L&G Full Year Results 2020 Part 1

LEGAL & GENERAL GROUP PLC

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2020 Results: Resilient operating earnings (£2.2bn) and a robust balance sheet deliver 17.3% ROE; performance provides good start to new 5 year ambitions

Financial highlights[1]

- **Operating profit[2] broadly flat at £2,218m (2019: £2,286m)**, with 3 of 5 businesses delivering growth
- **Operating profit excluding mortality reserve release down £90m to £2,041m (2019: £2,131m)**, with the reduction driven by specific COVID-19 estimated impacts of £(228)m[3]
- **Profit after tax[4] down 12% to £1,607m (2019: £1,834m)**, principally reflecting the formulaic impact of lower interest rates on LGI and the unrealised impact of market movements, partially offset by profit on disposal from our Mature Savings business
- **Return on equity of 17.3% (2019: 20.4%)**, resilient in light of market volatility
- **Despite COVID-19 we delivered financial metrics in line with our five year ambitions (2020-2024)**:
    - **Full year dividend of 17.57p per share (2019: 17.57p)**
    - **Net release from operations of £1,539m (2019: £1,597m)**
    - **Solvency II operational surplus generation from continuing operations of £1.5bn (2019: £1.5bn)**

Business highlights

We remain committed to Inclusive Capitalism as we support our customers, our people and communities in the face of COVID-19; for more details of our approach please see page 4.

Our businesses continue to perform resiliently:

- **LGRI global Pension Risk Transfer (PRT) new business premiums of £8,843m**, including record US PRT volumes of $1,614m (2019: £11,392m; $1,140m)
- **LGRR annuity premiums of £910m** (2019: £970m), initially impacted by COVID-19, but recovering to be up 3% during H2 compared to prior year
- **LGC Direct Investment origination of £0.6bn, with AUM growth of 9% to £3.1bn** (2019: £2.9bn)
- **LGIM external net flows of £20.4bn, with AUM up 7% at £1,279bn** (2019: £86.4bn; £1,196bn)
- **LGI new business annual premiums up 10% to £372m**, supporting £2,849m gross written premiums (2019: £339m; £2,729m)

Our balance sheet is robust:

- **Solvency II coverage ratio[5] of 177%** (2019: 184%) and as at 5 March 2021, we estimate the ratio was 192%[6]
- **Our traded credit portfolio (excluding gilts), which is actively managed, has had no defaults and has seen net downgrades to sub-investment grade of 0.9% during 2020; just half of that experienced by the index. Our £3.5bn IFRS Credit Default Reserve has remained unutilised**
- **99.9% of scheduled cash-flows on our annuity portfolio's direct investments were paid during the year, reflecting the high quality of our counterparty exposure**

"Legal & General delivered a robust and resilient performance for all stakeholders, providing stability to our people, customers and shareholders. Our balance sheet remains strong, with the Solvency II coverage ratio currently over 190%, and trading remains consistent with delivering our growth ambitions which are supported by six long term growth drivers. Our commitment to Inclusive Capitalism, ESG and investing in climate change means we intend to play an important role in the post pandemic recovery."

Nigel Wilson, Group Chief Executive

Financial summary

£m	2020	2019	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR) excl. mortality reserve release[7]	1,554	1,414	10
- LGR - Institutional (LGRI)	*1,229*	*1,116*	*10*
- LGR - Retail (LGRR)	*325*	*298*	*9*
Legal & General Investment Management (LGIM)[8]	404	394	3
Legal & General Capital (LGC)	275	363	(24)
Legal & General Insurance (LGI)	189	314	(40)
Operating profit from continuing divisions[7],[8],[9]	**2,422**	**2,485**	**(3)**
Mature Savings[10]	34	46	(26)
General Insurance[11]	nil	(35)	n/a
Operating profit from divisions[7,8]	**2,456**	**2,496**	**(2)**
Group debt costs	(233)	(208)	12

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Group investment projects and expenses	(155)	(157)	(1)
Exceptional COVID-19 related expenses[12]	(27)	nil	n/a
Operating profit excl. mortality reserve release[7]	**2,041**	2,131	(4)
LGR mortality reserve release	177	155	n/a
Operating profit	**2,218**	2,286	**(3)**
Investment and other variances (incl. minority interests), excluding LGI	29	60	n/a
LGI investment variance[13]	(459)	(234)	n/a
Profit before tax attributable to equity holders[14]	**1,788**	**2,112**	**(15)**
Profit after tax attributable to equity holders	**1,607**	**1,834**	**(12)**
Of which:			
Mortality reserve releases (post-tax)	**153**	*134*	**n/a**
Mature Savings profit on disposal	**271**		
Profit after tax excl. mortality reserve release and disposals	**1,183**	***1,700***	**(30)**
Reported earnings per share (p)	**27.00**	**30.92**	**(13)**
Of which:			
Mortality reserve releases (post-tax)	**2.58**	*2.26*	**n/a**
Mature Savings profit on disposal	**4.58**	*nil*	**n/a**
Earnings per share (p) excl. mortality reserve release and Mature Savings disposal	**19.84**	**28.66**	**(31)**
Book value per share (p)	**158**	150	5
Full year dividend per share (p)	**17.57**	17.57	nil
Net release from continuing operations[9]	**1,511**	1,588	(5)
Net release from discontinued operations	**28**	9	211

2020 Financial performance

Income statement

Legal & General demonstrated the stability of its business model against a challenging macroeconomic backdrop, delivering operating profit of £2,218m, broadly in line with prior year (2019: £2,286m). The strength of our diversified business model meant we were able to weather the volatility of 2020 with three of our five businesses delivering growth.

Despite the impacts of COVID-19, **we delivered financial metrics consistent with our five year ambitions (2020-2024).** Cash generation of £1,539m (2019: £1,597m) and capital generation from continuing operations of £1.5bn (2019: £1.5bn) were both consistent with our goals of £8bn to £9bn over five years. Both exceeded our full year dividends declared (and paid) of £1.0bn (2019: £1.0bn), which is on track for our five year cumulative dividend ambition of £5.6bn to £5.9bn. Supporting this robust financial performance, our new business and balance sheet have again proven to be resilient against shocks, with LGRI's US business achieving record PRT volumes and LGI new business annual premiums up 10% year on year.

LGRI delivered strong operating profit[15] growth, up 10% year on year to £1,229m (2019: £1,116m). New business continued to make a sizeable contribution to profit, with record US PRT volumes of $1.6bn (2019: $1.1bn) and a steady flow of UK PRT new business written at attractive Solvency II new business margins of 10.6% (including LGRR individual annuities) as we were rewarded for putting capital at risk in volatile times.

LGRR operating profit[15] increased 9% to £325m (2019: £298m), supported by the consistent performance of the growing annuity portfolio. Whilst individual annuity and Lifetime Mortgage volumes were down year on year, primarily reflecting stalled demand, the swift use of **technological innovation** immediately following the first lockdown meant that our retail annuity business was able to support customers in their time of need and to win market share.

LGIM delivered operating profit growth of 3% to £404m (2019: £394m) driven by revenue growth of 5% to £956m (2019: £912m). This was supported by growth in higher margin areas, partially offset by LGIM's continued investment in its growth strategy. Management actions on cost in H1 helped to deliver profit improvements in H2. Benefitting from a diversified asset base, LGIM grew its AUM by 7% to £1,279bn during 2020.

LGC operating profit decreased 24% to £275m (2019: £363m), principally reflecting a pause in traditional house-building and sales activities during the UK lockdowns and lower profits from our direct investment portfolio.

LGI operating profit decreased 40% to £189m (2019: £314m), reflecting increased claims experience due to COVID-19, particularly impacting our US Protection business where we retain the majority of the mortality risk, and a £110m increase in reserves for potential future COVID-19 related claims in 2021.

Group costs were elevated compared to prior year, largely as a result of exceptional COVID-19-related costs (£27m) primarily related to the deployment of IT hardware to facilitate remote working and other operational workplace costs. Higher debt costs reflected debt raised in H1 2020. The Group will continue to make measured investments in technology, in order to augment cyber security and upgrade the IT infrastructure, including preparation for IFRS 17. This expenditure **should reduce towards historical levels once these projects are delivered.**

Profit before tax attributable to equity holders[16] was £1,788m (2019: £2,112m), reflecting investment variance of £(430)m (2019: £(174)m). The largest contributor to the investment variance, £(459)m, is the formulaic impact of falling interest rates reducing the discount rate used to calculate LGI reserves. Investment variance within LGC, where we are long-term investors, was £(299)m, reflecting equity market volatility, early stage development costs and a prudent approach to asset valuations within the direct investment portfolio. These were partly offset by the profit on disposal following the completion of the sale of our Mature Savings business (£335m).

Balance sheet and asset portfolio

The Group's Solvency II operational surplus generation from continuing operations was up 4% at £1.5bn (2019: £1.5bn). New business strain was £0.3bn (2019: £0.6bn) reflecting UK annuity new business written at lower strains and good margins (10.6%), resulting in net surplus generation of £1.2bn (2019: £1.0bn).

Our Solvency II coverage ratio on a shareholder basis[17] was 177% at 31 December 2020 (2019: 184%). On a proforma calculation basis[18], our Solvency II coverage ratio was 175% at the end of December (2019: 179%). As at 5 March 2021, we estimate the ratio was 192%.[19]

Our IFRS return on equity of 17.3% reflects the impact of unrealised negative investment variances (2019: 20.4%).[20]

Our balance sheet and asset portfolio performed resiliently through a turbulent year. The defensive positioning of our £47.7bn actively managed traded credit portfolio (excluding gilts) has meant that we have outperformed the downgrade experience of the market, with just 0.9% of the portfolio downgrading to sub-investment grade[21] and no defaults. The annuity portfolio's direct investments continue to perform strongly, with 99.9% of scheduled cash-flows paid year to date, reflecting the high quality of our counterparty exposure.

COVID-19

COVID-19 is having an unprecedented impact on our customers, people and society at large. Legal & General Group continues to support all of our stakeholders through this difficult period, without relying on direct Government funding. Our priorities remain to look after our customers, to safeguard the wellbeing of our people and to support the needs of the wider community more broadly through **Inclusive Capitalism** and by **investing in the real economy**.

Our purpose is to provide financial stability to our customers and their dependents in good times and in bad: it is "what we do". During 2020 we paid £1.9bn in gross protection claims and provided financial stability through regular payments to over 1 million pensioners. To support and protect the residents in LGC's Later Living communities, we enacted a comprehensive action plan which kept rates of infection below that of the national average for over-70s, whilst also focussing on mental wellbeing.

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We rapidly facilitated remote working for our people by distributing an initial block of 1,700 laptops, enabling a remote contact centre and building a cloud based desktop solution within just 10 weeks of the initial March 2020 lockdown. Subsequently, we distributed an additional 2,000 laptops to further enhance our operational resilience. Additionally, we have supported our employees' mental and physical wellbeing through a number of resources including trained Mental Health First Aiders, a confidential employee assistance helpline and a dedicated COVID-19 intranet hub.

To support the communities around us through the pandemic, we donated £5m to Newcastle City Council to build a prototype care home which incorporates learnings from COVID-19 on infection control. We supported the UK's National Health Service (NHS) by offering key workers free accommodation at our build to rent sites, offering our Bracknell site for training and storage and 25 of our other sites for COVID-19 testing, and financial support for NHS charities.

The human cost of the pandemic has been high. It has impacted our own customers, including holders of life insurance policies and annuitants who have lost their lives prematurely. We continue to pay all valid claims and we have prioritised giving rapid but sensitive service to bereaved families. Legal & General experienced £76m of COVID-19-related claims in LGI. Since our H1 2020 results, a number of additional COVID-19 variants have emerged and uncertainty regarding the viruses' trajectory remains, therefore, we are making a further £110m provision for future COVID-19 claims in LGI, including incurred but not reported (IBNR) claims. This provision allows us to ensure our year end 2020 reserves adequately reflect the higher expected incidence of 2021 claims compared to our own long term assumptions. Our reinsurance strategy, which reinsures virtually all LGI's UK retail protection business, has substantially reduced the impact on LGI of higher claims, although we retain exposure in the US. During the year, LGR recognised an £85m reserve release in light of 2020 COVID-19 mortality experience. Further operational impacts included pausing LGC Build to Sell Housing operations for several months, which was the primary factor in the £100m COVID-19 impact to LGC's operating profit during the year. Additionally, Group operational costs increased by £27m reflecting incremental expenses incurred as a result of COVID-19, including the provision of IT spend for remote working. **In all, we estimate COVID-19 related events reduced operating profit by £228m.**

COVID-19 has increased volatility within **asset markets**, but the defensive positioning of LGR's £87.0bn asset portfolio has meant that we have performed well in absolute and relative terms as described on pages 16 and 17.

The immediate outlook for the broader economy over the near term is still highly uncertain and will depend on a number of factors, including vaccine efficacy and distribution, as well as government responses to the challenges ahead. We remain highly risk-aware, alert both to potential challenges and opportunities, while prudently managing our businesses, including making provisions for future COVID-19 impacts as described above. **With long-term businesses and a defensive asset portfolio, we believe we are well positioned to navigate further macroeconomic uncertainty and to seize future opportunities that may arise.**

Group Strategy

Legal & General is primarily a global provider of retirement solutions to corporates and individuals, with core skills in asset management and origination, longevity risk and technological innovation. We operate at scale and are strongly positioned to capitalise on significant structural growth opportunities across our chosen markets through our five businesses:

1. **Legal & General Retirement - Institutional** (LGRI) offers pension risk transfer (PRT) to institutional clients globally
2. **Legal & General Retirement - Retail** (LGRR) is a waterfront provider of UK retail retirement solutions, including individual annuities and lifetime mortgages (LTMs)
3. **Legal & General Investment Management** (LGIM) is the 11th largest global asset manager by AUM[22], primarily serving institutional pension clients
4. **Legal & General Capital** (LGC) invests shareholder capital and is building an alternative asset pipeline
5. **Legal & General Insurance** (LGI) sells retail and group protection in the UK and retail protection in the US

Six growth drivers

Inclusive Capitalism is at the foundation of Legal & General's strategy. By identifying and addressing long-term secular trends, we are able to generate attractive, sustainable returns while delivering products that are economically, socially, and environmentally useful.

Since 2011 we have **delivered total shareholder returns of 366%**[23] while at the same time, providing security in retirement to more than 3m people. As a retirement solutions provider we invest pension savings and shareholder assets into £29.3bn high quality direct investments that deliver positive social and environmental impacts, such as clean energy and affordable housing; this is the core of our approach to Inclusive Capitalism.

Our strategy is focussed on six global, long-term growth drivers which are structural rather than cyclical, providing resilience through periods of macro volatility. Responding to these drivers creates sustainable profits and positive social and environmental outcomes as we harness the power of pensions.

1. **Ageing demographics**

   As populations live longer their pensions need to last longer too. Companies are increasingly seeking solutions to their ongoing pension commitments. At the same time, individuals need to ensure that their retirement funds and other assets can finance longer retirements. The opportunity is vast, with global private Defined Benefit (DB) and Defined Contribution (DC) pension assets nearly doubling over the last decade to reach $53 trillion.[24]

   LGRI and **LGRR** meet a key customer need arising from ageing demographics, providing financial security in retirement.

2. **Globalisation of asset markets**

   Asset markets are increasingly globalised and growing - worldwide AUM is currently $89 trillion and is expected to increase to around $106 trillion by 2024[25], representing an enormous opportunity for international asset managers. North America, Europe and Asia Pacific are all attractive markets which continue to expand.

   Legal & General looks for selective opportunities to build and expand its successful UK business model abroad into markets where we believe we can thrive. The globalisation of asset markets has been a cornerstone of **LGIM**'s growth strategy, where international AUM has more than tripled over the past five years to £388bn, and a driver for **LGRI**'s US expansion, which has written more than $5bn of premium since the business started in 2015.

3. **Investing in the Real Economy**

   Throughout the UK and beyond, there has been a long-term trend of underinvestment in major towns and cities, and we continue to experience a serious housing shortage, while Small and Medium Enterprises (SMEs) can also struggle to achieve scale without access to long-term capital. At the same time, the ageing demographic creates a need for new investable assets for pension funds.

   Across the Legal & General Group we harness the power of pensions by investing pension assets into the Real Economy, delivering financial security for pensioners and fostering growth in cities and towns across the UK. Furthermore, in **LGC** we invest in alternative assets such as affordable housing and SME growth equity, as well as create high quality assets for the broader Group.

4. **Welfare reforms**

   The need to protect people from financial uncertainty has never been more pertinent. This includes helping people take personal responsibility for saving for their retirements and safeguarding their financial wellbeing and resilience.

   LGI offers life insurance, income protection and critical illness cover, and, through our stake in Salary Finance, salary savings and lending services, providing financial stability to customers' families and dependents. As fewer companies offer DB pensions and a greater burden is placed on social security programmes, **LGIM** helps individuals save for the future while **LGRR** provides financial security in retirement.

5. **Technological innovation**

   Consumers, clients and businesses look to digital platforms to help organise their finances and working lives. Technological solutions can increase security and improve the way we work and how we access information, whilst also unlocking opportunities in adjacent business areas.

   Throughout the Legal & General Group, our businesses look for opportunities to improve customer service and efficiency through technology. During 2020, our swift technological response in the immediate wake of the March lockdown meant our businesses were able to provide continuity to customers and grow market share.

6. **Addressing Climate Change**

   Scientists, policy-makers, markets and regulators increasingly agree that we must move to a global warming trajectory below 1.5°C to avoid potentially catastrophic physical risks which will impact global economies, markets, companies and people. This implies massive transition to a lower-carbon economy, which in turn creates risk management challenges but also substantial new growth opportunities, including in renewables and innovative technologies.

   Across the Legal & General Group we seek ways to address Climate Change by building scalable, profitable businesses to reduce carbon emissions. **LGIM** continues to build on its strong heritage in Environmental, Social and Governance (ESG) investing for its clients and, increasingly, we see opportunities in **LGC**, **LGRI**, and **LGRR** to make investment decisions informed by Climate Change. To date, we have invested more than £1.4bn of Legal & General's own assets into renewable energy investments and over the next five years we intend to **develop three business areas aligned to Addressing Climate Change**.

Together these drivers have led us to participate in material, high growth markets where we are leaders or where we can leverage our expertise to increase our market share.

A unique, synergistic business model

Our strategy has positioned us to be a leader in the global retirement solutions and insurance markets, benefitting from a mutually reinforcing business model with unique synergies in pension de-risking and asset manufacturing and management:

- **LGRI**, a market leader in UK PRT, and **LGRR**, a leading provider of UK individual annuities, have £87.0bn of assets, providing long-term, captive AUM to **LGIM**. This portfolio is continually being enhanced with direct investments originated by **LGC**.

- **LGIM** is a leading player in providing UK and US DB de-risking solutions and is uniquely positioned to support DB clients journeying to the full range of pension endgame destinations, including PRT and Insured Self Sufficiency with **LGRI;** 69% of LGRI's PRT transactions over the past three years were from existing LGIM clients.[26] Furthermore, as DB clients de-risk assets and liabilities through PRT with LGRI, LGIM then manages the associated assets for decades to come. LGIM is also the market leader in UK DC pension scheme clients - a market with significant growth potential. Total UK DC assets are expected to more than double by 2028 to £955bn.[27]

- **LGC** invests society's capital for society's benefit. As a core component of our retirement solutions business, LGC creates assets to back pensions (notably in **LGRI** and **LGRR**) and invests our shareholder funds to achieve more attractive risk adjusted returns. LGC is building an alternative asset creation platform, benefitting **LGIM** clients, and leveraging third party capital to invest client funds directly and via acquired boutiques.

- **LGI** is a market leader in UK protection and US brokerage term life insurance, and provides significant Solvency II benefits to the Group by partially offsetting new business strain in **LGRI** and **LGRR**. Additionally, LGI's US business facilitates **LGRI**'s US PRT transactions, which are written onto the existing US balance sheet.

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

Delivering Inclusive Capitalism and ESG

Our business strategy is focused on Inclusive Capitalism, and, accordingly, our **Environmental, Social, and Governance** (ESG) impact[28], particularly in terms of:

1. **How our businesses operate**. Our commitment to ESG is evident from our ambition to operate our offices and business travel with net zero emissions from 2030, to build 3,000 affordable homes by 2023 and for all of our new homes to be net zero operational carbon from 2030. During 2020 we ran an **Addressing Climate Change** Accelerator Programme, incubating a number of cross-functional projects aimed at increasing our involvement in funding the transition to net zero, especially in the built environment.
2. **How we invest our £95.1bn of proprietary assets[29]**. We consider ESG factors in new investment decisions and in 2020 we reduced the carbon intensity of the Group balance sheet by 2%. Please see pages 16 to 17 for more information and our Task Force on Climate-related Financial Disclosures to be published on 22 March 2021.
3. **How we influence as one of the world's largest asset managers with £1.3 trillion AUM**. We have £206.8bn AUM in ESG strategies and during 2020 we cast 139,000 stewardship votes as we continued to pressure investee companies to behave responsibly.[30] Please see page 20 for more information.

Our alignment to six long-term growth drivers and our commitment to Inclusive Capitalism have led us to develop a sustainable business model which generates positive outcomes for shareholders, customers, wider society and the environment.

Outlook

Medium term growth ambitions unchanged

Our strategy has delivered strong returns for our shareholders over time and has demonstrated resilience in the current environment. We are confident our focus on our 6 growth drivers will continue to deliver profitable growth into the future as we execute on our strategy based on Inclusive Capitalism.

In November we set out our five year ambitions. Cumulatively, over the period 2020-2024, our financial ambitions are for[31]:

1. Cash and capital generation to significantly exceed dividends (we intend to generate £8.0bn - £9.0bn of both cash and capital, and to pay dividends of £5.6bn - £5.9bn)[32]
2. Earnings per Share to grow faster than dividends, with the dividend growing at low to mid-single digits from 2021
3. Net capital surplus generation (i.e. including new business strain) to exceed dividends

We expect to deliver long-term, diversified growth across the Group. LGRI and LGRR provide highly predictable, stable cash flows from their growing back-books and we expect the annuity portfolio to be fully self-financing in the next three to five years. Our asset management and origination businesses, LGIM and LGC, operate in attractive and profitable markets, and maintain a strong commitment to ESG-aligned investing. LGI is applying technology best practices to sustain its UK leadership, to grow in the US and to continue to expand into adjacent markets.

We remain confident in our strategy and in our ability to deliver resilient, organic growth through periods of macro-volatility, supported by strong competitive positioning in attractive and growing markets. Our confidence and our dividend paying capacity are underpinned by the Group's strong balance sheet with £7.4bn in surplus regulatory capital, a £3.5bn IFRS credit default reserve, and significant buffers to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

2021 Group outlook consistent with medium term ambitions

We have made a good start to our five year cumulative financial ambitions and we remain confident of making further progress in 2021. Global PRT markets have remained buoyant in Q1 2021, while LGIM has benefited from continued asset market recoveries. LGC has seen a continuation of the rebound in the UK residential property market, which has also increased demand for UK retail protection from LGI. H2 2020 momentum in LGRR has continued into 2021, as customers look to buy annuities and lifetime mortgages. **Although macro-economic uncertainty remains, we are pleased with the progress we have made year to date.**

Whilst recognising the significant near-term challenges that remain over 2021, we intend to be a leader in the post-pandemic economic recovery. Our strategy and experience are strongly aligned to the UK Government's three flagship policies of "Build back Better", "Levelling Up" and Climate. We will continue to support our shareholders and customers while delivering Inclusive Capitalism through investments in infrastructure, clean energy, affordable housing, and providing products to support individuals' financial resilience.

Business segment outlook

LGR Institutional (LGRI)

LGRI participates in the rapidly growing global PRT market, focussing on corporate defined DB pension plans in the UK, the US, the Netherlands, Ireland, and Canada, which together have nearly £7 trillion of pension liabilities due to **ageing demographics**.[33]

We are the only global player in PRT, writing direct business in the UK and US, and are market leaders in the UK. We are supported by **LGIM's long-standing client relationships** and **LGC's asset manufacturing capabilities**, as well as wide-ranging skills across the Group which enhance our asset strategy and product innovation. During 2020, 75% of our UK transactions were with LGIM clients, demonstrating the strength of our client relationships and the resilience provided by our unique position as the only firm operating across the full pension de-risking journey.

The UK is our primary market and it is the most mature PRT market globally with £2.2 trillion of UK DB pension liabilities, of which only c.11% have been transferred to insurance companies to date.[34] This leaves a sizeable opportunity for future growth in this market. Demand from companies and pension plans for insurance remains robust. Market commentators expect that the total UK PRT market was more than £30bn in 2020[35], and they anticipate as much as £240bn of PRT demand potentially arising in the UK during the next five years.[36] **Our ambition is to write £40bn to £50bn of new UK PRT over the next five years**, as we remain disciplined in our pricing and deployment of capital.

The US represents a further, significant market opportunity, with $3.5 (£2.8) trillion of DB liabilities, of which only c.6% have transacted to date.[37] Since our market entry in 2015, our US business has written more than $5bn of PRT with 67 clients. We are the only insurer providing PRT directly to pension plans globally and during 2020 we undertook our first international PRT transactions, securing pension benefits for the UK and US pension plans of two multinational companies. This is anticipated by market commentators to be "one of the key levers that sponsors with UK and US obligations look to utilise going forwards".[38] **Our ambition is to write more than $10bn of international PRT over the next five years.**

Whilst new PRT business requires solvency capital on day one, this capital commitment pays back quickly, generating an attractive and long-term stream of operating surplus, which provides stability to the division's operating performance and means that LGRI is not dependent on new business to deliver stable profits. Our annuity portfolio (including LGRR individual annuities) is expected to be self-sustaining within 3-5 years as it reaches £90bn-£110bn AUM (2020: £87.0bn). At this point, it will be able to fund new business, while both (a) paying its share of a progressive Group dividend and (b) contributing to an increase in the Group solvency coverage ratio over time.

