

H1 2018: Consistent delivery of growth from divisions

Financial highlights

- **OPERATING PROFIT¹ FROM DIVISIONS² UP 7% TO £1,059M (H1 2017: £994M)**, increases in 5 out of 6 businesses since H1 2017
- **OPERATING PROFIT¹ OF £909M**, up 5% (H1 2017: £862m excluding mortality release) after increased investment in the business
- **EARNINGS PER SHARE³ DOWN 8% TO 13.00P (H1 2017: 14.19P)**, impacted by financial markets
- **PROFIT AFTER TAX DOWN 19% TO £772M (H1 2017: £952M)**
- **RETURN ON EQUITY¹ AT 20.3% (H1 2017: 26.7%)**
- **INTERIM DIVIDEND⁴ OF 4.60P PER SHARE (H1 2017: 4.30P)**
- **SOLVENCY II COVERAGE RATIO⁵ OF 193% (H1 2017: 186%)**
- **SOLVENCY II OPERATIONAL SURPLUS GENERATION UP BY 11% TO £0.7BN (H1 2017: £0.6BN)**

Business highlights

Investing & Annuities

- **LGR ANNUITY SALES OF £1.1BN⁶ (H1 2017: £2.0BN)**
- **LGR LIFETIME MORTGAGE ADVANCES UP 23% TO £0.5BN (H1 2017: £0.4BN)**
- **GROUP-WIDE DIRECT INVESTMENT UP 38% AT £16.3BN (H1 2017: £11.8BN)**

Investment Management

- **LGIM AUM UP 4% AT £984.8BN (H1 2017: £951.1BN)**
- **LGIM EXTERNAL NET FLOWS OF £14.6BN (H1 2017: £21.7BN), US FLOWS \$11.5BN (H1 2017: \$10.8BN)**

Insurance

- **LGI GROSS WRITTEN PREMIUMS UP 3% TO £1.4BN⁶ (H1 2017: £1.3BN)**
- **GENERAL INSURANCE GROSS WRITTEN PREMIUMS UP 12% TO £193M (H1 2017: £173M)**

“Legal & General again delivered consistent, positive results with five of our six businesses increasing their operating profits for the first half of 2018. Operating profit from divisions increased 7% to £1.1 billion and RoE was 20.3%. However, a reduction in positive investment variance meant earnings per share were down from 14.19p to 13.00p. We have increased our dividend to 4.60p, in line with our formulaic approach, an increase of 7%.”

We expect to have an exceptionally busy H2. We are currently actively quoting on over £20bn of UK pension risk transfer deals, including over £7bn of transactions in exclusive negotiations expected to close in H2. We are reviewing our long term mortality assumptions and expect to make a full year release in H2 which will be larger than the £332m released for full year 2017. LGIM’s momentum continues as it expands in the United States and extends its global footprint in Asia. LGC is accelerating UK investment through its “Changing Britain” programme which reflects growing regional devolution. We are confident that Legal & General is strongly positioned for growth in H2 and beyond.”

Nigel Wilson, Group Chief Executive

1. The Alternative Performance Measures within the Group’s financial highlights are defined in the glossary, on pages 99 to 104 of this report.

2. Represents operating profit from divisions and excludes mortality reserve releases (H1 2018: £nil, H1 2017: £126m). H1 2017 release reflects changes to LGR’s base mortality assumptions.

3. Excluding mortality reserve releases (H1 2018: £nil, H1 2017: £126m).

4. A formulaic approach is used to set the interim dividend, being 30% of the prior year full year dividend.

5. Solvency II coverage ratio on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the final salary pension schemes.

6. Constant FX rate comparisons have been calculated by applying the average FX rates for H1 2017 to both H1 2017 and H1 2018 local currency results. Actual FX rate comparisons apply the H1 17 and H1 18 average FX rates to the equivalent periods’ results respectively.

Financial summary

£m	H1 2018	H1 2017	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR) excl. mortality reserve release ¹	480	440	9
- LGR Institutional (LGRI)	361	333	8
- LGR Retail (LGRR)	119	107	11
Legal & General Investment Management (LGIM)	203	194	5
Legal & General Capital (LGC)	172	142	21
Legal & General Insurance (LGI) ²	154	147	5
General Insurance	(6)	15	n/a
Continuing operating profit from divisions	1,003	938	7
Mature Savings ³	56	52	8
Legal & General Netherlands ⁴	-	4	n/a
Operating profit from divisions excl. mortality reserve release	1,059	994	7
Group debt costs	(97)	(92)	(5)
Group investment projects and expenses	(53)	(40)	(33)
Operating profit excl. mortality reserve release	909	862	5
Legal & General Retirement (LGR) mortality reserve release	-	126	n/a
Operating profit	909	988	(8)
Investment and other variances (incl. minority interests) ⁵	33	175	(81)
Profit before tax attributable to equity holders	942	1,163	(19)
<i>Profit before tax excl. mortality reserve release</i>	<i>942</i>	<i>1,037</i>	<i>(9)</i>
Profit after tax	772	952	(19)
<i>Profit after tax excl. mortality reserve release</i>	<i>772</i>	<i>848</i>	<i>(9)</i>
Earnings per share (p)	13.00	15.94	(18)
Earnings per share excl. mortality reserve release (p)	13.00	14.19	(8)
Return on equity⁶ (%)	20.3	26.7	n/a
Interim dividend per share (p)	4.60	4.30	n/a
Net release from continuing operations⁷	658	673	(2)
Net release from discontinued operations	22	51	n/a
Dividend from subsidiary in respect of mortality releases ⁸	-	100	n/a
Total release	680	824	n/a

1. Excludes mortality reserve releases (H1 2018: £nil, H1 2017: £126m). H1 2017 release reflects changes to LGR's base mortality assumptions.

2. Excludes Legal & General Netherlands which was sold on 6 April 2017.

3. Mature Savings sale to Swiss Re for £650m was announced on 6 December 2017.

4. Legal & General Netherlands was sold on 6 April 2017.

5. H1 2018 includes the recognition of a one-off profit of £20m arising on the stepped acquisition of CALA Homes (H1 2017 includes £17m net profit on disposal of Legal & General Netherlands).

6. Return on equity is calculated by dividing annualised profit after tax attributable to equity holders (twice the half year figure), by the average shareholder equity during the period.

7. Excludes Mature Savings and Legal & General Netherlands.

8. Represents dividend from Legal & General Assurance Society Ltd (LGAS) to Group, in addition to normal LGAS dividend, arising due to base mortality reserve releases in H1 2017.

H1 2018 financial performance

Income statement

Operating profit from divisions⁸ increased 7% to £1,059m (H1 2017: £994m). Total operating profit⁸ increased 5% to £909m (H1 2018: £862m), including increased investment in technology across the divisions.

LGR delivered a 9% increase in operating profit⁸ to £480m (H1 2017: £440m). The backbook has continued to perform strongly and new business profit has emerged in line with H1 sales.

LGIM operating profit increased by 5% to £203m (H1 2017: £194m). Management fee revenues were £396m (H1 2017: £382m) and AUM reached £985bn (H1 2017: £951bn). Fee revenues were impacted by lower asset values in Q1 due to challenging market conditions offset in part by external net inflows of £14.6bn (H1 2017: £21.7bn). LGIM has also continued to invest in the business to support its international and retail growth strategies, and has maintained a stable cost income ratio of 51%.

LGC operating profit increased by 21% to £172m (H1 2017: £142m) driven by continued good performance in the £2.0bn (H1 2017: £1.3bn) direct investment portfolio which contributed £104m (H1 2017: £69m). This included an additional contribution from CALA Homes following the acquisition of the remaining 52.1% of the business in March 2018.

LGI operating profit increased by 5% to £154m (H1 2017: £147m). Some one-off model enhancements in UK Retail Protection and the continued improvement in UK Group Protection performance were partially offset by a year on year variance in US mortality experience, following the prior half year favourable experience.

General Insurance operating profit decreased to £(6)m (H1 2017: £15m), largely as a result of weather experience in Q1 2018, in line with the wider market. Excluding this adverse impact, operating profit was £22m and the combined operating ratio was 92%.

On 6 December 2017 we announced the sale of our **Mature Savings** business to Swiss Re for £650m. In H1 2018, we recognised £56m operating profit from the business comprising the unwind of the expected underlying profits and the release of a one-off £33m provision, which is no longer required following the transaction.

Profit before tax⁸ attributable to equity holders was £942m (H1 2017: £1,037m).

Profit before tax decreased due to lower positive investment variance as a result of volatility in global financial markets in H1 2018 (H1 2018: £33m, H1 2017: £175m). This included a £(90)m (H1 2017: £52m) loss primarily from the LGC traded assets portfolio, reflecting market performance versus our long term economic assumptions. This was offset by gains in LGR due in part to a number of trading actions in preparation for a significant H2 UK PRT new business pipeline. 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 operations⁹ was £658m (H1 2017: £673m), comprising £656m (H1 2017: £630m) release from operations and £2m (H1 2017: £43m) new business surplus. The small decrease was primarily due to lower LGR new business volumes in H1 2018.

Balance sheet

The Group's Solvency II operational surplus generation increased 11% to £0.7bn (H1 2017: £0.6bn) and after new business strain of £0.1bn (H1 2017: £0.1bn), net surplus generation was £0.6bn (H1 2017: £0.5bn). This supported a Solvency II coverage ratio¹⁰ of 193% at the end of H1 2018 (H1 2017: 186%, FY 2017: 189%).

On a proforma calculation basis¹⁰, our Solvency II coverage ratio increased from 181% at the end of 2017 to 186% at the end of H1 2018.

The above incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2018 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with guidance, the next formal recalculation will take place no later than 1 January 2020.

We continue to deliver a strong IFRS return on equity of greater than 20% (H1 2018: 20.3%, H1 2017: 26.7%).

⁸ Excludes mortality reserve releases (H1 2018: £nil, H1 2017: £126m). H1 2017 release reflects changes to LGR's base mortality assumptions.

⁹ Excludes businesses disposed of comprising Mature Savings and Legal & General Netherlands.

¹⁰ Solvency II coverage ratio on a shareholder basis excludes the SCR of the With-profits fund and the final salary pension schemes from both the Own Funds and SCR. The proforma calculation basis includes these items.

Outlook

The Group's strategy is aligned 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". We focus on attractive high growth markets where we can leverage our expertise. The clear synergies between our divisions are expected to deliver further profit growth in the future. Our business model is focused on three areas:

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

Investment Management – Legal & General Investment Management (LGIM)

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

We are confident Legal & General will see continuing momentum in H2 2018, and we are on track to deliver a similar performance out to 2020 as that achieved in 2011-2015; where EPS grew by 10% per annum. Legal & General is well placed to grow further and take advantage of organic growth opportunities, bolt-on M&A, sourcing direct investments, and investing in our existing infrastructure. To support these plans, we will invest in technology in a measured way across the Group, as previously reported.

The Group's balance sheet remains strong with £6.9bn in surplus regulatory capital and has significant buffers to absorb a market downturn. Furthermore, the structural drivers, on which the Group's strategy is based, are largely unaffected by on-going political and economic uncertainty. So while no business model can be fully immune to market volatility, our operating model is resilient as well as being underpinned by thoughtful and effective risk management practices.

Investing and Annuities

In LGR's Institutional business, the demand for UK pension de-risking strategies is expected to reach new heights as more pension schemes are able to afford bulk annuities due to improved pension scheme funding levels resulting from buoyant markets in 2017 and heavier mortality experience lowering the cost of annuities. Market participants¹¹ forecast up to £20bn of UK pension risk transfer (PRT) transactions to close in 2018, and we are actively quoting on more than £20bn of PRT deals. We anticipate 2018 UK PRT market transaction volumes will be weighted towards H2 due to a number of large, late stage transactions that are expected to complete in the third quarter. In the US we have more than doubled our PRT sales in H1 2018, and expect to continue this positive momentum in the second half of the year, during which we have historically seen more activity. As always, we will remain disciplined in the deployment of our capital, and will only select PRT and longevity opportunities that meet our return on capital hurdle rates.

Demographic changes will see LGR Retail's target market continue to grow, both in terms of the numbers of retirees and the levels of wealth they hold. New product innovation is expected to boost market volumes in individual annuities and lifetime mortgages. We have focused on refining our enhanced annuity offering and expect this to allow us to compete effectively in this growing market segment. Our leading lifetime mortgage business, which made £521m advances in H1 2018, currently has a 28% market share, and we continue to benefit from strong distribution and partnership agreements. In July 2018 we announced a new five year partnership agreement with Virgin Money to provide lifetime mortgage solutions to their interest-only customers approaching retirement. We anticipate total lifetime mortgage market volumes of over £6bn by 2020, up from £4bn forecast for 2018.

As in previous years, we are reviewing updated experience data against our longevity trend assumptions, and we intend to make amendments as necessary in H2 2018 to reflect our analysis of the next set of mortality tables (CMI 2016). We continue to see evidence of higher than expected mortality. In 2017, our mortality analyses resulted in a pre-tax release of £332m of prudence within our reserves. At this stage in our review of the CMI 2016 mortality tables, we anticipate a £300m to £400m release to be recognised in our 2018 full year results.

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

¹¹ Source: Financial Times, "Bulk annuity deals with insurers set for record"; Hymans Robertson, "2018 likely to be most active year ever for buy-ins and buy-outs"; LCP, "2018 De-risking Report"; Pension & Investments "UK bulk annuity market set for a record year.

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

Working closely with LGIM Real Assets, LGC will continue to apply capabilities in commercial real estate, residential property, infrastructure and clean energy to work with partners in cities around the UK as they develop their urban environments. Legal & General is well placed to bring together on-balance sheet or third party private capital with the development capability to make a difference to UK cities and achieve our aim to be both socially useful and economically useful.

Investment Management

In **LGIM**, we have continued to diversify our business – building on our strengths in the UK defined benefit (DB) market to position the business for strong growth in defined contribution (DC) and international markets, in particular, in the US. On 20 June 2018 we held a Capital Markets Event focusing on LGIM's culture, business and strategy. LGIM outlined its strategy for continued growth via broadening its investment capabilities, addressing the UK savings gap and internationalising its core institutional strengths. LGIM is benefiting from global trends driving increasing customer demand for its investment capabilities and products supported by strong cost efficiency, while its increasingly scaled Workplace, Retail and Personal Investing businesses offer attractive growth opportunities as these markets develop. These competitive advantages have been crucial to LGIM's success to date and underpin the division's operating growth target of 8% to 10% per annum over the medium term, assuming normal market conditions.

Our international AUM has grown by a 22% CAGR since 2014 and is now at £229.3bn (H1 2017: £198.3bn). Overall, we expect international inflows to gain momentum in the second half of 2018 as late stage pipeline opportunities are realised. By the end of 2018 we will have launched a core range of LGIM ETFs¹² to target a portion of the c.\$800bn of ETF flows in Europe. We are the market leader¹³ in UK DC assets with total assets of £72.3bn (H1 2017: £62.8bn). We will continue to invest in areas of the business that are experiencing strong growth, with operational leverage in our core business areas allowing us to maintain a relatively stable cost income ratio of around 50%, although we expect this to be slightly higher in the short term as we invest.

Insurance

In **LGI**, we anticipate continued premium growth across our UK and US businesses. In the UK, we have seen the continued turnaround of our group protection business leading to improved new business performance and a return to profitability. In our leading retail protection business we expect to continue growing premiums and generating good profits in H2, supported by distribution and product enhancements. In the US we expect our on-going investment in digital transformation to result in new business growth while maintaining healthy profits. The alignment of reserving approaches between UK and US will impact on 2018 US reported profits. We expect the US business to continue to grow from the H1 2018 result.

In **General Insurance**, we continue to see strong GWP growth across channels and products, up 12% overall on H1 2017. In our household business, we continue to attract significant interest from potential distribution partners and we have signed two agreements in H1 2018. The adverse weather claims in H1 2018 were in line with market experience and absent further weather losses we expect H2 profitability to return to levels consistent with previous years.

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 4.60p per share.

¹² Subject to regulatory approval.

¹³ Source: UK Defined Contribution And Retirement Income, Broadridge 2017.

Legal & General Retirement

FINANCIAL HIGHLIGHTS £m	H1 2018	H1 2017
Release from operations	275	256
New business surplus	23	51
Net release from operations	298	307
Experience variances, other assumption changes, tax and non-cash movements	182	133
Operating profit excluding mortality reserve release	480	440
- LGR Institutional	361	333
- LGR Retail	119	107
Longevity assumption changes	-	126
Operating profit	480	566
Investment and other variances	85	38
Profit before tax	565	604
UK PRT	507	1,504
International PRT	228	115
Individual annuity single premiums	337	345
Lifetime mortgage advances	521	424
Longevity insurance ¹	-	800
Total LGR new business	1,593	3,188
Total annuity assets (£bn)	56.4	55.6

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

Operating profit up 9% to £480m¹⁴

Operating profit increased to £480m (H1 2017: £440m excluding the H1 2017 base mortality reserve release) driven by stable profits emerging from LGR's growing annuity portfolio (H1 2018: £56.4bn, H1 2017: £55.6bn).

Release from operations increased 7% to £275m (H1 2017: £256m), reflecting the increased scale of the business as prudential margins unwind.

Net release from operations was £298m (H1 2017: £307m) with new business surplus of £23m (H1 2017: £51m). The decrease in new business surplus reflects lower UK PRT sales in H1 2018 as we maintained pricing discipline.

LGR achieved UK annuity sales of £844m delivering a 10.3% new business margin¹⁵ and Solvency II new business strain of less than 4%¹⁴.

We constantly evaluate the appropriateness of our longevity trend assumptions and we are currently reviewing the CMI 2016 mortality data. Our analysis continues to show evidence of higher than forecasted mortality, which we estimate could equate to £300m to £400m of prudent reserves and we expect to complete this review by the end of 2018. Consistent with our approach to any assumption review, we exhibit care in our assessment of longevity trends and only recognise applicable releases over several years as greater certainty emerges.

The need for products and services to manage the consequences of ageing populations is increasing, and our strategy is to be at the forefront of this through continuous innovation developed alongside our institutional clients and with our retail customers in mind. This client focus was demonstrated by our innovative structure with the BAA Pension Scheme and through the development of our Optional Payment Lifetime Mortgage. Our client-centric product development will continue to evolve as we work with our clients to disrupt the market with new structures creating different steps on the traditional PRT journey.

¹⁴ Excluding £126m mortality release in H1 2017.

¹⁵ Excludes costs incurred in quoting for business expected to complete in H2 2018 and beyond.

LGR Institutional

Global Pension Risk Transfer

In H1 2018, LGR Institutional (LGRI) completed £735m (H1 2017: £1,619m) of pension scheme buy-ins and buy-outs across 14 transactions.

Market participants expect up to £20bn of UK PRT to close in 2018¹⁶, with the majority of this being written in the second half of the year. LGRI has carefully managed its pipeline, employing disciplined pricing and focusing primarily on large deals that are expected to transact in H2 and on innovative new transactions that expand the potential PRT client base.

One such transaction was our £325m buy-in with the BAA Pension Scheme. The buy-in was supported by an investment in a bespoke corporate bond structure issued by the Scheme's corporate sponsor, Heathrow Airport Limited. This client centric structure widens the addressable market for buy-ins and buy-outs by improving affordability and solving a corporate problem.

