2021 Results: Post tax profit exceeds £2bn for the first time, with EPS of 34p, up 19% on 2019, and ROE of 20%

Strong financial performance[1]

- **Profit after tax[2] of £2,050m, up 28%** (2020: £1,607m)
- **EPS[3] of 34.19p, up 72% on 2020 (**19.84p) and **up 19% on 2019** (28.66p)
- **Return on equity of 20.5%** (2020: 17.3%)
- **Operating profit of £2,262m, up 11%** (2020: £2,041m)[4]
- **Solvency II coverage ratio[5] of 187%** (2020: 175%)
- **As at 7th March 2022 we estimate the coverage ratio was 198%**[6]
- **Full year dividend of 18.45p, up 5%** (2020: 17.57p), consistent with our stated ambition

Growing contribution to our five-year (2020-2024) ambitions[7]

- **Cash generation of £1.7bn, up 12%. Capital generation of £1.6bn, up 12%**
- **On track to achieve our cumulative cash and capital ambitions of £8.0-9.0bn by 2024**
- **On track to achieve our cumulative dividend ambition of £5.6-5.9bn by 2024**

Good new business volumes and strong net flows

- **Global PRT new business premiums of £7.2bn** (2020: £8.8bn)
- **LGC alternative AUM up 10% to £3.4bn** (2020: £3.1bn)
- **LGIM AUM up 11% to £1.4tn, of which £479bn (34%) is International**
- **LGIM external net flows of £34.6bn, 85% from International clients, up 70%** (2020: £20.4bn)
- **Individual annuity premiums up 5% to £957m** (2020: £910m)
- **Lifetime mortgage and retirement interest only advances up 7% to £848m** (2020: £791m)
- **LGI UK & US retail protection annual premiums up 14% to £291m** (2020: £255m)

"In 2021, cash and capital generation and book value per share were all up over 10% year on year, and we delivered EPS of 34.19p, DPS of 18.45p and a return on equity of 20.5%. We have a track record of value creation and a longstanding commitment to Inclusive Capitalism and ESHG. The expected reform of Solvency II, the roll-out of the UK government's levelling up programme, and our growing international businesses underscore our confidence in our ability to continue delivering on a broad range of profitable growth opportunities."

Sir Nigel Wilson, Group Chief Executive

1. The Group uses a number of Alternative Performance Measures (including operating profit, net release from operations, return on equity and LGIM AUM) to enhance understanding of the Group's performance. These are defined in the glossary, on pages 94 to 98 of this report.
2. Profit after tax attributable to equity holders.
3. EPS excludes 2019/2020 mortality reserve releases and the financial impact of the Mature Savings disposal in 2020.
4. 2020 operating profit of £2,041m excludes one-off mortality release of £177m.
5. Solvency II coverage ratio on a "proforma view". In previous years, the capital position was shown on a "shareholder view", where the contribution from the final salary pension schemes was excluded from the group position. The impact of excluding the contribution is now less than 1% and so, going forward we will just report on a proforma basis.
6. Coverage ratio before the payment of the 2021 final dividend.
7. Cash generation defined as net release from operations and Capital generation defined as Solvency II operational surplus generation. Growth shown on continuing operations.

Financial summary

£m	2021	2020	Growth %
Analysis of operating profit			
Legal & General Retirement Institutional (LGRI)	1,154	1,229	(6)
Legal & General Capital (LGC)	461	275	68
Legal & General Investment Management (LGIM)[1]	422	407	4
Legal & General Retirement Retail (LGRR)[1]	352	322	9
Legal & General Insurance (LGI)	268	189	42
Operating profit from continuing divisions[2]	**2,657**	**2,422**	**10**
Mature Savings[3]	nil	34	n/a
Operating profit from divisions	**2,657**	**2,456**	**8**
Group debt costs	(230)	(233)	1
Group investment projects and expenses	(165)	(155)	(6)
Exceptional COVID-19 related expenses[4]	nil	(27)	n/a
Operating profit excl. mortality reserve release	**2,262**	**2,041**	**11**
Mortality reserve release[5]	**nil**	177	n/a
Operating profit[6]	**2,262**	**2,218**	**2**
Investment and other variances (incl. minority interests), excluding LGI	115	29	n/a
LGI investment variance[7]	111	(459)	n/a
Profit before tax attributable to equity holders[8]	**2,488**	**1,788**	**39**
Profit after tax attributable to equity holders	**2,050**	**1,607**	**28**
Of which:			
Mortality reserve releases (post-tax)	*nil*	*153*	
Mature Savings profit on disposal	*nil*	*271*	
Profit after tax excl. mortality reserve release and Mature Savings disposal	**2,050**	**1,183**	**73**
Reported EPS (p)	**34.19**	**27.00**	**27**
Of which:			
Mortality reserve releases (post-tax)	*nil*	*2.58*	
Mature Savings profit on disposal	*nil*	*4.58*	
Adjusted EPS (p)	**34.19**	**19.84**	**72**
Book value per share (p)	**174**	158	10
Full year dividend per share (p)	**18.45**	17.57	5
Net release from continuing operations[2]	**1,688**	1,511	12
Net release from discontinued operations	**nil**	28	n/a

1. From 1 January 2021, the Workplace Savings administration business has transferred to LGRR, where it complements LGRR's retirement solutions offering and retail customer focus; LGIM continues to manage the assets and earn the asset management profit from this business. 2020 financials have been restated accordingly.
2. Excludes Mature Savings.
3. The sale of the Mature Savings business completed on 7 September 2020.
4. COVID-19 costs reflect incremental operational expenses incurred in 2020 as a result of COVID-19 and include the provision of IT spend on remote working solutions.
5. One-off mortality reserve release for 2020 relates to an update in the longevity trend assumption from adjusted CMI 2017 to adjusted CMI 2018
6. Operating profit is an Alternative Performance Measure and represents Group adjusted operating profit as defined on page 94.
7. LGI investment variance is the formulaic impact of rising (positive) and falling (negative) interest rates on the discount rate (both UK and US) used to calculate LGI reserves.
8. 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 94.

2021 Financial performance

Income statement

Legal & General has delivered another strong set of results, with operating profit excluding mortality releases up 11% to £2,262m (2020: £2,041m), consistent with the "double-digit" guidance we provided at H1. This marks a return to our long-term rate of growth, having been resilient through the pandemic. Our diversified business model benefitted from the post pandemic economic recovery and easing of restrictions over 2021 to deliver strong earnings. All five businesses are well positioned to execute on compelling structural market opportunities to deliver further profitable growth.

LGRI delivered operating profit of £1,154m (2020: £1,229m), underpinned by the performance of our growing annuity portfolio. We remained disciplined on pricing and executed well, writing £7,176m[1] of global PRT at attractive Solvency II new business margins. Our ability to originate alternative assets provides us with optionality and a strong competitive advantage. We can use these assets to win new business at attractive margins and / or to increase yields on our back-book.

LGC operating profit increased by 68% to £461m (2020: £275m) and is up 27% on pre-COVID levels (2019: £363m). This growth is driven by strong performance in our alternative asset portfolio, where operating profit increased to £350m (2020: £112m) as a result of a bounce-back in the housebuilding market and valuation increases from the continued maturing of the underlying investments in our clean energy and venture capital portfolios.

LGIM delivered operating profit growth of 4% to £422m (2020: £407m), reflecting increased revenues, which surpassed £1bn for the first time. Revenue growth was driven by strong external net flows of £34.6bn (2020: £20.4bn), and an increased focus on higher margin areas such as thematic ETFs, Multi-asset and Real Assets. LGIM is continuing to grow internationally, with 85% (£29.5bn) of external net flows originated outside the UK. Assets under management increased by 11% to £1,421.5bn (2020: £1,278.9bn), of which £479bn (34%) is International AUM. The cost income ratio (58%) remains broadly flat as we continue to invest in and modernise the business, whilst balancing this with careful cost control (2020: 57%).

LGRR operating profit increased 9% to £352m (2020: £322m), supported by the ongoing release from the retail annuity portfolio. Individual annuities delivered 5% growth in new business against 2020, and retirement lending volumes 7% growth, as these markets continued to recover following the impact of the COVID pandemic. Workplace Savings net flows were up £0.7bn to £8.5bn (2020: £7.8bn), driven by continued client wins and increased contributions.

LGI operating profit increased 42% to £268m (2020: £189m), reflecting strong new business growth in UK retail protection supported by a benefit from modelling refinements to the liability discount rate in the UK. This was partially offset by adverse mortality claims in the US where experience exceeded the provision set up in 2020. This trend has been consistently reported across the US life sector. Our 2021 result includes a £57m provision for potential COVID mortality impacts in 2022.

Profit before tax attributable to equity holders[2] was £2,488m (2020: £1,788m), reflecting positive investment variance of £233m (2020: £(394)m). The positive investment variance in LGI (£111m) is from the formulaic impact of rising interest rates on LGI reserves. However, the negative investment variance of 2020 has not been fully reversed as longer-duration interest rates have not moved meaningfully in 2021. We have also seen strong portfolio performance in the annuity portfolio.

Balance sheet and asset portfolio

The Group's Solvency II operational surplus generation from continuing operations was up 12% at £1,636m (2020: £1,460m). New business strain was £(354)m (2020: £(302)m) which results in a net surplus generation of £1,282m (2020: £1,190m). UK PRT volume has been written at a capital strain of less than 4%.

The Group reported a **Solvency II coverage ratio[3] of 187%** at the end of 2021 (FY 2020: 175%) which, in addition to the contribution from net surplus generation, reflects the impact of market movements, principally from the non-economic impact of higher interest rates on the valuation of our balance sheet[4], partially offset by payment of the 2020 final and 2021 interim dividend (£1,063m) and the redemption of £300m of subordinated debt.

Our IFRS return on equity of 20.5% reflects the impact of operating profit growth and underlying positive investment performance (2020: 17.3%).[5]

Our diversified, actively managed annuity portfolio has continued to perform resiliently with no defaults. The annuity portfolio's direct investments continue to perform strongly, with 99.8% of scheduled cash-flows paid year to date, reflecting the high quality of our counterparty exposure.

[1] £7.2bn of global PRT includes a £925m Assured Payment Policy (An insurance policy that provides the pension scheme with protection against investment-related risk) for Legal & General's Group UK Pension.
[2] Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 94.
[3] Solvency II coverage ratio on a "proforma view". Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2021.
[4] For example, UK 10 year Gilts at 0.97% at the end of the period, having increased 77bps between 31 December 2020 and 30 December 2021.
[5] Calculated using annualised profit for the year and average equity attributable to the owners of the parent of £9,994m.

Group Strategy

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

Division	Provision	Description
LGRI	Retirement Solutions	A leading international manager of institutional Pension Risk Transfer (PRT) business
LGC	Asset Origination	An alternative asset origination platform generating attractive shareholder returns
LGIM	Asset Management	A global £1.4tn asset manager with deep expertise in DB and DC pensions
LGRR	Retirement Solutions*	A leading provider of UK retail retirement solutions
LGI	Protection Solutions*	A market leading provider of UK protection and US brokerage term life insurance

* Note: as of 1st January 2022, LGRR and LGI (our two retail businesses) have been combined into one division, Legal & General Retail. Under the leadership of Bernie Hickman, this division will cover the savings, protection and retirement needs of our c12 million retail policyholders and workplace members.

A powerful business model

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

- **LGRI** is a market leader in UK PRT and a top ten player in the US PRT market. It forms the majority of our £89.9bn annuity portfolio which provides long-term, captive AUM to LGIM. As noted, the annuity portfolio is continually being enhanced through the supply of alternative assets originated by LGC.
- **LGC** invests across four main asset classes (Specialist Commercial Real Estate, Clean Energy, Housing and SME Finance) to generate attractive risk-adjusted shareholder returns and to create alternative assets with which to back our annuity portfolio (LGRI and LGRR). LGC is also increasingly attracting third party capital investment.
- **LGIM** is a leading global asset manager, ranking 11th in the world[6] with £1.4tn of AUM of which £479bn, or 34%, are International assets. LGIM is a leading provider of UK and US Defined Benefit (DB) de-risking solutions. It is uniquely positioned to support DB clients across the full range of pension endgame destinations, including PRT with LGRI. 84% of LGRI's PRT transactions over the past three years were from existing LGIM clients.[7] LGIM is also the market leader in UK Defined Contribution (DC) pension scheme clients – a market with significant growth potential, with total UK DC assets expected to surpass £1tn by 2029.[8]
- **LGRR** is a leading provider of UK retail retirement solutions, offering annuities, income drawdown, pension pot consolidation, lifetime mortgages (LTM) and LTM advice. To further complement LGRR's customer retirement and savings proposition, the Workplace Savings administration business was transferred from LGIM to LGRR at the beginning of 2021.
- **LGI** is a market leader in UK protection and US brokerage term life insurance. The day one Solvency II surplus it generates partially offsets new business strain in LGRI and LGRR. Further, LGI's US business facilitates LGRI's US PRT transactions, which are written onto the existing US balance sheet. LGI is a centre of internal excellence in technology and is working closely with other divisions to drive further tech synergies. LGI also manages a portfolio of successful, strategic Fintech businesses.

The synergies within and across our businesses drive profits and fuel future growth. The bringing together of LGRR and LGI into a new Retail division will enable us to better serve the needs of our retail customers and drive further synergies.

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

The Group continues to build out, in a measured fashion, its international retirement solutions franchise. We have made excellent progress in the US over the last decade and will continue to build out our established businesses (LGRI, LGIM, LGI) in that market. LGIM continues to make good progress against its international expansion plans in Europe. Kerrigan Procter is co-ordinating the Group's expansion plans in Asia.

[6] IPE, Top 500 Asset Managers 2021.
[7] Three year average (2019-2021) measured by UK PRT new business volumes. Three year average measured by UK PRT deal count from LGIM clients is 68%.
[8] Broadridge, UK Defined Contribution and Retirement Income report 2020. 2020 UK DC Assets: £524bn.

A long-term commitment to Sustainability, ESG and Inclusive Capitalism

Our purpose is to improve the lives of customers, build a better society for the long-term and create value for our shareholders. This inspires us to use our assets in an economically, environmentally and socially useful way to benefit society – what we call **Inclusive Capitalism**.

This philosophy underpins our approach to Sustainability and to ESG (Environmental, Social, and Governance factors).[9] We think about Sustainability, and the long-term ESG impact of our business, in terms of:

1. **How we invest proprietary assets**.[10] Our ambition is to reduce our proprietary asset portfolio carbon emission intensity by half by 2030 and to net zero by 2050. In 2021 we reduced the carbon intensity of the Group's balance sheet by 17.0% versus 2020, although this has been driven in part by COVID-19 and market volatility impacts.[11] We continue to make environmentally and socially useful investments. As at FY 2021, we have invested £1.4bn in clean energy and £8.1bn in social infrastructure. For more information, please see our forthcoming Climate Report, which is in line with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).
2. **How we influence as one of the world's largest asset managers with £1.4 trillion AUM**. We have £290bn AUM in ESG strategies and during 2021 we cast over 60,000 stewardship votes as we continued to encourage investee companies to behave responsibly.[12,13] LGIM is rated A+ for responsible investment strategy and active ownership from the UN Principles for Responsible Investment, and ranked as one of the highest performers among asset managers for its approach to climate change by both ShareAction and InfluenceMap.
3. **How our businesses operate**. We are committed to supporting our customers, employees, suppliers, shareholders and society at large. For information on what we are doing to support our key stakeholders, see pages 15-17 of our Sustainability report.[14] We have committed to reducing the carbon emission intensity of our operating businesses. Our ambition is to operate our offices and business travel with net zero emissions from 2030, and for all our new homes to be net zero operational carbon from 2030. ESG criteria are included in executives' objectives and remuneration targets.

Addressing climate change

Addressing Climate Change is one of Legal & General's six strategic growth drivers[15] and is increasingly embedded throughout the group, supported by a rigorous governance framework and transparent metrics.

Climate change is the biggest challenge and the biggest investment opportunity of our lifetimes. For context, it is estimated that $20 trillion of investment is needed by 2025 alone to put the world on the path to achieving global net zero emissions by 2050.[16]

Our own commitment to addressing climate change is reflected increasingly in: 1) our own asset allocation and risk management frameworks, 2) in our balance sheet investments, 3) in how we manage and steward money for external clients, 4) in our Real Asset, housing, regeneration and VC portfolios, and 5) in our direct operational emissions. Our approach is set out in more detail in our Climate Report which describes how we invest, influence and operate. This also covers progress made to date and sets out the staging-posts we have set ourselves on the journey to our goal of net zero by 2050, including the adoption of science-based targets.

COP26, which took place in November last year, was another important milestone in the global journey to net zero. We were involved in several ways, notably through LGIM CEO Michelle Scrimgeour's role as co-chair of the COP26 Business Leaders Group alongside the President for COP26, Rt Hon Alok Sharma MP, and through LGIM's participation in the Glasgow Financial Alliance for Net Zero (GFANZ). The principal challenge for governments, business and finance, however, remains one of implementation.

Legal & General is a thought leader on Climate stewardship and has a number of important policy roles. Sir Nigel Wilson has led the Workstream on investment for the Insurance Sustainable Market Initiative for the Bank of England/FCA's Climate Financial Risk Forum. Many senior Legal & General employees, including Group CFO Jeff Davies and LGC CEO Laura Mason, provide expertise in specialist areas including, for example, through HM Treasury and the Bank of England's Productive Finance Committee, the Green Finance Institute and the Green Buildings Council.

[9] For more information please refer to www.legalandgeneralgroup.com/investors/esg-investors/
[10] Proprietary assets relate to Investments to which shareholders are directly exposed (excluding client and policyholder assets, derivatives, cash, cash equivalents and loans), as disclosed in Note 6.01.
[11] This reduction is well ahead of the original -2% target over the same period, although it has been driven in part by COVID-19 and market volatility impacts. In particular, the impact of COVID-19 on 2020 emissions is partially seen in the 2021 numbers, due to the carbon data lag within the calculation, and we may see a partial reversal of this movement in future years. For more information, see our forthcoming 2021 Climate report which will be available on our website from 16 March 2022.
[12] AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria in the fund documentation for pooled fund structures or in a client's Investment Management Agreement.
[13] Represents voting instructions for main FTSE pooled index funds.
[14] Sustainability and Inclusive Capitalism 2020-21
[15] For more information on our six strategic growth drivers, see pp10-11 of the forthcoming 2021 annual report and accounts
[16] $130tn investment needed to 2050 in order to achieve zero emissions, scaled pro-rata to 2025. BloombergNEF: New energy outlook 2021 https://about.bnef.com/new-energy-outlook/

Levelling Up

The UK government's focus on levelling up creates an additional opportunity for Legal & General to further expand the work Legal & General has been doing in recent years to create new assets across housing, physical and digital infrastructure, urban regeneration, SME finance and venture capital. Partnerships with cities and universities, for example in Newcastle, Oxford and Manchester enable the development of projects including the £200m Life and Mind Building in Oxford and the £1.5bn IDManchester development. Our Bruntwood SciTech joint venture has driven the expansion of Alderley Park, the former Astra Zeneca research facility which is now home to over 200 life science and technology companies and is actively developing a range of other projects including the £210m Birmingham Health Innovation Campus scheduled to open in 2023. Levelling up enables us to develop new asset classes; for example, data centres, build to rent and affordable housing. Sir Nigel Wilson is a member of the government's Levelling Up Council, and we expect that the greater empowerment of city mayors and local government will enable Legal & General to create new partnerships to develop multiple productive assets across UK cities which are suitable investments for both our own balance sheet and for our pension clients and customers.

People

At Legal & General our greatest strength is our people. We believe strongly that moving our people around the business drives our collaborative culture and fosters innovation and growth. To capitalise on the opportunities ahead of us, and on the expertise of our leaders, we have made a number of leadership changes.

As previously indicated, Chris Knight took over the role of Group Chief Risk Officer from Simon Gadd in March 2021, having led LGRR through a strong period of growth during his three years as CEO of the division. During Chris' twelve years at Legal & General he has held a number of Group and Divisional leadership roles. He has also served as the Group's Customer Champion, representing retail customers' interests across the whole product range; a perspective he is bringing to his CRO role.

After 8 years as Group Chief Risk Officer, Simon Gadd took on the new role of Group Climate Change Director in May 2021. The role was created to develop and oversee the implementation of a coherent group climate strategy, managing both the risks and the opportunities it presents. He coordinates the wide range of activities undertaken to address climate change across our businesses to ensure they are aligned and consistent with delivering our climate goals and strategy. He also chairs the Group Environment Committee.

Laura Mason, formerly CEO of LGRI, was appointed CEO of LGC, effective 1st July 2021. This move saw Laura return to LGC where she was part of the original leadership team involved in setting up the division. Laura is focused on growing LGC's asset origination capabilities, and on attracting third party capital.

