# 2019 results: EPS[1] up 16% to 28.7p, ROE 20.4%, record Pension Risk Transfer sales of £11.4bn and LGIM external net flows of £86bn

## Financial highlights[2]

- **Operating profit from continuing divisions[3,4] up 17% to £2,514m** (2018: £2,152m)
- **Operating profit[3] of £2,131m, up 12%** (2018: £1,902m)
- **Earnings per share[1] of 28.66p, up 16%** (2018: 24.74p)
- **Return on equity at 20.4%** (2018: 22.7%)
- **Full year dividend up 7% to 17.57p per share** (2018: 16.42p)
- **Profit after tax up 16% to £1,700m (2018: £1,468m)** excluding mortality reserve release, including mortality reserve release **profit after tax[5] was £1,834m** (2018: £1,827m)
- **Net release from continuing operations up 15% to £1,606m** (2018: £1,396m)
- **Solvency II operational surplus generation up by 9% to £1.6bn** (2018: £1.4bn)
- **Solvency II coverage ratio[6] of 184%** (2018: 188%)

## Business highlights

- **Pension Risk Transfer sales[7] of £11.4bn** (2018: £9.1bn), including $1.1bn of US PRT (2018: $0.8bn)
- **Individual annuity sales up 22% to £970m** (2018: £795m)
- **Group-wide Direct Investment up 34% at £25.7bn** (2018: £19.2bn)
- **LGIM AUM up 18% at £1,196bn** (2018: £1,015bn)
- **LGIM external net flows of £86.4bn** (2018: £42.6bn)
- **Insurance GWP up 6% to £2,729m** (2018: £2,580m)

"Legal & General's strategy of Inclusive Capitalism, underpinned by structural growth drivers, has enabled us to achieve our five year EPS growth ambition in four years, growing 58% since 2015.

Our five growing, profitable and increasingly international businesses compete in attractive, growing markets and work together to deliver economically and socially useful customer solutions. Society's increasing focus on net zero carbon, ESG investing and levelling up through investment in all regions plays to our strengths, creating future growth opportunities.

Having delivered EPS growth of 16% to 28.7p, dividends up 7% to 17.57p, and a 20% plus ROE, we are well-positioned for the future and we remain ambitious."

**Nigel Wilson, Group Chief Executive**

1. Excludes post-tax mortality release of £134m (2018: £359m). Including these impacts, EPS was roughly flat at 30.92p (2018: 30.79p).
2. The Alternative Performance Measures within the Group's financial highlights are defined in the glossary, on pages 85 to 89 of this report.
3. Excludes mortality release of £155m (2018: £433m) from LGR's £49.1bn net longevity exposure. 2019 mortality release relates to changes in longevity improvement assumptions to align to CMI 2017 tables, adjusted to reflect our annuitant portfolio. Including the reserve release, operating profit was down 2% to £2,286m (2018: £2,335m).
4. Excludes Mature Savings and General Insurance.
5. Profit after tax attributable to equity holders.
6. 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.
7. Excludes Longevity Insurance transactions (2019: £nil, 2018: £287m).

## Financial summary

| £m | 2019 | 2018 | Growth % |
|---|---|---|---|
| **Analysis of operating profit** | | | |
| Legal & General Retirement (LGR) excl. mortality reserve release[1] | 1,414 | 1,115 | 27 |
| *- LGR Institutional (LGRI)* | *1,116* | *832* | *34* |
| *- LGR Retail (LGRR)* | *298* | *283* | *5* |
| Legal & General Investment Management (LGIM) | 423 | 407 | 4 |
| Legal & General Capital (LGC) | 363 | 322 | 13 |
| Legal & General Insurance (LGI) | 314 | 308 | 2 |
| **Operating profit from continuing divisions[1,2]** | **2,514** | **2,152** | **17** |
| Mature Savings[3] | 46 | 79 | (42) |
| General Insurance[4] | (35) | 0 | n/a |
| **Operating profit from divisions[1]** | **2,525** | **2,231** | **13** |
| Group debt costs | (208) | (203) | 2 |
| Group investment projects and expenses | (186) | (126) | 48 |
| **Operating profit[1]** | **2,131** | **1,902** | **12** |
| Legal & General Retirement (LGR) mortality reserve release | 155 | 433 | (64) |
| **Operating profit incl. mortality reserve release** | **2,286** | **2,335** | **(2)** |
| Investment and other variances (incl. minority interests) | (174) | (207) | n/a |
| **Profit before tax attributable to equity holders** | **2,112** | **2,128** | **(1)** |
| **Profit after tax attributable to equity holders** | **1,834** | **1,827** | **0** |
| *Of which:* | | | |
| *- Mortality reserve releases (post-tax)* | *134* | *359* | *n/a* |
| ***Profit after tax excl. mortality reserve release*** | ***1,700*** | ***1,468*** | ***16*** |
| **Reported earnings per share (p)** | **30.92** | **30.79** | 0 |
| *Of which:* | | | |
| *- Mortality reserve releases (post-tax)* | *2.26* | *6.05* | *n/a* |
| **Earnings per share[5] (p)** | **28.66** | **24.74** | **16** |
| **Return on equity (%)** | **20.4** | **22.7** | **n/a** |
| **Book value per share (p)** | **156** | **143** | **9** |
| **Full year dividend per share (p)** | **17.57** | **16.42** | **7** |
| **Net release from continuing operations[2]** | **1,606** | **1,396** | **15** |
| Net release from discontinued operations | 9 | 44 | (80) |

1. Excludes mortality reserve releases (2019: £155m, 2018: £433m). 2019 mortality release of £155m from LGR's £49.1bn of net longevity exposure relates to changes in longevity improvement assumptions to align to CMI 2017 tables, adjusted to reflect our annuitant portfolio.
2. Excludes Mature Savings and General Insurance.
3. Mature Savings sale to Swiss Re 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 for a final consideration of £255m was announced on 31 May 2019 and completed during the year.
5. Excludes post-tax mortality release of £134m (2018: £359m). Including these impacts, EPS was roughly flat at 30.92p (2018: 30.79p).

## 2019 Financial performance

### Income statement

**Operating profit from continuing divisions[1] increased 17% to £2,514m (2018: £2,152m)**, with all businesses delivering growth over prior year**.**

**LGR** delivered operating profit[1] of £1,414m (2018: £1,115m), driven by strong new business volumes and the consistent performance of the growing annuity portfolio. In H2 2019 we reviewed our future longevity improvement assumptions and have conservatively adopted an adjusted version of the CMI 2017 mortality tables for LGR's annuity book, resulting in a reserve release of £155m. Including this mortality reserve release, operating profit was £1,569m (2018: £1,548m).

**LGIM** operating profit increased by 4% to £423m (2018: £407m). Strong external net flows of £86.4bn (2018: £42.6bn), together with positive market valuations over the year, resulted in an 18% increase in total AUM to £1,196bn (2018: £1,015bn). Total revenues increased by 8% to £912m (2018: £847m), lower than AUM growth due to new business mix, which had a significant contribution from a £37bn passive mandate in H1. LGIM has continued to invest in the business to achieve the resilience and scalability fundamental to its future success, which is reflected in a cost income ratio of 54% (2018: 52%).

**LGC** operating profit grew 13% to £363m (2018: £322m), led by direct investment operating profit, which was up 15% over the year (2019: £217m, 2018: £188m). CALA delivered revenue of £1bn, growing 6% since 2018. The LGC direct investment portfolio increased to £2.9bn (2018: £2.4bn), progressing in line with LGC's stated ambition of increasing its direct investment AUM to c.£5bn over the next three to five years.

**LGI** operating profit increased 2% to £314m (2018: £308m), reflecting stable profit delivery in highly competitive UK markets, while the US Term Protection business transitioned towards a more digital operating model.

**Disposed operations** contributed £11m to operating profit (2018: £79m). This included £46m from **Mature Savings**, reflecting the unwind of expected underlying profits, partly offset by a £35m operating loss from the **General Insurance** business due to higher claims inflation. The General Insurance sale completed in 2019 and the Mature Savings sale is expected to complete in H1 2020.

As previously indicated, we have continued to make measured investments in technology to enhance customer experience, drive cost efficiencies, gain access to growth areas and to comply with the evolving regulatory framework, resulting in an increase in Group investment projects and expenses of £60m (2019: £(186)m; 2018: £(126)m). The additional 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 historic levels once these projects are delivered**.

### Balance sheet

**The Group's Solvency II operational surplus generation increased 9% to £1.6bn (2018: £1.4bn).** New business strain was £0.6bn (2018: £0.5bn) reflecting record UK Pension Risk Transfer (PRT) volumes written at a capital strain of less than 4%, which typically has a payback period of five years. This resulted in net surplus generation of £1.0bn (2018: £0.9bn) and supported a **Solvency II coverage ratio[2] of 184% at the end of 2019** (H1 2019: 171%, FY 2018: 188%). As at 28 February 2020, we estimate the ratio was 174%.[3]

On a proforma calculation basis[4], our Solvency II coverage ratio was 179% at the end of 2019 (FY 2018: 181%).

**We continue to deliver a strong IFRS return on equity of 20.4% (2018: 22.7%).[5]**

[1] Excludes mortality release of £155m (2018: £433m) from LGR's £49.1bn net longevity exposure. 2018 mortality release relates to changes in longevity improvement assumptions to align to CMI 2017 tables, adjusted to reflect our annuitant portfolio. Including the reserve release, Group operating profit was down 2% to £2,286m (2018: £2,335m).
[2] Solvency II coverage ratio on a "shareholder view". Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2019.
[3] Coverage ratio before payment of the 2019 final dividend.
[4] 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 the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 31 December 2019.
[5] Calculated using profit for the year of £1,834m (2018: £1,827m) and average equity attributable to the owners of the parent of £8,974m (2018: £8,048m).

## Group strategy

## Five businesses

Over the past several years, Legal & General has successfully transitioned into high growth / high return businesses from lower growth / lower return businesses. We have a focused business model which targets two types of markets, (i) large markets, where we have a relatively small market share and we can outpace market growth, and (ii) growth markets where we already have a leading market share and where we can grow by retaining market leadership. We have sold businesses that were either sub-scale or in geographies where we were unlikely to achieve financial success, generating £1.5bn of disposal proceeds. These proceeds have been reinvested to fund future profitable growth for shareholders.

We have achieved a clean structure comprised of 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[6]
4. **Legal & General Capital** (LGC) invests shareholder capital and builds an alternative asset pipeline for LGRI, LGRR and LGIM
5. **Legal & General Insurance** (LGI) sells retail and group protection in the UK and retail protection in the US

These businesses are aligned to six long term growth drivers, which are the core of Legal & General's strategy.

## Six growth drivers

Inclusive Capitalism is the foundation of Legal & General's strategy. By identifying and addressing systemic market dislocations, we are able to generate attractive, sustainable returns while delivering products or investments that are economically, socially, and environmentally useful.

Since 2011 we have **delivered total shareholder returns of 387%** and **grown EPS by 11% per year**.[7] At the same time, we provide security in retirement to more than 3 million people as we have invested their pensions into £26bn high quality direct investments that deliver positive social and environmental impacts, such as clean energy and affordable housing.

We have been adept at identifying the right opportunities, focussing on six global, long-term growth drivers which are structural rather than cyclical. Responding to these drivers creates sustainable profits and positive social and environmental outcomes as we harness the power of pensions.

1. **Ageing demographics**

   As populations live longer their pensions need to last longer too. Companies increasingly need to find solutions to their ongoing pension commitments which can apply pressure on their financial resources. At the same time, individuals need to ensure that their retirement funds and other assets can finance longer retirements.

   **LGRI** and **LGRR** meet the customer need arising from ageing demographics, providing financial security in retirement.

2. **Globalisation of asset markets**

   Asset markets are increasingly globalised and growing – worldwide AUM is currently $74 trillion and is expected to increase to around $101 trillion by 2023, representing an enormous opportunity for international asset managers. North America, Asia Pacific and Europe are all attractive markets which continue to expand.

   Legal & General looks for selective opportunities to build and expand its successful UK business model abroad into markets where we believe we can thrive. The globalisation of asset markets has been a cornerstone of **LGIM**'s growth strategy, where international AUM has more than doubled over the past three years to £370bn, and a driver for **LGRI**'s US expansion, which has written more than $3.5bn of premium since the business started in 2015.

[6] WTW, The world's largest 500 asset managers
[7] Source: Bloomberg Total Shareholder Return 4 January 2011

3. **Investing in the Real Economy**

   Throughout the UK and beyond, there has been a long-term trend of underinvestment in major towns and cities, and we continue to experience a serious housing shortage, while Small and Medium Enterprises (SMEs) also struggle to achieve scale without access to long-term capital.

   **Across the Legal & General Group** we harness the power of pensions by investing pension assets into the Real Economy, delivering financial security for pensioners and fostering growth in cities and towns across the UK. Furthermore, in **LGC** we invest in alternative assets such as Build-to-Rent and affordable housing, as well as Venture Capital and SME financing through Pemberton.

4. **Welfare reforms**

   The need to protect people from financial uncertainty continues. This includes helping people take personal responsibility for saving for their retirements and safeguarding their financial wellbeing and resilience.

   **LGI** offers life insurance, income protection and critical illness cover, and, through our stake in Salary Finance, salary savings and lending services, providing financial stability to customers' families and dependents. As fewer companies offer DB pensions and a greater burden is placed on social security programmes, **LGIM** helps individuals save for the future while **LGRR** provides financial security in retirement.

5. **Technological innovation**

   Consumers, clients and businesses look to digital platforms to help organise their finances and working lives. Technological solutions can increase security and improve the way we work and how we access information. This can mean the difference between success and failure in business.

   **Throughout the Legal & General Group**, our businesses look for opportunities to improve customer service and efficiency through technology.

6. **Addressing Climate Change**

   Scientists, policy-makers, markets and regulators increasingly agree that we must move to a global warming trajectory below 2°C to avoid potentially catastrophic physical risks which will impact global economies, markets, companies and people. This implies massive transition to a lower-carbon economy, which in turn creates risk management challenges but also substantial new growth opportunities, including in renewables and innovative technologies.

   Whilst Addressing Climate Change is formally a new addition to our growth drivers in 2019, it is not new to our approach. Across the Legal & General Group we seek ways to address Climate Change by building scalable, profitable businesses to reduce carbon emissions. **LGIM** continues to build on its strong heritage in Environmental, Social and Governance (ESG) investing for its clients and, increasingly, we see opportunities in **LGC**, **LGRI**, and **LGRR** to make investment decisions informed by Climate Change. To date, we have invested more than £1.3bn of Legal & General's own assets into renewable energy investments, predominantly solar and offshore wind, as well as taken a stake in PodPoint, one of the UK's largest electrical vehicle charging operators.

Together these drivers have led us to participate in material, high growth markets where we are leaders or where we can leverage our expertise to increase our market share.

## A unique, synergistic business model

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 £76bn 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 DB pension scheme clients, specifically through index, fixed income and LDI strategies. This provides **LGRI** with a strong pipeline: 51% of our pension risk transfer (PRT) transactions over the past three years were from existing LGIM clients.[8] 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, allowing the Group to regularly deliver an ROE of c.20%.

[8] Three year average measured by UK PRT deal count. Three year average measured by UK PRT new business volumes from LGIM clients is 64%.

## Outlook

Our strategy and growth drivers have yielded reliably strong returns, both dividend and ROE, for our shareholders and we are confident they will continue to deliver 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**.[9] **We have achieved our five year ambition of 10% EPS CAGR (58% growth over the period) in just four years, reporting underlying EPS of 28.66p in 2019, 12% annual growth since 2015**. As previously reported, Legal & General is well placed to continue to grow organically, supported by ongoing judicious and considered investment in technology across the Group, and strong competitive positioning in attractive and growing markets. We remain confident in our strategy and our ability to deliver future growth and, having successfully delivered on our previous stated ambitions, **we plan to update these at a Capital Markets Event on 12 November 2020**.

Our confidence in future growth and dividend paying capacity is underpinned by the Group's strong balance sheet with £7.3bn in surplus regulatory capital and significant buffers to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

**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**.[10]

The UK is currently our primary market, where we are an established leader and the only PRT provider to operate continuously for more than thirty years. Although the UK is the most mature PRT market globally, it still represents an enormous opportunity as only c.11% of the £2.1 trillion of UK DB pension liabilities have transferred to insurance companies to date.[11]

We estimate more than £40bn of UK PRT was underwritten in 2019, nearly double the 2018 level, which includes six of the ten largest UK PRT transactions. Demand from companies and pension plans for insurance remains robust, with more than £770bn of PRT demand potentially arising in the UK over the next decade.[12] In order to better address demand from pension plans, we have bolstered our structuring expertise in order to develop capital-light solutions, such as our new Assured Payment Policy. Whilst new PRT business requires solvency capital on day one, this capital commitment pays back quickly, and generates an attractive and long-term flow of operating surplus for the business. Our intention is to write £40bn to £50bn of new UK PRT over the next five years to help fuel future growth.

The US represents a significant market opportunity, with $3.5 trillion of DB liabilities, of which only c.6% have transacted to date.[13] 2019 was our first year to write more than $1bn of premiums in a single year, including our first fully retained transaction for more than $200m, heralding a new phase of growth for our US business. Since our market entry in 2015, our US business has written more than $3.5bn of PRT with 53 clients, including twelve transactions in 2019.

**As always, we remain disciplined in the deployment of our capital, and we select opportunities that allow us to invest at high credit quality and meet our return targets.**

[9] 2011 EPS: 12.42p; 2015 EPS: 18.16p; 2019 Underlying EPS: 28.66p
[10] Source: Pension Purple Book 2019, 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
[11] Source: Pension Purple Book 2019, PPF; Hymans Robertson, 2019 Risk Transfer Report
[12] Pensions Policy Institute, "DB Endgame Report", October 2019
[13] LIMRA, March 2020

**LGR Retail's (LGRR)** target market continues to expand, both in terms of the numbers of retirees and the levels of wealth they hold, driven by **ageing demographics** and **welfare reforms**. LGRR works closely with **LGIM** to deliver and develop a broad range of retirement solutions to customers.

There are £40bn of personal pension assets coming to maturity each year in the UK, with the individual annuity market accounting for only £4.5bn of the total maturing assets.[14] LGRR seeks to expand its addressable market through product innovation and has already succeeded in improving its enhanced annuity offering over 2018 and 2019. We continue to focus on customer service innovation and building distribution relationships. We have introducer agreements with AEGON, ReAssure, and Sun Life Financial of Canada and in November 2019 we added an introducer arrangement with Prudential, which is expected to **increase LGRR's total annuity sales in 2020 by 15%**.[15]

Despite competition within the LTM market we achieved a 25% market share in 2019. This is slightly lower than that seen in previous years, as we focussed on maintaining our pricing and underwriting discipline. With £1.8 trillion of housing equity owned by UK individuals over the age of 55, we believe that the slowdown seen in the overall LTM market is temporary and that there is room for further growth in this developing market as individuals access their housing wealth to provide themselves a secure retirement.[16]

LGRR leads the servicing initiative for our Retirement customers and works with individuals to better understand their needs and objectives. During 2019 we made further strides to **enhance customer experience** leveraging on technological innovation within the Group. For example, we have made purchasing an annuity easier through our development of Annuity Ready, a whole-of-market retail annuity comparison service. Annuity Ready has been developed and run by theidol.com, part of **LGI**'s Fintech area. In response to customer feedback, we acquired MyFutureNow, a platform which will allow customers to trace their lost or forgotten pension pots and provides a single dashboard view of an individual's pension savings portfolio. Beyond products, we provide a range of support to vulnerable customers, including through our partnership with the Royal Voluntary Service. **Our mission is to support individuals all the way along the retirement journey**, providing them the tools and products they need to make sound, informed financial decisions in order to have as full and colourful life in retirement as possible for them.