The UK private sector DB market is estimated to have £2.3 trillion of liabilities, with only c.7% transacted to date. The trend toward decreasing deficits and improving affordability of buy-outs means we expect further growth in this market. We are currently quoting on more than £20bn of UK PRT deals.

Our US PRT premiums more than doubled compared to H1 2017 (H1 2018: \$297m, £220m; H1 2017: \$141m, £115m), benefiting from investment in a scaled up team. The US market tends to be very cyclical with the majority of business being underwritten in H2, so we expect strong growth to continue through the remainder of the year. The US represents a significant market opportunity, with \$3.1 trillion of DB liabilities, and only c.5% transacted to date.

LGR Retail

Individual Retirement Solutions

Lifetime mortgage advances were up 23% at £521m (H1 2017: £424m), which has been supported through new product innovation and a number of strong distribution and partnership agreements. The portfolio has an average customer age of 70 and the weighted average loan-to-value is c.28% at the transaction date. Our success in this market to date has allowed us to achieve a market share of 28%. Our exposure to LTMs is currently 5% of our total annuity assets. Our LTM portfolio characteristics and low exposure means that we do not expect the Prudential Regulation Authority's (PRA) consultation on LTMs (CP13/18) to have a material impact on our solvency position.

Individual annuity sales were £337m in H1 2018, slightly lower than the prior year's of £345m, which benefitted from increased H1 sales during a catch up period following the commencement of the Aegon distribution agreement. Adjusting for this catch up period and after enhancements in our products and sales channels we see a 16% increase in Q2 2018 sales (Q2 2018: £191m, Q2 2017: £164m) and we expect this momentum to continue. We are top three in the UK individual annuity market and have doubled our market share in the past two years, with a current market share of 13%¹⁷.

On-going credit and asset management

Credit portfolio management

LGR's £56.4bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities is well diversified. Within the £50.8bn bond portfolio, approximately two-thirds of the portfolio is A-rated or better, 32% BBB-rated and 2% sub-investment grade.

Our fixed income fund managers in LGIM manage the portfolio to avoid credit downgrades and defaults. At the end of H1 2018 our IFRS credit default reserve was £2.6bn. We constantly review our asset portfolio, including sector allocations, in order to improve credit quality and to mitigate risks. We are confident our credit portfolio is resilient to market shocks given the robustness of our portfolio construction and the quality of our asset management.

¹⁶ Source: Financial Times, "Bulk annuity deals with insurers set for record"; Hymans Robertson, "2018 likely to be most active year ever for buy-ins and buy-outs"; LCP, "2018 De-risking Report"; Pension & Investments "UK bulk annuity market set for a record year.

¹⁷ Q1 2016: 6.5%; Q1 2018: 12.7%

Direct Investment

LGR has had a successful start to the year originating £1.5bn of direct investments, including infrastructure and lifetime mortgages. This portfolio is now £13.5bn (H1 2017: £9.8bn) including £2.7bn in lifetime mortgages. We have a robust internal rating process and over half of the direct investment portfolio is rated A and above based on strong counterparties and collateral; for example, our largest exposure is over £1.0bn to the UK government. We have retained a significant portion of the 2017 warehoused direct investments in expectation of higher H2 2018 PRT volumes.

The Group's large balance sheet size and long term illiquid liabilities enable LGR to invest in assets of size and term that differentiate it from many other institutional investors. The ability to self-manufacture attractive assets to back annuities, working with LGIM, LGC, or through lifetime mortgages, is an important feature of LGR's business. Including externally sourced investments, the yield enhancement over fixed-rate traded assets typically ranges from 50 to 150+ bps depending on the asset type. In order to further accelerate and grow our capability to invest we have created a dedicated function for Matching Adjustment eligible direct investment and real asset origination working with LGIM and LGC.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS £m	H1 2018	H1 2017
Management fee revenue ¹	396	382
Transactional revenue	16	12
Total revenue	412	394
Total costs ¹	210	200
Asset management operating profit	202	194
ETF operating result ²	(1)	-
Workplace Savings operating result ³	2	-
Operating profit	203	194
Investment and other variances	(4)	(4)
Profit before tax	199	190
Net release from operations	164	154
Cost:income ratio (excluding Canvas)⁴ (%)	51.0	51
Cost:income ratio (including Canvas) ⁴ (%)	51.5	51
£bn		
<i>Canvas Acquisition</i>	2.4	-
External net flows	14.6	21.7
Internal net flows	(2.6)	(1.1)
Disposal of LGN ⁵	-	(0.8)
Total net flows	12.0	19.8
- Of which international	9.9	17.9
Cash management flows	1.0	4.1
Persistency (%)	88	90
<i>Average assets under management</i>	978.4	930.6
Assets under management	984.8	951.1
- Of which international assets under management ⁶	229.3	198.3
Assets under administration – Workplace Savings	29.7	24.9

1. Management fee revenue and total costs exclude income and costs of £8m in relation to the provision of 3rd party market data (H1 17: £8m; FY 17: £17m).

2. Canvas represents the revenue and expenses related to the ETF business acquired in H1 2018.

3. Represents Workplace Savings administration business only. Profits on fund management services are included within Asset Management operating profit.

4. Excluding Workplace Savings' administration.

5. Legal & General Netherlands disposal completed on 6 April 2017.

6. International AUM includes assets from internationally domiciled clients plus assets managed in the US on behalf of UK clients.

Operating profit up 5% to £203m

LGIM has continued to expand and diversify its business across channels, regions and product lines. This contributed to a 4% growth in assets under management (AUM) to £985bn (H1 2017: £951bn). External net flows were £14.6bn (H1 2017: £21.7bn) with a further £1.0bn of cash management flows (H1 2017: £4.1bn). Our overall position was driven by positive flows from our DC, retail, DB Solutions, and international businesses, offset by the structural shift from our UK DB index business and a single very large outflow of £6bn from a local authority scheme, as previously flagged. This demonstrates the benefits of continued diversification. Revenues were up 5% to £412m (H1 2017: £394m).

Management fees increased by 4% to £396m, although this was impacted by market volatility in the first quarter. Transactional revenues also increased to £16m (H1 2017: £12m) due to higher performance fees and execution fees.

Operating profit increased by 5% to £203m (H1 2017: £194m), reflecting increased revenues from flows and higher asset base, partially offset by LGIM's continued investment in its growth strategy. The cost income ratio remained stable at 51%.

Workplace Savings assets increased by 19% to £29.7bn (H1 2017: £24.9bn) driven by continued client wins and increased contributions. We are focused on improving efficiency as the business grows and we delivered a profit in H1 2018 for the first time of £2m. This profit is for the administration business only, as the profit on the fund management services provided are included in LGIM's asset management operating profit.

International assets up 16% to £229bn

LGIM's international businesses experienced net inflows of £9.9bn (H1 2017: £17.9bn), underpinned by net inflows of £8.3bn (USD: \$11.5bn) in the US (H1 2017: GBP: £8.6bn, USD: \$10.8bn), £0.5bn in Europe (H1 2017: £6.6bn), and £2.5bn in Asia (H1 2017: £0.3bn). The Gulf had net outflows of (£1.4bn) due to sovereign wealth funds rebalancing their portfolios (H1 2017: £2.5bn inflow). We continue to build our international footprint and expect a strong second half, with flows planned for H1 now expected later in the year.

ETF acquisition progressing at pace

We completed the acquisition of Canvas in March and the integration is on track. Total AUM at acquisition was £2.4bn and flows since then have been strong.

£3.5 billion net flows from DC business

The defined contribution (DC) business continued to grow rapidly with total net inflows of £3.5bn (H1 2017: £1.7bn), driven by the bundled business which provides administration and investment services to DC schemes. Total UK DC AUM increased by 15% to £72.3bn (H1 2017: £62.8bn). LGIM has experienced a 21% increase in customers on its Workplace pension platform, with the number of members now at 2.9m (H1 2017: 2.4m). We also have the largest and fastest-growing Mastertrust, which recently surpassed £5bn in assets under management, reflecting the continued appeal of the structure for DC schemes wishing to outsource their governance, investment and administration.

Accelerating growth in our retail business

The retail business experienced net inflows of £1.4bn (H1 2017: £1.8bn), with strong demand for our multi-asset, real asset and index products. Retail AUM increased to £25.1bn (H1 2017: £21.4bn) as we continue to develop our product range and client-service proposition in the UK and broaden our distribution strategy in Europe following the acquisition of Canvas.

Personal investing

Personal investing is a recent focus for LGIM, as financial responsibility shifts from institution to individual and trends indicate customers are increasingly going direct. The personal investing business currently has AUM of £5.7bn (H1 2017: £5.4bn), including £2.0bn of legacy Banks and Building Society customers.

Breadth of investment management solutions

Asset movements £bn	Index funds	Global fixed income	Solutions	Real assets	Active equities	Total AUM
At 1 January 2018	340.9	148.8	462.7	23.8	7.1	983.3
Canvas Acquisition	2.4	-	-	-	-	2.4
External inflows	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	(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	-	1.0	-	-	-	1.0
Market and other movements	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

Total AUM increased 4% to £984.8bn (H1 2017: £951.1bn), with external net inflows of £14.6bn (H1 2017: £21.7bn) driven by strong flows from our DC and US businesses as we continue to broaden our capabilities across client channels and regions. These were partially offset by UK DB net outflows of £0.3bn. We delivered consistent strong performance for our active clients, with the majority of funds outperforming their respective benchmarks over one and three years.

Solutions external net inflows were £26.2bn (H1 2017: £20.4bn), driven by DB pension schemes implementing a broad range of liability driven investment (LDI) strategies and high demand for multi-asset strategies from DC schemes and retail customers. External net inflows into multi-asset funds were £4.3bn (H1 2017: £3.1bn). Our private credit areas have also experienced strong growth.

Index external net outflows were £18.6bn (H1 2017: £4.3bn outflow), driven by UK DB clients implementing de-risking strategies together with the expected loss of £6bn of assets from one local government pension scheme. We expect to see continued index outflows from our DB clients as they transition into our LDI strategies. Outflows from the UK index business were partially offset by net inflows from US, Asian and retail clients.

Net external inflows into Global Fixed Income of £6.5bn (H1 2017: £5.3bn) were driven by continued strong performance across our range of funds. There has been robust demand for credit strategies from US, while UK clients increased their fixed income allocations as they de-risked their portfolios.

The **Real Assets** business has continued to expand, with good growth in private credit. LGIM originated £0.7bn of investments across corporate and infrastructure debt and real estate lending in H1 2018 and saw continued success with its Build to Rent business. Real Assets AUM has grown to £25.3bn (H1 2017: £21.2bn).

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	H1 2018	H1 2017
Net release from operations	138	119
Operating profit from:		
Direct investment	104	69
Traded investment portfolio	64	73
Treasury assets	4	-
Total operating profit	172	142
Investment and other variances	(90)	52
Profit before tax attributable to equity holders	82	194
DIRECT INVESTMENT PORTFOLIO¹ £m		
Housing	1,050	416
Urban Regeneration	477	608
Clean Energy	112	123
SME Finance	366	201
	2,005	1,348
TRADED PORTFOLIO £m		
Equities	1,631	2,047
Fixed income	219	308
Multi-asset	126	140
Cash ²	2,690	1,443
	4,666	3,938
LGC investment portfolio	6,671	5,286
Treasury assets at holding company	1,407	1,504
Total	8,078	6,790

1. Direct Investment portfolio includes an LGC asset valued at £128m which is classified as held for sale in line with IFRS 5 Non-current Assets Held for Sale and Discontinued operations.

2. Includes short term liquid holdings and proceeds from the Mature Savings sale.

Total operating profit up 21% to £172M

LGC operating profit was £172m, a 21% increase from the previous year (H1 2017: £142m), led by a strong performance from the direct investments portfolio. Overall the direct investment operating profit increased by 51% (H1 2018: £104m, H1 2017: £69m), benefitting from the CALA Homes acquisition as well as good performance from the existing assets.

Direct investment profit before tax was up 51% to £80m (H1 2017: £53m), representing a net portfolio return of 9.1% (H1 2017: 8.6%). The traded investment portfolio, including treasury assets, delivered profit before tax of £2m (H1 2017: £141m).

Direct investment portfolio up 49% to £2.0bn

The LGC direct investment portfolio grew to £2,005m, an increase of 49% (H1 2017: £1,348m). We invested or committed £708m in the period¹⁸, strengthening our presence in UK Housing through the acquisition of CALA Homes and launching an Affordable Housing business in April 2018. Further investment has also been made into Build to Rent schemes and development of our regeneration projects across the UK. We have continued our strategy of recycling capital by crystallising gains from the disposal of further developed assets and investing the proceeds into new opportunities across our target sectors. We have a pipeline for the disposal of further developed assets in H2 2018. Central to our future growth is the extension of a UK wide housing platform and support of Legal & General's Real Asset strategy, investing in the future of UK cities.

¹⁸ Up to June 2018.

Strengthening our UK Housing platform

Housing assets increased to £1,050m (H1 2017: £416m)

LGC has continued to expand its housing sector investments and capabilities, developing operating businesses to deliver a multi-tenure housing offering.

In March 2018, we attained full ownership of CALA Homes by purchasing the remaining 52.1% stake for £315m. Our stake in CALA Homes has made a significant contribution to LGC profit in H1 2018. In its financial year to June 2018, CALA Homes delivered another consecutive year of strong growth with revenues up 14% to £850m (year to 30 June 2017: £748m) and a significant number of home completions, up 29% to 2,171 (year to 30 June 2017: 1,677). Growth prospects remain strong. There is a healthy level of forward private reservations providing good visibility for the remainder of the financial year, which is being extended to December 2018 to align with Legal & General. The business is well positioned to achieve its long-term target of building c.3,000 homes per annum¹⁹, underpinned by a strong land pipeline, established market position and product offering. All of the required infrastructure is in place to deliver on this ambition, with few additional staff needed.

LGC also launched its affordable housing arm in April 2018, to address the overwhelming need for affordable housing across the UK. There are more than 1.3 million households on UK waiting lists with new additions to the housing stock averaging only 30,000 properties a year over the last 10 years²⁰. LGC's Affordable Homes business aims to be fully operational and delivering 3,000 homes per year within the next four years.

Across LGC's other housing businesses, Legal & General Homes Communities and our Later Living business, we have continued to make land acquisitions to support future growth. At our first Communities site at Crowthorne, we have taken our first orders and we now have our first modular homes on site. In our Later Living business we have active development at 6 sites across the UK and have acquired a further site where we expect construction to commence later this year.

Investing in the future of UK cities

Our focus on sectors where there has been a shortage of investment and innovation has led us to Urban Regeneration and Clean Energy. We are investing in UK cities through the creation of Real Assets and Clean Energy investments which generate stable returns for shareholders, attractive Matching Adjustment eligible assets for LGR, and desirable assets for LGIM clients.

We have committed a further £50m to our Build-to-Rent joint venture with PGGM and LGIM Real Assets, which has acquired a new site in Woolwich, the largest site to date, and forward funded a new development in Croydon. This brings our total Build-to-Rent pipeline to 3,000 homes across nine schemes nationwide, more than double our pipeline in H1 2017 (H1 2017: 1,400 homes). LGC aims to have 6,000 homes in planning, development or operation by the end of 2019.

The Urban Regeneration business continues to mature with valuations increasing as projects are developed and units are let across the portfolio. For example, LGC has forward-sold a 100,000 square foot office building that has been pre-let to the Newcastle Council for a term of 40 years to LGR in March 2018. This is an attractive Matching Adjustment eligible asset LGR can use to back its annuity liabilities.

In Clean Energy, LGC's sector partner, NTR²¹, now has 9 of 12 sites in operation in its €246m UK and Ireland onshore wind fund and NTR is in advanced stages of the development of its second fund.

Funding innovation

LGC continues to play an active role investing in SME and early stage enterprises in the UK and Europe. LGC has committed an additional £22m to vehicles investing in early stage start-ups, taking total commitments to £101m.

Our Pemberton funds also continue to perform strongly and Pemberton²² are approaching €3bn committed AUM across all its funds. Deployment of capital is progressing well, with Euro Fund I almost fully-deployed. LGC increased its commitment to Euro Fund II to €189m from €90m, which is now 47% drawn having secured attractive investment opportunities within the European direct lending market. LGC's initial commitment in the UK Sterling Fund of £50m is now 40% deployed across 11 loans.

¹⁹ By 2021.

²⁰ Data as at April 2018.

²¹ LGC owned a 25% share in NTR fund management business and 47.5% in the NTR fund as at 30 June 2018.

²² LGC owned a 40% share in Pemberton as at 30 June 2018.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	H1 2018	H1 2017
Release from operations	165	166
New business surplus	(8)	3
Net release from continuing operations¹	157	169
Operating profit from continuing operations¹	154	147
- UK	136	90
- US (LGIA)	18	57
Investment and other variances ^{2,3}	(37)	(3)
Profit before tax attributable to equity holders	117	144
LGI new business annual premiums ⁴	163	153
UK Retail Protection gross premiums	633	609
UK Group Protection gross premiums	223	224
US Protection (LGIA) gross premiums	461	491
Total gross premiums⁴	1,317	1,324

1. Excludes Legal & General Netherlands (LGN) which was sold on 6 April 2017. In H1 2017, LGN contributed £ nil to net release from operations, and £4m to operating profit.

2. Investment variance is driven by two components: (a) a change in the market value of the underlying assets and liabilities backing term reserves in the US; and (b) a flattening of UK government bond yields which has resulted in a reduction in the discount rate used to calculate the reserves for our UK protection liabilities.

3. Prior year investment variance excludes a £11m gain related to LGN (including the gain from the disposal).

4. Excludes H1 2017 £1m new business annual premiums and £14m gross premiums in LGN.

3% growth in gross written premium²³

In H1 2018, LGI gross written premium grew by 3%, assuming constant FX rates (H1 2018: £1,360, H1 2017: £1,324m), demonstrating good new business performance. Using actual FX rates, gross written premiums were broadly flat at £1,317m (H1 2017: £1,324m).

UK Retail Protection gross premium income increased 4% to £633m (H1 2017: £609m) with new business annual premiums of £87m (H1 2017: £86m). We remain a leading provider of Retail Protection in the UK, delivering straight through processing for more than 80% of our customers. Our direct distribution channel continues to perform strongly and delivered Retail Protection new business APE of £17m (H1 2017: £16m) accounting for 20% of our total Retail Protection new business APE. Group Protection increased new business by 21% to £34m (H1 2017: £28m) and gross premium income was broadly flat at £223m (H1 2017: £224m) reflecting the non-renewal of specific schemes which have experienced significantly higher claims than expected.

LGIA gross premium income increased 3% (down 6% on a sterling basis) to \$635m (H1 2017: \$618m) driven by new annual premiums increasing 21% to \$58m (H1 2017: \$48m). LGIA is the second largest provider of US term life assurance through the brokerage channel.

Legal & General Mortgage Club facilitated £35bn of mortgages in H1 2018 (H1 2017: £29bn) through strong partnerships with top lenders and over 9,000 mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we are involved in one in five of all UK mortgage transactions. Legal & General Surveying Services delivered a strong performance, completing about 266,000 surveys and valuations.

