Legal & General Group PLC Preliminary Management Report 2018
Stock Exchange Release
06 March 2019

2018 results: Record £10bn annuity sales, AUM exceeds £1tn, operating profit up 10% to £1.9bn[1]

Financial highlights[2]

- **OPERATING PROFIT[1] OF £1,902M, UP 10% (2017: £1,723M)**
- **EARNINGS PER SHARE[3] OF 24.74P, UP 7% (2017: 23.10P)** - impacted by reductions in asset markets
- **RETURN ON EQUITY AT 22.7% (2017: 25.6%)**
- **FULL YEAR DIVIDEND UP 7% TO 16.42P PER SHARE (2017: 15.35P)**
- **PROFIT AFTER TAX[4] DOWN 3% TO £1,827M (2017: £1,891M)** - prior year one-off US tax benefit of £246m
- **SOLVENCY II COVERAGE RATIO[5] OF 188% (2017: 189%)**
- **SOLVENCY II OPERATIONAL SURPLUS GENERATION UP BY 14% TO £1.4BN (2017: £1.3BN)**

Business highlights

Investing & Annuities

- **LGR PENSION RISK TRANSFER SALES[6] OF £9.1BN (2017: £3.9BN)**
- **LGR INDIVIDUAL ANNUITY SALES UP 18% TO £795M (2017: £671M)**
- **LGR LIFETIME MORTGAGE ADVANCES UP 19% TO £1.2BN (2017: £1.0BN)**
- **GROUP-WIDE DIRECT INVESTMENT UP 34% AT £19.2BN (2017: £14.4BN)**

Investment Management

- **LGIM AUM UP 3% AT £1,015BN (2017: £983BN)**
- **LGIM EXTERNAL NET FLOWS OF £42.6BN (2017: £43.5BN)**

Insurance

- **LGI TOTAL GWP UP 3% TO £2,615M[7] (2017: £2,531M[8]), INCLUDING US GWP OF $1,299M (2017: $1,254M)**
- **GENERAL INSURANCE GWP UP 11% TO £410M (2017: £369M)**

"Legal & General's consistent strategy, market leading businesses, balance sheet strength and high quality people have enabled us to deliver eight years of compound annual profit growth of over ten percent. 2018 saw political uncertainty, asset market declines and slowing economic growth, but we are resilient and performed strongly. We became the UK's first £1 trillion investment manager, executed a record £9 billion of pension risk transfer deals and invested billions in the UK's future infrastructure and cities. Abroad, we grew US protection new business annual premiums by 12% and increased international assets by 13% to £258bn.

Excluding our £433m positive mortality release, operating profit was up 10% to £1.9bn and we had EPS growth of 7%, DPS growth of 7%, book value growth of 13% and an RoE of 23%. We are a globally trusted brand. Our strategy positions us well despite the broader environment, our current trading is strong and we expect this momentum to continue in 2019."

Nigel Wilson, Group Chief Executive

1. Excludes mortality release of £433m (2017: £332m) from LGR's £44.5bn net longevity exposure. 2018 mortality release relates to changes in longevity improvement assumptions to align to CMI 2016 tables. Including the reserve release, operating profit was up 14% to £2,335m (2017: £2,055m).
2. The Alternative Performance Measures within the Group's financial highlights are defined in the glossary, on pages 91 to 96 of this report.
3. Excludes post-tax mortality release of £359m (2017: £274m), and a 2017 one-off US tax benefit of £246m. Including these impacts, EPS was down 3% at 30.79p (2017: 31.87p).
4. Profit after tax attributable to equity holders. Profit after tax attributable to equity holders was up 7% at £1,468m (2017: £1,371m) excluding mortality releases and the 2017 one-off US tax benefit.
5. Solvency II coverage ratio on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the Group final salary pension schemes.
6. Excludes Longevity Insurance transactions (2018: £287m, 2017: £800m).
7. Constant FX rate comparisons have been calculated by applying the average FX rates for 2017 to both 2017 and 2018 local currency results. Based on actual FX rate, up 2% to £2,580m. Actual FX rate comparisons apply the 2017 and 2018 average FX rates to the equivalent periods' results respectively.
8. Excludes Legal & General Netherlands which was sold on 6 April 2017.

Financial summary

£m	2018	2017	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR) excl. mortality reserve release[1]	1,115	915	22
- LGR Institutional (LGRI)	*832*	*716*	*16*
- LGR Retail (LGRR)	*283*	*199*	*42*
Legal & General Investment Management (LGIM)	407	400	2
Legal & General Capital (LGC)	322	272	18
Legal & General Insurance (LGI)[2]	308	303	2
General Insurance	0	37	(100)
Continuing operating profit from divisions[1,7]	**2,152**	**1,927**	**12**
Mature Savings[3]	79	103	(23)
Legal & General Netherlands[4]	-	4	n/a
Operating profit from divisions[1]	**2,231**	**2,034**	**10**
Group debt costs	(203)	(191)	(6)
Group investment projects and expenses	(126)	(120)	(5)
Operating profit[1]	**1,902**	**1,723**	**10**
Legal & General Retirement (LGR) mortality reserve release	433	332	30
Operating profit incl. mortality reserve release	**2,335**	**2,055**	**14**
Investment and other variances (incl. minority interests)[5]	(207)	35	n/a
Profit before tax attributable to equity holders	**2,128**	**2,090**	**2**
Profit after tax attributable to equity holders	**1,827**	**1,891**	**(3)**
Of which:			
- Mortality reserve releases (post-tax)	*359*	*274*	*n/a*
- 2017 one-off US tax	*-*	*246*	*n/a*
Profit after tax[6] excl. mortality reserve release and prior year one-off US tax	***1,468***	***1,371***	***7***
Earnings per share[6] (p)	**24.74**	**23.10**	**7**
Of which:			
- Mortality reserve releases	*6.05*	*4.62*	*n/a*
- 2017 one-off US tax	*-*	*4.15*	*n/a*
Reported earnings per share (p)	*30.79*	*31.87*	*(4)*
Return on equity (%)	**22.7**	**25.6**	**n/a**
Book value per share (p)	**143**	**126**	**13**
Full year dividend per share (p)	**16.42**	**15.35**	**7**
Net release from continuing operations[7]	**1,396**	**1,352**	**3**
Net release from discontinued operations	44	102	(57)

1. Excludes mortality reserve releases (2018: £433m, 2017: £332m). 2018 mortality release of £433m from LGR's £44.5bn of net longevity exposure relates to changes in longevity improvement assumptions to align to CMI 2016 tables.
2. Excludes Legal & General Netherlands which was sold on 6 April 2017.
3. Mature Savings sale to Swiss Re for £650m was announced on 6 December 2017 and the 2018 results reflect the Reinsurance Transfer Agreement.
4. Legal & General Netherlands was sold on 6 April 2017.
5. Negative investment variance primarily related to adverse market performance versus our long term economic assumptions in LGC's Traded Assets Portfolio.
6. Excludes impact of mortality reserve releases and 2017 one-off US tax benefit.
7. Excludes Mature Savings and Legal & General Netherlands.

2018 financial performance

Income statement

Operating profit[8] increased 10% to £1,902m (2017: £1,723m).

LGR delivered a 22% increase in operating profit[8] to £1,115m (2017: £915m), driven by significant UK PRT volumes in H2, our increasing market share in individual annuities, and consistent profits emerging from the backbook, including heavier than expected mortality experience in 2018 and routine assumption updates. In H2 2018 we also reviewed our future mortality improvement assumptions and adopted an adjusted version of the CMI 2016 mortality tables for LGR's annuity book, resulting in a reserve release of £433m. Including this mortality reserve release and the prior year equivalent, growth in operating profit was 24%.

LGIM operating profit increased by 2% to £407m (2017: £400m). Management fee revenues grew to £813m (2017: £780m) and AUM reached £1,015bn (2017: £983bn). Asset valuations and fee revenues were impacted by market declines in the first and fourth quarters of the year offset in part by external net inflows of £42.6bn (2017: £43.5bn). LGIM has continued the heightened investment in the business to ensure it remains at the forefront of the structural changes in the investment and savings industry, which is reflected in a cost income ratio of 52%.

LGC operating profit increased by 18% to £322m (2017: £272m) driven by growth in the £2.4bn (2017: £1.5bn) direct investment portfolio which contributed £188m (2017: £124m). This included an additional contribution from CALA Homes following the acquisition of the remaining 52.1% of the business in March 2018, as well as consistent performance from the existing portfolio.

LGI operating profit increased by 2% to £308m (2017: £303m[9]). The turnaround in UK Group Protection performance and model refinements in UK Retail Protection were partially offset by market wide adverse US mortality experience. This compares to positive US mortality experience in the prior year. New business premiums have grown by 14% to £343m.

General Insurance operating profit decreased to £nil (2017: £37m), as a result of adverse claims experience caused by the February/March freeze and a subsidence surge due to prolonged dry weather over the summer, in line with the wider market. Excluding these impacts, operating profit was £26m and the combined operating ratio was 97%.

On 6 December 2017 we announced the sale of our **Mature Savings** business to Swiss Re for £650m. In 2018, we recognised £79m operating profit from the business resulting from a combination of the unwind of the expected underlying profits and the release of a one-off £33m provision, which is no longer required following the transaction.

Profit before tax attributable to equity holders was £2,128m (2017: £2,090m).

Profit before tax was impacted by negative investment variance as a result of volatility in global financial markets (2018: £(207)m, 2017: £35m). This was primarily due to losses from the LGC traded equities portfolio, reflecting market performance versus our long term economic assumptions. This was partially offset by gains in LGR due in part to a number of trading actions during H2.

Net release from continuing operations[10] was £1,396m (2017: £1,352m), comprising £1,226m (2017: £1,191m) release from operations and £170m (2017: £161m) new business surplus, reflecting changes in business mix and asset portfolio strategy.

Balance sheet

The Group's Solvency II operational surplus generation increased 14% to £1.4bn (2017: £1.3bn). New business strain was £0.5bn (2017: £0.1bn) reflecting record UK annuity volumes written at a capital strain of less than 4%, changes in business mix, and margin pressure in UK Retail Protection. This resulted in net surplus generation of £0.9bn (2017: £1.2bn) and supported a **Solvency II coverage ratio[11,12] of 188% at the end of 2018 (H1 2018: 193%, FY 2017: 189%).**

On a proforma calculation basis[11], our Solvency II coverage ratio was 181% at the end of 2018 (FY 2017: 181%).

As at 4 March 2019, and excluding £400m of subordinated debt which is to be redeemed on 1 April 2019, we estimate the ratio was 190%.

We continue to deliver a strong IFRS return on equity of greater than 20% (2018: 22.7%, 2017: 25.6%).

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[8] Excludes mortality release of £433m (2017: £332m) from LGR's £44.5bn net longevity exposure. 2018 mortality release relates to changes in longevity improvement assumptions to align to CMI 2016 tables. Including the reserve release, operating profit was up 14% to £2,335m (2017: £2,055m).
[9] Excludes Legal & General Netherlands which was sold on 6 April 2017.
[10] Excludes businesses disposed of comprising Mature Savings and Legal & General Netherlands.
[11] Incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2018 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with guidance, the next formal recalculation will take place no later than 31 December 2019.
[12] Solvency II coverage ratio on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the Group final salary pension schemes.

Group Strategy

The Group's strategy continues to align to our six established long term growth drivers: **ageing demographics**; **globalisation of asset markets**; **creating new real productive assets**; **reform of the welfare state**; **technological innovation**; and **providing "today's capital"**. These drivers have led us to participate in material, high growth markets where we are leaders or where we can leverage our expertise to increase our market share. Our strategy and growth drivers have delivered consistent profitability for the Group and our shareholders. **The clear synergies between our divisions are expected to continue to delivering profit growth in the future.**

Our business model is focused on three areas:

Investing & Annuities – Legal & General Retirement (LGR), and Legal & General Capital (LGC)

Investment Management – Legal & General Investment Management (LGIM)

Insurance – Legal & General Insurance (LGI), and General Insurance (GI)

Our businesses work closely together to create opportunities and execute investment transactions which utilise product specialisms from across our divisions and the components of our balance sheet.

Investing & Annuities

Ageing Demographics is a global trend creating new challenges and opportunities. Principally, employers and individuals are struggling to provide financially secure retirements. To address this need, our strategy provides innovative de-risking solutions for customers through our pension risk transfer (PRT) business in LGR Institutional (LGRI), and our individual annuity and lifetime mortgage (LTM) businesses through LGR Retail (LGRR).

As defined benefit (DB) pension plans reach maturity there is an increasing demand for risk transfer to insurers as companies seek to remove liabilities from their balance sheets and pension trustees look to improve security for members. With more than £2tn of private DB pension liabilities and only 12% of plans still open to new entrants (2006: 43%), the UK has led the world in bulk annuities, with more than 8% of total liabilities already transferred to insurance companies.[13] While the US is a sizeable market with $3.5tn of private DB liabilities, it is less mature, with more than 63% of pension plans still open to new members[14] and only 5% of total liabilities transferred to insurance companies. The US remains a significant opportunity for Legal & General given our skillset in pension risk management.

Our network, skillset and reputation allow Legal & General to maintain a significant PRT new business pipeline in the UK and internationally. Our primary market is pension plans in the UK, the US, the Netherlands, Ireland, and Canada, which together have more than £5tn of defined benefit pension liabilities.[15]

Additionally, in the UK we focus on the needs of individuals to fund their retirements. We see individual annuities as a valuable tool for providing financial security to UK retirees, with estimated market volumes of £4.2bn in 2018, and LGRR individual annuity volumes up 18%. For most retired Britons, their home equity is their largest asset, and through Lifetime Mortgages, retirees are able to unlock some of this to fund their retirement. The market potential is vast, with more than £1.5tn in housing equity owned by UK individuals over the age of 55. Separately, LGRR continues to work closely with LGIM Workplace and Personal Investing to deliver a range of retirement solutions to our customers.

Finally, LGC uses shareholder capital to achieve three clear goals. The first is to deliver attractive financial returns for our shareholders by **Creating Real Assets,** leveraging Legal & General's existing businesses, our network of relationships, our brand, and our expertise. The second is to self-manufacture matching adjustment eligible assets for our growing annuity business. Our ability to invest in equity and debt like instruments uniquely positions us to unlock attractive returns. Finally, LGC's asset sourcing provides third party opportunities for LGIM.

[13] Source: Pension Purple Book 2018, PPF; Hymans Robertson, 2018 Risk Transfer Report
[14] Source: https://www.bls.gov/opub/ted/2017/63-percent-of-defined-benefit-retirement-participants-in-plans-open-to-new-participants.htm
[15] Source: Pension Purple Book 2018, PPF; LIMRA, March 2019; https://www.ipe.com/countries/ireland/irish-pension-liabilities-hit-167-of-gdp/10024291.article; "The Coming Pensions Crisis", Citi Research.

LGC has developed clear skills in three main areas of investing:

- **Future Cities,** where we work with local councils, partners and stakeholders to deliver significant real estate and infrastructure developments. For example, we are a JV partner in Bruntwood Scitech, the largest property platform dedicated to science and technology in the UK, and we have invested in energy technologies of the future directly and alongside our partner NTR;
- **Housing**, where we are addressing the significant opportunity for UK housebuilders, where 340,000 new homes are required each year across all forms of tenure. Our offerings include Build-to-Sell principally through Cala Homes, Build-to-Rent, Affordable, and specialist housing for the elderly, "Later Living". Together these form the basis of the Group's Housing ecosystem;
- **Financing of SMEs**, where we are **Providing "Today's Capital"** through investment in Venture Capital managers and directly in companies to support UK start-ups and scale-ups. Through our minority owned partner Pemberton we also provide corporate lending to mid-market businesses across Europe.

Investment Management

LGIM is a leading global asset manager with over £1tn in assets under management. Our investment management strategy is for continued growth, focused on broadening investment capabilities, internationalising our core institutional strengths, and addressing the savings gap.

LGIM's success is built on providing customer focused investment solutions for UK pension plans, especially in Active Fixed Income, Liability Driven Investments (LDI) and Index. LGIM has diversified substantially within this client segment via expansion into Global High Yield and Multi-Asset mandates, and broadened Real Assets capabilities. Additionally, LGIM has established a leading environmental, social and governance (ESG) practice, and has evolved its Index range to include Factor Based Investing (FBI) products.

LGIM has taken advantage of the **Globalisation of Asset Markets**. LGIM America has grown its asset base to $192bn since its founding 12 years ago, and we are growing our presence in Asia through our Hong Kong and Tokyo offices. In addition, our European distribution strategy has been enhanced through our exchange-traded fund (ETF) platform, launched in 2017.

Reform of the Welfare State places greater emphasis on individual's savings and LGIM has focused significant efforts on improving its offering in Defined Contribution (DC) and Workplace Savings. We are one of the largest UK DC managers with a c.18% market share of the £338bn of UK DC assets, which are expected to grow to £871bn by 2026.[16] In addition, the Retail business is continuing to grow, benefitting from its competitive range of index-based, multi-asset and property funds.

Insurance

Technological Innovation is a core component of our insurance strategy to provide customers with competitively priced and efficiently delivered protection products for life events. We are diversifying and digitising our distribution channels in our Insurance businesses and have had significant success with partners to date.

In both the UK and the US, LGI has implemented new technology to optimise its operations. This includes the use of robotics in our customer administration and enhanced sophistication in our medical underwriting processes. Our General Insurance business has implemented new technology such as 'SmartClaim' and 'SmartQuote' delivering operational efficiency and an improved customer experience.

Much of our Fintech investment is through LGI, where we look to facilitate the start-up and scale-up of innovative businesses primarily in Legal & General's housing and workplace ecosystems. For example, our stake in SalaryFinance, an award winning financial wellbeing platform for employees, which is growing rapidly in the UK and US and now reaches over 700,000 employees in the UK.

[16] Source: DC: Market Intelligence 2017 UK Defined Contribution And Retirement Income, Broadridge 2017

Outlook

The structural drivers, on which the Group's strategy is based, are largely unaffected by on-going political and economic uncertainty. We remain confident Legal & General will continue its momentum into 2019. Between 2011 and 2015 we achieved an EPS CAGR of 10% per annum, and are on track to deliver a similar performance out to 2020. Since 2015 we have delivered an EPS CAGR of 11%.

Legal & General is well placed to grow further and take advantage of organic growth opportunities and bolt-on M&A. To support these plans, we will continue to invest in technology in a measured way across the Group.

The Group's balance sheet remains strong with £6.9bn in surplus regulatory capital and has significant buffers to absorb a market downturn. For example, even a repeat of the 2001/2002 credit event, which experienced more defaults than the 2008/2009 financial crisis, would result in a robust solvency ratio that continues to support our strategy, before any management actions.[17] While no business model can be fully immune to market volatility, our operating model is resilient as well as being underpinned by robust risk management practices.

Investing and Annuities

In **LGR's Institutional** business, industry experts forecast that the demand for UK pension de-risking strategies will continue to grow, expecting market volumes of over £30bn per annum to be the new norm.[18] 2019 has had a strong start, with £1.3bn written or in exclusivity year to date and another £20bn of transactions that we are actively quoting.

2018 was a very successful year for LGRI in UK PRT, but we are not complacent. We are expanding our PRT capabilities internationally into less mature PRT markets, in particular, in the US, Ireland, the Netherlands, and Canada. In 2018, $27.3bn of premium was written in the US PRT market, reflecting a 48% CAGR over the past five years.[19] This year, we wrote our first deals in Ireland through our Bermuda-based reinsurer, Legal & General Re. Across Ireland and the Netherlands, we expect to be an influential market participant through our annuity partnerships. **As always, we will remain disciplined in the deployment of our capital, and will only select PRT and longevity opportunities that meet our return targets.**

The persistent trend of an ageing UK population means **LGR Retail**'s target market continues to expand, both in terms of the numbers of retirees and the levels of wealth they hold. We anticipate total LTM mortgage volumes of over £6bn by 2020, up from £3.9bn transacted in 2018. Crucial to unlocking this opportunity is client centric solutions. LGRR has significant solutions capabilities and strong distribution and partnership agreements which together have helped us establish a leading LTM business making £1,197m advances in 2018, a c.30% market share. In particular, our flexible drawdown LTM product, which allows homeowners to keep loan to value ratios lower by only drawing the loan as and when needed, has helped broadly double sales volumes since its full introduction in 2017. Additionally, during 2018 we introduced our Optional Payment LTM (OPLM) followed by the launch of our Income Lifetime Mortgage at the start of this year, both further enhancing the flexibility of our product set and allowing us to serve an ever-widening range of customer needs. The individual annuity market has continued its recovery following changes to UK retail pensions regulation in 2014, and during this time LGRR has succeeded in increasing its market share to 19% (2017: 14%), through product innovation and significantly strengthening our enhanced annuity offering.

As in previous years, we will review our longevity trend assumptions against updated experience data and intend to make any amendments as necessary in H2 2019 to reflect our analysis of the next set of mortality tables (CMI 2017) and our specific data.

LGC will continue to seek opportunities to deploy its long-term patient capital in real assets primarily across the UK. We see an enduring need for private long-term capital in real assets such as urban development, clean energy, housing, and innovative funding for SMEs and early stage enterprises.

Our Future Cities portfolio has invested in 12 cities across the UK and we expect to invest further in these locations, e.g. Cardiff, Newcastle, Manchester. Additionally we have a healthy pipeline to invest in other UK cities. Working closely with LGIM Real Assets, LGC will continue to apply capabilities in infrastructure, clean energy, commercial real estate and residential property, to work with partners around the UK as they develop their urban environments. Legal & General is well placed to bring together on-balance sheet or third party private capital with the development capability to make a difference to UK cities.

