£19.2bn

Our groupwide direct investments portfolio increased by 34% to £19.2 billion.

1m

We provide pension annuity income for over 1 million people.

Leading provider

We're a leading UK provider of lifetime mortgages, enabling people to stay in their homes and improve their finances in retirement, with total loans of over £1 billion in 2018.

£1tn+

We now have over £1 trillion in worldwide assets under management.

£258bn

International AUM has grown by 23% compound annual growth since 2014 to £258 billion.

£4.4bn

We completed a £4.4bn buy-in of British Airways pension schemes, covering nearly 22,000 pensions – the largest ever bulk annuity policy with a UK pension scheme.

Improving lives through inclusive capitalism

Legal & General Group Plc
Annual Report and Accounts 2018

Improving lives through inclusive capitalism

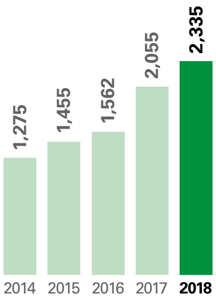
Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities.

Front cover
Creating inclusive capitalism through investing in Newcastle

Financial highlights

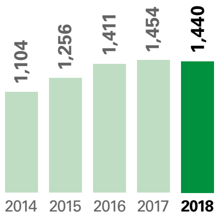
Operating profit#

(£m)



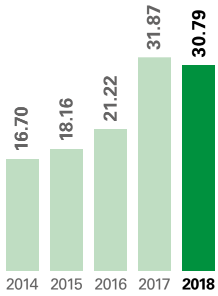
Net release from operations

(£m)



Earnings per share

(pence)



Return on equity

22.7%

(2017: 25.6%)

Solvency II capital coverage ratio (shareholder basis)

188%

(2017: 189%)
Shareholder basis as at 31 December 2018

Worldwide employee engagement index

72%

Based upon new survey data for 2018. Not comparable with earlier years.

Profit before tax

£2,102m

(2017: £2,061m)

Note: throughout this report, all bar chart scales start from zero

Performance measures and remuneration

The key performance measures (KPIs) above are included in those used to determine variable elements of remuneration, as identified by the following icon £.

For more details, refer to page 74 of the Directors' report on remuneration.

The categories to which the above KPIs are aligned are:

- Profitability
  - Operating profit
  - Net release from operations
  - Return on equity
  - Earnings per share
- Strategic priorities and non-financial goals
  - Solvency II capital coverage ratio
  - Worldwide employee engagement index

The group uses alternative performance measures (APMs) to help explain its business performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found on page 240.

\# References to 'operating profit' in the Strategic Report represent 'group adjusted operating profit', an alternative performance measure defined in the glossary.

Contents

Our Fast Read
A summary of the annual report, highlighting strategy, performance and how the group is structured is available online.

legalandgeneralgroup.com/2018fastread

Chairman's statement

Sir John Kingman
Chairman

> We recognise the growing importance of sustainability, shown by our commitment to global agreements on development goals and climate change."

Sir John Kingman
Chairman

Building success in challenging times

Legal & General's strategy is underpinned by long-term global trends which include ageing populations, technological innovation and the need for greater long-term investment. These trends, which we have identified as positive for us, play out over decades: as a long-term business they matter more to us than short-term market volatility or disruptions.

This was particularly important in 2018, a year characterised by heightened political uncertainty and correspondingly volatile markets. The combined impacts of the US-China trade dispute and Brexit uncertainty clearly impacted markets and indeed our own share price, particularly in the latter part of the year. However, as our financial results show, the direct impacts for our business were limited and in relative terms, our share price outperformed the sector domestically and internationally.

Profit growth continues

Operating profit increased by 14% to £2.3bn and earnings per share (adjusted for one-off items) increased by 7% to 24.7p. Profit before tax was flat at £2.1bn.

The Board has again considered carefully the best medium-term trajectory of dividend growth, taking into account both excellent continuing financial performance, and the importance to our shareholders of a rate of dividend growth which is sustainable in a wide range of potential economic scenarios. Accordingly, the Board is recommending a full year dividend of 16.42p for 2018, 7% higher than 2017.

Building resilience

At the time of writing, the path of the Brexit process is not yet clear. Nevertheless, the strength of our business model and our balance sheet gives us resilience, and indeed makes us well placed to continue to take advantage of the investment opportunities both in the UK, and in the US, which we see as a key growth area in the next few years. Our strategy reflects the fact that we are a long-term business, where our expertise in understanding longevity has made us a market leader in providing retirement solutions for customers. Our direct investments mean that our long-term funds are used to help society through investments in future cities, housing, and small business capital. The Board has been working closely with Nigel Wilson, your CEO and the Executive Committee in our strategic development, building continued growth for our business, its shareholders, customers and employees.

Responsibility in business

We are committed to being a responsible business in everything we do and we want to inspire those companies we work with and invest in, to be responsible too. We recognise the growing importance of sustainability, shown by our commitment to global agreements on development goals and climate change. We are committed to building an increasingly diverse business and have already taken action on gender diversity, both on our Board and in senior management. Our business aims to be economically and socially useful, and operates with a conscious culture of teamwork and collaboration.

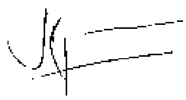
Development of the Board

I'm delighted to welcome two new non-executive directors to the Board. Henrietta Baldock joined us in October 2018 and George Lewis in November 2018. They both bring extensive additional financial services expertise to the Board. I also welcome Michelle Scrimgeour, who will succeed Mark Zinkula as Chief Executive Officer of LGIM later this year, subject to regulatory approval. Mark will retire in August 2019 and I thank him for his great achievements in successfully building LGIM's scale and profitability in his eight years as CEO. I would also like to thank Carolyn Bradley, who resigned from the Board at the end of 2018.

Board engagement with key stakeholders

It's vital that our Board understands what's important to our shareholders, our corporate and individual customers and our employees. Lesley Knox has taken on additional Board responsibility as the designated non-executive director for engaging with our employees. Lesley's additional responsibilities build on my own meetings with management teams and employees across our businesses in both the UK and US. I would like to thank all our employees for their outstanding hard work and professionalism which makes Legal & General so successful.

As Chairman, I place great value on engaging effectively with all our shareholders, not only through this annual report but also by meeting you throughout the year. Our AGM in May is an important opportunity to meet shareholders and I hope to see as many of you as possible at our new venue.



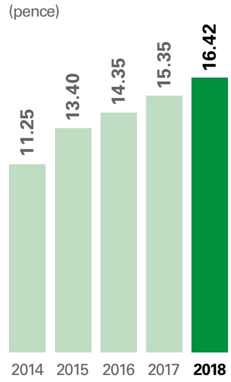
Sir John Kingman
Chairman

Annual General Meeting 2019

11am on 23 May 2019, at
The British Medical Association,
BMA House, Tavistock Square,
Bloomsbury, London, WC1H 9JP

Dividend policy

We are a long-term business and set our dividend annually, according to agreed principles. The Board has adopted a progressive dividend policy, reflecting the group's expected medium-term underlying business growth, including 'Net Release from Operations' and 'Operating Profit'.



11.82p
Final dividend to be paid on 6 June 2019

Lesley Knox's employee role

Lesley is taking up the role as the Board Director responsible for employees. She will work with colleagues from around the business to ensure that the Board has a deeper understanding of employee issues. Lesley said: "Taking proper account of their interests... is an important part of our Board culture, and this can only be strengthened further by creating a specific responsibility for employee issues on the Group Board."

Photo: Sir John Kingman meeting employees on a Board visit to Cardiff.

Chief Executive Officer's Q&A

Nigel became Group Chief Executive Officer in June 2012 and his leadership of the group has delivered over six years of successful growth.

Watch the video
legalandgeneralgroup.com/investors/reporting-centre

Nigel Wilson
Group Chief Executive Officer

"The biggest issue in Britain today is still how we build greater economic growth to improve everyone's lives. We need to create real jobs that transform our cities and towns and boost productivity."

Nigel Wilson
Group CEO

Q Nigel, the group continues to deliver successful results against the background of a difficult political environment. Why has the company been so successful?

A Operating profit increased by 14% to £2.3 billion with a return on equity of 22.7%. In 2018 we secured some huge pension de-risking deals, with £9.4 billion of sales and £1.1 billion of operating profit (including mortality release) for Legal & General Retirement Institutional, our biggest business. On the retail retirement side, it's been a tremendous year for annuity and lifetime mortgage sales. LGIM now has over £1 trillion in global assets, with £258 billion in international assets. And we now have invested over £19 billion in direct investments, helping to regenerate many of our biggest cities and creating a pipeline of 3,000 new homes. These results highlight the strength of our individual businesses. But they are also the direct result of our group strategy to leverage synergies among our businesses. This is a key reason for our success.

Q You have talked extensively in 2018 about inclusive capitalism. Why is this important to you?

A The biggest issue in Britain today is still how we build greater economic growth to improve everyone's lives. We need to invest to create real jobs and better infrastructure to transform our cities and towns and boost productivity. Without improving productivity we will not correct the stagnant growth in real wages that people have experienced for a number of years. This has to be achieved in a responsible and inclusive way which 'raises the boats' for everyone, not just for the privileged few. Inclusive capitalism also means that our Board, senior managers and employees act responsibly and ensure that we work in the interests of all our stakeholders: customers, shareholders and wider society, in being economically and socially useful.

Q How important is investing capital in direct investments such as housing, urban regeneration, clean energy and SME start-ups?

A I'm delighted that we've now put over £19 billion into these types of direct investments. Building all types of new homes, including many affordable homes, has become a priority for me. Some key successes in 2018 were our housing schemes in Leeds Thorpe Park, Walthamstow and Crowthorne and our investments in later living accommodation. We now have a pipeline of over 3,000 new homes and we plan to deliver over 80,000 properties over the next five to ten years. We have established the UK's largest property platform to drive science and technology growth in regional cities, jointly investing £360 million to create 20,000 new jobs. This is part of our future cities programme which is regenerating communities in Cardiff, Salford, Leeds, Newcastle, Walthamstow, Bristol, Bath and Bracknell. In clean energy we now have ten wind energy sites in operation together with our partner, NTR.

Q As Britain leaves the EU, are you relying more on your US businesses to ensure growth continues?

A I'm convinced that the UK remains a fantastic place to do business. It's not only because of the UK's unrivalled financial services sector but it's also related to our advantages in technology and manufacturing, our highly skilled workforces and world-class research in our universities.

The US is the largest and most competitively accessible economy in the world and we can build more success in many of the areas that have worked so well for us in the UK: investment management, the need to de-risk pension schemes, providing good-value life insurance and investing in infrastructure. We now have over one million life insurance customers in the US.

Q So how are companies like Legal & General changing to ensure future success?

A This report highlights our many recent investments in digital innovation right across our businesses. In Insurance our strategy is to create competitive advantages both in the UK and the US, enabling customers to apply, be accepted for and change their policies wholly online. We have established our own Fintech business within Legal & General Insurance and have invested in SalaryFinance, a financial wellbeing platform which now has over 700,000 employees on its platform, and Smartr365, a digital mortgage broking platform. In General Insurance, our SmartQuote and SmartClaim systems enable household insurance customers to purchase and make claims easily and quickly. This has increased customer satisfaction and reduced operational costs.

Q Finally, how is your belief in inclusive capitalism being borne out in the day-to-day lives of your employees?

A Inclusivity and diversity is a key business principle and I'm delighted that three of our seven divisional CEOs are women. Our ambitious 50/50 by 2020 target, which aims to have 50% of senior management roles filled by women by 2020, has helped develop the careers of many talented women who are now managing vital parts of our business. I have been working with our Group HR Director, Emma Hardaker-Jones, to help ensure that management positions are filled by talented and committed people regardless of their gender, disability, ethnicity, age or sexual orientation. Inclusivity also means championing organisations that help our communities. I'm pleased that we have been major supporters of the 'Not a Red Card' campaign, which has been successful in changing attitudes towards mental health.

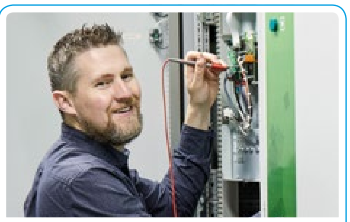
We have put over £19 billion into direct investments

Investing in future cities

Investing in later living homes

Investing in the US

Investing in science and technology



Investing in UK business growth

What drives our strategy

We have created our strategy based upon six growth drivers which affect people across the world and enable us to develop growth opportunities.

These six long-term global growth drivers remain constant despite shorter-term changes in political and economic circumstances.

Ageing demographics

Ageing populations mean that pension savings need to last longer, for individuals and companies alike. Companies have seen an increasing need to restructure their pension schemes to meet rising costs.

Achieve global leadership in pensions de-risking and become the UK leader in retirement income products.

Businesses benefitting
LGR Institutional
LGR Retail
LGIM (Workplace)
LGIM (Personal Investing)
LGIM (LDI)

2018 achievements
- Only company active in all global risk transfer markets
- Achieved record year in LGRI, with sales of £9.4bn
- Lifetime mortgage sales up 19%. Share of approx. 30%

Looking forward
The PRT market offers huge opportunities with around £2tn in UK DB pensions. We're well placed to succeed in the £0.7tn UK annuity market and benefit from £1.5tn of over-55s housing equity.

Globalisation

According to PwC, global assets exceed $80 trillion. Like many other UK asset managers we need to step up to take advantage of the potential of expanding global markets in North America, Asia Pacific and the Middle East.

Continue to build a world-class international asset management business.

Businesses benefitting
LGIM
LGR Institutional

2018 achievements
- £258bn in international AUM
- £11bn external US net flows
- Building European distribution capability

Looking forward
We can benefit from US market growth in PRT and defined contribution pensions (DC). We're seeking expansion in Asian and EMEA markets. Our ETF developments can help drive growth in our European businesses.

Creating real assets

There's an urgent need to invest in infrastructure and urban regeneration in the UK, US and EU. Many cities outside London need investment to match global competitors. At the same time the UK continues to experience a serious housing shortage.

Use long-term capital to become the leader in direct investments.

Businesses benefitting
LGC
LGIM Real Assets
LGR Institutional
LGR Retail

2018 achievements
- £19.2bn in groupwide direct investments
- Future cities programmes in Newcastle, Leeds and Salford
- New build-to-rent sites with pipeline of 3,300 homes
- Ten new clean energy sites

Looking forward
We will continue to invest in future cities and SME finance, and to build growth in multi-tenure housing with strong opportunities in affordable housing and build-to-rent.

Welfare reforms

There's a growing need for people to be financially independent, saving more for retirement and their future wellbeing and using insurance to survive financially following death, disability or long-term sickness.

Help people achieve financial security affordably through insurance, workplace pensions and savings.

Businesses benefitting
LGI
LGIM (Workplace)
LGIM (Personal Investing)

2018 achievements
- UK's No 1 retail life insurer
- £73bn of mortgages facilitated. 539k surveys.
- A leading UK DC asset manager with over 3.1m customers
- Retail investment AUM of £30.6bn, positive net flows

Looking forward
We will use our capabilities in UK Insurance to develop the US business, and address the UK savings gap with strategic growth in DC, retail funds, personal investing and ETFs.

Technological innovation

Consumers increasingly expect digital ways to organise their finances. In the low-cost world, technological solutions can mean the difference between success and failure.

Achieve market leadership in digital provision of insurance and retail investments. Use technology to improve customer outcomes and increase efficiency.

Businesses benefitting
LGI
General Insurance
LGIM (Workplace)
LGIM (Personal Investing)

2018 achievements
- SmartClaim and SmartQuote delivering improved customer experience
- Use of robotics in administration and enhanced sophistication in medical underwriting
- Cloud, AI, big data, block chain all built and utilised

Looking forward
We aim to become a fully digital and data enabled insurer. We will use technology solutions in DC/Workplace.

Providing today's capital

In recent years, equity and investment capital have been in short supply. The UK needs investment in modern, digital start-up businesses to create jobs and stimulate economic growth. This can also help improve UK productivity.

Build economic growth and earnings by investing in Britain's future.

Businesses benefitting
LGC
LGIM Real Assets

2018 achievements
- Pemberton approaching €4bn AUM across all SME funds
- Total SME finance of £414m
- Total investments in early-stage start-ups now £102m

Looking forward
We will continue to commit capital to help UK fintechs compete globally. We will continue to meet demand for SME finance from the non-bank sector.

What we do

We describe our business as three focused business areas which deliver our strategy.

Our strategic purpose is to improve the lives of our customers, to build a better society and to create value for our shareholders. We always take a long-term business focus, whether it's managing assets, understanding the changing patterns of how long people live or delivering solutions to meet our customers' changing needs throughout life.

Business area

Investing and Annuities

We aim to provide reliable and secure pension income for individuals and corporate pension scheme members, investing an increasing share of our assets in various types of direct investments.

Legal & General Retirement Institutional (LGRI)

We work with companies, pension fund trustees and their advisers to provide risk transfer solutions in the UK and US.

Legal & General Retirement Retail (LGRR)

We work directly with individuals or through their financial advisers to provide retirement income products. We are one of the leading providers of both lifetime mortgages and individual annuities in the UK.

Legal & General Capital (LGC)

We seek out direct investments to provide improved returns on retirement assets and the group's own funds. This includes investments in future cities with urban regeneration schemes and the development of clean energy, providing finance to SMEs and building multi-tenure housing.

Business area

Investment Management

We provide corporate and individual investment management services, looking after the investments of many of the UK's biggest corporate pension schemes.

Legal & General Investment Management (LGIM)

Defined benefit (DB) investment management
The UK's leading investment manager for DB pensions. – experts in LDI and equity index funds.

Workplace/defined contribution (DC) pensions
We're a market leader in auto-enrolled pensions for UK companies, with over 3.1m members.

Retail funds/personal funds
We offer individual consumers a range of retail funds through IFAs, wealth managers or online.

International
A growing strength in active fixed income, multi asset and real assets. A leading US LDI manager. An increasing presence in Asia, the Middle East and Europe.

Business area

Insurance

We help people safeguard their families' financial futures with life, critical illness, long-term sickness and general insurance.

Legal & General Insurance (LGI)

We have provided life insurance since 1836. We are the UK's No 1 retail life insurer and also offer workplace insurance cover. In the US we provide term life insurance cover.

General Insurance (GI)

We offer buildings and possessions, pet and travel insurance.

What makes us different

Asset management

We're one of the world's largest asset managers

Our investment expertise enables us to cover a wide spectrum of asset classes for DB pension schemes, helping them to match their liabilities and manage any credit risk. Our capabilities in investing also include managing funds for DC pension customers and ensuring that annuities are backed with sound investments.

Longevity expertise

We're a leading longevity and mortality expert

We have a deep understanding of longevity risk and the science of life expectancy, through a wide range of expertise across statistical analysis, demography and actuarial modelling.

Our unique space

Combining asset management and risk expertise

We're able to do this because we understand both the asset and liability side of financial services. We believe no other company in the world can partner with clients on their full pensions de-risking journey.

But we do much more than this.

We're the UK's biggest life insurer and we have a growing portfolio of direct investments that are improving the lives of people throughout society. We also help over one million people manage their finances in retirement and help over three million people save for retirement in DC pensions.

Our ecosystems

Our business areas work together to deliver our strategic purpose and to drive synergies across the group.

This collaborative approach is what we refer to as an 'ecosystem'. We have developed four ecosystems, which aim to address the significant needs of our customers. These are:

- **Retirement** – We focus on meeting individuals' full 'retirement' needs. LGRI, LGRR, LGIM and LGC work together to provide a complete suite of products and services aimed at those saving towards retirement as well as those already retired.
- **Housing** – We aim to address housing needs by building homes of all types of ownership, facilitating mortgage financing and providing equity release products, as well as offering household, life, critical illness and income protection insurance products. LGIM, LGC, LGRR, LGI and GI combine strengths to support customers' comprehensive requirements.
- **Workplace** – We provide a range of savings, lending and protection products to employers and their employees. Together, LGI and LGIM support a substantial offering of employee benefits.
- **Real assets** – We support the creation of real assets through the provision of corporate credit, as well as infrastructure and real estate debt and equity investments. These help to build jobs, businesses, towns and communities through our future cities programme. LGIM, LGRI, LGRR and LGC align to help customers and society.

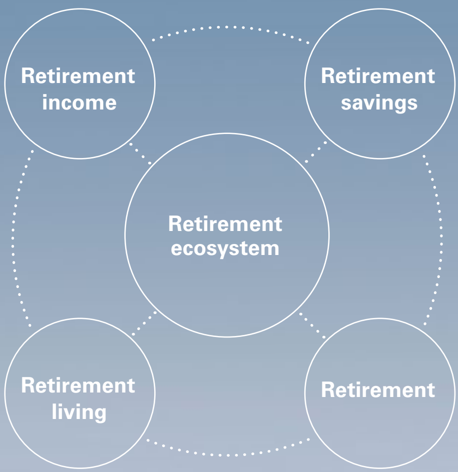
More detail on the Retirement and Housing ecosystems, and the resulting positive impact of this collective way of working, is presented on pages 10-11 and 20-21.

Retirement ecosystem

We meet our customers' needs by providing a suite of products across all aspects of their retirement journey.

Together, our different business areas have the unique opportunity to support individuals by offering a range of retirement solutions, which are, themselves, inter-connected:

- Retirement income – providing institutional DB payments through UK and US PRT businesses, as well as a range of individual annuities (LGRI and LGRR).
- Retirement savings – supporting the growth of individuals' retirement funds through our Personal Investing arm and our Workplace DC pension schemes (LGIM).
- Retirement borrowing – helping to access property assets through our lifetime mortgage business (LGRR).
- Retirement living – investing in the building and provision of Later Living accommodation (LGC).



3.1m

Our research indicates that there are now 3.1 million last time buyer households in the UK, with the number of homeowners who have considered downsizing rising from 32% to 39%. Almost half (49%) of last time buyers said it was because there were no suitable properties available.

£9.4bn

In aggregate, in 2018 we have completed over £9 billion of global pension de-risking transactions.

£4.4bn

We completed a £4.4 billion buy-in of the British Airways pension scheme, covering nearly 22,000 customers – the largest ever bulk annuity policy with a UK pension scheme.

£711bn
We're the UK's largest investment manager of pension scheme assets.

1,100
Through Inspired Villages, we now have seven retirement sites with a property portfolio of 1,100 apartments.

£71bn
We're a leading manager of UK DC pensions with over £71 billion in assets

1.1m
We provide pension income for over one million people.

£63bn
We have over £63 billion in annuity assets.

3.1m
We have over three million DC pension customers

30%
Our market share of lifetime mortgages is approximately 30%.

$2.5bn
US pension risk transfer assets built since 2015

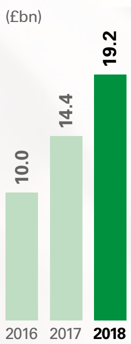
Business area

Investing and Annuities

We want to give people secure and comfortable retirements by providing individuals and corporate pension scheme members with reliable pension income. We use direct investments to help increase the returns on these pension assets and benefit wider society through socially responsible investing.

Groupwide direct investments

£19.2bn
Groupwide direct investments



Direct investments
Across the group, direct investments (DI) reached £19.2bn, an increase of 34% or £4.8bn compared with 2017. Growth was driven by our continued success in sourcing attractively priced assets to support both new and existing LGR business, with the portfolio up 29% at £15.7bn. LGC DI increased by £0.9bn to £2.4bn, and LGI hold £1.0bn.

Legal & General Retirement

What we do

Our retirement businesses manage the retirement income of over one million people. We have two main businesses. Our UK retail business provides annuities and lifetime mortgages for individuals. Our institutional business helps defined benefit (DB) pension schemes manage risk, often by taking over the liabilities to pay pensioners regular annuity income. We operate in the UK and the US.

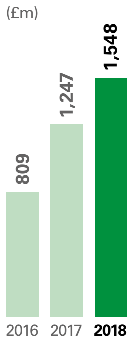
We invest part of our £63 billion annuity assets directly into the UK economy. These direct investments help us match our liabilities and enable us to invest the money from people's retirement savings in a way which benefits society as a whole.

2018 overview

In 2018 we experienced very favourable market conditions, with almost £22 billion of liabilities being transacted in the pensions risk transfer (PRT) market and record volumes of equity released in the lifetime mortgage market. Both our retail and institutional businesses benefitted from increased new business volumes, as well as positive mortality experience.

£301m

Growth in operating profit



LGR operating profit

Operating Profit grew 24% to £1.5 billion (2017: £1.2bn), driven by higher new business in PRT, individual annuities and lifetime mortgages. Higher mortality reserve releases and positive mortality experience also contributed, with LGRI up 27% to £1,149 million and LGRR up 17% to £399m.

£4.8bn

Increase in total annuity assets

Annuity assets

Total annuity assets increased by 8% to £63.0 billion, driven by £9.9 billion of annuity sales, partly offset by the ongoing impact of the run-off of existing business over time.

Legal & General Retirement Institutional (LGRI)

What we do

Legal & General Retirement Institutional is our pension risk transfer business and works closely with trustees of DB pension schemes and their sponsoring companies to ensure that pension promises made to current and past employees are met.

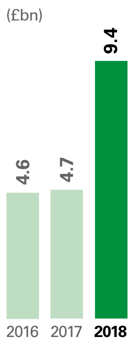
We are a multi award-winning business bringing together expertise in investment management, defined benefit pension provision, an in-depth understanding of mortality trends and longevity risk, as well as excellence in payroll, administration and communication services.

Strategy and future plans

2018, as predicted by the industry towards the end of 2017, was a record-breaking year for the de-risking market, with the largest volume of transactions ever written. We expect to see a continuation of this trend in 2019. Strong investment returns and improved funding levels, coupled with revised views on mortality have led to an acceleration of schemes being able to de-risk their arrangements and secure their member benefits.

99%

Growth in new business



LGRI new business

Total LGRI new business sales increased by 99% to £9.4bn (2017: £4.7bn). We had the largest ever bulk annuity buy-in with British Airways (£4.4bn) and a buy-out for Nortel Networks (£2.4bn). In the US we completed 21 new deals totalling $0.8bn, bringing the total US sales to date to $2.5bn. L&G Re also achieved new business sales of £143m during the year (2017: £nil).

£2tn

Over £2tn of private scheme UK pension liabilities available

95%

US DB pension liabilities still available for transfer from $3.5tn DB market

Strategically, LGRI is well placed to meet the increasing demand for pension de-risking. The continued development of our administration and pricing platforms ensures that we can scale our business to meet the demand for quotes, transactions and the subsequent increase in volumes of pension scheme member administration, if required.

Through LGIM, LGC and LGRR, we have access to a wide range of assets to back future liabilities. The expansion of LGIM's real asset capabilities, LGC's continued development and investment in real assets and the continued growth of LGRR's business will collectively provide us with opportunities to source assets in an ever more competitive market.

Key activities

We completed a number of significant transactions in 2018, including the £4.4 billion buy-in with the British Airways (BA) sponsored Airways Pension Scheme – the largest UK buy-in to date – and the £2.4 billion buyout of Nortel Networks UK Pension Plan. We have now completed four of the five largest transactions in the UK market.

We also remain committed to supporting pension schemes of all sizes and in 2018 we completed 10 transactions of less than £50 million, including a £4 million buyout with a UK pension scheme.

Our wide expertise, execution capabilities, ability to deal with complex situations and capacity to develop and offer innovative solutions were important considerations in many of the more complex transactions.

£4.4 billion buy-in with BA's Airways Pension Scheme

In September, we announced a £4.4 billion buy-in with BA's Airways Pension Scheme covering nearly 22,000 pensioners.

This important transaction included the conversion of existing longevity insurance into a bulk annuity – demonstrating our ability to deal with a complex situation by drawing on the broad experience and capabilities of the wider Legal & General group.

Longevity insurance for smaller schemes

In August, we completed a £287 million longevity insurance contract with a medium-sized pension scheme. Longevity insurance contracts have traditionally been the preserve of much larger schemes.

This transaction showed that we can offer longevity insurance as a realistic option for most pension schemes, including schemes not yet ready to enter into buy-in or buyout, but who want to manage their longevity risk.

Our innovative approach

Our £325 million buy-in transaction with the BAA Pension Scheme in June was undertaken with the sponsor issuing a bespoke corporate bond to support the transaction.

We understand that this is the first time a bond with this structure has been issued in the public debt market, making the buy-in one of the most noteworthy transactions in recent years.

Customer service excellence

In 2018 our client services team paid over £750 million in pension payments to Trustees, answered almost 30,000 calls, and issued almost 15,000 retirement quotes to members.

In October, our team were awarded global standard accreditation for the service we provide to our customers from the Customer Contact Association (CCA), which is the industry benchmark for customer service excellence.

Investing to make a positive difference

To back our pension commitments, our dedicated Direct Investments and Real Assets teams across the group have made over £19.2 billion of direct investments. Our investments include windfarms and other clean energy sources, as well as investments in ports, airports, housing and transport projects.

US de-risking business

Our US pensions de-risking business, benefitting from a scaled-up team, increased sales with $844 million in premiums, resulting in premiums since launch of nearly $2.5 billion. At the end of 2018, we had over 50,000 participants under our administration. The US represents a significant market opportunity, with $3.5 trillion of DB liabilities as of 30 September 2018.

We estimate the total market volume for 2018 to be around $27 billion, compared to $23 billion in 2017. We expect to see continued growth in the US PRT market despite relatively flat funding levels as a result of the downturn in equity markets at the end of 2018.

Growth in the market is largely driven by factors such as premium costs from the US government agency Pension Benefit Guarantee Corporation (PBGC) and increased contributions in response to tax reform. Plan terminations are likely to accelerate as well hedged plans' experience improves. We're already seeing an uptick in plan terminations for 2019 and expect an increasing amount in 2020 to 2021.

Understanding the risks

Over the years we have amassed considerable expertise in LGR in assessing and pricing for the risk of longevity and through LGIM we have extensive knowledge of selecting and managing the assets that back our promises. As we grow our direct investment portfolio, combining the property market expertise of LGC and LGIM Real Assets with our credit assessment capability, enables us to assess each transaction and its alignment with our risk appetite.

The picture here shows Legal & General Retirement's customer event where pension scheme members from previous workplace schemes had the opportunity to meet the team and discuss how their pension is administered by Legal & General.

Legal & General Retirement Retail (LGRR)

What we do

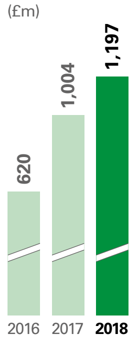
Legal & General Retirement Retail focuses on providing retirement lending and retirement income products. Our lending business is now four years old and helps retired people use the equity in their homes to boost their retirement finances. Our retirement income business offers people who are retiring the security of buying annuities which provide a guaranteed, stable income.

Strategy and future plans

Demographic changes will see LGRR's target market continue to grow, both in terms of the numbers of retirees and the levels of wealth they hold. We are developing new, innovative products for individual annuities and lifetime mortgages. In 2018 we focused on refining our enhanced annuity offering and expect this to allow us to compete effectively in this growing market segment.

Our leading lifetime mortgage business, which made £1.2 billion advances in 2018, currently has a market share of around 30%. The Equity Release Council said in January 2019 that total lending activity for 2018 grew for a seventh consecutive year to reach £3.9 billion, up 29% year-on-year.

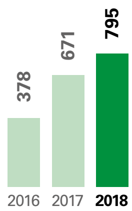
19%
Growth in lifetime mortgages



Lifetime mortgages
The lifetime mortgages business has continued to grow with £1.2 billion of sales (2017: £1.0bn), achieved through product innovation and new partnership agreements.

Denotes a scale break. Throughout this Annual Report, all bar chart scales start from zero. We use a scale break where charts of a different magnitude, but the same unit of measurement, are presented alongside each other.

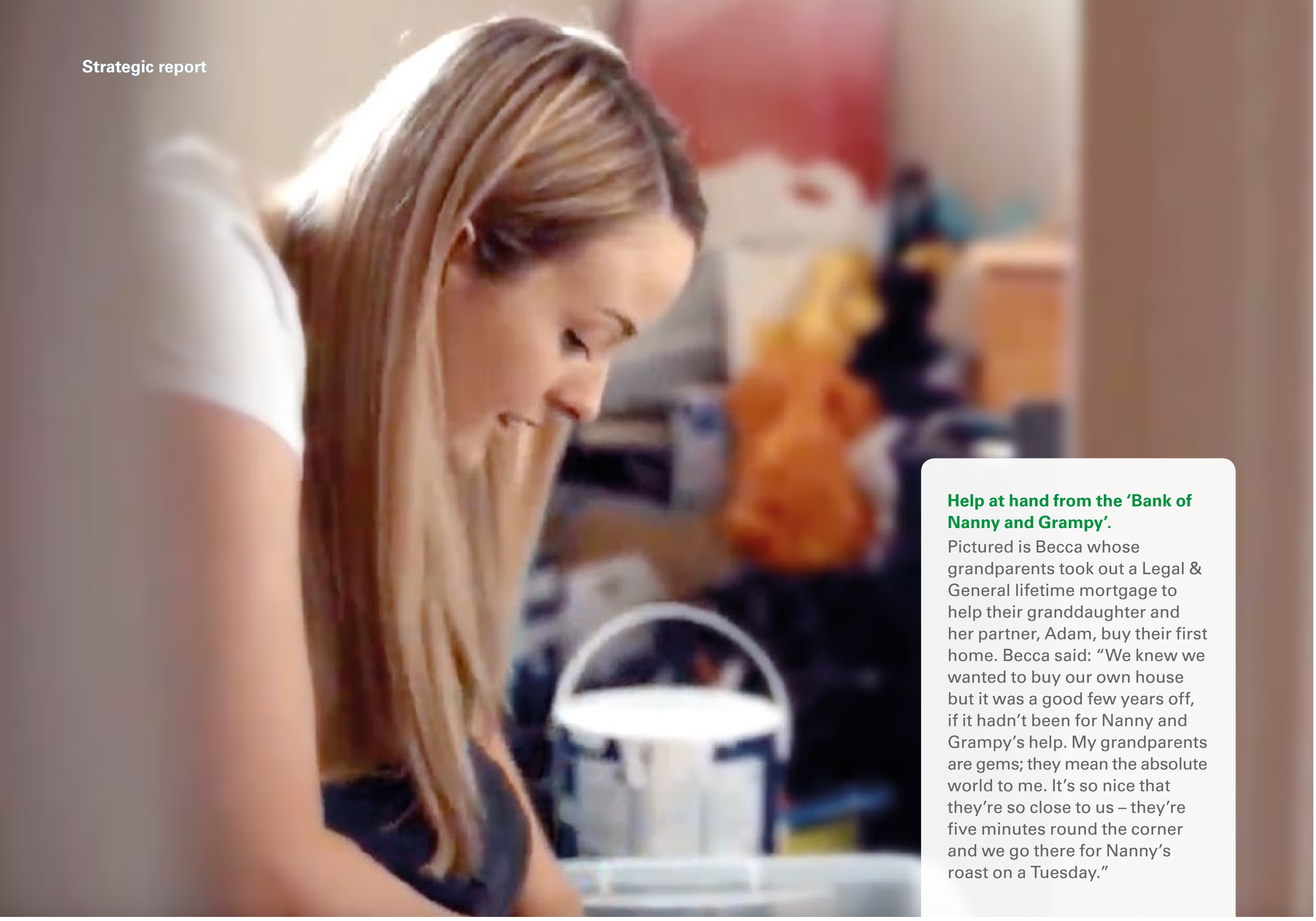
18%
Growth in individual annuity sales



Individual annuity sales
Individual annuity sales are up 18% at £795 million driven by our strong competitive position in lifetime annuities and small bulk transactions won as part of an exclusive reinsurance arrangement negotiated with New Ireland.

£2.4 billion buyout with Nortel Networks UK Pension Plan
In October, LGRI completed a £2.4 billion buyout for the telecommunications company Nortel Networks UK Pension Plan covering around 15,500 pensioner members and around 7,200 deferred members; one of the largest buyouts ever completed in the market.

The Plan's sponsor went into administration in 2009 and the Plan entered a Pension Protection Fund (PPF) assessment period. Working with Legal & General, the Trustee has been able to secure benefits in excess of PPF levels and the Plan will not now enter the PPF. We helped the Trustees secure a result that has a tangible and positive impact on the security of thousands of members' retirement income.



Help at hand from the 'Bank of Nanny and Grampy'.
Pictured is Becca whose grandparents took out a Legal & General lifetime mortgage to help their granddaughter and her partner, Adam, buy their first home. Becca said: "We knew we wanted to buy our own house but it was a good few years off, if it hadn't been for Nanny and Grampy's help. My grandparents are gems; they mean the absolute world to me. It's so nice that they're so close to us – they're five minutes round the corner and we go there for Nanny's roast on a Tuesday."

Key activities

Annuities

2018 was a successful year for our individual annuity business. We are top three in the UK individual annuity market and have almost tripled our market share in the past two years, with a current market share of nearly 19%.

We benefitted from improvements to our underwriting process and greater product diversification. 2018 saw a revised approach to underwriting individual annuity risks, where we built internal expertise to provide better risk assessment and more individual pricing for customers. This improved underwriting approach enabled us to grow our enhanced annuity volumes.

A key development in 2018 was the research we carried out with think-tank Demos to assess the impact of financial choices on wellbeing in later life and ultimately improve customer outcomes.

Lifetime mortgages

Lifetime mortgage advances were up 19% at £1.2 billion, which has been supported through new product innovation and a number of strong distribution and partnership agreements. Our success in this market to date has allowed us to achieve a market share of 30%.

We have now reached over £3 billion of total lending since entering the market in 2015, representing a 'significant milestone' on our journey to bringing later life lending into the mainstream. Legal & General Home Finance is now responsible for 1 in 3 new lifetime mortgage originations in the UK.

We have positioned ourselves as the mortgage lender of choice for over 55s with a series of key product launches. These include the launch of the Optional Payment Lifetime Mortgage (OPLM) in April 2018, which enables borrowers to make monthly interest payments. Our Income Lifetime Mortgage, which gives customers the ability to use their housing wealth to provide a regular monthly income, was piloted in November 2018 and fully launched in January of this year.

Using housing equity to enhance retirement living is beginning to be seen by customers as a positive financial change. In previous years, customers viewed equity release as a way of repaying debt. It is now much more likely to be used for home improvements, holidays and as a gift for children and grandchildren.

Distribution

Over the course of 2018, we took further steps to help address the interest-only challenge. This included new partnerships with Virgin Money in August and NatWest in December. This means we can offer their interest-only customers aged 55 and over our lifetime mortgage range including OPLM, without requiring affordability checks.

These arrangements add to existing partnerships with Santander and The Co-operative Bank, and are a tangible response to the FCA's call for more options from the mortgage industry for interest-only borrowers.

These partnerships now make our range of lifetime mortgages available to 38% of all UK interest-only mortgage customers.

These relationships with major lending brands, as well as a buoyant later life lending market and an increase in understanding of the benefits of retirement lending, have strengthened Legal & General Home Finance's position as a leading lifetime mortgage lender in the UK.

Legal & General Capital (LGC)

What we do

Legal & General Capital has a strategically important position at the centre of the group, working directly with LGIM and LGR's businesses. LGC uses shareholder capital to achieve three goals. Firstly to deliver attractive financial returns for shareholders, secondly to deliver attractive investments for our annuity business and, finally, to grow third-party opportunities for LGIM. We are able to create value for shareholders, provide stability for annuity customers and benefit communities right across the UK.

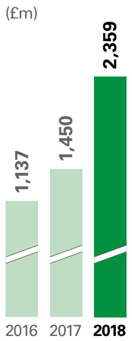
Strategy and future plans

We use our long-term, patient capital to invest in real assets, primarily across the UK.

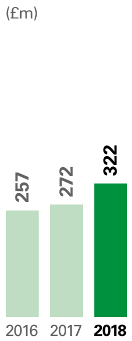
- Future Cities: We provide investment in infrastructure, commercial and residential property to create the cities of the future, with innovation in urban regeneration and clean energy
- Homes: Investing in a multi-tenure portfolio of homes
- SME Finance: We invest in early stage enterprises and SMEs in the UK and Europe.

Breakdown of direct investment portfolio

63%
Growth in direct investments



18%
Growth in operating profit



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Direct investments

During the year we have made further progress across our core focus areas of Future Cities, Housing and SME Finance, with total new investments and new commitments of £1.3 billion, including investments in the science and technology sector. The direct investments portfolio totalled £2.4 billion at the end of the year (an increase of 63% versus 2017).

Operating profit

Operating profit increased by 18% led by growth in the Direct Investment portfolio, including full ownership of CALA. Operating profit on the traded portfolio reduced following a strategic reduction in the equity portfolio due to volatile equity markets. Profit before tax was £49 million, reflecting negative investment variance in the traded portfolio. The net portfolio return of the direct investments business was 7.4% (2017: 8.1%).

Direct investments across the group

LGC, LGR and LGIM Real Assets have all developed direct investments. LGC invest in Future Cities, Clean Energy and SME Finance.

Future cities

We work with local authorities, government, universities and partners to deliver real estate and infrastructure developments and to invest in clean energy technologies of the future.

New investments

In September 2018, we established a landmark 50:50 partnership with Bruntwood. We jointly invested £360 million of capital, property and intellectual assets into a new company, Bruntwood SciTech, with a business plan to create 20,000 high value jobs. This investment created the UK's largest property platform dedicated to driving science and technology in UK cities.

We also invested in WiredScore, a rapidly growing property technology company and global leader in digital connectivity certification for commercial property. WiredScore, founded in New York in 2013, provides digital connectivity ratings and accreditation for real estate globally.

Regeneration projects

We invest in many UK towns and cities through large scale regeneration in places such as Bracknell, Cardiff, Leeds, Salford, Newcastle and Manchester.

Newcastle

In December 2016, we partnered with Newcastle City Council and Newcastle University to help build and finance the £350 million Helix development. As one of the biggest urban regeneration projects of its kind in the UK, Newcastle Helix is set to create over 4,000 jobs, 500,000 sq. ft. of office and research space, and 450 new homes.

Leeds

We're a major player in the regeneration of Leeds. Thorpe Park Leeds is already home to over 60 businesses employing around 4,500 people. The current development plan will provide new retail shopping, office space, 300 new homes, a 113-acre public park with sports facilities and a new railway station.

New developments in London

In July we exchanged contracts on our largest build-to-rent (BTR) site to date, located in Woolwich, south-east London, in partnership with PGGM. This is our third BTR scheme in London, with existing developments progressing in Walthamstow and Croydon.

Clean energy

We continue to invest long-term capital into the energy sector to accelerate the progress to a low-cost, low-carbon economy, reducing the cost of power for consumers. This includes renewable wind and solar power generation, energy-efficient houses and buildings and innovative technologies to control, manage and store energy.

SME finance

We invest in venture capital to support UK growth and, through our minority owned partner Pemberton, provide corporate lending for European mid-market businesses.

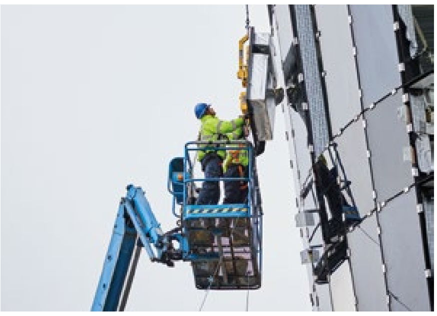
Total SME finance assets increased to £414 million from £296 million in 2017.

Over the past two years we have committed £102 million to the UK Venture Capital sector through investments in eight venture managers. These managers have now invested in over 250 companies in the UK and beyond.

Our 40% owned private credit manager Pemberton had another successful year with over €4 billion committed AUM across all its funds.

CALA Homes

In 2018 we purchased the remaining share of CALA, bringing them fully into the Legal & General group. CALA began building homes over 30 years ago and has a reputation for creating high-quality homes.



Bruntwood
We have created the UK's largest science and technology partnership with Bruntwood, dedicated to driving science and technology growth in regional cities.

Crowthorne
Legal & General Homes is committed to delivering quality homes across all tenures. We are building 1,000 new homes at our 250-acre, Buckler's Park site in Crowthorne, Berkshire.

Clean energy
Our commitment to clean energy is shown by LGR's investments in three wind farms which have the capacity to provide enough power to service over two million homes.

Housing

We're delivering housing of all forms of tenure. These include build-to-sell, build-to-rent, affordable housing and specialist housing for the elderly through CALA Homes.

Our build-to sell developments include both CALA Homes and Legal & General Homes.

CALA Homes

We acquired the remaining 52.1% stake in homebuilder CALA Homes. CALA is on track to deliver an annual capacity of 2,500 units and revenue of around £1 billion in 2020, with the capability to build in excess of 3,000 units each year. CALA has seen revenues grow from £228 million in 2013 to £880 million in 2018.

Legal & General Homes

Our housebuilding arm, Legal & General Homes, has a housing pipeline of over 3,000 new homes.

20,000
High value jobs projected in Bruntwood's business plan.

2 million
Homes which can be powered from our three wind farm investments.

Later living accommodation

We provide later living accommodation through partnering with Inspired Villages Group and 'Guild Living', developers of later living accommodation. Inspired Villages Group's development portfolio currently has around 1,100 homes and 'Guild Living' is a partnership with global experts in architecture, development operations and wellness for later living accommodation.

Build-to-rent

Our total investment capability for the build-to-rent sector currently stands at around £1.5 billion. We have around 3,000 homes under construction or in planning, with sites in Bristol, Birmingham, Manchester, Salford, Glasgow, Bath, Brighton, Leeds and across London. We aim to have 6,000 homes in planning, development or operation by the end of 2019.

Affordable homes

In 2018, we launched our affordable housing arm to address the overwhelming need for affordable housing across the UK, and we recently achieved the milestone of becoming a registered provider of social housing.

Modular homes

In 2018 we delivered our first precision-engineered modular homes development in Buckler's Park in Crowthorne, near Bracknell.

Other direct investments

LGR has a range of investments such as clean energy, transport and commercial property.

The Hornsea Project One financing will enable the construction of what will become, once operational, the world's largest offshore windfarm project, powering over one million homes. It will be located 100 km off the north-east coast of Britain, with 174 UK built Siemens turbines. In 2018 we also entered into a joint venture in Dudgeon Offshore Wind Ltd, located off the east coast of England, producing enough electricity to power 410,000 homes.

We have continued our investment in transport in 2018, with financing for HS1 in the UK and for Los Angeles Airport (LAX) in the US.

In 2018 we purchased four Government-leased offices for £388 million, bringing LGR's total investment in these assets to over £1 billion. HMRC continues as our main tenant. We worked closely with developers and HMRC to structure these leases.

This year we made a number of commercial mortgage loans totalling nearly £600 million. Highlights included the financing of the new Amazon HQ in Shoreditch, London, together with loans secured on the Microsoft HQ in Reading and the Shell HQ on London's Southbank.

We continue our investments in other sectors, focussing on secure returns and the opportunity to have a positive impact on the daily lives of people and their environment.

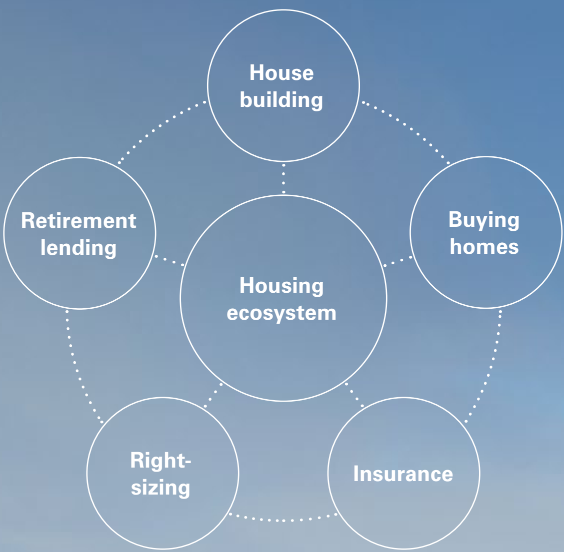
Housing ecosystem

We help customers with their fundamental housing-related needs at every stage of life.

Our core business areas combine strengths to provide a broad, yet cohesive range of housing options:

- Homebuilding: investing in the building of properties across various housing sectors, including build-to-sell, build-to-rent, modular housing and affordable homes (LGC and LGIM)
- Buying: supporting home purchases through our mortgage club and surveying services (LGI)
- Insurance: providing home insurance and individual protection products (LGI and GI)
- Rightsizing: investing in building and providing later living accommodation (LGC and LGIM)
- Retirement lending: helping to access property assets through our Lifetime Mortgage business (LGRR).

Our collaborative way of working allows us to leverage our scale and synergies to deliver much-needed solutions to our customers and strong returns to our shareholders.



80,000+

New properties due to be built in the next five to ten years.

550,000 sq ft

Our modular home-building factory in Yorkshire is the largest in Europe. At full capacity the factory could produce up to 3,500 homes per year, employing several hundred local people.

650+

New homes to be built at our largest build-to-rent (BTR) site located in Woolwich, south-east London.

3,000

In 2018 we launched Legal & General Affordable Homes, which will aim to be fully operational and delivering 3,000 homes per year within the next four years.

1st

The first house builder in the UK formally to incorporate social value into its developments. We were awarded 'Best Business Contribution to Social Value' at the Social Value Awards 2018.

£1bn+

Invested in long-term financing for the development of new homes across the UK, including Glasgow, Newcastle and Bath.

1 in 4

Housing transactions in the UK dependent on 'the Bank of Mum and Dad' – a report Legal & General organised to show how young people need affordable homes.

£73bn

In 2018 our mortgage club arranged £73 billion in mortgage loans.

£470bn

We provide life cover of £470bn and in 2018 paid out over £638m claims.

100%

In 2018 we acquired full ownership of CALA Homes, a leading UK provider of high quality housing.

£1bn

We're a leading provider of lifetime mortgages, enabling people to stay in their homes and improve their finances in retirement, with total loans of over £1 billion in 2018.

1,100

Our later living accommodation through Inspired Villages Group currently has around 1,100 homes.

Business area

Investment Management

Our investment management business is now nearly 50 years old. Traditionally, we managed the assets of UK DB pension schemes and they remain a significant part of our business. Now, however, we're an increasingly diversified business with a wide range of clients across institutional, retail, workplace and direct markets in a growing number of global locations. We champion active ownership of our clients' assets and the incorporation of environmental, social and governance (ESG) factors because we believe responsibility in business is good for investors.

2018 overview

In 2018 we continued to diversify our business, building on our strengths in the UK DB market to position the business to succeed in the defined contribution (DC), retail, direct-to-consumer and international markets, especially the US. By diversifying across channels, regions and investment capabilities, we were able to benefit in 2018 from positive fund flows from our DC, retail, DB solutions and international businesses. Key highlights included the successful integration of our ETF business, following the completion of the acquisition of Canvas in March, which has extended our distribution capabilities in Europe. We also continued to build out our Personal Investing platform and experienced continued strong growth in our workplace pensions business, where we now have more than three million people saving for retirement. In the US, we are well-positioned for growth in the DB de-risking market and have expanded our investment capabilities, including in index and multi-asset investments.

Strategy and future plans

We benefit from cost efficiencies underpinned by our investments in technology, while the increasing scale of our workplace, retail and direct assets give us attractive growth opportunities. We've based our strategy for success on three clear themes:

Broadening our investment capabilities

LGIM has continued to broaden its investment capabilities to capture the structural shifts in demand in the asset management industry. We have a growing multi-asset business across the institutional, DC and retail markets. We are a leading active global credit manager and have a significant real assets capability. We're also evolving our factor-based investing and environmental, social and governance (ESG) capabilities to cater to evolving client needs and have seen considerable progress in making responsible investing mainstream.

Addressing the savings gap

We're continuing to invest in engaging with pension scheme members and building digital communications. We've enhanced our personal investing digital platform and are aiming to become a leading provider of UK retail investments.

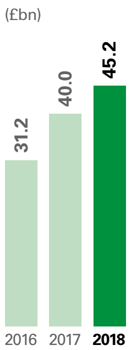
Internationalising our core institutional strengths

In the UK we're maintaining momentum in providing DB pension solutions, while diversifying into other markets and client channels. In the US we're well positioned for growth in the defined-benefit de-risking market and we have rounded out our investment capabilities to include index and factor-based investments, multi-asset and real assets. In Europe we are expanding our distribution capabilities, building on the integration of our ETF platform. In Asia and the Gulf we are seeking to grow our client base and AUM.