LGR Retail (LGRR)

LGRR is a growth engine of the firm and we expect its target market to continue to expand, driven by **ageing demographics** and **welfare reforms**. LGRR is a waterfront provider of UK retail retirement solutions offering annuities, income drawdown, pot consolidation, lifetime mortgages, and advice. LGRR works closely with **LGIM** to deliver and develop a broad range of retirement solutions for customers.

The retirement market continues to be a key area of growth for Legal & General and we are uniquely placed to capitalise on this opportunity, leveraging our brand, customer relationships, capabilities and people. LGRR is building out offerings in retirement income, lifetime mortgages and care. Additionally, in early 2021, the Workplace Savings business and its four million customers was transferred from LGIM to LGRR, further building out LGRR's retail retirement proposition. Associated in-house assets will continue to be managed by LGIM. Our ambition is to be the UK's leading retirement brand, enabling all our customers to have a secure retirement whilst generating lasting profit for the Group and, over time, to expand internationally.

Our primary market is the UK, where currently, each year, there are £40bn of personal pension assets coming to maturity and this is expected to grow to £50bn by 2024.[39] Within this, the individual annuity market accounts for just £4.2bn of total maturing assets, i.e. a little over 10%.[40] LGRR is building on its strong market position in annuities, having grown its market share to 20.3% in the first nine months of 2020[40], while expanding its addressable market through product innovation, such as drawdown and Retirement Interest Only mortgages.

The UK Lifetime Mortgages (LTM) market continues to represent a sizeable opportunity for LGRR, with UK housing equity in over 55s at £1.7 trillion across approximately 5.5m houses.[41] At present only £4bn per year is being released through the LTM market. While we maintain our focus on the traditional market (those with houses of average value of £400k, which accounts for around a third of over 55's housing equity, or c.£680bn) a further £600bn of housing equity is with people who still owe money on their house when they reach retirement age. We are starting to serve this market better through our Retirement Interest Only mortgages. £420bn of housing equity is represented by owners of houses worth £1m or more. This "wealth" sector has been under-served, but we expect to see lending to this segment increasing year-on-year from 2021 onwards. Additionally, we are looking at overseas opportunities, particularly in Australia, where we acquired a 20% stake in Household Capital in early 2020.

The global disruption following the outbreak of coronavirus caused a temporary dip in demand for retail retirement products, but we do not expect this to alter the long-term growth trajectory. Despite lower rates, many individuals place greater value on the certainty of an annuity in these uncertain times, while other people may choose to access home equity through a lifetime mortgage to weather reductions in the value of other assets. We are actively seeking solutions to address the needs of the 1.5m UK workers aged over 50 who report that they intend to significantly delay their retirement as a direct result of the pandemic.

Legal & General Investment Management (LGIM)

LGIM benefits from a combination of scale businesses and a diversified asset base, underpinned by structural demand for our products and investment capabilities. Our purpose is to create a better future through responsible investing, and we are recognised as a global market leader in ESG. Our five year growth ambition is driven by the three pillars of our strategy to **modernise**, **diversify** and **internationalise** the business. We seek (i) to **grow cumulative profits at least in line with the Group's dividend growth rate of 3% to 6%**, absent of market shocks, (ii) **to increase AUM in international and higher margin areas**, and (iii) to **diversify AUM** by client, channel and geography. We expect to **maintain a cost income ratio in the high 50 percent range over the next two to three years as we invest for growth**, after which we expect it to trend downwards.

LGIM plays a critical role in Legal & General Group's position as a leading, global pension solutions provider. As such, LGIM intends to maintain its strong position in the UK, which has been the bedrock of the firm's success to date, while diversifying its capabilities and broadening its reach.

Modernise: LGIM continues to invest in the business to achieve the resilience and global scalability critical to our future success. We are laying the foundations for continued global growth by investing in our people, operating platform, and refining our organisational structure. In the past year we have significantly strengthened our senior leadership team, with the addition of experienced new hires in the positions of Chief Risk Officer, Chief Compliance Officer, Global Chief Operating Officer, Global Head of Human Resources, Chief Technology Officer and Chief Data Officer. We continue to invest in our front office systems capabilities, driving efficiencies in the investment process.

Diversify: We continue to cement our leadership in ESG investing, and plan to expand our product ranges globally, as well as driving further integration of ESG into our mainstream investment portfolios. We will expand our investment offering, with particular focus on higher margin areas such as Real Assets, Multi Asset and Solutions. We see a sizeable opportunity in Real Assets - we are well known for our UK Real Estate Equity expertise, and will increasingly also provide investors with access to our leading private credit capabilities. As UK and US DB schemes come closer to funding maturity, we have an opportunity to extend our strong market position by enhancing our 'endgame' Solutions offering, thereby helping many clients to either self-sufficiency or to buy out with **LGRI**.

Internationalise: LGIM will be a disruptor in regions and countries where our strengths align to client needs. Over the last five years LGIM's international AUM has more than tripled to reach £388bn - 30% of LGIM's total AUM. Our ambition is to continue growing International AUM profitably and at pace, with a focus on the US, Europe and Asia. In the US, we will deepen our strong client relationships through innovation in DC and leadership in ESG. In Europe, we will build on our successes in Germany and Italy, to lay the foundation for expansion into other European markets, aiming to be a leading asset manager in Europe by 2025. In Asia, our strategy is to retain and increase our share of wallet with existing clients and deepen our footprint in existing markets - Japan, China, Hong Kong, Taiwan and Korea - by showcasing investment solutions that address key market trends.

LGIM's strategy strongly positions us to achieve our five-year ambitions and to grow cumulative profits at least in line with the Group's dividend growth rate of 3% to 6%, absent of market shocks.

Legal & General Capital (LGC)

LGC, the Group's alternative asset platform, makes substantial contributions to shareholder value creation and is positioned to drive further meaningful growth in the future.

LGC's alternative asset capabilities have grown out of a strategic desire to create assets to back **LGRI and LGRR** annuities, and to invest our shareholder funds to achieve more attractive risk adjusted returns. LGC's success in creating and scaling alternative asset capabilities has resulted in a pipeline of opportunities that exceeds the demands of Legal & General's balance sheet. As a result, as we continue to expand our balance sheet assets, we will increasingly create alternative assets for third party investors. By scaling up our asset distribution platform, we can accelerate the speed with which we recycle capital and deliver returns. This strategic expansion is **additive** to **shareholder value** and supports **LGIM**'s diversification plans. **Over the next five years we expect to build our diversified direct investment AUM towards c.£5bn (2020: £3.1bn) with a target blended portfolio return of 8% to 10%. Additionally, we plan to increase third party capital to over £14bn (2020: £5.2bn)** through (i) capital raised by our part-owned boutique fund

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managers, (ii) co-investment in new and existing LGC assets, (iii) real assets manufactured for LGRI and LGRR, and (iv) LGC-originated real assets distributed by LGIM.

LGC continues to build its capabilities in a range of sectors, which are all supported by long-term structural growth drivers, meeting a financing gap and responding to a scarcity of supply that is underpinned by enduring societal needs. With c.£1bn invested in the real economy, supporting the Group's focus on climate and inclusive capitalism, our investments create jobs, change lives and contribute towards a net zero carbon future.

- Our **specialist commercial real estate** portfolio, which includes data centres, urban development, and science and technology-focussed real estate, has c.£0.7bn currently invested across sixteen UK towns and cities, creating jobs, driving economic growth and boosting local communities as the UK looks to build back better.
- In the **clean energy** sector, more than $130 trillion of investment is needed globally by 2050 to address climate change. LGC has invested £0.2bn in clean energy to date, including in the Kensa Group, a ground source heat pump technology firm, and a stake in Pod Point, one of the UK's largest electric vehicle charge point operators. We are committed to scaling-up investments in the clean energy sector to accelerate progress towards a low-cost and low-carbon economy.
- LGC's **residential property** platform is diversified across build to rent, build to sell, later living, and affordable housing, providing some insulation from cyclical shocks. The long term need for UK housing is well established: each year delivery of new homes falls short of demand, leading to increased levels of overcrowding, affordability issues, impaired labour mobility and increased levels of homelessness. Supporting our climate ambitions, we have committed that our homes will all be operationally carbon emission-free from 2030.

  We are well positioned to achieve our long-term targets of delivering:
  - Over 3,000 traditional build to sell homes per annum
  - 5,500 build to rent homes in our pipeline
  - 3,000 affordable homes per year by 2023 to help meet the needs of the more than 1.4m households on waiting lists for UK social housing
  - Over 3,000 Later Living homes in our pipeline to help address the housing requirements of last time buyers seeking to downsize, estimated at over 3.4m by 2021
- In **SME Finance**, we are continuing to support UK innovation, investing in the real economy by creating a diverse portolio of assets. **We expect to continue to deploy our capital and focus to support the venture ecosystem to help create and grow the businesses of tomorrow.**

Legal & General Insurance (LGI)

We anticipate continued premium growth across our UK and US businesses as **technological innovation** 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 the strength of our distribution relationships, investment in our systems and platforms, and product enhancements; these strengths led to a strong performance in H2 2020 which is continuing into 2021. Our group protection business has gained market share in 2020, however, 2021 new business volumes may not reach the record levels from 2020 as, typically, fewer large schemes are tendered in odd years than in even years. **In line with our five year ambition, we are targeting mid-single digit growth in revenues across our UK protection businesses.**

In the US, we anticipate our on-going technology investments and new partnerships will position us for premium growth as the market recovers from the distribution and underwriting disruptions caused by COVID-19. We plan to use technology to improve customer experience while reducing cost and becoming 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 by policy count, and our digital first approach is aiming to achieve **double digit growth in new business sales over the next five years**.

As we look to transform adjacent markets, we are also accelerating growth in our digital platforms such as Salary Finance, where the loan book has quadrupled since 2018.

LGI expects to emerge stronger from the current crisis. In responding to the challenges presented by COVID-19 we have accelerated our use of data analytics in the UK and US, allowing us to enhance our products, optimise our profits, and take proactive risk management actions.

People

At Legal & General our greatest strength is our people, and that includes ensuring we have the right leaders across our business. To capitalise on the opportunities ahead of us and the expertise of our leaders, we are making a number of leadership changes in 2021.

Simon Gadd will step down as Group Chief Risk Officer in 2021 after a 34 year career with the Group, and move into an advisory role for the firm. We would like to thank Simon for his leadership and his enormous technical ability demonstrated during his time with us.

Chris Knight will take over the role of Group Chief Risk Officer from March, subject to PRA approval, having led LGRR through a strong period of growth during his three years as CEO of the division. During Chris's twelve years at Legal & General he has held a number of Group and Divisional leadership roles throughout the firm. He has also served as the Group's Customer Champion, representing retail customers' interests across the whole product range: a perspective he will bring to his CRO role.

Chris is succeeded as CEO of LGRR by Andrew Kail who was previously the Head of PwC's Financial Services practice and was Legal & General's Group engagement audit partner for five years. Andrew spent thirty years with PwC and, as a long-standing senior auditor and advisor, brings significant financial services experience as well as expertise in regulation, risk and technology. He is well placed to lead LGRR into the next stage of its mission to bring the best retirement products and services to UK consumers.

To facilitate our internationalisation objectives, Kerrigan Procter (currently CEO of LGC) has been appointed President of Asia, Legal & General Group, based in Hong Kong. The dynamism of the Asia-Pacific markets provides significant opportunities for not only LGIM, which is already established in the region with ambition to grow, but also across the Group. Kerrigan's remit will involve working hand in hand with our divisions to develop their strategies for growth in Asia and then implementing them in the region.

Laura Mason, who is currently serving as the CEO of LGRI, has been named as Kerrigan's successor as CEO of LGC. This move sees Laura return to LGC where she was part of the original leadership team involved in setting up the division. Laura is already heavily involved in LGC's work to invest in the real economy, with board positions overseeing our Oxford and Pemberton investments.

We will announce Laura's successor as CEO of LGRI in due course.

Dividend

Our businesses and balance sheet have shown resilience during the COVID-19 pandemic. As a long-term company, we act prudently and take into consideration all of our stakeholders. As indicated at the Capital Markets event in November, the Board has declared a final dividend of 17.57p per share, flat against the prior year.

Over the longer term, Legal & General expects to maintain its progressive dividend policy reflecting the Group's expected underlying business growth, including net release from operations and operating earnings.

LGR - Institutional

FINANCIAL HIGHLIGHTS £m	2020	2019
Operating profit excluding mortality reserve release	**1,229**	*1,116*
Mortality reserve release	102	*100*
Operating Profit	**1,331**	*1,216*
Release from operations	492	*418*

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New business surplus	220	*265*
Net release from operations	**712**	*683*

UK PRT	7,196	*10,075*
International PRT	1,250	*1,067*
Other PRT (longevity insurance, Assured Payment Policy, Insured Self-Sufficiency)	397	*250*
Total new business	**8,843**	*11,392*

Operating profit up 10% to £1,229m[42]

LGRI continues to deliver consistent operating profit growth, with a 10% increase in operating profit over 2020 to £1,229m[42] (2019: £1,116m[42]). Growth was underpinned by the performance of our growing annuity portfolio and by resilient pension risk transfer (PRT) new business volumes, which saw particularly robust growth in our US business. As mentioned on page 4, the devastating loss of life from COVID-19 has had impacts across the Group, including LGR.

In H2 2020 we reviewed our future longevity improvement assumptions and have conservatively adopted an adjusted version of the CMI 2018 mortality tables for LGRI's annuity book, resulting in a £102m reserve release. Including the reserve release, operating profit increased 9% to £1,331m (2019: £1,216m).

Release from operations increased 18% to £492m (2019: £418m), reflecting the scale of the business as prudential margins unwind from LGR's growing £87.0bn annuity fund (2019: £75.9bn).

Net release from operations was £712m (2019: £683m) with new business surplus of £220m (2019: £265m). Higher release from operations was offset by lower new business surplus due to lower volumes in 2020, although at higher margins, compared with record bulk annuity new business volumes in 2019.

During 2020 we wrote £7,196m of UK bulk annuities, which combined with the Other PRT of £397m and £910m of individual annuities written in LGRR, delivered a 10.6% Solvency II new business margin (2019: 7.9%) with UK PRT capital strain of less than 4%. PRT business written during 2020 was especially capital efficient due to markets, reducing strain.

Gross longevity exposure was £88.9bn across LGRI and LGRR's annuity and longevity insurance businesses. We have reinsured £37.1bn of longevity risk with fourteen reinsurance counterparties, leaving a net exposure of £51.8bn. The reinsurance market is growing and innovating, and we expect it to continue to offer sufficient capacity to meet the demand from insurers.

57% increase in number of UK PRT transactions

During 2020 LGRI underwrote £8,843m of PRT across 61 deals globally (2019: £11,392m; 42 deals).

Legal & General maintained its position as a leader in the UK PRT market, having written £7,593m of premiums across 44 transactions (2019: £10,325m; 28 deals). The UK PRT market was robust during 2020, with new business volumes the second highest on record and surpassed only by 2019 volumes.[43] Whilst there was a surge of mega-deals in 2019 driving higher market volumes in that year, 2020 saw more transactions as a whole, but concentrated on smaller and mid-sized pension schemes. As the only whole-of-market provider in the UK we see nearly all deals coming to market and are well positioned to preserve market share.

LGRI's brand, scale and asset origination capabilities - through synergies with, and expertise within, **LGIM** and **LGC** - are critical to our market leadership in the large UK PRT market. Long term client relationships, typically fostered by LGIM, have allowed us to help many pension plans achieve their de-risking goals. In 2020 we demonstrated our market leadership and solutions capabilities by writing a series of innovative transactions, including:

- Small scheme solutions, with over 65% of our transactions smaller than £100m as we leveraged **technological innovation** to serve smaller pension plans more efficiently.
- £1.1bn bulk annuity with Maersk Retirement Benefit Scheme which secures the pension benefits of around 1,900 deferred members and 3,000 retirees.
- A £397m Assured Payment Policy, our **capital-light** PRT product, for Legal & General Group UK Senior Pension Scheme. The policy provides asset yield, interest rate and inflation risk protection to the pension plan, paving a more secure path to buyout over a planned timeframe.
- A ninth bulk annuity for ICI, one of our largest PRT clients.

Record new business as US PRT volumes increased 42%

Our US PRT new business premiums increased 42% to $1,614m (2020: £1,250m; 2019: $1,140m; £893m), as we grew market share from 4% in 2019 to 6% in 2020.[44] Since entering the market in 2015, we have underwritten more than $5bn of premium with 67 clients.[45] During 2020, the business broke new ground, writing:

- Our largest ever US PRT transaction independent of reinsurance, at more than $350m;
- Our first global PRT transaction, with LGRI simultaneously insuring IHS Markit's UK and US pension plans for $144m (£122m). As the only insurer providing PRT to pension plans globally, **Legal & General is uniquely positioned to offer holistic, global pension de-risking solutions**; and
- The largest global PRT transaction for Evonik Industries, insuring both their US and UK pensions plans for $826m (£617m) during H2 2020.

LGR - Retail

FINANCIAL HIGHLIGHTS £m	**2020**	2019
Operating profit excluding mortality reserve release	**325**	*298*
Mortality reserve release	75	*55*
Operating Profit	**400**	*353*
Release from operations	163	*180*
New business surplus	57	*62*
Net release from operations	**220**	*242*
Individual single premium annuities	910	*970*
Lifetime & Retirement Interest Only mortgage advances	791	*965*
Total new business	**1,701**	*1,935*

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Operating profit up 9% to £325m[46]

LGRR operating profit growth excluding mortality reserve release increased 9% to £325m during 2020[46] (2019: £298m[46]). Experience variances, primarily related to the tragic human cost of COVID-19[47], offset the reduction in net release from operations.

In H2 2020 we reviewed our future longevity improvement assumptions and have conservatively adopted an adjusted version of the CMI 2018 mortality tables for LGRR's annuity book, resulting in a £75m reserve release. Including the reserve release, operating profit was up 13% to £400m (2019: £353m).

Release from operations was £163m (2019: £180m), a decrease of 9%, reflecting reduced lifetime mortgage lending in 2020.

Net release from operations was £220m (2019: £242m) with new business surplus of £57m (2019: £62m). New business surplus fell reflecting a reduction in annuity sales due to the market-wide slow down following the UK March 2020 lockdown.

Lower new business volumes in 2020, but both businesses have bounced back from early pandemic disruptions

LGRR has helped customers weather the economic uncertainty following COVID-19, delivering solutions to retirees through individual annuities and Lifetime Mortgages (LTMs).

Individual annuity sales were down 6% to £910m in 2020 (2019: £970m), reflecting COVID impacts on new business volumes, particularly the desire of potential customers to postpone formal retirement in the immediate aftermath of the UK lockdown. Sales recovered over H2 2020, up 3% compared to H2 2019, as demand rebounded and **technological innovation** helped operational adaptation to the current environment. Our relative performance remained strong: our swift operational response, product innovation and increased intermediary presence allowed us to grow market share to 20.9%.[48]

Lifetime mortgage advances, including Retirement Interest Only mortgages, were down 18% to £791m (2019: £965m), again reflecting COVID impacts on new business volumes, and the particular challenges which affected the working of the end-to-end housing market. Throughout this period, we have maintained pricing and underwriting discipline while building **customer-focused** innovation, such as virtual valuations and electronic signatures. At the end of 2020, LTMs were 7% of our total annuity assets and our LTM new business portfolio had an average customer age of 71 and a weighted average loan-to-value of c.28% at point of sale.

Product innovation as a foundation for future growth

In addition to further growing its market leading annuity and lifetime mortgage business, LGRR seeks to achieve its five year ambitions by expanding its addressable market through product innovation.

As an example, during Q2 2020, we launched our non-advised drawdown to compete in the £28bn UK income drawdown market and in Q4 we launched our market-leading pension pot tracing and consolidation service.

Additionally, from 1 January 2021, the Workplace Savings business and its four million customers was transferred from LGIM to LGRR, building out LGRR's retail retirement proposition. Associated in-house assets will continue to be managed by LGIM.

We are expanding our product range to create a holistic decumulation proposition, and developing a digitally-led customer journey, offering flexible and guaranteed income options as well as pensions tracing and consolidation. As we develop our retail retirement proposition to expand our addressable market, we expect incremental growth to be increasingly capital light.

Legal & General Retirement - Total Annuity Asset Portfolio

FINANCIAL HIGHLIGHTS £m	2020	2019
Operating Profit	**1,731**	*1,569*
Investment and other variances	19	*43*
Profit before tax	**1,750**	*1,612*
Total annuity assets (£bn)	**87.0**	*75.9*
Of which: Direct investments (£bn)	*24.7*	*21.6*

Legal & General Retirement's (LGR) £87.0bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities in LGRI and LGRR is well diversified by sector and geography (2019: £75.9bn).[49] **Our ambition is to continue to strengthen our asset sourcing capabilities (a core competitive advantage), including both self-manufactured and public assets with a strong ESG focus.**

During 2020 LGR published its asset portfolio ESG strategy[50]. This includes:

Environmental - *Portfolio decarbonisation (reducing portfolio carbon emission intensity by 18.5% by 2025) and influencing the transition to a low-carbon economy*

We are decarbonising our portfolio through three primary mechanisms:
1. Investing new business premiums at a lower carbon intensity than our current portfolio
2. Increasing portfolio allocation towards companies that are themselves aligned to the Paris carbon emissions trajectory
3. Trading out of issuers (companies) within our current portfolio which are decarbonising too slowly

Social impact - *Creating new investments for the future economy*

When allocating capital towards investments, our primary aim is to ensure the safety of our policyholders' benefits, but we also look to invest to generate positive societal impacts, to drive local and global economic growth, and to contribute to reliable dividends for our shareholders.

Governance - *Measuring and managing financial related risks including ESG to make society more resilient with our financial solutions*

LGR and LGIM aim to develop and analyse ESG data in an efficient way to identify, measure and manage the most salient risk factors for our investments, and integrate these assessments into the investment process. We measure and mitigate ESG risks in our portfolio at both individual security and portfolio levels.

Credit portfolio management

Approximately two-thirds of LGR's fixed income portfolio is rated A or better, 33% rated BBB and 2% sub-investment grade.

The key objective of our annuity-focused, fixed income fund managers in **LGIM** is to manage the portfolio to match liabilities while minimising credit downgrades and avoiding defaults. We constantly review our asset portfolio, including sector allocations and asset classes, in order to manage portfolio credit quality and to mitigate risks. We have vigorously stress-tested our portfolio to build resilience against a range of scenarios and we hold a **£3.5bn IFRS credit default reserve**.

We have kept lower-rated, cyclical exposures to a minimum and only 13% of our BBB assets are BBB-. We actively manage our asset portfolio and continue to take opportunities to improve credit quality at attractive pricing levels. Market dynamics during the early stages of COVID-19 allowed us to take significant positive action and we remain vigilant as the economic impact of the pandemic continues to develop.

This two-pronged approach, **defensive positioning and active management**, has helped us mitigate downgrade and default risk. **We have outperformed the downgrade experience of the market, with just 0.9% of our traded credit assets downgraded to sub-investment grade compared to 1.8% of the index. We have had no defaults.**

Direct Investment

LGR originated £2.6bn of new, high quality direct investments during 2020 which, along with market movements, brought the direct investment portfolio total to £24.7bn[51] (2019: £21.6bn), including £6.0bn in LTMs. Consistent with the broader bond portfolio, approximately two-thirds of the direct investment bond portfolio was rated 'A' or above using robust and independent rating processes which take account of long-term stress events on the strong counterparties and the underlying collateral.

The portfolio has been resilient, with 99.9% of scheduled cash-flows paid during the year, reflecting the high quality of our counterparty exposure. During 2020, just four direct investments, representing 2.6% of our UK direct investment portfolio (excluding lifetime mortgages), were downgraded to sub-investment grade. Two of the affected assets were under construction and delays have meant that the construction phase has been extended slightly, resulting in a downgrade under our independent rating methodology. One of these assets has already been upgraded back to investment grade in 2021.

Across the Legal & General Group, **our businesses help to meet the societal needs arising from welfare reforms by harnessing the power of pensions to deliver Inclusive Capitalism.** We aim to invest in sectors where long term funding is needed, for example, in assets providing housing and clean energy across our UK towns and cities. Our ability to self-manufacture attractive, long-term assets to back annuities, such as build to rent or affordable housing, working with **LGIM**, **LGC**, or through LTMs, is a differentiating feature of LGR's business and remains a key competitive advantage.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS[1] £m	2020	2019
Management fee revenue	929	*889*
Transactional revenue	27	*23*
Total revenue	**956**	*912*
Total costs	(549)	*(514)*
Asset management operating profit[2]	**407**	*398*
Workplace Saving operating profit / (loss)	(3)	*(4)*
Operating profit	**404**	*394*
Investment and other variances	(3)	*(9)*
Profit before tax	**401**	*385*
Net release from operations	**342**	*328*
Asset Management cost:income ratio[2] (%)	**57**	*56*

NET FLOWS AND ASSETS £bn		
External net flows	**20.4**	*86.4*
Internal net flows	2.1	*2.8*
Total net flows	**22.5**	*89.2*
- Of which international[3]	*(4.0)*	*59.2*
Cash management flows	**2.4**	*(0.6)*
Persistency (%)	**85**	*89*
Average assets under management	*1,222*	*1,132*
Assets under management as 31 December	**1,279**	*1,196*
Of which:		
- International assets under management[4]	***388***	*370*
- UK DC assets under management	***113***	*94*

1. Please see disclosure 1.01 for further details. 2019 LGIM operating profit restated to include LGIM-related project expenditure formerly reflected in Group expenses.
2. Excludes revenue and costs from the Workplace Savings business.
3. International asset net flows are shown on the basis of client domicile.
4. International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.

