Legal & General Group PLC Interim Management Report 2020
Stock Exchange Release
05 August 2020

H1 2020: Resilient operating earnings from continuing divisions of £1.1bn and a robust balance sheet

Financial highlights[1]

- **Operating profit from continuing divisions[2] of £1,128m** (H1 2019: £1,154m), with 3 of 5 businesses delivering growth
- **Operating profit of £946m** (H1 2019: £1,005m), demonstrating resilience as specific COVID-19 estimated impacts totalled £(129)m[3]
- **Interim dividend of 4.93p per share** (H1 2019: 4.93p), providing flexibility as the economic effect of COVID-19 becomes clearer
- **Profit after tax[4] of £290m** (H1 2019: £874m), principally reflecting the formulaic impact of lower interest rates on LGI and the unrealised impact of market movements
- **Solvency II operational surplus generation from continuing operations[2] was £0.8bn** (H1 2019: £0.7bn)

H1 2020 highlights

Our balance sheet is robust:

- **Solvency II coverage ratio[5] of 173%** (H1 2019: 171%)
- **Our traded credit portfolio (excluding gilts), which is actively managed, has had no defaults and has seen net downgrades to sub-investment grade of 0.6% since the start of COVID-19; compared to the market which saw 1.5%. Our £3.5bn IFRS Credit Default Reserve has remained unutilised**

And our businesses continue to perform resiliently:

- **LGR total annuity assets of £80.7bn** (FY 2019: £75.9bn), with total new business premiums of £4.2bn
- **Group-wide Direct Investment up 8% at £27.9bn** (FY 2019: £25.7bn)
- **LGIM AUM up 4% at £1,241bn** (FY 2019: £1,196bn)
- **LGI GWP up 5% to £1,475m** (H1 2019: £1,409m)

We continue to build Inclusive Capitalism as we support our Customers, Colleagues and Communities in the face of COVID-19; for more details of our approach please see page 4.

"In H1, Legal & General delivered resilient operating profits, a robust balance sheet and highly relevant products and services. Our ambition is for a similar performance in H2. We kept all our employees on full pay, executed significant commercial and investment projects, and continued to provide a reliable service to our customers without any government financial support. We are committed to driving forward an investment-led, climate-friendly COVID recovery incorporating the very best aspects of Inclusive Capitalism. "

Nigel Wilson, Group Chief Executive

1. The Alternative Performance Measures within the Group's financial highlights are defined in the glossary, on pages 93 to 97 of this report.
2. Excludes Mature Savings and General Insurance.
3. Specific COVID-19 impacts of LGR (+£32m); LGC (-£60m); LGI (-£80m); and Group Costs (-£21m). Excluding these, operating profit was up 7%. Please see page 4 for more information.
4. Profit after tax attributable to equity holders.
5. Solvency II coverage ratio on a shareholder basis, which is adjusted for the Own Funds and SCR of the With-profits fund and the Group final salary pension plans.

Financial summary

£m	H1 2020	H1 2019	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR)	721	655	10
- *LGR Institutional (LGRI)*	*585*	*524*	*12*
- *LGR Retail (LGRR)*	*136*	*131*	*4*
Legal & General Investment Management (LGIM)[1]	196	192	2
Legal & General Capital (LGC)	123	173	(29)
Legal & General Insurance (LGI)	88	134	(34)
Operating profit from continuing divisions[2]	**1,128**	**1,154**	**(2)**
Mature Savings[3]	26	24	8
General Insurance[4]	nil	(5)	n/a
Operating profit from divisions	**1,154**	**1,173**	**(2)**
Group debt costs	(115)	(108)	(6)
Group investment projects and expenses	(72)	(60)	(20)
Exceptional COVID-19 related expenses[5]	(21)	nil	n/a
Operating profit	**946**	**1,005**	**(6)**
Investment and other variances (incl. minority interests), excluding LGI	(178)	182	n/a
LGI investment variance[6]	(483)	(134)	n/a
Profit before tax attributable to equity holders[7]	**285**	**1,053**	**(73)**
Profit after tax attributable to equity holders	**290**	**874**	**(67)**
Earnings per share (p)	**4.89**	**14.74**	**(66)**
Book value per share (p)	**148**	**146**	**1**
Interim dividend per share (p)	**4.93**	**4.93**	**nil**
Net release from continuing operations[2]	**730**	851	**(14)**
Net release from discontinued operations	**21**	15	**40**

1. H1 2019 LGIM operating profit restated to include LGIM-related project expenditure (£13m) formerly reflected in Group expenses.
2. Excludes Mature Savings and General Insurance.
3. Mature Savings sale to ReAssure for £650m was announced on 6 December 2017 and the 2018 and 2019 results reflect the Reinsurance Transfer Agreement.
4. General Insurance sale to Allianz completed on 31 December 2019.
5. COVID-19 costs reflect incremental operational expenses incurred as a result of COVID-19 and include the provision of IT spend on remote working solutions. Please see page 4 for more information.
6. LGI investment variance is the formulaic impact of falling interest rates reducing the discount rate used to calculate LGI reserves.
7. Profit before tax attributable to equity holders is an alternative performance measure, and represents Adjusted profit before tax attributable to equity holders as defined on page 93.

H1 2020 Financial performance

Income statement

Operating profit from continuing divisions[1] was resilient at £1,128m (H1 2019: £1,154m). Where we could perform, we did perform, with three of our five businesses delivering growth over the prior year**.**

LGR continues to deliver strong operating profit growth, up 10% year on year to £721m (H1 2019: £655m), supported by the consistent performance of the growing annuity portfolio. LGR Institutional (**LGRI**) contributed to new business surplus through a steady flow of UK Pension Risk Transfer (PRT) new business volumes. LGR Retail's (**LGRR**) individual annuity and Lifetime Mortgage volumes were down year on year, reflecting stalled demand and initial complications in the sales process following the lockdown. However, the physical constraints of lockdown have accelerated significant **technological innovation** in underwriting and in customer service for our retail product offerings, and sales are now recovering. For instance, June 2020 retail annuity sales were broadly in line with June 2019.

LGIM delivered operating profit growth of 2% to £196m (H1 2019: £192m), reflecting increased revenues from flows and asset values which were partially offset by LGIM's continued investment in its growth strategy. The cost income ratio (58%) reflects this continued investment in the business, specifically in data analytics, an enhanced digital customer experience and optimised investment platforms.

LGC operating profit decreased 29% to £123m (H1 2019: £173m), principally reflecting lower profits from our direct investment portfolio due to a pause in traditional house-building activities during the UK lockdown. The UK housing market began to improve in June 2020 with sales up 32% compared to May.[2]

LGI operating profit decreased 34% to £88m (H1 2019: £134m), reflecting increased claims experience due to COVID-19, particularly impacting our US Protection business where we retain the majority of the mortality risk. This impact was partially offset by mortality releases in **LGR**.

As previously indicated, we have continued to make measured investments in technology, resulting in Group investment projects and expenses of £(72)m (H1 2019: £(60)m). The expenditure over the near term primarily relates to augmenting cyber security and upgrading the IT infrastructure, including preparation for IFRS 17, and **should reduce towards historical levels once these projects are delivered**. Additionally the Group incurred approximately £(21)m of exceptional COVID-19-related costs reflecting, for example, the deployment of hardware to facilitate remote working.

Profit before tax attributable to equity holders[3] was £285m (H1 2019: £1,053m), with investment variance of £(661)m (H1 2019: £48m). The largest contributor to investment variance, £(483)m, is the formulaic impact of falling interest rates reducing the discount rate used to calculate LGI reserves. Investment variance within LGC, where we are long-term investors, was £(307)m reflecting unrealised reductions in asset valuations, primarily in the traded equity portfolio, which would only be realised if we chose to sell assets.

Balance sheet and asset portfolio

The Group's Solvency II operational surplus generation from continuing operations[1] increased to £0.8bn (H1 2019: £0.7bn). New business strain was £0.1bn (H1 2019: £0.3bn) reflecting UK Pension Risk Transfer (PRT) volumes written at a capital strain of circa 4%, which typically has a payback period of approximately five years. This resulted in net surplus generation of £0.7bn (H1 2019: £0.5bn).

After allowing for the non-economic impact of lower interest rates on the valuation of our balance sheet[4], spread widening (including the effect of dispersion, i.e. credit spreads on lower rated assets widening more than spreads on higher rated assets), payment of the 2019 final dividend (which is typically c70% of the dividends paid during the year), and the successful issuance of £0.5bn of subordinated debt and £0.5bn of restricted Tier 1 debt in H1, the Group reported a Solvency II coverage ratio[5] of 173% at the end of H1 2020 (FY 2019: 184%; H1 2019: 171%).

On a proforma calculation basis[6], our Solvency II coverage ratio was 169% at the end of June (FY 2019: 179%; H1 2019: 166%).

Our IFRS return on equity of 6.3% principally reflects the impact of unrealised negative investment variances (H1 2019: 20.2%).[7]

The defensive positioning of our £46bn actively managed traded credit portfolio (excluding gilts) has meant that we have outperformed the downgrade experience of the market, with just 0.6% of the portfolio downgrading to sub-investment grade[8] and no defaults. The annuity portfolio's direct investments continue to perform strongly, with 99.5% of scheduled cash-flows paid year to date, reflecting the high quality of our counterparty exposure.

[1] Excludes Mature Savings and General Insurance.
[2] HM Revenue & Customs, "UK Property Transactions Statistics", 21 July 2020.
[3] Profit before tax attributable to equity holders is an alternative performance measure, and represents Adjusted profit before tax attributable to equity holders as defined on page 93.
[4] 10 year UK swaps rate fell 65bps between 31 December 2019 and 30 June 2020.
[5] Solvency II coverage ratio on a "shareholder view". Incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2020.
[6] Solvency II coverage ratio on a proforma basis includes the SCR attributable to our With-profits fund and the Group final salary pension plans in both the Group's Own Funds and the SCR. Incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2020.
[7] Calculated using annualised profit for the year and average equity attributable to the owners of the parent of £9,140m.
[8] We have realised less than £300m of downgrades to sub-investment grade within our actively managed traded credit portfolio; this is less than 40% of the downgrades to sub-investment grade implied by market experience.

COVID-19

COVID-19 is having an unprecedented impact on our customers, employees and society at large. Legal & General Group continues to support all of our stakeholders and we have done everything we can to help our customers through this difficult period without relying on direct Government funding. Our priorities are to look after our customers, to safeguard the wellbeing of our colleagues and to support the needs of the wider community more broadly through **Inclusive Capitalism** and by **investing in the real economy**.

Customers: Our commitment to supporting our customers will not waver and we have continued to provide service to our customers, whether it is helping them to keep their family financially secure after the death of a loved one, paying annuities or assisting someone with a long-term illness to meet their mortgage repayments. During H1 we paid £939m of LGI protection claims and, with more than three million people in the UK relying on Legal & General for financial security in retirement, we have maintained our most important business services uninterrupted, which includes paying annuities to over 900,000 customers every year.

Colleagues: We have maintained all Legal & General employees' jobs at full pay without relying on the UK Government's Job Retention Scheme. Our robust, well-embedded remote working solutions have helped keep employees engaged and efficient throughout the shift to home working. We also look to support our employees' mental and physical wellbeing through a number of resources including trained Mental Health First Aiders, a confidential employee assistance helpline and a dedicated COVID-19 intranet hub. Employees appreciate our dedication, and this is demonstrated by **a 7 percentage point increase in employee engagement** since before the COVID-19 lockdown.

Communities: In support of the wider society, we have launched a range of initiatives to help meet the growing social needs arising from the COVID-19 disruption. This includes supporting research and testing by accelerating components of our £20m partnership with Edinburgh University's research into elderly care and being one of the UK's largest COVID-19 testing sites through our investment in Bruntwood SciTech Alderley Park. Additionally we are looking to address the needs of local communities in respect of COVID-19; this includes establishing a £500,000 Community Fund. We are stepping up support for relevant Corporate Social Responsibility projects which particularly address the impact of the pandemic on the older population and those using social care. For more details of our efforts, please refer to our website: www.legalandgeneralgroup.com/media-centre/in-the-news/our-response-to-covid-19-the-coronavirus/

Our purpose is to provide financial stability to our customers and their dependents in good times and in bad: it is "what we do". The human cost of the pandemic has, regrettably, been high for many Legal & General customers, including holders of life insurance policies and annuitants who have lost their lives prematurely. We continue to pay all valid claims and we have prioritised giving a rapid but sensitive service to bereaved families. The economic impact of COVID-19 related claims for Legal & General has been £(80)m in LGI which includes a provision for future COVID-19 claims, although the tragically disproportionate impact of the pandemic on older people resulted in an offsetting £32m from UK mortality experience in LGR. Furthermore our reinsurance strategy, which reinsures virtually all of LGI's UK retail protection business, has substantially reduced the impact on LGI of higher claims. Further operational impacts included pausing LGC Build-to-Sell Housing operations for 3 months, reducing profits by an estimated £(60)m. Additionally, Group operational costs increased by £(21)m reflecting incremental expenses incurred as a result of COVID-19, including the provision of IT spend on remote working. **In all, we estimate COVID-19 related events reduced operating profit by £(129)m.**

COVID-19 has increased volatility within **asset markets**, but the defensive positioning of LGR's £80.7bn asset portfolio has meant that we have performed well in absolute and relative terms as described on pages 1 and 11.

We remain extremely vigilant and will continue to monitor and manage the impact of COVID-19 across our businesses.

Asset valuation approach at 30 June 2020

While recognising the volatility within asset markets, our approach to the valuation of assets as at 30 June 2020 was substantially consistent with our usual processes, policies and methodologies. However, we have applied increased focus on the valuation of those assets more directly impacted by the COVID-19 pandemic, particularly non-traded harder-to-value assets, typically classified as level 3 in the IFRS fair value hierarchy. Given the diversity of our portfolio, the impact has been varied with certain asset classes and market sectors more exposed to the impact of COVID-19 than others, in particular property assets, where a number of property valuations equating to c1.5% of the total £118bn of assets to which shareholders are exposed have been reported on the basis of "material valuation uncertainty" (these clauses do not mean that valuations cannot be relied upon but rather that, in the context of the current environment, less certainty can be attached than would otherwise be the case). Please see note 4.04 (b) on page 55 for further disclosure on our valuation of level 3 assets.

Strategy overview

The Group's strategy continues to align to our six global, long-term growth drivers which are structural rather than cyclical and which remain highly relevant: **ageing demographics**, **globalisation of asset markets**, **investing in the real economy**, **welfare reforms**, **technological innovation**, **addressing Climate Change**.

Responding to these drivers creates sustainable profits and positive social and environmental outcomes as we harness the power of pensions.

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

1. **Legal & General Retirement Institutional** (LGRI) offers pension risk transfer (PRT) to institutional clients globally
2. **Legal & General Retirement Retail** (LGRR) provides individual annuities and lifetime mortgages (LTMs) in the UK
3. **Legal & General Investment Management** (LGIM) is the 14th largest global asset manager by AUM[9]
4. **Legal & General Capital** (LGC) invests shareholder capital and is building an alternative asset pipeline
5. **Legal & General Insurance** (LGI) sells retail and group protection in the UK and retail protection in the US

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

- **LGRI**, a market leader in UK PRT, and **LGRR**, a leading provider of UK individual annuities, have £81bn of assets, providing long-term, captive AUM to **LGIM**. This portfolio is continually being enhanced with direct investments originated by **LGC**.
- **LGIM** is the market leader in providing investment management to UK institutional pension scheme clients, specifically through index, fixed income and LDI strategies. This provides **LGRI** with a strong pipeline: 53% of our pension risk transfer (PRT) transactions over the past three years were from existing LGIM clients.[10] LGIM has leveraged its UK DB capabilities to become a leading asset manager for UK defined contribution (DC) pension scheme clients, and is also successfully growing overseas.
- **LGC** uses shareholder capital to achieve two clear goals:
    1. To deliver attractive financial returns for our shareholders by creating real alternative assets and operating businesses and leveraging Legal & General's existing businesses, network of relationships, brand, and expertise
    2. To self-manufacture attractive, Matching Adjustment-eligible direct investments to back **LGRI and LGRR**'s growing annuity liabilities and to create assets for **LGIM**'s clients
- **LGI** is a market leader in UK protection and US brokerage term life insurance, and provides significant Solvency II benefits to the Group by partially offsetting new business strain in **LGRI** and **LGRR**. Additionally, LGI's US business facilitates **LGRI**'s US PRT transactions, which are written onto the existing US balance sheet.

The synergies within our businesses drive profits and fuel future growth.

We think about the long-term, **Environmental, Social, and Governance** (ESG) impact of our businesses[11], particularly in terms of:

1. **How our businesses operate**. Our success in this area is demonstrated by our AA rating from MSCI, our 79% Bloomberg Gender Equality score and the 5% reduction in carbon emissions from our direct operations over 2019. During H1 2020 we ran an **Addressing Climate Change** Accelerator Programme, incubating a number of projects aimed at increasing our involvement in funding the transition to net zero, especially in the built environment, and drawing upon skills from across the Legal & General Group. Additionally, in LGC Homes, we have committed to net zero operational carbon by 2030.
2. **How we invest our £118bn of proprietary assets[12]**. We consider ESG factors in new investment decisions and in 2019 we reduced the carbon emissions of the Group asset portfolio by 6%. Please see page 11 for more information.
3. **How we influence as one of the world's largest asset managers with £1.2tn AUM**. We have £174bn AUM in ESG strategies and our Active and Index ESG funds strongly outperform peers.[13] We have taken action against 11 companies named as laggards under our Climate Impact Pledge, as we continue to pressure investee companies to behave responsibly. Please see page 13 for more information.

Our alignment to six long-term growth drivers and our commitment to Inclusive Capitalism have led us to develop a sustainable business model which generates positive outcomes for shareholders, customers, wider society and the environment.

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[9] WTW, The world's largest 500 asset managers.
[10] Three year average measured by UK PRT deal count. Three year average measured by UK PRT new business volumes from LGIM clients is 66%.
[11] For more information please refer to www.legalandgeneralgroup.com/csr/
[12] Proprietary assets relate to Investments to which shareholders are directly exposed (excluding client, policyholder and non-unit linked with-profits assets), as disclosed in Note 7.01.
[13] State Street R-Factor Research, January 2020.

Outlook

Our strategy and growth drivers have delivered strong returns for our shareholders over time and have demonstrated resilience in the current environment. We are confident they will continue to deliver profitable growth into the future as we execute on our strategy based on Inclusive Capitalism. ***Our focused and consistent strategy has delivered 11% EPS CAGR since 2011***.[14] ***Having achieved our five year ambition of 10% EPS CAGR (58% growth over the period) in just four years, we plan to update the market on our ambitions at a Capital Markets Event on 12 November 2020***.

We remain confident in our strategy and our ability to deliver resilient, organic growth through periods of macro-volatility, supported by strong competitive positioning in attractive and growing markets. Our confidence and our dividend paying capacity are underpinned by the Group's strong balance sheet with £7.3bn in surplus regulatory capital, a £3.5bn IFRS credit default reserve, and significant buffers to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

We intend to be a leader in the post-pandemic economic recovery, supporting our shareholders and customers while delivering Inclusive Capitalism through investments in infrastructure, clean energy, affordable housing, and providing products to support individuals' financial resilience.

LGR's Institutional (LGRI) business participates in the rapidly growing global pension risk transfer (PRT) market, focussing on corporate defined benefit (DB) pension plans in the UK, the US, the Netherlands, Ireland, and Canada, which together have more than £5 trillion of pension liabilities due to **ageing demographics**.[15]

During these uncertain times, pension trustees and their sponsors value Legal & General's reputation and commitment to the UK PRT market, where we are the only PRT provider to have operated continuously for more than thirty years. Although the UK is the most mature PRT market globally, it still represents a significant opportunity as only c11% of the £2.1 trillion of UK DB pension liabilities have transferred to insurance companies to date.[16] PRT business generates an attractive and long-term stream of operating surplus, which provides stability to the division's operating performance and means that LGRI is not dependent on new business to deliver stable profits.

Despite COVID-19, **2020 is anticipated to be the second largest on record, with £20bn to £25bn of UK PRT expected to transact, demonstrating the resilience of this market**.[17]

The US represents a further, significant market opportunity, with $3.5 trillion of DB liabilities, of which only c6% have transacted to date.[18] Since our market entry in 2015, our US business has written more than $3.9bn of PRT with 56 clients, including four transactions in H1 2020. We are the only insurer providing PRT directly to pension plans globally and in May, during the height of lockdown, we undertook the first international PRT transaction for IHS Markit, securing benefits for their UK and US pension plans. This is anticipated to be "one of the key levers that sponsors with UK and US obligations look to utilise going forwards".[19]

Global demand for PRT has remained resilient and our ability to transact has been unwavering throughout the lockdown; in H1 2020 we wrote 53% more transactions by count than we did in H1 2019 (H1 2020: 29; H1 2019: 19). This trend is true in both the UK, where we wrote 10 more transactions (H1 2020: 25; H1 2019: 15), and in the US (H1 2020: 4; H1 2019: 3). 76% of our UK transactions were with **LGIM** clients, demonstrating the strength of our client relationships and the resilience provided by our unique position as the only firm operating across the full pension de-risking journey.

Our intention remains to write £40bn to £50bn of new UK PRT over the next five years. As always, we will be disciplined in our pricing and deployment of capital, weighing the interests of all our stakeholders when making new business decisions.

[14] 2011 Underlying EPS: 12.42p; 2015 Underlying EPS: 18.16p; 2019 Underlying EPS: 28.66p.
[15] Source: Pension Purple Book 2020, PPF; LIMRA, March 2019; https://www.ipe.com/countries/ireland/irish-pension-liabilities-hit-167-of-gdp/10024291.article; "The Coming Pensions Crisis", Citi Research.
[16] Source: Pension Purple Book 2020, PPF; Hymans Robertson, 2019 Risk Transfer Report.
[17] Lane Clark Peacock, "Pensions de-risking report: Buy-ins, buy-outs and longevity swaps", 1 July 2020.
[18] LIMRA, March 2020.
[19] Professional Pensions, "L&G announces bulk annuities with UK and US schemes", 13 May 2020.

We expect **LGR Retail's (LGRR)** target market to continue to expand, driven by **ageing demographics** and **welfare reforms**. LGRR works closely with **LGIM** to deliver and develop a broad range of retirement solutions to customers.

