

Risk Committee report



Committee overview Committee meetings and membership

The Committee met five times during the year. The Committee fulfils the requirements of the Code by comprising only independent non-executive directors and fulfils the membership requirements in its terms of reference.

Members

George Lewis (Chair) (from November 2022)

Henrietta Baldock

Nilufer von Bismarck

Philip Broadley

Carolyn Johnson (from June 2022)

Lesley Knox

Ric Lewis

Tushar Morzaria (from May 2022)

Laura Wade-Gery (from August 2022)

Sir John Kingman (Interim Chair from April – November 2022)

Toby Strauss (stood down from the Board and as Chair of the Committee in April 2022)

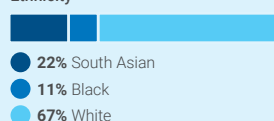
Gender



Tenure



Ethnicity



The role of the Committee

The role of the Committee is to monitor and provide guidance to the Board in relation to the group's overall risk appetite, tolerance and strategy for the categories of emerging and principal risk to which the group may be exposed. It is also responsible for overseeing the management of risk, providing advice on what constitutes acceptable risk taking and overseeing the group's risk management policies and procedures.

Key responsibilities

- Oversee and advise the Board on the current risk exposures of the group and oversee the management by the executive of those categories of risk.
- Review the group's risk profile and appetite for risk and assess the effectiveness of the group's risk management framework.
- Oversee and advise the Board on the governance, operation and performance of the group's internal model.
- Review, approve and oversee the performance of the group's own risk and solvency assessment (ORSA) which is designed to measure, aggregate and monitor risks in accordance with strategy, policy and principles.
- Support the Remuneration Committee on specific risk adjustments to be applied to performance objectives and other issues as requested by the Committee.



The Committee's terms of reference, which set out full details of its responsibilities, can be viewed on our website: group.legalandgeneral.com/committees

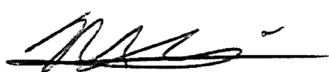
Chair's introduction

I am pleased to present my report as your new Chair of the Risk Committee. I assumed the role in November 2022, having been a member of the Committee since my appointment to the Board in 2018. I would like to extend my thanks to the Committee's previous Chair, Toby Strauss, and to Sir John Kingman, who took over the leadership of the Committee, on an interim basis, until I was appointed. Having been on the Committee for a number of years I already have a good knowledge and understanding of the risk environment that our business faces and have first-hand experience of the effectiveness of the Committee, as well as of our Group Chief Risk Officer (CRO) and management team. I will, however, continue to engage with my fellow Committee members to understand their views, in particular, on any areas which they feel require further oversight and challenge. In addition, the Committee's membership has been further strengthened this year by the appointment of Tushar Morzaria, Carolyn Johnson and Laura Wade-Gery.

The Committee has an important role in supporting the Board in the oversight and management of risk. The Board is supportive of the role played by the Committee in providing appropriate oversight and challenge of the risk framework. Legal & General has a strong subsidiary governance framework in place to support the Board in discharging its responsibilities for the group. Chairs of two of the group's principal subsidiaries (LGAS and LGIM(H)) are members of the Risk Committee; this brings valuable insight, oversight and challenge to the Committee's discussions on specific aspects of the group's operations. An overview of the company's risk appetite and risk management approach, as well as our principal and emerging risks, can be found on pages 52 to 59.

2022 has been a year of uncertainty which has seen a number of risk events crystallise, including the Russian invasion of Ukraine, significant increases and volatility in energy prices, and continuing increases in interest rates as central banks attempt to lower inflation towards long-term targets. The Committee has received regular updates on these geopolitical and macroeconomic issues and their impact on our business, customers, people and suppliers. In late September 2022, our investment management business experienced significant challenges in the management of LDI funds on behalf of its pension fund clients due to the rapid and significant increase in long-term gilt yields following the UK government's mini-budget. The group's capital and liquidity position remained strong through this period of volatility, which was effectively managed by the Bank of England in conjunction with the industry, until a change in government fiscal policy restored stability.

in sterling and long-term gilt markets. While not a source of principal risk to the group, there will be lessons to learn arising from the challenges experienced by LGIM's LDI solutions during the extreme market volatility following the Government's mini-budget. The Committee Chair, together with the LGIM(H) board, will oversee the review. Finally, the Committee conducted a 'deep-dive' review of the risks and financial returns related to our largest business, LGRI's pension risk transfer (PRT), late in the year. While we receive regular reporting on the asset and liability risks inherent in this business, we anticipate significant near-term growth and determined it was timely to conduct a targeted review. The review confirmed the business is in a strong competitive position, with risks well managed and future growth is within the risk appetite of the group.