Operating profit growth of 3% to £404m

LGIM's AUM and profit were resilient through the significant market volatility associated with COVID-19. Assets under management increased to £1,278.9bn (2019: £1,196.2bn), benefitting from the diversified asset base. The business delivered positive external net flows of £20.4bn (2019: £86.4bn), driven by strong structural demand for our products against a prior year comparator which included a £37bn mandate with the Japan Government Pension Investment Fund. Revenues increased 5% to £956m (2019: £912m), supported by growth in higher margin areas like factor based and thematic ETFs and Multi-Asset. LGIM continues to be a strong enabler and beneficiary of growth in LGRI and LGRR, and in 2020 revenue from these divisions totalled £148m (2019: £131m). During 2020 our position as a leader in ESG was acknowledged both through our #1 ranking globally among asset managers by independent NGO ShareAction for our work on climate change, and through our selection into the 'Leaders Group' by the UN Principles for Responsible Investment.

Operating profit increased by 3% to £404m (2019: £394m), reflecting increased revenues from flows and asset values, which were partially offset by LGIM's continued investment in its growth strategy. As outlined in the November 2020 Capital Markets Event, LGIM is continuing to invest across all three strategic areas of focus in order to modernise, diversify and internationalise the business. Key areas of investment are: data analytics, digital customer experience, investment platform optimisation and international expansion, particularly for scaling up our European operations. The cost income ratio (57%) reflects our continued investment in the business. However, we are balancing our investments with a focus on cost, taking decisive actions as necessary. Expense management in H1 2020 benefited our full year result.

Falling interest rates have increased the value of fixed income assets, which account for over one-third of LGIM's AUM. Despite the low rates environment, pension schemes have continued programmes of de-risking which have positively impacted flows from UK DB pension plans and thanks to our deep relationships with plan trustees LGIM has been able to support our clients during these uncertain times.

Workplace Savings assets increased by 26% to £50.8bn (2019: £40.3bn) driven by continued client wins and increased contributions. We are focused on improving efficiency as the business grows. The 2020 operating result was £(3)m (2019: £(4)m). This relates to the administration business only, as the profits on the fund management services provided are included in LGIM's asset management operating profit. From 1 January 2021, the Workplace Savings administration business has transferred to **LGRR**, where it complements their retirement solutions offering and retail customer focus; LGIM continues to manage the assets and earn the asset management profit from this business.

Strong flows into UK DC and UK DB benefitting from increased hedging activity

LGIM's UK Institutional business delivered resilient external net flows of £21.3bn (2019: £22.8bn).

This was led by a robust performance from the Defined Benefit (DB) business, with external net flows of £10.2bn, driven primarily by strong inflows of £22.7bn into DB LDI Solutions. The market volatility and low rates environment have made DB pension plans increasingly aware of their asset risks and, as such, many have sought to hedge these risks. LGIM is both an enabler and a beneficiary of LGRI's PRT business. As a leading Solutions provider, LGIM can support clients at all stages of their funding journey, eventually helping them transition into a PRT relationship with LGRI. At this point, these assets are given to LGIM as captive AUM to manage for the long term. This means that even as the UK DB market gradually de-risks and declines in size, LGIM will continue to meaningfully participate, benefitting from a truly virtuous circle with LGRI. Adding to our suite of DB investment solutions, this year we launched the Secure Income Assets Fund (SIAF), offering DB clients the chance to invest in infrastructure debt, real estate debt and private corporate debt.

The Defined Contribution (DC) business continues to attract flows, with robust external net flows of £11.1bn. Total UK DC AUM is up 20% over prior year driven by net inflows, with total AUM of £112.7bn (2019 £94.3bn). This success was made possible by LGIM's strong customer focus, as shown by our 2020 Global Investor Award and a 93% persistency rate among our DC customers.

LGIM has experienced a 14% increase in customers on its Workplace pension platform in 2020, with the number of members now at four million. LGIM also has one of the largest and fastest-growing UK Master Trusts, which recently reached £12.5bn AUM at its ninth anniversary, reflecting the increasing appeal of the structure for DC plans wishing to outsource their governance, investment and administration.

International AUM increased 5% despite slightly negative net flows

LGIM experienced international external net flows of £(4.0)bn, which is down against the exceptional prior year performance (2019: £59.2bn), which reflected a £37bn mandate with the Japan Government Pension Investment Fund.

The low rate environment resulted in rising asset values but saw US external net flows of £(7.2)bn as some US pension plans rebalanced their portfolios away from fixed income towards other asset classes based on pre-set asset allocation thresholds. We expect US growth to resume as clients, particularly DB pensions, continue to focus on long term de-risking objectives. Asia ex-Japan net flows were encouraging, at £11.5bn (2019: £2.6bn).

International AUM of £388bn is up 5% from 2019 (£370bn) with fixed income asset values benefitting from lower rates. Notwithstanding short-term market volatility, we continue to focus on international growth. Our deep relationships with a number of leading international clients underpin our strong belief in our ability to grow international AUM and earnings over the next five years.

Strong growth and product innovation in our retail business

The retail business delivered net flows of £1.6bn, through a period of significant market volatility. Retail AUM increased by 7% to £41.6bn (2019: £38.8bn) as we continue to develop our product range and client-service proposition in the UK and broaden our distribution strategy in Europe. LGIM was ranked top 4 in gross UK retail sales in 2020.[52] In October, LGIM sold a c.£5.8bn back-book of retail investment products within the Personal Investing business to Fidelity International Ltd. Customers will remain invested in LGIM funds upon transfer (expected in H2 2021) and LGIM will continue to earn an investment management fee on these assets.

Product innovation within our ETF business has helped bolster our retail distribution strategy with £1.5bn of net flows in 2020, and AUM increasing by 74% to £5.4bn (2019: £3.1bn). Currently 79% of our ETF offering by AUM/market type has experienced net inflows in 2020 and we rank in the top 10 for pan-European mutual funds and ETF net flows.[53] During 2020 we launched a range of ESG aligned ETF's, including a new thematic Clean Energy ETF. Additionally, LGIM launched its Core Fixed Income ETF range with ESG and liquidity considerations integrated into the investment design. The range excludes the bottom quintile of issuers based on their ESG scores, as well as certain industries such as controversial weapons manufacturers, thermal coal miners, tobacco companies, oil sands and violators of the UN Global Compact.

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 31 December 2020, **LGIM managed £206.8bn in responsible investment strategies explicitly linked to ESG criteria for a broad range of clients**.

LGIM has a strong, unified sense of purpose: to create a better future through responsible investing. To that end, we work to raise ESG standards on important global issues, leveraging our position as one of the 15 largest global asset managers. Examples of our achievements in 2020 include:

- **Integration of ESG factors**: Building on two of our structural growth drivers, using **technological innovation** to **address climate change**, LGIM and Baringa Partners co-developed a bespoke climate risk framework, Destination@Risk. It has initially been used to analyse around 2,000 companies globally, concluding that most companies are not aligned with the Paris objectives. A climate risk dashboard is now available to portfolio managers and analysts within LGIM, enabling LGIM to **embed climate risk and alignment in a consistent way throughout the entire global investment function**. Destination@Risk was first used to evaluate the climate risk and alignment of Legal & General Group's own balance sheet assets, as detailed in the firm's 2019 Task Force on Climate-related Financial Disclosures (TCFD) report.
- **Product innovation**: LGIM is committed to meeting clients' demands for ESG-focused investment products. During 2020 we built on our strong heritage in index and ESG investing to develop innovative new products:
  1. ESG fossil-fuel free Emerging Market Equity Index Fund, which allocates capital based on transparent ESG scores, incorporates energy and tobacco sector exclusions, while leveraging LGIM's stewardship capabilities
  2. Climate transition index equity fund, based on the Transition Pathway Initiative (TPI) analysis of how the world's largest and most carbon intensive public companies are managing the climate transition
  3. Social Housing investments: LGIM Real Assets has made a number of affordable housing investments during 2020, including its first investment in an Irish scheme. Across the Group Legal & General has invested to date more than £1.5bn in affordable housing in the UK.
  4. In 2020 our launch of the L&G US Equity (Responsible Exclusions) UCITS ETF was recognised as the most successful sustainable fund launch in the market, raising over £1bn AUM in the 12 months after launch.
- **Stewardship with impact**: LGIM's stewardship team engaged with 65 companies and voted on 139,000 resolutions in 2020. Additionally, during 2020 we engaged with regulators and policymakers around the world on more than 30 topics , in an effort to raise market standards globally. Recognising the crucial role of international leadership and collaboration to the decarbonisation initiative; Legal & General is at the heart of the COP26 programme in 2021, with LGIM CEO, Michelle Scrimgeour, co-chairing COP26 Business Leaders alongside the Secretary of State for Business, Energy and Industrial Strategy, Rt Hon Alok Sharma MP.

Breadth of investment management solutions

Asset movements[1] **(£bn)**	Index	Active Strategies	Multi Asset	Solutions	Real assets	**Total AUM**
At 1 January 2020	**403.6**	**177.2**	**58.0**	**526.6**	**30.8**	**1,196.2**
External inflows	76.6	17.7	8.5	27.0	1.0	130.8
External outflows	(84.7)	(17.8)	(5.3)	(36.6)	(1.4)	(145.8)
Overlay net flows	-	-	-	33.9	-	33.9
ETF net flows	1.5	-	-	-	-	1.5
External net flows	**(6.6)**	**(0.1)**	**3.2**	**24.3**	**(0.4)**	**20.4**
Internal net flows	(0.2)	2.6	(0.4)	(0.3)	0.4	2.1
Total net flows	**(6.8)**	**2.5**	**2.8**	**24.0**	**-**	**22.5**
Cash management movements	-	2.4	-	-	-	2.4
Market and other movements	33.1	11.5	2.6	8.9	1.7	57.8
At 31 December 2020	**429.9**	**193.6**	**63.4**	**559.5**	**32.5**	**1,278.9**

1. Please see disclosure 4.01 for further details.

In Solutions and Index, clients rely on us to deliver their target returns against defined benchmarks. For actively managed portfolios, investment outperformance versus either benchmarks or peer groups is an important driver of current and future client flows, and in 2020 LGIM's active teams delivered strong performance across multiple asset classes. Using our regulated UCITS and US Composites as a proxy for the performance returns[2] of our mainstream investment strategies, our active teams have delivered 1, 3 and 5 year performance numbers to 31 December 2020 as follows:

Strategies	**1 year % outperformance**	**3 year % outperformance**	**5 year % outperformance**

Multi asset (LGIM)	76%	81%	88%
Active Fixed Income (LGIM)	94%	93%	85%
Active Fixed Income (LGIMA)	86%	73%	83%
Active Equities (LGIM)	50%	36%	44%

2. Net fund performance data versus key comparators (benchmark or generic peer groups for bonds and equities as per the relevant prospectuses and benchmark per the relevant prospectus or custom peer group for Multi Asset) sourced for the LGIM UCITS from Lipper and calculated internally for the U.S. composites, in both cases as at 31 December 2020.

LDI Solutions continued to deliver positive external net flows of £24.3bn (2019: £38.1bn) driven by strong demand from UK DB clients as they continue to de-risk. We manufacture Solutions products in both publicly and privately traded asset classes and combine these together in integrated portfolios for UK DB clients. We are well positioned to capitalise on this continuing trend; and together with our fiduciary business offering, and close alignment to LGR's PRT business, we are able to tailor solutions to UK DB schemes at all stages of their funding journey.

Index reported net flows of £(6.6)bn (2019: £37.7bn) reflecting the structural trend of DB schemes de-risking resulting in a shift from index to LDI strategies, offset by positive flows in Europe and Asia.

Active Strategies (formerly Global Fixed Income and Active Equities) delivered net flows of £(0.1)bn (2019: £2.8bn). The flows performance in 2020 reflects positive net inflows from UK DB clients, offset by rates driven outflows in the US reflecting rising asset values and clients rebalancing their portfolios.

Multi-asset strategies continue to be in high demand from DC schemes and retail customers. External net flows into multi-asset funds were £3.2bn (2019: £7.7bn).

Real Assets saw external net flows of £(0.4)bn (2019: £0.1bn) reflecting market and regulatory sentiment impacted by COVID-19. The future growth of external flows will be supported by our Build to Rent business, which now has a pipeline of c.5,500 homes across the country, and Private Credit, which offers clients diversification of secure income and value protection solutions.

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	**2020**	2019
Operating profit	**275**	363
- Direct investment	112	217
- Traded investment portfolio	161	135
- Treasury assets	2	11
Investment and other variances	(299)	91
Profit / (loss) before tax attributable to equity holders	**(24)**	454
Net release from operations	**224**	295

DIRECT INVESTMENT PORTFOLIO £m		
Specialist commercial real estate	694	760 1
Clean energy	182	170
Residential property Homes	1,738	1,483
SME Finance	525	464
	3,139	2,877

TRADED ASSET PORTFOLIO £m		
Equities	1,749	1,797
Fixed income	446	499
Multi-asset	209	238
Cash[1]	1,522	2,024
	3,926	4,558

LGC investment portfolio	**7,065**	7,435
Treasury assets at holding company	1,982	1,555
Total	**9,047**	8,990

1. Includes short term liquid holdings.

Total operating profit of £275m reflecting pause in housebuilding in March lockdown

LGC operating profit decreased 24% to £275m (2019: £363m), principally reflecting lower profits from our direct investment portfolio (2020: £112m; 2019: £217m) as a result of a pause in traditional housebuilding activities during the UK lockdown. Operating profit from the traded and treasury portfolios increased to £163m (2019: £146m), primarily driven by the larger opening traded equity portfolio value at the start of 2020.

Profit before tax of £(24)m includes the impact of equity market volatility, early stage development costs and investment variance from asset valuation markdowns, particularly in respect of our two retail assets (The Lexicon Bracknell and Thorpe Park in Leeds), and a prudent approach to valuations of realisable yields on some of our housing businesses. These markdowns relate to the current value of the portfolio and are not realised losses.

The combination of a slowdown in build to sell housing and measured retail-related asset write-downs, resulted in a direct investment net portfolio return of (4.0)% (2019: 5.2%), which we expect to recover to 8% to 10% over the medium term.

Direct investment portfolio grew 9% over 2020 to £3.1bn

LGC has continued to build its capabilities in a range of alternative assets, delivering depth of resource, track record and intellectual property, while sourcing new opportunities that are underpinned by our structural growth drivers. Taking a prudent approach to investment over the period, our direct investment portfolio increased to £3,139m (2019: £2,877m) as we added £0.6bn of new diversified investments and made further new undrawn commitments of £0.2bn, continuing to deploy cash to support the growth of our existing businesses and access new opportunities. As we are maturing, we have also divested £0.2bn in assets.

Our portfolio continues to be well diversified across our business models, with:

- 55% invested in wholly owned operating businesses, including our investments in Affordable housing and CALA;
- 28% in joint ventures or partnerships with other investors, such as the SciTech partnership with Bruntwood and our Oxford University Development partnership; and
- 17% in externally managed funds, including our investments in Pemberton funds and NTR, where we are a significant shareholder.

Further diversification of our specialist commercial real estate across science and innovation

Addressing a shortage of investment in specialist commercial real estate, we are involved in some of the UK's largest urban transformation schemes and are funding the next generation of science and innovation centres, which have proven crucial in response to COVID-19. Creating jobs, boosting local communities and helping the UK to build back better, these investments generate returns for shareholders, create attractive Matching Adjustment eligible assets for **LGRI and LGRR** and supply desirable alternative assets to **LGIM** clients.

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During 2020 our portfolio reduced marginally to £694m (2019: £760m) as COVID-19 related valuation impacts (particularly affecting our two retail assets) were largely offset by continued investment in new and existing projects. As a part of our £4bn Oxford University partnership, we facilitated LGR's £200m funding for a new Life and Mind sciences building. We have also worked with LGIM, LGRI and LGRR to finance and develop a state-of-the-art TV and film studio for Sky in Elstree, creating around 2,000 jobs and generating £3bn of production investment.

Through Bruntwood Scitech, we have developed world-class diagnostics infrastructure, such as the Lighthouse Lab at Alderley Park, which has put us at the forefront of the fight against COVID-19. Continuing to support our leadership in UK SciTech innovation districts, we have made further progress in Manchester and have partnered with Birmingham University to deliver the Birmingham Health Innovation Campus, an ambitious 10-year project to establish a new 657,000 sq ft life sciences hub.

Our Clean Energy portfolio expanded to £182m, in line with climate ambitions (2019: £170m)

As we transition to a net zero carbon world, we are investing in SME scale-ups that can deliver the game-changing innovation, renewable technology and momentum needed to meet public targets and decarbonise our economy. During 2020 LGC expanded its clean energy portfolio, which includes renewable infrastructure and clean technology, across low-carbon heat, transport, and power generation.

In February, we increased our stake in Pod Point to c.22%, forming a partnership with EDF. Its growth has been significant, driven by increasing consumer interest in electrical vehicles and it has developed an extensive public netwok across the UK, including the roll-out of charging bays at Tesco and Lidl stores.

In April, we took a 36% stake in The Kensa Group, a leader in the UK ground source heat pump technology sector. During 2020, Kensa announced it is involved in a £41m low carbon transport, power and heat energy superhub being created in a deprived area of Oxford, which is supported by the UK Government's Industrial Strategy Challenge Fund and includes retrofitting ground source heat pumps in over 300 domestic properties.

Additionally, through our boutique fund manager, NTR, we are continuing to source, build and operate new renewable energy assets to create attractive returns for investors over the medium to long term by generating zero carbon electricity, scaling our platform and impact. At the end of 2020, NTR closed its second fund, NTR Renewable Energy Income Fund II, with more than €300m to invest in onshore wind, solar and battery projects in Europe, around 50% of which has already been successfully deployed.

Strengthening our UK residential platform as assets increase to £1,738m (2019: £1,483m)

LGC continues to scale up its ambitions across all housing tenures. Diversified across affordability and life stage, LGC's investments meet the UK's long term social and economic need for quality housing for all demographics.

Now in its second year, LGC's profitable **Affordable Homes** business has established itself as one of the UK's leading institutional developers and managers of affordable housing, and is generating investment opportunities for LGR. In the wake of the COVID-19 crisis, the business remains highly resilient, in terms of both valuations and income. Working in collaboration with Government and leveraging the countercyclical nature of affordable housing, it is delivering much needed homes to meet increasing demand, growing its development pipeline to over 4,400 homes across 92 sites. Delivering a mix of social rent, affordable rent and shared ownership homes, the business had a total of 670 homes in operation (2019: 117) and has completed 183 shared ownership sales (2019: 8). Customer service standards are an important strength and the business received a Net Promoter Score of 49, compared to a Housing Association sector average of 6.

Having launched an urban **Build to Rent** business in 2015, across the Group we now have a £1.8bn portfolio of c.5,500 homes with 15 schemes in operation or development across the UK's major towns and cities. Creating a pipeline of attractive, high quality assets for **LGRI**, **LGRR** and **LGIM** clients, our urban Build to Rent portfolio has continued to deliver a stable return throughout the crisis. Showing its resilience and relatively countercyclical nature, rent collection has remained robust at over 97% (as at end of 2020) and occupancy and demand have remained high. In November 2020, LGC launched its **Suburban Build to Rent** business, which builds on our Group-wide expertise in UK urban build to rent. The Suburban Build to Rent sector has lacked the concentration of institutional investment, with less than 1% of the market having been 'institutionalised' compared to around 6% in the urban sector.

Our **Build to Sell** business, CALA, was the most operationally impacted of our residential businesses by COVID-19, with a material reduction in revenues and construction progress seen in the first lockdown. To counteract these financial impacts, we carefully managed costs through the period. Performing in line with or ahead of the wider housing maket, we saw strong sales activity during H2, demonstrating the enduring underlying demand for new homes. Underlying sales demand has been supplemented by the Government's stamp duty holiday in England and Land and Buildings Transaction Tax (LBTT) threshold increases in Scotland, in addition to pent up demand from the spring lockdown, when many reassessed their housing needs in light of home working and the need for outdoor space.

Our **Modular Housing** business has continued to grow, now employing over 300 team members and securing planning approval for nearly 350 homes since May, as it moves towards delivering 3,000 homes a year at maturity. In December planning consent was achieved to deliver 185 homes in Bristol. Developed with Bristol City Council, 50% of the scheme is affordable housing and will form part of the council's affordable housing stock.

Our **Later Living** platform is transforming what the elderly can expect from later life, with a key role to play in combatting loneliness and promoting good health. COVID-19 has heightened public awareness of later living and our villages have played a vital role in providing a protective shield to our residents, with an infection rate lower than that seen in over 70s across the UK. Despite four months of lockdown, completions were broadly flat on the previous year. Good planning progress was made by the business, with consent for nearly 800 homes added to our pipeline in the first lockdown.

SME Finance increased to £525m (2019: £464m)

Investing in the real economy through our **Alternative Finance** and **SME Growth Equity** platforms, we are continuing to support growth businesses, delivering enhanced returns while boosting job creation, innovation, and science and technology advancements.

In the **Alternative Finance** sector, we support UK and European mid-market lending via our fund investments with Pemberton, in which we own a 40% stake. Notwithstanding the challenges that have been presented by COVID-19, Pemberton has continued to show resilience and make excellent progress, with committed Funds Under Management reaching €9.3bn (2019: €6.1bn) across 4 strategies and €8.3bn deployed since inception. This represents 20x growth in committed AUM since our investment five years ago. As a signatory of the Principles for Responsible Investment, Pemberton is committed to financing sustainable companies and seeking to support its borrower clients in building long-term value through sustainable growth.

Our **SME Growth Equity** business backs over 300 start-up businesses across the UK and Europe through fund investments with eleven Venture Capital managers. We have increased our investments during the year with the addition of two new funds from leading European managers, as we continue to diversify across stage, vintage and sector, bringing our total Venture Capital commitments to £116m. The portfolio is performing well, with earlier vintages now beginning to generate strong returns. Investments in the underlying portfolio include accuRx, a healthcare communication company with a SMS patient messaging service used by 99% of UK GPs (over 7,000 practices) including supporting vaccine bookings and which has facilitated over 1m video consultations since the start of COVID-19. Looking to share the benefits of the Innovation Economy with retirement savers in the UK, we are working with **LGIM** to develop a viable solution for Defined Contribution clients which democratises access to the venture capital sector.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	2020	2019
Operating profit	**189**	314
- UK	205	223
- US (LGIA)	(16)	91
Investment and other variances[1]	(459)	(234)
Profit / (loss) before tax attributable to equity holders	**(270)**	80
Release from operations	250	259
New business surplus / (strain)	8	(7)
Net release from operations	**258**	252
Solvency II New Business Value	**254**	216

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LGI new business annual premiums	**372**	339
UK Retail Protection gross premiums	**1,374**	1,327
UK Group Protection gross premiums	**382**	345
US Protection (LGIA) gross premiums	**1,093**	1,057
Total gross premiums	**2,849**	2,729

1. Investment variance is driven by a fall in UK government bond yields and US Treasury yields which has resulted in a reduction in the discount rate used to calculate the reserves for both our UK and US protection liabilities.

Operating profit of £189m impacted by COVID-19 mortality; new business value growth of 18%

Honouring our promises and responding quickly and compassionately to our customers' needs is core to our values at Legal & General. At this difficult time, LGI is especially aware of the importance of our commitments to our customers; we paid £1,942m of protection claims in 2020.

During 2020 LGI operating profit decreased 40% to £189m (2019: £314m), reflecting adverse COVID-related impacts of £186m, particularly impacting our US Protection and UK Group Protection businesses where we retain the majority of the mortality risk. We have provisioned for £110m of future COVID-19 related claims, having realised £76m of COVID-19-related claims during 2020. For more information please refer to the "COVID-19" section on page 4.

Solvency II New Business Value increased 18% to £254m (2019: £216m) due to strong sales in Group Protection, increased focus on cost optimisation across our retail businesses and favourable business mix in the US, which together delivered improved UK and US Solvency II New Business margins. The protection business continues to generate Solvency II surplus immediately when written and provides diversification benefits to the **Group**, particularly **LGR**.

LGI UK operating profit fell by 8% to £205m (2019: £223m) due to adverse mortality experience in Group Protection, partially offset by assumption changes. The retail protection business was largely insulated from the impact of COVID-19 claims because of the high proportion of the business which is reinsured. The UK Protection Solvency II new business value increased 31% to £160m (2019: £122m).

LGIA operating profit decreased to $(21)m (2019: $116m) due to adverse mortality experience from COVID-19, consistent with experience across the broader US life sector. The annual dividend paid by LGIA to the Group in March 2020, shown in the accounts within LGIA net release from operations, increased to $109m (2019: $107m). Despite competition in the term market as well as business disruption and lower new business premium caused by COVID-19, US protection sales delivered higher new business margins resulting in Solvency II new business value of $120m (2019: $120m).

Profit before tax was predominantly impacted by the formulaic change in LGI's discount rates. LGI's negative investment variance of £459m was driven primarily by falls in UK and US government bond yields which have resulted in a reduction in the discount rate used to calculate the reserves. This result reverses as rates rise. The UK 10 year gilts rate fell from 0.82% at the start of 2020 to 0.20% on 31 December 2020. Likewise, US 10 year Treasury yields fell from 1.92% to 0.93% by the end of 2020.

Gross written premium up 4% led by strong new business growth of 10%

UK Retail Protection gross premium income increased to £1,374m (2019: £1,327m) with new business annual premiums of £175m (2019: £174m), up on prior year despite the interruption from COVID-19 for a number of our distribution partners, particularly those that depend on the mortgage market or in-person advice. We increased our market share to 27% in Q3 2020 (up from 21% a year earlier) and remain the leading provider of retail protection in the UK, delivering a point of sale decision for more than 80% of our customers. Our market share growth was supported by our innovation over the period, for instance, further enhancements to our Income Protection Benefit attracted new customers in 2020. These factors added resilience to our sales during the turbulence following the emergence of COVID-19 and positioned us to be beneficiaries as the retail protection market recovered in the second half of the year.

UK Group Protection grew new business annual premiums by 54% to £117m (2019: £76m) with gross written premiums increasing 11% to £382m (2019: £345m). With improved service and more refined pricing we are attracting a wider range of scheme sizes and actively dealing with more advisers in the group protection market, enabling us to gain market share and grow new business premiums. We anticipate that 2021 new business volumes may not reach the record levels of 2020 as typically fewer large schemes are tendered in odd years than in even years.