**As in previous years, LGR will review its longevity trend assumptions against updated experience data and intends to make any amendments, as necessary, in H2 2020 to reflect its analysis of the next set of mortality tables (CMI 2018) and LGR's specific data.**

**Investment Management (LGIM)** continues to benefit from **global trends** in retirement saving and structural shifts in product demand. This is driving an increase in customer appetite for our diverse range of products and investment capabilities spanning Index, Active, Multi-asset, and Alternatives, underpinned by a thoughtful and pro-active approach to **ESG**. On average LGIM has delivered net flows, expressed as a proportion of opening AUM, of 5.4% per annum over the last five years. LGIM's AUM now stands at £1.2tn.

Over the last three years LGIM's international AUM has doubled to reach £370bn – 31% of LGIM's total AUM. LGIM plans to continue growing International AUM at pace, with a particular focus on the US, Asia and European retail/wholesale markets. As such, we were pleased to secure a £37bn passive mandate with the Japan Government Pension Investment Fund in the first half of 2019.

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 the market leader in UK DC – a market with significant growth potential – with total assets of £94.3bn (2018: £70.8bn). The DC market represents an enormous opportunity with total UK DC assets expected to more than double by 2028 to £955bn.[17] In addition to diversifying our client-base, we also look to diversify and build our product offering, particularly focussing on Real Assets and ESG as we leverage the skills developed within **LGC**, **LGRI** and **LGRR** in managing our £76bn annuity portfolio.

LGIM continues to invest in the business to achieve the resilience and scalability critical to its future success. To this end, we are automating and simplifying our business through investment in data analytics, providing a **digital experience for our customers**, and optimising our investment platforms. Furthermore, a portion of LGIM-related project expenditure, currently reflected in Group expenses, will be allocated to the LGIM segmented results from 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.**

[14] Retirement income market data 2018/19, FCA, 2019, based on 2019 data
[15] https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-agrees-individual-annuity-deal-with-prudential/
[16] Equity Release Council, "Equity Release Rebooted", April 2017
[17] Broadridge, UK Defined Contribution And Retirement Income report 2019. 2019 UK DC Assets: £438bn

**Legal & General Capital (LGC)** will continue to seek opportunities to deploy its long-term capital in alternative assets where we see an enduring need for private long-term capital to support future cities, housing, and innovative funding for SMEs and early stage enterprises. **Over the next three to five years we expect to increase our diversified direct investment portfolio to c.£5bn (2019: £2.9bn) with a target blended portfolio return of 8% to 10%.**

Our Future Cities portfolio has **invested almost £1bn into the Real Economy** across fourteen UK towns and cities and we expect to invest further in these locations and others. Utilising capabilities in infrastructure, clean energy, commercial real estate and residential property, Legal & General Group is well placed to bring together on-balance sheet (**LGR** and **LGC**) or third party private capital (**LGIM**) with the development capability to make a difference to UK cities, deploying the power of pensions to deliver inclusive capitalism and **address Climate Change**. For example, in 2019 our Future Cities business announced that Legal & General has committed up to £4bn of funding to Oxford University over the next ten years from **LGC**, **LGR** and **LGIM**-managed funds, and committed £100m to Sunderland City Council's regeneration scheme, backed by **LGR**.

LGC's housing platform continues to grow its diversified housing creation business across build-to-rent, build-to-sell, later living, and affordable housing. The affordable market remains in need of significant investment, with more than 1.4m households on UK waiting lists for homes. We have already secured a pipeline of c.3,500 new affordable homes, comprising a Gross Asset Value of around £750m and are generating investment opportunities for **LGR**. Our ambition is to deliver 3,000 affordable homes annually by 2023. We plan for ambitious growth across the other components of our diversified housing platform, particularly in our Later Living business where we have sold more than 500 homes to date and plan to deliver a further 3,000 new retirement homes over the next five years, providing attractive options for the 3.1m people in the UK actively seeking to downsize. In the first full year of L&G's 100% ownership of CALA, the business has grown again in terms of units and profits, with nearly 2,500 new homes completed.

We are developing and growing our alternative asset capabilities, creating a diverse and profitable portolio of assets which complement **LGIM**'s portfolio and support **LGR**'s growth both today and into the future. In SME Finance, we expect to continue to deploy our capital and focus to support the UK venture ecosystem to help create the businesses of tomorrow, whilst continuing our support of Pemberton in the provision of private credit to the European mid-market.

In **Insurance (LGI)**, we anticipate continued premium growth across our UK and US businesses.

In the UK, we expect our market leading retail protection business to grow new business premiums and to generate good profits in 2020, supported by the strength of our distribution relationships, investment in our systems and platforms, and product enhancements. We have completed the successful turnaround of our group protection business as reflected by the strong performance in 2019, and we are well positioned to increase market share in 2020.

In the US, we anticipate our on-going investment in **technological innovation** and new partnerships to position us for new business growth while maintaining healthy profits. We plan to use technology to increase our share of the emerging direct life insurance market, adding to our successful US offering, where we are already the largest provider of term life assurance in the brokerage channel by policy count.

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

## Full year dividend up 7%

Legal & General has a progressive dividend policy reflecting the Group's expected medium term underlying business growth, including net release from operations and operating earnings. There is no change to our dividend policy.

Taking into account sustainability across a wide range of economic scenarios and the Group's anticipated financial performance, the Board has recommended a final dividend of 12.64p (2018: 11.82p) giving a full year dividend of 17.57p (2018: 16.42p), 7% higher than 2018.

## Legal & General Retirement

| FINANCIAL HIGHLIGHTS £m | 2019 | 2018 |
|---|---|---|
| **Operating profit excluding mortality reserve release** | **1,414** | **1,115** |
| *- LGR Institutional (LGRI)* | *1,116* | *832* |
| *- LGR Retail (LGRR)* | *298* | *283* |
| Mortality reserve release | 155 | 433 |
| **Operating profit** | **1,569** | **1,548** |
| Investment and other variances | 43 | 95 |
| **Profit before tax** | **1,612** | **1,643** |
| Release from operations | 598 | 551 |
| New business surplus | 327 | 217 |
| **Net release from operations** | **925** | **768** |
| UK PRT | 10,325 | 8,351 |
| International PRT | 1,067 | 789 |
| Individual annuity single premiums | 970 | 795 |
| Lifetime mortgage advances | 965 | 1,197 |
| Longevity insurance | 0 | 287 |
| **Total new business** | **13,327** | **11,419** |
| **Total annuity assets (£bn)** | **75.9** | **63.0** |

### Operating profit up 27% to £1,414m[18]

**Operating profit increased to £1,414m**[18] (2018: £1,115m[18]), driven by record UK PRT new business volumes for a second year running, 22% growth in retail annuity sales, and consistently strong profits emerging from Legal & General Retirement (LGR)'s growing annuity portfolio, further bolstered by routine assumption updates.

In H2 2019 we reviewed our future longevity improvement assumptions and have conservatively adopted an adjusted version of the CMI 2017 mortality tables for LGR's annuity book resulting in a £155m reserve release. Including the reserve release, operating profit was up 1% at £1,569m (2018: £1,548m).

We constantly evaluate the appropriateness of our longevity trend assumptions and we are currently reviewing the CMI 2018 mortality data which we expect to complete by the end of 2020. We are prudent in our assessment of longevity trends and will only recognise releases after full analysis of the most recent data.

**Release from operations was £598m** (2018: £551m), an increase of 9%, reflecting the scale of the business as prudential margins unwind from our growing £75.9bn annuity fund (2018: £63.0bn).

**Net release from operations increased 20% to £925m** (2018: £768m) with new business surplus of £327m (2018: £217m), reflecting record annuity new business volumes.

During 2019 we wrote £11,295m of UK annuities delivering a 7.9% Solvency II new business margin, including UK PRT new business volumes of £10,325m with capital strain of less than 4%. This strong performance demonstrates LGR's constant pricing discipline and the supply and demand dynamics in the PRT market.

Gross longevity exposure was £80.4bn across LGR's annuity and longevity insurance business. We have reinsured £31.3bn of longevity risk with thirteen reinsurance counterparties, leaving a net exposure of £49.1bn. We continue to see significant supply and competition in the reinsurance market.

[18] Excluding mortality release (2019: £155m, 2018: £433m).

## LGR Institutional – Global Pension Risk Transfer

**In 2019 LGR Institutional (LGRI) completed £11,392m (2018: £9,140m) of bulk annuities across 42 deals globally**, including our first transaction in Canada and record years for both our UK and US businesses.

For the second year running, UK PRT volumes reached all-time highs, with the market breaking £40bn in bulk annuity sales for the first time. Legal & General maintained its position as a market leader and wrote £10,325m across 28 deals as we served pension plans of all sizes and issued bulk annuities ranging from £2m to more than £4.6bn in 2019.

LGRI's brand, scale and asset origination capabilities through synergies with, and expertise within, **LGIM** and **LGC** are critical to our market leadership in the rapidly growing UK PRT market. In 2019 we have demonstrated our market leadership and innovation by writing a series of transactions that demonstrated our solutions capabilities, including:

- A £4.6bn pension buyout for the Rolls-Royce UK Pension Fund, the largest UK bulk annuity underwritten at the time, building on **LGIM**'s longstanding relationship as investment manager for the c.£14bn pension plan since 1989.
- A third and final bulk annuity for Hitachi Data Systems Retirement Benefits Plan, the culmination of a seven year de-risking journey to provide all plan members with a Legal & General annuity.
- A £1.6bn bulk annuity with National Grid UK Pension Scheme, a £20bn DB pension plan.
- One of the first transfers from fiduciary management to pension buyout, leveraging Legal & General's unique position as the only UK pensions fiduciary manager (LGIM) with a leading PRT provider (LGRI).
- A £250m Assured Payment Policy, a new **capital-light PRT product**, for AIB Group UK Pension Scheme. The policy provides asset yield, interest rate and inflation risk protection to the pension plan, paving a more secure path to buyout over a planned timeframe.

Additionally we have used **technological innovation** to serve smaller pension plans more efficiently; over 2019 our technology investments have increased the speed of pricing by 66% for this market segment.

Our business model has been very successful for us in the UK and we are continuing its expansion abroad into similar pensions markets.

**International PRT premiums were £1,067m (2018: £789m).** LGRI continued its international expansion into Canada where we wrote our first transaction for more than CAD $200m through our strategic Canadian partnership with Brookfield Annuity Company.

**Our US PRT premiums surpassed $1bn for the first time, an increase of 35% (2019: $1,140m, £893m; 2018: $844m, £646m).** We have now underwritten more than $3.5bn of US PRT transactions with 53 clients[19] through nine different intermediaries since entering the market in 2015. During 2019 our US business entered its next phase of growth by writing its first transaction of over USD $200m, and more than 40% of our 2019 US annuity transactions were for more than $100m (2018: 5%).

## LGR Retail – Individual Retirement Solutions

**Individual annuity sales were up 22% to £970m** in 2019 (2018: £795m), benefiting from our improved enhanced annuity proposition and increased intermediary presence. Our introducer arrangement with Prudential, which began in November 2019, is expected to increase LGRR's total annuity sales in 2020 by 15%.[20] LGRR also has similar arrangements with AEGON, ReAssure and Sun Life Financial of Canada. We are one of the leading players in the UK individual annuity market and have more than doubled our market share since 2016, with a current market share of 17.2%[21]. Our strong heritage in individual annuities means that they account for approximately one quarter of the Group's total annuity assets.

**Lifetime mortgage advances were down 19% to £965m** (2018: £1,197m), as we maintained pricing and underwriting discipline. Despite competition within the market, LGRR was able to achieve a market share of 25%[22], driven by our wide range of products and strong customer-focused brand. We have continued our **customer-focused** innovation, unveiling our Retirement Interest-Only Mortgage in late 2019 to address the growing number of individuals reaching retirement with interest-only mortgages. At the end of 2019, LTMs were 6% of our total annuity assets and our LTM portfolio had an average customer age of 70 and a weighted average loan-to-value of c.28% at the transaction date.

[19] 2015: 1; 2016: 6; 2017: 15; 2018: 21; 2019: 10
[20] https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-agrees-individual-annuity-deal-with-prudential/
[21] Q1 2016: 6.5%; Q3 2019: 17.2%
[22] UK Equity Release Market (ERM) Monitor, Q4 2019

## On-going credit and asset management

**LGR's £75.9bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities is well diversified by sector and geography.**[23]

### Credit portfolio management

**LGR's £70.1bn fixed income portfolio is comprised of £52.4bn of listed bonds and £17.7bn of direct investments. Approximately two-thirds of this portfolio was rated A or better, 33% rated BBB and 1% sub-investment grade.** Just 22% of the bond asset portfolio was invested in UK-listed corporate credit, many of these being multinationals. We have avoided sectors which we believe are at risk of significant disruption, for instance traditional retail and automotive, which together constitute less than 2% of our portfolio.

Additionally, we are reviewing and managing 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. In 2019 we have reduced the carbon emissions of the Group's asset portfolio by 6%, which is dominated by LGR's annuity asset portfolio.

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 **£3.2bn IFRS credit default reserve**.

### Direct Investment

**LGR originated £4.3bn of new, high quality direct investments during the year which, along with market movements, brought the portfolio total to £21.6bn**[24] **(FY 2018: £15.7bn).**

Within the direct investment portfolio, fixed income assets accounted for £17.7bn of AUM, including £4.7bn in LTMs. Consistent with the broader bond portfolio, two-thirds of the direct investment bond portfolio was rated 'A' or above based on strong counterparties and collateral, using robust and independent rating processes which take account of long term stress events. We invest in sectors where long term funding is needed, such as government infrastructure. For example, we completed funding of a further £510m in long term leases on Her Majesty's Revenue & Customs buildings across the UK during 2019.

The Group's long term illiquid liabilities and large balance sheet size enable it to invest in assets of size and term that differentiate it from many other institutional investors. Direct investments are one of the key components of our investment strategy supporting bulk annuity pricing, and we regularly assess the relative value of our different direct investment asset classes against each other as well as against the risk-reward characteristics of global traded bonds.

We see particular opportunity in the build-to-rent and affordable housing asset classes, building on the strong capabilities within **LGC** Homes and **LGIM** Real Assets. During 2019 LGR funded its first build-to-rent investment in London for £250m and added several affordable housing assets to its portfolio, including a £45m financing of public housing in Croydon, a suburb of London. Under the arrangement, LGR takes credit risk to the local government, secured by the properties.[25] We have a growing pipeline of investment opportunities in build-to-rent and affordable housing. Across the Legal & General Group, **our businesses help meet the societal needs arising from welfare reforms, harnessing the power of pensions to deliver inclusive capitalism.**

Our ability to self-manufacture attractive, long-term assets to back annuities, working with **LGIM**, **LGC**, or through LTMs, is a differentiating feature of LGR's business and remains a key competitive advantage.

[23] LGR's total annuity asset portfolio is with respect to our UK and US annuities businesses, and excludes Derivative assets (£11.4bn). See note 6.01.
[24] Includes LGR direct investment bonds (£17,711m), direct investment property (£3,798m), direct investments equity (£9m), and other assets (£90m). Please see note 6.02b for more information.
[25] https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-invests-750m-into-developing-new-affordable-housing/

## Legal & General Investment Management

| FINANCIAL HIGHLIGHTS[1] £m | 2019 | 2018 |
|---|---|---|
| Management fee revenue | 889 | 820 |
| Transactional revenue | 23 | 27 |
| **Total revenue** | **912** | **847** |
| Total costs | (491) | (443) |
| **Asset management operating profit[2]** | **421** | **404** |
| Workplace Saving operating result | 2 | 3 |
| **Operating profit** | **423** | **407** |
| Investment and other variances | (9) | (4) |
| **Profit before tax** | **414** | **403** |
| **Net release from operations** | **346** | **329** |
| **Asset Management cost:income ratio[2] (%)** | **54** | **52** |

| NET FLOWS AND ASSETS £bn | | |
|---|---|---|
| *Canvas Acquisition* | - | *2.4* |
| **External net flows** | **86.4** | **42.6** |
| Internal net flows | 2.8 | 2.6 |
| **Total net flows** | **89.2** | **45.2** |
| *- Of which international[3]* | *59.2* | *19.6* |
| **Cash management flows** | **(0.6)** | **(0.5)** |
| **Persistency (%)** | **90** | **89** |
| *Average assets under management* | *1,132.1* | *990.7* |
| **Assets under management as at 31 December** | ***1,196.2*** | **1,015.5** |
| *Of which:* | | |
| *- International assets under management[4]* | ***370.0*** | *257.6* |
| *- UK DC assets under management* | ***94.3*** | *70.8* |

1. Please see disclosure 1.04 for further details.
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.

## External net flows of £86.4bn, operating profit up 4% to £423m

LGIM has continued to expand and diversify its business across channels, regions and investment capabilities. This contributed to 18% growth in assets under management (AUM) to £1,196bn (2018: £1,015bn). External net flows were £86.4bn (2018: £42.6bn), 9.4% of opening external AUM, driven by a £37bn passive mandate and strong demand from a broad range of European customers. Revenues were up 8% to £912m (2018: £847m), supported by good growth in both external and internal business. Management fees increased by 8% to £889m (2018: £820m).

Operating profit increased by 4% to £423m (2018: £407m), 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 (54%) reflects this continued investment in the business. Furthermore, a portion of LGIM-related project expenditure, currently reflected in Group expenses, will be allocated to the LGIM segmented results from 2020.

Workplace Savings assets increased by 34% to £40.3bn (2018: £30.0bn) driven by continued client wins and increased contributions. We are focused on improving efficiency as the business grows. We delivered 2019 operating profit of £2m. This profit relates to the administration business only, as the profits on the fund management services provided are included in LGIM's operating profit.

## International net flows tripled to £59.2bn (2018: £19.6bn)

**LGIM's international assets increased £112bn to £370bn**. The performance was driven by a £37bn mandate with the Japan Government Pension Investment Fund, which provides a long term foundation for future growth in Japan and the broader region. Total flows from Asia including Japan were £39.7bn (2018: £3.0bn) over the period. Our European (excluding UK) business performed well with net flows of £11.6bn (2018: -£1.2bn), reflecting the continued focus we have placed on the region. The US business delivered net flows of £8.0bn (USD $10.0bn; 2018: £11.0bn, USD $15.2bn) and has a strong pipeline for 2020. US net flows were reduced relative to prior year due to higher outflows caused by DB clients insuring their plans with other PRT providers.

## £7.3bn net flows from DC business

**The defined contribution (DC) business continued to grow rapidly** with total net inflows of £7.3bn (2018: £8.4bn), driven by the Workplace Savings business which provides administration and investment services to DC pension plans. Total UK DC AUM increased by 33% to £94.3bn (2018: £70.8bn). LGIM has experienced a 14% increase in customers on its Workplace pension platform, with the number of members now at 3.5m. LGIM also has one of the largest and fastest-growing UK Master Trusts, which recently reached £8.9bn in assets under management, reflecting the continued appeal of the structure for DC plans wishing to outsource their governance, investment and administration. We have used **technological innovation** to better serve our DC **customers**, including launching a financial wellbeing platform to provide practical tools and information to help members feel financially confident about their retirement planning.