The global disruption following the outbreak of coronavirus has caused a temporary dip in demand for retail retirement products, but we do not expect this to alter their long term growth trajectory. Despite lower rates, individuals may place greater value on the certainty of an annuity in these uncertain times, while other people may choose to access home equity through a lifetime mortgage to weather reductions in the value of other assets. Responding with **technological innovation**, we have improved accessibility to our products through the lockdown and have seen demand rebound over June and July. We are actively seeking solutions to address the needs of the 1.5 million UK workers aged over 50 who report that they intend to delay their retirement as a direct result of the pandemic.

In the UK, our primary market, there are £40bn of personal pension assets coming to maturity each year with the individual annuity market accounting for only £4.5bn of the total maturing assets.[20] LGRR seeks to expand its addressable market through product innovation; as an example, in February we launched our Immediate Needs Annuity, designed to better help clients mitigate the risk of running out of money while in care. Our customer-led product innovation, together with the recent introducer agreement with Prudential, has helped increase our market share to 20.9% in Q1.[21]

The LTM market saw both supply and demand dislocations following the COVID-19 outbreak. The lockdown presented challenges to property valuation, advice and execution, which have been largely overcome through **technological innovation**, such as virtual valuations and electronic signatures. Demand softened in April and May as consumers postponed many of the catalysts for LTMs, such as vacations and assisting children in purchasing their first homes. However, LTMs continue to be an attractive option for individuals looking to access liquidity by means other than selling pension assets at distressed levels. Consequently, we have seen demand partly recover in June.

We are considering very carefully the current and longer-term impacts of COVID-19, both direct and indirect, on the mortality of our annuitants. Alongside this, we continue to analyse the impact of incorporating the next actuarial table (CMI-18) in our year end reserving which, in isolation, would imply a release of around £200m.

Investment Management (LGIM) benefits from a combination of scale businesses and a diversified asset base, underpinned by structural demand for its products and investment capabilities. This provides the basis for consistent delivery, and the platform to deliver further growth in operating earnings over the medium-term.

Under Michelle Scrimgeour's leadership, LGIM will continue to diversify, modernise and internationalise the business, strategic themes on which Michelle will expand at the Group's Capital Markets event on 12th November.

LGIM intends to maintain its strong position in the UK, which has been the bedrock of the firm's success to date, while diversifying its capabilities.

LGIM is a leading player in providing UK DB de-risking solutions and is uniquely positioned to support UK DB clients journeying to the full range of pension end game destinations, including PRT and Insured Self Sufficiency with **LGRI**.

We are the market leader in UK DC – a market with significant growth potential – with total assets of £96.7bn (HY19: £86.4bn). The DC market represents a compelling opportunity with total UK DC assets expected to more than double by 2028 to £955bn.[22] Demonstrating the business' resilience, our UK DC business won 41 pension plans during H1 2020, up 64% from 25 pension plans in H1 2019.

Over the last three years LGIM's international AUM has nearly doubled to reach £385bn – 31% of LGIM's total AUM. LGIM plans to continue growing International AUM profitably and at pace over the medium term, with a particular focus on the US, Asia and Europe.

In addition to diversifying our client-base, we will also expand our product capabilities, focussing on Real Assets, Solutions and Index as we leverage the skills developed within **LGC** and **LGR** in managing our £81bn annuity portfolio. To this end we are pleased to announce the launch of LGIM's Secure Income Assets Fund, providing pension funds and other institutional investors with stable, long-term cashflows from a diversified allocation across infrastructure debt, real estate debt and private corporate debt, with co-investment from **LGR**. We continue to build upon our strong ESG credentials, with ESG reporting across our full AUM and £174bn in responsible investment strategies explicitly linked to ESG criteria.

LGIM continues to invest in the business to achieve the resilience and global scalability critical to its future success. We are automating and simplifying our business through investment in **data analytics**, providing a **digital experience for our customers**, and optimising our **investment platforms**. As noted at the FY 2019 results, £29m of LGIM-related annual project expenditure previously reflected in Group expenses has been allocated to the LGIM segmented results beginning in 2020.

LGIM is well positioned to continue to drive net flows, and to deliver meaningful earnings growth, as it continues to leverage its core strengths and to expand internationally.

[20] Retirement income market data 2018/19, FCA, 2019, based on 2019 data.
[21] ABI Q1 2020 Report; Q1 2019: 18.3%.
[22] Broadridge, UK Defined Contribution and Retirement Income report 2019. 2019 UK DC Assets: £438bn.

Legal & General Capital (LGC), the Group's alternative asset originator, will continue to seek opportunities to deploy patient capital in alternative assets where we see an enduring demand for private long-term investment to support society's need for residential property, specialist commercial real estate, climate & energy infrastructure and alternative credit & venture capital. LGC is well placed to bring together Legal & General Group's sources of on-balance sheet (from **LGR** and **LGC**) and third party (via **LGIM**) patient capital with its development and operational capabilities, thereby deploying the power of pensions to **deliver Inclusive Capitalism** and **address Climate Change**. **Over the next three to five years we expect to build our diversified direct investment AUM to up to c£5bn (H1 2020: £3.0bn) with a target blended portfolio return of 8% to 10%.**

Our Future Cities portfolio has **c£1bn invested into the real economy** across fifteen UK towns and cities and we expect to invest further in many of these locations and others. The portfolio is primarily comprised of: **specialist commercial real estate**, which includes urban development, science and technology-focussed real estate, and data centres; and **climate & energy investments**, which include renewable infrastructure and clean technology. During H1, LGC made further climate & energy investments, expanding its portfolio to cover low carbon heat, transport and power generation. **Across the Legal & General Group, clean energy investments have now reached £1.4bn.**

LGC's residential property platform is diversified across build-to-rent, build-to-sell, later living, and affordable housing, providing some insulation from cyclical shocks. Responding to the UK COVID-19 lockdown, LGC paused a significant number of its traditional construction operations in March. Since then, all its sites have reopened, facilitated by innovation and collaboration across the business while prioritising health and safety. In line with other house builders, should operating conditions remain largely unchanged from the current state, **we expect a 30% reduction in sales across the year**, with the majority of this impact experienced in H1. Despite disruptions to construction, **planning permissions were secured at pace throughout the period, helping LGC particularly to meet the UK's Later Living and Affordable Housing needs**. We expect higher sales in H2 2020 as a result of the UK Government's temporary Stamp Duty reductions. We believe our diversified housing platform makes us more resilient to temporary market slowdowns and we are well positioned to achieve our long-term targets of delivering:

- Over 3,000 traditional build-to-sell homes per annum
- 5,500 build-to-rent homes in our pipeline
- 3,000 affordable homes per year by 2023 to help meet the needs of the more than 1.4 million households on waiting lists for UK social housing
- Over 3,500 Later Living homes in our pipeline to help address the housing requirements of the last time buyers seeking to downsize, estimated at over 3.4m by 2021

In SME Finance, we are continuing to support UK innovation, investing in the real economy by creating a diverse portolio of Venture Capital assets which complement **LGIM**'s ambitions to offer VC investments to DC investors, and growing our alternative credit capabilities. Pemberton, our 40%-owned European mid-market debt originator, has continued to perform well during COVID-19, with deployed funds increasing to €4.5bn (H1 2019: €3.5bn). Over the coming months Pemberton will remain vigilant in monitoring its portfolio and engaging proactively with borrowers. **We expect to continue to deploy our capital and focus to support the venture ecosystem to help create and grow the businesses of tomorrow.**

In **Insurance (LGI)**, we anticipate continued premium growth across our UK and US businesses as **technological innovation** makes our products more accessible to customers and supports further product and pricing enhancements.

In the UK, our market leading retail protection business is supported by the strength of our distribution relationships, investment in our systems and platforms, and product enhancements. Our group protection business has gained market share in 2020 and, based on the current market environment, we expect this success to continue into the second half of the year.

In the US, we anticipate our on-going technology investments and new partnerships will position us for new business growth as the market recovers from the initial distribution and underwriting disruptions caused by COVID-19. We plan to use technology to improve customer experience while reducing cost and becoming the partner of choice for a wide range of distribution partners, adding to our successful US offering, where we are already the largest provider of term life assurance in the brokerage channel by policy count.

LGI expects to emerge stronger from the current crisis. In responding to the challenges presented by COVID-19 we have accelerated our use of data analytics in the UK and US, allowing us to enhance our products, optimise our profits, and take proactive risk management actions.

Dividend

Our businesses and balance sheet have shown resilience during the first several months of the COVID-19 pandemic. As a long term company, we act prudently and take into consideration all of our stakeholders. The Board has declared an interim dividend of 4.93p per share, in line with prior year, in order to maintain flexibility as the economic effect of COVID-19 becomes clearer. The Board will set a final dividend that is prudent, consistent with our risk appetite and in line with our dividend policy.

Over the longer term, Legal & General expects to maintain its progressive dividend policy reflecting the Group's expected underlying business growth, including net release from operations and operating earnings.

Legal & General Retirement

FINANCIAL HIGHLIGHTS £m	H1 2020	H1 2019
Operating profit	**721**	**655**
- LGR Institutional (LGRI)	*585*	*524*
- LGR Retail (LGRR)	*136*	*131*
Investment and other variances	80	(17)
Profit before tax	**801**	**638**
Release from operations	329	303
New business surplus	98	185
Net release from operations	**427**	**488**
UK PRT	3,176	6,316
International PRT	248	361
Individual annuity single premiums	421	497
Lifetime mortgage advances	362	489
Total new business	**4,207**	**7,663**
Total annuity assets (£bn)	**80.7**	**72.1**

Operating profit up 10% to £721m

LGR continues to deliver strong operating profit growth of 10% to £721m (H1 2019: £655m), driven by the consistent performance of the growing annuity portfolio as well as resilient UK Pension Risk Transfer (PRT) new business volumes further bolstered by routine assumption updates. Retail Annuity and Lifetime Mortgage volumes were down, reflecting stalled demand and initial complications in the sales process following the UK lockdown, however **technological innovation** has helped us overcome these challenges to serve customers and grow market share. As mentioned on page 4, the devastating loss of life from COVID-19 has had impacts across the Group, including LGR.

Solvency II new business margin increased to 10.6% (H1 2019: 7.8%) reflecting more deferred annuitants insured, causing a longer duration in the H1 2020 liabilities compared to H1 2019 liabilities, and continued pricing discipline.

LGR Institutional – Global Pension Risk Transfer

In H1 2020 LGR Institutional (LGRI) completed £3,424m of bulk annuities across 29 deals globally (H1 2019: £6,677m; 19 deals).

Legal & General is a leader in the UK PRT market and in H1 2020 we wrote £3,176m premiums across 25 transactions (H1 2019: £6,316m; 15 deals). Demand for UK PRT has continued largely unabated despite the wider macro-environment. Many pension plans have hedged their interest rate exposure, meaning lower rates do not materially impact their ability to afford a bulk annuity. This has translated into robust demand for PRT, with market participants expecting £20bn to £25bn to transact in 2020.[23]

LGRI's brand, scale and asset origination capabilities through synergies with, and expertise within, **LGIM** and **LGC** are critical to our market leadership in the large UK PRT market. Long term client relationships, with many of these fostered through LGIM, have allowed us to help many pension plans achieve their de-risking goals. As an example, in H1 2020, we completed our ninth bulk annuity for ICI, one of our largest PRT clients. Additionally we have used **technological innovation** to serve smaller pension plans more efficiently; over 40% of our transactions in H1 2020 were transactions less than £25m.

The US PRT business continues to perform with new business premiums increasing 7% to $312m (H1 2020: £248m; H1 2019: $291m; £223m). In May, we wrote our first global PRT transaction, simultaneously insuring IHS Markit's UK and US pension plans for $144m (£122m). IHS Markit has been an LGIM client for fifteen years and we are pleased to have helped usher them through their full de-risking journey. As the only insurer providing PRT directly to pension plans globally, **Legal & General is uniquely positioned to offer holistic, global pension de-risking solutions**.

LGR Retail – Individual Retirement Solutions

LGR Retail (LGRR) has helped customers weather the economic uncertainty following COVID-19, delivering solutions to retirees through individual annuities and Lifetime Mortgages (LTMs).

Individual annuity sales fell 15% to £421m in H1 (H1 2019: £497m), reflecting transaction frictions in the immediate aftermath of the UK lockdown. Sales began to recover in June, up 27% compared to May, as processes adapted to the current environment and individuals valued the certainty of an annuity in uncertain times. Product innovation and increased intermediary presence allowed us to grow market share to 20.9%.[24] Despite market volumes falling 16% over Q1, LGRR lifetime annuity new business fell by only 5%.[24] Our strong heritage in individual annuities means that LGRR assets account for approximately one quarter of the Group's total annuity assets.

Lifetime mortgage advances were down 26% to £362m (H1 2019: £489m), again reflecting execution challenges during lockdown. Similar to individual annuities, we have seen a rebound in applications in June. We have maintained pricing and underwriting discipline while building **customer-focused** innovation, such as virtual valuations and electronic signatures. At the end of June 2020, LTMs were 7% of our total annuity assets and our LTM new business portfolio had an average customer age of 71 and a weighted average loan-to-value of c28% at point of sale.

[23] Lane Clark Peacock, "Pensions de-risking report: Buy-ins, buy-outs and longevity swaps", 1 July 2020
[24] ABI Q1 2020 Report; Q1 2016: 6.5%; Q3 2019: 17.2%; Q1 2020: 20.9%

On-going credit and asset management

LGR's £80.7bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities is well diversified by sector and geography.[25]

Credit portfolio management

LGR's £76.4bn fixed income portfolio is comprised of £57.0bn of listed bonds and £19.4bn of direct investments. Approximately two-thirds of this portfolio was rated A or better, 34% rated BBB and 2% sub-investment grade.

The principal objective of our annuity-focused, fixed income fund managers in **LGIM** is to manage the portfolio to avoid credit downgrades and defaults. We constantly review our asset portfolio, including sector allocations and asset classes, in order to manage portfolio credit quality and to mitigate risks. We have vigorously stress tested our portfolio to build resilience against a range of scenarios and hold a **£3.5bn IFRS credit default reserve**.

We have kept lower-rated, cyclical exposures to a minimum and only 7% of our BBB assets are BBB-. Our approach has led us to avoid sectors which we believe are at risk of significant disruption, including those directly impacted by COVID-19, for instance traditional retail, airlines, hotels and leisure, which together constitute less than 1% of our portfolio. We have been conducting a deep dive analysis of our BBB exposures over the last year and have taken the opportunity to improve credit quality at attractive pricing levels. We have been able to take significant positive action due to market dynamics. **Our defensive positioning and active management have meant that we have outperformed the downgrade experience of the market, with less than £300m of our traded credit assets downgraded to sub-investment grade and no defaults**.[26] We recognise the economic impact of COVID-19 is still developing and we will continue to monitor and safeguard our portfolio.

Additionally, we are continuing to review and manage our portfolio to better integrate and manage **climate change** risks. When making new investment decisions we have put constraints on companies involved in coal extraction and coal-based electricity production and have set carbon intensity targets to monitor alignment with the Paris Agreement objective.

Direct Investment

LGR originated £1.2bn of new, high quality direct investments in H1 which, along with market movements, brought the direct investment portfolio total to £23.6bn[27] (FY 2019: £21.6bn).

Within the direct investment portfolio, fixed income assets accounted for £19.4bn of AUM, including £5.5bn in LTMs. Consistent with the broader bond portfolio, approximately two-thirds of the direct investment bond portfolio was rated 'A' or above using robust and independent rating processes which take account of long-term stress events to the strong counterparties and the underlying collateral. The portfolio has continued to perform strongly in H1, with 99.5% of scheduled cash-flows paid year to date, reflecting the high quality of our counterparty exposure. During H1, approximately 1.4% of our UK direct investments (excluding lifetime mortgages) were downgraded to sub-investment grade. These affected assets are currently under construction and delays have meant that the construction phase has been extended slightly. Our independent rating methodology therefore automatically downgrades these assets. However, we expect them to be upgraded to investment grade once the construction phase has completed.

The Group's long-term illiquid liabilities and large balance sheet enable it to invest in assets of size and term that differentiate it from many other institutional investors. We regularly assess the relative value of our different direct investment asset classes against each other as well as against the risk-reward characteristics of global traded bonds. This approach ensures that our investment strategy supports bulk annuity pricing, delivers robust shareholder returns and, where desirable, preserves opportunities for future portfolio return enhancements by replacing traded bonds with direct investments.

Across the Legal & General Group, **our businesses help to meet the societal needs arising from welfare reforms, harnessing the power of pensions to deliver Inclusive Capitalism.** We invest in sectors where long term funding is needed, such as government infrastructure. Our ability to self-manufacture attractive, long-term assets to back annuities, such as build-to-rent or affordable housing, working with **LGIM**, **LGC**, or through LTMs, is a differentiating feature of LGR's business and remains a key competitive advantage.

[25] LGR's total annuity asset portfolio excludes Derivative assets (£22.1bn) and Loans and other receivables (£2.9bn). See note 7.01.
[26] 0.6% of our actively managed traded credit portfolio has downgraded to sub-investment grade; this is less than 40% of the downgrades to sub-investment grade implied by market experience.
[27] Includes LGR direct investment bonds (£19,444m), direct investment property (£4,016m), direct investments equity (£16m), and other assets (£89m). Please see note 7.02b for more information.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS[1] £m	H1 2020	H1 2019
Management fee revenue	**458**	425
Transactional revenue	**9**	9
Total revenue	**467**	434
Total costs	**(270)**	(240)
Asset management operating profit[2]	**197**	194
Workplace Saving operating result	**(1)**	(2)
Operating profit	**196**	192
Investment and other variances	**(3)**	(5)
Profit before tax	**193**	187
Net release from operations	**162**	**157**
Asset Management cost:income ratio[2] (%)	**58%**	**55%**

NET FLOWS AND ASSETS £bn		
External net flows	**6.2**	60.3
Internal net flows	**(0.6)**	2.4
Total net flows	**5.6**	62.7
- Of which international[3]	***(3.2)***	*44.6*
Cash management flows	**2.8**	0.5
Persistency (%)	**86**	91
Average assets under management	***1,218.4***	*1,075*
Assets under management as at 30 June	***1,240.6***	1,135
Of which:		
- International assets under management[4]	***385***	*343*
- UK DC assets under management	***97***	*86*

1. Please see disclosure 2.01 for further details. H1 2019 LGIM operating profit restated to include LGIM-related project expenditure formerly reflected in Group expenses.
2. Excludes revenue and costs from the Workplace Savings business.
3. International asset net flows are shown on the basis of client domicile.
4. International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.

Operating profit of £196m, revenue up 8% to £467m

LGIM has shown resilience amidst the significant market volatility associated with COVID-19. The business has continued to deliver positive external net flows in the first half of 2020 – £6.2bn (H1 2019: £60.3bn) – and has grown assets under management to £1,240.6bn (FY 2019: £1,196.2bn). Revenues were up 8% to £467m (H1 2019: £434m), supported by good growth in higher margin business. Management fees increased by 8% to £458m (H1 2019: £425m). This demonstrates the benefits of a diversified asset base and the strong structural demand for our products.

Operating profit increased by 2% to £196m (H1 2019: £192m), reflecting increased revenues from flows and asset values which were partially offset by LGIM's continued investment in its growth strategy. LGIM is automating and simplifying the business through investment in data analytics, providing a digital experience for customers and optimising investment platforms. The cost income ratio (58%[28]) reflects this continued investment in the business. As indicated at our FY 2019 results, £29m of annual LGIM-related project expenditure, previously reflected in Group expenses, has been allocated to the LGIM segmented results from 2020.

Falling interest rates have increased the value of fixed income assets, which account for over one third of LGIM's AUM. The low rates environment has also positively impacted flows from global DB pension. As a market leader, LGIM has deep relationships with plan trustees and has continued to support them in their de-risking goals during these uncertain times.

Workplace Savings assets increased by 1% to £41.5bn (FY 2019: £40.3bn) driven by continued client wins and increased contributions. We are focused on improving efficiency as the business grows. The H1 2020 operating result was £(1)m (H1 2019: £(2)m). This relates to the administration business only, as the profits on the fund management services provided are included in LGIM's asset management operating profit.

[28] H1 2019 cost income ratio, restated to include LGIM-related project expenditure (£13m) formerly reflected in Group expenses: 55%.

Strong flows into UK DB and DC

LGIM's UK Defined Benefit (DB) business has delivered robust external net flows of £2.5bn, with outflows of £6.9bn in DB Index more than offset by inflows of £7.2bn into DB LDI solutions. The long term nature of the strategic relationships developed with **LGR** and **LGC** continue to be a positive source of funds, particularly to our Real Assets business: we have supported our clients through to end game with 76% of PRT deals transacted by LGR in the last 6 months previously LGIM DB clients, whose pension assets we now look after on LGR's behalf.[29]

The Defined Contribution (DC) business continues to attract flows, with external net flows of £5.5bn. Total UK DC AUM is up 3% over the first six months of the year, with net inflows partly offset by declines in AUM linked to markets: H1 2020 £96.7bn (FY 2019 £94.3bn).

LGIM has experienced a 6% increase in customers on its Workplace pension platform in 2020, with the number of members now at 3.7m. LGIM also has one of the largest and fastest-growing UK Master Trusts, which recently reached £9.3bn in assets under management, reflecting the increasing appeal of the structure for DC plans wishing to outsource their governance, investment and administration.

International net flows broadly flat

LGIM experienced international outflows of £(3.2)bn (H1 2019: £44.6bn). We achieved £5.2bn of net flows in Asia reflecting the strong growth potential in the region. This was offset by outflows in the US as some pension plans have rebalanced their portfolios away from fixed income towards other asset classes based on pre-set asset allocation thresholds. International AUM of £385bn is up 4% from FY 2019 (£370bn). Notwithstanding short-term market volatility, we continue to focus on international growth, and to believe in our ability to grow international AUM and earnings over the medium-term.

Resilience in our retail business

The retail business delivered net flows of £1.2bn, notwithstanding significant market volatility. Retail AUM, including Personal Investing, remained broadly flat at £38.5bn (FY 2019: £38.9bn) as we continue to develop our product range and client-service proposition in the UK and broaden our distribution strategy in Europe. LGIM was ranked top 3 in gross UK retail sales in the first half of 2020.[30] The ETF business has further supported our European retail distribution plans with £0.2bn of net flows in H1. Currently 74% of our ETF offering has experienced net inflows in the first half of 2020 and we rank in the top 10 for pan-European mutual funds and ETF net flows.[31]

Leading in responsible investing

LGIM continues to build on its credentials as a responsible investor and remains committed to leading the asset management industry in addressing the environmental and social challenges arising from a rapidly changing world. As at 30th June 2020, **LGIM managed £174.4bn in responsible investment strategies explicitly linked to ESG criteria**.