²³ Constant FX rate comparisons have been calculated by applying the average FX rates for H1 2017 to both H1 2017 and H1 2018 local currency results. Actual FX rate comparisons apply the H1 17 and H1 18 average FX rates to the equivalent periods' results respectively.

UK: Profit up 51%, Group Protection turnaround on track

In H1 2018, LGI UK delivered a £136m profit (H1 2017: £90m), up 51% on the prior year, following some one-off model enhancements and the return to profitability in Group Protection where claims experience has improved following management actions.

Net release from operations decreased by £9m to £80m (H1 2017: £89m), with new business strain of £(8)m (H1 2017: £3m) reflecting higher Group Protection new business, changes in product mix and lower product margins in the competitive UK Retail Protection marketplace.

UK protection sales delivered a 7.1% Solvency II new business margin (H1 2017: 9.1%), reflecting product mix changes and the impact of competitive pressures in the retail protection market. The protection business continues to generate Solvency II surplus immediately when written.

US: Profits impacted by adverse mortality

LGIA operating profit decreased by \$48m to \$24m (H1 2017: \$72m), primarily due to claims in H1 2018 being slightly higher than expected in contrast to prior year H1 favourable mortality experience. The unfavourable experience in H1 2018 is consistent with wider experience in the US life sector following elevated cases of flu in H1 2018.

LGIA net release from operations increased by 5% (down 4% on a sterling basis) to \$105m (H1 2017: \$100m). This represents the annual dividend paid by LGIA to the Group in March 2018.

US protection sales delivered a strong Solvency II new business margin of 11.6% (H1 2017:12.8%).

In order to align with other Legal & General subsidiaries, LGIA has elected a voluntary accounting policy change to its reserving methodology for term life insurance. Previously, our US GAAP reserving was based on locked-in assumptions, however, the new approach will incorporate updated assumptions. We expect the US business to continue to grow in the coming years, rebased on the H1 2018 performance.

Fintech: Salary Finance expansion and mortgage market transformation

We see increasing opportunities for technological innovation to help customers engage with financial services. To pursue these growth opportunities we established a Fintech business area within LGI that includes our existing business, Investment Discounts Online (IDOL), and other start-ups, that we fund and collaborate with.

LGI's investment in SalaryFinance, a Fintech business providing a financial well-being platform to employees, continues to perform strongly. At the end of June 2018 SalaryFinance had over half a million employees on its platform in the UK, a fivefold increase in the last twelve months. SalaryFinance will further enhance its growth potential by entering the US market in H2 2018 and by expanding the products available on the platform.

In July 2018, the Fintech business made a £3m strategic investment into Smartr365, a digital B2B mortgage broking platform. We will be working with Smartr365 to scale up the business and innovate using technology to enable mortgage brokers to become much more efficient and provide better customer service.

The Fintech business is also collaborating with our leading surveying business to enhance the services it offers to the mortgage market.

General Insurance

FINANCIAL HIGHLIGHTS £m	H1 2018	H1 2017
Net release from operations	(5)	12
Experience variances, assumption changes, tax and non-cash movements	(1)	3
Operating profit	(6)	15
<i>Operating profit excluding freeze event</i>	22	15
Investment and other variances	(8)	6
Profit before tax	(14)	21
General Insurance gross premiums	193	173
Combined operating ratio (%)	107	95
<i>Combined operating ratio excluding freeze event (%)</i>	92	95

12% growth in gross premiums to £193m

Gross premiums increased 12% to £193m (H1 2017: £173m). This includes £12m from our pet insurance business, a 65% increase compared to H1 2017. The Buddies business, which was acquired in January 2018, is now operating as an integral part of the General Insurance division. Our direct business delivered gross premiums of £71m in H1 2018, representing 12% growth on H1 2017 and now accounts for 37% of gross premiums (H1 2017: £63m, 36% of gross premiums).

Operating profit in H1 2018 was £(6)m (H1 2017: £15m) with a combined operating ratio of 107% (H1 2017: 95%). In line with market experience, adverse weather experience caused by the February/March 2018 freeze has had a negative impact on operating profit of c.£28m. Excluding this freeze event, operating profit was £22m (H1 2017: £15m), and the combined operating ratio was 92% (H1 2017: 95%).

Delivering on new distribution agreements

The General Insurance business has had eight distribution agreements with major UK financial institutions go live since 2016, two of which went live in H1 2018. The distribution agreement with The Co-operative Bank went into effect in May 2018 and the agreement with Pen Underwriting went into effect in April 2018.

We continue to attract significant interest from potential distribution partners, who value our market leading, digital SmartQuote and SmartClaim propositions. We are actively discussing a number of new opportunities including the very latest in Insurtech.

Continuing digital innovation

Our SmartQuote solution using technology and big data for producing household insurance quotes in approximately ninety seconds after asking only five questions is being used in our direct and distribution partner channels. This has created a strong pipeline of opportunities, including the recent win with The Co-operative Bank.

In H1 2018 we expanded our award-winning²⁴ SmartClaim system which makes the claim filing process easy and fast for customers, leading to a Net Promoter Score of 80 in the most recent analysis. SmartClaim has reduced claims processing times resulting in increased operational efficiency and improved fraud detection for General Insurance. We are delighted that Legal & General's SmartClaim was the winner of the Insurance Times Claims Technology Solution of the Year award in May 2018.

We were also awarded Home Insurance Provider of the year at the 2018 Consumer Moneyfacts Awards, a further endorsement of our digital and customer led proposition.

²⁴ 2018 Digital Claims Solutions Award

Disposed operations

The Group announced the sale of the Mature Savings business to Swiss Re on 6 December 2017 for £650m. The proceeds were received by the Group at the start of January 2018. The sale is expected to generate a one-off IFRS gain on completion of the Part VII transfer in 2019 of over £400m, and c.£50m operating profit per annum prior to that from the unwind of the expected underlying profits. Additionally in H1 2018 there was a one-off release of a £33m provision, which is no longer required following the transaction. As we set out during Full Year results, for H1 2018 we have reflected the impact of the Risk Transfer Agreement in our Internal Model which has given a small improvement in the capital position. The completion of the Part VII is expected to improve the Group's Solvency II coverage ratio by a further c.2%.

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

Borrowings

The Group's outstanding core borrowings total £3.5bn at 30 June 2018 (FY 2017: £3.5bn). There is also a further £1.0bn (FY 2017: £0.5bn) of operational borrowings including £0.3bn (FY 2017: £0.1bn) of non-recourse borrowings.

Group debt costs of £97m (H1 2017: £92m) reflect an average cost of debt of 5.0% per annum (H1 2017: 5.0% per annum) on average nominal value of debt balances of £3.9bn (H1 2017: £3.7bn).

Taxation

Equity holders' Effective Tax Rate (%)	H1 2018	H1 2017
Equity holders' total Effective Tax Rate ²⁵	17.8	18.1
Annualised rate of UK corporation tax	19.0	19.25

In H1 2018, the Group's effective tax rate was below the UK corporation tax rate. This is driven by the impact of overseas tax rates and one-off adjustments.

²⁵ Equity holders' total Effective Tax Rate is shown for continuing operations. The equity holders' total Effective Tax Rate including discontinuing operations is 18.0% (H1 2017 18.1%).

Solvency II

As at 30 June 2018, the Group had an estimated Solvency II surplus of £6.9bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 193% on a shareholder basis.

Capital (£bn)	H1 2018 ¹	FY 2017 ¹
Own Funds	14.3	14.6
Solvency Capital Requirement (SCR)	(7.4)	(7.7)
Solvency II surplus	6.9	6.9
SCR coverage ratio (%)	193	189

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

Analysis of movement from 1 January 2018 to 30 June 2018 (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	0.7
Release of Risk Margin ²	0.2
Amortisation of TMTP ³	(0.2)
Operational surplus generation	0.7
New business strain	(0.1)
Net surplus generation	0.6
Dividends paid – 2017 final dividend	(0.7)
Operating variances	-
Mergers, acquisitions and disposals ⁴	-
Market movements	0.1
Subordinated debt	-
Total surplus movement (after dividends paid in the year)	-

2. Based on the Risk Margin in force at end 2017 and does not include the release of any Risk Margin added by new business written in 2018

3. TMTP amortisation based on a linear run down of the end-2017 TMTP of £5.3bn net of tax (£6.2bn before tax)

4. Mergers, acquisitions and disposals include the impact of the sale of Mature Savings (in excess of the amount which recognised in 2017) and purchase of 100% of CALA Homes

The total increase in surplus reflects the operational surplus generated over the first six months of 2018 net of new business strain and the £0.7bn of the 2017 final dividend paid. Operational surplus generation was up 11%²⁶ to £0.7bn (H1 2017: £0.6bn), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP). New business strain was £0.1bn. Consistent with H1 2017, the majority of this strain was in respect of our US term protection sales, which we reinsure and finance in H2, significantly reducing the eventual impact.

Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, and other management actions. These actions include changes in asset mix, matching adjustment optimisation, and hedging strategies. The net impact of operating variances over the period was £ nil.

The above incorporates management's estimate of the impact of recalculating the TMTP as at 30 June 2018 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with UK regulatory requirements, a formal recalculation of the Group's TMTP will take place no later than 31 December 2019.

When stated on a proforma basis, including the SCR attributable to our With-profits fund and the final salary pension schemes of £0.8bn in both the Group's Own Funds and the SCR, the Group's coverage ratio was 186% (H1 2017: 180%).

²⁶ 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 2018:

	£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	0.2
Other Solvency II items and presentational differences	-
Solvency II Operational surplus generation	0.7

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in H1 2018:

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

Sensitivity analysis

	Impact on net of tax Solvency II capital surplus H1 2018 £bn	Impact on net of tax Solvency II coverage ratio H1 2018 %
Credit spreads widen by 100bps assuming an escalating addition to ratings ¹	0.4	12
Credit migration ²	(0.5)	(7)
15% fall in property markets	(0.5)	(6)
100bps increase in risk free rates	0.8	22
50bps decrease in risk free rates	(0.5)	(11)

1. Applies to all assets within Legal & General's holdings where the capital treatment depends on a credit rating (e.g. corporate bonds and Sale & Leaseback rental strips), with no change in the firm's long term default expectations.

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 and Sale & Leaseback rental strips).

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the Group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of TMTP as at 30 June 2018, where the impact of the stress would cause it to change materially.

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

Solvency II new business contribution

Management estimates of the value of new business and the margin as at 30 June 2018 are shown below:

	PVNB ¹	Contribution from new business	Margin %
LGR¹ (£m)	844	65	7.7
UK Protection Total (£m)	788	56	7.1
- Retail protection	652	49	7.6
- Group protection	136	7	5.2
US Protection (£m)	411	48	11.6

1. UK annuity business.

As in previous years the reported LGR margin includes all of LGR's new business costs including those incurred in quoting on business we expect to conclude in H2 and beyond. By only including the costs associated with the business written in H1 the margin increases to 10.3%. This level is not representative of our expected full year margins, given the relatively small number of PRT deals written in H1.

The key economic assumptions as at 30 June 2018 are as follows:

Margin for risk	3.1%
Risk free rate	
- UK	1.7%
- US	2.8%
Risk discount rate (net of tax)	
- UK	4.8%
- US	5.9%
Long term rate of return on non-profit annuities in LGR	3.0%

Methodologies and the approach to setting assumptions that would have a material impact on the margin for these contracts are unchanged from those used for the European Embedded Value reporting at end 2015. The cost of currency hedging is updated at each reporting date 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 writing 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 which 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.

Whilst the global economy continues to see relatively robust levels of growth, we are closely monitoring a range of risk factors that have led over the last six months to a period of financial market volatility and which could trigger a broader reappraisal of asset values. These factors include the effects of a tightening in central bank monetary policies and geo-political risks such as a developing trade war between the US and China. Within the UK, much uncertainty remains on the outcome of negotiations on a future trading relationship with the EU and the post "Brexit" economy, with the risk of significant financial market volatility if a potential deal were to emerge only very close to, or shortly after, the UK's formal departure date. Although we cannot fully eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, as part of our on-going business planning activity we continue to model a broad range of economic and financial market scenarios so as to ensure our strategies will remain resilient in projected conditions.

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. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken. 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.

We continue to 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 trading out to improve credit quality. We are closely monitoring a number of factors that may lead to a widening of credit spreads including the outlook for interest rates; and the potential economic impacts of an unfavourable "Brexit" outcome for specific industrial and service sectors. We also remain vigilant to other risk scenarios including a material deterioration in global economic conditions; a renewed banking crisis; and default on debt linked to emerging markets. Within our property lending businesses, our underwriting criteria take account of both the default risk of the borrower and the wider outlook for the different segments of the property markets in which we operate, recognising for example that recent housing data may be indicative of slowing market confidence.

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. We continue to progress our responses to EU driven financial services regulation including the IDD, and implement the requirements of the UK senior manager insurance regime. As a predominantly UK and US focused business, UK's withdrawal from the EU does not have a material operational impact for our businesses. Much uncertainty remains, however, on the extent to which EU regulation may permit on-going servicing of UK written annuity and protection business where customers have subsequently moved to the EU. We are establishing businesses in Dublin to support our European institutional investment clients and are investigating mitigating options to enable the future servicing of EU based retail insurance customers. Our internal control framework seeks to ensure on-going 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 may disrupt the landscape of the markets in which we operate

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 disrupting the current competitive landscape.

Whilst strong competition exists in a number of our markets including retail protection and pension risk transfer business, we remain selective in the pricing of risk and continue to develop our product offerings to meet our customers' needs. We continue to focus on developing our digital capabilities including My Account that enables more than 1.5 million customers to manage their investments online; our SmartQuote app for household insurance; and technology to transform our insurance product distribution reach in the US.

A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage

We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.

Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks across our businesses. We 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. 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, which we seek to closely manage through robust internal control systems, including training, monitoring and independent assessments.

Notes

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

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

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

Participant dial-in numbers

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

Please enter access code 349372 to gain access to the conference.

2018 Financial Calendar

Date

Ex-dividend date (2018 interim dividend)	16 August 2018
Record date	17 August 2018
Last day for DRIP elections	6 September 2018
Payment date of 2018 interim dividend	27 September 2018

Definitions

Definitions are included in the Glossary on pages 99 to 104 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 18 to 20. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

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

Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim 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 2017. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board

Nigel Wilson
Group Chief Executive
8 August 2018

Stuart Jeffrey Davies
Group Chief Financial Officer
8 August 2018

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Notes

Half-year report

HY 2018



Legal & General Group Plc Analyst Pack

1 INDEPENDENT REVIEW REPORT TO LEGAL & GENERAL GROUP PLC

Conclusion

We have been engaged by 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 2018 which comprises the Consolidated Balance Sheet, the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity (pages 41 to 46), and the related explanatory notes to the interim financial statements (pages 29 to 40 and 47 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 2018 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.

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
8 August 2018

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IFRS Disclosures on Performance and Release from operations

2.01 Operating profit

For the six month period to 30 June 2018

	Notes	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
From continuing operations				
Legal & General Retirement (LGR)	2.03	480	566	1,247
- LGR Institutional (LGRI)		361	402	906
- LGR Retail (LGRR)		119	164	341
Legal & General Investment Management (LGIM)	2.04	203	194	400
Legal & General Capital (LGC)	2.06	172	142	272
Legal & General Insurance (LGI)	2.03	154	147	303
- UK and Other		136	90	209
- US (LGIA)		18	57	94
General Insurance	2.05	(6)	15	37
Operating profit from divisions:				
From continuing operations		1,003	1,064	2,259
From discontinued operations ¹		56	56	107
Operating profit from divisions				
Group debt costs ²		(97)	(92)	(191)
Group investment projects and central expenses	2.07	(53)	(40)	(120)
Operating profit				
Investment and other variances	2.08	32	169	24
Gains on non-controlling interests		1	6	11
Profit before tax attributable to equity holders				
Tax expense attributable to equity holders	4.06	(170)	(211)	(188)
Profit for the period				
Profit attributable to equity holders				
Earnings per share:				
Basic (pence per share)³	2.09	13.00p	15.94p	31.87p
Diluted (pence per share)³	2.09	12.94p	15.88p	31.73p

1. Discontinued operating profit from divisions primarily reflects the operating profit of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For these operating profit disclosures, discontinued operations in 2017 also includes the results of Legal & General Netherlands (LGN) which was sold during 2017 and was a component of the LGI (UK and Other) division. During 2017, LGN was not classified as discontinued and hence the Profit before tax attributable to equity holders in the Consolidated Income Statement (H1 2017: £1,118m; FY 2017: £1,991m) excludes the profit before tax associated with discontinued operations of LGN (H1 2017: £45m; FY 2017: £99m).

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.

- For LGR, worldwide pension risk transfer business (including longevity insurance) is within LGRI, and individual retirement and lifetime mortgages is within LGRR.
- LGIM represents institutional and retail investment management and workplace savings businesses.
- LGC represents shareholder assets invested in direct investments, and traded and treasury assets.
- LGI represents business in retail and group protection written in the UK, networks, and protection business written in the US (LGIA).
- General Insurance comprises short-term household and other personal insurance.
- Discontinued operations represent businesses that have either been sold or announced to sell subject to formal transfer, namely Mature Savings (including with-profits). In 2017 the discontinued operations include Mature Savings (sale announced in December 2017) and Legal & General Netherlands (LGN) (sold in April 2017). LGN was not classified as discontinued in previously reported results for the half year ended 30 June 2017.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects the IFRS profit before tax) and 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 operating profit. Exceptional income and expenses which arise outside the normal course of business in the period, such as merger and acquisition, and start-up costs, are also excluded from operating profit.

IFRS Disclosures on Performance and Release from operations

2.02 Reconciliation of release from operations to operating profit before tax

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 and other £m	International and other ² £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)	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
General Insurance	(5)	-	(5)	-	-	-	-	(5)	(1)	(6)
From continuing operations	750	2	752	81	65	(16)	(76)	806	197	1,003
From discontinued operations ⁴	22	-	22	(3)	-	26	-	45	11	56
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 includes dividends from the US of £77m within the US (LGIA) line.

2. International and other includes £9m of restructuring costs (£11m before tax) within the group investment projects and expenses line.

3. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).

4. Discontinued operations primarily reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re.

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

New business surplus/strain for LGR, LGIM 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.

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

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

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

IFRS Disclosures on Performance and Release from operations

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

For the six month period to 30 June 2017	Release from operations ¹ £m	New business surplus/(strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other ² £m	Operating profit/(loss) after tax £m	Tax expense/(credit) £m	Operating profit/(loss) before tax £m
LGR	256	51	307	59	104	(3)	-	467	99	566
- LGRI	174	40	214	62	57	(4)	-	329	73	402
- LGRR	82	11	93	(3)	47	1	-	138	26	164
LGIM	165	(11)	154	-	(2)	1	-	153	41	194
- LGIM (excluding Workplace Savings)	153	-	153	-	-	-	-	153	41	194
- Workplace Savings ³	12	(11)	1	-	(2)	1	-	-	-	-
LGC	119	-	119	-	-	-	-	119	23	142
LGI	166	3	169	(28)	23	(13)	(46)	105	42	147
- UK and Other	86	3	89	(28)	23	(13)	1	72	18	90
- US (LGIA)	80	-	80	-	-	-	(47)	33	24	57
General Insurance	12	-	12	-	-	-	-	12	3	15
From continuing operations	718	43	761	31	125	(15)	(46)	856	208	1,064
From discontinued operations ⁴	53	(2)	51	-	2	(11)	3	45	11	56
Total from divisions	771	41	812	31	127	(26)	(43)	901	219	1,120
Group debt costs	(74)	-	(74)	-	-	-	-	(74)	(18)	(92)
Group investment projects and expenses	(14)	-	(14)	-	-	-	(18)	(32)	(8)	(40)
Total	683	41	724	31	127	(26)	(61)	795	193	988

1. Release from operations includes US dividends of £80m within the US (LGIA) line.

2. International and other includes £10m of restructuring costs (£12m before tax) within the Group investment projects and expenses line.

3. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).

4. Discontinued operations primarily reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this reconciliation, discontinued operations also include the results of Legal & General Netherlands. This business was sold during 2017 and was previously reflected in the LGI (UK and Other) divisional results.

IFRS Disclosures on Performance and Release from operations

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

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

1. Release from operations includes dividends from the US of £80m within the US (LGIA) line.

2. International and other includes £48m of restructuring costs (£59m before tax) within the group investment projects and expenses line.

3. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).

4. Discontinued operations primarily reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this reconciliation, discontinued operations also include the results of Legal & General Netherlands. This business was sold during 2017 and was previously reflected in the LGI (UK and Other) divisional results.

IFRS Disclosures on Performance and Release from operations

2.03 Analysis of LGR and LGI operating profit

For the six month period to 30 June 2018

	LGR 6 months 2018 £m	LGI 6 months 2018 £m	LGR 6 months 2017 £m	LGI 6 months 2017 £m	LGR Full year 2017 £m	LGI Full year 2017 £m
Net release from operations	298	157	307	169	688	275
Experience variances						
Persistency	3	(9)	-	(13)	9	(18)
Mortality/morbidity	9	(12)	3	(16)	30	(26)
Expenses	(6)	3	(6)	2	(21)	3
Project and development costs	(3)	-	(2)	(1)	(15)	(3)
Other ^{1,2}	48	49	64	-	69	(6)
Total experience variances	51	31	59	(28)	72	(50)
Changes to valuation assumptions						
Persistency	-	-	-	-	-	(11)
Mortality/morbidity ³	57	10	104	25	303	51
Expenses	-	-	-	-	(20)	9
Other	-	(2)	-	(2)	(9)	(1)
Total changes in valuation assumptions	57	8	104	23	274	48
Movement in non-cash items						
Acquisition expense tax relief	-	(5)	-	(9)	-	(18)
Other	(6)	(4)	(3)	(4)	3	(7)
Total movement in non-cash items	(6)	(9)	(3)	(13)	3	(25)
International and other	-	(76)	-	(46)	-	(26)
Operating profit after tax	400	111	467	105	1,037	222
Tax gross up	80	43	99	42	210	81
Operating profit before tax	480	154	566	147	1,247	303

1. Other experience variances for LGR in the period to 30 June 2018 include the impact of an improvement in the quality of scheme data relating to bulk annuities.

2. Other experience variances for LGI in the period to 30 June 2018 reflect a number of modelling refinements for lapsing policies and interest rate application across product groups.

3. Mortality assumption changes for LGR in the period to 30 June 2018 include the one off release of certain scheme specific mortality reserves below a de minimis limit, as well as the benefit arising from an update to the Irish and Dutch long term assumptions for base mortality and future improvements.

IFRS Disclosures on Performance and Release from operations

2.04 LGIM operating profit

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Asset management revenue (excluding 3rd party market data) ¹	396	382	780
Asset management transactional revenue ²	16	12	25
Asset management expenses (excluding 3rd party market data) ¹	(210)	(200)	(405)
ETF operating loss ³	(1)	-	-
Workplace Savings operating profit ⁴	2	-	-
Total LGIM operating profit	203	194	400

1. Asset management revenue and expenses excludes income and costs of £8m in relation to provision of third party market data (H1 17: £8m each; FY 17: £17m each).

2. Transactional revenue includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees for property funds.

3. ETF represents the results of the Canvas ETF business, the acquisition of which completed in March 2018.

4. Workplace Savings represents administration business only.

2.05 General Insurance operating profit and combined operating ratio

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
General Insurance operating (loss)/profit¹	(6)	15	37
General Insurance combined operating ratio²	107%	95%	93%

1. Includes the General Insurance underwriting result and smoothed investment return.

2. The calculation of the General Insurance combined operating ratio incorporates claims, commission and expenses as a percentage of net earned premiums.

2.06 LGC operating profit

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Direct Investments ¹	104	69	124
Traded investment portfolio including treasury assets ²	68	73	148
Total LGC operating profit	172	142	272

1. Direct Investments represents LGC's portfolio of assets across infrastructure, housing (including CALA Homes) and SME finance.

2. The traded book holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash.

2.07 Group investment projects and central expenses

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Group investment projects and central expenses	42	28	61
Restructuring and other costs	11	12	59
Total group investment projects and expenses	53	40	120

IFRS Disclosures on Performance and Release from operations

2.08 Investment and other variances

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Investment variance ¹	54	198	129
M&A related and other variances ²	(22)	(29)	(105)
Total investment and other variances	32	169	24

1. Includes a positive variance in respect of the defined benefit pension scheme of £94m (H1 17: £111m; FY 17: £94m) reflecting a one-off payment by the with profits fund, (which forms part of the Mature Savings business sold to Swiss Re) as well as the impact of the acquisition of annuity assets from LGR and the beneficial rate difference between the IAS19 and annuity discount rates, as well as , to the shareholder fund in exchange for the removal of all future obligations in respect of the group's pension schemes.

2. Includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. H1 18 includes the recognition of a one-off profit of £20m arising on the stepped acquisition of CALA Homes (see note 4.02).

IFRS Disclosures on Performance and Release from operations

2.09 Earnings per share

(a) Basic earnings per share

For the six month period to 30 June 2018

	After tax 6 months 2018 £m	Per share ¹ 6 months 2018 p	After tax 6 months 2017 £m	Per share ¹ 6 months 2017 p	After tax Full year 2017 £m	Per share ¹ Full year 2017 p
Operating profit	732	12.34	795	13.40	1,667	28.10
Investment and other variances	39	0.66	151	2.54	224	3.77
Total earnings based on profit attributable to equity holders	771	13.00	946	15.94	1,891	31.87
Less: earnings derived from discontinued operations	(44)	(0.75)	(36)	(0.61)	(80)	(1.35)
Earnings derived from continuing operations	727	12.25	910	15.33	1,811	30.52

1. 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 2018

	After tax £m	Weighted average number of shares m	Per share ¹ p
Profit 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	(44)	-	(0.74)
Diluted earnings derived from continuing operations	727	5,958	12.20

	After tax £m	Weighted average number of shares m	Per share ¹ p
For the six month period to 30 June 2017			
Profit attributable to equity holders	946	5,933	15.94
Net shares under options allocable for no further consideration	-	25	(0.06)
Total diluted earnings	946	5,958	15.88
Less: diluted earnings derived from discontinued operations	(36)	-	(0.61)
Diluted earnings derived from continuing operations	910	5,958	15.27

	After tax £m	Weighted average number of shares m	Per share ¹ p
For the year ended 31 December 2017			
Profit attributable to equity holders	1,891	5,933	31.87
Net shares under options allocable for no further consideration	-	27	(0.14)
Total diluted earnings	1,891	5,960	31.73
Less: diluted earnings derived from discontinued operations	(80)	-	(1.35)
Diluted earnings derived from continuing operations	1,811	5,960	30.38

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

IFRS Disclosures on Performance and Release from operations

2.10 Segmental analysis

Reportable segments

The group has five reportable segments that are continuing operations, comprising LGR, LGIM, LGC, LGI and General Insurance, as set out in the Operating profit section.

Central group 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.

Analysis of segmental information for continuing operations

(a) Total income

For the six month period to 30 June 2018	LGR £m	LGIM ^{1,2} £m	LGI £m	General Insurance £m	LGC and other ³ £m	Total continuing operations ⁴ £m
Internal income	-	81	-	-	(81)	-
External income	(101)	1,324	1,073	183	11	2,490
Total income	(101)	1,405	1,073	183	(70)	2,490

For the six month period to 30 June 2017	LGR £m	LGIM ^{1,2} £m	LGI ⁵ £m	General Insurance £m	LGC and other ^{3,5} £m	Total continuing operations ⁴ £m
Internal income	-	78	-	-	(78)	-
External income	2,810	12,988	1,075	167	442	17,482
Total income	2,810	13,066	1,075	167	364	17,482

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

1. LGIM internal income relates to investment management services provided to other segments.

2. LGIM external income includes fees from fund management and investment return.

3. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.

4. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the six month period to 30 June 2017 and the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.

5. Following a review of the segmentation of income between certain business divisions we have reallocated £179m for the period ended 30 June 2017, and £518m for the year ended 31 December 2017, from LGI to LGC and other, as this better reflects the nature of that income.

IFRS Disclosures on Performance and Release from operations

2.10 Segmental analysis (continued)

(b) Fees from fund management and investment contracts

	LGIM	LGI	LGC and other ¹	Total continuing operations ²
For the six month period to 30 June 2018	£m	£m	£m	£m
Investment contracts	38	1	-	39
Investment management fees	393	-	(53)	340
Transaction fees	16	-	(1)	15
Total fees from fund management and investment contracts³	447	1	(54)	394

	LGIM	LGI ²	LGC and other ¹	Total continuing operations ²
For the six month period to 30 June 2017	£m	£m	£m	£m
Investment contracts	38	1	-	39
Investment management fees	375	-	(51)	324
Transaction fees	12	-	1	13
Total fees from fund management and investment contracts³	425	1	(50)	376

	LGIM	LGI ²	LGC and other ¹	Total continuing operations ²
For the year ended 31 December 2017	£m	£m	£m	£m
Investment contracts	77	1	-	78
Investment management fees	768	1	(101)	668
Transaction fees	25	-	-	25
Total fees from fund management and investment contracts³	870	2	(101)	771

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.

2. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the six month period to 30 June 2017 and the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.

3. Fees from fund management and investment contracts are a component of Total income disclosed in Note 2.10 (a).

IFRS Disclosures on Performance and Release from operations

2.10 Segmental analysis (continued)

(c) Other operational income from contracts with customers

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	-	1	88	499	588
Other income ³	2	-	(1)	27	28
Total other operational income⁴	2	1	87	526	616

For the six month period to 30 June 2017	LGR £m	LGIM £m	LGI £m	LGC and other ¹ £m	Total continuing operations ^{2,4} £m
House building	-	-	-	-	-
Professional services fees	1	1	91	(19)	74
Insurance broker	-	-	9	-	9
Total other operational income from contracts with customers	1	1	100	(19)	83
Other income ³	1	-	2	41	44
Total other operational income⁴	2	1	102	22	127

For the year ended 31 December 2017	LGR £m	LGIM £m	LGI £m	LGC and other ¹ £m	Total continuing operations ^{2,4} £m
House building	-	-	-	5	5
Professional services fees	1	2	168	(19)	152
Insurance broker	-	-	24	-	24
Total other operational income from contracts with customers	1	2	192	(14)	181
Other income ³	3	-	2	12	17
Total other operational income⁴	4	2	194	(2)	198

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments. H1 18 reflects the consolidation of the results of CALA Homes.

2. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the six month period to 30 June 2017 and the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.

3. Other income includes the net impact of £3m of share of profit from associates (H1 17: £25m; FY 17:£39m) and intra-segmental eliminations and group consolidation adjustments. Other income in H1 18 also includes a one-off profit of £20m on the stepped acquisition of CALA Homes (details are provided in Note 4.02).

4. Total other operational income is a component of Total income disclosed in Note 2.10 (a).

IFRS Disclosures on Performance and Release from operations

2.10 Segmental analysis (continued)

(d) Profit/(loss) for the period

For the six month period to 30 June 2018	LGR £m	LGIM £m	LGC £m	LGI £m	General Insurance £m	Group expenses and debt costs £m	Total Continuing operations ¹ £m
Operating profit/(loss)	480	203	172	154	(6)	(150)	853
Investment and other variances	85	(4)	(90)	(37)	(8)	86	32
Gains attributable to non-controlling interests	-	-	-	-	-	1	1
Profit/(loss) before tax attributable to equity holders	565	199	82	117	(14)	(63)	886
Tax (expense)/credit attributable to equity holders	(102)	(39)	(14)	(35)	3	29	(158)
Profit/(loss) for the period	463	160	68	82	(11)	(34)	728

For the six month period to 30 June 2017	LGR £m	LGIM £m	LGC £m	LGI £m	General Insurance £m	Group expenses and debt costs £m	Total Continuing operations ¹ £m
Operating profit/(loss)	566	194	142	147	15	(132)	932
Investment and other variances	38	(4)	52	(3)	6	77	166
Gains attributable to non-controlling interests	-	-	-	-	-	6	6
Profit/(loss) before tax attributable to equity holders	604	190	194	144	21	(49)	1,104
Tax (expense)/credit attributable to equity holders	(108)	(40)	(25)	(41)	(4)	16	(202)
Profit/(loss) for the period	496	150	169	103	17	(33)	902

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

1. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the six month period to 30 June 2017 and the year ended 31 December 2017, continuing operations also exclude profits relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.

2. The LGI tax credit of £182m in 2017 primarily reflects the impact of a one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate in 2017.

IFRS Primary Financial Statements

3.01 Consolidated Income Statement

For the six month period to 30 June 2018

	Notes	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Income				
Gross written premiums		2,756	3,684	7,932
Less: Outward reinsurance premiums		(862)	(864)	(1,858)
Less: Net change in provision for unearned premiums		(9)	(11)	(23)
Net premiums earned		1,885	2,809	6,051
Fees from fund management and investment contracts		394	376	771
Investment return		(405)	14,028	33,457
Other operational income		616	141	212
Total income	2.10	2,490	17,354	40,491
Expenses				
Claims and change in insurance liabilities		966	3,327	8,326
Less: Reinsurance recoveries		(1,128)	(492)	(1,776)
Net claims and change in insurance liabilities		(162)	2,835	6,550
Change in provisions for investment contract liabilities		292	12,489	29,848
Acquisition costs		428	353	734
Finance costs		113	103	212
Other expenses		873	380	1,086
Total expenses		1,544	16,160	38,430
Profit before tax		946	1,194	2,061
Tax expense attributable to policyholders' returns		(60)	(76)	(70)
Profit before tax attributable to equity holders		886	1,118	1,991
Total tax expense		(218)	(278)	(239)
Tax expense attributable to policyholders' returns		60	76	70
Tax expense attributable to equity holders	4.06	(158)	(202)	(169)
Profit after tax from continuing operations	2.10	728	916	1,822
Profit after tax from discontinued operations ¹		44	36	80
Profit for the period		772	952	1,902
Attributable to:				
Non-controlling interests		1	6	11
Equity holders		771	946	1,891
Dividend distributions to equity holders during the period	4.04	658	616	872
Dividend distributions to equity holders proposed after the period end	4.04	274	256	658
Earnings per share:				
Basic (pence per share)²	2.09	13.00p	15.94p	31.87p
Diluted (pence per share)²	2.09	12.94p	15.88p	31.73p
Basic earnings per share derived from continuing operations²	2.09	12.25p	15.33p	30.52p
Diluted earnings per share derived from continuing operations²	2.09	12.20p	15.27p	30.38p

1. Discontinued operations primarily reflects the results of the Savings division following the group's announcement in December 2017 to sell the Mature Savings business to Swiss Re.

2. All earnings per share calculations are based on profit attributable to equity holders of the company.

IFRS Primary Financial Statements

3.02 Consolidated Statement of Comprehensive Income

For the six month period to 30 June 2018

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Profit for the period	772	952	1,902
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	143	(56)	(55)
Tax on actuarial gains/(losses) on defined benefit pension schemes	(26)	10	10
Total items that will not be reclassified subsequently to profit or loss	117	(46)	(45)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	13	(44)	(99)
Movement in cross-currency hedge	9	20	(12)
Tax on movement in cross-currency hedge	(2)	-	2
Net change in financial investments designated as available-for-sale	(41)	28	27
Tax on net change in financial investments designated as available-for-sale	9	(10)	(4)
Total items that may be reclassified subsequently to profit or loss	(12)	(6)	(86)
Other comprehensive income/(expense) after tax	105	(52)	(131)
Total comprehensive income for the period	877	900	1,771
Total comprehensive income for the period attributable to:			
Continuing operations	833	864	1,691
Discontinued operations	44	36	80
	877	900	1,771
Total comprehensive income attributable to:			
Non-controlling interests	1	6	11
Equity holders	876	894	1,760

IFRS Primary Financial Statements

3.03 Consolidated Balance Sheet

As at 30 June 2018

	Notes	As at 30 Jun 2018 £m	As at 30 Jun 2017 ^{1,2} £m	As at 31 Dec 2017 ¹ £m
Assets				
Goodwill		65	11	11
Purchased interest in long term businesses and other intangible assets		194	133	138
Deferred acquisition costs		128	752	331
Investment in associates and joint ventures		51	305	252
Property, plant and equipment		63	69	59
Investment property	4.05	7,231	8,714	7,110
Financial investments	4.05	428,117	442,063	443,162
Reinsurers' share of contract liabilities		5,734	5,300	5,703
Deferred tax assets	4.06	7	5	7
Current tax assets		388	358	342
Other assets		9,383	5,060	6,083
Assets of operations classified as held for sale	4.03	21,932	-	22,584
Cash and cash equivalents		20,178	15,805	18,919
Total assets		493,471	478,575	504,701
Equity				
Share capital	4.07	149	149	149
Share premium	4.07	990	985	988
Employee scheme treasury shares		(52)	(40)	(40)
Capital redemption and other reserves		158	211	168
Retained earnings		6,456	5,615	6,224
Attributable to owners of the parent		7,701	6,920	7,489
Non-controlling interests	4.08	77	350	76
Total equity		7,778	7,270	7,565
Liabilities				
Participating insurance contracts		-	5,579	-
Participating investment contracts		-	5,180	-
Unallocated divisible surplus		-	719	-
Value of in-force non-participating contracts		-	(145)	-
Participating contract liabilities		-	11,333	-
Non-participating insurance contracts		59,713	60,271	61,589
Non-participating investment contracts		302,280	325,059	315,651
Non-participating contract liabilities		361,993	385,330	377,240
Core borrowings	4.09	3,489	3,499	3,459
Operational borrowings	4.10	957	553	538
Provisions		1,153	1,358	1,335
UK deferred tax liabilities	4.06	73	316	13
Overseas deferred tax liabilities	4.06	235	365	244
Current tax liabilities		255	171	223
Payables and other financial liabilities	4.11	59,152	43,709	52,246
Other liabilities		438	509	563
Net asset value attributable to unit holders		25,434	24,162	27,317
Liabilities of operations classified as held for sale	4.03	32,514	-	33,958
Total liabilities		485,693	471,305	497,136
Total equity and liabilities		493,471	478,575	504,701

1. Following a change in accounting policy for LGIA term life reserves, a number of balance sheet items have been restated, notably deferred acquisition costs, non-participating insurance contracts and deferred tax liabilities. The overall net impact on the group's retained earnings as at 30 June 2017 and 31 December 2017 is a reduction of £245m and £354m respectively. Further detail on the change in accounting policy is provided in Note 4.01.

