Principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The principal risks are set out below including details of how they have been managed or mitigated. Further details of the Group's inherent risk exposures are set out at Notes 7 and 15 to 17 of the financial statements.

Risks and uncertainties	Risk management	Outlook
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 both 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 balance sheet, potentially impacting capital requirements and surplus capital. Falls in investment values can reduce our investment management fee income.	We cannot completely 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 limit our exposures on a financial reporting basis. Our ORSA process is integral to our risk management approach, and includes an assessment of the financial impacts of risks associated with investment market volatility and adverse economic scenarios for our solvency balance sheet, capital sufficiency, and liquidity requirements.	The global economic outlook remains uncertain, with the potential for interest rates to remain at current levels for longer than anticipated by the markets, and longer than required to subdue inflation. This could lead to significant unintended damage to the broader economy, including a sustained period of low investment and growth, reduced consumer spending and higher unemployment. Our businesses are primarily exposed to the UK and US economies. Asset values, including commercial and residential property prices, remain susceptible to reappraisal should the current economic outlook deteriorate, as well as from a range of geopolitical factors including the ongoing war in Ukraine and conflict in the Middle East. Towards the end of 2023, commercial property markets stabilised to an extent and some confidence returned. Within our construction businesses' supply chain, cost inflation and labour shortages continue to present risk.
In dealing with issuers of debt and other types of counterparty, the Group is exposed to the risk of financial loss. 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 balance sheet surplus, despite already having set aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody, and other bespoke business services. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	We manage our exposure to downgrade and default risks within our bond portfolios, through setting selection criteria and exposure limits, and using LGIM's global credit team's capabilities to ensure risks are effectively controlled, where appropriate trading out to improve credit quality. In our property lending businesses, our loan criteria take account of borrower creditworthiness and the potential for movements in the value of security. We manage our reinsurer exposures tightly, with the vast majority of our reinsurers having a minimum A- rating, setting rating-based exposure limits, and where appropriate taking collateral. Similarly, we seek to limit aggregate exposure to banking, money market and service providers. Whilst we manage risks to our 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.	The risk of credit default increases in periods of low economic growth, and we continue to closely monitor the factors that may lead to a widening of credit spreads including the outlook for the real economy, and fiscal and monetary policy. Although real incomes in the UK have risen in 2023, any reversal of this would particularly impact economic activity in sectors reliant on discretionary spending. We remain vigilant, closely monitoring all the names or assets in our portfolio in the short term, as well as forming views on the medium to long-term outlook. Our credit portfolio remains 99% investment grade, and our office property lending continues to focus on high-grade assets let to investment grade or government tenants. Details of our credit portfolios are on pages 195 to 197.