Embedded within our processes and decisions, LGIM provides clients:

- **Stewardship with impact**: LGIM's stewardship team engaged with 210 companies and voted on 48,517 resolutions in H1 2020. Additionally, over 2019 we engaged with about 30 regulators and policy-makers to improve market standards around the world.
- **Active corporate engagement**: LGIM continues to leverage its Global Research and Engagement Platform to engage with corporations. The Platform brings together the best sector expertise across its investment management business.
- **Integration of ESG factors**: To meet growing demand for responsible investment products, LGIM extended its industry-leading ESG fund range in H1 2020, while utilising its proprietary ESG scores across a broad range of strategies.

In a market where ESG is becoming increasingly topical especially in light of COVID-19, LGIM has real strength in the longevity and authenticity of our ESG and Investment Stewardship track record, setting us apart from newcomers to the field.

As such, LGIM is demonstrating continued leadership by taking, and pushing for, decisive action on era-defining issues, such as wage inequality and **addressing climate change**.

To address growing wage inequality we have opposed 35% of pay packages globally and we have pushed companies to adopt a Living Wage for their staff.

Our Climate Impact Pledge has seen us vote against Chairpersons across our Index portfolios and all our equity holdings for those companies we see as doing the least to mobilise on climate change. In 2019 we put sanctions on 11 companies which were laggards on the Pledge. Also, LGIM is developing the modelling technology required to assess climate risk in asset portfolios. LGIM aims to offer its clients (including internal clients, like **LGR**) end-to-end climate solutions, including measuring and managing carbon exposure, identifying underlying climate risks and seeking temperature alignment.

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[29] See also page 6.
[30] Pridham Report, 2020.
[31] Broadridge Pan-European mutual fund and ETF flows Q1 2020.

Breadth of investment management solutions

Asset movements[1] **(£bn)**	Index	Active Strategies	Multi Asset	Solutions	Real assets	**Total AUM**
At 1 January 2020	**403.6**	**177.2**	**58.0**	**526.6**	**30.8**	**1,196.2**
External inflows	27.7	9.5	4.3	10.9	0.6	53.0
External outflows	(32.3)	(9.0)	(2.7)	(22.7)	(0.4)	(67.1)
Overlay net flows	-	-	-	20.1	-	20.1
ETF net flows	0.2	-	-	-	-	0.2
External net flows	**(4.4)**	**0.5**	**1.6**	**8.3**	**0.2**	**6.2**
Internal net flows	-	(0.2)	(0.7)	(0.1)	0.4	(0.6)
Total net flows	**(4.4)**	**0.3**	**0.9**	**8.2**	**0.6**	**5.6**
Cash management movements	-	2.8	-	-	-	2.8
Market and other movements	(4.1)	9.2	(1.8)	32.0	0.7	36.0
At 30 June 2020	**395.1**	**189.5**	**57.1**	**566.8**	**32.1**	**1,240.6**

1. Please see disclosure 5.01 for further details.

Total AUM increased 4% to £1,240.6bn (FY 2019: £1,196.2bn), with external net flows of £6.2bn (FY 2019: £60.3bn) and rising asset values driving £44bn of AUM growth. Net flows were driven by strong demand for LDI Solutions, with positive net flows also in Multi-Asset and Real Assets, as well as an 86% persistency rate on our existing AUM.

Our LDI Solutions business continued to see robust external net flows of £8.3bn (H1 2019: £19.8bn) driven by strong demand from UK DB clients as they continue to de-risk, resulting in a shift from Index to LDI strategies. We are in the enviable position of being able to manufacture Solution products in both publicly and privately traded asset classes, and to be able to combine these together in integrated portfolios for UK DB clients. We are well positioned to capitalise on this continuing trend, and together with our Fiduciary business offering and close alignment to **LGR's** PRT business, we are able to offer tailored solutions to UK DB schemes at all stages of their funding journey.

Our global **Index** business saw net outflows of £4.4bn (H1 2019: £34.5bn).

LGIM **Active Strategies** (formerly Global Fixed Income and Active Equities**) delivered external net flows of £0.5bn** (H1 2019: £0.9bn). The result reflects ongoing demand for Active Fixed Income products from UK DB clients, offset by outflows in the US.

Multi-asset strategies are in high demand from DC schemes and retail customers. External net flows into multi-asset funds were £1.6bn (H1 2019: £5.1bn).

Our **Real Assets** business saw modest external net inflows of £0.2bn (H1 2019: £0.0bn), with AUM up modestly from FY 2019 to £32.1bn (FY 2019: £30.8bn). The future growth of external flows will be supported by our build-to-rent business, which has a pipeline of over 5,500 homes across the country, and our Private Credit business, which offers clients diversification of secure income and value protection solutions.

We anticipate that LGIM will continue to benefit from global trends in retirement saving and structural shifts in demand in the asset management industry, including ESG strategies.

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	H1 2020	H1 2019
Operating profit	**123**	173
- *Direct investment*	36	*99*
- *Traded investment portfolio*	86	*67*
- *Treasury assets*	1	*7*
Investment and other variances	(307)	105
Profit before tax attributable to equity holders	**(184)**	278
Net release from operations	**97**	142
DIRECT INVESTMENT PORTFOLIO £m		
Future Cities	895	905
Homes	1,636	1,313
SME Finance	502	420
	3,033	2,638
TRADED ASSET PORTFOLIO £m		
Equities	1,987	1,717
Fixed income	238	161
Multi-asset	242	234
Cash[1]	1,388	2,315
	3,855	4,427
LGC investment portfolio	**6,888**	7,065
Treasury assets at holding company	2,074	749
Total	**8,962**	7,814

1. Includes short term liquid holdings.

Total operating profit of £123m reflecting pause in home building due to lockdown

LGC operating profit decreased 29% to £123m (H1 2019: £173m), principally reflecting lower profits from our direct investment portfolio (H1 2020: £36m; H1 2019: £99m) as a result of a pause in traditional house-building activities during the UK lockdown. COVID-19 related impacts are estimated at £(60)m.[32] Operating profit from the traded and treasury portfolios increased to £87m (H1 2019: £74m), primarily driven by growth in the traded equity portfolio over 2019.

Profit before tax was £(184)m (H1 2019: £278m), reflecting negative investment variance from asset valuation markdowns, particularly in respect of our traded equity portfolio and our two retail assets (The Lexicon Bracknell and Thorpe Park in Leeds). As long-term investors, we expect much of the £(307)m investment variance to be unrealised.

The impact of the prevailing macro-environment, through the combination of a slowdown in build-to-sell housing and measured retail-related asset write-downs resulted in a direct investment net portfolio return of (5.9)% (H1 2019: 5.6%), which we expect to recover to 8% to 10% over the medium term.

Direct investment portfolio grew 5% over H1 to £3.0bn

LGC has taken a prudent approach to investment over the period, as we continue to deploy cash to support the growth of our existing businesses, including progressing our affordable housing and Later Living activities, as well as sourcing new opportunities that are underpinned by structural growth drivers. Our direct investment portfolio increased to £3,033m (FY 2019: £2,877m; H1 2019: £2,638m) as we added £0.5bn of diversified investments and commitments during H1. Despite the lockdown we have continued to see good progress across the portfolio, securing planning permissions across the UK, including for a Later Living facility on the site of our former head office in Kingswood and, separately, for a new c£18m modular housing scheme.

Our portfolio continues to be well diversified across our business models, with:

- 52% invested in wholly-owned Legal & General operating businesses, principally our investment in CALA;
- 31% in joint ventures or partnerships with other investors, such as the SciTech partnership with Bruntwood; and
- 17% in externally-managed funds, including our investments in Pemberton funds, where we are a significant shareholder.

[32] Excluding this, LGC operating profit was up 6%. Please see page 4 for more information.

Investing £895m in the future of UK cities

LGC's Future Cities business is addressing a shortage of investment and innovation in specialist commercial real estate, which includes urban regeneration, science and technology focussed real estate and data centres, and climate & energy investments, which include renewable infrastructure and clean technology. Through our Future Cities' portfolio, we are **investing in the real economy**, driving **technological innovation** and **addressing climate change**, in order to generate returns for shareholders, create attractive Matching Adjustment eligible assets for **LGR** and supply desirable alternative assets to **LGIM** clients.

During H1 2020 our LGC Future Cities portfolio remained broadly flat at £895m (H1 2019: £905m) as COVID-19 related valuation impacts (particularly affecting our two retail assets) were largely offset by continued investment in our existing projects over the period. Also, LGC committed to invest £150m in a mixed-use project in Sheffield's city centre, supporting the UK's post crisis growth prospects, jobs and housing needs.

LGC expanded its climate & energy portfolio over the period to include low-carbon heat, transport, and power generation. In April, we took a 36% stake in The Kensa Group, one of the UK's largest players in the ground source heat pump technology sector. We aim to maximise synergies with The Kensa Group by developing and deploying heat strategies across Legal & General's property portfolio, as well as exploring strategic opportunities with LGC's other climate & energy investments.

Through Bruntwood Scitech, our partnership with Bruntwood, we have developed world-class diagnostics infrastructure, such as the Lighthouse Lab at Alderley Park, which has put us at the forefront of the fight against COVID-19. Continuing to support our leadership in UK SciTech innovation districts, we have made further progress in Manchester by both completing the Citylabs 2.0 development and by securing planning permission for 'Base' and Citylabs 4.0, a development for health and medical technology businesses. We have also secured planning permission for Enterprise Wharf, an expansion of the Innovation Birmingham Campus.

Strengthening our UK Housing platform as assets increase to £1,636m

LGC has continued to expand its housing sector investments and capabilities, which are diversified across affordability, tenure and life-stage, meeting the UK's long term need for more homes across all demographics. Its traditional housing activities have been constrained by the early phases of lockdown, with pauses in construction and sales activities. All sites have now reopened and we have seen real innovation and collaboration in allowing this progress, prioritising health and safety through careful social distancing measures. Whilst the market is still returning to normal, we are starting to see more sustained consumer demand for housing of all types and tenures.

Our **build-to-sell** business, CALA, was the most operationally impacted of our residential property businesses by the lockdown. To counteract the material reduction in revenues, we carefully managed costs through the period, limiting the financial impact. We expect this business to benefit from the UK Government's recent reduction in Stamp Duty from July 2020 to March 2021. While our build-to-sell businesses are more cyclical, LGC's other residential property businesses, namely build-to-rent, affordable homes and Later Living, are more resilient to economic downturns.

Across the Group, the **build-to-rent** business creates a pipeline of attractive, high quality assets for **LGR** and **LGIM** clients, with a £2bn portfolio of over 5,500 homes in planning, development or operation, across seventeen schemes. Our build-to-rent portfolio has shown resilience to the economic slowdown with rent collection remaining robust at 98% during H1 2020. The desire and ability to work from home, if required, is a trend we expect to continue and are well positioned to cater for, with exceptional digital connectivity, and access to communal flexible home-working spaces, private-hire office spaces and options to reconfigure two-bed apartments to provide a home office.

LGC's **affordable homes** business is delivering a mix of social rent, affordable rent and shared ownership homes through its partnerships with housebuilders, developers and fourteen established housing associations and providers. Now in its second year of operation, the business is generating investment opportunities for **LGR** and has continued to make important steps forward in growing its development pipeline, acquiring sites and welcoming new residents to its schemes. In the wake of the COVID-19 crisis, LGC's affordable homes business remains robust, working in collaboration with Government and leveraging the countercyclical nature of affordable housing to ensure much needed homes continue to be developed in order to meet the UK's increasing demand.

Our **Later Living** platform aims to transform what the elderly can expect from later life by providing vibrant communities specifically built to activate retirement living – socially, physically, intellectually, and financially – with a key role to play in combatting loneliness and promoting good health. During the pandemic, our villages have played a vital role in providing a protective shield to our residents, with an infection rate significantly lower than that seen in over 70s across the UK. During lockdown, our ambitious pipeline was cemented with four planning approvals secured to add approximately 800 new homes. Together, these Later Living projects **will help in the UK's recovery from lockdown, creating around 500 jobs per annum during construction and up to 250 operational jobs** once the facilities are completed, giving a welcome boost to local economies at a time of heightened need.

SME Finance increased to £502m

We are continuing to support UK innovation and growth businesses, investing in the real economy through our alternative credit and venture capital investments, in order to enhance returns and create a portolio of assets which complement **LGIM**'s client requirements over the longer term.

As part of this, we continue to support UK and European **mid-market lending** via fund investments with Pemberton, in which we own a 40% stake. As a responsible investor and signatory of the Principles for Responsible Investment, Pemberton is committed to financing sustainable companies and seeking to support its borrower clients in building long-term value through sustainable growth. Since the outbreak of COVID-19 Pemberton has taken proactive measures to assess and manage the impact on its portfolio companies. Assets have performed robustly through the period and committed Funds Under Management have increased to €7.4bn, with €4.5bn deployed (H1 2019: €5.5bn, with €3.5bn deployed).

We also **invest in start-up businesses** across the UK and Europe through fund investments with Venture Capital managers and direct stakes in innovation and growth companies strategically aligned with our business. We have increased our investments in our venture investing platform investing in two new funds with an additional £14m committed year to date; this brings our total Venture Capital commitments to £114m across sixteen individual funds. In addition, we have supported our investment in Accelerated Digital Ventures (ADV), with its own existing fund and portfolio of on-balance sheet investments. We will continue to remain disciplined in our investment decisions as we seek to deploy capital into the real economy at attractive returns.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	H1 2020	H1 2019
Operating profit	**88**	134
- UK	57	93
- US (LGIA)	31	41
Investment and other variances[1]	(483)	(134)
Profit before tax attributable to equity holders	(395)	0
Release from operations	163	171
New business surplus / (strain)	(1)	(1)
Net release from operations	162	170
Solvency II New Business Value	**138**	116
LGI new business annual premiums	**192**	178
UK Retail Protection gross premiums	**680**	658
UK Group Protection gross premiums	**245**	233
US Protection (LGIA) gross premiums	**550**	518
Total gross premiums	**1,475**	1,409

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

Operating profit of £88m due to COVID-19 mortality claims; new business value growth of 19%

LGI operating profit decreased 34% to £88m (H1 2019: £134m), reflecting increased claims experience due to COVID-19 (£(80)m), particularly impacting our US Protection and UK Group Protection businesses where we retain the majority of the mortality risk. Roughly half of the mortality impact relates to provisions for future COVID-19 claims. Honouring our promises and responding quickly and compassionately to our customers' needs is core to our values at Legal & General. At this difficult time, we are especially aware of the importance of our commitments to our customers; as such, we paid £939m of protection claims in the first six months of the year.

Solvency II New Business Value increase 19% to £138m (H1 2019: £116m) reflecting improved margins in all three parts of the protection business as a result of focused activity leading to business mix changes and cost savings. The protection business continues to generate Solvency II surplus immediately when written and provides diversification benefits to the **Group**, particularly **LGR**.

LGI UK operating profit fell by 39% to £57m (H1 2019: £93m) due to adverse mortality experience in Group Protection. The retail protection business was largely insulated from the impact of COVID-19 claims because of the high proportion of reinsurance. As we have mentioned previously, we continue our gradual reduction of the intra-group reinsurance of LGIA into the UK, which segmented profits away from the UK to the US. The UK Protection Solvency II new business value increased 26% to £86m (H1 2019: £68m).

LGIA operating profit decreased by $14m to $39m (H1 2019: $53m) due to adverse mortality experience from COVID-19, consistent with experience across the broader US life sector. The annual dividend paid by LGIA to the Group in March 2020, shown in the accounts within LGIA net release from operations, increased to $109m (H1 2019: $107m). Despite competition in the term market and the disruption brought about by COVID-19, US protection sales delivered an 8% increase in Solvency II new business value to $66m (H1 2019: $61m).

Profit before tax was predominantly impacted by the formulaic change in LGI's discount rates. LGI's negative investment variance of £483m was primarily driven by falls in UK and US government bond yields which have resulted in a reduction in the discount rate used to calculate the reserves. Our UK protection discount rate fell by 74 bps[33] and US 10 year Treasury yields fell by 126 bps[34].

[33] UK protection discount rate from 1.48% on 31 December 2019 to 0.74% on 30 June 2020.
[34] US 10 year treasury rate reduced from 1.92% on 31 December 2019 to 0.66% on 30 June 2020.

Gross written premium up 5% led by strong new business growth of 8%

UK Retail Protection gross premium income increased 3% to £680m (H1 2019: £658m) with new business annual premiums of £83m (H1 2019: £91m), reflecting the interruption from COVID-19 for a number of our distribution partners, particularly those that depend on the mortgage market or in-person advice. We remain the leading provider of retail protection in the UK, delivering a point of sale decision for more than 80% of our customers. Our innovative approach helped us maintain sales volumes, for instance further enhancements to our Income Protection Benefit attracted new customers in H1. Combined, these factors added resilience to our sales during the turbulence following the emergence of COVID-19 and position us to be the beneficiaries as the retail protection market recovers.

UK Group Protection grew new business annual premiums by 48% to £65m (H1 2019: £44m) with gross written premiums increasing 5% to £245m (H1 2019: £233m). Having completed the turnaround of the Group Protection business, we are now gaining market share and growing new business premiums.

US Protection (LGIA) gross written premiums increased 3% (up 6% on a sterling basis) to $693m (H1 2019: $670m). New business annual premiums increased slightly to $56m (H1 2019: $55m) in spite of the COVID-19 challenges facing the market. Through the brokerage channel, LGIA is the largest provider of US term life assurance by number of policies, and second largest by new business APE.

Legal & General Mortgage Club facilitated £34bn of mortgages, down 6% (H1 2019: £36bn), as a consequence of lower residential housing sales during the UK lockdown. We are well placed for growth as the market recovers, being the largest participant in the UK intermediated mortgage market and involved in over one in five of all UK mortgage transactions. Our Surveying Services were also impacted, delivering only 185k surveys and valuations, compared to more than 250k surveys and valuations in H1 2019. Since buying a new house is often a catalyst for purchasing life insurance, the Legal & General Mortgage Club is a helpful component of our overall offering to customers.

Fintech: Using technological innovation to respond to the changing environment

LGI has continued to grow its expertise in the Fintech sector focusing on innovating in markets adjacent to our life insurance business by building **customer-focused** solutions and making targeted investments in start-up and scale-up opportunities.

In March, Salary Finance, our employee benefits platform business in which we own a 44% stake, completed the acquisition of Neyber's new business platform and contracts, thereby doubling its reach to nearly 3 million employees in the UK and US. The integration of the businesses is well underway, providing Salary Finance with a strong platform for future growth.

We are making buying and financing a home **easier and quicker for our customers** and advisors through our technology investments. For example, Legal & General Mortgage Club uses a digital user-friendly criteria search system to help 6,775 mortgage advisers select the best mortgage out of a universe of over 400,000 mortgage outcomes from over 80 lenders. Responding to the changing environment, Legal & General Surveying Services have continued to use **technological innovation** to make the process of buying a home easier. Newly developed digital valuation technology and leveraging our deep relationships with lenders have helped us gain market share, especially while physical inspections remain more challenging.

Disposed operations

Legal & General Group sold the General Insurance business to Allianz Holdings Plc in 2019.

The Group announced the sale of the Mature Savings business to ReAssure on 6 December 2017 for £650m. The proceeds were received by the Group at the start of January 2018. In H1 2020 we recognised £26m operating profit from the business, resulting from the unwind of the expected underlying profits. We expect to complete the associated Part VII transfer later this year, upon which it is anticipated that an IFRS gain of circa £325m will be generated, which is in addition to profits recognised in 2018, 2019 and H1 2020 (£151m total). The completion of the Part VII transfer is expected to be broadly neutral to the Group's Solvency II coverage ratio.

Borrowings

The Group's outstanding core borrowings totalled £4.7bn at 30 June 2020 (FY 2019: £4.1bn; H1 2019: £3.5bn). There is also a further £1.2bn (FY 2019: £1.0bn; H1 2019: £1.1bn) of operational borrowings including £1.0bn (FY 2019: £0.8bn; H1 2019: £0.7bn) of non-recourse borrowings.

In early May 2020 the Group issued £500m of Tier 2 subordinated debt with a coupon of 4.500% to capitalise on new business opportunities given favourable debt market conditions.

Group debt costs of £115m (H1 2019: £108m) reflect an average cost of debt of 5.0% per annum (H1 2019: 5.3% per annum) on an average nominal value of debt balances of £4.6bn (H1 2019: £4.1bn).

Restricted Tier 1 Notes

In late June 2020 the Group issued an inaugural £500m of Restricted Tier 1 Contingent Convertible notes with a coupon of 5.625% as we capitalised on favourable bond market conditions to provide a further measure of prudence as the longer-term economic impact of COVID-19 remains uncertain. This issuance further positions us strongly for the recovery phase from COVID-19.

The notes are treated as equity under IFRS and coupon payments are recognised directly in equity when paid.

Taxation

Equity holders' Effective Tax Rate (%)	**H1 2020**	H1 2019
Equity holders' total Effective Tax Rate[35]	**4.2**	17.9
Annualised rate of UK corporation tax	**19.0**	19.0

The effective tax rate reflects the impact of losses arising in the period and the different rates of taxation that apply to Legal & General's overseas operations. The tax rate on operating profits, excluding the impacts of losses through investment variance, was 16.8% (H1 2019: 17.8%).

[35] The equity holders' total Effective Tax Rate excluding discontinued operations is 2.7% (H1 2019: 17.8%).

Solvency II

As at 30 June 2020, the Group had an estimated Solvency II surplus of £7.3bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 173% on a shareholder basis.

