptional start to the year, it is in line with previous years. Our most recent Build to Rent developments have also let far quicker than expected. Pemberton has raised $1bn for its Working Capital Finance strategy, and will invest in receivables, payables and inventory financing for US and European large and mid-market companies. The Specialist commercial real estate portfolio has also made a good start to the year with two planning applications accepted for Ancora L&G in the US and progress made across the Oxford portfolio, notably with developments in our Begbroke Science Park.
- Retail: In Retirement, we have seen a continuation of higher demand for individual annuities due to higher rates on offer and an increased demand for fixed term annuities, with total annuity volumes of c£196m at end February, 43% higher than the prior year, and lifetime mortgage advances of £40m. US Protection new business is up 32% on the prior year, with volumes of c$28m. UK protection new business is down on prior year with total volumes of c£40m, predominantly due to fewer large Group Protection schemes coming to market.

Our solvency ratio as at 3rd March 2023 was 240%.

## Outlook

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

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

**We set out five-year ambitions at our Capital Markets event in November 2020. Cumulatively, over the period 2020-2024, our financial ambitions[16] are for:**

- Cash and capital generation (of £8.0bn - £9.0bn) significantly to exceed dividends (of £5.6bn - £5.9bn)[17]
- Earnings per share to grow faster than dividends, with the dividend growing at 5% to FY 2024
- Net capital surplus generation (i.e., including new business strain) to exceed dividends

**We made further progress against these ambitions in 2022 and remain confident in achieving them.** In 2022, we have achieved 14% growth in cash generation and 10% growth in capital generation. From the start of the ambition period to FY 2022, we have achieved £5.1bn of cash generation and £4.9bn of cumulative capital generation, and declared £3.3bn of dividends. Even zero growth in cash and capital generation from now to 2024 would still see us meet our ambition of generating £8.0 – £9.0bn in cumulative cash and capital. Moreover, the jaws between net capital surplus generation and the dividend are widening, providing attractive capital optionality. From the start of the ambition period to FY 2022 we have generated £0.7bn of cumulative net surplus over the dividend.

**We aim to deliver long-term, profitable growth across the Group**. Our annuity portfolios generate highly predictable, stable cash flows from their growing back-books, and we are well positioned to help meet the rapidly growing demand for global PRT. Our asset origination and asset management businesses, LGC and LGIM, operate in attractive and profitable markets, and maintain a strong commitment to sustainable investing. LGC provides unique asset origination capabilities in sectors that have significant growth potential and which produce yield-creating assets that drive our annuity business and which appeal to third party investors (e.g. specialist commercial real estate, clean energy, housing and SME finance). LGIM offers a range of investment solutions for institutional and wholesale clients and is expanding geographically and into new channels. Retail is applying technological innovation to sustain its UK leadership position, to grow in the US and to continue to expand into adjacent markets.

We remain highly confident in our strategy and in our ability to deliver resilient, organic growth, supported by our strong competitive positioning in attractive and growing markets. Our confidence in our dividend paying capacity is underpinned by the Group's strong balance sheet, which has Solvency II surplus regulatory capital of £9.9bn, providing significant capacity to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

**We are pleased with the further progress we have made in 2022 and are confident in our ability to deliver further profitable growth going forwards. Our Inclusive Capitalism approach enables us to support the UK's twin policy objectives of "Levelling Up" and "Addressing Climate Change".**

**We will continue to maintain a defensive and diversified asset portfolio and a long-term investment horizon, supporting all our stakeholders by delivering Inclusive Capitalism through investments – both for our own portfolio and for clients – in areas such as infrastructure, clean energy and affordable housing, and by providing products to support individuals' financial resilience.**

### Business segment outlook

***Legal & General Institutional Retirement (LGRI)***

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

We write direct business in both the UK and US and are top-tier providers in both markets. We are supported by LGIM's long-standing client relationships and investment capabilities as well as LGC's asset origination capabilities. We are now beginning to leverage LGC investments in the US and continue to enhance our asset strategy and product innovation, commercialising the wide-ranging skills accessible across the Group. Our A minus rated global annuity asset portfolio is well-managed and diversified across sector and region (46% UK, 54% international). In 2022, 57% of our UK transactions were with LGIM clients, demonstrating the continued strength of our client relationships and the competitive advantage provided by our unique position as the only firm operating across the full pension de-risking journey.

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[16] The ambitions are based on the aggregate performance over a five-year period. Performance may vary from year to year and individual statements may not be met in each year on a standalone basis.
[17] Capital generation is Solvency II operational surplus generation. Dividends on a declared basis and originally on the basis of a flat final 2020 dividend, and 3-6% annual growth thereafter. Note: dividends have grown at 5% since HY21 and the Board stated publicly in November 2022 its aim to "continue to grow the dividend at 5% per annum to FY 2024": ifrs17-rns-final.pdf (legalandgeneral.com). Dividend decisions are subject to final Board approval. Note: we previously also had an ambition to generate cumulatively £8.0bn - £9.0bn cash over the period. However, under IFRS 17 we will no longer be producing 'Net release from operations' on which our cash generation metric is based. We have therefore chosen to retire the cash generation ambition from FY 2022.

The UK is our primary market and is the most mature PRT market globally with £1.4 trillion of UK DB pension liabilities, of which an estimated c14% has been transferred to insurance companies to date.[18] The addressable market therefore remains significant. At the same time, demand for PRT is growing as rising interest rates and widening credit spreads reduce pension deficits and allow more funds to consider de-risking. Leading advisers such as LCP are bullish on the prospects for PRT in 2023 and beyond.[19] We are strongly positioned to capitalise on this opportunity.

**Our stated ambition is to write circa £8-10bn of UK PRT per annum. We have demonstrated that this level of new business is self-sustaining**, i.e. the growing amount of capital generated by our in-force UK annuity book more than offsets both the capital investment required to fund new business and the portfolio's contribution to our progressive Group dividend. The UK annuity portfolio achieved self-sustainability in 2020, 2021 and 2022. Over this period, Group net surplus generation has exceeded dividends by a total of £0.7bn, equivalent to approximately two additional years of new business strain.

**We increasingly regard our ambition of writing £8-10bn of UK PRT per annum as "business as usual" and have demonstrated that this level of new business is self-sustaining. There may well be opportunity to bid on additional large, or very large, PRT transactions over the coming years. We are well positioned and have appetite to write this additional business, subject to it delivering on our key new business metrics.** We will consider any large incremental transactions as "M&A"-type activity, funding it from our strong stock of solvency capital as required.

The US represents another significant market opportunity, with $3.0 trillion of DB liabilities, of which an estimated c9% have transacted to date.[20] Since our market entry in 2015, our US business has completed 95 transactions and written $8.4bn of business. As in the UK, demand for PRT is growing: we estimate the total US PRT market increased 39% to $53bn in 2022 (FY2021: $38bn).[21] LGRI is the only insurer providing PRT directly to pension plans in both the UK and US, and we actively quote on select Canadian and Irish PRT opportunities as well. In the Netherlands, proposed pension reform legislation could result in significant PRT business coming to market over the next 3-4 years. We continue to actively monitor the market with a view to potential participation.

**Our ambition is to write at least $10bn of international PRT over the five years from 2020-2024.** We have written $5.5bn of International PRT from 2020 to date, with premiums growing over this period by c30% per annum. We expect sales to continue to grow and are confident of meeting our ambition.

***Legal & General Capital (LGC)***

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

LGC is making good progress in internationalising its business model, announcing its first US investment projects with joint venture partner Ancora in 2022.

As communicated at the LGC capital markets event in October 2021, our ambition is to build LGC's diversified alternative AUM to c£5bn by 2025 (2022: £4.2bn), with a blended portfolio return target of 10-12% (previously 8-10%). In combination with the contribution from the Traded Portfolio, LGC's ambition is to deliver operating profit of £600-700m in 2025. Additionally, we plan to increase third party capital to £25-30bn (2022: £16.6bn). We expect our existing platforms (Pemberton, NTR) to underpin our ambitions for third party AUM, building on their impressive growth to-date, although we also anticipate growing contributions from Clean Energy, Later Living, Data Centres and US science and technology infrastructure opportunities via Ancora L&G, alongside wider internationalisation efforts. Excluding assets originated to back our annuity liabilities, **LGC expects to invest and manage over £30bn of alternative AUM by 2025**.

LGC's asset classes, which include specialist commercial real estate, housing, clean energy and SME Finance, have all been selected given the long-term need for capital in these sectors, and provide us with compelling opportunities to create high-yielding assets.

- The **Specialist Commercial Real Estate** (SCRE) portfolio includes urban regeneration (primarily funded by LGRI) and science and technology-focused real estate in the UK through Bruntwood SciTech and more recently in the US, through Ancora L&G. Partnering with universities, local authorities and private sector experts, we have invested across twenty-two towns and cities in the UK and two in the US, creating jobs, driving economic growth and revitalising local communities. Our SCRE portfolio also includes an increasing focus on **Digital Infrastructure**, which is critical for both corporations and governments. State of the art data centres are central to meeting this need, and data management is one of the fastest growing sectors from a structural perspective. Our investment has given LGC the opportunity to strategically diversify its portfolio whilst enabling social and financial inclusion as we level up cities and unlock productivity growth on a global basis.
- In the **Clean Energy** sector, we are focused on investing selectively into attractive growth equity and low carbon infrastructure opportunities. We are confident that our selective approach to clean energy investing will continue to yield positive results. With

[18] LCP pensions de-risking report 2022 and L&G estimates.
[19] 2023 set to be a record-breaking year for de-risking after the rollercoaster of 2022 | Lane Clark & Peacock LLP (lcp.uk.com)
[20] LIMRA & ICI Q3 2022 retirement market data and L&G estimates.
[21] US PRT Pension Risk Transfer monitor: https://www.lgra.com/knowledge-center/prt-monitors

a focus on meeting increasing societal demand, growth equity investments include early-stage scale-up companies that deliver innovative clean technologies, and low carbon infrastructure investments target renewable energy sources.

- As a leading provider of UK homes, committed to tackling the affordability gap and the undersupply of housing (estimated to be around 450,000 homes required annually), LGC's **Housing** platform continues to expand across all tenures and demographics, and we are well positioned to scale in support of our long-term ambitions. Whilst 2023 presents a more challenging outlook for housing due to increases in cost to the consumer, our multi-tenure approach provides opportunity to grow our portfolio. We will continue to invest thoughtfully through the cycle, benefitting from our large stock of patient capital waiting to be deployed.
- In **SME Finance**, we are continuing to support UK and European innovation through two key platforms. Firstly, through our **GP Investing platform** and aligned to our strategy to invest in socially and economically useful enterprises, we continue to work alongside ambitious, ESG-oriented alternative asset managers. Since 2020, Pemberton (where we hold a 40% stake) has doubled its revenues from c€50m to c€100m in 2022, driven by Direct Lending which continues to be core to Pemberton's strategy. And secondly, through our **Venture Capital Platform** where we continue to invest in the real economy and technological innovation. The Venture Capital platform now supports over 600 companies through our investments.

Our alternative asset strategies represent Inclusive Capitalism at work – generating long-term value for society and shareholders. Through our investments, we are creating much needed jobs, homes, and infrastructure, driving growth, skills and innovation, and contributing towards a cleaner and greener future.

### *Legal & General Investment Management (LGIM)*

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

Our purpose is to create a better future through responsible investing, and we are a global leader in ESG. LGIM is one of the largest managers of corporate pension funds globally. We are a UK leader in Defined Benefit (DB) pensions, the UK's number-one Defined Contribution (DC) manager and we manage assets for 4 of the 5 largest corporate pension schemes in the US. We intend to maintain our strong position in the UK, which has been the bedrock of our success to date, while continuing to broaden our reach internationally. We will diversify our active, index and solutions capabilities, building on our strength in fixed income and real assets, and on our heritage in ESG.

2022 was a profoundly challenging year for all asset managers. The market environment shifted fundamentally, with interest rates up significantly, inflation hitting double digits in many developed economies and global equity markets falling substantially. As a consequence, LGIM's assets under management declined over 2022, with closing AUM of £1,196bn compared to average AUM for the year of £1,309bn, notwithstanding positive net flows of £47bn. We remain confident, however, that LGIM will continue to make an important profit and cash contribution to the Group, despite the lower opening asset position in 2023.

The three pillars of our strategy are to **modernise**, **diversify** and **internationalise**. We are investing in our people, our operating platform and our data capabilities and are currently implementing a transformation of our strategic operating model to build a globally scalable investment and middle office platform and to deliver excellent client service. We are selectively expanding our investment offering, with a focus on higher-margin product areas such as Real Assets, ETFs, Multi-asset and Fixed Income, and we are increasingly integrating ESG into our investment portfolios. LGIM aims to be an innovator in those countries where our strengths align to client needs. Our ambition is to continue to grow International AUM profitably and at pace in the US, Europe and Asia. Over the last five years, LGIM's international AUM has more than doubled to reach £441bn – 37% of the total.

### *Legal & General Retail Division (Retail)*

#### *Insurance*

We will continue to leverage our **technological innovation, operational strength and scale efficiencies** to offer market leading product offerings. Our data and tech-led strategy makes our products more accessible to customers and supports further product and pricing enhancements.

In the UK, our market leading retail protection business is supported by our strong distribution relationships, investment in our systems and platforms, and product enhancements, leading to robust delivery in 2022. In 2023, we expect the retail protection market to be impacted by a softer housing market and by affordability considerations for consumers. Our group protection business has performed well, increasing premium income by 5% to £427m (2021: £405m). Our medium-term ambition remains unchanged. **We continue to target mid-single digit growth in revenues across our UK protection businesses to 2025.**

In the US, we anticipate our ongoing technology investments and new partnerships will position us for premium growth. We are using technology to improve customer experience while reducing cost to become the partner of choice for a wide range of distribution partners. We are already the largest provider of term life assurance in the brokerage channel[22], and our digital first approach is aiming to achieve, on average, **double digit growth in new business sales to 2025**.

***Retirement***

Workplace savings is a core part of the Group's retail proposition. The business is a growth area for the Group and we expect the market to continue to expand, driven by **ageing demographics** and **welfare reforms**. Our core focus is on better assisting our 4.96 million Workplace members to plan for their retirement whilst they are saving with us, as well as when they come to retirement. This will drive better customer outcomes and, at the same time, help us to retain more of our customers in retirement. Despite consumer pressures, member contributions have remained strong over 2022 and we've not yet observed any material changes in customer activity as a result of increases in the cost of living.

There are currently c£600bn in UK Defined Contribution (DC) accumulation assets and this is expected to more than double over the next ten years.[23] As a market leading provider in Workplace Savings, we are well placed to benefit from this expected increase in DC pension assets, and to grow administration revenues for the Retail division and fund management revenues for LGIM.

The amount of DC assets coming to maturity each year has increased to c£45bn following the dip that was seen during the pandemic when customers deferred making retirement decisions. Similarly, and as noted, the annuity market is also showing signs of recovery as the interest rate rises make the cost of an annuity cheaper. Retail Retirement has a strong market share in individual annuities – 20.3% over 2022[24] and an external market share of 36.3%[24] – and continues to explore and develop new product ideas to meet the needs of people reaching retirement.

The UK lifetime mortgage (LTM) market continues to represent a sizeable opportunity, with UK housing equity in over 55s at £2.6 trillion.[25] This year c£6bn per year was released through the LTM market. However, we anticipate a challenging market in 2023 given the prevailing interest rate environment. We continue to remain disciplined on pricing to deliver assets that add value to our portfolio to back our long-term annuity liabilities.

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

***Fintech***

There are a wide range of technology startups creating new financial services businesses harnessing technology and data to deliver better customer outcomes and successful business models. With our market insights, relationships and expertise, we are well positioned to accelerate growth and scale up Fintechs in adjacent markets, which can also assist us in accelerating our own strategic growth areas.

We have been making strategic investments in adjacent market Fintechs for many years including adding three new investments during 2022. Our current portfolio of eight Fintechs has been growing fast, with valuation uplifts in both Salary Finance and Smartr365 following successful rounding rounds over 2022. Over the coming years we expect continued growth in revenues and customer numbers: **We are targeting double digit growth to 2025 for our Fintech businesses.**

## Dividend

The Board has approved a slight amendment to the Group's dividend policy to reflect the fact that we will no longer be producing "Net release from operations" under IFRS 17. Accordingly, and to reflect the importance of solvency capital generation as a critical measure of dividend sustainability, the dividend policy will substitute "Net release from operations" with "Capital generation".

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

**The Board has recommended a final dividend of 13.93p, giving a full year dividend of 19.37p, up 5% from the prior year (18.45p). This is consistent with our stated ambition to grow the dividend at 5% per annum to FY 2024.**[26]

[22] Ranked number one in the brokerage channel in Q3 2022 by new policies issued.
[23] Broadridge, UK Defined Contribution and Retirement Income report 2021.
[24] ABI Q3 2022 Report. External annuities include all incoming external transfers from either Personal Pension Arrangements or Occupational Pension Schemes
[25] Lifetime Mortgages | Legal & General (legalandgeneral.com).
[26] Note: the Board adopts a formulaic approach to the interim dividend which grows by the same percentage as the total dividend for the prior year.

## LGR – Institutional

| FINANCIAL HIGHLIGHTS £m | 2022 | 2021 |
|---|---|---|
| Operating Profit | **1,257** | 1,154 |
| Investment and other variances | (21) | 193 |
| **Profit before tax attributable to equity holders** | **1,236** | **1,347** |
| Release from operations | 620 | 512 |
| New business surplus | 298 | 193 |
| **Net release from operations** | **918** | 705 |
| | | |
| **New business premiums £m** | | |
| UK PRT | 7,226 | 5,315 |
| International PRT | 2,222 | 936 |
| Other PRT (longevity insurance, Assured Payment Policy) | 93 | 925 |
| **Total new business** | **9,541** | 7,176 |
| | | |
| **LGRI Annuity assets[1] (£bn)** | **55.0** | 67.4 |

1. In the UK, annuity assets across LGRI and Retail are managed together. Estimated proportion of annuity assets belonging to LGRI

## Operating profit of £1,257m

**LGRI delivered strong operating profit of £1,257m, up 9%** (2021: £1,154m). Profit was underpinned by the scale of backbook earnings, performance of our global annuity portfolio, robust pension risk transfer (PRT) new business volumes and routine assumption changes. UK volumes increased 17% to £7.3bn (2021: £6.2bn) and international volumes increased 137% to £2.2bn (2021: £0.9bn).

We have prudently adopted a modified CMI 2020 model, releasing a modest positive into the results. No weight was given to 2020 data, as this would have led to unreasonable falls in life expectancy, given the significant impact of Covid.

**Release from operations increased 21% to £620m** (2021: £512m), reflecting the scale of the business as prudential margins unwind from LGRI's £55.0bn annuity portfolio (2021: £67.4bn).

**Net release from operations was £918m** (2021: £705m) with new business surplus of £298m (2021: £193m), reflecting successful execution of our disciplined approach to writing new business, leveraging positive asset sourcing and proactive use of reinsurance. During 2022, we wrote £7,319m of UK PRT at a UK Solvency II new business margin of 8.9%, which is in line with our long-term average (2021: 9.5%). UK PRT volumes were written at a capital strain of less than 4%.

Gross longevity exposure was £69.7bn across LGRI's and Retail's annuity and longevity insurance businesses. We have reinsured £32.3bn of longevity risk with seventeen reinsurance counterparties, leaving a net exposure of £37.4bn. The reinsurance market continues to grow and innovate, and we expect it to continue to offer sufficient capacity to meet the demand from insurers.

## Successful execution coupled with a disciplined approach for value

**During 2022 LGRI underwrote £9,541m of business across 61 deals globally (2021: £7,176m, 57 deals).**

Legal & General wrote strong levels of PRT new business whilst remaining focused on value creation.

LGRI's brand, scale and asset origination capabilities – through synergies and expertise within **LGIM** and **LGC** – are critical to our market leadership in the UK PRT market. Long-term client relationships, typically created and fostered by LGIM, have allowed us to help many pension plans achieve their de-risking goals. In 2022, we demonstrated our market leadership and solutions capabilities by writing a series of innovative transactions, including:

- A £4.3bn buy-in with the British Steel Pension Scheme (BSPS), sponsored by Tata Steel UK, executed in two tranches (£2.2bn in May and £2.1bn in December). These transactions bring L&G's total insured amount to 60% of BSPS liabilities, up from 5% in 2021. The BSPS trustee appointed LGIM in July 2022 to manage the combined assets of the scheme and bring additional skills and expertise to the scheme as it targets full buy-in[27]
- c£430m buy-in with the Tioxide Pension Fund, securing the benefits of around 2,700 retirees and deferred members
- c£400m buy-in with the TT Group (1993) Pension Scheme, securing the benefits of circa 5,000 retirees and deferred members
- c£370 million buy-in with London Heathrow's BAA Pension Scheme, securing the benefits of more than 1,400 retirees

## Strong US volumes with significant growth

Capitalising on the growing market opportunity and affirming our competitive position in the US, **LGRI delivered $2,096m in 2022, almost double the US PRT business originated in the prior year (2022: £1,763m; 2021: $1,095m; £789m)**. As the US market continues to grow and mature, LGRI is strongly positioned to leverage cross-divisional synergies to boost momentum in the region.

As always, our focus is on shareholder value creation, and we maintain disciplined pricing to ensure strong economic returns. This has been fundamental to our success to date and positions us well as we begin to undertake larger PRT transactions. In 2022, we wrote two of our largest ever US PRT transactions, each greater than $500m, with strong economic returns. In addition, we secured £459m of Canadian deals through our reinsurance entity and continue to develop strategic partnerships in the region, increasing our overall presence in North America.

As the only insurer providing PRT directly to pension plans across the UK and US, **Legal & General is also strongly positioned to offer *international* pension de-risking solutions**.

[27] https://www.rns-pdf.londonstockexchange.com/rns/7101M_1-2023-1-13.pdf

## Legal & General Capital

| FINANCIAL HIGHLIGHTS £m | 2022 | 2021 |
|---|---|---|
| **Operating profit** | **509** | 461 |
| *- Alternative asset portfolio* | 400 | 350 |
| *- Traded investment portfolio & Treasury* | 109 | 111 |
| Investment and other variances | (408) | 19 |
| **Profit before tax attributable to equity holders** | **101** | 480 |
| **Net release from operations** | **404** | 379 |
| **ALTERNATIVE ASSET PORTFOLIO £m** | | |
| Specialist commercial real estate | 811 | 625 |
| Clean energy | 272 | 224 |
| Housing | 2,268 | 1,979 |
| SME Finance | 811 | 611 |
| | **4,162** | 3,439 |
| **TRADED ASSET PORTFOLIO £m** | | |
| Equities | 1,335 | 1,853 |
| Fixed income | 103 | 54 |
| Multi-asset | 181 | 221 |
| Cash[1] | 1,067 | 1,427 |
| | **2,686** | 3,555 |
| **LGC investment portfolio** | **6,848** | 6,994 |
| Treasury assets at holding company | 1,588 | 1,621 |
| **Total** | **8,436** | 8,615 |

1. Includes short-term liquid holdings.

### Total operating profit of £509m increased 10% over 2022

**LGC operating profit increased by 10% to £509m** (2021: £461m). This growth principally reflects increased profits from our alternative asset portfolio of £400m (2021: £350m), driven by strong demand in the housebuilding market and continued maturing of the portfolio.

Profit before tax attributable to equity holders was £101m, driven by investment and other variances of £(408)m, largely due to adverse market performance in traded equities, as well as the more minor revaluation of some land assets and development projects reflecting higher interest rates.

