H1 2019: Operating profit up 11% to £1 billion, record H1 global annuity sales of £7 billion and LGIM net flows of £60 billion

Financial highlights[1]

- **Operating profit of £1,005m, up 11% (H1 2018: £909m)**
- **Earnings per share of 14.74p, up 13% (H1 2018: 13.00p)**
- **Return on equity at 20.2% (H1 2018: 20.3%)**
- **Interim dividend[2] of 4.93p per share (H1 2018: 4.60p)**
- **Profit after tax[3] up 13% to £874m (H1 2018: £771m)**
- **Net release from continuing operations up 29% to £858m (H1 2018: £663m)**
- **Solvency II operational surplus generation up by 17% to £0.8bn (H1 2018: £0.7bn)**
- **Solvency II coverage ratio[4] of 171% (FY 2018: 188%)**, impacted by discounting the balance sheet at lower interest rates

Business highlights

- **Pension Risk Transfer sales of £6,677m (H1 2018: £735m)**, including the UK's largest bulk annuity with Rolls-Royce
- **Individual annuity sales up 47% to £497m (H1 2018: £337m)**
- **Direct Investment up 36% at £22.2bn (H1 2018: £16.3bn)**
- **LGIM AUM up 15% at £1,135bn (H1 2018: £985bn)**
- **LGIM external net flows of £60.3bn (H1 2018: £14.6bn)**, with significant index flows from Asian clients
- **Insurance GWP up 7% to £1,409m (H1 2018: £1,317m)**

"Legal & General's five businesses collectively delivered another strong set of results in H1 2019, with EPS rising 13% to 14.74p, operating profit up 11% to £1bn and a RoE of 20%.

We have a depth of management, track record and opportunities that mean all five of our businesses should contribute to future growth. The opportunity in global Pension Risk Transfer, retail retirement solutions, and DC is immense and expected to continue. The sale of Mature Savings and General Insurance enables us to focus on businesses where we have leading market share and adjacent businesses where we see outstanding growth potential.

Our balance sheet remains strong. We have a globally diversified asset portfolio with minimal exposure to UK sub-investment grade credit and a £3.2bn credit default reserve. H2 has started well, building on the success of our H1 transactions including the c.£4.6bn Rolls-Royce PRT, £4bn Oxford University Future Cities deal and c.$50bn Japanese global index win.

We are well-prepared for the full range of foreseeable Brexit outcomes and we remain confident in our ability to deliver Inclusive Capitalism, growing value for shareholders, customers and the broader economy."

Nigel Wilson, Group Chief Executive

1. The Alternative Performance Measures within the Group's financial highlights are defined in the glossary, on page 93 of this report.
2. A formulaic approach is used to set the interim dividend, being 30% of the prior year full year dividend.
3. Profit after tax attributable to equity holders.
4. 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.

Financial summary

£m	H1 2019	H1 2018	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR)[1]	655	480	36
- *LGR Institutional (LGRI)*	*524*	*361*	*45*
- *LGR Retail (LGRR)*	*131*	*119*	*10*
Legal & General Investment Management (LGIM)	205	203	1
Legal & General Capital (LGC)	173	172	1
Legal & General Insurance (LGI)	134	154	(13)
Continuing operating profit from divisions[2]	**1,167**	**1,009**	**16**
Mature Savings[3]	24	56	(57)
General Insurance[4]	(5)	(6)	n/a
Operating profit from divisions	**1,186**	**1,059**	**12**
Group debt costs	(108)	(97)	(11)
Group investment projects and expenses	(73)	(53)	(38)
Operating profit	**1,005**	**909**	**11**
Investment and other variances (incl. minority interests)	48	33	45
Profit before tax attributable to equity holders	**1,053**	**942**	**12**
Profit after tax attributable to equity holders	**874**	**771**	**13**
Earnings per share (p)	**14.74**	**13.00**	**13**
Return on equity (%)	**20.2**	**20.3**	**n/a**
Book value per share (p)	**146**	**129**	**13**
Interim dividend per share (p)	**4.93**	**4.60**	**n/a**
Net release from continuing operations[2]	**858**	**663**	**29**
Net release from discontinued operations[3,4]	15	17	(12)

1. In 2018, Legal & General reviewed our longevity trend assumptions against updated experience data (CMI 2016) and made a mortality release of £433m in H2 2018. As in previous years, in 2019 we are reviewing our current longevity trend assumptions against the CMI 2017 experience data and intend to make any amendments as necessary in H2 2019.
2. Excludes Mature Savings and General Insurance.
3. Mature Savings sale to Swiss Re was announced on 6 December 2017 and the H1 2018 and H1 2019 results reflect the interim Reinsurance Transfer Agreement.
4. General Insurance sale to Allianz announced on 31 May 2019.

H1 2019 financial performance

Income statement

Operating profit increased 11% to £1,005m (H1 2018: £909m).

LGR delivered a 36% increase in operating profit to £655m (H1 2018: £480m), driven by profits emerging from the growing backbook, record UK Pension Risk Transfer (PRT) volumes in H1 and our increasing market share in individual annuities.

LGIM operating profit increased by 1% to £205m (H1 2018: £203m). Management fee revenues grew to £425m (H1 2018: £401m) and AUM reached £1,135bn (H1 2018: £985bn). External net flows of £60.3bn (H1 2018: £14.6bn) have been strong in most channels and regions with the international businesses contributing £44.6bn, predominantly from Asia. Favourable market movements of £55.8bn have also grown AUM. As previously guided, LGIM has continued to invest in the diversification and technological advancement of the business which has seen the cost income ratio reach 53% (H1 2018: 51%).

LGC operating profit was £173m (H1 2018: £172m), reflecting ongoing growth in the underlying direct investments portfolio, which contributed operating profit of £99m (H1 2018: £104m), slightly down due to a more challenging build-to-sell market compared to H1 2018.

LGI operating profit decreased by 13% to £134m (H1 2018: £154m), against a prior year comparator that benefited from the one-off contribution of specific model refinements. The underlying UK and US protection businesses continued to generate good levels of profit and margins remain robust.

Disposed operations contributed £19m to operating profit. This comprised £24m from **Mature Savings,** reflecting the unwind of expected underlying profits, and £(5)m from **General Insurance** which experienced higher claims inflation. Both disposals are expected to complete in H2 2019.

Profit before tax attributable to equity holders was £1,053m (H1 2018: £942m).

Profit before tax benefitted from a net positive investment variance during the period (H1 2019: £48m, H1 2018: £33m) as a result of a number of counterbalancing items, including profit on disposal of our stake in IndiaFirst Life Insurance Company offset by increased LGI reserve requirements due to a reduction in the discount rate caused by falling interest rates. Consistent with prior years, there was an accounting gain driven by the Group's defined benefit pension scheme which includes accounting valuation differences arising on annuity assets held by the scheme.

Net release from continuing operations[1] was £858m (H1 2018: £663m), comprising £685m (H1 2018: £661m) release from operations and £173m (H1 2018: £2m) new business surplus. The increase was due to record LGR annuity new business volumes in H1 2019, which will continue to contribute to our profits and SII operational surplus generation for several decades through release from operations.

Balance sheet

The Group's Solvency II operational surplus generation increased by 17% to £0.8bn (H1 2018: £0.7bn). New business strain was £0.3bn (H1 2018: £0.1bn) reflecting significant UK annuity volumes written at a capital strain of c.4%, which typically has a payback period of five years, and changes in business mix. This resulted in net surplus generation of £0.5bn (H1 2018: £0.6bn).

After allowing for the non-economic impact of lower interest rates on the valuation of our balance sheet[2], payment of the 2018 final dividend, which is typically c70% of the total dividends paid during the year, and redemption of £400m of subordinated debt in April 2019, the Group reported a **Solvency II coverage ratio[3,4] of 171% at the end of H1 2019 (FY 2018: 188%).**

In H2 2019 we expect **similar levels of operational surplus generation**, significantly in excess of the £294m interim dividend payment and providing capacity to write further new business.

On a proforma calculation basis[3,4], our Solvency II coverage ratio was 166% at the end of H1 2019 (FY 2018: 181%).

We continue to deliver a strong IFRS return on equity of 20.2% (H1 2018: 20.3%).

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[1] Excludes the discontinued businesses of Mature Savings and General Insurance.
[2] 10 year UK swaps rate fell 39bps between 31 December 2018 and 30 June 2019.
[3] Incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2019 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.
[4] 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. The proforma basis includes both of these items.

Strategy overview

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.

To deliver our strategy, Legal & General's operating model comprises five businesses:

1. Legal & General Retirement Institutional (LGRI)
2. Legal & General Retirement Retail (LGRR)
3. Legal & General Investment Management (LGIM)
4. Legal & General Capital (LGC)
5. Legal & General Insurance (LGI)

Our strategy has positioned us to be a leader in the pension asset management and insurance markets, benefitting from a mutually reinforcing business model and unique synergies in pension de-risking and asset manufacturing and management:

- **LGIM** is the UK market leader in providing investment management to defined benefit (DB) pension scheme clients, specifically through index, fixed income and LDI strategies. This provides **LGRI** with a strong pipeline: on average around a third of our annual pension risk transfer (PRT) premiums are from existing LGIM clients.[5]

- **LGRI**, the market leader in UK PRT, and **LGRR**, a leading provider of UK individual annuities, has £72.1bn of assets predominantly managed by **LGIM**. This portfolio is continually being enhanced with attractive, matching adjustment compliant direct investments originated by **LGC**.

- **LGC** uses the Group's shareholder capital to provide the equity investment in, and to therefore manufacture, part of the direct investment portfolio used to back **LGRI** and **LGRR**'s annuity liabilities, as well as creating assets for **LGIM**'s clients.

- **LGI** is a market leader in UK protection and US brokerage term life insurance, and provides significant Solvency II benefits to the Group by partially offsetting new business strain in **LGRI** and **LGRR**. Additionally, the business facilitates **LGRI**'s US PRT transactions which are written onto the existing US balance sheet, which supports the term business.

The synergies within our businesses drive profits and fuel future growth, allowing the Group to regularly deliver an ROE of c.20%.

Outlook

Our strategy and growth drivers have delivered consistently strong returns, both dividend and ROE, for our shareholders and we are confident they will continue to deliver growth in H2 and further into the future to support our pursuit of inclusive capitalism. Between 2011 and 2015 we achieved an EPS CAGR of 10% per annum, and we are on track to deliver at least a similar performance out to 2020, having already delivered a CAGR of 11% since 2015.[6] As previously reported, Legal & General is well placed to grow organically, which we will continue to enable through ongoing judicious investment in technology across the Group.

Our confidence in future growth and dividend paying capacity is underpinned by the Group's strong balance sheet with £5.9bn in surplus regulatory capital and significant buffers to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

We are confident in the resilience of our balance sheet and operations to the foreseeable range of Brexit outcomes. We have extensively tested and prepared the balance sheet, building a globally diversified asset portfolio with only 23% of our annuity bond portfolio invested in UK-listed corporate credit, many of these being multinationals. Operationally, we have Brexit contingency plans at full readiness. For example, LGIM has secured the relevant authorisation for our EU asset management company in 2018 and has transferred all EU regulated funds. **We will continue to monitor the market as Brexit unfolds in order to robustly manage our businesses and asset portfolio and capitalise on opportunities to support UK growth.**

[5] Excludes the June 2019 Rolls-Royce transaction; including this increases our annual PRT premiums from existing LGIM clients to c.60%.
[6] To 31 December 2018.

LGR's Institutional (LGRI) business participates in the rapidly growing global pension risk transfer (PRT) market, focussing on corporate defined benefit (DB) pension plans in the UK, the US, the Netherlands, Ireland, and Canada, which together have more than £5tn of pension liabilities.[7]

Our primary market, the UK, is the most mature; however, it still represents an enormous opportunity as only c.8% of the £2.2 trillion of UK DB pension liabilities have transferred to insurance companies.[8] UK pension advisers estimate more than £60bn of demand for bulk annuities within the next two years and they expect that number will continue to grow, against c.£30bn of annual insurer capacity.[9] In order to better address demand from pension schemes, we have bolstered our structuring expertise in order to develop capital-light solutions. **We have a strong UK pipeline, actively quoting on more than £20bn of transactions, having already completed a further £923m of new UK PRT in July 2019.**

The US represents a significant market opportunity, with $3.5 trillion of DB liabilities, of which only c.5% have transacted to date. In H1 we wrote our first fully retained transaction for more than $200m, heralding a new phase of growth for our US business. We expect increased volumes in the second half of the year, when we have historically seen more activity. **We have already written a further $477m of US transactions in July 2019 and we are currently quoting on $2bn of US PRT transactions**. In April 2019, we wrote our first deal in Canada through our Bermuda-based reinsurer, Legal & General Re. **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.**

Ageing demographics have meant that **LGR Retail's (LGRR)** target market continues to expand, both in terms of the numbers of retirees and the levels of wealth they hold. The potential of the Lifetime Mortgage (LTM) market is vast, with £1.8tn of housing equity owned by UK individuals over the age of 55.[10] Over the first half of 2019 the market has seen a slight slowdown in the growth of total LTM lending, however, we do not anticipate a change in the long-term growth trend.[11] During Q1 our volumes were down due to increased competition, however, by Q2, our quarterly market share recovered to 29%.[11] To further bolster our LTM offering and profits, in H2 we plan to launch our Retirement Interest-Only Mortgage to address the growing number of individuals reaching retirement with interest-only mortgages. In annuities, LGRR continues to benefit from ongoing improvements to its enhanced annuity offering which, together with further customer service innovation, will allow us to compete effectively in the retail annuity market. Separately, LGRR works closely with **LGIM Workplace** and **Personal Investing** to deliver a broader range of retirement solutions to customers.

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. Our analysis continues to show evidence of higher than forecasted mortality, which is effectively embedded future profit. At this stage in our review of the CMI 2017 mortality tables, we anticipate a mortality reserve release of over £200m in our 2019 full year results.

LGIM continues to benefit from global trends in retirement saving and the structural shifts in demand being experienced by the asset management industry. This is driving an increase in customer appetite for our diverse range of products and broad investment capabilities spanning index, active, multi-asset and alternatives, underpinned with a thoughtful approach to ESG. The strong customer and strategic alignment of Legal & General's business units will remain a positive source of funds for LGIM.

The business continues to grow in the UK, which has been the bedrock of the firm's success to date. LGIM is a leading player in providing DB de-risking solutions and the market leader in UK DC with total assets of £86.4bn (H1 2018: £64.0bn).[12] We are planning for the future, by broadening our DC proposition and through further expansion in international markets.

International AUM has grown by a 28% CAGR since 2014 and is now at £342.8bn (H1 2018: £229.3bn). In H1 2019 we secured a £37bn passive mandate with the Japan Government Pension Investment Fund, providing a long term foundation for future growth in Japan and the broader region. This establishes LGIM as a top 3 non-domestic manager in the Japanese institutional pension market.[13] Overall, we expect international inflows to continue in the second half of 2019 as we leverage our growing presence in Europe, Asia, the Gulf and the US.

We will continue to invest in a disciplined way in areas of the business where we expect to see future growth opportunities and we will also invest in areas where automation and simplification will generate operational leverage and efficiency. Enhancing customers' digital experience, optimising our investment platforms, and utilising data analytics are at the forefront of our endeavours.

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[7] 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
[8] Source: Pension Purple Book 2018, PPF; Hymans Robertson, 2018 Risk Transfer Report
[9] RBC, "Bulk annuities: 10 things you need to know about the best structural growth opportunity in Euro insurance"
[10] Equity Release Council, "Equity Release Rebooted", April 2017
[11] UK Equity Release Market Monitor, Half Year 2019
[12] Broadridge, Q2 2018
[13] Japan Funds News Letter as at 31 March 2019

Michelle Scrimgeour joined LGIM as CEO in July 2019 from Columbia Threadneedle, where she was CEO for EMEA. Michelle is spending time getting to know the business and is reviewing LGIM's strategy. She will provide an update at the March 2020 annual results.

LGC uses shareholder capital to achieve three clear goals. The first is to deliver attractive financial returns for our shareholders by creating real assets and 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 LGR's 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. LGC will continue to seek opportunities to deploy its long-term capital in real assets, primarily across the UK, where we see an enduring need for private long-term capital for future cities, 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 and others. The recent announcement of our partnership with Oxford University is an example of our ability to make meaningful investments in UK cities. Working closely with **LGIM Real Assets** and with partners around the UK, LGC will continue to apply capabilities in infrastructure, clean energy, commercial real estate and residential property in order to create real assets for **LGR's** growing asset portfolio. Legal & General Group 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.

LGC's housing platform continues to grow its diversified, multi-tenure business across build-to-rent, build-to-sell, later living and affordable housing. In our build-to-sell arm, CALA, which has achieved revenues of over £400m in H1 2019, continues to build its business under LGC's ownership. Within our Affordable housing business, our first affordable housing contract became operational in Croydon. The affordable market remains highly attractive with 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 plans to deliver 3,000 affordable homes per year within the next four years. As a registered provider of social and affordable housing, we have focussed on accelerating our business plan to develope, hold and manage a blend of affordable housing tenures which include both social and affordable, rent and shared-ownership homes under grant-supported schemes.

In SME Finance, 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.

In **LGI**, we anticipate continued premium growth across our UK and US businesses. LGI operating profits in H2 2019 are expected to exceed those of H1, resulting in a full year operating result which is in a similar range to that of the prior year.

Our UK group protection business typically generates more new business strain in H1 as scheme renewals often coincide with the start of the calendar or tax year, followed by release from operations in the following periods. This new business pattern typically leads to H2 profits exceeding H1 profits. In our market leading UK retail protection business we expect to continue growing premiums and to generate good profits in H2, supported by distribution and product enhancements.

LGI's US protection H1 new business annual premiums were slightly down, reflecting increased competition over the period. We expect our on-going investment in digital transformation to result in new business growth while maintaining healthy profits.

In LGI Fintech we expect continued growth from SalaryFinance both in the UK and the US as the business gains access to more employees and diversifies the products and services offered. We also expect our investments and developments in the UK mortgage market to deliver growth as we make the journey to buy and finance a house easier and more efficient for everyone involved.

Dividend

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 Group's policy of using a formulaic approach to setting the interim dividend, being 30% of the prior year full year dividend, the Board has declared an interim dividend of 4.93p per share.

Legal & General Retirement

FINANCIAL HIGHLIGHTS £m	H1 2019	H1 2018
Release from operations	303	275
New business surplus	185	23
Net release from operations	**488**	**298**
Experience variances, other assumption changes, tax and non-cash movements	167	182
Operating profit	**655**	**480**
- LGR Institutional (LGRI)	*524*	*361*
- LGR Retail (LGRR)	*131*	*119*
Investment and other variances	(17)	85
Profit before tax	**638**	**565**
UK PRT	6,316	507
International PRT	361	228
Individual annuity single premiums	497	337
Lifetime mortgage advances	489	521
Total new business	**7,663**	**1,593**
Total annuity assets (£bn)	**72.1**	**56.4**

Operating profit up 36% to £655m

Operating profit increased to £655m (H1 2018: £480m), due to record UK PRT new business volumes and strong growth in individual annuities.

Release from operations was £303m (H1 2018: £275m), an increase of 10%, resulting from the continued stable and consistent performance of our growing £72.1bn annuity fund (H1 2018: £56.4bn).

Net release from operations increased 64% to £488m (H1 2018: £298m), reflecting new business surplus growth (H1 2019: £185m, H1 2018: £23m) due to heightened new business volumes in H1 2019 compared to H1 2018.

In H1 2019 we wrote £6,813m of UK annuities (H1 2018: £844m) delivering a 7.8% Solvency II new business margin with capital strain of c.4%, in line with FY 2018 performance and reflecting our strong pricing discipline.

We constantly evaluate the appropriateness of our longevity trend assumptions and we are currently reviewing the CMI 2017 mortality data which we expect to complete by the end of 2019. We will exhibit care in our assessment of longevity trends and only recognise applicable releases as greater certainty emerges.