Capital (£bn)	H1 2020[1]	FY 2019[1]
Own Funds	17.3	16.1
Solvency Capital Requirement (SCR)	(10.0)	(8.8)
Solvency II surplus	**7.3**	**7.3**
SCR coverage ratio (%)	**173**	**184**

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

Analysis of movement from 1 January 2020 to 30 June 2020[1] (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	0.7
Release of Risk Margin	0.3
Amortisation of TMTP	(0.2)
Operational surplus generation – continuing operations	**0.8**
Operational surplus generation – discontinued operations	**-**
Operational surplus generation	**0.8**
New business strain	(0.1)
Net surplus generation	**0.7**
Operating variances	0.1
Mergers, acquisitions and disposals	(0.1)
Market movements	(0.9)
Subordinated debt	0.5
Tier 1 Convertible notes	0.5
Dividends paid	(0.8)
Total surplus movement (after dividends paid in the period)	**-**

1. Please see disclosure 6.01 (c) for further details.

Operational surplus generation from continuing operations increased to £0.8bn (H1 2019: £0.7bn), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £(0.1)bn, primarily reflecting UK PRT volumes written at a capital strain of circa 4%. This resulted in net surplus generation of £0.7bn (H1 2019: £0.5bn).

Dividends paid represent the payment of the 2019 final dividend in June 2020, which is typically circa 70% of the dividends paid during the year.

Operating variances include the impact of experience variances, changes to model calibrations, and management actions. The net impact of operating variances over the period was £0.1bn. Market movements of £(0.9)bn reflect the impact of lower rates on the valuation of our balance sheet, lower asset markets, predominantly in equities, and spread widening (including the effect of dispersion, i.e. credit spreads on lower rated assets widen more than spreads on higher rated assets, thereby increasing the modelled cost of trading those assets after projecting downgrades in a range of scenarios), as well as a number of other, smaller variances.

The movements shown above incorporate management's estimate of the impact of recalculating the TMTP as at 30 June 2020 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 TMTP will take place no later than 31 December 2021.

When stated on a proforma basis, including the SCR attributable to our With-profits fund and the Group final salary pension schemes in both the Group's Own Funds and the SCR, the Group's coverage ratio was 169% (FY 2019: 179%; H1 2019: 166%).

Reconciliation of IFRS net release from operations to Solvency II net surplus generation[1]

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in H1 2020:

	£bn
IFRS Release from operations	**0.7**
Expected release of IFRS prudential margins	(0.2)
Release of IFRS specific reserves	(0.1)
Solvency II investment margin	0.1
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	0.3
Solvency II Operational Surplus Generation	**0.8**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in H1 2020:

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

1. Please see disclosure 6.01 (d) for further details.

Sensitivity analysis[1]

	Impact on net of tax Solvency II capital surplus H1 2020 £bn	Impact on net of tax Solvency II coverage ratio H1 2020 %
Credit spreads widen by 100bps assuming an escalating addition to ratings	0.3	7
Credit spreads narrow by 100bps assuming an escalating addition to ratings	(0.3)	(8)
Credit spreads widen by 100bps assuming a flat addition to ratings	0.4	10
Credit spreads of sub-investment grade assets widen by 100bps assuming a flat addition to ratings	(0.3)	(5)
Credit migration	(1.5)	(15)
25% fall in equity markets	(0.5)	(4)
15% fall in property markets	(0.7)	(6)
100bps increase in risk free rates	0.7	15
50bps decrease in risk free rates	(0.4)	(8)

1. Please see disclosure 6.01 (f) for further details.

The above analysis does not reflect all possible management actions which could be taken to reduce the impact of each sensitivity due to the complex nature of the modelling. In practice, the Group actively manages its asset and liability positions to respond to market movements. Other than in the interest rate stresses, we have not allowed for the recalculation of TMTP. The impacts of these stresses are not linear therefore these results should not be used to interpolate or extrapolate the impact of a smaller or larger stress.

The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

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

Solvency II new business contribution

Management estimates of the present value of new business (PVNBP) and the margin as at 30 June 2020 are shown below[1]:

	PVNBP	Contribution from new business	Margin %
LGR – UK annuity business (£m)	**3,597**	**382**	**10.6**
UK Protection Total (£m)	**919**	**86**	**9.4**
- Retail protection	636	61	9.6
- Group protection	283	25	8.8
US Protection (£m)	**452**	**52**	**11.5**

The key economic assumptions as at 30 June 2020 are as follows:

	%
Margin for risk	**4.6**
Risk free rate	
- UK	**0.4**
- US	**0.7**
Risk discount rate (net of tax)	
- UK	**5.0**
- US	**5.3**
Long term rate of return on non-profit annuities in LGR	**2.4**

1. Please see disclosure 6.02 for further details.

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

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

Principal risks and uncertainties

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

Risks and uncertainties	Trend, outlook and mitigation
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults, as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We regularly appraise the assumptions underpinning the business that we write. We remain, however, inherently exposed to 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, the emergence of new diseases or reductions in immunology may also require a re-evaluation of reserves to the extent to which underlying liabilities are not reinsured. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions. We are closely monitoring medical developments and alongside developing our wider understanding of longevity science, we continue to evolve and develop our underwriting capabilities for our protection business. To date mortality rates as a result of COVID-19 have been much lower than the 1-in-200 scenario in our pandemic modelling, and there has been a material offsetting effect in our annuities portfolio; however there remains considerable uncertainty to the occurrence of future waves of the virus and future rates of mortality, as well as the wider health impacts from the deferral of non COVID-19 related medical treatments.
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.	Following the world-wide COVID-19 related "lock downs", the outlook for the global economy is highly uncertain; with the potential for any future waves of the virus reversing any nascent signs of recovery. Financial markets, whilst recovering some of their losses arising at the outset of the global pandemic are also still highly susceptible to shocks and a further re-appraisal of asset values with valuation uncertainty also likely to impact commercial property markets for the foreseeable future. As well as COVID-19 related risk factors, geo political events such as a dis-orderly UK withdrawal from EU transition period and deteriorating trade and political relations with China have potential to impact market perceptions and asset pricing. Interest rates also look set to continue for an extended period of ultra-low or negative levels. We cannot eliminate the downside impacts from these or other risk factors on our earnings, profitability or surplus capital; however, we continue to seek to model our business plans across plausible economic scenarios to ensure resilience across a range of outcomes. Our Own Risk and Solvency Assessment (ORSA) plays an integral part in this process ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	The significant contraction in global activity has already seen a widening of credit spreads and rating downgrades particularly in sectors directly impacted by the global "lock down", and we are closely monitoring the potential for default and downgrades among the counterparties with which we deal. Our approach of actively managing our exposure to default and downgrade risks within our bond portfolios, includes the setting of 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 traded out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of secured property. We cannot, however, eliminate default and downgrade risks within our bond portfolios and property lending businesses, or among the reinsurers with which we deal, and the impacts to profitability and the Solvency II balance sheet.

Risks and uncertainties	Trend, outlook and mitigation
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. The UK prudential regulator continues to refine Solvency II rules and its approach to regulation for areas such as the treatment of lifetime mortgages and other illiquid assets, and the matching adjustment for long-term business, and it remains too early to assess how the prudential regulatory regime may evolve once the UK leaves the EU transition period. Conduct regulation continues to focus on consumer protection, market integrity and the promotion of competition, and we are preparing for the FCA's transition in 2021 from LIBOR to SONIA. Alongside regulatory risk, we are also monitoring potential for changes in UK fiscal policy and broader economic policy. 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, or legislative change, may disrupt the markets in which we operate There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. In particular, as has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial services products emerge with lower cost business models or innovative service propositions and capital structures disrupt the current competitive landscape. Changes in regulation or legislation can also influence the competitive landscape**.**	We continue to monitor the factors that may impact the markets in which we operate and are maintaining our focus on developing our digital platforms, recognising that the current operating environment is likely to have further hastened the transition by customers to digital business models. We also continue to assess the opportunities presented from evolving governmental initiatives, developing industry practices and competitor activity, including proposed legislative frameworks for defined benefit 'superfund' consolidation schemes, pension dashboards and "collective" pension scheme arrangements.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions, personal injury or reputational damage. We are inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media, and there is strong stakeholder expectation that our core business services are resilient to operational disruption.	Although the COVID-19 lock down has had some impact on our business operations, we continue to service our customers and pay annuities and claims as they arise. . We remain, however, alert to the operational risks in the current environment including the increased risk of cyber threats and the potential for a period of future disruption should a second virus wave occur. We continue to invest in our system capabilities, including those for the management of cyber risks, to ensure that our business processes are resilient, and that appropriate recovery plans are in place. We also seek to closely manage our property construction and safety risks through robust internal control systems, including training, monitoring and independent assessments. We recognise, however, that residual risk will always remain across the spectrum of our business operations and we aim to develop response plans so that when adverse events occur, appropriate actions are deployed.
We fail to respond to the emerging threats from climate change for our investment portfolios and wider businesses As a significant investor in financial markets, commercial real estate and housing, we are exposed to climate related transition risks, particularly should abrupt shifts in the political and technological landscape impact the value of those investment assets associated with higher levels of greenhouse gas emissions.	The urgent global response to COVID-19 has illustrated the potential scale of shock that could arise from delays in responding to climate risk with sudden late policy action leading to potentially large and unanticipated shifts in asset valuations for impacted industries and sectors. We recognise that our scale brings a responsibility to act decisively in positioning our balance sheet to the threats from climate change and, as one of the largest global institutional investors, also encouraging others to follow suit. We continue to embed the assessment of climate risks in our investment process and are developing our risk metrics and framework for oversight and taking opportunities. We measure the carbon intensity of our investment portfolios, and along with specific investment exclusions for thermal coal we have set reduction targets aligned with a 1.5 degree Celsius interpretation of the 'Paris' commitment. Alongside additional controls over the acquisition of high carbon investments, we actively invest in energy efficient property, renewables and new science to support de-carbonisation, and have committed within our house building business to deliver low carbon, energy efficient homes, operationally net zero from 2030.

Notes

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

A virtual presentation to analysts and fund managers will be available from 8:00am UK time today at www.legalandgeneralgroup.com/investors/interim-results-2020.

A teleconference for analyst questions will take place at 9:00am UK time today. Details of the teleconference below:

Participant dial-in numbers

Location where you are dialling in from	Number you should dial
United Kingdom	+44 20 3936 2999
United States (toll free)	+1 855 9796 654
All other locations	www.legalandgeneralgroup.com/investors/teleconference-details/

Please enter access code **598626** to gain access to the conference.

To ask a question press *1; to remove a question press *2.

Financial Calendar	Date
2020 interim results announcement	**5 August 2020**
Record date	**14 August 2020**
Last day for DRIP elections	**3 September 2020**
Payment date of 2020 interim dividend	**24 September 2020**
Capital markets event	**12 November 2020**
2020 preliminary results announcement	**10 March 2021**

Definitions

Definitions are included in the Glossary on pages 93 to 97 of this release.

Forward looking statements

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

Going concern statement

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the Group, its cash flows, capital and liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 24 to 25.

The Directors have made an assessment of the Group's going concern, considering both the current performance and the Group's outlook, which takes account of the current and future impact of the COVID-19 pandemic, using the information available up to the date of issue of this Interim Management Report.

The Group manages and monitors its capital and liquidity under various stresses and adverse scenarios to understand the expected impact of market downturns, and the impact of a number of such capital stresses is disclosed in table 6.01(f). Our liquidity risk appetite requires sufficient sources of liquidity to be maintained to withstand liquidity shocks defined by a 1 in 200 scenario, and as a result of COVID-19 we have actively tested this through a series of simulations based upon an extreme but possible adverse scenario lasting twelve months. In addition, the Group has tested the resilience of the balance sheet under a range of adverse scenarios which may arise as a result of the economic consequences of COVID-19. These scenarios of increasing severity ranged from short term market disruption to a persistence of the crisis into late 2021 and beyond with no successful vaccine development. These stresses, including the additional COVID-19 scenarios, and taking account of the wide range of management actions that are available, do not give rise to any material uncertainties over the ability of the Group to continue as a going concern. 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 businesses and remains financially strong despite the current increased uncertainty. Furthermore, in June 2020, the Group completed the issuance of £500m of Restricted Tier 1 debt as an additional measure of prudence and to deliver further balance sheet strengthening, both to protect against longer-term economic uncertainty but also to enable the Group to take advantage of opportunities as they arise.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of COVID-19 and the current economic climate, as detailed on pages 24 to 25, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

Directors' 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 2019. A list of current directors is maintained on the Legal & General Group Plc website: www.legalandgeneralgroup.com/about-us/our-management/group-board/.

By order of the Board

Nigel Wilson Group Chief Executive 4 August 2020	Stuart Jeffrey Davies Group Chief Financial Officer 4 August 2020

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1 INDEPENDENT REVIEW REPORT TO LEGAL & GENERAL GROUP PLC

Conclusion

We have been engaged by the Legal & General Group Plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash flows (pages 42 to 47) and the related explanatory notes to the interim financial statements (pages 31 to 41 and 48 to 67).

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 2020 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
4 August 2020

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2.01 Operating profit#

For the six month period to 30 June 2020

	Notes	**6 months 2020 £m**	6 months[1] 2019 £m	Full year[1] 2019 £m
From continuing operations				
Legal & General Retirement (LGR)	2.03	**721**	655	1,569
- LGR Institutional (LGRI)		585	524	1,216
- LGR Retail (LGRR)		136	131	353
Legal & General Investment Management (LGIM)	2.04	**196**	192	394
Legal & General Capital (LGC)	2.05	**123**	173	363
Legal & General Insurance (LGI)	2.03	**88**	134	314
- UK and Other		57	93	223
- US (LGIA)		31	41	91
Operating profit from divisions:				
From continuing operations		**1,128**	1,154	2,640
From discontinued operations[2]		**26**	19	11
Operating profit from divisions		**1,154**	1,173	2,651
Group debt costs[3]		**(115)**	(108)	(208)
Group investment projects and expenses		**(72)**	(60)	(157)
COVID-19 costs[4]		**(21)**	-	-
Operating profit		**946**	1,005	2,286
Investment and other variances	2.06	**(644)**	57	(150)
Losses on non-controlling interests		**(17)**	(9)	(24)
Adjusted profit before tax attributable to equity holders		**285**	1,053	2,112
Tax expense attributable to equity holders	4.05	**(12)**	(188)	(302)
Profit for the period		**273**	865	1,810
Profit attributable to equity holders		**290**	874	1,834
Earnings per share:				
Basic (pence per share)[5]	2.07	**4.89p**	14.74p	30.92p
Diluted (pence per share)[5]	2.07	**4.63p**	14.66p	30.75p

1. 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to Legal & General Investment Management (LGIM) within Operating profit from divisions. This has reduced LGIM operating profit by £13m for the six months ended 30 June 2020, and by £29m for the full year 2019.
2. Discontinued operations include the results of the Mature Savings division following the group's announcement to sell the business to ReAssure Limited (2019 included the results of the General Insurance division following its sale to Allianz, which completed on 31 December 2019).
3. Group debt costs exclude interest on non recourse financing.
4. COVID-19 costs reflect incremental operational expenses incurred as a result of COVID-19 and include the provision of IT spend on remote working solutions.
5. All earnings per share calculations are based on profit attributable to equity holders of the company.

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

- LGR represents worldwide pension risk transfer business including longevity insurance (within LGRI), and individual retirement and lifetime mortgages (within LGRR).
- LGIM represents institutional and retail investment management and workplace savings businesses.
- LGC represents shareholder assets invested in direct investments primarily in the areas of housing, urban regeneration, clean energy and SME finance, as well as traded and treasury assets.
- LGI primarily represents UK and US retail protection business, UK group protection and Fintech business.
- Discontinued operations represent the results of the Mature Savings division following the group's announcement to sell the business to ReAssure Limited (2019 included the results of the General Insurance division following its sale to Allianz, which completed on 31 December 2019).

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

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

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

For the six month period to 30 June 2020	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**329**	**98**	**427**	**27**	**143**	**21**	**-**	**618**	**103**	**721**
- LGRI	246	71	317	20	143	21	-	501	84	585
- LGRR	83	27	110	7	-	-	-	117	19	136
LGIM	**173**	**(11)**	**162**	**(5)**	**-**	**-**	**-**	**157**	**39**	**196**
- LGIM (excluding Workplace Savings)[2]	158	-	158	-	-	-	-	158	39	197
- Workplace Savings[3]	15	(11)	4	(5)	-	-	-	(1)	-	(1)
LGC	**97**	**-**	**97**	**-**	**-**	**-**	**-**	**97**	**26**	**123**
LGI	**163**	**(1)**	**162**	**(25)**	**8**	**(5)**	**(81)**	**59**	**29**	**88**
- UK and Other	69	(1)	68	(25)	8	(5)	-	46	11	57
- US (LGIA)	94	-	94	-	-	-	(81)	13	18	31
From continuing operations	**762**	**86**	**848**	**(3)**	**151**	**16**	**(81)**	**931**	**197**	**1,128**
From discontinued operations[4]	**21**	**-**	**21**	**-**	**-**	**-**	**-**	**21**	**5**	**26**
Total from divisions	**783**	**86**	**869**	**(3)**	**151**	**16**	**(81)**	**952**	**202**	**1,154**
Group debt costs	**(93)**	**-**	**(93)**	**-**	**-**	**-**	**-**	**(93)**	**(22)**	**(115)**
Group investment projects and expenses	**(25)**	**-**	**(25)**	**-**	**-**	**-**	**(30)**	**(55)**	**(17)**	**(72)**
COVID-19 costs[5]	**-**	**-**	**-**	**-**	**-**	**-**	**(17)**	**(17)**	**(4)**	**(21)**
Total	**665**	**86**	**751**	**(3)**	**151**	**16**	**(128)**	**787**	**159**	**946**

1. Release from operations within US (LGIA) includes £84m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Discontinued operations include the results of the Mature Savings division following the group's announcement to sell the business to ReAssure Limited.
5. COVID-19 costs reflect incremental operational expenses incurred as a result of COVID-19 and include the provision of IT spend on remote working solutions.

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

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

LGR's new business metrics are presented based on a target long-term asset portfolio. At certain period ends, depending upon the quantum and timing of pension risk transfer (PRT) volumes, we may continue to source high quality assets to support that business after the period end, as appropriate, taking into account the alternative risks and rewards of traded credit. At period end, any difference between the actual assets and the long-term asset mix is reflected in investment variance.

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

Release from operations and net release from operations for LGC and LGIM (excluding workplace savings) 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.

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

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

For the six month period to 30 June 2019	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	303	185	488	(37)	33	58	-	542	113	655
- LGRI	212	165	377	(37)	33	61	-	434	90	524
- LGRR	91	20	111	-	-	(3)	-	108	23	131
LGIM[2]	168	(11)	157	(3)	-	(1)	-	153	39	192
- LGIM (excluding Workplace Savings)[3]	155	-	155	-	-	-	-	155	39	194
- Workplace Savings[4]	13	(11)	2	(3)	-	(1)	-	(2)	-	(2)
LGC	142	-	142	-	-	-	-	142	31	173
LGI	171	(1)	170	(21)	18	(2)	(59)	106	28	134
- UK and Other	84	(1)	83	(21)	18	(2)	-	78	15	93
- US (LGIA)	87	-	87	-	-	-	(59)	28	13	41
From continuing operations	784	173	957	(61)	51	55	(59)	943	211	1,154
From discontinued operations[5]	15	-	15	-	-	-	-	15	4	19
Total from divisions	799	173	972	(61)	51	55	(59)	958	215	1,173
Group debt costs	(87)	-	(87)	-	-	-	-	(87)	(21)	(108)
Group investment projects and expenses[2]	(19)	-	(19)	-	-	-	(26)	(45)	(15)	(60)
Total	693	173	866	(61)	51	55	(85)	826	179	1,005

1. Release from operations within US (LGIA) includes £81m of dividends from the US.
2. As described in Note 2.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. This has reduced LGIM operating profit by £10m and Workplace Savings operating profit by £3m.
3. LGIM (excluding Workplace Savings) includes profits on fund management services.
4. Workplace Savings represents administration business only.
5. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to ReAssure Limited and Allianz respectively. The sale of the General Insurance division completed on 31 December 2019.

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

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

For the year ended 31 December 2019	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	598	327	925	(53)	390	91	-	1,353	216	1,569
- LGRI	418	265	683	(40)	313	88	-	1,044	172	1,216
- LGRR	180	62	242	(13)	77	3	-	309	44	353
LGIM[2]	348	(20)	328	(6)	-	(4)	-	318	76	394
- LGIM (excluding Workplace Savings)[3]	321	-	321	-	-	-	-	321	77	398
- Workplace Savings[4]	27	(20)	7	(6)	-	(4)	-	(3)	(1)	(4)
LGC	295	-	295	-	-	-	-	295	68	363
LGI	259	(7)	252	(11)	44	(12)	4	277	37	314
- UK and Other	165	(7)	158	(11)	44	(12)	4	183	40	223
- US (LGIA)	94	-	94	-	-	-	-	94	(3)	91
From continuing operations	1,500	300	1,800	(70)	434	75	4	2,243	397	2,640
From discontinued operations[5]	9	-	9	-	-	-	-	9	2	11
Total from divisions	1,509	300	1,809	(70)	434	75	4	2,252	399	2,651
Group debt costs	(168)	-	(168)	-	-	-	-	(168)	(40)	(208)
Group investment projects and expenses[2]	(44)	-	(44)	-	-	-	(79)	(123)	(34)	(157)
Total	1,297	300	1,597	(70)	434	75	(75)	1,961	325	2,286

1. Release from operations within US (LGIA) includes £81m of dividends from the US.
2. As described in Note 2.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. This has reduced LGIM operating profit by £23m and Workplace Savings operating profit by £6m.
3. LGIM (excluding Workplace Savings) includes profits on fund management services.
4. Workplace Savings represents administration business only.

5. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group's announcement to sell these businesses to ReAssure Limited and Allianz respectively. The sale of the General Insurance business completed on 31 December 2019.

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

2.03 Analysis of LGR and LGI operating profit

For the six month period to 30 June 2020

	LGR 6 months 2020 £m	**LGI 6 months 2020 £m**	LGR 6 months 2019 £m	LGI 6 months 2019 £m	LGR Full year 2019 £m	LGI Full year 2019 £m
Net release from operations	**427**	**162**	488	170	925	252
Experience variances						
- Persistency	**3**	**(11)**	-	(13)	(4)	(9)
- Mortality/morbidity	**33**	**(17)**	5	(8)	6	(5)
- Expenses	**(3)**	**(5)**	(9)	(1)	(23)	-
- Project and development costs	**(4)**	**-**	(4)	(1)	(12)	-
- Other	**(2)**	**8**	(29)	2	(20)	3
Total experience variances	**27**	**(25)**	(37)	(21)	(53)	(11)
Changes to valuation assumptions						
- Persistency	**-**	**-**	-	-	-	(16)
- Mortality/morbidity	**19**	**4**	-	5	352	39
- Expenses	**-**	**-**	-	-	5	-
- Other[1]	**124**	**4**	33	13	33	21
Total changes to valuation assumptions	**143**	**8**	33	18	390	44
Movement in non-cash items						
- Acquisition expense tax relief	**-**	**(2)**	-	(1)	-	(2)
- Other[2]	**21**	**(3)**	58	(1)	91	(10)
Total movement in non-cash items	**21**	**(5)**	58	(2)	91	(12)
Other	**-**	**(81)**	-	(59)	-	4
Operating profit after tax	**618**	**59**	542	106	1,353	277
Tax gross up	**103**	**29**	113	28	216	37
Operating profit before tax	**721**	**88**	655	134	1,569	314

1. The £124m positive Other assumption change in LGR reflects a reduction in the assumed late retirement factors applied to deferred annuities.