Our growing alternative asset portfolio achieved a net portfolio return of 7.5% (2021: 8.5%).

### Alternative asset portfolio grew 21% over 2022 to £4.2bn

LGC continues to strengthen its capabilities across a diversified range of alternative assets that are underpinned by structural growth drivers. In 2022, our alternative asset portfolio increased to £4,162m (2021: £3,439m) as we deployed a further £0.8bn, and made new undrawn commitments of £0.5bn across our existing investment platforms. Through these investments, we originate assets that generate strong returns for shareholders, create attractive Matching Adjustment (MA)-eligible assets for our annuity portfolio, and supply attractive alternative assets to third party clients. An example of this is the new JV between LGIM and our NTR investment, where we participated as one of the cornerstone investors for the Clean Power (Europe) Fund.

## Specialist Commercial Real Estate: developing real estate to support global science and technology

Supporting the need to "Level Up" towns and cities across the UK, we continue to invest alongside public and private sector partners, to drive forward some of the largest urban transformation schemes, back digital infrastructure and fund the next generation of science and innovation centres. Our £4bn partnership with Oxford University made significant progress with construction underway on 3 sites representing a combined Gross Development Value of c£330m, with 5 more sites in the pipeline for future development.

Through Bruntwood SciTech, the UK's leading innovation, science and technology focused platform, we have continued to develop world-leading diagnostic and life sciences infrastructure. With a NAV increase of 36% to £321.1m in their year-ending September 2022 and total assets under management of c£860m, Bruntwood SciTech now operates in 11 locations across 7 cities, with a portfolio of c2.4m sq ft.

Another milestone achievement in 2022 was our first investment in the US. Our 50:50 partnership with US real estate developer and asset manager, Ancora, is building out a real estate business dedicated to driving life science, research and technology growth across the US. Ancora L&G will be capitalised by LGC to deliver $4bn (£3.2bn) of existing pipeline and planned acquisition and development activity over the next five years. To support and accelerate future growth, the partnership will work with third party co-investment partners, which, in time, will create a new income stream of third party fees.

In 2022, we announced a seven year £4bn partnership with the West Midlands Combined Authority (WMCA) to invest in regeneration, Net Zero neighbourhoods and housing.

LGC continues to make progress in its digital infrastructure investments. Kao Data, a wholesale colocation data centre platform, has continued to develop its existing three sites, as well as to explore organic and inorganic expansion opportunities.

LGC is also pursuing data centre development opportunities which, once developed, can create opportunities for our annuity business.

Our investment in WiredScore, an early-stage real estate digital connectivity accreditation business, has continued to grow and successfully completed a fundraise which will be used to fund further expansion.

## Clean Energy: expanding our investments in infrastructure and innovation

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

LGC continues to invest in new and innovative sectors including:

- Sero Technologies ('Sero'), an energy technology and services company supporting the transition to Net Zero across the residential housing sector.
- SunRoof, a Swedish start-up revolutionising the capture and use of renewable energy through its solar roof system.
- Vaarst, a leading provider of subsea 3D computer vision technologies; supporting the offshore wind, wave & tidal, scientific, maritime security, and civil engineering industries.
- Brill Power, a battery management system provider which improves battery performance for energy storage.

We also announced an additional investment in Kensa Group, a UK manufacturer and installer of ground source heat pumps. In the 24 months since LGC became shareholders, the manufacturer has doubled the amount of ground source heat pumps produced. In December, Kensa and Legal & General officially opened the UK's largest production facility dedicated to ground source heat pumps with a plan to rapidly increase output by a further 50%.

We have a substantial pipeline of new investment opportunities including energy storage, electric vehicle technology and renewables, and, after an active 2022, we expect to further expand our growth equity portfolio in 2023.

## Housing: developing our multi-tenure UK residential platform

LGC continues to scale up in Housing and had a landmark year, delivering over 5,000 new homes across our portfolio with a focus on creating sustainable homes. As energy prices increase, our research shows an acceleration in consumer demand for energy efficient homes. Diversified across affordability and life stage, LGC's Housing investments meet the UK's long-term social and economic need for quality housing for all demographics while producing long-term dependable shareholder returns. During 2022, our Housing portfolio grew to £2,268m (2021: £1,979m).

LGC's **Build to Sell** business, Cala, delivered an excellent performance across 2022, achieving the financial targets set out at the FY 2021 results, with pre-tax profit of £169m, up 27% (2021: £132.7m). Cala delivered revenue of £1.36bn, up 10% (2021: £1.24bn) through the sale of 3,027 units (2021: 2,904 units). Buyers remain attracted to Cala's outstanding quality of design and construction, whilst the supply shortage of new homes continues to support new home delivery.

Our **Affordable Homes** business is well positioned to address a growing market demand and has continued to establish itself as one of the UK's leading institutional developers and managers of affordable housing. The business delivered £37m of operating profit in 2022 (2021: £26m), increasing the number of operational affordable homes by 1,365 to a total of 3,032 homes. Its development and operation pipeline now stands at over 6,500 homes, with a Gross Asset Value of £1.2bn.

Our **Build to Rent** businesses address another sub-section of the housing market which is expected to see significant and sustained demand. Our Urban Build to Rent joint venture with PGGM has continued to make strong development progress across the UK's major towns and cities. We now have a £200m portfolio of c2,500 Urban BTR homes with 7 schemes in operation or development, creating a strong pipeline of attractive, high-quality assets for LGIM clients.

Growth in our **Inspired Villages** retirement living business continues at pace, driven by the partnership with Natwest Group Pension Fund. Our Later Living platform has made good planning and development progress, and Inspired Villages is on track to deliver over 5,000 homes over the life of the partnership.

Our **Modular Housing** business has delivered houses on multiple sites and continues to work towards profitability as it builds its pipeline.

## SME Finance: Actively investing in the real economy and technological innovation

In the Alternative Finance sector, through our **GP Stakes Investment programme**, we continue to support UK and European mid-market lending through our investment in Pemberton, an asset manager specialising in private debt, in which we hold a 40% stake. The Pemberton platform has raised over €16.5bn (2021: €13.5bn) across five strategies, since we first invested in 2014, with 180 investors globally. Of this €16.5bn, €12.0bn is fee-earning AUM (2021: €8.7bn) across 90 companies, delivering €99m in revenue (2021: €74m). Since 2015 Pemberton has grown fee-earning assets by 58% CAGR and revenues by 79% CAGR.

Our GP Investing platform has also recently announced a new investment in Women-led Impact Asset Manager, ImpactA, with ambitions to act as a cornerstone investor in their first fund, targeting sustainable infrastructure in Emerging Markets. This will deliver transformational infrastructure projects to support the climate transition and reduce inequalities.

Our **Venture Capital Funds platform** backs over 600 start-up businesses across the UK and Europe through our fund-of-funds programme and via direct investment.

LGC's Venture Capital Fund-of-Funds programme showed progress in 2022 notwithstanding market volatility, with NAV growing by 17% to £200m. Demonstrating the value of our patient investment approach, the portfolio has delivered an IRR of over 20% after fees since inception in 2016, with most of the funds we invested in early in the programme now maturing.

## Legal & General Investment Management

| FINANCIAL HIGHLIGHTS £m | 2022 | 2021 |
|---|---|---|
| Management fee revenue | 944 | 980 |
| Transactional revenue | 26 | 32 |
| **Total revenue** | **970** | 1,012 |
| Total costs | **(630)** | (590) |
| **Operating profit** | **340** | 422 |
| Investment and other variances | (81) | (11) |
| **Profit before tax** | **259** | 411 |
| **Net release from operations** | **293** | 342 |
| **Asset Management cost:income ratio (%)** | **65** | 58 |

| NET FLOWS AND ASSETS £bn | | |
|---|---|---|
| **External net flows** | **49.6** | 34.6 |
| PRT Transfers | (3.1) | (4.2) |
| Internal net flows | 0.1 | (2.1) |
| **Total net flows** | **46.6** | 28.3 |
| *- Of which international[1]* | *21.4* | *29.5* |
| **Persistency[28] (%)** | **88** | 87 |
| *Average assets under management* | *1,309* | *1,336* |
| **Assets under management as at 31 December** | **1,196** | 1,421 |
| *Of which:* | | |
| *- International assets under management[2]* | *441* | *479* |
| *- UK DC assets under management* | *135* | *138* |

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

### Operating profit of £340m, reflecting higher interest rates and volatile equity markets

Operating profit of £340m (2021: £422m) reflects the impact of higher interest rates and volatile equity markets on assets under management, in addition to higher inflation impacting the cost base.

Assets under management (AUM) decreased by 16% to £1,195.7bn (2021: £1,421.5bn), despite strong external net flows of £49.6bn (2021: £34.6bn), which represented 4% of external opening AUM. New inflows delivered £22m of annualised net new revenue (ANNR) across higher-margin areas including thematic ETFs and Multi-asset, however this was fully offset by decreasing Defined-Benefit (DB) revenues as higher fee products were sold by clients to meet Liability Driven Investing (LDI) collateral requirements.

Management fee revenue decreased by 4% to £944m (2021: £980m), though transactional revenue was robust at £26m (2021: £32m), driven by execution fees with increased hedging activity and performance fees.

While we will continue to invest into areas of potential growth and on the infrastructure to support the business, against this challenging backdrop we will maintain a disciplined approach to cost management. We took expense actions over 2022, including on recruitment and variable compensation, to combat the impact of higher expense inflation and market movements on revenue.

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

## Deepening our global institutional pensions footprint with International AUM of £441bn

Our focus on international growth generated strong international net flows of £21.4bn, reflecting our deepening relationships with a number of leading international clients and underpinning our conviction in our ability to grow international AUM and earnings.

Our US DB de-risking business had a strong year, with net flows of $6.0bn representing the strength of our capabilities and client/consultant relationships in helping pension plans achieve their investment objectives. Improved funding ratios due to higher interest rates and wider credit spreads have increased demand for fixed income and customised liability hedging strategies.

Our European expansion continued at pace by growing the number of relationships with clients, consultants and intermediaries in our core markets of Germany, Italy and Switzerland. We added senior distribution headcount into our Frankfurt and Milan offices and prepared for the opening of our Zurich office in March 2023.

LGIM saw £17.2bn of net flows from Japanese clients and we are now Japan's 7th largest asset manager.[29] Asia (ex-Japan) saw flows of £11.3bn from multiple clients across the region.

Overall, 37% of our AUM now comes from international sources, demonstrating our internationalisation strategy is taking effect. Our goal is for half of our AUM to be from international sources by the end of this decade.

## Accelerating growth in Global Wholesale

In UK Wholesale, we ranked 2nd for both gross and net fund sales in 2022. We continued to expand our Model Portfolio Service (MPS), further extending our successful Multi-asset proposition into the maturing advisory market, and with the addition of two new funds completing the build of our Future World ESG Multi-Index range. We believe our scale and expertise can disrupt this market while helping clients meet their investment objectives. The launch of our Global Thematic unit trust also makes our thematic strategies available to a wider client base. Our property fund for retail investors continues to be one of the market leaders with over £1.5bn of AUM and our higher margin Multi-asset funds now collectively have over £10.4bn in AUM from UK retail investors.

Our ETF business continues to grow strongly following our acquisition of Canvas in March 2018. Over this period, revenue has more than tripled. The business has shown resilience in 2022, against a challenging backdrop, with $1.3bn of external net flows delivering an annualised net new revenue of $3.8m.

LGIM continues to be ranked second on AUM in the European thematic ETF market. Our diversified range consisting of Equity Thematic, Fixed Income, and Commodities ETFs has supported our strategy of growth into higher-margin areas. We launched four new thematic ETFs over H2 22 covering emerging cyber security, optical technology and photonics, global multi-theme and the metaverse. We are expanding our retail footprint through a partnership with Gerd Kommer Invest and plan to launch a co-branded ETF to provide broad diversified multi-factor exposure to global equities.

## Ongoing strength in UK

The Defined Contribution (DC) business continues to attract new assets, with external net flows of £11.6bn, supported by the ongoing growth in Retail's Workplace pension business, which now has 4.9 million members. Annualised net new revenue was £15m and total UK DC AUM is £135bn (2021: £138bn). This success is underpinned by LGIM's strong customer focus and innovative product proposition, as shown by a 93% persistency rate among our DC customers.

L&G also has one of the largest and fastest-growing UK Master Trusts, which now has £19.8bn AUM, reflecting the increasing appeal of the structure for DC plans wishing to outsource their governance, investment and administration. Growth in our UK Master Trust business continues to support growth in Multi-asset flows, since this is the default option for many of our clients. Our ability to offer investors an integrated blend of high-quality investment solutions, pensions administration and Master Trust governance for a value bundled price maintains a significant source of competitive advantage for LGIM's DC business.

LGIM supports UKDB clients with a variety of solutions to meet their needs, including LDI, which aims to lower the volatility of DB pension schemes' funding levels. In the second half of 2022, the gilt market experienced unprecedented volatility, precipitated by the mini-Budget in September, amid a global context of rising interest rates. As gilt yields spiked, schemes using LDI were required to post higher levels of collateral. Throughout this period, which ultimately prompted an intervention from the Bank of England, we remained focused on managing risk to achieve our clients' long-term objectives. Over the course of 2022, we experienced positive flows into LDI. However, and as noted, overall DB revenue decreased as interest rate rises caused assets under management to reduce and as clients sold higher fee-generating products to meet collateral requests. We remain fully committed to our full range of Solutions products.

[29] Ranked seventh by AUM, Japanese industry publication (Pension News) March 2022.

## Breadth of investment management solutions

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

1. Please see disclosure 4.01 for further details.
2. PRT transfers reflect outflows in respect of LGIM clients who have moved to PRT with LGRI

**We continue to see positive flows in Solutions – £59.3bn (2021: £19.9bn)** – driven by strong demand in the UK following the sharp rise in gilts, leading to our clients increasing collateralisation levels on LDI products. We have also seen growth in the US and APAC as DB clients continue to de-risk. We manufacture Solutions in both publicly and privately traded asset classes and combine these in integrated portfolios for our DB clients. We are well positioned to capitalise on this continuing trend. Together with our Fiduciary business offering, and working closely with LGRI's PRT business, we can support DB schemes at all stages of their funding journey. In 2022 we signed an agreement with the British Steel Pension Scheme to manage the £9.9bn[30] assets in its DB scheme. This approach is competitively differentiated in the market and provides a template for similar future deals.

**Multi-asset strategies continue to be in demand from DC schemes and Wholesale customers**. External net flows into Multi-asset funds were £4.2bn (2021: £7.0bn), and we have seen positive initial market sentiment following the launch of our Future World Multi-Index range.

**Index reported external net outflows of £6.8bn (2021: £4.9bn)** with new international flows into Japan (£17.3bn), Asia (£7.5bn), and continued positive ETF flows momentum more than offset by Index outflows in the UK and US, reflecting the structural trend of DB schemes de-risking as well as the need to fund increased collateralisation levels in LDI.

**Active Strategies reported external net outflows of £7.5bn (2021: £2.9bn)** reflecting positive net inflows from US clients, more than offset by net outflows from UK DB clients as assets were sold down to fund LDI collateral calls.

**Real Assets saw total net flows of £3.4bn (2021: £1.9bn)** driven by additional Private Credit transactions to support LGRI's PRT proposition. We expect future growth in flows to be supported by our Build to Rent business and by Private Credit, which offers clients diversification of secure income and value protection solutions, and which UK DB investors are now accessing through our successful SIAF and STAFF private credit funds.[31] We are continuing to build on our partnership with NTR, a leading renewable energy specialist, to provide institutional investors in the UK, Europe and Asia access to the €1 trillion European energy transition. In 2022 we launched our L&G Clean Power (Europe) fund with initial capital raising of over €200m.

## Investment performance

The market backdrop in 2022 has been very challenging. War in Ukraine has led to widespread disruption in energy supplies and contributed to spiralling inflation. This, in turn, has led to considerable volatility and weakness in both fixed income and equity markets with key benchmark indices posting double-digit negative total returns, leaving very little respite for investors. As a result, short-term performance across some of our Multi-asset strategies has been challenging, especially those seeking a "cash plus" outcome.

The relative performance of our UK-managed Active Fixed Income strategies was strong with 82% of strategies out-performing over 3 years and 83%[32] over 5 years. Our US-managed Active Fixed Income strategies have also performed well with 91% of strategies out-performing over 3 years and 95% over 5 years. Within Private Markets, 67%[33] of our Real Estate Equity funds have outperformed over 3 years and our Private Credit performance remains strong.

In Solutions and Index our investment success is driven by asset liability matching, for example liability driven strategies, or by tracking indices predefined by our clients. We continue to deliver against these target returns consistently and successfully, as evidenced by increasing client flows.

[30] £9.9bn of assets as at 31st March 2022.
[31] SIAF = Secure Income Assets Fund. STAFF = Short Term Alternative Finance Fund.
[32] Net fund performance data versus key comparators (benchmark or generic peer groups as per the relevant prospectuses, and benchmark per the relevant prospectus or custom peer group for Active Strategies - Bonds) sourced from Lipper for the LGIM UCITS. All data as at 31 December 2022.
[33] Based on 2022 position.

Our investment success is also evident in the number of independent awards we have won over 2022 for investment performance, including the ESG award at the City AM Awards 2022, Investment Manager of the Year and Passive Manager of the Year at the European Pensions Awards 2022, and Residential Asset Manager of the Year at the Property Week Resi awards.

## Leading in responsible investing

LGIM continues to build on its credentials as a responsible investor and remains committed to leading the asset management industry in addressing the environmental and social challenges arising from a rapidly changing world.

As at 31st December 2022, **LGIM managed £332.2bn (2021: £290.0bn) in responsible investment strategies explicitly linked to ESG criteria for a broad range of clients**.[34]

LGIM has a unified purpose: to create a better future through responsible investing. To that end, and partnering with our clients, we work to raise market standards and best practice on vital global issues, leveraging our position as one of the largest global asset managers. LGIM is, for example, a founding signatory of the Net Zero Asset Managers Initiative, and has a global marketing partnership with Lewis Pugh, the UN Patron of the Oceans.

- **Client Focus and Product innovation**: Clients globally recognise and value LGIM's authenticity in aligning Responsible Investment to the Group's Inclusive Capitalism ethos. Over the past 12 months the proportion of LGIM's assets under management in responsible investment strategies has risen from 20% to more than 27%. This reflects our partnerships with clients to refine their existing strategies and launch new strategies aligned to their responsible investment objectives. As an increasing number of clients allocate assets to strategies either embedding or specifically targeting environmental and/or social factors, we have also invested in data and technology to provide them with clarity on the ESG characteristics of their investments. Around 95% of all new products developed and mandates launched at LGIM in 2022 have been ESG-related. Recent examples of ESG product innovation that place us at the forefront of growing client demand include:
    - Launch of the Clean Power Energy Fund
    - The launch of a Global Diversified Credit fund aligned to the UN's Sustainable Development Goals.
    - The launch of Net Zero, Paris Aligned and climate transition funds helping clients meet their own climate commitments
    - The evolution of many of our SICAV fund range to include explicit decarbonisation objectives
    - The Sustainable DC Property Fund
- **Stewardship with impact**: At LGIM, we are committed to using our scale and influence to raise market standards and best practice across climate, nature, people and technology. As responsible investors, we aim to vote every share that we hold, in line with our stewardship engagement and policies, and publish our voting activities on our dedicated website.[35] We rate around 17,000 companies through our proprietary scoring system, the LGIM ESG Score, and we capture roughly 5,000 companies within our flagship corporate engagement programme, the Climate Impact Pledge. In addition to our own engagements, we are active collaborators with our peers through global organisations such as the CA100+ and the IPDD (Investors Policy Dialogue on Deforestation).
- **Investment in Tumelo**: In early 2022 we acquired a minority stake in Tumelo, an ESG digital engagement platform, which enables pension scheme members to express their preference on AGM proposals of companies they are invested in. By providing this capability to our DC pension clients we are driving greater consumer engagement and enabling LGIM to better understand members' views and use these as an input to LGIM's engagement themes and voting stance.

[34] AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. Mandates which only invest in government bonds are not included, however where LGIM manages a mandate (for a third-party client) which is invested in a broad asset exposure that includes, but is not limited to, government bonds, these mandates would be included subject to that mandate having a deliberate and positive expression of ESG criteria.
[35] https://www.lgim.com/uk/en/responsible-investing/

## Retail Division

| FINANCIAL HIGHLIGHTS £m | 2022 | 2021 |
|---|---|---|
| **Operating profit** | **825** | 620 |
| - UK Insurance[1] | 173 | 320 |
| - US Insurance | 168 | (52) |
| - Retail Retirement | 484 | 352 |
| Investment and other variances | 817 | 160 |
| **Profit / (loss) before tax attributable to equity holders** | **1,642** | 780 |
| Release from operations[2] | 554 | 463 |
| New business surplus / (strain) | (4) | 54 |
| **Net release from operations** | **550** | 517 |
| | | |
| Protection new business annual premiums | 382 | 379 |
| Individual annuities single premium | 954 | 957 |
| Workplace Savings net flows[3] (£bn) | 7.3 | 8.5 |
| Lifetime & Retirement Interest Only mortgage advances | 632 | 848 |
| Retail retirement annuity assets[4] (£bn) | 17.4 | 22.5 |
| | | |
| UK Retail protection gross premiums | 1,485 | 1,444 |
| UK Group protection gross premiums | 427 | 405 |
| US protection gross premiums | 1,222 | 1,053 |
| **Total protection gross premiums** | **3,134** | 2,902 |
| | | |
| Protection New Business Value | 166 | 262 |
| Annuities New Business Value | 60 | 61 |
| **Solvency II New Business Value** | **226** | 323 |

1. UK Insurance includes Retail Protection, Group Protection, Fintech and Mortgage Services.
2. Includes the annual dividend of $114m (2021: $111m) paid by LGIA to the Group in March 2022.
3. This represents the Workplace Savings administration business. Profits on the fund management services we provide are included in LGIM's asset management operating profit.
4. In the UK, annuity assets across LGRI and Retail are managed together. Estimated proportion of annuity assets belonging to Retail retirement

## Strong operating profit result of £825m, up 33%

US Insurance saw a return to profit in 2022, despite another year of industry-wide adverse mortality in the US, driven by robust new business volumes and the benefit from reinsuring the in-force universal life business. After significant Covid mortality experience over Q1 22, the market continued to see elevated levels of mortality over the year, leading to claims exceeding the provision raised at FY 2021. A new prudent provision of $40m (£32m) has been included in the results to allow for the uncertainty of Covid and flu over the remainder of winter.

Retail retirement growth is driven by the growing release from operations in the retail annuity portfolio, in addition to routine assumption changes. Prudently updating the base mortality rate assumption annually in line with experience is the biggest element, given we retain the majority of longevity exposure on our retail annuity portfolio.

UK Insurance has benefitted from the ongoing release from operations in the UK protection businesses, in addition to valuation uplifts in our Fintech investments in Salary Finance and Smartr365 following successful funding rounds over 2022. The 2021 UK Protection result included a one-off benefit of £107m from the introduction of an illiquidity premium in the UK Protection liability discount rate.

**Profit before tax was predominantly impacted by the formulaic change in discount rates, as experienced in previous periods.** The positive investment variance of £817m was driven primarily by an increase in UK and US government bond yields which have resulted in a higher discount rate used to calculate the Insurance reserves. The UK liability discount rate increased by 283bps and US 10-year Treasury yields increased by 237bps.

**Solvency II New Business Value decreased to £226m** (2021: £323m) reflecting the impact of higher interest rates and lower volumes in Retail protection after a strong 2021. The Insurance business continues to generate Solvency II surplus immediately when written and provides diversification benefits to the Group.