Kerrigan Procter, formerly CEO of LGC, was appointed President of Asia for the Group, effective 1st July 2021. Kerrigan's remit involves working hand in hand with our divisions to develop their strategies for growth in Asia and then implementing them in the region, with a particular focus on China.

Andrew Kail, formerly CEO of LGRR, was appointed CEO of LGRI, effective 1st January 2022. Prior to joining Legal & General in 2021, Andrew was 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.

Bernie Hickman became CEO of our new Retail division on 1st January 2022, retaining responsibility for LGI and taking on responsibility for LGRR. Bernie has led LGI for 5 years, during which time he has focused on driving technology and efficiency improvements in the business and on identifying and executing on new adjacent Fintech investment opportunities such as Salary Finance and Smartr365.

John Godfrey, Group Corporate Affairs Director, will be taking on a new role building on his public policy experience to coordinate and further strengthen Legal & General's group-wide engagement with the Levelling-Up agenda.

Outlook

Medium-term growth: ambitious and deliverable

Our strategy has delivered strong returns for our shareholders over time. It has demonstrated resilience through the pandemic, and strength as we come out of it. We are confident we can continue to deliver profitable growth as we execute on our strategy.

We set out our five-year ambitions at our Capital Markets event in November 2020. Cumulatively, over the period 2020-2024, our financial ambitions are for[17]:

1. Cash and capital generation significantly to exceed dividends (we intend to generate £8.0bn - £9.0bn of both cash and capital, and to pay dividends of £5.6bn - £5.9bn).[18]
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 are on track to deliver against these ambitions. In 2021, we have achieved 12% growth in both cash and capital generation. Since the beginning of 2020 to date, we have achieved £3.2bn of cash generation, £3.1bn of capital generation and declared £2.1bn of dividends.

We aim to deliver long-term, profitable growth across the Group. Our asset origination and asset management businesses, LGC and LGIM, operate in attractive and profitable markets, and maintain a strong commitment to ESG-aligned investing. With proven asset expertise in specialist commercial real estate, clean energy, housing and SME finance, LGC provides unique asset origination capabilities in sectors that have significant growth potential, which produce yield-creating assets that drive our annuity business and which appeal to third party investors. LGRI and LGRR provide highly predictable, stable cash flows from their growing back-books. LGI is applying technological innovation to sustain its UK leadership, to grow in the US and to continue to expand into adjacent markets. The bringing together of LGRR and LGI into a new Retail division will enable us to focus on serving the savings, protection and retirement needs of our retail customers.

We remain confident in our strategy and in our ability to deliver resilient, organic growth, supported by our strong competitive positioning in attractive and growing markets. Our confidence in our dividend paying capacity is underpinned by the Group's strong balance sheet, which has a £3.4bn IFRS credit default reserve and Solvency II surplus regulatory capital of £8.2bn, in addition to significant buffers to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

Confident in achieving our ambitions

We remain confident in achieving our five-year (2020-2024) cumulative financial ambitions. **In 2021, we continued to build on the good start we made in 2020, delivering double digit growth in both cash and capital generation**.

LGC and LGIM provide powerful asset origination and asset management capabilities directly to clients. These same capabilities also underpin our leading retirement and protection solutions. LGC intends to grow shareholder alternative AUM to c£5bn, with a blended portfolio return of 10-12%, by 2025. It also aspires to grow third party AUM to £25-30bn and to grow LGC operating profit to £600-700m by 2025. LGIM continues to focus on attracting higher margin net flows and on diversifying and further internationalising its business. The business remains confident of achieving its ambition of growing cumulative profits in the range of 3-6%.

LGRI maintained pricing discipline in the face of greater competition in PRT markets in 2021 and will continue to prioritise shareholder value creation. Advisers such as WTW and LCP are bullish on the prospects for PRT in 2022 and beyond.[19] We are well placed to participate whilst maintaining our pricing discipline. We continue to expect to write £40-50bn of UK PRT and $10bn of International PRT over a five year period. A key competitive advantage is in our ability to originate direct investments. This provides us with significant optionality. We can use these direct investments to create value in writing new annuity business, and/or by using them to increase returns on the back-book.

In LGI, we continue to target mid-single digit growth in revenues across our UK protection businesses, and to achieve double digit growth in US new business sales. In LGRR, the longer-term outlook for individual annuities and lifetime mortgages remains attractive, driven respectively by ongoing growth in the DC market and by an increasing consumer requirement to look to multiple sources of wealth to fund retirement. However, the lifetime mortgage market is becoming more competitive and we will maintain pricing discipline at the expense of volumes if required.

We are pleased with the progress we have made in 2021 and are confident in our ability to deliver further profitable growth going forwards. We are well-positioned to support the UK Government's two flagship policies of "Levelling Up" and "Address Climate Change".

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

[17] The ambitions are based on the aggregate performance over a five-year period. Performance may vary from year to year and individual statements may not be met in each year on a standalone basis. Dividend decisions are subject to final Board approval.
[18] Cash generation is 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.
[19] WTW: Pension risk settlement: a review of 2021 & LCP: Rise of new market leaders and 'mega' transactions could be on the cards for the de-risking market in 2022.

Business segment outlook

Legal & General Institutional Retirement (LGRI)

LGRI participates in the global pension risk transfer (PRT) market, focusing on corporate defined benefit (DB) pension plans in the UK, the US, Canada, Ireland and the Netherlands, which together have nearly £7 trillion of pension liabilities due to **ageing demographics**.[20]

We write direct business in the UK and US and are market leaders in the UK. We are supported by **LGIM's long-standing DB client relationships and investment capabilities** and **LGC's asset origination capabilities**, as well as wide-ranging skills across the Group which enhance our asset strategy and product innovation. During 2021, 58% of our UK transactions were with LGIM clients, demonstrating the strength of our client relationships and the competitive advantage provided by our unique position as the only firm operating across the full pension de-risking journey.

The UK is our primary market and it is the most mature PRT market globally with £2.3 trillion of UK DB pension liabilities, of which only c13% have been transferred to insurance companies to date.[21] This leaves a sizeable opportunity for future market growth. Demand from companies and pension plans for PRT remains robust. Market commentators believe the total UK PRT market was just under £30bn in 2021 despite the relatively subdued first half of the year.[22] In terms of medium-term outlook, they anticipate between £150bn-£250bn of UK PRT demand over the next five years, again highlighting the size of the opportunity.[23] **We continue to expect to write £40bn to £50bn of new UK PRT over 5 years**, but will remain disciplined in our pricing and deployment of capital. Over the last 4 years we have written £32bn of new UK PRT in line with these ambitions.

The US represents a further, significant market opportunity, with $3.7 trillion of DB liabilities, of which only c7% have transacted to date.[24] Since our market entry in 2015, our US business has written more than $6bn of PRT with 84 clients. We also actively quote on selective Canadian, Irish and Dutch PRT opportunities and wrote our second Canadian deal in 2021. We are the only insurer providing PRT directly to pension plans across the UK and US. **Our ambition is to write more than $10bn of international PRT over the five years from 2020-2024.**

During 2021 we maintained pricing discipline in the face of increased competition in both the UK and US. Despite writing slightly lower volumes than in 2020, new business profits were resilient due to our competitive advantage in originating assets via LGC, lifetime mortgages via LGRR and sourcing assets via LGIM. Going forwards, strong asset creation capability across the Group provides us with optionality to maximise shareholder value, either by deploying assets against new business – to improve pricing and margins – or by applying them to increase the returns on the back-book.

As the annuity portfolio scales, the growing amount of capital generated by the in-force book offsets both the capital investment required to fund new business and the portfolio's contribution to a progressive Group dividend. This is what we call self-sustainability. The **UK annuity portfolio achieved self-sustainability in both 2020 and 2021**. Whilst we expect to achieve self-sustainability again in 2022, driven by our growing operational surplus generation, it is not something we necessarily aim to achieve in every year. It will vary depending on new business volumes and asset yields. Our ambition is, however, for net surplus generation to exceed dividends for the Group over the period 2020-2024.

Legal & General Capital (LGC)

LGC, the Group's alternative asset origination platform, will continue to deploy shareholder capital in a range of underserved areas of the UK's real economy that are backed by long-term structural trends. LGC has three fundamental objectives: 1) profit and value generation within LGC for shareholders; 2) asset creation to back LGRI and LGRR's annuity liabilities and meet demand from LGIM's third party clients; and 3) a focus on ESG, securing long lasting value for society. LGC continues to make a substantial contribution to shareholder value creation and is well positioned to drive further meaningful growth as its businesses continue to scale and mature.

As communicated at the capital markets event last October, our ambition is to build LGC's diversified alternative AUM to c£5bn by 2025 (2021: £3.4bn), with an upgraded blended portfolio return target of 10-12% (previously 8-10%). In combination with the contribution from the Traded Portfolio, LGC's ambition is to deliver operating profit of £600-700m in 2025. Additionally, we plan to increase fee-generating third party capital to £25-30bn (2021: £12.9bn). We expect our existing platforms (Pemberton, Build-to-Rent, NTR) to continue to manage the majority of third-party AUM, building on their impressive growth to-date, but this also includes incremental opportunities in Clean Energy, Later Living and Data Centres. Excluding assets originated to back our annuity liabilities, **LGC expects to invest and manage over £30bn of alternative AUM by 2025.** As part of the ambition, we will also target international opportunities, with a primary focus on the US.

Supporting the UK government's two flagship policies, LGC's asset classes include specialist commercial real estate, housing, clean energy, and SME finance. Our alternative asset strategy is made up of sectors where our investments change lives and drives Inclusive Capitalism. We are creating much needed jobs, homes and infrastructure, driving growth, skills and innovation, and contributing towards a cleaner, greener future:

- The **specialist commercial real estate** portfolio includes capital-light urban regeneration (funded by LGRI or LGIM third parties), digital infrastructure and science and technology-focused real estate. Partnering with universities, local authorities and private sector experts, we have invested across nineteen UK towns and cities, creating jobs, driving economic growth and revitalising local communities.

[20] Legal & General 2020 Capital Markets Event, slide 26.
[21] Pension Purple Book 2021, PPF; Hymans Robertson, 2022 Risk Transfer Report.
[22] WTW: Pension risk settlement: a review of 2021
[23] Pension buy-ins/outs: Predictions for 2021 and beyond; LCP.
[24] ICI Q3 retirement market data.

- As a **leading provider of homes**, with a commitment to tackling the affordability gap and the undersupply of housing (estimated to be around 345,000 homes required annually) across the UK, LGC's **housing** platform continues to expand across all tenures, ages and demographics, leveraging both traditional and modular construction in order to revolutionise and speed up delivery for all. We are well positioned to scale in order to achieve our long-term ambitions: 1) to deliver 10,000 multi-tenure homes per year (including over 3,000 traditional build to sell homes, up to 3,000 affordable and modular homes, and 1,000 suburban rental homes); and 2) to develop c5,200 build to rent homes in our urban pipeline and 5,100 later living homes in our JV pipeline with NatWest Group Pension Fund. To ensure that the homes we build are future-proofed and sustainable, we have committed that all our new homes will be operationally carbon emission-free from 2030.

- In the **clean energy** sector, we are focused on investing selectively into attractive growth equity and low carbon infrastructure opportunities. We are confident that our considered and selective approach to clean energy investing will continue to yield results in what can be a highly competitive sector. Growth equity targets early-stage scale-up companies that deliver innovative clean technologies required for a successful energy transition. Low carbon infrastructure targets the renewable energy infrastructure investments needed to accelerate progress towards a low-cost and low-carbon economy.

- In **SME Finance**, we are continuing to support UK and European innovation, investing in the real economy and technological innovation in two SME Finance business areas: **Alternative Finance** – via our 40% stake in Pemberton, an alternative credit manager – and **Venture Capital** – via our Fund of Funds platform and via LGC's ownership of Accelerated Digital Ventures (ADV), a direct investment platform. Our SME Finance businesses are well positioned to scale in these highly attractive structural growth segments. We also continue to work with LGIM to develop a viable solution for Defined Contribution clients which will democratise access to the venture capital asset class.

Legal & General Investment Management (LGIM)

LGIM is a globally recognised investment leader, benefiting from a combination of scale and a diversified asset and client base, underpinned by clear structural demand for our capabilities. As L&G's asset manager, LGIM also plays a critical role in supporting our leading retirement and protection solutions.

Our purpose is to create a better future through responsible investing and we are a global 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: 1) to **grow cumulative profits in the range of 3% to 6%**, absent market shocks; 2) **to increase AUM in international and higher-margin areas**; and 3) to **diversify AUM** by client, channel and geography. We expect to **maintain a cost income ratio in the high 50 percent range in the near term as we invest for growth**, after which we expect it to trend downwards.

LGIM is one of the largest managers of corporate pension funds globally; we are a UK leader in corporate DB pensions, the UK's number-one DC manager, and ranked second for UK gross retail sales in 2021.[25] We intend to maintain our strong position in the UK, which has been the bedrock of our success to date, while continuing to diversify our capabilities and broaden our reach internationally.

Modernise: LGIM continues to invest in the business to achieve the resilience and agility critical to future success. We are laying the foundations for continued global growth by investing in our people, our operating platform and our data capabilities, and by refining our organisational structure. During 2021 we rebuilt and fully brought in house LGIM's proprietary Climate Risk model, Destination@Risk. This capability allows us to engage with clients to help them understand the climate risks and opportunities across their portfolios, enabling us to design solutions and funds to help them achieve their climate objectives, such as Net Zero alignment.

Diversify: We are continuing to expand our investment offering, with a focus on higher-margin product areas such as Real Assets, ETFs, Multi-asset and Solutions. We see a sizeable opportunity in Real Assets – we are well known for our UK Real Estate Equity expertise and, increasingly, are also providing investors with access to our leading private-credit capabilities. As UK and US DB schemes approach funding maturity, many clients will look for self-sufficiency or buy-out options. Together with LGRI, we are well positioned to deliver on these options through our 'endgame' Solutions offering. We continue to demonstrate our leadership in ESG investing through our award-winning Investment Stewardship team and, in addition to offering a wide range of ESG-specific products, are driving further integration of ESG into our mainstream investment portfolios to reflect current and future client demand.

Internationalise: LGIM aims to 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 doubled to reach £479bn – 34% of LGIM's total AUM. Our ambition is to continue growing International AUM profitably and at pace in the US, Europe and Asia. In the US, we are deepening our strong client relationships through innovation in DC and leadership in ESG. In Europe, we are building on our successes in Germany and Italy, to expand further into European markets and channels through our higher-margin thematic ETFs and active fixed income strategies. 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 and delivering investment solutions that address key market trends.

[25] Pridham Report, 2021.

Legal & General Retail

As of 1st January 2022, LGRR and LGI (our two retail businesses) have been combined into one division, Legal & General Retail. Under the leadership of Bernie Hickman, this division will cover the savings, protection and retirement needs of our c12 million retail policyholders and workplace members.

Retirement (LGRR)

Workplace savings is a core part of the Group's retail proposition. The business is a growth area for the Group and we expect its target market to continue to expand, driven by **ageing demographics** and **welfare reforms**. To further complement LGRR's customer retirement and savings proposition, the Workplace Savings administration business was transferred from LGIM to LGRR at the beginning of 2021. This enables us to better assist the 4.4 million Workplace members in planning their retirement whilst they are saving with us, rather than when they come to retirement. This will drive better customer outcomes and, at the same time, help us to retain more of our customers in retirement.

There are currently c£500bn in UK Defined Contribution (DC) accumulation assets and this is expected to broadly double by the end of the decade.[26] As a market leading provider in Workplace Savings, we are well placed to benefit from this expected increase in DC pension assets, and to grow administration revenues for LGRR and fund management revenues for LGIM.

Prior to Covid-19, around £40bn of these DC assets were coming to maturity each year, with the individual annuity market accounting for just over 10% of these assets. The size of the individual annuity market dipped slightly during the pandemic as people deferred making retirement decisions. We do expect the market to recover as the DC market continues to grow, and as fewer people reach retirement with defined benefit pensions and so seek the longevity protection that an annuity provides. LGRR has a strong market share in individual annuities, with a 21.4% market share at Q3 2021.[27] We are building on the strength of that position by providing other retirement income products and services, such as our recently launched drawdown product, recognising that each customer will have different needs and requirements.

The UK lifetime mortgage (LTM) market continues to represent a sizeable opportunity, with UK housing equity in over 55s at £1.7 trillion across approximately 5.5m houses.[28] At present only c£5bn per year is being released through the LTM market. While we maintain our focus on the traditional LTM market and continue to offer greater flexibility and choice, we continue to see interest from the "wealth" sector as those with higher value properties increasingly see the benefit in lifetime mortgages when planning the distribution of their estate to future generations.

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

Insurance (LGI)

We anticipate continued premium growth across our UK and US Protection 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, aided by the UK housing stamp duty relief, contributed significantly to strong performance in 2021, with record new business of £200m, up 14% against 2020 (£175m). We expect the total protection market to be slightly smaller in 2022. Our group protection business has also performed well, increasing premium income by 6%. During 2021 we launched a digital application portal which will drive growth, particularly for smaller schemes. **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 continues to recover from the distribution and underwriting disruptions caused by COVID-19. We are using 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, and our digital first approach is aiming to achieve **double digit growth in new business sales out to 2025**.

We invest in Fintech start-ups and scale-ups that operate in adjacent markets where we have the relationships, capital or expertise to accelerate their growth and value creation. One such investment is Salary Finance, an employee benefits platform business, in which we have a 48% holding. Salary Finance remains one of the UK's fastest growing Fintechs and is well positioned for growth in the UK, the US and beyond. Gross revenue grew to £30m in 2021[29], an increase of 85% year on year and the fourth year in a row with a near doubling in revenue growth. In addition, other key investments like Smartr365 and Asanto are growing rapidly. **We are targeting double digit growth for our Fintech businesses.**

[26] WTW FTSE 350 Defined Contribution Survey Pension Survey 2021.
[27] ABI Q3 2021 Report.
[28] Legal & General 2020 Capital Markets Event, slide 79.
[29] Gross revenues includes revenue generated in the group's joint venture with Virgin Money .

Dividend

The Board has declared a final dividend of 13.27p, giving a full year dividend of 18.45p, up 5% from the prior year (17.57p). This is consistent with our stated ambition to grow the dividend at 3-6% per annum between 2021 and 2024.

Going forward, and as announced at HY21, the Board intends to adopt a formulaic approach to the dividend whereby the interim dividend grows by the same percentage as the total dividend for the prior year.

LGR – Institutional

FINANCIAL HIGHLIGHTS £m	2021	2020
Operating profit excluding mortality reserve release	**1,154**	1,229
Mortality reserve release	nil	102
Operating Profit	**1,154**	1,331
Release from operations	512	492
New business surplus	193	220
Net release from operations	**705**	712
New business premiums £m		
UK PRT	5,315	7,196
International PRT	936	1,250
Other PRT (longevity insurance, Assured Payment Policy)	925	397
Total new business	**7,176**	8,843

Operating profit of £1,154m

LGRI continues to deliver strong operating profit of £1,154m (2020: £1,229m). Profit was underpinned by the performance of our growing annuity portfolio and robust pension risk transfer (PRT) new business volumes.

As communicated at H1 2021, we have not recognised an explicit release from adopting CMI 2019, given the uncertainty in the data created by the pandemic. We anticipate any resulting additional prudence will be released through experience variances over the next 2-3 years until we have more certainty and clarity over the data. In H2 2020 we conservatively adopted an adjusted version of the CMI 2018 mortality tables for LGRI's annuity book, resulting in a £102m reserve release.

Release from operations increased 4% to £512m (2020: £492m), reflecting the scale of the business as prudential margins unwind from LGRI's growing £89.9bn annuity portfolio (2020: £87.0bn).

Net release from operations was £705m (2020: £712m) with new business surplus of £193m (2020: £220m), reflecting successful execution, coupled with a disciplined approach to new business.

During 2021 we wrote £5,315m of UK PRT which, combined with Assured Payment Policy of £925m and £957m of individual annuities written in LGRR, delivered a 9.1% UK Solvency II new business margin (2020: 10.6%, 2019: 7.9%). This is a strong result: 2020 benefitted from wider credit spreads and good asset sourcing during the pandemic, as well as longer duration schemes. UK PRT volumes were written at a capital strain of less than 4%.

Gross longevity exposure was £89bn across LGRI and LGRR's annuity and longevity insurance businesses. We have reinsured £39.4bn of longevity risk with sixteen reinsurance counterparties, leaving a net exposure of £49.6bn. The reinsurance market continues to grow and innovate, and we expect it to continue to offer sufficient capacity to meet the demand from insurers.

Successful execution coupled with a disciplined approach for value

During 2021 LGRI underwrote £7,176m of business across 57 deals globally (2020: £8,843m, 61 deals).

Legal & General has demonstrated successful execution, whilst remaining focused on value creation, and continues to play a key role in the UK PRT market. Despite a slow start to the year, the market is anticipated to close at just below £30bn, the third largest on record. As in 2020, the market saw a high number of smaller and mid-sized pension scheme transactions and a handful of larger scheme transactions.