2. LGR Other movement in non-cash items is driven by the net effect of the capitalisation and unwind of future asset management profits on activity managed by LGIM, and is a function of new business volumes and movements in the main unit cost assumptions.

2.04 LGIM operating profit

	6 months 2020 £m	6 months 2019[5] £m	Full year 2019[5] £m
Asset management revenue (excluding 3rd party market data)[1,2]	**458**	425	889
Asset management transactional revenue[3]	**9**	9	23
Asset management expenses (excluding 3rd party market data)[1,2]	**(270)**	(240)	(514)
Workplace Savings operating loss[4]	**(1)**	(2)	(4)
Total LGIM operating profit	**196**	192	394

1. Asset management revenue and expenses exclude income and costs of £13m in relation to the provision of third party market data (H1 19: £11m, FY 19: £24m).
2. The ETF operating result is included as part of asset management revenue and expenses.
3. Transactional revenue from external clients includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees.
4. Workplace Savings represents administration business.
5. As described in Note 2.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. For the respective 2019 periods this has increased Asset management expenses (H1 19: £10m; FY19: £23m) and reduced the Workplace Savings operating result (H1 19: £3m; FY19: £6m).

2.05 LGC operating profit

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m
Direct investments[1]	**36**	99	217
Traded investment portfolio including treasury assets[2]	**87**	74	146
Total LGC operating profit	**123**	173	363

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

2.06 Investment and other variances

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m
Investment variance[1]	**(599)**	84	(27)
M&A related and other variances	**(45)**	(27)	(123)
Total investment and other variances	**(644)**	57	(150)

1. Investment variance includes differences between actual and long term expected investment return on traded and real assets, economic assumption changes (e.g. credit default and inflation), the impact of any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business, and excludes the yield associated with assets held for future new pension risk transfer business from the valuation discount rate. The investment variance for the six months ended 30 June 2020 is a loss of £599m which is broadly made up of three significant items: 1) £483m in LGI, reflecting a reduction in the discount rate used to calculate protection liabilities, the rate being linked to UK government bond and US Treasury yields rates; 2) £307m in LGC, reflecting unrealised losses on our traded equity portfolio and valuation markdowns on certain retail assets; 3) offset partially by a positive variance of £96m in respect of the defined benefit pension scheme, reflecting the impact of the acquisition of annuity assets from LGR, and the beneficial rate difference between the IAS19 and annuity discount rates.

2.07 Earnings per share

(a) Basic earnings per share

	After tax 6 months 2020 £m	**Per share[1] 6 months 2020 p**	After tax 6 months 2019 £m	Per share[1] 6 months 2019 p	After tax Full year 2019 £m	Per share[1] Full year 2019 p
Profit for the period attributable to equity holders	**290**	**4.89**	874	14.74	1,834	30.92
Less: earnings derived from discontinued operations	**(19)**	**(0.32)**	(27)	(0.46)	(23)	(0.39)
Basic earnings derived from continuing operations	**271**	**4.57**	847	14.28	1,811	30.53

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

(b) Diluted earnings per share

For the six month period to 30 June 2020	**After tax £m**	**Weighted average number of shares m**	**Per share[1] p**
Profit for the period attributable to equity holders	**290**	**5,930**	**4.89**
Net shares under options allocable for no further consideration	**-**	**33**	**(0.03)**
Conversion of restricted tier 1 notes	**-**	**307**	**(0.23)**
Total diluted earnings	**290**	**6,270**	**4.63**
Less: diluted earnings derived from discontinued operations	**(19)**	**-**	**(0.30)**
Diluted earnings derived from continuing operations	**271**	**6,270**	**4.33**

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

For the six month period to 31 December 2019	After tax £m	Weighted average number of shares m	Per share[1] p
Profit for the period attributable to equity holders	1,834	5,932	30.92
Net shares under options allocable for no further consideration	-	33	(0.17)
Total diluted earnings	1,834	5,965	30.75
Less: diluted earnings derived from discontinued operations	(23)	-	(0.39)
Diluted earnings derived from continuing operations	1,811	5,965	30.36

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 and conversion of restricted tier 1 notes.

2.08 Segmental analysis

Reportable segments

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

Continuing operations exclude the results of the Mature Savings division, and for 2019 the General Insurance division, which have been classified as discontinued following the group's announcements to sell these businesses to ReAssure Limited and Allianz respectively.

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

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

(i) Profit/(loss) for the period

For the six month period to 30 June 2020	**LGR £m**	**LGIM £m**	**LGC £m**	**LGI £m**	**Group expenses and debt costs[1] £m**	**Total continuing operations £m**
Operating profit/(loss)#	**721**	**196**	**123**	**88**	**(208)**	**920**
Investment and other variances	**80**	**(3)**	**(307)**	**(483)**	**71**	**(642)**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(17)**	**(17)**
Profit/(loss) before tax attributable to equity holders	**801**	**193**	**(184)**	**(395)**	**(154)**	**261**
Tax (expense)/credit attributable to equity holders	**(99)**	**(21)**	**33**	**70**	**10**	**(7)**
Profit/(loss) for the period	**702**	**172**	**(151)**	**(325)**	**(144)**	**254**

For the six month period to 30 June 2019	LGR £m	LGIM[2] £m	LGC £m	LGI £m	Group expenses and debt costs[2] £m	Total continuing operations £m
Operating profit/(loss)#	655	192	173	134	(168)	986
Investment and other variances	(17)	(5)	105	(134)	94	43
Losses attributable to non-controlling interests	-	-	-	-	(9)	(9)
Profit/(loss) before tax attributable to equity holders	638	187	278	-	(83)	1,020
Tax (expense)/credit attributable to equity holders	(110)	(39)	(36)	-	3	(182)
Profit/(loss) for the period	528	148	242	-	(80)	838

For the year ended 31 December 2019	LGR £m	LGIM[2] £m	LGC £m	LGI £m	Group expenses and debt costs[2] £m	Total continuing operations £m
Operating profit/(loss)#	1,569	394	363	314	(365)	2,275
Investment and other variances	43	(9)	91	(234)	(58)	(167)
Losses attributable to non-controlling interests	-	-	-	-	(24)	(24)
Profit/(loss) before tax attributable to equity holders	1,612	385	454	80	(447)	2,084
Tax (expense)/credit attributable to equity holders	(234)	(75)	(75)	12	75	(297)
Profit/(loss) for the year	1,378	310	379	92	(372)	1,787

1. Group expenses and debt costs include £21m of incremental costs incurred as a result of COVID-19.

2. As described in Note 2.01, 2019 has been restated to reflect a reallocation of divisional-related project expenditure from Group investment projects and expenses to LGIM. This has reduced LGIM operating profit by £13m for the six months ended 30 June 2020, and by £29m for the full year 2019.

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

2.08 Segmental analysis (continued)

(ii) Revenue

(a) Total revenue

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m
Total income	**17,419**	48,450	66,786
Adjusted for:			
Share of loss/(profit) from associates and joint ventures, net of tax	**23**	(6)	(17)
Gain on acquisition and disposal of subsidiaries, associates and joint ventures	**-**	(43)	(51)
Total revenue from continuing operations[1]	**17,442**	48,401	66,718

1. Continuing operations exclude the results of the Mature Savings division, and for 2019 the General Insurance division, which have been classified as discontinued operations.

(b) Total income

For the six month period to 30 June 2020	**LGR £m**	**LGIM[1,2] £m**	**LGI £m**	**LGC and other[3] £m**	**Total continuing operations £m**
Internal income	**-**	**102**	**-**	**(102)**	**-**
External income	**6,530**	**(1,812)**	**1,016**	**11,685**	**17,419**
Total income	**6,530**	**(1,710)**	**1,016**	**11,583**	**17,419**

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

For the year ended 31 December 2019	LGR £m	LGIM[1,2] £m	LGI £m	LGC and other[3] £m	Total continuing operations £m
Internal income	-	188	-	(188)	-
External income	16,385	43,836	1,593	4,972	66,786
Total income	16,385	44,024	1,593	4,784	66,786

1. LGIM internal income relates to investment management services provided to other segments.
2. LGIM external income primarily includes fees from fund management and investment returns on unit linked funds.
3. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.

2.08 Segmental analysis (continued)

(c) Fees from fund management and investment contracts

For the six month period to 30 June 2020	**LGIM £m**	**LGI £m**	**LGC and other[1] £m**	**Total continuing operations £m**
Investment contracts	**38**	**-**	**-**	**38**
Investment management fees	**467**	**-**	**(96)**	**371**
Transaction fees	**9**	**-**	**-**	**9**
Total fees from fund management and investment contracts[2]	**514**	**-**	**(96)**	**418**

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

For the year ended 31 December 2019	LGIM £m	LGI £m	LGC and other[1] £m	Total continuing operations £m
Investment contracts	73	1	-	74
Investment management fees	903	-	(166)	737
Transaction fees	23	-	-	23
Total fees from fund management and investment contracts[2]	999	1	(166)	834

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
2. Fees from fund management and investment contracts are a component of Total revenue from continuing operations disclosed in Note 2.08 (ii)(a).

2.08 Segmental analysis (continued)

(d) Other operational income from contracts with customers

For the six month period to 30 June 2020	**LGR £m**	**LGIM £m**	**LGI £m**	**LGC and other £m**	**Total continuing operations £m**
House building	**-**	**-**	**-**	**220**	**220**
Professional services fees	**1**	**1**	**33**	**-**	**35**
Insurance broker	**-**	**-**	**13**	**-**	**13**
Total other operational income from contracts with customers[1]	**1**	**1**	**46**	**220**	**268**

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

For the year ended 31 December 2019	LGR £m	LGIM £m	LGI £m	LGC and other £m	Total continuing operations £m
House building	-	-	-	1,056	1,056
Professional services fees	2	2	91	-	95
Insurance broker	-	-	34	-	34
Total other operational income from contracts with customers[1]	2	2	125	1,056	1,185

1. Total other operational income from contract with customers is a component of Total revenue from continuing operations disclosed in Note 2.08 (ii)(a) and excludes the share of profit/loss from associates and joint ventures and gain on acquisition and disposal of subsidiaries, associates and joint ventures.

IFRS Primary Financial Statements

3.01 Consolidated Income Statement

For the six month period to 30 June 2020	Notes	**6 months 2020 £m**	6 months 2019 £m	Full year 2019 £m
Income				
Gross written premiums		**5,497**	8,745	15,203
Outward reinsurance premiums		**(1,303)**	(1,522)	(3,452)
Net change in provision for unearned premiums		**10**	-	(66)
Net premiums earned		**4,204**	7,223	11,685
Fees from fund management and investment contracts		**418**	400	834
Investment return		**12,552**	40,262	53,014
Other operational income		**245**	565	1,253
Total income	2.08	**17,419**	48,450	66,786
Expenses				
Claims and change in insurance contract liabilities		**8,366**	12,368	19,005
Reinsurance recoveries		**(1,957)**	(1,971)	(3,502)
Net claims and change in insurance contract liabilities		**6,409**	10,397	15,503
Change in investment contract liabilities		**9,190**	35,412	45,809
Acquisition costs		**438**	395	805
Finance costs		**155**	137	269
Other expenses		**885**	1,048	2,244
Total expenses		**17,077**	47,389	64,630
Profit before tax		**342**	1,061	2,156
Tax expense attributable to policyholder returns		**(81)**	(41)	(72)
Profit before tax attributable to equity holders		**261**	1,020	2,084
Total tax expense		**(88)**	(223)	(369)
Tax expense attributable to policyholder returns		**81**	41	72
Tax expense attributable to equity holders	4.05	**(7)**	(182)	(297)
Profit after tax from continuing operations	2.08	**254**	838	1,787
Profit after tax from discontinued operations[1]	4.02	**19**	27	23
Profit for the period		**273**	865	1,810
Attributable to:				
Non-controlling interests		**(17)**	(9)	(24)
Equity holders		**290**	874	1,834
Dividend distributions to equity holders during the period	4.03	**754**	704	998
Dividend distributions to equity holders proposed after the period end	4.03	**294**	294	753
		p	p	p
Total basic earnings per share[2]	2.07	**4.89**	14.74	30.92
Total diluted earnings per share[2]	2.07	**4.63**	14.66	30.75
Basic earnings per share derived from continuing operations[2]	2.07	**4.57**	14.28	30.53
Diluted earnings per share derived from continuing operations[2]	2.07	**4.33**	14.21	30.36

1. Discontinued operations include the results of the Mature Savings division, following the group's announcement to sell the business to ReAssure Limited (2019 included the results of the General Insurance division following its sale to Allianz, which completed on 31 December 2019).
2. All earnings per share calculations are based on profit attributable to equity holders of the company.

3.02 Consolidated Statement of Comprehensive Income

For the six month period to 30 June 2020	**6 months 2020 £m**	6 months 2019 £m	Full year 2019 £m
Profit for the period	**273**	865	1,810
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	**(146)**	(69)	(62)
Tax on actuarial losses on defined benefit pension schemes	**45**	13	11
Total items that will not be reclassified subsequently to profit or loss	**(101)**	(56)	(51)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**56**	3	(67)
Movement in cross-currency hedge	**75**	27	13
Tax on movement in cross-currency hedge	**(11)**	(5)	(1)
Movement in financial investments designated as available-for-sale	**(8)**	65	72
Tax on movement in financial investments designated as available-for-sale	**1**	(11)	(15)
Total items that may be reclassified subsequently to profit or loss	**113**	79	2
Other comprehensive income/(expense) after tax	**12**	23	(49)
Total comprehensive income for the period	**285**	888	1,761
Total comprehensive income for the period attributable to:			
Continuing operations	**266**	861	1,738
Discontinued operations	**19**	27	23
Total comprehensive income/(expense) for the period attributable to:			
Non-controlling interests	**(17)**	(9)	(24)
Equity holders	**302**	897	1,785

3.03 Consolidated Balance Sheet

As at 30 June 2020

	Notes	**As at 30 Jun 2020 £m**	As at 30 Jun 2019 £m	As at 31 Dec 2019 £m
Assets				
Goodwill		**68**	62	64
Purchased interest in long term businesses and other intangible assets		**221**	158	190
Deferred acquisition costs		**49**	74	75
Investment in associates and joint ventures accounted for using the equity method		**328**	362	324
Property, plant and equipment		**291**	291	298
Investment property	4.04	**8,041**	7,140	7,695
Financial investments	4.04	**513,584**	471,118	498,376
Reinsurers' share of contract liabilities		**6,530**	5,413	5,810
Deferred tax assets	4.05	**10**	7	8
Current tax assets		**508**	476	468
Receivables and other assets		**15,986**	10,706	8,532
Assets of operations classified as held for sale	4.02	**23,968**	27,194	24,844
Cash and cash equivalents		**21,700**	14,224	13,923
Total assets		**591,284**	537,225	560,607
Equity				
Share capital	4.06	**149**	149	149
Share premium	4.06	**1,003**	998	1,000
Employee scheme treasury shares		**(76)**	(62)	(65)
Capital redemption and other reserves		**383**	300	250
Retained earnings		**7,453**	7,376	8,033
Attributable to owners of the parent		**8,912**	8,761	9,367
Restricted tier 1 convertible notes	4.07	**495**	-	-
Non-controlling interests	4.08	**34**	66	55
Total equity		**9,441**	8,827	9,422
Liabilities				
Non-participating insurance contract liabilities		**82,792**	73,869	77,317
Non-participating investment contract liabilities		**327,380**	315,603	320,594
Core borrowings	4.09	**4,651**	3,514	4,091
Operational borrowings	4.10	**1,195**	1,051	1,020
Provisions	4.13	**1,336**	1,202	1,220
UK deferred tax liabilities	4.05	**186**	193	189
Overseas deferred tax liabilities	4.05	**184**	197	182
Current tax liabilities		**-**	175	107
Payables and other financial liabilities	4.11	**101,665**	75,527	84,039
Other liabilities		**540**	719	804
Net asset value attributable to unit holders		**33,883**	24,909	31,507
Liabilities of operations classified as held for sale	4.02	**28,031**	31,439	30,115
Total liabilities		**581,843**	528,398	551,185
Total equity and liabilities		**591,284**	537,225	560,607

3.04 Condensed Consolidated Statement of Changes in Equity

For the six month period to 30 June 2020	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	Restricted Tier 1 convertible notes £m	Non-controlling interests £m	Total equity £m
As at 1 January 2020	**149**	**1,000**	**(65)**	**250**	**8,033**	**9,367**	**-**	**55**	**9,422**
Total comprehensive income for the period	**-**	**-**	**-**	**113**	**189**	**302**	**-**	**(17)**	**285**
Options exercised under share option schemes	**-**	**3**	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Net movement in employee scheme treasury shares	**-**	**-**	**(11)**	**(6)**	**11**	**(6)**	**-**	**-**	**(6)**
Dividends	**-**	**-**	**-**	**-**	**(754)**	**(754)**	**-**	**-**	**(754)**
Restricted tier 1 convertible notes[2]	**-**	**-**	**-**	**-**	**-**	**-**	**495**	**-**	**495**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Currency translation differences	**-**	**-**	**-**	**26**	**(26)**	**-**	**-**	**-**	**-**
As at 30 June 2020	**149**	**1,003**	**(76)**	**383**	**7,453**	**8,912**	**495**	**34**	**9,441**

1. Capital redemption and other reserves as at 30 June 2020 include share-based payments £79m, foreign exchange £150m, capital redemption £17m, hedging reserves £96m and available-for-sale reserves £41m.

2. See Note 4.07 for details.

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

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

3.04 Condensed Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2019	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2019	149	992	(52)	230	7,261	8,580	72	8,652
Total comprehensive income for the year	-	-	-	2	1,783	1,785	(24)	1,761
Options exercised under share option schemes	-	8	-	-	-	8	-	8
Net movement in employee scheme treasury shares	-	-	(13)	4	1	(8)	-	(8)
Dividends	-	-	-	-	(998)	(998)	-	(998)
Movement in third party interests	-	-	-	-	-	-	7	7
Currency translation differences	-	-	-	14	(14)	-	-	-
As at 31 December 2019	149	1,000	(65)	250	8,033	9,367	55	9,422

1. Capital redemption and other reserves as at 31 December 2019 include share-based payments £85m, foreign exchange £68m, capital redemption £17m, hedging reserves £32m and available-for-sale reserves £48m.

3.05 Consolidated Statement of Cash Flows

For the six month period to 30 June 2020	Notes	**6 months 2020 £m**	6 months 2019 £m	Full year 2019 £m
Cash flows from operating activities				
Profit for the period		**273**	865	1,810
Adjustments for non cash movements in net profit for the period				
Net (gains)/losses on financial investments and investment property		**(6,969)**	(37,069)	(45,516)
Investment income		**(4,578)**	(5,588)	(10,501)
Interest expense		**179**	164	322
Tax expense		**(17)**	411	598
Other adjustments		**18**	62	117
Net (increase)/decrease in operational assets				
Investments held for trading or designated as fair value through profit or loss		**6,032**	413	(18,031)
Investments designated as available-for-sale		**(35)**	97	(179)
Other assets		**(8,098)**	(6,033)	(4,660)
Net increase/(decrease) in operational liabilities				
Insurance contracts		**5,187**	9,157	13,089
Investment contracts		**6,789**	22,524	27,514
Other liabilities		**5,537**	7,472	21,313
Net increase/(decrease) in held for sale net liabilities		**(1,181)**	223	1,206
Cash from/(utilised in) operations		**3,137**	(7,302)	(12,918)
Interest paid		**(127)**	(140)	(263)
Interest received		**2,469**	2,532	5,047
Tax paid[1]		**(279)**	(219)	(540)
Dividends received		**2,284**	2,819	5,389
Net cash flows from/(utilised in) operations		**7,484**	(2,310)	(3,285)
Cash flows from investing activities				
Net acquisition of plant, equipment, intangibles and other assets		**(42)**	(28)	(89)
Net disposal/(acquisition) of operations, net of cash (transferred)/acquired		**1**	76	198
Net disposal/(investment) in associates and joint ventures		**-**	(88)	29
Net cash flows generated/(utilised) from investing activities		**(41)**	(40)	138
Cash flows from financing activities				
Dividend distributions to ordinary equity holders during the period	4.03	**(754)**	(704)	(998)
Options exercised under share option schemes	4.06	**3**	6	8
Treasury shares purchased for employee share schemes		**(22)**	(10)	(20)
Payment of lease liabilities		**(18)**	(12)	(33)
Proceeds from borrowings		**869**	151	1,309
Repayment of borrowings		**(237)**	(593)	(958)
Proceeds from issuance of Restricted tier 1 convertible notes, net of associated expenses		**495**	-	-
Net cash flows from/(utilised in) financing activities		**336**	(1,162)	(692)
Net (decrease)/increase in cash and cash equivalents		**7,779**	(3,512)	(3,839)
Exchange gains/(losses) on cash and cash equivalents		**26**	1	(16)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**14,233**	18,088	18,088
Total cash and cash equivalents		**22,038**	14,577	14,233
Less: cash and cash equivalents of operations classified as held for sale	4.02	**(338)**	(353)	(310)
Cash and cash equivalents at 30 June/31 December		**21,700**	14,224	13,923

1. Tax comprises UK corporation tax paid of £203m (H1 19: £126m; FY 19: £381m), withholding tax of £95m (H1 19: £105m; FY 19: £166m) and an overseas corporate tax refund of £19m (H1 19: £12m; FY 19: £7m).

4.01 Basis of preparation

The group financial information for the six months ended 30 June 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The group's financial information has also been prepared in line with the accounting policies which the group expects to adopt for the 2020 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2019 consolidated financial statements, except where changes have been outlined below in "New standards, interpretations and amendments to published standards that have been adopted by the group". These are consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union.