US Protection (LGIA) gross written premiums increased 4% (up 3% on a sterling basis) to $1,403m (2019: $1,349m). New business annual premiums reduced to $103m (2019: $113m) as obtaining medical evidence in the pandemic became harder. Through the brokerage channel, LGIA continues to be the largest provider of US term life assurance by number of policies, and second largest by new business APE. We have continued to develop our new business platform to deliver a faster and better customer experience that will lead to further sales growth while reducing unit costs in coming years.

Legal & General Mortgage Club facilitated £77bn of mortgages, down 1% (2019: £78bn), with the result impacted by lower residential housing sales during COVID-related lockdowns in the UK. We are well placed for growth as the market recovers, being the largest participant in the UK intermediated mortgage market and involved in over one in five of all UK mortgage transactions. Our Surveying Services were also impacted, facilitating only 440k surveys and valuations, compared to 550k surveys and valuations in 2019. Since buying a new house is often a catalyst for purchasing life insurance, the Legal & General Mortgage Club is a helpful component of our overall offering to customers.

Fintech: Using technological innovation to respond to the changing environment

LGI has continued to grow its expertise in the Fintech sector focusing on innovating in markets adjacent to our life insurance business by building **customer-focused** solutions and making targeted investments in start-up and scale-up opportunities.

In March 2020, Salary Finance, our employee benefits platform business, in which we own a 41% stake, completed the acquisition of Neyber's new business platform and contracts, thereby doubling its reach. By the end of 2020 the Salary Finance platform was available to over 3.5m employees in the UK and almost 200,000 in the US. Additionally, in December, Legal & General, alongside Experian, completed a joint £20m capital injection into the business, cementing Salary Finance as one of the UK's fastest growing Fintech platforms.

We are making buying and financing a home **easier and quicker for our customers** and advisors through our technology investments. For example, Legal & General Mortgage Club launched SmartrFit, a digital tool for mortgage advisors, combining our mortgage search criteria tool with an affordability calculator. Responding to the changing environment, Legal & General Surveying Services have continued to use **technological innovation** to make the process of buying a home easier. We have extended our Digital Valuation solution to new lenders this year and processed 43k digital valuations in 2020, compared with 27k in 2019.

Disposed operations

The Group announced the sale of the Mature Savings business to ReAssure on 6 December 2017 for £650m. The proceeds were received by the Group at the start of January 2018. In 2020 we recognised £34m operating profit from the business, resulting from the unwind of the expected underlying profits. The Part VII transfer completed in September 2020 and generated an IFRS pre-tax gain of £335m, which is in addition to profits recognised in 2018, 2019 and 2020 (£148m total). The completion of the Part VII transfer was broadly neutral to the Group's Solvency II coverage ratio.

Legal & General Group sold the General Insurance business to Allianz Holdings Plc in 2019.

Subsidiary dividends to Group

£m	2020	2019
Subsidiary dividends remitted[1]:		
LGAS	**935**	766
LGIM	**215**	269
LGA	**80**	84

Other[2]	**181**	124
Total	**1,411**	1,243
Total excluding mortality release[3]	**1,261**	1,093

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.
3. £150m dividend paid from Legal & General Assurance Society (LGAS) to Group (2019: £150m) due to mortality reserve releases in recent years.

The level of subsidiary dividends ensures coverage of external dividends (2020: £1,048m; 2019: £1,048m), Group related costs, and investment in our businesses, with excess liquidity being held within our regulated subsidiaries.

Borrowings

The Group's outstanding core borrowings totalled £4.6bn at 31 December 2020 (2019: £4.1bn). There is also a further £1.0bn (2019: £1.0bn) of operational borrowings including £0.9bn (2019: £0.8bn) of non-recourse borrowings.

On 1 May 2020 the Group issued £500m of Tier 2 subordinated debt with a coupon of 4.500% to capitalise on new business opportunities given favourable debt market conditions.

Group debt costs of £233m (2019: £208m) reflect an average cost of debt of 5.0% per annum (2019: 5.0% per annum) on an average nominal value of debt balances of £4.7bn (2019: £4.1bn).

Restricted Tier 1 Notes

On 24 June 2020 the Group issued £500m of perpetual Restricted Tier 1 Contingent Convertible notes with a coupon of 5.625% as we capitalised on favourable bond market conditions to provide a further measure of prudence as the longer-term economic impact of COVID-19 remains uncertain. This issuance further positions us strongly for the post-pandemic recovery.

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. Therefore, the notes are treated as equity under IFRS and coupon payments are recognised directly in equity when paid.

Taxation

Equity holders' Effective Tax Rate (%)	2020	2019
Equity holders' total Effective Tax Rate[54]	**12.1**	14.3
Annualised rate of UK corporation tax	**19.0**	19.0

The effective tax rate reflects the impact of losses arising in the period and the different rates of taxation that apply to Legal & General's overseas operations. The decrease in the effective tax rate compared to 2019 is a result of losses made in our UK and US businesses reflected in investment variance, as well as one-off adjustments reflecting the finalisation of tax charges relating to prior years. Without these the effective tax rate on operating profits for 2020 is 15.0% (2019: 15.1%).

Solvency II

As at 31 December 2020, the Group had an estimated Solvency II surplus of £7.4bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 177% on a shareholder basis. As at 5 March 2021, we estimate the ratio was 192%.[55]

Capital[1] (£bn)	2020	2019
Own Funds	17.1	16.1
Solvency Capital Requirement (SCR)	(9.7)	(8.8)
Solvency II surplus	**7.4**	**7.3**
SCR coverage ratio (%)	**177**	**184**

1. Solvency II position on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund (2019 only) and the Group final salary pension schemes, and is before the accrual of the relevant dividend. Please see disclosure 5.01 (a) for further details.

Analysis of movement from 1 January 2020 to 31 December 2020[1] (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	1.3
Release of Risk Margin	0.6
Amortisation of TMTP	(0.4)
Operational surplus generation - continuing operations	**1.5**
Operational surplus generation - discontinued operations	**-**
Operational surplus generation	**1.5**
New business strain	(0.3)
Net surplus generation	**1.2**
Operating variances	0.4
Mergers, acquisitions and disposals	(0.1)
Market movements	(1.4)
Restricted Tier 1 convertible notes	0.5
Subordinated liabilities	0.5
Dividends paid	(1.0)
Total surplus movement (after dividends paid in the period)	**0.1**

1. Please see disclosure 5.01 (d) for further details.

Operational surplus generation from continuing operations was £1.5bn (2019: £1.5bn), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £(0.3)bn, primarily reflecting UK PRT volumes written at a capital strain of less than 4%. This resulted in net surplus generation of £1.2bn (2019: £1.0bn), which, in line with our five year ambitions, was in excess of the £1.0bn of dividends announced (and paid) during the year.

Operating variances include the impact of experience variances, changes to model calibrations, and management actions. The net impact of operating variances over the period was £0.4bn, benefitting primarily from the LGR mortality reserve release. Market movements of £(1.4)bn reflect the impact of lower rates on the valuation of our balance sheet and spread dispersion, i.e. credit spreads on lower rated assets widen more than spreads on higher

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rated assets, thereby increasing the modelled cost of trading those assets after projecting downgrades in a range of scenarios, as well as a number of other, smaller variances.

The movements shown above include the impact of recalculating the TMTP as at 31 December 2020.

When stated on a proforma basis, including the SCR attributable to the Group final salary pension schemes in both the Group's Own Funds and the SCR, the Group's coverage ratio was 175% (2019[56]: 179%).

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 2020:

	£bn
IFRS Release from operations	**1.3**
Expected release of IFRS prudential margins	(0.5)
Release of IFRS specific reserves	(0.2)
Solvency II investment margin	0.3
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	0.6
Solvency II Operational Surplus Generation	**1.5**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in 2020:

	£bn
IFRS New business surplus	**0.3**
Removal of requirement to set up prudential margins above best estimate on new business	0.3
Set up of Solvency II Capital Requirement on new business	(0.7)
Set up of Risk Margin on new business	(0.2)
Solvency II New business strain	**(0.3)**

1. Please see disclosure 5.01 (e) for further details.

Sensitivity analysis[1]

	Impact on net of tax Solvency II capital surplus 2020 £bn	Impact on net of tax Solvency II coverage ratio 2020 %
Credit spreads widen by 100bps assuming an escalating addition to ratings	0.5	11
Credit spreads narrow by 100bps assuming an escalating addition to ratings	(0.7)	(12)
Credit spreads widen by 100bps assuming a level addition to ratings	0.7	13
Credit spreads of sub-investment grade assets widen by 100bps assuming a level addition to ratings	(0.4)	(5)
Credit migration	(1.2)	(13)
25% fall in equity markets	(0.5)	(4)
15% fall in property markets	(0.6)	(6)
100bps increase in risk free rates	1.0	20
50bps decrease in risk free rates	(0.7)	(11)
Substantially reduced Risk Margin	0.5	5

1. Please see disclosure 5.01 (g) for further details.

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

The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

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

Solvency II new business contribution

Management estimates of the present value of new business (PVNBP) and the margin as at 31 December 2020 are shown below[1]:

	PVNBP	Contribution from new business	Margin %
LGR - UK annuity business (£m)	**8,503**	**901**	**10.6**
UK Protection Total (£m)	**1,887**	**160**	**8.5**
- Retail protection	1,359	123	9.1
- Group protection	528	37	7.0
US Protection (£m)	**829**	**94**	**11.2**

The key economic assumptions as at 31 December 2020 are as follows:

	%
Margin for risk	**3.9**
Risk free rate	

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- UK	**0.5**
- US	**0.9**
Risk discount rate (net of tax)	
- UK	**4.4**
- US	**4.8**
Long term rate of return on assets backing non-profit annuities in LGR	**2.1**

1. Please see disclosure 5.02 for further details.

The future earnings are discounted using duration-based discount rates, which is the sum of a duration-based risk free rate and a flat Margin for Risk. The risk free rates have been based on a swap curve net of the EIOPA-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 deeply 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
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, increasing the level of reserves and impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We are monitoring the impacts of COVID-19 on the lives we insure and the impacts for longevity and other insurance assumptions. To date COVID-19 mortality is lower than our 1-in-200 pandemic modelling scenario, and we have seen an offsetting effect in our annuities portfolio; however, uncertainty remains. While the availability of vaccines and treatments for COVID-19 are increasing, understanding of virus mutations and the efficacy of vaccines is still evolving. The deferral of non-COVID-19 medical treatments may also impact future rates of mortality, and it is too early to assess the effects of 'long COVID' on morbidity. We remain inherently exposed to longevity risk in our pensions risk transfer businesses and a dramatic advance in medical science beyond that anticipated remains a risk factor. For our protection businesses, risk factors include new diseases, changes in immunology and, for our US term policies variances in the rate of policy renewal compared to our assumptions. 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 seek to pre-fund and warehouse appropriate investment assets to support the pricing of long-term business. In seeking a comprehensive understanding of longevity we are evaluating how COVID-19 will impact wider trends in life expectancy. In our protection business, as part of our continuous evolution of our underwriting capabilities, we are seeking to ensure we fairly assess COVID-19 as a risk factor and that our reserves remain appropriate. However, we cannot remove the risk that adjustment to reserves may be required, although the selective use of reinsurance acts to reduce the impacts of significant variations in life expectancy and mortality.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and to meet the obligations from insurance business; the movement in certain investments directly impacts profitability. Interest rate movements and inflation can also change the value of our obligations. Losses can still arise from adverse markets although we seek to match assets and liabilities. 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.	The immediate outlook for the global economy is highly uncertain, and whilst the rollout of COVID-19 vaccines and the expectations of renewed US government spending has seen a resurgence in investment markets, they remain highly susceptible to shocks and the reappraisal of asset values, particularly from actions to control COVID-19. Associated valuation uncertainty is likely to persist in commercial property markets for the foreseeable future and interest rates look set to continue at ultra-low or negative levels. In addition, whilst the UK has agreed post Brexit trade terms, the impacts for certain sectors of the UK economy are still to fully emerge. Similarly, although the US presidential elections are likely to result in a more positive stance on global trade, in the wake of COVID-19 there is potential for protectionist behaviours and a reduction on dependency on extended global supply chains. We cannot eliminate the downside impacts on our earnings, profitability or surplus capital from these or other investment market and economic risk factors, although we seek to position our investment portfolio 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 the economic and asset prices stresses that could arise from extreme measures being taken to control the spread of COVID-19. Our ORSA is integral to this process, evaluating capital sufficiency for the risks to which we may be exposed to in our business plans, and supporting analysis of those exposures relative to our risk appetite. Where appropriate we may also take management actions to take advantage of markets conditions, for example by raising debt at attractive rates during 2020.

Risks and uncertainties	Trend, outlook and mitigation
In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of financial loss Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	The significant deterioration in the global economic outlook in 2020 saw a widening of credit spreads and rating downgrades, particularly in industries directly impacted by global lockdowns including the leisure, transport, travel and retail consumer cyclical sectors, with the UK Sovereign rating also seeing downgrade in response to greatly increased levels of government debt. Whilst emerging COVID-19 vaccines and treatments are expected to support a gradual economic recovery, as economies emerge from the downturn there remains risk of further downgrade rating actions and debt defaults as governments withdraw current economic support measures. The effect of COVID-19 on reinsurance counterparties, both from mortality payments and unanticipated business interruption claims, also has potential to impact the ratings of weaker reinsurers, although default generally remains a more remote risk. We actively manage our exposure to downgrade and default risks within our bond portfolios, setting selection criteria and exposure limits, and using LGIM's global credit team's capabilities to ensure risks are effectively controlled. We entered the crisis with a well-diversified credit portfolio, and while we have experienced no credit defaults we remain vigilant to downgrade and default risks, and if appropriate trading out to improve credit quality, particularly in those sectors most affected by global lockdowns. 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 dealing only with those with a minimum A- rating at outset, setting exposure limits, and where appropriate taking collateral. 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.
Changes in regulation or legislation may have a detrimental effect on our strategy Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products, and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	Regulatory driven change remains a significant risk factor across our businesses. In the UK, with the end of the Brexit transition period, responsibility for the future evolution of prudential regulations is now vested in UK regulators, and HMT Treasury have initiated consultation on Solvency II. UK conduct regulation continues to focus on consumer protection, market integrity and the promotion of competition, and we are preparing for the FCA's transition in 2021 from LIBOR to SONIA. Regulatory focus also continues on the financial risks presented from climate change and the readiness of firms to prepare for the transition to a low-carbon economy. Alongside regulatory risk, we are also monitoring potential for changes in UK fiscal policy arising from the need to fund government borrowing in response to COVID-19. We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies to assist in the evaluation of change so as 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 activities in readiness for the transition to SONIA are well advanced, and we continue to make good progress in aligning our approach to the management of climate risk with the expectations of our regulators. Our internal control framework seeks to ensure on-going compliance with relevant legislation and regulation. Residual risk remains, however, that controls may fail or that historic financial services industry accepted practices may be reappraised by regulators, resulting in sanctions against the Group.
New entrants, or legislative change, may disrupt the markets in which we operate There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. It is possible that alternative digitally enabled financial services providers emerge with lower cost business models or innovative service propositions and capital structures, and disrupt the current competitive landscape, and that changes in legislation or regulation impact operating models.	The need to adjust to living with COVID-19 has seen the acceleration of a number of trends, including greater consumer engagement in digital business models and on-line servicing tools. It has also seen businesses like ours transform working practices, and we expect to continue to invest in automation, using robotics to improve business efficiency. Evolving governmental initiatives including defined benefit 'superfund' consolidation schemes, pension dashboards and 'collective' pension scheme arrangements also present opportunities. We continuously monitor the factors that may impact the markets in which we operate and are maintaining our focus on developing our digital platforms. In our pensions risk transfer business, our capabilities to assess risk and offer bespoke solutions enable us to differentiate our offer from competitors, and we believe that our investment management and Institutional retirement businesses are well positioned for the evolution of the pensions market.

Risks and uncertainties	Trend, outlook and mitigation
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to steal customer data or perpetrate acts of fraud using digital media, and there is strong stakeholder expectation that our core business services are resilient to operational disruption.	Although COVID-19 lockdowns have had some impact on our business operations, we have been able to continue the majority of our business services without material disruption. We remain, however, alert to the operational risks in the current environment including the increased risk of cyber threats and the potential for on-going disruption from lockdowns. We continue to invest in our system capabilities, including those for the management of cyber risks, to ensure that our business processes are resilient, and that appropriate recovery plans are in place. We also seek to closely manage our property construction and safety risks through robust internal control systems, including training, monitoring and independent assessments. 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. As part of our move to a remote working model, our risk and internal audit functions have undertaken reviews across our business to ensure that our core control processes remain effective and that key operational risks are being managed. Whilst we seek to maintain a control environment commensurate with our risk profile we recognise that residual risk will always remain across the spectrum of our business operations and we aim to develop response plans so that when adverse events occur, appropriate actions are deployed.
We fail to respond to the emerging threats from climate change for our investment portfolios and wider businesses As a significant investor in financial markets, commercial real estate and housing, we are exposed to climate related transition risks, particularly should abrupt shifts in the political and technological landscape impact the value of those investment assets associated with higher levels of greenhouse gas emissions.	The science underpinning climate change is clear and the effects can already be seen across the world. We believe, however, that climate change has still to be fully priced in by financial markets. The urgent global response to COVID-19 has illustrated the potential scale of shock that could arise from delays in responding to climate risk with sudden late policy action leading to potentially large and unanticipated shifts in asset valuations for impacted industries and sectors. But alongside the risks, there is an opportunity for investment in new technologies that offer good returns whilst meeting global goals for net zero carbon emissions, including energy efficient property, renewables and new science to support de-carbonisation. We recognise that our scale brings a responsibility to act decisively in positioning our balance sheet to the threats from climate change and, as one of the largest global institutional investors, also encouraging others to follow suit. We continue to embed the assessment of climate risks in our investment process and are developing our risk metrics and framework for oversight and taking opportunities. As set out in our TCFD report, we continue to measure the carbon intensity targets of our investment portfolios, and along with specific investment exclusions we have set reduction targets aligned with a 1.5 degree Celsius interpretation of the Paris commitment.

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 virtual presentation to analysts and fund managers will be available shortly after 7:00am UK time today at www.legalandgeneralgroup.com/investors/preliminary-results-2020.

A teleconference for analyst questions will take place at 9:30am UK time today. Details of the teleconference below:

Participant dial-in numbers

Location where you are dialling in from	Number you should dial
United Kingdom	+44 20 3936 2999
United States (toll free)	+1 855 9796 654
All other locations	www.legalandgeneralgroup.com/investors/teleconference-details/

Please enter access code **766500** to gain access to the conference.

To ask a question press *1; to remove a question press *2.

Financial Calendar	Date
Ex-dividend date (2020 final dividend)	**15 April 2021**
Record date	**16 April 2021**
Annual General Meeting	**20 May 2021**
Dividend payment date	**27 May 2021**
2021 interim results announcement	**4 August 2021**
Ex-dividend date (2021 interim dividend)	**12 August 2021**
Record date	**13 August 2021**
Dividend payment date	**20 September 2021**

Definitions

Definitions are included in the Glossary on pages 94 to 97 of this release.

Forward looking statements

This announcement may contain certain forward-looking statements relating to Legal & General, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisitions or combinations within relevant industries. As a result, Legal & General's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc does not undertake to update forward-looking statements contained in this announcement or any other forward-looking statement it may make.

Going concern statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this Preliminary Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the IFRS Primary

Financial Statements and Disclosure Notes of the Full year report 2020. Principal risks and uncertainties are detailed on pages 31 to 33.

The Directors have made an assessment of the Group's going concern, considering both the Group's current performance and the Group's outlook for a period of at least, but not limited to, 12 months from the date of approval of these consolidated financial statements, which takes account of the current and future impact of the COVID-19 pandemic, using the information available up to the date of issue of the Full year report 2020.

The Group manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on our capital position from a range of stresses is disclosed on table 5.01 of the Capital section of the Full year report 2020. These stresses, including the additional considerations and stresses applied in response to COVID-19, do not give rise to any material uncertainties over the ability of the 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 COVID-19 and the current economic climate, as detailed on pages 31 to 33, the directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

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 IFRSs as adopted by the EU, 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

Nigel Wilson
Group Chief Executive
9 March 2021

Stuart Jeffrey Davies
Group Chief Financial Officer
9 March 2021

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[1] The Alternative Performance Measures within the Group's financial highlights are defined in the glossary, on pages 93 to 97 of this report.

[2] Including mortality reserve releases (2020: £177m, 2019: £155m). 2020 mortality release of £177m from LGR's £51.8bn of net longevity exposure relates to changes in longevity improvement assumptions to align to CMI 2018 tables, adjusted to reflect our annuitant portfolio.

[3] Specific COVID-19 impacts of LGRI and LGRR (+£85m combined); LGC (-£100m); LGI (-£186m, which includes -£110m reserve increases for potential future COVID-19 claims); and Group Costs (-£27m). Please see page 4 for more information.

[4] Profit after tax attributable to equity holders.

[5] Solvency II coverage ratio on a shareholder basis, which is adjusted for the Own Funds and SCR of the With-profits fund (2019 only) and the Group final salary pension plans. Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2020

[6] Coverage ratio before payment of the 2020 final dividend.

[7] Excludes mortality reserve releases (2020: £177m, 2019: £155m). 2020 mortality release of £177m from LGR's £51.8bn of net longevity exposure relates to changes in longevity improvement assumptions to align to CMI 2018 tables, adjusted to reflect our annuitant portfolio.

[8] 2019 LGIM operating profit restated to include LGIM-related project expenditure (£29m) formerly reflected in Group expenses.

[9] Excludes Mature Savings and General Insurance.

[10] Mature Savings sale to ReAssure for £650m was announced on 6 December 2017, completed in September 2020, and the 2019 and 2020 results reflect the Reinsurance Transfer Agreement.

[11] General Insurance sale to Allianz completed on 31 December 2019.

[12] COVID-19 costs reflect incremental operational expenses incurred as a result of COVID-19 and include the provision of IT spend on remote working solutions. Please see page 4 for more information.

[13] LGI investment variance is the formulaic impact of falling interest rates reducing the discount rate (both UK and US) used to calculate LGI reserves.

[14] 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 93.

[15] Excludes aggregate LGRI and LGRR mortality reserve releases (2020: £177m, 2019: £155m). 2020 mortality release of £177m from LGRI and LGRR's £51.8bn of net longevity exposure relates to changes in longevity improvement assumptions to align to CMI 2018 tables, adjusted to reflect our annuitant portfolio.

[16] 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 93.

[17] Solvency II coverage ratio on a "shareholder view". Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2020.

[18] Solvency II coverage ratio on a proforma basis includes the SCR attributable to our With-profits fund (2019 only) and the Group final salary pension plans in both the Group's Own Funds and the SCR. Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2020.

[19] Coverage ratio before payment of the 2020 final dividend.

[20] Calculated using annualised profit for the year and average equity attributable to the owners of the parent of £9,270m.

[21] We have realised less than £475m of downgrades to sub-investment grade within our actively managed traded credit portfolio; this represents just half of the downgrades to sub-investment grade implied by index experience (1.8%).

[22] WTW, The world's largest 500 asset managers

[23] Bloomberg Total Shareholder Return 4 January 2011; please see "Outlook" section for more information.

[24] WTW, Global Pension Assets Study 2021.

[25] Industry data from Boston Consulting Group, "Global Asset Management 2020".

[26] Three year average measured by UK PRT new business volumes. Three year average measured by UK PRT deal count from LGIM clients is 67%.

[27] Broadridge, UK Defined Contribution and Retirement Income report 2019. 2019 UK DC Assets: £438bn.

[28] For more information please refer to www.legalandgeneralgroup.com/investors/esg-investors/

[29] Proprietary assets relate to Investments to which shareholders are directly exposed (excluding client, policyholder assets, derivatives, cash, cash equivalents and loans), as disclosed in Note 6.01.

[30] State Street R-Factor Research, January 2020.

[31] The ambition is 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. Dividend decisions are subject to final Board approval.

[32] Cash generation is IFRS net release from operations, capital generation is Solvency II operational surplus generation. Dividends on a declared basis. On the basis of a flat final 2020 dividend, and 3-6% annual growth thereafter.

[33] Legal & General 2020 Capital Markets Event, slide 26

[34] Pension Purple Book 2020, PPF; Hymans Robertson, 2019 Risk Transfer Report; 2021 de-risking report, Willis Towers Watson

[35] www.ipe.com/news/aon-adds-to-outlooks-for-active-2021-pension-risk-transfer-market/10049888.article

[36] Pensions Policy Institute, October 2019; Aon

[37] LIMRA, March 2020

[38] Professional Pensions, "L&G announces bulk annuities with UK and US schemes", 13 May 2020

[39] FCA Retirement Income Data Oct 2017 - March 2019, Broadridge DC Report 2019

[40] ABI

[41] ABI, FCA Retirement Income Data Oct 2017 - March 2019, Broadridge DC Report 2019

[42] Excluding mortality release (2020: £102m, 2019: £100m).

[43] www.ipe.com/news/aon-adds-to-outlooks-for-active-2021-pension-risk-transfer-market/10049888.article

[44] Legal & General 2020 Capital Markets Event

[45] 2015: $445m, 1; 2016: $448m, 6; 2017: $713m, 15; 2018: $844m, 21; 2019: $1,140m, 10; 2020: $1,614m, 17 (of which 14 are new clients)

[46] Excluding mortality release (2020: £75m, 2019: £55m).

[47] Please see page 4 for more information.

[48] ABI Q3 2020 Report; Q4 2019: 18.6%; Q3 2020: 20.9%

[49] See note 4.05. LGR's total annuity asset portfolio is with respect to our UK and US annuities businesses, and excludes derivative liabilities (£20.8bn) and loans and other receivables (£3.2bn) from the total LGR investments (£111bn) shown in note 6.01.

[50] For more information, please visit www.legalandgeneral.com/institutional/pension-risk-transfer/who-we-are/esg/

[51] Includes LGR direct investment bonds (£20,306m), direct investment property (£4,319m), direct investments equity (£19m), and other assets (£88m). Please see note 6.02b for more information.