LGR Institutional – Global Pension Risk Transfer

In H1 2019, LGR Institutional (LGRI) completed £6,677m (H1 2018: £735m) of bulk annuities across 18 deals in the UK, US, Ireland and Canada.

Legal & General are leaders in the UK PRT market[14] and in H1 2019 we wrote £6,316m in bulk annuities (H1 2018: £507m), ranging from £2m to the largest UK bulk annuity for more than £4.6bn with Rolls-Royce Pension Fund.

LGRI's brand, scale and asset origination capabilities through synergies with, and expertise within, LGIM and LGC are critical to our market leadership in the rapidly growing UK PRT market. Leveraging our solutions capabilities we have written some of the most innovative transactions in the UK, such as bulk annuities supported by private debt issuance and transactions insuring member options. As previously noted, we service the complete size spectrum of the UK PRT market, from pension plans of around £1m to those over £1bn, including four of the five largest UK bulk annuities[15], and we are actively expanding our business model globally.

[14] LCP, "Pensions De-risking Report 2019"
[15] As at 31 June 2019

International PRT premiums were £361m (H1 2018: £228m). In April 2019, LGRI continued its international expansion into Canada where we wrote our first transaction for more than CAD $200m through our strategic Canadian partnership with Brookfield Annuity Company. Further bolstering international PRT volumes, our US business wrote USD $291m (£223m) of premiums (H1 2018: $297m, £220m) as it entered its next phase of growth, writing a transaction of over USD $200m.

LGR Retail – Individual Retirement Solutions

LGR Retail (LGRR) has had another period of strong performance in H1 2019, delivering solutions to retirees in the UK through individual annuities and Lifetime Mortgages (LTMs).

Individual annuity sales increased 47% to £497m in the first half of the year (H1 2018: £337m), driven by wider market penetration and continued improvement of our enhanced annuity proposition relative to H1 2018. We are one of the leading players in the UK individual annuity market with a current market share of 18.3%[16], a 5.2 percentage point increase over the prior year.

Lifetime mortgage advances were £489m in H1 2019, lower than the prior year's advance of £521m, as we continue to manage risk and maintain our pricing and underwriting discipline. As the LTM market matures, Legal & General has emerged as an established player offering customer-focused products, such as our flexible drawdown product and Optional Payment LTM. LTMs are currently 6% 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.

On-going credit and asset management

Credit portfolio management

LGR's £72.1bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities is well diversified by sector and geography. Within the £66.9bn[17] bond portfolio, approximately two-thirds of the portfolio is A-rated or better, 34% BBB-rated and c.1% sub-investment grade. Just 23% of the bond asset portfolio is invested in UK-listed corporate credit, many of these being multinationals.

The principal objective of our annuity focused fixed income fund managers in LGIM is to manage the portfolio to avoid credit downgrades and defaults. We constantly review our asset portfolio, including sector allocations and asset classes, in order to improve credit quality and to mitigate risks. We have vigorously stress tested our portfolio to build resilience against a range of scenarios and hold a £3.2bn IFRS credit default reserve.

Direct Investment

LGR has originated £2.4bn of new, high quality direct investments in the first half of the year, which, along with market movements, bring the portfolio total to £18.4bn[18] (FY 2018: £15.7bn), including £4.0bn in LTMs. Consistent with the broader bond portfolio, two-thirds of the direct investment portfolio is rated 'A' or above based on strong counterparties and collateral, using robust and independent rating processes which take account of long term stress events. We invest in sectors where long term funding is needed, for example government infrastructure. During H1, we invested a further £183m in long term leases on HMRC buildings in Salford and Nottingham.

Direct investments are one of the key components of our investment strategy supporting 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 global traded bonds. We see particular opportunity in the build-to-rent and affordable housing asset classes, as LGC Homes and LGIM Real Assets build their capabilities. 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 and remains a key competitive advantage.

[16] Q1 2019: 18.3%; Q2 2018: 13.1%
[17] Excludes equities, derivative assets, property, and cash. £15,148m of this portfolio is direct investment bonds. Please see note 7.01 and 7.02b for more information.
[18] Includes LGR direct investment bonds (£15,148m), direct investment property (£3,131m), direct investments equity (£6m), and other assets (£90m). Please see note 7.02b for more information.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS £m	H1 2019	H1 2018
Management fee revenue[1]	425	401
Transactional revenue[2]	9	13
Total revenue	**434**	**414**
Total costs[1]	(230)	(213)
Asset management operating profit[3]	**204**	**201**
Workplace Saving operating result	1	2
Operating profit	**205**	**203**
Investment and other variances	(5)	(4)
Profit before tax	**200**	**199**
Net release from operations	**164**	**164**
Asset Management cost:income ratio[3] (%)	**53**	**51**

NET FLOWS AND ASSETS £bn		
Canvas Acquisition	-	*2.4*
External net flows	**60.3**	**14.6**
Internal net flows	2.4	(2.6)
Total net flows	**62.7**	**12.0**
- Of which international	*44.6*	*9.9*
Cash management flows	**0.5**	**1.0**
Persistency (%)	**91**	**88**
Average assets under management	*1,075*	*978*
Assets under management as at 30 June	**1,135**	**985**
Of which:		
- International assets under management[4]	***343***	*229*
- UK DC assets under management	*86*	*64*

1. Management fee revenue and total costs exclude income and costs of £11m in relation to the provision of 3rd party market data (H1 18: £8m), and also excludes revenue and costs from our Workplace Savings business.
2. Transactional revenue earned from external clients including execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees for property funds.
3. Excludes revenue and costs from the Workplace Savings business.
4. International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.

External net flows of £60bn drive AUM to £1,135bn

LGIM's drive to expand and diversify its business across channels, regions and investment capabilities has resulted in external net flows of £60.3bn (H1 2018: £14.6bn) with assets under management (AUM) growing by 15% to £1,135bn (H1 2018: £985bn). External net flows were broad-based and positive in our growth businesses including international, DC, and retail.

Investing for growth as operating profit increases 1% to £205m

Operating profit increased by 1% to £205m (H1 2018: £203m), reflecting increased revenues and LGIM's long term commitment to investing in its growth strategy. Revenues were up 5% to £434m (H1 2018: £414m). Management fees increased by 6% to £425m (H1 2018: £401m). Transactional revenues were £9m (H1 2018: £13m) and are a result of LDI activity as clients increase the hedging of their assets.

We will continue to invest in areas of the business that are experiencing strong growth or where increased automation and simplification will generate operational leverage. Enhancing customers' digital experience, optimising our investment platforms, and utilising data analytics are at the forefront of our endeavours. The cost income ratio (53%) reflects this continued investment in the business.

International assets up 50% to £343bn

LGIM's international businesses experienced net flows of £44.6bn (H1 2018: £9.9bn), including a £37bn passive mandate with the Japan Government Pension Investment Fund. This provides a long term foundation for future growth in Japan and the broader region. Total flows from Asia were £37.3bn (H1 2018: £2.5bn) over the period. Our European (excluding UK) business performed well with net flows of £4.9bn (H1 2018: £0.4bn), reflecting the continued focus we have placed on the region. The US business had net flows of £2.6bn (USD $3.3bn; H1 2018: £8.3bn, USD $11.5bn) and with a strong pipeline we have positive expectations for the second half of the year. In the Gulf, strategic asset reallocations have resulted in net outflows of £0.2bn (H1 2018: £1.4bn net outflow).

DB clients support solutions based investments

The defined benefit (DB) business had net flows of £10.7bn (H1 2018: -£0.3bn). There was a strong uptake of our Solutions based investment strategies from new and existing clients aiming to de-risk and adapt their investment objectives. The rate of existing clients transitioning out of their index strategies slowed significantly from 2018.

£3.6bn net flows from DC business

The defined contribution (DC) business continues to grow rapidly in the UK with total net flows of £3.6bn (H1 2018: £3.5bn), driven by the bundled business which provides administration and investment services to DC schemes. Total UK DC AUM increased by 35% to £86.4bn (H1 2018: £64.0bn).

Workplace Savings assets under administration increased by 22% to £36.1bn (H1 2018: £29.7bn) with the number of customers on our pension platform rising by 10% to 3.4m. Contributions from our customers increased as a result of changes to the minimum contribution for UK auto-enrolment pensions from 5% to 8%. Our Master Trust (one of the UK's largest) has £7.4bn in AUM, reflecting the continued appeal of the structure for DC schemes that wish to outsource their governance, investment and administration.

Accelerating growth in our retail businesses

The retail business experienced strong net flows of £1.7bn (H1 2018: £1.4bn) despite challenging market conditions. There has been strong demand for multi-asset and index products while the L&G UK Property Fund is the largest fund in the UK Direct Property sector. Retail AUM increased to £30.0bn (H1 2018: £25.1bn) 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 H1 2019.[19]

We continue to make progress in our Personal Investing business with further enhancements to our digital platform and the launch of the Legal & General Personal Pension. New customer applications have increased by 84% at a lower cost per acquisition. We continue to introduce innovative functionality to engage customers and meet a variety of saving needs. The Personal Investing business currently has AUM of £5.6bn (H1 2018: £5.7bn), including £1.9bn from legacy relationships with banks and building societies.

The ETF business has further supported our European retail distribution plans with additional launches in core equities and thematic ETFs. Currently 64% of our ETF offering has experienced net inflows in 2019 and we rank in the top 10 for pan-European mutual funds and ETFs net flows.[20] We will continue to build out our range of funds and distribution capabilities in line with client demand. The reduction in ETF AUM to £2.4bn (H1 2018: £2.8bn) reflects growth in our core equity range offset by the strategic closure of certain funds that were under review following last year's acquisition.

[19] Pridham Report, Q1 2019 and Q2 2019
[20] Broadridge Pan-European mutual fund and ETF flows Q1 2019

Breadth of investment management solutions

Asset movements (£bn)	Index funds	Global fixed income	Solutions	Real assets	Active equities	**Total AUM**
At 1 January 2019	**310.2**	**162.6**	**510.5**	**27.1**	**5.1**	**1,015.5**
External inflows	60.8	5.6	15.3	0.8	0.1	82.6
External outflows	(26.1)	(4.7)	(12.4)	(0.8)	(0.1)	(44.1)
Overlay net flows	-	-	22.0	-	-	22.0
ETF net flows	(0.2)	-	-	-	-	(0.2)
External net flows	**34.5**	**0.9**	**24.9**	**-**	**-**	**60.3**
Internal net flows	(0.1)	(1.9)	3.3	1.2	(0.1)	2.4
Total net flows	34.4	(1.0)	28.2	1.2	(0.1)	62.7
Cash management movements	-	0.5	-	-	-	0.5
Market and other movements	45.5	10.8	(2.3)[1]	1.2	0.6	55.8
At 30 June 2019	**390.1**	**172.9**	**536.4**	**29.5**	**5.6**	**1,134.5**

1. Solutions "Market and other movements" includes the reallocation of the Rolls-Royce LGIM investment mandate following the PRT transaction with LGRI in June 2019.

Total AUM increased 15% to £1,135bn (H1 2018: £985bn), with external net flows of £60.3bn (H1 2018: £14.6bn) and rising asset values driving £55.8bn of AUM growth. Net flows were broad based with the international business contributing £44.6bn and positive flows from all established UK channels. Flows were positive across most asset classes as customers benefitted from our diverse product range and broad investment capabilities.

We anticipate that LGIM will continue to benefit from global trends in retirement saving and structural shifts in demand in the asset management industry including ESG strategies. The Legal & General Master Trust launched the L&G Future World Multi-Asset Fund as a default option for members making it the first Master Trust to launch a multi-asset ESG fund as a default option.

Solutions external net flows were £24.9bn (H1 2018: £26.2bn), driven by DB pension schemes implementing a broad range of liability driven investment (LDI) strategies as customers manage their risk positions more proactively. Multi-asset strategies are in high demand from DC schemes and retail customers. External net flows into multi-asset funds were £5.1bn (H1 2018: £4.3bn) of which £1.4bn relates to funds switching from Index as part of a review of the default investment offering for some DC schemes.

Index external net flows were £34.5bn (H1 2018: -£18.6bn net flows), as we secured a £37bn passive mandate with the Japan Government Pension Investment Fund and experienced strong demand from a broad range of European customers. UK DB pension schemes continued to mature and reduce risk although at a slower pace than anticipated with £10.5bn of net outflows in H1 2019. For the past several years we have had consistent net outflows from our UK DB index funds and we expect this trend to continue as many clients transition into LDI strategies where we are well positioned to retain the assets.

Net external flows into Global Fixed Income of £0.9bn (H1 2018: £6.5bn), with relative performance reflecting the higher demand in 2018 for US DB credit strategies from clients responding to US tax exemptions for pension contributions. External outflows were elevated in H1 2019, predominantly due to a few clients undertaking planned PRT transactions. We have also won new mandates in the Gulf and Japan in the first half of the year.

The **Real Assets** business has continued to expand, growing its AUM to £29.5bn (H1 2018: £25.3bn). External flows have been affected by market sentiment and political uncertainty. The future growth of external flows will be supported by our build-to-rent business, which now has a pipeline of around 4,500 homes across the country, and our Private Credit business, which offers clients diversification of secure income and value protection solutions. The long term nature of the strategic relationships developed with LGR and LGC continue to be a positive source of funds.

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	H1 2019	H1 2018
Net release from operations	**142**	138
Operating profit	**173**	172
- Direct investment	*99*	*104*
- Traded investment portfolio	*67*	*64*
- Treasury assets	*7*	*4*
Investment and other variances	105	(90)
Profit before tax attributable to equity holders	**278**	82
DIRECT INVESTMENT PORTFOLIO £m		
Future Cities	905	589
Homes	1,313	1,050
SME Finance	420	366
	2,638	2,005
TRADED PORTFOLIO £m		
Equities	1,717	1,631
Fixed income	161	219
Multi-asset	234	126
Cash[1]	2,315	2,690
	4,427	4,666
LGC investment portfolio	**7,065**	6,671
Treasury assets at holding company[2]	749	1,407
Total	**7,814**	8,078

1. Includes short term liquid holdings.
2. Excludes an interim dividend from subsidiaries of £145m which was paid in July 2019.

Total operating profit of £173m

LGC operating profit was £173m, in line with the previous year (H1 2018: £172m), reflecting continued growth in the underlying direct investments portfolio combined with a more challenging build-to-sell market compared to H1 2018. The operating profit from the traded investment and treasury portfolios increased by 9% to £74m (H1 2018: £68m). The direct investment operating profit was £99m (H1 2018: £104m). Profit before tax increased to £278m (H1 2018: £82m), due to the strong performance in equity markets compared to the prior period.

Our growing direct investment portfolio achieved a net portfolio return of 5.6% (H1 2018: 9.1%). The reduction reflects both the growth of the portfolio, which now has a greater proportion of AUM in early stage development assets, and the relative H1 2019 build-to-sell portfolio returns.

Direct investment portfolio up 32% to £2.6bn (H1 2018: £2.0bn)

The LGC direct investment portfolio grew to £2,638m (H1 2018: £2,005m) as we added £0.5bn in investments and new commitments in the first half of the year. Our Future Cities strategy continues to develop through new and existing sites, and in H1 2019 we also announced our £4bn commitment to invest in the development of homes for University staff and students, together with science and innovation districts in and around Oxford over a ten year period. LGC's housing platform has expanded its multi-tenure offering, delivering our first Affordable Housing contracts, extending our Later Living offering to urban development and continuing to add to our build-to-rent portfolio, including funding a flagship scheme in Wandsworth, London.

LGC holds cash and liquid investments to provide liquidity to facilitate investment into strategic opportunities as they arise and for collateral to cover derivatives trades. We are constantly reviewing our strategic options for deploying surplus liquidity across the Group, primarily through technology investment, bolt-on M&A, and funding organic growth.

Investing £905m in the future of UK cities (H1 2018: £589m)

UK cities need investment in their infrastructure, and in 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 urban regeneration, clean energy and digital infrastructure. Together, these building blocks can have a multiplier effect to create the resilient urban centres of the future. Through these investments and our partnerships with universities, local governments, authorities and businesses, Legal & General is supporting the UK to develop great places to live and quality, world class science and technology employment.

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. During the first half of 2019, our LGC Future Cities portfolio increased 15% to £905m (FY 2018: £787m, H1 2018: £589m) through investment across all our target sectors including investment in technology, such as electric vehicle charging (Pod Point in February 2019) and data centres (Kao Data in January 2019).

In June LGC led the formation of a 50:50 partnership with Oxford University to develop homes for University staff and students, together with science and innovation districts in and around Oxford. LGC's Future Cities business will act as funding and development partner for the University. This demonstrates LGC's ability to create assets for the wider Legal & General Group, which will provide funding of up to £4bn over the next ten years from its shareholder, annuity and LGIM-managed funds. The partnership will deliver a series of transformational projects to enable the world-class university to address its shortage of residential and commercial space, which it needs to continue to attract research graduates, and support spin-out and scale-up businesses.

Separately, in March LGC was selected as development partner for a 306,000 sq. ft. office-led, mixed use scheme in Bath Quays North, a 5.5 acre prime riverside site in Bath city centre. This scheme adds to our significant ongoing investment in Bath, where Legal & General Group is also developing 171 build to rent apartments at Spring Wharf, which now has its first residents in situ and is also developing an urban later living scheme. Most recently, at the end of July LGC announced a further investment in Cardiff Central Square, providing a transport interchange, 318 build-to-rent apartments and 100,000 sq. ft. of office space.

Strengthening our UK Homes platform as assets increase to £1,313m (H1 2018: £1,050m)

LGC's Homes platform is diversified across affordability, tenure and lifestage in order to help meet the UK's need for 340,000 homes each year.

In our **build-to-sell** business, CALA is now operationally bedded down and was awarded Home Builder of the Year by Homes for Scotland. It has 90 active sites, which have generated c.1,100 sales, in the first half of the year. It has been a good performance in the headwind of a slower sales market and we expect market conditions to remain challenging throughout the year. Our diversified housing platform makes us more resilient to temporary market slowdowns.

LGC's **Affordable Homes** business is now operational and has secured its first four affordable schemes, comprising 278 new homes in Croydon, Cornwall, Dunstable and Shrivenham and has also secured a further pipeline of over 40 sites across the UK, providing 1,500 affordable homes in the next 24 months. This is a strong start to LGC's target of delivering 3,000 affordable homes per year within the next four years.

LGC has also extended its **later living** offering with the establishment of Guild Living, a developer and operator of urban later living communities. Through Guild Living, we plan to deliver over 3,000 new retirement homes over the next five years. Guild Living is a partnership between LGC and a team of global experts in design, development and academically-accredited wellness programmes and will deliver a new class of urban retirement community across the UK's towns and cities to enable and enrich an independent, active later life. Since its launch, Guild Living has acquired a site in Bath and two sites in Surrey. This will complement LGC's existing suburban Later Living offering, Inspired Villages, which has acquired seven sites, with a strong pipeline of future sites.

Finally, in Legal & General's **build-to-rent** business, LGC has supported further developments in Brighton, Glasgow and Wandsworth. In Wandsworth we have exchanged contracts on two adjacent sites which will combine to deliver L&G's largest build-to-rent scheme to date.

SME Finance assets grow to £420m (H1 2018: £366m)

SME Finance supports UK and European **mid-market lending** via fund investments with Pemberton and **invests in start-up businesses** across the UK and Europe through fund investments with Venture Capital managers and direct stakes in innovation and growth companies strategically aligned with our business.

In European SME financing, our 40% owned private credit manager Pemberton has had significant success during the period, raising over €2.5bn over the past twelve months. This takes UK/European Mid-Market strategies to €4.4bn of AUM and the Strategic Credit fund to €0.9bn. The total committed AUM of Pemberton is now c.€5.5bn.