Legal & General Investment Management (LGIM)

13%

Increase in total net flows

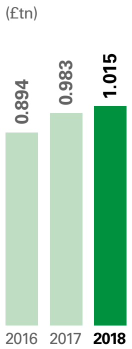


Assets inflows/outflows

External net flows of £42.6bn were once again strong, with continued diversification across channels, regions and product lines. UK net flows of £22.9bn were significantly higher than in 2017 (2017: £10.5bn), with strong performances across both DB and DC channels. International net flows totalled £19.6bn (2017: £33.0bn) driven by the US and the Gulf.

£1tn

Assets under management



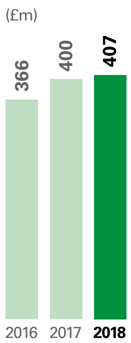
Assets under management

AUM once again grew well, increasing by 3% to over £1tn (2017: £983bn) driven by strong external net flows of £42.6bn, offset to some extent by the impact of the adverse market performance. International AUM continued to perform well, increasing to £258bn (2017: £228bn).

Legal & General Investment Management (LGIM)

2%

Growth in operating profit



Operating profit

Operating profit rose by 2% despite difficult market conditions and a weak market performance, particularly in the second half of the year. Asset management revenue increased by 4%, in line with the increase in average AUM. However, the cost/income ratio increased slightly to 52% reflecting lower than expected revenue and the investment in the operating environment of the business to manage risk and support future growth. Workplace Savings delivered an operating profit of £3m compared to a break-even result in 2017 as the platform continues to achieve scale benefits as it grows.

Broadening our investment capabilities

Defined benefit business

We are well positioned to succeed in the changing DB market, where schemes need to manage risk by using fixed-income and liability-driven investment (LDI) strategies. Within LDI we have supported our clients throughout their journey, taking them from traditional index strategies through to custom hedging against liabilities. This journey leads to deep, long-term partnerships and as a result we are now the largest LDI manager in the UK.

Across the Legal & General group we have the capabilities to help DB schemes through the whole de-risking journey, including full or partial schemes buyouts and buy-ins. Solutions assets have almost tripled from £170 billion in 2011 to £511 billion at the end of 2018, representing over 50% of all group AUM.

Active strategies

Our active strategies demonstrate our strengths in providing diverse client solutions. We're a market leader in both the UK and US at providing liability-aware credit solutions. We've reshaped our business to complement our index equity expertise and are building momentum in products like global high yield and active equities.

Index

We're the fifth largest index manager globally, a leader in the UK and the largest European institutional factor-based manager. We have a strong heritage in managing insurance and pension assets and work closely with Legal & General Retirement's teams in managing the annuity portfolio.

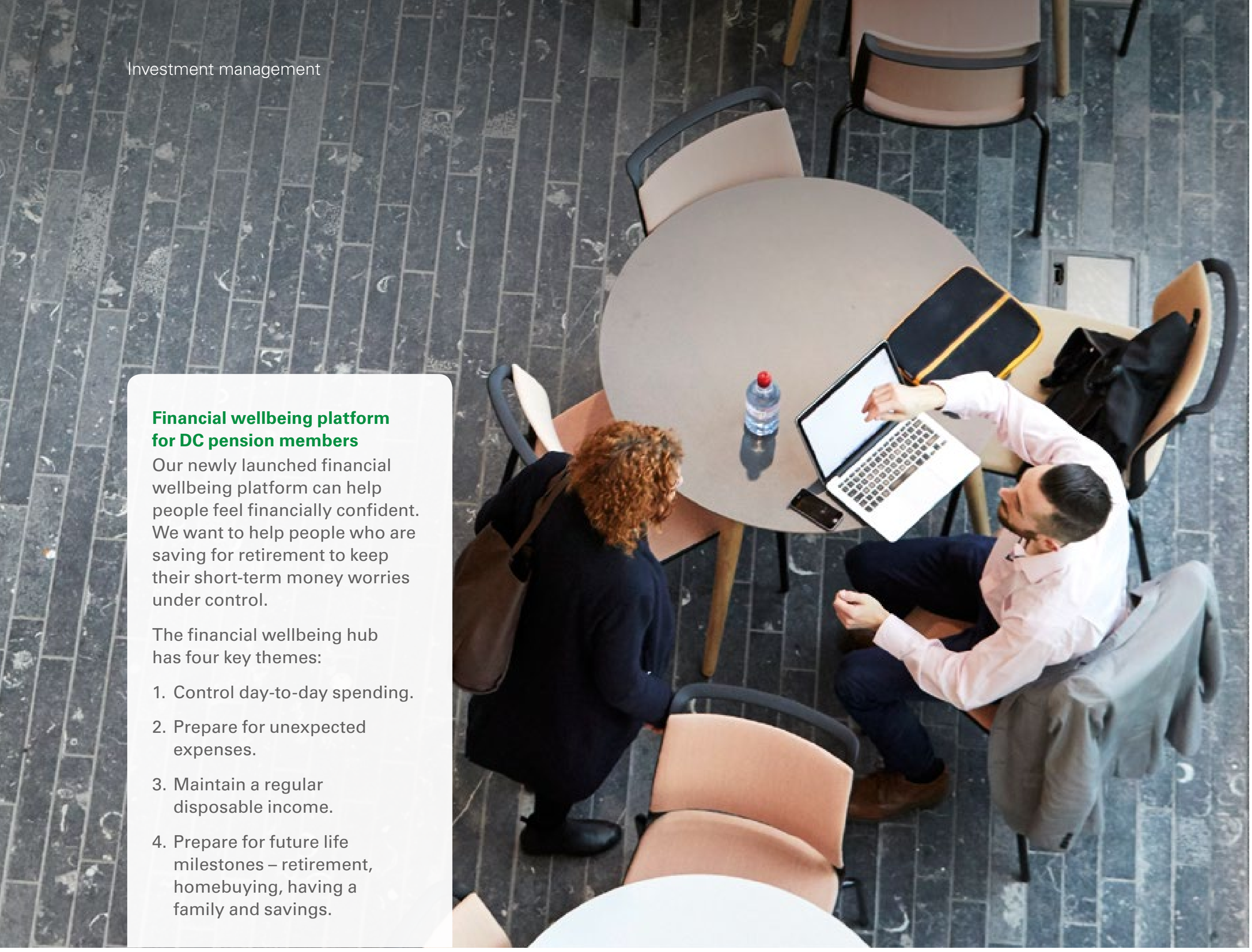
Real assets

We hold £27.1 billion in real asset investments. Our three main growth opportunities are firstly, expanding into emerging sectors in real estate; secondly, expanding private credit for our clients; and thirdly, stepping into US real assets. We create assets that serve the needs of businesses and communities whilst at the same time delivering the investment outcomes that best serve the needs of our clients. Our real assets team works closely with LGC and LGR to provide investment returns for the pension annuity book and the group's balance sheet.

An important focus in 2018 has been renewable energy, which not only demonstrates our focus on ESG themes, but also meets our need to generate attractive long-term secure income. We also aim to make a real contribution to the housing supply scarcity in UK cities, providing attractive levels of return through creating and owning build-to-rent properties.

> It's a fascinating time for the asset management industry in many ways. We are becoming increasingly important in allocating capital and there is much more emphasis on stewardship and engagement as we try to establish a capitalist model to work more effectively for more people. The shift to individual responsibility for retirement income is also creating many challenges, for which we all must continue to strive for better solutions."

Mark Zinkula
Chief Executive Officer, LGIM



Financial wellbeing platform for DC pension members

Our newly launched financial wellbeing platform can help people feel financially confident. We want to help people who are saving for retirement to keep their short-term money worries under control.

The financial wellbeing hub has four key themes:

1. Control day-to-day spending.
2. Prepare for unexpected expenses.
3. Maintain a regular disposable income.
4. Prepare for future life milestones – retirement, homebuying, having a family and savings.

Addressing the savings gap

Workplace pensions/DC pensions

In the UK our DC business offers investors a choice of pension funds through a platform that offers both bundled services (including administration) and unbundled (investment only). We're a leading DC fund manager with £71 billion of assets and over 3.1 million members across our schemes. We also have one of the largest and fastest growing pensions MasterTrusts in the UK. In 2018 we continued to invest in technology to help auto-enrolled pension members understand more about their benefits and options at retirement as well as helping them to manage their fund choices.

Retail funds, personal investing and ETFs

Our retail business distributes our funds to end clients through intermediaries. We have delivered strong growth in recent years, building on our diverse product range comprising index, multi asset, real assets and active funds. Through our competitive pricing and a strong service model, we have established a market-leading position in the UK, moving from outside the top 20 to a regular top-three provider. LGIM was second in both gross and net retail sales in 2018. In the UK, we offer unit trusts and ISAs through IFAs, and banks and building societies. In Europe, we work with private banks and stockbrokers to market ICAV and SICAV funds. Last year, we added ETFs to our product suite following the acquisition of Canvas. We now have funds registered in 14 countries and plan to expand our presence further, initially targeting Germany and Italy.

Our personal investing business is strategically important to LGIM. We want to democratise and popularise investment in the UK using our competitive advantages of scale and price through digital channels which can deliver a frictionless customer experience. A key component of our approach is to help customers access investments that interest them, so we focused on our Future World fund range in 2018 and will continue to diversify our offering.

Understanding the risks

We continue to invest in our systems, business processes and people to ensure that we meet the expectations of our clients, comply with regulation and mitigate the risks of loss or reputational damage from operational failure and external events. Alongside ensuring robust internal controls so that funds are managed in line with client mandates, delivering fund performance and being responsive to client needs are key to attracting new funds under management and minimising fund outflow risks.

Internationalising our core institutional strengths

We now have offices in seven locations and clients in 29 countries. Europe is becoming an increasingly important market and in 2018 we received authorisation for our management company to become operational in Dublin. We will continue to expand our European business, building on the demographic and welfare trends that are driving the growth of pensions. We are also well placed to support the growing demand for ESG, credit and index capabilities.

In the Gulf we manage index, credit and some real assets for our clients, in a market dominated by sovereign wealth funds. Our specialist team is based in London and has built assets with compound annual growth of 32% since 2011. Once again there is a growing interest in ESG investments and we also see opportunities as asset owners look to diversify their investments.

Asian investment management
In Asia we now look after over £10.9 billion of assets, with offices in Hong Kong and Tokyo, giving us a manufacturing and distribution capability in the region. In Asia our investment base is spread across fixed income, index, real assets and equities. We concentrate on the larger institutional markets of north Asia. This means sovereign wealth funds, pensions and insurance in China, Hong Kong, Korea and Taiwan and we have our first clients in Singapore and Australia as well.

Our continued US expansion
We're well positioned for future growth in this $17 trillion market, building on our three competitive advantages of a client-centric culture, investment excellence in fixed income and LDI and a true solutions orientation.

We now manage assets across the full spectrum of fixed income and LDI solutions, driven by strong and consistent flows from corporate DB plans. We have also broadened our investment capabilities to include index and factor-based investments, multi-asset and real assets. Our index and factor-based proposition now has commercial traction across all key US client channels.

We are also building on our competitive advantages to deliver solutions in the DC and the public DB channels, particularly in the growing retirement income and ESG markets. Public funds are increasingly focused on ESG investment strategies and we believe we can add significant long-term value in this area.

$80tn
Global asset management market

Institutional pensions assets of around $17 trillion in the US represent a huge opportunity for Legal & General.

Business area

Insurance

Our Insurance businesses continue to have the largest customer base of all our business areas, looking after nine million people. We started offering life insurance cover in 1836 and now have around four million UK retail life insurance customers, two million people in group protection schemes, one million US life insurance customers and nearly two million general insurance customers.

14%
growth in LGI new business premiums

81%
retail protection customers benefitting from straight-through processing

Strategy and future plans

Our strategy is to harness technology and drive innovation to transform our chosen markets. We achieved our market leading position through the effective use of technology. Now we're continuing to invest in technology to make sure our customers enjoy an excellent experience and to build ever closer relationships with our distribution partners.

Investing in digital

We have a relentless focus on using technology to deliver better value, improve customer experience and enhance risk management.

Expanding our US operations

We're the largest provider in the US term life assurance brokerage channel, by number of policies. We're investing in digital transformation to position us for further new business growth and to increase profits.

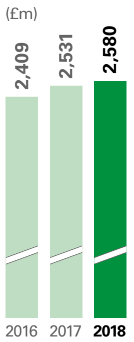
Working with partners to build our businesses

Embracing innovation means we can be at the forefront of changes in the distribution marketplace. Our vision is to be the best company to partner with.

Legal & General Insurance (LGI)

3%

Increase in gross written premiums*



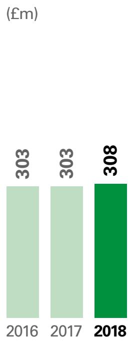
Gross written premiums

Gross written premiums grew by 3% versus 2017 on a constant currency basis (2% using actual FX rates) to £2,580m. In the US, GWP increased by 4% (on a USD basis) led by strong new business sales, particularly in the broker channel. New business increased by 12% year on year to $114m. UK Retail Protection GWP increased 4%. Group Protection GWP grew by 1% as a result of 69% growth in new business partially offset by the non-renewal of specific schemes with an adverse claims experience.

* UK and US Protection only

£308m

Operating profit



Operating profit

Operating profit increased by 2% versus prior year.

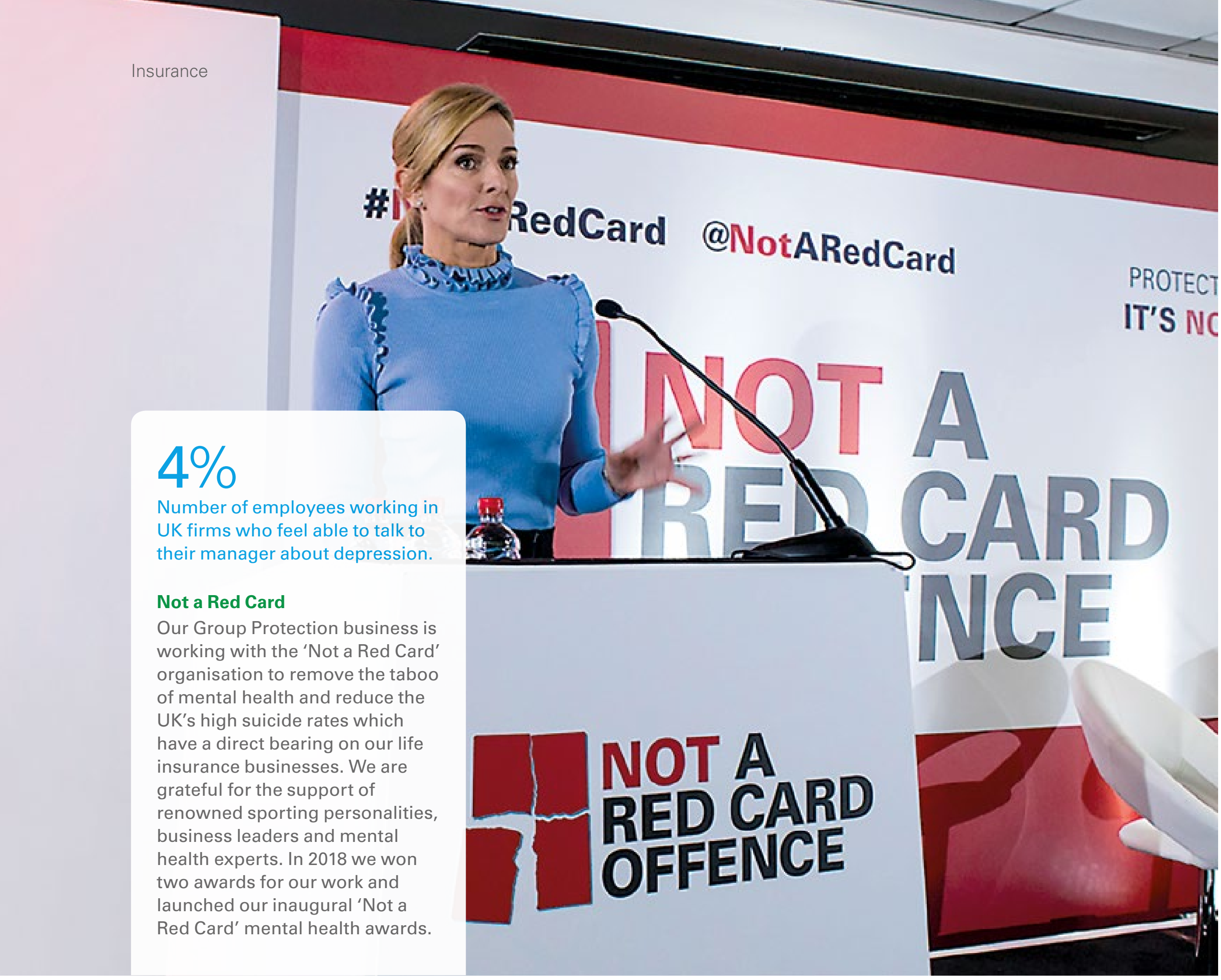
UK profit benefitted from one off model enhancement and assumption changes. This was partially offset by lower new business surplus due to higher strain from the growth in Group Protection new business and a competitive UK Retail Protection market.

The US profit decreased due to higher than expected claims in 2018 compared to a favourable position in 2017.

"In 2018, our digital advances meant that one person could process the same level of new business applications that it took five people to complete ten years ago."

Bernie Hickman
CEO, Legal & General Insurance

Denotes a scale break. Throughout this annual report, all bar chart scales start from zero. We use a scale break where charts of a different magnitude, but the same unit of measurement, are presented alongside each other.



4%
Number of employees working in UK firms who feel able to talk to their manager about depression.

Not a Red Card

Our Group Protection business is working with the 'Not a Red Card' organisation to remove the taboo of mental health and reduce the UK's high suicide rates which have a direct bearing on our life insurance businesses. We are grateful for the support of renowned sporting personalities, business leaders and mental health experts. In 2018 we won two awards for our work and launched our inaugural 'Not a Red Card' mental health awards.

UK retail life insurance

We provide over £470 billion in life insurance cover and in 2018 paid out over £638 million in life insurance and critical illness cover claims, paying 96% of all claims made.

In 2018, we remained the UK's No 1 retail life insurance provider, with a market share of 24% in the first three quarters of the year. We continue to benefit from being a large scale provider operating a multi-distribution strategy.

We continue to improve our product proposition and distribution reach. In H2 we expanded our partnership with Barclays, launching a new non-advised proposition in addition to renewing the existing advised Mortgage Protection offering.

Our digital advances mean that one person can now process the same amount of new business applications that required five people ten years ago. 81% of new business applications are completed using 'straight through processing'.

UK group protection

Our group protection business provides employers protection for their employees and families, for both life and income protection.

2018 was a successful year for our group protection business following the management actions implemented in 2017.

New business premiums increased by 69% in 2018 to £83 million, with gross written premiums up 1% to £329 million, reflecting improvements in our customer service partially offset by the specific non-renewal of schemes with unfavourable claims experience. The perception of our business from employee benefit consultants improved markedly, with scores from the annual Opinion Research Corporation (ORC) survey showing an improvement from 38% to 50%.

US insurance

Our US business (LGIA) has remained a successful provider of term insurance, largely sold through brokers. We have 1.2 million customers and are the largest term life assurance provider in the US brokerage channel by number of policies and No 2 by new business premiums.

In 2018, new business premiums increased 12% to $114 million. Operating profit however reduced due to higher than expected claims versus a favourable prior year position.

Despite our market leading position we see substantial opportunities to diversify further and grow in the US. We aim to accelerate the pace of digital transformation and develop new distribution channels.

Fintech

We have continued to grow our expertise in the Fintech sector. We're focusing on transforming our current markets, developing solutions for adjacent markets and making targeted selective investments in start-up and scale-up opportunities.

We're transforming the housing ecosystem through our unique understanding of the industry as the UK's leading mortgage distributor and the first choice home survey and valuation provider for eight of the top 10 UK mortgage lenders.

Through Legal & General Surveying Services, we have built innovative new products. The traditional 'homebuyer's survey' has been rebuilt for the digital world and has launched as 'SmartrSurvey', which is sold through business partners and directly to consumers. In 2018, our surveying business arranged 539,000 valuations and surveys for homebuyers.

New Fintech solutions have been applied to Legal & General Mortgage Club with the development of 'SmartrCriteria' and 'ClubHub' providing instant mortgage search recommendations and online commission assistance for brokers. Legal & General Mortgage Club facilitated £73 billion of mortgages in 2018, up 12% (2017: £65 billion), through strong partnerships with top lenders and mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we're involved in one in five of all UK mortgage transactions.

Additionally in July 2018 we invested in Smartr365, a digital B2B mortgage broking platform which supplies systems to the UK mortgage intermediary market. Smartr365 has a cutting-edge online fact find, which delivers a great customer experience, market-leading CRM and efficient customer verification processes. The aim is to speed up the collection of critical data to condense the mortgage administration process from weeks into hours. It includes a customer portal which helps to build and cement long-term engagement between advisers and their customers.

Salary Finance, the award winning 'Start-up of the Year', continues to grow rapidly. In the UK, Salary Finance currently has more than 700,000 employees registered on the platform with an additional 300,000 expected by the second quarter of 2019.

In response to feedback from employers, Salary Finance have launched Salary Advance and, in partnership with HMRC, will launch a 'Help To Save' scheme in early 2019. During the second half of 2018 Salary Finance launched in the US and has a significant active pipeline to build on its current clients. Growth opportunities for the business remain extremely positive and industry recognition of this Fintech is high – for example, Salary Finance won 'Responsible Business of the Year' at the Prince Charles Business in the Community Awards.

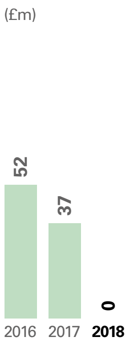
Our Fintech business also includes Investment Discounts Online (IDOL) which continues to grow its presence in the price comparison market and is an excellent asset to deploy in the financial technology market and product platform space.

General Insurance (GI)

11%
Increase in gross written premiums

Gross written premiums
Gross written premiums performed well, increasing by 11% to £410m in 2018. We achieved growth across both direct and partnerships channels driven by strong new business sales following the launch of SmartQuote and a number of new distribution agreements which went live during the year. The acquisition of Buddies completed early in 2018, which helped contribute to the 60% increase in Pet GWP.

£0m
Operating profit



Operating profit
Operating profit decreased significantly to £nil, with a combined operating ratio of 104%. This was materially impacted by a number of severe weather related claims, notably the Q1 freeze and a rise in subsidence claims in H2 following the sustained hot and dry summer. Excluding the increase in weather and subsidence related claims, operating profit was £26m and combined operating ratio was 97%.

Denotes a scale break. Throughout this Annual Report, all bar chart scales start from zero. We use a scale break where charts of a different magnitude, but the same unit of measurement, are presented alongside each other.

General Insurance

Gross premiums increased by 11% to £410 million (2017: £369 million). This includes £24 million from our pet insurance business, a 60% increase compared to 2017. The Buddies business, which was acquired in January 2018, is now operating as an integral part of the General Insurance division.

Our direct business delivered gross premiums of £148 million in 2018, representing 6% growth on 2017 and now accounts for 36% of gross premiums.

In line with market experience, adverse weather experience caused by the February/March 2018 freeze has had a negative impact on operating profit.

Delivering on new distribution agreements

A new distribution agreement with The Co-operative Bank came into effect in May 2018 and the agreement with Pen Underwriting went into effect in April 2018.

In November we announced a new three-year partnership agreement with Asda; our first pet affinity. The new three-year commercial agreement will mean we can offer our pet insurance product range for dogs and cats to Asda's customers through several distribution channels including, phone, online via the Asda website, and price comparison websites.

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

Continuing digital innovation

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

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

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

Understanding the risks

In LGI, our exposure to mortality and morbidity risk mostly arises in our UK Group Protection and US Term Insurance businesses, where the risks for us are the epidemic and poor underwriting. We seek to reinsure our catastrophe risks and closely manage our underwriting processes to minimise the risk of error. Our UK Retail Protection business is extensively reinsured, such that we retain low levels of exposure to mortality and morbidity risks. In GI we are exposed to the risk of weather events causing flooding, freezing or wind storm damage. We manage our exposure by maintaining a geographic spread of business and reinsurance for more extreme events.

Building our pet insurance business

The UK pet insurance sector has continued to grow and is now worth over £1 billion in gross written premiums. This gives us significant opportunity for further growth by combining specialist products and distribution expertise with Legal & General's multi-channel distribution and broad customer base. We have acquired UK-based pet insurance provider Buddies Enterprises Limited, who specialise in working with around 1,500 breeders and their customers.

Creating a responsible culture

Our values and principles define our belief that businesses must behave responsibly in order to be successful.

Responsibility and financial success go together and cannot exist independently of each other. Our approach to inclusive capitalism takes our belief in responsible behaviour and extends it into investing in communities and cities to change people's lives for the better.

Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders.

Corporate and Social Responsibility
Please visit:
legalandgeneralgroup.com/CSR

We have three behaviours at the heart of our culture which inspire us to act responsibly towards our customers and everyone whose lives we touch.

Straightforward

How we communicate

Building trust by doing what we say and saying what we mean. We are fair and transparent, open to feedback and always seek to communicate in a fair and genuine way.

Collaborative

How we work together

Working together constructively; seeking out originality in ideas and valuing the diversity in our teams. We engage our networks and stakeholders to shape our ideas and manage the impact of our decisions.

Purposeful

How we deliver

Balancing performance with principles to do what's right for the business and our customers. We work with pace and energy, always taking ownership and demonstrating excellent execution.

Corporate and Social Responsibility

Our culture means that we place corporate and social responsibility at the heart of our business.

There are four key areas we focus on for corporate and social responsibility. We have linked these four areas to the United Nations' Sustainable Development Goals.

1 Leading the transition to a low-carbon economy

Projected global temperature increases will profoundly impact people's lives. In order to minimise the most damaging consequences, global leaders have agreed to take action to limit temperature increases to 1.5°C to 2°C above pre-industrial levels. Our strength as an investor means we can influence companies and people to adopt more sustainable methods of generating and consuming energy, in favour of low-carbon alternatives.

2 Running our business to a higher standard

We focus on understanding and measuring our culture, using a range of metrics and actively managing a programme of initiatives in each business area. This ensures we embed a positive culture, based on our business principles and behaviours which celebrates our successes and recognises individual contributions. We can also address areas for improvement, strengthen corporate governance and sustainability policies, and ensure our people embrace diversity and inclusion.

3 Making society more resilient

We support the UN's Sustainable Development Goals on alleviating poverty and reducing inequality by providing financial safety nets for millions of people. We are committed to improving social mobility and have a responsibility to ensure that we market our products and services to the widest set of social and economic groups as possible.

4 Creating new investments for the future economy

We take action to develop mainstream sustainable investment solutions. It's important that customers and shareholders clearly understand the areas where we invest their money. Many key emerging areas need to be funded over the long term in an economically viable, socially useful and environmentally impactful way.

TCFD Recommendations

Governance	As a truly long-term investor, it's essential for our business to monitor and respond to issues like climate change. Supporting the transition to a low-carbon economy has been one of the group's four strategic priorities since 2017. Our Board reviews progress against this strategy and targets annually. Overall responsibility for climate change and environmental performance is held by the Group CEO, Nigel Wilson. Consideration of group market risk (including the risk of climate change) is the responsibility of the Group CFO, Jeff Davies. Jeff is also the TCFD Sponsor on behalf of the Board. He has established the Group Carbon Investment Steering Committee, bringing together members across three of our governance committees. Reporting directly to the Group Board, Jeff ensures that TCFD activities are co-ordinated across all group businesses.
Strategy	We strongly support the aim of the Paris Agreement of limiting global temperatures to well below 2°C above pre-industrial levels. We support this objective, firstly, through the positioning of our own investments. We have set a strategy for decarbonising our balance sheet traded assets, moving away from high-carbon investments and into low carbon. We recognise the opportunity presented by the energy transition and are funding developers of clean energy solutions with potential to be disruptive on a global scale. Secondly, LGIM is a major global institutional investor and has established a climate engagement programme aimed at some of the world's largest companies: 'the Climate Impact Pledge', leading to voting and investment decisions. Drawing on this expertise in working with companies, LGIM has also been developing low-carbon investment products in the Future World range. Designed with mainstream investors in mind, we believe the funds can help accelerate the low-carbon transition. Covering different asset classes and strategies, the funds have already seen significant capital committed from group level. More details on these complementary approaches can be found in the two TCFD reports to be issued alongside the 2018 accounts, one identifying group strategy and the other focussing on LGIM's asset management strategy.
Risk management	Our formal framework for risk management policies sets out approaches to managing different types of risks and defines the minimal control standard over the short, medium and long term. More specifically, we see climate change as posing two types of risk. First, physical risks, driven by extreme weather intensifying. Consideration of some issues such as the exposure of real estate assets to flooding is already integrated into our investment process. However, it is currently difficult to model physical risk for all our individual holdings, as uncertainty grows with time. In line with improvements in climate science, we have been working with external consultants and data providers to understand more about the implications of different scenarios of warming. Second, transition risks, as changes in policy, technology and consumer preferences affect the value of (high-carbon) investments. While its speed is uncertain, we recognise the transition is likely to be far-reaching. The power sector is already witnessing disruptive change from clean energy. We want to be able to anticipate how other sectors can meet the challenge of decarbonisation. For example, we have been conducting modelling on what it means for our property portfolio to achieve carbon neutrality. We're expanding our risk management toolkit by integrating data on carbon emissions, fossil fuel reserves and green revenues into ESG metrics, and by conducting long-term thematic analysis around the energy transition. On the flip side of risk, we recognise the opportunities of the energy transition. We have been making direct investments into: • clean energy generation (renewables, batteries and heat pumps, smart grids) • transport and mobility (electric vehicles and supporting charge infrastructure) • housing (moving towards zero carbon homes)
Metrics and Targets	There are four key areas where we capture information as a business to influence our strategy and policies: 1. Energy usage and carbon emissions. By 2020 we want to 'reduce carbon emissions per policy by 20% based on 2013 baseline'. 2. Use of natural resources within our commercial property portfolio. We set reduction targets and monitor through our managing agents. 3. Our own balance sheet investments. We are committed as a long-term investor in UK renewables and have a target to increase investments into UK energy infrastructure that support the transition to a low-carbon economy over the next three years. 4. Our influence as an investor, working with companies and policymakers to drive the agenda and provide sustainable investment solutions. We have committed to develop 'science based targets' to ensure we reduce our carbon emissions in line with a 2°C world. Our mandatory carbon and headline data is included on page 236 of this report. Measuring our commitment to society outlines our key carbon emission reduction targets and performance

1 Leading the transition to a low-carbon economy

Climate change action

We encourage public policies, investment practices and corporate behaviour that address the long-term risks associated with the impact of climate change.

Task Force on Climate-related Financial Disclosures

As a signatory to the Task Force on Climate-related Financial Disclosures (TCFD) through LGIM, we're fully committed to disclosing our approach to the risks and opportunities presented by climate change.

We have produced two TCFD reports. Firstly a consideration of climate change asset risk to the group's balance sheet and secondly LGIM's report on managing climate-related risks for external customers.

Climate change-related activities

We were ranked 4th globally among the world's largest insurers for their approach to climate risk and opportunity, by the Asset Owners Disclosure Project (AODP).

- We utilised our carbon footprint data to develop a strategy to shape our investments below a 2°C pathway.
- LGIM continued to assess and engage with organisations to encourage climate resilience. Certain companies which failed to meet minimum thresholds were placed on a 'no investment' list. In 2018, eight global companies were removed.
- In 2018, our total greenhouse gas emissions increased from approximately 45,000 tonnes of CO_2 emissions (tCO_2e) to around 49,000 tCO_2e, as a direct result of our growing housing business; for example our newly acquired CALA Homes business emissions equal 6,600 tCO_2e.
- LGIM's Real Assets team continued with their industry leading ESG performance. For the sixth year in a row, all 14 applicable property funds received GRESB Green Stars, with three funds receiving the highest accolade of five Green Stars.
- We continued to invest in renewables such as onshore windfarms, solar photovoltaics and digital software solutions for the energy grid. We have total commitments or direct investments in clean energy of around £260 million.
- We took a strong position on integrating climate strategy into the investment process and product range across all assets and clients with a particular focus on company engagement and voting. LGIM's Corporate Governance team received the 2018 ICSA award for Best Investor Engagement for the fourth year in a row.
- We took steps to measure our own carbon footprint. In 2018 the carbon emission intensity of the balance sheet was 370.22 tonnes CO_2e/£1m invested (down 24% from the previous year). When applied to the £69 billion of equity, bonds and property components of the investment portfolio to which shareholders are directly exposed, this gives a carbon footprint of 26 million tonnes of CO_2 emissions.
- We have deployed more than £1 billion in renewable energy infrastructure. We expect to continue deploying into renewable energy and power grid infrastructure as our infrastructure product offering grows. We're also developing an ESG scorecard that would assess the climate change impacts of all potential infrastructure investments.

In 2019 we will:

- Increase our investment into new technologies, including renewable energy.
- Roll out standardised and focused carbon-related clauses in our Investment Manager agreements, both with LGIM and external managers.
- Agree a carbon trajectory and associated carbon-related targets with the Group Board, allocating to business divisions.
- Continue to engage with LGIM Future World initiatives.
- Continue to consider climate risk within our Solvency II-compliant Internal Model.
- Utilise the SBTi guidance, when available, to set science based targets to help us to bring our emissions in line with a 2°C world.
- Establish how homebuilding has changed our carbon reduction strategy. We will now work with our new and fledgling housing businesses to set up governance and reporting structures, with the aim to minimise carbon from the housing stock. We aim to provide further disclosure around housing emissions.

The LGIM TCFD report can be found on our website
lgim.com/uk/en/capabilities/corporate-governance

2 Running our business to a higher standard

Our vision for diversity and inclusion

An inclusive culture is key to attracting, retaining and enabling all our people to thrive. It's important to us that our workforce reflects our customers and the communities they live in, so we're committed to creating a more diverse and gender-balanced organisation for the benefit of our people, the businesses and the communities we work with.

Our focus on gender diversity initiatives has resulted in a positive impact on the recruitment and promotion of women. In 2018, 44% of all new starters in middle and senior management were women. We'll continue our efforts to ensure women are represented at all levels in our business and take a broader approach to make Legal & General a place where talented people can thrive, whatever their identity or background.

When employees feel included and have a sense of belonging, they perform better for our customers. 59% of our people feel that they belong; that's a solid foundation on which to improve. We will continue investing in development and wellbeing to create an inclusive culture, where we embrace and leverage differences and all our people are engaged and empowered to meet their goals.

We have focused on making changes to how we recruit, raising awareness with debate and dialogue, creating a gender diverse talent pipeline and creating an agile and flexible work environment.

We've made systemic changes to our recruitment processes that will help us tap into talent pools we may not have previously reached. Focusing on recruitment and ensuring that we have diverse shortlists for senior roles has resulted in an increase in women joiners. We have also invested in more training for our managers to help them build inclusive team environments.

We know that we must do more to retain and engage our female talent. The proportion of leavers who were women fell from 51% in 2017 to 48% in 2018. Last year, we developed our Career Returners framework, a programme of enhanced development support for employees coming back into the workplace in permanent roles. We recruited four career returners in 2018 and are expanding the programme in 2019.

We continue to work with leading diversity campaigns to help us achieve our goals, including the 30% Club, the Diversity Project and the Women in Finance Charter. We have some way to go to reach our Women in Finance target of 40% female representation in senior roles and our aspiration of gender balance at all levels, but our actions are now making a difference.

Beyond gender

We've taken steps to ensure that we are creating a positive, flexible and inclusive work environment for everyone, not just women.

We have introduced agile working, providing many employees with more flexible working arrangements. Improvements in technology are enabling our employees to be more agile in terms of where they work, with many no longer fixed to one office location.

We have strong family-friendly policies including a parental leave coaching programme and emergency back-up care. Our people can access nannies, childminders, nurseries, holiday clubs, or eldercare specialists at short notice – with two days a year paid for by us.

Our L&GBT network has successfully partnered with LGBT Great to raise awareness of LGBT+ inclusion in the investment management industry. Their success has resulted in awards for both the network chair and its business sponsor.

In 2018 we provided mentoring and sponsorship programmes to our female, LGBT+ and ethnic minority talent, focusing on career development needs. Over 25 of our pipeline talent took part.

We responded to the BEIS Ethnicity Pay Gap consultation, welcoming the greater transparency on pay, recognition and diversity this brings.

Our focus in 2019

We're making progress, to move towards a more inclusive environment. In 2019 we aim to weave inclusion into everything we do, and all our people processes, so that employees feel included, engaged and valued at every step.

We will continue widening the talent pool from which we recruit and challenging our hiring managers to think differently about how they bring talent into our business.

A priority in 2019 is to ensure leaders understand what we expect of them and what it means to lead inclusively. We will review our leadership behaviours and our leadership development programmes and interventions. Ensuring leaders are equipped with the right skills to create inclusive team environments and get the benefits from diversity.

Gender diversity

	Female	Male
Board Directors	**4**	**8**
Executive Committee	4	11
Managers	1,102	1,861
All employees[1]	3,867	4,114

1. Excludes employees of CALA Homes.

The above diversity figures are as at 31 December 2018.

Actions to close our gender pay gap

In 2018, we saw a 2.6% reduction in our gender pay gap. Gender pay gap data helps us highlight the problem, understand its causes and take action to improve it across our UK businesses. It is just one part of our efforts to improve our culture and drive inclusion.

Like many organisations, our gender pay gap is driven by having more men than women in senior positions across our businesses. Our organisation is evolving, but we face some sector-specific challenges. We know the direction we need to be moving in, and we've developed a sustainable strategy to help us get there. Our action plan to improve gender diversity, and diversity and inclusion more broadly, is focused on three areas:

- Attracting a more diverse pool of talented people to join our organisation
- Focusing on our employee experience so people feel like they belong
- Enabling our talent to realise their potential whatever their role or background.

The actions we are taking to increase gender diversity in our organisation will help us widen the talent pool from which we recruit, remove barriers to progression and create an inclusive culture where anyone, whatever their background or gender, can thrive.

We are pleased that the actions we outlined above are having an impact and that our gender pay gap has reduced over the last 12 months. However, they are part of a long-term plan and we acknowledge there is a long way to go and we will continue to take action to close our gender pay gap (for more information on our action plan please see the full Gender Pay Gap narrative on our website).

Gender Pay Gap

	2018 Mean	**2018 Median**	2017 Mean	2017 Median
Hourly Pay	**27.6%**	**29.0%**	30.5%	31.6%
Bonus	**61.0%**	**49.1%**	65.6%	51.9%

These percentages show the differences between pay and bonuses paid to men and women.

Employee engagement

We have a positive culture that we're proud of, but we want to evolve into a more inclusive organisation, where all our people can thrive. We want to give our people a voice and ensure they are heard. Advances in digital technology provide us with a unique opportunity to become healthier, smarter and more efficient at responding to our people.

In 2018, we moved to a new methodology for measuring employee engagement from a traditional annual survey to more frequent digital listening. It's easier for our people to use, and managers receive real-time information and focused action plans through an interactive personalised dashboard. They can make the right decisions based on the needs of their teams. It's already delivered some important strategic insights and we believe it will create a better dialogue.

Gender Pay Gap report
Our complete report will appear on our website

Please visit:
legalandgeneralgroup.com/media-centre/reports

Employee wellbeing

It's important that our employees are emotionally and physically well to perform at their best. We're committed to our employees' wellbeing and aim to provide the right support to enable this. We measure engagement and wellbeing on a regular basis, through tailored local wellness activities and communications, provision of a suite of support to employees and their managers, including our Employee Assistance Programme, and mental wellbeing and resilience training. Our wide network of mental health first aiders supports colleagues across our locations and we now have 159 trained employees. Our successful 'Not a Red Card' mental health campaign encourages more conversations in the workplace about mental health, and we continue to work closely with Not Time to Change and City Health Mental Alliance to drive good mental health practices in the workplace.

Learning and development

To support our long-term strategy, we're identifying the skills and capabilities that we need today, tomorrow and for years to come. Our people can take responsibility for their own career development, with relevant, easy to access and tailored support from us. Many of our training programmes are available online allowing our people to learn anywhere and anytime. In 2018, we delivered programmes around digital skills to encourage new ways of working for all of our people. We rolled out comprehensive training ahead of the implementation of the FCA's Senior Managers and Certification Regime. We also committed to mental health first aid training and unconscious bias sessions, helping us to foster the behaviours that make Legal & General a place where everyone can thrive.

Modern Slavery

We continue to increase the depth and breadth of our knowledge and work on addressing modern slavery risk in our supply chain. Through deepening our understanding of the potential risks, we now use indicators as well as traditional supplier management techniques to help ensure we have the most effective responses to that risk. Key areas of focus for 2019 are collaborations with other organisations to do more to eradicate modern slavery and focus on our indicators, scorecards and supplier-provided data to better assess business risk within supply chains. In 2019, we will deploy new procurement and supplier management tools which will also help provide more transparent data on suppliers and provide more holistic and faster insight into our wider supply chains performance and risks.

44%
of new starters in middle and senior management were women

Human Rights

Our responsibility is to respect all human rights. Our proactive approach reflects our ethical commitment and helps to establish and maintain successful relationships with all stakeholders. Our actions encompass all of our stakeholders in all group businesses.

Anti bribery and corruption

We will not tolerate any person acting on behalf of the company participating in any form of corrupt practice and we will not either accept or offer bribes. Our financial crime risk policy applies across the group and seeks to ensure that controls are put in place to prevent such activity including the control and approval of giving and receiving gifts and hospitality.

The Bank of Mum and Dad

The need for the Bank of Mum and Dad illustrates intergenerational unfairness. It's a major force in the housing market, with 27% of buyers receiving help from friends or family, up 25% from 2017. The volume of transactions depending on BoMaD funding keeps on growing, as parents find it harder to provide money for a house purchase deposit. This is neither a positive trend, or a sustainable one. We need to take action and open up affordability for all. We're making a positive difference in the supply of affordable residential housing as well as the towns and cities in which the homes are built.

3 Making society more resilient

How we help our local communities

Our employees give their time to volunteering and fundraising. By giving employees at all levels a new purpose we are able to help provide positive differences towards mental health and wellbeing.

Employees and volunteering

We have a long history of supporting charities and good causes. By listening to our employees, we explore new and innovative ways we can support communities and charities close to their hearts. Employees volunteered their time and donated to charities through our payroll giving scheme.

In 2018, the cash contributions made by our employees, together with the benefit of cash-matching, volunteering and our operational costs amounted to £3.45 million in the UK and £0.97 million in the US, making a groupwide total of £4.4 million.

Financial education

We have a long-term commitment to financial education, with three different schemes:

- Every Day Money: provides real life choices to 14-16 year-olds, getting them ready for the world of work. We originally set out to reach over 200 teachers and 3,000 pupils, with an aim to train teachers and provide resources for them to continue to educate their pupils. We succeeded in reaching nearly 4,000 pupils and over 130 teachers.
- RedSTART: a charity that provides financial education training to children. We help host and run educational training days for primary school children at our London offices, with a goal to train one million school children in personal finance by 2025.
- KickStart Money: a ground-breaking financial education programme for children delivered by the MyBank charity. Over the next three years the target is to provide around 18,000 primary school children between the ages of seven and 11 with financial education. The aim is to influence attitudes towards managing money at an early age.

4,000

school students reached by our financial education programme.

4 Creating new investments for the future economy

The UN's Sustainable Development Goals

We have a responsibility to help achieve the aims of the United Nations Sustainable Development Goals (SDGs). We can help end poverty, protect the planet and ensure prosperity for all. The SDGs guide us, our customers, our employees and society towards a brighter, sustainable future. We have analysed which SDGs we can focus on that align closely with our strategic priorities.

We support all 17 of the Sustainable Development Goals. These include specific goals which help create better lives for people in our communities by investing in infrastructure and future cities.

Further details of our activities can be found in the Investing and Annuities section on pages 18 and 19.

Investing in small businesses

In addition to SME Finance provided by Legal & General Capital, our SE-Assist fund continues to grow in supporting early stage social enterprises. We have over £800,000 out on loan in Wales, Croydon and Sussex to social enterprises. This fund provided nearly £172,000 in new loans to seven social enterprises in 2018. We also invested £50,000 into crowd funding in 2018.

UN's sustainable development goals

We have produced a film about our activities which support the UN's sustainable development goals.

Please visit: youtube.com/watch?v=qtpcUTQx4QI

Our commitment to action on climate change

In the US in 2018, LGIM opposed more resolutions on executive pay and supported more resolutions on climate change disclosure than any of the world's ten largest asset managers.

Focus on corporate governance – active ownership

As one of the largest asset managers in the world, we want the markets we invest in to do as well as they can. This is why we are active owners, using our size and influence to bring about real, positive change.

In 2018, we have continued to engage with regulators, companies and other investors around the issues that matter to our clients. Do companies have the right skills and the diversity of thought needed to succeed in the future? Do they have a strategy to prepare for the low-carbon economy? As a long-term investor, we will challenge companies constructively to show they deliver value.

To view some significant outcomes that we contributed to, please see LGIM's annual active ownership report:

- Oil major Shell, adopting industry-leading emissions reductions targets linked to pay
- Consumer goods giant Unilever, abandoning its plans to move headquarters

Our voting can be a powerful tool to hold companies to account. An independent report found that in the US in 2018, LGIM opposed more resolutions on executive pay and supported more resolutions on climate change disclosure than any of the world's ten largest asset managers.

As a responsible investor, the integration of environmental, social and governance (ESG) data into our investment process deepens. In 2018, we have developed ESG metrics for thousands of global companies. The new Future World funds launched throughout the year use the metrics to allocate capital across different asset classes and strategies.

We also continue our public policy advocacy, in order to have impact not just at individual companies, but across entire markets. From strengthening the fiduciary duty of investors in the UK and EU, to upgrading corporate governance and stewardship codes in Japan, France and Germany, LGIM has been working with policy-makers and regulators to raise the bar. In 2018, we have participated in around 20 policy consultations around the world. Our ESG metrics are aligned with our engagement and voting across LGIM, in order to speak with one clear voice in the market. We minimise abstentions worldwide, so our clients can be sure that we are working and engaging on their behalf.

Group Chief Financial Officer's Q&A

Jeff Davies became Group Chief Financial Officer in March 2017 and has already helped deliver financial success.

Watch the video
legalandgeneralgroup.com/investors/reporting-centre

Jeff Davies
Group Chief Financial Officer

Guide to symbols used in these financial results

Alternative performance measure (APM)

Key measure in the remuneration of executives

Jeff talks about what's driven our performance in 2018 and explains why he believes that the group's future prospects should continue to be positive for investors.

Q You have delivered another set of strong results despite volatile market conditions. How sustainable is this going forward?

A 2018 was a great year for us, demonstrating our consistent success in execution and the resilience of our business model to market volatility. We grew operating profit by 10% to £1.9bn, before a mortality reserve release which brought the total figure to £2.3bn, an increase of 14%. We also delivered an IFRS return on equity of 22.7% and Solvency II operational surplus generation of £1.4bn.

Our success is the result of aligning our business to long-term growth drivers, which will persist regardless of short and medium-term political and market climates.

Two interesting examples are:

(1) our focus on **ageing populations** has enabled us to thrive in the fast growing pension risk transfer (PRT) market. In 2018 we were the market leader in UK PRT, where market volumes surpassed £20bn for the first time, and industry experts estimate there could be more than £30bn of premiums written each year going forward. The US market potential is even greater and we are building our capabilities to capture this opportunity.

(2) **Welfare reform** has meant that individuals must do more to plan for their own retirements and we are helping them save through Personal Investing and defined contribution (DC) pensions. The UK DC market represents a £1 trillion opportunity over the coming decade, and we are currently a market leader with a share of approximately 18%.

Q The Pension Risk Transfer market had a significant year in 2018. How do you manage pressure on new business margins and Solvency II capital whilst maintaining your leading market share?

A Our unique business model makes us more resilient to margin compression in UK PRT. By being a truly universal player, operating in four geographies and across the deal size spectrum in the UK, we are able to allocate capital in those markets offering the best margins. Additionally, by having a large annuity portfolio and superior direct investment sourcing capabilities, we have the optionality to optimise returns on our existing book when PRT pricing does not meet our return targets.

High quality direct investments are a vital ingredient to annuity pricing, and one where competition is emerging for assets. Our ability to self-manufacture these assets through LGC is a unique component of our business model and one that gives us a competitive edge for these sought after direct investments.

Q What is operational surplus generation and how does it impact your business plans?

A Solvency II operational surplus generation is the surplus capital emerging from the total business we have written up to the start of the year.

Our operational surplus generation has increased by 14%. In 2018, we generated £1.4 billion of operational surplus and we expect this to continue growing in line with our business.

Our growing operational surplus generation puts us in a strong position to continue expanding the business and offers us optionality for new business opportunities.

Q Can you please describe how your asset portfolio has evolved over time and the security these changes have brought to policyholders and investors?

A Our asset portfolio exists to serve two very important purposes: firstly, to pay policyholders and secondly to generate additional returns for shareholders. We have always been very focused on the quality of our portfolio, however, our sophistication has increased over time, bringing greater security to policyholders and shareholders alike.

Since the financial crisis in 2008, we have focused on diversifying our asset portfolio. For instance, we have reduced our banks exposure in the LGR bond portfolio from around 20% to 5% and we are diversified across sectors and geographies. We have avoided more vulnerable asset classes, such as retail stores and peripheral sovereigns.

We have further diversified our portfolio by investing in direct investments. These assets can provide longer dated cash flows, additional security, and higher spreads than a similar publically traded asset.

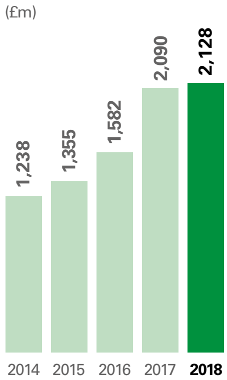
We have also mitigated market and spread risk from our portfolio. By structuring our portfolio such that we can hold assets to maturity we do not need to take market risk by buying or selling assets in the future. This means we only lose money on assets if there is an actual default.

These changes to our asset portfolio have reduced volatility, improved credit quality, and enhanced returns for shareholders.

Adjusted profit before tax (PBT) attributable to equity holders

£2,128m
(2017: £2,090m)

KPI purpose: adjusted PBT attributable to equity holders measures the actual distributable earnings before tax attributable to shareholders of the group, including discontinued operations and reflecting actual returns on investments, net of investment in future group wide capabilities and new business ventures.

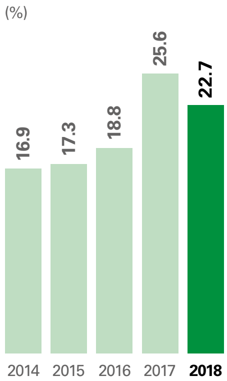


Adjusted profit before tax attributable to equity holders increased marginally by 2% over 2018. 2018 was a record year for LGR new business, in particular UK PRT, where we wrote £8.4 billion in new deals and the backbook performed strongly. In H2 2018 we reviewed our longevity improvement assumptions and adopted an adjusted version of the CMI 2016 mortality tables for LGR's annuity book, resulting in a reserve release of £433 million (2017: £332 million). Profit before tax was also impacted by equity market performance resulting in losses in the LGC traded assets portfolio.

Return on equity (ROE)

22.7%
(2017: 25.6%)

KPI purpose: ROE provides a link between performance and balance sheet management and ensures an appropriate balance is maintained between the two.

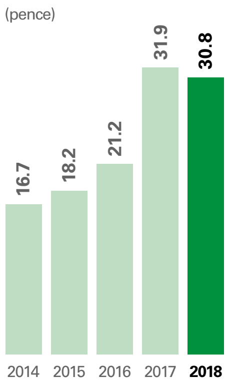


The group continues to demonstrate careful use of capital across all divisions, with return on equity of 22.7%. The decrease is primarily driven by a reduction in profit after tax from £1,902 million in 2017 to £1,808 million in 2018, mainly due to a one-off tax benefit resulting from changes to the US tax regime which benefitted 2017.

Earnings per share (EPS)

30.8p
(2017: 31.9p)

KPI purpose: EPS demonstrates the link between performance and shareholder return.

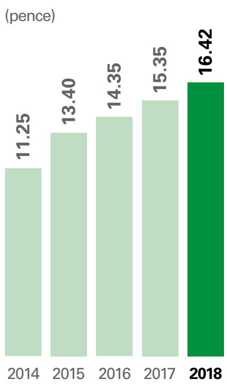


EPS decreased slightly by 3% (1.1 pence), driven by a 5% decrease in the group profit after tax (down from £1,902 million in 2017 to £1,808 million in 2018). Excluding the impact of base mortality reserve releases and a one-off tax benefit in 2017, EPS increased from 23.1 pence to 24.7 pence.