## Accelerating growth in our retail business

**The retail business experienced strong net flows of £4.0bn** (2018: £2.8bn) despite challenging market conditions. There was strong demand for multi-asset and index products in 2019. Retail AUM, including Personal Investing, increased to £38.8bn (2018: £30.6bn) as we continued to develop our product range and client-service proposition in the UK and broaden our distribution strategy in Europe. LGIM was ranked second in both gross and net UK retail sales in 2019.[26]

The ETF business has further supported our European retail distribution plans with additional launches in core equities and thematic ETFs. Currently 70% of our ETF offering has experienced net inflows in 2019 and we rank in the top 10 for pan-European mutual funds and ETFs net flows.[27] We have continued to expand our range of funds and distribution capabilities in line with client demand, leading to strong H2 2019 net flows and **growing ETF AUM by 35% to £3.1bn** (2018: £2.3bn).

## Leading in responsible investing

LGIM is building on its credentials as a responsible investor to lead the asset management industry in addressing the environmental and social challenges arising from a rapidly changing world. As at 31 December 2019, **LGIM managed £150.5bn in responsible investment strategies explicitly linked to ESG criteria**.

Embedded within our processes and decisions, LGIM is providing clients:

- **Stewardship with impact**: LGIM's stewardship team engaged with 493 companies and voted on 50,900 resolutions
- **Active corporate engagement**: LGIM established a Global Research and Engagement Platform last year, bringing 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 Future World fund range in 2019, while utilising its proprietary ESG scores across a broad range of strategies

LGIM is also demonstrating leadership by taking, and pushing for, decisive action on era-defining issues, such as **addressing climate change**. For example, 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.

[26] Pridham Report, 2019
[27] Broadridge Pan-European mutual fund and ETF flows Q4 2019

## Breadth of investment management solutions

| **Asset movements**[1] **(£bn)** | Index | Active Strategies | Multi Asset | Solutions | Real assets | **Total AUM** |
|---|---|---|---|---|---|---|
| **At 1 January 2019** | **307.1** | **160.4** | **43.6** | **477.9** | **26.5** | **1,015.5** |
| External inflows | 97.2 | 13.9 | 11.2 | 25.5 | 1.8 | 149.6 |
| External outflows | (59.9) | (11.1) | (3.5) | (26.2) | (1.7) | (102.4) |
| Overlay net flows | - | - | - | 38.8 | - | 38.8 |
| ETF net flows | 0.4 | - | - | - | - | 0.4 |
| **External net flows** | **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 | - | (0.6) | - | - | - | (0.6) |
| Market and other movements | 59.1 | 15.0 | 7.6 | 8.7 | 1.7 | 92.1 |
| **At 31 December 2019** | **403.6** | **177.2** | **58.0** | **526.6** | **30.8** | **1,196.2** |

1. Please see disclosure 4.01 for further details.

**Total AUM increased 18% to £1,196.2bn (2018: £1,015.5bn),** with external net flows of £86.4bn (2018: £42.6bn) and rising asset values driving £181bn of AUM growth. Net flows were broad-based with the international business contributing £59.2bn and positive flows from all established UK channels. Flows were positive across most asset classes as customers benefitted from our diverse product range and broad investment capabilities.

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

**Index external net flows were £37.7bn (2018: -£14.8bn net flows),** as we secured a £37bn passive mandate and experienced strong demand from a broad range of European customers. We saw and expect a continuation of the structural trend of DB schemes de-risking resulting in a shift from index to LDI strategies. We are well positioned to capitalise on this continuing trend.

**Active Strategies, formerly Global Fixed Income and Active Equities, delivered external net flows of £2.8bn** (2018: £9.9bn). The flows performance in 2019 reflects outflows from US clients seeking pension risk transfers solutions. This effect was offset by new mandates in the Gulf and Japan.

**Solutions external net flows were £38.1bn (2018: £40.2bn),** driven by DB pension schemes implementing a broad range of liability driven investment (LDI) strategies as customers manage their risk positions more proactively.

**Multi-asset strategies are in high demand from DC schemes and retail customers**. External net flows into multi-asset funds were £7.7bn (2018: £7.4bn) of which £1.4bn relates to funds switching from Index as part of a review of the default investment offering for some Workplace Savings plans.

The **Real Assets** business has continued to expand, growing its AUM to £30.8bn (2018: £26.5bn). External flows have been affected by market sentiment and political uncertainty. The future growth of external flows will be supported by our build-to-rent business, which now has a pipeline of c.5,000 homes across the country, and our Private Credit business, which offers clients diversification of secure income and value protection solutions. The long term nature of the strategic relationships developed with **LGR** and **LGC** continue to be a positive source of funds.

## Legal & General Capital

| FINANCIAL HIGHLIGHTS £m | **2019** | 2018 |
|---|---|---|
| **Operating profit** | 363 | 322 |
| *- Direct investment* | 217 | *188* |
| *- Traded investment portfolio* | 135 | *124* |
| *- Treasury assets* | 11 | *10* |
| Investment and other variances | 91 | (273) |
| **Profit before tax attributable to equity holders** | 454 | 49 |
| **Net release from operations** | 295 | 261 |

| DIRECT INVESTMENT PORTFOLIO £m | | |
|---|---|---|
| Future Cities | 930 | 787 |
| Homes | 1,483 | 1,158 |
| SME Finance | 464 | 414 |
| | 2,877 | 2,359 |
| **TRADED PORTFOLIO £m** | | |
| Equities | 1,797 | 1,451 |
| Fixed income | 499 | 176 |
| Multi-asset | 238 | 218 |
| Cash[1] | 2,024 | 2,480 |
| | 4,558 | 4,325 |
| **LGC investment portfolio** | **7,435** | 6,684 |
| Treasury assets at holding company | 1,555 | 1,958 |
| **Total** | **8,990** | 8,642 |

1. Includes short term liquid holdings.

### Total operating profit up 13% to £363m

**LGC operating profit was £363m**, a 13% increase from the previous year (2018: £322m), driven by our diversified investment strategy and continued growth in the underlying direct investments portfolio. Overall the direct investment operating profit increased by 15% (2019: £217m, 2018: £188m). Operating profit from the traded investment and treasury portfolios increased by 9% to £146m (2018: £134m) with the equity portfolio growing to £1,797m (2018: £1,451m).

Profit before tax saw a significant increase to £454m (2018: £49m), reflecting strong improvements in equity markets in 2019 relative to 2018, slightly offset due to a reduction in the valuation of retail rental income from our Bracknell regeneration project.

Overall, the direct investment net portfolio return was down slightly to 5.2% (2018: 7.4%), reflecting continued new investment and a greater proportion of AUM in early stage development assets.

## Direct investment portfolio grew 22% to £2.9bn

LGC's direct investment portfolio grew to £2,877m, an increase of 22% (2018: £2,359m). During the year we have added £0.5bn of diversified investments and a further £0.4bn of new commitments across Housing, Future Cities and SME Finance.

Strengthening and capitalising on our presence in the UK Housing sector, the Affordable Housing business performed exceptionally well, reaching profitability in its first year of operation, ahead of schedule and in the first full year of our 100% ownership of CALA, the CALA business has grown again in terms of homes delivered and profitability. Our Future Cities strategy continued to develop across its existing, maturing portfolio, and four new major council- or university-backed partnerships were announced during the year.

Our portfolio is well diversified across our business models, with:

- 48% invested in wholly-owned Legal & General operating businesses (2018: 47%), principally our investment in CALA;
- 33% in joint ventures or partnerships with other investors (2018: 31%), such as the MediaCityUK partnership with The Peel Group; and
- 19% in externally-managed funds (2018: 22%), including for example, our investments in Pemberton funds, where we are a significant shareholder.

## Investing £930m in the future of UK cities (2018: £787m)

The challenges for UK urban areas are increasing. With the majority of the population now living in towns and cities and following decades of underinvestment, pressure has been placed on existing real estate, energy, transportation and social infrastructure. LGC's Future Cities business is addressing a shortage of investment and innovation in urban regeneration, clean energy and digital infrastructure. Together, these building blocks can have a multiplier effect to create the resilient urban centres of the future. Through these investments and our partnerships with universities, local governments, authorities and businesses, Legal & General is supporting the UK to develop great places to live and quality, world-class science and technology employment.

Our Future Cities' investments **create real assets and support clean energy technologies** which generate returns for shareholders, create attractive Matching Adjustment eligible assets for **LGR**, and supply desirable assets to **LGIM** clients. During 2019 our LGC Future Cities portfolio increased 18% to £930m (2018: £787m) through investment across all our target sectors.

In June LGC became a funding and development partner for Oxford University to develop homes for University staff and students, along with science and innovation districts in and around Oxford. This demonstrates LGC's ability to create assets for the wider **Legal & General Group**, which will provide funding of up to £4bn over the next ten years from its **shareholder**, **annuity** and **LGIM**-managed funds.

In November LGC committed £100m of funding for the Sunderland City Council's regeneration of the city and the construction of a new core business district. The project addresses twenty years of significant underinvestment, seeking to deliver three new commercial buildings, including the new city hall, and supporting the creation of up to 3,000 new jobs, while generating asset creation opportunities for **LGR**.

The Cardiff Central Square investment continues to mature. LGC provided the early-stage investment for the project in 2015 and as the project has matured LGC has created real assets for **LGR** and **LGIM**. As such, Legal & General's ownership of Cardiff Central Square is divided between the three divisions, with **LGC** owning 12%, **LGR** owning 64% and **LGIM** clients owning 24%. Additionally, in July 2019, LGC announced its investment in one of the final stages of its £400m Cardiff Central Square: a 500,000 sq ft project comprising the bus interchange, 100,000 sq ft of Grade A office space and 318 build-to-rent apartments for LGC's Housing business.

Sizeable investments were also made in digital infrastructure, through our investment in The Kao Data Campus, a state-of-the-art £230m data centre development servicing the London to Cambridge corridor, and clean energy, through our 23% stake in Pod Point, one of the UK's largest electric vehicle charge point operators.

## Strengthening our UK Housing platform as assets increase to £1,483m (2018: £1,158m)

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. During 2019 LGC's housing businesses sold or rented over 2,800 homes (2018: c.2,500).

LGC's **Affordable Homes** business was profitable in its first year of operation, ahead of schedule. During the year it delivered its first homes and is now generating investment opportunities for **LGR**. Partnering with fourteen established housing associations and providers to support its housing operations across the UK, it announced that it had secured a development pipeline of nearly 3,500 homes, representing a Gross Asset Value of around £750m, which it will deliver over the next two to three years. This is a strong start to LGC's target of delivering 3,000 affordable homes per year within its first four full years of operation in order to meet the UK's overwhelming need for more affordable homes.

LGC has extended its **Later Living** platform, adding a new rental offering to its suburban later living business, Inspired Villages Group, and establishing Guild Living, a developer and operator of urban later living communities. With an estimated 3.1m UK individuals aged over 55 actively seeking to downsize and only 7,000 retirement homes delivered per annum, there is a deep societal and economic need for investment in later living accommodation. Later Living 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. 2019 was a successful year for the business, for example, Inspired Villages' combined sales and rental completions saw annual growth of 27% across its six operational sites during the period.

In our **Build-to-Sell** business, CALA increased revenues by 6% to £1.0bn, delivering nearly 2,500 homes across 91 active sites during the year, despite a challenging start to the year in the UK market. We believe our diversified housing platform makes us more resilient to temporary market slowdowns and we are well positioned to achieve our long-term target of building over 3,000 build-to-sell units per annum as we continue to focus on further margin improvement within CALA.

In Legal & General's **Build-to-Rent** business, LGC has supported further developments across England, Scotland and Wales and completed its project in Bath. Across the Group, the build-to-rent business creates a pipeline of attractive, high quality assets for **LGR** and **LGIM** clients, with approximately 5,000 homes completed, in planning or under development, across fifteen schemes.

In our **Modular Housing** business, we are working with the Selby District Council and Bristol City Council to deliver over 180 new homes, with a focus on affordable homes.

## SME Finance increased to £464m (2018: £414m)

We are developing and growing our alternative asset capabilities in order to enhance returns and create a portolio of assets which complement **LGIM**'s portfolio and support **LGR**'s growth both now and over the longer term. As part of this, we continue to support UK and European **mid-market lending** via fund investments with Pemberton. 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.

In European SME financing, our 40% owned private credit manager Pemberton has accelerated the deployment of capital across all funds, with €3bn deployed across 30 deals in 2019. During the year Pemberton's total Funds Under Management grew to c.€6.1bn (2018: c.€4bn).

We continued to strengthen and diversify our well-performing Venture Capital fund portfolio through the addition of five new funds from leading European managers in 2019, bringing our total commitment to c.£140m across fifteen funds. In addition, we are also working with other industry participants on a solution that will democratise access to this exciting asset class for **LGIM**'s Defined Contribution customers.

## Legal & General Insurance

| FINANCIAL HIGHLIGHTS £m | 2019 | 2018 |
|---|---|---|
| **Operating profit** | **314** | 308 |
| - UK | 223 | 246 |
| - US (LGIA) | 91 | 62 |
| Investment and other variances[1] | (234) | (1) |
| **Profit before tax attributable to equity holders** | **80** | 307 |
| Release from operations | 259 | 258 |
| New business surplus / (strain) | (7) | (22) |
| **Net release from operations** | **252** | 236 |
| LGI new business annual premiums | **339** | 343 |
| UK Retail Protection gross premiums | **1,327** | 1,279 |
| UK Group Protection gross premiums | **345** | 329 |
| US Protection (LGIA) gross premiums | **1,057** | 972 |
| **Total gross premiums** | **2,729** | 2,580 |

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.

## Total operating profit of £314m

**LGI operating profit increased 2% to £314m** (2018: 308m), reflecting stable profit delivery in highly competitive UK markets, while the US Term protection business transitioned towards a more digital operating model.

**LGI UK** delivered operating profit of £223m (2018: £246m), reflecting changes in intra-group reinsurance resulting in c.£13m of profits shifting from the UK into the US. Historically we have reinsured part of our US protection risk to the UK, however we plan to continue to gradually reduce the intra-group reinsurance of LGIA into the UK in the coming years. Additionally, the 2018 results benefited from model changes. As in prior years, we reflected recent experience in our review of actuarial assumptions.

Net release from operations for LGI UK was broadly flat at £158m (2018: £159m), and included improved new business strain of £(7)m (2018: £(22)m) as a result of improving margins across the business. This was offset by a reduction in release from operations as a result of the recapture of intra-group reinsurance and prior year model and assumption changes, as well as an increase in Fintech's contribution.

UK Protection Solvency II new business margin increased to 7.6% (2018: 7.1%), reflecting product mix changes and continuous improvement in new business value despite competitive markets, particularly in H2. The protection business continues to generate Solvency II surplus immediately when written and provides diversification benefits to the **Group**, particularly **LGR**.

**LGIA** operating profit increased by $33m to $116m (2018: $83m). This includes reserve releases following assumption and model changes and the impact of the amendment to the reinsurance arrangement with the UK business, partially offset by adverse mortality, which was consistent with experience across the broader US life sector.

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

Despite significant competition in the term market, US protection sales delivered a strong Solvency II new business margin of 11.1% (2018: 11.2%).

**Profit before tax was impacted by a fall in government yields.** LGI's negative investment variance of £234m 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 52 bps[28] and US 10 year Treasury yields fell by 74 bps[29].

[28] UK protection discount rate from 2.00% on 31 December 2018 to 1.48% on 31 December 2019
[29] US 10 year treasury rate reduced from 2.66% on 31 December 2018 to 1.92% on 31 December 2019

## Gross written premium up 6% in competitive markets

**UK Retail Protection gross premium income increased 4% to £1,327m** (2018: £1,279m) with new business annual premiums of £174m (2018: £175m). We remain the leading provider of retail protection in the UK, delivering straight through processing for more than 80% of our customers. In H2 we continued to see strong sales performance despite operating in a heavily competitive environment. Distribution through our bank partners benefited from our investments in these partnerships. We continued to innovate in the intermediary market with the launch of our rental protection proposition.

**UK Group Protection gross premium income increased 5% to £345m** (2018: £329m) with new business annual premiums of £76m (2018: £83m). The turnaround in Group Protection has now completed with the strong performance in 2019 reflecting improvements in service to our customers.

**US Protection (LGIA) gross premium income increased 4% (up 9% on a sterling basis) to $1,349m** (2018: $1,299m) with new business annual premiums of $113m (2018: $114m). 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 had a record year facilitating £78bn of mortgages, up 7%** (2018: £73bn), through strong partnerships with top lenders and an expanded service offering to more mortgage brokers following a period of digital investment. As the largest participant in the intermediated mortgage market in the UK, we are involved in nearly one in five of all UK mortgage transactions. Legal & General Surveying Services also delivered a strong performance, facilitating 550k surveys and valuations.

## Fintech: Salary Finance expansion and mortgage market disruption

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

Salary Finance continued its rapid expansion. In the UK, the financial wellbeing platform achieved a reach of 1.3m employees and its loan book doubled compared to the end of 2018. In the US, the platform has reached more than 130,000 employees within the first year of operation. The company is in a strong position to continue to grow its UK and US loan books through new, **customer focused** products launching in 2020.

We are making buying and financing a home **easier and quicker for our customers** and advisors through our technology investments, as detailed below.

Legal & General Mortgage Club brings together mortgage advisers and lenders. Through SmartrCriteria, the Mortgage Club's digital user-friendly criteria search system, we are helping 6,000 advisers select the best mortgage out of a universe of over 400,000 mortgage outcomes from over 80 lenders.

Legal & General Surveying Services performed over 27,000 digital valuations in 2019 compared to fewer than 4,000 in 2018 and has secured two new valuation deals with HSBC & Barclays. We launched a next–generation, digital home buyers survey and continue to invest in **technology to innovate** in the lender valuations market.

## Disposed operations

In May 2019, Legal & General Group announced the sale of the General Insurance business to Allianz Holdings Plc. The transaction completed in December 2019, improving the Group's Solvency II coverage ratio by c.1%.

The Group announced the sale of the Mature Savings business to Swiss Re on 6 December 2017 for £650m. The proceeds were received by the Group at the start of January 2018. In 2019 we recognised £46m operating profit from the business, resulting from the unwind of the expected underlying profits. We expect to complete the associated Part VII transfer in H1 2020, upon which it is anticipated that an IFRS gain of circa £350m will be generated, which includes the unwind of the 2020 expected underlying profits and is in addition to profits recognised in 2018 and 2019, including the one-off provision release in 2018 (£125m total). The completion of the Part VII transfer is expected to be broadly neutral to the Group's Solvency II coverage ratio.

## Subsidiary dividends to Group

| £m | 2019 | 2018 |
|---|---|---|
| **Subsidiary dividends[1]:** | | |
| LGAS | **766** | 852 |
| LGIM | **269** | 251 |
| LGA | **84** | 75 |
| Other[2] | **124** | 108 |
| **Total** | **1,243** | 1,286 |

1. Represents cash that will be remitted from subsidiaries to Group in respect of the year's financial performance.
2. Other includes Legal & General Home Financing, Legal & General Capital Investments Limited, Legal & General Reinsurance, Investment Discounts On-Line Limited, Legal & General Partnership Services Limited and Legal & General Surveying Services.