LGRI's brand, scale and asset origination capabilities – through synergies and expertise within **LGIM** and **LGC** – are critical to our market leadership in the UK PRT market. Long-term client relationships, typically created and fostered by LGIM, have allowed us to help many pension plans achieve their de-risking goals. In 2021 we demonstrated our market leadership and solutions capabilities by writing a series of innovative transactions, including:

- Small scheme solutions. With 69% of our transactions falling into this category, we leveraged **technological innovation** to serve smaller pension plans efficiently.
- A new umbrella agreement with a major UK corporation signed. Now 11 agreements in place to allow for efficient future execution.
- c£800m buy-in with TUI group UK Pension Trust. This transaction marks the scheme's first PRT transaction with Legal & General.
- c£760m buy-in with Sanofi Pension scheme, securing benefits for c2,900 retirees.
- c£650m buy-in with Mitchells & Butlers executive pension plan, which marked the Plan's first pension risk transfer.
- A c£925m Assured Payment Policy for Legal & General's Group UK Pension and Assurance Fund. 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.
- First conversion of an Assured Payment Policy (APP) to a buy-in. A c£63m transaction agreed with AIB Group UK Pension Scheme, converted c20% of the original APP transaction completed in December 2019. This was followed by a second APP conversion in 2021 of c£38m with Legal & General Group UK Senior Pension Scheme. These transactions reflect our commitment in helping schemes along their de-risking journey, every step of the way, offering flexible solutions and enabling them to seize de-risking opportunities as they arise.

Looking forward to 2022, we have already won or are exclusive on c£1bn of premium. We have a pipeline of c£20bn.

Solid US volumes in a competitive market

Despite a more competitive market in the US, LGRI delivered **US new business volume of $1,095m (2021: £789m; 2020: $1,614m; £1,250m).** Market commentators expect the US market in 2021 to be the biggest on record at $38bn.[30] However, most of the year-on-year growth is attributable to the >$1bn segment, with the <$500m segment that we currently participate in reducing by c$3bn.

As in the UK, our focus was on value creation. Despite the market conditions, we wrote our second largest US PRT transaction at $293m and in Bermuda we secured our second Canadian deal through a new strategic partnership with a second Canadian insurer.

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

[30] LIMRA, March 2021.

Total Annuity Asset Portfolio

FINANCIAL HIGHLIGHTS £m	2021	2020
Operating Profit	1,506	1,728
Investment and other variances	242	15
Profit before tax	**1,748**	1,743
Total annuity assets (£bn)	**89.9**	87.0
Of which: Direct investments (£bn)	*28.4*	*24.7*

Profit before tax was £1,748m, with investment variance contributing positively due to the unwind of margins, arising as a result of no defaults, and strong underlying performance, including trading profits from the profitable disposal of some bespoke derivatives and other assets**.**

Annuity asset portfolio

The 'A minus' rated annuity asset portfolio of **£89.9bn**[31], which backs the IFRS annuity liabilities in LGRI and LGRR, is well diversified by sector and geography. **Our ambition is to continue to collaborate with LGC, LGRR and LGIM to strengthen our asset sourcing capabilities, including both self-manufactured and public assets with a strong ESG focus.** This core competitive advantage provides LGRI and LGRR with long duration direct investments with higher risk-adjusted returns and optionality in asset deployment. We remain on track to achieve our portfolio decarbonisation target of 18.5% by 2025.

Credit portfolio management

The fixed income portfolio of £81.8bn is comprised of £58.8bn of listed bonds and £23.0bn of Direct Investments. Approximately two-thirds of the portfolio is rated A or better, 33% rated BBB and 1% 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. In addition, we hold a **£3.4bn 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.

This two-pronged approach, comprising **defensive positioning and active management**, has helped us to mitigate downgrade and default risk. **Again, we have had no defaults in 2021**.

Direct Investment

Within the asset portfolio, we originated £4.6bn of new, high quality direct investments during 2021 which, along with market movements, brought the direct investment portfolio total to £28.4bn[32], including **£6.9bn in Lifetime mortgages**. 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 counterparties and the underlying collateral.

Our Direct Investment strategy is centred on ensuring the safety of policyholders' benefits. We believe, and have proved, that we can protect our policyholders *and* invest to deliver Inclusive Capitalism across our UK towns and cities. By accessing the power of pensions, we can generate positive societal impacts and drive economic growth.

During 2021 LGRI committed to fund its first L&G Affordable Homes investment of £270m over 2021 to 2023, with £77m being funded in late 2021. This partnership is forecasted to generate around £1.7bn of assets by 2025. In addition, we sourced £489m of Urban Build to Rent assets through our partnership with LGIM and executed a US Corporate Real Estate external mandate, whilst LGIMA builds capability, which led to £106m of assets being sourced.

[31] LGR's total annuity asset portfolio represents our UK and US annuities businesses. See note 4.05 and note 6.01 for more detail.
[32] Includes LGR direct investment bonds (£23,029m), direct investment property (£5,286m), direct investments equity (£12m), and other assets (£96m). Please see note 6.02b for more information.

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	2021	2020
Operating profit	**461**	275
- Alternative asset portfolio	350	112
- Traded investment portfolio & Treasury	111	163
Investment and other variances	19	(299)
Profit before tax attributable to equity holders	**480**	(24)
Net release from operations	**303**	224
ALTERNATIVE ASSET PORTFOLIO £m		
Specialist commercial real estate	625	694
Clean energy	224	182
Residential property	1,979	1,738
SME Finance	611	525
	3,439	3,139
TRADED ASSET PORTFOLIO £m		
Equities	1,853	1,770
Fixed income	54	138
Multi-asset	221	209
Cash[1]	1,427	1,809
	3,555	3,926
LGC investment portfolio	**6,994**	7,065
Treasury assets at holding company	1,621	1,982
Total	**8,615**	9,047

1. Includes short-term liquid holdings.

Total operating profit of £461m increased 68% over 2021, beating capital markets estimate

LGC operating profit increased 68% to £461m (2020: £275m). This growth principally reflects increased profits from our alternative asset portfolio of £350m (2020: £112m) as a result of a bounce-back in the housebuilding market and the continued maturing of the underlying investments in our clean energy and venture capital portfolios. Operating profit from the traded & treasury portfolio decreased to £111m (2020: £163m), primarily driven by the continued sell down of listed equities to fund the increasing expansion of the alternative asset portfolio.

Profit before tax was £480m, driven by investment and other variances of £19m, compared to £(299)m in 2020, which reflects the rebound in alternative asset portfolio profits and equity market performance, partially offset by early-stage development costs.

Our growing alternative asset portfolio achieved a net portfolio return of 8.5% (2020: (4.0)%). In line with our business model, we expect to deliver a net portfolio return of 8-10%, growing to 10-12% by 2025, as our early-stage businesses continue to mature.

Alternative asset portfolio grew 10% over 2021 to £3.4bn

LGC has continued to strengthen its capabilities across a diversified range of alternative assets that are underpinned by our structural growth drivers. Our alternative asset portfolio increased to £3,439m (2020: £3,139m) as we deployed a further £0.4bn and made new undrawn commitments of £0.5bn across our existing investment platforms. Through these investments we create assets that generate returns for shareholders, create attractive yield-generating Matching Adjustment-eligible assets for LGRI and LGRR and supply attractive alternative assets to LGIM and other third party clients. As we are maturing, we have also divested £0.4bn in assets, with the capital to be recycled into exciting new sectors and projects which will help to drive future growth potential.

Strong value creation in 2021

LGC provided five notable, value-creating proof-points in 2021, demonstrating that our strategy is being executed effectively to generate significant shareholder returns:

1. MediaCity – Land Securities Group acquired our 50% stake in November. The purchase price received, together with the £40m of net distributions received through the period of ownership since 2015, have resulted in a total return of 1.6x on the initial investment. We plan to recycle the capital back into Manchester through our University and Alderley Park developments.
2. Inspired Villages Group – Announced in August 2021, we established a 15-year joint venture (JV) with Natwest Group Pension Fund Limited (NWPTL). As part of the new JV, LGC sold a 50% stake in Inspired Villages' first 11 sites to NWPTL based on an enterprise value of over £300m, resulting in a return of 1.3x on the initial investment. This investment will support our future pipeline of 34 sites, which will deliver c5,100 homes, housing c8,000 residents and create an estimated Gross Development Value of c£4bn. The transaction is unique as it sees one of the largest UK pension funds investing directly into UK private social infrastructure.
3. Pod Point – First backed by LGC in 2019, Pod Point listed on the Main Market of the London Stock Exchange in November 2021 raising £120m of gross proceeds to support the ambitious growth plans of this innovative UK company and generating a return of 3.8x on LGC's initial investment.
4. Current Health – First backed by LGC in 2018 and LGRR in 2019, this innovative Scottish "healthcare at home" company was acquired by Best Buy in October, generating a 5.3x return on our initial investment.
5. Kao Data Centres – LGC secured accretive co-investment from the £11bn infra fund HRL Morrison through its Infratil investment vehicle to drive ambitious growth plans. Kao has exchanged on the acquisition of two UK prime data centres with a long-term anchor lease from a large financial services business, thereby becoming a multi-site data centre platform with expansion capacity of c55MW.

Specialist commercial real estate: ongoing support of the levelling up agenda

Supporting the need to "Level Up" towns and cities across the UK, we continue to invest in partnership with public and private sector experts, to drive forward some of the largest urban transformation schemes, back digital infrastructure and fund the next generation of science and innovation centres. During 2021 our specialist commercial real estate portfolio decreased to £625m (2020: £694m) as we realised exit strategies from some existing assets including MediaCity. We are in the process of recycling this capital into new and existing projects to support future growth potential.

Through Bruntwood SciTech, we have continued to develop world-leading diagnostics infrastructure, growing our portfolio to over 2.5m sq ft. Home to over 500 science and tech businesses, the Bruntwood SciTech network includes nine sector-specialist campuses across the midlands and the North of England. Its development pipeline of over 6m sq ft includes Birmingham Health Innovation Campus, where construction of Birmingham's first smart-enabled building, Enterprise Wharf, is now well underway, and – as announced in June 2021 – a development partnership with the University of Manchester to deliver ID (Innovation District) Manchester, a new £1.5bn innovation district across 4m sq ft in the city centre which forms an ambitious plan to make Manchester the heart of innovation in Europe.

As a part of our £4 billion partnership with Oxford University, and in conjunction with LGRI and LGIM, we began construction in 2021 on the £200m 'Life and Mind Building' in Oxford; the largest building project ever undertaken on behalf of the University. We also announced that we will fund and deliver a new innovation district with the University, extending Oxford's existing Begbroke Science Park across a 14-hectare site.

Our Clean Energy portfolio expanded into new sectors, increasing in value to £224m (2020: £182m)

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

During 2021, our portfolio continued to make excellent progress in scaling up. Pod Point, in which we hold a c14% stake post the IPO, is rapidly building its business to meet increased consumer demand for electric vehicles. By April 2021, Pod Point's partnership with Volkswagen and Tesco had provided more than 500,000 free top-ups at Tesco stores across the UK and powered more than 10 million miles of travel, helping to make electric vehicle charging accessible for all drivers and accelerate the adoption of electric vehicles. Pod Point has also expanded its partnership with Lidl to install rapid chargers at 350 stores.

In October 2021, NTR and LGIM annonunced an exciting strategic partnership. The partnership will provide institutional investors in the UK, Europe and Asia access to the €1-trillion European energy transition in 2022 by combining LGIM's 50-year experience in Real Assets and NTR's 20-year expertise in renewables.

We recently announced a new investment in Sero Technologies, an energy technology and service company, which creates tailored net zero enegy retrofit plans for the residential sector. Residential retrofitting represents a significant market opportunity to achieve the UK's legally mandated target of net zero by 2050: almost every home will need to be improved or retrofitted with some combination of enhanced energy efficiency and low carbon heating.

Housing: platform continues to grow as LGC targets multi tenure opportunities

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. During 2021, our housing property portfolio grew to £1,979m (2020: £1,738m) reflecting a bounceback in the housebuilding sector and sustained long-term demand.

LGC's **Build to Sell** business, CALA, has performed exceptionally in 2021, rebounding strongly from its position in 2020 when it was impacted by a pause in construction and sales activity following the first COVID-19 lockdown. Having grown to the 10th largest housebuilder in the UK by revenue, during 2021 CALA has delivered revenue of £1.24bn (2020: £713m) and operating profit of £132m (2020: £6.9m) through the sale of more than 2,900 units, significantly higher than 2020 and 2019 levels (2020: 1,835 units; 2019: 2,482 units). Reservations on private units currently stand at a record 60% of the full year target, giving confidence in the full year outcome for 2022.

Our **Affordable Homes** business has continued to establish itself as one of the UK's leading institutional developers and managers of affordable housing. Delivering £26.4m of operating profit, our business continues to grow and over 2021 we increased our total number of operational affordable homes by 997 to a total of 1,667. Our development and operation pipeline now stands at over 7,000 homes, with a Gross Asset Value of around £1.2bn. During the year we set up four additional Registered Providers to extend our funding approach and, as part of that strategy, brought in a £270m commitment from LGRI to support the growth of the business, which we expect to grow materially over time.

Our **Modular Housing** business is making significant progress with projects and partners, designing and manufacturing homes in an innovative way which will transform the way homes are built. In 2021, Legal & General Modular Homes' innovative approach to housing delivery has gained significant momentum, commencing construction on sites in Selby, Bristol and Broadstairs for the delivery of 440 homes. The business is currently seeking planning permission to deliver a further c400 homes across three sites, with construction expected to commence early in 2022. We are creating some of the most energy efficient homes in the country with all homes from 2020 onwards achieving an Energy Performance Certificate (EPC) A rating, a standard met by only around 1% of new and existing dwellings in England & Wales.

Our urban **Build to Rent business** joint venture with PGGM has continued to make strong development progess across the UK's major towns and cities. Across the Group, we now have a £1.9bn portfolio of c5,200 homes with 14 schemes in operation or development, creating a strong pipeline of attractive, high quality assets for LGRI and LGIM clients

Our **Suburban Build to Rent** business has put in a planning application for its first site in North Horsham. This site is being developed in partnership with LGC's other housing businesses, delivering 124 new homes for suburban families, a selection of affordable housing, modular housing, CALA homes and infrastructure including schools, sports and medical facilities. This multi-tenure collaboration showcases the unique competitive advantage of our housing property platform. SBTR also acquired a site in Peterborough, building its pipeline to over 750 homes across the UK.

Growth in our **Inspired Villages** business continues at pace. Our Later Living platform has made good planning and development progress. It has secured planning permission for 141 homes in West Sussex and 194 homes in South Oxfordshire. It has also broken ground on its first two operationally net-zero carbon developments, bringing forward over 350 energy efficient homes. To support continued growth, LGC entered a 15-year joint venture partnership with NatWest Group Pension Fund in 2021 to invest £500m of equity to build later living communities, which will be developed and operated by Inspired Villages. The partnership aims to expand Inspired's portfolio to 34 villages supporting around 8,000 residents, with a particular focus on creating net-zero carbon regulated energy schemes.

SME Finance AUM increased to £611m (2020: £525m)

Investing in the real economy and technological innovation through our **Alternative Finance** and our **Venture Capital** 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 through our investments in Pemberton, our asset manager specialising in private debt, in which we hold a 40% stake. The Pemberton platform has raised over €13.5bn (2020: €9.3bn) across four strategies, since we first invested in 2014, with 170 investors globally. It has deployed €12.8bn (2020: €8.3bn) across 114 companies, actively engaging with borrowers to support sustainable growth.

Our Venture Capital Funds platform backs over 330 start-up businesses across the UK and Europe through our fund-of-funds programme and via LGC's ownership in direct investment platform Accelerated Digital Ventures (ADV).

The Venture Capital Fund-of-Funds programme saw strong performance over the period, with NAV growing by 65% to £171m during 2021.[33] Many of the funds we invested in early in the programme are now maturing, with the strongest companies securing new funding rounds at increased valuations. Demonstrating the value of our patient investment approach, the portfolio has now delivered a 23% IRR after fees, since inception in 2016.

We continue to work with LGIM to develop a viable solution for Defined Contribution clients which will democratise access to the venture capital asset class.

[33] 65% growth rate excludes new investment and distributions.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS £m	2021	2020
Management fee revenue	980	929
Transactional revenue	32	27
Total revenue	**1,012**	956
Total costs	**(590)**	(549)
Operating profit	**422**	407
Investment and other variances	(11)	1
Profit before tax	**411**	408
Net release from operations	**342**	327
Asset Management cost:income ratio (%)	**58**	57

NET FLOWS AND ASSETS £bn		
External net flows	**34.6**	20.4
Internal net flows	(2.1)	2.1
Total net flows	**32.5**	22.5
- Of which international[1]	*29.5*	*(4.0)*
Cash management flows	**1.1**	2.4
Persistency[34] (%)	**87**	85
Average assets under management	*1,336*	*1,222*
Assets under management as at 31 December	**1,421**	1,279
Of which:		
- International assets under management[2]	*479*	*388*
- UK DC assets under management	*138*	*113*

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

Operating profit growth of 4% to £422m, with revenues surpassing £1bn

Operating profit increased by 4% to £422m (2020: £407m), reflecting increased revenues from flows, favourable business mix and disciplined cost management.

Assets under management increased by 11% to £1,421.5bn (2020: £1,278.9bn), benefitting from strong external net flows of £34.6bn (2020: £20.4bn).

Revenues increased by 6% to £1,012m (2020: £956m), supported by growth in higher-margin areas including thematic ETFs and Multi-asset. Our strengths in ESG led to several ESG mandate wins in 2021, including transitioning over £3bn of an institutional client's assets to a new range of Paris-aligned benchmarks. We have continued to see good flows into our ESG products. Overall revenue growth was lower than AUM growth, as *average* AUM (which drives revenues) grew more modestly as a result of the sharp rise in interest rates in the first half of the year.

The cost income ratio of 58% reflects our careful cost control as we continue to invest in the business.

Strong international flows

International external net flows of £29.5bn constituted 85% of LGIM's total external net flows.

LGIM saw £7.4bn of net flows from Japanese clients and we are now Japan's 8th largest asset manager.[35] Europe saw flows of £13.6bn from multiple clients across the region, with European institutional AUM reaching €100bn. We also saw good flows in the US (£4.5bn), the rest of Asia (£6.5bn) and ETFs (£2.5bn). Our US DB de-risking business had a very strong year, with net flows of $9bn in 2021.

International AUM of £479bn is up 23% from 2020 (£388bn) and now constitutes 34% of total AUM. Our deep relationships with a number of leading international clients underpin our conviction in our ability to grow international AUM and earnings.

[34] Persistency is a measure of LGIM client asset retention, calculated as a function of net flows and closing AUM.
[35] Ranked eighth by AUM, Japanese industry publication Nenkin joho (Pension News) 27 September 2021.

Ongoing strength in UK DC and Retail

The Defined Contribution (DC) business continues to attract new assets, with external net flows of £9.4bn, supported by ongoing growth in LGRR's Workplace pension business, which now has 4.4 million members. Total UK DC AUM is up 22% over 2021 with total AUM of £137.7bn (2020: £112.7bn). This success is underpinned by LGIM's strong customer focus, as shown by a 91% persistency rate among our DC customers. We continue to innovate in this market: for example, we recently launched a Sustainable DC Property Fund in response to growing demand from DC schemes to align with members' ESG values.

L&G also has one of the largest and fastest-growing UK Master Trusts, which now has £17.1bn AUM, reflecting the increasing appeal of the structure for DC plans wishing to outsource their governance, investment and administration. Growth in our UK Master Trust business continues to support growth in Multi-asset flows, since this is the default option for many of our clients.

In UK Retail, we ranked second for gross fund sales in 2021. We also launched our Model Portfolio Service (MPS), further extending our successful Multi-asset proposition into the maturing advisory market. We believe our scale and expertise can disrupt this market while helping clients meet their objectives. The launch of our Global Thematic unit trust also makes our thematic strategies available to a wider client base.

Growth in ETFs

2021 marked the third anniversary of the acquisition of the Canvas ETF business in March 2018. Over this period, revenue has more than doubled. The business has continued to grow at a strong pace, with $3.9bn of net flows delivering annualised net new revenue of $11.9m (£8.4m) in 2021.

A focus on thematic ETFs has supported our strategy of growth into higher-margin areas. This has been the key driver of the more than 50% increase in ETF AUM over 2021 to $13.7bn. In 2021, LGIM launched thematic ETFs to cover the emerging hydrogen economy and the digital payments evolution, with both products being first to market in Europe. We also expanded our fixed income range into higher-margin areas such as Europe's first local-currency India government bond ETF. We now have c$1.3bn AUM in fixed income ETFs at the end of 2021.