Full year dividend

16.42p
(2017: 15.35p)

KPI purpose: Full year dividend demonstrates the level of distribution to shareholders.



In line with our progressive dividend policy reflecting the group's expected medium-term underlying business growth, the Board has recommended an increase of 7% in the full year to 16.42 pence (2017: 15.35 pence). The cost of the full year dividend is £978 million (2017: £914 million). Our 2018 full year dividend was covered by Net Release from Operations 1.5 times and by dividends remitted from subsidiaries 1.3 times.

Q You have talked about the importance of technology to the insurance and asset management industries. Can you outline your plans, including expected benefits and costs?

A Technology is absolutely essential to the long-term success of our business. Improvements in digital tools over the past several years have improved our speed to market, customer service and cost management. We will rely on technology to allow us to deliver our growth ambitions.

Across Legal & General, businesses have looked to convert labour intensive administrative tasks into efficient algorithms, or 'robots'. We have further relied on big data to support our product pricing, design and customer experience across the group.

We have had a number of wins I would like to highlight:

1. 81% of our UK retail protection customers get an immediate online point of sale decision, with no human intervention in the process.
2. Digitisation and automation advancements in LGIM are continuing as we explore opportunities for innovative data-driven client servicing and compliance support.
3. 10 robots are freeing up the capacity of 12.5 full time staff in LGIM and Group Finance for more value-add activity, with further capability to be added throughout 2019.

Q This is the second year in a row you have made a sizeable mortality release. What has happened this year and what can investors expect going forward?

A In recent years we have seen a continued slowing in the improvement in longevity, so although people are living longer overall, they are not living quite as long as we had assumed.

This slowdown has persisted for several years and while we maintain our cautious view of longevity, we believe we should recognise this trend in our assumptions.

We have increased our projection of the number of deaths in each year, therefore reducing the required mortality reserve and resulting in a release of this reserve. In 2018, we released £433 million of mortality reserves by reducing the allowance for future improvements in the medium term. This was based on our analysis of 2016 UK population mortality data. Looking forward, we see that the data from 2017 and 2018 continue to show the trend in a slowdown in longevity improvements. This means further releases may be expected when we implement the impact of this data in 2019 and 2020.

Short-term influences

In addition to the six long-term growth drivers discussed on pages 6 and 7, there is a number of short-term influences which affect our business:

Brexit
Our customer base is very largely in the UK, US and Asia, which reduces our exposure to any negative trading effects of Brexit. However, we have established a new business in Dublin to support LGIM's European institutional investment clients.

Geopolitical environment
The political landscape, both globally and in the UK, remains relatively uncertain. We believe our strategy based upon global growth drivers is relevant across the political spectrum and will remain resilient to geopolitical events. However, we will continue to monitor events closely.

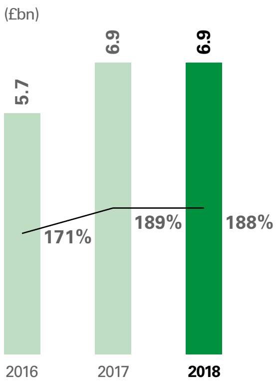
Economic outlook
The global economic outlook is looking less positive than in 2018. The start of this year has seen weak economic growth in both the UK and some major Eurozone countries and the US/China trade dispute has affected confidence. However, China's economic stimulus appears to be gaining traction and a positive resolution of political differences can boost confidence.

Solvency II surplus and coverage (shareholder basis)*

£6.9bn
(2017: £6.9bn)

188%
(2017: 189%)

KPI purpose: Solvency II surplus and coverage are metrics used for measuring and reporting of the risk profile and capital adequacy of the group.



The group's capital position remains strong with a £6.9 billion Solvency II surplus (2017: £6.9 billion) and a 188% coverage ratio (2017: 189%) on a 'shareholder view' basis.

When stated on a pro-forma basis the group's coverage ratio is 181%** (2017: 181%).

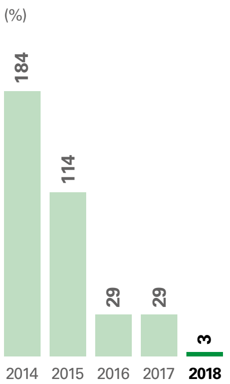
* Represents Solvency II surplus and coverage on a 'shareholder view' basis. See page 192 for more details

**This includes the SCR attributable to our with profit fund of £0.5 billion and final salary pension schemes of £0.3 billion, in both the group's Own Funds and the SCR

Total shareholder return (TSR)

3%
(2017: 29%)

KPI purpose: TSR measures total return to shareholders, including dividends and share price movements over time.



We delivered a TSR of 3% over a three-year period (as at 31 December 2018), outperforming the FTSE All-Share Life Insurance Sector (TSR of -3%) in a relatively volatile stock market during 2018.

Tax matters

2018 tax charge

Our total tax charge of £210m reduced in 2018 (2017: £377m), reflecting the impact of falling equity and bond markets on the taxation of our investment returns which also lead to a reduction in our net deferred tax liabilities. Our income tax paid for the year of £504m (2017: £497m) reflects the continuing underlying profitability of our businesses, the timing of cash tax payments and the impact of withholding taxes.

The group's 2018 effective tax rate (ETR) for our equity holders of 15% is below the 19% UK standard rate of tax. Various things affect our ETR including: the timing of when profits are taxed and when they are booked in the accounts (a lower 17% UK rate applies in some cases); the way that certain investment returns are taxed in the UK; changes to earlier years' estimates of tax liabilities; and the different tax rates applied to profits in the countries in which we operate. The current rates are: UK – 19%, US – 21%, and Bermuda – 0%.

2018 tax drivers

Our lower ETR in 2018 is mainly due to adjustments made to our prior year tax estimates and as a result of the low taxes suffered by our Bermudan reinsurance hub.

During the year we concluded the analysis of a number of technical issues and agreed a number of matters with HMRC. As a result we have made adjustments to prior years' tax estimates, including the release of some provisions for uncertainty.

Bermuda is a significant reinsurance market with a robust, Solvency II equivalent regulatory framework and a well-established regulator. Our global reinsurance hub was set up for commercial reasons, predominantly regulatory capital flexibility, enabling us to write more pension risk transfer business in a capital efficient way in the UK, US and new markets. This in turn has allowed us to invest more money in housing and other infrastructure projects in the UK to support new business.

Our approach to tax

We aim for our tax affairs to be sustainable in the long term, well governed, fair and transparent. Our tax strategy and our approach to tax risk management shape how we manage our tax affairs, and guides what we will and won't do. Our tax strategy, which can be found at legalandgeneralgroup.com/csr/data-centre/tax-data/, applies to all of our group businesses and shapes our approach to tax in our role as a significant investor in the UK and in other companies.

Grace Stevens
Chief Tax Officer

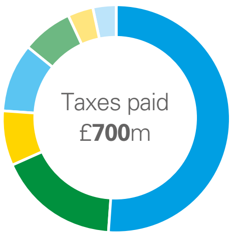
£1,265m

In 2018 our total tax contribution was £1,265 million of which 94% arose in our UK businesses and 6% in our overseas businesses

Total tax contribution

Our total tax contribution is the amount of tax that Legal & General pays together with the amount of tax that we collect on behalf of our employees, suppliers, customers and policy holders.

Total taxes paid



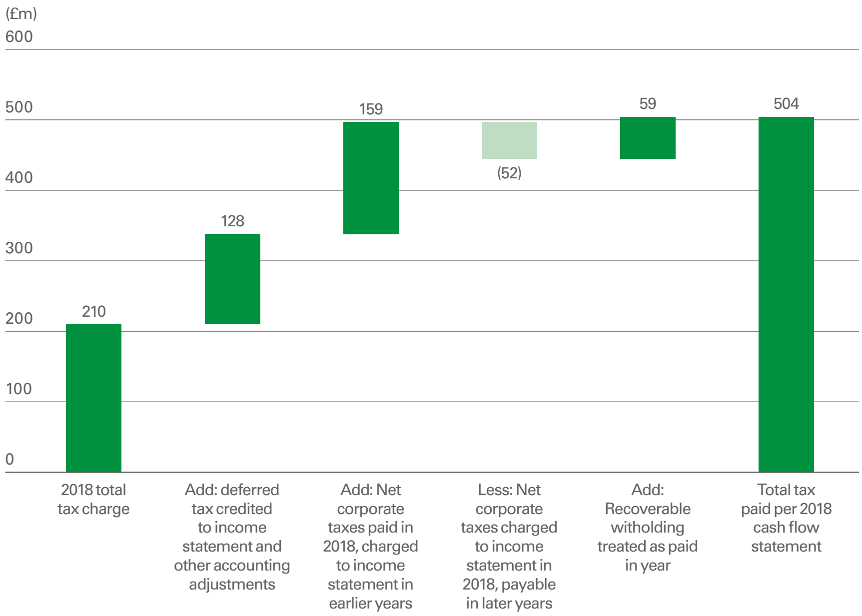
- UK profit taxes paid: £359m
- Withholding taxes suffered in the UK: £120m
- UK property and other taxes paid: £54m
- UK irrecoverable VAT and premium taxes: £69m
- UK payroll taxes paid: £50m
- Overseas profit taxes paid: £25m
- Other overseas taxes paid: £23m

Total taxes collected

- UK PAYE deducted from policyholders: £389m
- UK property and other taxes collected: £9m
- UK VAT and premium tax collected: £1m
- UK payroll taxes collected: £139m
- Overseas taxes collected: £27m

Reconciliation of total tax charge to tax paid

The group's total tax charge disclosed in this annual report can be reconciled to the total profit taxes paid by the group as follows:



Managing risk

Understanding the risks that we are exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business.

Simon Gadd
Group Chief Risk Officer

Overview
Our risk management framework supports informed risk taking by our businesses, setting out those rewarded risks that we are prepared to be exposed to and the risks that we want to avoid, together with risk limits and required standards of internal control to ensure exposures remain within our overall risk appetite.

We seek to deeply embed the necessary capabilities to assess and price for those risks that we believe offer sustainable returns within each of our operating businesses, as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes.

Our straightforward, collaborative and purposeful behaviours underpin the operation of our risk framework, providing a culture of openness and transparency in how we make decisions and manage risks, and balancing performance with principles to do what's right for the business and our customers.

Finding what you need online
Detailed information can be found in our risk management supplement.

Please visit:
legalandgeneralgroup.com/investors/reporting-centre

Our risk management framework

Risk appetite	The group's overall attitude to risk and the ranges and limits of acceptable risk taking
Risk taking authorities	The formal cascade of our risk appetite to managers, empowering them to make decisions within clearly defined parameters
Risk policies	Our strategies for managing the risks in the environments in which we operate, so as to ensure residual risk exposures are those within appetite
Risk identification and assessment	Tools that help managers identify and evaluate the risks to which we may be exposed so that they can be managed in line with our risk policies
Risk management information	How we report and review ongoing and emerging risks, and assess actual risk positions relative to the risk targets and limits that we set
Risk oversight	Review and challenge, by the group and divisional Chief Risk Officer teams, of how we identify and manage risk
Risk committees	Our structure of group level committees oversees the management of risks and challenges how the risk framework is working. The role of the Group Risk Committee is set out on pages 70 and 71
Culture and reward	Performance measures that focus on the delivery of effective risk management, business and customer strategy, and culture

We operate a three lines of defence risk governance model.

Our operating businesses are our first line of defence, responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with risk policies. The skills to assess and price for risk form part of our first line business management activity. For example, in our pension risk transfer and annuities businesses we have a deep understanding of longevity risk and the science of life expectancy. LGIM, as one of the world's largest asset managers, has extensive business expertise in managing credit risk; and within our Insurance business, as the UK's largest provider of individual life cover, we have extensive knowledge of mortality and morbidity risks.

Our second line of defence is our risk oversight function under the direction of our Group Chief Risk Officer. The team of 150 risk professionals provides our businesses with expert advice and guidance on risk and capital management, alongside ensuring risk taking remains within acceptable parameters.

Our Group Internal Audit function is our third line of defence, providing independent assurance on the effectiveness of business risk management and the overall operation of our risk framework.

Rewarding the right behaviours

The Group's Remuneration Committee in its consideration of directors' remuneration receives a comprehensive report by the Group Chief Risk Officer, assessing whether executive directors have achieved objectives whilst at the same time operating within agreed risk appetite.

The objectives of the directors include a specific risk management component within the overall annual variable bonus scheme. The criteria, if successfully delivered, contribute positively to the group's overall risk position, focusing on the more significant risk exposures for the group, and reward the right behaviours in managing risk exposures.

Our risk landscape

The risks that we are exposed to fall into the broad categories of:

- Longevity, mortality, morbidity and household insurance risks that are transferred to us by the customers of our pension risk transfer and annuities, protection and general insurance businesses. The period that customers continue their policies is also important for profitability.
- Investment, credit and counterparty risks from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and liquidity risks from contingent events.
- Operational risks in respect of our business processes and IT systems, as well as broader regulatory and legislative risks that can arise in the environments in which we operate.

Where our businesses directly engage in house building and commercial property development, we are also exposed to risks associated with the management of construction projects, including health and safety risks.

Our largest risk exposures are credit and longevity

Our exposure to credit risk largely arises in our portfolio of corporate bonds and, where we provide long-term funding, within our direct investment portfolio. As an investor for the long term, assessing and managing credit risk is a core competency, and alongside setting a range of tolerances to diversify our portfolios, we seek to continuously track a variety of risk factors that could adversely impact credit markets. For direct investments, as part of our underwriting decision, we also evaluate the quality of the security that we will take under the transaction.

We are exposed to longevity risk in our pension risk transfer and annuities businesses. Over the years we have built significant expertise in understanding and pricing for longevity. Our intellectual property covers a range of disciplines including actuarial, medical, public health, statistical analysis and modelling. We also work with the Longevity Science Advisory Panel and University College of London, enabling us to access the most advanced data, techniques and knowledge to understand and inform our longevity risk management strategies. Future trends in mortality are generally slow to emerge due to the pace of medical and health development, and, whilst we're living longer, we have seen a slowing in the rate of this improvement compared to our assumptions. But we remain vigilant to emerging trends and, alongside continuous investigation into causes of death, we consider a wide range of scenarios when assessing our capital requirements for the risk including significant advances in medical science.

Risk appetite

Our risk appetite sets the ranges and limits of acceptable risk-taking for the group as a whole. We express our overall attitude to risk using the following statements and measures:

Strategy We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk-based capital in excess of the cost of capital. Monitoring metric: minimum return on capital over the planning cycle.

Strategy We have an appetite for risks we understand and are rewarded for, and which are consistent with delivery of our strategic objectives. Monitoring metric: maximum risk-based capital to be deployed over the planning cycle.

Capital We aim to maintain an appropriate buffer of capital resources over the minimum regulatory capital requirements. Monitoring metric: minimum capital coverage ratios.

Earnings We have a low appetite for volatility of earnings; in particular volatility arising from risks where Legal & General has more exposure than the wider market. Monitoring metric: Maximum acceptable variance in earnings compared to plan.

Customer We treat our customers with integrity and act in a manner that protects or enhances the group franchise. Monitoring metric: customer and reputation risk dashboard.

Liquidity We expect to be able to meet our payment and collateral obligations under extreme, but plausible, liquidity scenarios. Monitoring metric: minimum liquidity coverage ratio.

The metrics we use to assess acceptable risk taking include Solvency II measures of capital usage, return on capital, and surplus emerging.

We set further risk tolerances covering our specific exposures to credit, market, insurance and operational risks including, where appropriate, limits on concentrations and significant aggregation of risks.

Our risk appetite is used to govern the nature and quantity of risks that we are exposed to. Whether we are making a direct property investment or pricing a pension risk transfer deal, we use our risk appetite framework to assess the risk profile and potential rewards to ensure we continue to operate within the ranges of acceptable risk taking that we have set.

"Risk appetite is at the heart of our decision making, defining the risks that we are prepared to be exposed to, the capital we wish to deploy and the level of volatility in earnings that we seek to avoid."

Simon Gadd
Group Chief Risk Officer

Risk management supplement
Further information on our appetite for specific risks and our approach to managing them can be found in the 'Risk management supplement'.

Please visit:
legalandgeneralgroup.com/investors/reporting-centre

Risk outlook

An assessment of principal risks and uncertainties, together with current trends and mitigating actions, is set out on pages 48 and 49. A more detailed review of the group's inherent risk exposures to market, credit, liquidity, insurance and operational risks, together with an overview of our control processes, is included in notes 7 and 15 to 17 of the financial statements.

Whilst the global economy continues to see positive, albeit subdued levels of growth, political events look set to continue to dominate, with potential for significant asset price volatility as financial markets respond to a range of factors, including global trade tensions and the UK's withdrawal from the EU. Other external factors include continued regulatory and legislative changes which can lead to uncertainty in our operating environments. Cyber threats also continue to be a risk for the financial services sector as a whole.

Own Risk and Solvency Assessment (ORSA)

Our ORSA process is an ongoing analysis of the group's risk profile and the sufficiency of capital resources to sustain our business strategy over the plan horizon. The process, which covers the whole group, considers how the financial and broader business risks to which we are exposed may evolve over the planning cycle.

Stress and scenario testing is an essential element of the ORSA process. It is used to show us how our key risk exposures respond to different risk factors, together with the sensitivity and the resilience of capital and earnings to a range of extreme but plausible events. The stress testing component of our framework assesses the effect of a move in one, or a small number, of risk factors at a point in time. The scenario element considers group wide multi-year projections of capital and earnings across a range of downside conditions in financial markets, demographics and the broader economy.

The ORSA process is integrated into our business risk and capital management activities and aligned with the strategic planning process to inform forward looking decision making. As such, it is a key business management tool for the group.

Principal risks and uncertainties

Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss.
Changes in regulation or legislation may have a detrimental effect on our strategy.
New entrants, or legislative change, may disrupt the markets in which we operate.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage.

Brexit

As a predominantly UK and US focused business, our operating model is not materially impacted by the UK's withdrawal from the EU. We have, however, established businesses in Dublin to support LGIM's EU based investment clients and funds. We have also taken steps to ensure the continuity of the financial instruments on which we rely, and assessed the contingency planning activities of those EU based financial counterparties with which we deal.

At the time of writing, markets continue to price for an orderly Brexit outcome, although there have been periods of volatility in equity and currency markets in response to the negotiation process, and there remains considerable uncertainty as to the final withdrawal terms and future trade agreement.

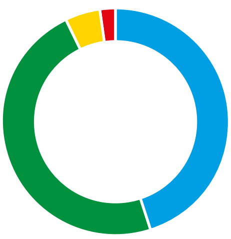
Reflecting the range of outcomes, we have undertaken significant analysis to ensure our capital position remains resilient under a number of scenarios including those described by the Bank of England as being disorderly and disruptive. We have also evaluated risk factors that are idiosyncratic to the UK, including the impacts for particular UK business sectors and asset classes, to determine the need for the re-structuring our investment portfolios.

As much of the UK financial services regulation is derived from EU law, over the longer term it is likely that elements will be re-written. We expect, however, the overall Solvency II regulatory regime to continue to apply for the foreseeable future, with any EU derived change being applicable during a transition period.

Capital management

Our risk-based capital model seeks to provide a quantitative assessment of the group's risk exposures. It forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our capital model to assess significant transactions, including large pension risk transfer deals. The key output from our capital model is the generation of capital requirements. We calibrate our model to a 99.5% value at risk confidence level over one year, equivalent to ensuring that we hold sufficient capital to survive our assessment of a worse case 1-in-200 year event. In terms of risk based capital, market (credit) and insurance (longevity) risks remain our most significant drivers.

Risk Based Capital



- Insurance risk 45%
- Market risk 48%
- Operational risk 5%
- Miscellaneous 2%

Group Board viability statement

The group's strategy is developed, and economic decisions are made, around meeting the long-term protection and savings needs of its customers, and around creating long-term value for customers and shareholders over a period of many years. This reflects the group's business and investment models which combine managing credit, longevity and mortality risks over long-term relationships.

The group's long-term prospects

The group's prospects are primarily assessed through our strategic and planning processes. Our strategic planning process is a continuous one, and underpins our business planning model. We consider the sustainability and resilience of our business model over the long term (including strategic factors detailed on pages 6 and 7, and longer-term trends in areas such as technology and climate change), as both our investment and insurance products and customer relationships are long-standing ones.

The group is also subject to continuous regulation and supervision, which requires us to manage and monitor solvency, liquidity and longer-term risks, to ensure that we can continue to meet our policyholder obligations.

This long-term prospect assessment is over a longer period than that over which the Board has assessed the group's viability.

Period of viability assessment

While the Board has considered adopting a longer period, it believes that five years is the most appropriate time-frame over which we should assess the long term viability of the group, as required within provision C.2.2 of the UK Corporate Governance Code. The following factors have been taken into account in making this decision:

- We have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made; and
- The assessment is underpinned by our business planning process, and so aligns to the period over which major strategic actions are typically delivered, and takes account of the uncertain economic environment and changing political and regulatory landscape.

Our business planning process is an annual process and culminates in the annual production and review of the group's business plan. Our plan is built up from divisional submissions, and considers the profitability, liquidity, cash generation and capital position of the group. This projection process involves setting a number of key assumptions, which are inherently volatile over a much longer reporting period such as foreign exchange rates, interest rates, economic growth rates, the continued optimisation of capital strategies for Solvency II, and the impact on the business environment of changes in regulation or similar events.

The Board carries out a detailed review of the draft plan at the Group Board's annual strategy assessment, and amendments are made accordingly. Part of the Board's role is to consider the appropriateness of any key assumptions made. The latest annual plan was approved in December 2018, resulting in our current five-year business plan.

How we assessed our viability

The Board regularly considers the potential financial and reputational impact of the group's principal risks (as set out on pages 48 and 49) on our ability to deliver the business plan. We regularly refresh our principal risks to reflect current market conditions and changes in our risk profile, for instance in 2018 we have seen an increase in market risks as a result of Brexit uncertainty.

Quantitative stress and scenario testing considers the group's ability to respond to a number of plausible individual and combined shocks, both financial and operational, which could adversely impact the profits, capital and liquidity projections in the group plan. For example, the Board considered the impacts of a plausible market stress which is commensurate with a market shock in the late cycle environment, as well as a severe market event akin to the 2008 global financial crisis. These stresses included a severe global shock based on the Bank of England 'Annually Cyclical Scenario', but assuming widespread credit downgrades, and removing two elements of the scenario which would (if included) benefit Legal & General, being a sharp increase in interest rates and the depreciation of sterling against the US dollar.

The scenarios tested showed that the group would continue to have sufficient headroom to maintain viability over the five-year planning period, after taking into account mitigating actions to manage the impacts on capital and liquidity. This includes maintaining the group's current dividend policy, but this and other commitments would be reassessed if the circumstances determined this to be necessary over the longer term. Furthermore, it is possible that shocks could be more severe, occur sooner and/or last longer than we have currently considered plausible.

Additionally, reverse stress testing and contingency planning gives the Board a solid understanding of the group's resilience to extremely severe scenarios which could threaten the group's business model and viability. This analysis assists in identifying any mitigating actions that could be taken now, or triggers to put in place for future actions. Potential scenarios that were explored included severe capital market stresses, adverse regulatory changes, reputational and internal/external events causing falls in business volumes, and severely adverse claims experience. The results confirmed that the group remains resilient to extreme stresses as a result of the risk management system in place and the diverse range of mitigating actions available, such as the raising of capital or reduction in the payment of dividends.

Our conclusion on viability

Following this assessment, taking into account the group's current position and principal risks, the Board can confirm that they have a reasonable expectation that the group will continue in operation and meet its liabilities, as they fall due, over a viability horizon of five years. The Board's five-year viability and longer-term prospects assessment is based upon information known today.

Principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks are set out below including details of how they have been managed or mitigated. Further details of the group's inherent risk exposures are set out at Notes 7 and 15 to 17 of the financial statements.

Risks and uncertainties	Trend and outlook	Mitigation
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We regularly appraise the assumptions underpinning the business we write. We remain, however, inherently exposed to certain extreme events, that could require us to adjust our reserves. For example, in our pensions risk transfer and annuities business, while trend data continues to suggest that the rate of longevity improvement is slowing, a dramatic advance in medical science beyond that anticipated may lead to an unexpected change in life expectancy, requiring adjustment to reserves. In our protection businesses a widespread increase in mortality or morbidity, for example as a result of the emergence of new diseases or reductions in immunology, may also require us to re-evaluate reserves. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. We also seek to pre-fund and warehouse appropriate investment assets to support the pricing of long-term business. In seeking a comprehensive understanding of longevity science we aim to anticipate long-term trends in mortality, and continue to evolve and develop our underwriting capabilities for our protection business. Our selective use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality. The sensitivities of our business to selected scenarios are set out on page 174.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movements and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities, however, 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 is looking less certain than a year ago, with forecasts suggesting a general slowing in the rate of growth in many advanced economies. Recent US and China trade tensions, as well as impacting growth prospects, have also weighed heavily on market sentiment with potential for a broader re-pricing of assets should relations further deteriorate. Other factors adding to downside risk include a deeper-than-envisaged slowdown in China; in the euro-area, increasing political uncertainty with the potential for a renewed Italian debt crisis; and on-going geo-political tensions in the Middle East and East Asia. The possibility of a disruptive, 'no-deal' Brexit with negative cross-border spillovers and increased euro-scepticism affecting European parliamentary election outcomes also has potential to lead to greater risk aversion.	Although we cannot fully eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, as part of our strategic planning activity we seek to model our business plans across a range of economic scenarios to ensure they will be resilient. Our ORSA process plays an integral part in this process, ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite. As set out within the Strategic Report on pages 8 to 31, we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. We cannot, however, completely eliminate risk. Sensitivities to interest rates, and exposures to worldwide equity markets and currencies are set out on page 174, page 156 and page 160, respectively.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	Although the level of credit default increases in periods of low economic growth, an event leading to widespread default among the issuers of investment grade debt is still considered to be a more remote risk; however, we are closely monitoring a number of factors that may lead to a widening of credit spreads including the outlook for global interest rates, the effects of a global slowdown on emerging markets, and the potential economic impacts of an unfavourable Brexit outcome for specific industrial and service sectors. The UK residential property market is also showing signs of slowing confidence, although weakness on the supply side continues to ensure a degree of market resilience. Whilst considered to be more extreme risk 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; a renewed banking crisis; and default on debt linked to emerging markets.	We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of security. In placing reinsurance we set counterparty specific exposure limits, where appropriate taking collateral. We manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never completely eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. Details of our credit portfolios are on pages 161 to 165.

Risks and uncertainties	Trend and outlook	Mitigation
Changes in regulation or legislation may have a detrimental effect on our strategy Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products, and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	The regulatory regimes under which the group operates continue to evolve. In the UK, Solvency II is now well established and whilst we do not envisage Brexit leading to immediate changes to the current capital regime, we continue to see refinement in rules by the PRA, for example in the treatment of lifetime mortgages and other illiquid assets, and the matching adjustment for long-term business. The FCA also continues to develop its approach to supervision, focusing on consumer protection, market integrity and the promotion of competition, and we are preparing for the FCA's transition in 2021 from LIBOR to SONIA. There is also increasing regulatory interest in utilising current supervisory frameworks to influence the transition to a lower-carbon economy. The approach to, territory of and level of corporate taxation also continues to be an area of political debate internationally and in the specific jurisdictions in which we operate.	We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risk 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 There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. In particular, as has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial services products emerge with lower cost business models or innovative service propositions and capital structures, and disrupt the current competitive landscape. Changes in regulation or legislation can also influence the competitive landscape.	We closely monitor the factors that may impact the markets in which we operate, including governmental initiatives, developing industry practices and competitor activity. Alongside digital enabled changes to business operating models that enhance the customer experience, technology is being widely applied to achieve cost savings and efficiencies for market participants. The UK government is also consulting on a new legislative framework for defined benefit 'superfund' consolidation schemes, that has potential to significantly transform the operating environment for our asset management and pension risk transfer businesses.	We continue to build our digital businesses, including My Account; our SmartQuote and SmartClaim apps for household insurance; and the use of technology to transform our insurance product distribution reach in the US. In asset management alongside positioning the business to protect existing market share, we are accessing new markets and sources of funds, in particular overseas. In our pensions risk transfer business, where pricing is an important factor in trustee purchasing decisions, our capabilities to assess risk and offer bespoke solutions enable us to differentiate our offer from competitors, and we believe that LGIM and LGRI are well positioned for the next evolution of the defined benefit pensions market.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.	Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks across our businesses. We are also exposed to property construction and safety risks within our housing and future cities businesses. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events.	Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group Chief Risk Officer, with independent assurance from Group Internal Audit. The work of the Group Audit Committee in the review of the internal control system is set out on page 68. 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.

A first-rate experience for the first Buckler's Park residents

Ken and Tracy Perrett moved to a two-bedroom, two-storey semi-detached home in Buckler's Park, Crowthorne. They were the very first residents to move to a new development delivered by Legal & General Homes. "We made the decision to move in May, and Buckler's Park was the first place we saw – it was perfect. We liked the Legal & General Homes way of doing things, we felt we could trust this business – and it's paid off. We looked at the plans, put our name down and got a call a week later saying the house type we wanted was available." "Legal & General Homes helped us with the sale of our old place. They employed the estate agents, we had all the valuations and agreed a price with them on the basis it would sell more quickly." Ken and Tracy's priority was for a simple move that would give them time to concentrate on the important things in life – and that's the hassle-free experience they got. Tracy explained: "Ken hates decorating, so being able to move straight in and not have to do anything really appealed to us".

Governance

Board of directors

Committee membership key

- A Audit
- I IT
- N Nomination
- R Remuneration
- Ri Risk
- Committee Chairman

Sir John Kingman
Chairman
Appointed October 2016
I N

Skills and experience:
John had a long Whitehall career; as second Permanent Secretary to HM Treasury, he had responsibility for the Treasury's economics ministry functions, for policy relating to business, financial services and infrastructure. He was closely involved in the UK response to the financial crisis, handling the resolution of Northern Rock and leading negotiations with RBS, Lloyds and HBOS on their £37 billion recapitalisation. He was the first Chief Executive of UK Financial Investments Ltd. From 2010 – 2012, John was Global Co-Head of the Financial Institutions Group at Rothschild.

John is non-executive Chair of UK Research and Innovation and is a World Fellow of Yale University. John led the independent review for the Government of the work of the Financial Reporting Council; the report was published in December 2018.

John is also a director of Legal & General Investment Management (Holdings) Limited.

External appointments:
- Royal Opera House Covent Garden Foundation (Trustee)
- National Gallery (Trustee)
- Rothschild (Senior Adviser)

Nigel Wilson
Group Chief Executive Officer
Appointed September 2009 as CFO; appointed CEO June 2012

Skills and experience:
Nigel was appointed as Chief Executive Officer in 2012 following three years serving as Group Chief Financial Officer. Nigel brings strong leadership skills with previous appointments including McKinsey & Co; Group Commercial Director of Dixons Group plc; Managing Director of Stanhope Properties plc; Chief Executive, Corporate of Guinness Peat Aviation (GPA); Managing Director of Viridian Capital; and Deputy Chief Executive and Chief Financial Officer at UBM.

Nigel was also Senior Independent Director (SID) of The Capita Group Plc from 2009 until 2012, and was SID/Chairman of Halfords Group Plc from 2006 until 2011.

In 2016 and 2017 Nigel was Chairman of the Investment Association's review of Executive Pay and the government's review of Mission Led Business. In 2017 and 2018 he was a member of the government's Patient Capital Review Industry Panel and a Commissioner in the Resolution Foundation's Intergenerational Commission.

Jeff Davies
Chief Financial Officer
Appointed March 2017

Skills and experience:
Jeff was appointed Group Chief Financial Officer in March 2017. He brings a wealth of insurance experience, having previously served as a senior partner of Ernst & Young LLP (EY) and led its European risk and actuarial insurance services. Prior to joining EY in 2004, he held a number of senior actuarial roles at Swiss Re Life & Health. He is a Fellow of the Institute of Actuaries.

Mark Zinkula
Chief Executive Officer, LGIM
Appointed September 2012

Skills and experience:
Mark was appointed to the Board in September 2012, having been appointed Chief Executive Officer of LGIM in March 2011. Prior to that, he was CEO of Legal & General Investment Management America (LGIMA) and played an integral part in the establishment and successful expansion of LGIMA. Prior to joining LGIMA, Mark was at Aegon Asset Management where he was Global Head of Fixed Income.

On 31 May 2018, Mark announced his intention to retire from Legal & General in August 2019.

External appointments:
- The Financial Reporting Council Limited (Director)

Kerrigan Procter
Chief Executive Officer, LGC
Appointed March 2017

Skills and experience:
Kerrigan was appointed to the Board in March 2017, and was appointed as CEO of LGC in January 2018. He has group-wide experience with in-depth knowledge of the workings of the Group's business divisions from his roles as CEO of the LGR Business division from 2013 to 2017, and head of solutions at LGIM from 2006 to 2012, where he was responsible for Liability Driven Investment and fund solutions for defined benefit and defined contribution pension schemes across Europe and the US. Prior to joining the Group, he worked at RBS in the financial markets division where he held several roles. Kerrigan started his career in 1994 with EY Corporate Finance before moving to Mercer. He is a Fellow of the Institute of Actuaries and has a PhD in number theory from King's College, London.

Julia Wilson
Senior independent
Non-Executive Director
Appointed November 2011; Senior Independent Director from May 2016
A I N Ri

Skills and experience:
Julia was appointed to the Board in November 2011 and became the Senior Independent Director in May 2016. She has significant corporate finance, tax and accounting experience. She is the Group Finance Director of 3i Group plc, which includes responsibility for finance, investment valuations and treasury. She has been a member of its Board since 2008. Previously, she was the Group Director of Corporate Finance at Cable & Wireless plc, where she also held a number of other finance-related roles. Julia is a member of the Institute of Chartered Accountants in England and Wales (ACA) and the Chartered Institute of Taxation.

External appointments:
- 3i Group plc (Director)

Henrietta Baldock
Independent Non-Executive Director
Appointed October 2018
A N R Ri

Skills and experience:
Henrietta was appointed to the Board on 4 October 2018. She has been Chair of the Company's principal operating subsidiary, Legal and General Assurance Society Limited (LGAS), since 6 March 2018. Henrietta has extensive knowledge of the financial services and insurance sectors through her 25 years' experience in investment banking, most recently as Chairman of the European Financial Institutions team at Bank of America Merrill Lynch where she advised many boards in the sector on some of their most significant transactions.

Henrietta joined Bank of America Merrill Lynch in 2000 and served as its Vice President of Financial Institutions Group (FIG), Managing Director and Head of European Financial Institutions Investment Banking. She started her career as a generalist adviser and has focused on financial institutions since 1995.

External appointments:
- The Leadership Trust Foundation (Director)
- Hydro Industries (Director)

Carolyn Bradley
Independent Non-Executive Director
Appointed December 2014
N R

Skills and experience:
Carolyn was appointed to the Board in December 2014. Carolyn has a strong consumer-focused background having worked at Tesco from 1986 until 2013. During this time, Carolyn held a range of senior positions in various roles including Chief Operating Officer, Tesco.com, Marketing Director, UK and as Group Brand Director.

Carolyn stepped down from the Board on 31 December 2018.

External appointments:
- Marston's PLC (Non-Executive Director)
- The Mentoring Foundation (Non-Executive Director)
- Cancer Research UK (Trustee)
- Majid Al Futtaim Retail LLC (Non-Executive Director)
- Cambridge Judge Business School Advisory Board (Member)
- The Invicta Film Partnership No. 6 LLP (Member)
- B&M European Retail Value SA (Non-Executive Director)
- SSP Group Plc (Non-Executive Director)

Philip Broadley
Independent Non-Executive Director
Appointed July 2016
A I N R Ri

Skills and experience:
Philip was appointed to the Board in July 2016. He has extensive insurance experience having spent over 14 years in senior roles in insurance including as Group Finance Director at Old Mutual plc and prior to that as Group Finance Director of Prudential plc. Philip graduated from St. Edmund Hall, Oxford, where he is now a St. Edmund Fellow. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments:
- AstraZeneca PLC (Non-Executive Director)
- Stallergenes Greer plc (Non-Executive Director)
- Eastbourne College (Director & Trustee)
- London Library (Treasurer)
- Oxford University Audit and Scrutiny Committee (Member)

Lesley Knox
Independent Non-Executive Director
Appointed June 2016
A N R Ri

Skills and experience:
Lesley was appointed to the Board in June 2016. She brings a wealth of international, strategic and financial services experience having spent over 17 years in senior roles in financial services, including with Kleinwort Benson, Bank of Scotland and British Linen Advisors. Lesley previously served as Chair on the Board of Alliance Trust PLC and as Senior Independent Director at Hays plc.

Lesley was appointed as designated non-executive director for engagement with the Company's workforce, effective 4 October 2018, in line with the provisions of the 2018 UK Corporate Governance Code.

External appointments:
- Thomas Cook Group plc (Non-Executive Director)
- Design Dundee Limited (Chair)
- Genus Plc (Senior Independent Director, Chair of the Remuneration Committee)

George Lewis
Independent Non-Executive Director
Appointed November 2018
A N Ri

Skills and experience:
George was appointed to the Board on 1 November 2018. He has significant experience of asset management following a 30-year career with the Royal Bank of Canada (RBC). He has strong international asset management experience in Canada, the US and other international markets; these skills are important as the Group seeks to develop its LGIM business globally.

George's career began in accountancy at Arthur Andersen, Toronto. He joined RBC in 1986 and served in various financial and wealth management roles. George was a member of RBC's Group Executive board from 2007 through 2015, with responsibility for the wealth and asset management and insurance businesses.

External appointments:
- Ontario Power Generation (Non-Executive Director, Chair of Audit and Risk Committee)
- AOG Group (Non-Executive Director)

Toby Strauss
Independent Non-Executive Director
Appointed January 2017
A I N Ri

Skills and experience:
Toby was appointed to the Board in January 2017. Toby brings extensive insurance experience to the Board following an executive career in UK financial services which included Group Director of Insurance and Chief Executive of Scottish Widows at Lloyds Banking Group and, prior to that, Chief Executive of Aviva UK Life.

External appointments:
- Macmillan Cancer Support (Trustee)
- Toric Limited (Director)
- Pacific Life Re Limited (Director)

Geoffrey Timms
Group General Counsel
and Company Secretary

Skills and experience:
Geoffrey has been the Group General Counsel since 1999 and, in addition, the Group Company Secretary since 2008. Geoffrey is also a Director of CALA (Group) Holdings Limited and the Bracknell Regeneration Partnership Limited. Prior to joining Legal & General, Geoffrey was a solicitor with Clifford Chance and then Clyde & Co.

Executive Committee

Executive Directors

Nigel Wilson
Group Chief Executive Officer
See Board of directors pages 52 to 53.

Jeff Davies
Chief Financial Officer
See Board of directors pages 52 to 53.

Mark Zinkula
Chief Executive Officer, Legal & General Investment Management
See Board of directors pages 52 to 53.

Kerrigan Procter
Chief Executive Officer, Legal & General Capital
See Board of directors pages 52 to 53.

Other business unit Chief Executive Officers (CEOs)

Cheryl Agius
Chief Executive Officer, General Insurance

Cheryl is the Chief Executive Officer of General Insurance. Cheryl was previously Head of our UK Strategic Retirement Pension Risk Transfer business where she was responsible for large pension risk transfer transactions and solutions for defined benefit pension schemes and back book transactions. Prior to this UK role, Cheryl set up our US Retirement business, securing our first landmark transaction for $430m in 2015. Cheryl joined Legal & General in 2011 having previously worked for over 20 years in the retirement and insurance industry. Cheryl is a Fellow of the Institute of Actuaries.

Bernie Hickman
Chief Executive Officer, Legal & General Insurance

Bernie is the Chief Executive Officer of Legal & General Insurance. Bernie joined Legal & General in 1998 from Commercial Union (now Aviva). Between 2005 and 2010 he was the Managing Director of Retail Protection during which time he launched the UK Protection digital platform, OLP Connect, which provides market leading self-service functionality and high levels of straight through processing. Bernie became MD of Individual Retirement in 2014 and the CEO co-founder of Legal & General Home Finance in 2015, when he led the group's entry into the Lifetime Mortgage market, achieving a 25% market share within 18 months of launching. He has also held the positions of Group Financial Controller, Investor Relations Director and Solvency II Managing Director.

Chris Knight
Chief Executive Officer, Legal & General Retirement, Retail

Chris is the Chief Executive Officer of Legal & General's Retail Retirement business. Chris was previously the Chief Financial Officer of Legal & General's Retirement Division where he was responsible for driving the financial results of the business. Prior to this he was the Finance Director of the Group's UK Savings and Protection business. Chris is a qualified actuary, and has had a 29-year career in the UK and international financial services markets. He joined Legal & General in 2009.

Laura Mason
Chief Executive Officer, Legal & General Retirement, Institutional

Laura has been CEO of Legal & General's Institutional Retirement business since January 2018. Laura joined Legal & General in 2011 where she was initially responsible for Annuity Investment strategy. Laura was a part of the senior management team responsible for setting up Legal & General Capital (LGC), where she served as Director of Direct Investment. Laura is a qualified Actuary and spent eight years at Towers Watson as consultant to all the major UK Life Insurers. Laura has a First Class Honours Degree in Engineering Science from University of Oxford, and a PhD in Engineering Science (Neural Networks and Signal Processing) also from the University of Oxford.

Claire Singleton
Chief Executive Officer, Mature Savings

Claire was appointed Chief Executive Officer, Mature Savings in July 2018. She oversees an area which looks after over one million customers who have invested £29 billion of assets across individual pensions, bond or endowment products.

Claire joined Legal & General in 2011 from US law firm Jones Day. A Cambridge law graduate and qualified solicitor, she has worked in a variety of legal roles within the company, most recently as General Counsel, Corporate and Legal & General Capital. Claire has helped to build and lead an outstanding legal team, delivering significant value to our business.

Additional Executive Committee members

Simon Gadd
Group Chief Risk Officer

Simon Gadd is the Group Chief Risk Officer. Simon has had a varied career with Legal & General since completing a mathematics degree at Oxford University. He qualified as an actuary in 1991 and roles undertaken since have included defined benefit pension valuation, various pricing and marketing roles, general management roles, and leadership of the pensions review. Simon has led several different businesses within Legal & General, including the Retail Protection business, Group Protection business and as MD of Annuities from 2006-2012.

John Godfrey
Group Corporate Affairs Director

John has worked in the City for over 30 years, providing advice on corporate affairs and communications to US, European and Japanese financial institutions. He joined Legal & General as Group Communications Director in 2006, becoming Corporate Affairs Director following the global financial crisis. Since then, his responsibilities have variously included communications, public affairs and policy, corporate social responsibility and brand. In 2016 he left Legal & General to work in government as head of the Prime Minister's Downing Street Policy Unit, returning to the company in September 2017.

Emma Hardaker-Jones
Group HR Director

Emma joined Legal & General as Group HR Director in 2017. Emma's previous role was as Global HR Director and Board Director at PA Consulting, co-leading the successful sale of 51% of PA Consulting to The Carlyle Group in 2015. Prior to PA Consulting, Emma spent a number of years as Group Head of Talent and Resourcing at BP, driving change across the 100 countries in which BP operates. Emma has also held roles at Prudential and the Bank of England and was the co-founder of a dot com start-up, Skillvest.com. Emma has significant international experience having worked in Europe, North America, Asia and Africa.

Stephen Licence
Group Chief Internal Auditor

Stephen is the Group Chief Internal Auditor. Stephen joined Legal & General in 2014 having previously been Emerging Markets Chief Internal Auditor at RSA Insurance where he was responsible for the Internal Audit activity in the Group's businesses across Latin America, Asia, Middle East and Eastern Europe. His 20 years' Internal Audit experience has included Life, General and Healthcare insurance in both Legal & General and Lloyd's of London markets. He was also previously an audit consultant at the London Stock Exchange Group. Stephen is a Chartered Member of the Institute of Internal Auditors.

Paul Miller
Group Strategy and M&A Director

Paul is Group Strategy and M&A Director. Paul joined Legal & General in June 2017 from Goldman Sachs International where he was Head of European Insurance within the Investment Banking Division. As an investment banker for nearly 20 years, Paul advised companies and financial investors on strategy and mergers and acquisitions in life insurance, property and casualty insurance and asset management. Whilst based in the UK he worked with clients across EMEA (Europe, Middle East and Africa), North America, and Asia.

Geoffrey Timms
Group General Counsel & Company Secretary

See Board of Directors pages 52 to 53.

The role of the Executive Committee

The Group Executive Committee (Exco), chaired by the Group Chief Executive, brings together the heads of Legal & General's business units with the executive committee members shown on these pages. 'Exco' is responsible for the day-to-day implementation of strategy agreed by the Board. 'Exco' meets regularly to ensure continued cooperation between the business units and the effective adoption of our culture, a key focus for the group. 'Exco' also monitors and manages risk, ensures efficient operational management and adherence to compliance and addresses key issues such as health and safety, diversity and environmental and corporate social responsibility.

Letter from the Chairman

Sir John Kingman
Chairman

Welcome to my 2018 Corporate Governance report.
The Board is responsible for leading the company and overseeing the governance of the group, and for setting the tone for the group's culture, values and ethical behaviours. As Chairman, it is my role to ensure that the Board promotes the highest standards of governance and that these standards cascade throughout the group.

Corporate governance underpins how we conduct ourselves as a Board, our culture, values, behaviours and how we do business. For the year ended 31 December 2018, the 2016 UK Corporate Governance Code ('the Code') remained the standard against which we were required to measure ourselves. I am pleased to report that we have complied with all principles of the Code throughout the year.

In recent years, corporate governance best practice has continued to evolve, most recently with the publication of the 2018 UK Corporate Governance Code ('the new Code'). We will endeavour, and have already made steps, to apply the updated principles of the new Code as soon as possible. We expect to be fully compliant with all principles of the new Code in 2019. Further details on the new Code and on our compliance against the 2016 Code can be found on pages 62 and 63. We continue to strive to remain at the forefront of best practice and consistent with the standards our investors, including LGIM which plays a key role in setting the standards for investor stewardship, require.

Our approach to governance
Governance is at all times an important aspect of our Board environment and our governance helps us test whether we are making decisions in the right way. Our governance framework means we have a robust decision making process and a clear framework within which decisions can be made. Our delegated authority framework ensures that decisions are taken by the right people at the right level with accountability up to the Board, and enables an appropriate level of debate, challenge and support in the decision making process.

Our business continues to evolve as we pursue our strategic objectives and respond to the changing regulatory environment and market uncertainty. In this ever-changing environment, it remains important for us to ensure that our governance framework evolves with us, and as a Board we work hard to ensure that this framework is always providing the strong foundation needed for effective management of the group.

A strong framework alone is not enough to deliver our strategy. This framework needs to be managed by an effective Board that sets the tone for the group's culture, values and ethical behaviours.

Board changes
Our Board has continued to evolve in 2018 with the appointments of Henrietta Baldock and George Lewis on 4 October and 1 November, respectively, providing the Board with further deepening of expertise.

Henrietta is Chair of the Company's principal operating subsidiary, Legal and General Assurance Society Limited (LGAS) and has continued to chair LGAS following her appointment to the Group Board. Henrietta has brought to the Board extensive knowledge of the financial services and insurance sectors through her 25 years' experience in investment banking, most recently as Chairman of the European Financial Institutions team at Bank of America Merrill Lynch.

George brings to the Board significant experience in international financial services and in particular a focus on asset management following a 30 year career with the Royal Bank of Canada (RBC). George was a member of RBC's Group Executive board from 2007 to 2015, with responsibility for RBC's wealth and asset management businesses and, from 2012, for insurance. His experience in growing RBC's global asset management businesses in the US, UK, Asia and other international markets will be important as the group further develops the LGIM business globally.

I should like to take this opportunity once again to thank Carolyn Bradley who served on the Board and retired at the end of 2018. She has made a strong contribution to the Board and I am very grateful to her.

Succession planning
Succession planning was an area of focus for the Board in 2018. Both the Nominations Committee and the Board have continued to consider the leadership needs of the group, together with the skills and experience needed from its directors going forward. We need to maintain a well-balanced Board, with diversity of expertise, skills, experience, background and perspectives, in addition to independence of thought and actions, informed by the perspectives of our customers, employees and wider stakeholders.

These considerations go beyond Board level and the Board is strongly committed to continuing to develop the pipeline of talent through the business.

Subsidiary Boards

Guiding principles are in place for the relationship between the Group Board and the Board of the group's principal subsidiaries. This framework promotes full and effective interaction across all levels of the group to support the delivery of strategy and business objectives within a framework of best corporate governance practice.

IT and cyber issues

It is vital that we do all we can as a business to mitigate potential risks, especially with the continued rise in cyber crime. Technology is increasingly fast-paced and we need to ensure we stay ahead of the curve to ensure we are delivering the best service for our customers and providing the best support for our employees. In order to ensure sufficient focus on this critical area for the business, a Group Information Technology Committee of the Board was established at the beginning of 2018. The Committee enables the Board to have greater oversight of the company's IT programmes and the implementation of improvements during 2018 to ensure the group is operating within its targeted access management, information security and cyber risk appetite.

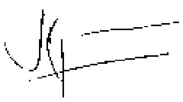
This Committee has met regularly throughout the year and has proven to be a successful forum in which progress on IT and cyber projects and strategy can be properly tracked and management can be held to account against tangible deliverables. Recognising the critical importance of IT and cyber security on our business, we have made this Committee a full committee of the Group Board, covering a broad remit of IT and cyber security issues across the group.

Stakeholder engagement

We place great value on the close engagement we have with our shareholders; the investor community continues to be a strong and influential force in shaping corporate governance. I have met with a range of our shareholders over the year providing investors with the opportunity to discuss particular areas of interest or to raise any concerns. The AGM is a particularly valuable opportunity for the Board to meet our shareholders in person and hear their views. I look forward to seeing as many shareholders at the 2019 AGM as we have in previous years, and would encourage as many shareholders as possible to attend the AGM on 23 May 2019.

As a Board we are conscious of the impact that our business and decisions have on our employees, customers, and suppliers as well as our wider societal impact.

In October 2018, we announced the appointment of Lesley Knox as our designated non-executive director for engagement with the company's workforce, in line with the provisions of the 2018 UK Corporate Governance Code. The Board welcomes the early adoption of this governance model and Lesley's appointment to this position.



Sir John Kingman
Chairman

"As a Board we are conscious of the impact that our business and decisions have on our employees, customers, and suppliers as well as our wider societal impact."

Sir John Kingman
Chairman

Governance report

The UK Corporate Governance Code – committed to the highest standards

The updated 2018 UK Corporate Governance Code ('new Code') was published in July 2018. This new Code emphasises the value of good corporate governance to long-term sustainable success. The principles of the UK Corporate Governance Code as published in 2016 (the 'Code') are the standards against which we were required to measure ourselves during the year, however we are endeavouring, and have already made steps, to apply the updated principles of the new Code as soon as possible. The information on the following pages demonstrates how we apply the principles of the Code in practice. The information required under Disclosure Guidance and Transparency Rule 7.2.6 can be found in the directors' report on pages 234 to 237. Each year, the Board reviews the group's corporate governance framework and compliance with the Code and the table on pages 62 and 63 sets out at a high level how we have complied with each of the principles.

Steps we have taken to implement the 2018 Code

- Annual Governance Review: As part of this year's Group Board annual corporate governance review, the Board and Committee terms of reference, group policies, statements of responsibility and other group documents were updated to ensure they were in line with the provisions of the new Code.
- Designated non-executive director for engagement with the Company's workforce: Lesley Knox, non-executive director, was appointed as Designated Workforce Director in October 2018 and a schedule of work in relation to Lesley's new role is underway. Further detail on the role is provided on page 61.
- Board and Committee papers: It is now a requirement that all group and subsidiary board papers demonstrate that stakeholder consideration has been taken into account as part of the Board decision making process.
- Customer Champion: Chris Knight, CEO Legal & General Retirement Retail, was appointed Group Customer Champion on 24 May 2018. This role was designed to ensure the voice of the customer was at the heart of decision making across the Group. The initial focus of the role has been to ensure that:
  - We continue to listen to our customers when they tell us what is important to them;
  - We can evidence that we put customer interests at the heart of our decision making and governance processes;
  - Our MI demonstrates that the customer outcomes we deliver match up to the high, market-leading standards we aspire to; and
  - We constantly improve how we treat vulnerable customers.