George Lewis
Chair of the Risk Committee

Activities during 2022

- Oversight of wider economic and geopolitical risk factors and divisional business risks.
- Customer: a regular review of customer service performance across the business, with particular focus on any areas which fall outside of service level agreements.
- Inflation risks: review of the inflationary environment and the potential impacts it could have on the group.
- Credit risk: review of the credit implications of stagflation and the credit impacts of the events in Ukraine/ Russia.
- Operational resilience: review of the group's capabilities to ensure continuity of business operations and the availability of important business services (IBS).
- Liquidity risk management: the group's approach to managing the different liquidity risks to which we may be exposed, and the forecasting, monitoring and reporting on related liquidity requirements.
- Climate and greenwashing: reviewed and recommended for approval the group's climate report and received regular updates on climate risks.
- Operational risk: continued oversight of the impacts of Covid-19 and any associated and ongoing risks for the group as it transitions to a hybrid operating environment.
- Financial crime risks: assessment of the evolving types of financial crime risk to which the group may be exposed, and the evolution of the group's risk management framework in response.

- Construction and building safety risks: review of the group's approach to managing safety risks within property construction and house building businesses and the group's response to ensuring compliance with regulatory developments.
- Property risk: deep-dive review of the different types of property-related assets held across our divisions and the associated risk appetite considerations of those assets.
- LGRI: deep-dive review of the risks and financial returns from PRT transactions.
- People risk: review of the dynamics of people-related risks, including availability of talent and employee retention.
- Cloud computing risks: assessment of the current cloud top risks and the progression of remediation plans across the group.
- Review and approval of the group's recovery and resolution plan.

Key activities during the year

Risk appetite

In August 2022, the Committee undertook a detailed review of the operation of the group's risk appetite framework and the key measures and tolerances used to determine acceptable risk taking, refinements included the evolution of the climate-related risk metric to a dashboard approach and amendment of the operational carbon footprint risk appetite. During its discussions, the Committee opined on the areas that would increase in importance over the coming year to align with the group's planned strategy. The Committee will consider the risk profile of the group's strategic plan and its alignment with the group's overall risk appetite in 2023.

Risk-based capital model

The group's risk-based capital model (internal model) is used to determine the capital requirements for the group and forms the calculation engine for the Solvency II internal model. As well as reviewing and using the output of the model in its understanding of the group's risk profile, the Committee is the focal point for model governance with specific consideration of the:

- key assumptions, methodologies and areas of expert judgement used within the model
- activities undertaken to validate the outputs of the model
- development of the model to ensure that it reflects the business lines and risk profile of the group
- processes to ensure that changes applied in the model are undertaken in a controlled manner, and in line with model development plans.

Each year an additional Committee briefing session is held ahead of the regulatory submission deadline to provide an opportunity for discussion of the final proposals for any internal model major change applications.

Own risk and solvency assessment (ORSA)

The ORSA is an ongoing assessment of the risks to which the group is exposed and an assessment of the capital resources available to ensure that the group is able to sustain its business over the plan horizon. Over the year, the Committee considered different aspects of the group's ORSA process. This included the review of proposed stress tests and scenarios to be used in the evaluation of capital adequacy, the profile of risks within the group's strategic plan and how they may change over the planning period, and the group's overall capacity to bear the risks identified. A formal ORSA report is subject to annual review by the Committee prior to Board approval. In August 2022, the Committee reviewed and recommended the approval of the ORSA report to the Board.

Group Chief Risk Officer's report

At each meeting, the Committee receives a formal report from the Group CRO which highlights key factors impacting the group's operating environment, as well as an assessment of the potential emerging risks. The review includes analysis of risks arising from the macroeconomic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the group's businesses, and risks associated with the implementation of the group's business strategy.

Alongside the Group CRO's report, the Committee is provided with management information on risk appetite, comparing actual positions relative to the group's risk appetite statement and quantitative analysis of the group's exposures to financial and operational risks, including risk-based capital requirements in relation to the core risks implicit in the group's businesses. The Committee also receives an assessment of the overall profile of conduct risks for the group; analysis and trends in complaints data and a suite of customer service metrics designed to enable the Committee to assess the management of the customer journey across the group's financial services products.

Executive risk governance

During the year, the Committee has received updates on the continued development of the risk governance framework. The company has a strong executive-level risk governance framework which supports the Risk Committee in its work and oversight. The Executive Risk Committee (ERC) comprises the Group CRO, Group CEO, Group CFO, divisional CEOs and Group HR Director and is used to ensure that a robust, proportional and appropriate risk management framework is in place across the group to identify, assess and manage the group's risks and to oversee the effective operation of that framework. The ERC is a sub-committee of the Risk Committee and its authority extends to all relevant matters relating to the group and its subsidiaries.