LGIM continues to be ranked second on both AUM and net flows in the European thematic ETF market, with over 16% market share.

Breadth of investment management solutions

Asset movements[1] (£bn)	Index	Active strategies	Multi asset	Solutions	Real assets	Total AUM
As at 1 January 2021	**429.9**	**193.6**	**65.7**	**557.2**	**32.5**	**1,278.9**
External inflows	93.9	18.7	15.1	34.4	1.7	163.8
External outflows	(91.5)	(15.8)	(8.1)	(25.5)	(1.8)	(142.7)
Overlay net flows	-	-	-	11.0	-	11.0
ETF net flows	2.5	-	-	-	-	2.5
External net flows	**4.9**	**2.9**	**7.0**	**19.9**	**(0.1)**	**34.6**
Internal net flows	(1.0)	(1.8)	0.2	(1.5)	2.0	(2.1)
Total net flows	**3.9**	**1.1**	**7.2**	**18.4**	**1.9**	**32.5**
Cash management movements	-	1.1	-	-	-	1.1
Market and other movements	68.6	3.0	5.1	29.5	2.8	109.0
As at 31 December 2021	**502.4**	**198.8**	**78.0**	**605.1**	**37.2**	**1,421.5**

1. Please see disclosure 4.01 for further details.

Solutions continued to deliver positive external net flows of £19.9bn (2020: £23.2bn) driven by strong demand from UK and US 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 our DB clients. We are well positioned to capitalise on this continuing trend. Together with our fiduciary business offering, and working closely with LGRI's PRT business, we can tailor solutions to DB schemes at all stages of their funding journey.

Multi-asset strategies continue to be in demand from DC schemes and retail customers. External net flows into Multi-asset funds were £7.0bn (2020: £4.3bn).

Index reported positive external net flows of £4.9bn (2020: £(6.6)bn) driven by new international flows, partially offset by Index outflows in the UK and US, reflecting the structural trend of DB schemes de-risking, and therefore shifting from index to LDI strategies.

Active Strategies delivered external net flows of £2.9bn (2020: £(0.1)bn) as a result of positive net inflows from US and UK DB clients.

Real Assets saw external net flows of £(0.1)bn (2020: £(0.4)bn), as the market continues to assess the longer-term impact of COVID-19 on demand**.** LGIM Real Assets is, however, well positioned and enjoyed notable successes in 2021 such as raising £365m for the Secure Income Assets Fund while initiatives such as an innovative digital occupier engagement platform help future-proof the portfolio. We expect future growth in flows to be supported by our Build to Rent business, and by Private Credit, which offers clients diversification of secure income and value protection solutions. In 2021, we also announced a partnership with NTR, a leading renewable energy specialist, to provide institutional investors in the UK, Europe and Asia access to the €1 trillion European energy transition.

Investment performance

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 2021 LGIM's active teams delivered strong performance across multiple asset classes. The below table uses our regulated UCITS funds as a proxy for the performance returns[2] of our mainstream investment strategies:

	% of outperforming funds		
	1 year	**3 year**	**5 year**
Actively managed UCITS funds	61%	81%	76%

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 from Lipper for the LGIM UCITS. All data as at 31 December 2021.

Our success is also evident in the number of independent awards we won in 2021 for investment performance, including Investment Manager of the Year at the European Pensions Awards, Professional Adviser's Best Multi-asset Group/Fund for ESG, and Pensions Expert's LDI Manager of the Year.

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 2021, **LGIM managed £290.0bn (2020: £206.8bn) in responsible investment strategies explicitly linked to ESG criteria for a broad range of clients**.[36]

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 largest global asset managers. LGIM is, for example, a founding signatory of the Net Zero Asset Managers Initiative. Recent achievements include:

- **Commitment to net zero:**
    1. LGIM has committed to work in partnership with our clients to align 70% of eligible assets to net-zero carbon emissions by 2030, and to reach net-zero greenhouse gas emissions by 2050 or sooner across all eligible assets under management, in the same way that L&G has already committed to with its own balance sheet.
    2. Our DC default funds – available to over four million members across L&G Workplace Pensions and the L&G Mastertrust – have set interim targets to support their 2050 net-zero ambitions.
    3. LGIM Real Assets has committed to achieve net-zero carbon emissions across its UK real estate portfolio by 2050.
- **Product innovation**: The size of the global ESG market, currently $8 trillion, is expected to grow to $30 trillion by 2030.[37] We believe we are positioned to benefit from this flow of AUM thanks to our authentic and differentiated proposition. We continue to build on our strong heritage in using index and active ESG investing insights to develop innovative new products, with 55% of our EU domiciled UCITS funds classified as ESG-incorporated (articles 8 or 9) in the EU's first annual Sustainable Finance Disclosure Regulation (SFDR) exercise. Recent examples of ESG product innovation that place us at the forefront of growing client demand include:
    1. A low carbon transition index equity fund suite for UK pension clients, designed by LGIM in partnership with a key consultant, to reduce exposure to carbon emissions in alignment with 2050 net-zero goals, whilst also being aligned to LGIM's market leading engagement and voting activities.
    2. A multi-factor developed equity index fund with a strong focus on climate, which adheres to the EU's Climate Transition Benchmark framework.
    3. The launch of the ESG Paris-Aligned World Equity Index Fund, offering broad (ESG) exposure to developed market equities, while also integrating Paris-aligned reductions in carbon emissions and UN SDG principles. This secured the support of some key institutional investors at launch, including the London Borough of Newham Pension Fund which invested approximately £520m.
    4. The successful launch of a number of ESG ETFs, including a Green Bond strategy, a Hydrogen Economy thematic ETF, and a range of Quality Dividend ETFs with ESG exclusions.
- **Stewardship with impact**: LGIM has consistently received A+ rankings for responsible investment strategy and active ownership by the UN-backed Principles for Responsible Investment (UN PRI), and in 2021 the Financial Reporting Council (FRC) recognised LGIM as a successful signatory to the UK Stewardship Code for our high standards of stewardship.

[36] AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement.
[37] Broadridge Financial Solutions, November 2021.

LGR – Retail

FINANCIAL HIGHLIGHTS £m	2021	2020
Operating profit excluding mortality reserve release	**352**	322
Mortality reserve release	nil	75
Operating Profit	**352**	397
Release from operations	227	193
New business surplus	27	42
Net release from operations	**254**	235
Workplace Savings net flows (£bn)[38]	8.5	7.8
Individual single premium annuities	957	910
Lifetime & Retirement Interest Only mortgage advances	848	791
Total new business	**1,805**	1,701

Operating profit excluding mortality reserve releases up 9% to £352m

LGRR operating profit increased 9% to £352m during 2021 (2020: £322m), driven by the ongoing release from operations, positive mortality experience due to the continued tragic impact of COVID-19, and routine updates to our valuation assumptions.

As communicated at H1 21, we have not recognised an explicit release from adopting CMI2019, given the uncertainty in the data created by the pandemic. We anticipate any resulting additional prudence will be released through experience variances over the next 2-3 years until we have more certainty and clarity over the data. In H2 2020 we conservatively adopted an adjusted version of the CMI 2018 mortality tables for LGRR's annuity book, resulting in a £75m reserve release.

Release from operations was £227m (2020: £193m), an increase of 18%, reflecting the unwind of prudential margins from the annuity portfolio and increasing administration fees from the growth in workplace assets.

Net release from operations was £254m (2020: £235m) with new business surplus of £27m (2020: £42m). The annuity new business surplus reduced from the level seen last year due to competitive market pricing.

Resilient new business volumes in 2021

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 up 5% to £957m in 2021 (2020: £910m), as markets started to recover following the impact of the COVID pandemic last year. Our relative performance remained strong: our operational service, competitive pricing and focus on partners and intermediaries allowed us to grow external market share to 38.4%.[39]

Lifetime mortgage advances, including Retirement Interest Only mortgages, were up 7% to £848m (2020: £791m) in an increasingly competitive market. Throughout this period, we have maintained pricing and underwriting discipline whilst increasing advances. At the end of 2021, LTMs were 8% 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 c31% at point of sale.

Workplace Savings net flows were up £0.7bn to £8.5bn (2020: £7.8bn), driven by continued client wins and increased contributions. Members on the Workplace pension platform increased to 4.4 million in 2021. We are continuing to focus on improving efficiency and scale as the business grows.

[38] From 1 January 2021, the Workplace Savings administration business was transferred from LGIM to LGRR, building out LGRR's retail retirement proposition. Profits on the fund management services we provide are included in LGIM's asset management operating profit.
[39] ABI Q3 2021 Report.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	2021	2020
Operating profit	**268**	189
- UK	320	205
- US (LGIA)	(52)	(16)
Investment and other variances	111	(459)
Profit / (loss) before tax attributable to equity holders	**379**	(270)
Release from operations[1]	236	250
New business surplus / (strain)	27	8
Net release from operations	**263**	258
Solvency II New Business Value	**262**	254
LGI new business annual premiums	379	372
UK Retail Protection gross premiums	1,444	1,374
UK Group Protection gross premiums	405	382
US Protection (LGIA) gross premiums	1,053	1,093
Total gross premiums	**2,902**	2,849

1. Includes the annual dividend of $111m (2020: $109m) paid by LGIA to the Group in March 2021.

Operating profit up £79m to £268m; higher mortality claims in the US

During 2021, LGI operating profit increased 42% to £268m (2020: £189m), reflecting strong new business growth and modelling refinements to the liability discount rate in UK retail protection.

This was partially offset by adverse US mortality experience. COVID-related claims in the US reached approximately $189m, significantly exceeding the $82m provision set up at year end 2020. This experience has extended into 2022 and is consistent across the US life sector. In addition, adverse non-COVID claims impacted the industry during the year. Our 2021 result includes a £57m provision for potential COVID impacts in the US and UK in 2022.

Honouring our promises and responding quickly and compassionately to our customers' needs is core to our values at Legal & General. LGI is especially aware of the importance of our commitments to our customers: we paid £2.1bn of protection claims during the year.

Profit before tax was predominantly impacted by the formulaic change in LGI's discount rates. LGI's positive investment variance of £111m was driven primarily by an increase in UK and US government bond yields at shorter durations which have resulted in a higher discount rate used to calculate the reserves. The negative impact seen in 2020 has only been partly reversed as yields at longer durations have remained broadly flat year on year.

Solvency II New Business Value increased by £8m to £262m, up £15m to £269m on a constant currency basis (2020: £254m). UK New Business Value of £149m is supported by strong volumes in Retail Protection, but is £12m lower than prior year (£160m) due to lower volumes in Group Protection, margin pressure in Retail Protection caused by pricing action, and movements in product mix. New Business Value for US Protection was $155m, up 29% on 2020 ($120m) driven by sales growth of 20% and margin growth from favourable business mix.

Gross written premium at £2.9bn; good trading performance in the US and UK

UK Retail Protection gross premium income increased to £1,444m (2020: £1,374m), with new business annual premiums of £200m (2020: £175m), up 14% on prior year driven by strong customer demand following COVID-related disruption in 2020. Protection sales were particularly strong during H1 with both a strong housing market and the increased customer awareness of protection needs during the pandemic driving up demand. We held a market share of c25% in Q3 2021[40], maintaining our position as the leading provider of retail protection in the UK, whilst achieving a point of sale decision rate of 83% for all our major product lines. Our new business premium growth was supported by our innovation over the period, including enhancements to our income protection and critical illness benefits that broaden our scope in the market.

UK Group Protection gross premium income increased to £405m (2020: £382m), with new business annual premiums of £88m (2020: £117m). As previously guided, as a result of the renewal cycle for larger schemes, 2021 new business volumes did not reach the record levels of 2020. However, retention was strong resulting in premium income growth of 6% on 2020. Through 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. During H2 we launched an automated application portal which will further support growth in the smaller scheme segment.

US Protection (LGIA) gross written premiums increased 3% (down 6% on a sterling basis) to $1,449m (2020: $1,403m). New business annual premiums increased 20% to $124m (2020: $103m), with strong new business margins of 13.4% (2020: 11.2%). LGIA ranked number one in the brokerage general agency channel through Q3 2021 by both new premium and new policies issued. We continue to develop our market-leading, digital new business platform (Horizon) which is starting to deliver in line with expectation, and we expect to drive further sales growth and to reduce unit costs over the coming years. Two thirds of new business is now written onto our Horizon platform and we expect this to increase in 2022.

Legal & General Mortgage Club facilitated £98bn of mortgages, up 26% (2020: £77bn), driven by the buoyant housing market due to the extension of the Stamp Duty holiday in H1. We remain the largest participant in the UK intermediated mortgage market and are involved in around one in five of all UK mortgage transactions. Our Surveying Services business facilitated 528k surveys and valuations, compared to 440k surveys and valuations in the prior year. Since buying a new house is often a catalyst for purchasing life insurance, the Legal & General Mortgage Club is a supporting component of our overall offering to customers.

Scaling up our Fintech businesses

LGI has continued with its strategy to invest in and scale up innovative fintech businesses in adjacent markets. Our strategy of “digital first” has proved to be resilient through the COVID period, driving further growth in value and revenue. Salary Finance, an employee benefits platform, in which we have a 48% holding, continues to grow rapidly, with the platform now connected to 4.1 million employees across the UK and US. Gross revenue grew to £30m, an increase of 85% year on year. This trend is expected to continue with growing employee awareness and increasing platform engagement. It remains one of the UK’s fastest growing Fintechs and is well positioned for growth in the UK, the US and beyond.

The strategy of platform ownership and influence has continued to serve us well in the mortgage and home-financing “ecosystem”. Our mortgage research tools for affordability, criteria and product reach nearly 10,000 advisers in the mortgage broking market. Within our Legal & General surveying business, our work to digitise the market has proved invaluable for banks through the lockdown period. Our digital valuation services have been used by many of our key clients with over 119k completed since 2019. Elsewhere in the ecosystem, our c40% investment in Smartr365, a complete end-to-end mortgage platform used to unite mortgage advisers and their clients, has moved from start up to scale up across the UK mortgage broking market. With licence numbers having grown more than 7x since the start of the year, we now have just over 3,300 licences signed up. We have received strong feedback on the proposition which hugely simplifies the mortgage advice journey for brokers and customers.

[40] ABI Q3 2021 Report.

Subsidiary dividends to Group

£m	2021	2020
Subsidiary dividends remitted[1]:		
LGAS	902	935
LGIM	276	215
LGA	85	80
Other[2]	219	181
Total	**1,482**	1,411
Total excluding mortality release[3]	**1,482**	1,261

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 in 2020 due to mortality reserve releases in recent years.

The level of subsidiary dividends ensures coverage of external dividends (2021: £1,099m; 2020: £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 £4.3bn at 31 December 2021 (FY 2020: £4.6bn). There is also a further £0.9bn (FY 2020: £1.0bn) of operational borrowings including £0.9bn (FY 2020: £0.9bn) of non-recourse borrowings.

Group debt costs of £230m (2020: £233m) reflect an average cost of debt of 5.0% per annum (2020: 5.0% per annum) on an average nominal value of debt balances of £4.6bn (2020: £4.7bn).

£300m of 10% dated subordinated notes were called at par on 23 July 2021.

Taxation

Equity holders' Effective Tax Rate (%)	2021	2020
Equity holders' total Effective Tax Rate	**17.9**	12.1
Annualised rate of UK corporation tax	**19.0**	19.0

The effective tax rate reflects the impact of revaluing UK deferred tax assets and liabilities at 25%, following the announcement of an increase in the headline rate of UK corporation tax from 1 April 2023, and the different rates of tax that apply to Legal & General's overseas operations. The effective tax rate at FY 2020 was below the headline rate as a result of the impact of losses arising in the period through investment variance.

The tax rate on operating profits, excluding the impact of investment variance, was 15.5% (2020: 15.0%).

Solvency II

In previous years, the capital position was shown on a "shareholder view", where the contribution from the final salary pension schemes was excluded from the group position. The impact of excluding the contribution is now less than 1% and so the results below include the impact of the final salary pension schemes. The 2020 results have been adjusted to be consistent with 2021.

As at 31 December 2021, the Group had an estimated Solvency II surplus of £8.2bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 187% on a shareholder basis. As at 7th March 2022, we estimate the coverage ratio was 198%[41], primarily driven by an increase in interest rates.

Capital (£m)	2021	2020
Own Funds	17,561	17,316
Solvency Capital Requirement (SCR)	(9,376)	(9,880)
Solvency II surplus	**8,185**	**7,436**
SCR coverage ratio (%)	**187**	**175**

Analysis of movement from 1 January 2021 to 31 December 2021[1] (£m)	Solvency II Own Funds	Solvency II SCR	Solvency II Surplus
Operational surplus generation (continuing operations)	1,144	492	1,636
Operational surplus generation (discontinued operations)			
Operational surplus generation	**1,144**	**492**	**1,636**
New business strain	330	(684)	(354)
Net surplus generation	**1,474**	**(192)**	**1,282**
Operating variances			26
Mergers, acquisitions and disposals			77
Market movements			727
Subordinated debt			(300)
Dividends paid			(1,063)
Total surplus movement (after dividends paid in the period)	**245**	**504**	**749**

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

Operational surplus generation from continuing operations increased to £1,636m (2020: £1,460m), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £(354)m, primarily reflecting UK PRT volumes written at a capital strain of c4%. This resulted in net surplus generation of £1,282m (2020: £1,174m), which was in excess of the £1,063m of dividends declared (and paid) during the year. Note: our ambition is for net surplus generation to exceed dividends *cumulatively* over the period 2020-2024.

Operating variances include the impact of experience variances, changes to assumptions, and management actions. The net impact of operating variances over the period was neutral. Market movements of £727m reflect the impact of rising rates on the valuation of our balance sheet, and improved asset markets, predominantly in equities, as well as a number of other, smaller variances.

[41] Coverage ratio before the payment of the 2021 final dividend.

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 2021:

	£bn
IFRS Release from operations	**1,441**
Expected release of IFRS prudential margins	(496)
Release of IFRS specific reserves	(162)
Solvency II investment margin	213
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	640
Solvency II Operational Surplus Generation	**1,636**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in 2021:

	£bn
IFRS New business surplus	**247**
Removal of requirement to set up prudential margins above best estimate on new business	280
Set up of Solvency II Capital Requirement on new business	(684)
Set up of Risk Margin on new business	(197)
Solvency II New business strain	**(354)**

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

Sensitivity analysis[2]

	Impact on net of tax Solvency II capital surplus 2021 £bn	Impact on net of tax Solvency II coverage ratio 2021 %
100bps increase in risk free rates	0.9	19
50bps decrease in risk free rates	(0.6)	(10)
Credit spreads widen by 100bps assuming an escalating addition to ratings	0.6	13
Credit spreads narrow by 100bps assuming an escalating addition to ratings	(0.6)	(14)
Credit spreads widen by 100bps assuming a level addition to ratings	0.7	14
Credit spreads of sub-investment grade assets widen by 100bps assuming a level addition to ratings	(0.4)	(7)
Credit migration	(0.9)	(10)
25% fall in equity markets	(0.5)	(3)
15% fall in property markets	(0.8)	(7)
50bps increase in future inflation expectations	-	(2)
Substantially reduced Risk Margin	0.6	7

2. Please see disclosure 5.01 (h) 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 spreads 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 2021 are shown below[1]:

	PVNBP	Contribution from new business	Margin %
UK annuity business (£m)	**7,016**	**635**	**9.1**
UK Protection Total (£m)	**1,883**	**149**	**7.9**
- Retail protection	1,476	120	8.1
- Group protection	407	29	7.1
US Protection (£m)	**842**	**113**	**13.4**

The key economic assumptions as at 31 December 2021 are as follows:

	%
Margin for risk	**4.1**
Risk free rate	
- UK	**0.9**
- US	**1.5**
Risk discount rate (net of tax)	
- UK	**5.0**
- US	**5.6**
Long-term rate of return on non-profit annuities	**2.5**

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 UK risk free rates have been based on a SONIA-based swap curve (2020: Libor-based swap curve net of the PRA-specified Credit Risk Adjustment). The risk free rate shown above is a weighted average based on the projected cash flows.