  The Group Board will receive, annually, a Customer Champion report.
- Employee Survey: A new employee survey format was introduced this year. The new platform enables complete visibility on the current state of engagement across the workforce. The new survey will be undertaken four times per year. This increased visibility, combined with improved technology, enables senior managers to take faster action on the insight received. The Board receives, periodically, detailed metrics on the views and requirements of employees coming out of the survey and plans for how actions will be implemented to address issues raised by employees in the survey.

Shortly after the new Code was published Board members received a presentation on the changes in the new Code and participated in discussions around the approach and actions to be taken to ensure full compliance with the new Code. We have already taken steps to implement the new principles of the new Code with the appointment of Lesley Knox as employee-designated non-executive director. Page 61 provides further detail on this new role.

Governance is integral to both our Board environment and organisational culture and is a key ingredient in the success of our business. Our governance framework and policies support good decision making thereby contributing to the success of the business over the long term, supporting our day-to-day operations and protecting the interests of our stakeholders.

The Board

The table below sets out the changes to the Board that have taken place over the course of the year. Henrietta Baldock, currently the Chair of LGAS, was appointed to the Board on 4 October 2018. George Lewis was appointed to the Board on 1 November 2018. Their biographies are detailed on pages 52 to 53 and show the strength and depth of skills and experience they have brought to the Board. Carolyn Bradley stepped down from the Board with effect from 31 December 2018 following four years of service. The Board continues to focus on maintaining a well-balanced Board with the right mix of individuals who can apply their wider business knowledge and experiences to the oversight and guidance of delivery of the group's strategy within the environment in which the group operates.

Changes to the Board

Retirement	Appointments
Carolyn Bradley	Henrietta Baldock
	George Lewis

Changes to the Board since 31 December 2018

On 25 February 2019 the Company announced the appointment of Michelle Scrimgeour as Chief Executive Officer of Legal & General Investment Management ('LGIM') and executive director of Legal & General Group Plc. Michelle will succeed Mark Zinkula as CEO of LGIM, who on 31 May 2018 announced his intention to retire from the Company in August 2019. Michelle will take up her post formally following the completion of regulatory and other formalities and Mark will be working closely with her to ensure a comprehensive handover. Michelle will join the Board of Legal & General Group Plc on appointment, at which point Mark will step down from the Legal & General Group Plc Board. The specific retirement and appointment dates will be confirmed in due course.

How the Board operates

The Board is led by the Chairman, Sir John Kingman. The day-to-day management of the group is led by Nigel Wilson, the Group Chief Executive. The Non-Executive Directors play a key role in contributing to the delivery of strong governance and their role is not limited to the Boardroom. Examples of some of the other activities they have undertaken during the course of the year are set out on page 59.

The Board is accountable for the long-term success of the company by setting the group's strategic objectives and monitoring performance against those objectives. The Board meets formally on a regular basis and, at each meeting, considers business performance, strategic proposals, acquisitions and material transactions. The group and its subsidiaries operate within a clearly defined delegated authority framework, which has been fully embedded across the group. The delegated authority framework ensures that there is an appropriate level of Board contribution to and oversight of key decisions and that the day-to-day business is managed effectively. The Board delegated authority framework consists of a clearly defined schedule of matters reserved for the Group Board. The types of matters reserved for the Board include, amongst other things, matters relating to the group's strategic plan, material transactions, risk appetite, and oversight of systems of internal control and corporate governance policies. Those matters which are not reserved are delegated by the Board to group level committees and to the Group Chief Executive, who then delegates decision making onward to the Group Capital Committee, an executive decision making forum, and his direct reports.

How the Board spent its time in 2018

The Board met formally 8 times during 2018 and Board sub-committees were constituted on a number of occasions in order to deal with matters arising in the ordinary course of business outside of the formal schedule of meetings. The Board held one two-day and one full-day strategy event during the year. A table of individual Board member attendance at the formal Board and committee meetings is provided on page 63.

The Group Board agenda is set by the Chairman and consists of the following broad discussion areas:

- an update from the Group Chief Executive, the Group Chief Financial Officer and each of the key business division heads on business performance and key business initiatives.
- discussions on strategic proposals, acquisitions, material transactions and other group matters.
- risk and compliance matters.
- legal and governance matters.

Board members and, as appropriate, individuals from the relevant business areas are invited to present on key items, allowing the Board the opportunity to debate and challenge on initiatives directly with the senior management team along with the Executives.

Key areas of focus	Discussion and actions arising
Strategy	• At each Board meeting, the Board considered corporate and material transactions to ensure that proposed transactions were aligned with the group's strategy. The Board had early sight of pipeline initiatives. • The Board assessed the range of ongoing corporate and commercial transactions to provide Board members with full opportunity to debate and feed back to the management team. • The Board held a full day strategy event which covered, among other things, the group's medium-term strategic opportunities, which had been determined as a key issue for the Board to focus on by the 2017 Board evaluation. • The Board held a two-day strategy event in Cardiff, a city of prominent business and investment interest for the group, to discuss progress against the group's strategic plan, the strategic direction of the group and optionality for certain of the business divisions, and the risks and future opportunities for the group with a particular focus on strategic considerations and capability of executing against the plan. • At its December meeting, the Board considered and approved the group's five-year business plan and 2019 budget. This included a review of the divisional strategic objectives, initiatives and KPIs.
Solvency II	• The Board considered and approved Internal Model Major Change applications.
Governance	• An externally facilitated Board evaluation took place in Q4 2018 and the Board considered the findings at the January 2019 meeting. Detailed recommendations arising from the evaluation were developed and were subsequently approved by the Board. • The Board is regularly updated by the Group General Counsel and Company Secretary on legal matters, emerging regulation and governance changes. • The Board is regularly updated by the Group General Chief Risk Officer on risk and compliance matters.
Stakeholders	• During the year, the Board regularly considered the group's relationship with various stakeholder groups. It discussed shareholder matters, employee engagement, customers, and the group's impact on, and relationship with, wider society. • Employee engagement was a focus of the Board in 2018 and a number of new initiatives, including the appointment of Lesley Knox as Designated Workforce Director and the rollout of a new employee survey, were implemented throughout the year. • Board members met throughout the year with its key regulators, the Prudential Regulation Authority and Financial Conduct Authority.

Strategy away days

Strategy remained a key focus for the Board throughout the course of the year. It held two separate strategy events outside the formal Board meeting schedule in 2018 – one full day event in April and one two-day event in September. These events provided the Board with an opportunity to reflect on the progress the group's strategy is making against the backdrop of the macro trends identified as the drivers of strategy, and also allow Board members to debate, scrutinise and review performance against the strategic plan. The Board also focuses on the future and the next phase of the company's strategy. The agendas for the strategy events included debate and discussion on strategic options involving the heads of each of the group's key business divisions.

Ensuring our directors have the right skills and experience to maintain an effective Board

The Board believes that continuous director training and development is important to maximise the effectiveness of the Board. The Chairman is assisted by the Group Company Secretary in providing all new directors with a comprehensive induction programme on joining the Board. This is individually tailored to the knowledge and experience of each individual and includes a series of meetings with members of the Board and with the group's operational and functional leadership, external advisers to the group and a programme of meetings with staff. This ensures they obtain a detailed overview of the group, its business and governance framework as well as the regulatory environment in which it operates.

Both Henrietta Baldock and George Lewis were provided with a formal, tailored induction programme when joining the Board in 2018. An example of the induction programme tailored for each incoming non-executive director is provided on the following page.

Tailored induction programme

- An introduction to the group's corporate structure, governance framework and guiding principles; meeting with the Group Company Secretary who provided detail on the roles and responsibilities of the Board, listed company requirements and the 2016 and 2018 UK Corporate Governance Codes.
- Meetings with the CEO of each business division to receive an overview of each business unit including information around strategic goals, risk overview and management, customers and key financials.
- Meetings with members of the Board, the Executive Committee and senior management, covering areas such as:
  - Group risk management
  - Risk and compliance
  - Finance
  - Remuneration
  - Investor relations and corporate affairs
- Meeting with the Group Actuary focusing on regulatory capital and the Group's Internal Model.
- Meeting with the Chairs of the Risk, Remuneration and Audit Committee and the external auditor.

Subsequently, all Board members receive continuing education and development opportunities at regular intervals throughout the year. Board and Committee meetings are used regularly to update the Board on developments in the areas in which the group operates and specific training sessions for directors are scheduled for key topical issues. The Board received, for example, a specific training session on IFRS17 in May and a specific session to update Board members on the changes to the UK Corporate Governance Code in August. Other development activities undertaken throughout the year included deep dives into our businesses and Board site visits to business operations including: the General Insurance division in Birmingham and Home Finance division in Solihull and the LGC and LGIM developments in Cardiff, including Central Square. While in Birmingham and Cardiff, the Board attended receptions with a broad group of employees as part of the continuing engagement with employees across the group. Non-executive directors also visited various business operations and attended one-to-one briefing sessions with key members of the senior management team on a regular basis over the year.

Group Information Technology Committee

A Group IT Committee of the Board was established in January 2018, the primary purpose of which was to provide assurance to Board on the delivery of the company's programme to implement planned enhancements during 2018 to ensure the group was operating within its targeted access management, information security and cyber risk appetite. In addition the Committee's remit was set to cover further IT matters across the group, including IT strategy and the technology aspects of major change programmes. This reflects the significant multi-year investment and change agenda that the organisation is undertaking across its IT estate to ensure delivery of the group's strategic objectives.

For 2018, a specific additional purpose of the Committee was to provide assurance to the Board on the delivery of the company's programme to be GDPR compliant by May 2018.

The Committee's membership comprises the Chairman, the Senior Independent Director, the Chair of the Audit Committee and the Chair of the Group Risk Committee. The Group Chief Executive, Group Chief Financial Officer, Chief Risk Officer and Group IT Director are all required standing attendees. In light of the Committee's broad remit and the extent of change activity across the group, the Committee met 11 times during the year. The initial meetings focused on establishing a framework for reporting and addressing immediate concerns such as ensuring compliance with GDPR by the implementation date. The later meetings focused on refining the management information and metrics presented to the Committee, reviewing ongoing work across all IT activities and working towards an appropriate IT and cyber security risk appetite.

Throughout the year the Committee provided effective oversight of the company's cyber security, information security and access management and GDPR programmes.

2018 Board and Committee evaluations

The Board undertakes a formal review of its performance and that of its committees each year. The 2018 review was conducted by Lintstock, an external board review specialist. Lintstock have no other connection to the company. The aim of the review was to assess the effectiveness of the Board, both as a collective unitary board, and at individual Board member level, in order to implement any actions required to become a more effective Board. The performance of each of the Board Committees was also assessed.

The review focused in particular on the following areas:

- Board composition, expertise and dynamics
- Strategic and performance oversight
- Succession planning and human resource management
- Priorities for change

The review included a review of the Chairman and individual directors' performance.

The results of the review were extremely positive. A summary of recommendations from the review is set out below, together with an update on the progress made against the recommendations from the 2017 internal review.

Recommendations from 2018

Continue to have regular oversight over and involvement in executive and senior management development and succession.

Continue to improve the Board's understanding of the views and requirements of customers.

Enhance the Board's understanding of digital and technological developments and major projects.

Continue to improve oversight of the group's subsidiaries, including holding an annual event for Group Board and key subsidiary board non-executive directors.

Recommendations from 2017 review	Progress against 2017 recommendations
Evolve the medium-term succession plans for non-executive and executive directors and senior management in line with the group's strategic ambitions.	Throughout the year the Nominations Committee held sessions on executive and senior management succession planning and Board succession. In addition, the Group Board received two sessions on the top talent at the levels below senior management. At the Group Board strategy event in September, the Group HR Director presented a session on the capability of the group to implement the strategy as set out in the group's five-year plan.
Against the backdrop of the UK Stewardship Code, assess how the group engages with existing and potential shareholders.	The Chairman undertook a number of meetings with shareholders in 2018 and the executive meet with shareholders on a regular basis. Work is ongoing in this area and the Board received a detailed presentation from its brokers in February 2019 on investor targeting.
Assess how the Board's consideration of the views and requirements of group employees can be enhanced.	Lesley Knox was appointed as Designated Workforce Director in October 2018 and a schedule of work in relation to Lesley's new role is underway. Lesley reports back to the Board at each meeting on employee-related matters. A new employee survey tool was introduced in 2018. The Board receives periodically detailed metrics on the views and requirements of employees coming out of the survey. The Board has had opportunities throughout the year to meet group employees in various locations, including in Birmingham and Cardiff.
Continue to maintain the group's focus on culture, including ensuring that the group's culture and core values are maintained as the group grows.	The Board discussed the group's culture in detail in the October Board meeting and specifically when considering the formation of and recommendations coming out of the new employee survey tool introduced by the group in 2018. When considering material acquisitions and strategic expansion throughout the year, maintaining the group's culture was a focus for the Board. Under the new UK Corporate Governance Code the Board will have a specific duty to assess and monitor culture. The Board is well positioned going forward to build on the work undertaken in this area in 2018 to comply with this duty.
Assess the group's brand and the strength and opportunities of the brand.	The group appointed a new Group Brand Director at the beginning of 2018. The Board undertook a detailed discussion on the group brand in December 2018 where the strength and opportunities of the brand in the UK were fully explored. Work continues on how to harness the strength and opportunities of the brand in the UK and on properly understanding the value of the brand in the US and other international markets.

Stakeholder engagement

Each year the Chairman meets a number of the group's major investors, providing them with the opportunity to ask the Chairman questions and to discuss a variety of topics relating to the group. In 2018 the Chairman held 22 investor meetings. Some of the themes that emerged from these meetings included culture; LGIM and group succession planning; Board composition; the dividend; and pension risk transfer and direct investments.

Designated Workforce Director

On 4 October 2018 Lesley Knox was appointed as Designated Workforce Director for the group. This positions Lesley as the identified director responsible for gathering the views of our employees and representing the views of our workforce at Board level. Lesley's new role will facilitate effective engagement with our employees and strengthen the link between workers and the boardroom.

Lesley is in the process of scoping the role and developing a work plan to ensure that engagement is as effective as possible and her new role satisfies the requirements of our employees. It is intended that some of the key activities will include:

- Leading a programme of 'workforce listening' events across the UK business, including formal meetings on specific subjects with targeted cohorts, informal in-person listening sessions, and on-line discussions;
- Reviewing workforce metrics, feedback and engagement mechanisms;
- Meeting with elected workforce representatives, including Unite and MCF, and other employee network groups;
- Reporting to the Board on key issues and themes, and representing the workforce view in Board discussions and decision making.

Lesley has a standing item at every Board meeting to report back to the Board on employee related matters.

Sir John Kingman
Chairman

Committed to the highest standards

Compliance with the 2016 UK Corporate Governance Code. For the year ended 31 December 2018, we are pleased to report that we have applied the principles and complied with the provisions of the Code.

A. Leadership

A1 The role of the Board
The Board held eight formal meetings throughout the year, with additional ad hoc meetings held in line with business need. A number of sub-committee meetings took place to deal with matters such as the final approval of the full and half year results. The Board's agenda is set by the Chairman and deals with those matters reserved to the Board, including matters relating to the group's strategic plan, risk appetite, and systems of internal control and corporate governance policies. Matters delegated to the Group Chief Executive include managing the group's business in line with the strategic plan and approved risk appetite, and responsibility for the operation of the internal control framework. There is a formal schedule of matters reserved for the Board which sets out the structure under which the Board manages its responsibilities, providing guidance on how it discharges its authority and manages the Board's activities.

A2 Division of responsibilities
The roles of the Chairman and Group Chief Executive are clearly defined and the role profiles are reviewed as part of the annual governance review undertaken by the Board. Sir John Kingman, the Chairman, is responsible for leading the Board while Nigel Wilson, Group Chief Executive, is responsible for the day-to-day management of the company within the strategy set by the Board.

A3 The Chairman
The Chairman sets the agendas for meetings, manages the meeting timetable and encourages an open and constructive dialogue during meetings. Sir John Kingman was identified by the directors as being independent on appointment, in accordance with the independence criteria set out in provision B.1.1 of the Code.

A4 Non-executive directors
The Chairman encourages an open and constructive dialogue in the boardroom and actively invites the views of all Board members. The Chairman is available to the Non-Executive Directors and the Non-Executive Directors regularly meet in the absence of the Executive Directors. In addition, the Chairman and Senior Independent Director are both available to shareholders should they have any concerns they wish to raise.

B. Effectiveness

B1 The composition of the Board
The Nominations Committee is responsible for reviewing the composition of the Board and, in making recommendations for appointments to the Board, the Committee considers the balance of skills, experience and knowledge needed in order to enhance the Board and support the company in the execution of its strategy. Details of the work undertaken by the Nominations Committee are set out on pages 64 and 65.

B2 Appointments to the Board
The Nominations Committee is responsible for leading the process of appointing new directors to the Board. The Committee is committed to ensuring that all appointments are made on merit having evaluated the capabilities of all potential candidates against the requirements of the Board, with due regard for the benefits of all types of diversity, including diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Further details of the appointments undertaken during the year can be found on page 58 and a summary of the Board's policy on diversity can be found on page 65.

B3 Commitment
The Non-Executive Directors' letters of appointment set out the time commitment expected from them. At times, this time commitment may go beyond that set out in the letter of appointment and is therefore reviewed regularly. External commitments, which may have an impact on existing time commitments, must be agreed in advance with the Chairman. In addition, the policy for the identification and management of directors' conflicts of interest is reviewed on an annual basis. The significant commitments of each of the directors are included in the Board biographies on pages 52 and 53. The Chairman's commitments were considered as part of his appointment and the Board agreed that he had no commitments that were expected to have a negative impact upon his time commitment to the Company. This is kept under review.

B4 Development
The Board places great value on the inductions that are offered to new non-executives and the ongoing training opportunities made available to all Board members. Over the course of the year directors have attended one-to-one briefing sessions with members of the senior management team as well as more formal Board training sessions. Further details of the development sessions which have taken place during the year are set out on page 60.

B5 Information and support
Procedures are in place to ensure that Board members receive accurate and timely information via a secure electronic portal. All directors have access to the advice of the Group General Counsel and Company Secretary as well as independent professional advice at the expense of the company.

B6 Evaluation
An internal board effectiveness review was undertaken this year. Sir John Kingman's performance was appraised as part of this review. An externally facilitated evaluation was undertaken by Oliver Ziehn of Lintstock in 2017. Details of this year's internal evaluation and an update on the recommendations from the 2017 external evaluation are set out on page 61.

B7 Re-election
All directors were subject to shareholder election or re-election at the 2018 AGM, with the exception of those directors who were retiring at the conclusion of the meeting. All directors received over 98% votes in favour of their re-election at the 2018 AGM. All directors will be subject to shareholder election or re-election at the 2019 AGM.

UK Corporate Governance Code
A full version of the Code can be found on the Financial Reporting Council's website

Please visit:
frc.org.uk

C. Accountability

C1 Financial and business reporting

The Strategic report, located on pages 1 to 49, sets out the performance of the company, the business model, strategy, and the risks and uncertainties relating to the company's future prospects. When taken as a whole, the directors consider the annual report is fair, balanced and understandable and provides information necessary for shareholders to assess the company's performance, business model and strategy.

C2 Risk management and internal control

The Board sets the company's risk appetite and annually reviews the effectiveness of the company's risk management and internal control systems. A description of the principal risks facing the company is set out on pages 48 and 49. Page 47 sets out how the directors have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate (the 'viability statement'). The activities of the Audit and Group Risk Committees, which assist the Board with its responsibilities in relation to financial reporting, audit matters, risk appetite setting and risk management, are set out on pages 66 to 71. A Group IT Committee was established at the beginning of 2018. The Committee enabled the Board to have greater oversight of the company's programme to implement improvements during 2018 to ensure the group is operating within its targeted access management, information security and cyber risk appetite. In Q4 2018 the remit of the committee was expanded to cover a broader remit of IT issues across the group. Further details are set out on page 60.

C3 Audit Committee and auditors

The Audit Committee comprises six independent Non-Executive Directors and the Board delegates a number of responsibilities to the Audit Committee, including oversight of the group's financial reporting processes and internal control, and the work undertaken by the external and internal auditors. The Committee also supports the Board's consideration of the company's viability statement and its ability to operate as a going concern. The Audit Committee chair provides regular updates to the Board on key matters discussed by the Committee. The Audit Committee's terms of reference are reviewed annually and are available on the website, legalandgeneralgroup.com.

D. Remuneration

D1 The level and components of remuneration

The company aims to reward employees fairly and its remuneration policy is designed to promote the long-term success of the company whilst aligning the interests of both the directors and shareholders. Shareholders approved the remuneration policy at the 2017 AGM. The Directors' remuneration policy is set out on pages 78 to 85.

D2 Procedure

The Remuneration Committee is responsible for setting the remuneration for all executive directors. Details of the composition and the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 72 to 101.

E. Relations with shareholders

E1 Dialogue with shareholders

Board members take an active role in engaging with both institutional and retail shareholders, both in private meetings and in wider forums such as the AGM. The Chairman and the Senior Independent Director aim to meet the major institutional investors at least once per year and are available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board. A capital markets event for investors was held in June 2018.

E2 Constructive use of the AGM

The Board values the AGM as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet the Board following the formal business of the meeting.

Board and Committee meetings attendance during 2018[1]

Director	Appointment date	Committee appointments	Board(8)	Audit Committee(5)	Nominations Committee(2)	Remuneration Committee(5)	Group Risk Committee(6)	Group IT Committee(11)
Chairman and Executive directors								
Sir John Kingman[2]	24 October 2016	I N	8/8		2/2			11/11
N D Wilson	1 September 2009		8/8					
J Davies	9 March 2017		8/8					
K Procter	9 March 2017		8/8					
M Zinkula	18 September 2012		7/8[3]					
Non-executive directors								
J Wilson	9 November 2011	A I N Ri	7/8[3]	4/5	2/2		5/6	11/11
H Baldock[4]	4 October 2018	A N R Ri	2/2	2/2	0/0	2/2	2/2	
C Bradley	8 December 2014	N R	8/8		2/2	5/5		
P Broadley	8 July 2016	A I N R Ri	8/8	5/5	2/2	5/5	6/6	9/11
L Knox	1 June 2016	A N R Ri	8/8	4/5	2/2	5/5	4/6	
G Lewis[5]	1 November 2018	A N Ri	1/1	1/1	0/0		1/1	
T Strauss	1 January 2017	A I N Ri	8/8	5/5	2/2		6/6	6/11

1. Attendance at meetings in accordance with the formal schedule of meetings.
2. Attends all Audit, Remuneration and Group Risk Committee meetings as an invitee.
3. Attended all scheduled Board meetings but was unable to join one ad hoc meeting dealing with a single item.
4. Appointed 4 October 2018.
5. Appointed 1 November 2018.

Nominations Committee report

Sir John Kingman
Chairman

The composition of the Committee

The Committee is composed of all the independent Non-Executive Directors. The table below sets out the Committee membership during the year. The Group Chief Executive and Group HR Director may be invited to attend meetings where this may assist the Committee in fulfilling its responsibilities and, most notably, in relation to executive appointments and succession planning.

Members:
Sir John Kingman (Chair)
Julia Wilson
Henrietta Baldock from 4 October 2018
Carolyn Bradley
Philip Broadley
Lesley Knox
George Lewis from 1 November 2018
Toby Strauss

In line with our conflicts of interest management policy, directors are asked to absent themselves from any discussions relating to his/her own reappointment or succession.

The role of the Committee

The Committee has overall responsibility for leading the process for new appointments to the Board and ensuring that these appointments bring the required skills and experience to the Board to support the Board's role in development and oversight of the group's strategy. As part of this, the Committee reviews the structure, size and composition of the Board to ensure the Board is made up of the right people with the necessary skills and experience whilst striving to achieve a Board composition that promotes diversity of thought and approach.

The Committee's key responsibilities are:

- Regularly reassessing the structure, size and composition of the Board and recommending any suggested changes to the Board.
- Reviewing the criteria for identifying and nominating candidates based on the specification for a prospective appointment including the required skills and capabilities.
- Considering succession planning for directors and other senior executives, taking into account the promotion of diversity and inclusion, the challenges and opportunities facing the company, and what skills and expertise will be needed by the Board in future, ensuring the continued ability of the company to compete effectively in the market place.
- Reviewing the time commitment required from Non-Executive Directors and assessing the Non-Executive Directors' other significant commitments to ensure that they continue to be able to fulfil their duties effectively.

The Committee's terms of reference, which set out full details of the Committee's responsibilities, can be viewed on our website:

Please visit:
legalandgeneralgroup.com/about-us/corporate-governance/group-board-committees/

How the Committee spent its time in 2018

During 2018 the Committee has focused in particular on the recruitment of two new Non-Executive Directors, Henrietta Baldock and George Lewis. Their biographies are detailed on pages 52 to 53 and show the strength and depth of skills and experience they have brought to the Board.

The Committee identified that the Board's skill set could be strengthened with the addition of increased asset management and insurance knowledge and US experience, reflecting feedback from previous Board evaluations. The Committee produced a detailed candidate brief and engaged external search consultants Heidrick & Struggles, JCA Group, to undertake the search. On the basis of this brief, a long list of candidates was produced including candidates from a range of diverse backgrounds. Following rigorous interviews, the Committee recommended the appointment of George Lewis to the Board, which occurred in November 2018.

The Board's skill set was further strengthened with the recommendation of Henrietta Baldock's appointment to the Board. Henrietta was appointed as Chair of LGAS in March 2018 and is continuing that role following her appointment to the Group Board in October 2018. She has brought to the Board further extensive knowledge of the financial services and insurance sectors through her 25 years' experience in investment banking.

The Committee has continued to focus on succession planning for the executive and senior management, with particular focus on succession for the LGIM CEO role following the announcement made in May 2018 regarding Mark Zinkula's intention to retire from the Company in August 2019.

The Committee is responsible for evaluating the independence of all non-executive directors and undertakes an annual review of each non-executive director's other interests. The Board, on the recommendation of the Committee, is satisfied that each non-executive director serving at the end of the year remains independent and continues to have sufficient time to discharge their responsibilities to the company. Julia Wilson has served on the Board for seven years and, as a result, her continued independence was subject to more rigorous review. Committee members considered Julia's external interests and other relationships which could materially interfere with her ability to exercise independent judgement. It was concluded that there were no circumstances which would affect Julia's ability to act in the best interest of the company and that her length of tenure had no detrimental impact on her level of independence.

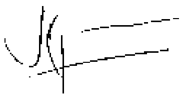
Our approach to diversity

Our approach to diversity on the Board is set out in our Group Board Diversity Policy, which is reviewed annually. We have continued to recruit based on merit while remaining committed to diversity in the widest sense including diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, when seeking to fill vacant Board positions and for the company more generally.

We have maintained the diversity on our Board which comprises 33% females and 67% males, whilst our Executive Committee comprises 27% females and 73% males. Three of our seven business divisions are led by a female CEO. The Board continues to support Lord Davies' and the Hampton-Alexander voluntary targets, namely for a third of all Board members in FTSE 350 companies and FTSE 100 companies to be women by 2020. Further than this, the Board supports the Legal & General 50/50 by 2020 Network which aims to have a 50/50 balance of men and women right through the organisation by 2020. More information can be found on pages 35 to 37. The chart opposite demonstrates the Board's current position.

The Board continues to support the delivery of the talent and leadership programmes within the wider organisation which seek to address diversity imbalance by removing barriers that prevent people from realising their potential. Board members actively participate in discussions relating to talent and leadership and a number of Board members act as mentors to individual employees who have been identified as future leaders.

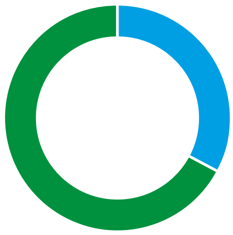
We have published our Gender Pay Gap data, which can be found online at: legalandgeneralgroup.com/media-centre/reports. A summary is available on page 36 of this report.



Sir John Kingman
Chairman

Diversity

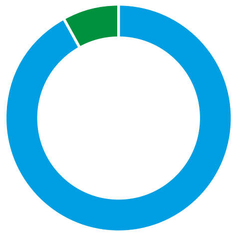
Gender



As at 31 December 2018 the Board comprised:

- Females 33%
- Males 67%

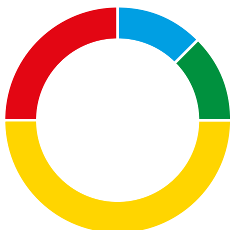
Sector experience



Board members come from the following backgrounds:

- Financial Services 92%
- Customer and Retail 8%

Tenure (years)



The length of tenure of the non-executives varies:

- Over six years 12.5%
- Between three and six years 12.5%
- Between one and three years 50%
- Less than one year 25%

The Committee only engages executive search firms that are signatories to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate board searches. In 2018, the company engaged Heidrik & Struggles, JCA Group and Korn Ferry which are both signatories to this Code and have no other connection to the company.

The Committee briefs the search firm to ensure that the pool of candidates presented includes candidates with an appropriate range of experience, knowledge and background, and who demonstrate independence of approach and thought. As detailed on page 64, this process was followed for the recruitment of our new non-executive directors appointed in 2018.

Audit Committee report

Philip Broadley
Chairman of the Audit Committee

The composition of the Committee

The Committee is composed entirely of independent non-executive directors. The table below sets out its membership during the year.

Members:
Philip Broadley (Chair)
Henrietta Baldock from 4 October 2018
Lesley Knox
George Lewis from 1 November 2018
Toby Strauss
Julia Wilson

Other regular attendees at Committee meetings include the following:

Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Director of Group Finance; Group Chief Internal Auditor; Legal & General Retirement Finance Director; LGIM Finance Director; Group Actuary; Chief Tax Officer; Representatives of the external auditor, KPMG LLP.

Letter from the Chairman

Dear Shareholder

I am pleased to present the Audit Committee Report for the year ended 31 December 2018. The report explains the work of the Audit Committee during the year, and meets the disclosure requirements set out in the 2016 UK Corporate Governance Code (the 'Code').

The Code requires that the Audit Committee must operate effectively and efficiently and that its members have a balance of skills and experience to deliver its responsibilities. During the year under review, Henrietta Baldock and George Lewis joined the Audit Committee on 4 October and 1 November 2018 respectively, and all members of the Audit Committee have varied experience including: as executives in the financial services and other sectors; as non-executive directors in other sectors; and as Board members responsible for financial reporting. The Board consider that I meet the requirements of the Code in having recent and relevant financial experience, as do other members of the Audit Committee.

It is worth highlighting that all members of the Audit Committee are also members of the Group Risk Committee, ensuring the appropriate identification and management of any issues that are relevant to both Committees.

The Audit Committee meets regularly and privately with each of the external auditor and the Chief Internal Auditor. These meetings allow for regular and open dialogue of any issues relevant to the Audit Committee's work. Audit Committee members also meet regularly with management outside of formal Committee meetings to discuss topical issues and maintain their understanding of the group's businesses.

Audit Committee focus for the 2018 year

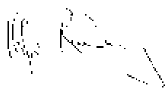
During 2018, the Audit Committee met five times in accordance with its annual plan and additional meetings were arranged as necessary. In line with its purpose, the Audit Committee's time over the course of the year was spent in consideration of:

- The integrity of the Company's financial statements and Solvency II disclosures, including consideration of the viability statement and going concern assessments
- Key accounting and actuarial areas of judgement
- The adequacy and effectiveness of our systems of internal control, including whistleblowing
- The effectiveness, performance and objectivity of both the internal and external audit functions

During September 2018, the Company received a letter from the Corporate Reporting Review Team ('CRRT') of the Financial Reporting Council ('FRC'), as part of its regular review and assessment of the quality of corporate reporting in the UK, requesting further information in relation to the company's 2017 Annual Report and Accounts. The letter focused on the disclosure of Alternative Performance Measures ('APMs') and Critical Accounting Judgements. In relation to APMs, the CRRT raised questions regarding the labelling and reconciliation of certain measures within the Annual Report and Accounts. On Critical Accounting Judgements, the CRRT raised questions over the specific nature of the judgements that are made and how they have been concluded on. We have responded to the CRRT's questions providing clarifying information and proposing specific enhancements to the 2018 Annual Report and Accounts, all of which have been applied. The CRRT subsequently confirmed in writing that it had closed its enquiries.

Following the conclusion of the 2016 tender process, KPMG LLP ('KPMG') were appointed as the group's external auditors with effect from the financial year commencing 1 January 2018. Shareholder approval of the appointment was received at the Annual General Meeting of the Company on 17 May 2018. KPMG were invited to observe the audit of the financial year ended 31 December 2017 and attended Audit Committee meetings in order to ensure an effective and orderly transition. I believe that, following their appointment, the transition period has run smoothly and we look forward to working with KPMG over the coming years. However, given that KPMG has only just completed its first full year audit, no external auditor effectiveness review was carried out in 2018. A review will be conducted during 2019 of KPMG's first year as auditors.

The information on the following pages sets out in detail the activities of the Audit Committee during the year. I hope that you will find this report useful in understanding our work and I welcome any comments from shareholders on my report.

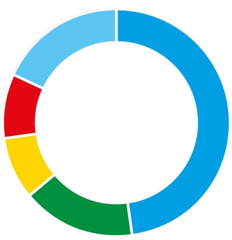


Philip Broadley
Chair of the Audit Committee

How the Audit Committee spent its time in 2018

The Audit Committee is a Board Committee with governance responsibilities that include the oversight of financial disclosures and corporate reporting. The Board has delegated to the Audit Committee the following principal responsibilities to assist the Board in discharging its responsibilities with regards to monitoring the integrity of the group's financial statements, monitoring the effectiveness of the internal control (including financial internal control) framework and the independence and objectivity of the internal and external auditors. The Audit Committee is also responsible for advising the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and for reviewing the basis on which the Board provides the viability statement and going concern assessment. These considerations have been factored into our year-end processes.

Percentage of time allocated to specific agenda items



- Financial reporting, including areas of judgement, and reporting developments 48%
- External audit 16%
- Internal audit 9%
- Internal controls 9%
- Other (including governance) 18%

The Audit Committee's terms of reference, which set out full details of the its responsibilities, can be viewed on our website: legalandgeneralgroup.com/about-us/corporate-governance/group-board-committees/

The Audit Committee has an annual work plan aligned with the financial reporting cycle of the Company. The Audit Committee's activities fall into three principal areas:

- Accounting and Financial Reporting
- Internal Control
- External Auditor

Accounting and financial reporting

The Audit Committee reviews the appropriateness of the half year and annual financial statements, which it carries out with both management and the external auditors. This review includes ensuring that the Annual report and Accounts, taken as a whole, are fair, balanced and understandable; that they comply with disclosure requirements; and they reflect the material areas in which significant judgements have been applied.

In collaboration with the Group Risk Committee, the Audit Committee also reviews the disclosures to be made in relation to internal control and risk management, and principal risks and uncertainties.

The significant accounting issues considered in relation to the 2018 financial statements are detailed on page 68.

Robust year-end governance processes are in place to support the Audit Committee's considerations which include:

- ensuring that all of those involved in the preparation of the company's annual report have been appropriately trained and fully briefed on the 'fair, balanced and understandable' requirements;
- internal legal verification of all factual statements, together with legal verification of descriptions used within the narrative;
- regular engagement with and feedback from senior management on proposed content and changes;
- feedback from external advisers (corporate reporting specialists, remuneration and strategic reporting advisers, external auditor) to enhance the quality of our reporting; and
- early opportunity for review and feedback on our annual report by Audit Committee members.

The Audit Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2018 annual report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit Committee, together with the Group Risk Committee, reviewed the key assumptions and methodologies of the risk-based capital model as well as related Solvency II disclosures and the proposed disclosures pertaining to the group's economic capital disclosure.

During the year, the Audit Committee has continued to keep abreast of significant and emerging accounting developments, in particular changes to IFRS relating to insurance accounting and financial instruments. The Audit Committee regularly considers the progress of the projects to implement new standards, in particular IFRS 17, and the key judgements relating to their implementation, including the expected impacts on results and the approach to transitional disclosures.

Significant accounting issues considered by the Committee

Issue	Committee's response
Valuation of non-participating insurance contract liabilities – retirement: The non-participating insurance liabilities for retirement products are significant in size and their estimation is inherently judgemental.	The Committee evaluated the significant judgements that have an impact on the valuation of non-participating insurance liabilities for retirement products. This included considering: Valuation interest rates – which are used to discount the liabilities. These are sensitive to judgements made, for example, on credit default of the backing assets, as well as the investment data used to calculate the internal rate of return. The Committee focused on management's proposed changes to reserving assumptions, other modeling changes, and the determination of the credit default assumption. This included analysis of internal historic data and external market experience, including consideration of Brexit outcomes. Longevity assumptions – which estimate how long policyholders receiving annuity payments will live. The challenge around the setting of longevity assumptions was a particularly significant area for review as the judgements could be expected to have a material impact on the group's results. The Committee considered the effectiveness of the controls over the accuracy and completeness of the data used in determining the longevity assumption and the validity of independent industry data supporting those assumptions. The Committee also reviewed available data illustrating recent trends in mortality experience in the UK population and the mortality experience on different blocks of our business. The Committee concluded that the retirement insurance contract liabilities are appropriate for including in the financial statements, reflecting the asset risks and the available data on policy holder longevity.
Valuation of complex investments: Mark to model investments can involve significant judgement and can produce valuation challenges for investments in new classes. Mark to model valuations inherently include assumptions that lead to the existence of a range of plausible valuations for financial instruments (known as valuation uncertainty). Certain assets are subject to a higher degree of valuation uncertainty particularly where valuations are modelled using no-market inputs or the valuations are affected by other factors such as the illiquidity of the asset.	The valuation of property assets, lifetime mortgages, private credit and certain unquoted equities require the use of complex models and management judgement. The Committee seeks to ensure that the valuation process for these investments is robust. The Committee reviewed the processes and controls over investment valuations, in particular the valuation uncertainty policies and governance which included management's assessment of valuation uncertainty by asset type. The Committee also reviewed available data illustrating recent trends in relation to retail property assets in the UK, and obtained comfort that market conditions were being reflected in the relevant asset valuations. The Committee concluded that there are appropriate controls surrounding the valuation of complex assets and that they are valued appropriately for inclusion in the financial statements.
Valuation of non-participating insurance liabilities – insurance: The non-participating insurance liabilities for protection contracts are an important driver of the profitability for this line of business and require judgements to be made regarding the assumed rates of mortality and persistency. The company makes extensive use of reassurance to reduce mortality risk.	The Committee has reviewed the methodology for calculating reserves including the allowance made for payments to and from reassurance counterparties. The assumptions for the rate of future mortality and morbidity (how many customers will die or become ill during the policy term) and persistency (how many customers will discontinue cover) are based on the company's internal experience and use judgement about how experience may vary in the future. The Committee reviewed the assumptions and the expected level of prudence taking into account market benchmarking, internal experience studies and the reassurance structure. The Committee also considered the internal control environment in place to control the valuation models. The Committee concluded that the insurance liabilities of the Insurance division are appropriate for inclusion in the financial statements.

Internal control

The Board has delegated responsibility for reviewing the effectiveness of the group's systems of internal control to the Audit Committee.

The Audit Committee has the primary responsibility for the oversight of the group's system of internal controls including financial control and the work of the internal audit function. The Audit Committee, in collaboration with the Group Risk Committee, seeks to ensure that the group operates within a framework of prudent and effective controls that allow risk to be identified, assessed and managed.

The Audit Committee has completed its review of the effectiveness of the group's system of internal control policies and procedures, during the year and up to the date this report was approved, in accordance with the requirements of the Guidance on Risk Management, Internal Control and related Financial and Business Reporting published by the FRC. During this review, the Audit Committee did not identify any weaknesses which were determined to be significant to the preparation of the financial statements. The Audit Committee also noted that there were no significant changes to the control environment identified in the current year, significant to the preparation of the financial statements. Where areas for improvement were identified, processes are in place to ensure that the necessary actions are taken and progress is monitored by the Audit Committee.

The Audit Committee monitored and reviewed the scope, extent and effectiveness of the activity of the Group Internal Audit function. In particular, the Audit Committee evaluates the alignment of the internal audit plan with the group's key risks and strategy.

The Group Chief Internal Auditor has a standing agenda item at each Audit Committee meeting to update the Audit Committee on audit activities, progress of the audit plans, the results of any unsatisfactory audits and the action plans to address these areas. In 2018, 107 audits were completed in line with the Internal Audit Plan approved by the Audit Committee. There was a particular focus on key themes including cyber/data management and governance, digital business and regulatory change, conduct risk, financial management and control, model risk, outsourcing/vendor management and economic and political volatility.

The external auditor

The Audit Committee has the primary responsibility for overseeing the relationship with, and performance of the external auditor. This includes making recommendations for their appointment, re- appointment, removal and remuneration.

Appointment

The Audit Committee is cognisant of the requirements governing the appointment of an external auditor, notably the requirements of the Competition and Markets Authority ('CMA') in relation to the mandatory re-tendering of audit services every ten years, together with the European Union's requirements for mandatory audit firm rotation. The Company confirms that it has complied with the CMA requirements for the financial year under review.

Indeed, following the conclusion of the 2016 tender process, KPMG were appointed as the Group's external auditors with effect from the financial year commencing 1 January 2018. Shareholder approval of the appointment was received at the Annual General Meeting of the Company on 17 May 2018. KPMG were invited to observe the audit of the financial year ended 31 December 2017 and attended Audit Committee meetings in order to ensure an effective and orderly transition.

Performance

The Audit Committee assesses the effectiveness of the external auditor against some of the following criteria:

- Provision of timely and accurate industry specific and technical knowledge
- Maintaining a professional and open dialogue with the Audit Committee Chair and members at all times
- Delivery of an efficient audit and the ability to meet objectives within the agreed timeframes
- The quality of its audit findings, management's response and stakeholder feedback

The Audit Committee receives regular reports from the external auditor on audit findings and significant accounting issues. In 2018, the Audit Committee continued to focus on the external auditor's assurance work on the financial control environment, as well as their conclusions on the significant accounting issues noted above.

In addition, during the year, the Financial Reporting Council's Audit Quality Review Team ('AQRT') reviewed PwC's audit of the group's 2017 financial statements as part of their annual inspection of audit firms. The Audit Committee received and reviewed the final report from the AQRT which indicated that there were no significant areas of concern.

The Chair of the Audit Committee regularly meets the external auditor throughout the course of the year. The Audit Committee also meets the external auditor in private throughout the year.

The Audit Committee reviews and approves the terms of engagement of the external auditor and monitors its independence. This includes overseeing, and in certain circumstances approving, the engagement of the external auditors for non-audit work. The non-audit services policy prohibits the auditor from providing the following services:

- Tax advice and compliance
- Management or decision making
- Book-keeping and preparing accounting records or statements
- Design or implementation of internal controls
- Valuation
- Legal, internal audit or human resources
- Those linked to financing, capital structure or allocation, or investment strategy
- Promoting, dealing in or underwriting share issues
- Payroll services

Remuneration

In 2018, the group spent £2.3 million on non-audit services provided by KPMG. It spent a further £0.8 million on audit-related services required by legislation, which is excluded from any calculation of the ratio of non-audit to audit fees in accordance with the UK FRC Ethical Standard for Auditors (June 2016). Further details can be found in Note 31 to the consolidated financial statements. The non-audit fee represents 38% of the total audit fee for 2018.

Analysis of current and prior-year spend on audit, other assurance and non-assurance services:

	2018	2017	2016
Audit	**6.0**	6.1	5.7
Audit-related required by legislation	**0.8**	0.8	1.0
Other audit-related	**0.6**	1.0	1.0
Other assurance	**0.2**	0.4	0.4
Non-assurance	**1.5**	0.8	1.1
Total	**9.1**	**9.1**	**9.2**

Following the audit tender process, the policy was updated and approved by the Audit Committee to address the requirements as set out in the EU Audit regulation.

Our policy is to approach other firms for significant non-audit work. The group's policy requires that all services with an anticipated cost in excess of a specified amount are subject to a full competitive tender involving at least one other alternate party in addition to the external auditor. If the external auditor is selected following the tender process, the Audit Committee is responsible for approving the external auditor's fees on the engagement. For services with an anticipated cost below the specified amount, the Group Chief Financial Officer has authority to approve the engagement. The external auditor and management are required to report regularly to the Audit Committee on the nature and fees relating to non-audit services provided under this authority.

The Audit Committee remains satisfied that KPMG continued to be independent. In addition, KPMG annually reports on whether and why it deems itself to be independent.

Group Risk Committee report

Toby Strauss
Chairman of the Group Risk Committee

The composition of the Committee

The Committee is composed entirely of independent non-executive directors. The table below sets out its membership during the year.

Members:
Toby Strauss (Chair)
Henrietta Baldock from 4 October 2018
Philip Broadley
Lesley Knox
George Lewis from 1 November 2018
Julia Wilson

Other attendees at Committee meetings include: the Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Conduct Risk Director; Group Chief Internal Auditor; Chief Executive Officer LGC; and representatives of the external auditor, KPMG LLP.

The role of the Committee is to assist the Board in the oversight of the risks to which the group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures. This includes reviewing the group's risk profile and appetite for risk, and assessing the effectiveness of the group's risk management framework. The group's approach to the management of risk is set out in more detail on pages 44 to 49.

Committee activities during 2018

The work of the Committee is supported by the Group Chief Risk Officer and the Company Secretary, who assist the Committee Chairman in planning the Committee's work and ensuring that the Committee receives accurate and timely information. The Committee met six times during 2018.

Group Chief Risk Officer's report

The Committee receives at each meeting a formal report from the Group Chief Risk Officer. This report brings to the Committee's attention key factors in the operating environment of the group's businesses and an assessment of the potential risks that may emerge. The review includes analysis of risks arising from the macro-economic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the group's businesses, and risks associated with the implementation of the group's business strategy.

In addition to the Group Chief Risk Officer's report, the Committee is provided with management information on risk appetite, comparing actual positions relative to the group's risk appetite statement and quantitative analysis of the group's exposures to financial and operational risks, including risk based capital requirements in relation to the core risks implicit in the group's businesses.

Group Conduct Risk Director's report

At each meeting the Committee receives a report from the Group Conduct Risk Director. This provides the Committee with an assessment of the overall profile of conduct risks for the group; analysis and trends in conduct risk indicators including complaints data and the results of reviews undertaken by the group conduct risk monitoring team; and evaluation of changes in the conduct risk landscape as regulatory approaches evolve.

Focused business and risk reviews

Focused 'deep dive' reviews of particular risk areas are undertaken at each Committee meeting. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. Committee members are invited to participate in setting the agenda for these deep dive reviews, considering both the current operating environment and emerging risk factors. Below are some examples of the key reviews that took place during 2018, and the areas of focus by the Committee.

- 'Value for Money' reviews: assessment of the controls and monitoring frameworks in our general insurance and investment products businesses that ensure pricing reflects the risks implicit in products whilst providing value for money to our customers
- Brexit Contingency Planning: understanding the key issues for the group in the event of a 'no deal' Brexit scenario and the potential actions to advance our contingency planning
- Property Risk Management: the approach within our property manufacturing and construction businesses to managing legal, regulatory and reputational risks including health and safety risk management

- Derivative and Collateral Management: the group's framework for managing collateral and liquidity requirements associated with financial risk hedging activities
- Technology Risk: focus on the group's technology risk landscape, expressions of risk appetite, and areas for further development as new technologies emerge
- Direct Investments Governance: review of the risk and control framework in managing the risk arising from new and illiquid direct investment assets
- LGIM Internal Control Framework: an annual review of the management of the core operational risks implicit in LGIM's investment management activities
- Outsourcing and Supplier Management: an overview of the group's framework for managing third party supplier arrangements within our UK businesses, and associated risks
- The regular management information received by the Committee includes customer lifecycle metrics, analysing by business division core measures of customer service delivery. The analysis provides a focal point for discussion on the management and oversight of customer and related reputation risks.

The Committee also takes an active role in the development and review of the group's recovery and resolution plans, which have been put in place in line with the UK regulatory requirements relating to systemically important insurers.

Risk appetite

At its August meeting the Committee undertook a detailed review of the operation of the group's risk appetite framework and the key measures and tolerances used to determine acceptable risk taking, recommending some refinements to the Board. In December, the Committee considered the risk profile of the group's strategic plan and its alignment with the group's overall risk appetite.

In addition to this aggregate view of acceptable risk taking, the Committee may also consider, as part of the group's overall transaction approval process, the appetite for specific risks associated with transactions, particularly where the transaction is material in the quantum of risks being assumed or aspects of the transaction may present risks that are relatively new to the group. The Committee is also responsible for recommending to the Board risk appetite levels for particular business lines.

Risk-based capital model

The group's risk-based capital model is used to determine the capital requirements for the group and forms the calculation engine for the Solvency II internal model. As well as reviewing and using the output of the model in its understanding of the group's risk profile, the Committee is the focal point for model governance with specific consideration of the:

- key assumptions, methodologies and areas of expert judgement used within the model
- activities undertaken to independently validate the outputs of the model
- ongoing development of the model to ensure that it reflects the business lines and risk profile of the group
- processes to ensure that changes applied in the model are undertaken in a controlled manner, and in line with model development plans

Own risk and solvency assessment (ORSA)

The ORSA is an ongoing assessment of the risks to which Legal & General is exposed and an evaluation of the sufficiency of capital resources to sustain the business strategy over the plan horizon. Over the course of the year the Committee considered different aspects of the group's ORSA process. This included the review of proposed stress tests and scenarios to be used in the evaluation of capital adequacy, the profile of risks within the group's strategic plan and how they may change over the planning period, and the group's overall capacity to bear the risks identified.

A formal ORSA report is subject to annual review by the Committee prior to formal approval by the Group Board.

Risk governance

Sound frameworks of risk management and internal control are essential in the management of risks. During the year, the Committee has received updates on the continued development of the risk governance framework.

Risk based remuneration

The Committee advises the Remuneration Committee on risk matters to be considered in reviewing bonus pools.

Directors' report on remuneration introduction

Lesley Knox
Chairman of the Remuneration Committee

Our remuneration report is organised into the following sections

The directors' remuneration policy was subject to a binding vote at the 2017 AGM, and will apply for three years from the 2017 AGM. The annual report on remuneration together with the Chair's Statement will be subject to an advisory shareholder vote. A new remuneration policy will be presented for approval at the 2020 AGM.

Letter from the Chairman

Dear Shareholder

I am pleased to present the Remuneration Committee's report for 2018.

Our current remuneration policy was approved by shareholders at the 2017 AGM and I would again like to take this opportunity to thank you for the strong support received at that time. A summary of the remuneration policy is included on pages 78 to 85.

We will be presenting a new remuneration policy for approval at the 2020 AGM. However, following a review during the year, we have proposed two modifications for 2019, which are within the bounds of the approved policy, as detailed below.

Review of our remuneration policy

The Committee welcomed the publication of the new UK Corporate Governance Code in July 2018, and undertook a review of the group's arrangements in the context of its provisions. The Committee reviewed the rules of the various incentive plans to satisfy itself that it has sufficient flexibility to exercise discretion to override formulaic outcomes, as well as to recover and/or withhold sums or share awards in appropriate circumstances.

However, the Committee concluded that our approach to executive remuneration could be further strengthened by implementing, from 1 January 2019, a requirement for executive directors to maintain a shareholding for at least two years after leaving employment and aligning the pension provision for new executive directors with the wider workforce (10% of salary). The post-employment shareholding requirements have been set at the same level as the shareholding guidelines applicable during employment, being 300% of base salary for the Group Chief Executive and 200% of base salary for the other executive directors.

During the coming year, the Committee will continue to monitor developments in remuneration, with a view to presenting a new remuneration policy for shareholder approval at the 2020 AGM.

Board changes and changes to the committee

Mark Zinkula

In May 2018 we announced that Mark Zinkula, Chief Executive Officer LGIM, would be retiring in August 2019. Mark has led LGIM since 2011 and created a significant and successful business during that time. In accordance with our remuneration policy, Mark will continue to receive his current remuneration arrangements until he leaves in August 2019 and will receive an annual variable pay (AVP) award for performance in respect of 2018 as set out on pages 88 to 90. Mark will remain eligible for an AVP award for 2019, subject to performance, pro-rated for the period through to his leaving, with any award deferred in accordance with our normal deferral policy (three years).