The level of subsidiary dividends are scheduled to cover external dividends (2019: £1,047m; 2018: £978m), Group related costs, and investment in our businesses, with excess liquidity being held within our regulated subsidiaries.

## Borrowings

The Group's outstanding core borrowings totalled £4.1bn at 31 December 2019 (2018: £3.9bn). There is also a further £1.0bn (2018: £1.0bn) of operational borrowings including £0.8bn (2018: £0.6bn) of non-recourse borrowings.

In November 2019 the Group issued £600m of Tier 2 subordinated debt with a coupon of 3.75%.

Group debt costs of £208m (2018: £203m) reflect an average cost of debt of 5.0% per annum (2018: 5.1% per annum) on an average nominal value of debt balances of £4.1bn (2018: £4.0bn).

## Taxation

| Equity holders' Effective Tax Rate (%) | 2019 | 2018 |
|---|---|---|
| Equity holders' total Effective Tax Rate[30] | **14.3** | 15.0 |
| Annualised rate of UK corporation tax | **19.0** | 19.0 |

The effective tax rate reflects changes to the structuring of our internal reinsurance arrangements for capital management reasons and the interplay with our global reinsurance hub.

[30] The equity holders' total Effective Tax Rate excluding discontinued operations is 14.3% (2018: 15.0%).

## Solvency II

As at 31 December 2019, the Group had an estimated Solvency II surplus of £7.3bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 184% on a shareholder basis. As at 28 February 2020, we estimate the ratio was 174%.[31]

| Capital (£bn) | 2019[1] | 2018[1] |
|---|---|---|
| Own Funds | 16.1 | 14.8 |
| Solvency Capital Requirement (SCR) | (8.8) | (7.9) |
| **Solvency II surplus** | **7.3** | **6.9** |
| **SCR coverage ratio (%)** | **184** | **188** |

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

| Analysis of movement from 1 January 2019 to 31 December 2019[1] (£bn) | Solvency II surplus |
|---|---|
| Surplus arising from back-book (including release of SCR) | 1.5 |
| Release of Risk Margin | 0.4 |
| Amortisation of TMTP | (0.3) |
| **Operational surplus generation** | **1.6** |
| New business strain | (0.6) |
| **Net surplus generation** | **1.0** |
| Operating variances | 0.3 |
| Mergers, acquisitions and disposals | 0.1 |
| Market movements | (0.2) |
| Subordinated debt | 0.2 |
| Dividends paid | (1.0) |
| **Total surplus movement (after dividends paid in the period)** | **0.4** |

1. Please see disclosure 5.01 (d) for further details.

**Operational surplus generation was up 9%[32] to £1.6bn (2018: £1.4bn)**, after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £0.6bn, reflecting significant UK PRT volumes written at a capital strain of less than 4%. This resulted in net surplus generation of £1.0bn (2018: £0.9bn).

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 £0.3bn. Market movements of £(0.2)bn reflect the impact of lower rates on the valuation of our balance sheet, partially offset by higher asset markets, predominantly in equities, as well as a number of other, smaller variances.

The movements shown above incorporate changes to the Internal Model and Matching Adjustment during 2019 and the impacts of a recalculation of the TMTP as at end December 2019. The recalculated TMTP of £5.7bn (31 December 2018: £5.2bn) is net of amortisation to 31 December 2019.

When stated on a proforma basis, including the SCR attributable to our With-profits fund and the Group final salary pension schemes in both the Group's Own Funds and the SCR, the Group's coverage ratio was 179% (2018: 181%).

[31] Coverage ratio before payment of the 2019 final dividend.
[32] Using unrounded operational surplus generation values.

## 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 2019:

| | £bn |
|---|---|
| **IFRS Release from operations** | **1.3** |
| Expected release of IFRS prudential margins | (0.5) |
| Release of IFRS specific reserves | (0.1) |
| Solvency II investment margin | 0.2 |
| Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation | 0.7 |
| **Solvency II Operational surplus generation** | **1.6** |

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

| | £bn |
|---|---|
| **IFRS New business surplus** | **0.3** |
| 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 | (0.9) |
| Set up of Risk Margin on new business | (0.2) |
| **Solvency II New business strain** | **(0.6)** |

1. Please see disclosure 5.01 (e) for further details.

## Sensitivity analysis[1]

| | Impact on net of tax Solvency II capital surplus 2019 £bn | Impact on net of tax Solvency II coverage ratio 2019 % |
|---|---|---|
| Credit spreads widen by 100bps assuming an escalating addition to ratings | 0.3 | 8 |
| Credit spreads narrow by 100bps assuming an escalating addition to ratings | (0.4) | (9) |
| Credit migration | (0.8) | (9) |
| 25% rise in equity markets | 0.5 | 4 |
| 25% fall in equity markets | (0.5) | (5) |
| 15% rise in property markets | 0.6 | 6 |
| 15% fall in property markets | (0.7) | (6) |
| 100bps increase in risk free rates | 1.0 | 22 |
| 50bps decrease in risk free rates | (0.6) | (11) |
| Substantially reduced Risk Margin | 0.6 | 6 |

1. Please see disclosure 5.01 (g) for further details .

The above sensitivity analysis does not reflect all possible management actions which could be taken to reduce the impacts 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 movement in balance sheet items that result from changes in the discount rates used to calculate the value of assets and liabilities. The credit migration stress, in the absence of defaults, delays the emergence of operating surplus generation, but does not reduce the actual quantum of future releases. Similarly equity and property stresses only result in losses if assets are sold at depressed values.

## Solvency II new business contribution

Management estimates of the present value of new business (PVNBP) and the margin as at 31 December 2019 are shown below[1]:

| | PVNBP | Contribution from new business | Margin % |
|---|---|---|---|
| **LGR – UK annuity business (£m)** | **11,295** | **890** | **7.9** |
| **UK Protection Total (£m)** | **1,604** | **122** | **7.6** |
| - Retail protection | 1,284 | 98 | 7.6 |
| - Group protection | 320 | 24 | 7.5 |
| **US Protection (£m)** | **850** | **94** | **11.1** |

The key economic assumptions as at 31 December 2019 are as follows:

| | % |
|---|---|
| **Margin for risk** | **3.5** |
| **Risk free rate** | |
| **- UK** | **1.1** |
| **- US** | **1.9** |
| **Risk discount rate (net of tax)** | |
| **- UK** | **4.6** |
| **- US** | **5.4** |
| **Long term rate of return on non-profit annuities in LGR** | **2.8** |

1. Please see disclosure 5.02 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 and outlook | Mitigation |
|---|---|---|
| **Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation**<br><br>The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability. | We regularly appraise the assumptions underpinning the business we write. We remain, however, inherently exposed to certain extreme events that could require us to adjust our reserves. For example, in our pensions risk transfer and annuities business, 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 an extreme event leading to a widespread increase in mortality or morbidity, for example the emergence of new diseases or reductions in immunology, may also require re-evaluation of reserves although these may be mitigated by reinsurance and the offsetting effects with our annuities business. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions. | We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. We also seek to pre-fund and warehouse appropriate investment assets to support the pricing of long-term business. In seeking a comprehensive understanding of longevity science we aim to anticipate long-term trends in mortality, and continue to evolve and develop our underwriting capabilities for our protection business. The selective use of reinsurance acts to reduce the impacts of significant variations in life expectancy and mortality. |
| **Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital**<br><br>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, losses can still arise from adverse markets. Interest rate expectations leading to falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital. In addition, significant falls in investment values can reduce fee income to our investment management business. | The outlook for the global economy whilst showing tentative signs of improvement, continues to be that of relatively low growth. Interest rates also look set to continue at their historic lows. In the UK following the agreement of withdrawal terms from the EU the immediate risks associated with a no trade deal outcome have receded and there is also more certainty in the broader political landscape. There are, however, a range of factors that could lead to a deterioration in this outlook and a reappraisal of asset values. These include rising geopolitical tensions within the Middle East leading to the disruption of global oil supplies; the truce in the US – China trade war proving temporary or the trade tensions extending to the EU; and the UK failing to achieve a satisfactory future trading relationship with the EU. The emergence of COVID-19 in China also has potential to temporarily impact global growth rates through the disruption of supply chains, as well as the value of investment assets that may be perceived as being adversely impacted from a slowdown. While concerns about COVID-19 have had minimal effect on our business to date, they have driven a return to more volatile markets in the current quarter. | We cannot eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, however, as part of our strategic planning activity we seek to model our business plans across plausible economic scenarios to ensure resilience across a range of outcomes. Our ORSA process plays an integral part in ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite. We have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. |

| Risks and uncertainties | Trend and outlook | Mitigation |
|---|---|---|
| **In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss**<br><br>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. | An event leading to widespread default among the issuers of investment grade debt is considered to be a more remote risk; however, we closely monitor a range of factors that may lead to a widening of credit spreads, including those relating to the economic outlook, trends in global interest rates and emerging markets. Whilst considered to be more extreme risk scenarios in the current environment, factors that could increase the level of default risk, if they were to occur, include a material deterioration in global economic conditions; and a renewed banking crisis. | We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of security. In placing reinsurance we set counterparty specific exposure limits, where appropriate taking collateral. We manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. |
| **Changes in regulation or legislation may have a detrimental effect on our strategy**<br><br>Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products, and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation. | The regulatory regimes under which the group operates continue to evolve. The operation of the EU derived Solvency II capital regime, which has been in place since 2016, is currently subject to review by EU regulators, and although the UK has left the EU changes may be required to be adopted in a transition period. The UK prudential regulator also continues to refine Solvency II rules for areas such as the capital treatment of lifetime mortgages and other illiquid assets, and the matching adjustment for long-term business. Other areas of significant regulatory change include the transition from LIBOR to SONIA in 2021, for which our planning is already well advanced. Focus areas of the FCA, the UK's conduct regulator, include the fair treatment of vulnerable customers and the provision of financial advice. Focus also continues on ensuring firms prepare for the transition to a low-carbon economy | We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. Residual risk remains, however, that controls may fail or that historic financial services industry accepted practices may be reappraised by regulators, resulting in sanctions against the group. |
| **New entrants, or legislative change, may disrupt the markets in which we operate**<br><br>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. It is possible that alternative digitally enabled financial services providers emerge with lower cost business models or innovative service propositions and capital structures, and disrupt the current competitive landscape, and that changes in legislation or regulation impact operating models. | We closely monitor the factors that may impact the markets in which we operate, including governmental initiatives, developing industry practices and competitor activity. Alongside digital enabled changes to business operating models that enhance the customer experience, technology is being widely applied to achieve cost savings and efficiencies for market participants. Defined benefit "superfund" consolidation, pension dashboards and "collective" pension scheme arrangements also have potential to transform the operating environment for our asset management and pension businesses. | As set out in our business review, we continue to introduce new digital platforms to grow our businesses including Annuity Ready, SmartrCriteria and SmartrSurvey, and we are investing in automation using robotics to improve the efficiency of our business processes. In our pensions risk transfer business, our capabilities to assess risk and offer bespoke solutions enable us to differentiate our offer from competitors, and we believe that our investment management and retirement businesses are well positioned for the evolution of the pensions market. |

| Risks and uncertainties | Trend and outlook | Mitigation |
| --- | --- | --- |
| **A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage**<br><br>We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to 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. | Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks and the need for resilience across our businesses. We are also exposed to construction and safety risks within our commercial real estate and housing businesses, and wider safety risks in the operation of retirement villages and affordable homes. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from risk events. | Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group Chief Risk Officer, with independent assurance from Group Internal Audit. We recognise, however, that residual risk will always remain and have designed our risk governance framework to ensure that when adverse events occur we can deploy appropriate responses. |
| **We fail to respond to the emerging threats from climate change for our investment portfolios and wider businesses**<br><br>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 green house gas emissions. | The science underpinning climate change is clear and the effects can already be seen across the world. We believe, however, that climate change has not yet been fully priced in by financial markets, and as such it is an area of both additional risk as well as an opportunity for investment in new technologies. While national governments are setting goals to support a smooth transition to low carbon economies, delays in making the necessary changes increases the risk of sudden late policy action, in turn leading to potentially large and unanticipated shifts in asset valuations for those industries and sectors that will need to take action. | We recognise that our scale brings a responsibility to act decisively in positioning our balance sheet to the threats from climate change, and encouraging others to follow suit, as one of the largest global institutional investors. We are embedding the assessment of climate risks in our investment process and are developing our risk metrics and framework for oversight and taking opportunities. We are engaging with regulators, and the companies in which we invest, in support of increased climate action. We have already set carbon intensity targets for our investment portfolios, and along with specific investment exclusions for thermal coal we have implemented controls around the acquisition of high carbon investments. We are also actively investing in energy efficient property, renewables and new science to support de-carbonisation. |

## Notes

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

A presentation to analysts and fund managers will take place at 9:30am UK time today at One Coleman Street, London, EC2R 5AA.

There will be a live webcast of the presentation which can be accessed at www.legalandgeneralgroup.com/investors/preliminary-results-2019. A replay will be available on this website later today.

| **2020 Financial Calendar** | **Date** |
|---|---|
| Ex-dividend date (2019 final dividend) | **23 April 2020** |
| Record date | **24 April 2020** |
| Annual General Meeting | **21 May 2020** |
| Payment date of 2019 final dividend | **4 June 2020** |
| 2020 interim results announcement | **5 August 2020** |
| Capital markets event | **12 November 2020** |

## Definitions

Definitions are included in the Glossary on pages 85 to 89 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 Preliminary Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 24 to 26. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

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

Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the preliminary financial information.

## Directors' responsibility statement

We confirm to the best of our knowledge that:

i. The group financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, and which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group;

ii. The preliminary announcement includes a fair review of the development, performance and position of the group, as well as the principle risks and uncertainties faced by the group; and

iii. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc website: www.legalandgeneralgroup.com/about-us/our-management/group-board/.

By order of the Board

Nigel Wilson
Group Chief Executive
4 March 2020

Stuart Jeffrey Davies
Group Chief Financial Officer
4 March 2020

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## Notes

## 1.01 Operating profit#

For the year ended 31 December 2019

| | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **From continuing operations** | | | |
| Legal & General Retirement (LGR) | 1.03 | **1,569** | 1,548 |
| - LGR Institutional (LGRI) | | 1,216 | 1,149 |
| - LGR Retail (LGRR) | | 353 | 399 |
| Legal & General Investment Management (LGIM) | 1.04 | **423** | 407 |
| Legal & General Capital (LGC) | 1.05 | **363** | 322 |
| Legal & General Insurance (LGI) | 1.03 | **314** | 308 |
| - UK and Other | | 223 | 246 |
| - US (LGIA) | | 91 | 62 |
| **Operating profit from divisions:** | | | |
| From continuing operations | | **2,669** | 2,585 |
| From discontinued operations[1] | | **11** | 79 |
| **Operating profit from divisions** | | **2,680** | 2,664 |
| Group debt costs[2] | | **(208)** | (203) |
| Group investment projects and expenses | | **(186)** | (126) |
| **Operating profit** | | **2,286** | 2,335 |
| Investment and other variances | 1.06 | **(150)** | (188) |
| Losses on non-controlling interests | | **(24)** | (19) |
| **Adjusted profit before tax attributable to equity holders** | | **2,112** | 2,128 |
| Tax expense attributable to equity holders | 3.07 | **(302)** | (320) |
| **Profit for the year** | | **1,810** | 1,808 |
| **Profit attributable to equity holders** | | **1,834** | 1,827 |
| **Earnings per share:** | | | |
| **Basic (pence per share)[3]** | 1.07 | **30.92p** | 30.79p |
| **Diluted (pence per share)[3]** | 1.07 | **30.75p** | 30.64p |

1. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group announcement to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. The sale of the General Insurance business completed on 31 December 2019.
2. Group debt costs exclude interest on non recourse financing.
3. All earnings per share calculations are based on profit attributable to equity holders of the company.

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

- LGR represents worldwide pension risk transfer business including longevity insurance (within LGRI), and individual retirement and lifetime mortgages (within LGRR).
- LGIM represents institutional and retail investment management and workplace savings businesses.
- LGC represents shareholder assets invested in direct investments primarily in the areas of housing, urban regeneration, clean energy and SME finance, as well as traded and treasury assets.
- LGI primarily represents UK and US retail protection business, UK group protection and Fintech business.
- Discontinued operations represent the results of the Mature Savings and General Insurance divisions following the group announcement to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. The sale of the General Insurance business 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 smoothed investment return assumptions are reported below operating profit, which include any differences between investment return on actual assets and the target long-term asset mix. Exceptional income and expenses which arise outside the normal course of business in the period, such as gains/losses from merger and acquisition, and start-up costs, are also excluded from operating profit.

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

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

| For the year ended 31 December 2019 | Release from operations[1] £m | New business surplus/ (strain) £m | Net release from operations £m | Exper-ience variances £m | Changes in valuation assump-tions £m | Non-cash items £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** | **366** | **(20)** | **346** | **(1)** | **-** | **(4)** | **-** | **341** | **82** | **423** |
| - LGIM (excluding Workplace Savings)[2] | 339 | - | 339 | - | - | - | - | 339 | 82 | 421 |
| - Workplace Savings[3] | 27 | (20) | 7 | (1) | - | (4) | - | 2 | - | 2 |
| **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** | **1,518** | **300** | **1,818** | **(65)** | **434** | **75** | **4** | **2,266** | **403** | **2,669** |
| From discontinued operations[4] | **9** | **-** | **9** | **-** | **-** | **-** | **-** | **9** | **2** | **11** |
| **Total from divisions** | **1,527** | **300** | **1,827** | **(65)** | **434** | **75** | **4** | **2,275** | **405** | **2,680** |
| Group debt costs | **(168)** | **-** | **(168)** | **-** | **-** | **-** | **-** | **(168)** | **(40)** | **(208)** |
| Group investment projects and expenses | **(44)** | **-** | **(44)** | **-** | **-** | **-** | **(102)** | **(146)** | **(40)** | **(186)** |
| **Total** | **1,315** | **300** | **1,615** | **(65)** | **434** | **75** | **(98)** | **1,961** | **325** | **2,286** |

1. Release from operations within US (LGIA) includes £81m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group's announcement to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. The sale of the General Insurance business completed on 31 December 2019 and the recognised operating loss for the year is £35m (2018: £nil).

Release from operations for LGR, LGIM - Workplace Savings and LGI represents the expected IFRS surplus generated in the year 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 (a subsidiary of Swiss Re) from the Mature Savings business, offset by losses from the General Insurance business in 2019.

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

LGR's new business metrics are presented based on a target long-term asset portfolio. At certain period ends, depending upon the quantum and timing pf 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 year 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 represents the operating profit (net of tax).

See Note 1.03 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.

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

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

1. Release from operations within US (LGIA) includes £77m of dividends from the US.
2. LGIM (excluding Workplace Savings) includes profits on fund management services.
3. Workplace Savings represents administration business only.
4. Discontinued operations reflect the results of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. Operating profit of the General Insurance business in 2018 was £0m.