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

Principal risks and uncertainties

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

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital. The performance and liquidity of financial and property 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 and although we seek to match assets and liabilities, losses can still arise from adverse markets. Falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet, potentially impacting capital requirements and surplus capital. Falls in investment values can reduce our investment management fee income.	We cannot eliminate the downside impacts on our earnings, profitability or surplus capital from investment market volatility and adverse economic conditions, although we seek to position our investment portfolios and wider business plans for a range of plausible economic scenarios and investment market conditions to ensure their resilience across a range of outcomes. This includes setting risk limits on exposures to different asset classes and where hedging instruments exist, we seek to remove interest rate and inflation risk on a financial reporting basis. Our Own Risk & Solvency Assessment (ORSA) is integral to our risk management approach, supporting assessment of the financial impacts of risks associated with investment market volatility and adverse economic scenarios for our Solvency II balance sheet, capital sufficiency, and liquidity requirements. Whilst global and UK economic activity is returning to pre-pandemic levels, there remains significant uncertainty to the impacts of inflation on the sustainability of the recovery, particularly should current inflationary pressures become deep seated or from misjudged central bank monetary policies in response. Financial markets, as well as being impacted by the economic outlook also continue to be susceptible to shocks and re-appraisal of asset values from a range of other factors including geo-political crisis in eastern Europe; a collapse in China's property sector; and the emergence of further Covid-19 variants that may be resistant to current vaccines. Within the UK, uncertainty persists in certain elements of commercial property markets, and within our construction businesses supply chain and labour shortages are evolving risks.
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. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	We manage our exposure to downgrade and default risks within our bond portfolios, through setting selection criteria and exposure limits, and using LGIM's global credit team's capabilities to ensure risks are effectively controlled, where appropriate trading out to improve credit quality. In our property lending businesses, our loan criteria take account of borrower default and movements in the value of security. We manage our reinsurer exposures dealing only with those with a minimum A- rating at outset, setting rating based exposure limits, and where appropriate taking collateral. Similarly, we seek to limit aggregate exposure to banking, money market and service providers. Whilst we manage risks to our Solvency II balance sheet, we can never eliminate downgrade or default risks, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. Although the wider economy is recovering from the effects of global lockdowns, a range of industries have been directly impacted by Covid-19 disease control measures including the leisure, transport, travel and retail consumer cyclical sectors, with the risk of downgrade and default remaining particularly as governments withdraw economic support packages. A period of sustained inflation with increases in interest rate suppressing economic activity in sectors reliant on discretionary spending could compound the effects. Covid-19 related impacts for reinsurance counterparties also remains a risk factor, albeit we assess strongly rated reinsurer default to be a more remote risk.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
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. Our interests in property assets may also expose us to physical climate change related risks, including flood risks. We are also exposed to the risk of adverse perceptions of the group and climate risk related litigation should our responses not align with environment, social and governance (ESG) rating expectations.	We recognise that our scale brings a responsibility to act decisively in positioning our balance sheet to the threats from climate change. We continue to embed the assessment of climate risks in our investment process, including in the management of real assets, and broader risk management framework. At the aggregate level we measure the carbon intensity targets of our investment portfolios, and along with specific investment exclusions for carbon intensive industries, we have set overall reduction targets aligned with a 1.5°C interpretation of the Paris Agreement, including setting near term science based targets to support our long-term emission reduction goals. We also closely monitor the political and regulatory landscape, and as part of our climate strategy we engage with regulators and investee companies in support of climate action. Following COP26, we are still encouraged about the possibility of limiting global temperature rises to 1.5°C. However, this will require societal change on an unprecedented scale over the next decade. We are dependent on the delivery of policy actions, and the climate reduction targets of the firms we invest in. The actions that the world is taking will also to some extent inform the actions that we can take. Climate change and failure to transition to a low carbon economy remains a significant risk that we believe has still to be fully priced in by financial markets, with delays in responding to the threats increasing the risk of sudden late policy action, leading to potentially large and unanticipated shifts in asset valuations for impacted industries.
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 business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, increasing the level of reserves and impacting reported profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, and expenses, as well as credit default in the assets backing our insurance liabilities. We also 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 to us of significant variations in life expectancy and mortality. Although vaccines have had a significant effect in reducing mortality rates from the most recent variant of Covid-19, uncertainty remains to future virus mutations and their virulence, the long-term efficacy of vaccines and the effects of 'long Covid' on morbidity. The deferral of some non-Covid-19 medical treatments during the course of the pandemic may also impact mortality and morbidity rates in our UK and US markets. Alongside Covid-19 related matters, other risk factors that may impact future reserving requirements include a dramatic advance in medical science, beyond that anticipated, requiring adjustment to our longevity assumptions; and the emergence of new diseases and changes in immunology impacting mortality and morbidity assumptions.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
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.	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 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. Regulatory driven change remains a significant risk factor across our businesses. Areas of future change include HM Treasury's consultation on Solvency II and the Future Regulatory Framework post Brexit; and the UK's financial conduct regulators proposal for a new Consumer Duty will place obligations to evidence the delivery of good customer outcomes. Regulatory focus also continues on operational resilience, the management of third parties and the transition risks presented to the financial service sector from climate change. We are also monitoring potential for changes in UK fiscal policy arising from the need to fund government borrowing in response to Covid-19; and the likelihood of a global move towards a higher tax environment. We also continue to prepare in readiness for IFRS 17, which will introduce a new suite of financial reporting metrics. Within our property construction businesses, the Building Safety Bill and the Environment Act 2021 will also introduce new operating requirements.
New entrants may disrupt the markets in which we operate. There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. It is possible that alternative digitally enabled financial services providers emerge with lower cost business models or innovative service propositions and disrupt the current competitive landscape. We are also cognisant of competitors who may have lower return on capital requirements or be unconstrained by Solvency II.	We continuously monitor the factors that may impact the markets in which we operate, including evolving domestic and international capital standards, and are maintaining our focus on developing our digital platforms. We have a number of direct investments in strategically important market segments to enhance delivery of our core businesses including workplace benefits, insurtech, mortgages, health and care and equity funding. LGIM continue to invest in technology to achieve the resilience and agility critical to future success. 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. Our businesses are well positioned for changes in the competitive landscape that may arise from the roll out of defined benefit 'superfund' consolidation schemes, pension dashboards and 'collective' pension scheme arrangements. We also continue to be supportive of the opportunity for reform of the Solvency II capital regime post Brexit.
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 cyber threats including the risks of data theft and fraud. There is also strong stakeholder expectation that our core business services are resilient to operational disruption.	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. 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. Although Covid-19 lockdowns in 2021 had some impact for our business operations, the majority of our business services have operated normally, and we expect to transition in 2022 to a hybrid office:home working environment that will seek to maintain high standards of customer service and internal control. We remain, alert to evolving operational risks and continue to invest in our system capabilities, including those for the management of cyber risks, to ensure that our business processes are resilient. We are also cognisant of the risks as we implement a new global operating model and IT platform for LGIM, and have structured the migration in phases to minimise change risks.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
The success of our operations is dependent on the ability to attract and retain highly qualified professional people. The Group aims to recruit, develop and retain high quality individuals. We are inherently exposed to the risk that key personnel or teams of expertise may leave the Group, with an adverse effect on the Group's businesses. As we increasingly focus on the digitalisation of our businesses, we are also competing for data and digital skill sets with other business sectors as well as our peers.	We seek to ensure that key personnel dependencies do not arise, through employee training and development programmes, remuneration strategies and succession planning. Our processes include the active identification and development of talent within our workforce, and by highlighting our values and social purpose, promoting Legal & General as a great place to work. We also engage our people on new ways of working under our hybrid home:office model and are investing in technology and upgrading our buildings to support a range of working styles. Competition for talent across the full range of capabilities and qualifications is intense and demands that the Group offers competitive compensation arrangements as well as opportunities for development and an attractive work environment. People with skills in areas such as technology and digital are particularly sought after across many business sectors, including those in which we operate. We also recognise the risks posed by the outlook for inflation in salary expectations across the wider employment market. Market-wide approaches to hybrid working are still evolving, and although we believe we are taking the right steps, there remains a risk that our model does not align with the expectations of those we seek to attract or retain.

Notes

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

A presentation to analysts and investors will take place at 11:00am UK time today at One Coleman Street, London, EC2R 5AA. There will also be a live webcast of the presentation that can be accessed at www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

A replay of the presentation will be made available on this website by 11th March 2022.

Financial Calendar	Date
Ex-dividend date (2021 final dividend)	**21 April 2022**
Record date	**22 April 2022**
Annual General Meeting	**26 May 2022**
Dividend payment date	**01 June 2022**
2022 interim results announcement	**10 August 2022**
Ex-dividend date (2022 interim dividend)	**18 August 2022**
Record date	**19 August 2022**
Dividend payment date	**26 September 2022**

Definitions

Definitions are included in the Glossary on pages 96 to 98 of this release

Forward-looking statements

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

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

Caution about climate information

This announcement contains climate and ESG disclosures which use a large number of judgments, assumptions and estimates. These judgments, assumptions and estimates are likely to change over time. In addition, the Group's climate risk analysis and net zero strategy remain under development and the data underlying the analysis and strategy remain subject to evolution. As a result, certain climate and ESG disclosures made in this announcement are likely to be amended, updated, recalculated or restated in future announcements. This statement should be read together with the Cautionary statement contained in the Group's 2021 Climate Report.

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

Going concern statement

The group's business activities, together with the factors likely to affect its future development, performance and position in the current economic environment are set out in this Annual Report & Accounts. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in these consolidated financial statements. Principal risks and uncertainties are detailed on pages 29 to 32.

The directors have made an assessment of the group's going concern, considering both the current performance and the 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 this Annual Report & Accounts.

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 in section 5.01 of the Capital section of the Full year report 2021. These stresses, including additional considerations relating 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 the current economic environment, as detailed on pages 29 to 32, 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 UK-adopted IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Group;

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

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

By order of the Board

Sir Nigel Wilson
Group Chief Executive
8 March 2022

Stuart Jeffrey Davies
Group Chief Financial Officer
8 March 2022

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1.01 Operating profit#

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
From continuing operations			
Legal & General Retirement (LGR)	1.03	**1,506**	1,728
- LGR Institutional (LGRI)		1,154	1,331
- LGR Retail (LGRR)[1]		352	397
Legal & General Investment Management (LGIM)[1]	1.04	**422**	407
Legal & General Capital (LGC)	1.05	**461**	275
Legal & General Insurance (LGI)	1.03	**268**	189
- UK and Other		320	205
- US (LGIA)		(52)	(16)
Operating profit from divisions:			
From continuing operations		**2,657**	2,599
From discontinued operations[2]		**-**	34
Operating profit from divisions		**2,657**	2,633
Group debt costs[3]		**(230)**	(233)
Group investment projects and expenses		**(165)**	(155)
Covid-19 costs[4]		**-**	(27)
Operating profit		**2,262**	2,218
Investment and other variances	1.06	**233**	(394)
Losses attributable to non-controlling interests		**(7)**	(36)
Adjusted profit before tax attributable to equity holders		**2,488**	1,788
Tax expense attributable to equity holders	3.04	**(445)**	(217)
Profit for the year	2.01	**2,043**	1,571
Less: Profit after tax from discontinued operations[2]	2.01	**-**	(290)
Profit after tax from continuing operations	2.01	**2,043**	1,281
Total tax expense	2.01	**589**	218
Profit before tax	2.01	**2,632**	1,499
Profit attributable to equity holders		**2,050**	1,607
Earnings per share:			
Basic (pence per share)[5]	1.07	**34.19p**	27.00p
Diluted (pence per share)[5]	1.07	**32.57p**	25.60p

1. LGRR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in reporting structure. Further details are provided in Note 1.08.
2. In 2020, discontinued operations included the results of the Mature Savings division, the sale of which completed on 7 September 2020.
3. Group debt costs exclude interest on non-recourse financing.
4. Covid-19 costs reflected incremental operational expenses incurred as a result of Covid-19.
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 additional analysis of the results reported under IFRS, and the group believes it provides stakeholders with useful information to enhance their understanding of the performance of the business in the year.

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

The group reports its results across the following business segments:

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

All references to 'Operating profit' throughout this report represent '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 2021	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**739**	**220**	**959**	**54**	**251**	**23**	**-**	**1,287**	**219**	**1,506**
- LGRI	512	193	705	40	212	27	-	984	170	1,154
- LGRR[2]	227	27	254	14	39	(4)	-	303	49	352
LGIM[2]	**342**	**-**	**342**	**-**	**-**	**-**	**-**	**342**	**80**	**422**
LGC	**379**	**-**	**379**	**-**	**-**	**-**	**-**	**379**	**82**	**461**
LGI	**236**	**27**	**263**	**14**	**82**	**6**	**(138)**	**227**	**41**	**268**
- UK and Other	131	27	158	14	82	6	-	260	60	320
- US (LGIA)[3]	105	-	105	-	-	-	(138)	(33)	(19)	(52)
Total from divisions	**1,696**	**247**	**1,943**	**68**	**333**	**29**	**(138)**	**2,235**	**422**	**2,657**
Group debt costs	**(186)**	**-**	**(186)**	**-**	**-**	**-**	**-**	**(186)**	**(44)**	**(230)**
Group investment projects and expenses	**(69)**	**-**	**(69)**	**-**	**-**	**-**	**(68)**	**(137)**	**(28)**	**(165)**
Total	**1,441**	**247**	**1,688**	**68**	**333**	**29**	**(206)**	**1,912**	**350**	**2,262**

1. Release from operations within US (LGIA) includes £80m of dividends from the US.
2. LGRR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in reporting structure. Further details are provided in Note 1.08.
3. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.

Release from operations for LGR 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 annuities and UK protection businesses. For Workplace Savings, the release from operations represents the expected annual management charges generated from the in-force business less the expected expenses. The LGI release from operations also includes dividends remitted from LGIA.

New business surplus/(strain) for LGR 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 annuities and protection, net of tax. Similarly for Workplace Savings, this includes the cost of acquiring new business in the year less the annual management charges generated by the assets under administration (AUA), net of tax. The new business surplus and release from operations for LGR 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 year 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 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 and LGI is defined as release from operations plus new business surplus/(strain).

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

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

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

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

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	685	262	947	99	400	32	-	1,478	250	1,728
- LGRI	492	220	712	81	314	30	-	1,137	194	1,331
- LGRR[2]	193	42	235	18	86	2	-	341	56	397
LGIM[2]	327	-	327	-	-	-	-	327	80	407
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)[3]	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[4]	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[5]	-	-	-	-	-	-	(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. LGRR includes the Workplace Savings business which was previously reported in LGIM. Further details are provided in Note 1.08.
3. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.
4. Discontinued operations include the results of the Mature Savings division, the sale of which completed on 7 September 2020.
5. Covid-19 costs reflect incremental operational expenses incurred as a result of Covid-19.

All references to 'Operating profit' throughout this report represent '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 2021

	LGR[1] 2021 £m	LGI 2021 £m	LGR[1] 2020 £m	LGI 2020 £m
Net release from operations	**959**	**263**	947	258
Experience variances				
- Persistency	**1**	**(5)**	7	3
- Mortality/morbidity[2]	**40**	**13**	104	(46)
- Expenses	**-**	**5**	(18)	(5)
- Project and development costs	**(19)**	**(11)**	(9)	(1)
- Other	**32**	**12**	15	8
Total experience variances	**54**	**14**	99	(41)
Changes in valuation assumptions				
- Persistency	**-**	**(5)**	-	(1)
- Mortality/morbidity[3]	**201**	**(2)**	255	54
- Expenses	**-**	**(1)**	-	2
- Other[4,5]	**50**	**90**	145	3
Total changes in valuation assumptions	**251**	**82**	400	58
Movement in non-cash items				
- Acquisition expense tax relief	**-**	**-**	-	(3)
- Other[6]	**23**	**6**	32	(2)
Total movement in non-cash items	**23**	**6**	32	(5)
Other[2]	**-**	**(138)**	-	(115)
Operating profit after tax	**1,287**	**227**	1,478	155
Tax expense	**219**	**41**	250	34
Operating profit before tax	**1,506**	**268**	1,728	189

1. LGR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in reporting structure. Further details are provided in Note 1.08.
2. Mortality experience variances in 2020 were driven by increased claims experience due to Covid-19, particularly impacting LGIA (reflected in Other) where we retain the majority of the mortality risk. In 2021, total LGI Covid-19 claims have exceeded the prior year reserves by £79m, and we have further established a provision of £57m for Covid-19 mortality impacts expected in 2022.
3. In 2021, mortality assumption changes for LGR reflect a one-off update to the spouse demography assumption of £100m. We have not recognised an explicit release from adopting CMI 2019 given the uncertainty in the data created by Covid-19. In 2020, the assumption changes included 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. Other positive longevity variances in both years are driven by routine updates to our assumptions relating to base mortality rates.
4. In 2020, the £145m positive Other changes in valuation assumptions in LGR reflect both a reduction in the assumed late retirement factors applied to deferred annuities and the impact of updating unit cost and investment management expense assumptions.
5. In 2021, the £90m positive Other changes in valuation assumptions in LGI reflect the benefit of modelling improvements in UK retail protection, including the introduction of an illiquidity premium in the liability discount rate.
6. 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

	2021 £m	2020 £m
Asset management revenue (excluding 3rd party market data)[1]	**980**	929
Asset management transactional revenue[2]	**32**	27
Asset management expenses (excluding 3rd party market data)[1]	**(590)**	(549)
Total LGIM operating profit[3]	**422**	407

1. Asset management revenue and expenses exclude income and costs of £32m in relation to the provision of third party market data (2020: £27m).
2. Transactional revenue from external clients includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees.
3. The Workplace Savings business, which was previously reported in LGIM, has been transferred to LGRR. Prior year comparatives have been restated to reflect the change in reporting structure. Further details are provided in Note 1.08.

1.05 LGC operating profit

	2021 £m	2020 £m
Direct investments[1]	**350**	112
Traded investment portfolio including treasury assets[2]	**111**	163
Total LGC operating profit	**461**	275

1. Direct investments represents LGC's portfolio of assets across specialist commercial real estate, clean energy, housing and SME finance. Direct investments include operating profit in relation to CALA of £132m (2020: £7m).
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

	2021 £m	2020 £m
Investment variance related to protection liabilities	**111**	(459)
Investment variance related to the traded investment portfolio and direct investments	**19**	(299)
Other investment variance[1]	**211**	67
Investment variance	**341**	(691)
M&A related and other variances[2]	**(108)**	297
Total investment and other variances	**233**	(394)

1. Other investment variance includes variances in respect of the defined benefit pension scheme, reflecting the impact of the acquisition of annuity assets from LGR, and the difference between the IAS 19 and annuity discount rates.
2. M&A related and other variances includes gains and losses, expenses and intangible amortisation relating to acquisitions, disposals and restructuring. 2021 includes: the impact of the sale of a book of retail investment products within the L&G Personal Investing business to Fidelity International Limited, announced in October 2020; the costs associated with LGIM's appointment of State Street to provide Charles River technology and middle office services, including the recognition of a multi-year restructuring provision; and the impact of impairing capitalised software intangibles as a result of various restructuring exercises.

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

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

The long-term expected investment returns are:

	2021	2020
Equities	**7%**	7%
Commercial property	**5%**	5%
Residential property	**RPI + 50bps**	RPI + 50bps

Additionally, other alternative assets within the LGC portfolio comprise investments in housing, specialist commercial real estate, clean energy, digital infrastructure and venture capital. The long-term expected investment return is on average between 8% and 10%, in line with our stated investment objectives. Rates of return specific to each asset are determined at the point of underwriting and reviewed and updated annually. The expected investment return includes assumptions on appropriate discount rates and inflation as well as sector specific assumptions including retail and commercial property yields and power prices.

1.07 Earnings per share

(a) Basic earnings per share

	After tax 2021 £m	Per share[1] 2021 p	After tax 2020 £m	Per share[1] 2020 p
Profit for the year attributable to equity holders	**2,050**	**34.58**	1,607	27.10
Less: coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	**(23)**	**(0.39)**	(6)	(0.10)
Total basic earnings	**2,027**	**34.19**	1,601	27.00
Less: earnings derived from discontinued operations	**-**	**-**	(290)	(4.89)
Basic earnings derived from continuing operations	**2,027**	**34.19**	1,311	22.11

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

	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 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

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

1.08 Segmental analysis

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

From 1 January 2022, the group has announced changes to the business unit responsibilities within the Executive Committee. Andrew Kail will become the Chief Executive Officer of LGRI, succeeding Laura Mason who has previously moved to become CEO of Legal & General Capital (LGC). Our two retail businesses, LGRR and LGI, will come together under the leadership of Bernie Hickman. As noted on page 10, this will enable the creation of a single interface for the group's UK retail customers.

As a result of these changes, from 1 January 2022 the group will align its reportable segments to the five core businesses, comprising LGRI, LGRR, LGI, LGIM, and LGC. Group central expenses and debt costs will continue to be reported separately.

In 2021, management of the Workplace Savings business has transferred from LGIM to LGRR, where it complements their retirement solutions offering and retail customer focus. The change in reporting structure has no impact on the profit or loss, or net assets, of the group. To enable comparison, segmental information for prior year has been restated accordingly.

In 2020, continuing operations exclude the results of the Mature Savings business, the sale of which was completed on 7 September 2020.

