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%).

[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