In housing, LGC will continue to grow its multi-tenure business across build-to-rent, build-to-sell, later living and affordable housing. With full ownership of CALA Homes from March 2018, our house building capacity has increased and we are positioned well for further growth. We are both a developer and operator of communities for later living in suburban, rural and urban environments. Being both a developer and operator gives both good alignment with our customers and a more stable revenue profile relative to developer-only business models.

[17] As calculated using the approach disclosed at the Group's Credit Capital Markets Event in 2017.
[18] Source: Institute and Faculty of Actuaries, "Is £30bn the new norm?"
[19] Source: LIMRA, March 2019. 2013 US PRT premiums: $3.8bn

In SME Investing we expect to continue to deploy our capital and focus to support the UK venture ecosystem to help create the businesses of tomorrow, whilst continuing our support of Pemberton in the provision of private credit to the European mid-market.

Investment Management

Despite tough markets for asset management globally, **LGIM** remains structurally well positioned for growth as reflected in our strong flows performance in 2018. LGIM will continue to benefit from global trends in retirement saving and the structural shifts in demand in the asset management industry. This is driving an increase in customer appetite for our diverse range of products, broad investment capabilities and strong cost efficiency. These competitive advantages have been crucial to LGIM's success to date and underpin the division's continued growth in a difficult operating environment.

Our international AUM has grown by a 23% CAGR since 2014 and is now at £257.6bn (2017: £228.0bn). Net international flows continued to be strong in the second half of 2018 at £9.8bn and we remain positive on international flows going into 2019.

We are one of the largest managers of UK DC assets with total assets of £70.8bn (2017: £60.1bn), and anticipate further growth as minimum contributions for UK auto-enrolment pensions increase from 5% to 8% of earnings in April 2019. There are £338bn of DC assets in the UK, which is expected to grow to £871bn by 2026, and we are well positioned to capture this growth opportunity.[20] We also continue to see strong growth in our Retail business against a volatile market backdrop.

We will continue to invest in the business to increase automation and simplification, through data analytics, providing a digital experience for our customers, and optimisation of our investment platforms. Operational leverage in our core business areas allows us to maintain a relatively stable cost-income ratio around 50%, although we expect this to be slightly higher in the short term.

Insurance

In **LGI**, we anticipate continued premium growth across our UK and US businesses. In the UK, we have seen the successful turnaround of our group protection business leading to improved new business performance and a 69% increase in group protection new business premiums. In our market leading retail protection business we expect to continue growing new business premiums and generate good profits in 2019, supported by distribution and product enhancements. In the US we anticipate our investment in digital transformation to position us for further new business growth and increasing profits. In the coming years, we expect LGIA profits to continue to grow rebased on the 2018 performance, excluding adverse mortality experience.

We are continuing the development and roll out of multiple new fintech initiatives to transform our businesses operating in the UK mortgage market. In particular, we expect continued rapid growth from SalaryFinance in both UK and US markets in addition to the launch of multiple new products in the UK. SalaryFinance currently has more than 700,000 employees registered on the platform in the UK with an additional 300,000 expected by the second quarter of 2019.

In **General Insurance**, we continue to see strong GWP growth across channels and products, up 11% overall on 2017. In our household business, we have signed three distribution agreements which will be supported by our market leading digital SmartQuote and SmartClaim propositions. The adverse weather claims in 2018 were in line with market experience and absent further weather losses we expect 2019 profitability to return to levels consistent with previous years.

Full year dividend up 7%

Legal & General has a progressive dividend policy reflecting the Group's expected medium term underlying business growth, including net release from operations and operating earnings. There is no change to our dividend policy.

In line with our policy, the Board has maintained its view of the medium-term trajectory of dividend growth, taking into account sustainability across a wide range of economic scenarios and the Group's anticipated financial performance. Accordingly, the Board has recommended a final dividend of 11.82p (2017: 11.05p) giving a full year dividend of 16.42p (2017: 15.35p), 7% higher than 2017.

[20] Source: DC: Market Intelligence 2017 UK Defined Contribution And Retirement Income, Broadridge 2017

Legal & General Retirement

FINANCIAL HIGHLIGHTS £m	2018	2017
Release from operations	551	508
New business surplus	217	180
Net release from operations	**768**	688
Experience variances, other assumption changes, tax and non-cash movements	347	227
Operating profit excluding mortality reserve release	**1,115**	**915**
- LGR Institutional (LGRI)	*832*	*716*
- LGR Retail (LGRR)	*283*	*199*
Mortality reserve release	433	332
Operating profit	**1,548**	**1,247**
Investment and other variances	95	4
Profit before tax	**1,643**	1,251
UK PRT	8,351	3,405
International PRT	789	543
Individual annuity single premiums	795	671
Lifetime mortgage advances	1,197	1,004
Longevity insurance[1]	287	800
Total LGR new business	**11,419**	6,423
Total annuity assets (£bn)	**63.0**	58.2

1. Represents the notional size of reinsured longevity insurance transactions and is based on the present value of the fixed leg cashflows discounted at the LIBOR curve.

Operating profit up 22% to £1,115m[21]

Operating profit increased to £1,115m (2017: £915m[21]), excluding the mortality reserve release of £433m, driven by record UK PRT new business volumes, and the consistently strong profits emerging from LGR's growing annuity portfolio (2018: £63.0bn, 2017: £58.2bn), including heavier than expected mortality experience in 2018 and routine assumption updates relating to current mortality rates. In H2 2018 we reviewed our future mortality improvement assumptions and have now adopted an adjusted version of the CMI 2016 mortality tables for LGR's annuity book, resulting in a £433m reserve release. Including the reserve release, operating profit was up 24% at £1,548m (2017: £1,247m).

As normal, we will continue to review the appropriateness of our mortality improvement assumptions in the light of emerging data and update them accordingly. Higher mortality has continued into 2018, a fact we will prudently consider in our future mortality assumption reviews.

Release from operations was £551m (2017: £508m), reflecting the scale of the business as prudential margins unwind from our growing £63bn annuity fund.

Net release from operations increased 12% to £768m (2017: £688m) with new business surplus of £217m (2017: £180m), reflecting changes in business mix and asset portfolio strategy.

LGR achieved record breaking UK annuity sales of £9.1bn delivering a 7.9% new business margin with Solvency II new business strain of less than 4%.

Gross longevity exposure is £68.9bn across LGR's annuity and longevity insurance business. We have reinsured £24.4bn of longevity risk with 12 reinsurance counterparties, leaving a net exposure of £44.5bn. We continue to see significant supply and competition in the reinsurance market.

[21] Excluding mortality release (2018: £433m, 2017: £332m).

LGR Institutional

Global Pension Risk Transfer

In 2018, LGR Institutional (LGRI) completed £9,140m (2017: £3,948m) of bulk annuities across 40 deals globally and one £287m longevity insurance transaction (2017: £800m).

2018 was a record year for UK pension de-risking, with the market breaking £20bn in bulk annuity sales for the first time. Legal & General are the established leaders in the market, writing £8,351m in bulk annuities and achieving a market share of 38% (2017: 28%). LGRI carefully managed its 2018 pipeline, employing disciplined pricing in the first half of the year and focusing on large deals and solutions-driven transactions in the second half of the year.

By working closely with LGIM and LGC, LGRI has established itself as a leading insurance solutions provider to UK defined benefit pensions plans. In 2018 we have demonstrated our market leadership and innovation by writing a series of transactions that demonstrated our solutions capabilities, including:

- A £4.4bn transaction with British Airways Pension Scheme, the largest UK bulk annuity ever, which required the novation of the Scheme's longevity swaps in order to improve risk transfer and pricing for the client.
- A £2.4bn bulk annuity with Nortel, which enhanced members' pension security following a prolonged period of uncertainty including the plan sponsor's 2009 bankruptcy, the pension plan's entry into a Pension Protection Fund (PPF) assessment period, and worldwide litigation and insolvency proceedings. The contract allows for additional benefits to be insured on pre-agreed, time limited terms. This gives the trustee the option to scale-up the transaction as more recoveries are received from the litigation and members exercise options to reshape their benefits.
- A £550m bulk annuity that involved the client transferring the pension plan's DC benefits to **LGIM**'s flagship DC Mastertrust. Both the employer and the employees are able to continue making DC contributions for as long as the employee remains in service. At retirement the DB and DC benefits are combined, giving members full flexibility in how they take their tax free cash.
- A £325m transaction with the BAA Pension Scheme. The bulk annuity was supported by an investment in a bespoke corporate bond structure issued by the Scheme's corporate sponsor, Heathrow Airport Limited, with structuring assistance from **LGIM**. This client focused structure demonstrates how the addressable market for pension de-risking can be widened by improving affordability and solving a material corporate problem.

The UK private sector DB market is estimated to have more than £2 trillion of liabilities, with only c.8% transacted to date.[22] The trend toward decreasing deficits and improving affordability of annuities means we expect further growth in this market. We are currently actively quoting on £20bn of UK PRT deals.

Our US PRT premiums increased by 18% to $844m (2018: £646m; 2017: $713m, £543m) across 21 transactions (2017: 15). We continue to build our reputation in the US and we have now executed nearly $2.5bn of transactions through 8 different intermediaries since entering the market in 2015. The US represents a significant market opportunity, with $3.5 trillion of DB liabilities, and only c.5% transacted to date.

Our global PRT offering was bolstered in 2018 through our annuity partnership with New Ireland Assurance. Through this exclusive partnership we wrote €159m (2018: £143m; 2017: €0m, £0m) in 2018 and we are positioned to seize a sizeable share of the €91bn PRT opportunity in Ireland.[23]

[22] Source: Pension Purple Book 2018, PPF; Hymans Robertson, 2018 Risk Transfer Report
[23] Source: https://www.ipe.com/countries/ireland/irish-pension-liabilities-hit-167-of-gdp/10024291.article

LGR Retail

Individual Retirement Solutions

Lifetime mortgage advances were up 19% to £1,197m (2017: £1,004m). Despite market uncertainty surrounding the Prudential Regulation Authority's (PRA) July 2018 consultation on LTMs (CP13/18), the LTM market grew by 26% to £3.9bn. LGRR achieved a c.30% market share, driven by our strong distribution partnerships and relationships. To complement our strong-performing flexible drawdown product, we developed and brought to market the Optional Payment LTM (OPLM) which allows customers to repay some of their accrued interest. This reduces cost for customers and risk for us. LTMs are currently 5% of our total annuity assets and our LTM portfolio has an average customer age of 69 and a weighted average loan-to-value of c.28% at the transaction date.

Individual annuity sales were up 18% to £795m in 2018 (2017: £671m), with strong H2 sales resulting from significant improvements to our enhanced annuity proposition and the expanded capabilities of our sales and marketing teams. We are top three in the UK individual annuity market and have nearly tripled our market share since 2016, with a current market share of 19%[24].

On-going credit and asset management

Credit portfolio management

LGR's £63bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities is well diversified by sector and geography. Within the £57.4bn[25] bond portfolio, approximately two-thirds of the portfolio is A-rated or better, 32% BBB-rated and less than 2% sub-investment grade.

The principal objective of our annuity focused fixed income fund managers in LGIM is to manage the portfolio to avoid credit downgrades and defaults. At the end of 2018 our IFRS credit default reserve increased to £2.9bn as our portfolio grew. We constantly review our asset portfolio, including sector allocations and asset classes, in order to improve credit quality and to mitigate risks. Our asset manager's performance is measured by avoidance of defaults and downgrades, instead of against a market benchmark. We have vigorously stress tested our portfolio to build resilience against a range of scenarios.

Direct Investment

LGR has had continued success in building its direct investment portfolio, increasing our direct investments by £3.5bn from 2018 origination including infrastructure and LTMs. This portfolio is now £15.7bn[26] (2017: £12.2bn) including £3.2bn in LTMs. We have a robust, independent, internal rating process and over half of the direct investment portfolio is rated 'A' or above based on strong counterparties and collateral; for example, our largest exposure is over £1bn to assets backed by the UK government. We invest in sectors that will be stable well into the future and where long term funding is needed, for example government infrastructure.

Direct investments are a key component to our bulk annuity pricing, and we regularly assess the relative value of our different direct investment asset classes against each other as well as against the risk-reward characteristics of traded bonds. The Group's long term illiquid liabilities and large balance sheet size enable LGR to invest in assets of size and term that differentiate it from many other institutional investors and mean we are able to secure a premium above that of liquid credit.

Our ability to self-manufacture attractive assets to back annuities, working with **LGIM**, **LGC**, or through LTMs, is a differentiating feature of LGR's business. In order to further accelerate and extend our capability to invest, in 2018 we created a dedicated function for originating Matching Adjustment eligible direct investments and real assets. With help from across the Group, we have expanded our direct investment sourcing capabilities in the US to support both our UK and US PRT business. One example of our US asset sourcing capabilities is the $173m long-term debt financing of the Los Angeles International Airport's Consolidated Rent-a-Car Facility in December 2018. Legal & General's approach to investment has been profitable for our business, and as we would expect, we have seen more of our peers replicating our approach. However, our ability to self-manufacture assets remains a key competitive advantage.

[24] Q1 2016: 6.5%; Q4 2018: 18.7%
[25] Excludes equities, derivative assets, property, and cash. £12,716m of this portfolio is direct investment bonds. Please see note 6.01 and 6.02b for more information.
[26] Includes LGR direct investment bonds (£12,716m), direct investment property (£2,930m), direct investments equity (£6m), and other assets (£91m). Please see note 6.02b for more information.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS £m	2018	2017
Management fee revenue[1]	813	780
Transactional revenue	27	25
Total revenue	**840**	**805**
Total costs[1]	(433)	(405)
Operating profit	**407**	**400**
Investment and other variances	(4)	(9)
Profit before tax	**403**	**391**
Net release from operations	**329**	**321**
Asset Management cost:income ratio[2] (%)	**52**	**50**

NET FLOWS AND ASSETS £bn		
Canvas Acquisition	2.4	-
External net flows	**42.6**	**43.5**
Internal net flows	2.6	(2.7)
Disposal of LGN[3]	-	(0.8)
Total net flows	**45.2**	**40.0**
- Of which international	19.6	33.0
Cash management flows	**(0.5)**	**3.0**
Persistency (%)	**89**	**90**
Average assets under management	990.7	949.0
Assets under management at 31 December	**1,015.5**	**983.3**
Of which:		
- International assets under management[4]	*257.6*	*228.0*
- UK DC assets under management	*70.8*	*60.1*

1. Management fee revenue and total costs exclude income and costs of £19m in relation to the provision of 3rd party market data (FY 17: £17m), and also excludes revenue and costs from our Workplace Savings and ETF businesses.
2. Excludes revenue and costs from the Workplace Savings.
3. Legal & General Netherlands disposal completed on 6 April 2017.
4. International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.

Operating profit up 2% to £407m

LGIM has continued to expand and diversify its business across channels, regions and investment capabilities. This contributed to a 3% growth in assets under management (AUM) to £1,015bn (2017: £983bn). External net flows were £42.6bn (2017: £43.5bn) with positive flows from our DC, retail, DB Solutions, and international businesses offsetting the structural shift from our UK DB index business as our clients continued to de-risk and adapt their investment strategies. Revenues were up 4% to £840m (2017: £805m).

Management fees increased by 4% to £813m, although this was impacted by market volatility in the first and fourth quarters. Transactional revenues were steady at £27m (2017: £25m) and benefited from higher performance and execution fees in equity protection activity.

Operating profit increased by 2% to £407m (2017: £400m), reflecting increased revenues from flows which was partially offset by falling asset values and LGIM's continued investment in its growth strategy. We are automating and simplifying our business through investment in data analytics, providing a digital experience for our customers, and optimisation of our investment platforms. The cost income ratio (52%) reflects this continued investment in the business.

Workplace Savings assets increased by 8% to £30.0bn (2017: £27.7bn) driven by continued client wins and increased contributions. We are focused on improving efficiency as the business grows and we delivered an operating profit in 2018 for the first time of £3m. This profit is for the administration business only, as the profits on the fund management services provided are included in LGIM's operating profit.

International assets up 13% to £258bn

LGIM's international businesses experienced net inflows of £19.6bn (2017: £33.0bn), of which there were net inflows of $15.2bn in the US (2017: $16.3bn) with LGIM America AUM now at $192bn (2017: $189bn). Our growing Asian business saw net flows of £3.0bn (2017: £4.2bn) and our Gulf net inflows were strong at £6.8bn, driven by significant sovereign wealth fund mandates (2017: £3.6bn inflow). Conversely some large European clients have changed asset allocation strategies resulting in net outflows of £1.2bn (2017: £12.6bn inflow).

ETF acquisition successfully integrated

We completed the acquisition of Canvas in March and have successfully integrated the ETF platform. We have continued to develop the business with the launch of a new range of core Legal & General ETFs in 2018 and the expansion of our existing distribution capabilities into new markets. Total AUM is £2.4bn with flows affected by market sentiment as investors grew more cautious on equity ETFs during the second half of the year.

£8.4bn net flows from DC business

The defined contribution (DC) business continued to grow rapidly with total net inflows of £8.4bn (2017: £3.0bn), driven by the bundled business which provides administration and investment services to DC schemes. Total UK DC AUM increased by 18% to £70.8bn (2017: £60.1bn). LGIM has experienced a 19% increase in customers on its Workplace pension platform, with the number of members now at 3.1m. We also have one of the largest and fastest-growing UK Master trusts, which recently surpassed £5.5bn in assets under management, reflecting the continued appeal of the structure for DC schemes wishing to outsource their governance, investment and administration.

Accelerating growth in our retail business

The retail business experienced net inflows of £2.8bn (2017: £3.0bn), with strong demand for our multi-asset and index products. Retail AUM increased to £25.5bn (2017: £24.2bn) as we continue to develop our product range and client-service proposition in the UK and broaden our distribution strategy in Europe. LGIM was ranked second in both gross and net UK retail sales in 2018 (Pridham report).

We also continue to make progress in our personal investing business, which is a strategic focus for LGIM as financial responsibility shifts from institutions to individuals and trends indicate customers are increasingly going direct. The personal investing business currently has AUM of £5.1bn (2017: £5.5bn), including £1.8bn from legacy relationships with banks and building societies.

Breadth of investment management solutions

Asset movements £bn	Index funds	Global fixed income	Solutions	Real assets	Active equities	Total AUM
At 1 January 2018	**340.9**	**148.8**	**462.7**	**23.8**	**7.1**	**983.3**
Canvas Acquisition	**2.4**	**-**	**-**	**-**	**-**	**2.4**
External inflows	54.2	15.7	33.8	1.5	0.6	105.8
External outflows	(69.0)	(6.2)	(16.1)	(1.6)	(0.2)	(93.1)
Overlay net flows	-	-	29.9	-	-	29.9
ETF net flows	0.0	-	-	-	-	0.0
External net flows	**(14.8)**	**9.5**	**47.6**	**(0.1)**	**0.4**	**42.6**
Internal net flows	(0.7)	1.8	(0.7)	2.5	(0.3)	2.6
Total net flows	(15.5)	11.3	46.9	2.4	0.1	45.2
Cash management movements	-	(0.5)	-	-	-	(0.5)
Market and other movements	(17.6)	3.0	0.9	0.9	(2.1)	(14.9)
At 31 December 2018	**310.2**	**162.6**	**510.5**	**27.1**	**5.1**	**1,015.5**

Total AUM increased 3% to £1,015bn (2017: £983bn), with external net inflows of £42.6bn (2017: £43.5bn) driven by strong net inflows across channels and most investment capabilities despite difficult market conditions. The breadth of flows reflects the continued diversification of the business and consistent fund performance in volatile markets, with the majority of funds outperforming their respective benchmarks over one and three years.

Solutions external net inflows were £47.6bn (2017: £44.8bn), driven by DB pension schemes implementing a broad range of liability driven investment (LDI) strategies and high demand for multi-asset strategies from DC schemes and retail and European customers. External net inflows into multi-asset funds were £7.5bn (2017: £7.2bn).

Index external net outflows were £14.8bn (2017: £10.3bn outflow), as UK DB pension schemes continue to mature and reduce risk. We also experienced the expected loss of over £6bn of assets from one local government pension scheme. We expect to see continued index outflows from the UK DB channel as many of our clients transition into our LDI strategies. This outflow will be partially offset by solid net inflows from retail and international investors.

Net external inflows into Global Fixed Income of £9.5bn (2017: £8.7bn) were driven by continued strong performance across our range of funds. There has been extremely strong demand for credit strategies from US institutional clients, while UK clients increased their fixed income allocations.

The Real Assets business has continued to expand, with good growth in private credit of £3.1bn across corporate and infrastructure debt and real estate lending in 2018. The business also saw continued success with its Build to Rent business and Real Assets where AUM has grown to £27.1bn (2017: £23.8bn).

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	2018	2017
Net release from operations	**261**	**224**
Operating profit from:		
Direct investment	188	124
Traded investment portfolio	124	140
Treasury assets	10	8
Total operating profit	**322**	**272**
Investment and other variances	(273)	91
Profit before tax attributable to equity holders	**49**	**363**

DIRECT INVESTMENT PORTFOLIO £m		
Future Cities	**787**	566
Housing	**1,158**	588
SME Finance	**414**	296
	2,359	**1,450**

TRADED PORTFOLIO £m		
Equities	**1,451**	2,069
Fixed income	**176**	216
Multi-asset	**218**	131
Cash[1]	**2,480**	1,395
	4,325	**3,811**
LGC investment portfolio	**6,684**	**5,261**
Treasury assets at holding company	**1,958**	2,040
Total	**8,642**	**7,301**

1. Includes short term liquid holdings and £650m proceeds from the Mature Savings sale received in January 2018.

Total operating profit up 18% to £322m

LGC operating profit was £322m, an 18% increase from the previous year (2017: £272m), led by strong performance from the direct investments portfolio. Overall the direct investment operating profit increased by 52% (2018: £188m, 2017: £124m), benefitting from the CALA Homes acquisition as well as a solid performance from the existing portfolio.