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

## 1.03 Analysis of LGR and LGI operating profit
For the year ended 31 December 2019

| | LGR 2019 £m | LGI 2019 £m | LGR 2018 £m | LGI 2018 £m |
|---|---|---|---|---|
| **Net release from operations** | **925** | **252** | 768 | 236 |
| **Experience variances** | | | | |
| - Persistency | **(4)** | **(9)** | 8 | (12) |
| - Mortality/morbidity | **6** | **(5)** | 73 | (7) |
| - Expenses | **(23)** | **-** | (13) | 2 |
| - Project and development costs | **(12)** | **-** | (11) | - |
| - Other[1] | **(20)** | **3** | (24) | 41 |
| **Total experience variances** | **(53)** | **(11)** | 33 | 24 |
| **Changes to valuation assumptions** | | | | |
| - Persistency | **-** | **(16)** | - | (4) |
| - Mortality/morbidity[2] | **352** | **39** | 444 | 25 |
| - Expenses | **5** | **-** | - | 17 |
| - Other[3] | **33** | **21** | - | (3) |
| **Total changes to valuation assumptions** | **390** | **44** | 444 | 35 |
| **Movement in non-cash items** | | | | |
| - Acquisition expense tax relief | **-** | **(2)** | - | (11) |
| - Other[4] | **91** | **(10)** | 40 | (8) |
| **Total movement in non-cash items** | **91** | **(12)** | 40 | (19) |
| **Other** | **-** | **4** | - | (7) |
| **Operating profit after tax** | **1,353** | **277** | 1,285 | 269 |
| **Tax gross up** | **216** | **37** | 263 | 39 |
| **Operating profit before tax** | **1,569** | **314** | 1,548 | 308 |

1. Other experience variances for LGI in 2018 reflected a number of modelling requirements which were not repeated in 2019.
2. Mortality assumption changes for LGR include a one off release of £134m (net of tax) from an update in the longevity trend assumption from adjusted CMI 2016 to adjusted CMI 2017. In 2018, the comparable one off release of £359m was from adjusted CMI 2015 to adjusted CMI 2016. Other positive longevity variances are driven by routine updates to our assumptions relating to base mortality rates.
3. LGR Other changes to valuation assumptions reflect a change in assumption on the future exercise of an option within a longevity swap contract.
4. LGR Other movement in non-cash items is driven by the 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.

## 1.04 LGIM operating profit

| | 2019 £m | 2018 £m |
|---|---|---|
| Asset management revenue (excluding 3rd party market data)[1,2] | **889** | 820 |
| Asset management transactional revenue[3] | **23** | 27 |
| Asset management expenses (excluding 3rd party market data)[1,2] | **(491)** | (443) |
| Workplace Savings operating profit[4] | **2** | 3 |
| **Total LGIM operating profit** | **423** | 407 |

1. Asset management revenue and expenses exclude income and costs of £24m in relation to the provision of third party market data (2018: £19m).
2. The ETF operating result is included as part of asset management revenue and expenses, which represents a change in the presentation from previous periods. Asset management revenue (excluding 3rd party market data) and Asset management expenses (excluding 3rd party market data) have therefore been restated for the full year ended 31 December 2018 to reflect this change.
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.

## 1.05 LGC operating profit

| | 2019 £m | 2018 £m |
|---|---|---|
| Direct investments[1] | **217** | 188 |
| Traded investment portfolio including treasury assets[2] | **146** | 134 |
| **Total LGC operating profit** | **363** | 322 |

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

## 1.06 Investment and other variances

| | 2019 £m | 2018 £m |
|---|---|---|
| Investment variance[1] | **(27)** | (126) |
| M&A related and other variances[2] | **(123)** | (62) |
| **Total investment and other variances** | **(150)** | (188) |

1. Investment variance includes differences between actual and smoothed investment return on traded and real assets, economic assumption changes (e.g. credit default and inflation) and the impact of any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business written during the period and held at a period end.
2. M&A related and other variances includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2019 reflects the impact of impairing £55m of capitalised software intangibles following a groupwide review, as well as a £43m gain on the disposal of the group's stake in IndiaFirst Life Insurance Company Limited.

## 1.07 Earnings per share

### (a) Basic earnings per share

| | **After tax 2019 £m** | **Per share[1] 2019 p** | After tax 2018 £m | Per share[1] 2018 p |
|---|---|---|---|---|
| **Profit for the year attributable to equity holders** | **1,834** | **30.92** | 1,827 | 30.79 |
| Less: earnings derived from discontinued operations | **(23)** | **(0.39)** | (43) | (0.72) |
| **Basic earnings derived from continuing operations** | **1,811** | **30.53** | 1,784 | 30.07 |

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

### (b) Diluted earnings per share

| | **After tax 2019 £m** | **Weighted average number of shares 2019 m** | **Per share[1] 2019 p** |
|---|---|---|---|
| **Profit for the year 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** |

| | After tax 2018 £m | Weighted average number of shares 2018 m | Per share[1] 2018 p |
|---|---|---|---|
| Profit for the year attributable to equity holders | 1,827 | 5,933 | 30.79 |
| Net shares under options allocable for no further consideration | - | 29 | (0.15) |
| Total diluted earnings | 1,827 | 5,962 | 30.64 |
| Less: diluted earnings derived from discontinued operations | (64) | - | (0.72) |
| Diluted earnings derived from continuing operations | 1,763 | 5,962 | 29.92 |

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

## 1.08 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 1.01. 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 and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) 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.

### (a) Profit/(loss) for the year

| For the year ended 31 December 2019 | LGR £m | LGIM £m | LGC £m | LGI £m | Group expenses and debt costs £m | Total continuing operations £m |
|---|---|---|---|---|---|---|
| **Operating profit/(loss)#** | **1,569** | **423** | **363** | **314** | **(394)** | **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** | **414** | **454** | **80** | **(476)** | **2,084** |
| Tax (expense)/credit attributable to equity holders | **(234)** | **(81)** | **(75)** | **12** | **81** | **(297)** |
| **Profit/(loss) for the year** | **1,378** | **333** | **379** | **92** | **(395)** | **1,787** |

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

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

## 1.08 Segmental analysis (continued)

### (b) Total income

| **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** |

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

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

## 2.01 Consolidated Income Statement

| For the year ended 31 December 2019 | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **Income** | | | |
| Gross written premiums | | **15,203** | 12,843 |
| Outward reinsurance premiums | | **(3,452)** | (2,114) |
| Net change in provision for unearned premiums | | **(66)** | - |
| **Net premiums earned** | | **11,685** | 10,729 |
| Fees from fund management and investment contracts | | **834** | 802 |
| Investment return | | **53,014** | (11,843) |
| Other operational income | | **1,253** | 1,206 |
| **Total income** | 1.08 | **66,786** | 894 |
| **Expenses** | | | |
| Claims and change in insurance contract liabilities | | **19,005** | 8,370 |
| Reinsurance recoveries | | **(3,502)** | (1,051) |
| **Net claims and change in insurance contract liabilities** | | **15,503** | 7,319 |
| Change in investment contract liabilities | | **45,809** | (11,304) |
| Acquisition costs | | **805** | 780 |
| Finance costs | | **269** | 238 |
| Other expenses | | **2,244** | 1,732 |
| **Total expenses** | | **64,630** | (1,235) |
| **Profit before tax** | | **2,156** | 2,129 |
| Tax expense attributable to policyholder returns | | **(72)** | (53) |
| **Profit before tax attributable to equity holders** | | **2,084** | 2,076 |
| Total tax expense | | **(369)** | (364) |
| Tax expense attributable to policyholder returns | | **72** | 53 |
| Tax expense attributable to equity holders | 3.07 | **(297)** | (311) |
| Profit after tax from continuing operations | 1.08 | **1,787** | 1,765 |
| Profit after tax from discontinued operations[1] | 3.04 | **23** | 43 |
| **Profit for the year** | | **1,810** | 1,808 |
| Attributable to: | | | |
| Non-controlling interests | | **(24)** | (19) |
| Equity holders | | **1,834** | 1,827 |
| Dividend distributions to equity holders during the year | 3.05 | **998** | 932 |
| Dividend distributions to equity holders proposed after the year end | 3.05 | **753** | 704 |
| | | **p** | p |
| **Total basic earnings per share[2]** | 1.07 | **30.92** | 30.79 |
| **Total diluted earnings per share[2]** | 1.07 | **30.75** | 30.64 |
| **Basic earnings per share derived from continuing operations[2]** | 1.07 | **30.53** | 30.07 |
| **Diluted earnings per share derived from continuing operations[2]** | 1.07 | **30.36** | 29.92 |

1. Discontinued operations reflect the results of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. The sale of the General Insurance business completed on 31 December 2019.
2. All earnings per share calculations are based on profit attributable to equity holders of the company.

## 2.02 Consolidated Statement of Comprehensive Income

| For the year ended 31 December 2019 | 2019 £m | 2018 £m |
|---|---|---|
| **Profit for the year** | **1,810** | 1,808 |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial (losses)/gains on defined benefit pension schemes | **(62)** | 117 |
| Tax on actuarial (losses)/gains on defined benefit pension schemes | **11** | (22) |
| **Total items that will not be reclassified subsequently to profit or loss** | **(51)** | 95 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Exchange differences on translation of overseas operations | **(67)** | 62 |
| Movement in cross-currency hedge | **13** | 34 |
| Tax on movement in cross-currency hedge | **(1)** | (5) |
| Movement in financial investments designated as available-for-sale | **72** | (36) |
| Tax on movement in financial investments designated as available-for-sale | **(15)** | 5 |
| **Total items that may be reclassified subsequently to profit or loss** | **2** | 60 |
| **Other comprehensive (expense)/income after tax** | **(49)** | 155 |
| **Total comprehensive income for the year** | **1,761** | 1,963 |
| **Total comprehensive income for the year attributable to:** | | |
| Continuing operations | **1,738** | 1,920 |
| Discontinued operations | **23** | 43 |
| **Total comprehensive income/(expense) for the year attributable to:** | | |
| Non-controlling interests | **(24)** | (19) |
| Equity holders | **1,785** | 1,982 |

## 2.03 Consolidated Balance Sheet

| As at 31 December 2019 | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | | **64** | 65 |
| Purchased interest in long term businesses and other intangible assets | | **190** | 223 |
| Deferred acquisition costs | | **75** | 140 |
| Investment in associates and joint ventures accounted for using the equity method | | **324** | 259 |
| Property, plant and equipment[1] | | **298** | 57 |
| Investment property | 3.06 | **7,695** | 6,965 |
| Financial investments | 3.06 | **498,376** | 430,498 |
| Reinsurers' share of contract liabilities | | **5,810** | 4,737 |
| Deferred tax assets | 3.07 | **8** | 7 |
| Current tax assets | | **468** | 418 |
| Receivables and other assets | | **8,532** | 5,593 |
| Assets of operations classified as held for sale | 3.04 | **24,844** | 26,234 |
| Cash and cash equivalents | | **13,923** | 17,321 |
| **Total assets** | | **560,607** | 492,517 |
| **Equity** | | | |
| Share capital | 3.08 | **149** | 149 |
| Share premium | 3.08 | **1,000** | 992 |
| Employee scheme treasury shares | | **(65)** | (52) |
| Capital redemption and other reserves | | **250** | 230 |
| Retained earnings | | **8,033** | 7,261 |
| **Attributable to owners of the parent** | | **9,367** | 8,580 |
| Non-controlling interests | 3.09 | **55** | 72 |
| **Total equity** | | **9,422** | 8,652 |
| **Liabilities** | | | |
| Non-participating insurance contract liabilities | | **77,317** | 64,707 |
| Non-participating investment contract liabilities | | **320,594** | 293,080 |
| Core borrowings | 3.1 | **4,091** | 3,922 |
| Operational borrowings | 3.11 | **1,020** | 1,026 |
| Provisions | 3.15 | **1,220** | 1,140 |
| UK deferred tax liabilities | 3.07 | **189** | 144 |
| Overseas deferred tax liabilities | 3.07 | **182** | 185 |
| Current tax liabilities | | **107** | 171 |
| Payables and other financial liabilities | 3.12 | **84,039** | 62,548 |
| Other liabilities | | **804** | 619 |
| Net asset value attributable to unit holders | | **31,507** | 26,481 |
| Liabilities of operations classified as held for sale | 3.04 | **30,115** | 29,842 |
| **Total liabilities** | | **551,185** | 483,865 |
| **Total equity and liabilities** | | **560,607** | 492,517 |

1. Property, plant and equipment for 2019 includes £238m of right of use assets that have arisen on the implementation of IFRS 16.

## 2.04 Consolidated Statement of Changes in Equity

| 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** |
| Profit for the year | - | - | - | - | 1,834 | 1,834 | (24) | 1,810 |
| Exchange differences on translation of overseas operations | - | - | - | (67) | - | (67) | - | (67) |
| Net movement in cross-currency hedge | - | - | - | 12 | - | 12 | - | 12 |
| Net actuarial losses on defined benefit pension schemes | - | - | - | - | (51) | (51) | - | (51) |
| Net movement in financial investments designated as available-for-sale | - | - | - | 57 | - | 57 | - | 57 |
| Total comprehensive income for the year | - | - | - | 2 | 1,783 | 1,785 | (24) | 1,761 |
| Options exercised under share option schemes | - | 8 | - | - | - | 8 | - | 8 |
| Shares purchased | - | - | (20) | - | - | (20) | - | (20) |
| Shares vested | - | - | 7 | (35) | - | (28) | - | (28) |
| Employee scheme treasury shares: - Value of employee services | - | - | - | 39 | - | 39 | - | 39 |
| Share scheme transfers to retained earnings | - | - | - | - | 1 | 1 | - | 1 |
| 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.

## 2.04 Consolidated Statement of Changes in Equity (continued)

| For the year ended 31 December 2018 | Share capital £m | Share premium £m | Employee scheme treasury shares £m | Capital redemption and other reserves[1] £m | Retained earnings £m | Equity attributable to owners of the parent £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | 149 | 988 | (40) | 168 | 6,251 | 7,516 | 76 | 7,592 |
| Profit for the year | - | - | - | - | 1,827 | 1,827 | (19) | 1,808 |
| Exchange differences on translation of overseas operations | - | - | - | 62 | - | 62 | - | 62 |
| Net movement in cross-currency hedge | - | - | - | 29 | - | 29 | - | 29 |
| Net actuarial gains on defined benefit pension schemes | - | - | - | - | 95 | 95 | - | 95 |
| Net movement in financial investments designated as available-for-sale | - | - | - | (31) | - | (31) | - | (31) |
| Total comprehensive income for the year | - | - | - | 60 | 1,922 | 1,982 | (19) | 1,963 |
| Options exercised under share option schemes | - | 4 | - | - | - | 4 | - | 4 |
| Shares purchased | - | - | (17) | - | - | (17) | - | (17) |
| Shares vested | - | - | 5 | (26) | - | (21) | - | (21) |
| Employee scheme treasury shares:<br>- Value of employee services | - | - | - | 38 | - | 38 | - | 38 |
| Share scheme transfers to retained earnings | - | - | - | - | 10 | 10 | - | 10 |
| Dividends | - | - | - | - | (932) | (932) | - | (932) |
| Movement in third party interests | - | - | - | - | - | - | 15 | 15 |
| Currency translation differences | - | - | - | (10) | 10 | - | - | - |
| As at 31 December 2018 | 149 | 992 | (52) | 230 | 7,261 | 8,580 | 72 | 8,652 |

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

## 2.05 Consolidated Statement of Cash Flows

| For the year ended 31 December 2019 | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year** | | **1,810** | 1,808 |
| **Adjustments for non cash movements in net profit for the year** | | | |
| Net (gains)/losses on financial investments and investment property | | **(45,516)** | 23,132 |
| Investment income | | **(10,501)** | (10,182) |
| Interest expense | | **322** | 293 |
| Tax expense | | **598** | 210 |
| Other adjustments | | **117** | 183 |
| **Net (increase)/decrease in operational assets** | | | |
| Investments held for trading or designated as fair value through profit or loss | | **(18,031)** | (10,381) |
| Investments designated as available-for-sale | | **(179)** | (248) |
| Other assets | | **(4,660)** | 1,258 |
| **Net increase/(decrease) in operational liabilities** | | | |
| Insurance contracts | | **13,089** | 3,257 |
| Investment contracts | | **27,514** | (22,571) |
| Other liabilities | | **21,313** | 12,057 |
| Net increase/(decrease) in held for sale net liabilities | | **1,206** | (8,500) |
| **Cash utilised in operations** | | **(12,918)** | (9,684) |
| Interest paid | | **(263)** | (215) |
| Interest received | | **5,047** | 4,841 |
| Tax paid[1] | | **(540)** | (504) |
| Dividends received | | **5,389** | 5,201 |
| **Net cash flows utilised in operating activities** | | **(3,285)** | (361) |
| **Cash flows from investing activities** | | | |
| Net acquisition of plant, equipment, intangibles and other assets | | **(89)** | (401) |
| Net disposal/(acquisition) of operations, net of cash (transferred)/acquired | 3.02, 3.03 | **198** | 326 |
| Net disposal/(investment) in associates and joint ventures | | **29** | (130) |
| **Net cash flows generated/(utilised) from investing activities** | | **138** | (205) |
| **Cash flows from financing activities** | | | |
| Dividend distributions to ordinary equity holders during the year | 3.05 | **(998)** | (932) |
| Options exercised under share option schemes | 3.08 | **8** | 4 |
| Treasury shares purchased for employee share schemes | | **(20)** | 12 |
| Payment of lease liabilities | | **(33)** | - |
| Proceeds from borrowings | | **1,309** | 960 |
| Repayment of borrowings | | **(958)** | (325) |
| **Net cash flows utilised in financing activities** | | **(692)** | (281) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(3,839)** | (847) |
| Exchange (losses)/gains on cash and cash equivalents | | **(16)** | 16 |
| Cash and cash equivalents at 1 January (before reallocation of held for sale cash) | | **18,088** | 18,919 |
| **Total cash and cash equivalents** | | **14,233** | 18,088 |
| Less: cash and cash equivalents of operations classified as held for sale | 3.04 | **(310)** | (767) |
| **Cash and cash equivalents at 31 December** | | **13,923** | 17,321 |

1. Tax comprises UK corporation tax paid of £381m (2018: £359m), withholding tax of £166m (2018: £120m) and an overseas corporate tax refund of £7m (2018: tax paid £25m).

## 3.01 Basis of preparation

The preliminary announcement for the year ended 31 December 2019 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information in this preliminary announcement has been derived from the group financial statements within the group's 2019 Annual report and accounts, which will be available on the group's website on 12 March 2020. The group's 2018 Annual report and accounts have been filed with the Registrar of Companies, and those for 2019 will be delivered in due course. KPMG have reported on the 2019 and 2018 report and accounts. Both their reports were (i) unqualified, (ii) did not include a reference to any matters to which they drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted by the European Union. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

Financial assets and financial liabilities are disclosed gross in the Consolidated Balance Sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or interpretations by the IFRS Interpretations Committee.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into sterling, the group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for the income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

**Critical accounting policies and the use of estimates**
The preparation of the financial statements 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. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the valuation of insurance and investment contract liabilities, unquoted illiquid assets, investment property, and the determination of defined benefit pension plan assumptions. From a policy application perspective, the major areas of judgement are the assessment of whether a contract transfers significant insurance risk to the group, and whether the group controls underlying entities and should therefore consolidate them. The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the group's 2019 Annual Report and Accounts.

**Key technical terms and definitions**
The report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within 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.

## 3.02 Acquisitions

**Accelerated Digital Ventures Limited**
On 31 August 2019 the group increased its shareholding in Accelerated Digital Ventures Ltd to 97% from 48.5%.