Our Venture Capital fund investing strategy has continued successfully during H1, benefitting from the UK's strong innovation economy, with a number of the companies we have indirectly invested in generating valuation increases. In addition, we continue to focus on accessing this strongly performing asset class for our DC pension clients and have been working across the industry to develop solutions.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	H1 2019	H1 2018
Release from operations	171	165
New business surplus	(1)	(8)
Net release from operations	**170**	157
Operating profit	**134**	154
- UK	93	136
- US (LGIA)	41	18
Investment and other variances[1]	(134)	(37)
Profit before tax attributable to equity holders	**0**	117
LGI new business annual premiums	**178**	163
UK Retail Protection gross premiums	**658**	633
UK Group Protection gross premiums	**233**	223
US Protection (LGIA) gross premiums	**518**	461
Total gross premiums	**1,409**	1,317

1. Investment variance is driven by a fall in UK government bond yields and US Treasury yields which has resulted in a reduction in the discount rate used to calculate the reserves for both our UK and US protection liabilities.

7% growth in gross written premium

In H1 2019, LGI gross written premiums grew by 7% (H1 2019: £1,409m, H1 2018: £1,317m), demonstrating good new business performance.

UK Retail Protection gross premium income increased 4% to £658m (H1 2018: £633m) with new business annual premiums of £91m (H1 2018: £87m), reflecting strong growth from bank distribution partners and from intermediary distribution. We remain the leading provider of Retail Protection in the UK, delivering straight-through processing for more than 80% of our customers.

Group Protection increased new business premiums by 29% to £44m (H1 2018: £34m) and gross premium income up 4% at £233m (H1 2018: £223m). The Group Protection business has a leading rehabilitation offering which helped drive further growth in the income protection segment.

LGIA gross premium income increased 6% (up 12% on a sterling basis) to $670m (H1 2018: $635m). New business annual premiums decreased $3m to $55m (H1 2018: $58m). Through the brokerage channel, LGIA is the largest provider of US term life assurance by number of policies issued, and second largest by new business annual premium.

Legal & General Mortgage Club facilitated £36bn of mortgages in H1 2019, up 5% (H1 2018: £35bn) 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 continued to deliver for lenders and customers, facilitating more than 250,000 surveys and valuations.

Total operating profit of £134m

LGI's operating profit reduced by £20m to £134m (H1 2018: £154m), as the prior year results benefited from one-off specific model enhancements and assumption changes in the UK. Underlying profitability growth was strong with net release from operations increasing 8% to £170m. We expect the full year operating profit in 2019 to be in a similar range to that of 2018.

LGI UK operating profit decreased by £43m to £93m (H1 2018: £136m), primarily due to the prior year comparator described above. Additionally, at the end of 2018, LGI implemented new US reserve financing reinsurance which involved LGIA recapturing part of the US business previously ceded to the UK. As a result c.£13m of annual profits shifted from the UK into the US, half of which is reflected in the H1 2019 results. We expect to continue to gradually reduce the intra-group reinsurance into the UK in the coming years.

Net release from operations for LGI UK was up 4% to £83m (H1 2018: £80m), reflecting improved new business strain of £(1)m (H1 2018: £(8)m) from in Retail Protection. This was partially offset by the reduction in release from operations as a result of the recapture of intra-group reinsurance and prior year model and assumption changes, as well as an increase in Fintech's contribution, particularly from our participation in SalaryFinance.

Profitability of UK protection sales increased as a result of management actions to rebalance the new business mix to products with a higher profitability and further price optimisation actions. The Solvency II new business margin increased to 7.9% (H1 2018: 7.1%). UK protection new business continues to generate Solvency II surplus immediately.

LGIA operating profit increased by $29m to $53m (H1 2018: $24m). This includes reserve releases following some assumption changes and the impact of the change in the reinsurance arrangement with the UK business, coupled with a better mortality result compared to prior year, in which the US life sector experienced elevated cases of flu.

The annual dividend paid by LGIA to the Group in March 2019, shown in the accounts as the LGIA net release from operations, increased by 2% (up 5% on a sterling basis) to $107m (H1 2018: $105m).

US protection sales delivered a strong Solvency II new business margin of 10.8% (H1 2018:11.6%).

Profit before tax was impacted by a fall in government yields. LGI's negative investment variance of £134m was primarily driven by a fall in UK government bond yields which has resulted in a reduction in the discount rate used to calculate the reserves for our UK protection liabilities (down 34 bps[21]) and a similar impact in the US where Treasury yields fell by 69 bps[22].

Fintech: Strong profit growth and improved customer experience

LGI continues to grow its expertise in the Fintech sector to help customers engage with financial services. Our focus is on transforming markets adjacent to our life insurance business by building solutions and making targeted investments in start-up and scale-up companies.

SalaryFinance continued its rapid expansion. In the first half of 2019 the financial wellbeing platform achieved a reach of more than one million UK employees and its loan book grew by 96% compared to the end of June 2018. In the US, the platform has reached more than 50,000 employees in the first few months of operation. The company is in a strong position to continue to grow the UK and US loan books and new products are launching to their customer base in the second half of the year such as: Advance, a fixed cost pay advance product; and a HMRC Help to Save scheme. During H1 2019 we provided more growth funding, increasing our ownership to 44%.

In May, Legal & General Mortgage Club announced improvements to SmartrCriteria, its digital user-friendly criteria search system. SmartrCriteria offers advisers 394,000 mortgage outcomes from over 95 lenders across the Residential, Buy to Let and New Build sector, to help determine the best outcome for their customers. Over 4,400 mortgage advisors are now signed up to use this tool.

Legal & General Surveying Services has soft launched a next generation digital home buyers survey and continues to invest in technology to innovate and transform the lender valuations market.

Smartr365, the B2B mortgage intermediary technology platform has delivered a range of enhancements throughout the H1 2019 to make it easier and quicker for mortgage advisers to arrange mortgages for their customers. These enhancements are accelerating the number of mortgage advisers using the platform.

[21] UK protection discount rate movement from 31 December 2018 to 30 June 2019
[22] US 10 year treasury rate from 31 December 2018 to 30 June 2019

General Insurance

In May 2019, Legal & General Group announced the sale of the General Insurance business to Allianz Holdings Plc. The transaction is expected to complete in H2 2019, at which point the Group's Solvency II coverage ratio is expected to increase by c.2%.

FINANCIAL HIGHLIGHTS £m	H1 2019	H1 2018
Net release from operations	**(4)**	**(5)**
Experience variances, assumption changes, tax and non-cash movements	**(1)**	**(1)**
Operating profit	**(5)**	**(6)**
Investment and other variances	19	(8)
Profit before tax	**14**	**(14)**
General Insurance gross premiums	218	193
Combined operating ratio (%)	106	107

13% growth in gross written premium

Gross written premium income increased 13% to £218m (H1 2018: £193m), comprising a 13% increase in Household premiums to £196m (H1 2018: £174m), and a 25% increase in Pet premiums to £15m (H1 2018: £12m). Across the General Insurance business, new business gross premiums increased 25% to £116m (H1 2018: £93m). Direct business delivered gross premiums of £65m in H1 2019, representing an 8% reduction on H1 2018 as a result of strong pricing action, and accounted for 30% of total gross written premiums (H1 2018: £71m, 37% of gross premiums).

Operating profit in H1 2019 was £(5)m (H1 2018: £(6)m) with a combined operating ratio of 106% (H1 2018: 107%), reflecting higher claims inflation.

Disposed operations

Please refer to page 16 for detail on the sale of the General Insurance business, announced in May 2019.

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 H1 2019 we recognised £24m operating profit from the business, resulting from the unwind of the expected underlying profits. Following the Part VII transfer, expected later this year, it is anticipated that an IFRS gain of over £400m will be generated. The completion of the Part VII is expected to be broadly neutral to the Group's Solvency II coverage ratio, as we reflected the impact of the Risk Transfer Agreement in our Internal Model in 2018, which gave a small improvement in the capital position.

On 7 February 2019, the Group completed the sale of its stake in IndiaFirst Life Insurance Company to an affiliate of Warburg Pincus LLC for INR 7.1bn (c.£76m at GBP:INR 1:92) resulting in a current period pre-tax profit of £43m, net of transaction costs. The operations of IndiaFirst Life Insurance Company have not been regarded as discontinued operations since it does not represent a major line of business of the Group.

Borrowings

The Group's outstanding core borrowings totalled £3.5bn at 30 June 2019 (FY 2018: £3.9bn; H1 2018: £3.5bn). There is also a further £1.1bn (FY 2018: £1.0bn; H1 2018: £0.9bn) of operational borrowings including £0.7bn (FY 2018: £0.6bn; H1 2018: £0.3bn) of non-recourse borrowings.

In November 2018 the Group issued £400m of Tier 2 subordinated debt with a coupon of 5.125%. The proceeds were used to refinance the Group's £400m of 5.875% undated subordinated notes which were redeemed in full on 1 April 2019.

Group debt costs of £108m (H1 2018: £97m) on a total borrowings balance of £4.1bn (H1 2018: £3.9bn).

Taxation

Equity holders' Effective Tax Rate (%)	H1 2019	H1 2018
Equity holders' total Effective Tax Rate[23]	**17.9**	18.0
Annualised rate of UK corporation tax	**19.0**	19.0

The effective tax rate reflects the different rates of taxation that applies to Legal & General's overseas operations.

[23] The equity holders' total Effective Tax Rate excluding discontinued operations is 17.8% (H1 2018: 17.9%).

Solvency II

As at 30 June 2019, the Group had an estimated Solvency II surplus of £5.9bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 171% on a shareholder basis.

Capital (£bn)	H1 2019[1]	FY 2018[1]
Own Funds	14.2	14.8
Solvency Capital Requirement (SCR)	(8.3)	(7.9)
Solvency II surplus	**5.9**	**6.9**
SCR coverage ratio (%)	**171**	**188**

1. Solvency II position on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the Group final salary pension schemes, and before the accrual of the relevant dividend.

Analysis of movement from 1 January 2019 to 30 June 2019 (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	0.8
Release of Risk Margin[1]	0.2
Amortisation of TMTP[2]	(0.2)
Operational surplus generation	**0.8**
New business strain	(0.3)
Net surplus generation	**0.5**
Dividends paid[3]	(0.7)
Operating variances	(0.2)
Mergers, acquisitions and disposals	-
Market movements[4]	(0.2)
Subordinated debt[5]	(0.4)
Total surplus movement (after dividends paid in the period)	**(1.0)**

1. Based on the Risk Margin in force at end 2018 and does not include the release of any Risk Margin added by new business written in H1 2019.
2. TMTP amortisation based on a linear run down of the end-2018 TMTP of £4.4bn net of tax (£5.2bn before tax).
3. Dividends paid are the amounts from the 2018 final dividend declaration paid in H1 2019.
4. Market movements represent the impacts of changes in investment market conditions over the period and changes to future economic assumptions.
5. In April 2019 the Group redeemed £400m of Tier 2 subordinated debt.

Operational surplus generation was up 17%[24] to £0.8bn (H1 2018: £0.7bn), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin. **We are guiding to a similar level of operational surplus generation in the second half.**

New business strain was £0.3bn, reflecting significant UK annuity volumes written at a capital strain of c.4%. This resulted in net surplus generation of £0.5bn (H1 2018: £0.6bn).

Dividends paid represent payment of the 2018 final dividend in June 2019, which is typically c.70% of the total dividends paid during the year.

Operating variances include the impact of experience variances, changes to model calibrations, and management actions. The net impact of operating variances over the period was £(0.2)bn. Market movements of £(0.2)bn reflect the impact of lower rates on the valuation of our balance sheet, higher asset markets, 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 30 June 2019 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 in both the Group's Own Funds and the SCR, the Group's coverage ratio was 166% (FY 2018: 181%).

[24] 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 H1 2019:

	£bn
IFRS Release from operations	**0.7**
Expected release of IFRS prudential margins	(0.2)
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	0.3
Solvency II Operational surplus generation	**0.8**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in H1 2019:

	£bn
IFRS New business surplus	**0.2**
Removal of requirement to set up prudential margins above best estimate on new business	0.1
Set up of Solvency II Capital Requirement on new business	(0.5)
Set up of Risk Margin on new business	(0.1)
Solvency II New business strain	**(0.3)**

Sensitivity analysis

	Impact on net of tax Solvency II capital surplus H1 2019 £bn	Impact on net of tax Solvency II coverage ratio H1 2019 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1]	**0.3**	**9**
Credit migration[2]	**(0.8)**	**(10)**
25% fall in equity markets	**(0.6)**	**(6)**
15% fall in property markets	**(0.6)**	**(7)**
100bps increase in risk free rates	**1.2**	**25**
50bps decrease in risk free rates	**(0.7)**	**(12)**

1. The spread sensitivity applies to group's corporate bond (and similar) holdings, with no change in the firm's long term default expectations. Restructured Lifetime Mortgages are excluded.
2. 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).

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts due to the complex nature of the modelling. In practice, the Group actively manages its asset and liability positions to respond to market movements. Other than in the interest rate stresses, we have not allowed for the recalculation of TMTP. The impacts of these stresses are not linear therefore these results should not be used to interpolate or extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

The impacts of credit spread and risk free rate sensitivities are primarily non-economic arising from movement in balance sheet items that result from changes in the discount rates used to calculate the value of assets and liabilities. The credit migration stress, in the absence of defaults, delays the emergence of operating surplus generation, but does not reduce the actual quantum of future releases. Similarly equity and property stresses only result in losses if assets are sold at depressed values.

Solvency II new business contribution

Management estimates of the value of new business and the margin as at 30 June 2019 are shown below:

	PVNBP	Contribution from new business	Margin %
LGR[1] (£m)	**6,813**	**533**	**7.8**
UK Protection Total (£m)	**862**	**68**	**7.9**
- Retail protection	679	56	8.2
- Group protection	183	12	6.6
US Protection (£m)	**440**	**48**	**10.8**

1. UK annuity business.

The key economic assumptions as at 30 June 2019 are as follows:

Margin for risk	**3.4%**
Risk free rate	
- UK	**1.2%**
- US	**2.0%**
Risk discount rate (net of tax)	
- UK	**4.6%**
- US	**5.4%**
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, outlook and 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. 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 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 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 suggests the rate of longevity improvement may be 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/morbidity 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 remain focused on continuously developing our understanding of longevity and 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 remains uncertain, with economic data reflecting a general slowing in the rate of growth for many advanced economies and the risk of recession for some. Current factors that may lead to a further deterioration in current conditions and reappraisal of asset values include a collapse in US and China trade talks; a "no-deal" Brexit, with the current uncertainties for the UK and EU economies proving more enduring; and a new financial crisis emerging in Italy, with possible contagion to other Euro area economies. A rapid reassessment by markets of the US monetary policy stance also remains an area of potential financial shock. We cannot remove these market risks from our business plans ensure resilience across a range of economic scenarios. Our Own Risk and Solvency Assessment (ORSA) 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.

Risks and uncertainties	Trend, outlook and 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.	We continue to closely monitor 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. 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 secured property. We seek to closely manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we cannot 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.	Regulatory driven change remains a significant factor across our businesses. Prudential regulation focus on Solvency II and recovery and resolution planning continues, with areas of developing regulation including operational resilience and ensuring that the investment portfolios are resilient to shocks arising through the transition to a lower-carbon economy. Conduct regulation continues to focus 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. Alongside regulatory risk, we are also closing monitoring potential for significant changes in UK fiscal policy and broader economic policy were there to be change in the current political environment and the impacts for our products and services. 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 accepted practices may be reappraised by regulators, resulting in sanction against the group.
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 seek to 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 consultation on a new legislative framework for defined benefit 'superfund' consolidation schemes also has potential to significantly transform the operating environment for our asset management and pension risk transfer businesses. We continue to build our digital businesses and the use of technology to transform our insurance product distribution reach. 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.

Risks and uncertainties	Trend, outlook and mitigation
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, personal injury or reputational damage. We are 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**.** As we develop our housing businesses we are also increasing our exposure to property construction and safety risks, together with risk associated with operating properties in the affordable homes and retirement sectors.	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, and as the digital world increasingly becomes 24/7 there is expectation of very high levels of operational resilience in business services and in the management of change. We are also cognisant of the changing cyber threat environment and the significant regulatory sanctions that may be imposed where IT security and other failures arise.. We continue to invest in our system capabilities, including those for the management of cyber risks, to ensure that our business processes are resilient, and that appropriate recovery plans are in place. We also seek to closely manage our property construction and safety risks robust internal control systems, including training, monitoring and independent assessments. We recognise, however, that residual risk will always remain across the spectrum of our business operations and we aim to develop response plans so that when adverse events occur, appropriate actions are deployed.

The Impact of "Brexit"

At the time of writing the UK is scheduled to leave the EU on 31 October 2019. Considerable uncertainty remains on the basis of the UK's departure, the potential for volatility in financial markets and the monetary policy actions that may be taken should the economic outlook be perceived to be at risk of deteriorating. As a predominantly UK and US focused business, our operating model will not be materially impacted from any changes to access to European markets following the UK's withdrawal from the EU. We have, however, established businesses in Dublin to support LGIM's EU-based investment clients and funds. With regard to financial markets, we have undertaken analysis to ensure our capital position remains resilient under a range of scenarios including those described by the Bank of England as being disorderly and disruptive. We have also evaluated risk factors that are idiosyncratic to the UK, including the impacts for particular UK business sectors and asset classes, where appropriate, restructuring our investment portfolios, recognising that we cannot completely eliminate the effects of volatility in financial markets on our earnings. We have also taken steps to ensure the continuity of the financial instruments on which we rely, and assessed the contingency planning activities of those EU based financial counterparties with which we deal. As much of the UK financial services regulation is derived from EU law, over the longer term it is likely that elements will be re-written. We expect, however, the overall Solvency II regulatory regime to continue to apply for the foreseeable future.

Notes

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

A presentation to analysts and fund managers will take place at 10.30am UK time today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at www.legalandgeneralgroup.com/investors/half-year-results-2019/ 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 **844531** to gain access to the conference.

2019 Financial Calendar	Date
Ex-dividend date (2019 interim dividend)	**15 August 2019**
Record date	**16 August 2019**
Last day for DRIP elections	**5 September 2019**
Payment date of 2019 interim dividend	**26 September 2019**

Definitions

Definitions are included in the Glossary on pages 94 to 97 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 21 to 23.

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 consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;

ii. The interim management report includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the financial year and their impact on the consolidated interim financial statements, as well as a description of the principal risks and uncertainties faced by the company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;

iii. The interim management report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report and Accounts; and

iv. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report and Accounts for 31 December 2018. A list of current directors is maintained on 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
6 August 2019

Stuart Jeffrey Davies
Group Chief Financial Officer
6 August 2019

Enquiries

Investors

+44 203 1242 091
Edward Houghton, Head of Investor Relations
investor.relations@group.landg.com
legalandgeneralgroup.com

+1 312 964 3034
Sujee Rajah, Investor Relations Director
investor.relations@group.landg.com
legalandgeneralgroup.com

+44 203 1242 047
Alyssa Manning, Investor Relations Director
investor.relations@group.landg.com
legalandgeneralgroup.com

Media

+44 203 1242 090
John Godfrey, Group Corporate Affairs Director
legalandgeneralgroup.com

+44 207 3534 200
Simon Pilkington, Tulchan Communications

+44 207 3534 200
Sheebani Chothani, Tulchan Communications

Notes

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1 Independent review report to Legal & General Group Plc

Conclusion

We have been engaged by the Legal & General Group Plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows (pages 42 to 47) and the related explanatory notes to the interim financial statements (pages 31 to 41 and 48 to 66).

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Group in accordance with the terms of our engagement to assist the Group in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Group those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group for our review work, for this report, or for the conclusions we have reached.