## Robust trading performance over 2022

**UK Retail protection gross premium income increased to £1,485m** (2021: £1,444m), with new business annual premiums of £171m (2021: £200m) in a smaller market[36] (2021 benefitted from a buoyant housing market). L&G continues to lead the UK protection market with a market share of 23%[36], delivering a point-of-sale decision for more than 81% of our customers.

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

**US protection (LGIA) gross written premiums increased 4% (up 16% on a sterling basis, benefiting from FX movements) to $1,512m** (2021: $1,449m), with new business annual premiums up 4% to $129m (2021: $124m). LGIA ranked number one in the brokerage general agency channel in the third quarter by new policies issued and number two in new premium. We continue to develop our market-leading, digital new business platform which now covers 80% of new business.

**Legal & General Mortgage Club facilitated a record £110bn of mortgages, up 12%** (2021: £98bn), driven by strong demand over the year, most notably in the re-mortgage market. We remain the largest participant in the UK intermediated mortgage market and are involved in around one in five of all UK mortgage transactions. Our Surveying Services business facilitated over 512,000 surveys and valuations (2021: 528,000).

**Individual annuity sales were £954m** (2021: £957m) in what has been a challenging market during 2022, with the volatile macro-economic environment impacting the timing of retirement. Our performance has remained strong: our operational service, competitive pricing and intermediary presence allowed us to maintain a market share of 20.3% over 2022.[36] Following the increase in interest rates over the second half of the year, we saw demand for individual annuities (particularly fixed term annuities) increase towards the end of the year. We expect this to continue into 2023.

**Lifetime mortgage advances, including Retirement Interest Only mortgages, were £632m** (2021: £848m). Throughout this period of rising interest rates, we have maintained pricing and underwriting discipline.

**Workplace Savings net flows were £7.3bn** (2021: £8.5bn), driven by continued client wins and increased contributions. Members on the Workplace pension platform increased to 4.9 million at the end of 2022. We are continuing to focus on improving efficiency and member experience as the business grows.

## Scaling up our Fintech businesses

Retail has continued with its strategy to invest in and scale up innovative fintech businesses in adjacent markets.

Salary Finance, an employee benefits platform in which we have a 48% holding as at year end 2022, continues to grow rapidly, with the platform now connected to over 4.6 million employees across the UK and US. Gross revenue grew to £43.6m, an increase of just over 45% year on year. In order to position itself for continued growth, Salary Finance received a substantial injection of cash by successfully completing a funding round, in addition to executing a transaction to sell Work Report to Experian.

Our 49% holding in Smartr365 – a complete end-to-end mortgage platform designed to simplify the mortgage process for brokers, introducers, networks and consumers – has continued to build scale, and also achieved a successful funding round in 2022. We now have around 3,300 users on the platform and continue to receive strong feedback on the proposition.

Three new investments were made this year: Onto, an all-inclusive electric car subscription provider; Moneyhub, an open finance and payments platform; and Generation Home, a mortgage provider. Onto’s growth plans include opportunities for a salary deduction workplace offering which L&G is ideally placed to support given our multiple, workplace-focused businesses and investments. Onto’s business model also aligns well with our ambitions to help the UK economy transition to net zero. Moneyhub is an open finance platform which provides a single connection to thousands of financial institutions across 37 countries enabling open banking and data solutions. Their vision, which is to enhance the lifetime financial wellness of their customers, is closely aligned to that of our Workplace Savings business. Generation Home adds another important investment to our substantial presence in the mortgage and home-finance “ecosystem”, with opportunities to increase loans for first-time buyers by allowing multiple buyers and income boosters.

[36] ABI Q3 2022 Report.

## Subsidiary dividends to Group

| £m | 2022 | 2021 |
|---|---|---|
| **Subsidiary dividends remitted[1]:** | | |
| LGAS | **784** | 902 |
| LGIM | **279** | 276 |
| LGA | **97** | 85 |
| Other[2] | **394** | 219 |
| **Total** | **1,554** | 1,482 |

1. Represents cash that will be remitted from subsidiaries to Group in respect of the year's financial performance.
2. Other includes Legal & General Home Financing, Legal & General Capital Investments Limited, Legal & General Reinsurance, and Legal & General Partnership Services Limited.

The level of subsidiary dividends ensures coverage of external dividends (2022: £1,153m; 2021: £1,101m) and Group related costs, with excess liquidity being held within our regulated subsidiaries.

## Borrowings

The Group's outstanding core borrowings totalled £4.3bn at 31 December 2022 (FY 2021: £4.3bn). There is also a further £1.2bn (FY 2021: £0.9bn) of operational borrowings including £0.9bn (FY 2021: £0.9bn) of non-recourse borrowings.

Group debt costs of £214m (2021: £230m) reflect an average cost of debt of 4.8% per annum (2021: 5.0% per annum) on an average nominal value of debt balances of £4.5bn (2021: £4.6bn).

## Taxation

| Equity holders' Effective Tax Rate (%) | 2022 | 2021 |
|---|---|---|
| Equity holders' total Effective Tax Rate | **13.9** | 17.9 |
| Annualised rate of UK corporation tax | **19.0** | 19.0 |

The 2022 effective tax rate reflects the different rates of taxation that apply to Legal & General's overseas operations, as well as applying the future enacted UK tax rate of 25% (which applies from 1 April 2023) on deferred tax movements in the period.

The tax rate on operating profits, excluding the impact of investment variance, was 16.0% (2021: 15.5%).

## Solvency II

As at 31 December 2022, the Group had an estimated Solvency II surplus of £9.9bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 236%.

| Capital (£m) | 2022 | 2021 |
|---|---|---|
| Own Funds | 17,226 | 17,561 |
| Solvency Capital Requirement (SCR) | (7,311) | (9,376) |
| **Solvency II surplus** | **9,915** | **8,185** |
| **SCR coverage ratio (%)** | **236** | **187** |

| Analysis of movement from 1 January 2022 to 31 December 2022[1] (£m) | Solvency II Own Funds | Solvency II SCR | Solvency II Surplus |
|---|---|---|---|
| **Operational surplus generation** | **1,409** | **396** | **1,805** |
| New business strain | 333 | (685) | (352) |
| **Net surplus generation** | **1,742** | **(289)** | **1,453** |
| Operating variances | | | (327) |
| Mergers, acquisitions and disposals | | | - |
| Market movements | | | 1,720 |
| Subordinated debt | | | - |
| Dividends paid | | | (1,116) |
| **Total surplus movement (after dividends paid in the period)** | **(335)** | **2,065** | **1,730** |

1. Please see disclosure note 5.01(d) for further detail.

**Operational surplus generation increased to £1,805m (2021: £1,636m)**, after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £(352)m, primarily reflecting UK PRT volumes written at a capital strain of less than 4%. This resulted in **net surplus generation of £1,453m (2021: £1,282m),** which was in excess of the £1,116m of dividends paid during the year. Note: our ambition is for net surplus generation to exceed dividends *cumulatively* over the period 2020-2024. From the start of the ambition period to FY 2022 we have generated £0.7bn of cumulative net surplus over the dividend.

Operating variances include the impact of experience variances, changes to assumptions, and management actions. Market movements of £1,720m primarily reflect the impact of rising rates on the valuation of our balance sheet, partially offset by weaker asset markets, predominantly in equities, credit spread dispersion in sub-investment grade assets, as well as a number of other, smaller variances.

The movements shown above incorporate the impact of recalculating the TMTP as at 31 December 2022.

## Reconciliation of IFRS net release from operations to Solvency II net surplus generation[1]

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in 2022:

| | £bn |
|---|---|
| **IFRS Release from operations** | **1,625** |
| Expected release of IFRS prudential margins | (577) |
| Release of IFRS specific reserves | (158) |
| Solvency II investment margin | 198 |
| Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation | 717 |
| **Solvency II Operational Surplus Generation** | **1,805** |

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in 2022:

| | £bn |
|---|---|
| **IFRS New business surplus** | **294** |
| Removal of requirement to set up prudential margins above best estimate on new business | 222 |
| Set up of Solvency II Capital Requirement on new business | (685) |
| Set up of Risk Margin on new business | (183) |
| **Solvency II New business strain** | **(352)** |

1. Please see disclosure 1.02 and 5.01 (f) for further details.

## Sensitivity analysis[2]

| | Impact on net of tax Solvency II capital surplus 2022 £bn | Impact on net of tax Solvency II coverage ratio 2022 % |
|---|---|---|
| 100bps increase in risk free rates | 0.5 | 18 |
| 100bps decrease in risk free rates | (0.6) | (19) |
| Credit spreads widen by 100bps assuming an escalating addition to ratings | 0.3 | 13 |
| Credit spreads narrow by 100bps assuming an escalating deduction from ratings | (0.4) | (16) |
| Credit spreads widen by 100bps assuming a flat addition to ratings | 0.3 | 14 |
| Credit spreads of sub-investment grade assets widen by 100bps assuming a level addition to ratings | (0.3) | (7) |
| Credit migration | (0.8) | (10) |
| 25% fall in equity markets | (0.4) | (3) |
| 15% fall in property markets | (0.9) | (11) |
| 50bps increase in future inflation expectations | - | (3) |
| Substantially reduced Risk Margin | 0.5 | 7 |

2. Please see disclosure 5.01 (h) for further details.

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

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

## Solvency II new business contribution

Management estimates of the present value of new business (PVNBP) and the margin as at 31 December 2022 are shown below[1]:

| | PVNBP | Contribution from new business | Margin % |
|---|---|---|---|
| **LGRI - UK annuity business (£m)** | **6,484** | **575** | **8.9** |
| **Retail Retirement – UK annuity business** | **954** | **60** | **6.3** |
| **UK Protection Total (£m)** | **1,512** | **82** | **5.4** |
| - Retail protection | 1,073 | 51 | 4.7 |
| - Group protection | 439 | 31 | 7.0 |
| **US Protection (£m)** | **796** | **84** | **10.6** |

The key economic assumptions as at 31 December 2022 are as follows:

| | **%** |
|---|---|
| **Margin for risk** | **4.4** |
| **Risk free rate** | |
| **- UK** | **3.6** |
| **- US** | **3.9** |
| **Risk discount rate (net of tax)** | |
| **- UK** | **8.0** |
| **- US** | **8.3** |
| **Long-term rate of return on non-profit annuities** | **5.7** |

1. Please see disclosure 5.02(b) for further details.

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

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

## Principal risks and uncertainties

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

| RISKS AND UNCERTAINTIES | TREND, OUTLOOK AND MITIGATION |
|---|---|
| **Investment market performance and conditions in the broader economy may adversely impact earnings, profitability, or surplus capital.**<br><br>The performance and liquidity of financial and property markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds to meet the obligations from insurance business; the movement in certain investments directly impacts profitability. Interest rate movements and inflation can also change the value of our obligations and although we seek to match assets and liabilities, losses can still arise from adverse markets. Falls in the risk-free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet, potentially impacting capital requirements and surplus capital. Falls in investment values can reduce our investment management fee income. | We cannot eliminate the downside impacts on our earnings, profitability or surplus capital from investment market volatility and adverse economic conditions, although we seek to position our investment portfolios and wider business plans for a range of plausible economic scenarios and investment market conditions to ensure their resilience across a range of outcomes. This includes setting risk limits on exposures to different asset classes and where hedging instruments exist, we seek to remove interest rate and inflation risk on a financial reporting basis.<br><br>Our Own Risk & Solvency Assessment is integral to our risk management approach, supporting assessment of the financial impacts of risks associated with investment market volatility and adverse economic scenarios for our Solvency II balance sheet, capital sufficiency, and liquidity requirements. We seek to remain resilient to a wide range of modelled scenarios that go well beyond consensus forecasts, accepting that some market movements, including for example those observed in the recent UK mini-budget crisis, fall outside the range of past experience.<br><br>Although global economic activity has broadly returned to pre-pandemic levels, the immediate outlook remains uncertain with potential for a sustained period of very low growth and elevated levels of inflation, particularly in the UK. Financial markets, whilst experiencing volatility over 2022, have similarly shown a recovery; however, asset values remain susceptible to reappraisal should the current economic outlook deteriorate, as well as from a range of geo-political factors including the ongoing war in Ukraine and potential further ruptures in the US-China relationship. Over 2022 UK commercial property markets saw a decline in valuations, and uncertainty persists in certain sectors reflecting the broader economic outlook. Within our construction businesses supply chain, cost inflation and labour shortages also continue to present risk. |
| **In dealing with issuers of debt and other types of counterparty, the group is exposed to the risk of financial loss.**<br><br>Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already having set aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody, and other bespoke business services. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken. | We manage our exposure to downgrade and default risks within our bond portfolios, through setting selection criteria and exposure limits, and using LGIM's global credit team's capabilities to ensure risks are effectively controlled, where appropriate trading out to improve credit quality. In our property lending businesses, our loan criteria take account of borrower default and movements in the value of security. We manage our reinsurer exposures with the vast majority of our reinsurers having a minimum A- rating. setting rating-based exposure limits, and where appropriate taking collateral. Similarly, we seek to limit aggregate exposure to banking, money market and service providers. Whilst we manage risks to our Solvency II balance sheet, we can never eliminate downgrade or default risks, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios.<br><br>The risk of credit downgrades and default increases in periods of low economic growth, and we are closely monitoring factors that may lead to a widening of credit spreads including the outlook for interest rates. A sustained period of elevated inflation, reducing real incomes, will particularly impact economic activity in sectors reliant on discretionary spending. The UK residential property market is also showing signs of slowing confidence, and we continue to carefully monitor the medium to long term outlook. |

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

| RISKS AND UNCERTAINTIES | TREND, OUTLOOK AND MITIGATION |
|---|---|
| **Changes in regulation or legislation may have a detrimental effect on our strategy.**<br><br>Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products, and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues, and impact profitability or require us to hold more capital.<br><br>The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation. | We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business.<br>We seek to actively participate with government and regulatory bodies to assist in the evaluation of change to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. Residual risk remains, however, that controls may fail or that historic financial services industry accepted practices may be reappraised by regulators, resulting in sanctions against the group.<br><br>Whilst we are supportive and welcoming of large parts of the regulatory agenda, regulatory-driven change remains a significant risk factor across our businesses. Key areas of change include HM Treasury's consultation on Solvency II, with potential reforms to areas such as the risk margin and the matching adjustment, albeit the outcome remains uncertain; the UK's financial conduct regulator's new Consumer Duty, which places obligations on us to evidence the delivery of good customer outcomes; and regulatory frameworks for the governance of pensions dashboards services. Regulatory focus also continues on the operational resilience of financial services firms; the management of third parties; and approaches being taken in response to the threats from climate change, including most recently proposed sustainability labelling for investment funds.<br>We are also monitoring changes in UK fiscal policy and global minimum tax environment; and within our property construction businesses, we are implementing relevant requirements of the Building Safety Bill and the Environment Act 2021. |
| **New entrants or other players may disrupt the markets in which we operate**<br><br>There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. It is possible that alternative digitally enabled financial services providers emerge with lower cost business models or innovative service propositions and disrupt the current competitive landscape. We are also cognisant of competitors who may have lower return on capital requirements or be unconstrained by Solvency II. | We continuously monitor the factors that may impact the markets in which we operate, including evolving domestic and internal capital standards, and are maintaining our focus on developing our digital platforms. We are innovating our Retail business with digital solutions that support our customer journeys; and within LGIM we continue the implementation of our strategic operating model to create a globally scalable platform. Within LGRI, our continued ability to source Direct Investments that provide strong risk-adjusted returns is an important source of competitive advantage.<br><br>We observe a continued acceleration of a number of trends, including greater consumer engagement in digital business models and on-line servicing tools. The post pandemic operating environment has also seen businesses like ours transform working practices, and we expect to continue to invest in automation, using robotics and data science to improve business efficiency. Our businesses are also well positioned for changes in the competitive landscape that may arise from the roll out of defined benefit 'superfund' consolidation schemes, pension dashboards and 'collective' pension scheme arrangements. We will continue to strengthen the connections between LGRI, LGIM and LGC to create assets that meet annuity liability profiles in accordance with evolving Solvency II rules. |

| RISKS AND UNCERTAINTIES | TREND, OUTLOOK AND MITIGATION |
|---|---|
| **A material failure in our business processes or IT security may result in unanticipated financial loss or reputational damage**<br><br>We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions, or reputational damage. We are also inherently exposed to cyber threats including the risks of data theft and fraud. There is also strong stakeholder expectation that our core business services are resilient to operational disruption and that we protect customer data throughout our operations. | Our risk governance model, seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group Chief Risk Officer, with independent assurance from Group Internal Audit.<br><br>Whilst we seek to maintain a control environment commensurate with our risk profile, we recognise that residual risk will always remain across the spectrum of our business operations and we aim to develop and maintain response plans so that when adverse events occur, appropriate actions are deployed.<br><br>Although Covid-19 related lockdowns in 2021 had some impact for our business operations, our business services have returned to normal levels, where required adjustment has been made to our control environment for hybrid working models. We remain alert to evolving operational risks and continue to invest in our IT and data capabilities, as well as those specifically for the management of cyber risks, to ensure that our business processes are resilient. We also remain cognisant of the risks as we implement a new global operating model and IT platform for LGIM and have structured the migration in phases to minimise change risks. While not a source of principal risk to the group, the Group Risk Committee, together with the LGIM(H) board, is conducting a “lessons-learned” review of the challenges experienced in managing LDI solutions in September 2022. |
| **The success of our operations is dependent on the ability to attract and retain highly qualified professional people**<br><br>The Group aims to recruit, develop and retain high quality individuals. We are inherently exposed to the risk that key personnel or teams of expertise may leave the Group, with an adverse effect on the Group’s businesses. As we increasingly focus on the digitalisation of our businesses, we are also competing for data and digital skill sets with other business sectors as well as our peers. | We seek to ensure that key personnel dependencies do not arise, through employee training and development programmes, remuneration strategies and succession planning. Our processes include the active identification and development of talent within our workforce, and by highlighting our values and social purpose, promoting Legal & General as a great place to work. As well as investing in our people, we are also transforming how we engage and develop capabilities, with new technologies and tools to support globalisation, increase productivity and provide an exceptional employee experience.<br><br>Competition for talent remains strong with skills in areas such as technology and digital particularly sought after across many business sectors, including those in which we operate. We also recognise the risks posed by the outlook for inflation in salary expectations across the wider employment market, and internally we have taken steps to help our employees through direct financial support and by providing advice and resources to help them manage their financial well-being. |

## Notes

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

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

A replay of the presentation will be made available on this website by 10th March 2023.

| Financial Calendar | Date |
|---|---|
| Ex-dividend date (2022 final dividend) | **27 April 2023** |
| Record date | **28 April 2023** |
| Annual General Meeting | **18 May 2023** |
| Dividend payment date | **05 June 2023** |
| 2023 interim results announcement | **15 August 2023** |
| Ex-dividend date (2023 interim dividend) | **24 August 2023** |
| Record date | **25 August 2023** |
| Dividend payment date | **26 September 2023** |

## Definitions

Definitions are included in the Glossary on pages 90 to 92 of this release

## Forward-looking statements

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

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to): changes in global, political, economic, business, competitive and market forces or conditions; future exchange and interest rates; changes in environmental, social or physical risks; legislative, regulatory and policy developments; risks arising out of health crises and pandemics; changes in tax rates, future business combinations or dispositions; and other factors specific to the Group. Please see the Group's latest Annual Report and Accounts for further details of risks, uncertainties and other factors relevant to the business (available from 16th March 2023: https://group.legalandgeneral.com/en/investors/results-reports-and-presentations). Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future. No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

## Caution about climate information

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

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

## Going concern statement

The group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Annual Report & Accounts. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 26 to 29.

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

The group manages and monitors its capital and liquidity, and applies various stresses, including high inflationary scenarios, to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on our capital position from a range of stresses is disclosed in section 5.01(h) of the Capital section of the Full year report 2022. These stresses do not give rise to any material uncertainties over the ability of the group to continue as a going concern. Based upon the available information, the directors consider that the group has the plans and resources to manage its business risks successfully and that it remains financially strong and well diversified.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of the current economic environment, as detailed on pages 26 to 29, the directors are confident that the group and company will have sufficient funds to continue to meet their 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.

## Directors' responsibility statement

We confirm to the best of our knowledge that:

i. The Group financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, and which have been prepared in accordance with UK-adopted IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Group;

ii. The preliminary announcement includes a fair review of the development, performance and position of the Group, as well as the principal risks and uncertainties faced by the Group; and

iii. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc website: www.legalandgeneralgroup.com/about-us/our-management/group-board/.

By order of the Board

| | |
|---|---|
| Sir Nigel Wilson<br>Group Chief Executive | Stuart Jeffrey Davies<br>Group Chief Financial Officer |
| **7 March 2023** | **7 March 2023** |

## Enquiries

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# IFRS Disclosures on performance and Release from operations

### 1.01 Operating profit#

| For the year ended 31 December 2022 | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Legal & General Retirement Institutional (LGRI)[1] | 1.03 | **1,257** | 1,154 |
| Legal & General Capital (LGC) | 1.04 | **509** | 461 |
| Legal & General Investment Management (LGIM) | 1.05 | **340** | 422 |
| Retail | 1.03 | **825** | 620 |
| - Insurance[2] | | 341 | 268 |
| - Retail Retirement[1] | | 484 | 352 |
| **Operating profit from divisions** | | **2,931** | 2,657 |
| Group debt costs[3] | | **(214)** | (230) |
| Group investment projects and expenses | | **(194)** | (165) |
| **Operating profit** | | **2,523** | 2,262 |
| Investment and other variances | 1.06 | **137** | 233 |
| Losses attributable to non-controlling interests | | **(1)** | (7) |
| **Adjusted profit before tax attributable to equity holders** | | **2,659** | 2,488 |
| Tax expense attributable to equity holders | 3.04 | **(369)** | (445) |
| **Profit for the year** | 2.01 | **2,290** | 2,043 |
| Total tax expense | 2.01 | **440** | 589 |
| **Profit before tax** | 2.01 | **2,730** | 2,632 |
| **Profit attributable to equity holders** | | **2,291** | 2,050 |
| **Earnings per share:** | | | |
| **Basic (pence per share)[4]** | 1.07 | **38.33p** | 34.19p |
| **Diluted (pence per share)[4]** | 1.07 | **36.49p** | 32.57p |

1. From 1 January 2022, following changes to business unit responsibilities within the Executive Committee, the group's reportable segments have been updated to align with its five core businesses. Prior year comparatives have been restated to reflect this change in segmentation. Further details are provided in Note 1.08.
2. Insurance operating profit includes £168m (2021: £(52)m) related to the group's US Insurance business.
3. Group debt costs exclude interest on non-recourse financing.
4. All earnings per share calculations are based on profit attributable to equity holders of the company.

This supplementary operating profit information (one of the group's key performance indicators) provides additional analysis of the results reported under IFRS, and the group believes it provides stakeholders with useful information to enhance their understanding of the performance of the business in the year.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes caused by changes in market conditions or expectations and exceptional items. It therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, including the traded portfolio in LGC. For the group's direct investments, operating profit reflects the expected long-term economic return for those assets which are developed with the intention of sale, or the IFRS profit before tax for the early stage and mature businesses. Variances between actual and long-term expected investment return on traded and real assets (including direct investments where applicable) are excluded from operating profit, as well as economic assumption changes caused by changes in market conditions or expectations (e.g. credit default and inflation) and any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business. Operating profit also excludes the yield associated with assets held for future new pension risk transfer business from the valuation discount rate on insurance contract liabilities. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition and start-up costs, are also excluded from operating profit.