Reporting of assets and liabilities by reportable segment has not been included, as this is not information that is provided to key decision makers on a regular basis. The group's asset and liabilities are managed on a legal entity rather than 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 2021	**LGR[1] £m**	**LGIM[1] £m**	**LGC £m**	**LGI £m**	**Group expenses and debt costs[2] £m**	**Total continuing operations £m**
Operating profit/(loss)#	**1,506**	**422**	**461**	**268**	**(395)**	**2,262**
Investment and other variances	**242**	**(11)**	**19**	**111**	**(128)**	**233**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Profit/(loss) before tax attributable to equity holders	**1,748**	**411**	**480**	**379**	**(530)**	**2,488**
Tax (expense)/credit attributable to equity holders	**(276)**	**(79)**	**(93)**	**(59)**	**62**	**(445)**
Profit/(loss) for the year	**1,472**	**332**	**387**	**320**	**(468)**	**2,043**

For the year ended 31 December 2020	LGR[1] £m	LGIM[1] £m	LGC £m	LGI £m	Group expenses and debt costs[2] £m	Total continuing operations £m
Operating profit/(loss)#	1,728	407	275	189	(415)	2,184
Investment and other variances	15	1	(299)	(459)	24	(718)
Losses attributable to non-controlling interests	-	-	-	-	(36)	(36)
Profit/(loss) before tax attributable to equity holders	1,743	408	(24)	(270)	(427)	1,430
Tax (expense)/credit attributable to equity holders	(228)	(65)	(8)	58	94	(149)
Profit/(loss) for the year	1,515	343	(32)	(212)	(333)	1,281

1. LGR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in reporting structure.
2. Group expenses and debt costs include £nil of incremental costs incurred as a result of Covid-19 (2020: £27m).

Operating profit for total continuing operations represents '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 2021	LGR £m	LGIM[1,2] £m	LGI £m	LGC and other[3] £m	Total continuing operations £m
Internal income	-	179	-	(179)	-
External income	5,959	35,738	2,029	1,724	45,450
Total income	**5,959**	**35,917**	**2,029**	**1,545**	**45,450**

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

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 2021	Notes	**2021 £m**	2020 £m
Income			
Gross written premiums		**10,375**	12,545
Outward reinsurance premiums		**(3,446)**	(3,187)
Net change in provision for unearned premiums		**42**	12
Net premiums earned		**6,971**	9,370
Fees from fund management and investment contracts		**959**	873
Investment return		**35,927**	39,168
Other operational income		**1,593**	820
Total income	1.08	**45,450**	50,231
Expenses			
Claims and change in insurance contract liabilities		**7,353**	17,768
Reinsurance recoveries		**(2,968)**	(3,601)
Net claims and change in insurance contract liabilities		**4,385**	14,167
Change in investment contract liabilities		**34,206**	31,410
Acquisition costs		**825**	617
Finance costs		**294**	305
Other expenses		**3,108**	2,233
Total expenses		**42,818**	48,732
Profit before tax		**2,632**	1,499
Tax expense attributable to policyholder returns		**(144)**	(69)
Profit before tax attributable to equity holders		**2,488**	1,430
Total tax expense		**(589)**	(218)
Tax expense attributable to policyholder returns		**144**	69
Tax expense attributable to equity holders	3.04	**(445)**	(149)
Profit after tax from continuing operations	1.08	**2,043**	1,281
Profit after tax from discontinued operations[1]		**-**	290
Profit for the year		**2,043**	1,571
Attributable to:			
Non-controlling interests		**(7)**	(36)
Equity holders		**2,050**	1,607
Dividend distributions to equity holders during the year	3.02	**1,063**	1,048
Dividend distributions to equity holders proposed after the year end	3.02	**790**	754
		p	p
Total basic earnings per share[2]	1.07	**34.19**	27.00
Total diluted earnings per share[2]	1.07	**32.57**	25.60
Basic earnings per share derived from continuing operations[2]	1.07	**34.19**	22.11
Diluted earnings per share derived from continuing operations[2]	1.07	**32.57**	20.98

1. In 2020, discontinued operations included the results of the Mature Savings division, the sale of which completed on 7 September 2020.
2. 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 2021	2021 £m	2020 £m
Profit for the year	**2,043**	1,571
Items that will not be reclassified subsequently to profit or loss		
Actuarial remeasurements on defined benefit pension schemes	**53**	(168)
Tax (expense)/credit on actuarial remeasurements on defined benefit pension schemes	**(7)**	48
Total items that will not be reclassified subsequently to profit or loss	**46**	(120)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas operations	**(11)**	2
Movement in cross-currency hedge	**20**	7
Tax expense on movement in cross-currency hedge	**(7)**	(4)
Movement in financial investments designated as available-for-sale	**(3)**	2
Total items that may be reclassified subsequently to profit or loss	**(1)**	7
Other comprehensive income/(expense) after tax	**45**	(113)
Total comprehensive income for the year	**2,088**	1,458
Total comprehensive income for the year attributable to:		
Continuing operations	**2,088**	1,168
Discontinued operations	**-**	290
Total comprehensive income/(expense) for the year attributable to:		
Non-controlling interests	**(7)**	(36)
Equity holders	**2,095**	1,494

2.03 Consolidated Balance Sheet

As at 31 December 2021	Notes	2021 £m	2020 £m
Assets			
Goodwill		**68**	68
Other intangible assets		**365**	329
Deferred acquisition costs		**26**	47
Investment in associates and joint ventures accounted for using the equity method		**375**	288
Property, plant and equipment		**316**	274
Investment property	3.03	**10,150**	8,475
Financial investments	3.03	**538,374**	526,057
Reinsurers' share of contract liabilities		**7,180**	6,939
Deferred tax assets	3.04	**2**	5
Current tax assets		**670**	634
Receivables and other assets		**8,625**	9,429
Cash and cash equivalents		**16,487**	18,020
Total assets		**582,638**	570,565
Equity			
Share capital	3.05	**149**	149
Share premium	3.05	**1,012**	1,006
Employee scheme treasury shares		**(99)**	(75)
Capital redemption and other reserves		**196**	198
Retained earnings		**9,228**	8,224
Attributable to owners of the parent		**10,486**	9,502
Restricted Tier 1 convertible notes	3.06	**495**	495
Non-controlling interests	3.07	**(38)**	(31)
Total equity		**10,943**	9,966
Liabilities			
Non-participating insurance contract liabilities		**89,825**	89,029
Non-participating investment contract liabilities		**372,954**	343,543
Core borrowings	3.08	**4,256**	4,558
Operational borrowings	3.09	**932**	1,055
Provisions	3.13	**1,238**	1,288
Deferred tax liabilities	3.04	**251**	207
Current tax liabilities		**84**	61
Payables and other financial liabilities	3.10	**74,264**	91,942
Other liabilities		**925**	756
Net asset value attributable to unit holders		**26,966**	28,160
Total liabilities		**571,695**	560,599
Total equity and liabilities		**582,638**	570,565

2.04 Consolidated Statement of Changes in Equity

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

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

2.04 Consolidated Statement of Changes in Equity (continued)

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 remeasurements 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	-	-	-	-	-	-	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 £35m and available-for-sale reserves £2m.

2.05 Consolidated Statement of Cash Flows

For the year ended 31 December 2021	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Profit for the year		**2,043**	1,571
Adjustments for non cash movements in net profit for the year			
Net gains on financial investments and investment property		**(26,062)**	(28,530)
Investment income		**(9,865)**	(9,761)
Interest expense		**294**	337
Tax expense		**589**	144
Other adjustments		**137**	(12)
Net decrease/(increase) in operational assets			
Investments held for trading or designated as fair value through profit or loss		**4,616**	6,519
Investments designated as available-for-sale		**(21)**	1,072
Other assets		**139**	(2,445)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**726**	11,607
Investment contracts		**29,409**	20,855
Other liabilities		**(11,161)**	(5,900)
Cash utilised in operations		**(9,156)**	(4,543)
Interest paid		**(301)**	(301)
Interest received		**5,060**	5,190
Rent received		**373**	384
Tax paid[1]		**(564)**	(554)
Dividends received		**4,419**	4,125
Net cash flows from operations		**(169)**	4,301
Cash flows from investing activities			
Acquisition of plant, equipment, intangibles and other assets		**(205)**	(198)
Disposal of plant, equipment, intangibles and other assets		**-**	34
Acquisition of operations, net of cash acquired		**-**	1
Disposal of subsidiaries and other operations, net of cash transferred		**217**	(278)
Investment in joint ventures and associates		**(56)**	(16)
Disposal of joint ventures and associates		**177**	-
Net cash flows generated/(utilised) from investing activities		**133**	(457)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders during the year	3.02	**(1,063)**	(1,048)
Coupon payment in respect of restricted Tier 1 convertible notes, gross of tax	3.06	**(28)**	(7)
Options exercised under share option schemes	3.05	**6**	6
Treasury shares purchased for employee share schemes		**(34)**	(23)
Payment of lease liabilities		**(37)**	(37)
Proceeds from borrowings		**449**	1,086
Repayment of borrowings		**(798)**	(501)
Proceeds from issuance of restricted Tier 1 convertible notes, net of associated expenses		**-**	495
Net cash flows utilised in financing activities		**(1,505)**	(29)
Net (decrease)/increase in cash and cash equivalents		**(1,541)**	3,815
Exchange gains/(losses) on cash and cash equivalents		**8**	(28)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**18,020**	14,233
Total cash and cash equivalents at 31 December		**16,487**	18,020

1. Tax paid comprises UK corporation tax of £368m (2020: £417m), withholding tax of £188m (2020: £137m) and overseas corporate tax of £8m (2020: £nil).

3.01 Basis of preparation

The preliminary announcement for the year ended 31 December 2021 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 2021 Annual Report and Accounts, which will be made available on the group's website on 16 March 2022. The group's 2020 Annual Report and Accounts have been filed with the Registrar of Companies, and those for 2021 will be delivered in due course. KPMG have reported on the 2021 and 2020 report and accounts. Both their reports were (i) unqualified, (ii) did not include a reference to any matters to which they drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

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

Financial assets and financial liabilities are disclosed gross in the Consolidated Balance Sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or interpretations by the IFRS Interpretations Committee.

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

Critical accounting policies and the use of estimates
The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the valuation of insurance and investment contract liabilities, unquoted illiquid assets, investment property, and the determination of defined benefit pension plan assumptions. From a policy application perspective, the major areas of judgement are the assessment of whether a contract transfers significant insurance risk to the group, and whether the group controls underlying entities and should therefore consolidate them. The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the group's 2021 Annual Report and Accounts.

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

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

3.02 Dividends and appropriations

	Dividend 2021 £m	Per share[1] 2021 p	Dividend 2020 £m	Per share[1] 2020 p
Ordinary dividends paid and charged to equity in the year:				
- Final 2019 dividend paid in June 2020	-	-	754	12.64
- Interim 2020 dividend paid in September 2020	-	-	294	4.93
- Final 2020 dividend paid in June 2021	754	12.64	-	-
- Interim 2021 dividend paid in September 2021	309	5.18	-	-
Total dividends	**1,063**	**17.82**	1,048	17.57
Ordinary share dividend proposed[2]	**790**	**13.27**	754	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 2021, the directors declared a final dividend for 2021 of 13.27 pence per ordinary share. This dividend will be paid on 1 June 2022. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2022 and is not included as a liability in the Consolidated Balance Sheet as at 31 December 2021.

3.03 Financial investments and investment property

	2021 £m	2020 £m
Equities[1]	**213,049**	189,089
Debt securities[2,3]	**296,930**	295,660
Derivative assets[4]	**16,792**	24,631
Loans[5]	**11,603**	16,677
Financial investments	**538,374**	526,057
Investment property	**10,150**	8,475
Total financial investments and investment property	**548,524**	534,532

1. Equity securities include investments in unit trusts of £18,248m (31 December 2020: £13,215m).
2. Debt securities include accrued interest of £1,420m (31 December 2020: £1,434m).
3. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 6.03.
4. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £15,718m (31 December 2020: £23,208m).
5. Loans include £92m (31 December 2020: £131m) of loans valued at amortised cost.

3.04 Tax

(a) Tax expense in the Consolidated Income Statement

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

	Total 2021 £m	Continuing operations 2020 £m	Total 2020 £m
Profit before tax attributable to equity holders	**2,488**	1,430	1,788
Tax calculated at 19.00%	**473**	272	340
Adjusted for the effects of:			
Recurring reconciling items:			
(Lower)/higher rate of tax on profits taxed overseas[1]	**(104)**	(111)	(111)
Income not subject to tax	**-**	(1)	(1)
Non-deductible expenses	**6**	11	11
Differences between taxable and accounting investment gains	**(13)**	(10)	(10)
Foreign tax	**-**	1	1
Unrecognised tax losses	**1**	14	14
Non-recurring reconciling items:			
Adjustments in respect of prior years[2]	**24**	(42)	(42)
Impact of the revaluation of deferred tax balances[3]	**58**	16	16
Other	**-**	(1)	(1)
Tax expense/(credit) attributable to equity holders	**445**	149	217
Equity holders' effective tax rate	**17.9%**	10.4%	12.1%

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

3.04 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	2021 £m	2020 £m
Deferred acquisition expenses	**95**	85
- Overseas	**95**	85
Difference between the tax and accounting value of insurance contracts	**(695)**	(557)
- UK	**(269)**	(207)
- Overseas	**(426)**	(350)
Realised and unrealised gains on investments[3]	**(83)**	(113)
Excess of depreciation over capital allowances	**22**	18
Excess expenses	**-**	1
Accounting provisions and other[3]	**55**	54
Trading losses[1]	**348**	289
Pension fund deficit	**9**	22
Acquired intangibles	**-**	(1)
Net deferred tax liabilities	**(249)**	(202)
Presented on the Consolidated Balance Sheet as:		
- Deferred tax assets[2]	**2**	5
- Deferred tax liabilities	**(215)**	(168)
- Overseas net deferred tax liabilities	**(36)**	(39)
Net deferred tax liabilities	**(249)**	(202)

1. Trading losses include deferred tax on UK trade and US operating losses of £2m (2020: £5m) and £346m (2020: £284m) respectively. Overseas net deferred tax liabilities include a deferred tax asset of £346m (2020: £284m) on accumulated losses in our US insurance business. These losses are not time restricted, and we expect to recover them over a period of 15 to 20 years, commensurate with the lifecycle of the underlying insurance contracts. In reaching this conclusion, we have considered past results, the different basis under which US companies are taxed, temporary differences that are expected to generate future profits against which the deferred tax can be offset, management actions, and future profit forecasts. The recoverability of deferred tax assets is routinely reviewed by management.
2. The deferred tax asset recognised separately in the consolidated balance sheet refers to deferred tax assets against which there are no appropriate deferred tax liabilities to offset the asset. The closing amount of £2m (2020: £5m) are restricted losses which cannot be offset against profits arising elsewhere in the group.
3. The US deferred tax liability of £102m (2020: £40m) in respect of US bond contracts has been reclassified from Accounting provisions and other to Realised and unrealised gains on investments. The net impact on the total balance is £nil.

3.05 Share capital and share premium

Authorised share capital	2021 Number of shares	2021 £m	2020 Number of shares	2020 £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 2021	**5,967,358,713**	**149**	**1,006**
Options exercised under share option schemes	**3,057,104**	**-**	**6**
As at 31 December 2021	**5,970,415,817**	**149**	**1,012**

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

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

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

3.06 Restricted Tier 1 convertible notes

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

The notes have no fixed maturity date. Optional cancellation of coupon payments is at the discretion of the issuer and mandatory cancellation is upon the occurrence of certain conditions. The Tier 1 notes are therefore treated as equity and coupon payments are recognised directly in equity when paid. During the year coupon payments of £28m were made (2020: £7m). The notes rank junior to all other liabilities and senior to equity attributable to owners of the parent. On the occurrence of certain conversion trigger events the notes are convertible into ordinary shares of the Issuer at the prevailing conversion price.

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

3.07 Non-controlling interests

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

As at 31 December 2021, non-controlling interests primarily represent third party ownership in Thorpe Park Holdings, a mixed residential/commercial retail space in which the group holds 50%.

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

3.08 Core borrowings

	Carrying amount 2021 £m	Coupon rate 2021 %	Fair value 2021 £m	Carrying amount 2020 £m	Coupon rate 2020 %	Fair value 2020 £m
Subordinated borrowings						
10% Sterling subordinated notes 2041 (Tier 2)[1]	**-**	**-**	**-**	313	10.00	329
5.5% Sterling subordinated notes 2064 (Tier 2)	**590**	**5.50**	**776**	589	5.50	813
5.375% Sterling subordinated notes 2045 (Tier 2)	**604**	**5.38**	**673**	604	5.38	714
5.25% US Dollar subordinated notes 2047 (Tier 2)	**635**	**5.25**	**694**	628	5.25	703
5.55% US Dollar subordinated notes 2052 (Tier 2)	**373**	**5.55**	**428**	369	5.55	411
5.125% Sterling subordinated notes 2048 (Tier 2)	**400**	**5.13**	**461**	400	5.13	484
3.75% Sterling subordinated notes 2049 (Tier 2)	**598**	**3.75**	**632**	598	3.75	662
4.5% Sterling subordinated notes 2050 (Tier 2)	**500**	**4.50**	**558**	499	4.50	587
Client fund holdings of group debt (Tier 2)[2]	**(44)**	**-**	**(51)**	(42)	-	(51)
Total subordinated borrowings	**3,656**	**-**	**4,171**	3,958	-	4,652
Senior borrowings						
Sterling medium term notes 2031-2041	**609**	**5.87**	**846**	609	5.88	926
Client fund holdings of group debt[2]	**(9)**	**-**	**(11)**	(9)	-	(12)
Total senior borrowings	**600**	**-**	**835**	600	-	914
Total core borrowings	**4,256**	**-**	**5,006**	4,558	-	5,566

1. These notes were redeemed in full on 23 July 2021.
2. £53m (31 December 2020: £51m) 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.

3.08 Core borrowings (continued)

Subordinated borrowings

10% Sterling subordinated notes 2041
In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. These notes were called at par on 23 July 2021.

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 unless stated otherwise.

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

3.09 Operational borrowings

	Carrying amount 2021 £m	Interest rate 2021 %	Fair value 2021 £m	Carrying amount 2020 £m	Interest rate 2020 %	Fair value 2020 £m
Short-term operational borrowings						
Euro Commercial Paper	**50**	**0.16**	**50**	50	0.78	50
Bank loans and overdrafts	**-**	**-**	**-**	54	-	54
Non-recourse borrowings						
Cardiff Interchange Limited	**45**	**2.29**	**45**	-	-	-
Later Living portfolio	**-**	**-**	**-**	72	2.77	72
CALA revolving credit facility	**100**	**1.96**	**100**	170	2.95	170
Class B Surplus Notes	**664**	**1.72**	**664**	639	2.45	639
Affordable Homes revolving credit facility	**56**	**2.08**	**56**	60	2.13	60
Homes Modular revolving credit facility	**9**	**3.27**	**9**	-	-	-
Operational borrowings[1]	**924**	**-**	**924**	1,045	-	1,045

1. Unit linked borrowings with a carrying value of £8m (31 December 2020: £10m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £932m (31 December 2020: £1,055m).

Non-recourse borrowings

- Cardiff Interchange Limited entered into a debt facility agreement with National Westminster Bank Plc. The facility is secured on the assets of Cardiff Interchange Limited and LGCIL's shares in, and intercompany debt owed by, Cardiff Interchange Limited.

- Loan facilities to Later Living portfolio had 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, the breach of which could result in a charge on the land and work in progress of Legal & General Affordable Homes (Development 2) Limited.

- Legal & General Homes Modular Limited's revolving credit facility is secured by way of fixed charges over development properties owned by the company and a fixed charge over the shares in the company. There are also fixed and floating charges over the other assets of the company.

The carrying value of operational borrowings approximates 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 Affordable Homes revolving credit facilities which have been classified as Level 3.

Syndicated Credit Facility

As at 31 December 2021, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2024. No amounts were outstanding at 31 December 2021.

3.10 Payables and other financial liabilities

	2021 £m	2020 £m
Derivative liabilities	**15,718**	23,208
Repurchase agreements[1]	**46,331**	53,853
Other financial liabilities[2]	**12,215**	14,881
Total payables and other financial liabilities	**74,264**	91,942
Due within 12 months	**53,250**	65,316
Due after 12 months	**21,014**	26,626

1. Repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The significant majority of repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, lease liabilities, FX spots and the value of short positions taken out to cover reverse repurchase agreements. The value of short positions as at 31 December 2021 was £5,418m (2020: £5,147m).

Fair value hierarchy

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

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[2]	14,881	7,438	29	11	7,403
Total payables and other financial liabilities	91,942	7,738	76,708	93	7,403

1. The carrying value of payables and other financial liabilities at amortised cost approximates its fair value.
2. For 2020, £2,216m of Other financial liabilities have been reclassified from Amortised cost to Level 1 in the Fair value hierarchy, such that they are consistent with their treatment in the current year.

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the year ended 31 December 2021 (2020: no significant transfers).