Rees Aronson

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square
London
E14 5GL
6 August 2019

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2.01 Operating profit#

For the six month period to 30 June 2019

	Notes	**6 months 2019 £m**	6 months 2018 £m	Full year 2018 £m
From continuing operations				
Legal & General Retirement (LGR)	2.03	**655**	480	1,548
- LGR Institutional (LGRI)		524	361	1,149
- LGR Retail (LGRR)		131	119	399
Legal & General Investment Management (LGIM)	2.04	**205**	203	407
Legal & General Capital (LGC)	2.05	**173**	172	322
Legal & General Insurance (LGI)	2.03	**134**	154	308
- UK and Other		93	136	246
- US (LGIA)		41	18	62
Operating profit from divisions:				
From continuing operations		**1,167**	1,009	2,585
From discontinued operations[1]		**19**	50	79
Operating profit from divisions		**1,186**	1,059	2,664
Group debt costs[2]		**(108)**	(97)	(203)
Group investment projects and central expenses		**(73)**	(53)	(126)
Operating profit		**1,005**	909	2,335
Investment and other variances	2.06	**57**	32	(188)
(Losses)/gains on non-controlling interests		**(9)**	1	(19)
Adjusted profit before tax attributable to equity holders		**1,053**	942	2,128
Tax expense attributable to equity holders	4.06	**(188)**	(170)	(320)
Profit for the period		**865**	772	1,808
Profit attributable to equity holders		**874**	771	1,827
		p	p	p
Total basic earnings per share[3]	2.07	**14.74**	13.00	30.79
Total diluted earnings per share[3]	2.07	**14.66**	12.94	30.64

1. Operating profit from discontinued divisions reflects the operating profit of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.
2. Group debt costs exclude interest on non-recourse financing.
3. All earnings per share calculations are based on profit attributable to equity holders of the company.

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

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

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

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

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

For the six month period to 30 June 2019	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**303**	**185**	**488**	**(37)**	**33**	**58**	**-**	**542**	**113**	**655**
- LGRI	212	165	377	(37)	33	61	-	434	90	524
- LGRR	91	20	111	-	-	(3)	-	108	23	131
LGIM	**175**	**(11)**	**164**	**-**	**-**	**(1)**	**-**	**163**	**42**	**205**
- LGIM (excluding Workplace Savings)[2]	162	-	162	-	-	-	-	162	42	204
- Workplace Savings[3]	13	(11)	2	-	-	(1)	-	1	-	1
LGC	**142**	**-**	**142**	**-**	**-**	**-**	**-**	**142**	**31**	**173**
LGI	**171**	**(1)**	**170**	**(21)**	**18**	**(2)**	**(59)**	**106**	**28**	**134**
- UK and Other	84	(1)	83	(21)	18	(2)	-	78	15	93
- US (LGIA)	87	-	87	-	-	-	(59)	28	13	41
From continuing operations	**791**	**173**	**964**	**(58)**	**51**	**55**	**(59)**	**953**	**214**	**1,167**
From discontinued operations[4]	**15**	**-**	**15**	**-**	**-**	**-**	**-**	**15**	**4**	**19**
Total from divisions	**806**	**173**	**979**	**(58)**	**51**	**55**	**(59)**	**968**	**218**	**1,186**
Group debt costs	**(87)**	**-**	**(87)**	**-**	**-**	**-**	**-**	**(87)**	**(21)**	**(108)**
Group investment projects and expenses	**(19)**	**-**	**(19)**	**-**	**-**	**-**	**(36)**	**(55)**	**(18)**	**(73)**
Total	**700**	**173**	**873**	**(58)**	**51**	**55**	**(95)**	**826**	**179**	**1,005**

1. Release from operations within US (LGIA) includes £81m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.

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

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

LGR's new business metrics are presented based on a target long term asset portfolio. The six months period to 30 June 2019 has seen record pension risk transfer (PRT) volumes, and as a result we continue to source high quality assets to support this business in 2019, as appropriate, taking into account the alternative risk and rewards of traded credit. At period end, any difference between the actual assets and the target long-term asset mix is reflected in investment variance.

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

Release from operations and net release from operations for LGC and LGIM (excluding Workplace Savings) represent the operating profit (net of tax) of these divisions.

See Note 2.03 for more detail on experience variances, changes to valuation assumptions and non-cash items.

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

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

For the six month period to 30 June 2018	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	275	23	298	51	57	(6)	-	400	80	480
- LGRI	192	12	204	50	54	(7)	-	301	60	361
- LGRR	83	11	94	1	3	1	-	99	20	119
LGIM	177	(13)	164	(1)	-	(1)	-	162	41	203
- LGIM (excluding Workplace Savings)[2]	161	-	161	-	-	-	-	161	40	201
- Workplace Savings[3]	16	(13)	3	(1)	-	(1)	-	1	1	2
LGC	138	-	138	-	-	-	-	138	34	172
LGI	165	(8)	157	31	8	(9)	(76)	111	43	154
- UK and Other	88	(8)	80	31	8	(9)	1	111	25	136
- US (LGIA)	77	-	77	-	-	-	(77)	-	18	18
From continuing operations	755	2	757	81	65	(16)	(76)	811	198	1,009
From discontinued operations[4]	17	-	17	(3)	-	26	-	40	10	50
Total from divisions	772	2	774	78	65	10	(76)	851	208	1,059
Group debt costs	(79)	-	(79)	-	-	-	-	(79)	(18)	(97)
Group investment projects and expenses	(15)	-	(15)	-	-	-	(25)	(40)	(13)	(53)
Total	678	2	680	78	65	10	(101)	732	177	909

1. Release from operations within the US (LGIA) includes £77m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group's announcement to sell these businesses to Swiss Re and Allianz respectively.

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

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

For the year ended 31 December 2018	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	551	217	768	33	444	40	-	1,285	263	1,548
- LGRI	379	188	567	22	324	43	-	956	193	1,149
- LGRR	172	29	201	11	120	(3)	-	329	70	399
LGIM	354	(25)	329	(3)	(1)	1	-	326	81	407
- LGIM (excluding Workplace Savings)[2]	323	-	323	-	-	-	-	323	81	404
- Workplace Savings[3]	31	(25)	6	(3)	(1)	1	-	3	-	3
LGC	261	-	261	-	-	-	-	261	61	322
LGI	258	(22)	236	24	35	(19)	(7)	269	39	308
- UK and Other	181	(22)	159	24	35	(19)	1	200	46	246
- US (LGIA)	77	-	77	-	-	-	(8)	69	(7)	62
From continuing operations	1,424	170	1,594	54	478	22	(7)	2,141	444	2,585
From discontinued operations[4]	44	-	44	(6)	-	26	-	64	15	79
Total from divisions	1,468	170	1,638	48	478	48	(7)	2,205	459	2,664
Group debt costs	(164)	-	(164)	-	-	-	-	(164)	(39)	(203)
Group investment projects and expenses	(34)	-	(34)	-	-	-	(68)	(102)	(24)	(126)
Total	1,270	170	1,440	48	478	48	(75)	1,939	396	2,335

1. Release from operations within US (LGIA) includes £77m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Discontinued operations include the result of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.

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

2.03 Analysis of LGR and LGI operating profit

	LGR 6 months 2019 £m	**LGI 6 months 2019 £m**	LGR 6 months 2018 £m	LGI 6 months 2018 £m	LGR Full year 2018 £m	LGI Full year 2018 £m
Net release from operations	**488**	**170**	298	157	768	236
Experience variances						
- Persistency	**-**	**(13)**	3	(9)	8	(12)
- Mortality/morbidity	**5**	**(8)**	9	(12)	73	(7)
- Expenses	**(9)**	**(1)**	(6)	3	(13)	2
- Project and development costs	**(4)**	**(1)**	(3)	-	(11)	-
- Other[1]	**(29)**	**2**	48	49	(24)	41
Total experience variances	**(37)**	**(21)**	51	31	33	24
Changes to valuation assumptions						
- Persistency	**-**	**-**	-	-	-	(4)
- Mortality/morbidity[2]	**-**	**5**	57	10	444	25
- Expenses	**-**	**-**	-	-	-	17
- Other[3]	**33**	**13**	-	(2)	-	(3)
Total changes to valuation assumptions	**33**	**18**	57	8	444	35
Movement in non-cash items						
- Acquisition expense tax relief	**-**	**(1)**	-	(5)	-	(11)
- Other[4]	**58**	**(1)**	(6)	(4)	40	(8)
Total movement in non-cash items	**58**	**(2)**	(6)	(9)	40	(19)
Other	**-**	**(59)**	-	(76)	-	(7)
Operating profit after tax	**542**	**106**	400	111	1,285	269
Tax gross up	**113**	**28**	80	43	263	39
Operating profit before tax	**655**	**134**	480	154	1,548	308

1. Other experience variances for LGR predominantly reflects an update to the liability valuation model for deferred annuitants and increased prudence in reserves where death experience is out of date. The positive variance for the six months ended 30 June 2018 reflects the impact of an improvement in the quality of scheme data relating to bulk annuities.
2. In 2018, LGR reviewed the longevity trend assumptions and made a mortality release of £57m in H1 18 and £444m in H2 18. In 2019, as in previous years, LGR are reviewing the current longevity trend assumptions against the CMI 2017 experience data and intend to make any amendments as necessary in H2 19.
3. LGR Other changes to valuation assumptions reflect a change in assumption on the future exercise of an option within a longevity swap contract.
4. LGR Other movement in non-cash items is driven by the capitalisation and unwind of future asset management profits on activity managed by LGIM, and is a function of new business volumes.

2.04 Analysis of LGIM operating profit

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m
Asset management revenue (excluding 3rd party market data)[1,2]	**425**	401	820
Asset management transactional revenue from external clients[3]	**9**	13	27
Asset management expenses (excluding 3rd party market data)[1,2]	**(230)**	(213)	(443)
Workplace Savings operating profit[4]	**1**	2	3
Total LGIM operating profit	**205**	203	407

1. Asset management revenue and expenses exclude income and costs of £11m in relation to the provision of third party market data (H1 18: £8m; FY 18: £19m).
2. The ETF operating result is included as part of asset management revenue and expenses, which represents a change in the presentation from previous periods. Asset management revenue (excluding 3rd party market data) and Asset management expenses (excluding 3rd party market data) have therefore been restated for the six months ended 30 June 2018 and for the full year ended 31 December 2018 to reflect this change.
3. Transactional revenue earned from external clients including execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees for property funds.
4. Workplace Savings represents administration business only.

2.05 Analysis of LGC operating profit

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m
Direct investments[1]	**99**	104	188
Traded investment portfolio including treasury assets[2]	**74**	68	134
Total LGC operating profit	**173**	172	322

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

2.06 Investment and other variances

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m
Investment variance[1]	**84**	54	(126)
M&A related and other variances[2]	**(27)**	(22)	(62)
Total investment and other variances	**57**	32	(188)

1. Investment variance includes differences between actual and smoothed investment return on traded and real assets, economic assumption changes (e.g. credit default and inflation) and the impact of any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business written during the period and held at a period end.
2. M&A related and other variances includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. H1 19 includes a £43m gain on the disposal of the group's stake in IndiaFirst Life Insurance Company Limited (H1 18 and FY 18 included the recognition of a one-off profit of £20m arising on the stepped acquisition of CALA Homes).

2.07 Earnings per share

(a) Basic earnings per share

	After tax 6 months 2019 £m	**Per share[1] 6 months 2019 p**	After tax 6 months 2018 £m	Per share[1] 6 months 2018 p	After tax Full year 2018 £m	Per share[1] Full year 2018 p
Profit for the period attributable to equity holders	**874**	**14.74**	771	13.00	1,827	30.79
Less: earnings derived from discontinued operations	**(27)**	**(0.46)**	(33)	(0.56)	(43)	(0.72)
Basic earnings derived from continuing operations	**847**	**14.28**	738	12.44	1,784	30.07

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

(b) Diluted earnings per share

For the six month period to 30 June 2019	**After tax £m**	**Weighted average number of shares m**	**Per share[1] p**
Profit for the period attributable to equity holders	**874**	**5,931**	**14.74**
Net shares under options allocable for no further consideration	**-**	**30**	**(0.08)**
Total diluted earnings	**874**	**5,961**	**14.66**
Less: diluted earnings derived from discontinued operations	**(27)**	**-**	**(0.45)**
Diluted earnings derived from continuing operations	**847**	**5,961**	**14.21**

For the six month period to 30 June 2018	After tax £m	Weighted average number of shares m	Per share[1] p
Profit for the period attributable to equity holders	771	5,933	13.00
Net shares under options allocable for no further consideration	-	25	(0.06)
Total diluted earnings	771	5,958	12.94
Less: diluted earnings derived from discontinued operations	(33)	-	(0.55)
Diluted earnings derived from continuing operations	738	5,958	12.39

For the year ended 31 December 2018	After tax £m	Weighted average number of shares m	Per share[1] p
Profit for the period attributable to equity holders	1,827	5,933	30.79
Net shares under options allocable for no further consideration	-	29	(0.15)
Total diluted earnings	1,827	5,962	30.64
Less: diluted earnings derived from discontinued operations	(43)	-	(0.72)
Diluted earnings derived from continuing operations	1,784	5,962	29.92

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

2.08 Segmental analysis

Reportable segments

The group has four reportable segments that are continuing operations, comprising LGR, LGIM, LGC and LGI, as set out in Note 2.01. Group central expenses and debt costs are reported separately. Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

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

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

(i) Profit/(loss) for the period

For the six month period to 30 June 2019	**LGR £m**	**LGIM £m**	**LGC £m**	**LGI £m**	**Group expenses and debt costs £m**	**Total continuing operations[1] £m**
Operating profit/(loss)#	**655**	**205**	**173**	**134**	**(181)**	**986**
Investment and other variances	**(17)**	**(5)**	**105**	**(134)**	**94**	**43**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(9)**	**(9)**
Profit/(loss) before tax attributable to equity holders	**638**	**200**	**278**	**-**	**(96)**	**1,020**
Tax (expense)/credit attributable to equity holders	**(110)**	**(42)**	**(36)**	**-**	**6**	**(182)**
Profit/(loss) for the period	**528**	**158**	**242**	**-**	**(90)**	**838**

For the six month period to 30 June 2018	LGR £m	LGIM £m	LGC £m	LGI £m	Group expenses and debt costs £m	Total continuing operations[1] £m
Operating profit/(loss)#	480	203	172	154	(150)	859
Investment and other variances	85	(4)	(90)	(37)	86	40
Gains attributable to non-controlling interests	-	-	-	-	1	1
Profit/(loss) before tax attributable to equity holders	565	199	82	117	(63)	900
Tax (expense)/credit attributable to equity holders	(102)	(39)	(14)	(35)	29	(161)
Profit/(loss) for the period	463	160	68	82	(34)	739

For the year ended 31 December 2018	LGR £m	LGIM £m	LGC £m	LGI £m	Group expenses and debt costs £m	Total continuing operations[1] £m
Operating profit/(loss)#	1,548	407	322	308	(329)	2,256
Investment and other variances	95	(4)	(273)	(1)	22	(161)
Losses attributable to non-controlling interests	-	-	-	-	(19)	(19)
Profit/(loss) before tax attributable to equity holders	1,643	403	49	307	(326)	2,076
Tax (expense)/credit attributable to equity holders	(267)	(81)	13	(39)	63	(311)
Profit/(loss) for the year	1,376	322	62	268	(263)	1,765

1. Total continuing operations exclude the results of the Mature Savings and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.

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

2.08 Segmental analysis (continued)

(ii) Revenue

(a) Total revenue

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m
Total income	**48,450**	2,307	894
Less:			
Share of profit from associates and joint ventures, net of tax	**(6)**	(3)	(15)
Gain on disposal/acquisition of subsidiaries, associates and joint ventures	**(43)**	(20)	(20)
Total revenue from continuing operations[1]	**48,401**	2,284	859

1. Total revenue from continuing operations excludes the revenue of the Mature Savings and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.

(b) Total income

For the six month period to 30 June 2019	**LGR £m**	**LGIM[1,2] £m**	**LGI £m**	**LGC and other[3] £m**	**Total continuing operations[4] £m**
Internal income	**-**	**89**	**-**	**(89)**	**-**
External income	**10,602**	**25,376**	**1,141**	**11,331**	**48,450**
Total income	**10,602**	**25,465**	**1,141**	**11,242**	**48,450**

For the six month period to 30 June 2018	LGR £m	LGIM[1,2] £m	LGI £m	LGC and other[3] £m	Total continuing operations[4] £m
Internal income	-	81	-	(81)	-
External income	(101)	1,324	1,073	11	2,307
Total income	(101)	1,405	1,073	(70)	2,307

For the year ended 31 December 2018	LGR £m	LGIM[1,2] £m	LGI £m	LGC and other[3] £m	Total continuing operations[4] £m
Internal income	-	172	-	(172)	-
External income	8,507	(10,654)	1,742	1,299	894
Total income	8,507	(10,482)	1,742	1,127	894

1. LGIM internal income relates to investment management services provided to other segments.
2. LGIM external income primarily includes fees from fund management and investment returns on unit linked funds.
3. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
4. Total continuing operations exclude the results of the Mature Savings and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.

2.08 Segmental analysis (continued)

(c) Fees from fund management and investment contracts

For the six month period to 30 June 2019	**LGIM £m**	**LGI £m**	**LGC and other[1] £m**	**Total continuing operations[2] £m**
Investment contracts	**34**	**-**	**-**	**34**
Investment management fees	**431**	**-**	**(74)**	**357**
Transaction fees	**10**	**-**	**(1)**	**9**
Total fees from fund management and investment contracts[3]	**475**	**-**	**(75)**	**400**

For the six month period to 30 June 2018	LGIM £m	LGI £m	LGC and other[1] £m	Total continuing operations[2] £m
Investment contracts	38	1	-	39
Investment management fees	393	-	(53)	340
Transaction fees	16	-	(1)	15
Total fees from fund management and investment contracts[3]	447	1	(54)	394

For the year ended 31 December 2018	LGIM £m	LGI £m	LGC and other[1] £m	Total continuing operations[2] £m
Investment contracts	75	1	-	76
Investment management fees	813	-	(114)	699
Transaction fees	42	-	(15)	27
Total fees from fund management and investment contracts[3]	930	1	(129)	802

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
2. Total continuing operations exclude the results of the Mature Savings and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.
3. Fees from fund management and investment contracts are a component of Total revenue from continuing operations disclosed in Note 2.08(ii)(a).

2.08 Segmental analysis (continued)

(d) Other operational income from contracts with customers

For the six month period to 30 June 2019	**LGR £m**	**LGIM £m**	**LGI £m**	**LGC and other[1] £m**	**Total continuing operations[2] £m**
House building	**-**	**-**	**-**	**454**	**454**
Professional services fees	**1**	**1**	**43**	**-**	**45**
Insurance broker	**-**	**-**	**17**	**-**	**17**
Total other operational income from contracts with customers[3]	**1**	**1**	**60**	**454**	**516**

For the six month period to 30 June 2018	LGR £m	LGIM £m	LGI £m	LGC and other[1] £m	Total continuing operations[2] £m
House building	-	-	-	501	501
Professional services fees	-	1	77	(2)	76
Insurance broker	-	-	11	-	11
Total other operational income from contracts with customers[3]	-	1	88	499	588

For the year ended 31 December 2018	LGR £m	LGIM £m	LGI £m	LGC and other[1] £m	Total continuing operations[2] £m
House building	-	-	-	981	981
Professional services fees	3	3	155	-	161
Insurance broker	-	-	29	-	29
Total other operational income from contracts with customers[3]	3	3	184	981	1,171

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
2. Total continuing operations exclude the results of the Mature Savings and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.
3. Total other operational income from contracts with customers is a component of Total revenue from continuing operations disclosed in Note 2.08(ii)(a).