The group reports its results across the following business segments:

- LGRI represents worldwide pension risk transfer business including longevity insurance.
- LGC represents shareholder assets invested in direct investments primarily in the areas of specialist commercial real estate, clean energy, housing and SME finance, as well as traded and treasury assets.
- LGIM represents institutional and retail investment management.
- Insurance primarily represents UK protection (both group and retail) and Fintech business, as well as US retail protection business (US Insurance).
- Retail Retirement primarily represents retail annuity and drawdown products, workplace savings and lifetime mortgage loans.

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

# IFRS Disclosures on performance and Release from operations

### 1.02 Reconciliation of release from operations to operating profit# before tax

| For the year ended 31 December 2022 | Release from operations[1] £m | New business surplus/ (strain) £m | Net release from operations £m | Expe-rience variances £m | Changes in valuation assump-tions £m | Non-cash items £m | Other[2] £m | Operating profit/(loss) after tax £m | Tax expense/ (credit) £m | Operating profit/(loss) before tax £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **LGRI[3]** | **620** | **298** | **918** | **(15)** | **177** | **(2)** | **-** | **1,078** | **179** | **1,257** |
| **LGC** | **404** | **-** | **404** | **-** | **-** | **-** | **-** | **404** | **105** | **509** |
| **LGIM** | **293** | **-** | **293** | **-** | **-** | **-** | **-** | **293** | **47** | **340** |
| **Retail** | **554** | **(4)** | **550** | **(45)** | **205** | **(16)** | **(24)** | **670** | **155** | **825** |
| - Insurance | 308 | (12) | 296 | (12) | 7 | (14) | (24) | 253 | 88 | 341 |
| - Retail Retirement[3] | 246 | 8 | 254 | (33) | 198 | (2) | - | 417 | 67 | 484 |
| **Total from divisions** | **1,871** | **294** | **2,165** | **(60)** | **382** | **(18)** | **(24)** | **2,445** | **486** | **2,931** |
| Group debt costs | **(173)** | **-** | **(173)** | **-** | **-** | **-** | **-** | **(173)** | **(41)** | **(214)** |
| Group investment projects and expenses | **(73)** | **-** | **(73)** | **-** | **-** | **-** | **(79)** | **(152)** | **(42)** | **(194)** |
| **Total** | **1,625** | **294** | **1,919** | **(60)** | **382** | **(18)** | **(103)** | **2,120** | **403** | **2,523** |

1. Release from operations within Insurance includes £85m of dividends from the US Insurance business.
2. Other within Insurance includes experience variances, changes in valuation assumptions (including changes to assumed asset allocation) and non-cash items relating to US Insurance.
3. From 1 January 2022, following changes to business unit responsibilities within the Executive Committee, the group's reportable segments have been updated to align with its five core businesses. Further details are provided in Note 1.08.

Release from operations for LGRI, and the UK protection and retail annuity businesses within Retail represents the expected IFRS surplus generated in the year from the difference between the prudent assumptions underlying the IFRS liabilities and our best estimate of future experience. For workplace savings within Retail Retirement, the release from operations represents the expected annual management charges generated from the in-force business less expected expenses. The Insurance release from operations also includes dividends remitted from US Insurance business and IFRS profit after tax for the Fintech business.

New business surplus/(strain) for LGRI, and the UK protection and retail annuity businesses within Retail represents the initial profit or loss from writing new business. This includes the costs associated with acquiring new business and setting up prudent reserves, net of tax. Similarly for workplace savings, this includes the cost of acquiring new business in the year less the annual management charges generated by the assets under administration (AUA), net of tax. The new business surplus and release from operations for LGRI and Retail excludes any capital held in excess of the prudent reserves from the liability calculation.

LGRI and Retail Retirement's annuity new business metrics are presented based on a single target long-term asset portfolio. At certain year ends, depending upon the quantum and timing of pension risk transfer (PRT) volumes, the group may have sourced more or less of the high quality assets targeted to support that business. At year end, the profit impact of the difference between actual assets held (including alternative surplus assets where suitable) and the long-term asset mix is reflected in investment variance.

Net release from operations for LGRI and Retail is defined as release from operations plus new business surplus/(strain).

Release from operations and net release from operations for LGC and LGIM represents the operating profit (net of tax).

See Note 1.03 for more detail on experience variances, changes to valuation assumptions and non-cash items.

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

# IFRS Disclosures on performance and Release from operations

### 1.02 Reconciliation of release from operations to operating profit# before tax (continued)

| For the year ended 31 December 2021 | Release from operations[1] £m | New business surplus/ (strain) £m | Net release from operations £m | Experience variances £m | Changes in valuation assumptions £m | Non-cash items £m | Other[2] £m | Operating profit/(loss) after tax £m | Tax expense/ (credit) £m | Operating profit/(loss) before tax £m |
|---|---|---|---|---|---|---|---|---|---|---|
| LGRI[3] | 512 | 193 | 705 | 40 | 212 | 27 | - | 984 | 170 | 1,154 |
| LGC | 379 | - | 379 | - | - | - | - | 379 | 82 | 461 |
| LGIM | 342 | - | 342 | - | - | - | - | 342 | 80 | 422 |
| Retail | 463 | 54 | 517 | 28 | 121 | 2 | (138) | 530 | 90 | 620 |
| - Insurance | 236 | 27 | 263 | 14 | 82 | 6 | (138) | 227 | 41 | 268 |
| - Retail Retirement[3] | 227 | 27 | 254 | 14 | 39 | (4) | - | 303 | 49 | 352 |
| Total from divisions | 1,696 | 247 | 1,943 | 68 | 333 | 29 | (138) | 2,235 | 422 | 2,657 |
| Group debt costs | (186) | - | (186) | - | - | - | - | (186) | (44) | (230) |
| Group investment projects and expenses | (69) | - | (69) | - | - | - | (68) | (137) | (28) | (165) |
| Total | 1,441 | 247 | 1,688 | 68 | 333 | 29 | (206) | 1,912 | 350 | 2,262 |

1. Release from operations within Insurance includes £80m of dividends from the US Insurance business.
2. Other within Insurance includes experience variances, changes in valuation assumptions (including changes to assumed asset allocation) and non-cash items relating to US Insurance.
3. From 1 January 2022, following changes to business unit responsibilities within the Executive Committee, the group's reportable segments have been updated to align with its five core businesses. Prior year comparatives have been restated to reflect this change in segmentation. Further details are provided in Note 1.08.

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

# IFRS Disclosures on performance and Release from operations

## 1.03 Analysis of LGRI and Retail operating profit

| For the year ended 31 December 2022 | LGRI[1] 2022 £m | Retail[1] 2022 £m | LGRI[1] 2021 £m | Retail[1] 2021 £m |
|---|---|---|---|---|
| **Net release from operations** | **918** | **550** | 705 | 517 |
| **Experience variances** | | | | |
| - Persistency | **(1)** | **(7)** | 1 | (5) |
| - Mortality/morbidity | **37** | **17** | 24 | 29 |
| - Expenses | **(15)** | **(15)** | 6 | (1) |
| - Project and development costs | **(16)** | **(6)** | (11) | (19) |
| - Other | **(20)** | **(34)** | 20 | 24 |
| **Total experience variances** | **(15)** | **(45)** | 40 | 28 |
| **Changes in valuation assumptions** | | | | |
| - Persistency | **-** | **(10)** | - | (5) |
| - Mortality/morbidity[2,3] | **174** | **229** | 153 | 46 |
| - Expenses | **-** | **(13)** | - | (1) |
| - Other[4] | **3** | **(1)** | 59 | 81 |
| **Total changes in valuation assumptions** | **177** | **205** | 212 | 121 |
| **Movement in non-cash items** | **(2)** | **(16)** | 27 | 2 |
| **Other[5]** | **-** | **(24)** | - | (138) |
| **Operating profit after tax** | **1,078** | **670** | 984 | 530 |
| **Tax expense** | **179** | **155** | 170 | 90 |
| **Operating profit before tax** | **1,257** | **825** | 1,154 | 620 |

1. From 1 January 2022, following changes to business unit responsibilities within the Executive Committee, the group's reportable segments have been updated to align with its five core businesses. Prior year comparatives have been restated to reflect this change in segmentation. Further details are provided in Note 1.08.
2. The positive impact of changes in Mortality/morbidity valuation assumptions in Retail is driven by routine longevity assumption changes in 2022, for which an update to the base mortality assumption is the largest component of the movement. We have adopted a modified CMI 2020 model, with no weight given to 2020 data due to the uncertainty in the data created by Covid-19.
3. In both 2022 and 2021, changes in valuation assumptions for Mortality/morbidity in LGRI reflect updates to UK longevity trend and spouse demography assumptions.
4. In 2021, the £81m positive Other changes in valuation assumptions in Retail reflected the benefit of modelling improvements in UK retail protection, including the introduction of an illiquidity premium in the liability discount rate.
5. Other includes experience variances, changes in valuation assumptions (including changes to assumed asset allocation) and non-cash items relating to US Insurance, which also includes the benefits from reinsuring the in-force universal life book of protection business.

## 1.04 LGC operating profit

| | 2022 £m | 2021 £m |
|---|---|---|
| Direct investments[1] | **400** | 350 |
| Traded investment portfolio including treasury assets[2] | **109** | 111 |
| **Total LGC operating profit** | **509** | 461 |

1. Direct investments represent LGC's portfolio of assets across specialist commercial real estate, clean energy, housing and SME finance. Direct investments include operating profit in relation to CALA Homes of £172m (2021: £132m).
2. The traded investment portfolio holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash.

## 1.05 LGIM operating profit

| | 2022 £m | 2021 £m |
|---|---|---|
| Asset management revenue (excluding 3rd party market data)[1] | **944** | 980 |
| Asset management transactional revenue[2] | **26** | 32 |
| Asset management expenses (excluding 3rd party market data)[1] | **(630)** | (590) |
| **Total LGIM operating profit** | **340** | 422 |

1. Asset management revenue and expenses exclude income and costs of £30m in relation to the provision of third party market data (2021: £32m).
2. Transactional revenue from external clients includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees.

# IFRS Disclosures on performance and Release from operations

### 1.06 Investment and other variances

| | 2022 £m | 2021 £m |
|---|---|---|
| Investment variance related to protection liabilities[1] | **841** | 111 |
| Investment variance related to the traded investment portfolio and direct investments[2] | **(408)** | 19 |
| Other investment variance[3] | **(164)** | 211 |
| **Investment variance** | **269** | 341 |
| M&A related and other variances[4] | **(132)** | (108) |
| **Total investment and other variances** | **137** | 233 |

1. The positive investment variance in protection liabilities of £841m reflects the formulaic impact of the increases in UK and US government bond yields which have resulted in higher discount rates being used to calculate the group's protection liabilities.
2. The negative investment variance in the traded investment portfolio and direct investments of £408m largely reflects volatile global equity market performance in the traded investment portfolio, as well as the revaluation of some land assets and development projects as a result of higher interest rates.
3. Other investment variance includes the IAS 19 movements in respect of the group's defined benefit pension schemes.
4. M&A related and other variances include gains and losses, expenses and intangible amortisation relating to acquisitions, disposals and restructuring as well as business start-up costs.

Investment variance includes differences between actual and long-term expected investment return on traded and real assets (including direct investments developed with intention of sale), the impact of economic assumption changes caused by changes in market conditions or expectations (e.g. credit default and inflation), the impact of any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business, and the yield associated with assets held for future new pension risk transfer business from the valuation discount rate.

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

The long-term expected investment returns are:

| | 2022 | 2021 |
|---|---|---|
| Equities | **7%** | 7% |
| Commercial property | **5%** | 5% |
| Residential property[1] | **3.5%** | RPI + 50bps |

1. In previous years the assumption RPI + 50bps was in line with average historical returns. Due to the current spike in inflation and in order to keep the rate aligned to average historical returns, it was updated to 3.5% in 2022.

Additionally, the LGC alternative asset portfolio comprises investments in specialist commercial real estate, clean energy, housing and SME finance. The long-term expected investment return across the portfolio is on average between 10% and 12% (2021: 8% and 10%), in line with our stated investment objectives. Rates of return specific to each asset are determined at the point of underwriting and reviewed and updated annually. The expected investment return includes assumptions on appropriate discount rates and inflation as well as sector specific assumptions including retail and commercial property yields and power prices.

# IFRS Disclosures on performance and Release from operations

## 1.07 Earnings per share

### (a) Basic earnings per share

| | After tax 2022 £m | Per share[1] 2022 p | After tax 2021 £m | Per share[1] 2021 p |
|---|---|---|---|---|
| **Profit for the year attributable to equity holders** | **2,291** | **38.72** | 2,050 | 34.58 |
| Less: coupon payable in respect of restricted Tier 1 convertible notes net of tax relief | **(23)** | **(0.39)** | (23) | (0.39) |
| **Total basic earnings** | **2,268** | **38.33** | 2,027 | 34.19 |

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

### (b) Diluted earnings per share

| | After tax 2022 £m | Weighted average number of shares 2022 m | Per share[1] 2022 p |
|---|---|---|---|
| **Profit for the year attributable to equity holders** | **2,291** | **5,917** | **38.72** |
| Net shares under options allocable for no further consideration | **-** | **55** | **(0.36)** |
| Conversion of restricted Tier 1 notes | **-** | **307** | **(1.87)** |
| **Total diluted earnings** | **2,291** | **6,279** | **36.49** |

| | After tax 2021 £m | Weighted average number of shares 2021 m | Per share[1] 2021 p |
|---|---|---|---|
| Profit for the year attributable to equity holders | 2,050 | 5,929 | 34.58 |
| Net shares under options allocable for no further consideration | - | 59 | (0.34) |
| Conversion of restricted Tier 1 notes | - | 307 | (1.67) |
| Total diluted earnings | 2,050 | 6,295 | 32.57 |

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

# IFRS Disclosures on performance and Release from operations

## 1.08 Segmental analysis

In 2021, the group operated five core businesses across four reportable segments that are continuing operations, with Legal & General Retirement Retail (LGRR) and Legal & General Retirement Institutional (LGRI) combined into a single segment for reporting purposes, being Legal & General Retirement.

From 1 January 2022, the group announced changes to the business unit responsibilities within the Executive Committee. Andrew Kail became the Chief Executive Officer of LGRI, succeeding Laura Mason who had previously moved to become CEO of Legal & General Capital (LGC). Our two retail businesses, LGRR and LGI, came together under the leadership of Bernie Hickman. Reportable segments have therefore been aligned to the group's five core businesses. Group expenses and debt costs continue to be reported separately. Transactions between segments are on normal commercial terms, and are included within the reported segments. To enable comparison, segmental information for the prior year has been restated accordingly.

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

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

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

### (a) Profit/(loss) for the year

| **For the year ended 31 December 2022** | **LGRI[1] £m** | **LGC £m** | **LGIM £m** | **Retail Retirement[1] £m** | **Insurance £m** | **Group expenses and debt costs £m** | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Operating profit/(loss)#** | **1,257** | **509** | **340** | **484** | **341** | **(408)** | **2,523** |
| Investment and other variances | **(21)** | **(408)** | **(81)** | **(24)** | **841** | **(170)** | **137** |
| Losses attributable to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **(1)** | **(1)** |
| **Profit/(loss) before tax attributable to equity holders** | **1,236** | **101** | **259** | **460** | **1,182** | **(579)** | **2,659** |
| Tax (expense)/credit attributable to equity holders | **(155)** | **(30)** | **(30)** | **(41)** | **(247)** | **134** | **(369)** |
| **Profit/(loss) for the year** | **1,081** | **71** | **229** | **419** | **935** | **(445)** | **2,290** |

| For the year ended 31 December 2021 | LGRI[1] £m | LGC £m | LGIM £m | Retail Retirement[1] £m | Insurance £m | Group expenses and debt costs £m | Total £m |
|---|---|---|---|---|---|---|---|
| Operating profit/(loss)# | 1,154 | 461 | 422 | 352 | 268 | (395) | 2,262 |
| Investment and other variances | 193 | 19 | (11) | 49 | 111 | (128) | 233 |
| Losses attributable to non-controlling interests | - | - | - | - | - | (7) | (7) |
| Profit/(loss) before tax attributable to equity holders | 1,347 | 480 | 411 | 401 | 379 | (530) | 2,488 |
| Tax (expense)/credit attributable to equity holders | (213) | (93) | (79) | (63) | (59) | 62 | (445) |
| Profit/(loss) for the year | 1,134 | 387 | 332 | 338 | 320 | (468) | 2,043 |

1. From 1 January 2022, following changes to business unit responsibilities within the Executive Committee, the group's reportable segments have been updated to align with its five core businesses. Prior year comparatives have been restated to reflect this change in segmentation.

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

# IFRS Disclosures on performance and Release from operations

## 1.08 Segmental analysis (continued)

### (b) Total income

| For the year ended 31 December 2022 | LGRI[1] £m | LGIM[2,3] £m | Retail Retirement[1] £m | Insurance £m | LGC and other[4] £m | Total £m |
|---|---|---|---|---|---|---|
| Internal income | - | 178 | - | - | (178) | - |
| External income | (9,874) | (78,636) | (4,017) | 1,371 | 1,862 | (89,294) |
| **Total income** | **(9,874)** | **(78,458)** | **(4,017)** | **1,371** | **1,684** | **(89,294)** |

| For the year ended 31 December 2021 | LGRI[1] £m | LGIM[2,3] £m | Retail Retirement[1] £m | Insurance £m | LGC and other[4] £m | Total £m |
|---|---|---|---|---|---|---|
| Internal income | - | 179 | - | - | (179) | - |
| External income | 4,842 | 35,738 | 1,117 | 2,029 | 1,724 | 45,450 |
| Total income | 4,842 | 35,917 | 1,117 | 2,029 | 1,545 | 45,450 |

1. From 1 January 2022, following changes to business unit responsibilities within the Executive Committee, the group's reportable segments have been updated to align with its five core businesses. Prior year comparatives have been restated to reflect this change in segmentation.
2. LGIM internal income relates to investment management services provided to other segments.
3. LGIM external income primarily includes fees from fund management and investment returns on unit linked funds.
4. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.

# IFRS Primary Financial Statements

## 2.01 Consolidated Income Statement

| For the year ended 31 December 2022 | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Income** | | | |
| Gross written premiums | | **13,691** | 10,375 |
| Outward reinsurance premiums | | **(5,167)** | (3,446) |
| Net change in provision for unearned premiums | | **10** | 42 |
| **Net premiums earned** | | **8,534** | 6,971 |
| Fees from fund management and investment contracts | | **899** | 959 |
| Investment return | | **(100,365)** | 35,927 |
| Other operational income | | **1,638** | 1,593 |
| **Total income** | 1.08 | **(89,294)** | 45,450 |
| **Expenses** | | | |
| Claims and change in insurance contract liabilities | | **(13,573)** | 7,353 |
| Reinsurance recoveries | | **(2,864)** | (2,968) |
| **Net claims and change in insurance contract liabilities** | | **(16,437)** | 4,385 |
| Change in investment contract liabilities | | **(80,043)** | 34,206 |
| Acquisition costs | | **834** | 825 |
| Finance costs | | **290** | 294 |
| Other expenses | | **3,332** | 3,108 |
| **Total expenses** | | **(92,024)** | 42,818 |
| **Profit before tax** | | **2,730** | 2,632 |
| Tax expense attributable to policyholder returns | | **(71)** | (144) |
| **Profit before tax attributable to equity holders** | | **2,659** | 2,488 |
| Total tax expense | | **(440)** | (589) |
| Tax expense attributable to policyholder returns | | **71** | 144 |
| Tax expense attributable to equity holders | 3.04 | **(369)** | (445) |
| **Profit for the year** | | **2,290** | 2,043 |
| | | | |
| Attributable to: | | | |
| Non-controlling interests | | **(1)** | (7) |
| Equity holders | | **2,291** | 2,050 |
| | | | |
| Dividend distributions to equity holders during the year | 3.02 | **1,116** | 1,063 |
| Dividend distributions to equity holders proposed after the year end | 3.02 | **829** | 790 |
| | | | |
| | | **p** | p |
| **Total basic earnings per share[1]** | 1.07 | **38.33** | 34.19 |
| **Total diluted earnings per share[1]** | 1.07 | **36.49** | 32.57 |

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

# IFRS Primary Financial Statements

## 2.02 Consolidated Statement of Comprehensive Income

| For the year ended 31 December 2022 | 2022 £m | 2021 £m |
|---|---|---|
| **Profit for the year** | **2,290** | 2,043 |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial remeasurements on defined benefit pension schemes | **(77)** | 53 |
| Tax credit/(expense) on actuarial remeasurements on defined benefit pension schemes | **19** | (7) |
| **Total items that will not be reclassified subsequently to profit or loss** | **(58)** | 46 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Exchange differences on translation of overseas operations | **77** | (11) |
| Movement in cross-currency hedge | **40** | 20 |
| Tax expense on movement in cross-currency hedge | **(10)** | (7) |
| Movement in financial investments designated as available-for-sale | **2** | (3) |
| **Total items that may be reclassified subsequently to profit or loss** | **109** | (1) |
| **Other comprehensive income after tax** | **51** | 45 |
| **Total comprehensive income for the year** | **2,341** | 2,088 |
| **Total comprehensive income/(expense) for the year attributable to:** | | |
| Non-controlling interests | **(1)** | (7) |
| Equity holders | **2,342** | 2,095 |

# IFRS Primary Financial Statements

## 2.03 Consolidated Balance Sheet

| As at 31 December 2022 | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | | **71** | 68 |
| Other intangible assets | | **441** | 365 |
| Deferred acquisition costs | | **30** | 26 |
| Investment in associates and joint ventures accounted for using the equity method | | **554** | 375 |
| Property, plant and equipment | | **326** | 316 |
| Investment property | 3.03 | **9,372** | 10,150 |
| Financial investments | 3.03 | **445,475** | 538,374 |
| Reinsurers' share of contract liabilities | | **6,955** | 7,180 |
| Deferred tax assets | 3.04 | **180** | 2 |
| Current tax assets | | **802** | 670 |
| Receivables and other assets | | **13,286** | 8,625 |
| Cash and cash equivalents | | **35,784** | 16,487 |
| **Total assets** | | **513,276** | 582,638 |
| **Equity** | | | |
| Share capital | 3.05 | **149** | 149 |
| Share premium | 3.05 | **1,018** | 1,012 |
| Employee scheme treasury shares | | **(144)** | (99) |
| Capital redemption and other reserves | | **318** | 196 |
| Retained earnings | | **10,332** | 9,228 |
| **Attributable to owners of the parent** | | **11,673** | 10,486 |
| Restricted Tier 1 convertible notes | 3.06 | **495** | 495 |
| Non-controlling interests | 3.07 | **(29)** | (38) |
| **Total equity** | | **12,139** | 10,943 |
| **Liabilities** | | | |
| Insurance contract liabilities | | **70,337** | 89,825 |
| Investment contract liabilities | | **286,830** | 372,954 |
| Core borrowings | 3.08 | **4,338** | 4,256 |
| Operational borrowings | 3.09 | **1,219** | 932 |
| Provisions | 3.13 | **890** | 1,238 |
| Deferred tax liabilities | 3.04 | **428** | 251 |
| Current tax liabilities | | **69** | 84 |
| Payables and other financial liabilities | 3.10 | **95,052** | 74,264 |
| Other liabilities | | **723** | 925 |
| Net asset value attributable to unit holders | | **41,251** | 26,966 |
| **Total liabilities** | | **501,137** | 571,695 |
| **Total equity and liabilities** | | **513,276** | 582,638 |

# IFRS Primary Financial Statements

## 2.04 Consolidated Statement of Changes in Equity

| For the year ended 31 December 2022 | Share capital £m | Share premium £m | Employee scheme treasury shares £m | Capital redemption and other reserves[1] £m | Retained earnings £m | Equity attributable to owners of the parent £m | Restricted Tier 1 convertible notes £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2022** | **149** | **1,012** | **(99)** | **196** | **9,228** | **10,486** | **495** | **(38)** | **10,943** |
| Profit for the year | - | - | - | - | 2,291 | 2,291 | - | (1) | 2,290 |
| Exchange differences on translation of overseas operations | - | - | - | 77 | - | 77 | - | - | 77 |
| Net movement in cross-currency hedge | - | - | - | 30 | - | 30 | - | - | 30 |
| Net actuarial remeasurements on defined benefit pension schemes | - | - | - | - | (58) | (58) | - | - | (58) |
| Net movement in financial investments designated as available-for-sale | - | - | - | 2 | - | 2 | - | - | 2 |
| Total comprehensive income for the year | - | - | - | 109 | 2,233 | 2,342 | - | (1) | 2,341 |
| Options exercised under share option schemes | - | 6 | - | - | - | 6 | - | - | 6 |
| Shares purchased | - | - | (59) | - | - | (59) | - | - | (59) |
| Shares vested | - | - | 14 | (41) | - | (27) | - | - | (27) |
| Employee scheme treasury shares: - Value of employee services | - | - | - | 54 | - | 54 | - | - | 54 |
| Share scheme transfers to retained earnings | - | - | - | - | 10 | 10 | - | - | 10 |
| Dividends | - | - | - | - | (1,116) | (1,116) | - | - | (1,116) |
| Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief | - | - | - | - | (23) | (23) | - | - | (23) |
| Movement in third party interests | - | - | - | - | - | - | - | 10 | 10 |
| **As at 31 December 2022** | **149** | **1,018** | **(144)** | **318** | **10,332** | **11,673** | **495** | **(29)** | **12,139** |

1. Capital redemption and other reserves as at 31 December 2022 include share-based payments £99m, foreign exchange £123m, capital redemption £17m, hedging £78m and available-for-sale reserves £1m.