[52] Pridham Report, 2021.

[53] Broadridge Pan-European mutual fund and ETF flows Q1 2020.

[54] The equity holders' total Effective Tax Rate excluding discontinued operations is 10.4% (2019: 14.3%).

[55] Coverage ratio before payment of the 2020 final dividend.

[56] 2019 comparator includes the SCR attributable to the With-profits fund, whose sale completed in September 2020.

END

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RNS Final Results

L&G Full Year Results 2020 Part 2

LEGAL & GENERAL GROUP PLC

Released 07:00:16 10 March 2021

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Legal & General Group Plc
10 March 2021

Legal & General Group Plc
2020 Full Year Results Part 2

IFRS Disclosures on performance and Release from operations

1.01 Operating profit#

For the year ended 31 December 2020

	Notes	2020 £m	2019[1] £m
From continuing operations			
Legal & General Retirement (LGR)	1.03	**1,731**	1,569
- LGR Institutional (LGRI)		1,331	1,216
- LGR Retail (LGRR)		400	353
Legal & General Investment Management (LGIM)	1.04	**404**	394
Legal & General Capital (LGC)	1.05	**275**	363
Legal & General Insurance (LGI)	1.03	**189**	314
- UK and Other		205	223
- US (LGIA)		(16)	91
Operating profit from divisions:			
From continuing operations		**2,599**	2,640
From discontinued operations[2]		**34**	11
Operating profit from divisions		**2,633**	2,651
Group debt costs[3]		**(233)**	(208)
Group investment projects and expenses		**(155)**	(157)
Covid-19 costs[4]		**(27)**	-
Operating profit		**2,218**	2,286
Investment and other variances	1.06	**(394)**	(150)
Losses on non-controlling interests		**(36)**	(24)
Adjusted profit before tax attributable to equity holders		**1,788**	2,112
Tax expense attributable to equity holders	3.07	**(217)**	(302)
Profit for the year		**1,571**	1,810
Profit attributable to equity holders		**1,607**	1,834
Earnings per share:			
Basic (pence per share)[5]	1.07	**27.00p**	30.92p
Diluted (pence per share)[5]	1.07	**25.60p**	30.75p

1. 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to Legal & General Investment Management (LGIM) within Operating profit from divisions. This has reduced LGIM operating profit by £29m for the year ended 31 December 2019.
2. Discontinued operations include the results of the Mature Savings division, the sale of which completed on 7 September 2020. In 2019, discontinued operations also included the results of the General Insurance division.
3. Group debt costs exclude interest on non recourse financing.
4. Covid-19 costs reflect incremental operational expenses incurred as a result of Covid-19 and include IT spend on delivering remote working solutions.
5. 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 further analysis of the results reported under IFRS and the group believes it provides shareholders with a better understanding of the underlying performance of the business in the year.

- LGR represents worldwide pension risk transfer business including longevity insurance (within LGRI), and retail retirement and lifetime mortgages (within LGRR).
- LGIM represents institutional and retail investment management and workplace savings businesses.
- LGC represents shareholder assets invested in direct investments primarily in the areas of housing, urban regeneration, clean energy and SME finance, as well as traded and treasury assets.
- LGI primarily represents UK and US retail protection business, UK group protection and Fintech business.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except the operating profit for LGC's trading businesses (which reflects the IFRS profit before tax). Variances between actual and long-term expected investment return assumptions are reported below operating profit, which include any differences between investment return on actual assets and the target long-term asset mix. Exceptional income and expenses which arise outside the normal course of business in the year, such as gains/losses from mergers and acquisition, and start-up costs, are also excluded from operating profit.

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

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

For the year ended 31 December 2020	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 £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**655**	**277**	**932**	**116**	**400**	**33**	**-**	**1,481**	**250**	**1,731**
- LGRI	492	220	712	81	314	30	-	1,137	194	1,331
- LGRR	163	57	220	35	86	3	-	344	56	400
LGIM	**357**	**(15)**	**342**	**(17)**	**-**	**(1)**	**-**	**324**	**80**	**404**
- LGIM (excluding Workplace Savings)[2]	327	-	327	-	-	-	-	327	80	407
- Workplace Savings[3]	30	(15)	15	(17)	-	(1)	-	(3)	-	(3)
LGC	**224**	**-**	**224**	**-**	**-**	**-**	**-**	**224**	**51**	**275**
LGI	**250**	**8**	**258**	**(41)**	**58**	**(5)**	**(115)**	**155**	**34**	**189**
- UK and Other	146	8	154	(41)	58	(5)	-	166	39	205
- US (LGIA)[4]	104	-	104	-	-	-	(115)	(11)	(5)	(16)
From continuing operations	**1,486**	**270**	**1,756**	**58**	**458**	**27**	**(115)**	**2,184**	**415**	**2,599**
From discontinued operations[5]	**28**	**-**	**28**	**-**	**-**	**-**	**-**	**28**	**6**	**34**
Total from divisions	**1,514**	**270**	**1,784**	**58**	**458**	**27**	**(115)**	**2,212**	**421**	**2,633**
Group debt costs	**(189)**	**-**	**(189)**	**-**	**-**	**-**	**-**	**(189)**	**(44)**	**(233)**
Group investment projects and expenses	**(56)**	**-**	**(56)**	**-**	**-**	**-**	**(61)**	**(117)**	**(38)**	**(155)**
Covid-19 costs[6]	**-**	**-**	**-**	**-**	**-**	**-**	**(20)**	**(20)**	**(7)**	**(27)**
Total	**1,269**	**270**	**1,539**	**58**	**458**	**27**	**(196)**	**1,886**	**332**	**2,218**

1. Release from operations within US (LGIA) includes £84m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.
5. Discontinued operations include the results of the Mature Savings division, the sale of which completed on 7 September 2020.
6. Covid-19 costs reflect incremental operational expenses incurred as a result of Covid-19 and include IT spend on delivering remote working solutions.

Release from operations for LGR, LGIM - Workplace Savings and LGI UK and Other 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 in-force non-profit annuities, workplace savings and UK protection businesses. The LGIM release from operations also includes operating profit after tax from the institutional and retail investment management businesses. The LGI release from operations also includes dividends remitted from LGIA. The release from operations within discontinued operations primarily reflects the unwind of expected profits after tax under the risk transfer agreement with ReAssure Limited from the Mature Savings business.

New business surplus/strain for LGR, LGIM - Workplace Savings and LGI UK and Other represents the initial profit or loss from writing new business. This includes the costs associated with acquiring new business and setting up prudent reserves in respect of new business for UK non-profit annuities, workplace savings and protection, net of tax. The new business surplus and release from operations for LGR, LGIM and LGI excludes any capital held in excess of the prudent reserves from the liability calculation.

LGR's new business metrics are presented based on a target long-term asset portfolio. At certain period ends, depending upon the quantum and timing of pension risk transfer (PRT) volumes, we 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 the 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 LGR, LGIM - Workplace Savings, LGI and discontinued operations is defined as release from operations plus new business surplus/(strain).

Release from operations and net release from operations for LGC and LGIM (excluding workplace savings) 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 'Group adjusted operating profit', an alternative performance measure defined in the glossary.

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

For the year ended 31 December 2019	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Exper-ience variances £m	Changes in valuation assump-tions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	598	327	925	(53)	390	91	-	1,353	216	1,569
- LGRI	418	265	683	(40)	313	88	-	1,044	172	1,216
- LGRR	180	62	242	(13)	77	3	-	309	44	353
LGIM[2]	348	(20)	328	(6)	-	(4)	-	318	76	394
- LGIM (excluding Workplace Savings)[3]	321	-	321	-	-	-	-	321	77	398
- Workplace Savings[4]	27	(20)	7	(6)	-	(4)	-	(3)	(1)	(4)
LGC	295	-	295	-	-	-	-	295	68	363
LGI	259	(7)	252	(11)	44	(12)	4	277	37	314
- UK and Other	165	(7)	158	(11)	44	(12)	4	183	40	223
- US (LGIA)[5]	94	-	94	-	-	-	-	94	(3)	91
From continuing operations	1,500	300	1,800	(70)	434	75	4	2,243	397	2,640
From discontinued operations[6]	9	-	9	-	-	-	-	9	2	11
Total from divisions	1,509	300	1,809	(70)	434	75	4	2,252	399	2,651
Group debt costs	(168)	-	(168)	-	-	-	-	(168)	(40)	(208)
Group investment projects and expenses[2]	(44)	-	(44)	-	-	-	(79)	(123)	(34)	(157)
Total	1,297	300	1,597	(70)	434	75	(75)	1,961	325	2,286

1. Release from operations within US (LGIA) includes £81m of dividends from the US.
2. As described in Note 1.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. This has reduced LGIM operating profit by £23m and Workplace Savings operating profit by £6m.
3. LGIM (excluding Workplace Savings) includes profits on fund management services.
4. Workplace Savings represents administration business only.
5. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.
6. Discontinued operations include the results of the Mature Savings and General Insurance divisions, the sales of which completed on 7 September 2020 and 31 December 2019 respectively.

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

1.03 Analysis of LGR and LGI operating profit

For the year ended 31 December 2020

	LGR 2020 £m	**LGI 2020 £m**	LGR 2019 £m	LGI 2019 £m
Net release from operations	**932**	**258**	925	252
Experience variances				
- Persistency	**7**	**3**	(4)	(9)
- Mortality/morbidity[1]	**104**	**(46)**	6	(5)
- Expenses	**(5)**	**(5)**	(23)	-
- Project and development costs	**(5)**	**(1)**	(12)	-
- Other	**15**	**8**	(20)	3
Total experience variances	**116**	**(41)**	(53)	(11)
Changes to valuation assumptions				
- Persistency	**-**	**(1)**	-	(16)
- Mortality/morbidity[2]	**255**	**54**	352	39
- Expenses	**-**	**2**	5	-
- Other[3]	**145**	**3**	33	21
Total changes to valuation assumptions	**400**	**58**	390	44

Movement in non-cash items				
- Acquisition expense tax relief	**-**	**(3)**	-	(2)
- Other[4]	**33**	**(2)**	91	(10)
Total movement in non-cash items	**33**	**(5)**	91	(12)
Other[1]	**-**	**(115)**	-	4
Operating profit after tax	**1,481**	**155**	1,353	277
Tax gross up	**250**	**34**	216	37
Operating profit before tax	**1,731**	**189**	1,569	314

1. Mortality experience variances are driven by increased claims experience due to Covid-19, particularly impacting LGIA (reflected in Other) where we retain the majority of the mortality risk, and include a provision of £110m for future Covid-19 related claims.
2. Mortality assumption changes for LGR include a one off release of £153m (net of tax) from an update in the longevity trend assumption from adjusted CMI 2017 to adjusted CMI 2018. In 2019, the comparable one off release of £134m was from adjusted CMI 2016 to adjusted CMI 2017. Other positive longevity variances are driven by routine updates to our assumptions relating to base mortality rates.
3. The £145m positive Other change to valuation assumptions in LGR reflects both the reduction in the assumed late retirement factors applied to deferred annuities and the impact from updating unit cost and investment expense assumptions.
4. LGR Other movement in non-cash items is driven by the net effect of the capitalisation and unwind of future asset management profits on activity managed by LGIM, and is a function of new business volumes and movements in the main unit cost assumptions.

1.04 LGIM operating profit

	2020 £m	2019[5] £m
Asset management revenue (excluding 3rd party market data)[1,2]	**929**	889
Asset management transactional revenue[3]	**27**	23
Asset management expenses (excluding 3rd party market data)[1,2]	**(549)**	(514)
Workplace Savings operating loss[4]	**(3)**	(4)
Total LGIM operating profit	**404**	394

1. Asset management revenue and expenses exclude income and costs of £27m in relation to the provision of third party market data (2019: £24m).
2. The ETF operating result is included as part of asset management revenue and expenses.
3. Transactional revenue from external clients includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees.
4. Workplace Savings represents administration business.
5. As described in Note 1.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. For the respective 2019 periods this has increased Asset management expenses (2019: £23m) and reduced the Workplace Savings operating result (2019: £6m).

1.05 LGC operating profit

	2020 £m	2019 £m
Direct investments[1]	**112**	217
Traded investment portfolio including treasury assets[2]	**163**	146
Total LGC operating profit	**275**	363

1. Direct Investments represents LGC's portfolio of assets across future cities (including specialist commercial real estate and clean energy), residential property and SME finance.
2. The traded investment portfolio holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash.

1.06 Investment and other variances

	2020 £m	2019 £m
Investment variance[1]	**(691)**	(27)
M&A related and other variances[2]	**297**	(123)
Total investment and other variances	**(394)**	(150)

1. The investment variance for the year ended 31 December 2020 is broadly made up of three significant items: 1) £459m in LGI, reflecting a reduction in the discount rate used to calculate protection liabilities, the rate being linked to UK government bond and US Treasury yields; 2) £299m in LGC, reflecting market movements in our traded and treasury portfolio and write-downs on certain property assets; 3) partially offset by a positive variance of £57m in respect of the defined benefit pension scheme, reflecting the impact of the acquisition of annuity assets from LGR, and the beneficial rate difference between the IAS19 and annuity discount rates.
2. M&A related and other variances includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2020 includes

a £335m profit on disposal of the Mature Savings division.

Investment variance includes differences between actual and long term expected investment return on traded and real assets, economic assumption changes (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 excludes 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 period. The assumptions underlying the calculation of the expected returns for traded equity and commercial property assets are based on long term historic average returns expected to apply through the cycle. The principal assumptions are:

	2020	2019
Equities	**7%**	7%
Commercial property	**5%**	5%
Residential property	**RPI + 50bps**	RPI + 50bps

IFRS Disclosures on performance and Release from operations

1.07 Earnings per share

(a) Basic earnings per share

	After tax 2020 £m	**Per share[1] 2020 p**	After tax 2019 £m	Per share[1] 2019 p
Profit for the year attributable to equity holders	**1,607**	**27.10**	1,834	30.92
Less: coupon payable in respect of restricted tier 1 convertible notes net of tax relief	**(6)**	**(0.10)**	-	-
Total basic earnings	**1,601**	**27.00**	1,834	30.92
Less: earnings derived from discontinued operations	**(290)**	**(4.89)**	(23)	(0.39)
Basic earnings derived from continuing operations	**1,311**	**22.11**	1,811	30.53

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 2020 £m	**Weighted average number of shares 2020 m**	**Per share[1] 2020 p**
Profit for the year attributable to equity holders	**1,607**	**5,930**	**27.10**
Net shares under options allocable for no further consideration	**-**	**40**	**(0.18)**
Conversion of restricted tier 1 convertible notes	**-**	**307**	**(1.32)**
Total diluted earnings	**1,607**	**6,277**	**25.60**
Less: diluted earnings derived from discontinued operations	**(290)**	**-**	**(4.62)**
Diluted earnings derived from continuing operations	**1,317**	**6,277**	**20.98**

	After tax 2019 £m	Weighted average number of shares 2019 m	Per share[1] 2019 p
Profit for the year attributable to equity holders	1,834	5,932	30.92
Net shares under options allocable for no further consideration	-	33	(0.17)
Total diluted earnings	1,834	5,965	30.75
Less: diluted earnings derived from discontinued operations	(23)	-	(0.39)
Diluted earnings derived from continuing operations	1,811	5,965	30.36

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 convertible notes.

IFRS Disclosures on performance and Release from operations

1.08 Segmental analysis

Reportable segments

The group has four reportable segments that are continuing operations, comprising LGR, LGIM, LGC and LGI, as set out in Note 1.01. Group central expenses and debt costs are reported separately. Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

Continuing operations exclude the results of the Mature Savings and the General Insurance divisions (General Insurance is in respect of 2019 only), which have been classified as discontinued following the group's announcement to sell these businesses to ReAssure Limited and Allianz respectively. The sale of the Mature Savings business completed on 7 September 2020, whilst that of the General insurance business completed on 31 December 2019.

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 assets and liabilities are managed on a legal entity rather than reportable 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 2020	**LGR £m**	**LGIM £m**	**LGC £m**	**LGI £m**	**Group expenses and debt costs[1] £m**	**Total continuing operations £m**
Operating profit/(loss)#	**1,731**	**404**	**275**	**189**	**(415)**	**2,184**
Investment and other variances	**19**	**(3)**	**(299)**	**(459)**	**24**	**(718)**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(36)**	**(36)**
Profit/(loss) before tax attributable to equity holders	**1,750**	**401**	**(24)**	**(270)**	**(427)**	**1,430**
Tax (expense)/credit attributable to equity holders	**(230)**	**(63)**	**(8)**	**58**	**94**	**(149)**
Profit/(loss) for the year	**1,520**	**338**	**(32)**	**(212)**	**(333)**	**1,281**

For the year ended 31 December 2019	LGR £m	LGIM[2] £m	LGC £m	LGI £m	Group expenses and debt costs[2] £m	Total continuing operations £m
Operating profit/(loss)#	1,569	394	363	314	(365)	2,275
Investment and other variances	43	(9)	91	(234)	(58)	(167)
Losses attributable to non-controlling interests	-	-	-	-	(24)	(24)
Profit/(loss) before tax attributable to equity holders	1,612	385	454	80	(447)	2,084
Tax (expense)/credit attributable to equity holders	(234)	(75)	(75)	12	75	(297)
Profit/(loss) for the year	1,378	310	379	92	(372)	1,787

1. Group expenses and debt costs include £27m of incremental costs incurred as a result of Covid-19.
2. As described in Note 1.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. This has reduced LGIM operating profit by £29m for the year ended 31 December 2019.

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

1.08 Segmental analysis (continued)

(b) Total income

For the year ended 31 December 2020	**LGR £m**	**LGIM[1,2] £m**	**LGI £m**	**LGC and other[3] £m**	**Total continuing operations £m**
Internal income	**-**	**201**	**-**	**(201)**	**-**
External income	**15,057**	**20,878**	**1,799**	**12,497**	**50,231**
Total income	**15,057**	**21,079**	**1,799**	**12,296**	**50,231**

For the year ended 31 December 2019	LGR £m	LGIM[1,2] £m	LGI £m	LGC and other[3] £m	Total continuing operations £m
Internal income	-	188	-	(188)	-
External income	16,385	43,836	1,593	4,972	66,786
Total income	16,385	44,024	1,593	4,784	66,786

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

2.01 Consolidated Income Statement

For the year ended 31 December 2020	Notes	2020 £m	2019 £m
Income			
Gross written premiums		**12,545**	15,203
Outward reinsurance premiums		**(3,187)**	(3,452)
Net change in provision for unearned premiums		**12**	(66)
Net premiums earned		**9,370**	11,685
Fees from fund management and investment contracts		**873**	834
Investment return		**39,168**	53,014
Other operational income		**820**	1,253
Total income	1.08	**50,231**	66,786
Expenses			
Claims and change in insurance contract liabilities		**17,768**	19,005
Reinsurance recoveries		**(3,601)**	(3,502)
Net claims and change in insurance contract liabilities		**14,167**	15,503
Change in investment contract liabilities		**31,410**	45,809
Acquisition costs		**617**	805
Finance costs		**305**	269
Other expenses		**2,233**	2,244
Total expenses		**48,732**	64,630
Profit before tax		**1,499**	2,156
Tax expense attributable to policyholder returns		**(69)**	(72)
Profit before tax attributable to equity holders		**1,430**	2,084
Total tax expense		**(218)**	(369)
Tax expense attributable to policyholder returns		**69**	72
Tax expense attributable to equity holders	3.07	**(149)**	(297)
Profit after tax from continuing operations	1.08	**1,281**	1,787
Profit after tax from discontinued operations		**290**	23
Profit for the year		**1,571**	1,810
Attributable to:			
Non-controlling interests		**(36)**	(24)
Equity holders		**1,607**	1,834
Dividend distributions to equity holders during the year	3.05	**1,048**	998
Dividend distributions to equity holders proposed after the year end	3.05	**754**	753

		p	p
Total basic earnings per share[1]	1.07	**27.00**	30.92
Total diluted earnings per share[1]	1.07	**25.60**	30.75
Basic earnings per share derived from continuing operations[1]	1.07	**22.11**	30.53
Diluted earnings per share derived from continuing operations[1]	1.07	**20.98**	30.36

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

2.02 Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020	2020 £m	2019 £m
Profit for the year	**1,571**	1,810
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses) on defined benefit pension schemes	**(168)**	(62)
Tax on actuarial (losses) on defined benefit pension schemes	**48**	11
Total items that will not be reclassified subsequently to profit or loss	**(120)**	(51)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas operations	**2**	(67)
Movement in cross-currency hedge	**7**	13
Tax on movement in cross-currency hedge	**(4)**	(1)
Movement in financial investments designated as available-for-sale	**2**	72
Tax on movement in financial investments designated as available-for-sale	**-**	(15)
Total items that may be reclassified subsequently to profit or loss	**7**	2
Other comprehensive (expense) after tax	**(113)**	(49)
Total comprehensive income for the year	**1,458**	1,761
Total comprehensive income for the year attributable to:		
Continuing operations	**1,168**	1,738
Discontinued operations	**290**	23
Total comprehensive income/(expense) for the year attributable to:		
Non-controlling interests	**(36)**	(24)
Equity holders	**1,494**	1,785

2.03 Consolidated Balance Sheet

As at 31 December 2020	Notes	2020 £m	2019[1] £m
Assets			
Goodwill		**68**	64
Purchased interest in long term businesses and other intangible assets		**329**	190
Deferred acquisition costs		**47**	54
Investment in associates and joint ventures accounted for using the equity method		**288**	324
Property, plant and equipment		**274**	298
Investment property	3.06	**8,475**	7,695
Financial investments	3.06	**526,057**	498,389
Reinsurers' share of contract liabilities		**6,939**	5,947
Deferred tax assets	3.07	**5**	8
Current tax assets		**634**	468
Receivables and other assets		**9,429**	8,532
Assets of operations classified as held for sale		**-**	24,844
Cash and cash equivalents		**18,020**	13,923
Total assets		**570,565**	560,736
Equity			
Share capital	3.08	**149**	149
Share premium	3.08	**1,006**	1,000
Employee scheme treasury shares		**(75)**	(65)
Capital redemption and other reserves		**198**	205
Retained earnings		**8,224**	7,749
Attributable to owners of the parent		**9,502**	9,038
Restricted tier 1 convertible notes	3.09	**495**	-
Non-controlling interests	3.10	**(31)**	55
Total equity		**9,966**	9,093
Liabilities			
Non-participating insurance contract liabilities		**89,029**	77,881
Non-participating investment contract liabilities		**343,543**	320,594
Core borrowings	3.11	**4,558**	4,091

Operational borrowings	3.12	**1,055**	1,020
Provisions	3.16	**1,288**	1,220
UK deferred tax liabilities	3.07	**168**	189
Overseas deferred tax liabilities	3.07	**39**	76
Current tax liabilities		**61**	107
Payables and other financial liabilities	3.13	**91,942**	84,039
Other liabilities		**756**	804
Net asset value attributable to unit holders		**28,160**	31,507
Liabilities of operations classified as held for sale		**-**	30,115
Total liabilities		**560,599**	551,643
Total equity and liabilities		**570,565**	560,736

1. Following a change in accounting policy for LGIA universal life and annuity reserves, a number of balance sheet items have been restated, notably deferred acquisition costs, financial investments, reinsurers' share of contract liabilities, capital redemption and other reserves, non-participating insurance contract liabilities and overseas deferred tax liabilities. The overall net impact on the group's retained earnings as at 31 December 2019 is a reduction of £284m. Further details on the change in accounting policy are provided in Note 3.01.

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2.04 Consolidated Statement of Changes in Equity

For the year ended 31 December 2020	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 2020	**149**	**1,000**	**(65)**	**205**	**7,749**	**9,038**	**-**	**55**	**9,093**
Profit for the year	-	-	-	-	**1,607**	**1,607**	-	**(36)**	**1,571**
Exchange differences on translation of overseas operations	-	-	-	**2**	-	**2**	-	-	**2**
Net movement in cross-currency hedge	-	-	-	**3**	-	**3**	-	-	**3**
Net actuarial losses on defined benefit pension schemes	-	-	-	-	**(120)**	**(120)**	-	-	**(120)**
Net movement in financial investments designated as available-for-sale	-	-	-	**2**	-	**2**	-	-	**2**
Total comprehensive income for the year	-	-	-	**7**	**1,487**	**1,494**	-	**(36)**	**1,458**
Options exercised under share option schemes	-	**6**	-	-	-	**6**	-	-	**6**
Shares purchased	-	-	**(23)**	-	-	**(23)**	-	-	**(23)**
Shares vested	-	-	**13**	**(27)**	-	**(14)**	-	-	**(14)**
Employee scheme treasury shares: - Value of employee services	-	-	-	**43**	-	**43**	-	-	**43**
Share scheme transfers to retained earnings	-	-	-	-	**12**	**12**	-	-	**12**
Dividends	-	-	-	-	**(1,048)**	**(1,048)**	-	-	**(1,048)**
Restricted tier 1 convertible notes[2]	-	-	-	-	-	-	**495**	-	**495**
Coupon payable in respect of restricted tier 1 convertible notes net of tax relief	-	-	-	-	**(6)**	**(6)**	-	-	**(6)**
Movement in third party interests	-	-	-	-	-	-	-	**(50)**	**(50)**
Currency translation differences	-	-	-	**(30)**	**30**	-	-	-	-
As at 31 December 2020	**149**	**1,006**	**(75)**	**198**	**8,224**	**9,502**	**495**	**(31)**	**9,966**

1. Capital redemption and other reserves as at 31 December 2020 include share-based payments £101m, foreign exchange £43m, capital redemption £17m, hedging reserves £35m and available-for-sale reserves £2m.
2. See Note 3.09 for details.