3.01 Consolidated Income Statement
For the six month period to 30 June 2019

	Notes	**6 months 2019 £m**	6 months 2018 £m	Full year 2018 £m
Income				
Gross written premiums		**8,745**	2,563	12,843
Outward reinsurance premiums		**(1,522)**	(859)	(2,114)
Net premiums earned		**7,223**	1,704	10,729
Fees from fund management and investment contracts	2.08	**400**	394	802
Investment return		**40,262**	(407)	(11,843)
Other operational income		**565**	616	1,206
Total income	2.08	**48,450**	2,307	894
Expenses				
Claims and change in insurance contract liabilities		**12,368**	846	8,370
Reinsurance recoveries		**(1,971)**	(1,127)	(1,051)
Net claims and change in insurance contract liabilities		**10,397**	(281)	7,319
Change in investment contract liabilities		**35,412**	292	(11,304)
Acquisition costs		**395**	371	780
Finance costs		**137**	113	238
Other expenses		**1,048**	852	1,732
Total expenses		**47,389**	1,347	(1,235)
Profit before tax		**1,061**	960	2,129
Tax expense attributable to policyholder returns		**(41)**	(60)	(53)
Profit before tax attributable to equity holders		**1,020**	900	2,076
Total tax expense		**(223)**	(221)	(364)
Tax expense attributable to policyholder returns		**41**	60	53
Tax expense attributable to equity holders	4.06	**(182)**	(161)	(311)
Profit after tax from continuing operations	2.08	**838**	739	1,765
Profit after tax from discontinued operations[1]	4.03	**27**	33	43
Profit for the period		**865**	772	1,808
Attributable to:				
Non-controlling interests		**(9)**	1	(19)
Equity holders		**874**	771	1,827
Dividend distributions to equity holders during the period	4.04	**704**	658	932
Dividend distributions to equity holders proposed after the period end	4.04	**294**	274	704
		p	p	p
Total basic earnings per share[2]	2.07	**14.74**	13.00	30.79
Total diluted earnings per share[2]	2.07	**14.66**	12.94	30.64
Basic earnings per share derived from continuing operations[2]	2.07	**14.28**	12.44	30.07
Diluted earnings per share derived from continuing operations[2]	2.07	**14.21**	12.39	29.92

1. Discontinued operations reflect the results of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to Swiss Re and Allianz respectively.
2. All earnings per share calculations are based on profit attributable to equity holders of the company.

3.02 Consolidated Statement of Comprehensive Income

For the six month period to 30 June 2019

	6 months 2019 £m	6 months 2018 £m	Full year 2018 £m
Profit for the period	**865**	772	1,808
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(69)**	143	117
Tax on actuarial (losses)/gains on defined benefit pension schemes	**13**	(26)	(22)
Total items that will not be reclassified subsequently to profit or loss	**(56)**	117	95
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**3**	13	62
Movement in cross-currency hedge	**27**	9	34
Tax on movement in cross-currency hedge	**(5)**	(2)	(5)
Movement in financial investments designated as available-for-sale	**65**	(41)	(36)
Tax on movement in financial investments designated as available-for-sale	**(11)**	9	5
Total items that may be reclassified subsequently to profit or loss	**79**	(12)	60
Other comprehensive income after tax	**23**	105	155
Total comprehensive income for the period	**888**	877	1,963
Total comprehensive income for the period attributable to:			
Continuing operations	**861**	844	1,920
Discontinued operations	**27**	33	43
Total comprehensive income for the period attributable to:			
Non-controlling interests	**(9)**	1	(19)
Equity holders	**897**	876	1,982

3.03 Consolidated Balance Sheet

As at 30 June 2019

	Notes	**As at 30 Jun 2019 £m**	As at 30 Jun 2018[1] £m	As at 31 Dec 2018 £m
Assets				
Goodwill		**62**	65	65
Purchased interest in long term businesses and other intangible assets		**158**	194	223
Deferred acquisition costs		**74**	128	140
Investment in associates and joint ventures accounted for using the equity method		**362**	51	259
Property, plant and equipment		**291**	63	57
Investment property	4.05	**7,140**	7,231	6,965
Financial investments	4.05	**471,118**	428,117	430,498
Reinsurers' share of contract liabilities		**5,413**	5,761	4,737
Deferred tax assets	4.06	**7**	7	7
Current tax assets		**476**	388	418
Receivables and other assets		**10,706**	9,383	5,593
Assets of operations classified as held for sale	4.03	**27,194**	21,932	26,234
Cash and cash equivalents		**14,224**	20,178	17,321
Total assets		**537,225**	493,498	492,517
Equity				
Share capital	4.07	**149**	149	149
Share premium	4.07	**998**	990	992
Employee scheme treasury shares		**(62)**	(52)	(52)
Capital redemption and other reserves		**300**	158	230
Retained earnings		**7,376**	6,483	7,261
Attributable to owners of the parent		**8,761**	7,728	8,580
Non-controlling interests	4.08	**66**	77	72
Total equity		**8,827**	7,805	8,652
Liabilities				
Non-participating insurance contract liabilities		**73,869**	59,713	64,707
Non-participating investment contract liabilities		**315,603**	302,280	293,080
Core borrowings	4.09	**3,514**	3,489	3,922
Operational borrowings	4.10	**1,051**	957	1,026
Provisions		**1,202**	1,153	1,140
UK deferred tax liabilities	4.06	**193**	73	144
Overseas deferred tax liabilities	4.06	**197**	235	185
Current tax liabilities		**175**	255	171
Payables and other financial liabilities	4.11	**75,527**	59,152	62,548
Other liabilities		**719**	438	619
Net asset value attributable to unit holders		**24,909**	25,434	26,481
Liabilities of operations classified as held for sale	4.03	**31,439**	32,514	29,842
Total liabilities		**528,398**	485,693	483,865
Total equity and liabilities		**537,225**	493,498	492,517

1. Following a change in accounting policy for LGIA term assurance reserves during 2018, the initial best estimate impacts of the change to certain balance sheet items have been refined.The overall impact is an increase in reinsurers' share of contract liabilities and the group's retained earnings of £27m. Further details on the change in accounting policy are provided in Note 4.01.

3.04 Condensed Consolidated Statement of Changes in Equity

For the six month period to 30 June 2019	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2019	**149**	**992**	**(52)**	**230**	**7,261**	**8,580**	**72**	**8,652**
Total comprehensive income for the period	**-**	**-**	**-**	**79**	**818**	**897**	**(9)**	**888**
Options exercised under share option schemes	**-**	**6**	**-**	**-**	**-**	**6**	**-**	**6**
Net movement in employee scheme treasury shares	**-**	**-**	**(10)**	**(7)**	**(1)**	**(18)**	**-**	**(18)**
Dividends	**-**	**-**	**-**	**-**	**(704)**	**(704)**	**-**	**(704)**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**
Currency translation differences	**-**	**-**	**-**	**(2)**	**2**	**-**	**-**	**-**
As at 30 June 2019	**149**	**998**	**(62)**	**300**	**7,376**	**8,761**	**66**	**8,827**

1. Capital redemption and other reserves as at 30 June 2019 include share-based payments £74m, foreign exchange £122m, capital redemption £17m, hedging reserves £42m and available-for-sale reserves £45m.

For the six month period to 30 June 2018	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2018	149	988	(40)	168	6,224	7,489	76	7,565
Change in accounting policy[2]	-	-	-	-	27	27	-	27
Restated as at 1 January 2018	149	988	(40)	168	6,251	7,516	76	7,592
Total comprehensive income for the period	-	-	-	(12)	888	876	1	877
Options exercised under share option schemes	-	2	(12)	(22)	-	(32)	-	(32)
Net movement in employee scheme treasury shares	-	-	-	23	3	26	-	26
Dividends	-	-	-	-	(658)	(658)	-	(658)
Movement in third party interests	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	1	(1)	-	-	-
Restated as at 30 June 2018[2]	149	990	(52)	158	6,483	7,728	77	7,805

1. Capital redemption and other reserves as at 30 June 2018 include share-based payments £70m, foreign exchange £83m, capital redemption £17m, hedging reserves £(2)m and available-for-sale reserves £(10)m.
2. During H2 18 the calculation of the retrospective impact of the change in accounting policy for LGIA term assurance reserves was refined, as described in Note 4.01. Change in accounting policy reflects the results of this refinement and consequently Retained earnings attributable to owners of the parent have been restated.

3.04 Condensed Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2018	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2018	149	988	(40)	168	6,251	7,516	76	7,592
Total comprehensive income for the year	-	-	-	60	1,922	1,982	(19)	1,963
Options exercised under share option schemes	-	4	-	-	-	4	-	4
Net movement in employee scheme treasury shares	-	-	(12)	12	10	10	-	10
Dividends	-	-	-	-	(932)	(932)	-	(932)
Movement in third party interests	-	-	-	-	-	-	15	15
Currency translation differences	-	-	-	(10)	10	-	-	-
As at 31 December 2018	149	992	(52)	230	7,261	8,580	72	8,652

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

3.05 Consolidated Statement of Cash Flows

For the six month period to 30 June 2019

	Notes	**6 months 2019 £m**	6 months 2018 £m	Full year 2018 £m
Cash flows from operating activities				
Profit for the period		**865**	772	1,808
Adjustments for non cash movements in net profit for the period				
Net (gains)/losses on financial investments and investment properties		**(37,069)**	6,025	23,132
Investment income		**(5,588)**	(5,386)	(10,182)
Interest expense		**164**	140	293
Tax expense		**411**	210	210
Other adjustments		**62**	105	183
Net (increase)/decrease in operational assets				
Investments held for trading or designated as fair value through profit or loss		**413**	7,306	(10,381)
Investments designated as available-for-sale		**97**	387	(248)
Other assets		**(6,033)**	(2,012)	1,258
Net increase/(decrease) in operational liabilities				
Insurance contracts		**9,157**	(2,001)	3,257
Investment contracts		**22,524**	(13,370)	(22,571)
Other liabilities		**7,472**	5,923	12,057
Net increase/(decrease) in held for sale net liabilities		**223**	(538)	(8,500)
Cash utilised in operations		**(7,302)**	(2,439)	(9,684)
Interest paid		**(140)**	(142)	(215)
Interest received		**2,532**	1,816	4,841
Tax paid[1]		**(219)**	(286)	(504)
Dividends received		**2,819**	2,802	5,201
Net cash flows from operating activities		**(2,310)**	1,751	(361)
Cash flows from investing activities				
Net acquisition of plant, equipment, intangibles and other assets		**(28)**	(97)	(401)
Net disposal/(acquisition) of operations	4.02	**76**	326	326
Investment in joint ventures and associates		**(88)**	-	(130)
Net cash flows utilised in investing activities		**(40)**	229	(205)
Cash flows from financing activities				
Dividend distributions to ordinary equity holders during the period	4.04	**(704)**	(658)	(932)
Issue of ordinary share capital	4.07	**6**	2	4
Exercise of employee scheme shares (net)		**(10)**	12	12
Payment of lease liabilities		**(12)**	-	-
Proceeds from borrowings		**151**	148	960
Repayment of borrowings		**(593)**	(11)	(325)
Movement in non-controlling interests		**-**	1	-
Net cash flows utilised in financing activities		**(1,162)**	(506)	(281)
Net (decrease)/increase in cash and cash equivalents		**(3,512)**	1,474	(847)
Exchange gains/(losses) on cash and cash equivalents		**1**	6	16
Cash and cash equivalents at 1 January		**18,088**	18,919	18,919
Total cash and cash equivalents		**14,577**	20,399	18,088
Less: cash and cash equivalents of operations classified as held for sale	4.03	**(353)**	(221)	(767)
Cash and cash equivalents at 30 June/31 December		**14,224**	20,178	17,321

1. Tax comprises UK corporation tax paid of £126m (H1 18: £170m; FY 18: £359m), overseas corporate taxes of £(12)m (H1 18: £23m; FY 18: £25m), and withholding tax of £105m (H1 18: £93m; FY 18: £120m).

4.01 Basis of preparation

The group financial information for the six months ended 30 June 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The group's financial information has also been prepared in line with the accounting policies which the group expects to adopt for the 2019 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2018 consolidated financial statements, except where changes have been outlined below in "New standards, interpretations and amendments to published standards that have been adopted by the group". These are consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union.

The preparation of the interim management report includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2018 financial statements.

The results for the half year ended 30 June 2019 are unaudited but have been reviewed by KPMG LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results from the full year 2018 have been taken from the group's 2018 Annual Report and Accounts, restated as described in the changes in accounting policy section below. Therefore, these interim accounts should be read in conjunction with the 2018 Annual Report and Accounts that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Commission for use in the European Union. KPMG LLP reported on the 2018 financial statements, and their report was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The group's 2018 Annual Report and Accounts has been filed with the Registrar of Companies.

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

Alternative performance measures
The group uses a number of alternative performance measures (APMs), including net release from operations and group adjusted operating profit, in the discussion of its business performance and financial position, as the group believes that they provide a better understanding of its underlying performance. Definitions of key APMs can be found in the glossary.

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

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

(a) New standards, interpretations and amendments to published standards that have been adopted by the group

The group has applied the following standards and amendments for the first time in its six months reporting period commencing 1 January 2019.

IFRS 16 – Leases
IFRS 16, 'Leases', issued in January 2016, became effective from 1 January 2019, and replaced all previous lease requirements and guidance under IFRS, including IAS 17, 'Leases', IFRIC 4, 'Determining Whether an Arrangement Contains a Lease', SIC-15, 'Operating Leases – Incentives' and SIC-27, 'Evaluating the Substance of Transactions in the Legal Form of a Lease'. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing many commitments in relation to operating leases (as previously defined in IAS 17) onto the balance sheet.

The group has adopted IFRS 16 by using the modified retrospective approach, and therefore did not restate comparative financial information. At the date of the initial application the group recognised a lease liability and a right-of-use asset of an equal amount (adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the group Consolidated Balance Sheet immediately before the date of initial application), as allowed by the standard. Additionally, on transition, the group has elected to apply the standard only to those contracts that were previously assessed as leases under IAS 17 and IFRIC 4. The group also has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The implementation of IFRS 16 did not have a material impact on the group financial statements. The new accounting policy of the group upon adoption of IFRS 16 is disclosed below.

4.01 Basis of preparation (continued)

(a) New standards, interpretations and amendments to published standards that have been adopted by the group (continued)

Under IFRS 16, a lease is a contract that conveys the right to use an identified asset, for a period of time in exchange for consideration.

The group takes many assets on lease, including head office accommodation, cars, IT equipment and investment properties. The group has elected to take the exemptions available on lease contracts for which the lease terms end within 12 months as of the commencement date, and lease contracts for which the underlying asset is of low value. Such leases are not recognised on the group consolidated balance sheet.

As a lessee, the group recognises leases on the balance sheet as 'right-of-use' assets and lease liabilities. The right-of-use assets' value is initially recognised as the calculated value of the lease liabilities with several additional adjustments, including initial direct costs. The initial measurement of the lease liabilities is made up of the present value of lease payments to be made over the lease term, including fixed and variable lease payments and excluding lease incentive receivables. The group policy is to use the incremental borrowing rates as a discount rate for calculating the lease liabilities. The right-of use assets are subsequently accounted for in accordance with the cost model in IAS 16 – Property, Plant and Equipment or as investment property under IAS 40 – Investment Property. The lease liabilities are unwound over the term of the lease giving rise to an interest expense. Additionally, the liabilities are reduced when lease payments are made. The group reassesses the valuation of lease liabilities and right-of-use assets if certain events occur that modify the original assumptions used to calculate the lease balances upon initial recognition.

As a lessor, the group accounts for leases as either operating or finance leases depending on whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. Operating leases are recorded as assets on the balance sheet and lease income recognised on a straight line basis over the lease term. For finance leases, the group derecognises the underlying asset and records a receivable equal to the net investment in the lease. Finance income is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments
IFRIC 23, 'Uncertainty over Income Tax Treatments' was issued in June 2017. The Interpretation clarifies the application of recognition and measurement requirements in IAS 12, 'Income Taxes' when there is uncertainty over income tax treatments. The implementation of IFRIC 23 did not have a material impact on the group consolidated financial statements.

Amendments to IAS 19 – Employee Benefits
These amendments were issued in February 2018. The amendments require entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; they also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. These amendments did not have any material impact on the group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle
These improvements were issued in December 2017 and consist of minor amendments affecting IFRS 3 'Business combinations', IFRS 11, 'Joint arrangements', IAS 12, 'Income taxes' and IAS 23, 'Borrowing costs'. These amendments did not have any material impact on the group's consolidated financial statements.

Amendments to IAS 28 – Investments in Associates and Joint Ventures
These amendments, titled 'Long-term Interests in Associates and Joint Ventures', were issued in October 2017. The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. These amendments did not have any material impact on the group's consolidated financial statements.

4.01 Basis of preparation (continued)

(b) Changes in accounting policy

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

The group reported an initial best estimate of the impact of this change in accounting policy in the interim report for the six months ended 30 June 2018, and continued to refine that impact during the second half of 2018 as disclosed in the accounts for the year ended 31 December 2018. The final impact on each line item of the comparative Consolidated Balance Sheet as at 30 June 2018 is shown in the table below:

	As reported at 30 Jun 2018 £m	Adjustments £m	As restated at 30 Jun 2018 £m
Reinsurers' share of contract liabilities	5,734	27	5,761
Retained earnings	6,456	27	6,483

(c) Future accounting developments

IFRS 17 – Insurance Contracts
IFRS 17, 'Insurance Contracts' was issued in May 2017 and is expected to be effective for annual periods beginning on or after 1 January 2022. This reflects the one year delay proposed by the IASB in their June 2019 exposure draft and is subject to subsequent endorsement for use in the EU. The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout the remainder of 2019 to ensure technical compliance and to develop the required system capability to implement the standard.

IFRS 9 – Financial Instruments and Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In June 2019 the IASB proposed to extend the fixed expiry date of the temporary exemption in IFRS 4 from applying IFRS 9 by one year. Entities eligible for the exemption will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022, to align with the proposed delay in the adoption date of IFRS 17. As disclosed in the 2018 annual report and accounts, the group qualified for the deferral of IFRS 9 and is making use of this option.

The group has mobilised a project to assess the impact of IFRS 9 on its financial instruments, in particular around the classification and measurement of financial assets backing insurance contract liabilities expected to be measured using locked-in discount rates under IFRS 17, and impairment.

4.02 Disposals

On 7 February 2019, the group completed the disposal of its stake in IndiaFirst Life Insurance Company Limited ("IndiaFirst Life") to an affiliate of Warburg Pincus LLC for INR 7.1bn (c.£76m at GBP:INR 1:92). The disposal resulted in a current period pre-tax gain of £43m, net of transaction costs. The operations of IndiaFirst Life have not been classified as discontinued operations since they do not represent a major line of business of the group.

4.03 Assets and liabilities of operations classified as held for sale

Mature Savings
On 6 December 2017 the group announced the sale of its Mature Savings business to the ReAssure division of Swiss Re Limited ('Swiss Re') for a consideration of £650m. As part of the transaction, on 1 January 2018 the group entered into a risk transfer agreement with Swiss Re, whereby the group transfers all economic risks and rewards of the Mature Savings business to Swiss Re from that date. The risk transfer agreement operates until the business is transferred under a court approved scheme under Part VII of the Financial Services and Markets Act 2000, which is expected to complete in H2 2019. The consideration of £650m was received in 2018.

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

General Insurance
On 31 May 2019 the group announced that it had agreed to sell its General Insurance business to Allianz Holdings plc. The financial consideration from the proposed sale consists of a base price of £242 million payable at completion with potential further payments over a three year period from ongoing commercial arrangements.The proposed transaction, which is subject to regulatory approvals, is expected to complete in the second half of 2019.

As a result of the announcement, the General Insurance business has been classified as held for sale. Profit arising from the General Insurance business has been presented as "Profit after tax from discontinued operations" in the Consolidated Income Statement.

4.04 Dividends and appropriations

	Dividend 6 months 2019 £m	**Per share[1] 6 months 2019 p**	Dividend 6 months 2018 £m	Per share[1] 6 months 2018 p	Dividend Full year 2018 £m	Per share[1] Full year 2018 p
Ordinary dividends paid and charged to equity in the period:						
- Final 2017 dividend paid in June 2018	**-**	**-**	658	11.05	658	11.05
- Interim 2018 dividend paid in September 2018	**-**	**-**	-	-	274	4.60
- Final 2018 dividend paid in June 2019	**704**	**11.82**	-	-	-	-
Total dividends	**704**	**11.82**	658	11.05	932	15.65

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.

Subsequent to 30 June 2019, the directors declared an interim dividend for 2019 of 4.93 pence per ordinary share. This dividend will be paid on 26 September 2019. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2019 and is not included as a liability in the Consolidated Balance Sheet as at 30 June 2019.