2. As at 30 June 2017, £6,202m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial Investments. Accordingly, balances as at 30 June 2017 have been restated resulting in a decrease in Other assets of £6,202m and an increase in Financial Investments of £6,202m. The instruments have been classified as Loans at fair value and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

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3.04 Condensed Consolidated Statement of Changes in Equity

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
Total comprehensive (expense)/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)	-	-	-
As at 30 June 2018	149	990	(52)	158	6,456	7,701	77	7,778

1. Capital redemption and other reserves include share-based payments £70m, foreign exchange £83m, capital redemption £17m, available-for-sale reserves £(10)m and hedging reserves £(2)m.

For the six month period to 30 June 2017	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves ¹ £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	149	981	(30)	212	5,633	6,945	338	7,283
Total comprehensive (expenses)/income for the period	-	-	-	(6)	900	894	6	900
Options exercised under share option schemes	-	4	-	-	-	4	-	4
Net movement in employee scheme treasury shares	-	-	(10)	(3)	1	(12)	-	(12)
Dividends	-	-	-	-	(616)	(616)	-	(616)
Movement in third party interests	-	-	-	-	-	-	6	6
Currency translation differences	-	-	-	8	(8)	-	-	-
Changes in accounting policy ²	-	-	-	-	(295)	(295)	-	(295)
Restated as at 30 June 2017	149	985	(40)	211	5,615	6,920	350	7,270

1. Capital redemption and other reserves include share-based payments £57m, foreign exchange £99m, capital redemption £17m, available-for-sale reserves £17m and hedging reserves £21m.

2. Changes in accounting policy represents the cumulative impact on retained earnings of the change in accounting policy related to the recognition of US term assurance liabilities, described in Note 4.01. The change has been applied retrospectively, and this adjustment represents the effect of that change across half year 2017 and all prior periods. The impact of this change on retained earnings as at 1 January 2017 was a reduction of £277m.

IFRS Primary Financial Statements

3.04 Condensed Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves ¹ £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	149	981	(30)	212	5,633	6,945	338	7,283
Total comprehensive (expenses)/income for the year	-	-	-	(86)	1,846	1,760	11	1,771
Options exercised under share option schemes	-	7	(10)	(19)	-	(22)	-	(22)
Net movement in employee scheme treasury shares	-	-	-	28	4	32	-	32
Dividends	-	-	-	-	(872)	(872)	-	(872)
Movement in third party interests	-	-	-	-	-	-	(273)	(273)
Currency translation differences	-	-	-	33	(33)	-	-	-
Changes in accounting policy ²	-	-	-	-	(354)	(354)	-	(354)
Restated as at 31 December 2017	149	988	(40)	168	6,224	7,489	76	7,565

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

2. Changes in accounting policy represents the cumulative impact on retained earnings of the change in accounting policy related to the recognition of US term assurance liabilities, described in Note 4.01. The change has been applied retrospectively, and this adjustment represents the effect of that change across 2017 and all prior years. The impact of this change on retained earnings as at 1 January 2017 was a reduction of £277m.

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3.05 Consolidated Statement of Cash Flows

For the six month period to 30 June 2018

	6 months 2018 £m	6 months 2017 £m	Full year 2017 £m
Notes			
Cash flows from operating activities			
Profit for the period	772	952	1,902
Adjustments for non cash movements in net profit for the period			
Realised and unrealised losses/(gains) on financial investments and investment properties	6,025	(9,588)	(25,024)
Investment income	(5,386)	(5,396)	(9,953)
Interest expense	140	106	220
Tax expense	210	358	377
Other adjustments	105	33	154
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss	7,306	418	11,794
Investments designated as available-for-sale	387	(4)	277
Other assets	(2,012)	(6,116)	(2,344)
Net increase/(decrease) in operational liabilities			
Insurance contracts	(2,001)	259	(3,989)
Investment contracts	(13,370)	3,790	(10,798)
Value of in-force non-participating contracts	-	62	206
Other liabilities	5,923	10,574	20,444
Net (decrease)/increase in held for sale assets/liabilities	(538)	-	12,139
Cash used in operations	(2,439)	(4,552)	(4,595)
Interest paid	(142)	(104)	(221)
Interest received	1,816	2,353	4,528
Tax paid ¹	(286)	(298)	(497)
Dividends received	2,802	2,851	5,196
Net cash flows from operating activities	1,751	250	4,411
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets	(97)	(30)	(230)
Net disposal/(acquisition) of operations	326	286	223
Investment in joint ventures and associates	-	-	(7)
Net cash flows used in investing activities	229	256	(14)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders during the period	4.04 (658)	(616)	(872)
Issue of ordinary share capital	2	3	7
Purchase of employee scheme shares (net)	12	9	10
Proceeds from borrowings	148	1,211	1,232
Repayment of borrowings	(11)	(619)	(600)
Movement in non-controlling interests	1	-	(262)
Net cash flows used in financing activities	(506)	(12)	(485)
Net increase in cash and cash equivalents	1,474	494	3,912
Exchange gains/(losses) on cash and cash equivalents	6	(37)	(19)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)	18,919	15,348	15,348
Total cash and cash equivalents	20,399	15,805	19,241
Cash and cash equivalents classified as held for sale	(221)	-	(322)
Cash and cash equivalents at 30 June/ 31 December	20,178	15,805	18,919

1. Tax comprises UK corporation tax paid of £170m (H1 17: £151m; FY 17: £290m), overseas corporate taxes of £23m (H1 17: £8m; FY 17: £12m), and withholding tax of £93m (H1 17: £139m; FY 17: £195m).

IFRS Disclosure Notes

4.01 Basis of preparation

The group financial information for the six months ended 30 June 2018 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 2018 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2017 consolidated financial statements, except where changes have been outlined in "New standards, interpretations and amendments to published standards that have been adopted by the group" and "Change in accounting policy" outlined below. 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 2017 financial statements except for the changes outlined in the "Change in accounting policy" below.

The results for the half year ended 30 June 2018 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 2017 have been taken from the group's 2017 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 2017 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. PricewaterhouseCoopers LLP reported on the 2017 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 2017 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 operating profit, in the discussion of its business performance and financial position as the group believes that they provide a better indication of 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 annual reporting period commencing 1 January 2018.

IFRS15 Revenue from Contracts with Customers

IFRS 15, 'Revenue from Contracts with Customers', is the new revenue recognition reporting standard, which became effective from 1 January 2018. IFRS 15 has replaced all of the previous revenue standards and interpretations in IFRS, in particular IAS 18 'Revenue' and IAS 11 'Construction Contracts'.

The standard introduces a five-step model to account for revenue arising from contracts with customers, the core principle of which is that an entity will recognise revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer in the reporting period.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The group has adopted IFRS 15 using the full retrospective method. Revenue arising from insurance contracts, financial instruments and leases is out of scope of the standard. There are two categories of revenue in the group's income statement that remain in scope:

- (i) 'Fees from fund management and investment contracts'; and
- (ii) Components of the account 'Other operational income'.

IFRS Disclosure Notes

4.01 Basis of preparation (continued)

Fees from fund management and investment contracts

The group generates revenue from acting as the investment manager for clients. Fees charged on investment management services are based on the contractual fee arrangements applied to assets under management and recognised as earned when the service has been provided or as they are provided.

Other operational income

Other operational income predominantly includes revenue from house building, and professional and intermediary services. Revenue is recognised at a point in time when the service has been completed.

There has been no material impact on the group's consolidated financial statements from the implementation of IFRS 15 and therefore the group's financial statements have not been restated.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the group's consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The group already accounts for net settlement features as equity settled and therefore there is no impact on the group's consolidated financial statements.

Amendments to IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment in an associate or joint venture, at the later of the date on which: (a) the investment in an associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment in an associate or joint venture first becomes a parent. These amendments do not have any impact on the group's consolidated financial statements.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the group's consolidated financial statements.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advanced Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of a related asset, over the then expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the group's consolidated financial statements.

(b) Change in accounting policy

LGIA (Legal & General Insurance America) Term Assurance

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

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

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

The principal impact of the change on the prior period consolidated financial statements is an increase in long term insurance contract liabilities and the derecognition of deferred acquisition costs where the associated cash flows are now recognised within the insurance contract liability calculation.

IFRS Disclosure Notes

4.01 Basis of preparation (continued)

The impact on each line item of the consolidated balance sheets presented is shown in the table below:

	As reported		Adjustments		Restated	
	30 Jun 2017 £m	31 Dec 2017 £m	30 Jun 2017 £m	31 Dec 2017 £m	30 Jun 2017 £m	31 Dec 2017 £m
Deferred acquisition costs	2,032	1,507	(1,280)	(1,176)	752	331
Non-participating insurance contracts	61,097	62,318	(826)	(729)	60,271	61,589
Overseas deferred tax liability	524	337	(159)	(93)	365	244
Retained earnings	5,910	6,578	(295)	(354)	5,615	6,224

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

Whole of Life Mortality Assumptions

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

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

Future accounting developments

Insurance Contracts

IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021 (subject to EU endorsement). The standard provides a comprehensive approach for accounting for insurance contracts including their valuation, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard.

Financial Instruments

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. 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. As disclosed in the 31 December 2017 financial statements, the group has qualified for the deferral and has chosen to apply it.

The impact of IFRS 9 on the group's financial statements will depend on the interaction of the asset classification and measurement with the insurance contract measurement at the date of transition, particularly for liabilities which are measured using locked in discount rates.

Leases

In January 2016, the IASB issued IFRS 16, 'Leases', effective for annual periods beginning on or after 1 January 2019. 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 commitments in relation to operating leases (as currently defined in IAS 17, 'Leases') onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17 although the IASB have issued updated guidance on the definition of a lease. The impact on the group is not expected to be material. The group has not early adopted this standard.

IFRS Disclosure Notes

4.02 Acquisitions

CALA Group (Holdings) Limited

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

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

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

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

	Fair Value £m
Assets	
Intangible assets (Brand)	25
Other non-current assets	4
Land and inventories	1,006
Receivables	34
Cash	18
Total assets	1,087
Liabilities	
Loans and borrowings	362
Trade and other payables	271
Other liabilities	33
Total Liabilities	666
Fair value of net assets acquired	421
Fair value of purchase consideration	453
Goodwill arising on acquisition	32

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

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

Other acquisitions

During the period ended 30 June 2018 the group completed the acquisitions of Canvas European exchange-traded fund ('Canvas') and Buddies Enterprises Limited.

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

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

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 will transfer all economic risks and rewards of the Mature Savings business to Swiss Re from that date. The risk transfer agreement operates until the business is transferred under a court approved scheme under Part VII of the Financial Services and Markets Act 2000, which is expected to complete in 2019. The consideration of £650m was received in January 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 has been classified as "Profit after tax from discontinued operations" in the Consolidated Income Statement.

IndiaFirst Life Insurance Company Limited

On 1 June 2018 the group announced the sale of its stake in IndiaFirst Life Insurance Company Limited ("IndiaFirst Life"). The group has reached an agreement in principle with an affiliate of Warburg Pincus LLC to sell the group's stake for INR 7.1bn (c.£79m at GBP:Rs 1:90). The transaction is subject to the approval of regulatory authorities and is expected to complete by the end of 2018. As a result of the announcement, the group's interest in IndiaFirst Life has been classified as held for sale as at 30 June 2018.

4.04 Dividends and appropriations

	Dividend 6 months 2018 £m	Per share ¹ 6 months 2018 p	Dividend 6 months 2017 £m	Per share ¹ 6 months 2017 p	Dividend Full year 2017 £m	Per share ¹ Full year 2017 p
Ordinary dividends paid and charged to equity in the period:						
- Final 2017 dividend paid in June 2018	658	11.05	-	-	-	-
- Final 2016 dividend paid in June 2017	-	-	616	10.35	616	10.35
- Interim 2017 dividend paid in September 2017	-	-	-	-	256	4.30
	658	11.05	616	10.35	872	14.65

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

Subsequent to 30 June 2018, the directors declared an interim dividend for 2018 of 4.6 pence per ordinary share. This dividend will be paid on 27 September 2018. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2018 and is not included as a liability in the Consolidated Balance Sheet.

4.05 Financial investments and investment property

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Equities	181,535	194,754	199,858
Unit trusts	10,005	7,584	9,147
Debt securities ¹	233,977	219,989	230,941
Accrued interest	1,502	1,449	1,518
Derivative assets ²	10,132	11,513	12,595
Loans ³	10,271	6,774	9,165
Financial investments	447,422	442,063	463,224
Investment property⁴	8,505	8,714	8,337
Total financial investments and investment property	455,927	450,777	471,561
Less: financial investments and investment property classified as held for sale	(20,579)		(21,289)
Financial investments and investment property	435,348	450,777	450,272

1. A detailed analysis of debt securities to which shareholders are directly exposed, is disclosed in Note 7.03.

2. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £7,652m (30 June 2017: £7,376m; 31 December 2017: £8,173m).

3. As at 30 June 2017, £6,202m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the balances as at 30 June 2017 have been restated resulting in a decrease in Other assets of £6,202m and an increase in Financial investments of £6,202m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet. This classification is consistent with the treatment of reverse repurchase agreements as at 31 December 2017.

4. Total Financial investments and investment property is presented gross of held for sale assets as at 31 December 2017 and 30 June 2018.

(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).

All of the group's Level 2 assets have been valued 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 modeling 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 market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have therefore classified them as Level 2.

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 2018 (30 June 2017: £666m of forward currency contracts were reclassified from Level 1 to Level 2). Transfers into and out of Level 3 are disclosed in Note 4.06 (b).

4.05 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

For the six month period to 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	-
Investment property	109	-	-	109
Loans at fair value	352	-	352	-
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
Investment property	2,791	-	-	2,791
Loans at fair value	573	-	398	175
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	-
Investment property	551	-	-	551
Loans at fair value	117	-	117	-
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	-
Investment property	5,054	-	-	5,054
Loans at fair value	8,786	-	8,786	-
Total financial investments and investment property at fair value¹	455,484	320,758	113,624	21,102

1. This table excludes loans of £443m, which are held at amortised cost.

4.05 Financial investments and investment property (continued)

(a) Fair value hierarchy

For the six month period to 30 June 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,352	1,718	2	632
Debt securities	4,533	1,030	3,105	398
Accrued interest	24	6	15	3
Derivative assets ¹	50	6	44	-
Investment property	200	-	-	200
Loans at fair value ²	343	-	343	-
Non profit non-unit linked				
Equity securities	268	264	4	-
Debt securities	51,067	8,127	35,781	7,159
Accrued interest	469	40	417	12
Derivative assets ¹	3,773	-	3,768	5
Investment property	2,687	-	-	2,687
Loans at fair value ²	199	-	199	-
With-profits				
Equity securities	3,241	3,014	18	209
Debt securities	6,741	2,888	3,848	5
Accrued interest	56	18	38	-
Derivative assets ¹	93	22	71	-
Investment property	740	-	-	740
Loans at fair value ²	102	-	102	-
Unit linked				
Equity securities	196,477	192,628	3,370	479
Debt securities	157,648	105,951	51,690	7
Accrued interest	900	349	551	-
Derivative assets ¹	7,597	52	7,545	-
Investment property	5,087	-	-	5,087
Loans at fair value ²	5,558	-	5,558	-
Total financial investments and investment property at fair value³	450,205	316,113	116,469	17,623

1. Within derivative assets, £666m of forward currency contracts have been reclassified from Level 1 to Level 2 following a review of the inputs required in their valuation. The reclassification had nil impact on the valuation of the instruments, and therefore nil impact on the Consolidated Balance Sheet.

2. As at 30 June 2017, £6,202m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the balances as at 30 June 2017 have been restated resulting in a decrease in Other assets of £6,202m and an increase in Financial investments of £6,202m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet. This classification is consistent with the treatment of reverse repurchase agreements as at 31 December 2017.

3. This table excludes loans and receivables of £572m, which are held at amortised cost.

4.05 Financial investments and investment property (continued)

(a) Fair value hierarchy

For the year ended 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,418	1,743	1	674
Debt securities	4,575	1,134	3,076	365
Accrued interest	24	7	14	3
Derivative assets	44	33	11	-
Investment property	110	-	-	110
Loans at fair value	316	-	316	-
Non profit non-unit linked				
Equity securities	282	278	-	4
Debt securities	52,008	7,436	35,084	9,488
Accrued interest	468	38	410	20
Derivative assets	4,018	-	4,018	-
Investment property	2,722	-	-	2,722
Loans at fair value	363	-	363	-
With-profits				
Equity securities	3,260	3,074	4	182
Debt securities	6,162	2,105	4,053	4
Accrued interest	54	17	37	-
Derivative assets	99	16	83	-
Investment property	658	-	-	658
Loans at fair value	116	-	116	-
Unit linked				
Equity securities	203,045	199,524	2,930	591
Debt securities	168,196	115,470	52,718	8
Accrued interest	972	416	556	-
Derivative assets	8,434	124	8,310	-
Investment property	4,847	-	-	4,847
Loans at fair value	7,874	-	7,874	-
Total financial investments and investment property at fair value¹	471,065	331,415	119,974	19,676

1. This table excludes loans of £496m, which are held at amortised cost.

4.05 Financial investments and investment property (continued) (b) Level 3 assets measured at fair value

Level 3 assets comprise property, unquoted equities, untraded debt securities and securities where the broker methodology is unknown. Unquoted securities include suspended securities and 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 most significant assets classified as Level 3, and their valuation methodologies, are described below.

Equity securities

Level 3 equity securities amount to £1,588m (30 June 2017: £1,320m; 31 December 2017: £1,451m) and are valued by a number of third party specialists using a range of techniques, including earnings multiples and price/earnings ratios, which are deemed to be unobservable.

Other financial investments

Lifetime mortgage loans amount to £2,674m (30 June 2017: £1,433m; 31 December 2017: £2,023m). 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, thereby ensuring the value of loans at outset is consistent with the purchase price of the loan, and ensuring consistency between new and in-force loans. Inputs to the model include property growth rates and voluntary early redemptions. The valuation at 30 June 2018 reflects a long-term property growth rate assumption of RPI + 0.5%.

Commercial real estate loans amount to £2,193m (30 June 2017: £2,079m; 31 December 2017: £2,169m). Their valuation has been outsourced to IHS Markit, who use a discounted cash flow model taking into consideration the average weighted Yield to Maturity of a basket of agreed comparator bonds. Comparator bonds are selected based on suitability criteria including sector, duration and credit rating.

Income strip assets amount to £1,190m (30 June 2017: £1,047m; 31 December 2017: £1,153m). 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.

Private placements held by the US business amount to £337m (30 June 2017: £361m; 31 December 2017: £346m). 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 cashflows and establish a market value for each investment grade private placement.

Commercial mortgage loans amount to £504m (30 June 2017: £373m; 31 December 2017: £342m) 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. These are further adjusted for credit improvements due to seasoning and illiquidity premiums.

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 £8,505m (30 June 2017: £8,714m; 31 December 2017: £8,337m) 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.