Mark will not receive a PSP award for 2019, but, consistent with the remuneration policy set out on page 85, his outstanding unvested PSP awards will be pro-rated by reference to the proportion of the performance period that has elapsed upon leaving, and will vest based on performance to the end of the performance period. This means that Mark's 2017 PSP will be released, subject to performance, in three equal tranches following the third, fourth and fifth anniversaries of the grant date, and his 2018 PSP will be released, subject to performance, on the fifth anniversary of the grant date. His deferred AVP awards for 2018 and any award for 2019 will vest three years from the date of grant. Malus and clawback provisions continue to apply to all AVP and PSP awards.

Mark will continue to have a significant interest in the group's shares as a result of these continuing deferrals and outstanding PSP awards, but as his leaving arrangements were determined before the introduction of the new post-employment shareholding requirements, no fixed post-employment shareholding requirement will apply.

Remuneration Committee

Carolyn Bradley retired from the Committee and the Group Board in December 2018, and Henrietta Baldock has joined the Committee and the Group Board. I would like to thank Carolyn for her invaluable contribution, and welcome Henrietta to the Committee.

Link between pay and performance for 2018

The group has continued to deliver a strong performance during 2018, with an increase in operating profit of 13.6% and continued growth in dividend per share of 7%. In this context, the Committee determined the following outcomes for incentive awards during 2018.

Annual variable pay

The targets and outcomes relating to the AVP awards for the year ended 31 December 2018 are shown on pages 88 to 90.

As in 2017, the results of the group include the impact of the mortality assumption changes, which were not factored into the original AVP targets. Again this year, the Committee concluded that it would be appropriate to exclude the impact of these assumption changes in the determination of AVP outcomes for 2018, and therefore their impact has been excluded.

Further details of the overall outcomes for each executive director, including taking into account performance against divisional and strategic measures, can be found on pages 88 and 89. These range between 62% and 83% of maximum.

Performance Share Plan (PSP)

The outcome for the Performance Share Plan (PSP) awards granted in 2016 were subject to performance for the three years ended 31 December 2018. Strong earnings per share (19.2%) and dividend (7%) growth over the three year period would have resulted in maximum vesting for the EPS and DPS component. However, the exclusion of the impact of the mortality assumption changes reduces the EPS growth over the period to 11.5%, which, in turn, reduced the overall vesting to 97.3% of the maximum (50%) for this portion of the award. TSR performance over the period of 11.2% per annum was insufficient to trigger any vesting for this portion of the award.

For PSP awards granted from 2019, the performance measures remain those of EPS and relative TSR, subject to an assessment of performance against Solvency II objectives. There are no anticipated changes to the TSR bespoke comparator group, but the EPS growth vesting range has been adjusted from 5%-14% per annum to 5%-12% per annum, to reflect a movement in these comparators.

Base salary increases in 2019

As highlighted in our 2016 report on remuneration, when Jeff Davies and Kerrigan Procter were first appointed to the Group Board in 2017, their base salaries were set to reflect that these were their first appointments as executive directors. It was also stated that the Committee may reposition their base salaries as they progressed in their roles over time. Now, two years into their roles, the Committee has reviewed their base salaries, and, with effect from 1 March 2019, have their increased their base salaries to £555,000 (8.8%) and to £525,000 (8.4%) for Jeff and Kerrigan respectively. The Committee will continue to review base salary levels to ensure they reflect skills and experience in role.

In determining base salary increases, the Committee considered appropriate comparator data and the increases applied to the wider workforce. The average base salary increase for all UK employees from 1 March 2019 is 3.2%, although again this year the spend is focused on more junior employees receiving around 3.5%, with salary increases for senior managers already paid at the appropriate benchmark generally limited to 2%. The base salary increase for Nigel Wilson has been set at 2%. Mark Zinkula will not receive any base salary increase for 2019.

Wider issues regarding remuneration

In accordance with its terms of reference, the Committee has regard to remuneration across the wider workforce when determining executive director remuneration policy and practices. In line with the 2016 and 2017 remuneration reports, we have disclosed the ratio of CEO pay to the wider population, shown on page 98.

It remains a priority for the Committee to consider and embrace diversity in the workforce. Details of our gender diversity across the group and our gender pay gap are provided on page 36, which continue to improve, reporting a further 2.6% reduction in our gender pay gap for 2017/18.

Looking forward

During 2019, the Committee will undertake a review of executive remuneration policies and structures, including the consideration of simplicity, risk and alignment to culture. I look forward to discussing and sharing the outcomes of that review with shareholders during the year, with a view to seeking approval for a new directors' remuneration policy at the 2020 AGM.

In the meantime, I hope that you find this report a clear account of the Committee's decisions and remuneration outcomes for the year.

Lesley Knox
Chairman of the Remuneration Committee

At a glance

How do the performance measures used for incentive arrangements align with the group's key performance indicators?

The Committee considers it important that the performance measures used for the purpose of the incentive arrangements for management are directly aligned to the group's key performance indicators (KPIs). The following table sets out how the performance measures used for the purpose of the AVP and PSP are directly linked to our KPIs.

Overarching drivers of the business	Group KPIs	Key measure in the remuneration of executives
Profitability	• Net release from operations (NRO) • Operating profit • Earnings per share (EPS) • Return on equity (ROE)	• NRO – up to 20% of 2019 AVP awards • Operating profit – up to 25% of 2019 AVP awards • Adjusted EPS – up to 12.5% of 2019 AVP awards • EPS growth – up to 50% of 2019 PSP awards • Adjusted ROE – up to 12.5% of 2019 AVP awards
Shareholder value creation	• Total shareholder return (TSR)	• Relative TSR – 50% of 2019 PSP awards
Strategic priorities and non-financial goals	• Worldwide employee engagement index • Solvency II key performance indicators, including the Solvency II coverage ratio • Diversity agenda • Risk profile • Divisional objectives • Customer experience	• Divisional and personal strategic objectives make up significant proportions of the AVP scorecards for all executive directors • Performance against Solvency II objectives are considered when determining vesting for the AVP and PSP awards

How will the remuneration policy be implemented in 2019?

The tables below set out a high level summary of our Directors' Remuneration Policy (the 'policy'), as well as how that policy will be implemented in 2019. The policy was approved by shareholders at our 2017 Annual General Meeting. Details of the approved policy can be found on pages 78 to 85.

Time horizons of our remuneration structure

	2019	2020	2021	2022	2023	Comment
Fixed pay						
AVP						50% paid in cash in early 2020. 50% deferred into Legal & General shares – released following the end of 2022.
PSP						100% of awards subject to a two-year holding period – released following the end of 2023.

Paid during 2019 · Performance period · Holding period

	Overview of policy	Implementation for 2019

Fixed pay

Overview of policy:

- Consists of base salary, benefits and pension.
- Salaries normally reviewed annually effective from 1 March.

Implementation for 2019:

	Salary	Salary increase	Pension – cash allowance	Benefits
Nigel Wilson	945,500	2.0%	15.0% of salary	Provided in line with approved policy
Jeff Davies	555,000	8.8%	13.8% of salary	
Mark Zinkula	638,000	0.0%	15.0% of salary	
Kerrigan Procter	525,000	8.4%	15.0% of salary	

AVP

Overview of policy:

Performance measures are weighted as follows:

	Group financial	Divisional performance	Strategic personal objectives
Nigel Wilson	70%	–	30%
Jeff Davies	70%	–	30%
Mark Zinkula	35%	35%	30%
Kerrigan Procter	35%	35%	30%

- Performance measured over one financial year.
- 50% paid in cash, 50% deferred into Legal & General shares for three years.
- Clawback and malus provisions apply.

Implementation for 2019:

- Maximum opportunities (no change from 2018):
  - Nigel Wilson – 150% of salary
  - Jeff Davies – 150% of salary
  - Mark Zinkula – 175% of salary (pro-rated for time served)
  - Kerrigan Procter – 175% of salary
- Performance will be based on a combination of group and/or divisional financial performance targets as well as strategic (including customer, employee measures and effective risk management) and personal measures.

PSP

Overview of policy:

- Three-year performance period, with shares held for a further two years following the date of vesting.
- Performance will be measured based on a combination of total shareholder return (50% of award) and financial measures (50% of award).
- 15% of the award vests for threshold performance.
- Maximum award of 300% of salary.
- Clawback and malus provisions apply.

Implementation for 2019:

- All executive directors will have a maximum award opportunity of 250% of salary (no change from 2018).
- For awards made in 2019, performance will be measured against:
  - EPS growth (50% of award). Threshold vesting requires growth of 5% p.a., with maximum vesting requiring growth of 12% p.a.
  - Relative TSR against the FTSE 100 (25% of award) and a bespoke group of insurance companies (25% of award).* Threshold vesting at median TSR performance. Maximum vesting occurs for upper quintile TSR performance against the respective peer groups.
  - Vesting of awards subject to an assessment of performance against Solvency II objectives.
- No award for Mark Zinkula given the announcement of his retirement.

* Bespoke TSR peer group comprises of the following companies: Aegon, Ageas, Allianz, Ameriprise Financial, Assicurazioni Generali, Aviva, AXA, CNP Assurances, Gjensidige Forsikring, Hannover Ruck, ING Groep, Lincoln National, Mapfre, Metlife, Muenchener Ruck, Phoenix Group, Principal Financial, Prudential, Prudential Financial, Sampo 'A', Standard Life Aberdeen, Swiss Re, Talanx Aktgsf and Zurich Insurance Group.

Shareholdings against guidelines

	Actual share ownership as % of 2018 base salary: vested shares	Guidelines on share ownership as a % of base salary	Guideline met
Nigel Wilson	750%	300%	Yes
Jeff Davies – *appointed 9 March 2017*	0%	200%	On Target
Mark Zinkula	450%	200%	Yes
Kerrigan Procter – *appointed 9 March 2017*	126%	200%	On Target

How were the executives remunerated for 2018?

Our performance

Financial measures used for Annual Variable Pay (AVP)

The group performance measures below accounted for 35%–70% of AVP performance assessment for our executive directors for their 2018 AVP award. The remaining measures are set out on pages 89 and 90.

Performance measures	2018	Target	Maximum	% of target achieved	% of maximum achieved
Net release from operations[1]	£1,396m	£1,388m	£1,445m	100.6%	96.6%
Operating profit[1]	£1,823m	£1,681m	£1,751m	108.4%	104.1%
Adjusted EPS[1]	24.1p	22.7p	23.8p	106.2%	101.3%
Adjusted ROE[1]	18.2%	16.4%	17.0%	111.0%	107.1%

Performance measure	2018	Underpin
Solvency II performance[2]	Underpin Met	Qualitative assessment

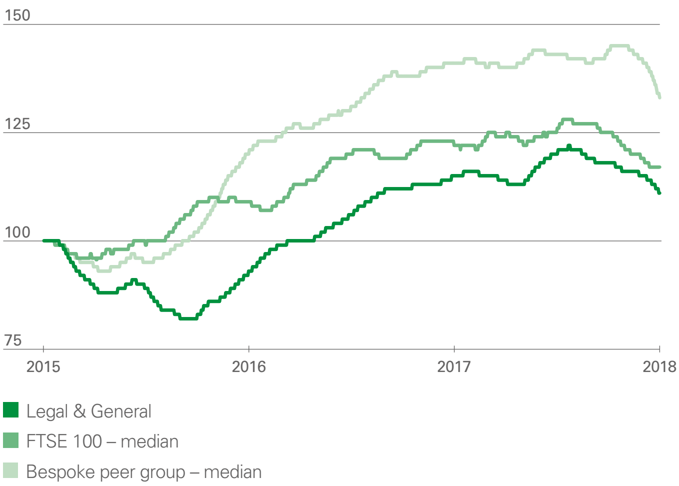
1. Performance measures exclude the impact of mortality assumption changes and profits and separation costs relating to the Mature Savings business.
2. Solvency II performance assessed on a qualitative basis.

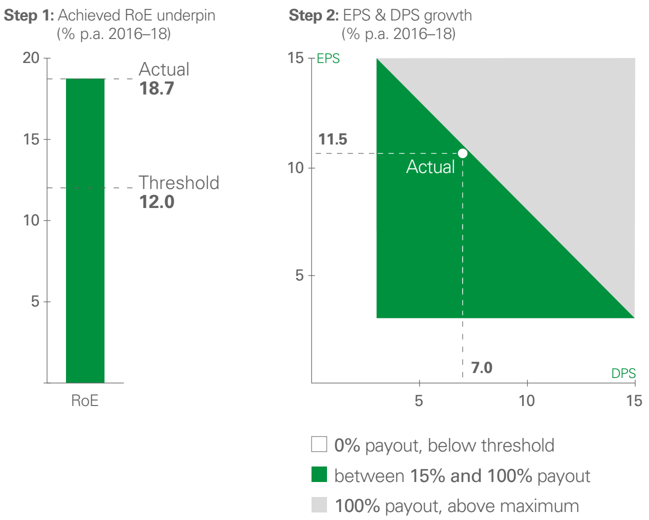
Vesting of 2016 Performance Share Plan awards

Vesting of 50% of the 2016 performance share plan (PSP) awards was determined by reference to TSR of the FTSE 100 (25%) and the bespoke comparator group (25%) over a three-year performance period.

The vesting of the other 50% of the awards was determined based on a combination of EPS and DPS growth, and subject to a Return on Equity (ROE) underpin. Further details of the targets are provided on page 91. Based on the level of performance achieved the 2016 PSP award vested at 48.65% in March 2019.

TSR performance as at 31 December 2018

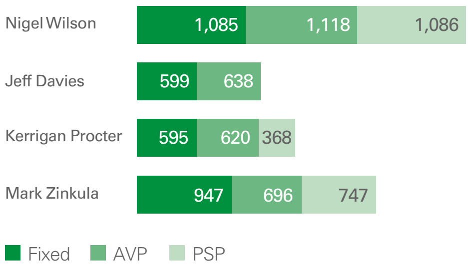




How much our executive directors earned in 2018

		3-year performance ended 31 December 2018	
	Fixed	AVP	PSP – value at year end
Nigel Wilson	1,085,432	1,118,011	1,085,647
Jeff Davies – *appointed 9 March 2017*	599,499	638,037	–
Kerrigan Procter – *appointed 9 March 2017*	595,037	619,887	367,600
Mark Zinkula	946,547	695,571	747,454

The fixed element for Mark Zinkula includes an international allowance relating to the US aspect of his role.



Directors' remuneration policy

The following sections sets out relevant extracts of our directors' remuneration policy (the 'policy') which was approved by shareholders by way of a binding vote at the 2017 AGM on 25 May 2017. A full copy of the policy can be found in the 2016 Annual Report.

Planned implementation for 2019
Content contained within a blue tinted box indicates that all the information in the panel is planned for implementation for 2019.

Remuneration element	Policy
Base Salary	
Purpose and link to strategy	To help recruit and retain executive directors of the calibre required to develop, lead and deliver the business strategy.
Operation	The Committee sets base salary taking into consideration: • the individual's skills, experience and performance; • the scope of the role; • pay and conditions elsewhere in the group; • overall business performance; and • external market benchmark data in other FTSE 100 companies and other relevant bespoke groupings of financial and non-financial institutions. Base salaries are normally reviewed annually, with increases effective 1 March.
Opportunity	Whilst there is no maximum base salary, any increases for executive directors will normally be in line with the range of increases for other UK employees in the wider group. In specific circumstances, the Committee may award increases above this level, for example: • where the Committee has set the base salary for a newly appointed executive director with a view to allow the individual to progress into the role over time; or • where, in the Committee's opinion, there has been a significant increase in the size or scope of an executive director's role or responsibilities; or • where there is a significant change in the regulatory environment.
Performance	Personal performance will be taken into consideration in determining any salary increase.

Proposed changes for 2019: Base salary
No change in approach.

Remuneration element	Policy
Benefits	
Purpose and link to strategy	Benefits are provided to executive directors to attract and retain the best talent for the business and to ensure that the total package is competitive in the market.
Operation	The Committee's policy is to provide executive directors with a market competitive level of benefits, taking into consideration benefits offered to other senior employees in the UK, the individual's circumstances and market practice at similar companies. Benefits provided to executive directors are normally in line with benefits provided to other senior employees in the UK. Benefits currently provided to executive directors include: car allowance, private medical insurance, life assurance, group income protection, and insured death in service arrangements. These are all in line with our general policy for other UK employees. In line with other Legal & General employees, executive directors can choose to acquire Legal & General products, and are eligible to participate in the company's voluntary benefits which they fund themselves, sometimes through salary sacrifice. They are eligible to participate in the UK all-employee share plans on the same terms as other employees. The two current all-employee share plans are: • the savings-related share option scheme (SAYE) • the all-employee share incentive plan Where an executive (new or current) is required to relocate, or perform duties outside their home country in order to fulfil their duties, in line with our mobility policy and practice, additional benefits may be provided, for example: home country benefits such as healthcare and additional support in relocating such as assistance for housing, school fees, travel home, relocation costs and tax advice.
Opportunity	In line with other UK employees, there is no maximum level for the benefits as this is dependent on the individual's circumstances and the cost to the company. The maximum opportunity for participation in the current all-employee share plans is in line with other employees and takes into account the prevailing HMRC rules. Relocation/international assignment benefits – the level of such benefits would be set taking into account the circumstances of the individual and typical market practice.
Performance	There are no performance conditions.

Proposed changes for 2019: Benefits
Benefits – No change in approach.

The approach to benefit provision for executive directors is the same as that operated for senior managers in the rest of the UK organisation.

Remuneration element	Policy
Pension	
Purpose and link to strategy	The policy aims to provide competitive post-retirement benefits and therefore recognise sustained contribution.
Operation	Pension contributions are set at an appropriate level to attract and retain high performing people. In line with other employees in the UK, executive directors currently participate in either a defined contribution pension plan, a defined benefit pension plan or receive a cash allowance in lieu of pension, or have some combination thereof. The defined benefit pension plan was closed to new joiners in 2000. From 2009, increases in pensionable salary for the defined benefit pension plan for remaining active members have been limited to a maximum of 2.5% each year and in 2015 the scheme was closed to future accruals. For executive directors who took enhanced protection in 2006, a cash allowance was provided in lieu which may be reviewed or amended by the employer. Non-UK national executives may be permitted to participate in home-country pension plans where relevant. Base salary is the only element of pensionable remuneration. At the discretion of the Committee, executive directors may elect to sacrifice all or part of their cash AVP into pension.
Opportunity	New executive directors receive 15% of base salary into the defined contribution pension plan (they contribute 5%). This contribution level for executive directors is the same as that operated for senior managers in the rest of the UK organisation in the defined contribution pension plan. As for other employees, there is a cash alternative. Mark Zinkula may also contribute part of any cash allowance into a US 401k pension plan. Mark is also a member of a cash balance plan in the US.
Performance	There are no performance conditions.

Proposed changes for 2019: Pensions
Pensions – Change for new executive directors

The contribution level for executive directors is no more generous than that operated for senior managers in the rest of the UK organisation. For new executive directors, the pension provision will be aligned to that available for the majority of the workforce (10% of salary).

Remuneration element	Policy
Annual variable pay (AVP)	
Purpose and link to strategy	Incentivise executive directors to achieve specific group and/or divisional, financial, strategic and personal predetermined goals, within the group's risk appetite and taking into consideration the company's culture and values, on an annual basis. The deferred proportion of AVP into shares reinforces retention and enhances alignment with shareholders by encouraging a longer-term focus and risk alignment.
Operation	Performance targets and weightings are set annually by the Committee to ensure they are appropriately stretching. Performance is normally assessed over a one-year period. AVP outturns are determined by the Committee after the year end, taking into consideration performance against targets, the underlying performance of the business and individual performance. The Committee may exceptionally adjust the outcome of the AVP calculation if it believes there are underlying circumstances that justify such a change. Normally, 50% of any AVP awarded is deferred. Deferred awards are normally awarded in the form of restricted shares or nil-cost options or phantom equivalent if appropriate. However, awards may be deferred in other forms dependent upon business or regulatory requirements. Deferred awards will vest after a period set by the Committee. This period will normally be three years. Dividends on deferred awards made in the form of shares accrue during the deferral period and normally are paid in the form of shares to the executive directors upon vesting. Dividend equivalents may accrue on awards made in other forms. Deferred awards are subject to malus. Clawback provisions also apply to both deferred awards and cash awards paid. The Committee may adjust and amend the awards in accordance with the rules.
Opportunity	The maximum award opportunity in respect of any financial year is based on role as follows: For the Group Chief Executive and CFO, the maximum potential is 150% of base salary. For the CEO LGIM and the CEO LGC the maximum potential is 175% of base salary. The award opportunity at threshold performance is 0% of minimum, with up to 50% of maximum bonus payable for target performance for the Group Chief Executive, CFO and CEO LGC. Up to 60% of maximum bonus is payable for target performance for the CEO LGIM.
Performance	Performance measures are selected by the Remuneration Committee on an annual basis to ensure that they are aligned with the group's strategic priorities and the delivery of sustainable shareholder value. Performance is measured based on an appropriate mix of group and/or divisional financial performance targets as well as strategic (including customer and employee measures) and personal measures. Performance measures are weighted with normally up to 70% based on financial targets. The split between financial, strategic and personal performance measures and the relative weighting of group and divisional performance targets will be kept under review by the Committee on an annual basis.

Proposed changes for 2019: AVP
No change in approach.

Remuneration element	Policy
Performance Share Plan (PSP)	
Purpose and link to strategy	Awards under the PSP are reflective of the Committee's desire that the remuneration of executives should be weighted towards the delivery of sustainable returns to shareholders over the longer term. In addition to deferred awards under the AVP, awards under the PSP enhance alignment with shareholders by focusing executives on the longer-term performance of the business.
Operation	Award of shares or options which are subject to a performance period of normally no less than three years. Performance is normally measured after the end of the three-year performance period. Subject to performance, awards for executive directors are released on the fifth anniversaries of the grant date. The Committee retains discretion to lengthen the performance period and holding period for future awards. The Remuneration Committee may also amend the final level of vesting dependent on the underlying performance of the group. The Committee may only exercise such discretion downwards and may not increase the level of vesting. The parameters which the Committee uses in making this assessment will include, but are not limited to, market share, partnerships entered into and maintained, cost constraint, shareholder perception, capital management and a range of risk measures to ensure that the company has operated within appropriate risk thresholds. Financial performance targets are set annually by the Committee to ensure they are relevant and sufficiently stretching. PSP awards are normally awarded in the form of nil cost options or conditional shares or phantom equivalent where appropriate. However, they may be awarded in other forms if the Committee considers it appropriate. Dividends or dividend equivalents accrue in the period following the end of the performance period until vesting and release. These will normally be paid in shares on a reinvested basis. PSP awards are subject to malus and clawback provisions. The Committee may adjust and amend the awards in accordance with the PSP rules.
Opportunity	The maximum award opportunity under the PSP is 300% of salary in respect of any financial year. The Remuneration Committee's current intention is that the normal award opportunity in respect of any financial year will be 250% of base salary for all executive directors. 15% of the award normally vests for threshold performance increasing to 100% of the award for maximum performance.
Performance	Performance measures for the PSP are selected by the Remuneration Committee to be aligned with the group's long-term strategic priority of delivering sustainable returns to shareholders. The Committee therefore intends to grant awards based on an appropriate mix of earnings, capital efficiency and shareholder return measures. The split between these measures, for each grant, is set annually by the Committee and will normally be 50% based on total shareholder return and 50% on financial measures.

Proposed changes for 2019: PSP
No change in approach.

Recruitment remuneration

General approach	The Committee aims to attract, motivate and retain executive directors with the required expertise to develop and deliver the business strategy, while at the same time ensuring that the remuneration arrangements offered are in the best interests of both the company and its shareholders and paying no more than considered necessary to attract the right calibre of candidate to the role. In determining the appropriate remuneration arrangements on hiring a new executive director, the Committee will take into account all relevant factors, including, but not limited to: • the individual's skills and relevant experience • internal relativities • local market practice in the jurisdiction from which candidate was recruited • logistics and support if a relocation is required • appropriate market data • the individual's existing remuneration package Where possible the Committee endeavours to align the remuneration arrangements of new executive directors with the remuneration outlined in the policy for other executive directors. Any such awards will be within the maximum level of variable remuneration limit set out below. Where an existing internal candidate is made an executive director, the Committee may continue to honour prior commitments made before joining the Group Board.
Maximum variable pay levels	The maximum level of annual variable pay and long-term incentives which may be awarded to a new executive director will be in line with the policy table, that is 475% of base salary. This limit excludes buyout awards.
Buyout of any existing remuneration components or other arrangements	The Committee recognises that, as a consequence of regulatory changes around the globe in the financial services sector, long-serving executives are likely to have accrued significant levels of deferred remuneration which may be lost on a transfer of employment. Accordingly, to aid the recruitment of a new executive director, the Committee may make awards to 'buyout' remuneration arrangements forfeited on leaving a previous employer, taking into consideration relevant factors including, but not limited to: • form of the award • any performance conditions attached to those awards • the vesting profile of the awards and likelihood of vesting • relevant regulatory requirements and guidance in place in relation to 'buyout' awards 'Buyout' awards will typically reflect the terms and the value of the arrangements forgone. Where possible, the Committee will use existing share-based plans to effect a buyout. However, in the event these are not an appropriate vehicle, the Committee retains the discretion to use the Listing Rules exemption (LR 9.4.2) for the purpose of making an award to 'buyout' remuneration terms forfeited on leaving a previous employer.
Relocation and mobility	Where a new executive director has to relocate to take up the appointment, either within the UK or from overseas, practical and/or financial support may be given in relation to relocation or mobility in line with our internal policies. This may include the cost of any tax that is incurred. For appointments from overseas, home country benefits may continue to apply. Relocation and mobility support may also apply to the recruitment of a non-executive director (NED).
Shareholder transparency	The Committee believes that remuneration arrangements should be as transparent as possible. Therefore, the Committee will make every effort to explain the rationale for the recruitment arrangements in the Directors' remuneration report following the recruitment of a new executive director.
Recruitment of non-executive directors	The Committee will normally align the remuneration arrangements for new non-executive directors with those outlined within the policy table.

Proposed changes for 2019: Recruitment remuneration
No change in approach.

Governance

Service contracts and termination and payments for loss of office

When determining leaving arrangements for an executive director, the Committee takes into account any pre-established agreements, including the provisions of any incentive plans, typical market practice, statutory and contractual obligations, the performance and conduct of the individual and the commercial justification for any payments.

The following summarises our policy in relation to executive directors' service contracts and payments in the event of loss of office:

Notice period and Termination Payments	Standard notice policy is: • 12 months' notice from the company • 12 months' notice from the executive director • the current CFO's service contract may be terminated on 6-months' notice by the company or the executive director Executive directors may be required to work during the notice period, take a period of 'garden leave' or may be provided with pay in lieu of notice if not required to work the full notice period. **Payments in lieu of notice:** Our policy for new appointments is that termination payments in lieu of notice would consist solely of base salary and the cost of providing benefits for the outstanding notice period. Any statutory requirements will be observed. Our standard practice is to include within executive directors' contractual terms mitigation provisions as regards payments in lieu of notice. The CEO LGIM may be paid his contracted benefits for three months following his effective date of termination of employment provided he is not dismissed for cause.
Expiry date	All executive directors are subject to annual re-election. The contracts for our executive directors are rolling service contracts.
Treatment of outstanding incentive award	Rights to annual variable pay, deferred annual variable pay awards and performance share awards are governed by their respective plan rules. **Annual variable pay** There is no automatic entitlement to an annual bonus in the year of cessation of employment. However, for a 'good leaver', the Committee may determine that an executive director will receive a pro-rata bonus in respect of the period of employment during the year of cessation based on an assessment of group and personal performance. **Deferred annual variable pay awards** In the event that a participant is a 'good leaver' any outstanding unvested deferred annual variable pay award will normally be released at the normal time. Where it considers it appropriate, for example in the circumstances of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to circumstances such as death, disability, ill health or injury, redundancy, retirement with company agreement, the individual's employing company/business ceasing to be part of the group, or other circumstances at the Committee's discretion. For all other leavers outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively participants may be allowed or required to exchange their awards for new awards. If there is a demerger, delisting or special dividend or other transaction which may affect the share price, the Committee may allow awards to vest on the same basis as for a takeover.

Service contracts and termination and payments for loss of office (continued)

Treatment of outstanding incentive award (continued)	**PSP awards** In the event that a participant is a 'good leaver', any outstanding, unvested PSP award will normally (unless the Committee determines otherwise) be pro-rated by reference to the proportion of the performance period that has elapsed on cessation and will vest based on performance to the end of the performance period. Awards will usually be released at the normal time. Where it considers it appropriate, for example in the case of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to death, disability, ill health or injury, redundancy, retirement with company agreement, the individual's employing company/business ceasing to be part of the group or any other reason at the discretion of the committee. For all other leavers, outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively, participants may be allowed or required to exchange their awards for new awards. Where an award vests early in these circumstances, the Committee will determine the level of vesting, having regard to the extent to which the performance condition has been satisfied to the date of vesting (subject to downwards discretion based on underlying performance) and (unless the Committee determines otherwise) to the fact that the award is vesting early. If there is a demerger, delisting or special dividend or other transaction which may affect the share price, the Committee may allow awards to vest on the same basis as for a takeover.
Other information	The Committee reserves the right to make any other payments in connection with a director's cessation of office/employment where the payments are made in good faith in the discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of settlement of any claim arising in connection with the cessation of the director's office/employment, or for any fees for outplacement assistance and/or director's legal and/or professional advice fees in connection with his cessation of office/employment.

Proposed changes for 2019: Service contracts and termination and payments for loss of office
No change in approach.

Non-executive directors (NEDs)

The following table sets out the key elements of remuneration and policy for NEDs.

Approach to fees	Operation	Other items
Fees for the Chairman and NEDs are set at an appropriate level to reflect: • the time commitment required to fulfil the role • the responsibilities and duties of the positions; and • typical practice in the FTSE 100 and amongst other financial institutions. Fees for non-executive directors are reviewed at regular intervals by the executive directors. Fees for the Chairman are reviewed at regular intervals by the Remuneration Committee. No one is involved in the discussion of their own fee. Fees are subject to the aggregate limit in the company's Articles of Association. Any changes in this limit would be subject to shareholder approval.	Our NED fees policy is to pay: • a base fee for membership of the Board • a committee attendance fee if the non-executive sits on two or more Board committees (currently not including the Nominations Committee); and • additional committee chairmanship and SID fees to reflect the additional responsibilities and time commitments of the role. The Chairman receives an inclusive fee for the role. Additional fees for membership of a committee or chairmanship or membership of subsidiary boards or other fixed fees (such as for a particular project) may be introduced if justified by time or commitment.	The Chairman and NEDs are not eligible to participate in any benefit plans or the AVP or the PSP. Expenses incurred in carrying out NED duties (and any associated tax liability) may be reimbursed or paid for directly by the company. Additional benefits may be provided if the Board feels this is justified such as tax advice if recruited from overseas, work permits or similar. NEDs are expected to hold the equivalent of one year's base fee in Legal & General shares to be retained until the end of office. NEDs generally have a proportion of their fees (normally 50%) paid in Legal & General shares until this level is reached. Once this level is reached, they may take all their fee in cash.

Annual report on remuneration

Audited

Audited information
Content contained within a green box highlighted with an 'Audited' tab indicates that all the information in the panel is audited.

Planned implementation for 2019
Content contained within a blue tinted box indicates that all the information in the panel is planned for implementation for 2019.

'Single figure' of remuneration – Executive Directors

The following table shows a single total figure of remuneration for each executive director in respect of qualifying services for the 2018 financial year, together with a comparative figure for 2017.

Single figure

Audited

Executive Director	Fixed			Variable				Total £'000
					PSP[2]			
	Salary £'000	Benefits £'000	Pensions £'000	AVP £'000	Face value £'000	Share price appreciation £'000	Total £'000	
2018								
Nigel Wilson	**924**	**23**	**139**	**1,118**	**1,078**	**7**	**1,085**	**3,289**
Jeff Davies	**508**	**24**	**67**	**638**	**–**	**–**	**–**	**1,237**
Kerrigan Procter	**483**	**47**	**65**	**620**	**365**	**3**	**368**	**1,583**
Mark Zinkula[1]	**636**	**208**	**102**	**696**	**742**	**5**	**747**	**2,389**
2017								
Nigel Wilson	905	39	136	1,164	1,288	(93)	1,195[2]	3,439
Jeff Davies – appointed 9 March 2017	406	17	54	660	–	–	–	1,137
Kerrigan Procter – appointed 9 March 2017	386	54	44	711	340	(25)	315[2]	1,510
Mark Zinkula[1]	623	212	99	886	861	(62)	799[2]	2,619

1. 15% of Mark Zinkula's salary and AVP are paid to him in the US. At the time of his appointment as CEO LGIM a US dollar to GB sterling exchange rate of £1 = $1.60 was agreed. In 2018, Mark received £540,529 in salary in the UK and $152,566 in salary in the US. Based on the exchange rates at the time of payments the total value of salary received by Mark in 2018 was £649,362.
2. The 2015 PSP figures reported in the 2017 single figure now reflect the actual vesting price of the shares, which vested on 8 March 2018, at £2.642 per share. The values previously included in the 2017 report based on a three-month average share price to 31 December 2017 were £1,207k (Nigel Wilson), £318k (Kerrigan Procter) and £807k (Mark Zinkula).

For 2018 we have made some amendments to how we report the single figure to reflect new reporting requirements set out by BEIS, which require disclosure of the impact of share price appreciation on the single figure. These regulations have come into effect for financial years starting 1 January 2019. We have voluntarily complied with this requirement above.

Components of the single figure

Salary

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Name	Annual base salary as at 1 January 2018	Annual base salary effective 1 March 2018	Total base salary paid in 2018	Annual base salary effective 1 March 2019	% Increase
Nigel Wilson	£909,000	£927,000	**£924,000**	£945,500	2.0%
Jeff Davies	£500,000	£510,000	**£508,333**	£555,000	8.8%
Mark Zinkula	£625,500	£638,000	**£635,883**	£638,000	0.0%
Kerrigan Procter	£475,000	£484,500	**£482,917**	£525,000	8.4%

Benefits

Benefits include the elements shown in the table below.

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Executive Director	Car, PMI and taxable expenses £'000	Dividends £'000	Discount SAYE and matching shares £'000	International allowance £'000	Total benefits £'000
2018					
Nigel Wilson	**20**	**3**	**–**	–	**23**
Jeff Davies	**24**	**–**	**–**	–	**24**
Kerrigan Procter	**20**	**27**	**–**	–	**47**
Mark Zinkula	**48**	**–**	**–**	**160**	**208**
2017					
Nigel Wilson	20	18	1	–	39
Jeff Davies	16	–	1	–	17
Kerrigan Procter	16	37	1	–	54
Mark Zinkula	30	14	–	168	212

The matching shares and dividends relate to the all-employee share purchase plan. No dividends are payable on outstanding share bonus plan (SBP) or PSP awards. The SAYE discount is calculated based on the value of the discount on SAYE share options exercised in the year. No directors exercised SAYE options during the year.

The international allowance for Mark Zinkula includes allowances for schooling, flights and associated tax advice resulting from his relocation to the UK.

Benefits for 2019
Benefits for 2019 to be in line with policy.

Pension

Nigel Wilson and Kerrigan Procter received a cash allowance of 15% of salary. Mark Zinkula received a cash allowance of 15% of base salary in lieu of joining the UK pension plan. Mark also participates in the Legal & General America 401k plan and a US non-contributory cash balance plan, total employer contributions to the 401k plan in 2018 were £6,907. Jeff Davies received a cash allowance of 13.8% of salary. All cash allowances are subject to normal payroll deductions of income tax and national insurance.

Pension for 2019
Nigel Wilson and Kerrigan Procter receive a cash allowance of 15% of base salary, Mark Zinkula receives a cash contribution of 15% of salary in lieu of joining the UK pension plan and Jeff Davies receives a cash allowance of 13.8% of salary.

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2018 annual variable pay (AVP) awards

This reflects the total AVP awards to be paid in 2019 based on performance for the year ended 31 December 2018. The value includes both the cash element and the portion deferred into shares (50% of the award).

The executive directors' AVP awards in relation to performance during 2018 were measured against a basket of metrics and objectives. For Nigel Wilson and Jeff Davies, they were weighted between group financial objectives (70%) and other strategic personal objectives including effective risk management (30%). For Mark Zinkula and Kerrigan Procter they were weighted between group financial objectives (35%), divisional objectives (35%) and other strategic personal objectives including effective risk management (30%).

As with 2017, the AVP awards were subject to potential adjustment based on an assessment of overall financial performance, risk and any other circumstances considered relevant by the remuneration committee as well as a Solvency II performance measure. For 2018, the Solvency II performance measure was assessed by the Committee on a qualitative assessment of performance informed by input from the Chief Risk Officer and the Risk Committee. Based on this assessment and consideration of all the circumstances, it was determined that no adjustment was necessary to the formulaic outcome.

For 2018, AVP payouts as a percentage of the maximum were: Nigel Wilson 80%, Jeff Davies 83%, Mark Zinkula 62% and Kerrigan Procter 73%. The tables below illustrate performance against each of the measures.

Group financial – achievement

	Weightings (as % of total AVP opportunity)								
Performance measures	Nigel Wilson	Jeff Davies	Mark Zinkula	Kerrigan Procter	Threshold	Target	Maximum	Actual	Payout % of maximum
Net release from operations[1]	20.00%	20.00%	10.00%	10.00%	£1,348m	£1,388m	£1,445m	**£1,396m**	57%
Operating profit[1]	25.00%	25.00%	12.50%	12.50%	£1,620m	£1,681m	£1,751m	**£1,823m**	100%
Adjusted EPS[1]	12.50%	12.50%	6.25%	6.25%	21.3p	22.7p	23.8p	**24.1p**	100%
Adjusted ROE[1]	12.50%	12.50%	6.25%	6.25%	15.7%	16.4%	17.0%	**18.2%**	100%

Performance measures	
Solvency II performance[2]	Underpin

1. Performance measures exclude the impact of mortality assumption changes and profits and separation costs relating to the Mature Savings business.
2. Solvency II performance assessed on a qualitative basis.

Based on the above results, the group element of AVP pays out at 88% of maximum. As set out in last year's report and in the Remuneration Committee Chair's statement accompanying the report. In determining payouts the Committee considered the impact of mortality assumption changes and separation costs relating to the Mature Savings business on performance measures. The Committee was of the view that it would not be appropriate to include the impact of these items, in calculating the AVP outturn.

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Divisional performance – achievement

Divisional objectives represent a maximum of 35% of the total AVP opportunity for Mark Zinkula and Kerrigan Procter. For the LGIM division Mark has five key measures – LGIM operating profit (including a separate specific target for the Workplace Savings business), cost income ratio, annualised revenue for our LGIM international business and flagship fund performance. For the Legal & General Capital division, Kerrigan has seven key measures – PBT (with specific targets for new direct investments, existing direct investments, modular housing and the traded portfolio), return on new direct investments, operating profit on the traded portfolio and divisional expenses.

Divisional and personal strategic objectives are considered by the Group Board to be commercially sensitive. The actual targets are not formally disclosed in the annual report and will not be disclosed in this year or in a future report as they relate to subsidiaries of the group. Performance commentary is given in the table below.

Executive Director	Divisional measures	Summary of performance	Payout (% of maximum)
Mark Zinkula	LGIM key measures include operating profit (with a separate specific target for Workplace Savings), cost income ratio, annualised net revenues non-UK and flagship fund performance	• Operating profit growth of 2% despite difficult market conditions • Maintained a cost income ratio of 51.6% whilst investing in the operating environment • Continued international expansion with net flows of £19.6bn, largely driven by the US and Gulf.	16%
Kerrigan Procter	Key measures include PBT (for new and existing direct investments and modular housing), return on new direct investments, operating profit and PBT on the traded portfolio and divisional expenses	• Progress across core areas of focus, with a 60% increase in the value of the DI portfolio and a net return on new direct investments of 8.2% • Continued PBT growth of the direct investment portfolio, although overall PBT impacted by the negative market performance of the traded portfolio.	21%

Strategic personal performance – achievement

Personal objectives represented a maximum 30% of the total AVP opportunity. For all of the directors, the objectives covered strategic implementation, effective risk management, customer experience and company culture. A performance commentary is given in the table below.

Executive Director	Overview	Summary of performance	Payout (% of maximum)
Nigel Wilson	For 2018, Nigel's objectives focused on articulating the company's strategy and brand, driving growth across all businesses including pension de-risking, international assets and revenues and creation of real assets and the continued development of a truly digital organisation	Nigel's award reflects his delivery against all his strategic personal objectives including: • Delivery of strong financial performance with continued diversified growth across the Legal & General portfolio • Strong articulation of the company's strategy and the benefits of inclusive capitalism • Continued focus on core strategies, including direct investments in housing, urban regeneration, clean energy and SME start-ups • Level of progress on projects relating to the improvement of risk governance and control environment.	19%
Jeff Davies	Jeff's objectives included ensuring clear articulation of the company strategy including working closely on M&A activity, optimising capital usage, playing a leading role in development of talent and of the Group IT structure and maintaining good relationships with regulators internationally	Jeff's award reflects his continued strong performance throughout the year and against all objectives including: • Ongoing focus on capital usage building on previous improvements and identifying further options • Driving delivery of key projects such as automation to ensure cost efficiency • Key role in strategy development, including M&A opportunities to materially grow earnings.	22%
Mark Zinkula	Mark's objectives focused on the continued development of the defined contribution and defined benefit businesses, growth of the retail business, establishing a personal investing capability for the UK, international growth of the LGIM business and continued enhancement of capabilities and services delivered to the Group	Mark's award reflects his delivery against key objectives for the year including: • Broadened investment capabilities to support structural shifts in the asset management industry • Development of a market leading position in the UK DC pensions market, second in net and gross sales in the UK in 2018 • International growth in the US and through expansion in Europe, the Gulf and Asia • Level of progress on projects relating to the improvement of risk governance and control environment.	15%
Kerrigan Procter	Kerrigan's objectives focused on development of the housing strategy, including development of plans and leadership for CALA Homes, development of strategy around other non-housing direct investments and the traded portfolio, development of people within the division and further development of the risk control environment	Kerrigan's award reflects his strong performance in driving forward performance across the core areas of strategic focus since taking on the role as CEO of Legal & General Capital. Key achievements include: • Successful development and integration of CALA Homes into the division • Significant new direct investment across the core focus areas of Future Cities, Housing and SME Finance • Continued development of the team and further enhancement of the risk control environment.	22%

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Risk consideration

The Committee reviewed a comprehensive report from the Chief Risk Officer to ascertain that the executive directors' objectives had been fulfilled within the risk appetite of the group. In addition, the Committee received feedback from the Group Regulatory Risk and Compliance function that there were no issues to consider around regulatory breaches or customer outcomes of such materiality that they that would prevent payment of any AVP award or trigger a recommendation that malus should be applied. The Committee was satisfied that the AVP awards should be paid.

Deferral policy

In line with our policy, 50% of all 2018 AVP awards were deferred for three years into nil cost options, subject to continued employment and clawback/malus provisions.

Executive Director	Cash bonus £	Deferred bonus £	Total bonus £
Nigel Wilson	559,005.50	559,005.50	1,118,011
Jeff Davies	319,018.50	319,018.50	638,037
Kerrigan Procter	309,943.50	309,943.50	619,887
Mark Zinkula	347,785.50	347,785.50	695,571

For 2017, AVP payouts as a percentage of the maximum were: Nigel Wilson 85%, Jeff Davies 88%, Kerrigan Procter 86% and Mark Zinkula 81%.

Outstanding share bonus plan (SBP) awards

The table below shows the shares held under the SBP and those that were awarded or vested during 2018. The shares awarded in 2018 relate to deferred AVP in relation to the 2017 performance year. The share price used to calculate the awards is the average of the three days preceding grant.

Grant date	Awards outstanding at 1 January 2018	Awards granted in 2018	Grant price £	Face value at grant price £	Awards vested in 2018	Awards outstanding at 31 December 2018
Nigel Wilson	657,793	216,428	2.688	581,758	228,989[1]	679,163
Jeff Davies	–	122,767	2.688	330,000	–	122,767
Kerrigan Procter	295,621	132,202	2.688	355,359	77,063	350,760
Mark Zinkula	489,280	164,818	2.688	443,031	157,295[1]	520,111

1. The awards vested in 2018 include 33,931 shares for Nigel Wilson and 23,308 shares for Mark Zinkula, accrued as dividends on deferred awards.

AVP potential 2019

In line with our policy, for 2019 the target and maximum AVP opportunities for our executive directors will be:

	Target opportunity (% of salary)	Maximum opportunity (% of salary)
Nigel Wilson	**75**	**150**
Jeff Davies	**75**	**150**
Kerrigan Procter	**87.5**	**175**
Mark Zinkula*	**105**	**175**

Performance will be based on a combination of group and/or divisional financial performance targets as well as strategic (including customer, employee measures and effective risk management) and personal measures. The percentage weightings will be the same as in 2018. Actual targets have not been disclosed due to commercial sensitivity. Group financial targets will be disclosed in the 2019 annual report. Divisional and strategic personal performance targets are considered confidential and will not be disclosed in any future report.

* Awards will be pro-rated for time served.

Details of how the 2016 PSP award vested

The 2016 PSP award vested at 48.65% in March 2019 based on a combination of TSR (50%) and financial performance (50%) over the three-year performance period ended 31 December 2018.

In line with policy, the Committee carefully reviewed the company's underlying performance over the performance period. The review included considerations of capital management, risk, cost management and partnerships entered into and maintained. The Committee felt the company performance had been strong over the period and saw no reason not to allow the PSP to vest in accordance with the TSR and financial performance outturn.

The results are shown below:

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Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of element vesting
21 April 2016	1 Jan 2016 to 31 December 2018	FTSE 100		47.5	19	50.3	0%	
		Bespoke comparator group	11.2%	13.5	6	22.9	0%	0%

Performance condition	Performance targets	Actual performance	Percentage of element vesting
EPS growth (% p.a.)	subject to performance matrix	11.46%	
DPS growth (% p.a.)	subject to performance matrix	7.00%	
ROE underpin (% p.a.)	12% p.a. underpin	18.71%	97.3%

The figures reported for the 2016 PSP, with a performance period ended 31 December 2018, reflects the market value of the awards that will vest in March 2019. The share price at the date of vesting was not known at the end of the financial year and as such the value included in the 'single figure' of remuneration is based on the number of shares that will vest multiplied by the average share price over the quarter ended 31 December 2018 (£2.44).

Executive Director	Shares granted in 2016	Shares vesting in March 2019	Estimated value of shares on vesting (£)
Nigel Wilson	914,382	444,889	1,085,647
Jeff Davies	–	–	–
Kerrigan Procter	309,810	150,640	367,600
Mark Zinkula	629,934	306,300	747,454

Financial performance condition (50% of the 2016 award)

Fifty percent of the award vested based on performance against the following matrix of earnings per share and dividends per share growth, subject to achieving a return on equity underpin whereby return on equity must be at least 12% over the performance period.

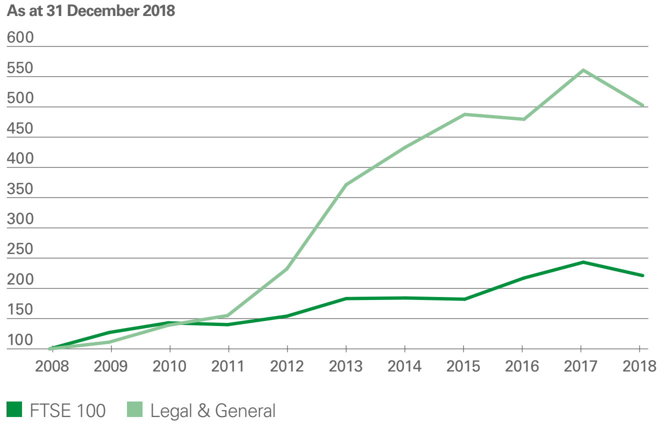
		Dividends per share growth (% p.a.)										
		<5	5	6	7	8	9	10	11	12	13	14
Earnings per share growth (% p.a.)	<5	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	5	**0**	**15**	**25**	**35**	**45**	**55**	**65**	**75**	**85**	**95**	**100**
	6	**0**	**25**	**35**	**45**	**55**	**65**	**75**	**85**	**95**	**100**	
	7	**0**	**35**	**45**	**55**	**65**	**75**	**85**	**95**	**100**		
	8	**0**	**45**	**55**	**65**	**75**	**85**	**95**	**100**			
	9	**0**	**55**	**65**	**75**	**85**	**95**	**100**				
	10	**0**	**65**	**75**	**85**	**95**	**100**					
	11	**0**	**75**	**85**	**95**	**100**						
	12	**0**	**85**	**95**	**100**							
	13	**0**	**95**	**100**								
	14	**0**	**100**									

The vesting levels between stated points on the matrix are calculated on a straight line basis.

Other remuneration information

Total shareholder return (TSR)

The chart shows the value, as at 31 December 2018, of £100 investment in Legal & General shares on 31 December 2008, compared to £100 invested in the FTSE 100 on the same date. The other points plotted are the values at the intervening financial year-ends. The FTSE 100 Index was chosen as the company is a member of this index.



Chief Executive – historic remuneration information

The table below shows the remuneration of the Group Chief Executive in place at the time over the same period.

Year	Name	Group Chief Executive single figure of total remuneration (£'000)	Annual variable element against maximum opportunity	PSP vesting rates against maximum opportunity
2018	Nigel Wilson	3,289	80.40%	48.7%
2017	Nigel Wilson	3,439[1]	85.33%	59.9%
2016	Nigel Wilson	5,417[2]	87.82%	76.6%
2015	Nigel Wilson	5,497[3]	86.25%	100%
2014	Nigel Wilson	4,213	90.67%	100%
2013	Nigel Wilson	4,072	93.10%	100%
2012	Nigel Wilson – *appointed CEO 30 June 2012*	898	96.00%	0% – note 4
	Tim Breedon – *retired 30 June 2012*	3,280	84.80%	100% – note 5
2011	Tim Breedon	2,325	79.58%	16.6%
2010	Tim Breedon	1,526	89.98%	0%
2009	Tim Breedon	1,999	80.00%	0%

1. Restated from 2017 report to reflect the actual value of the 2015 PSP at vesting.
2. Restated from 2016 report to reflect the actual value of the 2014 PSP at vesting.
3. Restated from the 2015 report to include the value of the PSP award vesting in August 2015.
4. The 2009 PSP vested in full in 2012. However, no PSP is shown in the figure for Nigel Wilson as, while he received the PSP, it vested during the time he was CFO.
5. The 2009 PSP vested in full in 2012. The PSP figure that vested for Tim Breedon is shown in his figure as it vested during the time he was Group Chief Executive.

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Scheme interests awarded during the financial year

The following table sets out details of PSP awards made in 2018.

	Type of award	Basis of award (% of salary and face value)[1]	% of award vesting for threshold performance	% of award vesting for maximum performance	Performance/ holding period
Nigel Wilson	Nil-cost options	250% of salary £2,317,500	15%	100%	1 January 2018 to 31 December 2020. Awards are also subject to a holding period, such that the award is not released until year 5 from the grant date.
Jeff Davies	Nil-cost options	250% of salary £1,275,000	15%	100%	
Mark Zinkula	Nil-cost options	250% of salary £1,595,000	15%	100%	
Kerrigan Procter	Nil-cost options	250% of salary £1,211,250	15%	100%	

1. The number of shares awarded is calculated based on the average share price for the five days preceding the grant which was £2.6708.

Awards were also made during the year under the share bonus plan (SBP) in respect of performance for 2017, in line with our policy 50% of all 2017 AVP awards were deferred into shares for three years, subject to malus and clawback provisions. The amounts deferred in respect of the 2018 AVP were also made in line with the above deferral policy.

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Performance conditions for PSP awards granted in 2018

Financial performance condition (50% of the 2018 award)

50% of the award will vest based on the EPS growth with vesting based on performance as set out in the table below:

EPS growth p.a.	Proportion of shares vesting
<5%	**0%**
5%	**15%**
14%	**100%**
Between 5% and 14%	**Straight line basis between 15% and 100%**

TSR performance condition (50% of the 2018 award)

25% of the award will be based on Legal & General's TSR performance relative to the FTSE 100.

The remaining 25% of the award will be based on Legal & General's TSR performance against a bespoke group of insurers.