Profit before tax was £49m, reflecting negative investment variance in the traded portfolio due to volatility in equity markets during the year. The direct investment portfolio experienced minimal negative investment variance, delivering profit before tax of £144m.

Our growing direct investment portfolio achieved a net portfolio return of 7.4% (2017: 8.1%), reflecting continued new investment.

Direct investment portfolio up 63% to £2.4bn

The LGC direct investment portfolio grew to £2,359m, an increase of 63% (2017: £1,450m). We invested or made new commitments to invest over £1.3bn in the year, investing across all our sectors. We built out our Future Cities strategy, continuing the development of our existing locations and expanding through new investment in the science and technology sector. We strengthened our presence in UK Housing through the acquisition of CALA Homes in early 2018 and the launch of our Affordable Housing business, and also furthered our commitment to Build-to-Rent schemes and Pemberton funds. Central to our future growth is support of Legal & General's Real Asset strategy, investing in the future of UK cities and meeting the UK's growing need for suitable housing. Our £2.4bn portfolio is well diversified across our business models, with 47% invested in wholly owned Legal & General operating businesses (2017: 38%), 31% in direct investments in joint ventures or partnerships with other investors (2017: 37%) and 22% through investments in externally-managed funds (2017: 25%).

LGC holds cash and liquid investments to benefit the Group solvency margin, to provide liquidity to facilitate investment into strategic opportunities as they arise and for collateral to cover derivatives trades. The cash balance has increased over the year following the sale of the Mature Savings division and a strategic decision to reduce the level of equities held by LGC.

Investing in the future of UK's cities as assets increase to £787m (2017: £566m)

UK cities need investment in their infrastructure, commercial and residential property to be the cities of the future. LGC's Future Cities business line is addressing a shortage of investment and innovation in regeneration and clean energy. Through these investments and our partnerships with universities, local government, authorities and businesses, Legal & General is supporting the UK with great places to live, superior education, and quality, worldclass science and technology employment.

During 2018, LGC invested in new opportunites, creating the UK's largest Science and Technology Partnership with Bruntwood Group. This new 50:50 partnership, Bruntwood Scitech, has created the UK's largest property platform, dedicated to driving science and technology growth in UK cities. LGC and Bruntwood Group have invested £360m of capital, property and intellectual assets into a new company with a business plan supporting the creation of 20,000 high value jobs. We share a commitment to creating thriving cities, working in partnership with public, private and academic institutions, and with LGC's long-term capital the partnership can accelerate growth of some of the UK's strategic sectors.

LGC also continued to invest in our portfolio achieving the opening of The Springs in Leeds and providing further capital to support the first close of NTR's second fund, targeted at €500m. The fund is focused on low cost clean energy generation technology, specifically onshore wind and solar, at both construction and operating stages in stable European energy markets.

Continuing our investment in innovative businesses, in February 2019, LGC invested further in the digital connectivity sector, through a joint venture with a data centre developer. Additionally we have invested in one of the UK's leading providers of Electric Vehicle charging, facilitiating the trend of electrification of transport.

Our Future Cities investments create Real Assets and support Clean Energy technologies which generate stable returns for shareholders, are attractive Matching Adjustment eligible assets for LGR, and are desirable assets for LGIM clients. Over 2018, our LGC Future Cities portfolio increased 39% to £787m at 31 December 2018.

Strengthening our UK Housing platform as assets increase to £1,158m (2017: £588m)

LGC has continued to expand its housing sector investments and capabilities, developing operating businesses to deliver a multi-tenure housing offering. Over 2018 LGC's housing businesses sold or completed for rental c.2,500 homes.

In the first half of 2018 LGC announced the full acquisition of CALA Homes by purchasing the remaining 52.1% stake for £315m. Our stake in CALA Homes has made a significant contribution to LGC's profit in 2018.

In 2018, LGC also launched its affordable housing arm, to address the overwhelming need for affordable housing across the UK, and recently achieved the important milestone of becoming a registered provider of social housing allowing it to hold and manage regulated affordable housing assets. The registration means we can now significantly accelerate our business plan of developing, holding and managing a blend of affordable housing tenures which include both social and affordable rent and shared ownership homes under grant-supported schemes. There are more than 1.3 million households on UK waiting lists for housing with new additions to the housing stock averaging only c.30,000 properties a year over the last 10 years. LGC's Affordable Homes business aims to be fully operational and delivering 3,000 homes per year within the next four years.

Across LGC's housing businesses, we continued to buy land but with caution. We acquired a site in Horsham with planning consent for 2,750 new homes that fits well with our multi-tenure housing strategy. We have also made progress with sites for Later Living including a recent acquisition of a major site in Bath. Across our Later Living business we now have five sites under construction and a further seven progressing through planning approvals.

For our Build-to-Rent joint venture with PGGM and LGIM Real Assets, we have committed a further £50m, which in the year has acquired a new site in Woolwich, the largest site to date, and forward funded a new development in Croydon. This brings our total Build-to-Rent pipeline to c.3,300 homes across nine schemes nationwide. In 2018, the LGC/PGGM joint venture sold the Slate Yard development in Salford, its first fully built and stabilised asset, to the LGIM Build-to-Rent Fund, which is fully financed by third party LGIM Real Assets clients. LGC will utilise the proceeds to invest in further developments within the joint venture, including our first Scottish scheme in the Buchanan Wharf development in Glasgow, announced in January 2019.

SME Finance assets increased to £414m (2017: £296m)

Over the past two years LGC has commited £102m to the UK Venture Capital sector via investments in 8 venture managers. These managers have now invested in over 250 companies in the UK and beyond, delivering with a positive PBT on drawn capital. Additionally we continue to look to invest directly in innovation and growth companies strategically aligned with our businesses across the Group, with examples including Caresourcer in LGRR and SalaryFinance in LGI.

In European SME financing, our 40% owned private credit manager Pemberton had another successful year with over €4bn committed AUM across all its funds and delivering a strong performance on our investment. Deployment of capital progressed well in 2018, with Euro Fund I fully-deployed.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	2018	2017
Release from operations	258	273
New business surplus	(22)	2
Net release from continuing operations[1]	**236**	**275**
Operating profit from continuing operations[1]	**308**	**303**
- UK	246	209
- US (LGIA)	62	94
Investment and other variances[2]	(1)	(60)
Profit before tax attributable to equity holders	**307**	**243**
LGI new business annual premiums[3]	**343**	300
UK Retail Protection gross premiums	**1,279**	1,232
UK Group Protection gross premiums	**329**	326
US Protection (LGIA) gross premiums	**972**	973
Total gross premiums[3]	**2,580**	**2,531**

1. Excludes Legal & General Netherlands (LGN) which was sold on 6 April 2017, which in 2017 contributed £nil to net release from operations and £4m to operating profit.
2. Prior year investment variance excludes a £11m gain related to LGN (including the gain from the disposal).
3. Excludes 2017 £1m new business annual premiums in LGN.

14% growth in new business premium

UK Protection new business premiums have grown by 17% to £258m. The US new business premiums have grown by 12% on a USD basis to $114m.

UK Retail Protection gross premium income increased 4% to £1,279m (2017: £1,232m) with new business annual premiums of £175m (2017: £172m). We remain the leading provider of Retail Protection in the UK, delivering straight through processing for more than 80% of our customers. In H2 we expanded our partnership with Barclays launching a new non-advised proposition for Family protection in addition to renewing the existing advised Mortgage protection offering.

Group Protection increased new business premiums by 69% to £83m (2017: £49m) and gross premium income was up 1% at £329m (2017: £326m) reflecting improvements in service to our customers, partially offset by the non-renewal of specific schemes which have experienced significantly higher claims than expected.

LGIA gross premium income increased 4% (broadly flat on a sterling basis) to $1,299m (2017: $1,254m) driven by new business annual premiums increasing 12% to $114m (2017: $102m). Through the brokerage channel, LGIA is the largest provider of US term life assurance by number of policies, and second largest by new business APE.

Legal & General Mortgage Club facilitated £73bn of mortgages in 2018, up 12% (2017: £65bn), through strong partnerships with top lenders. As the largest participant in the intermediated mortgage market in the UK, we are involved in one in five of all UK mortgage transactions. Legal & General Surveying Services delivered a strong performance, facilitating 539k surveys and valuations.

UK: Profit up 18% in a highly competitive market

In 2018, LGI UK delivered a £246m operating profit (2017: £209m), up 18% on the prior year, following the successful turnaround in Group Protection where claims experience has improved following management actions. As in prior years, we reflected recent experience in our review of actuarial assumptions used and specifically made some modelling refinements in our reserving for future claims.

Net release from operations decreased by £36m to £159m (2017: £195m), with new business strain of £(22)m (2017: £2m surplus) reflecting higher Group Protection new business and changes in product mix and lower product margins in the competitive UK Retail Protection marketplace.

UK protection sales delivered a 7.1% Solvency II new business margin (2017: 8.6%), reflecting product mix changes in Group Protection and the impact of competitive pressures in the retail protection market. The protection business continues to generate Solvency II surplus immediately when written.

US: Profits impacted by adverse mortality

LGIA operating profit decreased by $38m to $83m (2017: $121m), primarily due to claims in 2018 being higher than expected in contrast to prior year favourable mortality experience. The unfavourable experience in 2018 is consistent with wider experience in the US life sector following elevated cases of death from flu in 2018 but still within our tolerances of expected volatility.

LGIA net release from operations increased by 5% (down 4% on a sterling basis) to $105m (2017: $100m). This represents the annual dividend paid by LGIA to the Group in March 2018.

US protection sales delivered a strong Solvency II new business margin of 11.2% (2017:11.7%). The decrease in margin is reflective of the competitive pressures in the US term life market where LGIA was able to increase its sales and market share in a flat to slightly declining market. As detailed in the 2018 interim results, LGIA made a voluntary accounting policy change to its reserving methodology for term life insurance to align with other Legal & General subsidiaries. We expect the US profits to grow in the coming years, rebased on the 2018 performance excluding adverse mortality experience.

Fintech: SalaryFinance expansion and mortgage market transformation

LGI has continued to grow its expertise in the Fintech sector focussing on transforming current markets, developing solutions for adjacent markets and making targeted selective investments in start-up and scale-up opportunities.

We are transforming the housing ecosystem through our unique understanding of the industry as the largest participant in the intermediated mortgage market in the UK. Through Legal & General Surveying Services, LGI has built innovative new products. The traditional “home buyers survey” has been rebuilt for the digital world and has launched as “SmartrSurvey”, which is sold via business partners and directly to consumers. New Fintech solutions have been applied to Legal & General Mortgage Club with the development of “SmartrCriteria” and “ClubHub” providing instant mortgage search recommendations and online commission assistance for brokers. Additionally in July 2018 we invested in Smartr365, a digital B2B mortgage broking platform.

SalaryFinance, the award winning “Start-up of the Year”, continues to grow rapidly. The business has more than 700,000 UK employees registered on the platform with an additional 300,000 expected by the second quarter of 2019. In response to feedback from employers, SalaryFinance launched Salary Advance at the end of 2018 and a Help To Save scheme, in partnership with HMRC, is expected to be launched in the first quarter of 2019. During H2 SalaryFinance launched in the US and has a significant active pipeline to build on its current clients. Growth opportunities for the business remain extremely positive and industry recognition of this Fintech is high, for example, SalaryFinance won the “Responsible Business of the Year” at the Prince Charles Business in the Community Awards.

Our Fintech business also includes Investment Discounts Online (IDOL) which continues to grow its presence in the price comparison market and is an excellent asset to deploy in the financial technology market and product platform space.

General Insurance

FINANCIAL HIGHLIGHTS £m	2018	2017
Net release from operations	**0**	**30**
Experience variances, assumption changes, tax and non-cash movements	0	7
Operating profit	**0**	**37**
Operating profit excluding variances to long term weather [1]	*26*	*20*
Investment and other variances	(27)	6
Profit before tax	**(27)**	**43**
General Insurance gross premiums	**410**	**369**
Combined operating ratio (%)	104	93
Combined operating ratio excluding subsidence surge and above planned catastrophe weather (%)	*97*	*99*

1. Normalised result removing impact of weather and subsidence experience variance relative to expected long term view. In 2018, this increases profitability given the significant weather experience, whereas for 2017 profits reduce given relatively benign weather experience.

11% growth in gross premiums to £410m

Gross premiums increased 11% to £410m (2017: £369m), comprising a 9% increase in Household premiums to £370m (2017: £338m), and a 60% increase in Pet premiums to £24m (2017: £15m). The 'Buddies' pet business, which was acquired in January 2018, is now operating as an integral part of the General Insurance division. Across the General Insurance business, new business gross premiums increased 15% to £198m (2017: £172m). Our direct business delivered gross premiums of £148m in 2018, representing 6% growth on 2017, and accounted for 36% of gross premiums (2017: £139m, 38% of gross premiums).

The General Insurance business has had nine distribution agreements with major UK financial institutions go live since 2016, three of which went live in 2018 with Asda, The Co-operative Bank and Pen Underwriting. We continue to attract significant interest from potential distribution partners, who value our market leading, digital SmartQuote and SmartClaim propositions.

Profits impacted by weather events and subsidence

Operating profit in 2018 was £nil (2017: £37m) with a combined operating ratio of 104% (2017: 93%). In line with market experience, adverse claims experience caused by the February/March freeze and a subsidence surge due to prolonged dry weather in 2018 has had a negative impact on operating profit of c.£26m compared to our long term expectation from weather related catastrophe events. Normalising for our long term weather expectation, operating profit was £26m (2017: £20m), and the combined operating ratio was 97% (2017: 99%).

We have taken management actions in response to our 2018 experience. These include taking pricing action to increase profitability and in expectation of rating increases across the market. Additionally, we are the first general insurer to contract directly with Geobear, enabling us to utilise market leading technologies in large subsidence claims. This will significantly reduce the claim lifecycle and cost, benefitting both our customers and Legal & General.

Benefiting from digital innovation

We have established industry leading, customer-facing technology in our SmartQuote and SmartClaim systems. The success of these platforms has been recognised with ten awards and has led to us winning new distribution agreements since its launch in 2017.

Our SmartQuote solution uses technology and big data to produce household insurance quotes in approximately ninety seconds after asking only five questions and is being used in our direct channel and in our Partnership with Co-op, the first partnership deal that we have won using SmartQuote. We are in discussion with other potential partners who are keen to utilise the SmartQuote technology. Our SmartClaim system makes the claim filing process easy and fast for customers, leading to an Ease Score of around 80%. SmartClaim has reduced claims processing times resulting in increased operational efficiency and improved fraud detection for the General Insurance business.

Disposed operations

The Group announced the sale of the Mature Savings business to Swiss Re on 6 December 2017 for £650m. The proceeds were received by the Group at the start of January 2018. In 2018 we recognised £79m operating profit from the business, resulting from the unwind of the expected underlying profits and the release of a one-off provision of a £33m provision, which is no longer required following the transaction. Following the Part VII transfer in 2019 it is anticipated that an IFRS gain of over £400m will be generated, which includes the unwind of the 2019 expected underlying profits.

For 2018 we have reflected the impact of the Risk Transfer Agreement in our Internal Model which has given a small improvement in the capital position. The completion of the Part VII is expected to be broadly neutral to the Group's Solvency II coverage ratio.

On 1 June 2018, the Group agreed the sale of our stake in IndiaFirst Life Insurance Company to an affiliate of Warburg Pincus LLC for INR 7.1bn (c.£79m at GBP:INR 1:90) resulting in a pre-tax profit of approximately £45m upon completion in February 2019. The disposal will also result in a marginal improvement in the Solvency II coverage ratio.

Subsidiary dividends to Group

£m	2018	2017
Subsidiary dividends remitted[1]:		
LGAS	**852**	1,133
LGIM	**251**	251
LGA	**75**	80
Other[2]	**108**	119
Total	**1,286**	1,583
Total excluding mortality release and LGN disposal proceeds[3,4]	**1,136**	1,203

1. Represents cash remitted from subsidiaries to Group in respect of the year's financial performance.
2. Other includes Legal & General Finance Plc, Retail Investment Holdings, Legal & General Home Financing, LGCIL and LGRe.
3. £150m dividend paid from Legal & General Assurance Society (LGAS) to Group, due to mortality reserve releases in 2018 (2017: £250m).
4. Legal & General Netherlands (LGN) was sold on 6 April 2017 for €161m.

The level of dividends remitted to the Group ensures coverage of external dividends (2018: £979m, 2017: £914m), 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 £3.9bn at 31 December 2018 (2017: £3.5bn). There is also a further £1.0bn (2017: £0.5bn) of operational borrowings including £0.6bn (2017: £0.1bn) of non-recourse borrowings.

In November 2018 the Group issued £400m of Tier 2 subordinated debt with a coupon of 5.125%. On 4 February 2019, notification was given that the Group would redeem £400m of 5.875% undated subordinated notes in full on their first call date of 1 April 2019.

Group debt costs of £203m (2017: £191m) reflect an average cost of debt of 5.1% per annum (2017: 5.1% per annum) on an average nominal value of debt balances of £4.0bn (2017: £3.8bn).

Taxation

Equity holders' Effective Tax Rate (%)	2018	2017
Equity holders' total Effective Tax Rate[27]	**15.0**	9.0
Annualised rate of UK corporation tax	**19.00**	19.25

The effective tax rate reflects the impact of the lower US tax rate, the change in structuring of our US term reinsurance as well as adjustments to prior years' tax estimates.

[27] The equity holders' total Effective Tax Rate excluding discontinued operations is 14.9% (YE 2017 8.5%).

Solvency II

As at 31 December 2018, the Group had an estimated Solvency II surplus of £6.9bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 188% on a shareholder basis. **As at 4 March 2019, and excluding £400m of subordinated debt which is to be redeemed on 1 April 2019, we estimate the ratio was 190%.**

Capital (£bn)	2018[1]	2017[1]
Own Funds	14.8	14.6
Solvency Capital Requirement (SCR)	(7.9)	(7.7)
Solvency II surplus	**6.9**	**6.9**
SCR coverage ratio (%)	**188**	**189**

1. Solvency II position on a shareholder basis and before the accrual of the relevant dividend.

Analysis of movement from 1 January 2018 to 31 December 2018 (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	1.4
Release of Risk Margin[2]	0.4
Amortisation of TMTP[3]	(0.4)
Operational surplus generation	**1.4**
New business strain	(0.5)
Net surplus generation	**0.9**
Dividends paid[4]	(0.9)
Operating variances	0.1
Mergers, acquisitions and disposals[5]	-
Market movements[6]	(0.5)
Subordinated debt[7]	0.4
Total surplus movement (after dividends paid in the year)	**-**

2. Based on the Risk Margin in force at end 2017 and does not include the release of any Risk Margin added by new business written in 2018.
3. TMTP amortisation based on a linear run down of the end-2017 TMTP of £5.3bn net of tax (£6.2bn before tax).
4. Dividends paid are the amounts from the 2017 final dividend declaration paid in H1 2018, and 2018 interim dividend paid in H2 2018.
5. Mergers, acquisitions and disposals include the impact of the sale of Mature Savings (in excess of the amount which came through in 2017) and purchase of 100% of CALA Homes.
6. Market movements represent the impacts of changes in investment market conditions over the period and changes to future economic assumptions.
7. In November 2018 the Group issued £400m of Tier 2 subordinated debt.

Operational surplus generation was up 14%[28] to £1.4bn (2017: £1.3bn), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin. New business strain was £0.5bn, reflecting record UK annuity volumes written at a capital strain of less than 4%, changes in business mix, and margin pressure in UK Retail Protection. This resulted in net surplus generation of £0.9bn (2017: £1.2bn).

Operating variances include the impact of experience variances, the change in our mortality assumptions across the business, changes to model calibrations and management actions. The net impact of operating variances over the period was £0.1bn.

Market movements of £(0.5)bn reflect weaker asset markets at year end, predominantly in equities, as well as a number of other, smaller variances.

The above incorporates management's estimate of the impact of recalculating the TMTP as at 31 December 2018 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with UK regulatory requirements, a formal recalculation of the Group's TMTP will take place no later than 31 December 2019.

When stated on a proforma basis, including the SCR attributable to our With-profits fund and the Group final salary pension schemes of £0.8bn in both the Group's Own Funds and the SCR, the Group's coverage ratio was 181% (2017: 181%).

[28] Using unrounded operational surplus generation values.

Reconciliation of IFRS net release from operations to Solvency II net surplus generation

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in 2018:

	£bn
IFRS Release from operations	**1.3**
Expected release of IFRS prudential margins	(0.5)
Release of IFRS specific reserves	(0.1)
Solvency II investment margin	0.1
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	0.6
Solvency II Operational surplus generation	**1.4**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in 2018:

	£bn
IFRS New business surplus	**0.2**
Removal of requirement to set up prudential margins above best estimate on new business	0.2
Set up of Solvency II Capital Requirement on new business	(0.7)
Set up of Risk Margin on new business	(0.2)
Solvency II New business strain	**(0.5)**

Sensitivity analysis

	Impact on net of tax Solvency II capital surplus 2018 £bn	Impact on net of tax Solvency II coverage ratio 2018 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1]	**0.3**	**10**
Credit spreads narrow by 100bps assuming an escalating addition to ratings[1]	**(0.4)**	**(10)**
Credit migration[2]	**(0.8)**	**(10)**
25% rise in equity markets	**0.5**	**6**
25% fall in equity markets	**(0.5)**	**(6)**
15% rise in property markets	**0.5**	**5**
15% fall in property markets	**(0.6)**	**(7)**
100bps increase in risk free rates	**0.9**	**24**
50bps decrease in risk free rates	**(0.5)**	**(12)**
Substantially reduced Risk Margin[3]	**0.4**	**5**

1. Applies to all assets within Legal & General's holdings where the capital treatment depends on a credit rating (e.g. corporate bonds and Sale & Leaseback rental strips), with no change in the firm's long term default expectations. Restructured LTMs are excluded.
2. 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, Sale & Leaseback rental strips, and LTM senior notes).
3. This represents a reduction of two-thirds in Risk Margin and subsequent recalculation of TMTP.