## 2.04 Consolidated Statement of Changes in Equity (continued)

| For the year ended 31 December 2021 | Share capital £m | Share premium £m | Employee scheme treasury shares £m | Capital redemption and other reserves[1] £m | Retained earnings £m | Equity attributable to owners of the parent £m | Restricted Tier 1 convertible notes £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2021 | 149 | 1,006 | (75) | 198 | 8,224 | 9,502 | 495 | (31) | 9,966 |
| Profit for the year | - | - | - | - | 2,050 | 2,050 | - | (7) | 2,043 |
| Exchange differences on translation of overseas operations | - | - | - | (11) | - | (11) | - | - | (11) |
| Net movement in cross-currency hedge | - | - | - | 13 | - | 13 | - | - | 13 |
| Net actuarial remeasurements on defined benefit pension schemes | - | - | - | - | 46 | 46 | - | - | 46 |
| Net movement in financial investments designated as available-for-sale | - | - | - | (3) | - | (3) | - | - | (3) |
| Total comprehensive income for the year | - | - | - | (1) | 2,096 | 2,095 | - | (7) | 2,088 |
| Options exercised under share option schemes | - | 6 | - | - | - | 6 | - | - | 6 |
| Shares purchased | - | - | (34) | - | - | (34) | - | - | (34) |
| Shares vested | - | - | 10 | (48) | - | (38) | - | - | (38) |
| Employee scheme treasury shares: - Value of employee services | - | - | - | 33 | - | 33 | - | - | 33 |
| Share scheme transfers to retained earnings | - | - | - | - | 8 | 8 | - | - | 8 |
| Dividends | - | - | - | - | (1,063) | (1,063) | - | - | (1,063) |
| Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief | - | - | - | - | (23) | (23) | - | - | (23) |
| Currency translation differences | - | - | - | 14 | (14) | - | - | - | - |
| As at 31 December 2021 | 149 | 1,012 | (99) | 196 | 9,228 | 10,486 | 495 | (38) | 10,943 |

1. Capital redemption and other reserves as at 31 December 2021 include share-based payments £86m, foreign exchange £46m, capital redemption £17m, hedging £48m and available-for-sale reserves £(1)m.

# IFRS Primary Financial Statements

## 2.05 Consolidated Statement of Cash Flows

| For the year ended 31 December 2022 | Notes | **2022** **£m** | 2021 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year** | | **2,290** | 2,043 |
| **Adjustments for non cash movements in net profit for the year** | | | |
| Net losses/(gains) on financial investments and investment property | | **109,405** | (26,062) |
| Investment income | | **(9,040)** | (9,865) |
| Interest expense | | **290** | 294 |
| Tax expense | | **440** | 589 |
| Other adjustments | | **113** | 137 |
| **Net decrease/(increase) in operational assets** | | | |
| Investments held for trading or designated as fair value through profit or loss | | **20,887** | 4,616 |
| Investments designated as available-for-sale | | **43** | (21) |
| Other assets | | **(4,672)** | 139 |
| **Net (decrease)/increase in operational liabilities** | | | |
| Insurance contracts | | **(20,282)** | 726 |
| Investment contracts | | **(86,132)** | 29,409 |
| Other liabilities | | **(638)** | (11,161) |
| **Cash generated from/(utilised in) operations** | | **12,704** | (9,156) |
| Interest paid | | **(290)** | (301) |
| Interest received[1] | | **3,525** | 5,060 |
| Rent received | | **404** | 373 |
| Tax paid[2] | | **(570)** | (564) |
| Dividends received | | **4,691** | 4,419 |
| **Net cash flows from operations** | | **20,464** | (169) |
| **Cash flows from investing activities** | | | |
| Acquisition of plant, equipment, intangibles and other assets | | **(187)** | (205) |
| Acquisition of operations, net of cash acquired | | **(2)** | - |
| Disposal of subsidiaries and other operations, net of cash transferred | | **-** | 217 |
| Investment in joint ventures and associates | | **(101)** | (56) |
| Disposal of joint ventures and associates | | **64** | 177 |
| **Net cash flows (utilised in)/generated from investing activities** | | **(226)** | 133 |
| **Cash flows from financing activities** | | | |
| Dividend distributions to ordinary equity holders during the year | 3.02 | **(1,116)** | (1,063) |
| Coupon payment in respect of restricted Tier 1 convertible notes, gross of tax | 3.06 | **(28)** | (28) |
| Options exercised under share option schemes | 3.05 | **6** | 6 |
| Treasury shares purchased for employee share schemes | | **(59)** | (34) |
| Payment of lease liabilities | | **(44)** | (37) |
| Proceeds from borrowings | | **945** | 449 |
| Repayment of borrowings | | **(737)** | (798) |
| **Net cash flows utilised in financing activities** | | **(1,033)** | (1,505) |
| **Net increase/(decrease) in cash and cash equivalents** | | **19,205** | (1,541) |
| Exchange gains on cash and cash equivalents | | **92** | 8 |
| Cash and cash equivalents at 1 January | | **16,487** | 18,020 |
| **Total cash and cash equivalents at 31 December** | | **35,784** | 16,487 |

1. Interest received comprises of net interest received from financial instruments at fair value through profit or loss and other financial instruments.
2. Tax paid comprises UK corporation tax of £358m (2021: £368m), withholding tax of £204m (2021: £188m) and overseas corporate tax of £8m (2021: £8m).

# IFRS Disclosure Notes

## 3.01 Basis of preparation

The preliminary announcement for the year ended 31 December 2022 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information in this preliminary announcement has been derived from the group financial statements within the group's 2022 Annual Report and Accounts, which will be made available on the group's website on 15 March 2023. The group's 2021 Annual Report and Accounts have been filed with the Registrar of Companies, and those for 2022 will be delivered in due course. KPMG have reported on the 2022 and 2021 Annual Report and Accounts. Both their reports were: (i) unqualified; (ii) did not include a reference to any matters to which they drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The group financial statements have been prepared in accordance with UK-adopted international accounting standards, comprising International Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and related interpretations issued by the IFRS Interpretations Committee. Endorsement is granted by the UK Endorsement Board. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets, and certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The group 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 Consolidated 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 Consolidated Income Statement unless required or permitted by any accounting standard or interpretations by the IFRS Interpretations Committee.

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 group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into sterling, the group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for the income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

**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 Consolidated 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, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the valuation of insurance and investment contract liabilities, unquoted illiquid assets, investment property, and the determination of defined benefit pension plan assumptions. From a policy application perspective, the major areas of judgement are the assessment of whether a contract transfers significant insurance risk to the group, and whether the group controls underlying entities and should therefore consolidate them. The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the group's 2022 Annual Report and Accounts.

**Key technical terms and definitions**
The report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary.

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

# IFRS Disclosure Notes

## 3.02 Dividends and appropriations

| | Dividend 2022 £m | Per share[1] 2022 p | Dividend 2021 £m | Per share[1] 2021 p |
|---|---|---|---|---|
| Ordinary dividends paid and charged to equity in the year: | | | | |
| - Final 2020 dividend paid in June 2021 | - | - | 754 | 12.64 |
| - Interim 2021 dividend paid in September 2021 | - | - | 309 | 5.18 |
| - Final 2021 dividend paid in June 2022 | **792** | **13.27** | - | - |
| - Interim 2022 dividend paid in September 2022 | **324** | **5.44** | - | - |
| **Total dividends** | **1,116** | **18.71** | 1,063 | 17.82 |
| **Ordinary share dividend proposed** | **829** | **13.93** | 790 | 13.27 |

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.

Subsequent to 31 December 2022, the directors declared a final dividend for 2022 of 13.93 pence per ordinary share. This dividend will be paid on 5 June 2023. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2023 and is not included as a liability in the Consolidated Balance Sheet as at 31 December 2022.

## 3.03 Financial investments and investment property

| | 2022 £m | 2021 £m |
|---|---|---|
| Equities[1] | **167,335** | 213,049 |
| Debt securities[2,3] | **218,402** | 296,930 |
| Derivative assets[4] | **45,427** | 16,792 |
| Loans[5] | **14,311** | 11,603 |
| **Financial investments** | **445,475** | 538,374 |
| **Investment property** | **9,372** | 10,150 |
| **Total financial investments and investment property** | **454,847** | 548,524 |

1. Equity securities include investments in unit trusts of £16,524m (31 December 2021: £18,248m).
2. Debt securities include accrued interest of £1,635m (31 December 2021: £1,420m).
3. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 6.03.
4. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, currency swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £51,190m (31 December 2021: £15,718m).
5. Loans include £28m (31 December 2021: £92m) of loans valued at amortised cost.

# IFRS Disclosure Notes

## 3.04 Tax

### (a) Tax expense in the Consolidated Income Statement

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

| | **2022 £m** | 2021 £m |
|---|---|---|
| Profit before tax attributable to equity holders | **2,659** | 2,488 |
| Tax calculated at 19.00% | **505** | 473 |
| | | |
| Adjusted for the effects of: | | |
| **Recurring reconciling items:** | | |
| (Lower)/higher rate of tax on profits taxed overseas[1] | **(84)** | (104) |
| Income not subject to tax | **(3)** | – |
| Non-deductible expenses | **(1)** | 6 |
| Differences between taxable and accounting investment gains | **(9)** | (13) |
| Other taxes on property and foreign income | **6** | – |
| Unrecognised tax losses | **17** | 1 |
| Double tax relief[2] | **(20)** | – |
| | | |
| **Non-recurring reconciling items:** | | |
| Adjustments in respect of prior years[3] | **(21)** | 24 |
| Impact of the revaluation of deferred tax balances[4] | **(21)** | 58 |
| **Tax expense/(credit) attributable to equity holders** | **369** | 445 |
| **Equity holders' effective tax rate** | **13.9%** | 17.9% |

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

# IFRS Disclosure Notes

## 3.04 Tax (continued)

### (b) Deferred tax

| Deferred tax (liabilities)/assets | 2022 £m | 2021 £m |
|---|---|---|
| Deferred acquisition expenses[1] | **116** | 95 |
| Difference between the tax and accounting value of insurance contracts | **(986)** | (695) |
| - UK | (132) | (269) |
| - Overseas | (854) | (426) |
| Realised and unrealised gains on investments | **144** | (83) |
| Excess of depreciation over capital allowances | **21** | 22 |
| Accounting provisions and other | **22** | 55 |
| Trading losses[2] | **463** | 348 |
| Pension fund deficit | **(26)** | 9 |
| Acquired intangibles | **(2)** | – |
| **Net deferred tax (liabilities)/assets** | **(248)** | (249) |

| | | |
|---|---|---|
| Presented on the Consolidated Balance Sheet as: | | |
| - Deferred tax assets[3] | **180** | 2 |
| - Deferred tax liabilities | **(428)** | (251) |
| **Net deferred tax (liabilities)/assets** | **(248)** | (249) |

1. Deferred tax assets arising on deferred acquisition expenses relates solely to US balances as at 31 December 2022 and 2021.
2. Trading losses consist solely of US operating losses (2021: £346m). The losses are not time restricted, and we expect to recover them over a period of 15 to 20 years, commensurate with the lifecycle of the underlying insurance contracts. In reaching this conclusion, we have considered past results, the different basis under which US companies are taxed, temporary differences that are expected to generate future profits against which the deferred tax can be offset, management actions, and future profit forecasts. The recoverability of deferred tax assets is routinely reviewed by management.
3. The deferred tax asset represents £168m of US unrealised losses on investments (2021: £nil), £7m of UK unrealised losses on investments (2021: £nil) and £5m of other deferred tax assets (2021: £nil). These are not capable of being offset against any deferred tax liabilities or future trading profits.

### 3.05 Share capital and share premium

| Authorised share capital | 2022 Number of shares | 2022 £m | 2021 Number of shares | 2021 £m |
|---|---|---|---|---|
| At 31 December: ordinary shares of 2.5p each | **9,200,000,000** | **230** | 9,200,000,000 | 230 |

| **Issued share capital, fully paid** | **Number of shares** | **Share capital £m** | **Share premium £m** |
|---|---|---|---|
| **As at 1 January 2022** | **5,970,415,817** | **149** | **1,012** |
| Options exercised under share option schemes | **2,837,683** | **–** | **6** |
| **As at 31 December 2022** | **5,973,253,500** | **149** | **1,018** |

| Issued share capital, fully paid | Number of shares | Share capital £m | Share premium £m |
|---|---|---|---|
| As at 1 January 2021 | 5,967,358,713 | 149 | 1,006 |
| Options exercised under share option schemes | 3,057,104 | – | 6 |
| As at 31 December 2021 | 5,970,415,817 | 149 | 1,012 |

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

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

### 3.06 Restricted Tier 1 convertible notes

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

The notes have no fixed maturity date. Optional cancellation of coupon payments is at the discretion of the issuer and mandatory cancellation is upon the occurrence of certain conditions. The Tier 1 notes are therefore treated as equity and coupon payments are recognised directly in equity when paid. During the year coupon payments of £28m were made (2021: £28m). The notes rank junior to all other liabilities and senior to equity attributable to owners of the parent. On the occurrence of certain conversion trigger events the notes are convertible into ordinary shares of the issuer at the prevailing conversion price.

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

### 3.07 Non-controlling interests

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

As at 31 December 2022, non-controlling interests primarily represent third party ownership in Thorpe Park Holdings, a mixed residential/commercial retail space in which the group holds 50%.

# IFRS Disclosure Notes

### 3.08 Core borrowings

| | Carrying amount 2022 £m | Coupon rate 2022 % | Fair value 2022 £m | Carrying amount 2021 £m | Coupon rate 2021 % | Fair value 2021 £m |
|---|---|---|---|---|---|---|
| **Subordinated borrowings** | | | | | | |
| 5.5% Sterling subordinated notes 2064 (Tier 2) | **590** | **5.50** | **541** | 590 | 5.50 | 776 |
| 5.375% Sterling subordinated notes 2045 (Tier 2) | **605** | **5.38** | **593** | 604 | 5.38 | 673 |
| 5.25% US Dollar subordinated notes 2047 (Tier 2) | **712** | **5.25** | **665** | 635 | 5.25 | 694 |
| 5.55% US Dollar subordinated notes 2052 (Tier 2) | **417** | **5.55** | **389** | 373 | 5.55 | 428 |
| 5.125% Sterling subordinated notes 2048 (Tier 2) | **400** | **5.13** | **377** | 400 | 5.13 | 461 |
| 3.75% Sterling subordinated notes 2049 (Tier 2) | **599** | **3.75** | **507** | 598 | 3.75 | 632 |
| 4.5% Sterling subordinated notes 2050 (Tier 2) | **500** | **4.50** | **439** | 500 | 4.50 | 558 |
| Client fund holdings of group debt (Tier 2)[1] | **(74)** | **–** | **(67)** | (44) | – | (51) |
| **Total subordinated borrowings** | **3,749** | **–** | **3,444** | 3,656 | – | 4,171 |
| | | | | | | |
| **Senior borrowings** | | | | | | |
| Sterling medium term notes 2031-2041 | **609** | **5.87** | **649** | 609 | 5.87 | 846 |
| Client fund holdings of group debt[1] | **(20)** | **–** | **(19)** | (9) | – | (11) |
| **Total senior borrowings** | **589** | **–** | **630** | 600 | – | 835 |
| **Total core borrowings** | **4,338** | **–** | **4,074** | 4,256 | – | 5,006 |

1. £94m (2021: £53m) of the group's subordinated and senior borrowings are held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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

# IFRS Disclosure Notes

## 3.08 Core borrowings (continued)

### Subordinated borrowings

*5.5% Sterling subordinated notes 2064*
In 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. If not called, the coupon from 27 June 2044 will be reset to the prevailing five year benchmark gilt yield plus 3.17% p.a. These notes mature on 27 June 2064.

*5.375% Sterling subordinated notes 2045*
In 2015, Legal & General Group Plc issued £600m of 5.375% dated subordinated notes. The notes are callable at par on 27 October 2025 and every five years thereafter. If not called, the coupon from 27 October 2025 will be reset to the prevailing five year benchmark gilt yield plus 4.58% p.a. These notes mature on 27 October 2045.

*5.25% US Dollar subordinated notes 2047*
On 21 March 2017, Legal & General Group Plc issued $850m of 5.25% dated subordinated notes. The notes are callable at par on 21 March 2027 and every five years thereafter. If not called, the coupon from 21 March 2027 will be reset to the prevailing US Dollar mid-swap rate plus 3.687% p.a. These notes mature on 21 March 2047.

*5.55% US Dollar subordinated notes 2052*
On 24 April 2017, Legal & General Group Plc issued $500m of 5.55% dated subordinated notes. The notes are callable at par on 24 April 2032 and every five years thereafter. If not called, the coupon from 24 April 2032 will be reset to the prevailing US Dollar mid-swap rate plus 4.19% p.a. These notes mature on 24 April 2052.

*5.125% Sterling subordinated notes 2048*
On 14 November 2018, Legal & General Group Plc issued £400m of 5.125% dated subordinated notes. The notes are callable at par on 14 November 2028 and every five years thereafter. If not called, the coupon from 14 November 2028 will be reset to the prevailing five year benchmark gilt yield plus 4.65% p.a. These notes mature on 14 November 2048.

*3.75% Sterling subordinated notes 2049*
On 26 November 2019, Legal & General Group Plc issued £600m of 3.75% dated subordinated notes. The notes are callable at par on 26 November 2029 and every five years thereafter. If not called, the coupon from 26 November 2029 will be reset to the prevailing five year benchmark gilt yield plus 4.05% p.a. These notes mature on 26 November 2049.

*4.5% Sterling subordinated notes 2050*
On 1 May 2020, Legal & General Group Plc issued £500m of 4.5% dated subordinated notes. The notes are callable at par on 1 November 2030 and every five years thereafter. If not called, the coupon from 1 November 2030 will be reset to the prevailing five year benchmark gilt yield plus 5.25% p.a. These notes mature on 1 November 2050.

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

### Senior borrowings

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

# IFRS Disclosure Notes

## 3.09 Operational borrowings

| | Carrying amount 2022 £m | Interest rate 2022 % | Fair value 2022 £m | Carrying amount 2021 £m | Interest rate 2021 % | Fair value 2021 £m |
|---|---|---|---|---|---|---|
| **Short-term operational borrowings** | | | | | | |
| Euro Commercial Paper | **50** | **1.60** | **50** | 50 | 0.16 | 50 |
| Bank loans and overdrafts | **3** | **–** | **3** | – | – | – |
| **Non-recourse borrowings** | | | | | | |
| Cardiff Interchange Limited credit facility | **64** | **5.63** | **64** | 45 | 2.29 | 45 |
| CALA revolving credit facility | **24** | **5.50** | **24** | 100 | 1.96 | 100 |
| Class B Surplus Notes | **788** | **6.62** | **788** | 664 | 1.72 | 664 |
| Affordable Homes revolving credit facility | **19** | **4.38** | **19** | 56 | 2.08 | 56 |
| Homes Modular revolving credit facility | **15** | **6.62** | **15** | 9 | 3.27 | 9 |
| **Operational borrowings[1]** | **963** | **–** | **963** | 924 | – | 924 |

1. Unit linked borrowings with a carrying value of £256m (31 December 2021: £8m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,219m (31 December 2021: £932m).

**Syndicated credit facility**
As at 31 December 2022, the group had in place a £1.5bn (31 December 2021: £1.0bn) syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in August 2027. No amounts were outstanding at 31 December 2022.

### 3.10 Payables and other financial liabilities

| | 2022 £m | 2021 £m |
|---|---|---|
| Derivative liabilities | **51,190** | 15,718 |
| Repurchase agreements[1] | **31,533** | 46,331 |
| Other financial liabilities[2] | **12,329** | 12,215 |
| **Total payables and other financial liabilities** | **95,052** | 74,264 |
| Due within 12 months | **41,064** | 53,250 |
| Due after 12 months | **53,988** | 21,014 |

1. Repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The significant majority of repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, lease liabilities, FX spots and the value of short positions taken out to cover reverse repurchase agreements. The value of short positions as at 31 December 2022 was £4,960m (2021: £5,418m).

#### Fair value hierarchy

| **As at 31 December 2022** | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Amortised cost[1] £m |
|---|---|---|---|---|---|
| Derivative liabilities | **51,190** | **448** | **50,717** | **25** | **–** |
| Repurchase agreements | **31,533** | **–** | **31,533** | **–** | **–** |
| Other financial liabilities | **12,329** | **4,533** | **644** | **39** | **7,113** |
| **Total payables and other financial liabilities** | **95,052** | **4,981** | **82,894** | **64** | **7,113** |

| As at 31 December 2021 | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Amortised cost[1] £m |
|---|---|---|---|---|---|
| Derivative liabilities | 15,718 | 331 | 15,316 | 71 | – |
| Repurchase agreements | 46,331 | – | 46,331 | – | – |
| Other financial liabilities | 12,215 | 5,438 | 55 | – | 6,722 |
| Total payables and other financial liabilities | 74,264 | 5,769 | 61,702 | 71 | 6,722 |

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

#### Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the year ended 31 December 2022 (2021: no significant transfers).