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2.04 Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2019	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	Non-controlling interests £m	Total equity £m
As at 1 January 2019	149	992	(52)	230	7,261	8,580	72	8,652
Change in accounting policy[2]	-	-	-	9	(330)	(321)	-	(321)
Restated as at 1 January 2019	149	992	(52)	239	6,931	8,259	72	8,331
Profit for the year	-	-	-	-	1,834	1,834	(24)	1,810
Exchange differences on translation of overseas	-	-	-	(67)	-	(67)	-	(67)

operations								
Net movement in cross-currency hedge	-	-	-	12	-	12	-	12
Net actuarial gains on defined benefit pension schemes	-	-	-	-	(51)	(51)	-	(51)
Net movement in financial investments designated as available-for-sale	-	-	-	57	-	57	-	57
Total comprehensive income for the year	-	-	-	2	1,783	1,785	(24)	1,761
Options exercised under share option schemes	-	8	-	-	-	8	-	8
Shares purchased	-	-	(20)	-	-	(20)	-	(20)
Shares vested	-	-	7	(35)	-	(28)	-	(28)
Employee scheme treasury shares: - Value of employee services	-	-	-	39	-	39	-	39
Share scheme transfers to retained earnings	-	-	-	-	1	1	-	1
Dividends	-	-	-	-	(998)	(998)	-	(998)
Movement in third party interests	-	-	-	-	-	-	7	7
Currency translation differences	-	-	-	14	(14)	-	-	-
Change in accounting policy[2]	-	-	-	(54)	46	(8)	-	(8)
Restated as at 31 December 2019	149	1,000	(65)	205	7,749	9,038	55	9,093

1. Capital redemption and other reserves as at 31 December 2019 include share-based payments £85m, foreign exchange £71m, capital redemption £17m and hedging reserves £32m.
2. Change in accounting policy represents the impact on retained earnings of the change in accounting policy related to LGIA universal life and annuity reserves, described in Note 3.01. The change has been applied retrospectively.

2.05 Consolidated Statement of Cash Flows

For the year ended 31 December 2020	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Profit for the year		**1,571**	1,810
Adjustments for non cash movements in net profit for the year			
Net gains on financial investments and investment property		**(28,530)**	(45,516)
Investment income		**(9,761)**	(10,501)
Interest expense		**337**	322
Tax expense		**144**	598
Other adjustments		**(12)**	117
Net decrease/(increase) in operational assets			
Investments held for trading or designated as fair value through profit or loss		**6,519**	(18,031)
Investments designated as available-for-sale		**1,072**	(179)
Other assets		**(2,445)**	(4,660)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**11,607**	13,089
Investment contracts		**20,855**	27,514
Other liabilities		**(5,900)**	21,313
Net increase in held for sale net liabilities		**-**	1,206
Cash utilised in operations		**(4,543)**	(12,918)
Interest paid		**(301)**	(263)
Interest received		**5,190**	5,047
Tax paid[1]		**(554)**	(540)
Dividends received		**4,509**	5,389
Net cash flows from/(utilised in) operations		**4,301**	(3,285)
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets		**(164)**	(89)
Net disposal of operations, net of cash (transferred)/acquired	3.02	**(277)**	198
Net (investment)/disposal in associates and joint ventures		**(16)**	29
Net cash flows (utilised)/generated from investing activities		**(457)**	138
Cash flows from financing activities			
Dividend distributions to ordinary equity holders during the year	3.05	**(1,048)**	(998)
Coupon payment in respect of restricted tier 1 convertible notes, gross of tax		**(7)**	-
Options exercised under share option schemes	3.08	**6**	8
Treasury shares purchased for employee share schemes		**(23)**	(20)
Payment of lease liabilities		**(37)**	(33)
Proceeds from borrowings		**1,086**	1,309
Repayment of borrowings		**(501)**	(958)
Proceeds from issuance of restricted tier 1 convertible notes, net of associated expenses		**495**	-
Net cash flows utilised in financing activities		**(29)**	(692)
Net increase/(decrease) in cash and cash equivalents		**3,815**	(3,839)
Exchange losses on cash and cash equivalents		**(28)**	(16)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**14,233**	18,088
Total cash and cash equivalents		**18,020**	14,233

Less: cash and cash equivalents of operations classified as held for sale	3.03	-	(310)
Cash and cash equivalents at 31 December		**18,020**	13,923

1. Tax comprises UK corporation tax paid of £417m (2019: £381m), withholding tax of £137m (2019: £166m) and an overseas corporate tax refund of £nil (2019: £7m).

3.01 Basis of preparation

The preliminary announcement for the year ended 31 December 2020 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 2020 Annual Report and Accounts, which will be available on the group's website on 22 March 2021. The group's 2019 Annual Report and Accounts have been filed with the Registrar of Companies, and those for 2020 will be delivered in due course. KPMG have reported on the 2020 and 2019 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 International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU), and with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS. The group financial statements also comply with interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. Under the *European Union (Withdrawal) Act 2018*, enacted in UK law by the *European Union (Withdrawal Agreement) Act 2020*, an implementation period had been established, which ended on 'IP completion day', defined as 31 December 2020 at 11.00 p.m. UK time. Reporting in the UK continues to be subject to the EU legislative framework until 31 December 2020. From 1 January 2021, the group will prepare financial statements in accordance with UK-adopted international accounting standards. A new UK endorsement mechanism, overseen by the Secretary of State, is being put in place and to this aim a UK Endorsement Board is currently in the process of being established.

The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and 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 Consolidated 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 2020 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 shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the group's long-term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes.

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

3.01 Basis of preparation (continued)

Changes in accounting policy

Legal & General Insurance America (LGIA) universal life and annuity liabilities

During the year, the group has changed its accounting policy for universal life and annuity liabilities on business transacted by its US subsidiaries, which was previously based on recognised actuarial methods reflecting US GAAP. From 1 July 2020, the group has calculated such liabilities on the basis of current information using the gross premium valuation method, which is in line with how similar products are accounted for in other parts of the business.

The group believes the new policy is preferable as it more closely aligns the accounting for this business with that of business written in the UK, and brings it closer to the principles introduced by the upcoming new accounting standard for insurance contracts, IFRS 17. Following the change, the group no longer has any long-term business accounted for based on actuarial methods reflecting US GAAP therefore resulting in the financial statements providing more reliable and relevant information about the impact of long-term business on the group's financial position, financial performance or cash flows, in line with IFRS requirements.

In addition to the change highlighted above, as at 1 July 2020 the group has reclassified £1,621m of financial investments from designated as available-for-sale and amortised cost to designated as fair value through profit or loss. This represents a further change in accounting policy permitted by IFRS 4, 'Insurance Contracts'.

The above represent voluntary changes in accounting policy and have been applied retrospectively, with prior year retained earnings adjusted accordingly.

The principal impact of the change on the prior year consolidated financial statements is in the non-participating insurance contract liabilities and in the deferred acquisition costs balance, which has been derecognised, and the associated cash flows now recognised within the insurance contract liability calculation. The carrying value of financial investments has also been affected where the measurement model for such investments has moved from amortised cost to fair value through profit or loss.

The impact on each line item of the Consolidated Balance Sheet as at 31 December 2019 is shown in the table below:

	As reported at 31 December 2019 £m	Adjustments £m	As restated at 31 December 2019 £m
Financial investments	498,376	13	498,389
Deferred acquisition costs	75	(21)	54
Reinsurers' share of contract liabilities	5,810	137	5,947
Non-participating insurance contract liabilities	77,317	564	77,881
Overseas deferred tax liability	182	(106)	76
Capital redemption and other reserves	250	(45)	205
Retained earnings	8,033	(284)	7,749

3.02 Disposals

Mature Savings Division

On 6 December 2017 the group announced the sale of its Mature Savings business to ReAssure Limited ("ReAssure") for £650m. While the Part VII transfer became effective on 7 September 2020, the economic effective date of completion and the date on which the assets and liabilities of the Mature Savings business, previously classified as held for sale, were fully derecognised was 31 August 2020. The group recognised a pre-tax gain on disposal of £289m which has been included in profit from discontinued operations in the Consolidated Income Statement for the year ended 31 December 2020[1].

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

	2020 £m
Consideration received	**650**
Less: Unwind of expected underlying profits before disposal[2]	**(106)**
Less: Final settlement[3]	**(55)**
Less: Transaction and separation costs	**(63)**
Net proceeds from sale	**426**
Carrying value of net assets disposed	**137**
Profit on the sale of the Mature Savings business before tax[1]	**289**

1. The group's total tax expense in the Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This is apportioned between that attributable to policyholders' returns and equity holders' profits. Under this methodology, the profit on disposal before tax attributable to equity holders' is £335m, as disclosed in Note 3.03.
2. From 1 January 2018 up until the completion of the transaction, the group recognised the unwind of expected profits from the Mature Savings business through the Consolidated Income Statement, totalling £106m since that time. This effectively reduces the amount of consideration attributable to the final profit on sale by an equivalent amount.
3. The final settlement is an amount payable from the group to ReAssure, reflecting the residual net position of assets and liabilities transferred at the date of the Part VII.

(ii) Carrying value of net assets disposed

	2020 £m
Deferred acquisition costs	**438**
Investment property	**926**
Financial investments	**25,092**
Reinsurers' share of contract liabilities	**550**
Income tax recoverable	**101**
Cash and cash equivalents	**248**
Other assets	**117**
Total assets	**27,472**
Participating insurance contracts	**(4,297)**

Participating investment contracts	**(4,352)**
Unallocated divisible surplus	**(655)**
Present value of future profits	**42**
Non-participating insurance contacts	**(837)**
Non-participating investment contracts	**(16,804)**
Provisions	**(1)**
Deferred tax liabilities	**(17)**
Payables and other financial liabilities	**(253)**
Other liabilities	**(161)**
Total liabilities	**(27,335)**
Carrying value of net assets disposed	**137**

3.03 Discontinued operations

The group classifies as discontinued operations components which have been disposed of or are classified as held for sale, and which either represent a separate major line of business or geographical area, are part of a plan to dispose of one, or are a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are shown on the face of the Consolidated Income Statement, separately from the results of the other parts of the group's business.

The results of the Mature Savings business have been classified as discontinued operations. 2019 also includes the results of the General Insurance business, the sale of which completed on 31 December 2019.

(i) Financial performance of discontinued operations

	2020 **£m**	2019 £m
Revenue[1]	**(855)**	4,225
Expenses[2]	**782**	(3,973)
Profit on disposal	**289**	-
Profit before tax	**216**	252
Tax credit/(expense)	**74**	(229)
Profit after tax from discontinued operations	**290**	23
Total comprehensive income from discontinued operations	**290**	23

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

This is represented as:

	2020 **£m**	2019 £m
Profit before tax	**216**	252
Tax expense attributable to policyholder returns	**142**	(224)
Profit before tax attributable to equity holders	**358**	28
Tax expense attributable to equity holders	**(68)**	(5)
Profit after tax from discontinued operations	**290**	23

Adjusted profit before tax attributable to equity holders reported in Note 1.01 as:

	2020 **£m**	2019 £m
Operating profit# from discontinued operations	**34**	11
Investment and other variances[1]	**324**	17
Adjusted profit before tax attributable to equity holders	**358**	28

1. Investment and other variances in 2020 includes the profit on disposal attributable to equity holders of the Mature Savings business of £335m. (2019 includes the profit on disposal of the General Insurance business of £2m).

(ii) Cash flow information of discontinued operations

	2020 **£m**	2019 £m
Net cash inflow/(outflow) from operating activities	**9**	35
Net cash inflow/(outflow) from investing activities	**-**	-
Net cash inflow/(outflow) from financing activities	**-**	-
Net increase/(decrease) in cash generated by discontinued operations	**9**	35

Operating profit represents 'Group adjusted operating profit', an alternative performance measure defined in the glossary.

3.04 Post balance sheet events

In the Budget on 3 March 2021, the Chancellor of the Exchequer announced an increase in the headline rate of corporation tax to 25% from 1 April 2023.

Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force at the time when the temporary difference is expected to unwind. In line with the requirements of IAS12, the impact of the change in rate has not been reflected in the deferred tax balances at 31 December 2020 and will be recognised once it has been substantively enacted by the UK Parliament. The estimated impact of the change in tax rate would be an increase in the deferred tax liability of c.£50m.

The Solvency II balance sheet and capital position recognise deferred tax assets and liabilities associated with the taxable differences between the IFRS and Solvency II balance sheets. The estimated impact of the change in tax rate is a small increase in the group's coverage ratio.

3.05 Dividends and appropriations

	Dividend 2020 £m	**Per share[1] 2020 p**	Dividend 2019 £m	Per share[1] 2019 p
Ordinary dividends paid and charged to equity in the year:				
- Final 2018 dividend paid in June 2019	**-**	**-**	704	11.82
- Interim 2019 dividend paid in September 2019	**-**	**-**	294	4.93
- Final 2019 dividend paid in June 2020	**754**	**12.64**	-	-
- Interim 2020 dividend paid in September 2020	**294**	**4.93**	-	-
Total dividends	**1,048**	**17.57**	998	16.75
Ordinary share dividend proposed[2]	**754**	**12.64**	753	12.64

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. Subsequent to 31 December 2020, the directors declared a final dividend for 2020 of 12.64 pence per ordinary share. This dividend will be paid on 27 May 2021. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2021 and is not included as a liability in the Consolidated Balance Sheet as at 31 December 2020.

3.06 Financial investments and investment property

	2020 £m	2019 £m
Equities[1]	**189,089**	200,365
Debt securities[2, 5]	**294,226**	287,244
Accrued interest[5]	**1,434**	1,648
Derivative assets[3]	**24,631**	14,828
Loans[4,5]	**16,677**	16,498
Financial investments	**526,057**	520,583
Investment property	**8,475**	9,107
Total financial investments and investment property	**534,532**	529,690
Less: financial investments and investment property of operations classified as held for sale	**-**	(23,606)
Financial investments and investment property	**534,532**	506,084

1. Equity securities include investments in unit trusts of £13,215m (31 December 2019: £13,046m).
2. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 6.03.
3. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £23,208m (31 December 2019: £13,113m).
4. Loans include £131m (31 December 2019: £121m) of loans valued at amortised cost.
5. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balance for Debt securities, Accrued interest and Loans have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

3.07 Tax

(a) Tax charge in the Consolidated Income Statement

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

	Continuing operations 2020 £m	**Total 2020 £m**	Continuing operations 2019 £m	Total 2019 £m
Profit before tax attributable to equity holders	**1,430**	**1,788**	2,084	2,112
Tax calculated at 19.00%	**272**	**340**	396	401
Adjusted for the effects of:				
Recurring reconciling items:				
Income not subject to tax	**(1)**	**(1)**	(4)	(4)
(Lower)/higher rate of tax on profits taxed overseas[1]	**(111)**	**(111)**	(117)	(117)
Non-deductible expenses	**11**	**11**	2	2
Differences between taxable and accounting investment gains	**(10)**	**(10)**	(10)	(10)
Property income attributable to minority interests	**-**	**-**	4	4
Foreign tax	**1**	**1**	6	6
Unrecognised tax losses	**14**	**14**	14	14
Non-recurring reconciling items:				
Income not subject to tax	**-**	**-**	(6)	(6)
Non-deductible expenses	**-**	**-**	6	6
Adjustments in respect of prior years[2]	**(42)**	**(42)**	9	9

Impact of the revaluation of deferred tax balances[3]	**16**	**16**	(2)	(2)
Other	**(1)**	**(1)**	(1)	(1)
Tax attributable to equity holders	**149**	**217**	297	302
Equity holders' effective tax rate[4]	**10.4%**	**12.1%**	14.3%	14.3%

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 and US term insurance businesses. This line also includes the impact of tax on our US operations which are taxed at 21%.
2. In line with normal practice, adjustments in respect of prior years relate to revisions of earlier estimates.
3. The Finance Act 2020 removed the planned reduction in the headline UK corporation tax rate from 19% to 17%. As a result, UK deferred tax assets and liabilities previously recognised at 17% have been revalued. In the Budget on 3 March 2021, the Chancellor of the Exchequer announced an increase in the headline rate of corporation tax to 25% from 1 April 2023. The impact of this has not been reflected in the tax balances at 31 December 2020. See Note 3.04 for further details.
4. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

3.07 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	2020 £m	2019[1] £m
Deferred acquisition expenses	**85**	35
- UK	**-**	(40)
- Overseas	**85**	75
Difference between the tax and accounting value of insurance contracts	**(557)**	(524)
- UK	**(207)**	(198)
- Overseas	**(350)**	(326)
Unrealised gains on investments	**(11)**	(184)
Excess of depreciation over capital allowances	**18**	15
Excess expenses	**1**	20
Accounting provisions and other	**(48)**	(44)
Trading losses[2]	**289**	217
Pension fund deficit	**22**	28
Acquired intangibles	**(1)**	(2)
Total net deferred tax liabilities	**(202)**	(439)
Less: net deferred tax liabilities of operations classified as held for sale[3]	**-**	182
Net deferred tax liabilities	**(202)**	(257)
Analysed by:		
- Deferred tax assets	**5**	8
- UK deferred tax liabilities	**(168)**	(189)
- Overseas deferred tax liabilities[4]	**(39)**	(76)
Net deferred tax liabilities	**(202)**	(257)

1. US deferred tax liabilities in respect of deferred acquisition costs and non-participating insurance contracts have been restated following the change in accounting policy for LGIA universal life and annuity reserves. The net impact to overseas deferred tax liabilities is a reduction of £106m at 31 December 2019.
2. Trading losses reflect deferred tax on UK trade and US operating losses of £5m (2019: £4m) and £284m (2019: £213m) respectively.
3. Liabilities of operations classified as held for sale relate to the Mature Savings business, the sale of which completed on 7 September 2020.
4. Overseas deferred tax liability is wholly comprised of US balances as at 31 December 2020.

3.08 Share capital and share premium

Authorised share capital	2020 Number of shares	2020 £m	2019 Number of shares	2019 £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 2020	**5,965,349,607**	**149**	**1,000**
Options exercised under share option schemes	**2,009,106**	**-**	**6**
As at 31 December 2020	**5,967,358,713**	**149**	**1,006**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2019	5,960,768,234	149	992
Options exercised under share option schemes	4,581,373	-	8
As at 31 December 2019	5,965,349,607	149	1,000

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.

3.09 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. The notes rank junior to all other liabilities and senior to equity attributable to shareholders. 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.

3.10 Non-controlling interests

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

As at 31 December 2020, non-controlling interests primarily represent third party ownership in Thorpe Park Holdings, a mixed residential/commercial retail space in which the group holds 50%.

The decrease in non-controlling interests during the year primarily reflects the deconsolidation of property investment vehicles following the sale of the Mature Savings business.

No other individual non-controlling interests are considered to be material on the basis of the year end carrying value or share of profit or loss.

3.11 Core borrowings

	Carrying amount 2020 £m	**Coupon rate 2020 %**	**Fair value 2020 £m**	Carrying amount 2019 £m	Coupon rate 2019 %	Fair value 2019 £m
Subordinated borrowings						
10% Sterling subordinated notes 2041 (Tier 2)	**313**	**10.00**	**329**	312	10.00	353
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**813**	589	5.50	726
5.375% Sterling subordinated notes 2045 (Tier 2)	**604**	**5.38**	**714**	603	5.38	691
5.25% US Dollar subordinated notes 2047 (Tier 2)	**628**	**5.25**	**703**	648	5.25	704
5.55% US Dollar subordinated notes 2052 (Tier 2)	**369**	**5.55**	**411**	380	5.55	405
5.125% Sterling subordinated notes 2048 (Tier 2)	**400**	**5.13**	**484**	399	5.13	459
3.75% Sterling subordinated notes 2049 (Tier 2)	**598**	**3.75**	**662**	598	3.75	613
4.5% Sterling subordinated notes 2050 (Tier 2)	**499**	**4.50**	**587**	-	-	-
Client fund holdings of group debt (Tier 2)[1]	**(42)**	**-**	**(51)**	(38)	-	(44)
Total subordinated borrowings	**3,958**		**4,652**	3,491		3,907
Senior borrowings						
Sterling medium term notes 2031-2041	**609**	**5.88**	**926**	609	5.88	877
Client fund holdings of group debt[1]	**(9)**	**-**	**(12)**	(9)	-	(13)
Total senior borrowings	**600**	**-**	**914**	600	-	864
Total core borrowings	**4,558**	**-**	**5,566**	4,091	-	4,771

1. £51m (2019: £47m) 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.

3.11 Core borrowings (continued)

Subordinated borrowings

10% Sterling subordinated notes 2041

In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% p.a. These notes mature on 23 July 2041.

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% pa. These notes mature on 1 November 2050.

All of the above subordinated notes are treated as tier 2 own funds for Solvency II purposes.

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

3.12 Operational borrowings

	Carrying amount 2020 £m	**Interest rate 2020 %**	**Fair value 2020 £m**	Carrying amount 2019 £m	Interest rate 2019 %	Fair value 2019 £m
Short term operational borrowings						
Euro Commercial Paper	**50**	**0.78**	**50**	200	0.93	200
Bank loans and overdrafts	**54**	**-**	**54**	-	-	-
Non recourse borrowings						
Consolidated Property Limited Partnerships	**-**	**-**	**-**	58	2.36	58
Later Living portfolio	**72**	**2.77**	**72**	72	3.47	72
CALA revolving credit facility	**170**	**2.95**	**170**	178	3.37	178
Class B Surplus Notes	**639**	**2.45**	**639**	489	4.33	489
Affordable Homes revolving credit facility	**60**	**2.13**	**60**	29	2.66	29
L&G Homes Limited revolving credit facility	**-**	**-**	**-**	16	3.44	16
Total operational borrowings[1]	**1,045**		**1,045**	1,042		1,042
Less: liabilities of operations classified as held for sale[2]	**-**	**-**	**-**	(29)	2.36	(29)
Operational borrowings	**1,045**		**1,045**	1,013		1,013

1. Unit linked borrowings with a carrying value of £10m (2019: £7m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,055m (2019: £1,020m).
2. Liabilities of operations classified as held for sale relate to the Mature Savings business, the sale of which completed on 7 September 2020.

Non recourse borrowings
- Consolidated Property Limited Partnerships loans had a charge on the assets of the relevant Property Fund.

- Loan facilities to Later Living portfolio have a charge on all assets of each individual SPV company.

- CALA Group (Holdings) Limited's revolving credit facility is secured by way of a bond and floating charge, and guarantees and fixed charges granted by CALA Group Limited and its main subsidiaries (CALA 1999 Limited, CALA Limited, and CALA Management Limited). A number of other bonds and floating charges, fixed securities, debentures and share pledges over land and assets have been granted by certain subsidiaries of CALA Group Limited in favour of the lenders.

- The Class B Surplus Notes have been issued by a US subsidiary of the group as part of a coinsurance structure for the purpose of US statutory regulations. The notes were issued in exchange for bonds of the same value from an unrelated party, included within financial investments on the group's Consolidated Balance Sheet.

- The revolving credit facility to Affordable Homes is subject to agreed covenants, a breach of which could result in a charge on the land and work in progress of L&G Affordable Homes (Development 2) Limited.

- The revolving credit facility to L&G Homes Limited was secured by way of a charge on the land assets of L&G Homes Limited.

The carrying value of operational borrowings approximates to their fair value. The presented fair values reflect observable market information and have been classified as Level 2 in the fair value hierarchy with the exception of the Later Living portfolio and Affordable Homes revolving credit facility which have been classified as Level 3.

Syndicated Credit Facility

As at 31 December 2020, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2023. No amounts were outstanding at 31 December 2020.

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3.13 Payables and other financial liabilities

	2020 £m	2019 £m
Derivative liabilities	**23,208**	13,113
Repurchase agreements[1]	**53,853**	56,884
Other financial liabilities[2]	**14,881**	14,476
Total payables and other financial liabilities	**91,942**	84,473
Less: payables and other financial liabilities of operations classified as held for sale[3]	**-**	(434)
Payables and other financial liabilities	**91,942**	84,039
Due within 12 months[4]	**65,316**	64,689
Due after 12 months[4]	**26,626**	19,784

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the 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 the short positions at 31 December 2020 was £5,147m (2019: £7,673m).
3. Liabilities of operations classified as held for sale relate to the Mature Savings business, the sale of which completed on 7 September 2020.
4. The maturity analysis of the liabilities between less and more than 12 months is based on the Total payables and other financial liabilities.

Fair value hierarchy

As at 31 December 2020	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost[1] £m**
Derivative liabilities	**23,208**	**300**	**22,826**	**82**	**-**
Repurchase agreements	**53,853**	**-**	**53,853**	**-**	**-**
Other financial liabilities	**14,881**	**5,222**	**29**	**11**	**9,619**
Total payables and other financial liabilities	**91,942**	**5,522**	**76,708**	**93**	**9,619**

As at 31 December 2019	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost[1] £m
Derivative liabilities	13,113	283	12,828	2	-
Repurchase agreements	56,884	-	56,884	-	-
Other financial liabilities	14,476	7,822	9	139	6,506
Total payables and other financial liabilities	84,473	8,105	69,721	141	6,506

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

Trail commission (included within Other financial liabilities) is modelled using expected cash flows, incorporating expected future persistency. It has therefore been classified as a Level 3 liability. A reasonably possible alternative persistency assumption would have the effect of increasing the trail commission liability by £4m (2019: £4m).

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the year ended 31 December 2020 (2019: no significant transfers).

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3.14 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2020 £m	**Impact on group equity net of re-insurance 2020 £m**	Impact on pre-tax group profit net of re-insurance 2019 £m	Impact on group equity net of re-insurance 2019 £m
Economic sensitivity				
Long-term insurance				
100bps increase in interest rates	**438**	**350**	257	130
50bps decrease in interest rates	**(283)**	**(227)**	(188)	(109)
50bps increase in future inflation expectations	**(148)**	**(119)**	53	43
Credit spreads widen by 100bps with no change in expected defaults	**(304)**	**(246)**	(220)	(273)
25% rise in equity markets[1]	**482**	**399**	512	446
25% fall in equity markets[1]	**(482)**	**(399)**	(513)	(446)
15% rise in property values[1]	**1,111**	**903**	1,016	838
15% fall in property values[1]	**(1,187)**	**(964)**	(1,075)	(886)
10bps increase in credit default assumptions	**(856)**	**(692)**	(717)	(580)
10bps decrease in credit default assumptions[1]	**832**	**672**	703	569
Non-economic sensitivity				
Long-term insurance				
1% increase in annuitant mortality	**209**	**176**	195	221
1% decrease in annuitant mortality	**(218)**	**(183)**	(201)	(225)
5% increase in assurance mortality	**(450)**	**(356)**	(385)	(305)

10% increase in maintenance expenses	**(254)**	**(205)**	(210)	(170)

1. Following improvements to the modelling of market risk sensitivities during the current year, a number of 2019 impacts have been restated to be on a basis consistent with the 2020 results. These restatements do not impact any items reported in the Consolidated Income Statement or Consolidated Balance Sheet.