4.05 Financial investments and investment property

	30 Jun 2019 £m	30 Jun 2018 £m	31 Dec 2018 £m
Equity securities[1]	**192,387**	191,540	177,566
Debt securities[2]	**275,086**	233,977	254,452
Accrued interest	**1,617**	1,502	1,635
Derivative assets[3]	**13,198**	10,132	10,065
Loans[4]	**12,861**	10,271	9,662
Financial investments	**495,149**	447,422	453,380
Investment property	**8,706**	8,505	8,608
Total financial investments and investment property	**503,855**	455,927	461,988
Less: financial investments and investment property of operations classified as held for sale	**(25,597)**	(20,579)	(24,525)
Financial investments and investment property	**478,258**	435,348	437,463

1. Equity securities include investments in unit trusts of £13,122m (30 June 2018: £10,005m; 31 December 2018: £10,553m).
2. A detailed analysis of debt securities to which shareholders are directly exposed, is disclosed in Note 7.03.
3. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £11,778m (30 June 2018: £7,652m; 31 December 2018 £7,791m).
4. Loans includes £447m (30 June 2018: £443m; 31 December 2018: £456m) of loans valued at amortised cost.

(a) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The levels of fair value measurement bases are defined as follows:

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

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

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

The group's financial assets are valued, where possible, using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or counterparty broker marks. In normal market conditions, we would consider these market prices to be observable and therefore classify them as Level 1. However, where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as Level 2. Refer to Note 4.06 (b) for Level 3 methodology.

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

There have been no significant transfers between Level 1 and Level 2 in the six month period to 30 June 2019 (30 June 2018; 31 December 2018: No significant transfers). Transfers into and out of Level 3 are disclosed in Note 4.05 (b).

4.05 Financial investments and Investment property (continued)

(a) Fair value hierarchy (continued)

As at 30 June 2019	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**2,624**	**1,629**	**-**	**995**
Debt securities	**4,319**	**1,601**	**2,040**	**678**
Accrued interest	**32**	**13**	**13**	**6**
Derivative assets	**110**	**104**	**6**	**-**
Loans at fair value	**234**	**-**	**234**	**-**
Investment property	**203**	**-**	**-**	**203**
Non profit non-unit linked				
Equity securities	**156**	**152**	**-**	**4**
Debt securities	**66,387**	**7,314**	**43,723**	**15,350**
Accrued interest	**520**	**25**	**464**	**31**
Derivative assets	**11,523**	**-**	**11,523**	**-**
Loans at fair value	**726**	**-**	**726**	**-**
Investment property	**3,131**	**-**	**-**	**3,131**
With-profits				
Equity securities	**3,191**	**2,998**	**-**	**193**
Debt securities	**5,598**	**1,636**	**3,962**	**-**
Accrued interest	**47**	**11**	**36**	**-**
Derivative assets	**68**	**8**	**60**	**-**
Loans at fair value	**396**	**-**	**396**	**-**
Investment property	**520**	**-**	**-**	**520**
Unit linked				
Equity securities	**186,416**	**183,682**	**2,070**	**664**
Debt securities	**198,782**	**140,904**	**57,601**	**277**
Accrued interest	**1,018**	**493**	**525**	**-**
Derivative assets	**1,497**	**200**	**1,297**	**-**
Loans at fair value	**11,058**	**-**	**11,058**	**-**
Investment property	**4,852**	**-**	**-**	**4,852**
Total financial investments and investment property at fair value[1,2]	**503,408**	**340,770**	**135,734**	**26,904**

1. This table excludes loans (including accrued interest) of £447m, which are held at amortised cost.
2. This table includes financial investments of £24,031m and investment property of £1,566m classified as assets of operations classified as held for sale.

4.05 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

As at 30 June 2018	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,317	1,535	-	782
Debt securities	4,947	1,688	2,886	373
Accrued interest	32	15	14	3
Derivative assets	12	4	8	-
Loans at fair value	352	-	352	-
Investment property	109	-	-	109
Non profit non-unit linked				
Equity securities	285	281	4	-
Debt securities	50,406	6,641	33,373	10,392
Accrued interest	441	29	391	21
Derivative assets	4,213	-	4,181	32
Loans at fair value	573	-	398	175
Investment property	2,791	-	-	2,791
With-profits				
Equity securities	3,276	3,087	-	189
Debt securities	6,083	1,746	4,333	4
Accrued interest	50	14	36	-
Derivative assets	57	4	53	-
Loans at fair value	117	-	117	-
Investment property	551	-	-	551
Unit linked				
Equity securities	185,662	185,009	36	617
Debt securities	172,541	120,048	52,484	9
Accrued interest	979	439	540	-
Derivative assets	5,850	218	5,632	-
Loans at fair value	8,786	-	8,786	-
Investment property	5,054	-	-	5,054
Total financial investments and investment property at fair value[1,2]	455,484	320,758	113,624	21,102

1. This table excludes loans of £443m, which are held at amortised cost.
2. This table includes financial investments of £19,306m and investment property of £1,273m classified as assets of operations classified as held for sale.

4.05 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

As at 31 December 2018	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,322	1,432	-	890
Debt securities	5,708	1,851	3,199	658
Accrued interest	33	15	15	3
Derivative assets	18	7	11	-
Loans at fair value	371	-	371	-
Investment property	166	-	-	166
Non profit non-unit linked				
Equity securities	205	194	1	10
Debt securities	56,864	7,031	36,937	12,896
Accrued interest	491	20	446	25
Derivative assets	4,393	-	4,336	57
Loans at fair value	486	-	486	-
Investment property	2,930	-	-	2,930
With-profits				
Equity securities	2,936	2,742	-	194
Debt securities	5,988	1,707	4,277	4
Accrued interest	52	15	37	-
Derivative assets	51	5	46	-
Loans at fair value	45	-	45	-
Investment property	520	-	-	520
Unit linked				
Equity securities	172,103	169,414	2,026	663
Debt securities	185,892	131,679	53,941	272
Accrued interest	1,059	502	557	-
Derivative assets	5,603	428	5,175	-
Loans at fair value	8,304	-	8,304	-
Investment property	4,992	-	-	4,992
Total financial investments and investment property at fair value[1,2]	461,532	317,042	120,210	24,280

1. This table excludes loans (including accrued interest) of £456m, which are held at amortised cost.
2. This table includes financial investments of £22,882m and investment property of £1,643m classified as assets of operations classified as held for sale.

4.05 Financial investments and investment property (continued)

(b) Level 3 assets measured at fair value

Level 3 assets, where internal models are used, comprise property, unquoted equities, untraded debt securities and securities where unquoted prices are provided by a single broker. Unquoted securities include suspended securities, investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans, income strips and lifetime mortgages.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the group has classified within Level 3.

The group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the group's credit standing, liquidity and risk margins on unobservable inputs.

Equity securities

Level 3 equity securities amount to £1,856m (30 June 2018: £1,588m; 31 December 2018: £1,757m), of which the majority is made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the group's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are valued by a number of third party specialists using a range of techniques, including latest round of funding and discounted cash flow models.

Other financial investments

Other level 3 financial investments comprise of various debt securities (including lifetime mortgages), accrued interest and derivative assets. Lifetime mortgage (LTM) loans amount to £3,990m (30 June 2018: £2,674m; 31 December 2018 £3,227m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. Inputs to the model include property growth rates and voluntary early redemptions. The valuation as at 30 June 2019 reflects a long-term property growth rate assumption of RPI + 0.5%.

Private credit loans (including commercial real estate loans) amount to £9,421m (30 June 2018: £6,765m; 31 December 2018: £8,001m). Their valuation is outsourced to IHS Markit who use discounted future cash flows based on a yield curve. The discount factors take into consideration the z-spread of the LGIM approved comparable bond and the initial spread agreed by both parties. Unobservable inputs that go into the determination of comparators, include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 11.7 years, with a weighted average life of 16.5 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets is not externally rated but has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to B.

Income strip assets amount to £1,258m (30 June 2018: £1,190m; 31 December 2018: £1,248m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. The valuation as at 30 June 2019 reflects equivalent yield ranges between 2% and 6% and estimated rental values (ERV) between £10 and £27 per sq. ft.

Private placements held by the US business amount to £1,043m (30 June 2018: £525m; 31 December 2018: £938m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk-free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement. The valuation as at 30 June 2019 reflects illiquidity premiums between 10 and 75bps.

Commercial mortgage loans amount to £357m (30 June 2018: £175m; 31 December 2018: £275m) and are determined by incorporating credit risk for performing loans at the portfolio level and for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk free rate paths and are inclusive of an Option Adjusted Spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. The valuation as at 30 June 2019 reflects illiquidity premiums between 20 and 40bps.

Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

Investment property

Level 3 investment property amounting to £8,706m (30 June 2018: £8,505m; 31 December 2018: £8,608m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also include an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. The valuation as at 30 June 2019 reflects equivalent yield ranges between 1% and 10% and ERV between £1 and £134 per sq. ft.

4.05 Financial investments and investment property (continued)

(b) Level 3 assets measured at fair value (continued)

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The group's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

	Equity securities 2019 £m	**Other financial invest-ments 2019 £m**	**Investment property 2019 £m**	**Total 2019 £m**	Equity securities 2018 £m	Other financial invest-ments 2018 £m	Investment property 2018 £m	Total 2018 £m
As at 1 January	**1,757**	**13,915**	**8,608**	**24,280**	1,451	9,888	8,337	19,676
Total gains/(losses) for the period recognised in profit:								
- in other comprehensive income	**-**	**-**	**(34)**	**(34)**	7	(113)	-	(106)
- realised and unrealised gains / (losses)[1]	**38**	**930**	**15**	**983**	41	20	70	131
Purchases / Additions	**173**	**2,608**	**359**	**3,140**	147	1,338	397	1,882
Sales / Disposals	**(105)**	**(1,054)**	**(250)**	**(1,409)**	(47)	(214)	(299)	(560)
Transfers into Level 3	**2**	**-**	**-**	**2**	-	90	-	90
Transfers out of Level 3	**-**	**(57)**	**-**	**(57)**	(11)	-	-	(11)
Other	**(9)**	**-**	**8**	**(1)**	-	-	-	-
As at 30 June	**1,856**	**16,342**	**8,706**	**26,904**	1,588	11,009	8,505	21,102

	Equity securities 2018 £m	Other financial invest-ments 2018 £m	Investment property 2018 £m	Total 2018 £m
As at 1 January	1,451	9,888	8,337	19,676
Total gains / (losses) for the year recognised in profit:				
- in other comprehensive income	1	(18)	-	(17)
- realised and unrealised gains / (losses)[1]	35	(92)	50	(7)
Purchases / Additions	519	5,521	1,153	7,193
Sales / Disposals	(375)	(1,707)	(904)	(2,986)
Transfers into Level 3	126	295	-	421
Transfers out of Level 3	-	-	-	-
Other	-	28	(28)	-
As at 31 December	1,757	13,915	8,608	24,280

1. Realised and unrealised gains and losses are recognised in Investment return in the Consolidated Income Statement.

4.05 Financial investments and investment property (continued)

(c) Effect on changes in assumptions on Level 3

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Where possible, the group assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. As outlined above, Level 3 investments are valued using internally-modelled valuations or independent third parties. Where internally-modelled valuations are used, sensitivities are determined by adjusting various inputs of the model and assigning them a weighting. Where independent third parties are used, sensitivities are determined as outlined below:

- Unquoted investments in property vehicles and direct holdings in investment property are valued using valuations provided by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yields.
- Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined by stressing key assumptions used in the valuation models.

The group is therefore able to perform a sensitivity analysis for its Level 3 investments, which amount to £26.9bn (30 June 2018: £21.1bn; 31 December 2018: £24.3bn). The effect of changes in significant unobservable valuation inputs to reasonable alternative assumptions would result in a change in fair value of +/- £1.7bn (30 June 2018: +/-£1.0bn; 31 December 2018: +/-£1.6bn), which represents 6% (30 June 2018: 5%; 31 December 2018: 7%) of the total value of Level 3 investments, including investment property.

Of the total sensitivity impact, +/- £1.0bn (30 June 2018: +/- £0.8bn; 31 December 2018: +/-£0.9bn) relates to Level 3 financial assets (excluding investment property), which represents 5% (30 June 2018: 6%; 31 December 2018: 6%) of total Level 3 financial assets and 4% (30 June 2018: 4%; 31 December 2018: 4%) of total Level 3 investments.

4.06 Tax

(a) Tax charge in the Consolidated Income Statement

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

	Continuing operations 6 months 2019 £m	**Total 6 months 2019 £m**	Continuing operations 6 months 2018 £m	Total 6 months 2018 £m	Continuing operations Full year 2018 £m	Total Full year 2018 £m
Profit before tax attributable to equity holders	**1,020**	**1,053**	900	942	2,076	2,128
Tax calculated at 19.00%	**194**	**200**	171	179	394	404
Adjusted for the effects of:						
Recurring reconciling items:						
Income not subject to tax	**(1)**	**(1)**	(1)	(1)	-	-
Higher/(lower) rate of tax on overseas profits	**(11)**	**(11)**	12	12	(55)	(55)
Non-deductible expenses	**1**	**1**	-	-	5	5
Differences between taxable and accounting investment gains	**-**	**-**	(1)	(1)	(4)	(4)
Property income attributable to non-controlling interests	**-**	**-**	(1)	(1)	-	-
Unrecognised tax losses	**2**	**2**	-	-	-	-
Non-recurring reconciling items:						
Income not subject to tax	**(2)**	**(2)**	(4)	(4)	(10)	(10)
Non-deductible expenses	**-**	**-**	1	1	5	5
Adjustments in respect of prior years	**(2)**	**(2)**	(15)	(15)	(35)	(36)
Impact of reduction in UK and US corporate tax rates on deferred tax balances	**1**	**1**	2	2	11	11
Other	**-**	**-**	(3)	(2)	-	-
Tax expense attributable to equity holders	**182**	**188**	161	170	311	320
Equity holders' effective tax rate[1]	**17.8%**	**17.9%**	17.9%	18.0%	15.0%	15.0%

1. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders. Refer to Note 4.01 for details on the methodology of the split of policyholder and equity holders' tax.

4.06 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	**30 Jun 2019 £m**	30 Jun 2018 £m	31 Dec 2018 £m
Deferred acquisition expenses	**29**	14	25
- UK	**(40)**	(38)	(40)
- Overseas	**69**	52	65
Difference between the tax and accounting value of insurance contracts	**(635)**	(377)	(577)
- UK	**(228)**	(74)	(171)
- Overseas	**(407)**	(303)	(406)
Realised and unrealised gains on investments	**(175)**	(243)	(72)
Excess of depreciation over capital allowances	**12**	14	12
Excess expenses	**20**	22	21
Accounting provisions and other	**(32)**	(11)	(28)
Trading losses[1]	**179**	29	163
Pension fund deficit	**35**	39	41
Acquired intangibles	**(2)**	(24)	(4)
Total net deferred tax liabilities	**(569)**	(537)	(419)
Less: net deferred tax liabilities of operations classified as held for sale	**186**	236	97
Net deferred tax liabilities	**(383)**	(301)	(322)
Analysed by:			
- UK deferred tax assets	**2**	2	2
- UK deferred tax liabilities	**(193)**	(73)	(144)
- Overseas deferred tax assets	**5**	5	5
- Overseas deferred tax liabilities[2]	**(197)**	(235)	(185)
Net deferred tax liabilities	**(383)**	(301)	(322)

1. Trading losses include UK trade and US operating losses of £3m (H1 18: £2m; FY 18: £4m) and £176m (H1 18: £27m; FY 18: £159m) respectively.
2. Overseas deferred tax liability is wholly comprised of US balances as at 30 June 2019.

4.07 Share capital and share premium

Authorised share capital	**Number of shares**	**£m**
As at 30 June 2019, 30 June 2018 and 31 December 2018: ordinary shares of 2.5p each	**9,200,000,000**	**230**

Issued share capital, fully paid	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2019	**5,960,768,234**	**149**	**992**
Options exercised under share option schemes	**3,497,185**	**-**	**6**
As at 30 June 2019	**5,964,265,419**	**149**	**998**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2018	5,958,438,193	149	988
Options exercised under share option schemes	1,435,336	-	2
As at 30 June 2018	5,959,873,529	149	990
Options exercised under share option schemes	894,705	-	2
As at 31 December 2018	5,960,768,234	149	992

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

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

4.08 Non-controlling interests

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

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

4.09 Core borrowings

	Carrying amount 30 Jun 2019 £m	**Fair value 30 Jun 2019 £m**	Carrying amount 30 Jun 2018 £m	Fair value 30 Jun 2018 £m	Carrying amount 31 Dec 2018 £m	Fair value 31 Dec 2018 £m
Subordinated borrowings						
5.875% Sterling undated subordinated notes (Tier 2)	**-**	**-**	405	415	405	409
10% Sterling subordinated notes 2041 (Tier 2)	**312**	**364**	311	380	312	366
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**684**	589	629	589	569
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**673**	603	657	603	627
5.25% US Dollar subordinated notes 2047 (Tier 2)	**661**	**706**	640	617	659	612
5.55% US Dollar subordinated notes 2052 (Tier 2)	**388**	**419**	376	361	387	356
5.125% Sterling subordinated notes 2048 (Tier 2)	**399**	**445**	-	-	399	401
Client fund holdings of group debt[1]	**(31)**	**(34)**	(27)	(29)	(31)	(30)
Total subordinated borrowings	**2,920**	**3,257**	2,897	3,030	3,323	3,310
Senior borrowings						
Sterling medium term notes 2031-2041	**603**	**868**	603	812	609	824
Client fund holdings of group debt[1]	**(9)**	**(13)**	(11)	(14)	(10)	(13)
Total senior borrowings	**594**	**855**	592	798	599	811
Total core borrowings	**3,514**	**4,112**	3,489	3,828	3,922	4,121

1. £40m (30 June 2018: £38m; 31 December 2018: £41m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

The presented fair values of the group's core borrowings reflect quoted prices in active markets and they have been classified as level 1 in the fair value hierarchy.

Subordinated borrowings

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes were called at par on 1 April 2019. Effective from the notification on 4 February 2019 of the intention to redeem, the notes were no longer treated as tier 2 own funds for Solvency II purposes.

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

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

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

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

4.09 Core borrowings (continued)

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

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

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

Senior borrowings

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

4.10 Operational borrowings

	Carrying amount 30 Jun 2019 £m	**Fair value 30 Jun 2019 £m**	Carrying amount 30 Jun 2018 £m	Fair value 30 Jun 2018 £m	Carrying amount 31 Dec 2018 £m	Fair value 31 Dec 2018 £m
Short term operational borrowings						
Euro Commercial Paper	**354**	**354**	497	497	293	293
Non recourse borrowings	**657**	**657**	251	251	617	617
Bank loans and overdrafts	**58**	**58**	200	200	83	83
Total operational borrowings[1]	**1,069**	**1,069**	948	948	993	993
Less: liabilities of operations classified as held for sale	**(29)**	**(29)**	-	-	(28)	(28)
Operational borrowings	**1,040**	**1,040**	948	948	965	965

1. Unit linked borrowings with a carrying value of £11m (30 June 2018: £9m; 31 December 2018: £61m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,051m (30 June 2018: £957m; 31 December 2018: £1,026m).

Syndicated credit facility

As at 30 June 2019, the group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 30 June 2019.

4.11 Payables and other financial liabilities

	30 Jun 2019 £m	30 Jun 2018 £m	31 Dec 2018 £m
Derivative liabilities	**11,778**	7,652	7,791
Repurchase agreements[1]	**46,994**	36,919	43,775
Other financial liabilities[2]	**17,353**	15,016	11,406
Total payables and other financial liabilities	**76,125**	59,587	62,972
Less: liabilities of operations classified as held for sale	**(598)**	(435)	(424)
Payables and other financial liabilities	**75,527**	59,152	62,548

1. Repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, FX spots and collateral repayable on short position reverse repurchase agreements. The value of collateral repayable on short position reverse repurchase agreements was £6,114m (2018: £4,883m).