### 3.11 Sensitivity analysis

| | Impact on pre-tax group profit net of reinsurance 2022 £m | Impact on group equity net of reinsurance 2022 £m | Impact on pre-tax group profit net of reinsurance 2021 £m | Impact on group equity net of reinsurance 2021 £m |
|---|---|---|---|---|
| **Economic sensitivity** | | | | |
| 100bps increase in interest rates | **(98)** | **(66)** | 55 | 188 |
| 100bps decrease in interest rates | **44** | **16** | (195) | (317) |
| 50bps increase in future inflation expectations | **(45)** | **(33)** | (41) | (60) |
| 50bps decrease in future inflation expectations | **82** | **65** | 39 | 58 |
| Credit spreads widen by 100bps with no change in expected defaults | **(345)** | **(352)** | (311) | (234) |
| 25% rise in equity markets | **381** | **316** | 513 | 423 |
| 25% fall in equity markets | **(381)** | **(316)** | (513) | (423) |
| 15% rise in property values | **1,177** | **974** | 1,299 | 1,084 |
| 15% fall in property values | **(1,233)** | **(1,022)** | (1,368) | (1,144) |
| 10bps increase in credit default assumptions | **(545)** | **(465)** | (765) | (651) |
| 10bps decrease in credit default assumptions | **546** | **465** | 754 | 642 |
| **Non-economic sensitivity** | | | | |
| 1% increase in annuitant mortality | **141** | **122** | 166 | 146 |
| 1% decrease in annuitant mortality | **(139)** | **(121)** | (170) | (150) |
| 5% increase in assurance mortality | **(398)** | **(315)** | (451) | (357) |
| 10% increase in maintenance expenses | **(224)** | **(185)** | (254) | (208) |

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

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

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

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

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

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

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

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

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

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

### 3.11 Sensitivity analysis (continued)

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 expense in future years.

### 3.12 Foreign exchange rates

Principal rates of exchange used for translation are:

| Year end exchange rates | 2022 | 2021 |
|---|---|---|
| United States dollar | **1.21** | 1.35 |
| Euro | **1.13** | 1.19 |

| Average exchange rates | 2022 | 2021 |
|---|---|---|
| United States dollar | **1.24** | 1.38 |
| Euro | **1.17** | 1.16 |

### 3.13 Provisions

#### (a) Analysis of provisions

| | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Other provisions | 3.13(b) | **273** | 213 |
| Retirement benefit obligations | 3.13(c) | **617** | 1,025 |
| **Total provisions** | | **890** | 1,238 |

#### (b) Other provisions

Included within Other provisions are amounts relating to new and existing M&A and restructuring transactions. These include costs that Legal & General Investment Management (LGIM) is committed to incur on the extension of its existing partnership with State Street announced in 2021, to increase the use of Charles River technology across the front office and to deliver middle office services going forward. Costs include the transfer of data and operations to State Street, as well as the implementation of the new operating model. The amounts included in the provision have been determined on a best estimate basis by reference to a range of plausible scenarios, taking into account the multi-year implementation period for the project. As at 31 December 2022, the outstanding provision was £111m (31 December 2021: £89m).

#### (c) Retirement benefit obligations

| | Fund and Scheme 2022 £m | CALA Homes and Overseas 2022 £m | Fund and Scheme 2021 £m | CALA Homes and Overseas 2021 £m |
|---|---|---|---|---|
| Gross pension obligations included in provisions | **612** | **5** | 1,020 | 5 |
| Annuity obligations insured by LGAS | **(718)** | **–** | (990) | – |
| **Gross defined benefit pension (surplus)/deficit** | **(106)** | **5** | 30 | 5 |
| Deferred tax on defined benefit pension (surplus)/deficit | **27** | **(1)** | (8) | (1) |
| **Net defined benefit pension (surplus)/deficit** | **(79)** | **4** | 22 | 4 |

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

### 3.14 Contingent liabilities, guarantees and indemnities

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

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

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

### 3.15 Related party transactions

#### (a) Key management personnel transactions and compensation

All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. There were no material transactions between key management and the Legal & General group of companies during the year. Contributions to the post-employment defined benefit plans were £105m (2021: £109m) for all employees.

At 31 December 2022 and 31 December 2021 there were no loans outstanding to officers of the company.

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

| | 2022<br>£m | 2021<br>£m |
|---|---|---|
| Salaries | 11 | 10 |
| Share-based incentive awards | 6 | 5 |
| **Key management personnel compensation** | **17** | 15 |

#### (b) Services provided to and by related parties

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

The group has the following material related party transactions during the year:

- Annuity contracts issued by Legal and General Assurance Society Limited (LGAS), a group company, for consideration of £61m (2021: £82m) have been purchased by the group's UK defined benefit pension schemes, priced on an arm's length basis;

- Assured Payment Policies (APPs) have been transacted between the group's defined benefit pension schemes and LGAS including £83m of top-ups in 2022 under the existing contracts. An APP is an investment contract product sold by LGRI which, issued to a pension scheme, provides the scheme with a fixed or inflation-linked schedule of payments to match the scheme's expected liabilities. As at 31 December 2022, LGAS recognised a liability related to the APP transactions of £820m (2021: £1,214m) which is included in the group's investment contract liabilities. The UK defined benefit pension schemes hold transferable plan assets of the same amounts, which do not eliminate on consolidation.

Loans and commitments to related parties are made in the normal course of business. As at 31 December 2022, the group had:

- Loans outstanding from related parties of £58m (2021: £15m), with a further commitment of £6m; and

- Total other commitments of £1,265m to related parties (2021: £1,158m), of which £1,010m has been drawn at 31 December 2022 (2021: £726m).

# Asset and premium flows

## 4.01 LGIM total assets under management[1] (AUM)

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

| For the year ended 31 December 2021 | Index £bn | Active strategies £bn | Multi asset £bn | Solutions[2] £bn | Real assets £bn | Total AUM £bn |
|---|---|---|---|---|---|---|
| As at 1 January 2021 | 429.9 | 193.6 | 65.7 | 557.2 | 32.5 | 1,278.9 |
| External inflows[3] | 99.4 | 18.7 | 15.1 | 34.4 | 1.7 | 169.3 |
| External outflows[3] | (94.5) | (15.8) | (8.1) | (25.5) | (1.8) | (145.7) |
| Overlay net flows | – | – | – | 11.0 | – | 11.0 |
| External net flows[4] | 4.9 | 2.9 | 7.0 | 19.9 | (0.1) | 34.6 |
| PRT transfers[5] | (0.6) | (0.7) | – | (2.9) | – | (4.2) |
| Internal net flows[6] | (1.0) | (1.8) | 0.2 | (1.5) | 2.0 | (2.1) |
| Total net flows | 3.3 | 0.4 | 7.2 | 15.5 | 1.9 | 28.3 |
| Market movements | 68.7 | 1.8 | 5.1 | 8.6 | 2.8 | 87.0 |
| Other movements[7] | 0.5 | 3.0 | – | 23.8 | – | 27.3 |
| As at 31 December 2021 | 502.4 | 198.8 | 78.0 | 605.1 | 37.2 | 1,421.5 |
| Assets attributable to: | | | | | | |
| External | | | | | | 1,306.3 |
| Internal | | | | | | 115.2 |

1. Assets under management (AUM) includes assets on our Investment Only Platform, that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £336.6bn (31 December 2021: £383.2bn) of derivative notionals associated with the Solutions business.
3. External inflows and outflows include £3.9bn (31 December 2021: £5.5bn) of external investments and £3.3bn (31 December 2021: £3.0bn) of redemptions in the ETF business.
4. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2022 was £69.1bn (31 December 2021: £71.2bn).
5. PRT transfers reflect UK defined benefit pension scheme buy-outs to LGRI.
6. Internal net flows includes legacy assets from the Mature Savings business sold to ReAssure in 2020.
7. Other movements include movements of external holdings in money market funds, other cash mandates and short-term solutions assets.

# Asset and premium flows

## 4.02 LGIM total assets under management[1] half-yearly progression

| For the year ended 31 December 2022 | Index £bn | Active strategies £bn | Multi asset £bn | Solutions[2] £bn | Real assets £bn | Total AUM £bn |
|---|---|---|---|---|---|---|
| **As at 1 January 2022** | **502.4** | **198.8** | **78.0** | **605.1** | **37.2** | **1,421.5** |
| External inflows[3] | 63.2 | 7.0 | 6.8 | 21.3 | 1.4 | 99.7 |
| External outflows[3] | (38.2) | (4.2) | (3.7) | (12.5) | (1.1) | (59.7) |
| Overlay net flows | – | – | – | 25.6 | – | 25.6 |
| **External net flows[4]** | **25.0** | **2.8** | **3.1** | **34.4** | **0.3** | **65.6** |
| PRT transfers[5] | – | – | – | (0.4) | – | (0.4) |
| Internal net flows[6] | (0.4) | 0.2 | – | (0.7) | 0.4 | (0.5) |
| **Total net flows** | **24.6** | **3.0** | **3.1** | **33.3** | **0.7** | **64.7** |
| Market movements | (57.8) | (25.2) | (8.0) | (102.4) | (1.9) | (195.3) |
| Other movements[7] | 0.4 | 1.6 | – | (3.2) | – | (1.2) |
| **As at 30 June 2022** | **469.6** | **178.2** | **73.1** | **532.8** | **36.0** | **1,289.7** |
| External inflows | 32.6 | 9.0 | 6.7 | 68.7 | 1.1 | 118.1 |
| External outflows | (64.4) | (19.3) | (5.6) | (14.7) | (1.0) | (105.0) |
| Overlay net flows | – | – | – | (29.1) | – | (29.1) |
| **External net flows[4]** | **(31.8)** | **(10.3)** | **1.1** | **24.9** | **0.1** | **(16.0)** |
| PRT transfers[5] | (0.2) | (0.4) | – | (2.1) | – | (2.7) |
| Internal net flows[6] | (0.7) | (0.6) | (0.2) | (0.5) | 2.6 | 0.6 |
| **Total net flows** | **(32.7)** | **(11.3)** | **0.9** | **22.3** | **2.7** | **(18.1)** |
| Market movements | 7.6 | (7.9) | (0.1) | (71.5) | (4.3) | (76.2) |
| Other movements[7] | 0.2 | (2.2) | – | 2.3 | – | 0.3 |
| **As at 31 December 2022** | **444.7** | **156.8** | **73.9** | **485.9** | **34.4** | **1,195.7** |

| For the year ended 31 December 2021 | Index £bn | Active strategies £bn | Multi asset £bn | Solutions[2] £bn | Real assets £bn | Total AUM £bn |
|---|---|---|---|---|---|---|
| As at 1 January 2021 | 429.9 | 193.6 | 65.7 | 557.2 | 32.5 | 1,278.9 |
| External inflows[3] | 47.8 | 10.0 | 4.9 | 20.2 | 0.6 | 83.5 |
| External outflows[3] | (43.1) | (7.7) | (3.1) | (8.0) | (0.8) | (62.7) |
| Overlay net flows | – | – | – | 6.6 | – | 6.6 |
| External net flows[4] | 4.7 | 2.3 | 1.8 | 18.8 | (0.2) | 27.4 |
| PRT transfers[5] | (0.4) | (0.5) | – | (2.8) | – | (3.7) |
| Internal net flows[6] | (0.3) | (2.3) | 0.1 | (0.2) | 1.0 | (1.7) |
| Total net flows | 4.0 | (0.5) | 1.9 | 15.8 | 0.8 | 22.0 |
| Market movements | 37.9 | (4.3) | 4.2 | (19.2) | 0.4 | 19.0 |
| Other movements[7] | (0.4) | 1.3 | – | 6.0 | – | 6.9 |
| As at 30 June 2021 | 471.4 | 190.1 | 71.8 | 559.8 | 33.7 | 1,326.8 |
| External inflows[3] | 51.6 | 8.7 | 10.2 | 14.2 | 1.1 | 85.8 |
| External outflows[3] | (51.4) | (8.1) | (5.0) | (17.5) | (1.0) | (83.0) |
| Overlay net flows | – | – | – | 4.4 | – | 4.4 |
| External net flows[4] | 0.2 | 0.6 | 5.2 | 1.1 | 0.1 | 7.2 |
| PRT transfers[5] | (0.2) | (0.2) | – | (0.1) | – | (0.5) |
| Internal net flows[6] | (0.7) | 0.5 | 0.1 | (1.3) | 1.0 | (0.4) |
| Total net flows | (0.7) | 0.9 | 5.3 | (0.3) | 1.1 | 6.3 |
| Market movements | 30.8 | 6.1 | 0.9 | 27.8 | 2.4 | 68.0 |
| Other movements[7] | 0.9 | 1.7 | – | 17.8 | – | 20.4 |
| As at 31 December 2021 | 502.4 | 198.8 | 78.0 | 605.1 | 37.2 | 1,421.5 |

1. Assets under management (AUM) includes assets on our Investment Only Platform, that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £336.6bn (30 June 2022: £386.9bn; 31 December 2021: £383.2bn) of derivative notionals associated with the Solutions business.
3. External inflows and outflows include £3.9bn (30 June 2022: £2.3bn; 31 December 2021: £5.5bn) of external investments and £3.3bn (30 June 2022: £2.0bn; 31 December 2021: £3.0bn) of redemptions in the ETF business.
4. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2022 was £69.1bn (30 June 2022: £68.8bn; 31 December 2021: £71.2bn).
5. PRT transfers reflect UK defined benefit pension scheme buy-outs to LGRI.
6. Internal net flows includes legacy assets from the Mature Savings business sold to ReAssure in 2020.
7. Other movements include movements of external holdings in money market funds, other cash mandates and short-term solutions assets.

# Asset and premium flows

## 4.03 LGIM total external assets under management and net flows

| | Assets under management at | | | | Net flows for the six months ended[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | **31 December 2022 £bn** | **30 June 2022 £bn** | 31 December 2021 £bn | 30 June 2021 £bn | **31 December 2022 £bn** | **30 June 2022 £bn** | 31 December 2021 £bn | 30 June 2021 £bn |
| **International[2]** | **363.6** | **377.0** | 377.3 | 344.8 | **(13.1)** | **34.5** | 14.5 | 15.0 |
| **UK Institutional** | | | | | | | | |
| - Defined contribution | **135.2** | **129.7** | 137.7 | 125.5 | **4.6** | **7.0** | 5.0 | 4.4 |
| - Defined benefit | **547.8** | **630.1** | 733.3 | 689.6 | **(10.0)** | **22.4** | (13.9) | 4.6 |
| **Wholesale[3]** | **48.3** | **45.5** | 49.1 | 45.5 | **2.2** | **1.4** | 1.2 | 1.3 |
| **ETF[4]** | **8.5** | **8.4** | 8.9 | 8.2 | **0.3** | **0.3** | 0.4 | 2.1 |
| **Total external** | **1,103.4** | **1,190.7** | 1,306.3 | 1,213.6 | **(16.0)** | **65.6** | 7.2 | 27.4 |

1. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability.
2. International assets are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £441bn as at 31 December 2022 (31 December 2021: £479bn).
3. Wholesale represents assets from the Retail Intermediary business and £0.3bn of assets from Personal Investing customers that did not migrate to Fidelity International Limited.
4. ETF reflects external AUM and Flows invested on the platform. Total AUM managed on the platform is £10.2bn ($12.3bn) in 2022 (£10.1bn ($13.7bn) in 2021) and Flows are £1.0bn ($1.3bn) (£2.9bn ($3.9bn) in 2021) which include internal investment from other LGIM asset classes.

## 4.04 Reconciliation of assets under management to Consolidated Balance Sheet

| | **2022 £bn** | 2021 £bn |
|---|---|---|
| Assets under management[1] | **1,196** | 1,421 |
| Derivative notionals[1,2] | **(337)** | (383) |
| Third party assets[1,3] | **(412)** | (480) |
| Other[1,4] | **44** | 7 |
| **Total financial investments, investment property and cash and cash equivalents** | **491** | 565 |

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

# Asset and premium flows

## 4.05 Assets under administration

| | Workplace[1] 2022 £bn | Annuities[2] 2022 £bn | Workplace[1] 2021 £bn | Annuities[2] 2021 £bn |
|---|---|---|---|---|
| **As at 1 January** | **65.7** | **89.9** | 50.8 | 87.0 |
| Gross inflows | **10.7** | **10.7** | 11.9 | 8.7 |
| Gross outflows | **(3.4)** | **–** | (3.4) | – |
| Payments to pensioners | **–** | **(5.0)** | – | (4.6) |
| **Net flows** | **7.3** | **5.7** | 8.5 | 4.1 |
| Market and other movements | **(6.4)** | **(23.2)** | 6.4 | (1.2) |
| **As at 31 December** | **66.6** | **72.4** | 65.7 | 89.9 |

1. Workplace assets under administration as at 31 December 2022 includes £66.4bn (2021: £65.6bn) of assets under management included in Note 4.01.
2. Annuities assets under administration as at 31 December 2022 includes £63.8bn (2021: £80.6bn) of assets under management included in Note 4.01.

## 4.06 Assets under administration half-yearly progression

| | Workplace 2022 £bn | Annuities 2022 £bn | Workplace 2021 £bn | Annuities 2021 £bn |
|---|---|---|---|---|
| **As at 1 January** | **65.7** | **89.9** | 50.8 | 87.0 |
| Gross inflows | 6.1 | 5.0 | 7.5 | 3.7 |
| Gross outflows | (1.8) | – | (1.5) | – |
| Payments to pensioners | – | (2.4) | – | (2.2) |
| **Net flows** | **4.3** | **2.6** | 6.0 | 1.5 |
| Market and other movements | (6.9) | (13.7) | 3.4 | (2.7) |
| **As at 30 June** | **63.1** | **78.8** | 60.2 | 85.8 |
| Gross inflows | 4.6 | 5.7 | 4.4 | 5.0 |
| Gross outflows | (1.6) | – | (1.9) | – |
| Payments to pensioners | – | (2.6) | – | (2.4) |
| **Net flows** | **3.0** | **3.1** | 2.5 | 2.6 |
| Market and other movements | 0.5 | (9.5) | 3.0 | 1.5 |
| **As at 31 December** | **66.6** | **72.4** | 65.7 | 89.9 |

# Asset and premium flows

## 4.07 LGRI new business

| | Total 2022 £m | 6 months 31 December 2022 £m | 6 months 30 June 2022 £m | Total 2021 £m | 6 months 31 December 2021 £m | 6 months 30 June 2021 £m |
|---|---|---|---|---|---|---|
| UK[1] | **7,319** | **3,604** | **3,715** | 6,240 | 3,275 | 2,965 |
| US | **1,763** | **1,170** | **593** | 789 | 682 | 107 |
| Bermuda | **459** | **318** | **141** | 147 | 147 | – |
| **Total LGRI new business** | **9,541** | **5,092** | **4,449** | 7,176 | 4,104 | 3,072 |

1. UK includes £93m (H1 22: £nil; H2 22: £93m) (H1 21: £925m; H2 21: £nil) of Assured Payment Policies (APPs).

## 4.08 Retail new business

| | Total 2022 £m | 6 months 31 December 2022 £m | 6 months 30 June 2022 £m | Total 2021 £m | 6 months 31 December 2021 £m | 6 months 30 June 2021 £m |
|---|---|---|---|---|---|---|
| Individual annuities | **954** | **501** | **453** | 957 | 474 | 483 |
| Lifetime mortgage loans and retirement interest only mortgages | **632** | **294** | **338** | 848 | 434 | 414 |
| **Total Retail Retirement new business** | **1,586** | **795** | **791** | 1,805 | 908 | 897 |
| UK Retail protection | **171** | **86** | **85** | 200 | 95 | 105 |
| UK Group protection | **107** | **44** | **63** | 88 | 33 | 55 |
| US protection[1] | **104** | **56** | **48** | 91 | 48 | 43 |
| **Total Insurance new business** | **382** | **186** | **196** | 379 | 176 | 203 |
| **Total Retail new business** | **1,968** | **981** | **987** | 2,184 | 1,084 | 1,100 |

1. In local currency, US protection reflects new business of $129m for 2022 (H1 22: $62m; H2 22: $67m), and $124m for 2021 (H1 21: $59m; H2 21: $65m).

## 4.09 Gross written premiums on insurance business

| | Total 2022 £m | 6 months 31 December 2022 £m | 6 months 30 June 2022 £m | Total 2021 £m | 6 months 31 December 2021 £m | 6 months 30 June 2021 £m |
|---|---|---|---|---|---|---|
| UK Retail protection | **1,485** | **745** | **740** | 1,444 | 730 | 714 |
| UK Group protection | **427** | **136** | **291** | 405 | 131 | 274 |
| US protection[1] | **1,222** | **648** | **574** | 1,053 | 541 | 512 |
| Longevity insurance | **309** | **155** | **154** | 307 | 155 | 152 |
| **Total gross written premiums on insurance business** | **3,443** | **1,684** | **1,759** | 3,209 | 1,557 | 1,652 |

1. In local currency, US protection reflects gross written premiums of $1,512m for 2022 (H1 22: $746m; H2 22: $766m), and $1,449m for 2021 (H1 21: $712m; H2 21: $737m).

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# Capital

### 5.01 Group regulatory capital – Solvency II

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

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

The group calculates its Solvency II capital requirements using a Partial Internal Model.

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

#### (a) Capital position

As at 31 December 2022, and on the above basis, the group had a surplus of £9,915m (31 December 2021: £8,185m) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio of 236% (31 December 2021: 187%). The Solvency II capital position is as follows:

| | 2022<br>£m | 2021<br>£m |
|---|---|---|
| Unrestricted Tier 1 Own Funds | 13,393 | 13,254 |
| Restricted Tier 1 Own Funds[1] | 495 | 495 |
| Tier 2 Subordinated liabilities | 3,448 | 3,995 |
| Eligibility restrictions | (110) | (183) |
| **Solvency II Own Funds[2,3]** | **17,226** | 17,561 |
| Solvency Capital Requirement | (7,311) | (9,376) |
| **Solvency II surplus** | **9,915** | 8,185 |
| **SCR Coverage ratio** | **236%** | 187% |

1. Restricted Tier 1 Own Funds represent perpetual restricted Tier 1 contingent convertible notes.
2. Solvency II Own Funds do not include an accrual for the final dividend of £829m (31 December 2021: £790m) declared after the balance sheet date.
3. Solvency II Own Funds allow for a Risk Margin of £2,753m (31 December 2021: £5,488m) and TMTP of £2,136m (31 December 2021: £4,736m).

### 5.01 Group regulatory capital – Solvency II (continued)

#### (b) Methodology

Own Funds comprise the excess of the value of assets over the liabilities, as valued on a Solvency II basis. Subordinated debt issued by the group is considered to be part of available capital, rather than a liability, as it is subordinate to policyholder claims. Own Funds include deductions in relation to fungibility and transferability restrictions, to the extent that the surplus Own Funds of a specific group entity cannot be freely transferred around the group due to local legal or regulatory constraints.

Assets are valued at IFRS fair value with adjustments to remove intangibles and deferred acquisition costs, and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Solvency II balance sheet.

Liabilities are valued on a best estimate market consistent basis, with the application of a Solvency II Matching Adjustment for valuing annuity liabilities. Own Funds incorporate changes to the Internal Model and Matching Adjustment during 2022 and the impacts of a recalculation of the TMTP as at end December 2022. The recalculated TMTP of £2,136m (31 December 2021: £4,736m) is net of amortisation to 31 December 2022.

The liabilities include a Risk Margin of £2,753m (31 December 2021: £5,488m) which represents an allowance for the cost of capital for a purchasing insurer to take on the portfolio of liabilities and residual risks that are deemed to be non-hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed by the Solvency II regulations.

The Solvency Capital Requirement is the amount of capital required to cover the 1-in-200 worst projected future outcome in the year following the valuation, allowing for realistic management and policyholder actions and the impact of the stress on the tax position of the group. This allows for diversification between the different firms within the group and between the risks to which they are exposed.