The preparation of the interim management report includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2019 financial statements, except as disclosed in Note 2.03.

The results for the half year ended 30 June 2020 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 2019 have been taken from the group's 2019 Annual Report and Accounts. Therefore, these interim accounts should be read in conjunction with the 2019 Annual Report and Accounts that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Commission for use in the European Union. KPMG LLP reported on the 2019 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 2019 Annual Report and Accounts has been filed with the Registrar of Companies.

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

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

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

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

(a) Going concern

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, capital and liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 24 to 25.

The Directors have made an assessment of the group's going concern, considering both the current performance and the group's outlook, which takes account of the current and future impact of the COVID-19 pandemic, using the information available up to the date of issue of this Interim Management Report.

The group manages and monitors its capital and liquidity under various stresses and adverse scenarios to understand the expected impact of market downturns, and the impact of a number of such capital stresses is disclosed on page 77. Our liquidity risk appetite requires sufficient sources of liquidity to be maintained to withstand liquidity shocks defined by a 1 in 200 scenario, and as a result of COVID-19 we have actively tested this through a series of simulations based upon an extreme but possible adverse scenario lasting twelve months. In addition, the group has tested the resilience of the balance sheet under a range of adverse scenarios which may arise as a result of the economic consequences of COVID-19. These scenarios of increasing severity ranged from short term market disruption to a persistence of the crisis into late 2021 and beyond with no successful vaccine development. These stresses, including the additional COVID-19 scenarios, and taking account of the wide range of management actions that are available, do not give rise to any material uncertainties over the ability of the group to continue as a going concern. 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 businesses and remains financially strong despite the current increased uncertainty. Furthermore, in June 2020, the group completed the issuance of £500m of Restricted Tier 1 debt as an additional measure of prudence and to deliver further balance sheet strengthening, both to protect against longer-term economic uncertainty but also to enable the group to take advantage of opportunities as they arise.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of COVID-19 and the current economic climate, as detailed on pages 24 to 25, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

4.01 Basis of preparation (continued)

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

The group has applied the following standards and amendments for the first time in its six months reporting period commencing 1 January 2020.

Amendments to IFRS 3 – Business Combinations
These amendments, issued in October 2018, provide more guidance on the definition of a business. These amendments did not have any material impact on the group's consolidated financial statements.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: 'Definition of Material'
These amendments, issued in October 2018, clarify the definition of 'material', and align the definition used in the Conceptual Framework and the standards themselves. These amendments did not have any material impact on the group's consolidated financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards
These amendments, issued in March 2018, update the current conceptual framework with the aim to assist preparers of financial reports to develop consistent accounting policies for transactions. These amendments did not have any material impact on the group's consolidated financial statements.

Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement, and IFRS 7 – Financial Instruments: Disclosures: 'Interest Rate Benchmark Reform'
These amendments were issued in September 2019. They modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. These amendments did not have any material impact on the group's consolidated financial statements.

Amendment to IFRS 16 Leases: 'COVID-19-Related Rent Concessions'
The amendment, issued in May 2020, provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. This amendment did not have any material impact on the group's consolidated financial statements.

(c) Future accounting developments

IFRS 17 – Insurance Contracts
IFRS 17, 'Insurance Contracts' was originally issued in May 2017 and subsequent amendments were issued in June 2020. The standard is expected to be effective for annual periods beginning on or after 1 January 2023. This reflects a two year delay to the original 2017 timetable confirmed by the IASB in their June 2020 amendments and remains subject to endorsement for use in the UK. The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout the remainder of 2020 to ensure technical compliance and to develop the required system and operational capability to implement the standard.

IFRS 9 – 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 standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In June 2020 the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The group qualifies for, and is making use of, this deferral option.

The group has mobilised a project to assess the impact of IFRS 9 on its financial instruments, and work is on-going to develop the policies and operational changes required for the implementation of the standard, with a focus on the new expected credit losses impairment model.

4.02 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 ReAssure Limited for a consideration of £650m. As part of the transaction, on 1 January 2018 the group entered into a risk transfer agreement with ReAssure Limited, whereby the group transferred all economic risks and rewards of the Mature Savings business to ReAssure Limited. 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. The sale is expected to complete in the second half of 2020 following the completion of the Part VII transfer. As the legal transfer of the business has not yet occurred the Mature Savings business has been classified as held for sale on the Group's balance sheet as at 30 June 2020. The profit arising from the Mature Savings business in accordance with the risk transfer agreement has been recognised as "Profit after tax from discontinued operations" in the Consolidated Income Statement. Up until the Part VII this primarily reflects the unwind of expected underlying profits, which will offset the final profit on disposal.

4.03 Dividends and appropriations

	Dividend 6 months 2020 £m	**Per share[1] 6 months 2020 p**	Dividend 6 months 2019 £m	Per share[1] 6 months 2019 p	Dividend Full year 2019 £m	Per share[1] Full year 2019 p
Ordinary dividends paid and charged to equity in the period:						
- Final 2018 dividend paid in June 2019	**-**	**-**	704	11.82	704	11.82
- Interim 2019 dividend paid in September 2019	**-**	**-**	-	-	294	4.93
- Final 2019 dividend paid in June 2020	**754**	**12.64**	-	-	-	-
Total dividends	**754**	**12.64**	704	11.82	998	16.75

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

Subsequent to 30 June 2020, the directors declared an interim dividend of 4.93 pence per ordinary share. This dividend will be paid on 24 September 2020. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2020 and is not included as a liability in the Consolidated Balance Sheet as at 30 June 2020.

4.04 Financial investments and investment property

	30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m
Equities[1]	**189,798**	192,387	200,365
Debt securities[2]	**299,168**	275,086	286,916
Accrued interest	**1,551**	1,617	1,647
Derivative assets[3]	**25,207**	13,198	14,828
Loans[4]	**19,357**	12,861	16,814
Financial investments	**535,081**	495,149	520,570
Investment property	**9,334**	8,706	9,107
Total financial investments and investment property	**544,415**	503,855	529,677
Less: financial investments and investment property of operations classified as held for sale	**(22,790)**	(25,597)	(23,606)
Financial investments and investment property	**521,625**	478,258	506,071

1. Equity securities include investments in unit trusts of £13,615m (30 June 2019: £13,122m; 31 December 2019: £13,046m).
2. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 7.03.
3. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £27,550m (30 June 2019: £11,778m; 31 December 2019: £13,113m).
4. Loans include £444m (30 June 2019: £447m; 31 December 2019: £437m) of loans valued at amortised cost.

(a) Fair value hierarchy

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

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

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

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

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

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

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 2020 (30 June 2019; 31 December 2019: No significant transfers). Transfers into and out of Level 3 are disclosed in Note 4.04 (b).

4.04 Financial investments and Investment property (continued)

(a) Fair value hierarchy (continued)

For the six month period to 30 June 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,622	1,476	-	1,146
Debt securities	4,570	1,433	2,304	833
Accrued interest	21	6	12	3
Derivative assets	293	6	287	-
Loans at fair value	569	-	569	-
Investment property	234	-	-	234
Non profit non-unit linked				
Equity securities	190	186	-	4
Debt securities	75,867	9,689	46,570	19,608
Accrued interest	539	27	461	51
Derivative assets	22,095	-	22,095	-
Loans at fair value	1,309	-	1,309	-
Investment property	4,016	-	-	4,016
With-profits				
Equity securities	2,846	2,664	-	182
Debt securities	4,922	1,534	3,388	-
Accrued interest	38	8	30	-
Derivative assets	295	3	292	-
Loans at fair value	450	-	450	-
Investment property	455	-	-	455
Unit linked				
Equity securities	184,140	183,466	21	653
Debt securities	213,809	152,925	60,598	286
Accrued interest	953	435	518	-
Derivative assets	2,524	174	2,350	-
Loans at fair value	16,585	-	16,585	-
Investment property	4,629	-	-	4,629
Total financial investments and investment property at fair value[1,2]	543,971	354,032	157,839	32,100

1. This table excludes loans (including accrued interest) of £444m, which are held at amortised cost.

2. This table includes financial investments of £21,497m and investment property of £1,293m relating to assets of operations classified as held for sale.

4.04 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

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

1. This table excludes loans (including accrued interest) of £447m, which are held at amortised cost.

2. This table includes financial investments of £24,031m and investment property of £1,566m relating to assets of operations classified as held for sale.

4.04 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

For the year ended 31 December 2019	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,670	1,579	-	1,091
Debt securities	5,059	1,038	3,175	846
Accrued interest	22	6	13	3
Derivative assets	108	3	105	-
Loans at fair value	632	-	632	-
Investment property	254	-	-	254
Non profit non-unit linked				
Equity securities	194	158	32	4
Debt securities	69,530	8,281	43,342	17,907
Accrued interest	531	29	464	38
Derivative assets	11,448	-	11,444	4
Loans at fair value	630	-	630	-
Investment property	3,798	-	-	3,798
With-profits				
Equity securities	3,103	2,908	-	195
Debt securities	5,468	1,590	3,878	-
Accrued interest	44	11	33	-
Derivative assets	115	8	107	-
Loans at fair value	397	-	397	-
Investment property	507	-	-	507
Unit linked				
Equity securities	194,398	191,687	1,966	745
Debt securities	206,859	144,072	62,512	275
Accrued interest	1,050	499	551	-
Derivative assets	3,157	202	2,955	-
Loans at fair value	14,718	-	14,718	-
Investment property	4,548	-	-	4,548
Total financial investments and investment property at fair value[1,2]	529,240	352,071	146,954	30,215

1. This table excludes loans (including accrued interest) of £437m, which are held at amortised cost.

2. This table includes financial investments of £22,194m and investment property of £1,412m relating to assets of operations classified as held for sale.

4.04 Financial investments and investment property (continued)

(b) Level 3 assets measured at fair value

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

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

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

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.

Asset valuation approach at 30 June 2020

While recognising the volatility within asset markets, our approach to the valuation of assets as at 30 June 2020 was substantially consistent with our usual processes, policies and methodologies. However, we have applied increased focus on the valuation of those assets more directly impacted by the COVID-19 pandemic, particularly Level 3 assets. Given the diversity of our portfolio, the impact has been varied with certain asset classes and market sectors more exposed to the impact of COVID-19 than others. In assessing the valuation of such assets, in line with applicable standards and guidance (including compliance with Royal Institution of Chartered Surveyors (RICS) and International Private Equity and Venture Capital (IPEV) guidelines), we have both projected the short-term impact on earnings and cash flows of the current market volatility, while continuing to review the assets' ability to deliver longer term returns aligned to their investment cases.

Equity securities

Level 3 equity securities amount to £1,985m (30 June 2019: £1,856m; 31 December 2019: £2,035m), of which the majority is made up of holdings in investment property vehicles and private investment funds. They are valued at the proportion of the group's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are valued by a number of third party specialists using a range of techniques, including latest round of funding and discounted cash flow models.

Other financial investments

Lifetime mortgage (LTM) loans amount to £5,478m (30 June 2019: £3,990m; 31 December 2019: £4,733m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. The sensitivity disclosure in 4.04 (c) highlights the illiquidity premiums as the most significant unobservable input and reflects, among other assumptions, a variation in the inferred illiquidity premium of 20bps. The mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the house and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 30 June 2020 reflects a long-term property growth rate assumption of RPI + 0.1%, after allowing for the effects of dilapidation.

Private credit loans (including commercial real estate loans) amount to £11,661m (30 June 2019: £9,421m; 31 December 2019: £10,998m). Their valuation is outsourced to IHS Markit who use discounted future cash flows based on a yield curve.
The discount factors take into consideration the yield of the LGIM approved comparable bond and the initial spread agreed by both parties. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. The sensitivity disclosure in 4.04 (c) highlights credit spreads as the most significant unobservable input and reflects, among other assumptions, a variation in the discount rate applied of 20bps. Existing private credit investments, which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 11.1 years, with a weighted average life of 16.3 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets is not externally rated but has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to B.

Income strip assets amount to £1,400m (30 June 2019: £1,258m; 31 December 2019: £1,326m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. The valuation as at 30 June 2020 reflects equivalent yield ranges between 2% and 7% and estimated rental values (ERV) between £10 and £337 per sq.ft.

Private placements held by the US business amount to £1,530m (30 June 2019: £1,043m; 31 December 2019: £1,344m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk-free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement. The valuation as at 30 June 2020 reflects illiquidity premiums between 10 and 70bps.

4.04 Financial investments and investment property (continued)

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

Commercial mortgage loans amount to £469m (30 June 2019: £357m; 31 December 2019: £414m) and are determined by incorporating credit risk for performing loans at the portfolio level and for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk free rate paths and are inclusive of an Option Adjusted Spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. The valuation as at 30 June 2020 reflects illiquidity premiums between 20 and 40bps.
Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

Investment property

Level 3 investment property amounting to £9,334m (30 June 2019: £8,706m; 31 December 2019: £9,107m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also include an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. The valuation as at 30 June 2020 reflects equivalent yield ranges between 2% and 18% and ERV between £1 and £356 per sq.ft. The sensitivity disclosure in 4.04 (c) highlights equivalent yields as the most significant unobservable input and reflects, among other assumptions, a variation in the yield of between 50-75bps, depending upon whether the valuation is subject to a “material valuation uncertainty” clause as per VPS3 and VPG10 of the RICS Red Book Global.

4.04 Financial investments and investment property (continued)

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

	Equity securities 2020 £m	**Other financial invest-ments 2020 £m**	**Investment property 2020 £m**	**Total 2020 £m**	Equity securities 2019 £m	Other financial invest-ments 2019 £m	Investment property 2019 £m	Total 2019 £m
As at 1 January	**2,035**	**19,073**	**9,107**	**30,215**	1,757	13,915	8,608	24,280
Total gains/(losses) for the period								
- in other comprehensive income	**-**	**(44)**	**-**	**(44)**	-	23		23
- realised and unrealised gains/(losses)[1]	**(37)**	**1,038**	**(256)**	**745**	38	907	(19)	926
Purchases / Additions	**76**	**1,603**	**577**	**2,256**	173	2,608	359	3,140
Sales / Disposals	**(72)**	**(868)**	**(94)**	**(1,034)**	(105)	(1,054)	(250)	(1,409)
Transfers into Level 3	**44**	**5**	**-**	**49**	2	-	-	2
Transfers out of Level 3	**(61)**	**(26)**	**-**	**(87)**	-	(57)	-	(57)
Other	**-**	**-**	**-**	**-**	(9)	-	8	(1)
As at 30 June	**1,985**	**20,781**	**9,334**	**32,100**	1,856	16,342	8,706	26,904

	Equity securities 2019 £m	Other financial invest-ments 2019 £m	Investment property 2019 £m	Total 2019 £m
As at 1 January	1,757	13,915	8,608	24,280
Total gains/(losses) for the period				
- in other comprehensive income	-	20	-	20
- realised and unrealised gains / (losses)[1]	50	1,314	(86)	1,278
Purchases / Additions	416	5,680	1,187	7,283
Sales / Disposals	(199)	(1,850)	(675)	(2,724)
Transfers into Level 3	21	5	73	99
Transfers out of Level 3	(10)	(11)	-	(21)
As at 31 December	2,035	19,073	9,107	30,215

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

4.04 Financial investments and investment property (continued)

(c) Effect of changes in assumptions on Level 3 assets

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 by 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 (RICS). As a result of the current response to COVID-19, which has meant that independent valuers have been faced with a challenging set of circumstances on which to base judgment around valuation, a number of valuations (equating to c.12% of Level 3 assets, including unit linked) have been reported on the basis of “material valuation uncertainty” as per VPS3 and VPG10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations provided than would normally be the case. The independent valuers have confirmed that the inclusion of “material valuation uncertainty” clauses does not mean that the valuations cannot be relied upon. Rather, the clause is used to be clear and transparent with all parties that, in the context of the current environment, less certainty can be attached to valuations than would otherwise be the case.

- For LTMs, the response to COVID-19 has led to increased dispersion in pricing which, coupled with both the general market uncertainty, has resulted in a higher level of uncertainty associated with these assets at the balance sheet date.

- Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined by stressing key assumptions used in the valuation models.

The table below shows the sensitivity of the fair value of Level 3 asset valuations as at 30 June 2020 to changes in unobservable inputs to a reasonable alternative. In light of COVID-19, we have reviewed and reflected changes in those sensitivities, and further disclosure in how these sensitivities have been applied can be found in note 4.04 (b).

			Sensitivities	
	Fair value 30 June 2020 £m	**Most significant unobservable input**	**Positive Impact £m**	**Negative Impact £m**
Lifetime mortgages	**5,478**	Illiquidity premium	**493**	**(493)**
Private credit loans	**11,661**	Credit spreads	**758**	**(758)**
Investment property	**9,334**	Equivalent yields	**720**	**(821)**
Other investments	**5,627**	Various	**412**	**(455)**
Total Level 3 assets	**32,100**		**2,383**	**(2,527)**

The above table demonstrates that the effect of a change in one or more unobservable inputs to reasonable alternative assumptions would result in a change in the fair value of Level 3 assets of +7/- 8% (30 June 2019: +/-6%; 31 December 2019: +/-6%). While the table demonstrates the effect of these changes in isolation, there may in reality be a correlation between the unobservable inputs and other factors. It should also be noted that some of these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

4.05 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 2020 £m	**Total 6 months 2020 £m**	Continuing operations 6 months 2019 £m	Total 6 months 2019 £m	Continuing operations Full year 2019 £m	Total Full year 2019 £m
Profit before tax attributable to equity holders	**261**	**285**	1,020	1,053	2,084	2,112
Tax calculated at 19.00%	**50**	**54**	194	200	396	401
Adjusted for the effects of:						
Recurring reconciling items:						
Income not subject to tax	**-**	**-**	(1)	(1)	(4)	(4)
(Lower)/higher rate of tax on profits taxed overseas[1]	**(49)**	**(49)**	(11)	(11)	(117)	(117)
Non-deductible expenses	**6**	**6**	1	1	2	2
Differences between taxable and accounting investment gains	**(2)**	**(2)**	-	-	(10)	(10)
Adjustments for non-controlling interests	**3**	**3**	-	-	4	4
Foreign tax	**2**	**2**	-	-	6	6
Unrecognised tax losses	**1**	**1**	2	2	14	14
Non-recurring reconciling items:						
Income not subject to tax	**-**	**-**	(2)	(2)	(6)	(6)
Non-deductible expenses	**2**	**2**	-	-	6	6
Adjustments in respect of prior years[2]	**(14)**	**(14)**	(2)	(2)	9	9
Impact of the revaluation of deferred tax balances[3]	**7**	**7**	1	1	(2)	(2)
Other	**1**	**2**	-	-	(1)	(1)
Tax attributable to equity holders	**7**	**12**	182	188	297	302
Equity holders' effective tax rate[4]	**2.7%**	**4.2%**	17.8%	17.9%	14.3%	14.3%

1. The lower rate of tax on overseas profits is principally driven by the 0% rate of taxation arising in our Bermudan reinsurance company, which provides our business with regulatory capital flexibility for both our PRT business and our US term insurance business. This is partially offset by the tax rate of 21% that applies to our US operations.
2. Adjustments in respect of prior years relate to revisions of earlier estimates.
3. The Finance Act 2020 removed the planned reduction in the headline UK corporation tax rate from 19% to 17%. As a result, UK deferred tax assets and liabilities previously recognised at 17% have been revalued.
4. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

4.05 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	**30 Jun 2020 £m**	30 Jun 2019 £m	31 Dec 2019 £m
Deferred acquisition expenses	**50**	29	35
- UK	**(40)**	(40)	(40)
- Overseas	**90**	69	75
Difference between the tax and accounting value of insurance contracts	**(690)**	(635)	(630)
- UK	**(232)**	(228)	(198)
- Overseas	**(458)**	(407)	(432)
Unrealised gains on investments	**(57)**	(175)	(184)
Excess of depreciation over capital allowances	**18**	12	15
Excess expenses	**19**	20	20
Accounting provisions and other	**(59)**	(32)	(44)
Trading losses[1]	**257**	179	217
Pension fund deficit	**34**	35	28
Acquired intangibles	**(2)**	(2)	(2)
Total net deferred tax liabilities	**(430)**	(569)	(545)
Less: net deferred tax liabilities of operations classified as held for sale	**70**	186	182
Net deferred tax liabilities	**(360)**	(383)	(363)
Analysed by:			
- UK deferred tax assets	**5**	2	3
- UK deferred tax liabilities	**(186)**	(193)	(189)
- Overseas deferred tax assets	**5**	5	5
- Overseas deferred tax liabilities[2]	**(184)**	(197)	(182)
Net deferred tax liabilities	**(360)**	(383)	(363)

1. Trading losses include UK trade and US operating losses of £5m (H1 19: £3m; FY 19: £4m) and £252m (H1 19: £176m; FY 19: £213m) respectively.
2. Overseas deferred tax liability is wholly comprised of US balances as at 30 June 2020.

4.06 Share capital and share premium

Authorised share capital	**Number of shares**	**£m**
At 30 June 2020, 30 June 2019 and 31 December 2019: 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 2020	**5,965,349,607**	**149**	**1,000**
Options exercised under share option schemes	**1,225,772**	**-**	**3**
As at 30 June 2020	**5,966,575,379**	**149**	**1,003**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2019	5,960,768,234	149	992
Options exercised under share option schemes	3,497,185	-	6
As at 30 June 2019	5,964,265,419	149	998
Options exercised under share option schemes	1,084,188	-	2
As at 31 December 2019	5,965,349,607	149	1,000

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.

4.07 Restricted tier 1 convertible notes

On 24 June 2020, Legal & General Group Plc issued £500m of 5.625% perpetual restricted Tier 1 contingent convertible notes. The notes are callable at par between 24 March 2031 and 24 September 2031 (the First Reset Date) inclusive and every 5 years after the First Reset Date. If not called, the coupon from 24 September 2031 will be reset to the prevailing five year benchmark gilt yield plus 5.378%.

The notes have no fixed maturity date. Optional cancellation of coupon payments is at the discretion of the issuer and mandatory cancellation is upon the occurrence of certain conditions. The Tier 1 notes are therefore treated as equity and coupon payments are recognised directly in equity when paid. The notes rank junior to all other liabilities and senior to equity attributable to owners of the parent. On the occurrence of certain conversion trigger events the notes are convertible into ordinary shares of the Issuer at the prevailing conversion price.

The notes are treated as restricted Tier 1 own funds for Solvency II purposes.