(a) Fair value hierarchy

As at 30 June 2019	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**11,778**	**276**	**11,500**	**2**	**-**
Repurchase agreements	**46,994**	**-**	**46,994**	**-**	**-**
Other financial liabilities	**17,353**	**5,854**	**14**	**577**	**10,908**
Total payables and other financial liabilities	**76,125**	**6,130**	**58,508**	**579**	**10,908**

As at 30 June 2018	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	7,652	1,312	6,340	-	-
Repurchase agreements	36,919	-	36,919	-	-
Other financial liabilities	15,016	5,580	25	126	9,285
Total payables and other financial liabilities	59,587	6,892	43,284	126	9,285

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

Trail commission (included within Other financial liabilities) is modelled using expected cash flows, incorporating expected future persistency. It has therefore been classified as a Level 3 liability. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the trail commission liability by £4m (30 June 2018 and 31 December 2018: Increase of £4m).

There have been no significant transfers of payables and other financial liabilities between Levels 1, 2 and 3 for the period ended 30 June 2019 (30 June 2018 and 31 December 2018: no significant transfers).

4.12 Foreign exchange rates

The principal rates of exchange used for translation are:

Period end exchange rates	30 Jun 2019	30 Jun 2018	31 Dec 2018
United States dollar	**1.27**	1.32	1.28
Euro	**1.12**	1.13	1.11

Average exchange rates	6 months 2019	6 months 2018	Full year 2018
United States dollar	**1.29**	1.38	1.34
Euro	**1.15**	1.14	1.13

4.13 Retirement benefit obligations

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

As at 30 June 2019, the combined obligation arising from these arrangements has been estimated at £1,139m (30 June 2018: £1,095m; 31 December 2018: £1,091m). The retirement benefit obligations is a component of Provisions on the Consolidated Balance Sheet. The after tax deficit, net of annuity obligations insured by Legal and General Assurance Society, has been calculated to be £161m (30 June 2018: £179m; 31 December 2018: £192m).

4.14 Contingent liabilities, guarantees and indemnities

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

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

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

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

4.15 Related party transactions

(a) Key management personnel transactions and compensation

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £40m (H1 18: £39m; FY 18: £84m) for all employees.

At 30 June 2019, 30 June 2018 and 31 December 2018 there were no loans outstanding to officers of the company.

The aggregate compensation for key management personnel, including executive and non-executive directors, is as follows:

	6 months 2019 £m	6 months 2018[1] £m	Full year 2018 £m
Salaries	**3**	3	10
Post-employment benefits	**-**	-	-
Share-based incentive awards	**3**	2	6
Key management personnel compensation	**6**	5	16
Number of key management personnel	**16**	15	15

1. Key management personnel compensation for the six months ended 30 June 2018 has been restated to correctly reflect certain compensation excluded from the disclosure. The restatement has no impact on either Total expenses or Profit before income tax in the group's Consolidated Statement of Comprehensive Income for the six months ended 30 June 2018.

(b) Services provided to and by related parties

All transactions between the group and associates, joint ventures and other related parties during the year are on commercial terms which are no more favourable than those available to companies in general. Transactions between the group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £78m (H1 18: 59m; FY 18: £59m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;

- Loans outstanding from related parties, including preference shares, at 30 June 2019 of £81m (30 June 2018: £163m; 31 December 2018 of £201m);

- Total other commitments of £1,178m to related parties (30 June 2018: £787m; 31 December 2018: £837m), of which £821m has been drawn at 30 June 2019 (30 June 2018: £430m; 31 December 2018: £507m).

5.01 LGIM Total assets under management (AUM)

For the six month period to 30 June 2019	Index £bn	Global fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2019	**310.2**	**162.6**	**510.5**	**27.1**	**5.1**	**1,015.5**
External inflows	60.8	5.6	15.3	0.8	0.1	82.6
External outflows	(26.1)	(4.7)	(12.4)	(0.8)	(0.1)	(44.1)
Overlay net flows	-	-	22.0	-	-	22.0
ETF net flows	(0.2)	-	-	-	-	(0.2)
External net flows[2]	**34.5**	**0.9**	**24.9**	**-**	**-**	**60.3**
Internal net flows	(0.1)	(1.9)	3.3	1.2	(0.1)	2.4
Total net flows	**34.4**	**(1.0)**	**28.2**	**1.2**	**(0.1)**	**62.7**
Cash management movements[3]	-	0.5	-	-	-	0.5
Market and other movements[2]	45.5	10.8	(2.3)	1.2	0.6	55.8
As at 30 June 2019[4]	**390.1**	**172.9**	**536.4**	**29.5**	**5.6**	**1,134.5**
Assets attributable to:						
External[5]						**1,032.7**
Internal						**101.8**

1. As at 30 June 2019, Solutions include liability driven investments, multi-asset funds and £301.9bn of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets as at 30 June 2019 was £49.4bn and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. AUM includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
5. As part of the sale of the Mature Savings business to Swiss Re, a further £0.5bn (31 December 2018: £5.5bn) of assets have been reclassified from the Internal channel to External channel.

5.01 LGIM total assets under management (AUM) (continued)

For the six month period to 30 June 2018	Index £bn	Global fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2018	340.9	148.8	462.7	23.8	7.1	983.3
Canvas acquisition[2]	2.4	-	-	-	-	2.4
External inflows	22.4	8.7	18.2	0.6	0.5	50.4
External outflows	(41.2)	(2.2)	(8.7)	(0.5)	(0.1)	(52.7)
Overlay net flows	-	-	16.7	-	-	16.7
ETF net flows	0.2	-	-	-	-	0.2
External net flows[3]	(18.6)	6.5	26.2	0.1	0.4	14.6
Internal net flows	(0.3)	(2.5)	(0.3)	0.6	(0.1)	(2.6)
Total net flows	(18.9)	4.0	25.9	0.7	0.3	12.0
Cash management movements[4]	-	1.0	-	-	-	1.0
Market and other movements[3]	1.9	(1.4)	(14.9)	0.8	(0.3)	(13.9)
At 30 June 2018	326.3	152.4	473.7	25.3	7.1	984.8
Assets attributable to:						
External						888.8
Internal						96.0

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

5.01 LGIM Total assets under management (AUM) (continued)

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

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

5.02 LGIM Total external assets under management and net flows

	External assets under management[1]			External net flows[2]		
	As at 30 Jun 2019 £bn	As at 30 Jun 2018 £bn	As at 31 Dec 2018 £bn	**6 months 30 Jun 2019 £bn**	6 months 30 Jun 2018 £bn	6 months 31 Dec 2018 £bn
International[1,3]	**248.6**	165.8	177.7	**44.6**	9.9	9.7
UK Institutional						
- Defined contribution	**86.4**	64.0	70.8	**3.6**	3.5	4.9
- Defined benefit[3]	**659.7**	625.4	640.3	**10.7**	(0.3)	12.1
UK Retail						
- Retail intermediary	**30.0**	25.1	25.5	**1.7**	1.4	1.6
- Personal investing[4]	**5.6**	5.7	5.1	**(0.1)**	(0.1)	(0.1)
ETF	**2.4**	2.8	2.3	**(0.2)**	0.2	(0.2)
Total external	**1032.7**	888.8	921.7	**60.3**	14.6	28.0

1. International asset are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £343bn as at 30 June 2019 (30 June 2018: £229.3bn; 31 December 2018: £258.0bn).
2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability.
3. Defined benefit as at 30 June 2019 includes £70.8bn of assets managed in the US on behalf of UK clients (30 June 2018: £63.5bn; 31 December 2018: £61.7bn).
4. Personal investing as at 30 June 2019 includes £1.9bn of legacy Banks and Building Society customers which is the principal cause of net outflows.

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

	30 Jun 2019 £bn	30 Jun 2018 £bn	31 Dec 2018 £bn
Assets under management	**1,135**	985	1,015
Derivative notionals[1]	**(302)**	(277)	(304)
Third party assets[2]	**(362)**	(275)	(284)
Other[3]	**47**	44	53
Total financial investments, investment property and cash and cash equivalents	**518**	477	480
Less: assets of operations classified as held for sale[4]	**(26)**	(21)	(25)
Financial investments, investment property and cash and cash equivalents	**492**	456	455

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

5.04 Assets under administration

	Workplace[1] 30 Jun 2019 £bn	**Annuities[2] 30 Jun 2019 £bn**	Workplace 30 Jun 2018 £bn	Annuities 30 Jun 2018 £bn	Workplace 31 Dec 2018 £bn	Annuities 31 Dec 2018 £bn
At 1 January	**30.0**	**63.0**	27.7	58.2	27.7	58.2
Gross inflows	3.5	7.2	2.7	1.1	5.6	9.9
Gross outflows	(0.9)	-	(0.8)	-	(1.8)	-
Payments to pensioners	-	(2.0)	-	(1.7)	-	(3.5)
Net flows	**2.6**	**5.2**	1.9	(0.6)	3.8	6.4
Market and other movements	3.5	3.9	0.1	(1.2)	(1.5)	(1.6)
At 30 June/31 December	**36.1**	**72.1**	29.7	56.4	30.0	63.0

1. Workplace assets under administration as at 30 June 2019 includes £36.0bn (30 June 2018: £29.5bn; 31 December 2018: £29.7bn) of assets under management included in Note 5.01.
2. Annuities assets under administration as at 30 June 2019 includes £67.9bn (30 June 2018: £52.0bn; 31 December 2018: £59.3bn) of assets under management included in Note 5.01.

5.05 LGR new business

	6 months 30 Jun 2019 £m	6 months 30 Jun 2018 £m	6 months 31 Dec 2018 £m	Full year 31 Dec 2018 £m
Pension risk transfer				
- UK	**6,316**	507	7,844	8,351
- US	**223**	220	426	646
- Bermuda	**138**	8	135	143
Individual annuities	**497**	337	458	795
Lifetime mortgage advances	**489**	521	676	1,197
Longevity insurance[1]	-	-	287	287
Total LGR new business	**7,663**	1,593	9,826	11,419

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

5.06 LGI new business

	6 months 30 Jun 2019 £m	6 months 30 Jun 2018 £m	6 months 31 Dec 2018 £m	Full year 31 Dec 2018 £m
UK Retail Protection	**91**	87	88	175
UK Group Protection	**44**	34	49	83
US Protection[1]	**43**	42	43	85
Total LGI new business	**178**	163	180	343

1. In local currency, US protection reflects new business of $55m for six months to 30 June 2019 (H1 18: $58m; H2 18: $56m).

5.07 Gross written premiums on Insurance business

	6 months 30 Jun 2019 £m	6 months 30 Jun 2018 £m	6 months 31 Dec 2018 £m	Full year 31 Dec 2018 £m
UK Retail protection	**658**	633	646	1,279
UK Group protection	**233**	223	106	329
US protection[1]	**518**	461	511	972
Longevity insurance	**190**	187	192	379
Total insurance gross written premiums[2]	**1,599**	1,504	1,455	2,959

1. In local currency, US protection reflects new business of $670m for six months to 30 June 2019 (H1 18: $635m; H2 18: $664m).
2. Total insurance gross written premiums excludes new business of the General Insurance division following the group's announcement to sell the business to Allianz.

6.01 Group regulatory capital – Solvency II

The group complies with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) in the UK and to measure and monitor its capital resources on this basis.

The Solvency II results are estimated and unaudited. Further explanation of the underlying methodology and assumptions are set out in the sections below.

The group calculates its Solvency II capital requirements using a Partial Internal Model. The vast majority of the risk to which the group is exposed is assessed on the Internal Model basis approved by the PRA. Capital requirements for a few smaller entities are assessed using the Standard Formula basis on materiality grounds. The group's US insurance businesses are valued on a local statutory basis, following the PRA's approval to use the Deduction and Aggregation method of including these businesses in the group solvency calculation.

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at end June 2019). The TMTP incorporates estimated impacts of end June 2019 economic conditions and changes during 2019 to the Internal Model and Matching Adjustment. This is in line with group's management of the capital position on a dynamic TMTP basis.

(a) Capital position

As at 30 June 2019, and on the above basis, the group had a surplus of £5.9bn (31 December 2018: £6.9bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 171% (31 December 2018: 188%). The shareholder view of the Solvency II capital position is as follows:

	30 Jun 2019 £bn	31 Dec 2018 £bn
Core tier 1 Own Funds	**11.1**	11.5
Tier 2 subordinated liabilities[1]	**3.3**	3.5
Eligibility restrictions	**(0.2)**	(0.2)
Solvency II Own Funds[2,3]	**14.2**	14.8
Solvency Capital Requirement	**(8.3)**	(7.9)
Solvency II surplus	**5.9**	6.9
SCR coverage ratio[4]	**171%**	188%

1. Tier 2 subordinated liabilities of £0.4bn were redeemed on 1 April 2019.
2. Solvency II Own Funds do not include an accrual for the interim dividend of £294m (31 December 2018: £704m) declared after the balance sheet date.
3. Solvency II Own Funds allow for a risk margin of £6.0bn (31 December 2018: £5.5bn) and TMTP of £5.7bn (31 December 2018: £5.2bn).
4. Coverage ratio is based on unrounded inputs.

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

On a proforma basis, which includes the contribution of the with-profits fund and the final salary pension scheme in the group's Own Funds and corresponding SCR in the group's SCR, the coverage ratio at 30 June 2019 is 166% (31 December 2018: 181%).

On 6 December 2017 the group announced the sale of its Mature Savings business to Swiss Re. Swiss Re assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. It is expected that the formal transfer of the business will be completed in 2019, subject to satisfaction of normal conditions for a transaction including court sanction. The transfer will be effected by way of a Part VII transfer under the Financial Services Markets Act 2000. The impact of the risk transfer agreement is reflected in both Own Funds and SCR as at 30 June 2019.

On 31 May 2019 the group announced the sale of Legal & General Insurance Ltd. The Solvency II capital position as at 30 June 2019 does not reflect the expected impact of this sale. The transaction is expected to complete in H2 2019, at which point it is estimated that the impact of the sale will increase the group's Solvency II coverage ratio by 2%.

6.01 Group regulatory capital – Solvency II (continued)

(b) Methodology and assumptions

The methodology and assumptions and Partial Internal Model underlying the calculation of Solvency II Own Funds and associated capital requirements are consistent with those set out in the group's 2018 Annual Reports and Accounts and Full Year Results.

Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any margins for prudence. Future investment returns and discount rates are those defined by EIOPA, which means that the risk free rates used to discount liabilities are market swap rates net of credit risk adjustment of 11 basis points (31 December 2018: 10 basis points) for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 30 June 2019 the Matching Adjustment for UK GBP denominated liabilities was 121 basis points (31 December 2018: 138 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 53 basis points (31 December 2018: 52 basis points).

(c) Analysis of change

The table below shows the movement (net of tax) during the 6 month period ended 30 June 2019 in the group's Solvency II surplus.

	30 Jun 2019	31 Dec 2018
	£bn	£bn
Surplus arising from back-book (including release of SCR)	**0.8**	1.4
Release of Risk Margin[1]	**0.2**	0.4
Amortisation of TMTP[2]	**(0.2)**	(0.4)
Operational Surplus Generation[3]	**0.8**	1.4
New Business Strain	**(0.3)**	(0.5)
Net Surplus Generation	**0.5**	0.9
Dividends paid[4]	**(0.7)**	(0.9)
Operating variances[5]	**(0.2)**	0.1
Mergers, acquisitions and disposals[6]	**-**	-
Market movements[7]	**(0.2)**	(0.5)
Subordinated debt	**(0.4)**	0.4
Total Surplus movement (after dividends paid in the period)	**(1.0)**	-

1. Based on the risk margin in force at end 2018 and does not include the release of any risk margin added by new business written in 2019.
2. TMTP amortisation based on a linear run down of the end-2018 TMTP of £4.4bn (net of tax, £5.2bn before tax).
3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2019 these are primarily related to the optimisation of structures used to make assets matching adjustment eligible and the planned reinsurance of backbook liabilities.
4. Dividends paid are the amounts from the 2018 final dividend declaration paid in H1 19 (FY 18: 2017 final and 2018 interim dividend declarations).
5. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, other management actions including changes in asset mix, hedging strategies, and Matching Adjustment optimisation.
6. Mergers, acquisitions and disposals include the impact of the sale of IndiaFirst.
7. Market movements represent the impact of changes in investment market conditions over the period and changes to future economic assumptions. Market movements in H1 2019 include an increase in the risk margin of £0.4bn (net of tax) and an increase to TMTP of £0.5bn (net of tax).

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

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

6.01 Group regulatory capital – Solvency II (continued)

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

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

	6 months 2019 £bn	Full year 2018 £bn
IFRS Release from Operations	**0.7**	1.3
Expected release of IFRS prudential margins	**(0.2)**	(0.5)
Releases of IFRS specific reserves[1]	**(0.1)**	(0.1)
Solvency II investment margin[2,3]	**0.1**	0.1
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	**0.3**	0.6
Solvency II Operational Surplus Generation[4]	**0.8**	1.4

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term expenses and longevity margins).
2. Release of prudence related to differences between the EIOPA-defined fundamental spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk free rates over H1 2019.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2019 were expected to take place within the group plan.

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

	6 months 2019 £bn	Full year 2018 £bn
IFRS New Business Surplus	**0.2**	0.2
Removal of requirement to set up prudential margins above best estimate on New Business	**0.1**	0.2
Set up of Solvency II Capital Requirement on New Business	**(0.5)**	(0.7)
Set up of Risk Margin on New Business	**(0.1)**	(0.2)
Solvency II New Business Strain[1]	**(0.3)**	(0.5)

1. PRT new business volumes over H1 2019 were £6.7bn (including £4.6bn from the Rolls Royce UK Pension Fund) compared to £9.1bn over 2018.

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

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

	30 Jun 2019 £bn	31 Dec 2018[1] £bn
IFRS shareholders' equity[1]	**8.8**	8.6
Remove DAC, goodwill and other intangible assets and associated liabilities[1]	**(0.7)**	(0.8)
Add IFRS carrying value of subordinated debt treated as available capital under Solvency II[2]	**2.9**	3.3
Insurance contract valuation differences[3]	**4.7**	5.1
Difference in value of net deferred tax liabilities	**(0.4)**	(0.3)
SCR for with-profits fund and final salary pension schemes	**(0.9)**	(0.8)
Other[4]	**-**	(0.1)
Eligibility restrictions[5]	**(0.2)**	(0.2)
Solvency II Own Funds[6]	**14.2**	14.8

1. Values are per the consolidated financial statements.
2. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
3. Differences in the measurement of technical provisions between IFRS and Solvency II.
4. Reflects valuation differences on other assets and liabilities, predominantly in respect of borrowings measured at fair value under Solvency II.
5. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
6. Solvency II Own Funds do not include an accrual for the interim dividend of £294m (31 December 2018: £704m) declared after the balance sheet date.

6.01 Group regulatory capital – Solvency II (continued)

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 30 June 2019 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus[8] 30 Jun 2019 £bn	**Impact on net of tax Solvency II coverage ratio[8] 30 Jun 2019 %**	Impact on net of tax Solvency II capital surplus[8] 31 Dec 2018 £bn	Impact on net of tax Solvency coverage ratio[8] 31 Dec 2018 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.3**	**9**	0.3	10
Credit migration[3]	**(0.8)**	**(10)**	(0.8)	(10)
25% fall in equity markets[4]	**(0.6)**	**(6)**	(0.5)	(6)
15% fall in property markets [5]	**(0.6)**	**(7)**	(0.6)	(7)
100bps increase in risk free rates [6]	**1.2**	**25**	0.9	24
50bps decrease in risk free rates[6,7]	**(0.7)**	**(12)**	(0.5)	(12)

1. The spread sensitivity applies to group's corporate bond (and similar) holdings, with no change in the firm's long term default expectations. Restructured lifetime mortgages are excluded.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100 basis points.
3. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds, sale and leaseback rental strips and lifetime mortgage senior notes).
4. This relates primarily to equity exposure in LGC but will also include equity-based mutual funds and other investments that receive an equity stress (for example, certain investments in subsidiaries). Some assets have factors that increase or decrease the stress relative to general equity levels via a beta factor.
5. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
6. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
7. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
8. Both the 2018 and 2019 sensitivities exclude the impact from the Mature Savings business (including the With-Profits fund) as the risks have been transferred to ReAssure division of Swiss Re from 1 January 2018.