The table above shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. 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 the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

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

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

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

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

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

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

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

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

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

3.15 Foreign exchange rates

Principal rates of exchange used for translation are:

Year end exchange rates	2020	2019
United States dollar	**1.37**	1.33
Euro	**1.12**	1.18

Average exchange rates	2020	2019
United States dollar	**1.28**	1.28
Euro	**1.13**	1.14

3.16 Provisions

(a) Analysis of provisions

	Note	2020 £m	2019 £m
Retirement benefit obligations	3.16 (b)	**1,165**	1,107
Other provisions		**123**	114
Total provisions		**1,288**	1,221
Less: liabilities of operations classified as held for sale		**-**	(1)
Provisions		**1,288**	1,220

(b) Retirement benefit obligations

	Fund and Scheme 2020 £m	CALA Homes and Overseas 2020 £m	Fund and Scheme 2019 £m	CALA Homes and Overseas 2019 £m
Gross pension obligations included in provisions	**1,138**	**27**	1,083	24
Annuity obligations insured by LGAS	**(1,051)**	**-**	(944)	-
Gross defined benefit pension deficit	**87**	**27**	139	24
Deferred tax on defined benefit pension deficit	**(17)**	**(5)**	(24)	(4)
Net defined benefit pension deficit	**70**	**22**	115	20

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.

3.17 Contingent liabilities, guarantees and indemnities

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

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

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

3.18 Related party transactions

(i) Key management personnel transactions and compensation

There were no material transactions between key management and the Legal & General group of companies during the year. 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. Contributions to the post-employment defined benefit plans were £137m (2019: £86m) for all employees.

At 31 December 2020 and 31 December 2019 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:

	2020 £m	2019 £m
Salaries	**8**	12
Share-based incentive awards	**5**	7
Key management personnel compensation	**13**	19

(ii) 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.

Loans and commitments to related parties are made in the normal course of business.

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £50m (2019: £78m) purchased by the group's UK defined benefit pension schemes during the year, priced on an arm's length basis;

- During the year, the Legal & General Group UK Senior Pension Scheme (the Scheme) completed an Assured Payment Policy (APP) transaction with Legal and General Assurance Society Limited (LGAS), a group company. An APP is an investment contract product sold by LGR 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.

At inception a premium of £397m was paid by the Scheme to LGAS, and LGAS and the Scheme recognised an investment contract liability and an APP plan asset respectively of the same amount. As at 31 December 2020, LGAS recognised a liability related to the APP transaction with the Scheme of £396m which is included in the group's non-participating investment contract liabilities. The Scheme holds a transferable plan asset of the same amount which does not eliminate on consolidation.

- Loans outstanding from related parties at 31 December 2020 of £89m (2019: £83m), with a further commitment of £14m;

- The group has total other commitments of £1,207m to related parties (2019: £1,213m), of which £772m has been drawn at 31 December 2020 (2019: £749m).

END

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RNS Final Results

L&G Full Year Results 2020 Part 3

LEGAL & GENERAL GROUP PLC

Released 07:00:21 10 March 2021

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Legal & General Group Plc
10 March 2021

Legal & General Group Plc
2020 Full Year Results Part 3

4.01 LGIM total assets under management[1]

For the year ended 31 December 2020	Index £bn	Active strategies £bn	Multi Asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2020	**403.6**	**177.2**	**58.0**	**526.6**	**30.8**	**1,196.2**
External inflows	**76.6**	**17.7**	**8.5**	**27.0**	**1.0**	**130.8**
External outflows	**(84.7)**	**(17.8)**	**(5.3)**	**(36.6)**	**(1.4)**	**(145.8)**
Overlay net flows	**-**	**-**	**-**	**33.9**	**-**	**33.9**
ETF net flows	**1.5**	**-**	**-**	**-**	**-**	**1.5**
External net flows[3]	**(6.6)**	**(0.1)**	**3.2**	**24.3**	**(0.4)**	**20.4**
Internal net flows[5]	**(0.2)**	**2.6**	**(0.4)**	**(0.3)**	**0.4**	**2.1**
Total net flows	**(6.8)**	**2.5**	**2.8**	**24.0**	**-**	**22.5**
Cash management movements[4]	**-**	**2.4**	**-**	**-**	**-**	**2.4**
Market and other movements[3]	**33.1**	**11.5**	**2.6**	**8.9**	**1.7**	**57.8**
As at 31 December 2020	**429.9**	**193.6**	**63.4**	**559.5**	**32.5**	**1,278.9**
Assets attributable to:						
External						**1,162.6**
Internal						**116.3**

1. Assets under management (AUM) includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £340.1bn (31 December 2019: £335.7bn) of derivative notionals associated with the Solutions business.
3. 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 2020 was £45.8bn (31 December 2019: £67.1bn) and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for client liquidity management purposes.
5. Internal net flows include flows in legacy assets from the unit-linked and with-profits savings business sold to ReAssure in 2020.

For the year ended 31 December 2019	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2019	307.1	160.4	43.6	477.9	26.5	1,015.5
External inflows	96.2	14.0	11.2	25.5	1.8	148.7
External outflows	(58.9)	(11.2)	(3.5)	(26.2)	(1.7)	(101.5)
Overlay net flows	-	-	-	38.8	-	38.8
ETF net flows	0.4	-	-	-	-	0.4
External net flows[3]	37.7	2.8	7.7	38.1	0.1	86.4
Internal net flows	(0.3)	(0.4)	(0.9)	1.9	2.5	2.8

Total net flows	37.4	2.4	6.8	40.0	2.6	89.2
Cash management movements[4]	-	(0.6)	-	-	-	(0.6)
Market and other movements[3]	59.1	15.0	7.6	8.7	1.7	92.1
As at 31 December 2019	403.6	177.2	58.0	526.6	30.8	1,196.2
Assets attributable to:						
External						1,092.2
Internal						104.0

1. Assets under management (AUM) includes assets on our Investment Only Platform, that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £335.7bn of derivative notionals associated with the Solutions business.
3. 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 2019 was £67.1bn and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for client liquidity management purposes.

Asset and premium flows

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

For the year ended 31 December 2020	**Index £bn**	**Active strategies £bn**	**Multi Asset £bn**	**Solutions[2] £bn**	**Real assets £bn**	**Total AUM £bn**
As at 1 January 2020	**403.6**	**177.2**	**58.0**	**526.6**	**30.8**	**1,196.2**
External inflows	**27.7**	**9.5**	**4.3**	**10.9**	**0.6**	**53.0**
External outflows	**(32.3)**	**(9.0)**	**(2.7)**	**(22.7)**	**(0.4)**	**(67.1)**
Overlay net flows	**-**	**-**	**-**	**20.1**	**-**	**20.1**
ETF Net Flows	**0.2**	**-**	**-**	**-**	**-**	**0.2**
External net flows[3]	**(4.4)**	**0.5**	**1.6**	**8.3**	**0.2**	**6.2**
Internal net flows	**-**	**(0.2)**	**(0.7)**	**(0.1)**	**0.4**	**(0.6)**
Total net flows	**(4.4)**	**0.3**	**0.9**	**8.2**	**0.6**	**5.6**
Cash management movements[4]	**-**	**2.8**	**-**	**-**	**-**	**2.8**
Market and other movements[3]	**(4.1)**	**9.2**	**(1.8)**	**32.0**	**0.7**	**36.0**
As at 30 June 2020	**395.1**	**189.5**	**57.1**	**566.8**	**32.1**	**1,240.6**
External inflows	**48.9**	**8.2**	**4.2**	**16.1**	**0.4**	**77.8**
External outflows	**(52.4)**	**(8.8)**	**(2.6)**	**(13.9)**	**(1.0)**	**(78.7)**
Overlay net flows	**-**	**-**	**-**	**13.8**	**-**	**13.8**
ETF Net Flows	**1.3**	**-**	**-**	**-**	**-**	**1.3**
External net flows[3]	**(2.2)**	**(0.6)**	**1.6**	**16.0**	**(0.6)**	**14.2**
Internal net flows[5]	**(0.2)**	**2.8**	**0.3**	**(0.2)**	**-**	**2.7**
Total net flows	**(2.4)**	**2.2**	**1.9**	**15.8**	**(0.6)**	**16.9**
Cash management movements[4]	**-**	**(0.4)**	**-**	**-**	**-**	**(0.4)**
Market and other movements[3]	**37.2**	**2.3**	**4.4**	**(23.1)**	**1.0**	**21.8**
As at 31 December 2020	**429.9**	**193.6**	**63.4**	**559.5**	**32.5**	**1,278.9**

1. 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 £340.1bn (30 June 2020: £348.3bn; 31 December 2019: £335.7bn) of derivative notionals associated with the Solutions business.
3. 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 2020 was £45.8bn (30 June 2020: £62.3bn; 31 December 2019: £67.1bn) and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for client liquidity management purposes.
5. Internal net flows include legacy assets from unit-linked and with-profits savings business sold to ReAssure in 2020.

Asset and premium flows

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4.02 LGIM total assets under management[1] half-yearly progression (continued)

For the year ended 31 December 2019	Index £bn	Active Strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2019	307.1	160.4	43.6	477.9	26.5	1,015.5
Canvas Acquisition[3]						
External inflows	60.8	5.7	6.5	8.8	0.8	82.6
External outflows	(26.1)	(4.8)	(1.4)	(11.0)	(0.8)	(44.1)
Overlay net flows	-	-	-	22.0	-	22.0
ETF net flows	(0.2)	-	-	-	-	(0.2)

External net flows[3]	34.5	0.9	5.1	19.8	-	60.3
Internal net flows	(0.1)	(2.0)	(0.3)	3.6	1.2	2.4
Total net flows	34.4	(1.1)	4.8	23.4	1.2	62.7
Cash management movements[4]	-	0.5	-	-	-	0.5
Market and other movements[3]	43.9	12.4	6.0	(7.7)	1.2	55.8
As at 30 June 2019	385.4	172.2	54.4	493.6	28.9	1,134.5
External inflows	35.4	8.3	4.7	16.7	1.0	66.1
External outflows	(32.8)	(6.4)	(2.1)	(15.2)	(0.9)	(57.4)
Overlay net flows	-	-	-	16.8	-	16.8
ETF net flows	0.6	-	-	-	-	0.6
External net flows[3]	3.2	1.9	2.6	18.3	0.1	26.1
Internal net flows	(0.2)	1.6	(0.6)	(1.7)	1.3	0.4
Total net flows	3.0	3.5	2.0	16.6	1.4	26.5
Cash management movements[4]	-	(1.1)	-	-	-	(1.1)
Market and other movements[3]	15.2	2.6	1.6	16.4	0.5	36.3
As at 31 December 2019	403.6	177.2	58.0	526.6	30.8	1,196.2

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 £335.7bn of derivative notionals associated with the Solutions business.
3. 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 as at 31 December 2019 was £67.1bn and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for client liquidity management purposes.

4.03 LGIM total external assets under management and net flows

	Assets under management at				Net flows for the period ended[2]			
	31 December 2020 £bn	**30 June 2020 £bn**	31 December 2019 £bn	30 June 2019 £bn	**31 December 2020 £bn**	**30 June 2020 £bn**	31 December 2019 £bn	30 June 2019 £bn
International[1]	**303.5**	**289.5**	276.7	248.6	**(1.0)**	**(3.0)**	14.6	44.6
UK Institutional								
- Defined contribution	**112.7**	**96.7**	94.3	86.4	**5.6**	**5.5**	3.7	3.6
- Defined benefit	**699.4**	**706.7**	679.3	659.7	**7.7**	**2.5**	4.8	10.7
Retail								
- Retail intermediary	**36**	**33.3**	33.1	30.0	**0.6**	**1.0**	2.5	1.7
- Personal investing[3]	**5.6**	**5.2**	5.7	5.6	**-**	-	(0.1)	(0.1)
ETF	**5.4**	**3.5**	3.1	2.4	**1.3**	**0.2**	0.6	(0.2)
Total external	**1,162.6**	**1,134.9**	1,092.2	1,032.7	**14.2**	**6.2**	26.1	60.3

1. International asset are shown on the basis of client domicile. Total International AUM, including assets managed internationally on behalf of UK clients, amounted to £388bn as at 31 December 2020 (2019: £370bn).
2. 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.
3. Personal investing includes £1.4bn (2019: £1.6bn) of AUM relating to legacy Banks and Building Society customers, which drove net outflows in 2019.

4.04 Reconciliation of assets under management to Consolidated Balance Sheet financial investments, investment property and cash and cash equivalents

	2020 £bn	2019 £bn
Assets under management	**1,279**	1,196
Derivative notionals[1]	**(340)**	(336)
Third party assets[2]	**(419)**	(379)
Other[3]	**33**	63
Total financial investments, investment property and cash and cash equivalents	**553**	544
Less: assets of operations classified as held for sale	**-**	(24)
Financial investments, investment property and cash and cash equivalents	**553**	520

1. Derivative notionals are included in the assets under management measure but are not for IFRS reporting and are thus removed.
2. Third party assets are those that LGIM manage on behalf of others which are not included on the group's Consolidated Balance Sheet.
3. 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.

4.05 Assets under administration

	Workplace[1] 2020 £bn	Annuities[2] 2020 £bn	Workplace 2019 £bn	Annuities 2019 £bn
As at 1 January	**40.3**	**75.9**	30.0	63.0
Gross inflows	**10.0**	**10.1**	7.3	12.4
Gross outflows	**(2.2)**	**-**	(2.0)	-
Payments to pensioners	**-**	**(4.3)**	-	(4.1)
Net flows	**7.8**	**5.8**	5.3	8.3
Market and other movements	**2.7**	**5.3**	5.0	4.6
As at 31 December	**50.8**	**87.0**	40.3	75.9

1. Workplace assets under administration as at 31 December 2020 includes £50.7bn (2019: £40.2bn) of assets under management included in Note 4.01.
2. Annuities assets under administration as at 31 December 2020 includes £79.4bn (2019: £70.1bn) of assets under management included in Note 4.01.

4.06 Assets under administration half-yearly progression

For the year ended 31 December 2020	Workplace 2020 £bn	Annuities 2020 £bn	Workplace 2019 £bn	Annuities 2019 £bn
As at 1 January 2020	**40.3**	**75.9**	30.0	63.0
Gross inflows	**3.3**	**3.8**	3.5	7.2
Gross outflows	**(0.9)**	**-**	(0.9)	-
Payments to pensioners	**-**	**(2.1)**	-	(2.0)
Net flows	**2.4**	**1.7**	2.6	5.2
Market and other movements	**(1.2)**	**3.1**	3.5	3.9
As at 30 June 2020	**41.5**	**80.7**	36.1	72.1
Gross inflows	**6.6**	**6.3**	3.8	5.2
Gross outflows	**(1.3)**	**-**	(1.1)	-
Payments to pensioners	**-**	**(2.2)**	-	(2.1)
Net flows	**5.3**	**4.1**	2.7	3.1
Market and other movements	**3.9**	**2.2**	1.5	0.7
As at 31 December 2020	**50.8**	**87.0**	40.3	75.9

4.07 LGR new business

	Total 2020 £m	6 months 31 December 2020 £m	6 months 30 June 2020 £m	Total 2019 £m	6 months 31 December 2019 £m	6 months 30 June 2019 £m
Pension risk transfer						
- UK	**7,593**	**4,417**	**3,176**	10,325	4,009	6,316
- US	**1,250**	**1,002**	**248**	893	670	223
- Bermuda	**-**	**-**	**-**	174	36	138
Individual annuities	**910**	**489**	**421**	970	473	497
Lifetime & retirement interest only mortgage advances	**791**	**429**	**362**	965	476	489
Total LGR new business	**10,544**	**6,337**	**4,207**	13,327	5,664	7,663

4.08 LGI new business

	Total 2020 £m	6 months 31 December 2020 £m	6 months 30 June 2020 £m	Total 2019 £m	6 months 31 December 2019 £m	6 months 30 June 2019 £m

UK Retail protection	**175**	**92**	**83**	174	83	91
UK Group protection	**117**	**52**	**65**	76	32	44
US protection[1]	**80**	**36**	**44**	89	46	43
Total LGI new business	**372**	**180**	**192**	339	161	178

1. In local currency, US protection reflects new business of $103m for 2020 (H2: $47; H1: $56) (H2 19: $58m; H1 19: $55m).

4.09 Gross written premiums on insurance business

	Total 2020 £m	**6 months 31 December 2020 £m**	**6 months 30 June 2020 £m**	Total 2019 £m	6 months 31 December 2019 £m	6 months 30 June 2019 £m
UK Retail protection	**1,374**	**694**	**680**	1,327	669	658
UK Group protection	**382**	**137**	**245**	345	112	233
US Protection[1]	**1,093**	**543**	**550**	1,057	539	518
Longevity insurance	**327**	**168**	**159**	376	186	190
Total gross written premiums on insurance business	**3,176**	**1,542**	**1,634**	3,105	1,506	1,599

1. In local currency, US protection reflects gross written premiums of $1,403m for 2020 (H2: $710; H1: $693) (H2 19: $679m; H1 19: $670m).

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 vast majority of the risk to which the group is exposed is assessed on the Partial Internal Model basis approved by the PRA. Capital requirements for a few smaller entities are assessed using the Standard Formula basis on materiality grounds. The group's US insurance businesses are valued on a local statutory basis following the PRA's approval to use the Deduction and Aggregation method of including these businesses in the group solvency calculation.

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at 31 December 2020 as agreed with the PRA). The TMTP incorporates estimated impacts of end December 2020 economic conditions and changes during 2020 to the Internal Model and Matching Adjustment. This is in line with group's management of the capital position on a dynamic TMTP basis.

(a) Capital position

As at 31 December 2020, and on the above basis, the group had a surplus of £7.4bn (2019: £7.3bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 177% (2019: 184%). The shareholder view of the Solvency II capital position is as follows:

	2020 £bn	2019 £bn
Unrestricted Tier 1 Own Funds	**12.3**	12.4
Restricted Tier 1 Own Funds[1]	**0.5**	-
Tier 2 Subordinated liabilities[2]	**4.5**	3.9
Eligibility restrictions	**(0.2)**	(0.2)
Solvency II Own Funds[3]	**17.1**	16.1
Solvency Capital Requirement	**(9.7)**	(8.8)
Solvency II surplus	**7.4**	7.3
SCR Coverage ratio[4]	**177%**	184%

1. Restricted Tier 1 Own Funds represent Perpetual Restricted Tier 1 Contingent Convertible Notes issued during the year. See Note 3.09 for details.
2. Tier 2 subordinated liabilities include new debt issue of £0.5bn during the year.
3. Solvency II Own Funds allow for a Risk Margin of £6.1bn (2019: £5.9bn) and TMTP of £5.6bn (2019: £5.7bn).

4. SCR Coverage ratio is based on unrounded inputs.

The "shareholder view" basis excludes the contribution that the final salary pension schemes would normally make to the group position. This is reflected by reducing the group's Own Funds and the group's SCR by the amount of the SCR for the final salary pension schemes.

On a "proforma basis", which includes the contribution of the With-profits fund (2019 only) and the final salary pension schemes, the coverage ratio at 31 December 2020 is 175% (31 December 2019: 179%).

On 6 December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited. ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. The formal transfer of the business completed on 7 September 2020. The transfer was effected by way of a Part VII transfer under the Financial Services and Markets Act 2000.

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, where 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 2020 and the impacts of a recalculation of the TMTP as at end December 2020 as approved by the PRA. The recalculated TMTP of £5.6bn (31 December 2019: £5.7bn) is net of amortisation to 31 December 2020.

The liabilities include a Risk Margin of £6.1bn (31 December 2019: £5.9bn) 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 not hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed by the European Insurance and Occupational Pensions Authority (EIOPA).

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 (LGRe) based in Bermuda) contribute over 93% 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 Banner Life and its subsidiaries (LGA) are incorporated into the calculation of group solvency using a Deduction and Aggregation 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.

All non-insurance regulated firms are included using their regulatory surplus on 31 December 2020.

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.

5.01 Group regulatory capital - Solvency II (continued)

(c) Assumptions

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

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins. Future investment returns and discount rates are those defined by EIOPA, which means that the risk-free rates used to discount liabilities are market swap rates, with an 11 basis point (2019: 11 basis points) deduction to allow for a credit risk adjustment for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 31 December 2020 the Matching Adjustment for the UK GBP portfolio was 103 basis points (31 December 2019: 110 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 55 basis points (31 December 2019: 53 basis points).

(ii) 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;

(iii) 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; and

(iv) assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

(d) Analysis of change

The table below shows the movement (net of tax) during the year ended 31 December 2020 in the group's Solvency II surplus.

	2020 £bn	2019 £bn
Surplus arising from back-book (including release of SCR)	**1.3**	1.5
Release of Risk Margin[1]	**0.6**	0.4
Amortisation of TMTP[2]	**(0.4)**	(0.3)
Total operational surplus generation[3]	**1.5**	1.6
Operational surplus generation - continuing operations	**1.5**	1.5
Operational surplus generation - discontinued operations	**-**	0.1
Total operational surplus generation[3]	**1.5**	1.6
New business strain - continuing operations	**(0.3)**	(0.5)
New business strain - discontinued operations	**-**	(0.1)
New business strain	**(0.3)**	(0.6)
Net surplus generation	**1.2**	1.0
Operating variances[4]	**0.4**	0.3
Mergers, acquisitions and disposals[5]	**(0.1)**	0.1
Market movements[6]	**(1.4)**	(0.2)
Restricted Tier 1 convertible notes[7]	**0.5**	-
Subordinated liabilities[8]	**0.5**	0.2
Dividends paid[9]	**(1.0)**	(1.0)
Total surplus movement (after dividends paid in the year)	**0.1**	0.4

1. Based on the Risk Margin in force at 31 December 2019 and does not include the release of any Risk Margin added by new business written in 2020.
2. TMTP amortisation based on a linear run down of the 31 December 2019 TMTP.
3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2020 these are primarily related to the optimisation of structures used to make assets Matching Adjustment eligible and the planned reinsurance of back-book liabilities.
4. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, other management actions including changes in asset mix, hedging strategies, and Matching Adjustment optimisation.
5. Mergers, acquisitions and disposals include the impacts of the sale of the Mature Savings business, which completed in H2 20.
6. Market movements represent the impact of changes in investment market conditions over the year and changes to future economic assumptions. Market movements in 2020 include an increase in the Risk Margin of £0.7bn (net of tax) and an increase to TMTP of £0.7bn (net of tax).
7. Restricted Tier 1 convertible notes represent an issuance of £0.5bn in the year (2019: nil).
8. Subordinated liabilities includes an issuance of £0.5bn in the year (2019: redemption of £0.4bn and an issuance of £0.6bn).
9. Dividends paid are the amounts from the 2019 final and 2020 interim dividend declarations (2019: 2018 final and 2019 interim dividend declarations).

5.01 Group regulatory capital - Solvency II (continued)

(d) Analysis of change (continued)

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

New Business Strain is the cost of acquiring 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.

(e) 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 Operational surplus generation.

	2020 £bn	2019 £bn
IFRS Release from operations	**1.3**	1.3
Expected release of IFRS prudential margins	**(0.5)**	(0.5)
Releases of IFRS specific reserves[1]	**(0.2)**	(0.1)
Solvency II investment margin[2,3]	**0.3**	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	**0.6**	0.7
Solvency II Operational surplus generation[4]	**1.5**	1.6

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 EIOPA-defined Fundamental Spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk-free rates over 2020.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2020 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.

	2020 £bn	2019 £bn
IFRS New business surplus	**0.3**	0.3
Removal of requirement to set up prudential margins above best estimate on new business	**0.3**	0.2
Set up of SCR on new business	**(0.7)**	(0.9)
Set up of Risk Margin on new business	**(0.2)**	(0.2)
Solvency II New business strain[1]	**(0.3)**	(0.6)

1. UK PRT new business volume during 2020 was £7.6bn, compared to £10.3bn over 2019.

(f) 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:

	2020 £bn	2019[4] £bn
IFRS equity	**10.0**	9.1
Remove DAC, goodwill and other intangible assets and associated liabilities	**(0.4)**	(0.5)
Add IFRS carrying value of subordinated borrowings[1]	**4.0**	3.5
Insurance contract valuation differences[2]	**4.5**	5.6
Difference in value of net deferred tax liabilities	**(0.6)**	(0.6)
SCR for with-profits fund and final salary pension schemes	**(0.2)**	(0.8)
Eligibility restrictions[3]	**(0.2)**	(0.2)
Solvency II Own Funds	**17.1**	16.1

1. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of technical provisions between IFRS and Solvency II.
3. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
4. Following the change in accounting policy for LGIA universal life and annuity IFRS reserves, the 2019 reconciliation has been restated. Further details on the change in accounting policy are provided in Note 3.01.