The vesting schedule of the TSR performance conditions is as follows:

	Proportion of shares vesting
Below median	0%
Median (threshold vesting)	15%
80th percentile and above	100%
Between median and the 80th percentile	Straight line basis between 15% and 100%

At the end of the three-year performance period, the Committee will critically assess whether the formulaic vesting outcome is justified. To do this, the Committee will look at a number of factors including: whether the result is reflective of underlying performance and has been achieved within the company's agreed risk appetite; the Solvency II coverage ratio, the quality of earnings and the nature of any changes in leverage or key assumptions. If such considerations mean that the formulaic outcome of the vesting schedule is not felt to be justified, then the Committee can exercise downwards discretion.

Performance Share Plan (PSP) 2019 awards: Nigel Wilson, Jeff Davies and Kerrigan Procter will each be granted an award over nil-cost options with a face value of 250% of base salary.

As indicated previously, for the 2019 award, the following performance measures will be used:

- **relative TSR performance against the FTSE 100 (25% of award) and a bespoke group of insurance companies (25% of award)**
- **EPS growth (50% of award)**

Vesting of awards will be subject to an assessment of performance against Solvency II objectives.

Having considered the business plan over the coming three years and market expectations of performance and given the level of stretch within the TSR performance conditions, the Committee considered it appropriate to continue to set threshold vesting (15% of the award) at median TSR performance and maximum vesting at the upper quintile TSR performance.

For the EPS growth measure the Committee considered it appropriate for vesting to be based on performance as set out in the table below:

EPS growth p.a.	Proportion of shares vesting
<5%	**0%**
5%	**15%**
12%	**100%**
Between 5% and 12%	**Straight line basis between 15% and 100%**

Governance

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Information in relation to other outstanding awards

Performance share plan (PSP) 2017

For information, other outstanding PSP awards are shown below.

Grant date 18 April 2017	% of base salary	Face value £'000	Share price at award £	Max no. of shares
Nigel Wilson	250%	2,273	2.482	915,444
Jeff Davies	250%	1,250	2.482	503,544
Mark Zinkula	250%	1,564	2.482	629,934
Kerrigan Procter	200%	1,188	2.482	478,367

Payments for loss of office

As indicated earlier in the report, Mark Zinkula will be retiring from the Board on 31 August 2019. In accordance with our remuneration policy, Mark will continue to receive his current remuneration arrangements, including salary, benefits and pension, through to this leaving in August 2019 and will receive an AVP award for performance in 2018. Mark will remain eligible for an AVP award in 2019 subject to performance for the year, pro-rated for the period through to his leaving, with any award deferred in accordance with our normal deferral policy (three years). Mark will not receive a PSP award for 2019.

Payments to past directors

As set out in the 2017 Annual Report and Accounts, Mark Gregory had a maximum of 448,650 shares available to vest from the 2015 PSP award. As indicated in page 97 of the 2017 Annual Report and Accounts the 2015 PSP vested at 59.9% based on performance to the end of the performance year.

Mark's outstanding SBP awards vested or will vest at the normal time as set out in the table below:

AVP year	Grant Date	Vesting Date	Awards	Grant price
2014[1]	14/04/2015	14/04/2018	126,966	£2.8587
2015	21/04/2016	21/04/2019	148,835	£2.4310
2016	18/04/2017	18/04/2020	164,621	£2.4950

1. On the vesting of this award Mark also received an additional 22,086 shares, accrued as dividends on the deferred award.

Statement of directors' shareholding and share interests

Total shareholding of executive directors

						Shares sold or acquired during the period 1 January 2019 and 6 March 2019	
	Type	Owned outright/ vested shares	Subject to deferral/ holding period	Total vested and unvested shares (excludes any shares with performance conditions)	Subject to performance conditions	Own outright/ vested shares	Subject to deferral/ holding period
Nigel Wilson	Shares	2,997,796	679,163	3,676,959	–	–	–
	ESP	13,929	3,559	17,488	–	146	82
	Options	–	494,154	494,154	2,697,543	–	–
Jeff Davies	Shares	–	122,767	122,767	–	–	–
	ESP	1,005	635	1,640	–	146	82
	Options	–	3,828	3,828	980,929	–	–
Mark Zinkula	Shares	1,242,899	520,111	1,763,010	–	–	–
	ESP	–	–	–	–	–	–
	Options	–	333,151	333,151	1,856,673	–	–
Kerrigan Procter	Shares	245,430	350,760	596,190	–	–	–
	ESP	18,995	1,026	20,021	–	146	82
	Options	116,433	125,963	242,396	1,241,492	–	–

Audited

Shareholding guidelines – Executive Directors

The Group Chief Executive is expected to build a shareholding of 300% of base salary and the other executive directors 200% of base salary. The table below shows shareholding levels as at 31 December 2018.

	Actual share ownership as % of 2018 base salary: vested shares[1]	Guidelines on share ownership as a % of base salary	Guideline met	Shares owned at 1 January 2018	Shares owned at 31 December 2018	Shares sold or acquired during the period 1 January 2019 and 6 March 2019
Nigel Wilson	750%	300%	Yes	4,136,048	3,011,725	228
Jeff Davies – *appointed 9 March 2017*	0%	200%	On Target	433	1,005	228
Mark Zinkula	450%	200%	Yes	1,033,749	1,242,899	–
Kerrigan Procter – *appointed 9 March 2017*	126%	200%	On Target	113,089	264,425	228

1. Closing share price as at 31 December 2018: £2.31.

Notes
Shares used for the above calculation exclude those with performance conditions, any unexercised options, those shares subject to a period of deferral and any shares held in a private trust where the executive director is not a trustee. They include vested shares where the executive director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years.

Although the share ownership guidelines are not contractually binding, Executive Directors are normally expected to retain any after tax vested share awards until the guideline is met. The Committee retains the discretion to withhold future grants under the PSP if executives are not making satisfactory progress against the guidelines. Once shareholding requirements have been met, executive directors may sell surplus shares if they wish. The Committee has discretion to allow executive directors to sell shares prior to the shareholding guidelines being met if there are extenuating circumstances, for example, changes to personal circumstances.

Share options exercised during 2018

The following table shows all share options exercised by the executive directors during 2018.

Executive Director	Date of grant	Shares exercised	Exercise date	Share price at date of exercise £	Gain £
Nigel Wilson	11/06/2014	203,760	13/04/2018	2.711	552,393
Nigel Wilson	14/04/2015	150,763	13/04/2018	2.711	408,718
Mark Zinkula	11/06/2014	139,153	13/03/2018	2.567	357,206
Mark Zinkula	14/04/2015	100,800	13/03/2018	2.567	258,754
Kerrigan Procter	17/04/2013	206,843	16/04/2018	2.680	554,339

Non-executive directors' remuneration – 2018

Non-executive directors' fees

The fees for the Chairman were reviewed during 2018 and with effect from 1 August 2018 the fee was increased from £450,000 to £490,000. This is the first increase made to the Chairman's fee since Sir John Kingman's appointment to the role in October 2016. The table below sets out the current fees.

The current limit for fees paid to non-executive directors is an aggregate of £1,500,000 p.a.

Annual fees	Current fee £
Chairman	490,000
Base fee	75,000
Additional fees:	
Senior Independent Director	30,000
Committee Chairmanship fees (Audit, Remuneration and Group Risk Committees)	30,000
Attendance fee payable if the non-executive sits on two or more Board committees	10,000

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The table below shows the actual fees paid to our non-executive directors in 2018 and 2017.

Non-executive director		Fees for 2018	Benefits for 2018	Total remuneration for 2018	Fees for 2017	Benefits for 2017	Total remuneration for 2017
Sir John Kingman	Chairman N CG	**466,667**	**–**	**466,667**	450,000	–	450,000
Henrietta Baldock[1]	A N R Ri – *appointed 1 October 2018*	**103,447**	**–**	**103,447**	–	–	–
Carolyn Bradley	N R	**75,000**	**–**	**75,000**	75,000	98	75,098
Philip Broadley	A CG N R Ri	**115,000**	**569**	**115,569**	115,000	481	115,481
Lesley Knox	A N R Ri	**115,000**	**1,211**	**116,211**	115,000	953	115,953
George Lewis	A N Ri – *appointed 1 November 2018*	**14,167**	**–**	**14,167**	–	–	–
Julia Wilson	A CG N Ri	**115,000**	**–**	**115,000**	115,000	170	115,170
Toby Strauss	A CG N Ri	**115,000**	**1,547**	**116,547**	115,000	249	115,249

Key:
NED committee membership:
A = Audit
N = Nominations
R = Remuneration
Ri = Risk
CG = Corporate Governance

1. Henrietta Baldock is also Chair of the Legal & General Assurance Society Board for which she receives a separate fee to that paid to her as a non-executive director of the Group. The actual fees in the table above include her total fees for both roles.

Shareholding requirements – non-executive directors

Non-executive directors are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2019, taking into account share purchases in relation to December 2018 fees, purchased on 2 January 2019.

Name	Shareholding as at 2 January 2019	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 3 January 2019 to 6 March 2019
Sir John Kingman	149,611	71%	On Target	6,610
Henrietta Baldock – *appointed 1 October 2018*	812	3%	On Target	2,386
Carolyn Bradley	31,759	98%	On Target	–
Philip Broadley	43,135	133%	Yes	–
Lesley Knox	77,600	239%	Yes	–
George Lewis – *appointed 1 November 2018*	21,998	68%	On Target	–
Toby Strauss	21,652	67%	On Target	3,233
Julia Wilson	51,823	160%	Yes	–

Non-executive directors' terms of employment

Non-executive director	Current letter of appointment start date	Current letter of appointment end date
Sir John Kingman	24 October 2016	24 October 2021
Julia Wilson	09 December 2017	09 December 2020
Henrietta Baldock	04 October 2018	04 October 2021
Carolyn Bradley	08 December 2014	08 December 2017
Philip Broadley	08 July 2016	08 July 2019
Lesley Knox	01 June 2016	01 June 2019
George Lewis	01 November 2018	01 November 2021
Toby Strauss	01 January 2017	01 January 2020

The standard term for non-executive directors is three years and for the Chairman is five years. All non-executive directors are subject to annual re-election.

Remuneration for employees below Board

General remuneration policy

The group's remuneration policy is designed to reward, motivate and retain high performers in line with the risk appetite of the group. Remuneration is considered within the overall context of the group's sector and the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market range with a competitive package designed to align the interests of employees with those of shareholders, and with an appropriate proportion of total remuneration dependent upon performance.

We define core remuneration as base salary, annual bonus and other benefits such as pension. Key employees are also eligible to participate in the performance share plan (PSP).

Summary of the remuneration structure for employees below Board

Element	Policy
Base salary	We aim to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • the nature, size and scope of the role • the knowledge, skills and experience of the individual • individual and overall business performance • pay and conditions elsewhere in the group • appropriate external market data As a member of the Living Wage Foundation salaries are also set with reference to the Foundation's UK and London living wage levels. For 2018, the average base salary increase was 3.2%; however, it was agreed that this spend would be focused on more junior employees within the group with base salary increases for senior managers generally limited to around 2%.
Annual bonus	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. The group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans. Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years. The company reserves the right to adjust deferral levels for code staff as deemed appropriate.
Performance share plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. This includes employees in LGIM whose roles span different business divisions and whose participation encourages synergy and teamwork across the group. Participation in the plan for one year does not guarantee participation in future years. PSP awards will be made to around 80 employees during 2019. Where appropriate, grants under the PSP may also be made for new employees who join the company during the year in key roles.
Other share plans and long-term incentives	The company operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high potential individuals and those with critical skills. In addition, the company operates a cash based long-term incentive plan for LGIM (LGIM LTIP) based on the financial performance of the division. Participation in the LGIM LTIP is limited to senior managers within the division.
Pension	All employees are given the opportunity to participate in a Group Pension Scheme. The pension opportunity offered to the majority of the workforce is 10% of salary.
Employee share plans	All employees are given the opportunity to participate in a Save As You Earn (SAYE) plan and an Employee Share Purchase plan. These are both HMRC approved plans which offer all employees the opportunity to share in the success of the business.

Annual equal pay audit

The group seeks to ensure that our pay policies and practices are free from unfair bias. Part of the pay review process is an annual equal pay audit that reviews pay and bonus decisions by gender, ethnicity, age and full-time versus part-time working. In addition, it considers the application of the pay policy more widely, in particular looking at decisions made in the annual pay review across grades, functions and divisions.

Gender pay reporting

The group has published its gender pay report for 2018. Further details can be found on page 36 of the report.

Pay ratio in relation to the Group CEO

As in 2016 and 2017 we are voluntarily disclosing details of the pay ratio in relation to the Group CEO and the wider UK employee population. For 2018 we have made some amendments to how we report the information in order to align with the reporting requirements set out by BEIS which will come into effect for financial years starting 1 January 2019.

The tables below provide the ratio between the CEO single figure total remuneration and total remuneration for all UK employees and the details of the salary and total remuneration for UK employees in 2018.

Total Remuneration

		Pay ratio			All employee £		
Year	Method	75th percentile	Median	25th percentile	75th percentile	Median	25th percentile
2018	**B**	**38**	**77**	**130**	**86,082**	**42,906**	**25,381**
2017	B	51	90	133	67,475	38,055	25,891

Salary

		Pay ratio			All employee £		
Year	Method	75th percentile	Median	25th percentile	75th percentile	Median	25th percentile
2018	**B**	**13**	**26**	**41**	**71,583**	**35,493**	**22,570**
2017	B	18	27	42	51,550	33,706	21,765

Pay ratio commentary

From 2017 to 2018 the ratio between the total remuneration of the Group CEO and the total remuneration of the employees and the median, upper and lower quartiles has reduced. This reduction is due to a combination of a fall in the level of short and long term variable remuneration for the Group CEO from 2017 to 2018 and a significant increase in the total remuneration paid to employees, particularly at the median and upper quartile.

Methodology

We have chosen option B as our method for calculating the pay ratio for this report, consistent with the methodology for reporting of the gender pay gap. Bonus amounts for 2018 are not determined for some eligible employees until after publication of this report, and therefore it is not possible to determine the exact 2018 total remuneration for all UK employees within this timescale. It is unlikely that the pay ratios will change significantly once these bonus amounts are determined, but for completeness and transparency, the ratio using the full actual 2018 total remuneration for all employees (option A) will be disclosed retrospectively in the 2019 report.

Percentage change in remuneration of director undertaking the role of Group Chief Executive

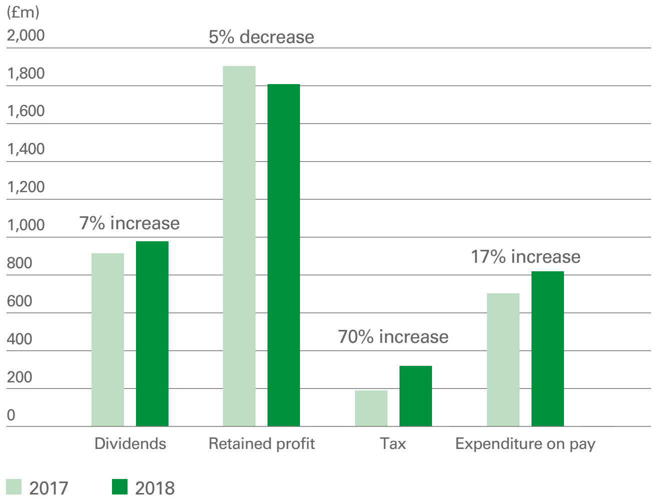
2018 over 2017

	Change to base salary %	Change to benefits %	Change in AVP %
Group Chief Executive	2.08%	-41.52%	-3.91%
Comparator group	0.88%	0.88%	17.72%

As with last year we have chosen the whole UK employee population as the comparator group. This group has been chosen because it includes a wider cross section of the group's employees. The increase in benefits for the employee comparator group relates to the impact of salary increases.

Relative importance of spend on pay

The chart opposite shows the relative importance of spend on pay compared to shareholder dividends and profit for the year. Retained profit has been shown because it is a KPI of the business. No share buybacks were made in 2017 or 2018.



Remuneration Committee

The table below shows the members and attendees of the Remuneration Committee during 2018.

Committee members, attendees and advice

Meetings in 2018

During 2018, the Committee met five times and in addition had ongoing dialogue via email and telephone discussion.

An outline of the Committee undertakings during 2018 is shown in the table below.

Members: during 2018 the Remuneration Committee comprised the following non-executive directors:

Name	Number of Remuneration Committee meetings attended during 2018
Lesley Knox	5/5
Carolyn Bradley	5/5
Philip Broadley	5/5
Henrietta Baldock – *appointed on 1 October 2018*	2/2

Committee undertakings

Quarter	Governance	Performance	Implementation of remuneration policy	Regulatory
First	• Review of report on the activities of the Group Reward Steering Committee	• Reviewed findings of the CRO report • Approved the 2017/18 annual pay review and executive pay awards • Approved vesting of the 2015 PSP, LGIM LTIP and LGC Direct Investment Share Awards	• Approved the 2018 AVP performance measures • Approved 2018 long term incentive awards • Approved 2018 SAYE invitation	• Approved remuneration policy statement for the PRA
Third	• Reviewed outcomes of AGM season • Review of Group Reward Steering Committee terms of reference	• Financial update and indicative variable pay update for executive teams		• Review of code staff lists
Fourth	• Review and approval of committee terms of reference	• Review of the salary and variable pay budget proposals for the 2018/19 review • Consideration of incentive out-turns in respect of 2018		• Reviewed remuneration policy statements for FCA and PRA

At the invitation of the Remuneration Committee, the Group Chairman attends Committee meetings. Where appropriate, the Group Chief Executive, Nigel Wilson; and the Group HR Director, Group Reward Director, Head of Executive Compensation, Director of Group Finance and Group Chief Risk Officer also attend meetings. No person is present during any discussion relating to his or her own remuneration.

At the invitation of the Remuneration Committee, a representative from Deloitte LLP also attends Committee meetings. During 2018, Deloitte principally advised the Committee on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Deloitte were appointed by the Committee. The Committee reflects on the quality of advice provided and whether it properly addresses the issues under consideration as part of its normal deliberations. The Committee is satisfied that the advice received from Deloitte LLP engagement team is objective and independent. Deloitte are signatories to the remuneration consultants' group code of conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte in relation to Remuneration Committee work during 2018 were £92,800 (excluding VAT). While fee estimates are required for bespoke pieces of work, fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned. During the year, Deloitte also provided the company with tax advice, consulting services, internal audit support and financial advisory services.

Terms of reference

The Committee's terms of reference are available on our website. The remit of the Committee includes the remuneration strategy and policy framework for the whole company as well as the executive directors.

The Committee particularly focuses on:

- determining the individual remuneration for executive directors and for other designated individuals or for those who are discharging a head of control function role
- undertaking direct oversight on the remuneration of other high earners in the group
- oversight of the remuneration of Code staff and employees in the control and oversight functions
- oversight of remuneration policies and structures for all employees

Considering risk

The Reward Steering Committee (RSC) and the Group Regulatory Risk and Compliance Function make a key contribution to the process of designing reward structures and evaluating whether achievement of objectives and any payment from plans have taken into account the overall risk profile of the company.

Reward Steering Committee (RSC)

Reporting to the Remuneration Committee, the RSC helps set the framework within which our incentive arrangements are normally reviewed and implemented, with a view to supporting business strategy, whilst acting within the group's risk appetite. The members of the RSC include the Group HR Director, Group Chief Risk Officer, Group Conduct Risk Director, Regulatory Risk Director, LGIM Chief Compliance Officer and the Director of Group Finance.

Where a business unit tables a proposal for consideration, the relevant business manager is required to attend the RSC meeting to explain the background and to answer all questions and challenges from the RSC.

Group regulatory risk and compliance function

The Remuneration Committee also works closely with the group regulatory risk and compliance function with respect to remuneration proposals.

In particular, the function reports to the Committee on an annual basis on whether any risks have been taken outside of pre-agreed parameters, there have been regulatory breaches, or they are aware of any other considerations that may lead the Committee to consider whether it should impact the payment of bonuses to staff (including in particular the executive directors and code staff).

The CRO also specifically looks at the overall risk profile of the company and whether executive directors have achieved objectives within the company's accepted risk appetite. The CRO also reviews the executive directors' objectives for the forthcoming year to ensure they are in line with the risk parameters.

Since the implementation of a new Solvency II remuneration policy in 2016, the scope of the CRO report has been extended to consider whether there are any risk considerations which may warrant adjustments to the overall level of corporate annual variable pay awards.

Engagement with shareholders

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance and any changes to the company's executive pay arrangements.

During the course of 2017 the Committee undertook a detailed review of the policy to ensure it remains appropriate to the company. The result of the review was that the policy was considered appropriate to drive group performance; however, some changes were considered appropriate: firstly to extend the time horizons of long-term incentive awards and secondly to replace the previous EPS/DPS matrix which determined 50% of PSP awards with a sole measure of EPS. In late 2017 and early 2018, the Committee consulted with the group's largest shareholders on these changes.

During the course of 2019, the Committee intends to undertake a detailed review of the remuneration policy, and will consult with the group's largest shareholders on any changes, prior to presenting a new policy for shareholder approval at the 2020 AGM.

Statement of voting at the annual general meeting (AGM) 2018

The table below shows the voting outcomes on the Directors' Remuneration Policy at the AGM May 2017 in and the Directors' Remuneration Report at the last AGM in May 2018.

Item	For	Against	Abstain Number
Remuneration policy	91.23%	8.77%	–
	3,851,461,140	370,032,785	15,093,723
2017 remuneration report	98.17%	1.83%	–
	4,169,081,055	77,681,315	4,760,192

Dilution limits

The company's all-employee plans and the now-closed ESOS operate within the Investment Association's dilution limit of 5% of issued capital in 10 years for executive schemes and all its plans will operate within the 10% of issued capital in 10 years limit for all schemes.

As at 31 December 2018, the company had 4.93% of share capital available under the 5% in 10 years limit and 9.72% of share capital under the 10% in 10 years limit.

As at 31 December 2018, 25,225,114 shares were held by the Employee Benefit Trust to hedge outstanding awards of 52,054,902 shares for the PSP and SBP.

Other information relating to directors' remuneration

External appointments

The company considers that certain external appointments can help to broaden the experience and contribution to the Board of the executive directors. Any such appointments are subject to annual agreement by the group and must not be with competing companies. Subject to the group's agreement, any fees may be retained by the individual. However, they received no fees for the below appointments.

External appointments held in 2018 are shown below:

	Role and organisation	Fees
Nigel Wilson	n/a	Nil
Jeff Davies	n/a	Nil
Mark Zinkula	Currently on the board of the Financial Reporting Council	Nil
Kerrigan Procter	n/a	Nil

Bringing financial education to schools across the country

In 2018, we toured schools around the country bringing our finance workshops to nearly 4,000 school students and over 130 teachers. Young people often see money and finance as deadly dull and confusing, so we pulled out all the stops to make the workshops enjoyable and fun. Financial literacy is now part of the national curriculum for state schools for 11-16 year-olds and is included in the maths syllabus for 5-14 year-olds. Our aim is to help teachers and children alike to understand the basics of finance: how to earn, spend and save money. This is closely linked to our aim to help make society more resilient financially as we know that millions of people are excluded from the benefits of personal financial services.

Financial statements

Group consolidated financial statements

Consolidated financial statements

The **group consolidated financial statements** are divided into three sections:

- The **Primary statements and performance** section, which includes the group primary statements and other notes which we believe are integral to understanding our financial performance.
- The **Balance sheet management** section, which provides further details on our financial position and approach to risk management.
- The **Additional financial information** section, which includes disclosures required to be compliant with accounting standards or the Companies Act. We view this information as important, but less significant in understanding our business and performance.

Contents

Independent auditor's report to the members of Legal & General Group Plc

1 Our opinion is unmodified

We have audited the financial statements of Legal & General Group Plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 17 May 2018. The period of total uninterrupted engagement is for the one financial year ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	£92.5m
	4.1% of normalised profit before tax from continuing operations
Coverage	91% of group profit before tax
Key audit matters	
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit
Recurring risks	Valuation of non-participating insurance contract liabilities
	Valuation of hard to value (Level 3) investments
	Parent company risk: Recoverability of parent company's investment in subsidiaries

Independent auditor's report to the members of Legal & General Group Plc (continued)

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit ("Brexit")
Refer to page 48 (principal risks), page 47 (viability statement), page 68 (Audit Committee Report).

The risk	Our response
Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in 'Valuation of insurance contract liabilities' and 'Valuation of hard to value (Level 3) investments' below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; – **Sensitivity analysis:** When addressing 'Valuation of insurance contract liabilities' and 'Valuation of hard to value (Level 3) investments' below and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and – **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on 'Valuation of insurance contract liabilities' and 'Valuation of hard to value (Level 3) investments' below we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** – As reported under 'Valuation of insurance contract liabilities' and 'Valuation of hard to value (Level 3) investments' below we found the resulting estimates and related disclosures of these matters and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Valuation of non-participating insurance contract liabilities
(Annuity liabilities within non-participating insurance contract liabilities of £64,707 million; 2017: £61,308 million)
Refer to page 68 (Audit Committee Report), page 123 (accounting policy) and page 176 (financial disclosures).

The risk

Subjective valuation:
The valuation of non-participating insurance contract liabilities is an inherently subjective area, requiring management judgement in the setting of key assumptions. In particular there is a significant level of judgement required in determining liabilities associated with the annuity business. The annuity business consists of individual annuities and bulk purchase annuity (BPA) schemes. A small change in assumptions can have a significant impact on the liabilities.

The longevity and credit risk assumptions involve the greatest level of subjectivity.

Longevity assumptions
Longevity assumptions have two main components which include mortality base assumptions and the rate of mortality improvements. Certain of these assumptions are tailored to individual bulk annuity schemes. Changing trends in longevity and emerging medical trends means there is a high level of uncertainty in the assumptions.

Credit assumptions
The valuation discount rate is derived from the yield on the assets backing the annuity liabilities. In setting the valuation discount rate, an explicit allowance for credit risk is included by making a deduction, representing part of the yield on debt and other fixed income securities. The assumptions surrounding this deduction require significant judgement and there is a risk that changes in investment yields, market spreads, current actual default experience and anticipated trends are not appropriately reflected.

Estimation uncertainty
The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 19) disclose the sensitivity estimated by the Group.

Calculation error and data capture:
Management uses actuarial models to calculate policyholder liabilities. There is a risk that incomplete data is used in the calculation because data does not transfer appropriately from the policyholder system to the actuarial models. There is also a risk that unauthorised or erroneous changes to the models may occur.

Our response

Our procedures included:

– **Control design:** testing controls over the quarterly review and approval of central assumptions adopted over the valuation of annuity liabilities, and reconciliation controls to ensure completeness and accuracy of data used in both the experience analyses that informs the assumption setting process and the data flows from policy administration systems to the actuarial valuation models.
– **Methodology choice:** using actuarial specialists to assess the appropriateness of the methodology for selecting assumptions by applying our understanding of developments in the business and expectations derived from market experience.
– **Benchmarking assumptions and sector experience:** assessing mortality improvement assumptions against industry data on expected future mortality rate improvements and industry historic mortality improvement rates; and assessing the appropriateness of the credit risk assumptions by comparing to industry practice and our expectations derived from market experience.
– **Historical comparisons:** evaluating the mortality base assumptions used in the valuation of the annuity liabilities by comparing to the Group's historic mortality experience, and assessing the credit default assumptions by comparing to the historical performance of the asset portfolio.
– **Test of detail:** testing the completeness of data used in the valuation of annuity liabilities by reconciling the data from the policy administration system to the data used in the actuarial models.
– **Independent re-performance:** using our own valuation models to estimate the annuity liability for a sample of policies and comparing to the balances estimated by the Group to assess the accuracy of the calculations performed by the actuarial models, in particular whether they were in line with internally approved methodologies and assumptions.
– **Assessing transparency:** assessing whether the disclosures in relation to the valuation of non-participating insurance contract liabilities are compliant with the relevant financial reporting requirements.

Our results
– We found the resulting estimate of the valuation of insurance contract liabilities to be acceptable.

Independent auditor's report to the members of Legal & General Group Plc (continued)

Valuation of hard to value (Level 3) investments
(Lifetime mortgages: £3,227 million; Private credit: £8,001 million; 2017: Lifetime mortgages: £2,023 million; Private credit: £6,265 million)
Refer to page 68 (Audit Committee Report), page 123 (accounting policy) and page 149 (financial disclosures).

The risk

Subjective valuation:
5% of the investment portfolio is classified as Level 3 assets, of which we consider the valuation of lifetime mortgages and private credit involve the greatest level of subjectivity.

Lifetime mortgages
The loans are measured at fair value determined through projecting future discounted cash flows using internally developed models. There is significant judgement involved in setting the assumptions that drive the valuation.

The key assumptions include property price inflation, property price volatility, mortality (determined by reference to the Group's own experience and expected levels of future mortality) and the illiquidity premium added to the risk free rate.

A small change in these assumptions can have a significant impact on the overall valuation.

Private credit
Given the limited nature of the secondary market for private credit, an inherent mispricing risk exists for these investments owing to a lack of price transparency in the market, and the adoption of assumptions which require significant judgement in mark-to-model valuations.

The fair value of private credit investments is based on an internally generated credit rating which is derived from the application of suitable credit rating models. This credit rating in turn forms the basis of identifying comparator securities. The selection of a suitable model, the inputs into the model and the selection of comparator securities require management judgement. Inappropriate judgements can lead to a material misstatement in the valuation of private credit investments.

Estimation uncertainty
The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hard to value (Level 3) investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 11) disclose the sensitivity estimated by the Group.

Our response

Lifetime mortgages
Our procedures included:

- **Control design:** testing controls over the review and approval of assumptions used in the valuation of lifetime mortgages.
- **Our valuation expertise:** using valuation specialists to challenge the valuation methodology adopted for suitability and appropriate application.
- **Benchmarking assumptions and historic comparisons:** using specialists in comparing: property price inflation to market data and industry practice; property price volatility to industry benchmarks; mortality assumptions to the Group's mortality experience analysis; and the liquidity premium applied to the risk-free rate to industry practice and our expectations from market experience.
- **Independent re-performance:** using our own valuation models to value the loans secured by residential mortgages balance for a sample of policies and comparing to the balances recorded by the Group.
- **Assessing transparency:** assessing whether the disclosures in relation to the valuation of lifetime mortgage investments are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions.

Private credit
Our procedures included:

- **Control design, observation, and operation:** testing key controls over the approval and monitoring of credit ratings, including the Company's Credit Committee, and controls designed to assure the completeness and accuracy of information presented to the Committee; and the approval of comparator securities by the Company's external expert, IHS Markit.
- **Assessing valuers' credentials:** assessing the independence and competence of IHS Markit, and obtaining evidence of IHS Markit's approval of comparator securities for a sample of private credit investments.
- **Our valuation expertise:** using valuation specialists to challenge the suitability of the valuation methodology adopted and assess its application.
- **Independent re-performance:** with assistance of valuation specialists, we independently assessed comparator securities and re-priced a sample of private credit investments.
- **Assessing transparency:** assessing whether the disclosures in relation to the valuation of private credit investments are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions.

Our results
- We found the resulting estimate of the valuation of hard to value (Level 3) investments to be acceptable.

Parent company risk: Recoverability of parent company's investment in subsidiaries
(£8,465 million; 2017: £7,717 million)
Refer to page 230 (accounting policy) and page 232 (financial disclosures).

The risk

Low risk, high value:
The carrying amount of the parent company's investments in subsidiaries represents 79% of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our response

Our procedures included:

- **Independent re-performance:** comparing the carrying amount of a sample of the highest value investments, with the relevant subsidiaries' financial information to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

Our results
- We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £92.5 million, determined by reference to a benchmark of profit before tax from continuing operations (PBTCO), normalised to exclude this year's investment and other variances and gains on non-controlling interests as disclosed in Note 2 of the financial statements, of which it represents 4.1%.

Materiality for the parent company financial statements as a whole was set at £46.0 million, determined with reference to a benchmark of total assets and chosen to be lower than materiality for the group financial statements as a whole. It represents 0.4% of the stated benchmark. We consider total assets to be the most appropriate benchmark as the Company principally holds investments in other entities.

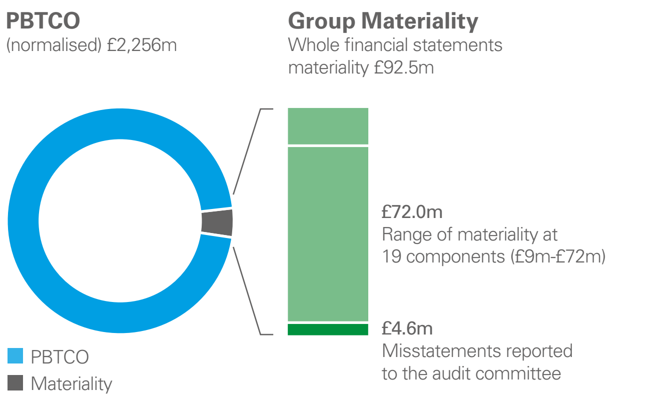
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4.6 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

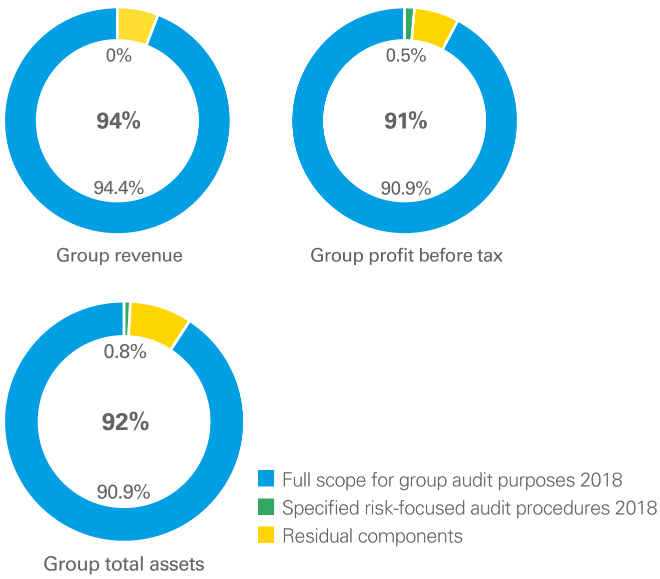
In addition, we applied materiality of £3.8 billion to the classification of unit-linked assets and liabilities in the consolidated balance sheet and related notes, determined with reference to a benchmark of total unit-linked investment contracts, of which it represents 1.1%. This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom.

We agreed to report to the Audit Committee any corrected or uncorrected classification misstatements in unit-linked assets and liabilities exceeding £190 million.

Of the Group's 19 reporting components, we subjected 18 to full scope audits for group purposes and one to specified risk-focused audit procedures over financial investments and investment return. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated to the right. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.





The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £9 million to £72 million, having regard to the mix of size and risk profile of the Group across the components. The work on 15 of the 19 components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised group profit before tax.

The Group team visited 17 component locations in the United Kingdom and the United States to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Independent auditor's report to the members of Legal & General Group Plc (continued)

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 237 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 235 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Group Board viability statement on page 47 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Group Board viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Group Board viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- a corporate governance statement has not been prepared by the company

We are required to report to you if the Governance report does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Governance report disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Governance report has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 236, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group team to component audit teams of relevant laws and regulations identified at the group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: Listing Rules and regulatory capital and liquidity recognising the financial and regulated nature of certain of the Group's activities and certain regulated subsidiaries. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Rees Aronson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square,
London, E14 5GL
5th March 2019

Primary statements and performance

Consolidated Income Statement

For the year ended 31 December 2018	Notes	2018 £m	2017 £m
Income			
Gross written premiums		**13,253**	7,932
Outward reinsurance premiums		**(2,131)**	(1,858)
Net change in provision for unearned premiums		**(19)**	(23)
Net premiums earned		**11,103**	6,051
Fees from fund management and investment contracts	28	**802**	771
Investment return	29	**(11,847)**	33,457
Other operational income		**1,206**	212
Total income	28	**1,264**	40,491
Expenses			
Claims and change in insurance contract liabilities		**8,612**	8,326
Reinsurance recoveries		**(1,053)**	(1,776)
Net claims and change in insurance contract liabilities		**7,559**	6,550
Change in investment contract liabilities	21	**(11,304)**	29,848
Acquisition costs		**893**	734
Finance costs	22	**238**	212
Other expenses	3	**1,776**	1,086
Total expenses		**(838)**	38,430
Profit before tax		**2,102**	2,061
Tax expense attributable to policyholder returns	30	**(53)**	(70)
Profit before tax attributable to equity holders		**2,049**	1,991
Total tax expense	30	**(358)**	(239)
Tax expense attributable to policyholder returns	30	**53**	70
Tax expense attributable to equity holders	30	**(305)**	(169)
Profit after tax from continuing operations	28	**1,744**	1,822
Profit after tax from discontinued operations[1]	27	**64**	80
Profit for the year		**1,808**	1,902
Attributable to:			
Non-controlling interests		**(19)**	11
Equity holders		**1,827**	1,891
Dividend distributions to equity holders during the year	4	**932**	872
Dividend distributions to equity holders proposed after the year end	4	**704**	658
		p	p
Total basic earnings per share[2]	5	**30.79**	31.87
Total diluted earnings per share[2]	5	**30.64**	31.73
Basic earnings per share derived from continuing operations[2]	5	**29.72**	30.52
Diluted earnings per share derived from continuing operations[2]	5	**29.57**	30.38

1. Detailed disclosure of discontinued operations is included in Note 27.
2. All earnings per share calculations are based on profit attributable to equity holders of the company.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018	2018 £m	2017 £m
Profit for the year	**1,808**	1,902
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains/(losses) on defined benefit pension schemes	**117**	(55)
Tax on actuarial gains/(losses) on defined benefit pension schemes	**(22)**	10
Total items that will not be reclassified subsequently to profit or loss	**95**	(45)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas operations	**62**	(99)
Movement in cross-currency hedge	**34**	(12)
Tax on movement in cross-currency hedge	**(5)**	2
Movement in financial investments designated as available-for-sale	**(36)**	27
Tax on movement in financial investments designated as available-for-sale	**5**	(4)
Total items that may be reclassified subsequently to profit or loss	**60**	(86)
Other comprehensive income/(expense) after tax	**155**	(131)
Total comprehensive income for the year	**1,963**	1,771
Total comprehensive income for the year attributable to:		
Continuing operations	**1,899**	1,691
Discontinued operations	**64**	80
Total comprehensive income for the year attributable to:		
Non-controlling interests	**(19)**	11
Equity holders	**1,982**	1,760

Consolidated Balance Sheet

As at 31 December 2018	Notes	2018 £m	2017[1] £m
Assets			
Goodwill		**65**	11
Purchased interest in long term businesses and other intangible assets	9	**223**	138
Deferred acquisition costs	10	**140**	140
Investment in associates and joint ventures accounted for using the equity method		**259**	252
Property, plant and equipment		**57**	59
Investment property	11	**6,965**	7,110
Financial investments	11	**430,498**	443,162
Reinsurers' share of contract liabilities		**4,737**	5,545
Deferred tax assets	30	**7**	7
Current tax assets	30	**418**	342
Receivables and other assets	13	**5,593**	6,083
Assets of operations classified as held for sale	27	**26,234**	22,584
Cash and cash equivalents	14	**17,321**	18,919
Total assets		**492,517**	504,352
Equity			
Share capital	34	**149**	149
Share premium	34	**992**	988
Employee scheme treasury shares	34	**(52)**	(40)
Capital redemption and other reserves		**230**	168
Retained earnings		**7,261**	6,251
Attributable to owners of the parent		**8,580**	7,516
Non-controlling interests	35	**72**	76
Total equity		**8,652**	7,592
Liabilities			
Non-participating insurance contract liabilities	20	**64,707**	61,308
Non-participating investment contract liabilities	21	**293,080**	315,651
Core borrowings	22	**3,922**	3,459
Operational borrowings	22	**1,026**	538
Provisions	23	**1,140**	1,335
UK deferred tax liabilities	30	**144**	13
Overseas deferred tax liabilities	30	**185**	221
Current tax liabilities	30	**171**	223
Payables and other financial liabilities	24	**62,548**	52,246
Other liabilities	36	**619**	491
Net asset value attributable to unit holders		**26,481**	27,317
Liabilities of operations classified as held for sale	27	**29,842**	33,958
Total liabilities		**483,865**	496,760
Total equity and liabilities		**492,517**	504,352

1. Following a change in accounting policy for LGIA term assurance reserves, a number of balance sheet items have been restated, notably deferred acquisition costs, reinsurers' share of contract liabilities, non-participating insurance contract liabilities, overseas deferred tax liabilities and other liabilities. The overall net impact on the group's retained earnings as at 31 December 2017 is a reduction of £327m. Further details on the change in accounting policy are provided in Note 1.

The notes on pages 118 to 226 form an integral part of these financial statements.

The financial statements on pages 112 to 226 were approved by the board of directors on 5 March 2019 and were signed on their behalf by:

Sir John Kingman
Chairman

Nigel Wilson
Group Chief Executive

Stuart Jeffrey Davies
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

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: – 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.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	149	981	(30)	212	5,633	6,945	338	7,283
Change in accounting policy[2]	–	–	–	–	(277)	(277)	–	(277)
Restated as at 1 January 2017	149	981	(30)	212	5,356	6,668	338	7,006
Profit for the year	–	–	–	–	1,891	1,891	11	1,902
Exchange differences on translation of overseas operations	–	–	–	(99)	–	(99)	–	(99)
Net movement in cross-currency hedge	–	–	–	(10)	–	(10)	–	(10)
Net actuarial losses on defined benefit pension schemes	–	–	–	–	(45)	(45)	–	(45)
Net movement in financial investments designated as available-for-sale	–	–	–	23	–	23	–	23
Total comprehensive income for the year	–	–	–	(86)	1,846	1,760	11	1,771
Options exercised under share option schemes	–	7	–	–	–	7	–	7
Shares purchased	–	–	(16)	–	–	(16)	–	(16)
Shares vested	–	–	6	(19)	–	(13)	–	(13)
Employee scheme treasury shares: – Value of employee services	–	–	–	28	–	28	–	28
Share scheme transfers to retained earnings	–	–	–	–	4	4	–	4
Dividends	–	–	–	–	(872)	(872)	–	(872)
Movement in third party interests	–	–	–	–	–	–	(273)	(273)
Currency translation differences	–	–	–	33	(33)	–	–	–
Change in accounting policy[2]	–	–	–	–	(50)	(50)	–	(50)
Restated as at 31 December 2017	149	988	(40)	168	6,251	7,516	76	7,592

1. Capital redemption and other reserves as at 31 December 2017 include share-based payments £69m, foreign exchange £69m, capital redemption £17m, available-for-sale reserves £22m and hedging reserves £(9)m.
2. Change in accounting policy represents the impact on retained earnings of the change in accounting policy related to the recognition of LGIA term assurance reserves, described in Note 1. The change has been applied retrospectively.

Consolidated Cash Flow Statement

For the year ended 31 December 2018	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year		**1,808**	1,902
Adjustments for non cash movements in net profit for the year			
Net losses/(gains) on financial investments and investment properties		**23,132**	(25,024)
Investment income		**(10,182)**	(9,953)
Interest expense		**293**	220
Tax expense	30	**210**	377
Other adjustments		**183**	154
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**(10,381)**	11,794
Investments designated as available-for-sale		**(248)**	277
Other assets		**1,258**	(2,344)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**3,257**	(3,989)
Investment contracts		**(22,571)**	(10,798)
Other liabilities		**12,057**	20,650
Net (decrease)/increase in held for sale net liabilities		**(8,500)**	12,139
Cash utilised in operations		**(9,684)**	(4,595)
Interest paid		**(215)**	(221)
Interest received		**4,841**	4,528
Tax paid[1]		**(504)**	(497)
Dividends received		**5,201**	5,196
Net cash flows from operating activities		**(361)**	4,411
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets		**(401)**	(230)
Net disposal/(acquisition) of operations		**326**	223
Investment in joint ventures and associates		**(130)**	(7)
Net cash flows utilised in investing activities		**(205)**	(14)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders during the year	4	**(932)**	(872)
Issue of ordinary share capital	34	**4**	7
Exercise of employee scheme shares (net)		**12**	10
Proceeds from borrowings	22	**960**	1,232
Repayment of borrowings	22	**(325)**	(600)
Movement in non-controlling interests		**–**	(262)
Net cash flows utilised in financing activities		**(281)**	(485)
Net (decrease)/increase in cash and cash equivalents		**(847)**	3,912
Exchange gains/(losses) on cash and cash equivalents		**16**	(19)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**18,919**	15,348
Total cash and cash equivalents		**18,088**	19,241
Less: cash and cash equivalents of operations classified as held for sale	27	**(767)**	(322)
Cash and cash equivalents at 31 December	14	**17,321**	18,919

1. Tax comprises UK corporation tax paid of £359m (2017: £290m), overseas corporate taxes of £25m (2017: £12m), and withholding tax of £120m (2017: £195m).

1 Basis of preparation

Legal & General Group Plc, a public limited company incorporated and domiciled in the United Kingdom (UK), operates in three broad business areas of investing and annuities, investment management and insurance through its subsidiaries and associates in the UK, the United States and other countries throughout the world.

(i) Significant accounting policies

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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 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, 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. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

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 International Financial Reporting Interpretations Committee (IFRIC) interpretation, as detailed in the applicable accounting policies of the group.

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

The group has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

(i) 'Fees from fund management and investment contracts'; and

(ii) Components of the account 'Other operational income'.

There has been no material impact on the group's consolidated financial statements from the implementation of IFRS 15 and therefore the group's financial statements have not been restated. Please refer to Note 28 for details on accounting policies for these revenue streams.

IFRS 9 – Financial Instruments and Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement', it includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In November 2018 the IASB agreed to issue an exposure draft proposing to extend the deferral by one year to 1 January 2022, to align with the proposed delay in the adoption date of IFRS 17.

For an insurer to apply this deferral:

(i) Total liabilities related to insurance must exceed 90% of total liabilities; or

(ii) Total liabilities related to insurance are greater than 80% of total liabilities but less than 90% of total liabilities so long as the insurer does not engage in significant activity unconnected to insurance.

Total liabilities connected to insurance within the group at the initial assessment date 31 December 2015 were 99% of total liabilities. The group therefore qualifies for the deferral of IFRS 9 and is making use of this option.

The group is required to retest its eligibility for deferral of IFRS 9, if, and only if, there is a significant change in business activities in the year. There have been no indicators of such a change in 2018 and therefore the group continues to apply the deferral. The sale of the Mature Savings business, announced in 2017, is not expected to change this conclusion.

All entities within the group whose activities are not primarily insurance related and which prepare financial statements on an IFRS basis (including UK entities qualifying for disclosure exemptions under FRS 101, 'Reduced Disclosure Framework') have implemented IFRS 9 in 2018. The financial statements of these entities will be made available through Companies House through 2019.

As required by the amendments, the disclosures below are presented in order to provide users of the financial statements with information which allows them to compare financial assets with those of entities applying IFRS 9. The impact of IFRS 9 on the group's consolidated financial statements will depend on the interaction of the asset classification and measurement with the insurance contract measurement at the date of transition, particularly for liabilities which are measured using locked-in discount rates.

(i) Fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. passing the 'SPPI' test):

	As at 31 December 2018	
	Financial assets passing the SPPI test[1,2] £m	All other financial assets[3] £m
Equity securities	–	177,566
Debt securities	1,766	252,686
Accrued interest	12	1,623
Derivative assets	–	10,065
Loans at fair value	–	9,206
Total financial investments at fair value	1,778	451,146
Loans at amortised cost	456	–
Reinsurance receivables	24	–
Insurance and intermediaries receivables	205	–
Other financial assets	2,860	–
Total fair value of financial assets[4]	5,323	451,146

1. Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in Other financial assets.
2. For financial assets which pass the SPPI test held at 31 December 2018 there was a change in the fair value in the year of £(112)m.
3. For all other financial assets held at 31 December 2018 there was a change in the fair value in the year of £(17,918)m.
4. Financial assets excludes cash and cash equivalents and receivables under finance leases.

(ii) Credit risk information of financial assets passing the SPPI test:

						As at 31 December 2018	
	AAA £m	AA £m	A £m	BBB £m	BB or below[1] £m	Other[2] £m	Total £m
Debt securities	361	141	707	510	47	–	1,766
Accrued interest	2	1	4	5	–	–	12
Total financial investments at fair value	363	142	711	515	47	–	1,778
Loans at amortised cost	–	219	1	135	–	101	456
Reinsurance receivables	–	–	–	–	–	24	24
Insurance and intermediaries receivables	–	–	–	–	–	205	205
Other financial assets	12	14	381	17	2	2,434	2,860
Total carrying value of financial assets passing the SPPI test[3]	375	375	1,093	667	49	2,764	5,323

1. Financial assets classified as 'BB or below' are considered to be lower than investment grade, and therefore are not deemed to have low credit risk under IFRS 9. The fair value of these assets approximates to their carrying value.
2. Other financial assets are made up of unrated and short term receivables for which a formal credit rating is not assigned. The fair value of financial assets in this category that are not deemed to have low credit risk as at 31 December 2018 is £106m.
3. Financial assets excludes cash and cash equivalents and receivables under finance leases.

1 Basis of preparation (continued)

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

Amendments to IAS 40 – Transfers of Investment Property

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

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

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

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

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

IFRIC Interpretation 22 – Foreign Currency Transactions and Advanced Consideration

The interpretation clarifies that when applying IAS 21, 'The Effects of Changes in Foreign Exchange Rates', to currency transactions involving an advance payment or receipt, the transaction date for translating recognised amounts is the date on which the entity initially recognises the prepayment asset or the deferred income liability. This Interpretation does not have any impact on the group's consolidated financial statements.

(iii) Changes in accounting policy

LGIA (Legal & General Insurance America) Term Assurance

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

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

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

The principal impact of the change on the prior year consolidated financial statements is in the non-participating insurance contract liabilities and in deferred acquisition costs, which have been derecognised, and the associated cash flows now recognised within the insurance contract liability calculation.

The group reported an initial best estimate of the impact of this change in accounting policy as part of its 2018 half year report. During the second half of 2018 we have continued to refine the calculation of the retrospective impact based on enhanced historic information. The final impact on each line item of the Consolidated Balance Sheet as at 31 December 2017 is shown in the table below:

	As reported at 31 December 2017 £m	Adjustments £m	As restated at 31 December 2017 £m
Deferred acquisition costs	1,507	(1,367)	140
Reinsurers' share of contract liabilities	5,703	(158)	5,545
Non-participating insurance contract liabilities	62,318	(1,010)	61,308
Overseas deferred tax liability	337	(116)	221
Other liabilities	563	(72)	491
Retained earnings	6,578	(327)	6,251

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

UK Whole of Life and Term Assurance Mortality Assumptions

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

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

(iv) Standards, interpretations and amendments to published standards which are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the group's accounting periods beginning on or after 1 January 2019 or later periods and which the group has not adopted early, as disclosed below.

IFRS 16 – Leases

IFRS 16, 'Leases', issued in January 2016, is effective for annual periods beginning on or after 1 January 2019, and replaces all existing lease requirements and guidance under IFRS, including IAS 17, 'Leases', IFRIC 4, 'Determining Whether an Arrangement Contains a Lease', SIC-15, 'Operating Leases – Incentives' and SIC-27, 'Evaluating the Substance of Transactions in the Legal Form of a Lease'. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing many commitments in relation to operating leases (as currently defined in IAS 17) onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17, although the IASB have issued updated guidance on the definition of lease modifications and sub-lease arrangements.

The group plans to adopt IFRS 16 by using the modified retrospective approach, and not restate comparative financial information. At the date of the initial application the group will recognise a lease liability and a right-of-use asset of an equal amount (adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the group Consolidated Balance Sheet immediately before the date of initial application), as allowed by the standard. Additionally the group plans to elect to apply the standard to contracts that were previously assessed as leases applying IAS 17 and IFRIC 4. On transition, the group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The group is planning to elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, a detailed impact assessment was performed, and it is expected that on transition the impact on the group Consolidated Balance Sheet will not be material.

IFRS 17 – Insurance Contracts

IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021 (subject to EU endorsement). In November 2018 the IASB agreed to issue an exposure draft proposing a one year delay in the adoption date which, if approved would delay the date of application to 1 January 2022. The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout 2019 to ensure technical compliance and to develop the required system capability to implement the standard.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

IFRIC 23, 'Uncertainty over Income Tax Treatments' was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The Interpretation clarifies the application of recognition and measurement requirements in IAS 12, 'Income Taxes' when there is uncertainty over income tax treatments. The group does not expect the impact to be significant.

Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements were issued in December 2017 and consist of minor amendments affecting IFRS 3 'Business combinations', IFRS 11, 'Joint arrangements', IAS 12, 'Income taxes' and IAS 23, 'Borrowing costs'. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, subject to EU endorsement. The group does not expect the impact to be significant.

Amendments to IAS 19 – Employee Benefits

These amendments were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The amendments require entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; they also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The impact of these amendments on the group will depend on the future occurrence of plan amendments, curtailments or settlements.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

These amendments, titled 'Long-term Interests in Associates and Joint Ventures' were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. The group does not expect the impact to be significant.

1 Basis of preparation (continued)

(iv) Standards, interpretations and amendments to published standards which are not yet effective (continued)

Amendments to IFRS 3 – Business Combinations
These amendments, issued in October 2018, are effective for business combinations for which the acquisition date is on or after 1 January 2020, subject to EU endorsement. The amendments provide more guidance on the definition of a business.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
These amendments, issued in October 2018, clarify the definition of 'material', and align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after 1 January 2020, subject to EU endorsement.

(v) 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 Consolidated 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, material adjustments could be made to the carrying amounts of assets and liabilities within the next financial year. The Audit Committee reviews the reasonableness of judgements associated with and the application of significant accounting policies. The significant accounting issues considered by the Audit Committee are included within the Audit Committee Report on page 66.

The major areas of critical accounting judgement on policy application are considered below:

Insurance and investment contract liabilities (Notes 20 and 21): Product classification and the assessment of the significance of insurance risk transferred to the group in determining whether a contract should be accounted for as an insurance or investment contract.
Contracts which transfer significant insurance risk to the group are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the group but not significant insurance risk are classified as investment contracts.

Judgement is required in order to assess the significance of the transfer of insurance risk within a contract. This assessment is based on whether the occurrence of an insured event could cause the group to make significant additional payments, i.e. if the occurrence of the event causes significantly higher cash out flows for the group than its non-occurrence.

Certain contracts, which are both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits under certain conditions, being:

- that the additional benefits are a significant portion of the total contractual benefits;
- the amount and timing of the additional benefits are at the discretion of the group; and
- that the additional benefits are contractually dependent upon the performance of a company, fund or specified pool of assets.

Insurance contracts and investment contracts with such discretionary participation features are accounted for under IFRS 4, while investment contracts without discretionary participation features are accounted for as financial instruments under IAS 39.

Judgement is therefore required in order to establish whether any additional benefits in an insurance or investment contract meet the above requirements for being considered discretionary participation features.

Consolidation (Notes 42-44): Assessment of whether the group controls underlying entities and should therefore consolidate them.
The assessment takes account of various criteria, including decision making ability, equity holding and the rights to a variable return from the entity.

Control arises when the group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

For operating entities this generally accompanies a shareholding of 50% or more in the entity. Subsidiaries that are consolidated where the group owns less than 50% of the ordinary share capital (structured entities), are consolidated based on an assessment of control normally arising from special rights attaching to the class of share owned, other contractual arrangements and factors such as the purpose of the investee, the nature of its relevant activities, voting rights (including potential voting rights) and substantive and protective rights.

The group invests in various fund and unit trust entities where it also acts as the asset manager to those entities. In these instances, in determining whether the group controls the entities, the assessment focuses on the aggregate economic interests of the group (direct interest and expected management fees) and on whether the group acts as a principal or agent. This includes an assessment of the removal rights of other investors (their practical ability to allow the group not to control the fund). Additionally, holdings in such investments can fluctuate on a daily basis according to the participation of the group and other investors in them. As a result, in determining control, we look at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the group's involvement. This is performed in line with the following principles:

- where the entity is managed by a group asset manager, and the group's ownership holding in the entity exceeds 50%, the group is judged to have control over the entity;
- where the entity is managed by a group asset manager, and the group's ownership holding in the entity is between 30% and 50%, the facts and circumstances of the group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the group has control over the entity; and
- where the entity is managed by a group asset manager, and the group's ownership holding in the entity is less than 30%, the group is judged to not have control over the entity, but again the facts and circumstances of the group's involvement in the entity are considered.

The following sets out information about the critical accounting assumptions made by the group about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Valuation of insurance and investment contract liabilities (Notes 18-21)
Determination of longevity, mortality and morbidity assumptions used in the calculation of the insurance contract liabilities. The assumptions for the rate of future longevity, mortality and morbidity are based on the group's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic internal data.

Valuation of unquoted illiquid assets and investment property (Note 11)
Determination of fair value of unquoted and illiquid assets, and investment property involves judgements to model valuations, through the incorporation of both observable and unobservable market inputs, which include assumptions that lead to the existence of a range of plausible valuations for financial assets.

Defined benefit pension plan (Note 23)
Determination of pension plan assumptions including mortality, discount rates and inflation. These assumptions have been set in accordance with the requirements of IAS 19 and include consistent judgements with those in setting the annuity liabilities where possible. Note 23 includes a sensitivity analysis to alternative assumptions.

(vi) Consolidation principles

Subsidiary undertakings
The consolidated financial statements incorporate the assets, liabilities, equity, income, expenses and cash flows of the company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has control (i.e. when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) (Note 42). Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. Puttable instruments held by external parties in consolidated investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' – in the Consolidated Balance Sheet.

Associates and joint ventures
The group has interests in associates and joint ventures (Note 43) which form part of an investment portfolio held through private equity vehicles, mutual funds, unit trusts and similar entities. In accordance with the choice permitted by IAS 28, 'Investments in associates', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the Consolidated Income Statement.

Associates which do not form part of an investment portfolio are initially recognised in the Consolidated Balance Sheet at cost. The carrying amount of the associate is increased or decreased to reflect the group's share of total comprehensive income after the date of the acquisition.

1 Basis of preparation (continued)

(vii) Product classification

The group's products are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). The basis of accounting for these products is outlined in Notes 20 and 21 respectively. The following table summarises the classification of the group's significant types of non-participating insurance and investment contracts as described in Note 6 for each applicable reportable segment. All of the group's participating business is classified as held for sale, and hence no additional information in relation to these products has been provided.

Reportable segment	Non-participating insurance contracts	Non-participating investment contracts
LGR	• Pension risk transfers • Individual annuities • Longevity insurance	• Lifetime mortgages • Fixed term individual annuities
LGI	• UK Retail protection • UK Group protection • US protection • US Universal life • US Individual annuities	
General Insurance	• Household • Accident, Sickness and Unemployment (ASU) • Pet	
LGIM		• Workplace savings • Institutional pension • Segregated investment management mandates • Collective investment schemes

(viii) Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, together with associated commitments to return such assets to customers, are not included in these financial statements. Where the group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

(ix) Foreign exchange and exchange rates

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 Consolidated Balance Sheet. The income and expenses for each 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.

Foreign exchange gains and losses are recognised in the Consolidated Income Statement, except when recognised in equity as qualifying cash flow or net investment hedges.

The closing exchange rates at 31 December 2018 were 1.28 United States dollar and 1.11 euro (31 December 2017: 1.35 United States dollar and 1.13 euro).

The average exchange rates for the year ended 31 December 2018 were 1.34 United States dollar and 1.13 euro (31 December 2017: 1.29 United States dollar and 1.14 euro).

2 Supplementary operating profit# information

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	Profit/(loss) before tax[1] 2018 £m	Tax (expense)/ credit 2018 £m	Profit/(loss) after tax 2018 £m	Profit/(loss) before tax[1] 2017 £m	Tax (expense)/ credit 2017 £m	Profit/(loss) after tax 2017 £m
Legal & General Retirement (LGR)		**1,548**	**(263)**	**1,285**	1,247	(210)	1,037
– LGR Institutional (LGRI)		1,149	(193)	956	906	(150)	756
– LGR Retail (LGRR)		399	(70)	329	341	(60)	281
Legal & General Investment Management (LGIM)		**407**	**(81)**	**326**	400	(82)	318
Legal & General Capital (LGC)		**322**	**(61)**	**261**	272	(48)	224
Legal & General Insurance (LGI)		**308**	**(39)**	**269**	303	(81)	222
– UK and Other		246	(46)	200	209	(40)	169
– US (LGIA)		62	7	69	94	(41)	53
General Insurance		–	–	–	37	(7)	30
Operating profit from continuing operations		**2,585**	**(444)**	**2,141**	2,259	(428)	1,831
Operating profit from discontinued operations[2]		**79**	**(15)**	**64**	107	(21)	86
Operating profit from divisions/tax expense on divisions		**2,664**	**(459)**	**2,205**	2,366	(449)	1,917
Group debt costs[3]		**(203)**	**39**	**(164)**	(191)	37	(154)
Group investment projects and expenses	2(iv)	**(126)**	**24**	**(102)**	(120)	24	(96)
Operating profit/tax expense		**2,335**	**(396)**	**1,939**	2,055	(388)	1,667
Investment and other variances	2(v)	**(188)**	**76**	**(112)**	24	200	224
(Decrease)/increase on non-controlling interests		**(19)**	**–**	**(19)**	11	–	11
Profit for the year/tax expense for the year		**2,128**	**(320)**	**1,808**	2,090	(188)	1,902

1. The profit/(loss) before tax reflects profit/(loss) before tax attributable to equity holders.
2. Operating profit from discontinued operations reflects the operating profit of the Savings division following the group's announcement in December 2017 to sell the Mature Savings business to Swiss Re. For 2017, discontinued operations also include the results of Legal & General Netherlands (LGN) which was sold during 2017 and was a component of the LGI (UK and Other) division.
3. Group debt costs exclude interest on non recourse financing.

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 year.

- 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.
- General Insurance comprises short-term household and other personal insurance.
- Discontinued operations represent businesses that have either been sold or announced to sell subject to formal transfer, namely Mature Savings. In 2017 the discontinued operations include Mature Savings (sale announced in December 2017) and Legal & General Netherlands (sold in April 2017).

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects the IFRS profit before tax) and 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 operating profit, which include 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 operating profit.

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

2 Supplementary operating profit# information (continued)

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

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 and other £m	International and 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)	323	–	323	–	–	–	–	323	81	404
– Workplace Savings[2]	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
General Insurance	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
From continuing operations	**1,424**	**170**	**1,594**	**54**		**22**	**(7)**	**2,141**	**444**	**2,585**
From discontinued operations[3]	**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 includes dividends from the US of £77m within the US (LGIA).
2. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).
3. Discontinued operations reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re.

Release from operations for LGR, LGIM – 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.

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. 2018 has seen record pension risk transfer (PRT) volumes, and as a result we continue to source direct investment assets to support this business in 2019, as appropriate, taking into account the alternative risk 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, LGIM and General Insurance represents the operating profit (net of tax).

See Note (iii) 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.

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

1. Release from operations includes dividends from the US of £80m within the US (LGIA).
2. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).
3. Discontinued operations primarily reflects the result of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this reconciliation, discontinued operations also include the results of Legal & General Netherlands. This business was sold during 2017.

2 Supplementary operating profit# information (continued)

(iii) Analysis of LGR and LGI operating profit

	LGR 2018 £m	LGI 2018 £m	LGR 2017 £m	LGI 2017 £m
Net release from operations	**768**	**236**	688	275
Experience variances				
– Persistency	**8**	**(12)**	9	(18)
– Mortality/morbidity[1]	**73**	**(7)**	30	(26)
– Expenses	**(13)**	**2**	(21)	3
– Project and development costs	**(11)**	**–**	(15)	(3)
– Other[2,3]	**(24)**	**41**	69	(6)
Total experience variances	**33**	**24**	72	(50)
Changes to valuation assumptions				
– Persistency	**–**	**(4)**	–	(11)
– Mortality/morbidity[4]	**444**	**25**	303	51
– Expenses	**–**	**17**	(20)	9
– Other	**–**	**(3)**	(9)	(1)
Total changes to valuation assumptions	**444**	**35**	274	48
Movement in non-cash items				
– Acquisition expense tax relief	**–**	**(11)**	–	(18)
– Other[5]	**40**	**(8)**	3	(7)
Total movement in non-cash items	**40**	**(19)**	3	(25)
International and other	**–**	**(7)**	–	(26)
Operating profit after tax	**1,285**	**269**	1,037	222
Tax gross up	**263**	**39**	210	81
Operating profit before tax	**1,548**	**308**	1,247	303

1. Mortality/morbidity experience variances for LGR reflect higher than expected deaths over the year.
2. Other experience variances for LGR reflect changes made to annuity reserving and updates to the policy/member data.
3. Other experience variances for LGI reflect a number of modelling refinements in reserving for future claims.
4. Mortality assumption changes for LGR reflect a one off release of £359m (net of tax) from an update in the longevity trend assumption from adjusted CMI 2015 to adjusted CMI 2016.
5. LGR Movement in non-cash items is largely due to a positive adjustment made to reflect all asset management activity on new bulk annuity contracts being handled by LGIM.

(iv) Group investment projects and expenses

	2018 £m	2017 £m
Group investment projects and central expenses	**113**	61
Restructuring and other costs	**13**	59
Total group investment projects and expenses	**126**	120

(v) Investment and other variances

	2018 £m	2017 £m
Investment variance[1]	**(126)**	129
M&A related and other variances[2]	**(62)**	(105)
Total investment and other variances	**(188)**	24

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 long-term assumed asset mix on new pension risk transfer business written during the year and held at a period end.
2. Includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2018 includes the recognition of a one-off profit of £20m arising on the stepped acquisition of CALA Homes (see Note 26)

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

3 Other expenses

An analysis of other expenses is set out below:

	Notes	2018 £m	2017 £m
Staff costs (including pensions and share-based payments)	32	**820**	702
Redundancy costs		**5**	–
Operating lease rentals[1]		**23**	23
Auditor's remuneration	31	**9**	9
Depreciation and impairment of plant and equipment		**11**	32
Amortisation and impairment of purchased interest in long-term businesses and other intangible assets	9	**34**	52
Direct operating expenses arising from investment properties which generate rental income		**12**	38
House building expenses[2]		**819**	9
Other administrative expenses		**190**	426
Total other expenses		**1,923**	1,291
Less: other expenses from discontinued operations		**(147)**	(205)
Other expenses from continuing operations		**1,776**	1,086

1. Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made by lessees under operating leases (net of any incentives from the lessor) are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.
2. House building expenses represent cost of sales of the group's housing businesses, including CALA Homes. A total of £981m of house building income has been recognised in the year (see Note 28(d)).

4 Dividends

A dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the company.

	Dividend 2018 £m	Per share[1] 2018 p	Dividend 2017 £m	Per share[1] 2017 p
Ordinary dividends paid and charged to equity in the year:				
– Final 2016 dividend	**–**	**–**	616	10.35
– Final 2017 dividend	**658**	**11.05**	–	–
– Interim dividend	**274**	**4.60**	256	4.30
Total dividends	**932**	**15.65**	872	14.65
Ordinary share dividend proposed[2]	**704**	**11.82**	658	11.05

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 2018, the directors declared a final dividend for 2018 of 11.82 pence per ordinary share. This dividend will be paid on 6 June 2019. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2019 and is not included as a liability in the Consolidated Balance Sheet as at 31 December 2018.

5 Earnings per share

Earnings per share is a measure of the portion of the group's profit allocated to each outstanding share. It is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares. For this purpose, net income is defined as the profit after tax, attributable to equity holders of the company, derived from continuing operations.

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 dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(i) Basic earnings per share

	After tax 2018 £m	Per share 2018 p	After tax 2017 £m	Per share 2017 p
Profit for the year attributable to equity holders	**1,827**	**30.79**	1,891	31.87
Less: earnings derived from discontinued operations	**(64)**	**(1.07)**	(80)	(1.35)
Basic earnings derived from continuing operations	**1,763**	**29.72**	1,811	30.52

(ii) Diluted earnings per share

	After tax 2018 £m	Weighted average number of shares 2018 m	Per share 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)**	**–**	**(1.07)**
Diluted earnings derived from continuing operations	**1,763**	**5,962**	**29.57**

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

6 Principal products

A significant part of the group's business involves the acceptance and management of risk.

A description of the principal products offered by the group's segments is outlined below. The group seeks to manage its exposure to risk through controls which ensure that the residual exposures are within acceptable tolerances agreed by the board. The group's risk appetite framework and the methods used to monitor risk exposures can be found on pages 44 to 49.

Details of the risks associated with the group's principal products and the controls used to manage these risks can be found in Notes 7 and 15 to 17.

Legal & General Retirement (LGR)

Annuity contracts

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

Pension Risk Transfer (PRT) represents bulk annuities, whereby the group accepts the assets and liabilities of a company pension scheme or a life fund. These are written predominantly to UK clients, but also to US, Dutch and Irish clients.

Immediate and deferred annuity contracts are also offered to individual policyholders. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. A small portfolio of immediate annuities has been written as participating business.

Some non-participating deferred annuities sold by the group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options are currently immaterial.

There is a block of immediate and deferred annuities within the UK non-profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2018 was £830m (2017: £640m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £8m (2017: £6m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The group also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £189m at 31 December 2018 (2017: £220m).

Longevity insurance contracts

The group also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

Lifetime mortgages

Lifetime mortgages are a form of equity release mortgage that provide non-commercial borrowers with a loan secured against their main residence, without the need for regular repayments. They are regulated retail mortgages offered only to borrowers over the age of 55 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. Loans can be advanced in a single lump sum amount or in several subsequent drawdowns of an agreed facility. All lifetime mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and if the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

6 Principal products (continued)

Legal & General Investment Management (LGIM)

LGIM offers both active and passive management on either a pooled or segregated basis to clients domiciled globally. Assets are managed in London, Chicago and Hong Kong on behalf of pension funds, institutional clients, sovereign wealth clients, retail clients and subsidiary companies within the group.

The key products provided by LGIM are Workplace Savings, Institutional Pensions, Segregated Investment Management mandates and Collective Investment Schemes.

The core strategies applied for managing the products are set out below.

Index fund management
LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

The LGIM ETF business provides clients access to LGIM's index fund management capabilities via our Exchange Traded Fund platform. ETF products cover a broad range of traditional and thematic asset classes.

Active fixed income and liquidity management
LGIM offers a range of pooled and segregated active fixed income funds. The LGIM liquidity funds offer institutional investors a solution for their cash management requirements across a range of core currencies. The liquidity funds aim to deliver competitive returns with a high level of diversification, whilst focusing on capital preservation through portfolios of high quality, liquid assets.

Solutions and Liability Driven Investment (LDI)
LGIM provides a range of pooled and bespoke solutions to help de-risk defined benefit pension schemes. These solutions will usually combine active or passive underlying portfolios with derivative overlays designed to meet clients' specific requirements.

Solutions also includes a range of pooled multi-asset funds for retail and institutional clients, built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. An allocation strategy service is also offered to institutional clients, which may also allocate some of the portfolio to managers other than LGIM.

Active equity
An active equity management business comprising focused teams managing stock selection across different regions.

Real assets
LGIM offers a range of pooled funds, segregated accounts and joint ventures investing on behalf of UK and overseas investors across physical real estate, private corporate debt, infrastructure debt and real estate loans. The business has specialist teams of fund and asset managers and an in-house research team.

Workplace Savings
Workplace Savings provides corporate pension scheme solutions to enable companies to meet their auto-enrolment obligations. Workplace Savings (a business division of LGAS operated within LGIM) acts as scheme operator and administrator for these products while the customers hold the individual or scheme level pension policies issued by LGAS.

Legal & General Capital (LGC)

Investment strategy and implementation
Legal & General Capital manages shareholder assets which are not directly required to meet contractual obligations to policyholders. LGC's investments fall into two distinct categories: direct investments and traded assets. The value of, and income from, both categories is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns is managed using a range of techniques, including foreign exchange and interest rate hedging, and exposure concentration limits by asset type, sector and geographic region.

Direct investments and structuring
Direct investments are an integral part of the wider group strategy. LGC's direct investments are typically illiquid investments entered into through acquisition, joint venture with strategic partners or by the creation of new companies. LGC seeks to make direct investments in sectors where there are structural funding shortfalls, and is organised into three sectors: housing, future cities (including urban regeneration and clean energy) and SME finance (including venture capital). LGC employs capital and sector expertise to such investments to target attractive risk-adjusted returns which can deliver higher returns and/or lower volatility for our shareholder capital than listed equity.

Legal & General Insurance (LGI)

LGI business comprises UK and US retail protection, UK group protection, US universal life business and Fintech business.

UK protection business (retail and group)

The group offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

US protection business

Protection consists of individual term assurance, which provides death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age-related guaranteed premium.

Reinsurance is used within the protection businesses to manage exposure to large claims. These practices lead to the establishment of reinsurance assets on the group's balance sheet. Within LGA, reinsurance and securitisation is also used to provide regulatory solvency relief (including relief from regulation governing term insurance and universal life reserves).

US universal life

Universal life contracts written by LGA provide savings and death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGA has exposure to loss in the event that interest rates decrease and it is unable to earn enough on the underlying assets to cover the guaranteed rate. LGA is also exposed to loss should interest rates increase, as the underlying market value of assets will generally fall without a change in the surrender value.

Annuities

Immediate annuities have similar characteristics as products sold by LGR. Deferred annuity contracts written by LGA contain a provision that, at maturity, a policyholder may move the account value into an immediate annuity, at rates which are either those currently in effect, or rates guaranteed in the contract.

General Insurance (GI)

General Insurance business comprises Household, Accident Sickness and Unemployment (ASU), and Pet products.

Household

These contracts provide cover in respect of policyholders' homes, investment properties, contents, personal belongings, and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. In addition, there is an additional cover option for Family Legal Protection (FLP) to cover costs of pursuing certain UK legal proceedings arising from, for example: death/personal injury, buying/hiring goods or services, infringement of property legal rights and breach of employment contracts.

Accident, Sickness and Unemployment (ASU)

These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

Pet

These contracts provide cover in respect of veterinary treatment of policyholders' pets in the event of accident or illness. In addition, there may be additional cover for death, third party liability as a result of damage or injury caused by their pets, and if the pet is lost or stolen. Exposure is limited to the payment limit selected by the customer (subject to contract specific inner limits), up to the duration limit specified by the policy which varies per condition, per 12 months and per year.

6 Principal products (continued)

Savings[1]

A range of contracts are offered in a variety of different forms to meet customers' long term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. The contracts fall into three main types:

- Non-participating savings, pensions and endowment contracts;
- Participating savings business, comprising endowment contracts, with-profits pensions, with-profits annuities and with-profits bonds; and
- Unit linked savings contracts and collective investment savings products.

For unit linked savings contracts and collective investment savings products, there is a direct link between the investments and the obligations. The group is not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written both inside and outside the with-profits fund.

Pensions (individual and corporate)
These are long term savings contracts through which policyholders accumulate pension benefits. Some older contracts contain a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option. Other options provided by these contracts include an open market option on maturity, early retirement and late retirement. The group would generally have discretion over the terms on which the latter types of options are offered.

With-profits annuities
These annuity contracts provide a regular income, the amount of which is determined by the addition of regular and temporary bonuses.

Endowment policies
These contracts provide a lump sum on maturity determined by the addition of annual and final bonuses over the duration of the contract. In addition, the contracts provide a minimum sum assured death benefit.

With-profits bonds
These contracts provide an investment return to the policyholder which is determined by the addition of regular and final bonuses over the duration of the contract. In addition, the contracts provide a death benefit, typically of 101% of the value of the units allocated to the policyholder.

Participating contracts
The with-profits fund ceased writing new business on 31 January 2015. Only increases to existing pension policies and new members to existing Group Personal Pension Schemes, where allowed for in the policy terms and conditions, have been accepted after that date. Regular premiums in payment at the date of closure also continue to be accepted.

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. Some older participating contracts include a guaranteed minimum rate of roll up of the policyholder's fund up to the date of retirement or maturity. Bonuses are determined in accordance with the principles outlined in the Fund's Principles and Practices of Financial Management (PPFM) for the management of the with-profits fund. The principles include:

- The with-profits fund will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities and other regulatory and capital requirements without the need for additional capital from outside the with-profits fund;
- Bonus rates will be smoothed so that some of the short term fluctuations in the value of the investments of the with-profits fund and the business results achieved in the with-profits fund are not immediately reflected in payments under with-profits policies.

The inherited estate is the excess of assets held within the with-profits fund over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits. Following the closure to new businesses of the with-profits fund on 31 January 2015, the Board agreed a run-off plan. They consider annually whether part of the inherited estate should be distributed to with-profits policyholders. In adverse circumstances this may result in a deduction from investment returns in order to increase the value of the inherited estate. The amount and timing of any distribution from or increase to the inherited estate shall be determined by the Board. In November 2018, the Board approved a 0.2% refund in respect of guarantee charges and options, and a 0.3% addition to asset share reflecting a distribution of part of the estate.

The distribution of surplus to shareholders depends upon the bonuses declared for the year. Typically, bonus rates are set having regard to investment returns, although the group has some discretion setting rates and would normally smooth bonuses over time. The volatility of investment returns could impact the fund's capital position and its ability to pay bonuses. If future investment conditions were less favourable than anticipated, the lower bonus levels resulting would also reduce future distributions to shareholders. The estate would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide support to the with-profits fund to meet its liabilities, would these risks affect shareholder equity.

Since the group's announcement to sell the Mature Savings business to Swiss Re in December 2017 we have entered into a Risk Transfer Agreement with ReAssure Limited (a subsidiary of Swiss Re). Until formal legal transfer of the business to Swiss Re is complete, all asset risk exposure related to the Mature Savings business is effectively transferred to ReAssure Limited by this agreement.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019.

7 Asset risk

The group is exposed to the following categories of asset risk as a consequence of offering the principal products outlined in Note 6. The group is also exposed to insurance risk as a consequence of offering these products – more detail on insurance risk can be found in Note 17.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the group.

Liquidity risk

The risk that the group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented.

The group seeks to manage its exposures to risk through controls which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. A description of the risks associated with the group's principal products and the associated controls is detailed below.

Market risk

Principal risks	Product/business segment	Controls to mitigate the risk
Investment performance risk The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions, leading to a potential financial loss.	Annuities and Protection	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments.	With-profits[1]	These risks are managed by maintaining capital sufficient to cover the consequences of mismatches under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Unit linked	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives is subject to regular monitoring. Periodic assessment is also made of the long term profitability to the group of these funds. For some contracts the group has discretion over the level of management charges levied.
Property risk Lifetime mortgages include a 'no negative' equity guarantee which transfers an exposure to loss to the group as a result of low house price inflation and an exposure to specific properties which may experience lower house price inflation for whatever reason.	Lifetime mortgages	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property type and geographic region seek to control exposures to specific aspects of the property market.
LGC businesses build homes across the residential market, invest in large commercial and residential development projects and manage several developed real-estate assets. The group's revenue streams are exposed to residential sales achieved, as well as the volume of transactions, both of which may be affected by the performance of the housing market. Independent valuations of real-estate assets, either in development or developed, also depend on an assessment of the wider real-estate market.	LGC	Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market. Sites are developed in a number of phases to spread the risk to a local market over several years and where possible we seek to co-invest with local experts to manage assets. The purchasing of new land for development requires approval from LGC's Investment Committee and the Group Capital Committee. Where appropriate, key methods are adopted to further manage the risk, such as fixed price construction contracts, forward sales and pre-letting. These businesses can also benefit from flexible funding arrangements available through the group.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re). Until the Part VII transfer is completed the asset risks are effectively transferred to ReAssure Limited by this agreement.

7 Asset risk (continued)

Market risk

Principal risks	Product/business segment	Controls to mitigate the risk
Currency risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. LGC also invest in overseas assets. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in sterling could result in unforeseen loss.	Annuities, LGC and LGI	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. In all cases, it is not possible to perfectly hedge currency risk, leading to some residual risk.
The consolidated international subsidiaries and financial instruments of subsidiaries are translated into sterling in the consolidated accounts. Changes in the sterling value can impact consolidated equity but may be mitigated by associated hedging transactions.	Group and LGC	To mitigate the risk of loss from currency translation the company continuously monitors its exposure and executes appropriate hedging transactions when necessary. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties.
Inflation risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	Annuities	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities, leading to some residual risk.
Interest rate risk Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	Annuities	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
The group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the group's obligations to policyholders.	Group and LGC	Asset liability matching significantly reduces the group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in Note 19.

Credit risk

Principal risks	Product/business segment	Controls to mitigate the risk
Bond default risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing general insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with the possibility of financial loss.	Annuities, General Insurance, and LGIA	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered, potentially on less advantageous terms, or for the risks to be borne directly resulting in possible financial loss. Credit risk syndication also exposes the group to counterparty default risks. The group is required to carry an element of associated credit risk capital on its balance sheet should the business not be re-brokered on the same terms.	Protection, Annuities, General Insurance, and LGIA	When selecting new reinsurance partners for its protection business, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	Annuities and LGC	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with each investment transaction.

Credit risk

Principal risks	Product/business segment	Controls to mitigate the risk
Banking counterparty risk The group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	Group and LGC	The group controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the group may have. Limits are subject to regular review with actual exposures monitored against limits. The group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Liquidity Risk

Principal risks	Product/business segment	Controls to mitigate the risk
Contingent event risk Events that result in liquidity risk include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	LGI, General Insurance and Group	The group seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is, however, an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the group operates and the executions of investment management strategies. However, the group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events and the profile of actual liquid assets regularly compared to the required liability profile. The group's treasury function provides formal facilities to other areas of the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable.
Collateral liquidity risk Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties at short notice.	LGR	Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets specified in the agreements with counterparties is maintained. As at 31 December 2018, LGR held eligible collateral worth four times the total amount of outstanding collateral (using the most representative definition of collateral contained within the group's different collateral agreements).
Investment liquidity risk Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	Savings[1]	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a reduced value.	Savings[1]	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Direct lending, sale and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.	LGR and LGC	Given the illiquid nature of the annuity and other liabilities the group is able and willing to take advantage of the premium offered by illiquid assets. The group, however, sets limits on the overall exposure to illiquid investments taking account of the nature and type of liabilities that the assets are held to meet.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re). Until the Part VII transfer is completed the asset risks are effectively transferred to ReAssure Limited by this agreement.

As at 31 December 2018, the group had £3.6bn (2017: £3.6bn) of cash and cash equivalents in shareholder funds and non profit non-unit linked funds and a £1.0bn syndicated committed revolving credit facility in place, provided by a number of its key relationship banks, maturing in December 2022.

8 Assets analysis

The group has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks. Various reinsurance arrangements are in place as a mechanism to mitigate the risks including a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re) whereby the group transfers all economic risks and rewards of the Mature Savings business to Swiss Re from the effective date of 1 January 2018. The four categorisations presented are:

Unit linked

For unit linked contracts, there is a direct link between the investments and the obligations. Unit linked business is written in both Legal and General Assurance Society Limited and Legal and General Assurance (Pensions Management) Limited. The financial risk on these contracts is borne by the policyholders. The group is therefore not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

With-profits

Policyholders and shareholders share in the risks and returns of the with-profits fund. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the fund and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. The with-profits classification excludes unit linked contracts.

Non profit non-unit linked

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business.

Shareholder

All other assets are classified as shareholder assets. Shareholders of the group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations and general insurance.

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Notes 15 and 16 have been provided using this categorisation.

As at 31 December 2018	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term businesses and other intangible assets	**285**	**3**	**–**	**–**	**288**
Investment in associates and joint ventures accounted for using the equity method	**259**	**–**	**–**	**–**	**259**
Property, plant and equipment	**56**	**1**	**–**	**–**	**57**
Investments[1]	**10,905**	**67,177**	**2,224**	**374,478**	**454,784**
Reinsurers' share of contract liabilities	**343**	**4,343**	**–**	**51**	**4,737**
Other assets	**2,628**	**748**	**–**	**2,782**	**6,158**
Assets of operations classified as held for sale	**37**	**459**	**7,825**	**17,913**	**26,234**
Total assets	**14,513**	**72,731**	**10,049**	**395,224**	**492,517**
Liabilities					
Core borrowings	**3,963**	**–**	**–**	**(41)**	**3,922**
Operational borrowings	**909**	**56**	**–**	**61**	**1,026**
Non-participating contract liabilities	**677**	**64,203**	**–**	**292,907**	**357,787**
Other liabilities	**3,558**	**4,714**	**3**	**83,013**	**91,288**
Liabilities of operations classified as held for sale	**1**	**505**	**10,054**	**19,282**	**29,842**
Total liabilities	**9,108**	**69,478**	**10,057**	**395,222**	**483,865**

As at 31 December 2017	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term businesses and other intangible assets	144	5	–	–	149
Investment in associates and joint ventures accounted for using the equity method	252	–	–	–	252
Property, plant and equipment	58	1	–	–	59
Investments[1]	9,804	61,505	3,038	394,844	469,191
Reinsurers' share of contract liabilities[2]	225	5,031	–	289	5,545
Other assets[2]	1,321	745	86	4,420	6,572
Assets of operations classified as held for sale	133	510	8,545	13,396	22,584
Total assets	11,937	67,797	11,669	412,949	504,352
Liabilities					
Core borrowings	3,517	–	–	(58)	3,459
Operational borrowings	395	–	29	114	538
Non-participating contract liabilities[2]	550	60,829	–	315,580	376,959
Other liabilities[2]	2,463	3,959	59	75,365	81,846
Liabilities of operations classified as held for sale	1	507	11,575	21,875	33,958
Total liabilities	6,926	65,295	11,663	412,876	496,760

1. Investments includes financial investments, investment property and cash and cash equivalents.
2. Following a change in accounting policy for LGIA term assurance reserves, a number of balance sheet items have been restated, notably deferred acquisition costs, reinsurers' share of contract liabilities, non-participating insurance contracts, deferred tax liabilities and other liabilities. Further details on the change in accounting policy are provided in Note 1.

9 Purchased interest in long term businesses (PILTB) and other intangible assets

Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Other intangible assets mainly consist of customer relationships, brand and capitalised software costs. Intangible assets acquired via business combinations are recognised at fair value and are subsequently amortised on a straight line method over their estimated useful life. Where software costs are separately identifiable and measurable, they are capitalised at cost and amortised over their expected useful life on a straight line basis.

Purchased interest in long term businesses and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

	PILTB insurance contracts 2018 £m	PILTB investment contracts 2018 £m	Other intangible assets 2018 £m	Total 2018 £m
Cost				
As at 1 January	377	33	211	621
Additions[1]	–	–	119	119
Increase due to currency translation	14	–	–	14
As at 31 December	391	33	330	754
Accumulated amortisation and impairment				
As at 1 January	(365)	(33)	(82)	(480)
Amortisation for the year	(1)	–	(33)	(34)
Increase due to currency translation	(14)	–	–	(14)
As at 31 December	(380)	(33)	(115)	(528)
Total net book value as at 31 December	11	–	215	226
Less: assets of operations classified as held for sale[2]				(3)
Net book value as at 31 December				223
To be amortised within 12 months[3]				40
To be amortised after 12 months[3]				186

1. Other intangible assets include £42m related to acquisitions made during the year.
2. Detailed disclosure related to assets of operations classified as held for sale is included in Note 27.
3. The maturity analysis of the assets between less and more than 12 months is based on the Total net book value as at 31 December.

	PILTB insurance contracts 2017 £m	PILTB investment contracts 2017 £m	Other intangible assets 2017 £m	Total 2017 £m
Cost				
As at 1 January	398	65	235	698
Additions	–	–	40	40
Disposals	–	(29)	(65)	(94)
(Decrease)/increase due to currency translation	(21)	(3)	1	(23)
As at 31 December	377	33	211	621
Accumulated amortisation and impairment				
As at 1 January	(385)	(52)	(106)	(543)
Amortisation for the year	(1)	(12)	(35)	(48)
Impairment	–	–	(4)	(4)
Disposals	–	29	65	94
Decrease/(increase) due to currency translation	21	2	(2)	21
As at 31 December	(365)	(33)	(82)	(480)
Total net book value as at 31 December	12	–	129	141
Less: assets of operations classified as held for sale[1]				(3)
Net book value as at 31 December				138
To be amortised within 12 months[2]				31
To be amortised after 12 months[2]				110

1. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 27.
2. The maturity analysis of the assets between less and more than 12 months is based on the Total net book value as at 31 December.

10 Deferred acquisition costs

The group incurs costs to obtain and process new business. These are accounted for in line with the appropriate accounting standards as follows:

Long term insurance business
Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Some acquisition costs relating to non-participating insurance contracts written outside the with-profits fund which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

General insurance
A proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, in respect of reinsurance outwards, as deferred income.

Investment contracts
For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement when incurred. For non-participating investment contracts, only directly attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the service is provided on a straight line basis. All other costs are recognised as expenses when incurred.

	Insurance contracts 2018 £m	Investment contracts 2018 £m	Total 2018 £m	Insurance contracts 2017 £m	Investment contracts 2017 £m	Total 2017 £m
As at 1 January	**99**	**479**	**578**	1,541	564	2,105
Acquisition costs deferred	**121**	**2**	**123**	225	2	227
Amortisation charged to income statement	**(114)**	**(3)**	**(117)**	(169)	(76)	(245)
Change in accounting policy[1]	**–**	**–**	**–**	(1,367)	–	(1,367)
Increase/(decrease) due to currency translation	**6**	**–**	**6**	(131)	–	(131)
Other	**–**	**(12)**	**(12)**	–	(11)	(11)
Total as at 31 December	**112**	**466**	**578**	99	479	578
Less: assets of operations classified as held for sale[2]	**–**	**(438)**	**(438)**	–	(438)	(438)
As at 31 December	**112**	**28**	**140**	99	41	140
To be amortised within 12 months[3]	**67**	**31**	**98**	59	60	119
To be amortised after 12 months[3]	**45**	**435**	**480**	40	419	459

1. Change in accounting policy represents the cumulative impact of the change in accounting policy related to LGIA term assurance reserves, described in Note 1. The change has been applied retrospectively.
2. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 27.
3. The maturity analysis of the assets between less and more than 12 months is based on the Total as at 31 December.

11 Financial investments and investment property

The group holds financial investments and investment property to back insurance contracts on behalf of policyholders and as group capital.

The group classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), available-for-sale (AFS) or loans and receivables. Initial recognition of financial investments is on the trade date.

The group's policy is to measure investments at FVTPL except for certain overseas assets where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS or loans held at amortised cost. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the group's investment strategy. Assets designated as FVTPL include debt securities (including lifetime mortgages) and equity instruments which would otherwise have been classified as AFS and reverse repurchase agreements within loans which would otherwise be designated at amortised cost. Assets backing participating and non-participating policyholder liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Consolidated Income Statement. Transaction costs are expensed as incurred.

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the Consolidated Income Statement. Directly attributable transaction costs are included in the initial measurement of the investment.

Financial investments classified as loans are either measured at FVTPL, or initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method. The FVTPL classification currently only applies to reverse repurchase agreements.

Financial investments are recognised when the group becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the group transfers substantially all the risks and rewards of ownership to another entity.

Financial assets, other than those at FVTPL, are assessed for impairment at each balance sheet date. They are impaired where there is objective evidence that, as a result of one or more events after initial recognition of the financial asset, the estimated future cash flows have been affected.

Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the Consolidated Income Statement within investment return.

Investment property in the UK is valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

The group receives and pledges collateral in the form of cash or non-cash assets in respect of various transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral required where the group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the group has contractual rights to receive the cash flows generated, is recognised as an asset in the Consolidated Balance Sheet with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the Consolidated Balance Sheet, unless the counterparty defaults on its obligations under the relevant agreement.

Non-cash collateral pledged where the group retains the contractual rights to receive the cash flows generated is not derecognised from the Consolidated Balance Sheet, unless the group defaults on its obligations under the relevant agreement.

Cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the Consolidated Balance Sheet and a corresponding receivable is recognised for its return.

11 Financial investments and investment property (continued)

	Note	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With-profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Financial investments at fair value classified as:						
Fair value through profit or loss		6,526	57,560	8,976	359,054	432,116
Available-for-sale		1,537	–	–	–	1,537
Held for trading		18	4,393	51	5,603	10,065
Loans at fair value	11(ii)	371	486	45	8,304	9,206
Financial investments at fair value		8,452	62,439	9,072	372,961	452,924
Loans at amortised cost	11(ii)	456	–	–	–	456
Total financial investments		8,908	62,439	9,072	372,961	453,380
Investment property[1]		166	2,930	520	4,992	8,608
Total financial investments and investment property		9,074	65,369	9,592	377,953	461,988
Less: assets of operations classified as held for sale[1]		–	–	(7,602)	(16,923)	(24,525)
Total financial investments and investment property		9,074	65,369	1,990	361,030	437,463
Expected to be recovered within 12 months[2]						56,823
Expected to be recovered after 12 months[2]						405,165

1. Investment property includes £1,643m relating to assets of operations classified as held for sale. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 27.
2. The maturity analysis of the assets between less and more than 12 months is based on Total financial investments and investment property.

	Note	Shareholder[1] 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Financial investments at fair value classified as:						
Fair value through profit or loss		5,742	52,828	9,477	373,210	441,257
Available-for-sale		1,280	–	–	8	1,288
Held for trading		39	3,948	98	7,429	11,514
Loans at fair value	11(ii)	316	363	116	7,874	8,669
Financial investments at fair value		7,377	57,139	9,691	388,521	462,728
Loans at amortised cost	11(ii)	496	–	–	–	496
Total financial investments		7,873	57,139	9,691	388,521	463,224
Investment property[2]		110	2,722	658	4,847	8,337
Total financial investments and investment property		7,983	59,861	10,349	393,368	471,561
Less: assets of operations classified as held for sale[2]		(56)	–	(8,114)	(13,119)	(21,289)
Total financial investments and investment property		7,927	59,861	2,235	380,249	450,272
Expected to be recovered within 12 months[3]						58,803
Expected to be recovered after 12 months[3]						412,758

1. Following the change in accounting policy for LGIA term assurance, £223m of shareholder financial investments at fair value classified as available-for-sale have been reclassified to fair value through profit or loss. Further details of the change in accounting policy are provided in Note 1.
2. Investment property includes £1,227m relating to assets of operations classified as held for sale. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 27.
3. The maturity analysis of the assets between less and more than 12 months is based on Total financial investments and investment property.

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in Note 7.

Financial investments, cash and cash equivalents include £2,654m (2017: £1,788m) of assets pledged as collateral against net derivative liability counterparty positions. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and Cash (2017: Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and Cash) having a residual maturity of over 25 years (2017: over 32 years). The group is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The group can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met.

Financial investments include £43,775m (2017: £32,358m) of assets that have been sold but not derecognised and are subject to repurchase agreements. The related obligation to repurchase the financial assets is included within Payables and other financial liabilities (Note 24).

Various pension risk transfer deals include collateralised structures. £6,799m (2017: £6,653m) of Corporate Bonds and Treasury Gilts are pledged as collateral in relation to these.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance and investment contract liabilities have been classified as expected to be settled after 12 months.

(i) Financial investments at fair value

	Notes	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With-profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Equity securities		**2,322**	**205**	**2,936**	**172,103**	**177,566**
Debt securities[1]		**5,708**	**56,864**	**5,988**	**185,892**	**254,452**
Accrued interest		**33**	**491**	**52**	**1,059**	**1,635**
Derivative assets	12	**18**	**4,393**	**51**	**5,603**	**10,065**
Loans at fair value	11(ii)	**371**	**486**	**45**	**8,304**	**9,206**
Total financial investments at fair value		**8,452**	**62,439**	**9,072**	**372,961**	**452,924**

	Notes	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Equity securities		2,418	282	3,260	203,045	209,005
Debt securities[1]		4,575	52,008	6,162	168,196	230,941
Accrued interest		24	468	54	972	1,518
Derivative assets	12	44	4,018	99	8,434	12,595
Loans at fair value	11(ii)	316	363	116	7,874	8,669
Total financial investments at fair value		7,377	57,139	9,691	388,521	462,728

1. Non profit non-unit linked debt securities include £2.0bn (2017: £2.2bn) of commercial real estate loans and £3.2bn (2017: £2.0bn) of lifetime mortgages designated as fair value through profit and loss.

Accrued interest in the above tables represents accrued interest on debt securities only. Accrued interest on loans at fair value is included within loans at fair value.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A gain of £18m (2017: gain of £13m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Included within unit linked equity securities are £214m (2017: £282m) of debt instruments which incorporate an embedded derivative linked to the value of the group's share price.

11 Financial investments and investment property (continued)

(ii) Loans

	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With-profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Loans at amortised costs					
Policy loans	38	–	–	–	38
Other loans and receivables[1]	418	–	–	–	418
	456	–	–	–	456
Loans at fair value					
Reverse repurchase agreements	371	486	45	8,304	9,206
Total loans	827	486	45	8,304	9,662

	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Loans at amortised costs					
Policy loans	37	–	–	–	37
Other loans and receivables[1]	459	–	–	–	459
	496	–	–	–	496
Loans at fair value					
Reverse repurchase agreements	316	363	116	7,874	8,669
Total loans	812	363	116	7,874	9,165

1. Other loans and receivables include £354m (2017: £324m) of US commercial mortgage loans.

There are no material differences between the carrying values reflected above and the fair values of these loans.

(iii) Fair value hierarchy

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

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

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

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

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

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

The group's financial assets are valued, where possible, using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. In normal market conditions, we would consider these market prices to be observable and therefore classify them as Level 1. Where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as Level 2. Refer to Note 11 (iii) (a) for Level 3 methodology.

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

There have been no significant transfers between Level 1 and Level 2 in 2018 other than those noted above (2017: no significant transfers).

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

1. This table excludes loans (including accrued interest) of £456m, which are held at amortised cost.
2. This table includes financial investments of £22,882m and investment property of £1,643m relating to assets of operations classified as held for sale, included in Note 27.

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11 Financial investments and investment property (continued)

(iii) Fair value hierarchy (continued)

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

1. This table excludes loans of £496m, which are held at amortised cost.
2. This table includes financial investments of £20,062m and investment property of £1,227m relating to assets of operations classified as held for sale, included in Note 27.

(a) Level 3 assets measured at fair value

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

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

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

Equity securities

Level 3 equity securities amount to £1,757m (2017: £1,451m), of which the majority is made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the group's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are valued by a number of third party specialists using a range of techniques, including latest round of funding and discounted cash flow models.

Other financial investments

Lifetime mortgage (LTM) loans amount to £3,227m (2017: £2,023m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. Inputs to the model include property growth rates and voluntary early redemptions. The valuation as at 31 December 2018 reflects a long-term property growth rate assumption of RPI + 0.5%.

Private credit loans (including commercial real estate loans) amount to £8,001m (2017: £6,265m). Their valuation is outsourced to Markit who use discounted future cash flows based on a yield curve. The discount factors take into consideration the z-spread of the LGIM approved comparable bond and the initial spread agreed by both parties. Unobservable inputs that go into the determination of comparators, include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority is fixed rate. The weighted average duration of the portfolio is 11 years, with a weighted average life of 16.6 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets is not externally rated but has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to B.

Income strip assets amount to £1,248m (2017: £1,153m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. The valuation as at 31 December 2018 reflects equivalent yield ranges between 2% and 5% and estimated rental values (ERV) between £10 and £27 per sq ft.

Private placements held by the US business amount to £938m (2017: £569m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk-free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement. The valuation as at 31 December 2018 reflects illiquidity premiums between 10 and 75bps.

Commercial mortgage loans amount to £275m (2017: £342m) and are determined by incorporating credit risk for performing loans at the portfolio level and for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk free rate paths and are inclusive of an Option Adjusted Spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. The valuation as at 31 December 2018 reflects illiquidity premiums between 20 and 40bps.

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

11 Financial investments and investment property (continued)

(iii) Fair value hierarchy (continued)

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

Investment property

Level 3 investment property amounting to £8,608m (2017: £8,337m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also include an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. The valuation as at 31 December 2018 reflects equivalent yield ranges between 4% and 10% and ERV between £1 and £139 per sq ft.

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

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

	Equity securities 2018 £m	Other financial investments 2018 £m	Investment property 2018 £m	Total 2018 £m	Equity securities 2017 £m	Other financial investments 2017 £m	Investment property 2017 £m	Total 2017 £m
As at 1 January	**1,451**	**9,888**	**8,337**	**19,676**	1,101	4,390	8,150	13,641
Total gains/(losses) for the period recognised in profit:								
– in other comprehensive income	**1**	**(18)**	**–**	**(17)**	–	37	–	37
– realised and unrealised gains/(losses)[1]	**35**	**(92)**	**50**	**(7)**	104	266	456	826
Purchases/additions	**519**	**5,521**	**1,153**	**7,193**	316	3,595	1,218	5,129
Sales/Disposals	**(375)**	**(1,707)**	**(904)**	**(2,986)**	(267)	(118)	(975)	(1,360)
Transfers into Level 3	**126**	**295**	**–**	**421**	138	1,718	–	1,856
Transfers out of Level 3	**–**	**–**	**–**	**–**	–	–	–	–
Other	**–**	**28**	**(28)**	**–**	59	–	(512)	(453)
As at 31 December	**1,757**	**13,915**	**8,608**	**24,280**	1,451	9,888	8,337	19,676

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

(b) Effect on changes in assumptions on Level 3

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

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

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

The group is therefore able to perform a sensitivity analysis for its Level 3 investments, which amount to £24.3bn (2017: £19.7bn). The effect of changes in significant unobservable valuation inputs to reasonable alternative assumptions would result in a change in fair value of +/- £1.6bn (2017: +/-£1.2bn), which represents 7% (2017: 6%) of the total value of Level 3 investments, including investment property.

Of the total sensitivity impact, +/- £0.9bn (2017: +/-£1.0bn) relates to Level 3 financial assets (excluding investment property), which represents 6% (2017: 9%) of total Level 3 financial assets and 4% (2017: 5%) of total Level 3 investments.

12 Derivative assets and liabilities

The group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The group uses hedge accounting, provided the prescribed criteria in IAS 39 'Financial instruments: Recognition and measurement' are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The group's principal uses of hedge accounting are to:

(i) Defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction affects profit or loss or is no longer expected to occur; and

(ii) Hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the Consolidated Income Statement in the current year.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the Consolidated Income Statement.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

Cash inflows and outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

Forward foreign exchange contracts – net investment hedges

The group hedges part of the foreign exchange translation exposure on its net investment in certain overseas subsidiaries, using forward foreign exchange contracts. It recognises the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on translation of the foreign subsidiaries.

Derivative contracts – held for trading

The group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading, and gains and losses on these contracts are recognised immediately in the Consolidated Income Statement.

12 Derivative assets and liabilities (continued)

	Fair values		Fair values	
	Assets 2018 £m	Liabilities[1] 2018 £m	Assets 2017 £m	Liabilities[1] 2017 £m
Shareholder derivatives:				
Interest rate contracts – fair value hedges	–	–	1	1
Interest rate contracts – cash flow hedges	–	1	–	–
Currency swap contracts – held for trading	–	29	–	119
Inflation swap contracts – held for trading	–	1	–	–
Other derivatives – held for trading	18	29	43	27
Total shareholder derivatives	**18**	**60**	44	147
Non profit non–unit linked derivatives:				
Interest rate contracts – fair value hedges	–	–	42	41
Interest rate contracts – cash flow hedges	–	–	–	–
Interest rate contracts – held for trading	3,630	1,679	3,408	1,350
Forward foreign exchange contracts – net investment hedges	–	–	–	–
Forward foreign exchange contracts – held for trading	40	80	41	62
Currency swap contracts – held for trading	53	623	169	37
Inflation swap contracts – held for trading	454	793	256	673
Credit derivatives – held for trading	–	1	–	35
Other derivatives – held for trading	216	27	102	–
Total non profit non–unit linked derivatives	**4,393**	**3,203**	4,018	2,198
With–profits derivatives:				
Interest rate contracts – held for trading	44	17	70	7
Other derivatives – held for trading	7	26	29	5
Total with–profits derivatives	**51**	**43**	99	12
Unit linked derivatives:				
Interest rate contracts – held for trading	4,603	1,650	7,400	2,448
Forward foreign exchange contracts – held for trading	389	743	737	587
Credit derivatives – held for trading	28	56	69	69
Inflation swap contracts – held for trading	76	440	74	123
Inflation rate contracts – held for trading	–	–	1	481
Equity/index derivatives – held for trading	202	230	113	2,086
Other derivatives – held for trading	305	1,366	40	22
Total unit linked derivatives	**5,603**	**4,485**	8,434	5,816
Total derivative assets and liabilities	**10,065**	**7,791**	12,595	8,173

1. Derivative liabilities are reported in the Consolidated Balance Sheet within Payables and other financial liabilities (Note 24).