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

4.05 Financial investments and investment property (continued)

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

	Equity securities 30 June 2018 £m	Other financial investments ¹ 30 June 2018 £m	Investment property 30 June 2018 £m	Total 30 June 2018 £m	Equity securities 30 June 2017 £m	Other financial investments ¹ 30 June 2017 £m	Investment property 30 June 2017 £m	Total 30 June 2017 £m
As at 1 January	1,451	9,888	8,337	19,676	1,101	4,390	8,150	13,641
Total gains / (losses) for the period recognised in profit:								
- in other comprehensive income	7	(113)	-	(106)	-	7	-	7
- realised and unrealised gains / (losses) ²	41	20	70	131	(23)	234	217	428
Purchases / Additions	147	1,338	397	1,882	156	1,283	402	1,841
Sales / Disposals	(47)	(214)	(299)	(560)	(34)	(39)	(166)	(239)
Transfers into Level 3	-	90	-	90	118	1,714	101	1,933
Transfers out of Level 3	(11)	-	-	(11)	-	(5)	-	(5)
Other	-	-	-	-	2	5	10	17
As at 30 June	1,588	11,009	8,505	21,102	1,320	7,589	8,714	17,623

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.

2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.

	Equity securities 31 December 2017 £m	Other financial investments ¹ 31 December 2017 £m	Investment property 31 December 2017 £m	Total 31 December 2017 £m
As at 1 January	1,101	4,390	8,150	13,641
Total gains / (losses) for the year recognised in profit:				
- in other comprehensive income	-	37	-	37
- realised and unrealised gains / (losses) ²	104	266	456	826
Purchases / Additions	316	3,595	1,218	5,129
Sales / Disposals	(267)	(118)	(975)	(1,360)
Transfers into Level 3 ³	138	1,718	-	1,856
Other ⁴	59	-	(512)	(453)
As at 31 December	1,451	9,888	8,337	19,676

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.

2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.

3. The group holds regular discussions with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process and further internal investigations. In 2017, transfers into Level 3 included £874m of private placement and £795m of income strips, which were previously classified as Level 2.

4. Other Level 3 movements primarily reflects the deconsolidation of the group's investment in a property fund.

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 using alternative price earnings multiples.
- No reasonably possible increases or decreases in fair values have been given for securities where the broker valuation methodology is unknown.

The group is therefore able to perform a sensitivity analysis for its Level 3 investments, which amount to £21.1bn (30 June 2017: £17.6bn; 31 December 2017: £19.7bn). The effect of changes in significant unobservable valuation inputs to reasonable alternative assumptions would result in a change in fair value of +/- £1.0bn (30 June 2017: +/-£0.9bn; 31 December 2017: +/-£1.2bn), which represents 5% (30 June 2017: 5%; 31 December 2017: 6%) of the total value of Level 3 investments.

IFRS Disclosure Notes

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 2018 £m	Total 6 months 2018 £m	Continuing operations 6 months 2017 £m	Total 6 months 2017 £m	Continuing operations Full year 2017 £m	Total Full year 2017 £m
Profit before tax attributable to equity holders	886	942	1,118	1,163	1,991	2,090
Tax calculated at 19.00% (H1 17: 19.25%; FY 17: 19.25%)	168	179	215	224	383	402
Adjusted for the effects of:						
Recurring reconciling items:						
Income not subject to tax	(1)	(1)	(6)	(6)	(11)	(11)
Higher rate of tax on overseas profits	12	12	3	3	1	1
Non-deductible expenses	-	-	-	-	1	1
Differences between taxable and accounting investment gains	(1)	(1)	(4)	(4)	(3)	(3)
Property income attributable to minority interests	(1)	(1)	-	-	-	-
Unrecognised tax losses	-	-	-	-	1	1
Non-recurring reconciling items:						
Income not subject to tax	(4)	(4)	(4)	(4)	(4)	(4)
Non-deductible expenses	1	1	1	1	10	10
Differences between taxable and accounting investment gains	-	-	-	-	10	10
Adjustments in respect of prior years	(15)	(15)	(3)	(3)	23	23
Impact of reduction in UK and US corporate tax rates on deferred tax balances ¹	2	2	-	-	(242)	(242)
Other	(3)	(2)	-	-	-	-
Tax attributable to equity holders	158	170	202	211	169	188
Equity holders' effective tax rate²	17.8%	18.0%	18.1%	18.1%	8.5%	9.0%

1. The US federal corporate income tax rate was reduced from 35% to 21% from 1 January 2018. The enacted rate of 21% has been applied to US temporary differences to calculate US deferred assets and liabilities on the basis of when temporary differences are expected to reverse.

2. 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 detail on the methodology of the split of policyholder and equity holders' tax.

4.06 Tax (continued)

(b) Deferred tax

	30 June 2018 £m	30 June 2017 ⁴ £m	31 December 2017 ⁴ £m
Deferred tax (liabilities)/assets			
Deferred acquisition expenses	14	34	(11)
- UK	(38)	(43)	(40)
- Overseas	52	77	29
Difference between the tax and accounting value of insurance contracts	(377)	(577)	(331)
- UK	(74)	(134)	(69)
- Overseas	(303)	(443)	(262)
Realised and unrealised gains on investments	(243)	(275)	(282)
Excess of depreciation over capital allowances	14	16	15
Excess expenses	22	40	31
Accounting provisions and other	(11)	(51)	(33)
Trading losses ¹	29	63	31
Pension fund deficit	39	77	70
Purchased interest in long-term business	(24)	(3)	(2)
Total net deferred tax liabilities²	(537)	(676)	(512)
Less: net deferred tax liabilities classified as held for sale	236	-	262
Net deferred tax liabilities	(301)	(676)	(250)
Analysed by:			
- UK deferred tax assets	2	2	2
- UK deferred tax liabilities	(73)	(316)	(13)
- Overseas deferred tax assets	5	3	5
- Overseas deferred tax liabilities ³	(235)	(365)	(244)
Net deferred tax liabilities	(301)	(676)	(250)

1. Trading losses include UK trade and US operating losses of £2m (H1 17: £8m; FY 17: £4m) and £27m (H1 17: £55m; FY 17: £27m) respectively.

2. Total net deferred tax liabilities are presented gross of held for sale liabilities for HY 2018 and FY 2017 and net of held for sale liabilities for HY 2017.

3. Overseas deferred tax liability is wholly comprised of US balances as at 30 June 2018.

4. US deferred tax liabilities in respect of deferred acquisition costs and non-participating insurance contracts have been restated following the change in accounting policy for LGIA Term Life reserves. See Note 4.01. The net impact to overseas deferred tax liabilities is a reduction of £159m at 30 June 2017 and £93m at 31 December 2017.

IFRS Disclosure Notes

4.07 Share capital and share premium

Authorised share capital	Number of shares	£m
At 30 June 2018, 30 June 2017 and 31 December 2017: 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 2018	5,958,438,193	149	988
Options exercised under share option schemes:			
- Savings related share option scheme	1,435,336	-	2
As at 30 June 2018	5,959,873,529	149	990

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2017	5,954,656,466	149	981
Options exercised under share option schemes:			
- Savings related share option scheme	2,061,874	-	4
As at 30 June 2017	5,956,718,340	149	985
Options exercised under share option schemes:			
- Savings related share option scheme	1,719,853	-	3
As at 31 December 2017	5,958,438,193	149	988

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

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

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 half year carrying value or share of profit or loss.

IFRS Disclosure Notes

4.09 Core borrowings

	Carrying amount 30 June 2018 £m	Fair value 30 June 2018 £m	Carrying amount 30 June 2017 £m	Fair value 30 June 2017 £m	Carrying amount 31 December 2017 £m	Fair value 31 December 2017 £m
Subordinated borrowings						
5.875% Sterling undated subordinated notes (Tier 2)	405	415	410	432	408	428
10% Sterling subordinated notes 2041 (Tier 2)	311	380	311	406	311	397
5.5% Sterling subordinated notes 2064 (Tier 2)	589	629	589	651	589	710
5.375% Sterling subordinated notes 2045 (Tier 2)	603	657	602	670	603	694
5.25% US Dollar subordinated notes 2047 (Tier 2)	640	617	658	700	628	679
5.55% US Dollar subordinated notes 2052 (Tier 2)	376	361	387	399	369	397
Client fund holdings of group debt ¹	(27)	(29)	(33)	(33)	(32)	(38)
Total subordinated borrowings	2,897	3,030	2,924	3,225	2,876	3,267
Senior borrowings						
Sterling medium term notes 2031-2041	603	812	602	848	609	857
Client fund holdings of group debt ¹	(11)	(14)	(27)	(27)	(26)	(37)
Total senior borrowings	592	798	575	821	583	820
Total core borrowings	3,489	3,828	3,499	4,046	3,459	4,087

1. £38m (30 June 2017: £60m; 31 December 2017: £58m) of the group's subordinated and senior borrowings' carrying amount are held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the group's core borrowings are measured using amortised cost. The presented fair values of the group's core borrowings reflect quoted prices in active markets and they are 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 are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa.

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% pa. 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% pa. 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% pa. 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% pa. These notes mature on 21 March 2047.

5.55% US Dollar subordinated notes 2052

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

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

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 June 2018 £m	Fair value 30 June 2018 £m	Carrying amount 30 June 2017 £m	Fair value 30 June 2017 £m	Carrying amount 31 December 2017 £m	Fair value 31 December 2017 £m
Short term operational borrowings						
Euro Commercial paper	497	497	322	322	349	349
Bank loans and overdrafts ¹	209	209	20	20	87	87
Total short term operational borrowings	706	706	342	342	436	436
Non recourse borrowings	251	251	211	211	102	102
Total operational borrowings	957	957	553	553	538	538

1. Bank loans and overdrafts include £9m (30 June 2017: £17m, 31 December 2017: £87m) of unit-linked borrowings where risk is retained by policyholders.

Total operational borrowings increased during the period to £957m (H1 17: £553m, FY 17: £538m), primarily reflecting both higher commercial paper as the group took advantage of attractive rates and markets following our debt upgrade by Moody's in May, as well as the impact of consolidating CALA Homes following the acquisition of the remaining share capital in March (see note 4.02 for further details).

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of short term operational borrowings of £706m (30 June 2017: £342m; 31 December 2017: £436m).

Syndicated credit facility

As at 30 June 2018, the group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 30 June 2018.

IFRS Disclosure Notes

4.11 Payables and other financial liabilities

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Derivative liabilities	7,652	7,376	8,173
Repurchase agreements ¹	36,919	28,110	32,357
Other	15,016	8,223	12,026
Total payables and other financial liabilities²	59,587	43,709	52,556
Less: liabilities classified as held for sale	(435)		(310)
Payables and other financial liabilities	59,152	43,709	52,246

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements.

2. Total payables and other financial liabilities are presented gross of held for sale liabilities as at 30 June 2018 and 31 December 2017.

Fair value hierarchy

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

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
As at 30 June 2017					
Derivative liabilities ¹	7,376	102	7,274	-	-
Repurchase agreements ²	28,110	-	28,110	-	-
Other ²	8,223	2,550	15	179	5,479
Total payables and other financial liabilities	43,709	2,652	35,399	179	5,479

1. Within derivative liabilities, £380m of forward currency contracts were reclassified from Level 1 to Level 2, following a review of the inputs required in their valuation. The reclassification had nil impact on the valuation of the instruments, and therefore nil impact on the Consolidated Balance Sheet.

2. £28,076m of repurchase agreements have been restated from amortised cost to fair value (Level 2) to properly reflect their classification as fair value through profit and loss. At the same time £34m of accrued interest on repurchase agreements has been reclassified from Other to Repurchase agreements.

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

Future commission costs (included within Other) are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as Level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the liability (including held for sale liabilities) by £4m (30 June 2017: £5m; 31 December 2017: £4m).

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the six months ended 30 June 2018 (30 June 2017 and 31 December 2017: no significant transfers), other than those noted above.

IFRS Disclosure Notes

4.12 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	30 June 2018	30 June 2017	31 December 2017
United States Dollar	1.32	1.30	1.35
Euro	1.13	1.14	1.13

Average exchange rates	6 months 2018	6 months 2017	Full year 2017
United States Dollar	1.38	1.26	1.29
Euro	1.14	1.16	1.14

4.13 Retirement benefit obligations

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. The schemes were closed to future accrual on 31 December 2015. As at 30 June 2018, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Legal & General Assurance Society) has been estimated at £179m (30 June 2017: £347m; 31 December 2017: £317m).

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.

IFRS Disclosure Notes

4.15 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the year. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £39m (H1 17: £36m; FY 17: £93m) for all employees.

At 30 June 2018, 30 June 2017 and 31 December 2017 there were no loans outstanding to officers of the company.

(i) Key management personnel compensation

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

	6 months 2018 £m	6 months 2017 ¹ £m	Full year 2017 £m
Salaries	2	2	10
Post-employment benefits	-	-	-
Share-based incentive awards	2	2	4
Key management personnel compensation	4	4	14
Number of key management personnel	15	16	15

1. For the six months ended 30 June 2017, key management personnel compensation included social security costs. These costs should not have been included in the analysis, as they are not an employee benefit. The table has therefore been restated to exclude these costs. The restatement has no impact on either Total expenses or Profit before income tax in the Company's Statement of Comprehensive Income for the six months ended 30 June 2017.

(ii) Related party transactions

The group has the following related party transactions:

- Annuity contracts issued by Legal & General Assurance Society Limited (LGAS) for consideration of £59m (H1 17: £161m; FY 17: £161m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;
- Investments in venture capital, property and financial investments held via collective investment vehicles. All transactions between the group and these collective investment vehicles are on commercial terms which are no more favourable than those available to companies in general. There were no investments into associate investment vehicles during the period (H1 17: £10m; FY: £32m). The group received investment management fees of £1m during the period (H1 17: £1m; FY 17: £3m). Distributions from these investment vehicles to the group amount to £14m (H1 17: £15m; FY 17: £17m);
- The equity investment in Pemberton is now fully drawn at £18m. A commitment of £221m was previously made to Pemberton's inaugural European Mid-Market Debt Fund, of which £184m was drawn as at 30 June 2018. A commitment of £167m was also made to Pemberton's Mid-Market Debt Fund II, of which £79m was drawn as at 30 June 2018. In addition, a £50m commitment was previously made to the Pemberton U.K. Mid-Market Direct Lending Fund, of which £20m has been drawn at 30 June 2018;
- Loans outstanding from MediaCity at 30 June 2018 of £55m (30 June 2017 and 31 December 2017: £55m);
- Preference shares outstanding from Thorpe Park at 30 June 2018 of £87m (30 June 2017: £30m; 31 December 2017: £59m);
- A 50/50 joint venture in Access Development Partnership, developing build to rent properties. LGC has a total commitment of £200m, of which £45m has been drawn at 30 June 2018;
- A 46% investment in Accelerated Digital Ventures, a venture investment company, for a total commitment of £34m, of which £20m has been drawn at 30 June 2018;
- Further contingent capital commitments of £1m for NTR Asset Management Europe DAC, with a total commitment of £5m. A commitment of £103m to the NTR Wind 1 Limited fund, of which £80m has been drawn at 30 June 2018;
- A 49% investment in Inspired Villages Group, an operating company for the Later Living investments, with a total loan commitment of £10m, the current loan balance being £3m; and
- Investment in SalaryFinance, an early-stage financial wellbeing fintech platform, LGI has a commitment of £7m, of which £2m has been drawn down at 30 June 2018.

Asset and premium flows

5.01 LGIM total assets under management (AUM)

	Index £bn	Global fixed income £bn	Solutions ¹ £bn	Real assets £bn	Active equities £bn	Total AUM £bn
For the six month period to 30 June 2018						
At 1 January 2018	340.9	148.8	462.7	23.8	7.1	983.3
Canvas acquisition²	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 flows³	(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. 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 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.

	Index £bn	Global fixed income £bn	Solutions ¹ £bn	Real assets £bn	Active equities £bn	Total AUM £bn
For the six month period to 30 June 2017						
At 1 January 2017	319.8	134.8	411.9	19.6	8.1	894.2
External inflows	25.4	8.3	16.0	0.8	0.1	50.6
External outflows	(29.7)	(3.0)	(9.0)	(0.5)	(0.1)	(42.3)
Overlay/advisory net flows	-	-	13.4	-	-	13.4
External net flows²	(4.3)	5.3	20.4	0.3	-	21.7
Internal net flows	(0.3)	(0.4)	0.4	0.5	(1.3)	(1.1)
Disposal of LGN ⁴	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	(4.9)	4.4	20.8	0.8	(1.3)	19.8
Cash management movements ³	-	4.1	-	-	-	4.1
Market and other movements ²	16.6	1.7	13.4	0.8	0.5	33.0
At 30 June 2017	331.5	145.0	446.1	21.2	7.3	951.1
Assets attributable to:						
External						853.2
Internal						97.9

1. Solutions include liability driven investments, multi-asset funds, and include £280.0bn 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 was £81.7bn and the movement in these assets is included in market and other movements for Solutions assets.

3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

4. Legal & General Netherlands was sold on 6 April 2017.

Asset and premium flows

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

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

1. Solutions include liability driven investments, multi-asset funds, and include £272.8bn of derivative notionals associated with the Solutions business.

2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets was £47.0bn and the movement in these assets is included in market and other movements for Solutions assets.

3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

4. Legal & General Netherlands was sold on 6 April 2017.

5.02 LGIM total external assets under management and net flows

	Assets under management ¹			Net flows ²		
	30 June 2018 £bn	30 June 2017 £bn	31 December 2017 £bn	6 months 30 June 2018 £bn	6 months 30 June 2017 £bn	6 months 31 December 2017 £bn
International^{1,3}	165.8	135.8	160.1	9.9	17.9	15.1
UK Institutional						
- Defined contribution	64.0	55.3	60.1	3.5	1.7	1.3
- Defined benefit ³	625.4	635.3	633.9	(0.3)	0.4	4.1
UK Retail						
- Retail intermediary	25.1	21.4	24.2	1.4	1.8	1.4
- Personal investing ⁴	5.7	5.4	5.5	(0.1)	(0.1)	(0.1)
ETF⁵	2.8	-	-	0.2	-	-
Total external	888.8	853.2	883.8	14.6	21.7	21.8

1. International asset are shown on the basis of client domicile. International AUM is £229.3bn when assets managed in the US on behalf of UK clients are included.

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 includes £63.5bn of assets managed in the US on behalf of UK clients.

4. Personal investing includes £2.0bn of legacy Banks and Building Society customers which is driving net outflows.

5. ETF reflects the acquisition of Canvas that completed in March 2018.

Asset and premium flows

5.03 LGIM investment performance

Investment performance across our AUM as at 30 June 2018 is set out in the table below. This has been calculated internally by LGIM to provide general guidance as to how our assets under management are performing. The data is aggregated and is not intended for clients or potential clients investing in our products.

Performance against success measures – benchmark or performance criteria

For the six month period to 30 June 2018	One year period	Three year period	Five year period
Actively Managed AUM ¹	88%	85%	81%
Index Managed AUM ²	98%	98%	97%
Client Solutions AUM ³	100%	100%	100%
Percentage of AUM reported ⁴	89%	64%	55%

1. Actively Managed AUM: actively managed products measured against applicable benchmark or peer group performance.

2. Index Managed AUM: assets managed against benchmark within applicable tolerance.

3. Client solutions AUM: products managed against specific risk target or client outcome.

4. Excluded from the performance measurement are non-discretionary accounts, funds on our investment only platform with external manager holdings, funds with insufficient performance history and transition management accounts.