5.01 Group regulatory capital - Solvency II (continued)

(g) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2020 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[1] 2020 £bn	Impact on net of tax Solvency II coverage ratio[1] 2020 %	Impact on net of tax Solvency II capital surplus[1] 2019 £bn	Impact on net of tax Solvency II coverage ratio[1] 2019 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[2,3]	**0.5**	**11**	0.3	8
Credit spreads narrow by 100bps assuming an escalating addition to ratings[2,3]	**(0.7)**	**(12)**	(0.4)	(9)
Credit spreads widen by 100bps assuming a level addition to ratings[2]	**0.7**	**13**	0.5	11
Credit spreads of sub investment grade assets widen by 100bps assuming a level addition to ratings[2,4]	**(0.4)**	**(5)**	(0.3)	(6)
Credit migration[5]	**(1.2)**	**(13)**	(0.8)	(9)
25% fall in equity markets[6]	**(0.5)**	**(4)**	(0.5)	(5)
15% fall in property markets[7]	**(0.6)**	**(6)**	(0.7)	(6)
100bps increase in risk-free rates[8]	**1.0**	**20**	1.0	22
50bps decrease in risk-free rates[8,9]	**(0.7)**	**(11)**	(0.6)	(11)
10% increase in maintenance expenses[10]	**(0.3)**	**(3)**	(0.2)	(3)
Substantially reduced Risk Margin[11]	**0.5**	**5**	0.6	6

1. Both the 2020 and 2019 sensitivities exclude the impact from the Mature Savings business (including the With-Profits fund) as the risks were transferred to ReAssure Limited from 1 January 2018.
2. The spread sensitivity applies to the group's corporate bond (and similar) holdings, with no change in long-term default expectations. Restructured lifetime mortgages are excluded as the underlying exposure is mostly to property.
3. 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.
4. 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 only 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.
5. 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 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.
6. 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.
7. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
8. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
9. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
10. A 10% increase in the assumed unit costs and future costs of investment management across all long term insurance business lines.
11. 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 stresses, we have not allowed for the recalculation of TMTP.

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

5.01 Group regulatory capital - Solvency II (continued)

(h) 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.

	2020	2019

	%	%
Interest rate	**2**	1
Equity	**6**	6
Property	**9**	9
Credit[1]	**29**	27
Currency	**3**	4
Inflation	**7**	6
Total Market risk[2]	**56**	53
Counterparty risk	**1**	2
Life mortality	**3**	3
Life longevity[3]	**22**	22
Life mass lapse	**2**	2
Life non-mass lapse	**2**	2
Life catastrophe	**4**	5
Expense	**3**	3
Total Insurance risk	**36**	37
Non-life underwriting	**1**	1
Operational risk	**4**	5
Miscellaneous[4]	**2**	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.
4. Miscellaneous includes LGA 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 Full Year 2020 £m	**Contribution from new business[2] Full Year 2020 £m**	**Margin[3] Full Year 2020 %**	PVNBP Full year 2019 £m	Contribution from new business[2] Full year 2019 £m	Margin[3] Full year 2019 %
LGR - UK annuity business	**8,503**	**901**	**10.6**	11,295	890	7.9
UK Protection Total	**1,887**	**160**	**8.5**	1,604	122	7.6
- Retail Protection	1,359	123	9.1	1,284	98	7.6
- Group Protection	528	37	7.0	320	24	7.5
US Protection[4]	**829**	**94**	**11.2**	850	94	11.1

1. Selected lines of business only.
2. 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.
3. Margin is based on unrounded inputs.
4. In local currency, US Protection reflects PVNBP of $1,064m (31 December 2019: $1,085m) and a contribution from new business of $120m (31 December 2019: $120m).

The increase in LGR margin was driven by the longer average duration for the schemes written in 2020, compared to the schemes written in prior year.

For UK Protection new business the increase in profitability was driven by a shift in the product mix combined with continued price optimisation. The margin was further increased by the fall in interest rates during 2020.

5.02 Estimated Solvency II new business contribution (continued)

(b) Assumptions

The key economic assumptions are as follows:

	2020 %	2019 %
Margin for Risk	**3.9**	3.5
Risk-free rate		
- UK	**0.5**	1.1

- US	**0.9**	1.9
Risk discount rate (net of tax)		
- UK	**4.4**	4.6
- US	**4.8**	5.4
Long-term rate of return on non-profit annuities in LGR	**2.1**	2.8

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 EIOPA-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 2020 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 15 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.

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.

The profits on the new business are calculated on an after tax basis and are grossed up by the notional attributed tax rate. For the UK, the after tax basis assumes the annualised current rate of 19%. The tax rate used for grossing up is the long-term corporate tax rate in the territory concerned, which for the UK is 19%.

US covered business profits are grossed up using the long-term corporate tax rate of 21%.

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 2020 Annual Report and Accounts and Full Year Results.

Solvency II new business contribution has been calculated for the group's most material insurance-related businesses, namely, LGR, LGI and LGA.

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 2020.

The Solvency II new business contribution has been calculated as the present value of future shareholder profits arising from business written in 2020. 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 and are set in accordance with the CFO Forum EEV Principles, dated April 2016.

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 risk-free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment of 11 basis points for GBP and 16 basis points for USD (31 December 2019: 11 basis points for GBP and 13 basis points for USD).

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 19% (31 December 2019: 17.17%).

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

A reconciliation of PVNBP and gross written premium is given below:

	Notes	**2020 £bn**	2019 £bn
PVNBP	5.02 (a)	**11.2**	13.7
Effect of capitalisation factor		**(2.3)**	(1.9)
New business premiums from selected lines		**8.9**	11.8
Other[1]		**2.0**	1.9
Total LGR and LGI new business	4.07,4.08	**10.9**	13.7
Annualisation impact of regular premium long-term business		**(0.2)**	(0.2)
IFRS gross written premiums from existing long-term insurance business		**3.0**	2.9
Deposit accounting for investment products		**(1.2)**	(1.2)
Total gross written premiums[2]	2.01	**12.5**	15.2

1. Other principally includes annuity sales in the US and lifetime and retirement interest only mortgage advances.
2. Total gross written premiums exclude gross written premiums from discontinued operations, but include £114m of gross written premiums relating to a residual reinsurance treaty following the disposal of the General Insurance business

6.01 Investment portfolio

	Market value 2020 £m	Market value 2019 £m
Worldwide total assets under management[1,2]	**1,285,489**	1,202,438
Client and policyholder assets	**(1,161,631)**	(1,092,626)
Non-unit linked with-profits assets	**-**	(10,190)

Investments to which shareholders are directly exposed	**123,858**	99,622

1. Worldwide total assets under management include LGIM AUM and other group assets not managed by LGIM.
2. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balance for Worldwide total assets under management has been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

Analysed by investment class:

	Notes	**LGR investments 2020 £m**	**Other non profit insurance investments 2020 £m**	**LGC investments 2020 £m**	**Other shareholder investments 2020 £m**	**Total 2020 £m**	Total 2019 £m
Equities[3]		**68**	**27**	**2,943**	**286**	**3,324**	3,131
Bonds[4]	6.03	**80,438**	**2,434**	**2,343**	**287**	**85,502**	75,471
Derivative assets[5]		**20,868**	**-**	**68**	**-**	**20,936**	11,556
Property	6.04	**4,319**	**-**	**163**	**-**	**4,482**	3,957
Cash, cash equivalents and loans[4,6]		**5,192**	**450**	**1,822**	**354**	**7,818**	3,959
Financial investments		**110,885**	**2,911**	**7,339**	**927**	**122,062**	98,074
Other assets[7]		**88**	**-**	**1,708**	**-**	**1,796**	1,548
Total investments		**110,973**	**2,911**	**9,047**	**927**	**123,858**	99,622

3. Equity investments include a total of £288m (31 December 2019: £324m) in respect of associates and joint ventures.
4. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Bonds and Cash, cash equivalents and loans have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.
5. Derivative assets are shown gross of derivative liabilities of £21.2bn (31 December 2019: £11.5bn). Exposures arise from use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for assets and liability management.
6. Loans include reverse repurchase agreements of £4,117m (31 December 2019: £1,262m).
7. Other assets include finance leases of £88m (31 December 2019: £90m) and the consolidated net asset value of the group's investments in CALA Home and other housing businesses.

6.02 Direct investments

(a) Analysed by asset class

	Direct[1] investments 2020 £m	**Traded[2] securities 2020 £m**	**Total 2020 £m**	Direct[1] Investments 2019 £m	Traded[2] securities 2019 £m	Total 2019 £m
Equities	**1,338**	**1,986**	**3,324**	1,282	1,849	3,131
Bonds[3,5]	**21,555**	**63,947**	**85,502**	18,882	56,589	75,471
Derivative assets	**-**	**20,936**	**20,936**	-	11,556	11,556
Property[4]	**4,482**	**-**	**4,482**	3,957	-	3,957
Loans and other receivables[5]	**99**	**7,719**	**7,818**	93	3,866	3,959
Financial investments	**27,474**	**94,588**	**122,062**	24,214	73,860	98,074
Other assets	**1,796**	**-**	**1,796**	1,548	-	1,548
Total investments	**29,270**	**94,588**	**123,858**	25,762	73,860	99,622

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 mortgages of £6,036m (31 December 2019: £4,733m).
4. A further breakdown of property is provided in Note 6.04.
5. As part of a change in accounting policy for LGIA universal life and annuity and reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Bonds and Loans and other receivables have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

(b) Analysed by segment

	LGR 2020 £m	LGC[1] 2020 £m	LGI 2020 £m	Total 2020 £m
Equities	**19**	**1,213**	**106**	**1,338**
Bonds[2]	**20,306**	**3**	**1,246**	**21,555**
Property	**4,319**	**163**	**-**	**4,482**
Loans and other receivables	**-**	**99**	**-**	**99**
Financial investments	**24,644**	**1,478**	**1,352**	**27,474**
Other assets	**88**	**1,708**	**-**	**1,796**
Total direct investments	**24,732**	**3,186**	**1,352**	**29,270**

1. LGC includes £47m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £6,036m.

	LGR 2019 £m	LGC[1] 2019 £m	LGI 2019 £m	Total 2019 £m
Equities	9	1,211	62	1,282
Bonds[2,3]	17,711	4	1,167	18,882
Property	3,798	159	-	3,957
Loans and other receivables[3]	-	93	-	93
Financial investments	21,518	1,467	1,229	24,214
Other assets	90	1,458	-	1,548
Total direct investments	21,608	2,925	1,229	25,762

1. LGC includes £48m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £4,733m.
3. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Bonds and Loans and other receivables have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

6.03 Bond portfolio summary

(a) Sectors analysed by credit rating

As at 31 December 2020	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB or below £m**	**Other £m**	**Total[2] £m**	**Total[2] %**
Sovereigns, Supras and Sub-Sovereigns	**2,747**	**12,187**	**903**	**398**	**9**	**-**	**16,244**	**19**
Banks:								
- Tier 2 and other subordinated	**-**	**-**	**61**	**43**	**3**	**-**	**107**	**-**
- Senior	**-**	**1,182**	**3,314**	**678**	**1**	**-**	**5,175**	**6**
- Covered	**158**	**-**	**-**	**-**	**-**	**-**	**158**	**-**
Financial Services:								
- Tier 2 and other subordinated	**-**	**120**	**71**	**10**	**-**	**3**	**204**	**-**
- Senior	**55**	**488**	**202**	**323**	**9**	**-**	**1,077**	**1**
Insurance:								
- Tier 2 and other subordinated	**65**	**161**	**8**	**59**	**-**	**-**	**293**	**-**
- Senior	**-**	**273**	**492**	**401**	**-**	**-**	**1,166**	**1**
Consumer Services and Goods:								
- Cyclical	**-**	**24**	**1,158**	**1,771**	**288**	**-**	**3,241**	**4**
- Non-cyclical	**366**	**1,153**	**2,849**	**4,057**	**324**	**-**	**8,749**	**10**
- Health Care	**-**	**437**	**886**	**669**	**5**	**-**	**1,997**	**2**
Infrastructure:								
- Social	**217**	**766**	**4,579**	**814**	**79**	**-**	**6,455**	**8**
- Economic	**328**	**61**	**784**	**4,006**	**290**	**-**	**5,469**	**7**
Technology and Telecoms	**193**	**229**	**1,633**	**3,080**	**31**	**1**	**5,167**	**6**
Industrials	**-**	**16**	**709**	**759**	**26**	**-**	**1,510**	**2**
Utilities	**-**	**207**	**6,034**	**5,526**	**27**	**-**	**11,794**	**14**
Energy	**-**	**-**	**429**	**784**	**19**	**-**	**1,232**	**1**
Commodities	**-**	**-**	**351**	**919**	**7**	**-**	**1,277**	**2**
Oil and Gas	**-**	**773**	**958**	**467**	**276**	**-**	**2,474**	**3**
Real estate	**-**	**8**	**1,622**	**1,675**	**93**	**-**	**3,398**	**4**
Structured finance ABS / RMBS / CMBS / Other	**429**	**772**	**400**	**578**	**27**	**1**	**2,207**	**3**
Lifetime mortgage loans[1]	**3,611**	**1,533**	**494**	**385**	**-**	**13**	**6,036**	**7**
CDOs	**-**	**58**	**-**	**14**	**-**	**-**	**72**	**-**
Total £m	**8,169**	**20,448**	**27,937**	**27,416**	**1,514**	**18**	**85,502**	**100**
Total %	**9**	**24**	**33**	**32**	**2**	**-**	**100**	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £80,438m, representing 94% of the total group portfolio.

6.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

As at 31 December 2019	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	2,188	9,543	535	390	27	-	12,683	17
Banks:								
- Tier 1	-	-	-	1	-	1	2	-
- Tier 2 and other subordinated	-	-	73	24	3	-	100	-
- Senior	6	1,893	2,794	758	1	-	5,452	7
- Covered	165	-	2	-	-	-	167	-
Financial Services:								
- Tier 2 and other subordinated	-	196	91	10	-	4	301	-
- Senior	4	381	231	322	9	-	947	1
Insurance:								
- Tier 2 and other subordinated	49	131	6	56	-	-	242	-
- Senior	-	232	549	207	-	-	988	1
Consumer Services and Goods:								
- Cyclical	-	425	963	1,985	134	2	3,509	5
- Non-cyclical	260	868	2,185	3,827	217	1	7,358	10
- Health care	-	309	728	425	7	-	1,469	2
Infrastructure:								
- Social	121	772	4,044	781	80	-	5,798	8
- Economic	338	27	1,436	3,148	102	-	5,051	7
Technology and Telecoms	202	173	1,196	2,805	42	-	4,418	6
Industrials	-	11	817	588	27	-	1,443	2
Utilities	-	190	5,885	4,669	2	32	10,778	14
Energy	-	-	340	814	12	-	1,166	2
Commodities	-	-	244	654	14	-	912	1
Oil and Gas	-	593	799	702	108	1	2,203	3
Real estate	3	8	1,787	1,629	125	-	3,552	5
Structured finance ABS / RMBS / CMBS / Other	406	881	325	469	36	1	2,117	3
Lifetime mortgage loans[1]	2,798	1,253	362	309	-	11	4,733	6
CDOs	-	-	68	14	-	-	82	-
Total £m	6,540	17,886	25,460	24,587	946	53	75,471	100
Total %	9	23	34	33	1	-	100	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £70,061m, representing 93% of the total group portfolio.
3. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile

As at 31 December 2020	**UK £m**	**US £m**	**EU excluding UK £m**	**Rest of the World £m**	**Total £m**
Sovereigns, Supras and Sub-Sovereigns	**11,797**	**2,425**	**1,176**	**846**	**16,244**
Banks	**1,687**	**1,907**	**1,463**	**383**	**5,440**
Financial Services	**391**	**298**	**525**	**67**	**1,281**
Insurance	**109**	**1,049**	**181**	**120**	**1,459**
Consumer Services and Goods:					
- Cyclical	**543**	**2,201**	**360**	**137**	**3,241**
- Non-cyclical	**1,789**	**6,403**	**389**	**168**	**8,749**
- Health care	**209**	**1,694**	**94**	**-**	**1,997**
Infrastructure:					
- Social	**5,809**	**487**	**112**	**47**	**6,455**
- Economic	**4,071**	**853**	**231**	**314**	**5,469**
Technology and Telecoms	**485**	**3,098**	**754**	**830**	**5,167**

Industrials	**191**	**927**	**330**	**62**	**1,510**
Utilities	**6,886**	**2,236**	**2,097**	**575**	**11,794**
Energy	**244**	**758**	**105**	**125**	**1,232**
Commodities	**3**	**596**	**165**	**513**	**1,277**
Oil and Gas	**232**	**642**	**832**	**768**	**2,474**
Real estate	**2,168**	**384**	**634**	**212**	**3,398**
Structured Finance ABS / RMBS / CMBS / Other	**944**	**1,207**	**11**	**45**	**2,207**
Lifetime mortgages	**6,036**	**-**	**-**	**-**	**6,036**
CDOs	**-**	**-**	**-**	**72**	**72**
Total	**43,594**	**27,165**	**9,459**	**5,284**	**85,502**

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6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 31 December 2019	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	9,764	1,995	645	279	12,683
Banks	2,002	1,328	1,669	722	5,721
Financial Services	501	95	639	13	1,248
Insurance	103	858	186	83	1,230
Consumer Services and Goods					
- Cyclical	637	2,325	341	206	3,509
- Non-cyclical	1,716	5,123	479	40	7,358
- Health care	182	1,233	54	-	1,469
Infrastructure					
- Social	5,357	290	106	45	5,798
- Economic	3,823	705	174	349	5,051
Technology and Telecoms	685	2,321	673	739	4,418
Industrials	76	1,036	273	58	1,443
Utilities	6,259	1,927	2,108	484	10,778
Energy	265	768	11	122	1,166
Commodities	5	305	137	465	912
Oil and Gas	288	665	583	667	2,203
Real estate	2,290	377	489	396	3,552
Structured finance ABS / RMBS / CMBS / Other [1]	979	1,095	21	22	2,117
Lifetime mortgage loans	4,733	-	-	-	4,733
CDOs	-	-	-	82	82
Total	39,665	22,446	8,588	4,772	75,471

1. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

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6.03 Bond portfolio summary (continued)

(c) Bond portfolio analysed by credit rating

As at 31 December 2020	**Externally rated £m**	**Internally rated[1] £m**	**Total £m**
AAA	**4,101**	**4,068**	**8,169**
AA	**17,101**	**3,347**	**20,448**
A	**21,235**	**6,702**	**27,937**
BBB	**21,307**	**6,109**	**27,416**
BB or below	**1,049**	**465**	**1,514**
Other	**4**	**14**	**18**
Total	**64,797**	**20,705**	**85,502**

As at 31 December 2019	Externally rated £m	Internally rated[1] £m	Total £m

AAA	3,364	3,176	6,540
AA	14,568	3,318	17,886
A	19,320	6,140	25,460
BBB	18,990	5,597	24,587
BB or below	655	291	946
Other	12	41	53
Total	56,909	18,562	75,471

1. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

6.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded

As at 31 December 2020	**Direct investments £m**	**Traded £m**	**Total £m**
Sovereigns, Supras and Sub-Sovereigns	**889**	**15,355**	**16,244**
Banks	**644**	**4,796**	**5,440**
Financial Services	**310**	**971**	**1,281**
Insurance	**282**	**1,177**	**1,459**
Consumer Services and Goods:			
- Cyclical	**351**	**2,890**	**3,241**
- Non-cyclical	**396**	**8,353**	**8,749**
- Health care	**363**	**1,634**	**1,997**
Infrastructure:			
- Social	**3,283**	**3,172**	**6,455**
- Economic	**3,726**	**1,743**	**5,469**
Technology and Telecoms	**93**	**5,074**	**5,167**
Industrials	**64**	**1,446**	**1,510**
Utilities	**1,475**	**10,319**	**11,794**
Energy	**355**	**877**	**1,232**
Commodities	**59**	**1,218**	**1,277**
Oil and Gas	**58**	**2,416**	**2,474**
Real estate	**2,301**	**1,097**	**3,398**
Structured Finance ABS / RMBS / CMBS / Other	**870**	**1,337**	**2,207**
Lifetime mortgages	**6,036**	**-**	**6,036**
CDOs	**-**	**72**	**72**
Total	**21,555**	**63,947**	**85,502**

6.03 Bond portfolio summary (continued)

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

As at 31 December 2019	Direct investments £m	Traded £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	723	11,960	12,683
Banks	495	5,226	5,721
Financial Services	237	1,011	1,248
Insurance	251	979	1,230
Consumer Services and Goods:			
- Cyclical	208	3,301	3,509
- Non-cyclical	347	7,011	7,358
- Health care	264	1,205	1,469
Infrastructure:			
- Social	3,288	2,510	5,798
- Economic	3,234	1,817	5,051
Technology and Telecoms	202	4,216	4,418
Industrials	71	1,372	1,443
Utilities	1,195	9,583	10,778
Energy	267	899	1,166

Commodities	55	857	912
Oil and Gas	55	2,148	2,203
Real estate	2,437	1,115	3,552
Structured Finance ABS / RMBS / CMBS / Other [1]	822	1,295	2,117
Lifetime mortgages	4,733	-	4,733
CDOs	-	82	82
Total	18,882	56,589	75,471

1. As part of a change in accounting policy for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 2019 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the change in accounting policy are provided in Note 3.01.

6.04 Property analysis

Property exposure within Direct investments by status

As at 31 December 2020	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	**3,974**	**-**	**3,974**	**89**
Development	**345**	**29**	**374**	**8**
Land	**-**	**134**	**134**	**3**
	4,319	**163**	**4,482**	**100**

As at 31 December 2019	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	3,414	-	3,414	87
Development	384	23	407	10
Land	-	136	136	3
	3,798	159	3,957	100

1. The fully let LGR property includes £3.8bn (31 December 2019: £3.2bn) let to investment grade tenants.
2. 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 2020 the group held a total of £2,179m (31 December 2019: £2,120m) of such assets.

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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 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 provide a better understanding of its underlying performance. 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.

Group adjusted operating profit

Definition

Group adjusted operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. It therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects the IFRS profit before tax). Variances between actual and long term expected investment return on traded and real assets are reported below group adjusted operating profit, as well as economic assumption changes (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. Group adjusted operating profit also excludes the yield associated with assets held for future new pension risk transfer business from the valuation discount rate. Exceptional income and expenses which arise outside the normal course of business in the period, such as merger and acquisition, disposals and start-up costs, are also excluded from group adjusted operating profit.

Group adjusted operating profit was previously described as 'operating profit'. In order to maintain a consistent understanding of the group's performance the term 'operating profit' will continue to be used throughout the full year report as a substitute for group adjusted operating profit.

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 £1,607m (2019: £1,834m) and average equity attributable to the owners of the parent of £9,270m (2019: £8,974m)

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 financial investments, investment property and cash and cash equivalents.

Net release from operations

Definition

Release from operations plus new business surplus / (strain). Net release from operations was previously referred to as net cash, 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.

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 and the pre-tax results of discontinued operations.

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 1.01 Operating profit.

Glossary

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* These items represent an alternative performance measure (APM)

Ad valorem fees

Ongoing management fees earned on assets under management, overlay assets and advisory assets as defined below.

Adjusted profit before tax attributable to equity holders*

Refer to the alternative performance measures section.

Advisory assets

These are assets on which Global Index Advisors (GIA) provide advisory services. Advisory assets are beneficially owned by GIA's clients and all investment decisions pertaining to these assets are also made by the clients. These are different from Assets under Management (AUM) defined below.

Alternative performance measures (APMs)

An alternative performance measure 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.

Back book acquisition

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

Bundled DC solution

Where investment and administration services are provided to a scheme by the same service provider. Typically, all investment and administration costs are passed onto the scheme members.

Bundled pension schemes

Where the fund manager bundles together the investment provider role and third-party administrator role, together with the role of selecting funds and providing investment education, into one proposition.

CAGR

Compound annual growth rate.

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 of LGI US 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 and on 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.

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. Eligible Own Funds (shareholder view basis) excludes the contribution to the group's solvency capital requirement of with-profits funds and final salary pension schemes.

Employee satisfaction index

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

ETF

LGIM's European Exchange Traded Fund platform.

Euro Commercial paper

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

FVTPL

Fair value through profit or loss. 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.

Full year dividend

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

Generally accepted accounting principles (GAAP)

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.

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.

Group adjusted operating profit*

Refer to the alternative performance measures section.

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.

Index tracker (passive fund)

Index tracker funds invest in most or all of the same shares, and in a similar proportion, as the index they are tracking, for example the FTSE 100 index. Index tracker funds aim to produce a return in line with a particular market or sector, for example, Europe or technology. They are also sometimes known as 'tracker funds'.

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 European Union (EU) 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.

LGI

Legal & General Insurance.

LGI new business

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

LGIA

Legal & General Insurance America.

LGIM

Legal & General Investment Management

LGR

Legal & General Retirement, which includes Legal & General Retirement Institutional (LGRI) and Legal & General Retirement Retail (LGRR).

LGR new business

Single premiums arising from annuity sales and back book acquisitions (including individual annuity and pension risk transfer), the volume of lifetime and retirement interest only mortgage lending and the notional size of longevity insurance transactions, based on the present value of the fixed leg cash flows discounted at the LIBOR 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 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

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.

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.

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, protection and savings, net of tax. This metric provides an understanding of the impact of new contracts on the IFRS profit for the year.

Open architecture

Where a company offers investment products from a range of other companies in addition to its own products. This gives customers a wider choice of funds to invest in and access to a larger pool of money management professionals.

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.

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.

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.

Purchased interest in long term business (PILTB)

An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

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 release of IFRS surplus from in-force business for the UK non-profit Insurance and Savings and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including the medium term expected investment return on LGC invested assets, and dividends remitted from LGA. Release from operations was previously referred to as operational cash generation.

Retirement Interest Only Mortgages

A Retirement Interest Only (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.

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

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

Solvency II capital coverage ratio

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

Solvency II capital coverage ratio (proforma basis)

The proforma basis Solvency II SCR coverage ratio incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions and the contribution of with-profits funds (2019 only) and our defined benefit pension schemes in both Own Funds and the SCR in the calculation of the SCR coverage ratio.

Solvency II capital coverage ratio (shareholder view basis)

In order to represent a shareholder view of group solvency position, the contribution of with-profits funds and our defined benefit pension schemes are excluded from both, the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2020. This will be submitted to the PRA in April 2021.

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 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.

Unbundled DC solution

When investment services and administration services are supplied by separate providers. Typically the sponsoring employer will cover administration costs and scheme members the investment costs.

With-profits funds

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

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.

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