3.11 Sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2021 £m	**Impact on group equity net of re-insurance 2021 £m**	Impact on pre-tax group profit net of re-insurance 2020 £m	Impact on group equity net of re-insurance 2020 £m
Economic sensitivity				
100bps increase in interest rates[1]	**55**	**188**	260	350
50bps decrease in interest rates[1]	**(77)**	**(139)**	(194)	(227)
50bps increase in future inflation expectations	**(41)**	**(60)**	(148)	(119)
Credit spreads widen by 100bps with no change in expected defaults	**(311)**	**(234)**	(304)	(246)
25% rise in equity markets	**513**	**423**	482	399
25% fall in equity markets	**(513)**	**(423)**	(482)	(399)
15% rise in property values	**1,299**	**1,084**	1,111	903
15% fall in property values	**(1,368)**	**(1,144)**	(1,187)	(964)
10bps increase in credit default assumptions	**(765)**	**(651)**	(856)	(692)
10bps decrease in credit default assumptions	**754**	**642**	832	672
Non-economic sensitivity				
1% increase in annuitant mortality	**166**	**146**	209	176
1% decrease in annuitant mortality	**(170)**	**(150)**	(218)	(183)
5% increase in assurance mortality	**(451)**	**(357)**	(450)	(356)
10% increase in maintenance expenses	**(254)**	**(208)**	(254)	(205)

1. Following improvements to the modelling of market risk sensitivities during the current year, the 2020 impacts on pre-tax group profit net of reinsurance under interest rates sensitivities have been restated to be on a basis consistent with the 2021 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 group pre-tax profit and equity impacts may arise from asset and / or liability movements under the sensitivities. The current disclosure reflects management's view of key risks in current economic conditions.

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

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

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

The change in interest rate stress 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% per annum (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 above.

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

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

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

3.11 Sensitivity analysis (continued)

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

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

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

The group is exposed to climate change through two broad categories:

- Transition risks from the move to a low-carbon economy and the impact this has on both valuation of the group's assets and the broader economic conditions; and
- Physical risks from the impact on asset holdings or changes to insurance liabilities as a result of severe weather events and longer-term shifts in climate.

Climate change impacts will emerge through risks that we are already exposed to, with the key existing risk exposures covered by the economic and non-economic sensitivities shown in this section. In addition, given the uncertain nature of the risks from climate change, and the lack of historical data to support decision making, a specific scenario testing approach over a longer-term time horizon has been developed by the company to manage the risks from climate change. To understand our exposures and how these risks may emerge we have developed our climate scenario modelling capabilities. Possible climate pathways and their impact are considered in the climate scenario analysis detailed in the group's Climate Report for the year ended 31 December 2021.

3.12 Foreign exchange rates

Principal rates of exchange used for translation are:

Year end exchange rates	2021	2020
United States dollar	**1.35**	1.37
Euro	**1.19**	1.12

Average exchange rates	2021	2020
United States dollar	**1.38**	1.28
Euro	**1.16**	1.13

3.13 Provisions

(a) Analysis of provisions

	Notes	2021 £m	2020 £m
Other provisions	3.13 (b)	**213**	123
Retirement benefit obligations	3.13 (c)	**1,025**	1,165
Total provisions		**1,238**	1,288

(b) Other provisions

Included within Other provisions are amounts relating to new and existing M&A and restructuring transactions. In 2021, the group announced that Legal & General Investment Management (LGIM) is extending its existing partnership with State Street, to increase the use of Charles River technology across the front office and to deliver middle office services going forward.

As a result of this announcement, in line with the requirements of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', a provision was recognised, which reflects the costs that LGIM is committed to incur in order to implement the new arrangement. These costs include the transfer of data and operations to State Street, as well as the implementation of the new operating model. The amounts included in the provision have been determined on a best estimate basis by reference to a range of plausible scenarios, taking into account the multi-year implementation period for the project. As at 31 December 2021, the outstanding provision was £89m.

(c) Retirement benefit obligations

	Fund and Scheme 2021 £m	CALA Homes and Overseas 2021 £m	Fund and Scheme 2020 £m	CALA Homes and Overseas 2020 £m
Gross pension obligations included in provisions	**1,020**	**5**	1,138	27
Annuity obligations insured by LGAS	**(990)**	**-**	(1,051)	-
Gross defined benefit pension deficit	**30**	**5**	87	27
Deferred tax on defined benefit pension deficit	**(8)**	**(1)**	(17)	(5)
Net defined benefit pension deficit	**22**	**4**	70	22

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

3.14 Contingent liabilities, guarantees and indemnities

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

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

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

3.15 Related party transactions

(i) Key management personnel transactions and compensation

There were no material transactions between key management and the Legal & General group of companies during the period. 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 £109m (31 December 2020: £137m) for all employees.

At 31 December 2021 and 31 December 2020 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:

	2021 £m	2020 £m
Salaries	**10**	8
Share-based incentive awards	**5**	5
Key management personnel compensation	**15**	13

(ii) Services provided to and by related parties

All transactions between the group and associates, joint ventures and other related parties during the period 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 entered into the following material related party transactions during the year:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £82m (2020: £50m) have been purchased by the group's UK defined benefit pension schemes, priced on an arm's length basis;

- The Legal & General Group UK Pension and Assurance Fund (the Fund) 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. In June 2021, £925m was paid by the Fund to LGAS, and LGAS and the Fund recognised an investment contract liability and an APP plan asset of the same amount, respectively.

As at 31 December 2021, LGAS recognised a liability related to this APP transaction with the Fund of £882m which is included in the group’s non-participating investment contract liabilities. Following a similar transaction in 2020 between the Legal & General Group UK Senior Pension Scheme (the Scheme) and LGAS, a further £332m (2020: £396m) is included in the group’s non-participating investment contract liabilities as at 31 December 2021. The Fund and Scheme hold transferable plan assets of the same amounts which do not eliminate on consolidation.

- Loans outstanding from related parties at 31 December 2021 of £15m (2020: £89m), with a further commitment of £2m;

- The group has total other commitments of £1,158m to related parties (2020: £1,207m), of which £726m has been drawn at 31 December 2021 (2020: £772m).

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Asset and premium flows

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

For the year ended 31 December 2021	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2021	**429.9**	**193.6**	**65.7**	**557.2**	**32.5**	**1,278.9**
External inflows	93.9	18.7	15.1	34.4	1.7	163.8
External outflows	(91.5)	(15.8)	(8.1)	(25.5)	(1.8)	(142.7)
Overlay net flows	-	-	-	11.0	-	11.0
ETF net flows	2.5	-	-	-	-	2.5
External net flows[3]	**4.9**	**2.9**	**7.0**	**19.9**	**(0.1)**	**34.6**
Internal net flows[4]	(1.0)	(1.8)	0.2	(1.5)	2.0	(2.1)
Total net flows	**3.9**	**1.1**	**7.2**	**18.4**	**1.9**	**32.5**
Cash management movements[5]	-	1.1	-	-	-	1.1
Market and other movements[3]	68.6	3.0	5.1	29.5	2.8	109.0
As at 31 December 2021	**502.4**	**198.8**	**78.0**	**605.1**	**37.2**	**1,421.5**
Assets attributable to:						
External						1,306.3
Internal						115.2

For the year ended 31 December 2020	Index £bn	Active strategies £bn	Multi asset[6] £bn	Solutions[2,6] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2020	403.6	177.2	59.0	525.6	30.8	1,196.2
External inflows	76.6	17.7	10.1	25.4	1.0	130.8
External outflows	(84.7)	(17.8)	(5.8)	(36.1)	(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)	4.3	23.2	(0.4)	20.4
Internal net flows[4]	(0.2)	2.6	(0.4)	(0.3)	0.4	2.1
Total net flows	(6.8)	2.5	3.9	22.9	-	22.5
Cash management movements[5]	-	2.4	-	-	-	2.4
Market and other movements[3]	33.1	11.5	2.8	8.7	1.7	57.8
As at 31 December 2020	429.9	193.6	65.7	557.2	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 £383.2bn (31 December 2020: £340.1bn) 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 2021 was £71.2bn (31 December 2020: £45.8bn) and the movement in these assets is included in Market and other movements for Solutions assets.
4. Internal includes legacy assets from the Mature Savings business sold to ReAssure in 2020.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
6. Multi asset AUM as at 31 December 2020 has been restated to include £2.3bn (31 December 2019: £1.0bn) of Target Date Return funds previously included within Solutions.

Asset and premium flows

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

For the year ended 31 December 2021	Index £bn	Active strategies £bn	Multi asset[6] £bn	Solutions[2,6] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2021	**429.9**	**193.6**	**65.7**	**557.2**	**32.5**	**1,278.9**
External inflows	44.5	10.0	7.2	17.9	0.6	80.2
External outflows	(41.9)	(7.7)	(4.0)	(7.1)	(0.8)	(61.5)
Overlay net flows	-	-	-	6.6	-	6.6
ETF net flows	2.1	-	-	-	-	2.1
External net flows[3]	**4.7**	**2.3**	**3.2**	**17.4**	**(0.2)**	**27.4**
Internal net flows[4]	(0.3)	(2.3)	0.1	(0.2)	1.0	(1.7)
Total net flows	**4.4**	**-**	**3.3**	**17.2**	**0.8**	**25.7**
Cash management movements[5]	-	(0.4)	-	-	-	(0.4)
Market and other movements[3]	37.1	(3.1)	2.8	(14.6)	0.4	22.6
As at 30 June 2021	**471.4**	**190.1**	**71.8**	**559.8**	**33.7**	**1,326.8**
External inflows	49.4	8.7	7.9	16.5	1.1	83.6
External outflows	(49.6)	(8.1)	(4.1)	(18.4)	(1.0)	(81.2)
Overlay net flows	-	-	-	4.4	-	4.4
ETF net flows	0.4	-	-	-	-	0.4
External net flows[3]	**0.2**	**0.6**	**3.8**	**2.5**	**0.1**	**7.2**
Internal net flows[4]	(0.7)	0.5	0.1	(1.3)	1.0	(0.4)
Total net flows	**(0.5)**	**1.1**	**3.9**	**1.2**	**1.1**	**6.8**
Cash management movements[5]	-	1.5	-	-	-	1.5
Market and other movements[3]	31.5	6.1	2.3	44.1	2.4	86.4
As at 31 December 2021	**502.4**	**198.8**	**78.0**	**605.1**	**37.2**	**1,421.5**

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 £383.2bn (30 June 2021: £345.3bn; 31 December 2020: £340.1bn) 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 2021 was £71.2bn (30 June 2021: £51.5bn; 31 December 2020: £45.8bn) and the movement in these assets is included in Market and other movements for Solutions assets.
4. Internal includes legacy assets from the Mature Savings business sold to ReAssure in 2020.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
6. Multi asset AUM as at 30 June 2021 has been restated to include £3.7bn (31 December 2020: £2.3bn) of Target Date Return funds previously included within Solutions.

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

For the year ended 31 December 2020	Index £bn	Active strategies £bn	Multi asset[6] £bn	Solutions[2,6] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2020	403.6	177.2	59.0	525.6	30.8	1,196.2
External inflows	27.7	9.5	4.4	10.8	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	1.7	8.2	0.2	6.2
Internal net flows[4]	-	(0.2)	(0.7)	(0.1)	0.4	(0.6)
Total net flows	(4.4)	0.3	1.0	8.1	0.6	5.6
Cash management movements[5]	-	2.8	-	-	-	2.8
Market and other movements[3]	(4.1)	9.2	(1.7)	31.9	0.7	36.0
As at 30 June 2020	395.1	189.5	58.3	565.6	32.1	1,240.6
External inflows	48.9	8.2	5.7	14.6	0.4	77.8
External outflows	(52.4)	(8.8)	(3.1)	(13.4)	(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)	2.6	15.0	(0.6)	14.2
Internal net flows[4]	(0.2)	2.8	0.3	(0.2)	-	2.7
Total net flows	(2.4)	2.2	2.9	14.8	(0.6)	16.9
Cash management movements[5]	-	(0.4)	-	-	-	(0.4)
Market and other movements[3]	37.2	2.3	4.5	(23.2)	1.0	21.8
As at 31 December 2020	429.9	193.6	65.7	557.2	32.5	1,278.9

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 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 2020 was £45.8bn and the movement in these assets is included in Market and other movements for Solutions assets.
4. Internal net flows include flows in legacy assets from the Mature Savings business sold to ReAssure in 2020.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
6. Multi asset AUM as at 31 December 2020 has been restated to include £2.3bn (30 June 2020: £1.2bn; 31 December 2019: £1.0bn) of Target Date Return funds previously included within Solutions.

4.03 LGIM total external assets under management and net flows

	Assets under management at				Net flows for the six months ended[2]			
	31 December 2021 £bn	**30 June 2021 £bn**	31 December 2020 £bn	30 June 2020 £bn	**31 December 2021 £bn**	**30 June 2021 £bn**	31 December 2020 £bn	30 June 2020 £bn
International[1]	**377.3**	**344.8**	303.5	289.5	**14.5**	**15.0**	(1.0)	(3.0)
UK Institutional								
- Defined contribution	**137.7**	**125.5**	112.7	96.7	**5.0**	**4.4**	5.6	5.5
- Defined benefit	**733.3**	**689.6**	699.4	706.7	**(13.9)**	**4.6**	7.7	2.5
Retail[3]	**49.1**	**45.5**	41.6	38.5	**1.2**	**1.3**	0.6	1.0
ETF[4]	**8.9**	**8.2**	5.4	3.5	**0.4**	**2.1**	1.3	0.2
Total external	**1,306.3**	**1,213.6**	1,162.6	1,134.9	**7.2**	**27.4**	14.2	6.2

1. International assets are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £479bn as at 31 December 2021 (31 December 2020: £388bn).
2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability.
3. Retail represents assets from the Retail Intermediary business and £0.3bn of assets from Personal Investing customers that did not migrate to Fidelity International Limited.
4. ETF reflects external AUM and Flows invested on the platform. Total AUM managed on the platform is £10.1bn in 2021 (£6.2bn in 2020) and Flows are £2.9bn (£1.8bn in 2020) which include internal investment from other LGIM asset classes.

4.04 Reconciliation of assets under management to Consolidated Balance Sheet

	2021 £bn	2020 £bn
Assets under management[1]	**1,421**	1,279
Derivative notionals[1,2]	**(383)**	(340)
Third party assets[1,3]	**(480)**	(419)
Other[1,4]	**7**	33
Total financial investments, investment property and cash and cash equivalents	**565**	553

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

4.05 Assets under administration

	Workplace[1] 2021 £bn	Annuities[2] 2021 £bn	Workplace 2020 £bn	Annuities 2020 £bn
As at 1 January	**50.8**	**87.0**	40.3	75.9
Gross inflows	**11.9**	**8.7**	10.0	10.1
Gross outflows	**(3.4)**	**-**	(2.2)	-
Payments to pensioners	**-**	**(4.6)**	-	(4.3)
Net flows	**8.5**	**4.1**	7.8	5.8
Market and other movements	**6.4**	**(1.2)**	2.7	5.3
As at 31 December	**65.7**	**89.9**	50.8	87.0

1. Workplace assets under administration as at 31 December 2021 includes £65.6bn (2020: £50.7bn) of assets under management included in Note 4.01.

2. Annuities assets under administration as at 31 December 2021 includes £80.6bn (2020: £79.4bn) of assets under management included in Note 4.01.

4.06 Assets under administration half-yearly progression

For the year ended 31 December 2021	**Workplace 2021 £bn**	**Annuities 2021 £bn**	Workplace 2020 £bn	Annuities 2020 £bn
As at 1 January	**50.8**	**87.0**	40.3	75.9
Gross inflows	7.5	3.7	3.3	3.8
Gross outflows	(1.5)	-	(0.9)	-
Payments to pensioners	-	(2.2)	-	(2.1)
Net flows	**6.0**	**1.5**	2.4	1.7
Market and other movements	3.4	(2.7)	(1.2)	3.1
As at 30 June	**60.2**	**85.8**	41.5	80.7
Gross inflows	4.4	5.0	6.7	6.3
Gross outflows	(1.9)	-	(1.3)	-
Payments to pensioners	-	(2.4)	-	(2.2)
Net flows	**2.5**	**2.6**	5.4	4.1
Market and other movements	3.0	1.5	3.9	2.2
As at 31 December	**65.7**	**89.9**	50.8	87.0

4.07 LGR new business

	Total 2021 £m	6 months 31 December 2021 £m	6 months 30 June 2021 £m	Total 2020 £m	6 months 31 December 2020 £m	6 months 30 June 2020 £m
Pension risk transfer						
- UK[1]	**6,240**	**3,275**	**2,965**	7,593	4,417	3,176
- US	**789**	**682**	**107**	1,250	1,002	248
- Bermuda	**147**	**147**	**-**	-	-	-
Individual annuities	**957**	**474**	**483**	910	489	421
Lifetime & Retirement Interest Only mortgage advances	**848**	**434**	**414**	791	429	362
Total LGR new business	**8,981**	**5,012**	**3,969**	10,544	6,337	4,207

1. UK pension risk transfer includes a £925m (H1 21: £925m; H2 21: £nil) (H1 20: £nil; H2 20: £397m) Assured Payment Policy (APP).

4.08 LGI new business

	Total 2021 £m	6 months 31 December 2021 £m	6 months 30 June 2021 £m	Total 2020 £m	6 months 31 December 2020 £m	6 months 30 June 2020 £m
UK Retail protection	**200**	**95**	**105**	175	92	83
UK Group protection	**88**	**33**	**55**	117	52	65
US protection[1]	**91**	**48**	**43**	80	36	44
Total LGI new business	**379**	**176**	**203**	372	180	192

1. In local currency, US protection reflects new business of $124m for 2021 (H1 21: $59m; H2 21: $65m), and $103m for 2020 (H1 20: $56m; H2 20: $47m)

4.09 Gross written premiums on insurance business

	Total 2021 £m	6 months 31 December 2021 £m	6 months 30 June 2021 £m	Total 2020 £m	6 months 31 December 2020 £m	6 months 30 June 2020 £m
UK Retail protection	**1,444**	**730**	**714**	1,374	694	680
UK Group protection	**405**	**131**	**274**	382	137	245
US protection[1]	**1,053**	**541**	**512**	1,093	543	550
Longevity insurance	**307**	**155**	**152**	327	168	159
Total gross written premiums on insurance business	**3,209**	**1,557**	**1,652**	3,176	1,542	1,634

1. In local currency, US protection reflects gross written premiums of $1,449m for 2021 (H1 21: $712m; H2 21: $737m), and $1,403m for 2020 (H1 20: $693m; H2 20: $710m).

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 and Legal & General Reinsurance Company No. 2 (L&G Re 2 - a new subsidiary incorporated in 2021) 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 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 2021). The TMTP incorporates impacts of 31 December 2021 economic conditions and changes during 2021 to the Internal Model and Matching Adjustment. This is in line with the group's management of the capital position on a dynamic TMTP basis.

In previous years, the capital position was shown on a "shareholder view", where the contribution from the final salary pension schemes was excluded from the group position. The impact of excluding the contribution is now less than 1% and so the results below, which are on a proforma basis, include the impact of the final salary pension schemes. The 2020 results have been adjusted to be consistent with 2021.

(a) Capital position

As at 31 December 2021, and on the above basis, the group had a surplus of £8,185m (31 December 2020: £7,436m) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio of 187% (31 December 2020: 175%). The Solvency II capital position is as follows:

	2021 £m	2020[1] £m
Unrestricted Tier 1 Own Funds	**13,254**	12,478
Restricted Tier 1 Own Funds[2]	**495**	495
Tier 2 Subordinated liabilities[3]	**3,995**	4,531
Eligibility restrictions	**(183)**	(188)
Solvency II Own Funds[4,5]	**17,561**	17,316
Solvency Capital Requirement	**(9,376)**	(9,880)
Solvency II surplus	**8,185**	7,436
SCR Coverage ratio	**187%**	175%

1. 2020 figures have been restated to include the contribution from the final salary pension schemes, replacing the "shareholder view" from prior years' disclosures.
2. Restricted Tier 1 Own Funds represent restricted Tier 1 contingent convertible notes.
3. £300m of Tier 2 subordinated liabilities were redeemed in full on 23 July 2021.
4. Solvency II Own Funds do not include an accrual for the final dividend of £790m (31 December 2020: £754m) declared after the balance sheet date.
5. Solvency II Own Funds allow for a Risk Margin of £5,488m (2020: £6,064m) and TMTP of £4,736m (2020: £5,564m).

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 2021 and the impacts of a recalculation of the TMTP as at end December 2021. The recalculated TMTP of £4,736m (31 December 2020: £5,564m) is net of amortisation to 31 December 2021.

The liabilities include a Risk Margin of £5,488m (31 December 2020: £6,064m) which represents an allowance for the cost of capital for a purchasing insurer to take on the portfolio of liabilities and residual risks that are deemed to be non-hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed by the Solvency II regulations.