All material EEA insurance firms, including Legal and General Assurance Society Limited (LGAS) and Legal and General Assurance (Pensions Management) Limited, are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (L&G Re) based in Bermuda) contribute over 90% of the group's SCR.

Insurance firms for which the capital requirements are less material are valued on a Solvency II Standard Formula basis. Firms which are not regulated but which carry material risks to the group's solvency are modelled in the Internal Model on the basis of applying an appropriate stress to their net asset value.

Legal & General America's insurance entities (LGA) are incorporated into the calculation of group solvency using a Deduction & Aggregation (D&A) basis. All risk exposure in these firms is valued on a local statutory basis, with capital requirements set to a multiple of local statutory Risk Based Capital (RBC) and further restrictions on the surplus contribution to the group. The US regulatory regime is considered to be equivalent to Solvency II by the European Commission. The contribution to group SCR is 150% of the local Company Action Level RBC (CAL RBC). The contribution to group's Own Funds is the SCR together with any surplus capital in excess of 250% of CAL RBC.

Legal & General Reinsurance Company No.2 Limited (L&G Re 2) and Legal & General America Reinsurance Limited (a new subsidiary incorporated in 2022) are also incorporated into the calculation of group solvency using a D&A basis. All risk exposure in these firms is valued on a Bermudan capital basis, with capital requirements set equal to the Bermudan capital requirement and Own Funds contribution restricted by 20% of the capital. The Bermuda regulatory regime is also considered to be equivalent to Solvency II by the European Commission.

All non-insurance regulated firms are included using their current regulatory surplus.

Allowance is made within the Solvency II balance sheet for the group's defined benefit pension schemes using results on an IFRS basis. Within the SCR an allowance is made by stressing the IFRS position using the same Internal Model basis as for the insurance firms.

#### (c) Assumptions

The calculation of the Solvency II balance sheet and associated capital requirements requires a number of assumptions, including:

i. Demographic assumptions required to project best estimate liability cash flows are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins.
ii. Future investment returns and discount rates to derive the present value of best estimate liability cash flows are those defined by the PRA. The risk-free rates used to discount UK Sterling cashflows are SONIA-based market swap rates. For non-UK Sterling liabilities, the risk-free rates used to discount cash flows include a credit risk adjustment that varies by currency.
iii. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and L&G Re and by the currency of the relevant liabilities. At 31 December 2022 the Matching Adjustment for UK Sterling was 141 basis points (31 December 2021: 104 basis points) after deducting an allowance for the fundamental spread equivalent to 55 basis points (31 December 2021: 54 basis points).
iv. Assumptions regarding management actions and policyholder behaviour across the full range of scenarios. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date.
v. Assumptions regarding the volatility of the risks to which the group is exposed. Assumptions have been set using a combination of historic market, demographic and operating experience data. In areas where data is not considered robust, expert judgement has been used.
vi. Assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

## 5.01 Group regulatory capital – Solvency II (continued)

### (d) Analysis of change

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

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

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

| | 2022 Own Funds £m | 2022 SCR £m | 2022 Surplus £m |
|---|---|---|---|
| Opening position | **17,561** | **(9,376)** | **8,185** |
| Operational Surplus Generation[1] | **1,409** | **396** | **1,805** |
| New business strain | **333** | **(685)** | **(352)** |
| **Net surplus generation** | **1,742** | **(289)** | **1,453** |
| Operating variances[2] | | | **(327)** |
| Market movements[3] | | | **1,720** |
| M&A, portfolio and business transfers | | | **–** |
| Subordinated liabilities | | | **–** |
| Dividends paid[4] | | | **(1,116)** |
| **Total surplus movement (after dividends paid in the year)** | **(335)** | **2,065** | **1,730** |
| **Closing position** | **17,226** | **(7,311)** | **9,915** |

1. Operational Surplus Generation includes a £358m release of Risk Margin and £(342)m amortisation of the TMTP.
2. Operating variances include the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix.
3. Market movements represent the impact of changes in investment market conditions during the year and changes to future economic assumptions. The movement during the year primarily reflects the impact of rising rates on the valuation of the balance sheet, partially offset by weaker asset markets, predominantly in equities, credit spread dispersion in sub-investment grade assets, as well as a number of other, smaller variances.
4. Dividends paid are the amounts from the 2021 final dividend and the 2022 interim dividend.

## 5.01 Group regulatory capital – Solvency II (continued)

### (d) Analysis of change (continued)

The table below shows the movement (net of tax) during the year ended 31 December 2021 in the group's Solvency II surplus.

| | 2021 Own Funds £m | 2021 SCR £m | 2021 Surplus £m |
|---|---|---|---|
| Opening position | 17,316 | (9,880) | 7,436 |
| Operational Surplus Generation[1] | 1,144 | 492 | 1,636 |
| New business strain | 330 | (684) | (354) |
| Net surplus generation | 1,474 | (192) | 1,282 |
| Operating variances[2] | | | 26 |
| Market movements[3] | | | 727 |
| M&A, portfolio and business transfers[4] | | | 77 |
| Subordinated liabilities[5] | | | (300) |
| Dividends paid[6] | | | (1,063) |
| Total surplus movement (after dividends paid in the year) | 245 | 504 | 749 |
| Closing position | 17,561 | (9,376) | 8,185 |

1. Operational Surplus Generation includes a £612m release of Risk Margin and £(433)m amortisation of the TMTP.
2. Operating variances include the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix.
3. Market movements represent the impact of changes in investment market conditions over the year and changes to future economic assumptions.
4. M&A, portfolio and business transfers include the impact of the sale of the Personal Investment business.
5. Subordinated liabilities reflect the redemption of £300m debt issued in 2009.
6. Dividends paid are the amounts from the 2020 final dividend and the 2021 interim dividend.

### (e) Future Solvency II surplus generation – UK annuities

The table below shows a projection of future OSG expected from the £66.2bn (2021: £85.7bn) UK annuity portfolio as at 31 December 2022. The projection excludes any allowance for future new business.

The table shows the OSG from all of the group's divisions that are involved in the management of the annuity business, i.e. Retail, Legal & General Capital and Legal & General Investment Management. The impact of management actions is excluded; we expect management actions to contribute up to £200m each year.

| | **2022 £bn** | **2023 £bn** | **2024 £bn** | **2025 £bn** | **2026 £bn** | **2027-2031 £bn** | **2032-2040 £bn** | **Total 2022-2040 £bn** |
|---|---|---|---|---|---|---|---|---|
| Annuity back book OSG[1] | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 2.3 | 4.7 | **10.0** |
| L&G Other | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.6 | 0.7 | **2.2** |
| **Total OSG for UK Annuity back book** | **0.9** | **0.8** | **0.8** | **0.8** | **0.6** | **2.9** | **5.4** | **12.2** |

1. Annuity back book OSG does not include new business.

### 5.01 Group regulatory capital – Solvency II (continued)

#### (f) Reconciliation of IFRS Release from operations to Solvency II Operational surplus generation

(i) The table below provides a reconciliation of the group's IFRS Release from operations to Solvency II OSG:

| | 2022 £m | 2021 £m |
|---|---|---|
| **IFRS Release from operations** | **1,625** | 1,441 |
| Expected release of IFRS prudential margins | **(577)** | (496) |
| Releases of IFRS specific reserves[1] | **(158)** | (162) |
| Solvency II investment margin[2,3] | **198** | 213 |
| Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation | **717** | 640 |
| **Solvency II Operational surplus generation[4]** | **1,805** | 1,636 |

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long-term longevity and expense margins).
2. Release of prudence related to differences between the PRA defined Fundamental Spread and the prudent IFRS default assumption.
3. Expected market returns earned on LGRI's free assets in excess of risk-free rates over 2022.
4. Solvency II OSG includes management actions which at the start of 2022 were reasonably expected to be implemented over the year.

(ii) The table below provides a reconciliation of the group's IFRS New business surplus to Solvency II New business strain:

| | 2022 £m | 2021 £m |
|---|---|---|
| **IFRS New business surplus** | **294** | 247 |
| Removal of requirement to set up prudential margins above best estimate on new business | **222** | 280 |
| Set up of SCR on new business | **(685)** | (684) |
| Set up of Risk Margin on new business | **(183)** | (197) |
| **Solvency II New business strain[1]** | **(352)** | (354) |

1. UK PRT PVNBP during 2022 was £6.5bn (2021: £6.1bn).

#### (g) Reconciliation of IFRS equity to Solvency II Own Funds

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

| | 2022 £m | 2021 £m |
|---|---|---|
| **IFRS equity[1]** | **12,168** | 10,981 |
| Remove DAC, goodwill and other intangible assets and associated liabilities | **(502)** | (406) |
| Add IFRS carrying value of subordinated borrowings[2] | **3,823** | 3,700 |
| Insurance contract valuation differences[3] | **2,518** | 4,132 |
| Difference in value of net deferred tax liabilities | **(608)** | (716) |
| Other | **(63)** | 53 |
| Eligibility restrictions | **(110)** | (183) |
| **Solvency II Own Funds[4]** | **17,226** | 17,561 |

1. IFRS equity represents equity attributable to owners of the parent and restricted Tier 1 convertible debt note as per the Consolidated Balance Sheet.
2. The IFRS carrying value of subordinated borrowings are treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
3. Insurance contract valuation differences are differences in the measurement of technical provisions between IFRS and Solvency II.
4. Solvency II Own Funds do not include an accrual for the final dividend of £829m (31 December 2021: £790m) declared after the balance sheet date.

# Capital

## 5.01 Group regulatory capital – Solvency II (continued)

### (h) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2022 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

| | **Impact on net of tax Solvency II capital surplus 2022 £bn** | **Impact on net of tax Solvency II coverage ratio 2022 %** | Impact on net of tax Solvency II capital surplus 2021 £bn | Impact on net of tax Solvency II coverage ratio 2021 % |
|---|---|---|---|---|
| 100bps increase in risk-free rates[1] | **0.5** | **18** | 0.9 | 19 |
| 100bps decrease in risk-free rates[1,2] | **(0.6)** | **(19)** | (1.3) | (22) |
| Credit spreads widen by 100bps assuming an escalating addition to ratings[3,4] | **0.3** | **13** | 0.6 | 13 |
| Credit spreads narrow by 100bps assuming an escalating deduction from ratings[3,4] | **(0.4)** | **(16)** | (0.6) | (14) |
| Credit spreads widen by 100bps assuming a flat addition to ratings[3] | **0.3** | **14** | 0.7 | 14 |
| Credit spreads of sub investment grade assets widen by 100bps assuming a level addition to ratings[3,5] | **(0.3)** | **(7)** | (0.4) | (7) |
| Credit migration[6] | **(0.8)** | **(10)** | (0.9) | (10) |
| 25% fall in equity markets[7] | **(0.4)** | **(3)** | (0.5) | (3) |
| 15% fall in property markets[8] | **(0.9)** | **(11)** | (0.8) | (7) |
| 50bps increase in future inflation expectations[1] | **(0.1)** | **(3)** | – | (2) |
| 10% increase in maintenance expenses[9] | **(0.3)** | **(4)** | (0.3) | (3) |
| Substantially reduced Risk Margin[10] | **0.5** | **7** | 0.6 | 7 |

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

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

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

## 5.01 Group regulatory capital – Solvency II (continued)

### (i) Analysis of Group Solvency Capital Requirement

The table below shows a breakdown of the group's SCR by risk type. The split is shown before the effects of diversification and tax.

| | 2022 % | 2021 % |
|---|---|---|
| Interest rate | **3** | 4 |
| Equity | **6** | 5 |
| Property | **12** | 8 |
| Credit[1] | **27** | 25 |
| Currency | **2** | 2 |
| Inflation | **5** | 7 |
| **Total Market risk**[2] | **55** | 51 |
| **Counterparty risk** | **2** | 4 |
| Life mortality | **3** | 2 |
| Life longevity[3] | **18** | 27 |
| Life mass lapse | **3** | 2 |
| Life non-mass lapse | **2** | 2 |
| Life catastrophe | **6** | 4 |
| Expense | **3** | 2 |
| **Total Insurance risk** | **35** | 39 |
| Non-life underwriting | **-** | - |
| Operational risk | **5** | 4 |
| Miscellaneous[4] | **3** | 2 |
| **Total SCR** | **100** | 100 |

1. Credit risk is one of the group's most significant exposures, arising predominantly from the portfolio of bonds and bond-like assets backing the group's annuity business.
2. In addition to credit risk the group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked business.
3. Longevity risk is the group's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk on the back-book is retained. However, we expect this to reduce over time as we continue to reinsure the majority of the exposure on the new business written post the implementation of Solvency II. Longevity SCR reduced significantly over the year as a result of the increase in risk-free rates.
4. Miscellaneous includes LGA and L&G Re 2 on a Deduction and Aggregation basis and the sectoral capital requirements for non-insurance regulated firms.

### 5.02 Estimated Solvency II new business contribution

#### (a) New business by product[1]

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

| | PVNBP[2] 2022 £m | Contribution from new business[3] 2022 £m | Margin[4] 2022 % | PVNBP[2] 2021 £m | Contribution from new business[3] 2021 £m | Margin[4] 2021 % |
|---|---|---|---|---|---|---|
| **LGRI - UK annuity business** | **6,484** | **575** | **8.9** | 6,059 | 574 | 9.5 |
| **Retail Retirement - UK annuity business** | **954** | **60** | **6.3** | 957 | 61 | 6.4 |
| **UK Protection Total** | **1,512** | **82** | **5.4** | 1,883 | 149 | 7.9 |
| - Retail Protection | 1,073 | 51 | 4.7 | 1,476 | 120 | 8.1 |
| - Group Protection | 439 | 31 | 7.0 | 407 | 29 | 7.1 |
| **US Protection[5]** | **796** | **84** | **10.6** | 842 | 113 | 13.4 |

1. New business includes selected lines of business only.
2. PVNBP is net of quota share reinsurance single premium of £835m (31 December 2021: £181m) relating to LGRI new business.
3. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the year using the risk discount rate applicable at the end of the year.
4. Margin is based on unrounded inputs.
5. In local currency, US protection business reflects PVNBP of $985m (31 December 2021: $1,159m) and a contribution from new business of $104m (31 December 2021: $155m).

The decrease in the LGRI margin was driven by a shorter average duration for schemes written in 2022 compared to the schemes written in 2021.

The UK Protection margin decrease was driven by changes in the expense ratio, movements in product mix and changes in market conditions in 2022.

The US Protection business margin, whilst remaining strong, reduced compared to 2021. The decrease was driven by product and premium rate changes.

### 5.02 Estimated Solvency II new business contribution (continued)

#### (b) Assumptions

The key economic assumptions are as follows:

| | 2022 % | 2021 % |
|---|---|---|
| **Margin for Risk** | **4.4** | 4.1 |
| **Risk-free rate** | | |
| - UK | **3.6** | 0.9 |
| - US | **3.9** | 1.5 |
| **Risk discount rate (net of tax)** | | |
| - UK | **8.0** | 5.0 |
| - US | **8.3** | 5.6 |
| **Long-term rate of return on annuities** | **5.7** | 2.5 |

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

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

- The assumed future pre-tax returns on fixed interest and RPI-linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2022 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 19 basis points.

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

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

## 5.02 Estimated Solvency II new business contribution (continued)

### (c) Methodology

**Basis of preparation**

Solvency II new business contribution reflects the portion of Solvency II value added by new business written in the period. It has been calculated in a manner consistent with principles and methodologies as set out in the group's 2022 Annual Report and Accounts.

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

Intra-group reinsurance arrangements are in place between US, UK and Bermudan businesses and it is expected that these arrangements will be periodically extended to cover recent new business. The US protection new business margin assumes that the new business will continue to be reinsured in 2022 and looks through the intra-group arrangements.

**Description of methodology**

The objective of the Solvency II new business contribution is to provide shareholders with information on the long-term contribution of new business written in 2022.

The Solvency II new business contribution has been calculated as the present value of future shareholder profits arising from business written in 2022. Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Best estimate assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience.

The PVNBP is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the calculation of the new business contribution for the financial period.

The new business margin is defined as new business contribution divided by the PVNBP. The premium volumes used to calculate the PVNBP are the same as those used to calculate new business contribution.

LGA is consolidated into the group solvency balance sheet on a US Statutory solvency basis. Intra-group reinsurance arrangements are in place between US, UK and Bermudan businesses and it is expected that these arrangements will be periodically extended to cover future new business. The LGA new business margin looks through the intra-group arrangements.

**Projection assumptions**

Cash flow projections are determined using best estimate assumptions for each component of cash flow for each line of business. Future economic and investment return assumptions are based on conditions at the end of the financial period.

Detailed projection assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are normally reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to new business, even if incurred elsewhere in the group, are allocated to the new business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

**Tax**

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with substantively enacted future changes.

**Risk discount rate**

The risk discount rate (RDR) is duration-based and is a combination of the risk-free curve and a flat Margin for Risk.

The GBP risk-free rates have been based on a SONIA-based swap curve with no Credit Risk Adjustment. The USD swap curve includes a credit risk adjustment of 10 basis points (2021: credit risk adjustment of 10 basis points)

The Margin for Risk has been determined based on an assessment of the group's Weighted Average Cost of Capital (WACC). This assessment incorporates a beta for the group, which measures the correlation of movements in the group's share price to movements in a relevant index. Beta values therefore allow for the market's assessment of the risks inherent in the business relative to other companies in the chosen index.

## 5.02 Estimated Solvency II new business contribution (continued)

### (c) Methodology (continued)

The WACC is derived from the group's cost of equity, cost of debt, and the proportion of equity to debt in the group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk-free rate plus the equity risk premium for the chosen index multiplied by the company's beta.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long-term debt. All debt interest attracts tax relief at a time adjusted rate of 25% (31 December 2021: 24%).

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital and the inherent strength of the group's regulatory reserves, is appropriate to reflect the risks within the covered business.

### (d) Reconciliation of PVNBP to gross written premium

| | Notes | **2022 £bn** | 2021 £bn |
|---|---|---|---|
| **PVNBP** | 5.02(a) | **9.7** | 9.7 |
| Effect of capitalisation factor | | **(1.5)** | (2.1) |
| **New business premiums from selected lines** | | **8.2** | 7.6 |
| Other[1] | | **3.3** | 1.8 |
| **Total LGRI and Retail new business** | 4.07,4.08 | **11.5** | 9.4 |
| Annualisation impact of regular premium long-term business | | **(0.2)** | (0.2) |
| IFRS gross written premiums from existing long-term insurance business | | **3.5** | 3.3 |
| Deposit accounting for investment products | | **(1.1)** | (2.1) |
| **Total gross written premiums[2]** | | **13.7** | 10.4 |

1. Other principally includes annuity sales in the US, lifetime mortgage loans and retirement interest only mortgages, and quota share reinsurance premiums.
2. Total gross written premiums include £118m (2021: £109m) of gross written premiums relating to a residual reinsurance treaty following the disposal of the General Insurance business in 2019.

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# Investments

## 6.01 Investment portfolio

| | Market value 2022 £m | Market value 2021 £m |
|---|---|---|
| Worldwide total assets under management[1] | **1,202,676** | 1,426,462 |
| Client and policyholder assets | **(1,073,126)** | (1,309,772) |
| **Investments to which shareholders are directly exposed** | **129,550** | 116,690 |

1. Worldwide total assets under management include LGIM AUM and other group assets not managed by LGIM.

### Analysed by investment class:

| | Notes | Annuity[1] investments 2022 £m | LGC[2] investments 2022 £m | Other shareholder investments 2022 £m | Total 2022 £m | Total 2021 £m |
|---|---|---|---|---|---|---|
| Equities | | **95** | **2,576** | **400** | **3,071** | 3,185 |
| Bonds | 6.03 | **66,825** | **1,249** | **2,589** | **70,663** | 86,803 |
| Derivative assets[3] | | **41,641** | **337** | **–** | **41,978** | 13,203 |
| Property | 6.04 | **5,037** | **607** | **–** | **5,644** | 5,710 |
| Loans[4] | | **785** | **238** | **77** | **1,100** | 2,332 |
| **Financial investments** | | **114,383** | **5,007** | **3,066** | **122,456** | 111,233 |
| Cash and cash equivalents | | **2,631** | **1,418** | **785** | **4,834** | 3,596 |
| Other assets[5] | | **110** | **2,133** | **17** | **2,260** | 1,861 |
| **Total investments** | | **117,124** | **8,558** | **3,868** | **129,550** | 116,690 |

1. Annuity investments includes products held within the LGRI and Retail Retirement portfolios including lifetime mortgage loans and retirement interest only mortgages.
2. LGC investments includes £95m (2021: £nil) of Legal & General Reinsurance Company Limited's assets managed by LGC, along with £122m (31 December 2021: £54m) of bonds and equities that belong to other shareholder funds.
3. Derivative assets are shown gross of derivative liabilities of £46.1bn (31 December 2021: £14.1bn). Exposures arise from use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, currency swaps and foreign exchange forward contracts for assets and liability management.
4. Loans include reverse repurchase agreements of £1,072m (31 December 2021: £2,240m).
5. Other assets include finance leases of £110m (31 December 2021: £86m), associates and joint ventures of £554m (31 December 2021: £375m) and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

# Investments

## 6.02 Direct investments

### (a) Total investments analysed by asset class

| | Direct[1] investments 2022 £m | Traded[2] securities 2022 £m | Total 2022 £m | Direct[1] investments 2021 £m | Traded[2] securities 2021 £m | Total 2021 £m |
|---|---|---|---|---|---|---|
| Equities | **1,704** | **1,367** | **3,071** | 1,248 | 1,937 | 3,185 |
| Bonds[3] | **22,070** | **48,593** | **70,663** | 24,237 | 62,566 | 86,803 |
| Derivative assets | **–** | **41,978** | **41,978** | – | 13,203 | 13,203 |
| Property[4] | **5,644** | **–** | **5,644** | 5,710 | – | 5,710 |
| Loans | **–** | **1,100** | **1,100** | 63 | 2,269 | 2,332 |
| **Financial investments** | **29,418** | **93,038** | **122,456** | 31,258 | 79,975 | 111,233 |
| Cash and cash equivalents | **56** | **4,778** | **4,834** | 114 | 3,482 | 3,596 |
| Other assets | **2,260** | **–** | **2,260** | 1,861 | – | 1,861 |
| **Total investments** | **31,734** | **97,816** | **129,550** | 33,233 | 83,457 | 116,690 |

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but excluded hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a direct investment, then it is classed as a traded security.
3. Bonds include lifetime mortgage loans of £4,844m (31 December 2021: £6,857m).
4. A further breakdown of property is provided in Note 6.04.

# Investments

## 6.02 Direct investments (continued)

### (b) Direct investments analysed by asset portfolio

| | Annuity[1] 2022 £m | Shareholder[2] 2022 £m | Insurance[3] 2022 £m | Total 2022 £m |
|---|---|---|---|---|
| Equities | **51** | **1,417** | **236** | **1,704** |
| Bonds[4] | **20,736** | **71** | **1,263** | **22,070** |
| Property | **5,037** | **607** | **–** | **5,644** |
| Loans | **–** | **–** | **–** | **–** |
| **Financial investments** | **25,824** | **2,095** | **1,499** | **29,418** |
| Other assets, cash and cash equivalents | **110** | **2,189** | **17** | **2,316** |
| **Total direct investments** | **25,934** | **4,284** | **1,516** | **31,734** |

| | Annuity[1] 2021 £m | Shareholder[2] 2021 £m | Insurance[3] 2021 £m | Total 2021 £m |
|---|---|---|---|---|
| Equities | 12 | 1,124 | 112 | 1,248 |
| Bonds[4] | 23,029 | 3 | 1,205 | 24,237 |
| Property | 5,286 | 424 | – | 5,710 |
| Loans | – | 63 | – | 63 |
| Financial investments | 28,327 | 1,614 | 1,317 | 31,258 |
| Other assets, cash and cash equivalents | 96 | 1,879 | – | 1,975 |
| Total direct investments | 28,423 | 3,493 | 1,317 | 33,233 |

1. Annuity investments includes products held within the LGRI and Retail Retirement portfolios including lifetime mortgage loans & retirement interest only mortgages.
2. Shareholder primarily includes the LGC direct investment portfolio and £95m (2021: £nil) of Legal & General Reinsurance Company Limited's assets managed by LGC, along with £122m (31 December 2021: £54m) of bonds and equities that belong to other shareholder funds.
3. Insurance primarily includes assets backing the group's US protection business.
4. Bonds include lifetime mortgage loans of £4,844m (31 December 2021: £6,857m).