4.08 Non-controlling interests

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

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

4.09 Core borrowings

	Carrying amount 30 Jun 2020 £m	**Fair value 30 Jun 2020 £m**	Carrying amount 30 Jun 2019 £m	Fair value 30 Jun 2019 £m	Carrying amount 31 Dec 2019 £m	Fair value 31 Dec 2019 £m
Subordinated borrowings						
10% Sterling subordinated notes 2041 (Tier 2)	**312**	**339**	312	364	312	353
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**688**	589	684	589	726
5.375% Sterling subordinated notes 2045 (Tier 2)	**603**	**672**	602	673	603	691
5.25% US Dollar subordinated notes 2047 (Tier 2)	**693**	**733**	661	706	648	704
5.55% US Dollar subordinated notes 2052 (Tier 2)	**407**	**435**	388	419	380	405
5.125% Sterling subordinated notes 2048 (Tier 2)	**399**	**442**	399	445	399	459
3.75% Sterling subordinated notes 2049 (Tier 2)	**598**	**595**	-	-	598	613
4.5% Sterling subordinated notes 2050 (Tier 2)	**499**	**521**	-	-	-	-
Client fund holdings of group debt (Tier 2)[1]	**(43)**	**(47)**	(31)	(34)	(38)	(44)
Total subordinated borrowings	**4,057**	**4,378**	2,920	3,257	3,491	3,907
Senior borrowings						
Sterling medium term notes 2031-2041	**603**	**896**	603	868	609	877
Client fund holdings of group debt[1]	**(9)**	**(13)**	(9)	(13)	(9)	(13)
Total senior borrowings	**594**	**883**	594	855	600	864
Total core borrowings	**4,651**	**5,261**	3,514	4,112	4,091	4,771

1. £52m (30 June 2019: £40m; 31 December 2019: £47m) of the group's subordinated and senior borrowings 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.

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

4.09 Core borrowings (continued)

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

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

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

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

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

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

3.75% Sterling subordinated notes 2049
On 26 November 2019, Legal & General Group Plc issued £600m of 3.75% dated subordinated notes. The notes are callable at par on 26 November 2029 and every five years thereafter. If not called, the coupon from 26 November 2029 will be reset to the prevailing five year benchmark gilt yield plus 4.05% p.a. These notes mature on 26 November 2049.

4.5% Sterling subordinated notes 2050
On 1 May 2020, Legal & General Group Plc issued £500m of 4.5% dated subordinated notes. The notes are callable at par on 1 November 2030 and every five years thereafter. If not called, the coupon from 1 November 2030 will be reset to the prevailing five year benchmark gilt plus 5.25% pa. These notes mature on 1 November 2050.

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 Jun 2020 £m	**Fair value 30 Jun 2020 £m**	Carrying amount 30 Jun 2019 £m	Fair value 30 Jun 2019 £m	Carrying amount 31 Dec 2019 £m	Fair value 31 Dec 2019 £m
Euro Commercial Paper	**100**	**100**	354	354	200	200
Non recourse borrowings	**1,000**	**1,000**	657	657	842	842
Bank loans and overdrafts	**104**	**104**	58	58	-	-
Total operational borrowings[1]	**1,204**	**1,204**	1,069	1,069	1,042	1,042
Less: liabilities of operations classified as held for sale	**(30)**	**(30)**	(29)	(29)	(29)	(29)
Operational borrowings	**1,174**	**1,174**	1,040	1,040	1,013	1,013

1. Unit linked borrowings with a carrying value of £21m (30 June 2019: £11m; 31 December: £7m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,195m (30 June 2019: £1,051m; 31 December 2019: £1,020m).

Syndicated Credit Facility

As at 30 June 2020, the group had in place a £1bn 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 2020.

4.11 Payables and other financial liabilities

	30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m
Derivative liabilities	**27,550**	11,778	13,113
Repurchase agreements[1]	**55,309**	46,994	56,884
Other financial liabilities[2]	**19,544**	17,353	14,476
Total payables and other financial liabilities	**102,403**	76,125	84,473
Less: Payables and other liabilities of operations classified as held for sale	**(738)**	(598)	(434)
Payables and other financial liabilities	**101,665**	75,527	84,039

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, FX spots, lease liabilities, reinsurance payables and collateral repayable on short position reverse repurchase agreements. The value of collateral repayable on short position reverse repurchase agreements was £5,882m (30 June 2019: £6,114m; 31 December 2019: £7,673m).

Fair value hierarchy

As at 30 June 2020	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**27,550**	**232**	**27,301**	**17**	**-**
Repurchase agreements	**55,309**	**-**	**55,309**	**-**	**-**
Other financial liabilities	**19,544**	**6,552**	**61**	**138**	**12,793**
Total payables and other financial liabilities	**102,403**	**6,784**	**82,671**	**155**	**12,793**

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

As at 31 December 2019	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	13,113	283	12,828	2	-
Repurchase agreements	56,884	-	56,884	-	-
Other financial liabilities	14,476	7,822	9	139	6,506
Total payables and other financial liabilities	84,473	8,105	69,721	141	6,506

Trail commission (included within Other financial liabilities) is modelled using expected cash flows, incorporating expected future persistency. It has therefore been classified as Level 3 liabilities. A reasonably possible alternative persistency assumption would have the effect of increasing the trail commission liability by £4m (30 June 2019 and 31 December 2019: Increase of £4m).

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the period ended 30 June 2020 (30 June 2019 and 31 December 2019: no significant transfers).

4.12 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	**30 Jun 2020**	30 Jun 2019	31 Dec 2019
United States dollar	**1.24**	1.27	1.33
Euro	**1.10**	1.12	1.18

Average exchange rates	**6 months 2020**	6 months 2019	Full year 2019
United States dollar	**1.26**	1.29	1.28
Euro	**1.14**	1.15	1.14

4.13 Retirement benefit obligations

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

As at 30 June 2020, the combined obligation arising from these arrangements has been estimated at £1,199m (30 June 2019: £1,139m; 31 December 2019: £1,083m). The retirement benefit obligations are a component of Provisions on the Consolidated Balance Sheet. The after tax deficit, net of annuity obligations insured by Legal and General Assurance Society, has been calculated to be £122m (30 June 2019: £161m; 31 December 2019: £115m).

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.

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

4.15 Related party transactions

(i) Key management personnel transactions and compensation

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £47m (30 June 2019: £40m; 31 December 2019: £86m) for all employees.

At 30 June 2020, 30 June 2019 and 31 December 2019 there were no loans outstanding to officers of the company.

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

	6 months 2020 £m	6 months 2019 £m	Full year 2019 £m
Salaries	**3**	3	12
Share-based incentive awards	**4**	3	7
Key management personnel compensation	**7**	6	19

(ii) Services provided to and by related parties

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

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

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £50m (30 June 2019: £78m; 31 December 2019: £78m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;

- Loans outstanding from related parties at 30 June 2020 of £86m (30 June 2019: £81m; 31 December 2019: £83m), with a further commitment of £15m;

- The group has total other commitments of £1,253m to related parties (30 June 2019: £1,178m; 31 December 2019: £1,213m), of which £820m has been drawn at 30 June 2020 (30 June 2019: £821m; 31 December 2019: £749m).

5.01 LGIM total assets under management[1] (AUM)

For the six month period to 30 June 2020	Index £bn	Active strategies £bn	Multi Asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2020	**403.6**	**177.2**	**58.0**	**526.6**	**30.8**	**1,196.2**
External inflows	27.7	9.5	4.3	10.9	0.6	53.0
External outflows	(32.3)	(9.0)	(2.7)	(22.7)	(0.4)	(67.1)
Overlay net flows	-	-	-	20.1	-	20.1
ETF net flows	0.2	-	-	-	-	0.2
External net flows[3]	**(4.4)**	**0.5**	**1.6**	**8.3**	**0.2**	**6.2**
Internal net flows	-	(0.2)	(0.7)	(0.1)	0.4	(0.6)
Total net flows	**(4.4)**	**0.3**	**0.9**	**8.2**	**0.6**	**5.6**
Cash management movements[4]	-	2.8	-	-	-	2.8
Market and other movements[3]	(4.1)	9.2	(1.8)	32.0	0.7	36.0
As at 30 June 2020	**395.1**	**189.5**	**57.1**	**566.8**	**32.1**	**1,240.6**
Assets attributable to:						
External						1,134.9
Internal						105.7

1. Assets under management (AUM) includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £348.3bn (30 June 2019: £301.9bn; 31 December 2019: £335.7bn) of derivative notionals associated with the Solutions business.
3. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 30 June 2020 was £62.3bn (30 June 2019: £49.4bn; 31 December 2019: £67.1bn) and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

5.01 LGIM total assets under management[1] (AUM) (continued)

For the six month period to 30 June 2019	Index £bn	Active strategies £bn	Multi Asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM[5] £bn
At 1 January 2019	307.1	160.4	43.6	477.9	26.5	1,015.5
External inflows	60.8	5.7	6.5	8.8	0.8	82.6
External outflows	(26.1)	(4.8)	(1.4)	(11.0)	(0.8)	(44.1)
Overlay net flows	-	-	-	22.0	-	22.0
ETF net flows	(0.2)	-	-	-	-	(0.2)
External net flows[3]	34.5	0.9	5.1	19.8	-	60.3
Internal net flows	(0.1)	(2.0)	(0.3)	3.6	1.2	2.4
Total net flows	34.4	(1.1)	4.8	23.4	1.2	62.7
Cash management movements[4]	-	0.5	-	-	-	0.5
Market and other movements[3]	43.9	12.4	6.0	(7.7)	1.2	55.8
At 30 June 2019	385.4	172.2	54.4	493.6	28.9	1,134.5
Assets attributable to:						
External						1,032.7
Internal						101.8

1. Assets under management (AUM) includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £301.9bn of derivative notionals associated with the Solutions business.
3. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 30 June 2019 was £49.4bn and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
5. AUM have been reanalysed from those previously reported in order to present Multi Asset separately. This has resulted in the removal of the Global Fixed income and Active equities categories, the inclusion of Multi Asset and Active Strategies, and a reallocation of AUM across the revised categorisation. Total AUM, and the split between external and internal, remains unchanged.

5.01 LGIM total assets under management[1] (AUM) (continued)

For the year ended 31 December 2019	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2019	307.1	160.4	43.6	477.9	26.5	1,015.5
External inflows	96.2	14.0	11.2	25.5	1.8	148.7
External outflows	(58.9)	(11.2)	(3.5)	(26.2)	(1.7)	(101.5)
Overlay net flows	-	-	-	38.8	-	38.8
ETF net flows	0.4	-	-	-	-	0.4
External net flows[3]	37.7	2.8	7.7	38.1	0.1	86.4
Internal net flows	(0.3)	(0.4)	(0.9)	1.9	2.5	2.8
Total net flows	37.4	2.4	6.8	40.0	2.6	89.2
Cash management movements[4]	-	(0.6)	-	-	-	(0.6)
Market and other movements[3]	59.1	15.0	7.6	8.7	1.7	92.1
As at 31 December 2019	403.6	177.2	58.0	526.6	30.8	1,196.2
Assets attributable to:						
External						1,092.2
Internal						104.0

1. Assets under management (AUM) includes assets on our Investment Only Platform, that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £335.7bn of derivative notionals associated with the Solutions business.
3. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2019 was £67.1bn and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

5.02 LGIM total external assets under management and net flows

	Assets under management			Net flows[2]		
	30 Jun 2020 £bn	30 Jun 2019 £bn	31 Dec 2019 £bn	**30 Jun 2020 £bn**	30 Jun 2019 £bn	31 Dec 2019 £bn
International[1]	**289.5**	248.6	276.7	**(3.2)**	44.6	14.6
UK Institutional						
- Defined contribution	**96.7**	86.4	94.3	**5.5**	3.6	3.7
- Defined benefit	**706.7**	659.7	679.3	**2.5**	10.7	4.8
UK Retail						
- Retail intermediary	**33.3**	30.0	33.1	**1.2**	1.7	2.5
- Personal investing[3]	**5.2**	5.6	5.7	-	(0.1)	(0.1)
ETF	**3.5**	2.4	3.1	**0.2**	(0.2)	0.6
Total external	**1,134.9**	1,032.7	1,092.2	**6.2**	60.3	26.1

1. International asset are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £385bn as at 30 June 2020 (30 June 2019: £343bn; 31 December 2019: £370bn).
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. Personal investing includes £1.4bn as at 30 June 2020 (30 June 2019: £1.9bn; 31 December 2019: £1.6bn) of AUM relating to legacy Banks and Building Society customers which is driving net outflows.

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

	30 Jun 2020 £bn	30 Jun 2019 £bn	31 Dec 2019 £bn
Assets under management	**1,241**	1,135	1,196
Derivative notionals[1]	**(348)**	(302)	(336)
Third party assets[2]	**(399)**	(362)	(379)
Other[3]	**72**	47	63
Total financial investments, investment property and cash and cash equivalents	**566**	518	544
Less: assets of operations classified as held for sale	**(23)**	(26)	(24)
Financial investments, investment property and cash and cash equivalents	**543**	492	520

1. Derivative notionals are included in the assets under management measure but are not for IFRS reporting and are thus removed.
2. Third party assets are those that LGIM manage on behalf of others which are not included on the group's Consolidated Balance Sheet.
3. Other includes assets that are managed by third parties on behalf of the group, other assets and liabilities related to financial investments, derivative assets and pooled funds.

5.04 Assets under administration

	Workplace[1] 30 Jun 2020 £bn	**Annuities[2] 30 Jun 2020 £bn**	Workplace 30 Jun 2019 £bn	Annuities 30 Jun 2019 £bn	Workplace 31 Dec 2019 £bn	Annuities 31 Dec 2019 £bn
As at 1 January	**40.3**	**75.9**	30.0	63.0	30.0	63.0
Gross inflows	3.3	3.8	3.5	7.2	7.3	12.4
Gross outflows	(0.9)	-	(0.9)	-	(2.0)	-
Payments to pensioners	-	(2.1)	-	(2.0)	-	(4.1)
Net flows	**2.4**	**1.7**	2.6	5.2	5.3	8.3
Market and other movements	(1.2)	3.1	3.5	3.9	5.0	4.6
As at 30 June/31 December	**41.5**	**80.7**	36.1	72.1	40.3	75.9

1. Workplace assets under administration as at 30 June 2020 includes £41.5bn (30 June 2019: £36.0bn; 31 December 2019: £40.2bn) of assets under management included in Note 5.01.
2. Annuities assets under administration as at 30 June 2020 includes £73.8bn (30 June 2019: £67.9bn; 31 December 2019: £70.1bn) of assets under management included in Note 5.01.

5.05 LGR new business

	6 months 30 Jun 2020 £m	6 months 30 Jun 2019 £m	6 months 31 Dec 2019 £m	Full year 31 Dec 2019 £m
Pension risk transfer				
- UK	**3,176**	6,316	4,009	10,325
- US	**248**	223	670	893
- Bermuda	**-**	138	36	174
Individual annuities	**421**	497	473	970
Lifetime mortgage advances	**362**	489	476	965
Total LGR new business	**4,207**	7,663	5,664	13,327

5.06 LGI new business

	6 months 30 Jun 2020 £m	6 months 30 Jun 2019 £m	6 months 31 Dec 2019 £m	Full year 31 Dec 2019 £m
UK Retail protection	**83**	91	83	174
UK Group protection	**65**	44	32	76
US protection[1]	**44**	43	46	89
Total LGI new business	**192**	178	161	339

1. In local currency, US protection reflects new business of $56m for 2020 (H1 19: $55m; H2 19: $58m).

5.07 Gross written premiums on insurance business

	6 months 30 Jun 2020 £m	6 months 30 Jun 2019 £m	6 months 31 Dec 2019 £m	Full year 31 Dec 2019 £m
UK Retail protection	**680**	658	669	1,327
UK Group protection	**245**	233	112	345
US Protection[1]	**550**	518	539	1,057
Longevity insurance	**159**	190	186	376
Total gross written premiums on insurance business[2]	**1,634**	1,599	1,506	3,105

1. In local currency, US protection reflects gross written premiums of $693m for 2020 (H1 19: $670m; H2 19: $679m).
2. Total gross written premiums includes £58m (YE 19: £66m) of general insurance premiums relating to a residual reinsurance treaty.

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 measures and monitors its capital resources on this basis.

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

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

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at 30 June 2020). The TMTP incorporates estimated impacts of end June 2020 economic conditions and changes during 2020 to the Internal Model and Matching Adjustment. This is in line with group's management of the capital position on a dynamic TMTP basis.

(a) Capital position

As at 30 June 2020, and on the above basis, the group had a surplus of £7.3bn (31 December 2019: £7.3bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 173% (31 December 2019: 184%). The shareholder view of the Solvency II capital position is as follows:

	30 Jun 2020 £bn	31 Dec 2019 £bn
Unrestricted Tier 1 Own Funds	**12.3**	12.4
Restricted Tier 1 Own Funds[1]	**0.5**	-
Tier 2 Subordinated liabilities[2]	**4.7**	3.9
Eligibility restrictions	**(0.2)**	(0.2)
Solvency II Own Funds[3,4]	**17.3**	16.1
Solvency Capital Requirement	**(10.0)**	(8.8)
Solvency II surplus	**7.3**	7.3
SCR Coverage ratio[5]	**173%**	184%

1. Restricted Tier 1 Own Funds represent perpetual restricted tier 1 contingent convertible notes issued during the period. See note 4.07 for details.
2. Tier 2 subordinated liabilities include new debt issue of £0.5bn during the period.
3. Solvency II Own Funds do not include an accrual for the interim dividend of £294m (31 December 2019: £754m) declared after the balance sheet date.
4. Solvency II Own Funds allow for a risk margin of £6.7bn (31 December 2019: £5.9bn) and TMTP of £6.3bn (31 December 2019: £5.7bn).
5. SCR Coverage ratio is based on unrounded inputs.

The "shareholder view" basis excludes the contribution that the with-profits fund and the final salary pension schemes 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 schemes.

On a proforma basis, which includes the contribution of with-profits fund and that of the final salary pension schemes in the group's Own Funds and corresponding SCR in the group's SCR, the coverage ratio at 30 June 2020 is 169% (31 December 2019: 179%).

On 6 December 2017 the group announced the sale of its Mature Savings business to ReAssure Limited. ReAssure Limited 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 H2 20, 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 and Markets Act 2000. The impact of the risk transfer agreement is reflected in both Own Funds and SCR.

6.01 Group regulatory capital – Solvency II (continued)

(b) Methodology and assumptions

The methodology, assumptions and Partial Internal Model underlying the calculation of Solvency II Own Funds and associated capital requirements are broadly consistent with those set out in the group's 2019 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 14 basis points (31 December 2019: 11 basis points) for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 30 June 2020 the Matching Adjustment for UK GBP denominated liabilities was 158 basis points (31 December 2019: 110 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 58 basis points (31 December 2019: 53 basis points).

(c) Analysis of change

The table below shows the movement (net of tax) during the six month period ended 30 June 2020 in the group's Solvency II surplus.

	6 months 30 Jun 2020 £bn	Full year 31 Dec 2019 £bn
Surplus arising from back-book (including release of SCR)	**0.7**	1.5
Release of risk margin[1]	**0.3**	0.4
Amortisation of TMTP[2]	**(0.2)**	(0.3)
Total operational surplus generation[3]	**0.8**	1.6
Operational surplus generation - continuing operations	**0.8**	1.5
Operational surplus generation - discontinued operations	**-**	0.1
Total operational surplus generation[3]	**0.8**	1.6
New business strain - continuing operations	**(0.1)**	(0.5)
New business strain - discontinued operations	**-**	(0.1)
New business strain	**(0.1)**	(0.6)
Net surplus generation	**0.7**	1.0
Operating variances[4]	**0.1**	0.3
Mergers, acquisitions and disposals[5]	**(0.1)**	0.1
Market movements[6]	**(0.9)**	(0.2)
Restricted Tier 1 convertible notes[7]	**0.5**	-
Subordinated liabilities[8]	**0.5**	0.2
Dividends paid[9]	**(0.8)**	(1.0)
Total surplus movement (after dividends paid in the period)	**-**	0.4

1. Based on the risk margin in force at 31 December 2019 and does not include the release of any risk margin added by new business written in 2020.
2. TMTP amortisation based on a linear run down of the 31 December 2019 TMTP of £4.9bn (net of tax, £5.7bn before tax) (2019: £4.4bn net of tax, £5.2bn before tax), based on management's estimate of the TMTP on 31 December 2019 market conditions.
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 2020 these are primarily related to the optimisation of structures used to make assets Matching Adjustment eligible and the planned reinsurance of backbook liabilities.
4. 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.
5. Mergers, acquisitions and disposals include the impacts of the sale of the Mature Savings business, expected to complete in H2 20.
6. Market movements represent the impact of changes in investment market conditions over the period and changes to future economic assumptions. Market movements in 2020 include an increase in the risk margin of £1.0bn (net of tax) and an increase to TMTP of £1.0bn (net of tax).
7. Restricted Tier 1 convertible notes represent an issuance of £0.5bn in the period (2019: nil).
8. Subordinated liabilities includes an issuance of £0.5bn in the period (2019: redemption of £0.4bn and an issuance of £0.6bn).
9. Dividends paid are the amounts from the 2019 final dividend paid in H1 20 (2019: 2018 final and 2019 interim dividend declarations).

6.01 Group regulatory capital – Solvency II (continued)

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

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

(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 2020 £bn	Full year 2019 £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 TMTP amortisation	**0.3**	0.7
Solvency II Operational Surplus Generation[4]	**0.8**	1.6

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term longevity and expense margins).
2. Release of prudence related to differences between the EIOPA-defined fundamental spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk free rates over H1 20.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2020 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 2020 £bn	Full year 2019 £bn
IFRS New business surplus	**0.1**	0.3
Removal of requirement to set up prudential margins above best estimate on New Business	**0.2**	0.2
Set up of SCR on new business	**(0.3)**	(0.9)
Set up of risk margin on new business	**(0.1)**	(0.2)
Solvency II New business strain[1]	**(0.1)**	(0.6)

1. UK PRT new business volumes during H1 20 were £3.2bn, compared to £10.3bn over 2019.

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

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

	30 Jun 2020 £bn	31 Dec 2019 £bn
IFRS equity[1]	**9.4**	9.4
Remove DAC, goodwill and other intangible assets and associated liabilities	**(0.5)**	(0.5)
Add IFRS carrying value of subordinated borrowings[2]	**4.1**	3.5
Insurance contract valuation differences[3]	**6.0**	5.2
Difference in value of net deferred tax liabilities	**(0.7)**	(0.5)
SCR for with-profits fund and final salary pension schemes	**(0.8)**	(0.8)
Eligibility restrictions[4]	**(0.2)**	(0.2)
Solvency II Own Funds[5]	**17.3**	16.1

1. IFRS equity represents IFRS equity attributable to owners of the parent and restricted tier 1 convertible notes as per the Consolidated Balance Sheet.
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. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
5. Solvency II Own Funds do not include an accrual for the interim dividend of £294m (31 December 2019: £754m) declared after the balance sheet date.