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. These results all allow (on an approximate basis) for the recalculation of TMTP as at 31 December 2018, where the impact of the stress would cause it to change materially. The impacts of these stresses are not linear therefore these results should not be used to interpolate or extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

Solvency II new business contribution

Management estimates of the value of new business and the margin as at 31 December 2018 are shown below:

	PVNBP	Contribution from new business	Margin %
LGR[1] (£m)	**9,148**	**722**	**7.9**
UK Protection Total (£m)	**1,609**	**115**	**7.1**
- Retail protection	1,271	93	7.3
- Group protection	338	22	6.4
US Protection (£m)	**854**	**96**	**11.2**

1. UK annuity business.

The key economic assumptions as at 31 December 2018 are as follows:

Margin for risk	**3.2%**
Risk free rate	
- UK	**1.5%**
- US	**2.7%**
Risk discount rate (net of tax)	
- UK	**4.7%**
- US	**5.9%**
Long term rate of return on non-profit annuities in LGR	**3.4%**

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

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

Principal risks and uncertainties

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

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We regularly appraise the assumptions underpinning the business we write. We remain, however, inherently exposed to certain extreme events that could require us to adjust our reserves. For example, in our pensions risk transfer and annuities business, while trend data continues to suggest that the rate of longevity improvement is slowing, a dramatic advance in medical science beyond that anticipated may lead to an unexpected change in life expectancy, requiring adjustment to reserves. In our protection businesses a widespread increase in mortality or morbidity, for example as a result of the emergence of new diseases or reductions in immunology, may also require us to re-evaluate reserves. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. 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 science we aim to anticipate long-term trends in mortality, and continue to evolve and develop our underwriting capabilities for our protection business. Our selective use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movements and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. Interest rate expectations leading to 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 than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital. In addition, significant falls in investment values can reduce fee income to our investment management business.	The outlook for the global economy is looking less certain than a year ago, with forecasts suggesting a general slowing in the rate of growth in many advanced economies. Recent US and China trade tensions, as well as impacting growth prospects, have also weighed heavily on market sentiment with potential for a broader re-pricing of assets should relations further deteriorate. Other factors adding to downside risk include a deeper-than-envisaged slowdown in China; in the euro-area, increasing political uncertainty with the potential for a renewed Italian debt crisis; and on-going geo-political tensions in the Middle East and East Asia. The possibility of a disruptive, "no-deal" Brexit with negative cross-border spillovers and increased euro-scepticism affecting European parliamentary election outcomes also has potential to lead to greater risk aversion.	Although we cannot fully eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, as part of our strategic planning activity we seek to model our business plans across a range of economic scenarios to ensure they will be resilient. Our ORSA process plays an integral part in this process ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite. We have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. We cannot, however, completely eliminate risk.

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	Although the level of credit default increases in periods of low economic growth, an event leading to widespread default among the issuers of investment grade debt is still considered to be a more remote risk; however, we are closely monitoring a number of factors that may lead to a widening of credit spreads including the outlook for global interest rates; the effects of a global slowdown on emerging markets, and the potential economic impacts of an unfavourable Brexit outcome for specific industrial and service sectors. The UK residential property market is also showing signs of slowing confidence, although weakness on the supply side continues to ensure a degree of market resilience. Whilst considered to be more extreme risk scenario in the current environment, factors that could increase the level of default risk, if they were to occur, include a material deterioration in global economic conditions; a renewed banking crisis; and default on debt linked to emerging markets.	We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of security. In placing reinsurance we set counterparty specific exposure limits, where appropriate taking collateral. We manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never completely eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios.
Changes in regulation or legislation may have a detrimental effect on our strategy Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	The regulatory regimes under which the Group operate continue to evolve. In the UK, Solvency II is now well established and whilst we do not envisage Brexit leading to immediate changes to the current capital regime, we continue to see refinement in rules by the PRA, for example in the treatment of lifetime mortgages and other illiquid assets, and the matching adjustment for long term business. The FCA also continues to develop its approach to supervision focusing on consumer protection, market integrity and the promotion of competition, and we are preparing for the FCA's transition in 2021 from LIBOR to SONIA. There is also increasing regulatory interest in utilising current supervisory frameworks to influence the transition to a lower-carbon economy. The approach to, territory of and level of corporate taxation also continues to be an area of political debate internationally and in the specific jurisdictions in which we operate	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 in the UK and Europe 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 ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risks that controls may fail or that historic financial services industry accepted practices may be reappraised by regulators, resulting in sanction against the group.

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
New entrants, or legislative change, may disrupt the markets in which we operate There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. In particular, as has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial services products emerge with lower cost business models or innovative service propositions and capital structures disrupt the current competitive landscape. Changes in regulation or legislation can also influence the competitive landscape.	We closely monitor the factors that may impact the markets in which we operate, including governmental initiatives, developing industry practices and competitor activity. Alongside digital enabled changes to business operating models that enhance the customer experience, technology is being widely applied to achieve cost savings and efficiencies for market participants. The UK government is also consulting on a new legislative framework for defined benefit 'superfund' consolidation schemes, that have potential to significantly transform the operating environment for our asset management and pension risk transfer businesses.	We continue to build our digital businesses, including My Account; our SmartQuote and SmartQuote apps for household insurance; the use of technology to transform our insurance product distribution reach in the US, and to improve digital client journeys and operational efficiency across the Group. In our asset management alongside positioning the business to protect existing market share, we are accessing new markets and sources of funds, in particular overseas. In our pensions risk transfer business, where pricing is an important factor in trustee purchasing decisions, our capabilities to assess risk and offer bespoke solutions enable us to differentiate our offer from competitors, and we believe that LGIM and LGRI are well positioned for the next evolution of the defined benefit pensions market.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.	Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks across our businesses. We are also exposed to property construction and safety risks within our property construction businesses. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events.	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. We recognise, however, that residual risk will always remain and have designed our risk governance framework to ensure that when adverse events occur we can deploy appropriate responses.

Notes

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

A presentation to analysts and fund managers will take place at 9.30am UK time today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at https://www.legalandgeneralgroup.com/investors/half-year-results-2018/ A replay will be available on this website later today.

There will be a live, listen only, teleconference link to the presentation. Details below:

Participant dial-in numbers

Location you are dialling in from	Number you should dial
United Kingdom	020 3936 2999
United States (toll free)	+1 855 979 6654
All other locations	+44 20 3936 2999

Please enter access code 721242 to gain access to the conference.

2019 Financial Calendar	Date
Ex-dividend date (2018 final dividend)	**25 April 2019**
Record date	**26 April 2019**
Annual general meeting	**23 May 2019**
Payment date of 2018 final dividend	**6 June 2019**
Half-year results 2019	**7 August 2019**

Definitions

Definitions are included in the Glossary on pages 91 to 96 of this release.

Forward looking statements

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

Going concern statement

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 25 to 27. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

The Group manages and monitors its capital with various stresses built in order to understand the expected impact of market downturns. These stresses do not give rise to any material uncertainties over the ability of the Group to continue as a going concern and therefore, based upon the available information, the directors consider that the Group has the plans and resources to manage its business risks successfully as it has a diverse range of business and remains financially strong.

Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the preliminary financial information.

Director's responsibility statement

We confirm to the best of our knowledge that:

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

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

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

By order of the Board

Nigel Wilson
Group Chief Executive
5 March 2019

Stuart Jeffrey Davies
Group Chief Financial Officer
5 March 2019

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Notes

IFRS Disclosures on performance and Release from operations

1.01 Operating profit#

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
From continuing operations			
Legal & General Retirement (LGR)	1.03	**1,548**	1,247
- LGR Institutional (LGRI)		1,149	906
- LGR Retail (LGRR)		399	341
Legal & General Investment Management (LGIM)	1.04	**407**	400
Legal & General Capital (LGC)	1.06	**322**	272
Legal & General Insurance (LGI)	1.03	**308**	303
- UK and Other		246	209
- US (LGIA)		62	94
General Insurance	1.05	**-**	37
Operating profit from divisions:			
From continuing operations		**2,585**	2,259
From discontinued operations[1]		**79**	107
Operating profit from divisions		**2,664**	2,366
Group debt costs[2]		**(203)**	(191)
Group investment projects and central expenses	1.07	**(126)**	(120)
Operating profit		**2,335**	2,055
Investment and other variances	1.08	**(188)**	24
Gains on non-controlling interests		**(19)**	11
Adjusted profit before tax attributable to equity holders		**2,128**	2,090
Tax expense attributable to equity holders	3.07	**(320)**	(188)
Profit for the year		**1,808**	1,902
Profit attributable to equity holders		**1,827**	1,891
Earnings per share:			
Basic (pence per share)[3]	1.09	**30.79p**	31.87p
Diluted (pence per share)[3]	1.09	**30.64p**	31.73p

1. Operating profit from discontinued divisions primarily reflects the operating profit of the Savings division following the group's announcement in December 2017 to sell the Mature Savings business to Swiss Re. For these operating profit disclosures, discontinued operations in 2017 also includes the results of Legal & General Netherlands (LGN) which was sold during 2017 and was a component of the LGI (UK and Other) division.
2. Group debt costs exclude interest on non recourse financing.
3. All earnings per share calculations are based on profit attributable to equity holders of the company.

This supplementary operating profit information (one of the group's key performance indicators) provides further analysis of the results reported under IFRS and the group believes it provides shareholders with a better understanding of the underlying performance of the business in the year.

- LGR represents worldwide pension risk transfer business, including longevity insurance (within LGRI), and individual retirement and lifetime mortgages (within LGRR).
- LGIM represents institutional and retail investment management and workplace savings businesses.
- LGC represents shareholder assets invested in direct investments primarily in the areas of housing, urban regeneration, clean energy and SME finance, as well as traded and treasury assets.
- LGI primarily represents UK and US retail protection business, UK group protection and Fintech business.
- General Insurance comprises short-term household and other personal insurance.
- Discontinued operations represent businesses that have either been sold or announced to sell subject to formal transfer, namely Mature Savings (including with-profits). In 2017 the discontinued operations include Mature Savings (sale announced in December 2017) and Legal & General Netherlands (sold in April 2017).

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects the IFRS profit before tax) and LGIA non-term business (which excludes unrealised investment returns to align with the liability measurement under US GAAP). Variances between actual and smoothed investment return assumptions are reported below operating profit, which include any differences between investment return on actual assets and the long-term asset mix. Exceptional income and expenses which arise outside the normal course of business in the period, such as merger and acquisition, and start-up costs, are also excluded from operating profit.

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

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

For the year ended 31 December 2018	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 and other £m	International and other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**551**	**217**	**768**	**33**	**444**	**40**	**-**	**1,285**	**263**	**1,548**
- LGRI	379	188	567	22	324	43	-	956	193	1,149
- LGRR	172	29	201	11	120	(3)	-	329	70	399
LGIM	**354**	**(25)**	**329**	**(3)**	**(1)**	**1**	**-**	**326**	**81**	**407**
- LGIM (excluding Workplace Savings)	323	-	323	-	-	-	-	323	81	404
- Workplace Savings[2]	31	(25)	6	(3)	(1)	1	-	3	-	3
LGC	**261**	**-**	**261**	**-**	**-**	**-**	**-**	**261**	**61**	**322**
LGI	**258**	**(22)**	**236**	**24**	**35**	**(19)**	**(7)**	**269**	**39**	**308**
- UK and Other	181	(22)	159	24	35	(19)	1	200	46	246
- US (LGIA)	77	-	77	-	-	-	(8)	69	(7)	62
General Insurance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
From continuing operations	**1,424**	**170**	**1,594**	**54**	**478**	**22**	**(7)**	**2,141**	**444**	**2,585**
From discontinued operations[3]	**44**	**-**	**44**	**(6)**	**-**	**26**	**-**	**64**	**15**	**79**
Total from divisions	**1,468**	**170**	**1,638**	**48**	**478**	**48**	**(7)**	**2,205**	**459**	**2,664**
Group debt costs	**(164)**	**-**	**(164)**	**-**	**-**	**-**	**-**	**(164)**	**(39)**	**(203)**
Group investment projects and expenses	**(34)**	**-**	**(34)**	**-**	**-**	**-**	**(68)**	**(102)**	**(24)**	**(126)**
Total	**1,270**	**170**	**1,440**	**48**	**478**	**48**	**(75)**	**1,939**	**396**	**2,335**

1. Release from operations includes dividends from the US of £77m within the US (LGIA).
2. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).
3. Discontinued operations reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re.

Release from operations for LGR, LGIM - Workplace Savings and LGI represents the expected IFRS surplus generated in the year from the in-force non profit annuities, workplace savings and UK protection businesses using best estimate assumptions. The LGIM release from operations also includes operating profit after tax from the institutional and retail investment management businesses. The LGI release from operations also includes dividends remitted from LGIA. The release from operations within discontinued operations primarily reflects the unwind of expected profits after tax under the risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re) from the Mature Savings business.

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

LGR's new business metrics are presented based on a target long term asset portfolio. 2018 has seen record pension risk transfer (PRT) volumes, and as a result we continue to source direct investment assets to support this business in 2019, as appropriate, taking into account the alternative risk and rewards of traded credit. At year end, any difference between the actual assets and the long-term asset mix is reflected in investment variance.

Net release from operations for LGR, LGIM - Workplace Savings, LGI and discontinued operations is defined as release from operations plus new business surplus/(strain).

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

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

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

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

For the year ended 31 December 2017	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 and other £m	International and other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	508	180	688	72	274	3	-	1,037	210	1,247
- LGRI	347	152	499	66	190	1	-	756	150	906
- LGRR	161	28	189	6	84	2	-	281	60	341
LGIM	342	(21)	321	(4)	(1)	2	-	318	82	400
- LGIM (excluding Workplace Savings)	318	-	318	-	-	-	-	318	82	400
- Workplace Savings[2]	24	(21)	3	(4)	(1)	2	-	-	-	-
LGC	224	-	224	-	-	-	-	224	48	272
LGI	273	2	275	(50)	48	(25)	(26)	222	81	303
- UK and Other	193	2	195	(50)	48	(25)	1	169	40	209
- US (LGIA)	80	-	80	-	-	-	(27)	53	41	94
General Insurance	30	-	30	-	-	-	-	30	7	37
From continuing operations	1,377	161	1,538	18	321	(20)	(26)	1,831	428	2,259
From discontinued operations[3]	107	(5)	102	(1)	3	(21)	3	86	21	107
Total from divisions	1,484	156	1,640	17	324	(41)	(23)	1,917	449	2,366
Group debt costs	(154)	-	(154)	-	-	-	-	(154)	(37)	(191)
Group investment projects and expenses	(32)	-	(32)	-	-	-	(64)	(96)	(24)	(120)
Total	1,298	156	1,454	17	324	(41)	(87)	1,667	388	2,055

1. Release from operations includes dividends from the US of £80m within the US (LGIA).
2. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).
3. Discontinued operations primarily reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this reconciliation, discontinued operations also include the results of Legal & General Netherlands. This business was sold during 2017.

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

1.03 Analysis of LGR and LGI operating profit
For the year ended 31 December 2018

	LGR 2018 £m	**LGI 2018 £m**	LGR 2017 £m	LGI 2017 £m
Net release from operations	**768**	**236**	688	275
Experience variances				
- Persistency	**8**	**(12)**	9	(18)
- Mortality/morbidity[1]	**73**	**(7)**	30	(26)
- Expenses	**(13)**	**2**	(21)	3
- Project and development costs	**(11)**	**-**	(15)	(3)
- Other[2,3]	**(24)**	**41**	69	(6)
Total experience variances	**33**	**24**	72	(50)
Changes to valuation assumptions				
- Persistency	**-**	**(4)**	-	(11)
- Mortality/morbidity[4]	**444**	**25**	303	51
- Expenses	**-**	**17**	(20)	9
- Other	**-**	**(3)**	(9)	(1)
Total changes to valuation assumptions	**444**	**35**	274	48
Movement in non-cash items				
- Acquisition expense tax relief	**-**	**(11)**	-	(18)
- Other[5]	**40**	**(8)**	3	(7)
Total movement in non-cash items	**40**	**(19)**	3	(25)
International and other	**-**	**(7)**	-	(26)
Operating profit after tax	**1,285**	**269**	1,037	222
Tax gross up	**263**	**39**	210	81
Operating profit before tax	**1,548**	**308**	1,247	303

1. Mortality / morbidity experience variances for LGR reflect higher than expected deaths over the year.
2. Other experience variances for LGR reflect changes made to annuity reserving and updates to the policy/member data.
3. Other experience variances for LGI reflect a number of modelling refinements in reserving for future claims.
4. Mortality assumption changes for LGR reflect a one off release of £359m (net of tax) from an update in the longevity trend assumption from adjusted CMI 2015 to adjusted CMI 2016.
5. LGR Movement in non-cash items is largely due to a positive adjustment made to reflect all asset management activity on new bulk annuity contracts being handled by LGIM.

1.04 LGIM operating profit

	2018 £m	2017 £m
Asset management revenue (excluding 3rd party market data)[1]	**813**	780
Asset management transactional revenue[2]	**27**	25
Asset management expenses (excluding 3rd party market data)[1]	**(433)**	(405)
ETF operating loss[3]	**(3)**	-
Workplace Savings operating profit[4]	**3**	-
Total LGIM operating profit	**407**	400

1. Asset management revenue and expenses exclude income and costs of £19m in relation to the provision of third party market data (2017: £17m).
2. Transactional revenue includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees for property funds.
3. ETF represents the results of the Canvas ETF business, the acquisition of which completed in March 2018.
4. Workplace Savings represents administration business only.

1.05 General Insurance operating profit and combined operating ratio

	2018 £m	2017 £m
General Insurance operating profit[1]	-	37
General Insurance combined operating ratio[2]	104%	93%

1. Includes the General Insurance underwriting result and smoothed investment return.
2. The calculation of the General Insurance combined operating ratio incorporates claims, commission and expenses as a percentage of net earned premiums.

1.06 LGC operating profit

	2018 £m	2017 £m
Direct investments[1]	**188**	124
Traded investment portfolio including treasury assets[2]	**134**	148
Total LGC operating profit	**322**	272

1. Direct Investments represents LGC's portfolio of assets across future cities (including urban regeneration and clean energy), housing (including CALA Homes) and SME finance.
2. The traded investment portfolio holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash.

1.07 Group investment projects and central expenses

	2018 £m	2017 £m
Group investment projects and central expenses	**113**	61
Restructuring and other costs	**13**	59
Total group investment projects and expenses	**126**	120

1.08 Investment and other variances

	2018 £m	2017 £m
Investment variance[1]	**(126)**	129
M&A related and other variances[2]	**(62)**	(105)
Total investment and other variances	**(188)**	24

1. Investment variance includes differences between actual and smoothed investment return on traded and real assets, economic assumption changes (e.g. credit default and inflation) and the impact of any difference between the actual allocated asset mix and the long-term assumed asset mix on new pension risk transfer business written during the year and held at a period end.
2. Includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2018 includes the recognition of a one-off profit of £20m arising on the stepped acquisition of CALA Homes (see Note 3.02).

1.09 Earnings per share

(a) Basic earnings per share

	After tax 2018 £m	Per share[1] 2018 p	After tax 2017 £m	Per share[1] 2017 p
Profit for the year attributable to equity holders	**1,827**	**30.79**	1,891	31.87
Less: earnings derived from discontinued operations	**(64)**	**(1.07)**	(80)	(1.35)
Basic earnings derived from continuing operations	**1,763**	**29.72**	1,811	30.52

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

(b) Diluted earnings per share

	After tax 2018 £m	Weighted average number of shares 2018 m	Per share[1] 2018 p
Profit for the year attributable to equity holders	**1,827**	**5,933**	**30.79**
Net shares under options allocable for no further consideration	**-**	**29**	**(0.15)**
Total diluted earnings	**1,827**	**5,962**	**30.64**
Less: diluted earnings derived from discontinued operations	**(64)**	**-**	**(1.07)**
Diluted earnings derived from continuing operations	**1,763**	**5,962**	**29.57**

	After tax 2017 £m	Weighted average number of shares 2017 m	Per share[1] 2017 p
Profit for the year attributable to equity holders	1,891	5,933	31.87
Net shares under options allocable for no further consideration	-	27	(0.14)
Total diluted earnings	1,891	5,960	31.73
Less: diluted earnings derived from discontinued operations	(80)	-	(1.35)
Diluted earnings derived from continuing operations	1,811	5,960	30.38

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.