The transaction has been accounted for as a stepped acquisition in accordance with IFRS 3 'Business combinations'. The assets and liabilities acquired at the point of the transaction have been recorded at the fair value for the purposes of the acquisition balance sheet and included in the consolidated accounts of the group using the group's accounting policies in accordance with IFRS.

The total deemed consideration for the 97% stake was £41m compared to £49m of net assets at fair value net of non-controlling interest, giving rise to a one off gain of £8m, which has been recognised within other operational income in the Consolidated Income Statement.

## 3.03 Disposals

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

**Legal & General Insurance Limited**
On 31 May 2019 the group announced the sale of its General Insurance ("GI") business to Allianz, and the transaction completed on 31 December 2019 for an estimated consideration of £255m. The carrying value of the GI business on disposal was £231m, resulting in a profit on disposal of £2m, net of transaction and separation costs of £22m.

The result arising from the GI business until its disposal, as well as the gain on the sale, have been recognised in the Consolidated Income Statement, as part of profit from discontinued operations.

The GI balance sheet on disposal is presented below:

| | Total 2019 £m |
|---|---|
| Deferred acquisition costs | **65** |
| Financial investments | **368** |
| Receivables | **160** |
| Intangible assets | **44** |
| Reinsurers' share of contract liabilities | **24** |
| Cash and cash equivalents | **26** |
| Other assets | **9** |
| **Total assets** | **696** |
| Insurance contract liabilities | **378** |
| Tax liabilities | **49** |
| Other liabilities | **38** |
| **Total liabilities** | **465** |
| **Net assets on disposal** | **231** |

## 3.04 Assets and liabilities of operations classified as held for sale

**Mature Savings**
On 6 December 2017 the group announced the sale of its Mature Savings business to the ReAssure Limited, a subsidiary of Swiss Re Limited ('Swiss Re') for a consideration of £650m. As part of the transaction, on 1 January 2018 the group entered into a risk transfer agreement with Swiss Re, whereby the group 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 finalise in 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 31 December 2019. 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 reflects the unwind of expected underlying profits, which will offset the final profit on disposal.

Swiss Re has since announced the sale of ReAssure Limited to Phoenix Group Holdings. The announcement is not expected to have any direct impact on the transfer of the Mature Savings business to ReAssure Limited.

## 3.05 Dividends and appropriations

| | **Dividend 2019 £m** | **Per share[1] 2019 p** | Dividend 2018 £m | Per share[1] 2018 p |
|---|---|---|---|---|
| Ordinary dividends paid and charged to equity in the year: | | | | |
| - Final 2017 dividend paid in June 2018 | **-** | **-** | 658 | 11.05 |
| - Interim 2018 dividend paid in September 2018 | **-** | **-** | 274 | 4.60 |
| - Final 2018 dividend paid in June 2019 | **704** | **11.82** | - | - |
| - Interim 2019 dividend paid in September 2019 | **294** | **4.93** | - | - |
| **Total dividends** | **998** | **16.75** | 932 | 15.65 |
| **Ordinary share dividend proposed[2]** | **753** | **12.64** | 704 | 11.82 |

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. Subsequent to 31 December 2019, the directors declared a final dividend for 2019 of 12.64 pence per ordinary share. This dividend will be paid on 4 June 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 31 December 2019.

### 3.06 Financial investments and investment property

| | 2019 £m | 2018 £m |
|---|---|---|
| Equities[1] | **200,365** | 177,566 |
| Debt securities[2] | **286,916** | 254,452 |
| Accrued interest | **1,647** | 1,635 |
| Derivative assets[3] | **14,828** | 10,065 |
| Loans[4] | **16,814** | 9,662 |
| **Financial investments** | **520,570** | 453,380 |
| **Investment property** | **9,107** | 8,608 |
| **Total financial investments and investment property** | **529,677** | 461,988 |
| Less: financial investments and investment property of operations classified as held for sale | **(23,606)** | (24,525) |
| **Financial investments and investment property** | **506,071** | 437,463 |

1. Equity securities include investments in unit trusts of £13,046m (2018: £10,553m).
2. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 6.03.
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 £13,113m (2018: £7,791m).
4. Loans include £437m (2018: £456m) of loans valued at amortised cost.

### 3.07 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 2019 £m** | **Total 2019 £m** | Continuing operations 2018 £m | Total 2018 £m |
|---|---|---|---|---|
| Profit before tax attributable to equity holders | **2,084** | **2,112** | 2,076 | 2,128 |
| Tax calculated at 19.00% | **396** | **401** | 394 | 404 |
| Adjusted for the effects of: | | | | |
| **Recurring reconciling items:** | | | | |
| Income not subject to tax | **(4)** | **(4)** | - | - |
| (Lower)/higher rate of tax on profits taxed overseas[1] | **(117)** | **(117)** | (55) | (55) |
| Non-deductible expenses | **2** | **2** | 5 | 5 |
| Differences between taxable and accounting investment gains | **(10)** | **(10)** | (4) | (4) |
| Property income attributable to minority interests | **4** | **4** | - | - |
| Foreign tax | **6** | **6** | - | - |
| Unrecognised tax losses | **14** | **14** | - | - |
| **Non-recurring reconciling items:** | | | | |
| Income not subject to tax | **(6)** | **(6)** | (10) | (10) |
| Non-deductible expenses | **6** | **6** | 5 | 5 |
| Adjustments in respect of prior years[2] | **9** | **9** | (35) | (36) |
| Impact of changes in corporate tax rates on deferred tax balances | **(2)** | **(2)** | 11 | 11 |
| Other | **(1)** | **(1)** | - | - |
| **Tax attributable to equity holders** | **297** | **302** | 311 | 320 |
| **Equity holders' effective tax rate**[3] | **14.3%** | **14.3%** | 15.0% | 15.0% |

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 effect of our US operations taxed at 21%.
2. Adjustments in respect of prior years relate to revisions to earlier estimates.
3. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

### 3.07 Tax

### (b) Deferred tax

| Deferred tax (liabilities)/assets | 2019 £m | 2018 £m |
|---|---|---|
| Deferred acquisition expenses | **35** | 25 |
| - UK | **(40)** | (40) |
| - Overseas | **75** | 65 |
| Difference between the tax and accounting value of insurance contracts | **(630)** | (577) |
| - UK | **(198)** | (171) |
| - Overseas | **(432)** | (406) |
| Unrealised gains on investments | **(184)** | (72) |
| Excess of depreciation over capital allowances | **15** | 12 |
| Excess expenses | **20** | 21 |
| Accounting provisions and other | **(44)** | (28) |
| Trading losses[1] | **217** | 163 |
| Pension fund deficit | **28** | 41 |
| Acquired intangibles | **(2)** | (4) |
| **Total net deferred tax liabilities[2]** | **(545)** | (419) |
| Less: net deferred tax liabilities of operations classified as held for sale | **182** | 97 |
| **Net deferred tax liabilities** | **(363)** | (322) |

| Analysed by: | | |
|---|---|---|
| - Deferred tax assets | **8** | 7 |
| - UK deferred tax liabilities | **(189)** | (144) |
| - Overseas deferred tax liabilities | **(182)** | (185) |
| **Net deferred tax liabilities** | **(363)** | (322) |

1. Trading losses include deferred tax on UK trade and US operating losses of £4m (2018: £4m) and £213m (2018: £159m) respectively.
2. Total net deferred tax liabilities are presented gross of held for sale liabilities in 2019. Disclosure relating to liabilities of operations classified as held for sale is included in Note 3.04.

### 3.08 Share capital and share premium

| Authorised share capital | 2019 Number of shares | 2019 £m | 2018 Number of shares | 2018 £m |
|---|---|---|---|---|
| At 31 December: ordinary shares of 2.5p each | **9,200,000,000** | **230** | 9,200,000,000 | 230 |

| **Issued share capital, fully paid** | **Number of shares** | **Share capital £m** | **Share premium £m** |
|---|---|---|---|
| **As at 1 January 2019** | **5,960,768,234** | **149** | **992** |
| Options exercised under share option schemes | **4,581,373** | **-** | **8** |
| **As at 31 December 2019** | **5,965,349,607** | **149** | **1,000** |

| Issued share capital, fully paid | Number of shares | Share capital £m | Share premium £m |
|---|---|---|---|
| As at 1 January 2018 | 5,958,438,193 | 149 | 988 |
| Options exercised under share option schemes | 2,330,041 | - | 4 |
| As at 31 December 2018 | 5,960,768,234 | 149 | 992 |

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

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

### 3.09 Non-controlling interests

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

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

## 3.10 Core borrowings

| | Carrying amount 2019 £m | Coupon rate 2019 % | Fair value 2019 £m | Carrying amount 2018 £m | Coupon rate 2018 % | Fair value 2018 £m |
|---|---|---|---|---|---|---|
| **Subordinated borrowings** | | | | | | |
| 5.875% Sterling undated subordinated notes (Tier 2) | **-** | **-** | **-** | 405 | 5.88 | 409 |
| 10% Sterling subordinated notes 2041 (Tier 2) | **312** | **10.00** | **353** | 312 | 10.00 | 366 |
| 5.5% Sterling subordinated notes 2064 (Tier 2) | **589** | **5.50** | **726** | 589 | 5.50 | 569 |
| 5.375% Sterling subordinated notes 2045 (Tier 2) | **603** | **5.38** | **691** | 603 | 5.38 | 627 |
| 5.25% US Dollar subordinated notes 2047 (Tier 2) | **648** | **5.25** | **704** | 659 | 5.25 | 612 |
| 5.55% US Dollar subordinated notes 2052 (Tier 2) | **380** | **5.55** | **405** | 387 | 5.55 | 356 |
| 5.125% Sterling subordinated notes 2048 (Tier 2) | **399** | **5.13** | **459** | 399 | 5.13 | 401 |
| 3.75% Sterling subordinated notes 2049 (Tier 2) | **598** | **3.75** | **613** | - | - | - |
| Client fund holdings of group debt (Tier 2)[1] | **(38)** | **-** | **(44)** | (31) | - | (30) |
| **Total subordinated borrowings** | **3,491** | | **3,907** | 3,323 | | 3,310 |
| **Senior borrowings** | | | | | | |
| Sterling medium term notes 2031-2041 | **609** | **5.88** | **877** | 609 | 5.88 | 824 |
| Client fund holdings of group debt[1] | **(9)** | **-** | **(13)** | (10) | - | (13) |
| **Total senior borrowings** | **600** | | **864** | 599 | | 811 |
| **Total core borrowings** | **4,091** | | **4,771** | 3,922 | | 4,121 |

1. £47m (2018: £41m) 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.

## 3.10 Core borrowings (continued)

**Subordinated borrowings**
*5.875% Sterling undated subordinated notes*
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes were called at par on 1 April 2019.

*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.

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.

### 3.11 Operational borrowings

| | **Carrying amount 2019 £m** | **Interest rate 2019 %** | **Fair value 2019 £m** | Carrying amount 2018 £m | Interest rate 2018 % | Fair value 2018 £m |
|---|---|---|---|---|---|---|
| **Short term operational borrowings** | | | | | | |
| Euro Commercial Paper | **200** | **0.93** | **200** | 293 | 0.93 | 293 |
| **Non recourse borrowings** | | | | | | |
| Consolidated Property Limited Partnerships | **58** | **2.36** | **58** | 57 | 2.46 | 57 |
| Later Living portfolio | **72** | **3.47** | **72** | 76 | 3.45 | 76 |
| CALA revolving credit facility | **178** | **3.37** | **178** | 188 | 3.37 | 188 |
| Class B Surplus Notes | **489** | **4.33** | **489** | 296 | 5.61 | 296 |
| Affordable Homes revolving credit facility | **29** | **2.66** | **29** | - | - | - |
| L&G Homes Limited revolving credit facility | **16** | **3.44** | **16** | - | - | - |
| **Bank loans and overdrafts** | **-** | **-** | **-** | 83 | - | 83 |
| **Total operational borrowings**[1] | **1,042** | | **1,042** | 993 | | 993 |
| Less: liabilities of operations classified as held for sale[2] | **(29)** | **2.36** | **(29)** | (28) | 2.46 | (28) |
| **Operational borrowings** | **1,013** | | **1,013** | 965 | | 965 |

1. Unit linked borrowings with a carrying value of £7m (2018: £61m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,020m (2018: £1,026m).
2. Disclosure related to liabilities of operations classified as held for sale is included in Note 3.04.

**Non recourse borrowings**

- Consolidated Property Limited Partnerships loans have a charge on the assets of the relevant Property Fund

- Loan facilities to Later Living portfolio have a charge on all assets of each individual SPV company.

- CALA Group (Holdings) Limited's revolving credit facility is secured by way of a bond and floating charge, and guarantees and fixed charges granted by CALA Group Limited and its main subsidiaries (CALA 1999 Limited, CALA Limited, and CALA Management Limited). A number of other bonds and floating charges, fixed securities, debentures and share pledges over land and assets have been granted by certain subsidiaries of CALA Group Limited in favour of the lenders.

- The Class B Surplus Notes have been issued by a US subsidiary of the group as part of a coinsurance structure for the purpose of US statutory regulations. The notes were issued in exchange for bonds of the same value from an unrelated party, included within financial investments on the group's Consolidated Balance Sheet.

- The revolving credit facility to Affordable Homes is subject to agreed covenants, the breach of which could result in a charge on the land and work in progress of L&G Affordable Homes (Development 2) Limited.

- The revolving credit facility to L&G Homes Limited is secured by way of a charge on the land assets of L&G Homes Limited.

The carrying value of operational borrowings approximates their fair value. The presented fair values reflect observable market information and have been classified as Level 2 in the fair value hierarchy with the exception of the Later Living portfolio, Affordable Homes and L&G Homes Limited revolving credit facilities which have been classified as Level 3.

As at 31 December 2019, the group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 31 December 2019.

## 3.12 Payables and other financial liabilities

| | 2019 £m | 2018 £m |
|---|---|---|
| Derivative liabilities | **13,113** | 7,791 |
| Repurchase agreements[1] | **56,884** | 43,775 |
| Other financial liabilities[2] | **14,476** | 11,406 |
| **Total payables and other financial liabilities** | **84,473** | 62,972 |
| Less: Payables and other liabilities of operations classified as held for sale[3] | **(434)** | (424) |
| **Payables and other financial liabilities** | **84,039** | 62,548 |
| Due within 12 months[4] | **64,689** | 51,178 |
| Due after 12 months[4] | **19,784** | 11,794 |

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, 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 £7,673m (2018: £4,883m).
3. Disclosure relating to liabilities of operations classified as held for sale is included in Note 3.04.
4. The maturity analysis of the liabilities between less and more than 12 months is based on the Total payables and other financial liabilities.

## Fair value hierarchy

| 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** |

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

Trail commission (included within Other financial liabilities) is modelled using expected cash flows, incorporating expected future persistency. It has therefore been classified as Level 3 liabilities. A reasonably possible alternative persistency assumption would have the effect of increasing the trail commission liability by £4m (2018: £4m).

#### Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the year ended 31 December 2019 (2018: no significant transfers).

### 3.13 Sensitivity analysis

| | **Impact on pre-tax group profit net of re-insurance 2019 £m** | **Impact on group equity net of re-insurance 2019 £m** | Impact on pre-tax group profit net of re-insurance 2018 £m | Impact on group equity net of re-insurance 2018 £m |
|---|---|---|---|---|
| **Economic sensitivity** | | | | |
| **Long-term insurance** | | | | |
| 100bps increase in interest rates | **257** | **130** | 384 | 209 |
| 50bps decrease in interest rates | **(188)** | **(109)** | (220) | (122) |
| 50bps increase in future inflation expectations | **53** | **43** | 65 | 53 |
| Credit spreads widen by 100bps with no change in expected defaults | **(220)** | **(273)** | (138) | (213) |
| 25% rise in equity markets | **434** | **383** | 458 | 399 |
| 25% fall in equity markets | **(434)** | **(383)** | (459) | (399) |
| 15% rise in property values | **899** | **744** | 738 | 606 |
| 15% fall in property values | **(958)** | **(791)** | (761) | (623) |
| 10bps increase in credit default assumptions | **(717)** | **(580)** | (551) | (446) |
| 10bps decrease in credit default assumptions | **633** | **512** | 558 | 451 |
| **Non-economic sensitivity** | | | | |
| **Long-term insurance** | | | | |
| 1% increase in annuitant mortality | **195** | **221** | 157 | 192 |
| 1% decrease in annuitant mortality | **(201)** | **(225)** | (147) | (183) |
| 5% increase in assurance mortality | **(385)** | **(305)** | (375) | (298) |

The table above shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The current disclosure reflects management's view of key risks in current economic conditions.

The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. The scenario does not reflect management actions which could be taken to reduce the impact of a decrease in interest rates.

The change in interest rate test assumes a 100 basis point increase and a 50 basis point decrease in the gross redemption yield on fixed interest securities together with the same change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields, adjusted to allow for prudence calculated in a manner consistent with the base results.

In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.

The inflation stress adopted is a 0.5% pa increase in inflation, resulting in a 0.5% pa reduction in real yield and no change to the nominal yield. In addition, the expense inflation rate is increased by 0.5% pa.

The credit default assumption is set based on the credit rating of individual bonds and their outstanding term using Moody's global credit default rates. The credit default stress assumes a +/-10bps stress to the current unapproved credit default assumption, which will have an impact on the valuation interest rates used to discount liabilities. Other credit default allowances are unchanged.

The property stresses adopted are a 15% rise and 15% fall in property market values. Rental income is assumed to be unchanged. Where property is being used to back liabilities, valuation interest rates move with property yields, and so the value of the liabilities will also move.

The annuitant mortality stresses are a 1% increase and 1% decrease in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates. The equity stresses are a 25% rise and 25% fall in listed equity market values.

The assurance mortality stress is a 5% increase in the mortality and morbidity rates with no change to the mortality and morbidity improvement rates.

The sensitivity analyses do not take into account management actions that could be taken to reduce the impacts. The Group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Group asset and liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

### 3.14 Foreign exchange rates

Principal rates of exchange used for translation are:

| Year end exchange rates | 2019 | 2018 |
|---|---|---|
| United States dollar | **1.33** | 1.28 |
| Euro | **1.18** | 1.11 |

| Average exchange rates | 2019 | 2018 |
|---|---|---|
| United States dollar | **1.28** | 1.34 |
| Euro | **1.14** | 1.13 |

### 3.15 Provisions

### (a) Analysis of provisions

| | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| Retirement benefit obligations | 3.16 (b) | **1,107** | 1,112 |
| Other provisions | | **114** | 29 |
| **Total provisions** | | **1,221** | 1,141 |
| Less: liabilities of operations classified as held for sale[1] | | **(1)** | (1) |
| **Provisions** | | **1,220** | 1,140 |

1. Disclosure related to liabilities of operations classified as held for sale is included in Note 3.04

### (b) Retirement benefit obligations

| | Fund and Scheme 2019 £m | CALA Homes and Overseas 2019 £m | Fund and Scheme 2018 £m | CALA Homes and Overseas 2018 £m |
|---|---|---|---|---|
| Gross pension obligations included in provisions | **1,083** | **24** | 1,091 | 21 |
| Annuity obligations insured by LGAS | **(944)** | **-** | (858) | - |
| **Gross defined benefit pension deficit** | **139** | **24** | 233 | 21 |
| Deferred tax on defined benefit pension deficit | **(24)** | **(4)** | (41) | (1) |
| **Net defined benefit pension deficit** | **115** | **20** | 192 | 20 |

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.

