

Legal & General Finance PLC
Interim report for the six months ended 30 June 2020

HY 2020

Legal & General Finance PLC
02338444

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Registered Office
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London
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Registered in England and Wales number 02338444

LEGAL & GENERAL FINANCE PLC DIRECTORS' REPORT

Principal activities and business review

The principal activity of the Company is to operate as a finance company providing funding to other Legal & General Group companies. It does this by raising finance from capital markets.

In fulfilling this role the Company issues listed debt through Legal & General Group Plc's £5bn Euro Note Programme and the Company's US \$2bn Commercial Paper Programme. All of the Company's issued listed debt is listed on the London Stock Exchange and is guaranteed by Legal & General Group Plc. The Company issued and repaid operational borrowings under the commercial paper program noted above during the period covered by these interim financial statements.

The directors review a range of performance indicators to monitor the performance of the Company. Profit on ordinary activities before tax and net assets are regarded as the principal key performance indicators. The profit on ordinary activities before tax of the Company for the six month period to 30 June 2020 was £5.8m (H1 19: £2.4m; FY 19: £2.7m). Net assets as at 30 June 2020 were £12.7m (H1 19: £7.9m; FY 19: £8.1m).

Legal & General Group Plc and its global subsidiaries ("the group") recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free.

Legal & General's full modern slavery statement can be found at <https://www.legalandgeneralgroup.com/>.

Principal risks and uncertainties

The Company's business involves the acceptance and management of risk. The principal risks and uncertainties facing the Company are given below. These uncertainties are unchanged from the year ended 31 December 2019 and are explained in detail in note 18 of the company's Annual Accounts for the year ended 31 December 2019. The directors have considered the impact of COVID-19 on the principal risks and uncertainties on the Company and have concluded that no additional principal risks have arisen. There is no direct impact identified on the Company's principal activities as a result of COVID-19.

a) Market infrastructure

The Company's investment and fund raising activities are reliant upon the availability of market infrastructure. The loss of a major financial centre may have a significant effect on the Company's operation and profitability.

b) Counterparties

A number of major banks operate as counterparties for the investments of the Company. Whilst the Company ensures that it only transacts with strongly rated counterparties and it regularly reviews its exposures, the financial failure of a significant counterparty could result in disruption and financial loss.

c) Liquidity and cash flow

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient liquid financial resources available to enable it to meet its obligations as they fall due, or can only secure such liquid financial resources either at an excessive borrowing cost relative to that achieved in the recent past or that typically payable by a comparably rated borrower, or through the sale of illiquid assets at a price significantly below the fair value of such assets in the recent past. This risk can arise from adverse market conditions or an unexpected event that causes liquidity stress in other entities within the group.

Statement of Directors' Responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and as issued by the IASB and that the Director's Report contains a true and fair review of the assets, liabilities and financial position of the Company. The report also includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the year 2020 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

DocuSigned by:

Andrew Fairhurst

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A. Fairhurst

For and on behalf of

Legal & General Co Sec Limited

Company Secretary

Date: 6^h August 2020

DocuSigned by:

Garran O'Neill

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G. O'Neill

Director

Date: 6^h August 2020

LEGAL & GENERAL FINANCE PLC INCOME STATEMENT

For the period ended 30 June 2020

	6 months 2020	6 months 2019	Full year 2019
	£m	£m	£m
Finance and similar income			
Income from investments in group undertakings	28.3	21.1	43.7
Investment return	5.1	7.8	9.9
	33.4	28.9	53.6
Finance and similar costs			
Interest paid to group undertakings	(7.3)	(5.9)	(9.8)
Other finance costs	(18.6)	(19.1)	(38.8)
	(25.9)	(25.0)	(48.6)
Administrative expenses	(1.7)	(1.5)	(2.3)
Profit before income tax	5.8	2.4	2.7
Income tax expense	(1.2)	(0.4)	(0.5)
Profit for the period	4.6	2.0	2.2

There was no other comprehensive income for the period. The profit for the period attributable to owners of the Company reflects the total comprehensive income of the Company.

LEGAL & GENERAL FINANCE PLC

BALANCE SHEET

As at 30 June 2020

	Notes	As at 30 Jun 2020 £m	As at 30 Jun 2019 £m	As at 31 Dec 2019 £m
Non-Current Assets				
Financial investments		601.2	601.2	601.2
Receivables		300.0	-	300.0
Current Assets				
Financial investments	2	1,394.4	699.9	1,475.1
Receivables		580.2	782.9	451.2
Cash and cash equivalents		363.7	16.7	10.6
		<u>2,338.3</u>	<u>1,499.5</u>	<u>1,936.9</u>
Total Assets		<u>3,239.5</u>	<u>2,100.7</u>	<u>2,838.1</u>
Non-Current Liabilities				
Borrowings	3	598.2	598.1	598.1
Other payables and financial liabilities		300.0	-	300.0
Current Liabilities				
Borrowings	3	108.9	359.0	210.3
Other payables and financial liabilities		2,219.7	1,135.7	1,721.6
		<u>2,328.6</u>	<u>1,494.7</u>	<u>1,931.9</u>
Total Liabilities		<u>3,226.8</u>	<u>2,092.8</u>	<u>2,830.0</u>
Net assets		<u>12.7</u>	<u>7.9</u>	<u>8.1</u>
Equity				
Share capital		-	-	-
Retained earnings		12.7	7.9	8.1
Total Equity		<u>12.7</u>	<u>7.9</u>	<u>8.1</u>

The notes on pages 7 to 9 form an integral part of these financial statements.