1.10 Segmental analysis

Reportable segments

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

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

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

(a) Profit/(loss) for the year

For the year ended 31 December 2018	**LGR £m**	**LGIM £m**	**LGC £m**	**LGI £m**	**General Insurance £m**	**Group expenses and debt costs £m**	**Total continuing operations[1] £m**
Operating profit/(loss)[#]	**1,548**	**407**	**322**	**308**	**-**	**(329)**	**2,256**
Investment and other variances	**95**	**(4)**	**(273)**	**(1)**	**(27)**	**22**	**(188)**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Profit/(loss) before tax attributable to equity holders	**1,643**	**403**	**49**	**307**	**(27)**	**(326)**	**2,049**
Tax (expense)/credit attributable to equity holders	**(267)**	**(81)**	**13**	**(39)**	**6**	**63**	**(305)**
Profit/(loss) for the year	**1,376**	**322**	**62**	**268**	**(21)**	**(263)**	**1,744**

For the year ended 31 December 2017	LGR £m	LGIM £m	LGC £m	LGI[2] £m	General Insurance £m	Group expenses and debt costs £m	Total Continuing operations[1] £m
Operating profit/(loss)[#]	1,247	400	272	303	37	(311)	1,948
Investment and other variances	4	(9)	91	(60)	6	(14)	18
Gains attributable to non-controlling interests	-	-	-	-	-	11	11
Profit/(loss) before tax attributable to equity holders	1,251	391	363	243	43	(314)	1,977
Tax (expense)/credit attributable to equity holders	(225)	(84)	(77)	182	(8)	43	(169)
Profit/(loss) for the year	1,026	307	286	425	35	(271)	1,808

1. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the year ended 31 December 2017, continuing operations also exclude profits relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.
2. The LGI tax credit of £182m in 2017 primarily reflects the impact of a one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate in 2017.

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

1.10 Segmental analysis (continued)

(b) Total income

For the year ended 31 December 2018	LGR £m	LGIM[1,2] £m	LGI £m	General Insurance £m	LGC and other[3] £m	Total continuing operations[4] £m
Internal income	-	172	-	-	(172)	-
External income	8,507	(10,654)	1,742	370	1,299	1,264
Total income	**8,507**	**(10,482)**	**1,742**	**370**	**1,127**	**1,264**

For the year ended 31 December 2017	LGR £m	LGIM[1,2] £m	LGI[5] £m	General Insurance £m	LGC and other[3,5] £m	Total continuing operations[4] £m
Internal income	-	158	-	-	(158)	-
External income	6,862	28,779	2,027	342	2,382	40,392
Total income	6,862	28,937	2,027	342	2,224	40,392

1. LGIM internal income relates to investment management services provided to other segments.
2. LGIM external income includes fees from fund management and investment return.
3. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
4. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.
5. Following a review of the segmentation of income between certain business divisions we have reallocated £518m for the year ended 31 December 2017 from LGI to LGC and other, as this better reflects the nature of that income.

2.01 Consolidated Income Statement

For the year ended 31 December 2018	Notes	2018 £m	2017 £m
Income			
Gross written premiums		**13,253**	7,932
Outward reinsurance premiums		**(2,131)**	(1,858)
Net change in provision for unearned premiums		**(19)**	(23)
Net premiums earned		**11,103**	6,051
Fees from fund management and investment contracts		**802**	771
Investment return		**(11,847)**	33,457
Other operational income		**1,206**	212
Total income	1.10	**1,264**	40,491
Expenses			
Claims and change in insurance contract liabilities		**8,612**	8,326
Reinsurance recoveries		**(1,053)**	(1,776)
Net claims and change in insurance contract liabilities		**7,559**	6,550
Change in investment contract liabilities		**(11,304)**	29,848
Acquisition costs		**893**	734
Finance costs		**238**	212
Other expenses		**1,776**	1,086
Total expenses		**(838)**	38,430
Profit before tax		**2,102**	2,061
Tax expense attributable to policyholder returns		**(53)**	(70)
Profit before tax attributable to equity holders		**2,049**	1,991
Total tax expense		**(358)**	(239)
Tax expense attributable to policyholder returns		**53**	70
Tax expense attributable to equity holders	3.07	**(305)**	(169)
Profit after tax from continuing operations	1.10	**1,744**	1,822
Profit after tax from discontinued operations[1]	3.03	**64**	80
Profit for the year		**1,808**	1,902
Attributable to:			
Non-controlling interests		**(19)**	11
Equity holders		**1,827**	1,891
Dividend distributions to equity holders during the year	3.05	**932**	872
Dividend distributions to equity holders proposed after the year end	3.05	**704**	658
		p	p
Total basic earnings per share[2]	1.09	**30.79**	31.87
Total diluted earnings per share[2]	1.09	**30.64**	31.73
Basic earnings per share derived from continuing operations[2]	1.09	**29.72**	30.52
Diluted earnings per share derived from continuing operations[2]	1.09	**29.57**	30.38

1. Discontinued operations reflects the results of Mature Savings following the group's announcement in December 2017 to sell the Mature Savings business to Swiss Re.
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 2018	2018 £m	2017 £m
Profit for the year	**1,808**	1,902
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains/(losses) on defined benefit pension schemes	**117**	(55)
Tax on actuarial gains/(losses) on defined benefit pension schemes	**(22)**	10
Total items that will not be reclassified subsequently to profit or loss	**95**	(45)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas operations	**62**	(99)
Movement in cross-currency hedge	**34**	(12)
Tax on movement in cross-currency hedge	**(5)**	2
Movement in financial investments designated as available-for-sale	**(36)**	27
Tax on movement in financial investments designated as available-for-sale	**5**	(4)
Total items that may be reclassified subsequently to profit or loss	**60**	(86)
Other comprehensive income/(expense) after tax	**155**	(131)
Total comprehensive income for the year	**1,963**	1,771
Total comprehensive income for the year attributable to:		
Continuing operations	**1,899**	1,691
Discontinued operations	**64**	80
Total comprehensive income for the year attributable to:		
Non-controlling interests	**(19)**	11
Equity holders	**1,982**	1,760

2.03 Consolidated Balance Sheet

As at 31 December 2018	Notes	2018 £m	2017[1] £m
Assets			
Goodwill		**65**	11
Purchased interest in long term businesses and other intangible assets		**223**	138
Deferred acquisition costs		**140**	140
Investment in associates and joint ventures accounted for using the equity method		**259**	252
Property, plant and equipment		**57**	59
Investment property	3.06	**6,965**	7,110
Financial investments	3.06	**430,498**	443,162
Reinsurers' share of contract liabilities		**4,737**	5,545
Deferred tax assets	3.07	**7**	7
Current tax assets		**418**	342
Receivables and other assets		**5,593**	6,083
Assets of operations classified as held for sale	3.03	**26,234**	22,584
Cash and cash equivalents		**17,321**	18,919
Total assets		**492,517**	504,352
Equity			
Share capital	3.08	**149**	149
Share premium	3.08	**992**	988
Employee scheme treasury shares		**(52)**	(40)
Capital redemption and other reserves		**230**	168
Retained earnings		**7,261**	6,251
Attributable to owners of the parent		**8,580**	7,516
Non-controlling interests	3.09	**72**	76
Total equity		**8,652**	7,592
Liabilities			
Non-participating insurance contract liabilities		**64,707**	61,308
Non-participating investment contract liabilities		**293,080**	315,651
Core borrowings	3.10	**3,922**	3,459
Operational borrowings	3.11	**1,026**	538
Provisions	3.15	**1,140**	1,335
UK deferred tax liabilities	3.07	**144**	13
Overseas deferred tax liabilities	3.07	**185**	221
Current tax liabilities		**171**	223
Payables and other financial liabilities	3.12	**62,548**	52,246
Other liabilities		**619**	491
Net asset value attributable to unit holders		**26,481**	27,317
Liabilities of operations classified as held for sale	3.03	**29,842**	33,958
Total liabilities		**483,865**	496,760
Total equity and liabilities		**492,517**	504,352

1. Following a change in accounting policy for LGIA term assurance reserves, a number of balance sheet items have been restated, notably deferred acquisition costs, reinsurers' share of contract liabilities, non-participating insurance contract liabilities, overseas deferred tax liabilities and other liabilities. The overall net impact on the group's retained earnings as at 31 December 2017 is a reduction of £327m. Further details on the change in accounting policy are provided in Note 3.01.

2.04 Consolidated Statement of Changes in Equity

For the year ended 31 December 2018	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2018	**149**	**988**	**(40)**	**168**	**6,251**	**7,516**	**76**	**7,592**
Profit for the year	-	-	-	-	1,827	1,827	(19)	1,808
Exchange differences on translation of overseas operations	-	-	-	62	-	62	-	62
Net movement in cross-currency hedge	-	-	-	29	-	29	-	29
Net actuarial gains on defined benefit pension schemes	-	-	-	-	95	95	-	95
Net movement in financial investments designated as available-for-sale	-	-	-	(31)	-	(31)	-	(31)
Total comprehensive income for the year	-	-	-	60	1,922	1,982	(19)	1,963
Options exercised under share option schemes	-	4	-	-	-	4	-	4
Shares purchased	-	-	(17)	-	-	(17)	-	(17)
Shares vested	-	-	5	(26)	-	(21)	-	(21)
Employee scheme treasury shares: - Value of employee services	-	-	-	38	-	38	-	38
Share scheme transfers to retained earnings	-	-	-	-	10	10	-	10
Dividends	-	-	-	-	(932)	(932)	-	(932)
Movement in third party interests	-	-	-	-	-	-	15	15
Currency translation differences	-	-	-	(10)	10	-	-	-
As at 31 December 2018	**149**	**992**	**(52)**	**230**	**7,261**	**8,580**	**72**	**8,652**

1. Capital redemption and other reserves as at 31 December 2018 include share-based payments £81m, foreign exchange £121m, capital redemption £17m, hedging reserves £20m and available-for-sale reserves £(9)m.

2.04 Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	149	981	(30)	212	5,633	6,945	338	7,283
Change in accounting policy[2]	-	-	-	-	(277)	(277)	-	(277)
Restated as at 1 January 2017	149	981	(30)	212	5,356	6,668	338	7,006
Profit for the year	-	-	-	-	1,891	1,891	11	1,902
Exchange differences on translation of overseas operations	-	-	-	(99)	-	(99)	-	(99)
Net movement in cross-currency hedge	-	-	-	(10)	-	(10)	-	(10)
Net actuarial losses on defined benefit pension schemes	-	-	-	-	(45)	(45)	-	(45)
Net movement in financial investments designated as available-for-sale	-	-	-	23	-	23	-	23
Total comprehensive income for the year	-	-	-	(86)	1,846	1,760	11	1,771
Options exercised under share option schemes	-	7	-	-	-	7	-	7
Shares purchased	-	-	(16)	-	-	(16)	-	(16)
Shares vested	-	-	6	(19)	-	(13)	-	(13)
Employee scheme treasury shares: - Value of employee services	-	-	-	28	-	28	-	28
Share scheme transfers to retained earnings	-	-	-	-	4	4	-	4
Dividends	-	-	-	-	(872)	(872)	-	(872)
Movement in third party interests	-	-	-	-	-	-	(273)	(273)
Currency translation differences	-	-	-	33	(33)	-	-	-
Change in accounting policy[2]	-	-	-	-	(50)	(50)	-	(50)
Restated as at 31 December 2017	149	988	(40)	168	6,251	7,516	76	7,592

1. Capital redemption and other reserves as at 31 December 2017 include share-based payments £69m, foreign exchange £69m, capital redemption £17m, available-for-sale reserves £22m and hedging reserves £(9)m.

2. Change in accounting policy represents the impact on retained earnings of the change in accounting policy related to the recognition of LGIA term assurance reserves, described in Note 3.01. The change has been applied retrospectively.

2.05 Consolidated Statement of Cash Flows

For the year ended 31 December 2018	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year		**1,808**	1,902
Adjustments for non cash movements in net profit for the year			
Net losses/(gains) on financial investments and investment properties		**23,132**	(25,024)
Investment income		**(10,182)**	(9,953)
Interest expense		**293**	220
Tax expense		**210**	377
Other adjustments		**183**	154
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**(10,381)**	11,794
Investments designated as available-for-sale		**(248)**	277
Other assets		**1,258**	(2,344)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**3,257**	(3,989)
Investment contracts		**(22,571)**	(10,798)
Other liabilities		**12,057**	20,650
Net (decrease)/increase in held for sale net liabilities		**(8,500)**	12,139
Cash utilised in operations		**(9,684)**	(4,595)
Interest paid		**(215)**	(221)
Interest received		**4,841**	4,528
Tax paid[1]		**(504)**	(497)
Dividends received		**5,201**	5,196
Net cash flows from operating activities		**(361)**	4,411
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets		**(401)**	(230)
Net disposal/(acquisition) of operations		**326**	223
Investment in joint ventures and associates		**(130)**	(7)
Net cash flows utilised in investing activities		**(205)**	(14)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders during the year	3.05	**(932)**	(872)
Issue of ordinary share capital		**4**	7
Exercise of employee scheme shares (net)		**12**	10
Proceeds from borrowings		**960**	1,232
Repayment of borrowings		**(325)**	(600)
Movement in non-controlling interests		**-**	(262)
Net cash flows utilised in financing activities		**(281)**	(485)
Net (decrease)/increase in cash and cash equivalents		**(847)**	3,912
Exchange gains/(losses) on cash and cash equivalents		**16**	(19)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**18,919**	15,348
Total cash and cash equivalents		**18,088**	19,241
Less: cash and cash equivalents of operations classified as held for sale		**(767)**	(322)
Cash and cash equivalents at 31 December		**17,321**	18,919

1. Tax comprises UK corporation tax paid of £359m (2017: £290m), overseas corporate taxes of £25m (2017: £12m), and withholding tax of £120m (2017: £195m).

3.01 Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted by the European Union. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit and 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 2018 Annual Report and Accounts.

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

Tax attributable to policyholders and equity holders
The total tax expense shown in the group’s Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the group’s long-term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes.

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

Changes in accounting policy

LGIA (Legal & General Insurance America) Term Assurance
During the year, the group has changed its accounting policy for term assurance liabilities on business transacted by its US subsidiaries, which was previously based on recognised actuarial methods reflecting US GAAP. From 1 January 2018, the group has calculated such liabilities on the basis of current information using the gross premium valuation method, which is in line with how similar products are accounted for in other parts of the business.

The group believes the new policy is preferable as it more closely aligns the accounting for this business with that of business written in the UK, and therefore results in the financial statements providing reliable and more relevant information about the impact of term assurance business on the group’s financial position, financial performance or cash flows, in line with IFRS requirements.

This represents a voluntary change in accounting policy and has been applied retrospectively, with prior year retained earnings adjusted accordingly.

The principal impact of the change on the prior year consolidated financial statements is in the non-participating insurance contract liabilities and in deferred acquisition costs, which have been derecognised, and the associated cash flows now recognised within the insurance contract liability calculation.

3.01 Basis of preparation (continued)

The group reported an initial best estimate of the impact of this change in accounting policy as part of its 2018 half year report. During the second half of 2018 we have continued to refine the calculation of the retrospective impact based on enhanced historic information. The final impact on each line item of the consolidated balance sheet as at 31 December 2017 is shown in the table below:

	As reported at 31 December 2017 £m	Adjustments £m	Restated £m
Deferred acquisition costs	1,507	(1,367)	140
Reinsurers' share of contract liabilities	5,703	(158)	5,545
Non-participating insurance contract liabilities	62,318	(1,010)	61,308
Overseas deferred tax liability	337	(116)	221
Other liabilities	563	(72)	491
Retained earnings	6,578	(327)	6,251

As a consequence of the change highlighted above, the group has reclassified £164m (as of 1 January 2017) of financial investments backing term assurance business from designated as available-for-sale to designated as fair value through profit or loss. This represents a further change in accounting policy permitted by IFRS 4 'Insurance Contracts'.

UK Whole of Life and Term Assurance Mortality Assumptions

During the year, the group changed its accounting policy for UK whole of life and term assurance mortality improvers. This change has arisen following the change in regulatory regime to Solvency II. The old regime only allowed improvers to be added where reserves would be increased, in line with INSPRU 1.2.60 section 5a requirements. Under the new policy mortality improvement assumptions can now be applied consistently across all types of mortality business. The change covers all UK whole of life and term assurance products, and results in the group no longer needing to comply with INSPRU. The group believes that the new policy better reflects the risks that the business is exposed to, providing more reliable and relevant information to users of the financial statements.

This represents a voluntary change in accounting policy. However, because the impact of this change on prior period is considered insignificant, the group has applied the change prospectively.

3.02 Acquisitions

CALA Group (Holdings) Limited

On 12 March 2018 the group increased its shareholding in CALA Group (Holdings) Limited ('CALA Homes') to 100% by acquiring the remaining 52.12% shareholding of the company it did not previously own. Under the agreement, the counterparty for £152m of loan notes payable by CALA Homes was novated to the group and the loan notes subsequently cancelled which reduced the fair value of the purchase consideration from £605m to £453m.

The transaction has been accounted for as a stepped acquisition in accordance with IFRS 3 'Business Combinations', resulting in the recognition of a one-off profit of £20m.

The assets and liabilities acquired at the point of the transaction have been recorded at their fair values for the purposes of the acquisition balance sheet and included in the consolidated accounts of the group using the group's accounting policies in accordance with IFRS.

The following table summarises the consideration for the acquisition, fair value of the 100% share of the assets acquired, liabilities assumed, and resulting allocation to goodwill.

	Fair Value £m
Assets	
Intangible assets	25
Other non-current assets	4
Inventories	1,006
Other receivables	34
Cash and cash equivalents	18
Total assets	**1,087**
Liabilities	
Loans and borrowings	362
Trade and other payables	271
Other liabilities[1]	33
Total liabilities	**666**
Fair value of net assets acquired	421
Fair value of purchase consideration	453
Goodwill arising on acquisition	**32**

1. Other liabilities include deferred tax balances

Fair value adjustments arising on acquisition were in relation to identifiable intangible assets, inventories and related deferred tax liabilities. The residual goodwill recognised on acquisition, none of which is expected to be deductible for tax purposes, is attributable to the network of customers and contractors and the pipeline of future land and homes that could not be directly attributed to homes currently under construction or the brand acquired.

There were no contingent consideration arrangements or indemnification assets recognised on acquisition.

Other acquisitions

During the year ended 31 December 2018, the group completed the acquisitions of 100% shareholdings in Canvas (the European exchange-traded fund platform) and Buddies Enterprises Limited.

The assets and liabilities of the acquired businesses have been recorded at their fair values for the purposes of the acquisition balance sheet and included in the consolidated accounts of the group using the group's accounting policies in accordance with IFRS.

A total residual goodwill of £22m has been recognised in respect of these acquisitions.

3.03 Assets and liabilities of operations classified as held for sale

Mature Savings
On 6 December 2017 the group announced the sale of its Mature Savings business to the ReAssure division of Swiss Re Limited ('Swiss Re') for a consideration of £650m. As part of the transaction, on 1 January 2018 the group entered into a risk transfer agreement with Swiss Re, whereby the group will transfer all economic risks and rewards of the Mature Savings business to Swiss Re from that date. The risk transfer agreement operates until the business is transferred under a court approved scheme under Part VII of the Financial Services and Markets Act 2000, which is expected to complete in 2019. The consideration of £650m was received in 2018.

As a result of the transaction, the Mature Savings business has been classified as held for sale. Profit arising from the Mature Savings business in accordance with the risk transfer agreement, has been classified as "Profit after tax from discontinued operations" in the Consolidated Income Statement.

IndiaFirst Life Insurance Company Limited
On 1 June 2018 the group announced the sale of its stake in IndiaFirst Life Insurance Company Limited ("IndiaFirst Life") to an affiliate of Warburg Pincus LLC for INR 7.1bn (c.£79m at GBP:INR 1:90). As a result of the announcement, the group's interest in IndiaFirst Life has been classified as held for sale as at 31 December 2018. The transaction has completed after 31 December 2018.

3.04 Post balance sheet events

IndiaFirst Life Insurance Company Limited
The sale of the group’s stake in IndiaFirst Life Insurance Company Limited (announced on 1 June 2018) was completed on 7 February 2019.

5.875% Sterling undated subordinated notes
On 4 February 2019, notification was given that the group intends to redeem the 5.875% Sterling undated subordinated notes in full on 1 April 2019. Effective from the notification date, the notes were no longer treated as tier 2 own funds for Solvency II purposes.

3.05 Dividends

	Dividend 2018 £m	**Per share[1] 2018 p**	Dividend 2017 £m	Per share[1] 2017 p
Ordinary dividends paid and charged to equity in the year:				
- Final 2016 dividend	**-**	**-**	616	10.35
- Final 2017 dividend	**658**	**11.05**	-	-
- Interim dividend	**274**	**4.60**	256	4.30
Total dividends	**932**	**15.65**	872	14.65
Ordinary share dividend proposed[2]	**704**	**11.82**	658	11.05

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 2018, the directors declared a final dividend for 2018 of 11.82 pence per ordinary share. This dividend will be paid on 6 June 2019. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2019 and is not included as a liability in the Consolidated Balance Sheet as at 31 December 2018.

3.06 Financial investments and investment property

	2018 £m	2017 £m
Equities	**167,013**	199,858
Unit trusts	**10,553**	9,147
Debt securities[1]	**254,452**	230,941
Accrued interest	**1,635**	1,518
Derivative assets[2]	**10,065**	12,595
Loans[3]	**9,662**	9,165
Financial investments	**453,380**	463,224
Investment property	**8,608**	8,337
Total financial investments and investment property	**461,988**	471,561
Less: financial investments and investment property of operations classified as held for sale	**(24,525)**	(21,289)
Financial investments and investment property	**437,463**	450,272

1. A detailed analysis of debt securities to which shareholders are directly exposed, is disclosed in Note 6.03.
2. 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 £7,791m (2017: £8,173m).
3. Loans includes £456m (2017: £496m) of loans valued at amortised cost.