## 3.16 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.

## 3.17 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 year. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £86m (2018: £84m) for all employees.

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

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

| | **2019**<br>**£m** | 2018<br>£m |
|---|---|---|
| Salaries | **12** | 10 |
| Post-employment benefits | **-** | - |
| Share-based incentive awards | **7** | 6 |
| **Key management personnel compensation**[1] | **19** | 16 |

1. Information relating to individual directors' emoluments, interests and transactions is given in the Directors' Report on Remuneration in the Annual Report and Accounts.

#### (ii) Services provided to and by related parties

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

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

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £78m (2018: £59m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;

- Loans outstanding from related parties at 31 December 2019 of £83m (2018: £201m), with a further commitment of £16m;

- The group has total other commitments of £1,213m to related parties (2018: £837m), of which £749m has been drawn at 31 December 2019 (2018: £507m).

## Asset and premium flows

### 4.01 LGIM Total assets under management[1] (AUM)

| **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.

| For the year ended 31 December 2018 | Index[1] £bn | Active strategies[1] £bn | Multi asset[1] £bn | Solutions[1,2] £bn | Real assets[1] £bn | Total AUM £bn |
|---|---|---|---|---|---|---|
| As at 1 January 2018 | 338.2 | 148.2 | 38.8 | 435.1 | 23.0 | 983.3 |
| Canvas acquisition[3] | 2.4 | - | - | - | - | 2.4 |
| External inflows | 54.2 | 16.3 | 9.7 | 24.1 | 1.5 | 105.8 |
| External outflows | (69.0) | (6.4) | (2.3) | (13.8) | (1.6) | (93.1) |
| Overlay/advisory net flows | - | - | - | 29.9 | - | 29.9 |
| External net flows[4] | (14.8) | 9.9 | 7.4 | 40.2 | (0.1) | 42.6 |
| Internal net flows | (0.7) | 1.5 | (0.8) | 0.1 | 2.5 | 2.6 |
| Total net flows | (15.5) | 11.4 | 6.6 | 40.3 | 2.4 | 45.2 |
| Cash management movements[5] | - | (0.5) | - | - | - | (0.5) |
| Market and other movements[4] | (18.0) | 1.3 | (1.8) | 2.5 | 1.1 | (14.9) |
| As at 31 December 2018 | 307.1 | 160.4 | 43.6 | 477.9 | 26.5 | 1,015.5 |
| Assets attributable to: | | | | | | |
| External | | | | | | 921.7 |
| Internal | | | | | | 93.8 |

1. 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.
2. Solutions include liability driven investments and £303.9bn of derivative notionals associated with the Solutions business.
3. The acquisition of Canvas was completed in March 2018.
4. 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 as at 31 December 2018 was £60.1bn and the movement in these assets is included in market and other movements for Solutions assets.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

## 4.02 LGIM Total assets under management[1] half-yearly progression

| 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 | 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/ advisory 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 |
| **As at 30 June 2019** | **385.4** | **172.2** | **54.4** | **493.6** | **28.9** | **1,134.5** |
| External inflows | 35.4 | 8.3 | 4.7 | 16.7 | 1.0 | 66.1 |
| External outflows | (32.8) | (6.4) | (2.1) | (15.2) | (0.9) | (57.4) |
| Overlay / advisory net flows | - | - | - | 16.8 | - | 16.8 |
| ETF Net Flows | 0.6 | - | - | - | - | 0.6 |
| **External net flows[3]** | **3.2** | **1.9** | **2.6** | **18.3** | **0.1** | **26.1** |
| Internal net flows | (0.2) | 1.6 | (0.6) | (1.7) | 1.3 | 0.4 |
| **Total net flows** | **3.0** | **3.5** | **2.0** | **16.6** | **1.4** | **26.5** |
| Cash management movements[4] | - | (1.1) | - | - | - | (1.1) |
| Market and other movements[3] | 15.2 | 2.6 | 1.6 | 16.4 | 0.5 | 36.3 |
| **As at 31 December 2019** | **403.6** | **177.2** | **58.0** | **526.6** | **30.8** | **1,196.2** |

1. 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.

## 4.02 LGIM Total assets under management half-yearly progression (continued)

| For the year ended 31 December 2018 | Index[1] £bn | Active Strategies[1] £bn | Multi asset[1] £bn | Solutions[1,2] £bn | Real assets[1] £bn | Total AUM £bn |
|---|---|---|---|---|---|---|
| As at 1 January 2018 | 338.2 | 148.2 | 38.8 | 435.1 | 23.0 | 983.3 |
| Canvas Acquisition[3] | 2.4 | - | - | - | - | 2.4 |
| External inflows | 22.4 | 9.2 | 5.1 | 13.1 | 0.6 | 50.4 |
| External outflows | (41.2) | (2.3) | (0.9) | (7.8) | (0.5) | (52.7) |
| Overlay/ advisory net flows | - | - | - | 16.7 | - | 16.7 |
| ETF net flows | 0.2 | - | - | - | - | 0.2 |
| External net flows[4] | (18.6) | 6.9 | 4.2 | 22.0 | 0.1 | 14.6 |
| Internal net flows | (0.3) | (2.6) | (0.4) | 0.1 | 0.6 | (2.6) |
| Total net flows | (18.9) | 4.3 | 3.8 | 22.1 | 0.7 | 12.0 |
| Cash management movements[5] | - | 1.0 | - | - | - | 1.0 |
| Market and other movements[4] | (0.4) | (2.3) | 0.2 | (12.3) | 0.9 | (13.9) |
| As at 30 June 2018 | 321.3 | 151.2 | 42.8 | 444.9 | 24.6 | 984.8 |
| External inflows | 31.8 | 7.1 | 4.6 | 11.0 | 0.9 | 55.4 |
| External outflows | (27.8) | (4.1) | (1.4) | (6.0) | (1.1) | (40.4) |
| Overlay / advisory net flows | - | - | - | 13.2 | - | 13.2 |
| ETF net flows | (0.2) | - | - | - | - | (0.2) |
| External net flows[4] | 3.8 | 3.0 | 3.2 | 18.2 | (0.2) | 28.0 |
| Internal net flows | (0.4) | 4.1 | (0.4) | - | 1.9 | 5.2 |
| Total net flows | 3.4 | 7.1 | 2.8 | 18.2 | 1.7 | 33.2 |
| Cash management movements[5] | - | (1.5) | - | - | - | (1.5) |
| Market and other movements[4] | (17.6) | 3.6 | (2.0) | 14.8 | 0.2 | (1.0) |
| As at 31 December 2018 | 307.1 | 160.4 | 43.6 | 477.9 | 26.5 | 1,015.5 |

1. 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.
2. Solutions include liability driven investments and £303.9bn of derivative notionals associated with the Solutions business.
3. The acquisition of Canvas was completed in March 2018.
4. 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 as at 31 December 2018 was £60.1bn and the movement in these assets is included in market and other movements for Solutions assets.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

### 4.03 LGIM Total external assets under management and net flows

| | Assets under management | | | | Net flows[2] | | | |
|---|---|---|---|---|---|---|---|---|
| | **31 December 2019 £bn** | **30 June 2019 £bn** | 31 December 2018 £bn | 30 June 2018 £bn | **31 December 2019 £bn** | **30 June 2019 £bn** | 31 December 2018 £bn | 30 June 2018 £bn |
| **International[1]** | **276.7** | **248.6** | 177.7 | 165.8 | **14.6** | **44.6** | 9.7 | 9.9 |
| **UK Institutional** | | | | | | | | |
| - Defined contribution | **94.3** | **86.4** | 70.8 | 64 | **3.7** | **3.6** | 4.9 | 3.5 |
| - Defined benefit | **679.3** | **659.7** | 640.3 | 625.4 | **4.8** | **10.7** | 12.1 | (0.3) |
| **UK Retail** | | | | | | | | |
| - Retail intermediary | **33.1** | **30** | 25.5 | 25.1 | **2.5** | **1.7** | 1.6 | 1.4 |
| - Personal investing[3] | **5.7** | **5.6** | 5.1 | 5.7 | **(0.1)** | **(0.1)** | (0.1) | (0.1) |
| **ETF** | **3.1** | **2.4** | 2.3 | 2.8 | **0.6** | **(0.2)** | (0.2) | 0.2 |
| **Total external** | **1,092.2** | **1,032.7** | 921.7 | 888.8 | **26.1** | **60.3** | 28.0 | 14.6 |

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 £370bn as at December 2019 (2018: £258bn).
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 £1.6bn (2018: £1.8bn) of AUM relating to legacy Banks and Building Society customers which is driving net outflows.

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

| | **2019 £bn** | 2018 £bn |
|---|---|---|
| Assets under management | **1,196** | 1,015 |
| Derivative notionals[1] | **(336)** | (304) |
| Third party assets[2] | **(379)** | (284) |
| Other[3] | **63** | 53 |
| **Total financial investments, investment property and cash and cash equivalents** | **544** | 480 |
| Less: assets of operations classified as held for sale[4] | **(24)** | (25) |
| **Financial investments, investment property and cash and cash equivalents** | **520** | 455 |

1. Derivative notionals are included in the assets under management measure but are not for IFRS reporting and are thus removed.
2. Third party assets are those that LGIM manage on behalf of others which are not included on the group's Consolidated Balance Sheet.
3. Other includes assets that are managed by third parties on behalf of the group, other assets and liabilities related to financial investments, derivative assets and pooled funds.
4. Disclosure related to assets of operations classified as held for sale is included in Note 3.04.

## 4.05 Assets under administration

| | **Workplace[1] 2019 £bn** | **Annuities[2] 2019 £bn** | Workplace 2018 £bn | Annuities 2018 £bn |
|---|---|---|---|---|
| **As at 1 January** | **30.0** | **63.0** | 27.7 | 58.2 |
| Gross inflows | 7.3 | 12.4 | 5.6 | 9.9 |
| Gross outflows | (2.0) | - | (1.8) | - |
| Payments to pensioners | - | (4.1) | - | (3.5) |
| **Net flows** | **5.3** | **8.3** | 3.8 | 6.4 |
| Market and other movements | 5.0 | 4.6 | (1.5) | (1.6) |
| **As at 31 December** | **40.3** | **75.9** | 30.0 | 63.0 |

1. Workplace assets under administration as at 31 December 2019 includes £40.2bn of assets under management included in Note 4.01.
2. Annuities assets under administration as at 31 December 2019 includes £70.1bn of assets under management included in Note 4.01.

## 4.06 Assets under administration half-yearly progression

| **For the year ended 31 December 2019** | **Workplace 2019 £bn** | **Annuities 2019 £bn** | Workplace 2018 £bn | Annuities 2018 £bn |
|---|---|---|---|---|
| **As at 1 January 2019** | **30.0** | **63.0** | 27.7 | 58.2 |
| Gross inflows | 3.5 | 7.2 | 2.7 | 1.1 |
| Gross outflows | (0.9) | - | (0.8) | - |
| Payments to pensioners | - | (2.0) | - | (1.7) |
| **Net flows** | **2.6** | **5.2** | 1.9 | (0.6) |
| Market and other movements | 3.5 | 3.9 | 0.1 | (1.2) |
| **As at 30 June 2019** | **36.1** | **72.1** | 29.7 | 56.4 |
| Gross inflows | 3.8 | 5.2 | 2.9 | 8.8 |
| Gross outflows | (1.1) | - | (1.0) | - |
| Payments to pensioners | - | (2.1) | - | (1.8) |
| **Net flows** | **2.7** | **3.1** | 1.9 | 7.0 |
| Market and other movements | 1.5 | 0.7 | (1.6) | (0.4) |
| **As at 31 December 2019** | **40.3** | **75.9** | 30.0 | 63.0 |

## 4.07 LGR new business

| | Total 2019 £m | 6 months to 31 December 2019 £m | 6 months to 30 June 2019 £m | Total 2018 £m | 6 months to 31 December 2018 £m | 6 months to 30 June 2018 £m |
|---|---|---|---|---|---|---|
| Pension risk transfer | | | | | | |
| - UK | **10,325** | **4,009** | **6,316** | 8,351 | 7,844 | 507 |
| - US | **893** | **670** | **223** | 646 | 426 | 220 |
| - Bermuda | **174** | **36** | **138** | 143 | 135 | 8 |
| Individual annuities | **970** | **473** | **497** | 795 | 458 | 337 |
| Lifetime mortgage advances | **965** | **476** | **489** | 1,197 | 676 | 521 |
| Longevity insurance[1] | **-** | **-** | **-** | 287 | 287 | - |
| **Total LGR new business** | **13,327** | **5,664** | **7,663** | 11,419 | 9,826 | 1,593 |

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

## 4.08 LGI new business

| | Total 2019 £m | 6 months to 31 December 2019 £m | 6 months to 30 June 2019 £m | Total 2018 £m | 6 months to 31 December 2018 £m | 6 months to 30 June 2018 £m |
|---|---|---|---|---|---|---|
| UK Retail protection | **174** | **83** | **91** | 175 | 88 | 87 |
| UK Group protection | **76** | **32** | **44** | 83 | 49 | 34 |
| US protection[1] | **89** | **46** | **43** | 85 | 43 | 42 |
| **Total LGI new business** | **339** | **161** | **178** | 343 | 180 | 163 |

1. In local currency, US protection reflects new business of $113m for 2019 (H2: $58m; H1: $55m) (H2 18: $56m; H1 18: $58m).

## 4.09 Gross written premium on insurance business

| | Total 2019 £m | 6 months to 31 December 2019 £m | 6 months to 30 June 2019 £m | Total 2018 £m | 6 months to 31 December 2018 £m | 6 months to 30 June 2018 £m |
|---|---|---|---|---|---|---|
| UK Retail protection | **1,327** | **669** | **658** | 1,279 | 646 | 633 |
| UK Group protection | **345** | **112** | **233** | 329 | 106 | 223 |
| US Protection[1] | **1,057** | **539** | **518** | 972 | 511 | 461 |
| Longevity insurance | **376** | **186** | **190** | 379 | 192 | 187 |
| **Total gross written premiums on insurance business[2]** | **3,105** | **1,506** | **1,599** | 2,959 | 1,455 | 1,504 |

1. In local currency, US protection reflects new business of $1,349m for 2019 (H2: $679m; H1: $670m) (H2 18: $664m; H1 18: $635m).
2. Total insurance gross written premiums exclude gross written premiums of the General Insurance division following the group's announcement to sell the business to Allianz but in 2019 include £66m of gross written premiums relating to a residual reinsurance treaty. Balances for 2018 have been adjusted to reflect the removal of the General Insurance business.

## 5.01 Group regulatory capital – Solvency II

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

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

The group calculates its Solvency II capital requirements using a Partial Internal Model. The vast majority of the risk to which the group is exposed is assessed on the 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 end December 2019).

### (a) Capital position

As at 31 December 2019, and on the above basis, the group had a surplus of £7.3bn (31 December 2018: £6.9bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 184% (31 December 2018: 188%). The shareholder view of the Solvency II capital position is as follows:

| | **2019 £bn** | 2018 £bn |
|---|---|---|
| Tier 1 Own Funds | **12.4** | 11.5 |
| Tier 2 subordinated liabilities[1] | **3.9** | 3.5 |
| Eligibility restrictions | **(0.2)** | (0.2) |
| **Solvency II Own Funds[2,3]** | **16.1** | 14.8 |
| Solvency Capital Requirement | **(8.8)** | (7.9) |
| **Solvency II surplus** | **7.3** | 6.9 |
| **SCR coverage ratio[4]** | **184%** | 188% |

1. Tier 2 subordinated liabilities include redemption of a £0.4bn and an issuance of £0.6bn during the year.
2. Solvency II Own Funds do not include an accrual for the final dividend of £753m (31 December 2018: £704m) declared after the balance sheet date.
3. Solvency II Own Funds allow for a risk margin of £5.9bn (31 December 2018: £5.5bn) and TMTP of £5.7bn (31 December 2018: £5.2bn).
4. Coverage ratio is based on unrounded inputs.

The "shareholder view" basis excludes the contribution that the with-profits fund and the final salary pension 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 31 December 2019 is 179% (31 December 2018: 181%).

On 6 December 2017 the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). 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 2020, subject to satisfaction of normal conditions for a transaction including court sanction. The transfer will be effected by way of a Part VII transfer under the Financial Services markets Act 2000. The impact of the risk transfer agreement is reflected in both Own Funds and SCR.

On 31 May 2019, the group announced the sale of its General Insurance business to Allianz and the transaction completed on 31 December 2019, improving the Group's Solvency II coverage ratio by c.1%.

## 5.01 Group regulatory capital – Solvency II (continued)

## (b) Methodology

Own Funds comprise the excess of the value of assets over the liabilities, as valued on a Solvency II basis. Subordinated debt issued by the group is considered to be part of available capital, rather than a liability, as it is subordinate to policyholder claims. Own Funds include deductions in relation to fungibility and transferability restrictions, where the surplus Own Funds of a specific group entity cannot be freely transferred around the group due to local legal or regulatory constraints.

Assets are valued at IFRS fair value with adjustments to remove intangibles and deferred acquisition costs, and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Solvency II balance sheet.

Liabilities are valued on a best estimate market consistent basis, with the application of a Solvency II Matching Adjustment for valuing annuity liabilities. Own Funds incorporate changes to the Internal Model and Matching Adjustment during 2019 and the impacts of a recalculation of the TMTP as at end December 2019. The recalculated TMTP of £5.7bn (31 December 2018: £5.2bn) is net of amortisation to 31 December 2019.

The liabilities include a Risk Margin of £5.9bn (31 December 2018: £5.5bn) which represents an allowance for the cost of capital for a purchasing insurer to take on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed by the European Insurance and Occupational Pensions Authority (EIOPA).

The Solvency Capital Requirement is the amount of capital required to cover the 1-in-200 worst projected future outcome in the year following the valuation, allowing for realistic management and policyholder actions and the impact of the stress on the tax position of the group. This allows for diversification between the different firms within the group and between the risks to which they are exposed.

All material EEA insurance firms, including Legal and General Assurance Society Limited (LGAS) and Legal and General Assurance (Pensions Management) Limited, are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (LGRe) based in Bermuda) contribute over 93% of the group's SCR.

Insurance firms for which the capital requirements are less material are valued on a Solvency II Standard Formula basis. Firms which are not regulated but which carry material risks to the group's solvency are modelled in the Internal Model on the basis of applying an appropriate stress to their net asset value.

Legal & General America's Banner Life and its subsidiaries (LGA) are incorporated into the calculation of group solvency using a Deduction and Aggregation basis. All risk exposure in these firms is valued on a local statutory basis, with capital requirements set to a multiple of local statutory Risk Based Capital (RBC) and further restrictions on the surplus contribution to the group. The US regulatory regime is considered to be equivalent to Solvency II by the European Commission. The contribution to group SCR is 150% of the local Company Action Level RBC (CAL RBC). The contribution to group's Own Funds is the SCR together with any surplus capital in excess of 250% of CAL RBC.

All non-insurance regulated firms are included using their current regulatory surplus.

Allowance is made within the Solvency II balance sheet for the group's defined benefit pension schemes using results on an IFRS basis. Within the SCR an allowance is made by stressing the IFRS result position using the same Internal Model basis as for the insurance firms.