The financial statements on pages 4 to 9 were approved by the Board of directors on 6 August 2020 and were signed on its behalf by:

DocuSigned by:

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G. O'Neill

Director

6 August 2020

LEGAL & GENERAL FINANCE PLC

STATEMENT OF CHANGES IN EQUITY

For the six month period to 30 June 2020

	Share Capital £m	Retained earnings £m	Total equity £m
As at 1 January 2020	-	8.1	8.1
Total comprehensive income for the six month period	-	4.6	4.6
Dividends	-	-	-
As at 30 June 2020	-	12.7	12.7
As at 1 January 2019	-	5.9	5.9
Total comprehensive income for the six month period	-	2.0	2.0
Dividends	-	-	-
As at 30 June 2019	-	7.9	7.9
As at 1 January 2019	-	5.9	5.9
Total comprehensive income for the year	-	2.2	2.2
Dividends	-	-	-
As at 31 December 2019	-	8.1	8.1

LEGAL & GENERAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

(a) Basis of preparation

The Company's financial information for the six months ended 30 June 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The accounting policies applied are consistent with those disclosed in the 2019 financial statements of the Company.

The financial information contained in this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the six months ended 30 June 2019 and 30 June 2020 has not been audited or reviewed by the Company's Auditor. The figures and financial information for the year ended 31 December 2019 are an extract from the latest published audited financial statements. Those accounts have been delivered to the Registrar of Companies and include the report from the Auditor, which was unqualified and did not contain a statement under either Section 498(2) or 498(3) of the Companies Act 2006.

(b) Going concern

The Company'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 Report. The Directors have made an assessment of the Company's going concern, considering both the current performance and the Company's outlook, which takes account of the current and future impact of the COVID-19 pandemic, using the information available up to the date of issue of this Interim Report. In light of this, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date that this half yearly financial report is approved). For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. Financial investments

(a) Financial investments at fair value

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments or discounted cash flow models.

	30 Jun 2020	30 Jun 2019	31 Dec 2019
	£m	£m	£m
Financial investments at fair value:			
Managed funds	1,384.1	688.2	1,454.4
Debt securities	-	10.3	10.0
Accrued interest	-	0.1	0.2
Derivative assets	0.3	1.3	0.5
Reverse repurchase agreements	10.0	-	10.0
Total financial investments at fair value	1,394.4	699.9	1,475.1

All of the financial investments are designated as fair value through profit or loss (FVTPL) other than derivative assets which are designated as held for trading (HFT).

None of the financial investments above are past due or impaired. The managed funds investments are holdings in Legal & General Investment Management Ltd managed funds which invest solely in cash, cash equivalents and debt securities.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflects the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The table that follows presents an analysis of the assets held at fair value in accordance with the measurement technique, defined below:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

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NOTES TO THE FINANCIAL STATEMENTS

(b) Financial assets by hierarchy levels

For the six month period to 30 June 2020	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m
Managed Funds	1,384.1	1,384.1	-	-
Derivative assets	0.3	0.3	-	-
Reverse repurchase agreements	10.0	-	10.0	-
Total financial assets	1,394.4	1,384.4	10.0	-

The Company's policy is to re-assess the categorisation of financial assets at the end of each year and to recognise transfers between levels at that point in time.

There were no transfers between levels during the period.

For the six month period to 30 June 2019	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m
Managed Funds	688.2	688.2	-	-
Debt securities	10.3	10.3	-	-
Accrued interest	0.1	0.1	-	-
Derivative assets	1.3	-	1.3	-
Total financial assets	699.9	698.6	1.3	-

For the year ended 31 December 2019	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m
Managed Funds	1,454.4	1,454.4	-	-
Debt securities	10.0	10.0	-	-
Accrued interest	0.2	0.2	-	-
Derivative assets	0.5	0.5	-	-
Reverse repurchase agreements	10.0	-	10.0	-
Total financial assets	1,475.1	1,465.1	10.0	-

LEGAL & GENERAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

3 Borrowings

	Carrying amount 30 Jun 2020 £m	Weighted average coupon rate 30 Jun 2020 %	Fair value 30 Jun 2020 £m
Core borrowings			
Sterling medium term notes 2031 - 2041	598.2	5.87	895.5
Operational borrowings			
Euro Commercial paper	99.9	0.85	99.9
Total borrowings¹	698.1		995.4

	Carrying amount 30 Jun 2019 £m	Weighted average Coupon rate 30 Jun 2019 %	Fair value 30 Jun 2019 £m
Core borrowings			
Sterling medium term notes 2031 - 2041	598.1	5.87	868.2
Operational borrowings			
Euro Commercial paper	354.5	0.91	354.5
Total borrowings¹	952.6		1,222.7

	Carrying amount 31 Dec 2019 £m	Weighted average Coupon rate 31 Dec 2019 %	Fair value 31 Dec 2019 £m
Core borrowings			
Sterling medium term notes 2031 - 2041	598.1	5.87	877.2
Operational borrowings			
Euro Commercial paper	199.5	0.93	199.5
Total borrowings¹	797.6		1,076.7

1. Total borrowings excludes accrued interest of £4.5m (H1 19: £4.5m; FY 19: £10.8m) on Sterling medium term notes.

The presented fair values of the Company's core borrowings reflect quoted prices in active markets and those of the operational borrowings reflect observable market information. They have been classified as level 1 and 2 in the fair value hierarchy.

Between 2000 and 2002 the Company 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.