3.07 Tax

(a) Tax charge in the Consolidated Income Statement

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

	Continuing operations 2018 £m	**Total 2018 £m**	Continuing operations 2017 £m	Total 2017 £m
Profit before tax attributable to equity holders	**2,049**	**2,128**	1,991	2,090
Tax calculated at 19.00% (2017: 19.25%)	**389**	**404**	383	402
Adjusted for the effects of:				
Recurring reconciling items:				
Income not subject to tax[1]	**-**	**-**	(11)	(11)
Higher/(lower) rate of tax on overseas profits[2]	**(55)**	**(55)**	1	1
Non-deductible expenses	**5**	**5**	1	1
Differences between taxable and accounting investment gains	**(4)**	**(4)**	(3)	(3)
Unrecognised tax losses	**-**	**-**	1	1
Non-recurring reconciling items:				
Income not subject to tax[1]	**(10)**	**(10)**	(4)	(4)
Non-deductible expenses	**5**	**5**	10	10
Differences between taxable and accounting investment gains	**-**	**-**	10	10
Adjustments in respect of prior years[3]	**(36)**	**(36)**	23	23
Impact of reduction in UK and US corporate tax rates on deferred tax balances[4]	**11**	**11**	(242)	(242)
Tax attributable to equity holders	**305**	**320**	169	188
Equity holders' effective tax rate[5]	**14.9%**	**15.0%**	8.5%	9.0%

1. The acquisition of the remaining share capital of CALA Homes in the year significantly reduced our non-taxable share of income from joint ventures.
2. The lower rate of tax on overseas profits in 2018 primarily relates to the net effect of our Bermudan operations taxed at 0% and our US operations taxed at 21%.
3. Adjustments in respect of prior years relates to the revisions to earlier estimates.
4. The US federal corporate income tax rate reduced from 35% to 21% from 1 January 2018. The enacted rate of 21% has been applied to the US temporary differences to calculate US deferred tax assets and liabilities on the basis of when temporary differences are expected to reverse. 2017 includes the impact of the one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate.
5. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

3.07 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	**2018[1] £m**	2017[1] £m
Deferred acquisition expenses	**25**	15
- UK	**(40)**	(40)
- Overseas	**65**	55
Difference between the tax and accounting value of insurance contracts	**(577)**	(334)
- UK	**(171)**	(69)
- Overseas	**(406)**	(265)
Realised and unrealised gains on investments	**(72)**	(282)
Excess of depreciation over capital allowances	**12**	15
Excess expenses	**21**	31
Accounting provisions and other	**(28)**	(33)
Trading losses[2]	**163**	31
Pension fund deficit	**41**	70
Acquired intangibles	**(4)**	(2)
Total net deferred tax liabilities	**(419)**	(489)
Less: net deferred tax liabilities of operations classified as held for sale	**97**	262
Net deferred tax liabilities	**(322)**	(227)
Analysed by:		
- Deferred tax assets	**7**	7
- UK deferred tax liabilities	**(144)**	(13)
- Overseas deferred tax liabilities	**(185)**	(221)
Net deferred tax liabilities	**(322)**	(227)

1. US deferred tax liabilities in respect of deferred acquisition costs and non-participating insurance contracts have been restated following the change in accounting policy for LGIA term assurance reserves. The net tax impact to overseas deferred tax liabilities is a reduction of £116m at 31 December 2017.
2. Trading losses include UK trade and US operating losses of £4m (2017: £4m) and £159m (2017: £27m) respectively.

3.08 Share capital and share premium

Authorised share capital	2018 Number of shares	2018 £m	2017 Number of shares	2017 £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 2018	**5,958,438,193**	**149**	**988**
Options exercised under share option schemes	**2,330,041**	**-**	**4**
As at 31 December 2018	**5,960,768,234**	**149**	**992**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2017	5,954,656,466	149	981
Options exercised under share option schemes	3,781,727	-	7
As at 31 December 2017	5,958,438,193	149	988

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

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

3.09 Non-controlling interests

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

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

3.10 Core borrowings

	Carrying amount 2018 £m	Coupon rate 2018 %	Fair value 2018 £m	Carrying amount 2017 £m	Coupon rate 2017 %	Fair value 2017 £m
Subordinated borrowings						
5.875% Sterling undated subordinated notes (Tier 2)	**405**	**5.88**	**409**	408	5.88	428
10% Sterling subordinated notes 2041 (Tier 2)	**312**	**10.00**	**366**	311	10.00	397
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**569**	589	5.50	710
5.375% Sterling subordinated notes 2045 (Tier 2)	**603**	**5.38**	**627**	603	5.38	694
5.25% US Dollar subordinated rates 2047 (Tier 2)	**659**	**5.25**	**612**	628	5.25	679
5.55% US Dollar subordinated rates 2052 (Tier 2)	**387**	**5.55**	**356**	369	5.55	397
5.125% Sterling subordinated notes 2048 (Tier 2)	**399**	**5.13**	**401**	-	-	-
Client fund holdings of group debt[1]	**(31)**	**-**	**(30)**	(32)	-	(38)
Total subordinated borrowings	**3,323**		**3,310**	2,876		3,267
Senior borrowings						
Sterling medium term notes 2031-2041	**609**	**5.88**	**824**	609	5.88	857
Client fund holdings of group debt[1]	**(10)**	**-**	**(13)**	(26)	-	(37)
Total senior borrowings	**599**		**811**	583		820
Total core borrowings	**3,922**		**4,121**	3,459		4,087

1. £41m (2017: £58m) of the group's subordinated and senior borrowings are currently 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.

3.10 Core borrowings (continued)

Subordinated borrowings
5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. On 4 February 2019, notification was given that the Group intends to redeem these notes in full on 1 April 2019. Effective from the notification date, the notes were no longer treated as tier 2 own funds for Solvency II purposes.

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

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

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

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

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

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

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

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.

3.11 Operational borrowings

	Carrying amount 2018 £m	Interest rate 2018 %	Fair value 2018 £m	Carrying amount 2017 £m	Interest rate 2017 %	Fair value 2017 £m
Short term operational borrowings						
Euro Commercial Paper	**293**	**0.93**	**293**	349	1.27	349
Non recourse borrowings						
Consolidated Property Limited Partnerships	**57**	**2.46**	**57**	57	2.46	57
Later Living portfolio	**76**	**2.75**	**76**	45	3.20	45
CALA revolving credit facility	**188**	**3.37**	**188**	-	-	-
Class B Surplus Note	**296**	**5.61**	**296**	-	-	-
Bank loans and overdrafts	**83**	**-**	**83**	-	-	-
Total operational borrowings[1]	**993**		**993**	451		451
Less: liabilities of operations classified as held for sale[2]	**(28)**	**2.46**	**(28)**	-		-
Operational borrowings	**965**		**965**	451		451

1. Unit linked borrowings with a carrying value of £61m (2017: £87m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,026m (2017: £538m).
2. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 3.03.

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

Non recourse borrowings include Property Funds loans with a charge on the assets of the relevant Property Fund, loan facilities to Later Living SPVs with a charge on all assets of each individual SPV company, CALA Group (Holdings) Limited’s revolving credit facility 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 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 the Later Living portfolio which has been classified as Level 3.

As at 31 December 2018, the group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 31 December 2018.

3.12 Payables and other financial liabilities

	2018 £m	2017 £m
Derivative liabilities	**7,791**	8,173
Repurchase agreements[1]	**43,775**	32,357
Other financial liabilities[2]	**11,406**	12,026
Total payables and other financial liabilities	**62,972**	52,556
Less: liabilities of operations classified as held for sale[3]	**(424)**	(310)
Payables and other financial liabilities	**62,548**	52,246
Due within 12 months[4]	**51,178**	47,212
Due after 12 months[4]	**11,794**	5,344

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, FX spots and collateral repayable on short position reverse repurchase agreements. The value of collateral repayable on short position reverse repurchase agreements was £4,883m (2017: £5,138m).
3. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 3.03.
4. The maturity analysis of the liabilities between less and more than 12 months is based on the Total payables and other financial liabilities.

Fair value hierarchy

As at 31 December 2018	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**7,791**	**337**	**7,452**	**2**	**-**
Repurchase agreements	**43,775**	**-**	**43,775**	**-**	**-**
Other financial liabilities	**11,406**	**4,718**	**35**	**496**	**6,157**
Total payables and other financial liabilities	**62,972**	**5,055**	**51,262**	**498**	**6,157**

As at 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	8,173	193	7,969	11	-
Repurchase agreements	32,357	-	32,357	-	-
Other financial liabilities	12,026	4,793	7	140	7,086
Total payables and other financial liabilities	52,556	4,986	40,333	151	7,086

Trail commission (included within Other financial liabilities) is modelled using expected cash flows, incorporating expected future persistency. It has therefore been classified as Level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the trail commission liability by £4m (2017: £4m).

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the year ended 31 December 2018 (31 December 2017: no significant transfers), other than those noted above.

3.13 IFRS Sensitivity analysis

	Impact on group profit net of re-insurance 2018 £m	**Impact on group equity net of re-insurance 2018 £m**	Impact on pre-group profit net of re-insurance 2017 £m	Impact on group equity net of re-insurance 2017 £m
Economic sensitivity				
Long-term insurance				
100bps increase in interest rates[1]	**384**	**209**	195	59
50bps decrease in interest rates[1]	**(220)**	**(122)**	(126)	(45)
50bps increase in future inflation expectations	**65**	**53**	6	5
Credit spreads widen by 100bps with no change in expected defaults	**(138)**	**(213)**	(108)	(172)
25% rise in equity markets	**458**	**399**	514	456
25% fall in equity markets	**(459)**	**(399)**	(443)	(399)
15% rise in property values	**738**	**606**	408	346
15% fall in property values	**(761)**	**(623)**	(441)	(373)
10bps increase in credit default assumptions	**(551)**	**(446)**	(477)	(383)
10bps decrease in credit default assumptions	**558**	**451**	469	377
Non-economic sensitivity				
Long-term insurance				
1% increase in annuitant mortality	**157**	**192**	186	197
1% decrease in annuitant mortality	**(147)**	**(183)**	(178)	(191)
5% increase in assurance mortality[1]	**(375)**	**(298)**	(49)	(37)
General insurance				
Single storm event with 1 in 200 year probability[2]	**(235)**	**(190)**	(221)	(179)

1. Sensitivities have been calculated in accordance with the new reserving basis for term assurance business in LGIA adopted from 1 January 2018, which now uses current information where applicable. Further details on this change in accounting policy are provided in Note 1.
2. Sensitivity shows the ultimate cost to the group taking into account intra group reassurance arrangements. Sensitivities in 2017 showed the impact on Legal & General Insurance Limited alone and have been restated to be on a consistent basis.

The table above shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The group has aligned sensitivity analysis disclosure requirements across various reported metrics, primarily for interest rate, equity, property value, and annuitant mortality. The current disclosure also reflects management's view of key risks in current economic conditions.

For the year ended 31 December 2017, US term assurance liabilities were calculated on a US GAAP basis which takes a more passive approach to assumption setting. The economic and demographic assumptions set at inception were assumed to be unchanged under the sensitivities specified, making the liabilities insensitive to changes in assumptions. Following a change in accounting policy for these liabilities during 2018 (see Note 3.01 for details) to bring them in line with how similar products are accounted for in other parts of the business, a gross premium valuation methodology has been used, and assumptions are now set on the basis of current information. This change in accounting policy has a significant impact on the interest rate and assurance mortality assumption stresses for the US term assurance liabilities.

The interest rate sensitivity assumes a 100bps increase, and 50bps decrease, in the gross redemption yield on fixed interest securities together with a 100bps and 50bps change in the real yields on variable securities for respective sensitivity analyses. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

The inflation stress adopted is a 50bps p.a. increase in inflation resulting in a 50bps p.a. reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 50bps p.a. In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The equity stress is a +/- 25% in equity values. The property stress adopted is a +/-15% in property market values. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 15% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

The credit default stress assumes a +/-10bps stress to the current credit default assumptions for unapproved corporate bonds which will have an impact on the valuation interest rates used to discount liabilities. The credit default assumption is set based on the credit rating of the individual bonds in the asset portfolio and their outstanding term using Moody's global credit default rates.

The annuitant mortality stress is a +/-1% in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates. The assurance mortality stress represents an increase in mortality/morbidity rates for assurance contracts by 5%.

The group has external weather catastrophe reinsurance in place such that for any single weather event with claims up to £600m (2017: 520m) the ultimate cost of claims is limited to £200m. Intra group reinsurance means for losses in excess of £50m (2017: £30m) but less than £600m (2017: £520m) the cost of claims in Legal & General Insurance Limited would be £25m. (2017: £30m plus 50% of a £5m excess £30m layer). Legal and General Assurance Society Limited is exposed to 93% of claims between £50m and £120m (2017: £35m to £105m) and Legal & General Reinsurance Limited is exposed to 85% of claims between £120m and £220m (2017: 71% of claims between £105m and £225m). An event costing £600m is approximately equivalent to (but slightly lower than) the end-2018 modelled 1 in 200 year loss. In addition to the cost of claims the group would also incur additional claims handling costs and the cost of reinstatement premiums.

3.13 IFRS Sensitivity analysis (continued)

The above sensitivity analyses do not reflect management actions which 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 analyses also ignore any second order effects of the assumption change, including the potential impact on the group asset-liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order, which could be significantly more or less than the amounts shown above.

3.14 Foreign exchange rates

Principal rates of exchange used for translation are:

Year end exchange rates	2018	2017
United States dollar	**1.28**	1.35
Euro	**1.11**	1.13

Average exchange rates	2018	2017
United States dollar	**1.34**	1.29
Euro	**1.13**	1.14

3.15 Provisions

(a) Analysis of provisions

	2018 £m	2017 £m
Retirement benefit obligations	**1,112**	1,266
Other provisions	**29**	73
Total provisions	**1,141**	1,339
Less: liabilities of operations classified as held for sale[1]	**(1)**	(4)
Provisions	**1,140**	1,335

1. Liabilities of operations classified as held for sale relate to Mature Savings following the group's announcement in December 2017 to sell the Mature Savings business to Swiss Re.

(b) Retirement benefit obligations

	Fund and Scheme 2018 £m	CALA Homes[1] and Overseas 2018 £m	Fund and Scheme 2017 £m	Overseas 2017 £m
Gross pension obligations included in provisions	**1,091**	**21**	1,261	5
Annuity obligations insured by LGAS	**(858)**	**-**	(875)	-
Gross defined benefit pension deficit	**233**	**21**	386	5
Deferred tax on defined benefit pension deficit	**(41)**	**(1)**	(69)	(1)
Net defined benefit pension deficit	**192**	**20**	317	4

1. Following the stepped acquisition of CALA Homes in 2018 the pension obligations of CALA Homes have been included in 2018 balances.

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.

3.16 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.

In 1975, Legal and General Assurance Society Limited (LGAS) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of LGAS. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to LGAS against any liability LGAS may have as a result of the ILU's requirement, and the ILU agreed that its requirement of LGAS would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether LGAS has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. LGAS has made no payment or provision in respect of this matter.

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

3.17 Related party transactions

(i) Key management personnel transactions and compensation

There were no material transactions between key management and the Legal & General group of companies during the year. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £84m (2017: £93m) for all employees.

At 31 December 2018 and 31 December 2017 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:

	2018 £m	2017 £m
Salaries	**10**	10
Post-employment benefits	**-**	-
Share-based incentive awards	**6**	4
Key management personnel compensation	**16**	14
Number of key management personnel	**15**	15

(ii) Services provided to and by related parties

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

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

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £59m (2017: £161m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;

- Loans outstanding from related parties, including preference shares, at 31 December 2018 of £201m (2017: £203m), with a further commitment of £6m;

- The group has total other commitments of £837m to related parties (2017: £633m), of which £507m has been drawn at 31 December 2018 (2017: £357m).

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Assets and premium flows

4.01 LGIM Total assets under management (AUM)

For the year ended 31 December 2018	Index £bn	Global fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2018	**340.9**	**148.8**	**462.7**	**23.8**	**7.1**	**983.3**
Canvas acquisition[2]	**2.4**	**-**	**-**	**-**	**-**	**2.4**
External inflows	54.2	15.7	33.8	1.5	0.6	105.8
External outflows	(69.0)	(6.2)	(16.1)	(1.6)	(0.2)	(93.1)
Overlay net flows	-	-	29.9	-	-	29.9
ETF net flows	-	-	-	-	-	-
External net flows[3]	**(14.8)**	**9.5**	**47.6**	**(0.1)**	**0.4**	**42.6**
Internal net flows	(0.7)	1.8	(0.7)	2.5	(0.3)	2.6
Total net flows	**(15.5)**	**11.3**	**46.9**	**2.4**	**0.1**	**45.2**
Cash management movements[4]	-	(0.5)	-	-	-	(0.5)
Market and other movements[3]	(17.6)	3.0	0.9	0.9	(2.1)	(14.9)
As at 31 December 2018	**310.2**	**162.6**	**510.5**	**27.1**	**5.1**	**1,015.5**
Assets attributable to:						
External						**921.7**
Internal[5]						**93.8**

1. As at 31 December 2018, Solutions include liability driven investments, multi-asset funds and £303.9bn of derivative notionals associated with the Solutions business.
2. The acquisition of Canvas was completed in March 2018.
3. 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. The total value of these assets as at 31 December 2018 was £60.1bn and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
5. As part of the sale of the Mature Savings business to Swiss Re £5.5bn of assets have been re-classified from the Internal channel to External channel.

For the year ended 31 December 2017	Index £bn	Global fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2017	319.8	134.8	411.9	19.6	8.1	894.2
External inflows	51.1	15.1	33.2	1.5	0.1	101.0
External outflows	(61.4)	(6.4)	(15.7)	(1.2)	(0.1)	(84.8)
Overlay/advisory net flows	-	-	27.3	-	-	27.3
External net flows[2]	(10.3)	8.7	44.8	0.3	-	43.5
Internal net flows	(0.4)	(2.0)	(1.1)	1.5	(0.7)	(2.7)
Disposal of LGN[4]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	(11.0)	6.2	43.7	1.8	(0.7)	40.0
Cash management movements[3]	-	3.0	-	-	-	3.0
Market and other movements[2]	32.1	4.8	7.1	2.4	(0.3)	46.1
As at 31 December 2017	340.9	148.8	462.7	23.8	7.1	983.3
Assets attributable to:						
External						883.8
Internal						99.5

1. As at 31 December 2017, Solutions include liability driven investments, multi-asset funds and £272.8bn of derivative notionals associated with the Solutions business.
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. The total value of these assets as at 31 December 2017 was £47.0bn and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

4.02 LGIM Total assets under management half-yearly progression

	Index £bn	Active fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
As at 1 January 2018	**340.9**	**148.8**	**462.7**	**23.8**	**7.1**	**983.3**
Canvas Acquisition	**2.4**	-	-	-	-	**2.4**
External inflows	22.4	8.7	18.2	0.6	0.5	50.4
External outflows	(41.2)	(2.2)	(8.7)	(0.5)	(0.1)	(52.7)
Overlay net flows	-	-	16.7	-	-	16.7
ETF Net Flows	0.2	-	-	-	-	0.2
External net flows[2]	**(18.6)**	**6.5**	**26.2**	**0.1**	**0.4**	**14.6**
Internal net flows	(0.3)	(2.5)	(0.3)	0.6	(0.1)	(2.6)
Total net flows	**(18.9)**	**4.0**	**25.9**	**0.7**	**0.3**	**12.0**
Cash management movements[3]	-	1.0	-	-	-	1.0
Market and other movements[2]	1.9	(1.4)	(14.9)	0.8	(0.3)	(13.9)
As at 30 June 2018	**326.3**	**152.4**	**473.7**	**25.3**	**7.1**	**984.8**
External inflows	31.8	7.0	15.6	0.9	0.1	55.4
External outflows	(27.8)	(4.0)	(7.4)	(1.1)	(0.1)	(40.4)
Overlay net flows	-	-	13.2	-	-	13.2
ETF Net Flows	(0.2)	-	-	-	-	(0.2)
External net flows[2]	**3.8**	**3.0**	**21.4**	**(0.2)**	**-**	**28.0**
Internal net flows	(0.4)	4.3	(0.4)	1.9	(0.2)	5.2
Total net flows	**3.4**	**7.3**	**21.0**	**1.7**	**(0.2)**	**33.2**
Cash management movements[3]	-	(1.5)	-	-	-	(1.5)
Market and other movements[2]	(19.5)	4.4	15.8	0.1	(1.8)	(1.0)
As at 31 December 2018	**310.2**	**162.6**	**510.5**	**27.1**	**5.1**	**1,015.5**

1. Solutions include liability driven investments, multi-asset funds, and include £303.9bn at 31 December 2018 (30 June 2018: £277.2bn) of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, as their maturity dates are determined by client agreements and subject to a higher degree of variability. The total value of these assets at 31 December 2018 was £60.1bn (30 June 2018: £48.3bn) and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

4.02 LGIM Total assets under management half-yearly progression (continued)

	Index £bn	Global fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
As at 1 January 2017	319.8	134.8	411.9	19.6	8.1	894.2
External inflows	25.4	8.3	16.0	0.8	0.1	50.6
External outflows	(29.7)	(3.0)	(9.0)	(0.5)	(0.1)	(42.3)
Overlay/ advisory net flows	-	-	13.4	-	-	13.4
External net flows[2]	(4.3)	5.3	20.4	0.3	-	21.7
Internal net flows	(0.3)	(0.4)	0.4	0.5	(1.3)	(1.1)
Disposal of LGN[4]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	(4.9)	4.4	20.8	0.8	(1.3)	19.8
Cash management movements[3]	-	4.1	-	-	-	4.1
Market and other movements[2]	16.6	1.7	13.4	0.8	0.5	33.0
As at 30 June 2017	331.5	145.0	446.1	21.2	7.3	951.1
External inflows	25.7	6.8	17.2	0.7	-	50.4
External outflows	(31.7)	(3.4)	(6.7)	(0.7)	-	(42.5)
Overlay / advisory net flows	-	-	13.9	-	-	13.9
External net flows[2]	(6.0)	3.4	24.4	-	-	21.8
Internal net flows	(0.1)	(1.6)	(1.5)	1.0	0.6	(1.6)
Total net flows	(6.1)	1.8	22.9	1.0	0.6	20.2
Cash management movements[3]	-	(1.1)	-	-	-	(1.1)
Market and other movements[2]	15.5	3.1	(6.3)	1.6	(0.8)	13.1
As at 31 December 2017	340.9	148.8	462.7	23.8	7.1	983.3

1. Solutions include liability driven investments, multi-asset funds, and include £272.8bn at 31 December 2017 (30 June 2017: £280.8bn) of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, as their maturity dates are determined by client agreements and subject to a higher degree of variability. The total value of these assets at 31 December 2017 was £47.0bn (30 June 2017: £81.7bn) and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

4.03 LGIM Total external assets under management and net flows

	Assets under management[1]				Net flows[2]			
	31 December 2018 £bn	**30 June 2018 £bn**	31 December 2017 £bn	30 June 2017 £bn	**31 December 2018 £bn**	**30 June 2018 £bn**	31 December 2017 £bn	30 June 2017 £bn
International[1,3]	**177.7**	**165.8**	160.1	135.8	**9.7**	**9.9**	15.1	17.9
UK Institutional								
- Defined contribution[3]	**70.8**	**64.0**	60.1	55.3	**4.9**	**3.5**	1.3	1.7
- Defined benefit[4]	**640.3**	**625.4**	633.9	635.3	**12.1**	**(0.3)**	4.1	0.4
UK Retail								
- Retail intermediary	**25.5**	**25.1**	24.2	21.4	**1.6**	**1.4**	1.4	1.8
- Personal investing[5]	**5.1**	**5.7**	5.5	5.4	**(0.1)**	**(0.1)**	(0.1)	(0.1)
ETF[6]	**2.3**	**2.8**	-	-	**(0.2)**	**0.2**	-	-
Total external	**921.7**	**888.8**	883.8	853.2	**28.0**	**14.6**	21.8	21.7

1. International asset are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £258bn as at 31 December 2018.
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. As part of the sale of the Mature Savings business to Swiss Re £5.5bn of assets have been re-classified from the Internal channel to the Defined contribution channel.
4. Defined benefit includes £61.7bn of assets managed in the US on behalf of UK clients.
5. Personal investing includes £1.8bn of legacy Banks and Building Society customers which is the principal cause of net outflows.
6. ETF reflects the acquisition of Canvas that completed in March 2018.