Performance is measured on a gross-of-fee basis for institutional accounts and net-of-fee for retail funds, and is measured against benchmarks, peer group performance or risk based metrics.

5.04 Assets under management reconciliation to Consolidated Balance Sheet financial assets

	30 June 2018 £bn	30 June 2017 £bn	31 December 2017 £bn
Assets under management	985	951	983
Derivative notionals ¹	(277)	(281)	(273)
Third party assets ²	(275)	(233)	(261)
Other ³	44	8	42
Total financial investments, investment property and cash and cash equivalents	477	445	491
Less: financial assets classified as held for sale ⁴	(21)	-	(22)
Financial investments, investment property and cash and cash equivalents	456	445	469

1. Derivative notionals are included in the assets under management but not for IFRS reporting and are thus removed.

2. Third party assets are those that LGIM manage on behalf of others, to which the group is not exposed to the risks or rewards and thus are not included on the IFRS 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. Details relating to assets classified as held for sale is provided in Note 4.03.

Asset and premium flows

5.05 Assets under administration

	Workplace ¹ 30 June 2018 £bn	Annuities ² 30 June 2018 £bn	Workplace 30 June 2017 £bn	Annuities 30 June 2017 £bn	Workplace 31 December 2017 £bn	Annuities 31 December 2017 £bn
At 1 January	27.7	58.2	20.8	54.4	20.8	54.4
Gross inflows	2.7	1.1	3.4	2.0	5.9	4.6
Gross outflows	(0.8)	-	(0.6)	-	(1.4)	-
Payments to pensioners	-	(1.7)	-	(1.6)	-	(3.3)
Net flows	1.9	(0.6)	2.8	0.4	4.5	1.3
Market and other movements	0.1	(1.2)	1.3	0.8	2.4	2.5
At 30 June/31 December	29.7	56.4	24.9	55.6	27.7	58.2

1. Workplace assets under administration includes £29.5bn of assets under management included in Note 5.01.

2. Annuities assets under administration includes £52.0bn of assets under management included in Note 5.01.

5.06 LGR new business

	6 months 30 June 2018 £m	6 months 30 June 2017 £m	6 months 31 December 2017 £m
Pension risk transfer			
- UK	507	1,504	1,901
- US	220	115	428
- Bermuda	8	-	-
Individual Annuities	337	345	326
Lifetime Mortgage Advances	521	424	580
Longevity Insurance ¹	-	800	-
Total LGR new business	1,593	3,188	3,235

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.

5.07 Insurance new business

	6 months 30 June 2018 £m	6 months 30 June 2017 £m	6 months 31 December 2017 £m
UK Retail Protection	87	86	86
UK Group Protection	34	28	21
Netherlands Protection ¹	-	1	-
US Protection	42	38	41
Total LGI new business	163	153	148

1. Legal & General Netherlands was sold on 6 April 2017.

Asset and premium flows

5.08 Gross written premiums on Insurance business

	6 months 30 June 2018 £m	6 months 30 June 2017 £m	6 months 31 December 2017 £m
UK Retail Protection	633	609	623
UK Group Protection	223	224	102
General Insurance	193	173	196
Netherlands Protection ¹	-	14	-
US Protection	461	491	482
Longevity insurance	187	175	186
Total gross written premiums on Insurance business	1,697	1,686	1,589

1. Legal & General Netherlands was sold on 6 April 2017.

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Capital

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 for 30 June 2018. Further explanation of the underlying methodology and assumptions are set out in the sections below.

The table below shows the “shareholder view” of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the group’s Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (recalculated as at 30 June 2018).

(a) Capital position

As at 30 June 2018 the group had a surplus of £6.9bn (31 December 2017: £6.9bn) over its Solvency Capital Requirement, corresponding to a coverage ratio on a “shareholder view” basis of 193% (31 December 2017: 189%). The shareholder view of the Solvency II capital position is as follows:

	30 June 2018 £bn	31 December 2017 £bn
Core tier 1 Own Funds	11.3	11.6
Tier 2 subordinated liabilities	3.1	3.1
Eligibility restrictions	(0.1)	(0.1)
Solvency II Own Funds^{1,2}	14.3	14.6
Solvency Capital Requirement ³	(7.4)	(7.7)
Solvency II surplus	6.9	6.9
SCR coverage ratio⁴	193%	189%

1. Solvency II Own Funds do not include an accrual for the interim dividend of £274m (31 December 2017: £658m) declared after the balance sheet

2. Solvency II Own Funds allow for a risk margin of £5.2bn (31 December 2017: £5.9bn) and TMTP of £5.3bn (31 December 2017: £6.2bn).

3. The SCR is not subject to audit.

4. Coverage ratio is based on unrounded inputs.

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

On a proforma basis, which includes the contribution of with-profits fund and the final salary pension scheme in the group’s Own Funds and corresponding SCR in group’s SCR, the coverage ratio at 30 June 2018 is 186% (31 December 2017: 181%).

On 6 December 2017 the group announced its intention to sell the 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 had been reflected in the Own Funds at the end of 2017. The impact in SCR has now been incorporated as at 30 June 2018.

Capital

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 2017 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 10 basis points (31 December 2017: 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 LGR_e and by the currency of the relevant liabilities.

At 30 June 2018 the Matching Adjustment for UK GBP denominated liabilities was 111 basis points (31 December 2017: 106 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 53 basis points (31 December 2017: 51 basis points). The increase in Fundamental Spread was driven by changes in the asset portfolio.

(c) Analysis of change

The table below shows the movement (net of tax) during the period ended 30 June 2018 in the group's Solvency II surplus.

	30 June 2018 £bn	31 December 2017 £bn
Surplus arising from back-book (including release of SCR)	0.7	1.3
Release of Risk Margin ¹	0.2	0.4
Amortisation of TMTP ²	(0.2)	(0.4)
Operational Surplus Generation³	0.7	1.3
New Business Strain	(0.1)	(0.1)
Net Surplus Generation	0.6	1.2
Dividends paid ⁴	(0.7)	(0.9)
Operating variances ⁵	-	0.4
Mergers, acquisitions and disposals ⁶	-	-
Market movements ⁷	0.1	-
Subordinated debt	-	0.5
Total Surplus movement (after dividends paid in the period)	-	1.2

1. Based on the risk margin in force at end 2017 and does not include the release of any risk margin added by new business written in 2018.

2. TMTP amortisation based on a linear run down of the end-2017 TMTP of £5.3bn (net of tax, £6.2bn before tax).

3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2018 these are primarily to deliver further eligible assets and liabilities into the Matching Adjustment portfolio and an increase in direct investments allocation to the annuity back-book.

4. Dividends paid are the amounts from the 2017 final dividend declaration paid in H1 18 (FY 17: 2016 final and 2017 interim dividend declarations).

5. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, other management actions including changes in asset mix, hedging strategies, and Matching Adjustment optimisation.

6. Mergers, acquisitions and disposals include the impact of the sale of Mature Savings (in excess of the amount which came through in 2017) and purchase of 100% of CALA Homes.

7. Market movements represents the impact of changes in investment market conditions over the period and changes to future economic assumptions. Market movements in half year ended 30 June 2018 include a reduction in the risk margin of £0.4bn (net of tax) and a reduction to TMTP of £0.4bn. 31 December 2017 included a reduction in the risk margin of £2.0bn (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 capital (net of any premium income), on actual new business written over the year. It is based on economic conditions at the point of sale.

Capital

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 2018 £bn	Full year 2017 £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	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTF amortisation ⁴	0.2	0.4
Solvency II Operational Surplus Generation	0.7	1.3

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term expenses and longevity margins).

2. Release of prudence related to differences between the EIOPA-defined fundamental spread and Legal & General's best estimate default assumption.

3. Expected market returns earned on LGR's free assets in excess of risk free rates over 2018.

4. Solvency II Operational Surplus Generation includes management actions which at the start of 2018 were expected to take place within the group plan.

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

	6 months 2018 £bn	Full year 2017 £bn
IFRS New Business Surplus	-	0.2
Removal of requirement to set up prudential margins above best estimate on New Business	-	0.2
Set up of Solvency II Capital Requirement on New Business ¹	(0.1)	(0.3)
Set up of Risk Margin on New Business	-	(0.2)
Solvency II New Business Strain	(0.1)	(0.1)

1. The lower Solvency II capital requirement on new business in 2018 reflects lower premiums written and the success of our strategy to source direct investments (including lifetime mortgages) to back new annuity sales.

(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 2018 £bn	31 Dec 2017 ¹ £bn
IFRS shareholders' equity	7.7	7.6
Remove DAC, goodwill and other intangible assets and liabilities	(0.7)	(0.6)
Add IFRS carrying value of subordinated debt treated as available capital under Solvency II ²	2.9	2.9
Insurance contract valuation differences ³	6.3	6.4
Difference in value of net deferred tax liabilities	(0.9)	(0.7)
SCR for with-profits fund and final salary pension schemes	(0.8)	(0.7)
Other ⁴	(0.1)	(0.2)
Eligibility restrictions ⁵	(0.1)	(0.1)
Solvency II Own Funds⁶	14.3	14.6

1. Following a change in accounting policy for LGIA term life reserves, specific IFRS balance sheet items have been restated, notably deferred acquisition costs, non-participating insurance contracts and deferred tax liabilities. The overall net impact on the group's IFRS shareholders' equity as at 31 December 2017 is a reduction of £354m. Further details on the change in accounting policy is provided in Note 4.01.

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, predominately 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. Own Funds do not include an accrual for the interim dividend of £274m (31 December 2017: £658m) declared after the balance sheet date.

Capital

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 2018 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus ⁵ 30 Jun 2018 £bn	Impact on net of tax Solvency II coverage ratio ⁵ 30 Jun 2018 %	Impact on net of tax Solvency II capital surplus ⁵ 31 Dec 2017 £bn	Impact on net of tax Solvency II coverage ratio ⁵ 31 Dec 2017 %
Credit spreads widen by 100bps assuming an escalating addition to ratings ^{1,2}	0.4	12	0.2	8
Credit migration ³	(0.5)	(7)	(0.5)	(6)
15% fall in property markets	(0.5)	(6)	(0.4)	(4)
100bps increase in risk free rates	0.8	22	0.8	20
50bps decrease in risk free rates ⁴	(0.5)	(11)	(0.5)	(10)

1. The spread sensitivity applies to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations.

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 LTM senior notes).

4. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.

5. Both the 2017 and 2018 sensitivities exclude the impact from the Mature Savings business (including the with-profits fund) as the risks have been transferred to the ReAssure division of Swiss Re from 1 January 2018.

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of TMTP as at 30 June 2018 where the impact of the stress would cause this to change materially.

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

Capital

6.02 Estimated Solvency II new business contribution

(a) New business by product¹

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

	PVNBP 6 months 2018 £m	Contri- bution from new business ² 6 months 2018 £m	Margin ³ 6 months 2018 %	PVNBP Full year 2017 £m	Contri- bution from new business ² Full year 2017 £m	Margin ³ Full year 2017 %
LGR - UK annuity business	844	65	7.7	4,083	346	8.5
UK Protection Total	788	56	7.1	1,496	129	8.6
- Retail Protection	652	49	7.6	1,293	111	8.6
- Group Protection	136	7	5.2	203	18	8.7
US Protection^{4,5}	411	48	11.6	764	89	11.7

1. Selected lines of business only.

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

3. Margin is based on unrounded inputs.

4. In local currency, US Protection reflects PVNBP of \$543m (31 December 2017: \$985m) and a contribution from new business of \$63m (31 December 2017: \$115m).

5. Assumes reinsurance is enacted during 2018.

As in previous years the reported LGR margin includes all of LGR's new business costs including those incurred in quoting on business we expect to conclude in H2 and beyond. The margin increases to 10.3% by only including the costs associated with the business written in H1. This is a better comparator to 2017. The increase reflects the higher long term value generated from the smaller sized schemes written in H1, as well as our ability to source attractive DI assets from bespoke deals such as the buy-in transaction with the BAA Pension Scheme. Additionally, the 2017 margin includes a £250m scheme where the group passes on all of the risk and retains a small facilitation fee.

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

For US Protection, the new business contribution has increased relative to the 2017 position due to higher new business volumes and more favourable business mix. The change in Solvency II new business margin reflects the significant increase in US risk free rates over the first half of the year. This has more than offset the contribution from a more favourable business mix.

Capital

6.02 Estimated Solvency II new business contribution (continued)

(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 2017 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 and UK 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 be reinsured in 2018 and looks through the intra-group arrangements.

(c) Assumptions

The key economic assumptions are as follows:

	30 June 2018 %	31 December 2017 %
Margin for risk	3.1	3.0
Risk free rate		
- UK	1.7	1.6
- US	2.8	2.4
Risk discount rate (net of tax)		
- UK	4.8	4.6
- US	5.9	5.4
Long-term rate of return on non profit annuities in LGR	3.0	3.0

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

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%.

Risk discount rate

The risk discount rate (RDR) is duration-based and is a combination of the risk free curve and a flat Margin for risk, which reflects the residual risks inherent in the group's businesses, after taking account of margins in the statutory technical provisions, the required capital and the specific allowance for financial options and guarantees.

The risk free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment 10 basis points for GBP and 14 basis points for USD (31 December 2017: 10 basis points for GBP and for USD).

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

Capital

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 2018 £bn	Full year 2017 £bn
PVNBP	2.0	6.3
Effect of capitalisation factor	(1.0)	(2.0)
New business premiums from selected lines	1.0	4.3
Other ¹	0.8	2.4
Total LGR and LGI new business	1.8	6.7
Annualisation impact of regular premium long-term business	(0.1)	(0.2)
IFRS gross written premiums from existing long-term insurance business	1.4	2.8
Deposit accounting for lifetime mortgage advances	(0.5)	(1.0)
General Insurance gross written premiums	0.2	0.4
Future premiums on longevity swap new business	-	(0.8)
Total gross written premiums	2.8	7.9

1. Other principally includes annuity sales in the US, lifetime mortgage advances and discounted future cash flows on longevity swap new business.

2. This excludes gross written premiums from discontinued operations.

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Investments

7.01 Investment portfolio

	Market value 30 June 2018 £m	Market value 30 June 2017 £m	Market value 31 December 2017 £m
Worldwide total assets under management ¹	990,379	952,100	984,120
Client and policyholder assets ²	(907,834)	(870,400)	(900,904)
Non-unit linked with-profits assets	(10,673)	(11,551)	(11,113)
Investments to which shareholders are directly exposed	71,872	70,149	72,103

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

Analysed by investment class:

	Notes	LGR investments	Other non profit insurance investments	LGC ³ investments	Other shareholder investments	Total	Total	Total
		30 June 2018 £m	30 June 2018 £m	30 June 2018 £m	30 June 2018 £m	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Equities ^{4,7}		285	15	2,246	181	2,727	2,876	2,960
Bonds	7.03	50,847	1,569	2,930	480	55,826	56,093	57,075
Derivative assets ⁵		4,213	-	11	1	4,225	3,823	4,062
Property	7.04	2,791	-	80	-	2,871	2,887	2,832
Cash, cash equivalents and loans		2,147	482	1,461	262	4,352	3,893	4,084
Financial investments		60,283	2,066	6,728	924	70,001	69,572	71,013
Other assets ^{2,6,7}		490	-	1,373	8	1,871	577	1,090
Total investments		60,773	2,066	8,101	932	71,872	70,149	72,103

2. At 30 June 2017, the group held £5,660m of reverse repurchase agreements, which were disclosed within Other assets in the above analysis in the interim financial statements for the period then ended. These assets back unit-linked liabilities and hence were incorrectly classified as Investments to which shareholders are directly exposed, rather than Client and policyholder assets. The 30 June 2017 disclosures have been adjusted to reflect this restatement. There is no impact on total assets in the Consolidated Balance Sheet as a result of this reallocation.

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

4. Equity investments include a total of £125m (30 June 2017: £256m; 31 December 2017: £260m) in respect of Peel Media Holdings Limited (MediaCityUK) and Access Development Partnership.

5. Derivative assets are shown gross of derivative liabilities of £3.3bn (30 June 2017: £2.4bn; 31 December 2017: £2.3bn). Exposures arise from use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

6. Other assets include reverse repurchase agreements of £752m (30 June 2017: £542m; 31 December 2017: £679m).

7. Other assets includes the consolidated net asset value of the group's investments in CALA Homes and other housing businesses, previously disclosed within Financial investments.

Investments

7.02 Direct Investments

(a) Analysed by asset class

	Direct ¹ Investments 30 June 2018 £m	Traded ² securities 30 June 2018 £m	Total 30 June 2018 £m	Direct ¹ Investments 30 June 2017 £m	Traded ² securities 30 June 2017 £m	Total 30 June 2017 £m	Direct ¹ Investments 31 December 2017 £m	Traded ² securities 31 December 2017 £m	Total 31 December 2017 £m
Equities	890	1,837	2,727	650	2,226	2,876	930	2,030	2,960
Bonds ³	10,800	45,026	55,826	7,722	48,371	56,093	9,726	47,349	57,075
Derivative assets	-	4,225	4,225	-	3,823	3,823	-	4,062	4,062
Property ⁴	2,871	-	2,871	2,887	-	2,887	2,832	-	2,832
Cash, cash equivalents and loans	580	3,772	4,352	496	3,397	3,893	474	3,610	4,084
Financial investments	15,141	54,860	70,001	11,755	57,817	69,572	13,962	57,051	71,013
Other assets ⁵	1,119	752	1,871	35	542	577	411	679	1,090
Total investments	16,260	55,612	71,872	11,790	58,359	70,149	14,373	57,730	72,103

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

2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.

3. Bonds include lifetime mortgages of £2,674m (30 June 2017: £1,433m; 31 December 2017: £2,023m).

4. A further breakdown of property is provided in Note 7.04.

5. At 30 June 2017, the group held £5,660m of reverse repurchase agreements, which were disclosed as Other assets in the above analysis in the interim financial statements for the period then ended. These assets back unit-linked liabilities and hence were incorrectly included in the analysis. The 30 June 2017 disclosures have been adjusted to exclude these assets reflecting this restatement. There is no impact on total assets in the Consolidated Balance Sheet as a result of this reallocation.