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

All material EEA insurance firms, including Legal and General Assurance Society Limited (LGAS) and Legal and General Assurance (Pensions Management) Limited, are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (LGRe) based in Bermuda) contribute over 95% 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.

Legal & General Reinsurance No 2 Ltd (L&G Re 2) is incorporated into the calculation of group solvency using a Deduction and Aggregation basis. All risk exposure in the firm is valued on a local (Bermuda) capital basis, with capital requirements set equal to the local capital requirement and Own Funds contribution restricted by 20% of the capital. The Bermuda regulatory regime is also considered to be equivalent to Solvency II by the European Commission.

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

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

(c) Assumptions

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

(i) demographic assumptions required to project best estimate liability cash flows are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins.

(ii) future investment returns and discount rates to derive the present value of best estimate liability cash flows are those defined by the PRA. From July 2021, the risk-free rates used to discount UK Sterling cashflows are SONIA-based market swap rates (2020: Libor-based market swap rates with a deduction of a credit risk adjustment of 11bps). For non-UK Sterling liabilities, the risk-free rates used to discount cash flows include a credit risk adjustment that varies by currency.

(iii) for annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities. At 31 December 2021 the Matching Adjustment for UK GBP was 104 basis points (31 December 2020: 103 basis points) after deducting an allowance for the fundamental spread equivalent to 54 basis points (31 December 2020: 55 basis points).

(iv) assumptions regarding management actions and policyholder behaviour across the full range of scenarios. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date.

(v) assumptions regarding the volatility of the risks to which the group is exposed. Assumptions have been set using a combination of historic market, demographic and operating experience data. In areas where data is not considered robust, expert judgement has been used.

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

5.01 Group regulatory capital – Solvency II (continued)

(d) Analysis of change

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

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

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

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

1. Operating variances include the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix.

2. Market movements represent the impact of changes in investment market conditions over the year and changes to future economic assumptions.

3. Includes the impact of the sale of the Personal Investment business.

4. Reflects the redemption of £300m debt issued in 2009.

5. Dividends paid are the amounts from the 2020 final dividend and the 2021 interim dividend.

5.01 Group regulatory capital – Solvency II (continued)

(d) Analysis of change (continued)

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

	2020 Own Funds £m	2020 SCR £m	2020 Surplus £m
Opening Position	16,867	(9,439)	7,428
Operational Surplus Generation (Continuing Operations)	1,092	368	1,460
Operational Surplus Generation (Discontinued Operations)	(9)	41	32
Total operational surplus generation	1,083	409	1,492
New business strain	417	(719)	(302)
Net surplus generation	1,500	(310)	1,190
Operating variances[1]			521
Market movements[2]			(1,395)
M&A, portfolio and business transfers[3]			(255)
Subordinated liabilities[4]			995
Dividends paid[5]			(1,048)
Total surplus movement (after dividends paid in the period)	449	(441)	8
Closing Position	17,316	(9,880)	7,436

1. Operating variances include the impact of experience variances, changes to valuation assumptions, methodology changes and other management actions including changes in asset mix.

2. Market movements represent the impact of changes in investment market conditions over the year and changes to future economic assumptions.

3. Includes the impacts of the sale of the Mature Savings business, which completed in H2 2020.

4. Includes restricted Tier 1 Own Funds from Perpetual contingent convertible notes.

5. Dividends paid are the amounts from the 2019 final dividend and the 2020 interim dividend.

(e) Future Solvency II surplus generation – UK annuities

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

The table shows the Operational Surplus Generation from all of the group's divisions that are involved in the management of the annuity business, i.e. Legal & General Retirement, Legal & General Capital and Legal & General Investment Management. The impact of management actions is excluded; we expect management actions to contribute between £100m and £200m each year.

	2021 £bn	**2022 £bn**	**2023 £bn**	**2024 £bn**	**2025 £bn**	**2026-2030 £bn**	**2031-2040 £bn**	**Total 2022-2040 £bn**
Annuity back book OSG[1]	0.7	0.7	0.7	0.6	0.5	1.9	4.9	9.3
L&G Other	0.2	0.3	0.3	0.3	0.3	1.4	2.1	4.7
Total OSG for UK Annuity back book	**0.9**	**1.0**	**1.0**	**0.9**	**0.8**	**3.3**	**7.0**	**14.0**

1. Annuity back book Operational Surplus Generation does not include new business.

5.01 Group regulatory capital – Solvency II (continued)

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

(i) The table below provides a reconciliation of the group's IFRS Release from operations to Solvency II Operational surplus generation.

	2021 £m	2020 £m
IFRS Release from operations	**1,441**	1,269
Expected release of IFRS prudential margins	**(496)**	(465)
Releases of IFRS specific reserves[1]	**(162)**	(163)
Solvency II investment margin[2,3]	**213**	344
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	**640**	507
Solvency II Operational surplus generation[4]	**1,636**	1,492

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long-term longevity and expense margins).
2. Release of prudence related to differences between the PRA defined Fundamental Spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk-free rates over 2021.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2021 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.

	2021 £m	2020 £m
IFRS New business surplus	**247**	270
Removal of requirement to set up prudential margins above best estimate on new business	**280**	355
Set up of SCR on new business	**(684)**	(719)
Set up of Risk Margin on new business	**(197)**	(208)
Solvency II New business strain[1]	**(354)**	(302)

1. UK PRT new business volume during 2021 was £6.2bn (2020: £7.6bn).

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

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

	2021 £m	2020 £m
IFRS equity[1]	**10,981**	9,997
Remove DAC, goodwill and other intangible assets and associated liabilities	**(406)**	(391)
Add IFRS carrying value of subordinated borrowings[2]	**3,700**	4,000
Insurance contract valuation differences[3]	**4,132**	4,495
Difference in value of net deferred tax liabilities	**(716)**	(638)
Other	**53**	41
Eligibility restrictions	**(183)**	(188)
Solvency II Own Funds[4]	**17,561**	17,316

1. IFRS equity represents equity attributable to owners of the parent and restricted Tier 1 convertible notes as per the Consolidated Balance Sheet.
2. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
3. Differences in the measurement of technical provisions between IFRS and Solvency II.
4. Solvency II Own Funds do not include an accrual for the final dividend of £790m (31 December 2020: £754m) declared after the balance sheet date.

5.01 Group regulatory capital – Solvency II (continued)

(h) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2021 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	**Impact on net of tax Solvency II coverage ratio**	Impact on net of tax Solvency II capital surplus[1]	Impact on net of tax Solvency II coverage ratio[1]
	2021	**2021**	2020	2020
	£bn	**%**	£bn	%
50bps increase in risk-free rates[1]	**0.5**	**10**	0.6	11
100bps increase in risk-free rates[1]	**0.9**	**19**	1.0	20
50bps decrease in risk-free rates[1,2]	**(0.6)**	**(10)**	(0.7)	(11)
Credit spreads widen by 100bps assuming an escalating addition to ratings[3,4]	**0.6**	**13**	0.5	11
Credit spreads narrow by 100bps assuming an escalating deduction from ratings[3,4]	**(0.6)**	**(14)**	(0.7)	(12)
Credit spreads widen by 100bps assuming a level addition to ratings[3]	**0.7**	**14**	0.7	13
Credit spreads of sub investment grade assets widen by 100bps assuming a level addition to ratings[3,5]	**(0.4)**	**(7)**	(0.4)	(5)
Credit migration[6]	**(0.9)**	**(10)**	(1.2)	(12)
25% fall in equity markets[7]	**(0.5)**	**(3)**	(0.5)	(4)
15% fall in property markets[8]	**(0.8)**	**(7)**	(0.6)	(5)
50bps increase in future inflation expectations	**-**	**(2)**	-	(2)
10% increase in maintenance expenses[9]	**(0.3)**	**(3)**	(0.3)	(3)
Substantially reduced Risk Margin[10]	**0.6**	**7**	0.5	5

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

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. Other than in the interest rate and inflation stresses, we have not allowed for the recalculation of TMTP.

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

5.01 Group regulatory capital - Solvency II (continued)

(i) Analysis of Group Solvency Capital Requirement

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

	2021	2020[1]
	%	%
Interest rate	**4**	2
Equity	**5**	6
Property	**8**	8
Credit[2]	**25**	30
Currency	**2**	3
Inflation	**7**	7
Total Market risk[3]	**51**	56
Counterparty risk	**4**	1
Life mortality	**2**	3
Life longevity[4]	**27**	22
Life mass lapse	**2**	2
Life non-mass lapse	**2**	2
Life catastrophe	**4**	4
Expense	**2**	3
Total Insurance risk	**39**	36
Non-life underwriting	**-**	1
Operational risk	**4**	4
Miscellaneous[5]	**2**	2
Total SCR	**100**	100

1. The 2020 SCR by risk type has been restated to include the contribution from the final salary pension schemes, replacing the "shareholder view" from prior years' disclosures.
2. 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.
3. 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.
4. 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.
5. Miscellaneous includes LGA and L&G Re 2 on a Deduction and Aggregation basis and the sectoral capital requirements for non-insurance regulated firms.

5.02 Estimated Solvency II new business contribution

(a) New business by product[1]

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

	PVNBP[2] 2021 £m	Contribution from new business[3] 2021 £m	Margin[4] 2021 %	PVNBP[2] 2020 £m	Contribution from new business[3] 2020 £m	Margin[4] 2020 %
LGR - UK annuity business	**7,016**	**635**	**9.1**	8,503	901	10.6
UK Protection Total	**1,883**	**149**	**7.9**	1,887	160	8.5
- Retail Protection	1,476	120	8.1	1,359	123	9.1
- Group Protection	407	29	7.1	528	37	7.0
US Protection[5]	**842**	**113**	**13.4**	829	94	11.2

1. Selected lines of business only.
2. PVNBP excludes quota share reinsurance single premium of £181m relating to LGR new business.
3. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the year using the risk discount rate applicable at the end of the year.
4. Margin is based on unrounded inputs.
5. In local currency, US Protection reflects PVNBP of $1,159m (31 December 2020: $1,064m) and a contribution from new business of $155m (31 December 2020: $120m).

The decrease in LGR margin was driven by the shorter average duration for the schemes written in 2021, compared to the schemes written in 2020.

For UK Protection the contribution from new business is supported by increased Retail Protection volumes; the reduction in margin is largely due to pricing action, movements in product mix and changes in market conditions in 2021.

The US Protection margin improved compared to the prior full year. The increase is driven by business mix and modified reinsurance terms on digital products.

5.02 Estimated Solvency II new business contribution (continued)

(b) Assumptions

The key economic assumptions are as follows:

	2021 %	2020 %
Margin for Risk	**4.1**	3.9
Risk-free rate		
- UK	**0.9**	0.5
- US	**1.5**	0.9
Risk discount rate (net of tax)		
- UK	**5.0**	4.4
- US	**5.6**	4.8
Long-term rate of return on non-profit annuities in LGR	**2.5**	2.1

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 UK risk-free rates have been based on a SONIA-based swap curve (2020: Libor-based swap curve net of the PRA-specified Credit Risk Adjustment). The risk-free rate shown above is a weighted average based on the projected cash flows.

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2021 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 16.9 basis points.

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

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

5.02 Estimated Solvency II new business contribution (continued)

(c) Methodology

Basis of preparation

Solvency II new business contribution reflects the portion of Solvency II value added by new business written in the period. It has been calculated in a manner consistent with principles and methodologies as set out in the group's 2021 Annual Report and Accounts.

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 2021.

The Solvency II new business contribution has been calculated as the present value of future shareholder profits arising from business written in 2021. Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Best estimate assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience.

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

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

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

Projection assumptions

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

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

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

Tax

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

Risk discount rate

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

The GBP risk-free rates have been based on a SONIA-based swap curve with no Credit Risk Adjustment (2020: Libor-based swap curve with a credit risk adjustment of 11 basis points). The USD swap curve includes a credit risk adjustment of 13 basis points (2020: credit risk adjustment of 13 basis points)

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

5.02 Estimated Solvency II new business contribution (continued)

(c) Methodology (continued)

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

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long-term debt. All debt interest attracts tax relief at a time adjusted rate of 24% (31 December 2020: 19%).

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	**2021 £bn**	2020 £bn
PVNBP	5.02 (a)	**9.7**	11.2
Effect of capitalisation factor		**(2.1)**	(2.3)
New business premiums from selected lines		**7.6**	8.9
Other[1]		**1.8**	2.0
Total LGR and LGI new business	4.07,4.08	**9.4**	10.9
Annualisation impact of regular premium long-term business		**(0.2)**	(0.2)
IFRS gross written premiums from existing long-term insurance business		**3.3**	3.0
Deposit accounting for investment products		**(2.1)**	(1.2)
Total gross written premiums[2]		**10.4**	12.5

1. Other principally includes annuity sales in the US, lifetime and retirement interest only mortgage advances and £0.2bn quota share reinsurance premiums.

2. Total gross written premiums includes £109m (2020: £114m) of gross written premiums relating to a residual reinsurance treaty following the disposal of the General Insurance business in 2019.

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6.01 Investment portfolio

	Market value 2021 £m	Market value 2020 £m
Worldwide total assets under management[1]	**1,426,462**	1,285,489
Client and policyholder assets	**(1,309,772)**	(1,161,631)
Investments to which shareholders are directly exposed	**116,690**	123,858

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

Analysed by investment class:

	Notes	LGR investments 2021 £m	LGC investments 2021 £m	Other shareholder investments 2021 £m	Total 2021 £m	Total 2020 £m
Equities		**80**	**2,845**	**260**	**3,185**	3,086
Bonds	6.03	**81,812**	**2,157**	**2,834**	**86,803**	85,502
Derivative assets[2]		**13,135**	**68**	**-**	**13,203**	20,936
Property	6.04	**5,286**	**424**	**-**	**5,710**	4,672
Loans[3]		**1,899**	**372**	**61**	**2,332**	4,248
Financial investments		**102,212**	**5,866**	**3,155**	**111,233**	118,444
Cash and cash equivalents		**1,983**	**984**	**629**	**3,596**	3,616
Other assets[4]		**96**	**1,765**	**-**	**1,861**	1,798
Total investments		**104,291**	**8,615**	**3,784**	**116,690**	123,858

2. Derivative assets are shown gross of derivative liabilities of £14.1bn (31 December 2020: £21.2bn). 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.

3. Loans include reverse repurchase agreements of £2,240m (31 December 2020: £4,117m).

4. Other assets include finance leases of £86m (31 December 2020: £88m), associates and joint ventures of £375m (31 December 2020: £288m) and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

6.02 Direct investments

(a) Analysed by asset class

	Direct[1] investments 2021 £m	Traded[2] securities 2021 £m	Total 2021 £m	Direct[1] investments 2020 £m	Traded[2] securities 2020 £m	Total 2020 £m
Equities	**1,248**	**1,937**	**3,185**	1,145	1,941	3,086
Bonds[3]	**24,237**	**62,566**	**86,803**	21,555	63,947	85,502
Derivative assets	**-**	**13,203**	**13,203**	-	20,936	20,936
Property[4]	**5,710**	**-**	**5,710**	4,672	-	4,672
Loans	**63**	**2,269**	**2,332**	99	4,149	4,248
Financial investments	**31,258**	**79,975**	**111,233**	27,471	90,973	118,444
Cash and cash equivalents	**114**	**3,482**	**3,596**	42	3,574	3,616
Other assets	**1,861**	**-**	**1,861**	1,798	-	1,798
Total investments	**33,233**	**83,457**	**116,690**	29,311	94,547	123,858

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but excluded hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a direct investment, then it is classed as a traded security.
3. Bonds include lifetime mortgage loans of £6,857m (31 December 2020: £6,036m).
4. A further breakdown of property is provided in Note 6.04.

6.02 Direct investments (continued)

(b) Analysed by segment

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

	LGR 2020 £m	LGC[1] 2020 £m	LGI 2020 £m	Total 2020 £m
Equities	-	1,043	102	1,145
Bonds[2]	20,306	3	1,246	21,555
Property	4,319	353	-	4,672
Loans	-	99	-	99
Financial investments	24,625	1,498	1,348	27,471
Other assets, cash and cash equivalents	106	1,730	4	1,840
Total direct investments	24,731	3,228	1,352	29,311

1. LGC includes £54m (2020: £47m) of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgage loans of £6,857m (2020: £6,036m).

6.03 Bond portfolio summary

(a) Sectors analysed by credit rating

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

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

6.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

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
- Healthcare	-	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 mortgage loans 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)

(b) Sectors analysed by domicile

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

6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 31 December 2020	UK £m	US £m	EU £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
- Healthcare	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 mortgage loans	6,036	-	-	-	6,036
CDOs	-	-	-	72	72
Total	43,594	27,165	9,459	5,284	85,502

6.03 Bond portfolio summary (continued)

(c) Bond portfolio analysed by credit rating

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

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

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

6.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded

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

6.03 Bond portfolio summary (continued)

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

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
- Healthcare	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 mortgage loans	6,036	-	6,036
CDOs	-	72	72
Total	21,555	63,947	85,502

6.04 Property analysis

Property exposure within Direct investments by status

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

As at 31 December 2020	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	3,974	-	3,974	85
Development	345	224	569	12
Land	-	129	129	3
Total	4,319	353	4,672	100

1. The fully let LGR property includes £4.5bn (31 December 2020: £3.8bn) 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 2021 the group held a total of £2,044m (31 December 2020: £2,179m) 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 and stakeholders additional information on the company's performance and the financial effect of 'one-off' events, and the group uses a range of these metrics to enhance understanding of the group's performance. However, APMs should be viewed as complementary to, rather than as a substitute for, the figures determined according to other regulations. The APMs used by the group are listed in this section, along with their definition/explanation, their closest IFRS measure and reference to the reconciliations to those IFRS measures.

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

Adjusted operating profit

Definition

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

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

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 1.01 Operating profit.

Return on Equity (ROE)

Definition

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

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

Closest IFRS measure

Calculated using:

- Profit attributable to equity holders
- Equity attributable to owners of the parent

Reconciliation

Calculated using profit attributable to equity holders for the year of £2,050m (31 December 2020: £1,607m) and average equity attributable to the owners of the parent of £9,994m (31 December 2020: £9,270m), based on an opening balance of £9,502m and a closing balance of £10,486m (2020: based on an opening balance of £9,038m and a closing balance of £9,502m).

Assets under Management

Definition

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

Closest IFRS measures

- Financial investments
- Investment property
- Cash and cash equivalents

Reconciliation

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

Net release from operations

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

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

Adjusted profit before tax attributable to equity holders

Definition

The APM measures profit before tax attributable to shareholders incorporating actual investment returns experienced during the year and the pre-tax results of discontinued operations.

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 1.01 Operating profit.

* These items represent an alternative performance measure (APM)

Adjusted operating profit*

Refer to the alternative performance measures section.

Adjusted profit before tax attributable to equity holders*

Refer to the alternative performance measures section.

Alternative performance measures (APMs)

An 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.

Assured Payment Policy (APP)

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

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.

CAGR

Compound annual growth rate.

Cash generation

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

CCF – Common Contractual Fund

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

Credit rating

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

Deduction and aggregation (D&A)

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

Early stage business

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

Earnings per share (EPS)

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

Eligible Own Funds

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

Employee satisfaction index

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

ETF

LGIM's European Exchange Traded Fund platform.

Euro Commercial paper

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

Full year dividend

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

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.

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.

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.

International financial reporting standards (IFRS)

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

Key performance indicators (KPIs)

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

LGA

Legal & General America.

LGAS

Legal and General Assurance Society Limited.

LGC

Legal & General Capital.

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 SONIA curve.

Liability driven investment (LDI)

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

Lifetime mortgages

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

Longevity

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

Matching adjustment

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

Mature business

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

Morbidity rate

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

Mortality rate

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

Net release from operations*

Refer to the alternative performance measures section.

Net zero carbon

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

New business surplus/strain

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

OEIC – Open Ended Investment Company

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

Overlay assets

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

Paris Agreement

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

Pension risk transfer (PRT)

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

Persistency

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

Platform

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

Present value of future new business premiums (PVNBP)

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

Proprietary assets

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

QIAIF – Qualifying Investor Alternative Investment Fund

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

Real assets

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

Release from operations

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

Retirement Interest Only Mortgage (RIO)

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.

SICAV – Société d'Investissement à Capital Variable

A publicly traded open-end investment fund structure offered in Europe and regulated under European law.

SIF – Specialised Investment Fund

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

Single premiums

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

Solvency II

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 (SCR)

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 contributions of the group's defined benefit pension schemes in both Own Funds and the SCR in the calculation of the SCR coverage ratio.

Solvency II new business contribution

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

Solvency II Operational Surplus Generation

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

Solvency II risk margin

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

Solvency II surplus

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

Solvency Capital Requirement (SCR)

The amount of Solvency II capital required to cover the losses occurring in a 1-in-200 year risk event.

Total shareholder return (TSR)

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

Transitional Measures on Technical Provisions (TMTP)

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

Yield

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