6.01 Group regulatory capital – Solvency II (continued)

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 30 June 2020 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[1]	**Impact on net of tax Solvency II coverage ratio[1]**	Impact on net of tax Solvency II capital surplus[1]	Impact on net of tax Solvency II coverage ratio[1]
	2020	**2020**	2019	2019
	£bn	**%**	£bn	%
Credit spreads widen by 100bps assuming an escalating addition to ratings[2,3]	**0.3**	**7**	0.3	8
Credit spreads narrow by 100bps assuming an escalating addition to ratings[2,3]	**(0.3)**	**(8)**	(0.4)	(9)
Credit spreads widen by 100bps assuming a level addition to ratings[2]	**0.4**	**10**	0.5	11
Credit spreads of sub investment grade assets widen by 100bps assuming a level addition to ratings[2,4]	**(0.3)**	**(5)**	(0.3)	(6)
Credit migration[5]	**(1.5)**	**(15)**	(0.8)	(9)
25% fall in equity markets[6]	**(0.5)**	**(4)**	(0.5)	(5)
15% fall in property markets[7]	**(0.7)**	**(6)**	(0.7)	(6)
100bps increase in risk free rates[8]	**0.7**	**15**	1.0	22
50bps decrease in risk free rates[8,9]	**(0.4)**	**(8)**	(0.6)	(11)

1. Both the 2020 and 2019 sensitivities exclude the impact from the Mature Savings business (including the With-Profits fund) as the risks have been transferred to ReAssure Limited from 1 January 2018.
2. The spread sensitivity applies to the group's corporate bond (and similar) holdings, with no change in long term default expectations. Restructured lifetime mortgages are excluded as the underlying exposure is to property.
3. 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. To give a 100bps increase on the total portfolio the spread stress increases in steps of 32bps, i.e. 32bps for AAA, 64bps for AA etc.
4. No stress for bonds rated BBB and above. For bonds rated BB and below the stress is 100bps. The spread widening on the total portfolio is 1bp as the group holds only 2% in bonds rated BB and below. The impact is primarily an increase in SCR arising from the modelled cost of trading downgraded bonds back to a higher rating in the stress scenarios in the SCR calculation. We estimate the widening between BBB and BB bonds over H1 20 to be c.115bps.
5. 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, lifetime mortgage senior notes are excluded). Downgraded assets are assumed to be traded to their original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
6. This relates primarily to equity exposure in LGC but will also include equity-based mutual funds and other investments that receive an equity stress (for example, certain investments in subsidiaries). Some assets have factors that increase or decrease the stress relative to general equity levels via a beta factor.
7. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
8. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
9. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.

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. Other than in the interest rate stresses, we have not allowed for the recalculation of TMTP.

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

6.02 Estimated Solvency II new business contribution

(a) New business by product[1]

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

	PVNBP	**Contribution from new business[2]**	**Margin[3]**	PVNBP	Contribution from new business[2]	Margin[3]
	6 months	**6 months**	**6 months**	Full year	Full year	Full year
	2020 £m	**2020 £m**	**2020 %**	2019 £m	2019 £m	2019 %
LGR - UK annuity business	**3,597**	**382**	**10.6**	11,295	890	7.9
UK Protection Total	**919**	**86**	**9.4**	1,604	122	7.6
- Retail Protection	636	61	9.6	1,284	98	7.6
- Group Protection	283	25	8.8	320	24	7.5
US Protection[4]	**452**	**52**	**11.5**	850	94	11.1

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 $570m (31 December 2019: $1,085m) and a contribution from new business of $66m (31 December 2019: $120m).

The increase in LGR margin was driven by the longer average duration for the schemes written in the first six months of the year, compared to the schemes written in prior year.

For UK Protection new business the increase in profitability was driven by a shift in the product mix combined with continued price optimisation. The margin was further increased by the fall in interest rates during H1 20, which led to lower discount rates and in turn higher profitability.

The US Protection margin improved compared to the prior year. The increase is driven by changes to local statutory regulatory reserving standards in 2020, which reduce excess reserve levels and subsequently reduce financing costs.

(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 2019 Annual Report and Accounts and Full Year Results.

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

Intra-group reinsurance arrangements are in place between US, UK and Bermudan businesses and it is expected that these arrangements will be periodically extended to cover recent new business. The LGA new business margin assumes that the new business will continue to be reinsured in 2020 and looks through the intra-group arrangements.

6.02 Estimated Solvency II new business contribution (continued)

(c) Assumptions

The key economic assumptions are as follows:

	30 Jun 2020	31 Dec 2019
	%	%
Margin for Risk	**4.6**	3.5
Risk free rate		
- UK	**0.4**	1.1
- US	**0.7**	1.9
Risk discount rate (net of tax)		
- UK	**5.0**	4.6
- US	**5.3**	5.4
Long-term rate of return on non profit annuities in LGR	**2.4**	2.8

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

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2020 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 15 basis points.

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

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%. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 19%.

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

6.02 Estimated Solvency II new business contribution (continued)

(d) Reconciliation of PVNBP to gross written premium

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

	Notes	**6 months 2020 £bn**	Full year 2019 £bn
PVNBP	6.02 (a)	**5.0**	13.7
Effect of capitalisation factor		**(1.2)**	(1.9)
New business premiums from selected lines		**3.8**	11.8
Other[1]		**0.6**	1.9
Total LGR and LGI new business	5.05,5.06	**4.4**	13.7
Annualisation impact of regular premium long-term business		**(0.1)**	(0.2)
IFRS gross written premiums from existing long-term insurance business		**1.6**	2.9
Deposit accounting for investment products		**(0.4)**	(1.2)
Total gross written premiums[2]	3.01	**5.5**	15.2

1. Other principally includes annuity sales in the US and lifetime mortgage advances.
2. Total gross written premiums exclude gross written premiums from discontinued operations.

Investments

7.01 Investment portfolio

	Market value 30 Jun 2020 £m	Market value 30 Jun 2019 £m	Market value 31 Dec 2019 £m
Worldwide total assets under management[1]	**1,247,942**	1,141,593	1,202,425
Client and policyholder assets	**(1,119,803)**	(1,036,229)	(1,092,626)
Non-unit linked with-profits assets	**(9,854)**	(10,372)	(10,190)
Investments to which shareholders are directly exposed	**118,285**	94,992	99,609

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

Analysed by investment class:

	Notes	LGR investments 30 Jun 2020 £m	Other non profit insurance investments 30 Jun 2020 £m	LGC investments 30 Jun 2020 £m	Other shareholder investments 30 Jun 2020 £m	Total 30 Jun 2020 £m	Total 30 Jun 2019 £m	Total 31 Dec 2019 £m
Equities[2]		**206**	**22**	**2,772**	**86**	**3,086**	3,142	3,131
Bonds	7.03	**76,406**	**2,103**	**2,161**	**327**	**80,997**	71,258	75,142
Derivative assets[3]		**22,095**	**-**	**293**	**-**	**22,388**	11,633	11,556
Property	7.04	**4,016**	**-**	**157**	**-**	**4,173**	3,275	3,957
Cash, cash equivalents and loans[4]		**2,858**	**577**	**2,064**	**538**	**6,037**	4,317	4,275
Financial investments		**105,581**	**2,702**	**7,447**	**951**	**116,681**	93,625	98,061
Other assets[5]		**89**	**-**	**1,515**	**-**	**1,604**	1,367	1,548
Total investments		**105,670**	**2,702**	**8,962**	**951**	**118,285**	94,992	99,609

2. Equity investments include a total of £328m (30 June 2019: £362m; 31 December 2019: £324m) in respect of associates and joint ventures.
3. Derivative assets are shown gross of derivative liabilities of £24.9bn (30 June 2019: £6.9bn; 31 December 2019: £11.5bn). 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.
4. Loans include reverse repurchase agreements of £1,868m (30 June 2019: £960m; 31 December 2019: £1,262m).
5. Other assets include finance leases of £89m (2019: £90m) and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

7.02 Direct investments

(a) Analysed by asset class

	Direct[1] Investments 30 Jun 2020 £m	**Traded[2] securities 30 Jun 2020 £m**	**Total 30 Jun 2020 £m**	Direct[1] Investments 30 Jun 2019 £m	Traded[2] securities 30 Jun 2019 £m	Total 30 Jun 2019 £m	Direct[1] Investments 31 Dec 2019 £m	Traded[2] securities 31 Dec 2019 £m	Total 31 Dec 2019 £m
Equities	**1,355**	**1,731**	**3,086**	1,300	1,842	3,142	1,282	1,849	3,131
Bonds[3]	**20,272**	**60,725**	**80,997**	15,824	55,434	71,258	18,553	56,589	75,142
Derivative assets	**-**	**22,388**	**22,388**	-	11,633	11,633	-	11,556	11,556
Property[4]	**4,173**	**-**	**4,173**	3,275	-	3,275	3,957	-	3,957
Loans and other receivables	**467**	**5,570**	**6,037**	410	3,907	4,317	408	3,867	4,275
Financial investments	**26,267**	**90,414**	**116,681**	20,809	72,816	93,625	24,200	73,861	98,061
Other assets	**1,604**	**-**	**1,604**	1,367	-	1,367	1,548	-	1,548
Total investments	**27,871**	**90,414**	**118,285**	22,176	72,816	94,992	25,748	73,861	99,609

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 £5,478m (30 June 2019: £3,990m; 31 December 2019: £4,733m).
4. A further breakdown of property is provided in Note 7.04.

7.02 Direct investments (continued)

(b) Analysed by segment

	LGR 30 Jun 2020 £m	**LGC[1] 30 Jun 2020 £m**	**LGI 30 Jun 2020 £m**	**Total 30 Jun 2020 £m**
Equities	**16**	**1,261**	**78**	**1,355**
Bonds[2]	**19,444**	**3**	**825**	**20,272**
Property	**4,016**	**157**	**-**	**4,173**
Loans and other receivables	**-**	**145**	**322**	**467**
Financial investments	**23,476**	**1,566**	**1,225**	**26,267**
Other assets	**89**	**1,515**	**-**	**1,604**
Total direct investments	**23,565**	**3,081**	**1,225**	**27,871**

1. LGC includes £48m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £5,478m.

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

1. LGC includes £58m of equities and £23m of property that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £3,990m.

	LGR 31 Dec 2019 £m	LGC[1] 31 Dec 2019 £m	LGI 31 Dec 2019 £m	Total 31 Dec 2019 £m
Equities	9	1,211	62	1,282
Bonds[2]	17,711	4	838	18,553
Property	3,798	159	-	3,957
Loans and other receivables	-	93	315	408
Financial investments	21,518	1,467	1,215	24,200
Other assets	90	1,458	-	1,548
Total direct investments	21,608	2,925	1,215	25,748

1. LGC included £48m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £4,733m.

7.03 Bond portfolio summary

(a) Sectors analysed by credit rating

As at 30 June 2020	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	2,521	11,299	738	449	26	-	15,033	19
Banks:								
- Tier 1	-	-	-	1	-	1	2	-
- Tier 2 and other subordinated	-	-	69	42	5	-	116	-
- Senior	-	1,335	2,192	545	1	-	4,073	5
- Covered	187	-	4	-	-	-	191	-
Financial Services:								
- Tier 2 and other subordinated	-	120	70	11	-	4	205	-
- Senior	2	447	176	267	9	-	901	1
Insurance:								
- Tier 2 and other subordinated	56	139	8	63	-	-	266	-
- Senior	-	257	538	311	-	-	1,106	1
Consumer Services and Goods:								
- Cyclical	-	354	1,089	1,961	333	2	3,739	5
- Non-cyclical	305	883	2,803	4,006	316	1	8,314	10
- Health Care	-	376	856	636	7	-	1,875	2
Infrastructure:								
- Social	216	771	4,331	877	89	-	6,284	8
- Economic	332	58	920	3,626	337	-	5,273	7
Technology and Telecoms	206	204	1,612	2,844	41	-	4,907	6
Industrials	-	12	847	681	27	-	1,567	2
Utilities	-	221	5,540	5,733	6	-	11,500	15
Energy	-	-	424	859	12	-	1,295	2
Commodities	-	-	286	748	17	-	1,051	1
Oil and Gas	-	649	1,037	539	274	-	2,499	3
Real estate	-	7	1,685	1,608	101	-	3,401	4
Structured finance ABS / RMBS / CMBS / Other	372	662	220	391	192	1	1,838	2
Lifetime mortgage loans[1]	3,427	1,384	304	350	-	13	5,478	7
CDOs	-	57	11	15	-	-	83	-
Total £m	7,624	19,235	25,760	26,563	1,793	22	80,997	100
Total %	9	24	32	33	2	-	100	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £76,406m, representing 94% of the total group portfolio.

7.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

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

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £66,907m, representing 94% of the total group portfolio.

7.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

As at 31 December 2019	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	2,188	9,543	535	390	27	-	12,683	17
Banks:								
- Tier 1	-	-	-	1	-	1	2	-
- Tier 2 and other subordinated	-	-	73	24	3	-	100	-
- Senior	6	1,893	2,794	758	1	-	5,452	7
- Covered	165	-	2	-	-	-	167	-
Financial Services:								
- Tier 2 and other subordinated	-	196	91	10	-	4	301	-
- Senior	4	381	231	322	9	-	947	1
Insurance:								
- Tier 2 and other subordinated	49	131	6	56	-	-	242	-
- Senior	-	232	549	207	-	-	988	1
Consumer Services and Goods:								
- Cyclical	-	425	963	1,985	134	2	3,509	5
- Non-cyclical	260	868	2,185	3,827	217	1	7,358	10
- Health care	-	309	728	425	7	-	1,469	2
Infrastructure:								
- Social	121	772	4,044	781	80	-	5,798	8
- Economic	338	27	1,436	3,148	102	-	5,051	7
Technology and Telecoms	202	173	1,196	2,805	42	-	4,418	6
Industrials	-	11	817	588	27	-	1,443	2
Utilities	-	190	5,885	4,669	2	32	10,778	15
Energy	-	-	340	814	12	-	1,166	2
Commodities	-	-	244	654	14	-	912	1
Oil and Gas	-	593	799	702	108	1	2,203	3
Real estate	3	8	1,787	1,629	125	-	3,552	5
Structured finance ABS / RMBS / CMBS / Other	406	735	247	367	32	1	1,788	2
Lifetime mortgage loans[1]	2,798	1,253	362	309	-	11	4,733	6
CDOs	-	-	68	14	-	-	82	-
Total £m	6,540	17,740	25,382	24,485	942	53	75,142	100
Total %	9	23	34	33	1	-	100	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £70,061m, representing 93% of the total group portfolio.

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile

As at 30 June 2020	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	11,035	2,603	859	536	15,033
Banks	998	1,696	1,181	507	4,382
Financial Services	415	189	490	12	1,106
Insurance	111	934	203	124	1,372
Consumer Services and Goods:					
- Cyclical	539	2,666	367	167	3,739
- Non-cyclical	1,715	6,037	424	138	8,314
- Health care	204	1,603	68	-	1,875
Infrastructure:					
- Social	5,670	452	111	51	6,284
- Economic	3,945	830	190	308	5,273
Technology and Telecoms	593	2,677	755	882	4,907
Industrials	78	1,075	348	66	1,567
Utilities	6,597	2,332	2,055	516	11,500
Energy	228	813	112	142	1,295
Commodities	4	346	167	534	1,051
Oil and Gas	253	644	796	806	2,499
Real estate	2,196	381	618	206	3,401
Structured Finance ABS / RMBS / CMBS / Other	941	870	12	15	1,838
Lifetime mortgages	5,478	-	-	-	5,478
CDOs	-	-	-	83	83
Total	41,000	26,148	8,756	5,093	80,997

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

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

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 31 December 2019	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	9,764	1,995	645	279	12,683
Banks	2,002	1,328	1,669	722	5,721
Financial Services	501	95	639	13	1,248
Insurance	103	858	186	83	1,230
Consumer Services and Goods					
- Cyclical	637	2,325	341	206	3,509
- Non-cyclical	1,716	5,123	479	40	7,358
- Health care	182	1,233	54	-	1,469
Infrastructure					
- Social	5,357	290	106	45	5,798
- Economic	3,823	705	174	349	5,051
Technology and Telecoms	685	2,321	673	739	4,418
Industrials	76	1,036	273	58	1,443
Utilities	6,259	1,927	2,108	484	10,778
Energy	265	768	11	122	1,166
Commodities	5	305	137	465	912
Oil and Gas	288	665	583	667	2,203
Real estate	2,290	377	489	396	3,552
Structured finance ABS / RMBS / CMBS / Other	979	766	21	22	1,788
Lifetime mortgage loans	4,733	-	-	-	4,733
CDOs	-	-	-	82	82
Total	39,665	22,117	8,588	4,772	75,142

7.03 Bond portfolio summary (continued)

(c) Bond portfolio analysed by credit rating

As at 30 June 2020	Externally rated £m	Internally rated[1] £m	Total £m
AAA	**3,808**	**3,816**	**7,624**
AA	**15,720**	**3,515**	**19,235**
A	**19,457**	**6,303**	**25,760**
BBB	**20,835**	**5,728**	**26,563**
BB or below	**1,114**	**679**	**1,793**
Other	**8**	**14**	**22**
Total	**60,942**	**20,055**	**80,997**

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

As at 31 December 2019	Externally rated £m	Internally rated[1] £m	Total £m
AAA	3,364	3,176	6,540
AA	14,568	3,172	17,740
A	19,320	6,062	25,382
BBB	18,990	5,495	24,485
BB or below	655	287	942
Other	12	41	53
Total	56,909	18,233	75,142

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

7.04 Property analysis

Property exposure within Direct investments by status

As at 30 June 2020	**LGR[1] £m**	**LGC[2] £m**	**Total £m**	**%**
Fully let	**3,663**	**-**	**3,663**	**88**
Development	**353**	**25**	**378**	**9**
Land	**-**	**132**	**132**	**3**
	4,016	**157**	**4,173**	**100**

As at 30 June 2019	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	2,715	-	2,715	83
Development[3]	416	23	439	13
Land	-	121	121	4
	3,131	144	3,275	100

As at 31 December 2019	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	3,414	-	3,414	87
Development	384	23	407	10
Land	-	136	136	3
	3,798	159	3,957	100

1. The fully let LGR property includes £3.5bn (30 June 2019: £3.0bn; 31 December 2019: £3.2bn) let to investment grade tenants.

2. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Receivables and other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 30 June 2020 the group held a total of £2,261m (30 June 2019: £1,910m; 31 December 2019: £2,120m) of such assets.

3. The 30 June 2019 balance for LGR has been represented, by reallocating £416m from Fully let to Development, to more appropriately reflect the status of that property exposure.

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Alternative Performance Measures

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

Group adjusted operating profit

Definition

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

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2.01 Operating profit.

Return on Equity (ROE)

Definition

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

Closest IFRS measure

Calculated using:

- Profit attributable to equity holders
- Equity attributable to owners of the parent

Reconciliation

Calculated using annualised profit attributable to equity holders for the period of £580m (30 June 2019: £1,748m; 31 December 2019: £1,834m) and average equity attributable to the owners of the parent of £9,140m (30 June 2019: £8,671m; 31 December 2019: £8,974m)

Assets under Management

Definition

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

Closest IFRS measures

- Financial investments
- Investment property
- Cash and cash equivalents

Reconciliation

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

Net release from operations

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

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

Adjusted profit before tax attributable to equity holders

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2.01 Operating profit.

Glossary

* These items represent an alternative performance measure (APM)

Ad valorem fees

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

Adjusted profit before tax attributable to equity holders*

Refer to the alternative performance measures section.

Advisory assets

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

Alternative performance measures (APMs)

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

Annual premium

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

Annual premium equivalent (APE)

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

Annuity

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

Assets under administration (AUA)

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

Assets under management (AUM)*

Refer to the alternative performance measures section.

Back book acquisition

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

Bundled DC solution

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

Bundled pension schemes

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

CAGR

Compound annual growth rate.

Credit rating

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

Deduction and aggregation (D&A)

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

Glossary

Earnings per share (EPS)

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

Eligible Own Funds

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

Employee engagement index

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

ETF

LGIM's European Exchange Traded Fund platform.

Euro Commercial paper

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

FVTPL

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

Full year dividend

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

Generally accepted accounting principles (GAAP)

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

Gross written premiums (GWP)

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

Group adjusted operating profit*

Refer to the alternative performance measures section.

ICAV – Irish Collective Asset-Management Vehicle

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

Index tracker (passive fund)

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

International financial reporting standards (IFRS)

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

Key performance indicators (KPIs)

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

LGA

Legal & General America.

LGAS

Legal and General Assurance Society Limited.

LGC

Legal & General Capital.

LGI

Legal & General Insurance.

LGI new business

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

LGIA

Legal & General Insurance America.

LGIM

Legal & General Investment Management

LGR

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

LGR new business

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

Liability driven investment (LDI)

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

Lifetime mortgages

An equity release product aimed at people aged 55 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

Matching adjustment

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

Mortality rate

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

Net release from operations*

Refer to the alternative performance measures section.

New business surplus/strain

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

Open architecture

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

Overlay assets

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

Pension risk transfer (PRT)

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

Platform

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

Present value of future new business premiums (PVNBP)

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

Purchased interest in long term business (PILTB)

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

Real assets

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

Release from operations

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

Return on Equity (ROE)*

Refer to the alternative performance measures section.

Risk appetite

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

Single premiums

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

Solvency II

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

Solvency II capital coverage ratio

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

Solvency II capital coverage ratio (proforma basis)

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

Solvency II capital coverage ratio (shareholder view basis)

In order to represent a shareholder view of group solvency position, the contribution of with-profits funds and our defined benefit pension schemes are excluded from both, the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 30 June 2020. This will be submitted to the PRA in August 2020.

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 SCR. 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.