Investments

7.02 Direct Investments (continued)

(b) Analysed by segment

	LGR 30 June 2018 £m	LGC ¹ 30 June 2018 £m	LGI ² 30 June 2018 £m	Total 30 June 2018 £m
Equities	-	851	39	890
Bonds ³	10,432	30	338	10,800
Property ⁴	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 ⁵	92	1,027	-	1,119
Total direct investments	13,490	2,065	705	16,260

1. LGC includes £40m of equities, £27m of bonds and £23m of property that belong to other shareholder funds.

2. LGI includes £18m of equity investments in LGI UK. The bonds and loans and receivables are in the US business.

3. Bonds include lifetime mortgages of £2,674m.

4. A further breakdown of property is provided in Note 7.04.

5. Other assets include finance leases of £92m.

	LGR 30 June 2017 £m	LGC ¹ 30 June 2017 £m	LGI 30 June 2017 £m	Total 30 June 2017 £m
Equities	-	650	-	650
Bonds ²	7,094	267	361	7,722
Property ³	2,687	200	-	2,887
Cash, cash equivalents and loans	31	123	342	496
Financial investments	9,812	1,240	703	11,755
Other assets	-	35	-	35
Total direct investments	9,812	1,275	703	11,790

1. LGC included £27m of equities, £33m of bonds and £25m of property that belong to other shareholder funds.

2. Bonds included lifetime mortgages of £1,433m.

3. A further breakdown of property is provided in Note 7.04.

	LGR 31 December 2017 £m	LGC ¹ 31 December 2017 £m	LGI ² 31 December 2017 £m	Total 31 December 2017 £m
Equities	-	922	8	930
Bonds ³	9,272	22	432	9,726
Property ⁴	2,722	110	-	2,832
Cash, cash equivalents and loans	88	150	236	474
Financial investments	12,082	1,204	676	13,962
Other assets ⁵	92	319	-	411
Total direct investments	12,174	1,523	676	14,373

1. LGC included £30m of equities, £19m of bonds and £23m of property that belong to other shareholder funds.

2. LGI included £8m of equity investments in LGI UK. The bonds and loans are in the US business.

3. Bonds included lifetime mortgages of £2,023m.

4. A further breakdown of property is provided in Note 7.04.

5. Other assets included finance leases of £92m.

Investments

7.03 Bond portfolio summary

(a) LGR analysed by sector

Sectors analysed by credit rating

As at 30 June 2018	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total LGR £m	Total LGR %
Sovereigns, Supras and Sub-Sovereigns	1,020	7,732	128	233	2	-	9,115	19
Banks:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	66	28	-	-	94	-
- Senior	-	554	1,483	32	-	4	2,073	4
- Covered	117	-	-	-	-	-	117	-
Financial Services:								
- Tier 2 and other subordinated	-	187	104	15	-	-	306	1
- Senior	-	76	329	42	-	-	447	1
Insurance:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	106	-	43	-	-	149	-
- Senior	-	150	449	84	-	-	683	1
Consumer Services and Goods:								
- Cyclical	-	501	775	1,406	172	-	2,854	6
- Non-cyclical	195	479	1,284	1,908	267	-	4,133	8
- Health care	3	49	249	312	-	-	613	1
Infrastructure:								
- Social	95	788	3,273	905	127	-	5,188	11
- Economic	180	23	1,068	2,333	43	-	3,647	7
Technology and Telecoms	75	138	707	1,994	25	-	2,939	6
Industrials	-	-	751	264	7	-	1,022	2
Utilities	-	98	4,854	3,603	-	17	8,572	17
Energy	-	-	103	520	-	-	623	1
Commodities	-	-	242	479	-	-	721	1
Oil and Gas	-	322	536	586	80	-	1,524	3
Real estate	-	-	1,036	1,091	48	-	2,175	4
Structured finance ABS / RMBS / CMBS / Other	171	621	158	121	8	-	1,079	2
Lifetime mortgage loans¹	1,533	588	219	211	-	123	2,674	5
CDOs	-	24	61	14	-	-	99	-
Total £m	3,389	12,436	17,875	16,224	779	144	50,847	100
Total %	7	24	35	32	2	-	100	

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

Investments

7.03 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by credit rating (continued)

As at 30 June 2017	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Total LGR £m	Total LGR %
Sovereigns, Supras and Sub-Sovereigns	1,058	9,718	297	230	31	11,334	23
Banks:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	211	49	58	35	-	353	1
- Senior	3	363	1,227	34	-	1,627	3
- Covered	254	-	-	-	-	254	-
Financial Services:							
- Tier 2 and other subordinated	-	129	109	58	-	296	1
- Senior	-	580	66	114	-	760	1
Insurance:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	110	-	52	-	162	-
- Senior	-	55	487	76	-	618	1
Consumer Services and Goods							
- Cyclical	-	335	1,071	1,676	160	3,242	6
- Non-cyclical	177	558	1,329	2,050	97	4,211	8
- Health care	3	32	195	155	-	385	1
Infrastructure:							
- Social	86	841	3,380	1,005	20	5,332	10
- Economic	-	29	913	1,402	43	2,387	5
Technology and Telecoms	56	139	724	2,014	86	3,019	6
Industrials	-	148	705	381	12	1,246	2
Utilities	-	80	4,867	3,370	16	8,333	16
Energy	-	-	102	482	16	600	1
Commodities	-	-	302	523	20	845	2
Oil and Gas	-	278	481	670	163	1,592	3
Real estate	-	369	482	1,199	53	2,103	4
Structured finance ABS / RMBS / CMBS / Other	134	588	485	47	55	1,309	3
Lifetime mortgage loans ¹	721	522	99	91	-	1,433	3
CDOs	-	21	60	14	-	95	-
Total £m	2,703	14,944	17,439	15,678	772	51,536	100
Total %	5	30	34	30	1	100	

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

Investments

7.03 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by credit rating (continued)

As at 31 December 2017	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total LGR £m	Total LGR %
Sovereigns, Supras and Sub-Sovereigns	1,220	8,604	186	238	10	-	10,258	20
Banks:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	142	-	63	31	-	-	236	1
- Senior	-	682	1,740	47	-	-	2,469	5
- Covered	193	-	-	-	-	-	193	-
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	123	113	9	-	-	245	1
- Senior	-	307	348	187	-	-	842	2
Insurance:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	124	1	46	-	-	171	-
- Senior	-	116	458	65	-	-	639	1
Consumer Services and Goods:								
- Cyclical	-	271	798	1,510	213	-	2,792	5
- Non-cyclical	201	574	1,239	2,031	126	-	4,171	8
- Health care	3	32	232	176	-	-	443	1
Infrastructure:								
- Social	93	708	3,442	1,111	21	-	5,375	10
- Economic	179	30	937	2,179	43	-	3,368	6
Technology and Telecoms	60	148	777	1,941	26	-	2,952	6
Industrials	-	-	774	274	9	-	1,057	2
Utilities	-	107	4,800	3,666	11	-	8,584	17
Energy	-	-	106	538	16	-	660	1
Commodities	-	-	246	490	19	-	755	1
Oil and Gas	-	304	616	541	170	-	1,631	3
Real estate	-	22	1,044	1,166	49	-	2,281	4
Structured finance ABS / RMBS / CMBS / Other	176	681	172	151	55	-	1,235	2
Lifetime mortgage loans ¹	1,141	403	207	159	-	113	2,023	4
CDOs	-	22	60	14	-	-	96	-
Total £m	3,408	13,258	18,359	16,570	768	113	52,476	100
Total %	6	25	35	32	2	-	100	

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

Investments

7.03 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by domicile

As at 30 June 2018	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total LGR £m
Sovereigns, Supras and Sub-Sovereigns	7,383	723	734	275	9,115
Banks	878	604	495	307	2,284
Financial Services	290	79	382	2	753
Insurance	127	507	111	87	832
Consumer Services and Goods:					
- Cyclical	524	1,800	430	100	2,854
- Non-cyclical	1,272	2,517	338	6	4,133
- Health care	1	612	-	-	613
Infrastructure:					
- Social	4,857	294	-	37	5,188
- Economic	2,998	371	53	225	3,647
Technology and Telecoms	684	1,234	593	428	2,939
Industrials	188	503	256	75	1,022
Utilities	4,440	1,281	2,147	704	8,572
Energy	36	530	5	52	623
Commodities	8	250	35	428	721
Oil and Gas	267	422	327	508	1,524
Real estate	1,580	277	54	264	2,175
Structured finance ABS / RMBS / CMBS / Other	942	105	9	23	1,079
Lifetime mortgages	2,674	-	-	-	2,674
CDOs	-	24	-	75	99
Total	29,149	12,133	5,969	3,596	50,847

Investments

7.03 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by domicile (continued)

As at 30 June 2017	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total LGR £m
Sovereigns, Supras and Sub-Sovereigns	9,024	704	1,105	501	11,334
Banks	931	688	497	118	2,234
Financial Services	383	68	605	-	1,056
Insurance	154	555	16	55	780
Consumer Services and Goods:					
- Cyclical	772	2,049	290	131	3,242
- Non-cyclical	1,359	2,564	279	9	4,211
- Health care	1	384	-	-	385
Infrastructure:					
- Social	5,012	284	-	36	5,332
- Economic	1,917	205	29	236	2,387
Technology and Telecoms	591	1,356	659	413	3,019
Industrials	204	568	335	139	1,246
Utilities	3,862	1,237	2,322	912	8,333
Energy	-	498	6	96	600
Commodities	8	290	22	525	845
Oil and Gas	187	396	465	544	1,592
Real estate	1,686	379	10	28	2,103
Structured finance ABS / RMBS / CMBS / Other	947	42	302	18	1,309
Lifetime mortgages	1,433	-	-	-	1,433
CDOs	-	21	-	74	95
Total	28,471	12,288	6,942	3,835	51,536

Investments

7.03 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by domicile (continued)

As at 31 December 2017	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total LGR £m
Sovereigns, Supras and Sub-Sovereigns	8,052	925	978	303	10,258
Banks	1,351	690	662	195	2,898
Financial Services	364	68	655	-	1,087
Insurance	135	531	91	53	810
Consumer Services and Goods:					
- Cyclical	597	1,919	210	66	2,792
- Non-cyclical	1,298	2,553	314	6	4,171
- Health care	1	442	-	-	443
Infrastructure:					
- Social	5,051	287	-	37	5,375
- Economic	2,658	310	34	366	3,368
Technology and Telecoms	686	1,300	556	410	2,952
Industrials	195	523	263	76	1,057
Utilities	3,997	1,233	2,280	1,074	8,584
Energy	-	583	5	72	660
Commodities	8	263	34	450	755
Oil and Gas	259	418	429	525	1,631
Real estate	1,600	359	44	278	2,281
Structured finance ABS / RMBS / CMBS / Other	1,011	192	10	22	1,235
Lifetime mortgages	2,023	-	-	-	2,023
CDOs	-	22	-	74	96
Total	29,286	12,618	6,565	4,007	52,476

Investments

7.03 Bond portfolio summary (continued)

(b) Total group analysed by sector

Sectors analysed by credit rating

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 loans¹	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.

Investments

7.03 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by credit rating (continued)

As at 30 June 2017	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total £m	Total %
Sovereigns, Supras and Sub-Sovereigns	1,334	10,381	322	314	81	-	12,432	22
Banks:								
- Tier 1	-	-	-	1	1	-	2	-
- Tier 2 and other subordinated	211	49	70	46	4	-	380	1
- Senior	11	992	2,233	51	1	-	3,288	6
- Covered	310	-	-	-	-	-	310	-
Financial Services:								
- Tier 1	2	-	-	-	-	-	2	-
- Tier 2 and other subordinated	-	129	109	64	-	-	302	1
- Senior	-	591	100	132	11	-	834	1
Insurance:								
- Tier 1	-	-	-	1	-	-	1	-
- Tier 2 and other subordinated	-	113	4	56	-	-	173	-
- Senior	-	71	493	80	-	-	644	1
Consumer Services and Goods:								
- Cyclical	-	358	1,124	1,698	230	-	3,410	6
- Non-cyclical	191	591	1,398	2,143	134	-	4,457	7
- Health Care	3	31	222	172	6	-	434	1
Infrastructure:								
- Social	86	841	3,383	1,005	20	-	5,335	10
- Economic	-	29	940	1,405	43	-	2,417	4
Technology and Telecoms	71	158	779	2,062	122	-	3,192	6
Industrials	-	151	786	482	68	-	1,487	3
Utilities	-	87	4,931	3,428	34	-	8,480	15
Energy	-	-	102	515	31	-	648	1
Commodities	-	-	312	537	41	-	890	2
Oil and Gas	-	287	514	695	204	-	1,700	3
Real estate	-	369	491	1,254	63	-	2,177	4
Structured finance ABS / RMBS / CMBS / Other	305	620	531	59	55	-	1,570	3
Lifetime mortgage loans ¹	721	522	99	91	-	-	1,433	3
CDOs	-	21	60	14	-	-	95	-
Total £m	3,245	16,391	19,003	16,305	1,149	-	56,093	100
Total %	6	29	34	29	2	-	100	

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

Investments

7.03 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by credit rating (continued)

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

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

Investments

7.03 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by domicile

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

Investments

7.03 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by domicile (continued)

As at 30 June 2017	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	9,600	965	1,236	631	12,432
Banks	1,858	793	920	409	3,980
Financial Services	384	124	630	-	1,138
Insurance	161	583	19	55	818
Consumer Services and Goods:					
- Cyclical	782	2,153	336	139	3,410
- Non-cyclical	1,374	2,769	291	23	4,457
- Health care	10	424	-	-	434
Infrastructure:					
- Social	5,015	283	-	37	5,335
- Economic	1,920	232	29	236	2,417
Technology and Telecoms	597	1,499	668	428	3,192
Industrials	218	775	345	149	1,487
Utilities	3,874	1,344	2,341	921	8,480
Energy	-	546	6	96	648
Commodities	10	313	27	540	890
Oil and Gas	193	436	496	575	1,700
Real estate	1,687	444	14	32	2,177
Structured Finance ABS / RMBS / CMBS / Other	950	246	349	25	1,570
Lifetime mortgages	1,433	-	-	-	1,433
CDOs	-	21	-	74	95
Total	30,066	13,950	7,707	4,370	56,093

Investments

7.03 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by domicile (continued)

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

Investments

7.03 Bond portfolio summary (continued)

(c) LGR and total group analysed by credit rating

As at 30 June 2018	Externally rated £m	Internally rated ¹ £m	Total LGR £m	Externally rated £m	Internally rated ¹ £m	Total group £m
AAA	1,640	1,749	3,389	2,117	1,751	3,868
AA	10,858	1,578	12,436	12,901	1,674	14,575
A	14,720	3,155	17,875	16,062	3,235	19,297
BBB	12,635	3,589	16,224	13,045	3,838	16,883
BB or below	507	272	779	730	318	1,048
Other	4	140	144	15	140	155
Total	40,364	10,483	50,847	44,870	10,956	55,826

As at 30 June 2017	Externally rated £m	Internally rated ¹ £m	Total LGR £m	Externally rated £m	Internally rated ¹ £m	Total group £m
AAA	1,573	1,130	2,703	2,115	1,130	3,245
AA	13,205	1,739	14,944	14,579	1,812	16,391
A	14,511	2,928	17,439	15,971	3,032	19,003
BBB	13,103	2,575	15,678	13,516	2,789	16,305
BB or below	691	81	772	989	160	1,149
Other	-	-	-	-	-	-
Total	43,083	8,453	51,536	47,170	8,923	56,093

As at 31 December 2017	Externally rated £m	Internally rated ¹ £m	Total LGR £m	Externally rated £m	Internally rated ¹ £m	Total group £m
AAA	1,783	1,625	3,408	2,238	484	2,722
AA	11,617	1,641	13,258	13,024	3,419	16,443
A	15,174	3,185	18,359	16,609	3,143	19,752
BBB	12,979	3,591	16,570	13,389	3,657	17,046
BB or below	690	78	768	965	138	1,103
Other	-	113	113	9	-	9
Total	42,243	10,233	52,476	46,234	10,841	57,075

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

Investments

7.04 Property analysis

Property exposure within direct investments by status

As at 30 June 2018	LGR ¹ £m	LGC ^{2,3} £m	Total £m	%
Fully let	2,791	11	2,802	97
Development	-	23	23	1
Land	-	46	46	2
	2,791	80	2,871	100

1. The fully let LGR property includes £2.6bn let to investment grade tenants.

2. Development includes £23m of shareholder investment property as noted in Note 7.01.

3. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 30 June 2018 the group held a total of £1,427m of such assets.

As at 30 June 2017	LGR ¹ £m	LGC ² £m	Total £m	%
Fully let	2,687	8	2,695	93
Development	-	144	144	5
Land	-	48	48	2
	2,687	200	2,887	100

1. The fully let LGR property included £2.3bn let to investment grade tenants.

2. Development included £25m of shareholder investment property.

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

1. The fully let LGR property included £2.4bn let to investment grade tenants.

2. Development included £23m of shareholder investment property.

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Glossary

* These items represent an alternative performance measure (APM)

Ad valorem fees

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

Adjusted earnings per share

Calculated by dividing profit after tax from continuing operations, attributable to equity holders of the company, excluding recognised gains and losses associated with held for sale and completed business disposals, by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares. Excluding the impact of anticipated and completed disposals provides an indication of the earnings per share from continuing operations.

Adjusted return on equity

ROE measures the return earned by shareholders on shareholder capital retained within the business. Adjusted ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds excluding recognised gains and losses associated with held for sale and completed business disposals. Excluding the impact of anticipated and completed disposals provides an indication of the return on equity from on-going operations.

Adjusted operating profit*

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Adjusted operating profit further removes exceptional restructuring costs to demonstrate the profitability before these costs which are non-recurring in nature.

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. The group uses a range of these metrics to provide a better understanding of the underlying performance of the group. Where appropriate, reconciliations of alternative performance measures to IFRS measures are provided. All APMs defined within this glossary are marked with an asterisk.

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 cash lump sum or a series of premiums which the policyholder has paid to the insurance company during their working lifetime.

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.

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)*

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.

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.

Glossary

Bundled DC solution

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

Bundled pension schemes

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

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 and 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 groups solvency capital requirement of with-profits fund and final salary pension schemes.

Glossary

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 at the same time working with their manager to enhance their own sense of development and well-being.

Escape of Water

Escape of water is a type of home insurance claim relating to leakage from fixed water tanks, apparatus (e.g. washing machine) or pipes

ETF

LGIM's European Exchange Traded Fund platform

Euro Commercial paper

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

FVTPL

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

Full year dividend

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

General insurance combined operating ratio

The combined operating ratio is calculated as the sum of incurred losses and expenses, including commission, divided by net earned premium.

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.

ICAV – Irish Collective Asset-Management Vehicle

A legal structure investment funds, 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

Glossary

LGC

Legal & General Capital.

LGI

Legal & General Insurance.

LGIM

Legal & General Investment Management

LGR

Legal & General Retirement

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*

Net release from operations is defined as release from operations plus new business surplus/(strain). Net release from operations was previously referred to as net cash and provides information on the underlying release of prudent margins from the back book.

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.

Operating profit*

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects the IFRS profit before tax) and 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 operating profit. Exceptional income and expenses which arise outside the normal course of business in the period, such as merger and acquisition, and start-up costs, are also excluded from operating profit.

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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.

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.

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.

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.

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.

Profit before tax attributable to equity holders (PBT)*

Profit attributable to shareholders incorporating actual investment returns experienced during the year but before the payment of tax.

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)*

ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds (by reference to opening and closing shareholders' funds in the period).

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.

SCR 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.

SCR 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 fund and our defined benefit pension schemes in both Own Funds and the SCR in the calculation of the SCR coverage ratio.

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SCR coverage ratio (shareholder view basis)

In order to represent a shareholder view of group solvency position, the contribution of with-profits fund and our defined benefit pension schemes is 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 2018. This will be submitted to the PRA in August 2018.

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 policyholder.

Solvency II new business contribution

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

Solvency II Risk Margin

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

Solvency II Surplus

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

Solvency Capital Requirement (SCR)

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

Total shareholder return (TSR)

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

Transitional Measures on Technical Provisions (TMTP)

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

Unbundled DC solution

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

With-profits funds

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

Yield

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