4.04 LGIM Investment performance

Investment performance across our assets under management (AUM) as at 31 December 2018 is set out in the table below. This has been calculated internally by LGIM to provide general guidance as to how our assets under management are performing. The data is aggregated and is not intended for clients or potential clients investing in our products.

Figures represent the percentage of AUM delivering successful performance over the performance period, measured with reference to a set of performance criteria. The performance criteria may be defined relative to a benchmark, peer group median or any other metric deemed appropriate for the assets being measured.

Performance against success measures – benchmark or performance criteria

For the year ended 31 December 2018	**One year period**	**Three year period**	**Five year period**
Actively Managed AUM[1]	74%	83%	81%
Index Managed AUM[2]	99%	99%	99%
Client Solutions AUM[3]	100%	100%	100%
Percentage of AUM reported[4]	89%	68%	51%

1. Actively Managed AUM: actively managed products measured against applicable benchmark or peer group performance.
2. Index Managed AUM: assets managed against benchmark within applicable tolerance.
3. Client solutions AUM: products managed against specific risk target or client outcome.
4. Excluded from the performance measurement are non-discretionary accounts, funds on our investment only platform with external manager holdings, funds with insufficient performance history and transition management accounts.

Performance is measured on a gross-of-fee basis for institutional accounts and net-of-fee for retail funds.

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

	2018 £bn	2017 £bn
Assets under management	**1,015**	983
Derivative notionals[1]	**(304)**	(273)
Third party assets[2]	**(284)**	(261)
Other[3]	**53**	42
Total financial investments, investment property and cash and cash equivalents	**480**	491
Less: assets of operations classified as held for sale[4]	**(25)**	(22)
Financial investments, investment property and cash and cash equivalents	**455**	469

1. Derivative notionals are included in the assets under management measure but are not for IFRS reporting and are thus removed.
2. Third party assets are those that LGIM manage on behalf of others which are not included on the Group's Consolidated Balance Sheet.
3. Other includes assets that are managed by third parties on behalf of the group, other assets and liabilities related to financial investments, derivative assets and pooled funds.
4. Assets of operations classified as held for sale primarily relate to Mature Savings following the group's announcement to sell the Mature Savings business to Swiss Re.

4.06 Assets under administration

	Workplace[1] 2018 £bn	Annuities[2] 2018 £bn	Workplace 2017 £bn	Annuities 2017 £bn
At 1 January	**27.7**	**58.2**	20.8	54.4
Gross inflows	5.6	9.9	5.9	4.6
Gross outflows	(1.8)	-	(1.4)	-
Payments to pensioners	-	(3.5)	-	(3.3)
Net flows	**3.8**	**6.4**	4.5	1.3
Market and other movements	(1.5)	(1.6)	2.4	2.5
At 31 December	**30.0**	**63.0**	27.7	58.2

1. Workplace assets under administration as at 31 December 2018 includes £29.7bn of assets under management included in Note 4.01.

2. Annuities assets under administration as at 31 December 2018 includes £59.3bn of assets under management included in Note 4.01.

4.07 Assets under administration half-yearly progression

For the year ended 31 December 2018	Workplace 2018 £bn	Annuities 2018 £bn	Workplace 2017 £bn	Annuities 2017 £bn
As at 1 January 2018	**27.7**	**58.2**	20.8	54.4
Gross inflows	2.7	1.1	3.4	2.0
Gross outflows	(0.8)	-	(0.6)	-
Payments to pensioners	-	(1.7)	-	(1.6)
Net flows	**1.9**	**(0.6)**	2.8	0.4
Market and other movements	0.1	(1.2)	1.3	0.8
Disposals	-	-	-	-
At 30 June	**29.7**	**56.4**	24.9	55.6
Gross inflows	2.9	8.8	2.5	2.6
Gross outflows	(1.0)	-	(0.8)	-
Payments to pensioners	-	(1.8)	-	(1.7)
Net flows	**1.9**	**7.0**	1.7	0.9
Market and other movements	(1.6)	(0.4)	1.1	1.7
As at 31 December 2018	**30.0**	**63.0**	27.7	58.2

4.08 LGR new business

	Total 2018 £m	6 months to 31 December 2018 £m	6 months to 30 June 2018 £m	Total 2017 £m	6 months to 31 December 2017 £m	6 months to 30 June 2017 £m
Pension risk transfer						
- UK	**8,351**	**7,844**	**507**	3,405	1,901	1,504
- US	**646**	**426**	**220**	543	428	115
- Bermuda	**143**	**135**	**8**	-	-	-
Individual annuities	**795**	**458**	**337**	671	326	345
Lifetime mortgage advances	**1,197**	**676**	**521**	1,004	580	424
Longevity insurance[1]	**287**	**287**	**-**	800	-	800
Total LGR new business	**11,419**	**9,826**	**1,593**	6,423	3,235	3,188

1. Represents the notional size of the transaction and is based on the present value of the fixed leg cash flows discounted at the LIBOR curve.

4.09 Insurance new business

	Total 2018 £m	6 months to 31 December 2018 £m	6 months to 30 June 2018 £m	Total 2017 £m	6 months to 31 December 2017 £m	6 months to 30 June 2017 £m
UK Retail protection	**175**	**88**	**87**	172	86	86
UK Group protection	**83**	**49**	**34**	49	21	28
US protection[1]	**85**	**43**	**42**	79	41	38
Netherlands protection[2]	**-**	**-**	**-**	1	-	1
Total LGI new business	**343**	**180**	**163**	301	148	153

1. In local currency, US Protection reflects new business of $114m for 2018 (H1: $58m; H2: $56m) (2017: $102m (H1: $48m; H2 $54m))
2. Legal & General Netherlands was sold on 6 April 2017.

4.10 Gross written premium on insurance business

	Total 2018 £m	6 months to 31 December 2018 £m	6 months to 30 June 2018 £m	Total 2017 £m	6 months to 31 December 2017 £m	6 months to 30 June 2017 £m
UK Retail protection	**1,279**	**646**	**633**	1,232	623	609
UK Group protection	**329**	**106**	**223**	326	102	224
General insurance	**410**	**217**	**193**	369	196	173
US Protection[1]	**972**	**511**	**461**	973	482	491
Netherlands protection[2]	**-**	**-**	**-**	14	-	14
Longevity insurance	**379**	**192**	**187**	361	186	175
Total gross written premiums on insurance business	**3,369**	**1,672**	**1,697**	3,275	1,589	1,686

1. In local currency, US Protection reflects gross written premiums of $1,299m for 2018 (H1: $635m; H2: $664m) (2017: $1,254m (H1: $618m; H2 $636m))
2. Legal & General Netherlands was sold on 6 April 2017.

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

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at end December 2018). The TMTP incorporates estimated impacts of end 2018 economic conditions and changes during 2018 to the Internal Model and Matching Adjustment approvals. This is in line with group's management of the capital position on a dynamic TMTP basis.

(a) Capital position

As at 31 December 2018, and on the above basis, the group had a surplus of £6.9bn (31 December 2017: £6.9bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 188% (31 December 2017: 189%). The shareholder view of the Solvency II capital position is as follows:

	2018 £bn	2017 £bn
Core tier 1 Own Funds	**11.5**	11.6
Tier 2 subordinated liabilities[1]	**3.5**	3.1
Eligibility restrictions	**(0.2)**	(0.1)
Solvency II Own Funds[2,3]	**14.8**	14.6
Solvency Capital Requirement	**(7.9)**	(7.7)
Solvency II surplus	**6.9**	6.9
SCR coverage ratio[4]	**188%**	189%

1. Tier 2 subordinated liabilities include £400m of subordinated debt issued during 2018. Liabilities also include £400m of debt callable in 2019. On 4 February 2019, notification was given that the group intends to redeem these notes in full on 1 April 2019. Effective from the notification date, the notes would no longer be treated as tier 2 own funds for Solvency II purposes.

2. Solvency II Own Funds do not include an accrual for the full year dividend of £704m (2017: £658m) declared after the balance sheet date.

3. Solvency II Own Funds allow for a risk margin of £5.5bn (31 December 2017: £5.9bn) and TMTP of £5.2bn (31 December 2017: £6.2bn).

4. Coverage ratio is based on unrounded inputs.

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

On a proforma basis, which includes the contribution of with-profits fund and the final salary pension scheme in the group's Own Funds and corresponding SCR, the coverage ratio at 31 December 2018 is 181% (31 December 2017: 181%).

On 6 December 2017 the group announced the sale of its Mature Savings business to Swiss Re. Swiss Re assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. It is expected that the formal transfer of the business will be completed in 2019, subject to satisfaction of normal conditions for a transaction including court sanction. The transfer will be effected by way of a Part VII transfer under the Financial Services Markets Act 2000. The impact of the risk transfer agreement is reflected in both Own Funds and SCR as at 31 December 2018.

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 2018 and the impacts of a recalculation of the TMTP as at end December 2018. The recalculated TMTP of £5.2bn (31 December 2017: £6.2bn) is net of amortisation to 31 December 2018.

The liabilities include a Risk Margin of £5.5bn (31 December 2017: £5.9bn) which represents an allowance for the cost of capital for a purchasing insurer to take on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed by the European Insurance and Occupational Pensions Authority (EIOPA).

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

All material EEA insurance firms, including Legal & General Assurance Society Limited (the LGAS), Legal & General Insurance Limited, and Legal & 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 94% of the group's SCR.

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

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

All non-insurance regulated firms are included using their 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 result position using the same Internal Model basis as for the insurance firms.

5.01 Group regulatory capital – Solvency II (continued)

(c) Assumptions

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

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins. Future investment returns and discount rates are those defined by EIOPA, which means that the risk free rates used to discount liabilities are market swap rates, with a 10 basis points (2017: 10 basis points) deduction to allow for a credit risk adjustment for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 31 December 2018 the Matching Adjustment for UK GBP liabilities was 138 basis points (31 December 2017: 106 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 52 basis points (31 December 2017: 51 basis points).

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

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

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

(d) Analysis of change

The table below shows the movement (net of tax) during the period ended 31 December 2018 in the group's Solvency II surplus.

	2018	2017
	£bn	£bn
Surplus arising from back-book (including release of SCR)	**1.4**	1.3
Release of Risk Margin[1]	**0.4**	0.4
Amortisation of TMTP[2]	**(0.4)**	(0.4)
Operational Surplus Generation[3]	**1.4**	1.3
New Business Strain	**(0.5)**	(0.1)
Net Surplus Generation	**0.9**	1.2
Dividends paid[4]	**(0.9)**	(0.9)
Operating variances[5]	**0.1**	0.4
Mergers, acquisitions and disposals[6]	**-**	-
Market movements[7]	**(0.5)**	-
Subordinated debt	**0.4**	0.5
Total Surplus movement (after dividends paid in the period)	**-**	1.2

1. Based on the risk margin in force at end 2017 and does not include the release of any risk margin added by new business written in 2018.
2. TMTP amortisation based on a linear run down of the end-2017 TMTP of £5.3bn (net of tax, £6.2bn before tax).
3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2018 these were primarily to deliver further eligible assets and liabilities into the Matching Adjustment portfolio and an increase in direct investments allocation to the annuity back-book.
4. Dividends paid are the amounts from the 2017 final dividend declaration paid in H1 18 and 2018 interim dividend paid in H2 2018 (FY 17: 2016 final and 2017 interim dividend declarations).
5. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, other management actions including changes in asset mix, hedging strategies, and Matching Adjustment optimisation.
6. Mergers, acquisitions and disposals include the impact of the sale of Mature Savings (in excess of the amount which came through in 2017) and the purchase of 100% of CALA Homes.
7. Market movements represents the impact of changes in investment market conditions over the period and changes to future economic assumptions. Market movements in year ended 31 December 2018 include a reduction in the risk margin of £0.2bn (net of tax) and a reduction in TMTP of £0.5bn.

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

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

5.01 Group regulatory capital – Solvency II (continued)

(e) Reconciliation of IFRS Net Release from Operations to Solvency II Net Surplus Generation

(i) The table below provides a reconciliation of the group's IFRS Release from Operations to Solvency II Operational Surplus Generation.

	2018 £bn	2017 £bn
IFRS Release from Operations	**1.3**	1.3
Expected release of IFRS prudential margins	**(0.5)**	(0.5)
Releases of IFRS specific reserves[1]	**(0.1)**	(0.1)
Solvency II investment margin[2,3]	**0.1**	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	**0.6**	0.4
Solvency II Operational Surplus Generation[4]	**1.4**	1.3

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term expenses and longevity margins).
2. Release of prudence related to differences between the EIOPA-defined fundamental spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk free rates over 2018.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2018 were expected to take place within the group plan.

(ii) The table below provides a reconciliation of the group's IFRS New Business Surplus to Solvency II New Business Strain.

	2018 £bn	2017 £bn
IFRS New Business Surplus	**0.2**	0.2
Removal of requirement to set up prudential margins above best estimate on New Business[1]	**0.2**	0.2
Set up of Solvency II Capital Requirement on New Business[2]	**(0.7)**	(0.3)
Set up of Risk Margin on New Business	**(0.2)**	(0.2)
Solvency II New Business Strain	**(0.5)**	(0.1)

1. Release of prudential margins in 2018 is equal to that observed in 2017 as the benefit from additional volumes written is offset due to mix of business written and competitive pressures in the market.

2. Higher New Business Strain in 2018 compared to 2017 is attributable to a significant increase in volumes sold over the year.

(f) Reconciliation of IFRS shareholders' equity to Solvency II Own Funds

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

	2018 £bn	2017[1] £bn
IFRS shareholders' equity[2]	**8.6**	7.5
Remove DAC, goodwill and other intangible assets and associated liabilities[2]	**(0.8)**	(0.4)
Add IFRS carrying value of subordinated debt treated as available capital under Solvency II[3]	**3.3**	2.9
Insurance contract valuation differences[4]	**5.1**	6.2
Difference in value of net deferred tax liabilities	**(0.3)**	(0.7)
SCR for with-profits fund and final salary pension schemes	**(0.8)**	(0.7)
Other[5]	**(0.1)**	(0.1)
Eligibility restrictions[6]	**(0.2)**	(0.1)
Solvency II Own Funds[7]	**14.8**	14.6

1. Following a change in accounting policy for LGIA term assurance reserves, specific IFRS balance sheet items have been restated, notably deferred acquisition costs, reinsurers' share of contract liabilities, non-participating insurance contracts, deferred tax liabilities and other liabilities. The overall net impact on the group's IFRS shareholders' equity as at 31 December 2017 is a reduction of £327m. Further details on the change in accounting policy is provided in Note 3.01.
2. Values are per the consolidated financial statements.
3. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
4. Differences in the measurement of technical provisions between IFRS and Solvency II.
5. Reflects valuation differences on other assets and liabilities, predominately in respect of borrowings measured at fair value under Solvency II.
6. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
7. Solvency II Own Funds do not include an accrual for the full year dividend of £704m (2017: £658m) declared after the balance sheet date.

5.01 Group regulatory capital – Solvency II (continued)

(g) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2018 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[9]	**Impact on net of tax Solvency II coverage ratio[9]**	Impact on net of tax Solvency II capital surplus[9]	Impact on net of tax Solvency coverage ratio[9]
	31 Dec 2018	**31 Dec 2018**	31 Dec 2017	31 Dec 2017
	£bn	**%**	£bn	%
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.3**	**10**	0.2	8
Credit spreads narrow by 100bps assuming an escalating addition to ratings[1,2]	**(0.4)**	**(10)**	(0.3)	(9)
Credit migration[3]	**(0.8)**	**(10)**	(0.5)	(6)
25% rise in equity markets[4]	**0.5**	**6**	0.5	5
25% fall in equity markets[4]	**(0.5)**	**(6)**	(0.5)	(5)
15% rise in property markets[5]	**0.5**	**5**	0.3	4
15% fall in property markets[5]	**(0.6)**	**(7)**	(0.4)	(4)
100bps increase in risk free rates[6]	**0.9**	**24**	0.8	20
50bps decrease in risk free rates[6,7]	**(0.5)**	**(12)**	(0.5)	(10)
Substantially reduced Risk Margin[8]	**0.4**	**5**	0.1	1

1. The spread sensitivity applies to group's corporate bond (and similar) holdings, with no change in the firm's long term default expectations. Restructured lifetime mortgages are excluded.
2. 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.
3. 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, sale and leaseback rental strips and lifetime mortgage senior notes).
4. This will be primarily equity exposure in LGC but will also include equity-based mutual funds and other investments that do not look like equities but are assumed to stress like an equity (for example, certain investments in subsidiaries). The level of stress is 25% but this does not mean that all equity or equity-like assets will fall by this percentage, as some have factors that increase or decrease the riskiness relative to general equity levels (via a beta factor).
5. Property assets stressed in this sensitivity include residual values from sale and leaseback, full amount of lifetime mortgages and direct investments treated as property.
6. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
7. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
8. Assuming a 2/3 reduction in the Risk Margin, allowing for offset from the Transitional Measure on Technical Provisions.
9. Both the 2017 and 2018 sensitivities exclude the impact from the Mature Savings business (including the With-Profits fund) as the risks have been transferred to ReAssure division of Swiss Re from 1 January 2018.

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. These results all allow (on an approximate basis) for the recalculation of TMTP as at 31 December 2018 where the impact of the stress would cause this to change materially.

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

5.01 Group regulatory capital - Solvency II (continued)

(h) Analysis of Group Solvency Capital Requirement

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

	2018 %	2017 %
Interest Rate	**1**	2
Equity	**5**	6
Property	**8**	5
Credit[1]	**23**	26
Currency	**3**	3
Inflation	**5**	4
Total Market Risk[2]	**45**	46
Counterparty Risk	**2**	1
Life Mortality	**3**	2
Life Longevity[3]	**30**	31
Life Mass Lapse	**1**	2
Life Non-Mass Lapse	**2**	3
Life Catastrophe	**5**	3
Expense	**2**	3
Total Insurance Risk	**43**	44
Non-life underwriting	**3**	2
Operational Risk	**5**	4
Miscellaneous[4]	**2**	3
Total SCR	**100**	100

1. Credit risk is one of the group's most significant exposures, arising predominantly from the portfolio of bonds and bond-like assets backing the group's annuity business.
2. In addition to credit risk the group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked Savings business.
3. Longevity risk is the group's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk is retained.
4. Miscellaneous includes LGA on a Deduction and Aggregation basis and the sectoral capital requirements for non-insurance regulated firms.

5.02 Estimated Solvency II new business contribution

(a) New business by product[1]

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

	PVNBP 2018 £m	Contri-bution from new business[2] 2018 £m	Margin[3] 2018 %	PVNBP 2017 £m	Contri-bution from new business[2] 2017 £m	Margin[3] 2017 %
LGR - UK annuity business	**9,148**	**722**	**7.9**	4,083	346	8.5
UK Protection Total	**1,609**	**115**	**7.1**	1,496	129	8.6
- Retail Protection	1,271	93	7.3	1,293	111	8.6
- Group Protection	338	22	6.4	203	18	8.7
US Protection[4]	**854**	**96**	**11.2**	764	89	11.7

1. Selected lines of business only.
2. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.
3. Margin is based on unrounded inputs.
4. In local currency, US Protection reflects PVNBP of $1,088m (31 December 2017: $985m) and a contribution from new business of $122m (31 December 2017: $115m).