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

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

6.02 Estimated Solvency II new business contribution

(a) New business by product[1]

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

	PVNBP	**Contri-bution from new business[2]**	**Margin[3]**	PVNBP	Contri-bution from new business[2]	Margin[3]
	6 months	**6 months**	**6 months**	Full year	Full year	Full year
	2019 £m	**2019 £m**	**2019 %**	2018 £m	2018 £m	2018 %
LGR - UK annuity business	**6,813**	**533**	**7.8**	9,148	722	7.9
UK Protection Total	**862**	**68**	**7.9**	1,609	115	7.1
- Retail Protection	679	56	8.2	1,271	93	7.3
- Group Protection	183	12	6.6	338	22	6.4
US Protection[4]	**440**	**48**	**10.8**	854	96	11.2

1. Selected lines of business only.
2. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.
3. Margin is based on unrounded inputs.
4. In local currency, US Protection reflects PVNBP of $559m (31 December 2018: $1,088m) and a contribution from new business of $61m (31 December 2018: $122m).

LGR margin remains at similar levels to full year 2018 on increased volumes, reflecting our strong pricing discipline, which we have maintained in a competitive market.

For UK protection new business the increase in profitability was driven by a shift in the mix of business by product combined with continued price optimisation.

The US Protection margin of 10.8% remains strong, albeit down slightly from full year 2018, reflecting an exceptionally competitive environment for term life business during the first six months of 2019.

(b) Basis of preparation

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

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

Intra-group reinsurance arrangements are in place between US, UK and Bermudan businesses and it is expected that these arrangements will be periodically extended to cover recent new business. The LGA new business margin assumes that the new business will continue to be reinsured in 2019 and looks through the intra-group arrangements.

6.02 Estimated Solvency II new business contribution (continued)

(c) Assumptions

The key economic assumptions are as follows:

	30 Jun 2019 %	31 Dec 2018 %
Margin for Risk	**3.4**	3.2
Risk free rate		
- UK	**1.2**	1.5
- US	**2.0**	2.7
Risk discount rate (net of tax)		
- UK	**4.6**	4.7
- US	**5.4**	5.9
Long-term rate of return on non profit annuities in LGR	**3.4**	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.

The methodology and assumptions used to calculate the above margins comply with the CFO Forum EEV Principles (dated April 2016) in all material respects. Key assumptions to note are:

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2018 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 20 basis points.

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

Tax

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

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

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

6.02 Estimated Solvency II new business contribution (continued)

(d) Reconciliation of PVNBP to gross written premium

A reconciliation of PVNBP and gross written premium is given below:

	6 months 2019 £bn	Full year 2018 £bn
PVNBP	**8.1**	11.6
Effect of capitalisation factor	**(1.0)**	(2.0)
New business premiums from selected lines	**7.1**	9.6
Other[1]	**0.7**	2.1
Total LGR and LGI new business	**7.8**	11.7
Annualisation impact of regular premium long-term business	**(0.1)**	(0.2)
IFRS gross written premiums from existing long-term insurance business	**1.5**	2.8
Deposit accounting for lifetime mortgage advances	**(0.5)**	(1.2)
Future premiums on longevity swap new business	**-**	(0.3)
Total gross written premiums[2]	**8.7**	12.8

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

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7.01 Investment portfolio

	Market value 30 Jun 2019 £m	Market value 30 Jun 2018 £m	Market value 31 Dec 2018 £m
Worldwide total assets under management[1]	**1,141,593**	990,379	1,019,858
Client and unit-linked policyholder assets	**(1,036,229)**	(907,834)	(930,516)
Non-unit linked with-profits assets	**(10,372)**	(10,673)	(9,893)
Investments to which shareholders are directly exposed	**94,992**	71,872	79,449

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

Analysed by investment class:

	Notes	LGR investments 30 Jun 2019 £m	Other non profit insurance investments 30 Jun 2019 £m	LGC[2] investments 30 Jun 2019 £m	Other shareholder investments 30 Jun 2019 £m	Total 30 Jun 2019 £m	Total 30 Jun 2018 £m	Total 31 Dec 2018 £m
Equities[3,6]		**162**	**13**	**2,741**	**226**	**3,142**	2,727	2,785
Bonds	7.03	**66,907**	**1,859**	**2,002**	**490**	**71,258**	55,826	63,096
Derivative assets[4]		**11,523**	**-**	**109**	**1**	**11,633**	4,225	4,411
Property	7.04	**3,131**	**-**	**144**	**-**	**3,275**	2,871	3,055
Cash, cash equivalents and loans[5]		**1,555**	**587**	**1,541**	**634**	**4,317**	5,104	4,894
Financial investments		**83,278**	**2,459**	**6,537**	**1,351**	**93,625**	70,753	78,241
Other assets[6]		**90**	**-**	**1,277**	**-**	**1,367**	1,119	1,208
Total investments		**83,368**	**2,459**	**7,814**	**1,351**	**94,992**	71,872	79,449

2. LGC property includes £23m of shareholder investment property.

3. Equity investments include a total of £362m (30 June 2018: £125m; 31 December 2018: £260m) in respect of associates and joint ventures.

4. Derivative assets are shown gross of derivative liabilities of £6.9bn (30 June 2018: £3.3bn; 31 December 2018: £3.3bn). Exposures arise from use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

5. Loans include reverse repurchase agreements of £960m (30 June 2018: £752m; 31 December 2018 £857m).

6. Other assets includes the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

7.02 Direct Investments

(a) Analysed by asset class

	Direct[1] Investments 30 Jun 2019 £m	**Traded[2] securities 30 Jun 2019 £m**	**Total 30 Jun 2019 £m**	Direct Investments 30 Jun 2018 £m	Traded securities 30 Jun 2018 £m	Total 30 Jun 2018 £m	Direct[1] Investments 31 Dec 2018 £m	Traded[2] securities 31 Dec 2018 £m	Total 31 Dec 2018 £m
Equities	**1,300**	**1,842**	**3,142**	890	1,837	2,727	1,166	1,619	2,785
Bonds[3]	**15,824**	**55,434**	**71,258**	10,800	45,026	55,826	13,369	49,727	63,096
Derivative assets	**-**	**11,633**	**11,633**	-	4,225	4,225	-	4,411	4,411
Property[4]	**3,275**	**-**	**3,275**	2,871	-	2,871	3,055	-	3,055
Cash, cash equivalents and loans	**410**	**3,907**	**4,317**	580	4,524	5,104	418	4,476	4,894
Financial investments	**20,809**	**72,816**	**93,625**	15,141	55,612	70,753	18,008	60,233	78,241
Other assets	**1,367**	**-**	**1,367**	1,119	-	1,119	1,208	-	1,208
Total investments	**22,176**	**72,816**	**94,992**	16,260	55,612	71,872	19,216	60,233	79,449

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct Investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.
3. Bonds include lifetime mortgages of £3,990m (30 June 2018: £2,674m; 31 December 2018: £3,227m).
4. A further breakdown of property is provided in Note 7.04.

7.02 Direct Investments (continued)

(b) Analysed by segment

	LGR 30 Jun 2019 £m	**LGC[1] 30 Jun 2019 £m**	**LGI 30 Jun 2019 £m**	**Total 30 Jun 2019 £m**
Equities	**6**	**1,233**	**61**	**1,300**
Bonds[2]	**15,148**	**3**	**673**	**15,824**
Property[3]	**3,131**	**144**	**-**	**3,275**
Cash, cash equivalents and loans	**-**	**64**	**346**	**410**
Financial investments	**18,285**	**1,444**	**1,080**	**20,809**
Other assets[4]	**90**	**1,277**	**-**	**1,367**
Total direct investments	**18,375**	**2,721**	**1,080**	**22,176**

1. LGC includes £58m of equities and £23m of property that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £3,990m.
3. A further breakdown of property is provided in Note 7.04.
4. Other assets include finance leases of £90m and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

	LGR 30 Jun 2018	LGC[1] 30 Jun 2018	LGI 30 Jun 2018	Total 30 Jun 2018
Equities	-	851	39	890
Bonds[2]	10,432	30	338	10,800
Property[3]	2,791	80	-	2,871
Cash, cash equivalents and loans	175	77	328	580
Financial investments	13,398	1,038	705	15,141
Other assets[4]	92	1,027	-	1,119
Total direct investments	13,490	2,065	705	16,260

1. LGC included £40m of equities, £27m of bonds and £23m of property that belong to other shareholder funds.
2. Bonds included lifetime mortgages of £2,674m.
3. A further breakdown of property is provided in Note 7.04.
4. Other assets include finance leases of £92m and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

	LGR 31 Dec 2018 £m	LGC[1] 31 Dec 2018 £m	LGI 31 Dec 2018 £m	Total 31 Dec 2018 £m
Equities	6	1,124	36	1,166
Bonds[2]	12,716	3	650	13,369
Property[3]	2,930	125	-	3,055
Cash, cash equivalents and loans	-	64	354	418
Financial investments	15,652	1,316	1,040	18,008
Other assets[4]	91	1,117	-	1,208
Total direct investments	15,743	2,433	1,040	19,216

1. LGC included £51m of equities and £23m of property that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £3,227m.
3. A further breakdown of property is provided in Note 7.04.
4. Other assets include finance leases of £91m and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

7.03 Bond portfolio summary

(a) Sectors analysed by credit rating

As at 30 June 2019	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	1,585	9,472	297	456	59	-	11,869	17
Banks:								
- Tier 1	-	-	-	2	-	-	2	-
- Tier 2 and other subordinated	-	47	84	27	2	-	160	-
- Senior	23	1,693	2,830	81	-	-	4,627	6
- Covered	132	-	-	-	-	-	132	-
Financial Services:								
- Tier 2 and other subordinated	-	93	91	10	-	4	198	-
- Senior	2	469	73	303	8	-	855	1
Insurance:								
- Tier 2 and other subordinated	28	125	3	53	-	-	209	-
- Senior	-	233	551	205	-	-	989	1
Consumer Services and Goods:								
- Cyclical	-	632	951	1,903	142	2	3,630	5
- Non-cyclical	240	1,100	2,060	3,698	209	1	7,308	10
- Health Care	-	138	465	472	7	-	1,082	2
Infrastructure:								
- Social	110	790	3,719	847	40	-	5,506	8
- Economic	336	27	1,683	2,781	55	-	4,882	7
Technology and Telecoms	116	168	1,133	2,819	52	-	4,288	6
Industrials	-	12	750	679	26	-	1,467	2
Utilities	-	181	5,863	4,513	4	35	10,596	15
Energy	-	-	300	874	14	-	1,188	2
Commodities	-	-	261	584	15	-	860	1
Oil and Gas	-	419	917	698	113	1	2,148	3
Real estate	-	6	1,692	1,542	131	-	3,371	5
Structured finance ABS / RMBS / CMBS / Other	446	766	251	336	21	1	1,821	3
Lifetime mortgage loans[1]	2,403	886	326	276	-	99	3,990	6
CDOs	-	-	66	14	-	-	80	-
Total £m	5,421	17,257	24,366	23,173	898	143	71,258	100
Total %	8	24	34	33	1	-	100	

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

2. The group's bond portfolio is dominated by LGR investments. These account for £66,907m, representing 94% of the total group portfolio.

7.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

As at 30 June 2018	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total £m	Total %
Sovereigns, Supras and Sub-Sovereigns	1,266	9,102	160	323	43	-	10,894	20
Banks:								
- Tier 1	-	-	-	-	-	1	1	-
- Tier 2 and other subordinated	-	-	76	38	2	-	116	-
- Senior	-	1,184	2,411	62	-	8	3,665	7
- Covered	173	-	-	-	-	-	173	-
Financial Services:								
- Tier 1	1	-	-	-	-	1	2	-
- Tier 2 and other subordinated	-	187	104	17	-	-	308	1
- Senior	-	84	354	59	10	-	507	1
Insurance:								
- Tier 1	-	-	-	1	-	-	1	-
- Tier 2 and other subordinated	-	109	1	48	-	-	158	-
- Senior	-	168	456	91	-	-	715	1
Consumer Services and Goods:								
- Cyclical	-	512	825	1,435	220	1	2,993	5
- Non-cyclical	209	498	1,360	2,006	295	1	4,369	8
- Health Care	3	52	276	325	3	-	659	1
Infrastructure:								
- Social	95	788	3,276	905	127	-	5,191	9
- Economic	180	23	1,079	2,353	43	-	3,678	7
Technology and Telecoms	84	151	759	2,035	52	1	3,082	6
Industrials	-	3	817	374	43	-	1,237	2
Utilities	-	105	4,912	3,657	5	19	8,698	16
Energy	-	-	103	548	15	-	666	1
Commodities	-	-	248	491	13	-	752	1
Oil and Gas	-	341	557	617	111	-	1,626	3
Real estate	-	-	1,048	1,145	56	-	2,249	4
Structured finance ABS / RMBS / CMBS / Other	324	656	195	128	10	-	1,313	2
Lifetime mortgage loans[1]	1,533	588	219	211	-	123	2,674	5
CDOs	-	24	61	14	-	-	99	-
Total £m	3,868	14,575	19,297	16,883	1,048	155	55,826	100
Total %	7	26	35	30	2	-	100	

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

2. The group's bond portfolio is dominated by LGR investments. These account for £50,847m, representing 90% of the total group portfolio.

7.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

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

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

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

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile

As at 30 June 2019	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	9,279	1,500	704	386	11,869
Banks	1,468	1,209	1,450	794	4,921
Financial Services	354	91	597	11	1,053
Insurance	137	769	206	86	1,198
Consumer Services and Goods:					
- Cyclical	624	2,232	615	159	3,630
- Non-cyclical	1,619	5,158	491	40	7,308
- Health care	18	1,018	46	-	1,082
Infrastructure:					
- Social	5,106	358	-	42	5,506
- Economic	3,905	563	95	319	4,882
Technology and Telecoms	717	2,217	653	701	4,288
Industrials	96	932	372	67	1,467
Utilities	5,928	1,869	2,300	499	10,596
Energy	266	780	4	138	1,188
Commodities	14	335	66	445	860
Oil and Gas	294	659	438	757	2,148
Real estate	2,080	401	525	365	3,371
Structured Finance ABS / RMBS / CMBS / Other	1,019	754	22	26	1,821
Lifetime mortgages	3,990	-	-	-	3,990
CDOs	-	-	-	80	80
Total	36,914	20,845	8,584	4,915	71,258

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 30 June 2018	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	8,702	1,005	774	413	10,894
Banks	1,643	703	932	677	3,955
Financial Services	291	127	397	2	817
Insurance	132	541	113	88	874
Consumer Services and Goods:					
- Cyclical	530	1,888	467	108	2,993
- Non-cyclical	1,284	2,717	350	18	4,369
- Health care	10	649	-	-	659
Infrastructure:					
- Social	4,860	294	-	37	5,191
- Economic	3,000	381	71	226	3,678
Technology and Telecoms	690	1,352	599	441	3,082
Industrials	199	690	264	84	1,237
Utilities	4,449	1,377	2,162	710	8,698
Energy	36	572	5	53	666
Commodities	10	272	38	432	752
Oil and Gas	272	471	348	535	1,626
Real estate	1,582	341	58	268	2,249
Structured Finance ABS / RMBS / CMBS / Other	947	295	48	23	1,313
Lifetime mortgages	2,674	-	-	-	2,674
CDOs	-	24	-	75	99
Total	31,311	13,699	6,626	4,190	55,826

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

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

7.03 Bond portfolio summary (continued)

(c) Bond portfolio analysed by credit rating

As at 30 June 2019	**Externally rated £m**	**Internally rated[1] £m**	**Total £m**
AAA	**2,647**	**2,774**	**5,421**
AA	**14,631**	**2,626**	**17,257**
A	**19,173**	**5,193**	**24,366**
BBB	**18,199**	**4,974**	**23,173**
BB or below	**658**	**240**	**898**
Other	**10**	**133**	**143**
Total	**55,318**	**15,940**	**71,258**

As at 30 June 2018	Externally rated £m	Internally rated[1] £m	Total £m
AAA	2,117	1,751	3,868
AA	12,901	1,674	14,575
A	16,062	3,235	19,297
BBB	13,045	3,838	16,883
BB or below	730	318	1,048
Other	15	140	155
Total	44,870	10,956	55,826

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

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

7.04 Property analysis

Property exposure within direct investments by status

As at 30 June 2019	LGR[1] £m	LGC[2,3] £m	Total £m	%
Fully let	**3,131**	**-**	**3,131**	**95**
Development	**-**	**23**	**23**	**1**
Land	**-**	**121**	**121**	**4**
Total	**3,131**	**144**	**3,275**	**100**

As at 30 June 2018	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	2,791	11	2,802	97
Development	-	23	23	1
Land	-	46	46	2
Total	2,791	80	2,871	100

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

1. The fully let LGR property includes £3.0bn (30 June 2018: £2.6bn; 31 December 2018: £2.8bn) let to investment grade tenants.
2. Development includes £23m (30 June 2018 and 31 December 2018: £23m) of shareholder investment property.
3. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Receivables and other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 30 June 2019 the group held a total of £1,910m (30 June 2018: £1,427m; 31 December 2018: £1,687m) of such assets.

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Alternative Performance Measures

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

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

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

Closest IFRS measure
Profit before tax attributable to equity holders

Reconciliation
Note 2.01 Operating profit

Return on Equity (ROE)

Definition
ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as annualised IFRS profit after tax attributable to equity holders divided by average IFRS shareholders' funds (by reference to opening and closing shareholders' funds as provided in the IFRS consolidated statement of changes in equity for the period).

Closest IFRS measure
Calculated using:
- Profit for the period attributable to equity holders
- Equity attributable to owners of the parent

Reconciliation
Calculated using annualised profit for the period of £1,748m (30 June 2018: £1,542m; 31 December 2018: £1,827m) and average equity attributable to the owners of the parent of £8,671m (30 June 2018: £7,595m; 31 December 2018: £8,048m)

Assets under Management

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

Closest IFRS measures
- Financial investments
- Investment property
- Cash and cash equivalents

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

Net release from operations

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

Closest IFRS measure
Profit before tax attributable to equity holders

Reconciliation
Notes 2.01 Operating profit and 2.02 Reconciliation of release from operations to operating profit before tax

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

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

Closest IFRS measure
Profit before tax attributable to equity holders

Reconciliation
Note 2.01 Operating profit

* These items represent an alternative performance measure (APM)

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

Adjusted profit before tax attributable to equity holders (previously labelled as 'profit before tax attributable to equity holders')*
Refer to the alternative performance measures section.

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

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

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

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

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

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

Assets under management (AUM)*
Refer to the alternative performance measures section.

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

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

CAGR
Compound annual growth rate.

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

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

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

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

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

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

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

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

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

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

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

ETF
LGIM's European Exchange Traded Fund platform.

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

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

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

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

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

Group adjusted operating profit (previously labelled as 'operating profit')*
Refer to the alternative performance measures section.

ICAV – Irish Collective Asset-Management Vehicle
A legal structure investment fund, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

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

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

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

LGA
Legal & General America.

LGAS
Legal and General Assurance Society Limited.

LGC
Legal & General Capital.

LGI
Legal & General Insurance.

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

LGIA
Legal & General Insurance America.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement, which includes Legal & General Retirement Institutional (LGRI) and Legal & General Retirement Retail (LGRR).

LGR new business
Single premiums arising from annuity sales and back book acquisitions (including individual annuity and pension risk transfer), the volume of lifetime mortgage lending and the notional size of longevity insurance transactions, based on the present value of the fixed leg cash flows discounted at the LIBOR curve.

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

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

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

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

Net release from operations*
Refer to the alternative performance measures section.

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

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

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

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

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

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

Purchased interest in long term business (PILTB)
An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

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

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

Return on Equity (ROE)*
Refer to the alternative performance measures section.

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

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

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

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

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

Solvency II capital coverage ratio (shareholder view basis)
In order to represent a shareholder view of group solvency position, the contribution of with-profits funds and our defined benefit pension schemes are excluded from both, the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 30 June 2019. This will be submitted to the PRA in August 2019.

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

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

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

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

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

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

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

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

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