# Investments

## 6.03 Bond portfolio summary

### (a) Sectors analysed by credit rating

| As at 31 December 2022 | AAA £m | AA £m | A £m | BBB £m | BB or below £m | Other £m | Total[2] £m | Total[2] % |
|---|---|---|---|---|---|---|---|---|
| **Sovereigns, Supras and Sub-Sovereigns** | 1,718 | 5,548 | 805 | 111 | 7 | 3 | 8,192 | 12 |
| **Banks:** | | | | | | | | |
| - Tier 1 | – | – | – | – | – | 1 | 1 | – |
| - Tier 2 and other subordinated | – | – | 83 | 66 | 3 | – | 152 | – |
| - Senior | – | 1,179 | 2,300 | 998 | 2 | – | 4,479 | 6 |
| - Covered | 114 | – | – | – | – | – | 114 | – |
| **Financial Services:** | | | | | | | | |
| - Tier 2 and other subordinated | 32 | 94 | 52 | 20 | 7 | 4 | 209 | – |
| - Senior | 49 | 235 | 592 | 561 | – | – | 1,437 | 2 |
| **Insurance:** | | | | | | | | |
| - Tier 2 and other subordinated | 53 | 138 | 23 | 53 | – | – | 267 | – |
| - Senior | 6 | 186 | 342 | 407 | – | – | 941 | 1 |
| **Consumer Services and Goods:** | | | | | | | | |
| - Cyclical | – | 18 | 1,128 | 1,870 | 161 | 8 | 3,185 | 5 |
| - Non-cyclical | 310 | 830 | 2,431 | 3,300 | 166 | – | 7,037 | 10 |
| - Healthcare | – | 611 | 916 | 754 | 4 | – | 2,285 | 3 |
| **Infrastructure:** | | | | | | | | |
| - Social | 170 | 800 | 3,402 | 1,079 | 70 | – | 5,521 | 8 |
| - Economic | 244 | 151 | 993 | 3,343 | 173 | – | 4,904 | 7 |
| **Technology and Telecoms** | 134 | 365 | 1,201 | 2,687 | 17 | 1 | 4,405 | 6 |
| **Industrials** | – | 60 | 702 | 677 | 23 | – | 1,462 | 2 |
| **Utilities** | 531 | 582 | 4,648 | 4,971 | 27 | – | 10,759 | 15 |
| **Energy** | – | – | 322 | 801 | 42 | – | 1,165 | 2 |
| **Commodities** | – | – | 301 | 658 | 25 | 15 | 999 | 1 |
| **Oil and Gas** | – | 483 | 805 | 302 | 67 | 52 | 1,709 | 3 |
| **Real estate** | – | 24 | 1,865 | 1,850 | 90 | 2 | 3,831 | 6 |
| **Structured finance ABS / RMBS / CMBS / Other** | 683 | 851 | 565 | 585 | 21 | 8 | 2,713 | 4 |
| **Lifetime mortgage loans[1]** | 3,246 | 824 | 428 | 336 | – | 10 | 4,844 | 7 |
| **CDOs** | – | 41 | – | 11 | – | – | 52 | – |
| **Total £m** | 7,290 | 13,020 | 23,904 | 25,440 | 905 | 104 | 70,663 | 100 |
| **Total %** | 11 | 18 | 34 | 36 | 1 | – | 100 | |

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by investments backing LGRI's and Retail Retirement's annuity business. These account for £66,825m, representing 95% of the total group portfolio.

# Investments

### 6.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

| As at 31 December 2021 | AAA £m | AA £m | A £m | BBB £m | BB or below £m | Other £m | Total[2] £m | Total[2] % |
|---|---|---|---|---|---|---|---|---|
| Sovereigns, Supras and Sub-Sovereigns | 2,008 | 10,348 | 1,302 | 360 | 9 | – | 14,027 | 16 |
| Banks: | | | | | | | | |
| - Tier 1 | – | – | – | – | – | – | – | – |
| - Tier 2 and other subordinated | – | – | 56 | 36 | 3 | – | 95 | – |
| - Senior | 95 | 1,858 | 3,998 | 738 | 1 | – | 6,690 | 8 |
| - Covered | 138 | – | – | – | – | – | 138 | – |
| Financial Services: | | | | | | | | |
| - Tier 2 and other subordinated | – | 111 | 60 | 72 | – | 8 | 251 | – |
| - Senior | 57 | 416 | 422 | 315 | – | – | 1,210 | 1 |
| Insurance: | | | | | | | | |
| - Tier 2 and other subordinated | 61 | 192 | 32 | 62 | – | – | 347 | – |
| - Senior | 4 | 196 | 460 | 535 | – | – | 1,195 | 1 |
| Consumer Services and Goods: | | | | | | | | |
| - Cyclical | – | 33 | 1,399 | 1,760 | 206 | – | 3,398 | 4 |
| - Non-cyclical | 350 | 1,003 | 2,737 | 3,836 | 346 | – | 8,272 | 10 |
| - Healthcare | – | 690 | 837 | 889 | 5 | – | 2,421 | 3 |
| Infrastructure: | | | | | | | | |
| - Social | 215 | 780 | 5,001 | 900 | 79 | – | 6,975 | 8 |
| - Economic | 303 | 50 | 1,121 | 4,294 | 191 | – | 5,959 | 7 |
| Technology and Telecoms | 177 | 307 | 1,530 | 3,024 | 22 | 2 | 5,062 | 6 |
| Industrials | – | 31 | 688 | 558 | 30 | – | 1,307 | 2 |
| Utilities | 27 | 206 | 5,666 | 5,947 | 30 | – | 11,876 | 14 |
| Energy | – | – | 385 | 840 | 16 | – | 1,241 | 1 |
| Commodities | – | – | 365 | 889 | 8 | – | 1,262 | 1 |
| Oil and Gas | – | 546 | 971 | 387 | 271 | – | 2,175 | 3 |
| Real estate | – | 16 | 1,802 | 1,587 | 122 | – | 3,527 | 4 |
| Structured finance ABS / RMBS / CMBS / Other | 450 | 860 | 445 | 668 | 28 | – | 2,451 | 3 |
| Lifetime mortgage loans[1] | 4,238 | 1,550 | 584 | 470 | – | 15 | 6,857 | 8 |
| CDOs | – | – | 54 | 13 | – | – | 67 | – |
| Total £m | 8,123 | 19,193 | 29,915 | 28,180 | 1,367 | 25 | 86,803 | 100 |
| Total % | 9 | 22 | 35 | 32 | 2 | – | 100 | |

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by investments backing LGRI's and Retail Retirement's annuity business. These account for £81,812m, representing 94% of the total group portfolio.

# Investments

### 6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile

| As at 31 December 2022 | UK £m | USA £m | EU £m | Rest of the World £m | Total £m |
|---|---|---|---|---|---|
| **Sovereigns, Supras and Sub-Sovereigns** | **5,209** | **1,754** | **614** | **615** | **8,192** |
| **Banks** | **1,089** | **1,899** | **721** | **1,037** | **4,746** |
| **Financial Services** | **399** | **539** | **520** | **188** | **1,646** |
| **Insurance** | **108** | **1,007** | **20** | **73** | **1,208** |
| **Consumer Services and Goods:** | | | | | |
| - Cyclical | **549** | **2,130** | **298** | **208** | **3,185** |
| - Non-cyclical | **1,809** | **4,764** | **296** | **168** | **7,037** |
| - Healthcare | **234** | **1,986** | **64** | **1** | **2,285** |
| **Infrastructure:** | | | | | |
| - Social | **4,610** | **704** | **150** | **57** | **5,521** |
| - Economic | **3,444** | **832** | **256** | **372** | **4,904** |
| **Technology and Telecoms** | **363** | **2,963** | **577** | **502** | **4,405** |
| **Industrials** | **192** | **823** | **292** | **155** | **1,462** |
| **Utilities** | **5,579** | **2,840** | **1,855** | **485** | **10,759** |
| **Energy** | **266** | **670** | **13** | **216** | **1,165** |
| **Commodities** | **35** | **415** | **113** | **436** | **999** |
| **Oil and Gas** | **158** | **508** | **642** | **401** | **1,709** |
| **Real estate** | **1,805** | **1,225** | **571** | **230** | **3,831** |
| **Structured finance ABS / RMBS / CMBS / Other** | **641** | **1,666** | **44** | **362** | **2,713** |
| **Lifetime mortgage loans** | **4,801** | **–** | **43** | **–** | **4,844** |
| **CDOs** | **–** | **–** | **–** | **52** | **52** |
| **Total** | **31,291** | **26,725** | **7,089** | **5,558** | **70,663** |

### 6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

| As at 31 December 2021 | UK £m | USA £m | EU £m | Rest of the World £m | Total £m |
|---|---|---|---|---|---|
| Sovereigns, Supras and Sub-Sovereigns | 9,829 | 1,892 | 1,244 | 1,062 | 14,027 |
| Banks | 2,253 | 1,799 | 1,956 | 915 | 6,923 |
| Financial Services | 425 | 429 | 517 | 90 | 1,461 |
| Insurance | 113 | 1,291 | 15 | 123 | 1,542 |
| Consumer Services and Goods: | | | | | |
| - Cyclical | 473 | 2,213 | 442 | 270 | 3,398 |
| - Non-cyclical | 1,879 | 5,828 | 391 | 174 | 8,272 |
| - Healthcare | 284 | 2,054 | 82 | 1 | 2,421 |
| Infrastructure: | | | | | |
| - Social | 6,141 | 628 | 154 | 52 | 6,975 |
| - Economic | 4,348 | 902 | 309 | 400 | 5,959 |
| Technology and Telecoms | 412 | 3,025 | 782 | 843 | 5,062 |
| Industrials | 190 | 681 | 354 | 82 | 1,307 |
| Utilities | 6,963 | 2,158 | 2,217 | 538 | 11,876 |
| Energy | 415 | 667 | 1 | 158 | 1,241 |
| Commodities | 20 | 537 | 175 | 530 | 1,262 |
| Oil and Gas | 196 | 626 | 785 | 568 | 2,175 |
| Real estate | 1,895 | 734 | 602 | 296 | 3,527 |
| Structured finance ABS / RMBS / CMBS / Other | 861 | 1,395 | 10 | 185 | 2,451 |
| Lifetime mortgage loans | 6,857 | – | – | – | 6,857 |
| CDOs | – | – | – | 67 | 67 |
| Total | 43,554 | 26,859 | 10,036 | 6,354 | 86,803 |

### 6.03 Bond portfolio summary (continued)

#### (c) Bond portfolio analysed by credit rating

| **As at 31 December 2022** | **Externally rated £m** | **Internally rated[1] £m** | **Total £m** |
|---|---|---|---|
| AAA | **3,741** | **3,549** | **7,290** |
| AA | **10,577** | **2,443** | **13,020** |
| A | **15,875** | **8,029** | **23,904** |
| BBB | **18,476** | **6,964** | **25,440** |
| BB or below | **529** | **376** | **905** |
| Other | **17** | **87** | **104** |
| **Total** | **49,215** | **21,448** | **70,663** |

| As at 31 December 2021 | Externally rated £m | Internally rated[1] £m | Total £m |
|---|---|---|---|
| AAA | 3,506 | 4,617 | 8,123 |
| AA | 15,544 | 3,649 | 19,193 |
| A | 21,240 | 8,675 | 29,915 |
| BBB | 20,715 | 7,465 | 28,180 |
| BB or below | 950 | 417 | 1,367 |
| Other | 10 | 15 | 25 |
| Total | 61,965 | 24,838 | 86,803 |

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

# Investments

### 6.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded securities

| As at 31 December 2022 | Direct investments £m | Traded £m | Total £m |
|---|---|---|---|
| **Sovereigns, Supras and Sub-Sovereigns** | 763 | 7,429 | 8,192 |
| **Banks** | 789 | 3,957 | 4,746 |
| **Financial Services** | 930 | 716 | 1,646 |
| **Insurance** | 111 | 1,097 | 1,208 |
| **Consumer Services and Goods:** | | | |
| - Cyclical | 596 | 2,589 | 3,185 |
| - Non-cyclical | 605 | 6,432 | 7,037 |
| - Healthcare | 420 | 1,865 | 2,285 |
| **Infrastructure:** | | | |
| - Social | 3,027 | 2,494 | 5,521 |
| - Economic | 3,600 | 1,304 | 4,904 |
| **Technology and Telecoms** | 123 | 4,282 | 4,405 |
| **Industrials** | 118 | 1,344 | 1,462 |
| **Utilities** | 1,938 | 8,821 | 10,759 |
| **Energy** | 355 | 810 | 1,165 |
| **Commodities** | 67 | 932 | 999 |
| **Oil and Gas** | 81 | 1,628 | 1,709 |
| **Real estate** | 2,445 | 1,386 | 3,831 |
| **Structured finance ABS / RMBS / CMBS / Other** | 1,258 | 1,455 | 2,713 |
| **Lifetime mortgage loans** | 4,844 | – | 4,844 |
| **CDOs** | – | 52 | 52 |
| **Total** | 22,070 | 48,593 | 70,663 |

# Investments

### 6.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded securities (continued)

| As at 31 December 2021 | Direct investments £m | Traded £m | Total £m |
|---|---|---|---|
| Sovereigns, Supras and Sub-Sovereigns | 1,037 | 12,990 | 14,027 |
| Banks | 665 | 6,258 | 6,923 |
| Financial Services | 432 | 1,029 | 1,461 |
| Insurance | 119 | 1,423 | 1,542 |
| Consumer Services and Goods: | | | |
| - Cyclical | 498 | 2,900 | 3,398 |
| - Non-cyclical | 512 | 7,760 | 8,272 |
| - Healthcare | 357 | 2,064 | 2,421 |
| Infrastructure: | | | |
| - Social | 3,699 | 3,276 | 6,975 |
| - Economic | 4,267 | 1,692 | 5,959 |
| Technology and Telecoms | 153 | 4,909 | 5,062 |
| Industrials | 60 | 1,247 | 1,307 |
| Utilities | 1,883 | 9,993 | 11,876 |
| Energy | 475 | 766 | 1,241 |
| Commodities | 55 | 1,207 | 1,262 |
| Oil and Gas | 56 | 2,119 | 2,175 |
| Real estate | 2,091 | 1,436 | 3,527 |
| Structured finance ABS / RMBS / CMBS / Other | 1,021 | 1,430 | 2,451 |
| Lifetime mortgage loans | 6,857 | – | 6,857 |
| CDOs | – | 67 | 67 |
| Total | 24,237 | 62,566 | 86,803 |

# Investments

## 6.04 Property analysis

### Property exposure within Direct investments by status

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

| As at 31 December 2021 | Annuity £m | Shareholder[1] £m | Total £m | % |
|---|---|---|---|---|
| Fully let[2] | 4,746 | – | 4,746 | 83 |
| Development | 540 | 293 | 833 | 15 |
| Land | – | 131 | 131 | 2 |
| Total | 5,286 | 424 | 5,710 | 100 |

1. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Receivables and other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 31 December 2022 the group held a total of £1,973m (31 December 2021: £2,044m) of such assets.
2. £4.5bn (31 December 2021: £4.7bn) fully let property were let to corporate clients, out of which £4.0bn (31 December 2021: £4.5bn) were let to investment grade tenants.

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# Alternative Performance Measures

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

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

### Adjusted operating profit

**Definition**

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

Adjusted operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes caused by changes in market conditions or expectations and exceptional items. It therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, including the traded portfolio in LGC. For direct investments, operating profit reflects the expected long-term economic return for those assets which are developed with the intention of sale, or the IFRS profit before tax for the early stage and mature businesses.

Variances between actual and long-term expected investment return on traded and real assets (including direct investments) are excluded from adjusted operating profit, as well as economic assumption changes caused by changes in market conditions or expectations (e.g. credit default and inflation) and any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business. Adjusted operating profit also excludes the yield associated with assets held for future new pension risk transfer business from the valuation discount rate on insurance contract liabilities. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition and start-up costs, are also excluded from adjusted operating profit.

In certain disclosures, the group may use the term 'operating profit' as a substitute for adjusted operating profit, but in all circumstances it carries the same definition and meaning.

**Closest IFRS measure**

Profit before tax attributable to equity holders.

**Reconciliation**

Note 1.01 Operating profit.

### Return on Equity (ROE)

**Definition**

ROE measures the return earned by shareholders on shareholder capital retained within the business.

ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds (by reference to opening and closing shareholders' funds as provided in the IFRS consolidated statement of changes in equity for the year).

**Closest IFRS measure**

Calculated using:

- Profit attributable to equity holders

- Equity attributable to owners of the parent

**Reconciliation**

Calculated using profit attributable to equity holders for the year of £2,291m (2021: £2,050m) and average equity attributable to the owners of the parent of £11,079m (31 December 2021: £9,994m), based on an opening balance of £10,486m and a closing balance of £11,673m (2021: based on an opening balance of £9,502m and a closing balance of £10,486m).

### Assets under Management

**Definition**

Funds which are managed by our fund managers on behalf of investors. It represents the total amount of money investors have trusted with our fund managers to invest across our investment products.

**Closest IFRS measures**

- Financial investments

- Investment property

- Cash and cash equivalents

**Reconciliation**

Note 4.04 Reconciliation of assets under management to Consolidated Balance Sheet.

### Net release from operations

**Definition**

Release from operations plus new business surplus/(strain). Net release from operations is also referred to as cash generation and includes the release of prudent margins from the back book, together with the premium received less the setup of prudent reserves and associated acquisition costs for new business. Net release from operations is a component of adjusted operating profit (after tax) and excludes predominantly the impact of experience variances and changes in valuation assumptions.

**Closest IFRS measure**

Profit before tax attributable to equity holders.

**Reconciliation**

Notes 1.01 Operating profit and 1.02 Reconciliation of release from operations to operating profit before tax.

### Adjusted profit before tax attributable to equity holders

**Definition**

The APM measures profit before tax attributable to shareholders incorporating actual investment returns experienced during the year.

**Closest IFRS measure**

Profit before tax attributable to equity holders.

**Reconciliation**

Note 1.01 Operating profit.

# Glossary

* These items represent an alternative performance measure (APM)

**Adjusted operating profit***
Refer to the alternative performance measures section.

**Adjusted profit before tax attributable to equity holders***
Refer to the alternative performance measures section.

**Alternative performance measures (APMs)**
An APM is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II.

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

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

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

**Assets under management (AUM)***
Refer to the alternative performance measures section.

**Assured Payment Policy (APP)**
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.

**CAGR**
Compound annual growth rate.

**Cash generation**
Cash generation is an alternative term for net release from operations.

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

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

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

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

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

**Derivatives**
Derivatives are not a separate asset class but are contracts usually giving a commitment or right to buy or sell assets on specified conditions, for example on a set date in the future and at a set price. The value of a derivative contract can vary. Derivatives can generally be used with the aim of enhancing the overall investment returns of a fund by taking on an increased risk, or they can be used with the aim of reducing the amount of risk to which a fund is exposed.

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

**Dividend cover**
Dividend cover measures how many times over the net release from operations in the year could have paid the full year dividend. For example, if the dividend cover is 3, this means that the net release from operations was three times the amount of dividend paid out.

**Early stage business**
A recently created company in the early stage of its life cycle (typically up to 18 to 24 months since establishment), which has not broken even yet. This usually means the entity is not fully operational yet, and the management team is still being developed.

**Earnings per share (EPS)**
EPS is a common financial metric which can be used to measure the profitability and strength of a company over time. It is the total shareholder profit after tax divided by the number of shares outstanding. EPS uses a weighted average number of shares outstanding during the year.

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

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

**ETF – Exchange-Traded Fund**
LGIM's European Exchange-Traded Fund platform.

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

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

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

**Generally accepted accounting principles (GAAP)**
These are a widely accepted collection of guidelines and principles, established by accounting standard setters and used by the accounting community to report financial information.

# Glossary

### Gross written premiums (GWP)
GWP is an industry measure of the life insurance premiums due and the general insurance premiums underwritten in the reporting period, before any deductions for reinsurance.

### ICAV – Irish Collective Asset-Management Vehicle
A legal structure investment fund, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

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

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

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

### LGA
Legal & General America.

### LGAS
Legal and General Assurance Society Limited.

### LGC
Legal & General Capital.

### LGIM
Legal & General Investment Management

### LGRI
Legal & General Retirement Institutional.

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

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

### Lifetime mortgages
An equity release product aimed at people aged 55 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long-term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

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

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

### Mature business
A company which has been operative for more than three to five years. It generates regular revenue streams but the growth rate in its earnings is expected to remain broadly flat in the future. At this point in its life cycle, a complete and experienced management team is in place.

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

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

### Net release from operations*
Refer to the alternative performance measures section.

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

### New business surplus/strain
The net impact of writing new business on the IFRS position, including the benefit/cost of acquiring new business and the setting up of reserves, for UK non-profit annuities, workplace savings and protection, net of tax. This metric provides an understanding of the impact of new contracts on the IFRS profit for the year.

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

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

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

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

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

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

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

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

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

# Glossary

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

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

### Release from operations
The expected IFRS surplus generated in the period from the difference between IFRS prudent assumptions and our best estimate of future experience for in-force LGRI, Retail Retirement and UK Insurance businesses, the post-tax operating profit on other UK businesses, including the medium term expected investment return on LGC invested assets, and dividends remitted from US insurance.

### Retail Retirement new business
Single premiums arising from annuity sales and the volume of lifetime and retirement interest-only mortgage lending.

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

- The loan is usually only paid off on death, move into long-term care or sale of the house.

- The borrowers only have to prove they can afford the monthly interest repayments and not the capital remaining at the end of the mortgage term.

No repayment solution is required as repayment defaults to sale of property.

### Return on Equity (ROE)*
Refer to the alternative performance measures section.

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

### SICAV – Société d'Investissement à Capital Variable
A publicly traded open-ended investment fund structure offered in Europe and regulated under European law.

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

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

### Solvency II
These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II became effective from 1 January 2016. The group complies with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) in the UK, and measures and monitors its capital resources on this basis.

### Solvency II capital coverage ratio
The Eligible Own Funds on a regulatory basis divided by the group solvency capital requirement. This represents the number of times the SCR is covered by Eligible Own Funds.

The Solvency II coverage ratio incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions in the Own Funds.

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

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

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

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

### Solvency Capital Requirement (SCR)
The amount of Solvency II capital required to cover the losses occurring in a 1-in-200 year risk event.

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

### Transitional Measures on Technical Provisions (TMTP)
This is an adjustment to Solvency II technical provisions to bring them into line with the pre-Solvency II equivalent as at 1 January 2016 when the regulatory basis switched over, to smooth the introduction of the new regime. This will decrease linearly over the 16 years following Solvency II implementation but may be recalculated to allow for changes impacting the relevant business, subject to agreement with the PRA.

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