## (c) Assumptions

The calculation of the Solvency II balance sheet and associated capital requirements requires a number of assumptions, including:

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins. 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, with an 11 basis point (2018: 10 basis points) deduction to allow for a credit risk adjustment 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 31 December 2019 the Matching Adjustment for UK GBP was 110 basis points (31 December 2018: 138 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 53 basis points (31 December 2018: 52 basis points).

(ii) assumptions regarding management actions and policyholder behaviour across the full range of scenarios. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date;

(iii) assumptions regarding the volatility of the risks to which the group is exposed. Assumptions have been set using a combination of historic market, demographic and operating experience data. In areas where data is not considered robust, expert judgement has been used; and

(iv) assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

## 5.01 Group regulatory capital – Solvency II (continued)

### (d) Analysis of change

The table below shows the movement (net of tax) during the year ended 31 December 2019 in the group's Solvency II surplus.

| | **2019 £bn** | 2018 £bn |
|---|---|---|
| Surplus arising from back-book (including release of SCR) | **1.5** | 1.4 |
| Release of risk margin[1] | **0.4** | 0.4 |
| Amortisation of TMTP[2] | **(0.3)** | (0.4) |
| **Operational surplus generation**[3] | **1.6** | 1.4 |
| New business strain | **(0.6)** | (0.5) |
| **Net surplus generation** | **1.0** | 0.9 |
| Operating variances[4] | **0.3** | 0.1 |
| Mergers, acquisitions and disposals[5] | **0.1** | - |
| Market movements[6] | **(0.2)** | (0.5) |
| Subordinated debt | **0.2** | 0.4 |
| Dividends paid[7] | **(1.0)** | (0.9) |
| **Total surplus movement (after dividends paid in the year)** | **0.4** | **-** |

1. Based on the risk margin in force at end 2018 and does not include the release of any risk margin added by new business written in 2019.
2. TMTP amortisation based on a linear run down of the end-2018 TMTP of £4.4bn (net of tax, £5.2bn before tax), based on management's estimate of the TMTP on end-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 2019 these are primarily related to the optimisation of structures used to make assets matching adjustment eligible and the planned reinsurance of backbook liabilities.
4. 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 Legal & General Insurance Limited and group's stake in IndiaFirst Life Insurance Company Limited.
6. Market movements represent the impact of changes in investment market conditions over the period and changes to future economic assumptions. Market movements in 2019 include an increase in the risk margin of £0.5bn (net of tax) and an increase to TMTP of £0.6bn (net of tax).
7. Dividends paid are the amounts from the 2018 final and 2019 interim dividend declarations paid in 2019 (2018: 2017 final and 2018 interim dividend declarations).

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.

## 5.01 Group regulatory capital – Solvency II (continued)

### (e) 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.

| | 2019 £bn | 2018 £bn |
|---|---|---|
| **IFRS Release from Operations** | **1.3** | 1.3 |
| Expected release of IFRS prudential margins | **(0.5)** | (0.5) |
| Releases of IFRS specific reserves[1] | **(0.1)** | (0.1) |
| Solvency II investment margin[2,3] | **0.2** | 0.1 |
| Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation | **0.7** | 0.6 |
| **Solvency II Operational Surplus Generation**[4] | **1.6** | 1.4 |

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 2019.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2019 were expected to take place within the group plan.

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

| | 2019 £bn | 2018 £bn |
|---|---|---|
| **IFRS New business surplus** | **0.3** | 0.2 |
| 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 | **(0.9)** | (0.7) |
| Set up of risk margin on new business | **(0.2)** | (0.2) |
| **Solvency II New business strain**[1] | **(0.6)** | (0.5) |

1. UK PRT new business volumes over 2019 were £10.3bn, compared to £8.4bn over 2018.

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

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

| | 2019 £bn | 2018 £bn |
|---|---|---|
| **IFRS shareholders' equity**[1] | **9.4** | 8.6 |
| Remove DAC, goodwill and other intangible assets and associated liabilities | **(0.5)** | (0.8) |
| Add IFRS carrying value of subordinated borrowings[2] | **3.5** | 3.3 |
| Insurance contract valuation differences[3] | **5.2** | 5.1 |
| Difference in value of net deferred tax liabilities | **(0.5)** | (0.3) |
| SCR for with-profits fund and final salary pension schemes | **(0.8)** | (0.8) |
| Other[4] | **-** | (0.1) |
| Eligibility restrictions[5] | **(0.2)** | (0.2) |
| **Solvency II Own Funds**[6] | **16.1** | 14.8 |

1. Value is 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. Reflects valuation differences on other assets and liabilities, predominantly in respect of borrowings measured at fair value under Solvency II which are largely offsetting in 2019.
5. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
6. Solvency II Own Funds do not include an accrual for the final dividend of £753m (31 December 2018: £704m) declared after the balance sheet date.

## 5.01 Group regulatory capital – Solvency II (continued)

### (g) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2019 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

| | **Impact on net of tax Solvency II capital surplus[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] |
|---|---|---|---|---|
| | **2019** | **2019** | 2018 | 2018 |
| | **£bn** | **%** | £bn | % |
| Credit spreads widen by 100bps assuming an escalating addition to ratings[2,3] | **0.3** | **8** | 0.3 | 10 |
| Credit spreads narrow by 100bps assuming an escalating addition to ratings[2,3] | **(0.4)** | **(9)** | (0.4) | (10) |
| Credit migration[4] | **(0.8)** | **(9)** | (0.8) | (10) |
| 25% rise in equity markets[5] | **0.5** | **4** | 0.5 | 6 |
| 25% fall in equity markets[5] | **(0.5)** | **(5)** | (0.5) | (6) |
| 15% rise in property markets[6] | **0.6** | **6** | 0.5 | 5 |
| 15% fall in property markets[6] | **(0.7)** | **(6)** | (0.6) | (7) |
| 100bps increase in risk free rates[7] | **1.0** | **22** | 0.9 | 24 |
| 50bps decrease in risk free rates[7,8] | **(0.6)** | **(11)** | (0.5) | (12) |
| Substantially reduced Risk Margin[9] | **0.6** | **6** | 0.4 | 5 |

1. Both the 2019 and 2018 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.
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.
4. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds, sale and leaseback rental strips and lifetime mortgage senior notes).
5. 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.
6. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
7. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
8. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
9. Assuming a 2/3 reduction in the Risk Margin, allowing for offset from the Transitional Measure on Technical Provisions.

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.

## 5.01 Group regulatory capital - Solvency II (continued)

### (h) Analysis of Group Solvency Capital Requirement

The table below shows a breakdown of the group's SCR by risk type. The split is shown before the effects of diversification and tax.

| | **2019 %** | 2018 % |
|---|---|---|
| Interest rate | **1** | 1 |
| Equity | **6** | 5 |
| Property | **9** | 8 |
| Credit[1] | **27** | 23 |
| Currency | **4** | 3 |
| Inflation | **6** | 5 |
| **Total Market risk**[2] | **53** | 45 |
| **Counterparty risk** | **2** | 2 |
| Life mortality | **3** | 3 |
| Life longevity[3] | **22** | 30 |
| Life mass lapse | **2** | 1 |
| Life non-mass lapse | **2** | 2 |
| Life catastrophe | **5** | 5 |
| Expense | **3** | 2 |
| **Total Insurance risk** | **37** | 43 |
| Non-life underwriting | **1** | 3 |
| Operational risk | **5** | 5 |
| Miscellaneous[4] | **2** | 2 |
| **Total SCR** | **100** | 100 |

1. Credit risk is one of the group's most significant exposures, arising predominantly from the portfolio of bonds and bond-like assets backing the group's annuity business.
2. In addition to credit risk the group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked Savings business.
3. Longevity risk is the group's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk on the backbook is retained. However we expect this to reduce over time as we continue to reinsure the majority of the exposure on the new business written post the implementation of Solvency II.
4. Miscellaneous includes LGA on a Deduction and Aggregation basis and the sectoral capital requirements for non-insurance regulated firms.

## 5.02 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 2019 £m** | **Contri-bution from new business[2] 2019 £m** | **Margin[3] 2019 %** | PVNBP 2018 £m | Contri-bution from new business[2] 2018 £m | Margin[3] 2018 % |
|---|---|---|---|---|---|---|
| **LGR - UK annuity business** | **11,295** | **890** | **7.9** | 9,148 | 722 | 7.9 |
| **UK Protection Total** | **1,604** | **122** | **7.6** | 1,609 | 115 | 7.1 |
| - Retail Protection | 1,284 | 98 | 7.6 | 1,271 | 93 | 7.3 |
| - Group Protection | 320 | 24 | 7.5 | 338 | 22 | 6.4 |
| **US Protection[4]** | **850** | **94** | **11.1** | 812 | 91 | 11.2 |

1. Selected lines of business only.
2. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.
3. Margin is based on unrounded inputs.
4. In local currency, US Protection reflects PVNBP of $1,085m (31 December 2018: $1,088m) and a contribution from new business of $120m (31 December 2018: $122m). US Protection PVNBP and contribution from new business for 2018 have been restated for conversion of USD values based average exchange rate. The use of average exchange rate has no impact on the margins previously reported in 2018.

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

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

The US Protection margin remains robust and broadly unchanged compared to the prior year. The 0.1% decrease in 2019 is being driven by the competitive environment for term life business in the US.

## 5.02 Estimated Solvency II new business contribution (continued)

### (b) Assumptions

The key economic assumptions are as follows:

| | 2019 % | 2018 % |
|---|---|---|
| **Margin for Risk** | **3.5** | 3.2 |
| **Risk free rate** | | |
| - UK | **1.1** | 1.5 |
| - US | **1.9** | 2.7 |
| **Risk discount rate (net of tax)** | | |
| - UK | **4.6** | 4.7 |
| - US | **5.4** | 5.9 |
| **Long-term rate of return on non profit annuities in LGR** | **2.8** | 3.4 |

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

Other than updating for recent experience, all other economic and non-economic assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from those previously used by the group for its European Embedded Value reporting, other than the cost of currency hedging which has been updated to reflect current market conditions and hedging activity in light of Solvency II. 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 2019 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. These are normally reviewed annually.

**Tax**

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

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

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

## 5.02 Estimated Solvency II new business contribution (continued)

## (c) Methodology

**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 as 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.

**Description of methodology**

The objective of the Solvency II new business contribution is to provide shareholders with information on the long term contribution of new business written in 2019.

The Solvency II new business contribution has been calculated as the present value of future shareholder profits arising from business written in 2019. Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Best estimate assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are set in accordance with the CFO Forum EEV Principles, dated April 2016.

The 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 calculation of the new business contribution for the financial period.

The new business margin is defined as new business contribution divided by the PVNBP. The premium volumes used to calculate the PVNBP are the same as those used to calculate new business contribution.

LGA is consolidated into the group solvency balance sheet on a US Statutory solvency basis. 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 future new business. The LGA new business margin looks through the intra-group arrangements.

**Projection assumptions**

Cash flow projections are determined using best estimate assumptions for each component of cash flow for each line of business. Future economic and investment return assumptions are based on conditions at the end of the financial period.

Detailed projection assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are normally reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to new business, even if incurred elsewhere in the group, are allocated to the new business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

**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.

**Risk discount rate**

The risk discount rate (RDR) is duration-based and is a combination of the risk free curve and a flat Margin for Risk.

The risk free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment of 11 basis points for GBP and 13 basis points for USD (31 December 2018: 10 basis points for GBP and 18 basis points for USD).

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

## 5.02 Estimated Solvency II new business contribution (continued)

### (c) Methodology (continued)

The WACC is derived from the group's cost of equity, cost of debt, and the proportion of equity to debt in the group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the company's beta.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a time adjusted rate of 17.17% (31 December 2018: 17.3%).

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital and the inherent strength of the group's regulatory reserves, is appropriate to reflect the risks within the covered business.

### (d) Reconciliation of PVNBP to gross written premium

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

| | Notes | 2019 £bn | 2018 £bn |
|---|---|---|---|
| **PVNBP** | | **13.7** | 11.6 |
| Effect of capitalisation factor | | **(1.9)** | (2.0) |
| **New business premiums from selected lines** | | **11.8** | 9.6 |
| Other[1] | | **1.9** | 2.1 |
| **Total LGR and LGI new business** | 4.07,4.08 | **13.7** | 11.7 |
| Annualisation impact of regular premium long-term business | | **(0.2)** | (0.2) |
| IFRS gross written premiums from existing long-term insurance business | | **2.9** | 2.8 |
| Deposit accounting for investment products | | **(1.2)** | (1.2) |
| Future premiums on longevity swap new business | | **-** | (0.3) |
| **Total gross written premiums[2]** | 2.01 | **15.2** | 12.8 |

1. Other principally includes annuity sales in the US and lifetime mortgage advances. In 2018 it also included discounted future cash flows on longevity swap new business.
2. Total gross written premiums exclude gross written premiums from discontinued operations. 2018 balances have been restated to reflect the removal of the General Insurance business.

## 6.01 Investment portfolio

| | **Market value 2019 £m** | Market value 2018 £m |
|---|---|---|
| Worldwide total assets under management[1] | **1,202,425** | 1,019,858 |
| Client and policyholder assets | **(1,092,626)** | (930,516) |
| Non-unit linked with-profits assets | **(10,190)** | (9,893) |
| **Investments to which shareholders are directly exposed** | **99,609** | 79,449 |

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

**Analysed by investment class:**

| | Notes | **LGR investments 2019 £m** | **Other non profit insurance investments 2019 £m** | **LGC investments 2019 £m** | **Other shareholder investments 2019 £m** | **Total 2019 £m** | Total 2018 £m |
|---|---|---|---|---|---|---|---|
| Equities[2] | | **203** | **14** | **2,843** | **71** | **3,131** | 2,785 |
| Bonds | 6.03 | **70,061** | **2,065** | **2,933** | **83** | **75,142** | 63,096 |
| Derivative assets[3] | | **11,448** | **-** | **108** | **-** | **11,556** | 4,411 |
| Property | 6.04 | **3,798** | **-** | **159** | **-** | **3,957** | 3,055 |
| Loans and other receivables[4] | | **1,769** | **579** | **1,489** | **438** | **4,275** | 4,894 |
| **Financial investments** | | **87,279** | **2,658** | **7,532** | **592** | **98,061** | 78,241 |
| Other assets[5] | | **90** | **-** | **1,458** | **-** | **1,548** | 1,208 |
| **Total investments** | | **87,369** | **2,658** | **8,990** | **592** | **99,609** | 79,449 |

2. Equity investments include a total of £324m (31 December 2018: £259m) in respect of associates and joint ventures.

3. Derivative assets are shown gross of derivative liabilities of £11.5bn (31 December 2018: £3.3bn). Exposures arise from use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

4. Loans include reverse repurchase agreements of £1,262m (31 December 2018 £857m).

5. Other assets include finance leases of £90m (2018: £91m) and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

## 6.02 Direct Investments

### (a) Analysed by asset class

| | **Direct[1] Investments 2019 £m** | **Traded[2] securities 2019 £m** | **Total 2019 £m** | Direct[1] Investments 2018 £m | Traded[2] securities 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| Equities | **1,282** | **1,849** | **3,131** | 1,166 | 1,619 | 2,785 |
| Bonds[3] | **18,553** | **56,589** | **75,142** | 13,369 | 49,727 | 63,096 |
| Derivative assets | **-** | **11,556** | **11,556** | - | 4,411 | 4,411 |
| Property[4] | **3,957** | **-** | **3,957** | 3,055 | - | 3,055 |
| Loans and other receivables | **408** | **3,867** | **4,275** | 418 | 4,476 | 4,894 |
| **Financial investments** | **24,200** | **73,861** | **98,061** | 18,008 | 60,233 | 78,241 |
| Other assets | **1,548** | **-** | **1,548** | 1,208 | - | 1,208 |
| **Total investments** | **25,748** | **73,861** | **99,609** | 19,216 | 60,233 | 79,449 |

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct Investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.
3. Bonds include lifetime mortgages of £4,733m (31 December 2018: £3,227m).
4. A further breakdown of property is provided in Note 6.04.

## 6.02 Direct Investments (continued)

### (b) Analysed by segment

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

1. LGC includes £48m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £4,733m.
3. A further breakdown of property is provided in Note 6.04.
4. Other assets include finance leases of £90m and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

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

1. LGC included £51m of equities and £23m of property that belong to other shareholder funds.
2. Bonds include lifetime mortgages of £3,227m.
3. A further breakdown of property is provided in Note 6.04.
4. Other assets include finance leases of £91m and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

## 6.03 Bond portfolio summary

### (a) Sectors analysed by credit rating

| 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. Unstructured lifetime mortgages have been categorised as AA.
2. The group's bond portfolio is dominated by LGR investments. These account for £70,061m, representing 93% of the total group portfolio.

## 6.03 Bond portfolio summary (continued)

### (a) Sectors analysed by credit rating (continued)

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

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring. Unstructured lifetime mortgages have been categorised as AA.
2. The group's bond portfolio is dominated by LGR investments. These account for £57,355m, representing 91% of the total group portfolio.

## 6.03 Bond portfolio summary (continued)

### (b) Sectors analysed by domicile

| 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 mortgages** | 4,733 | - | - | - | 4,733 |
| **CDOs** | - | - | - | 82 | 82 |
| **Total** | 39,665 | 22,117 | 8,588 | 4,772 | 75,142 |

### 6.03 Bond portfolio summary (continued)

### (b) Sectors analysed by domicile (continued)

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

## 6.03 Bond portfolio summary (continued)

### (c) Bond portfolio analysed by credit rating

| **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** |

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

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

## 6.04 Property analysis

### Property exposure within direct investments by status

| 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 £3.2bn 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 31 December 2019 the group held a total of £2,120m of such assets.

| As at 31 December 2018 | LGR[1] £m | LGC[2,3] £m | Total £m | % |
|---|---|---|---|---|
| Fully let | 2,685 | - | 2,685 | 88 |
| Development[4] | 245 | 23 | 268 | 9 |
| Land | - | 102 | 102 | 3 |
| | 2,930 | 125 | 3,055 | 100 |

1. The fully let LGR property includes £2.5bn let to investment grade tenants.
2. Development within LGC represents shareholder investment property.
3. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Receivables and other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 31 December 2018 the group held a total of £1,687m of such assets.
4. The 2018 balance for LGR has been represented, by reallocating £245m 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 1.01 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 profit attributable to equity holders for the year of £1,834m (2018: £1,872m) and average equity attributable to the owners of the parent of £8,974m (2018: £8,048m).

## Assets under Management

***Definition***

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

***Closest IFRS measures***

- Financial investments
- Investment property
- Cash and cash equivalents

**Reconciliation**

Note 4.04 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 1.01 Operating Profit and 1.02 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 1.01 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.

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

### Matching adjustment

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

### Mortality rate

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

### Net release from operations*

Refer to the alternative performance measures section.

### New business surplus/strain

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

### Open architecture

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

### Overlay assets

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

### Pension risk transfer (PRT)

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

### Platform

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

### Present value of future new business premiums (PVNBP)

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

### Purchased interest in long term business (PILTB)

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

### Real assets

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

### Release from operations

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

### Return on Equity (ROE)*

Refer to the alternative performance measures section.

### Risk appetite

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

### Single premiums

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

### Solvency II

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 31 December 2019. This will be submitted to the PRA in April 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.