The significant increase in the LGR UK new business contribution is driven by the £4.4bn and £2.4bn bulk annuity transfers with British Airways and Nortel respectively. The change in LGR margin reflects differences in the mix of new business and the strong pricing discipline, which we have maintained in a competitive market.

In UK Protection business we have seen competitive pricing pressure combined with a shift in the mix of business towards lower margin products.

In US Protection the positive contribution from higher volumes and favourable business mix is offset by the lower margin of newly repriced term products reflective of the competitive dynamics of the US term assurance market.

5.02 Estimated Solvency II new business contribution (continued)

(b) Assumptions

The key economic assumptions are as follows:

	2018 **%**	2017 %
Margin for risk	**3.2**	3.0
Risk free rate		
- UK	**1.5**	1.6
- US	**2.7**	2.4
Risk discount rate (net of tax)		
- UK	**4.7**	4.6
- US	**5.9**	5.4
Long-term rate of return on non profit annuities in LGR	**3.4**	3.0

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

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2018 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 17 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. These are normally reviewed annually.

Tax

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

The profits on the new business are calculated on an after tax basis and are grossed up by the notional attributed tax rate. For the UK, the after tax basis assumes the annualised current rate of 19% and subsequent enacted future tax rate of 17% from 1 April 2020 onwards. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 17%.

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

5.02 Estimated Solvency II new business contribution (continued)

(c) Methodology

Basis of preparation

Solvency II new business contribution reflects the portion of Solvency II value added by new business written in the period. It has been calculated in a manner consistent with principles and methodologies as set out in the group's 2018 Annual Report and Accounts and Full Year Results.

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

Description of methodology

The objective of the Solvency II new business contribution is to provide shareholders with information on the long term contribution of new business written in 2018.

The Solvency II new business contribution has been calculated as the present value of future shareholder profits arising from business written in 2018. Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Best estimate assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are set in accordance with the CFO Forum EEV Principles, dated April 2016.

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

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

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

Projection assumptions

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

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

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

Tax

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

Risk discount rate

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

The risk free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment of 10 basis points for GBP and 18 basis points for USD (31 December 2017: 10 basis points for GBP and for USD).

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

5.02 Estimated Solvency II new business contribution (continued)

(c) Methodology (continued)

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

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a time adjusted rate of 17.3% (31 December 2017: 17.5%).

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:

	2018 £bn	2017 £bn
PVNBP	**11.6**	6.3
Effect of capitalisation factor	**(2.0)**	(2.0)
New business premiums from selected lines	**9.6**	4.3
Other[1]	**2.2**	2.4
Total LGR and LGI new business	**11.8**	6.7
Annualisation impact of regular premium long-term business	**(0.2)**	(0.2)
IFRS gross written premiums from existing long-term insurance business	**2.8**	2.8
Deposit accounting for lifetime mortgage advances	**(1.2)**	(1.0)
General Insurance gross written premiums	**0.4**	0.4
Future premiums on longevity swap new business	**(0.3)**	(0.8)
Total gross written premiums[2]	**13.3**	7.9

1. Other principally includes annuity sales in the US, lifetime mortgage advances and discounted future cash flows on longevity swap new business.
2. This excludes gross written premiums from discontinued operations.

Investments

6.01 Investment portfolio

	Market value 2018 £m	Market value 2017 £m
Worldwide total assets under management[1]	**1,019,858**	984,120
Client and policyholder assets	**(930,516)**	(900,904)
Non-unit linked with-profits assets	**(9,893)**	(11,113)
Investments to which shareholders are directly exposed	**79,449**	72,103

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

Analysed by investment class:

	Notes	LGR investments 2018 £m	Other non profit insurance investments 2018 £m	LGC[2] investments 2018 £m	Other shareholder investments 2018 £m	Total 2018 £m	Total 2017 £m
Equities[3,6]		**205**	**10**	**2,391**	**179**	**2,785**	2,960
Bonds	6.03	**57,355**	**1,869**	**3,384**	**488**	**63,096**	57,075
Derivative assets[4]		**4,393**	**-**	**15**	**3**	**4,411**	4,062
Property	6.04	**2,930**	**-**	**125**	**-**	**3,055**	2,832
Cash, cash equivalents and loans[5]		**2,294**	**539**	**1,633**	**428**	**4,894**	4,763
Financial investments		**67,177**	**2,418**	**7,548**	**1,098**	**78,241**	71,692
Other assets[6]		**91**	**-**	**1,117**	**-**	**1,208**	411
Total investments		**67,268**	**2,418**	**8,665**	**1,098**	**79,449**	72,103

2. LGC property includes £23m of shareholder investment property.
3. Equity investments include a total of £260m (2017: £277m) in respect of Peel Media Holdings Limited (MediaCityUK), Access Development Partnership and SciTech.
4. Derivative assets are shown gross of derivative liabilities of £3.3bn (2017: £2.3bn). 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 asset and liability management.
5. Loans include reverse repurchase agreements of £857m (2017: £679m).
6. Other assets includes the consolidated net asset value of the group's investments in CALA Homes and other housing businesses, previously disclosed within Financial investments.

Investments

6.02 Direct Investments

(a) Analysed by asset class

	Direct[1] Investments 2018 £m	**Traded[2] securities 2018 £m**	**Total 2018 £m**	Direct[1] Investments 2017 £m	Traded[2] securities 2017 £m	Total 2017 £m
Equities	**1,166**	**1,619**	**2,785**	930	2,030	2,960
Bonds[3]	**13,369**	**49,727**	**63,096**	9,726	47,349	57,075
Derivative assets	**-**	**4,411**	**4,411**	-	4,062	4,062
Property[4]	**3,055**	**-**	**3,055**	2,832	-	2,832
Cash, cash equivalents and loans	**418**	**4,476**	**4,894**	474	4,289	4,763
Financial investments	**18,008**	**60,233**	**78,241**	13,962	57,730	71,692
Other assets	**1,208**	**-**	**1,208**	411	-	411
Total investments	**19,216**	**60,233**	**79,449**	14,373	57,730	72,103

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 exclude hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.
3. Bonds include lifetime mortgages of £3,227m (2017: £2,023m).
4. A further breakdown of property is provided in Note 6.04.

(b) Analysed by segment

	LGR 2018 £m	**LGC[1] 2018 £m**	**LGI[2] 2018 £m**	**Total 2018 £m**
Equities	**6**	**1,124**	**36**	**1,166**
Bonds[3]	**12,716**	**3**	**650**	**13,369**
Property[4]	**2,930**	**125**	**-**	**3,055**
Cash, cash equivalents and loans	**-**	**64**	**354**	**418**
Financial investments	**15,652**	**1,316**	**1,040**	**18,008**
Other assets[5]	**91**	**1,117**	**-**	**1,208**
Total direct investments	**15,743**	**2,433**	**1,040**	**19,216**

1. LGC includes £51m of equities and £23m of property that belong to other shareholder funds.
2. LGI includes £26m of equity investments in LGI UK. The remaining £10m of equity investment, bonds and loans and receivables are in the US business.
3. Bonds include lifetime mortgages of £3,227m.
4. A further breakdown of property is provided in Note 6.04.
5. Other assets include finance leases of £91m and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses, previously disclosed within financial investments.

	LGR 2017 £m	LGC[1] 2017 £m	LGI[2] 2017 £m	Total 2017 £m
Equities	-	922	8	930
Bonds[3]	9,272	22	432	9,726
Property[4]	2,722	110	-	2,832
Cash, cash equivalents and loans	88	150	236	474
Financial investments	12,082	1,204	676	13,962
Other assets[5]	92	319	-	411
Total direct investments	12,174	1,523	676	14,373

1. LGC included £30m of equities, £19m of bonds and £23m of property that belong to other shareholder funds.
2. LGI included £8m of equity investments in LGI UK. The bonds and loans are in the US business.
3. Bonds included lifetime mortgages of £2,023m.
4. A further breakdown of property is provided in Note 6.04.
5. Other assets included finance leases of £92m.

6.03 Bond portfolio summary

(a) Sectors analysed by credit rating

As at 31 December 2018	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	1,385	9,591	181	410	48	-	11,615	18
Banks:								
- Tier 1	-	-	-	1	-	1	2	-
- Tier 2 and other subordinated	-	-	87	24	2	-	113	-
- Senior	18	1,971	2,946	59	-	42	5,036	8
- Covered	191	1	-	-	-	-	192	-
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	165	91	11	-	6	273	-
- Senior	-	282	69	305	8	-	664	1
Insurance:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	113	1	46	-	-	160	-
- Senior	-	177	543	94	-	-	814	1
Consumer Services and Goods:								
- Cyclical	-	604	663	1,343	134	2	2,746	4
- Non-cyclical	216	970	1,138	2,639	308	1	5,272	8
- Health Care	-	150	375	405	4	-	934	2
Infrastructure:								
- Social	92	768	3,425	829	38	-	5,152	8
- Economic	331	23	1,420	2,335	42	-	4,151	7
Technology and Telecoms	93	166	933	2,296	53	1	3,542	7
Industrials	-	3	709	629	42	-	1,383	2
Utilities	-	153	5,498	4,129	5	27	9,812	16
Energy	-	-	464	590	10	-	1,064	2
Commodities	-	-	242	481	11	-	734	1
Oil and Gas	-	382	583	535	110	-	1,610	3
Real estate	-	-	1,233	1,425	125	-	2,783	4
Structured finance ABS / RMBS / CMBS / Other	430	873	180	250	8	1	1,742	3
Lifetime mortgage loans[1]	1,938	718	249	219	-	103	3,227	5
CDOs	-	-	61	14	-	-	75	-
Total £m	4,694	17,110	21,091	19,069	948	184	63,096	100
Total %	7	27	34	30	2	-	100	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring. Unstructured lifetime mortgages have been categorised as AA.

2. The group's bond portfolio is dominated by LGR investments. These account for £57,355m, representing 91% of the total group portfolio.

6.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

As at 31 December 2017	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	1,477	9,376	210	328	59	-	11,450	20
Banks:								
- Tier 1	-	-	-	1	1	2	4	-
- Tier 2 and other subordinated	142	-	74	42	2	-	260	-
- Senior	-	1,366	2,782	90	-	-	4,238	8
- Covered	221	-	-	-	-	-	221	-
Financial Services:								
- Tier 1	1	-	-	-	-	-	1	-
- Tier 2 and other subordinated	-	123	118	10	-	-	251	-
- Senior	-	323	368	205	9	-	905	2
Insurance:								
- Tier 1	-	-	-	1	-	-	1	-
- Tier 2 and other subordinated	-	127	4	51	-	-	182	-
- Senior	-	128	464	68	-	-	660	1
Consumer Services and Goods:								
- Cyclical	-	289	841	1,542	271	2	2,945	5
- Non-cyclical	215	601	1,313	2,114	165	1	4,409	8
- Health care	3	32	262	189	4	-	490	1
Infrastructure:								
- Social	93	708	3,445	1,111	21	-	5,378	9
- Economic	179	30	949	2,182	44	-	3,384	6
Technology and Telecoms	73	167	833	1,988	57	2	3,120	6
Industrials	-	3	851	376	52	1	1,283	2
Utilities	-	115	4,860	3,725	21	-	8,721	16
Energy	-	-	106	567	31	-	704	1
Commodities	-	-	260	494	39	-	793	1
Oil and Gas	-	322	640	566	213	1	1,742	3
Real estate	-	22	1,053	1,221	59	-	2,355	4
Structured finance ABS / RMBS / CMBS / Other	318	717	208	161	55	-	1,459	3
Lifetime mortgage loans[1]	1,141	403	207	159	-	113	2,023	4
CDOs	-	22	60	14	-	-	96	-
Total £m	3,863	14,874	19,908	17,205	1,103	122	57,075	100
Total %	7	26	35	30	2	-	100	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.

2. The group's bond portfolio is dominated by LGR investments. These account for £52,476m, representing 92% of the total group portfolio.

6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile

As at 31 December 2018	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total[1] £m
Sovereigns, Supras and Sub-Sovereigns	9,238	1,038	1,009	330	11,615
Banks	1,817	1,012	1,373	1,141	5,343
Financial Services	287	104	544	2	937
Insurance	134	542	215	83	974
Consumer Services and Goods:					
- Cyclical	479	1,692	427	148	2,746
- Non-cyclical	1,328	3,478	430	36	5,272
- Health care	9	916	9	-	934
Infrastructure:					
- Social	4,819	295	-	38	5,152
- Economic	3,340	463	87	261	4,151
Technology and Telecoms	688	1,814	549	491	3,542
Industrials	196	848	253	86	1,383
Utilities	5,154	1,740	2,374	544	9,812
Energy	363	610	2	89	1,064
Commodities	11	285	35	403	734
Oil and Gas	270	524	349	467	1,610
Real estate	1,864	373	241	305	2,783
Structured Finance ABS / RMBS / CMBS / Other	985	681	45	31	1,742
Lifetime mortgages	3,227	-	-	-	3,227
CDOs	-	-	-	75	75
Total	**34,209**	**16,415**	**7,942**	**4,530**	**63,096**

1. The group's bond portfolio is dominated by LGR investments. These account for £57,355m, representing 91% of the total group portfolio.

6.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 31 December 2017	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total[1] £m
Sovereigns, Supras and Sub-Sovereigns	8,689	1,204	1,114	443	11,450
Banks	2,326	794	1,187	416	4,723
Financial Services	365	111	681	-	1,157
Insurance	143	555	92	53	843
Consumer Services and Goods					
- Cyclical	604	2,015	251	75	2,945
- Non-cyclical	1,313	2,752	324	20	4,409
- Health care	10	480	-	-	490
Infrastructure					
- Social	5,054	287	-	37	5,378
- Economic	2,661	321	34	368	3,384
Technology and Telecoms	692	1,435	563	430	3,120
Industrials	209	714	274	86	1,283
Utilities	4,008	1,334	2,296	1,083	8,721
Energy	-	626	5	73	704
Commodities	10	287	38	458	793
Oil and Gas	265	462	458	557	1,742
Real estate	1,602	422	48	283	2,355
Structured finance ABS / RMBS / CMBS / Other	1,017	366	54	22	1,459
Lifetime mortgage loans	2,023	-	-	-	2,023
CDOs	-	22	-	74	96
Total	30,991	14,187	7,419	4,478	57,075

1. The group's bond portfolio is dominated by LGR investments. These account for £52,476m, representing 92% of the total group portfolio.

6.03 Bond portfolio summary (continued)

(c) Bond portfolio analysed by credit rating

As at 31 December 2018	Externally rated £m	Internally rated[1] £m	Total[2] £m
AAA	**2,390**	**2,304**	**4,694**
AA	**14,386**	**2,724**	**17,110**
A	**16,731**	**4,360**	**21,091**
BBB	**14,928**	**4,141**	**19,069**
BB or below	**723**	**225**	**948**
Other	**55**	**129**	**184**
Total	**49,213**	**13,883**	**63,096**

As at 31 December 2017	Externally rated £m	Internally rated[1] £m	Total £m
AAA	2,238	1,625	3,863
AA	13,024	1,850	14,874
A	16,609	3,299	19,908
BBB	13,389	3,816	17,205
BB or below	965	138	1,103
Other	9	113	122
Total	46,234	10,841	57,075

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

2. The group's bond portfolio is dominated by LGR investments. These account for £57,355m (2017: £52,476m), representing 91% (2017: 92%) of the total group portfolio.

6.04 Property analysis

Property exposure within direct investments by status

As at 31 December 2018	LGR[1] £m	LGC[2,3] £m	Total £m	%
Fully let	**2,930**	**-**	**2,930**	**96**
Development	**-**	**23**	**23**	**1**
Land	**-**	**102**	**102**	**3**
	2,930	**125**	**3,055**	**100**

1. The fully let LGR property includes £2.8bn let to investment grade tenants.
2. Development includes £23m of shareholder investment property.
3. 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 Other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 31 December 2018 the group held a total of £1,687m of such assets.

As at 31 December 2017	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	2,722	30	2,752	97
Development	-	32	32	1
Land	-	48	48	2
	2,722	110	2,832	100

1. The fully let LGR property included £2.4bn let to investment grade tenants.
2. Development included £23m of shareholder investment property.

Alternative performance measures

An alternative performance measure (APM) is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II. APMs offer investors additional information on the company's performance and the financial effect of 'one-off' events and the group uses a range of these metrics to provide a better understanding of its underlying performance. The APMs used by the group are listed in this section, along with their definition/ explanation, their closest IFRS measure and reference to the reconciliations to those IFRS measures.

Group adjusted operating profit (previously labelled as 'operating profit')

Definition

Group adjusted operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. It therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects the IFRS profit before tax) and LGA non-term business (which excludes unrealised investment returns to align with the liability measurement under US GAAP). Variances between actual and smoothed investment return assumptions are reported below group adjusted operating profit, as well as any differences between investment return on actual assets and the long-term asset mix. Exceptional income and expenses which arise outside the normal course of business in the period, such as merger and acquisition and start-up costs, are also excluded from group adjusted operating profit.

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

Closest IFRS measure

Profit before tax attributable to equity holders

Reconciliation

Note 1.01 – Operating profit.

Return on Equity (ROE)

Definition

ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax attributable to equity holders 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 period)

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 of £1,827m (2017: £1,891m) and average equity attributable to the owners of the parent of £8,048m (2017: £7,394m)

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 4.05 – Reconciliation of Assets under management to Consolidated Balance sheet financial investments, investment property and cash and cash equivalents

Net release from operations

Definition

Release from operations plus new business surplus / (strain). Net release from operations was previously referred to as net cash, and includes the release of prudent margins from the back book, together with the premium received less the setup of prudent reserves and associated acquisition costs for new business

Closest IFRS measure

Profit before tax attributable to equity holders

Reconciliation

Note 1.02 – Reconciliation of release from operations to operating profit before tax.

Adjusted profit before tax attributable to equity holders (previously labelled as 'profit before tax attributable to equity holders')

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders

Reconciliation

Note 1.01 – Operating profit.

Glossary

* These items represent an alternative performance measure (APM)

Ad valorem fees

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

Adjusted profit before tax attributable to equity holders (previously labelled as 'profit before tax attributable to equity holders')*

Refer to the alternative performance measures section.

Advisory assets

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

Alternative performance measures (APMs)

An alternative performance measure is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II.

Annual premium

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

Annual premium equivalent (APE)

A standardised measure of the volume of new life insurance business written. It is calculated as the sum of (annualised) new recurring premiums and 10% of the new single premiums written in an annual reporting period.

Annuity

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

Assets under administration (AUA)

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

Assets under management (AUM)*

Refer to the alternative performance measures section.

Back book acquisition

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

Bundled DC solution

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

Bundled pension schemes

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

CAGR

Compound annual growth rate.

Combined operating ratio (COR)

The COR is a measure of the underwriting profitability of the general insurance business. It is calculated as the sum of the net incurred claims, expenses and net commission, divided by the net earned premium for the period.

Credit rating

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

Deduction and aggregation (D&A)

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

Earnings per share (EPS)

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

Eligible Own Funds

Eligible Own Funds represents the capital available to cover the group's Solvency II Capital Requirement. Eligible Own Funds comprise the excess of the value of assets over liabilities, as valued on a Solvency II basis, plus high quality hybrid capital instruments, which are freely available (fungible and transferable) to absorb losses wherever they occur across the group. Eligible Own Funds (shareholder view basis) excludes the contribution to the group's solvency capital requirement of with-profits funds and final salary pension schemes.

Employee engagement index

The Employee engagement index measures the extent to which employees are committed to the goals of Legal & General and are motivated to contribute to the overall success of the company, whilst working with their manager to enhance their own sense of development and well-being.

ETF

LGIM's European Exchange Traded Fund platform.

Euro Commercial paper

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

FVTPL

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

Full year dividend

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

Generally accepted accounting principles (GAAP)

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

Gross written premiums (GWP)

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

Group adjusted operating profit (previously labelled as 'operating profit')*

Refer to the alternative performance measures section.

ICAV – Irish Collective Asset-Management Vehicle

A legal structure investment fund, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

Index tracker (passive fund)

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

International financial reporting standards (IFRS)

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

Key performance indicators (KPIs)

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

LGA

Legal & General America.

LGAS

Legal and General Assurance Society Limited.

LGC

Legal & General Capital.

LGI

Legal & General Insurance.

LGI new business

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

LGIA

Legal & General Insurance America.

LGIM

Legal & General Investment Management.

Glossary

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 mortgage lending and the notional size of longevity insurance transactions, based on the present value of the fixed leg cash flows discounted at the LIBOR curve.

Liability driven investment (LDI)

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

Lifetime mortgages

An equity release product aimed at people aged 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

Matching adjustment

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

Mortality rate

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

Net release from operations*

Refer to the alternative performance measures section.

New business surplus/(strain)

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

Open architecture

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

Overlay assets

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

Pension risk transfer (PRT)

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

Platform

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

Present value of future new business premiums (PVNBP)

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

Purchased interest in long term business (PILTB)

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

Real assets

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

Release from operations

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

Return on Equity (ROE)*

Refer to the alternative performance measures section.

Risk appetite

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

Single premiums

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

Solvency II

Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard the policyholders' interest.

Solvency II capital coverage ratio

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

Solvency II capital coverage ratio (proforma basis)

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

Solvency II capital coverage ratio (shareholder view basis)

In order to represent a shareholder view of group solvency position, the contribution of with-profits funds and our defined benefit pension schemes are excluded from both, the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2018. This will be submitted to the PRA in April 2019.

Solvency II new business contribution

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

Solvency II risk margin

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

Solvency II surplus

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

Solvency Capital Requirement (SCR)

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

Total shareholder return (TSR)

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

Transitional Measures on Technical Provisions (TMTP)

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

Unbundled DC solution

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

With-profits funds

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

Yield

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