The group has entered into fixed rate borrowings denominated in USD and is therefore exposed to foreign exchange and interest rate risks. In order to hedge these risks the group has entered into a cross currency interest rate swap, enabling the exposure to be swapped into a fixed rate in its functional currency. These had a fair value liability totalling £25m and a notional amount of £1,099m at 31 December 2018. There was no ineffectiveness recognised in the Consolidated Income Statement in respect of these hedges during 2018.

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile. Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

		Maturity profile of undiscounted cash flows					
As at 31 December 2018	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	18	374	5	5	–	–	384
Derivative liabilities	(60)	920	4	4	–	–	928
Non profit non-unit linked derivatives							
Derivative assets	4,393	3,345	5,435	9,109	4,937	1,410	24,236
Derivative liabilities	(3,203)	4,661	4,607	12,130	7,627	1,876	30,901
With-profits derivatives							
Derivative assets	51	251	44	64	15	–	374
Derivative liabilities	(43)	591	50	87	58	41	827
Total	1,156	10,142	10,145	21,399	12,637	3,327	57,650
Cash outflows							
Shareholder derivatives							
Derivative assets	18	(361)	(4)	(5)	–	–	(370)
Derivative liabilities	(60)	(975)	(5)	(5)	–	–	(985)
Non profit non-unit linked derivatives							
Derivative assets	4,393	(3,045)	(5,250)	(8,584)	(4,280)	(1,132)	(22,291)
Derivative liabilities	(3,203)	(5,161)	(5,806)	(14,031)	(8,548)	(2,129)	(35,675)
With-profits derivatives							
Derivative assets	51	(309)	(27)	(45)	(11)	–	(392)
Derivative liabilities	(43)	(683)	(54)	(100)	(64)	(41)	(942)
Total	1,156	(10,534)	(11,146)	(22,770)	(12,903)	(3,302)	(60,655)
Net shareholder derivatives cash flows		(42)	–	(1)	–	–	(43)
Net non profit non-unit linked derivatives cash flows		(200)	(1,014)	(1,376)	(264)	25	(2,829)
Net with-profits derivatives cash flows		(150)	13	6	(2)	–	(133)

12 Derivative assets and liabilities (continued)

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile. Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

		Maturity profile of undiscounted cash flows					
As at 31 December 2017	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	44	1,070	9	3	–	1	1,083
Derivative liabilities	(147)	199	9	3	1	–	212
Non profit non-unit linked derivatives							
Derivative assets	4,018	3,592	5,685	12,660	7,896	4,639	34,472
Derivative liabilities	(2,198)	4,201	2,407	6,276	5,540	3,813	22,237
With-profits derivatives							
Derivative assets	99	852	95	173	97	53	1,270
Derivative liabilities	(12)	227	37	46	7	2	319
Total	1,804	10,141	8,242	19,161	13,541	8,508	59,593
Cash outflows							
Shareholder derivatives							
Derivative assets	44	(957)	(6)	(3)	–	(1)	(967)
Derivative liabilities	(147)	(229)	(39)	(4)	(1)	–	(273)
Non profit non-unit linked derivatives							
Derivative assets	4,018	(2,909)	(5,361)	(11,896)	(6,978)	(3,264)	(30,408)
Derivative liabilities	(2,198)	(4,588)	(3,190)	(7,544)	(6,229)	(4,311)	(25,862)
With-profits derivatives							
Derivative assets	99	(816)	(62)	(158)	(95)	(42)	(1,173)
Derivative liabilities	(12)	(356)	(42)	(54)	(7)	(3)	(462)
Total	1,804	(9,855)	(8,700)	(19,659)	(13,310)	(7,621)	(59,145)
Net shareholder derivatives cash flows		83	(27)	(1)	–	–	55
Net non profit non-unit linked derivatives cash flows		296	(459)	(504)	229	877	439
Net with-profits derivatives cash flows		(93)	28	7	2	10	(46)

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

Cash inflows or outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

13 Receivables and other assets

	Note	Total 2018 £m	Total 2017 £m
Reinsurance receivables		**24**	41
Receivables under finance leases	13(i)	**162**	92
Accrued interest and rent		**210**	235
Prepayments and accrued income		**595**	558
Insurance and intermediaries receivables		**205**	238
Inventories[1]		**1,687**	365
Contract assets[2]		**192**	154
Other receivables[3]		**2,724**	4,685
Total other assets		**5,799**	6,368
Less: assets of operations classified as held for sale[4]		**(206)**	(285)
Other assets		**5,593**	6,083
Due within 12 months		**5,377**	6,342
Due after 12 months		**422**	26

1. Inventories, previously included within Other receivables, have been disclosed separately and principally represent house building stock including land, options on land, work in progress and other inventory.
2. Contract assets, previously included within Other receivables, have been disclosed separately in line with the requirements of IFRS 15, 'Revenue from contracts with customers'. These assets represent the entity's right to consideration in exchange for goods or services that have been transferred to a customer.
3. Other receivables include amounts receivable from brokers and clients for investing activities, unsettled cash, FX spots (which decreased by £2.3bn from 2017), and other sundry balances.
4. Detailed disclosure related to assets of operations classified as held for sale is included in Note 27.

(i) Receivables under finance leases

The group leases certain investment properties to third parties. Under these agreements the lessee is considered to retain all the risks and reward of ownership, therefore the contracts have been classified as finance leases. At the lease commencement date, the group has recognised a receivable asset in its Consolidated Balance Sheet to reflect the net investment in the lease, equal to the present value of the lease payments. The group recognises finance income over the lease term to reflect the rate of return on the net investment in the lease.

The group acts as a lessor of certain finance leases, which have a weighted average duration to maturity of 27.1 years as at 31 December 2018. The counterparties, as lessee, are regarded to be the economic owner of the leased assets.

The future minimum lease payments under the arrangement, together with the present value, are disclosed below:

	Total future payments 2018 £m	Unearned interest income 2018 £m	Present value 2018 £m	Total future payments 2017 £m	Unearned interest income 2017 £m	Present value 2017 £m
Not later than 1 year	**8**	**(5)**	**3**	5	(3)	2
Between 1 and 5 years	**32**	**(20)**	**12**	20	(11)	9
Later than 5 years	**215**	**(68)**	**147**	106	(25)	81
Total	**255**	**(93)**	**162**	131	(39)	92

14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with maturities of three months or less from the date of acquisition.

	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With-profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Cash at bank and in hand	288	521	68	1,438	2,315
Cash equivalents	1,543	1,287	233	12,710	15,773
Total cash and cash equivalents	1,831	1,808	301	14,148	18,088
Less: assets of operations classified as held for sale[1]	–	–	(67)	(700)	(767)
Cash and cash equivalents	1,831	1,808	234	13,448	17,321

	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Cash at bank and in hand	349	471	141	1,859	2,820
Cash equivalents	1,528	1,247	739	12,907	16,421
Total cash and cash equivalents	1,877	1,718	880	14,766	19,241
Less: assets of operations classified as held for sale[1]	–	(74)	(77)	(171)	(322)
Cash and cash equivalents	1,877	1,644	803	14,595	18,919

1. Detailed disclosure related to assets of operations classified as held for sale is included in Note 27.

15 Market risk
(i) Investment performance risk
(a) Equity securities

The group controls its exposure to geographic price risks by using internal country risk exposure limits. These exposure limits are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

Exposure to worldwide equity markets	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With-profits 2018 £m	Total 2018 £m	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Total 2017 £m
United Kingdom	388	71	855	1,314	359	81	958	1,398
North America	339	62	447	848	413	94	563	1,070
Europe	382	51	685	1,118	443	82	698	1,223
Japan	84	3	169	256	100	3	175	278
Asia Pacific	134	17	359	510	263	20	430	713
Other	66	1	228	295	48	2	253	303
Listed equities	1,393	205	2,743	4,341	1,626	282	3,077	4,985
Unlisted UK equities	70	–	–	70	96	–	–	96
Holdings in unit trusts	859	–	193	1,052	696	–	183	879
Total equities	2,322	205	2,936	5,463	2,418	282	3,260	5,960

(b) Debt securities

The group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different debt security markets around the world. Unit linked debt securities are excluded from the table as the risk is retained by the policyholder.

Total debt securities and accrued interest	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With-profits 2018 £m	Total 2018 £m	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Total 2017 £m
United Kingdom	**2,269**	**31,940**	**3,401**	**37,610**	1,705	29,286	3,601	34,592
USA	**1,836**	**14,579**	**664**	**17,079**	1,569	12,596	744	14,909
Netherlands	**218**	**2,191**	**320**	**2,729**	214	1,994	314	2,522
France	**205**	**1,162**	**323**	**1,690**	205	1,334	317	1,856
Germany	**109**	**632**	**139**	**880**	115	623	232	970
GIIPS:								
– Greece	**2**	**–**	**–**	**2**	1	–	–	1
– Ireland	**40**	**1,247**	**64**	**1,351**	72	970	81	1,123
– Italy	**6**	**65**	**24**	**95**	16	71	18	105
– Portugal	**–**	**–**	**–**	**–**	1	–	1	2
– Spain	**8**	**149**	**24**	**181**	9	160	21	190
Belgium	**23**	**145**	**53**	**221**	20	133	24	177
Russia	**11**	**–**	**10**	**21**	11	–	10	21
Rest of Europe	**232**	**2,173**	**336**	**2,741**	237	2,044	379	2,660
Brazil	**16**	**48**	**38**	**102**	17	56	38	111
Rest of World	**766**	**2,949**	**644**	**4,359**	407	3,113	436	3,956
Collateralised debt obligations (CDOs)[1]	**–**	**75**	**–**	**75**	–	96	–	96
Total	**5,741**	**57,355**	**6,040**	**69,136**	4,599	52,476	6,216	63,291
Analysed as								
Debt securities	**5,708**	**56,864**	**5,988**	**68,560**	4,575	52,008	6,162	62,745
Accrued interest	**33**	**491**	**52**	**576**	24	468	54	546

1. £nil (2017: £22m) of the CDOs are domiciled in the USA and £75m (2017: £74m) are domiciled in the Rest of World.

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15 Market risk (continued)
(i) Investment performance risk (continued)
(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure

	2018 £m	2018 %	2017 £m	2017 %
Sovereigns, supras and sub-sovereigns	**11,615**	**18**	11,450	20
Banks:				
– Tier 1	**2**	**–**	4	–
– Tier 2 and other subordinated	**113**	**–**	260	–
– Senior	**5,036**	**8**	4,238	8
– Covered	**192**	**–**	221	–
Financial services:				
– Tier 1	**–**	**–**	1	–
– Tier 2 and other subordinated	**273**	**–**	251	–
– Senior	**664**	**1**	905	2
Insurance:				
– Tier 1	**–**	**–**	1	–
– Tier 2 and other subordinated	**160**	**–**	182	–
– Senior	**814**	**1**	660	1
Consumer services and goods:				
– Cyclical	**2,746**	**4**	2,945	5
– Non-cyclical	**5,272**	**8**	4,409	8
– Healthcare	**934**	**2**	490	1
Infrastructure:				
– Social	**5,152**	**8**	5,378	9
– Economic	**4,151**	**7**	3,384	6
Technology and telecoms	**3,542**	**7**	3,120	6
Industrials	**1,383**	**2**	1,283	2
Utilities	**9,812**	**16**	8,721	16
Energy	**1,064**	**2**	704	1
Commodities	**734**	**1**	793	1
Oil and gas	**1,610**	**3**	1,742	3
Real estate	**2,783**	**4**	2,355	4
Structured finance ABS/RMBS/CMBS/Other	**1,742**	**3**	1,459	3
Lifetime mortgage loans	**3,227**	**5**	2,023	4
CDOs	**75**	**–**	96	–
Total	**63,096**	**100**	57,075	100

Analysis of sovereigns, supras and sub-sovereigns	2018 £m	2017 £m
Market value by region		
United Kingdom	**9,238**	8,689
USA	**1,038**	1,204
Netherlands	**37**	10
France	**7**	174
Germany	**502**	458
GIIPS:		
– Greece	**1**	–
– Ireland	**–**	–
– Italy	**3**	2
– Portugal	**–**	1
– Spain	**7**	7
Russia	**11**	10
Rest of Europe	**467**	504
Brazil	**13**	18
Rest of World	**291**	373
Total	**11,615**	11,450

15 Market risk (continued)

(ii) Currency risk

The group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either insurance or investment contract liabilities or hedging.

The group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. The largest United States dollar currency exposures relate to the group's US business, Legal & General America. The majority of currency exposures relating to euros are held by Legal & General Investment Management (Europe) Limited, a subsidiary of Legal & General Investment Management Limited. The group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the group's business and meet local regulatory and market requirements.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities; however, movements may impact the value of the group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the group's regulatory capital requirements by currency. Currency borrowings and derivatives may be used to manage exposures within the limits that have been set.

As at 31 December 2018, the group held 10% (2017: 10%) of its total equity attributable to shareholders in currencies, mainly United States dollar and euro, other than the functional currency of the relevant business unit. The exchange risks inherent in these exposures may be mitigated through the use of derivatives, mainly forward currency contracts.

Consistent with the group's accounting policies, the profits of overseas business units (reported as functional currencies) are translated at average exchange rates and the net assets (reported as functional currencies) at the closing rate for the reporting period. A 10% increase (weakening of foreign currencies) or decrease (strengthening of foreign currencies) in these rates would increase or reduce the profit for the year and net assets as follows:

	A 10% increase in USD:GBP exchange rate		A 10% decrease in USD:GBP exchange rate	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Profit for the year[1]	**12**	(26)	**(14)**	32
Net assets attributable to USD exposures[1, 2]	**(38)**	(19)	**47**	23

	A 10% increase in EUR:GBP exchange rate		A 10% decrease in EUR:GBP exchange rate	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Profit for the year[1]	**–**	–	**–**	–
Net assets attributable to EUR exposures[1]	**(97)**	(30)	**119**	37

1. Profit for the year impacts relate only to overseas business units where the functional currency is not sterling. Net asset impacts include both functional currency and non-functional currency exposures.
2. US net assets have been restated following the change in accounting policy for LGIA term assurance reserves. Further details on the change in accounting policy is provided in Note 1.

16 Credit risk

The credit profile of the group's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. For unrated assets, the group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to the associated credit risk. Additionally, assets such as equity securities, deferred acquisition costs and tax, have no exposure to the associated credit risk and therefore have also been excluded.

The carrying amount of the financial assets recorded in the financial statements represent the maximum exposure to credit risk.

Shareholder

As at 31 December 2018	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other[1] £m	Total £m
Government securities		266	1,132	34	97	45	125	1,699
Other fixed rate securities		152	871	1,178	333	154	367	3,055
Variable rate securities		77	410	374	17	4	72	954
Total debt securities[1]	11(i)	**495**	**2,413**	**1,586**	**447**	**203**	**564**	**5,708**
Accrued interest	11(i)	2	13	6	5	4	3	33
Loans	11(ii)	61	218	350	157	–	41	827
Derivative assets	12	–	–	18	–	–	–	18
Cash and cash equivalents	14	40	575	1,073	47	–	96	1,831
Reinsurers' share of contract liabilities		–	170	168	1	–	4	343
Other assets		204	7	100	12	1	2,187	2,511
Total		**802**	**3,396**	**3,301**	**669**	**208**	**2,895**	**11,271**

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £1m is rated AAA, £170m AA, £77m A, £245m BBB, £46m BB and below and £28m as other.

Non profit non-unit linked

As at 31 December 2018	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other[1] £m	Total £m
Government securities		504	5,401	3	181	2	629	6,720
Other fixed rate securities		1,004	4,650	12,352	13,444	380	8,324	40,154
Variable rate securities		364	1,858	2,622	623	130	1,166	6,763
Lifetime mortgages		–	–	–	–	–	3,227	3,227
Total debt securities[1]	11(i)	**1,872**	**11,909**	**14,977**	**14,248**	**512**	**13,346**	**56,864**
Accrued interest	11(i)	21	51	162	228	4	25	491
Loans	11(ii)	–	76	386	24	–	–	486
Derivative assets	12	–	3	3,360	1,015	–	15	4,393
Cash and cash equivalents	14	149	363	1,168	50	–	78	1,808
Reinsurers' share of contract liabilities		–	4,039	84	–	–	267	4,390
Other assets		1	3	78	11	–	617	710
Total		**2,043**	**16,444**	**20,215**	**15,576**	**516**	**14,348**	**69,142**

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £2,303m is rated AAA, £2,554m AA, £4,283m A, £3,896m BBB, £179m BB and below and £156m as other.

16 Credit risk (continued)

With-profits

As at 31 December 2018	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other £m	Total £m
Government securities		64	1,351	32	43	27	22	1,539
Other fixed rate securities		387	705	1,353	1,177	39	76	3,737
Variable rate securities		228	373	78	5	–	28	712
Total debt securities	11(i)	679	2,429	1,463	1,225	66	126	5,988
Accrued interest	11(i)	8	15	10	18	1	–	52
Loans	11(ii)	–	–	42	3	–	–	45
Derivative assets	12	–	–	43	8	–	–	51
Cash and cash equivalents	14	2	45	238	9	–	7	301
Reinsurers' share of contract liabilities		–	–	–	–	–	–	–
Other assets		–	–	1	1	–	44	46
Total		689	2,489	1,797	1,264	67	177	6,483

Shareholder

As at 31 December 2017	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other[1] £m	Total £m
Government securities		255	630	19	87	47	146	1,184
Other fixed rate securities		138	626	1,349	305	218	416	3,052
Variable rate securities		60	145	63	14	6	51	339
Total debt securities[1]	11(i)	453	1,401	1,431	406	271	613	4,575
Accrued interest	11(i)	2	3	5	5	5	4	24
Loans	11(ii)	–	–	521	71	48	172	812
Derivative assets	12	–	–	39	–	–	5	44
Cash and cash equivalents	14	149	442	563	84	–	639	1,877
Reinsurers' share of contract liabilities		–	172	205	–	–	5	382
Other assets		45	135	133	2	15	942	1,272
Total		649	2,153	2,897	568	339	2,380	8,986

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £nil is rated AAA, £209m AA, £114m A, £225m BBB, £60m BB and below and £9m as other.

Non profit non-unit linked

As at 31 December 2017	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other[1] £m	Total £m
Government securities		576	6,255	10	179	10	120	7,150
Other fixed rate securities		850	3,662	12,710	11,918	549	7,033	36,722
Variable rate securities		335	1,641	2,235	692	124	1,086	6,113
Lifetime mortgages		–	–	–	–	–	2,023	2,023
Total debt securities[1]	11(i)	1,761	11,558	14,955	12,789	683	10,262	52,008
Accrued interest	11(i)	20	58	167	190	7	26	468
Loans	11(ii)	–	–	360	3	–	–	363
Derivative assets	12	–	22	2,701	1,295	–	–	4,018
Cash and cash equivalents	14	95	318	766	31	–	508	1,718
Reinsurers' share of contract liabilities		–	4,709	76	–	–	293	5,078
Other assets		–	28	142	19	1	1,005	1,195
Total		1,876	16,693	19,167	14,327	691	12,094	64,848

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £484m is rated AAA, £3,210m AA, £3,029m A, £3,432m BBB, £78m BB and below and £55m unrated.

With-profits

As at 31 December 2017	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other £m	Total £m
Government securities		61	1,669	30	52	28	63	1,903
Other fixed rate securities		419	757	1,340	1,249	66	84	3,915
Variable rate securities		97	154	58	6	4	25	344
Total debt securities	11(i)	577	2,580	1,428	1,307	98	172	6,162
Accrued interest	11(i)	8	16	10	18	2	–	54
Loans	11(ii)	–	–	116	–	–	–	116
Derivative assets	12	–	–	89	9	–	1	99
Cash and cash equivalents	14	–	168	271	9	–	432	880
Reinsurers' share of contract liabilities		–	1	–	–	–	–	1
Other assets		–	–	1	1	–	209	211
Total		585	2,765	1,915	1,344	100	814	7,523

16 Credit risk (continued)

Impairment

The group reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Consolidated Income Statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost or fair value of assets classified as available for sale.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The table below provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not directly exposed to risk.

Ageing analysis

		Past due but not impaired					
As at 31 December 2018[1]	**Neither past due nor impaired £m**	**0-3 months £m**	**3-6 months £m**	**6 months-1 year £m**	**Over 1 year £m**	**Impaired £m**	**Carrying value £m**
Shareholder	**10,940**	**286**	**11**	**8**	**23**	**3**	**11,271**
Non profit non-unit linked	**68,966**	**127**	**7**	**4**	**38**	**–**	**69,142**
With-profits	**6,460**	**22**	**–**	**–**	**1**	**–**	**6,483**

		Past due but not impaired					
As at 31 December 2017[1]	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Impaired £m	Carrying value £m
Shareholder	8,910	28	17	16	11	4	8,986
Non profit non-unit linked	64,601	206	10	31	–	–	64,848
With-profits	7,485	37	–	–	1	–	7,523

1. Ageing analysis has been adjusted to include cash at bank, and the 2017 balances have also been analysed accordingly.

Offsetting

Financial assets and liabilities are offset in the Consolidated Balance Sheet when the group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and liability simultaneously.

The group has not entered into any financial transactions resulting in financial assets and liabilities which have been offset in the Consolidated Balance Sheet. The table below shows the financial assets and liabilities that are subject to master netting agreements in the shareholder, non profit non-unit linked and with-profits. Unit linked assets and liabilities have not been included as shareholders are not directly exposed to risk.

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2018	**Gross and net amounts reported in the Consolidated Balance Sheet £m**	**Related financial instruments[1] £m**	**Cash collateral £m**	**Securities collateral pledged £m**	**Net amount £m**
Derivative assets	**4,462**	**(2,953)**	**(1,214)**	**(343)**	**(48)**
Reverse repurchase agreements	**902**	**–**	**–**	**(889)**	**13**
Total	**5,364**	**(2,953)**	**(1,214)**	**(1,232)**	**(35)**
Derivative liabilities	**(3,306)**	**2,953**	**109**	**237**	**(7)**
Repurchase agreements	**(78)**	**–**	**–**	**78**	**–**
Total	**(3,384)**	**2,953**	**109**	**315**	**(7)**

1. Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2017	Gross and net amounts reported in the Consolidated Balance Sheet £m	Related financial instruments[1] £m	Cash collateral £m	Securities collateral pledged £m	Net amount £m
Derivative assets	4,161	(2,105)	(1,272)	(751)	33
Reverse repurchase agreements	795	–	–	(787)	8
Total	4,956	(2,105)	(1,272)	(1,538)	41
Derivative liabilities	(2,357)	2,105	178	61	(13)
Repurchase agreements	(72)	–	–	72	–
Total	(2,429)	2,105	178	133	(13)

1. Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.

In the tables above, the amounts of assets or liabilities presented in the Consolidated Balance Sheet are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by cash and securities collateral. The actual amount of collateral may be greater than the amounts presented in the tables above.

17 Insurance risk

The group is exposed to insurance risk as a consequence of offering the principal products outlined in Note 6. Insurance risk is the exposure to loss arising from experience being different to that anticipated. Detailed below are the risks associated with each of the group's segments and the associated controls operated. They are applicable to all stated products across the group.

Principal risks	Division	Controls to mitigate risks
Longevity, mortality & morbidity risks		
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	LGI	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings[1]	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Savings[1]	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The group has limited ability to control the take up of these options. However, the book of business itself is diminishing in size. As at 31 December 2018 the value of guarantees is estimated to be £35m (31 December 2017: £48m).
For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	LGR	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Persistency risk		
In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.	LGI and Savings[1]	The pricing basis for protection business includes provision for policy lapses. Following the adoption of PS06/14 in 2006 the persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. For insured contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the group has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re). Until the Part VII transfer is completed the insurance risks are effectively transferred to ReAssure Limited by this agreement.

Principal risks	Division	Controls to mitigate risks
Expense risk In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	LGR, LGI and Savings[1]	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.
Concentration (catastrophe) risk Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	LGI and General Insurance	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
Epidemic (catastrophe) risk The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.	LGI	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events risk Significant weather events such as windstorms and coastal and river floods can lead to a higher instance of claims than anticipated.	General Insurance	The financial impacts of significant weather events are managed using excess of loss catastrophe treaties under which a portion of the costs of claims may be recovered from external insurers, although the group retains an element of the risk internally. The reinsurance is designed to provide financial protection against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.
Other risks		
Subsidence risk The incidence of subsidence can have a significant impact on the level of claims on household policies.	General Insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted in line with industry practice.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re). Until the Part VII transfer is completed the insurance risks are effectively transferred to ReAssure Limited by this agreement.

Accumulation of risks
There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the group. In particular, there is little significant overlap between the long term and short term insurance business written by the group. However, there are potentially material correlations of insurance risk with other types of risk exposure. The group's capital model seeks to measure risk correlations particularly those that would tend to be more acute as the underlying risk scenarios become more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk with mortality and morbidity exposures.

Operational risk
Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. Potential for exposure to operational risk extends to all the group's businesses. The group has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action or reputational damage.

18 Long term insurance valuation assumptions

The group's insurance assumptions, described below, relate primarily to the UK insurance business. Assumptions have also been included for material lines of the US insurance business, Legal & General America (LGA). Other non-UK businesses do not constitute a material component of the group's operations and consideration of geographically determined assumptions is therefore not included.

Sale of Mature Savings

In December 2017 the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019. The group has entered into a Risk Transfer Agreement with ReAssure Limited (a subsidiary of Swiss Re) until a formal legal transfer of the business to Swiss Re is complete. Shareholder economic exposure to the with-profits fund is effectively transferred to ReAssure Limited by this agreement. As a result the assets and liabilities (including long term liabilities) of the Mature Savings business have been reclassified as held for sale on the balance sheet.

(i) Non-participating business

For its non-participating business the group seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that previously used to determine the assumptions used for Solvency I. There are no material changes in this approach as a result of the Solvency II regulatory regime, which came into effect on 1 January 2016, except for the use of term and whole of life mortality improver assumptions. Assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed. The assumptions for with-profits unit-linked products continue to be on a best estimate basis, materially similar to that previously used under Solvency I (Peak 2).

Valuation rates of interest and discount rates

The valuation interest rate for each contract type is based on the yield on the assets backing the contract adjusted for the risk that asset proceeds are not received by the group. For some business, this yield is the gross redemption yield or appropriate forward yield on fixed interest securities and the running yield on variable interest securities. For other business it is the Internal Rate of Return on the portfolio of backing assets.

In 2018, the group continued to hold an additional reserve to protect against the risk on assets backing its UK annuity business of an uplift in defaults in the current economic environment and maintained the level of the long term default allowance at 42bps per annum (2017: 42bps) for unapproved securities and property backing non-profit business. For approved securities backing the non-profit annuity business, the allowance is 9bps per annum (2017: 9bps). For unapproved securities backing non-profit annuity business, the credit default allowances equate to 51bps per annum (2017: 54bps) when expressed over the duration of the assets held, leading to an overall total default provision of £2.9bn (2017: £2.7bn).

The group believes this total default allowance is prudent to cover all reasonably foreseeable circumstances. Similar allowances are made for the risk of default of fixed income securities backing other portfolios of liabilities.

For equity investments, the yield is based on the current dividend yield, adjusted for prudence.

For property holdings, yields are based on the rental income payable.

Mortality and morbidity

Mortality and morbidity assumptions for the UK business are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB), a subsidiary of the Institute and Faculty of Actuaries, and/or UK death registrations. US assumptions are set with reference to standard tables drawn up by the American Academy of Actuaries. Assumptions include an appropriate allowance for prudence. Tables are based on industry-wide mortality and morbidity experience for insured lives.

The group conducts statistical investigations of its mortality and morbidity experience, the majority of which are carried out at least annually. Investigations determine the extent to which the group's experience differs from that underpinning the standard tables, and suggest appropriate adjustments which need to be made to the valuation assumptions.

Persistency

The group monitors its persistency experience and carries out detailed investigations annually. Persistency experience can be volatile and past experience may not be an appropriate future indicator.

The group tries to balance past experience and potential future conditions by making prudent assumptions about expected long term average persistency levels.

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

Expenses

The group monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the group's business plan. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

Premiums

For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

(ii) Participating business
For its participating business, the group seeks to establish its liabilities at their realistic value in line with the requirements set out in UK Generally Accepted Accounting Principles (GAAP).

Non-economic assumptions
Non-economic assumptions are set to represent the group's best estimates of future experience.

Premiums
For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

Economic assumptions
Realistic reporting requires a market consistent economic model. The model is calibrated using market data from a variety of market sources. This enables assumptions to be determined for the term structure of risk free interest rates, and for property and equity volatility. Risk free interest rates are determined with reference to the swap yield curve on the valuation date less a credit risk adjustment (CRA) of 10bps for 2018 (2017: swap yield curve on the valuation date less a CRA of 10bps).

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses
Future reversionary and terminal bonuses are consistent with the bonus policies set out in the Legal and General Assurance Society Limited's (LGAS) Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options
The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options
The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Value of in-force non-participating contracts
The group makes a deduction from the liabilities for the expected value of future profits arising on non-participating contracts written in the with-profits part of the LGAS Long Term Fund.

The economic assumptions used to calculate the value of these profits are consistent with those used to calculate liabilities for with-profits business. Non-economic assumptions represent best estimates of expected future experience on this business.

18 Long term insurance valuation assumptions (continued)

(iii) Long term valuation assumptions

The table below sets out the current valuation assumptions used to establish the long term UK liabilities.

	2018	2017
Rate of interest/discount rates		
Non-participating business		
– Life assurances[1]	**1.47% p.a. and 3.42% p.a.**	1.38% p.a. and 3.30% p.a.
– Pension assurances[1]	**1.50% p.a. and 3.37% p.a.**	1.25% p.a. and 3.30% p.a.
– Annuities in deferment	**2.61 % p.a.**	2.22% p.a.
– Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**(0.84)% p.a.**	(1.19)% p.a.
– Vested annuities	**2.61% p.a.**	2.22% p.a.
– Vested annuities (RPI-linked; net rate after allowance for inflation)	**(0.84)% p.a.**	(1.19)% p.a.
– US annuities[2]	**4.17%**	3.32%
– US term assurances[3]	**2.85% - 3.57%**	2.71% - 3.38%
Participating business		
Risk free rate (10 years)	**1.35% p.a.**	1.19% p.a.
Future bonuses	**Determined stochastically in line with bonus policy as stated in PPFM**	Determined stochastically in line with bonus policy as stated in PPFM
UK equity volatility (10 year option term)	**18.05%**	20.83%
Property volatility	**15.00%**	15.00%
Mortality tables		
Non-participating business		
Non-linked individual term assurances [4]:		
– Smokers	**117% TMS08/TFS08 Sel 5**	92% TMS00/TFS00 Sel 5
– Non-smokers	**107% TMN08/TFN08 Sel 5**	80% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness[4,5]		
– Smokers	**70% - 105% TMS08/TFS08 Sel 5**	65% - 85% TMS00/TFS00 Sel 5
– Non-smokers	**88% - 106% TMN08/TFN08 Sel 5**	57% - 81% TMN00/TFN00 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012)[6]		
– Smokers	**120% - 143% ACSL04M/F**	121% - 145% ACSL04M/F
– Non-smokers	**126% - 151% ACNL04M/F**	120% - 144% ACNL04M/F
Non-linked individual term assurances with critical illness (Sold from 01/01/2013)[6]		
– Smokers	**124% - 145% ACSL04M/F Sel 2**	125% - 147% ACSL04M/F
– Non-smokers	**131% - 177% ACNL04M/F Sel 2**	123% - 175% ACNL04M/F
Whole of Life Protection Plan[7]		
– Smokers	**Bespoke tables based on TMS08/ TFS08, AM92/AF92 and UK death registrations**	Bespoke tables based on TMS00/ TFS00, AM92/AF92 and UK death registrations
– Non-smokers	**Bespoke tables based on TMN08/ TFN08, AM92/AF92 and UK death registrations**	Bespoke tables based on TMN00/ TFN00, AM92/AF92 and UK death registrations
Whole of Life over 50[7]	**Bespoke tables based on ELT15, Whole of Life Protection Plan assumptions and UK death registrations**	Bespoke tables based on ELT15, Whole of Life Protection Plan assumptions and UK death registrations
Annuities in deferment[8]	**75.6% - 84.2% PNMA00/PNFA00**	75.6% - 84.0% PNMA00/PNFA00
Vested annuities[9]		
– Pension risk transfer	**76.4% - 84.2% PCMA00/PCFA00**	76.4% - 84.0% PCMA00/PCFA00
– Other annuities	**59.7% - 108.8% PCMA00/PCFA00**	60.9% - 115.5% PCMA00/PCFA00
US annuities	**Bespoke tables based on RP-2014 Healthy Annuitant Total table**	Bespoke tables based on RP-2014 Healthy Annuitant Total table
US term assurances[10]	**Bespoke tables based on SOA 2014 VBT**	Bespoke tables based on SOA 2014 VBT

1. A single rate is used if liabilities are negative (2018: 3.42% for Life and 3.37% for Pensions; 2017: 3.30% for both Life and Pensions) or positive (2018: 1.50% gross (for Pension assurance) and 1.85% gross or 1.47% net (for Life assurance); 2017: 1.25% gross (for Pension assurance) and 1.73% gross or 1.38% net (for Life assurance)) throughout. The table above shows the assumption of the dominant product for the positive liabilities and the single rate for the negative liabilities. An appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high to low. The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level.
2. The valuation interest rate is the internal rate of return on the portfolio of backing assets and includes prudent adjustments for investment expense, default and (re)investment risk.
3. The valuation interest rate is derived by combining the risk free yield curve (based on the USD curve specified by EIOPA for Solvency II) plus a risk adjusted spread addition based on the portfolio of assets LGA invest in. It includes prudent adjustments for investment expense, default and (re)investment risk.
4. Improvement assumptions applied for 2018 of 1% for males and females (2017: no improvement assumption applied).
5. The percentage of the table varies with the duration that the policy has been in force for the first five years.
6. The percentage of the table varies with the duration that the policy has been in force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females (2017: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1.00% (2017: 1.00%) for guaranteed term contracts post policy duration 5.
7. Mortality rates are assumed to reduce based on CMI2014 model with a long term annual improvement rate of 1.5% for males and 1.0% for females (2017:Mortality rates are assumed to reduce whilst business is ceded to reinsurer where longevity risk exists (after which any reduction is maintained but no further reduction is applied) based on CMI2014 model with a long term annual improvement rate of 1.5% for males and 1.0% for females).
8. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
9. Mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2016 (2017: CMI 2015) with the following parameters:
   Males: A best estimate Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110 plus margins equivalent to a further 0.5% addition to the Long Term Rate, together with a further uplift of 0.048% to all future improvement rates. (2017: A best estimate Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 120 plus margins equivalent to a further 0.5% addition to the Long Term Rate together with a further uplift of 0.064% to all future improvement rates.)
   Females: A best estimate Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110 plus margins equivalent to a further 0.5% addition to the Long Term Rate, together with a further uplift of 0.048% to all future improvement rates. (2017: A best estimate Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 120 plus margins equivalent to a further 0.5% addition to the Long Term Rate together with a further uplift of 0.064% to all future improvement rates.)
   Smoothing is applied to derive initial rates using a smoothing parameter (Sk) value of 7.5 applied to population data from 1981 to 2016. (2017: Earlier CMI models did not require an explicit smoothing parameter to be set, population dataset 1971 - 2015).
   Different business classes have different effective dates for applying improvers.
   For individual annuities distributed through retail channels, a further allowance is made for the effect of initial selection.
   The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards (2017: After age 90 the basis is blended towards a bespoke table from age 105 onwards).
10. For LGA business, the mortality rates are based on the SOA 2014 Valuation Basic Table (VBT). Adjustments are made for sex, select period, smoker status, policy size, policy duration and year, issue year and age.

18 Long term insurance valuation assumptions (continued)

(iii) Long term valuation assumptions (continued)

Persistency assumptions

Lapse rates assumptions are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For UK term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of non-profit business is shown below. The lapse rates for unit linked business represent the decrement from in-force to surrender.

For US term assurance, a single margin is used across guaranteed period durations for a given policy. All US term assurance contracts are assumed to lapse at the end of the guaranteed period. Policies past the guaranteed period as of the valuation date are assumed to lapse on the next premium due date.

	2018 Average lapse rate for the policy years			
Product	**1-5 %**	**6-10 %**	**11-15 %**	**16-20 %**
Level term	**9.1**	**5.1**	**3.6**	**3.2**
Decreasing term	**10.4**	**9.4**	**8.5**	**8.4**
Accelerated critical illness cover	**12.9**	**8.9**	**6.0**	**5.2**
Pensions term	**–**	**5.9**	**4.6**	**4.2**
Whole of Life (conventional non profit)	**2.0**	**0.8**	**0.7**	**0.7**
Bond (unit linked non profit)	**2.7**	**7.0**	**3.7**	**3.4**
US term – 10 year guarantee period	**4.3**	**4.7**	**n/a**	**n/a**
US term – 15 year guarantee period	**2.5**	**2.2**	**3.2**	**n/a**
US term – 20 year guarantee period	**2.2**	**1.7**	**1.6**	**2.5**
US term – 30 year guarantee period	**2.1**	**1.7**	**1.4**	**1.1**

	2017 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Level term	9.7	4.7	3.1	3.0
Decreasing term	9.5	9.2	7.8	7.7
Accelerated critical illness cover	13.0	9.0	5.2	4.9
Pensions term	–	5.9	4.5	4.4
Whole of Life (conventional non profit)	3.5	0.8	0.7	0.7
Bond (unit linked non profit)	2.2	6.9	3.9	3.4
US term – 10 year guarantee period	4.6	5.2	n/a	n/a
US term – 15 year guarantee period	2.6	2.6	3.0	n/a
US term – 20 year guarantee period	2.4	2.0	1.5	2.0
US term – 30 year guarantee period	2.3	1.9	1.6	1.6

For with-profits business, the realistic valuation was the biting basis under the previous Solvency I regime and therefore detail of the long term best estimate lapse rates is given below for unitised with-profits (UWP) and unit linked non-participating products. The lapse rates for unit linked business represent the decrement from in-force to surrender.

	2018 Average lapse rate for the policy years			
Product	**1-5 %**	**6-10 %**	**11-15 %**	**16-20 %**
Savings endowment (unitised with-profits)	**–**	**–**	**1.0**	**4.0**
Target cash endowment (unitised with-profits)	**–**	**–**	**4.6**	**4.3**
Savings endowment (unit linked non-participating)	**–**	**–**	**1.0**	**4.0**
Target cash endowment (unit linked non-participating)	**–**	**–**	**4.6**	**4.3**
Bond (unitised with-profits)	**1.6**	**5.6**	**5.1**	**3.7**
Bond (unit linked non-participating)	**–**	**1.1**	**3.0**	**5.5**
Individual pension regular premium (unitised with-profits)	**4.4**	**4.4**	**4.4**	**4.4**
Individual pension regular premium (unit linked non-participating)	**5.0**	**5.4**	**5.0**	**4.9**
Group pension regular premium (unitised with-profits)	**13.2**	**13.7**	**13.9**	**13.9**
Group pension regular premium (unit linked non-participating)	**3.8**	**5.4**	**6.2**	**6.2**
Individual pension single premium (unitised with-profits)	**3.3**	**3.4**	**3.3**	**3.3**
Individual pension single premium (unit linked non-participating)	**4.4**	**4.8**	**4.4**	**4.2**
Group pension single premium (unitised with-profits)	**6.1**	**5.7**	**5.6**	**5.6**
Group pension single premium (unit linked non-participating)	**16.2**	**12.0**	**11.4**	**10.6**
Trustee Investment Plan single premium (unitised with-profits)	**–**	**13.7**	**15.0**	**15.0**
Trustee Investment Plan single premium (unit linked non-participating)	**–**	**13.7**	**15.0**	**15.0**

	2017 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	1.0	4.0
Target cash endowment (unitised with-profits)	–	–	4.6	4.3
Savings endowment (unit linked non-participating)	–	–	1.0	4.0
Target cash endowment (unit linked non-participating)	–	–	4.6	4.3
Bond (unitised with-profits)	1.6	5.6	5.1	3.7
Bond (unit linked non-participating)	–	1.1	3.0	5.5
Individual pension regular premium (unitised with-profits)	4.4	4.4	4.4	4.4
Individual pension regular premium (unit linked non-participating)	5.0	5.5	5.0	4.9
Group pension regular premium (unitised with-profits)	13.6	14.0	14.2	14.2
Group pension regular premium (unit linked non-participating)	3.9	5.5	6.3	6.3
Individual pension single premium (unitised with-profits)	3.3	3.4	3.3	3.3
Individual pension single premium (unit linked non-participating)	4.4	4.8	4.4	4.2
Group pension single premium (unitised with-profits)	6.1	5.8	5.7	5.7
Group pension single premium (unit linked non-participating)	16.0	11.9	11.3	10.5
Trustee Investment Plan single premium (unitised with-profits)	2.7	19.5	13.4	13.4
Trustee Investment Plan single premium (unit linked non-participating)	2.7	19.5	13.4	13.4

1. The 2017 lapse rates have been restated as they did not accurately reflect the rates used in the calculation of insurance contract liabilities for the year ended 31 December 2017. There is no impact on the group's primary statements.

Endowment reserve

The endowment reserve has been set taking reasonable account of assessment of the expected future population of complaints, the expected uphold rate for these complaints, the potential impact of any Financial Ombudsmen Service decisions on referred complaints and the average compensation per complaint.

Overseas business

In calculating the long term business provisions for international long term business operation, local actuarial tables and interest rates are used.

19 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2018 £m	Impact on group equity net of re-insurance 2018 £m	Impact on pre-tax group profit net of re-insurance 2017 £m	Impact on group equity net of re-insurance 2017 £m
Economic sensitivity				
Long-term insurance				
100bps increase in interest rates[1]	**384**	**209**	195	59
50bps decrease in interest rates[1]	**(220)**	**(122)**	(126)	(45)
50bps increase in future inflation expectations	**65**	**53**	6	5
Credit spreads widen by 100bps with no change in expected defaults	**(138)**	**(213)**	(108)	(172)
25% rise in equity markets	**458**	**399**	514	456
25% fall in equity markets	**(459)**	**(399)**	(443)	(399)
15% rise in property values	**738**	**606**	408	346
15% fall in property values	**(761)**	**(623)**	(441)	(373)
10bps increase in credit default assumptions	**(551)**	**(446)**	(477)	(383)
10bps decrease in credit default assumptions	**558**	**451**	469	377
Non-economic sensitivity				
Long-term insurance				
1% increase in annuitant mortality	**157**	**192**	186	197
1% decrease in annuitant mortality	**(147)**	**(183)**	(178)	(191)
5% increase in assurance mortality[1]	**(375)**	**(298)**	(49)	(37)
General insurance				
Single storm event with 1 in 200 year probability[2]	**(235)**	**(190)**	(221)	(179)

1. Sensitivities have been calculated in accordance with the new reserving basis for term assurance business in LGIA adopted from 1 January 2018, which now uses current information where applicable. Further details on this change in accounting policy are provided in Note 1.
2. Sensitivity shows the ultimate cost to the group taking in to account intra group reassurance arrangements. Sensitivities in 2017 showed the impact on Legal & General Insurance Limited alone and have been restated to be on a consistent basis.

The table on page 174 shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The group has aligned sensitivity analysis disclosure requirements across various reported metrics, primarily for interest rate, equity, property value, and annuitant mortality. The current disclosure also reflects management's view of key risks in current economic conditions.

For the year ended 31 December 2017, US term assurance liabilities were calculated on a US GAAP basis which takes a more passive approach to assumption setting. The economic and demographic assumptions set at inception were assumed to be unchanged under the sensitivities specified, making the liabilities insensitive to changes in assumptions. Following a change in accounting policy for these liabilities during 2018 (see Note 1 for details) to bring them in line with how similar products are accounted for in other parts of the business, a gross premium valuation methodology has been used, and assumptions are now set on the basis of current information. This change in accounting policy has a significant impact on the interest rate and assurance mortality assumption stresses for the US term assurance liabilities.

The interest rate sensitivity assumes a 100bps increase, and 50bps decrease, in the gross redemption yield on fixed interest securities together with a 100bps and 50bps change in the real yields on variable securities for respective sensitivity analyses. 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. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

The inflation stress adopted is a 50bps p.a. increase in inflation resulting in a 50bps p.a. reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 50bps p.a. In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The equity stress is a +/- 25% in equity values. The property stress adopted is a +/-15% in property market values. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 15% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

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

The annuitant mortality stress is a +/-1% in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates. The assurance mortality stress represents an increase in mortality/morbidity rates for assurance contracts by 5%.

The group has external weather catastrophe reinsurance in place such that for any single weather event with claims up to £600m (2017: £520m) the ultimate cost of claims is limited to £200m. Intra group reinsurance means for losses in excess of £50m (2017: £30m) but less than £600m (2017: £520m) the cost of claims in Legal & General Insurance Limited would be £25m. (2017: £30m plus 50% of a £5m excess £30m layer). Legal and General Assurance Society Limited is exposed to 93% of claims between £50m and £120m (2017: £35m to £105m) and Legal & General Reinsurance Limited is exposed to 85% of claims between £120m and £220m (2017: 71% of claims between £105m and £225m). An event costing £600m is approximately equivalent to (but slightly lower than) the end-2018 modelled 1 in 200 year loss. In addition to the cost of claims the group would also incur additional claims handling costs and the cost of reinstatement premiums.

The above sensitivity analyses do not reflect management actions which 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 analyses also ignore any second order effects of the assumption change, including the potential impact on the group asset-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 and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order, which could be significantly more or less than the amounts shown on page 174.

20 Insurance contract liabilities

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:

- **the amount or timing of which is contractually at the discretion of the group; and**
- **which are contractually based on:**
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK are classified as participating.

Long term insurance

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'.

UK

For non-participating insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs, and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

For participating contracts, the liabilities to policyholders are determined on a realistic basis in accordance with guidance previously set out in Financial Reporting Standard (FRS) 27, 'Life assurance'. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with Legal and General Assurance Society Limited's Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (PVFP) for this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Following the group's announcement in December 2017 to sell Mature Savings business to Swiss Re the participating insurance contract liabilities, which is part of Mature Savings business, has been classified as held for sale.

Overseas

All annuity and term assurance business written by overseas subsidiaries is recognised and measured in line with those written in the UK. All other long term insurance contract liabilities for business transacted by overseas subsidiaries are determined on the basis of recognised actuarial methods which reflect local supervisory principles or, in the case of the US, on the basis of US GAAP.

General insurance

Liabilities, together with related reinsurance recoveries, are established on the basis of current information. Such liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis. Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

Liability adequacy tests

The group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the group discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the Consolidated Income Statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

Reinsurance

The group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the Consolidated Balance Sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to significant transfer of insurance risk to the reinsurer are considered to be financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

(i) Analysis of non-participating insurance contract liabilities

	Gross 2018 £m	**Reinsurance 2018 £m**	Gross[1] 2017 £m	Reinsurance 2017 £m
Non-participating insurance contracts	**65,301**	**(4,723)**	62,145	(5,316)
General insurance contracts	**346**	**(10)**	291	(8)
Total non-participating insurance contract liabilities	**65,647**	**(4,733)**	62,436	(5,324)
Less: liabilities of operations classified as held for sale[2]	**(940)**	**48**	(1,128)	48
Insurance contract liabilities	**64,707**	**(4,685)**	61,308	(5,276)

1. Following the change in accounting policy for LGIA term life reserves the gross non-participating insurance contract liabilities and the related reinsurance have been restated. The net impact of the restatement is a reduction of £1,010m in gross non-participating insurance contract liabilities and £158m in reinsurance. Further details on the change in accounting policy is provided in Note 1.
2. Detailed disclosure relating to liabilities of operations held for sale is included in Note 27.

(ii) Expected non-participating insurance contract liability cash flows

	Date of undiscounted cash flows				
As at 31 December 2018	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**
Non-participating insurance contracts	**13,626**	**25,819**	**19,535**	**19,673**	**78,653**
General insurance contracts[1]	**130**	**2**	**–**	**–**	**132**
Non-participating insurance contract liabilities	**13,756**	**25,821**	**19,535**	**19,673**	**78,785**

	Date of undiscounted cash flows				
As at 31 December 2017	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Non-participating insurance contracts	10,943	22,459	16,967	17,955	68,324
General insurance contracts[1]	95	1	–	–	96
Non-participating insurance contract liabilities	11,038	22,460	16,967	17,955	68,420

1. Excludes unearned premium reserve of £204m (2017: £187m) for which there are no cash flows.

Non-participating insurance contract undiscounted cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

20 Insurance contract liabilities (continued)

(iii) Movement in non-participating insurance contract liabilities

	Gross 2018 £m	Reinsurance 2018 £m	Gross[1] 2017 £m	Reinsurance[1] 2017 £m
As at 1 January	**62,145**	**(5,316)**	60,511	(5,297)
New liabilities in the year	**9,622**	**(743)**	4,809	(932)
Liabilities discharged in the year	**(3,399)**	**263**	(3,006)	208
Unwinding of discount rates	**1,385**	**(136)**	1,458	(154)
Effect of change in non-economic assumptions	**(1,912)**	**1,181**	(663)	193
Effect of change in economic assumptions	**(2,729)**	**117**	789	(123)
Change in accounting policy[1]	**–**	**–**	(1,010)	158
Foreign exchange adjustments	**222**	**(21)**	(306)	35
Modelling and methodology changes	**35**	**(72)**	(456)	568
Other	**(68)**	**4**	19	28
Total as at 31 December	**65,301**	**(4,723)**	62,145	(5,316)
Less: liabilities of operations classified as held for sale[2]	**(940)**	**48**	(1,128)	48
As at 31 December	**64,361**	**(4,675)**	61,017	(5,268)
Expected to be settled within 12 months (net of reinsurance)[3]	**1,557**		1,777	
Expected to be settled after 12 months (net of reinsurance)[3]	**59,021**		55,052	

1. Change in accounting policy represents the cumulative impact of the retrospective change in accounting policy related to LGIA term assurance reserves, described in Note 1.
2. Detailed disclosure related to the liabilities of operations classified as held for sale is included in Note 27.
3. The expected maturity analysis between within and after 12 months is based on the Total non-participating insurance contract liabilities and reinsurance as at 31 December.

(iv) Analysis of general insurance contract liabilities

	Gross 2018 £m	Reinsurance 2018 £m	Gross 2017 £m	Reinsurance 2017 £m
Outstanding claims	**94**	**(1)**	67	(1)
Claims incurred but not reported	**39**	**–**	30	–
Unearned premiums	**213**	**(9)**	194	(7)
General insurance contract liabilities	**346**	**(10)**	291	(8)

(v) Movement in general insurance claim liabilities

	Gross 2018 £m	Reinsurance 2018 £m	Gross 2017 £m	Reinsurance 2017 £m
As at 1 January	**97**	**(1)**	96	(2)
Claims arising	**238**	**(1)**	172	(1)
Claims paid	**(205)**	**2**	(176)	3
Adjustments to prior year liabilities	**3**	**(1)**	5	(1)
As at 31 December	**133**	**(1)**	97	(1)
Expected to be settled within 12 months (net of reinsurance)	**101**		80	
Expected to be settled after 12 months (net of reinsurance)	**31**		16	

(vi) Unearned premiums

	Gross 2018 £m	Reinsurance 2018 £m	Gross 2017 £m	Reinsurance 2017 £m
As at 1 January	**194**	**(7)**	172	(7)
Earned in the year	**(390)**	**15**	(346)	14
Gross written premiums in respect of future periods	**409**	**(17)**	368	(14)
As at 31 December	**213**	**(9)**	194	(7)
Expected to be earned within 12 months (net of reinsurance)	**204**		187	
Expected to be earned after 12 months (net of reinsurance)	**–**		–	

(vii) Claims development – general insurance

Changes may occur in the amount of the group's obligations at the end of a contract period. The top section of each table below illustrates how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amount appearing in the Consolidated Balance Sheet.

Gross of reinsurance

Accident year	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Estimate of ultimate claims costs:					
– At end of accident year	169	172	152	169	235
– One year later	163	158	145	164	
– Two years later	161	158	146		
– Three years later	163	158			
– Four years later	164				
Estimate of cumulative claims	164	158	146	164	235
Cumulative payments	(162)	(156)	(142)	(151)	(125)
Outstanding claims provision	2	2	4	13	110
Total outstanding claims provision					131
Prior year outstanding claims					1
Claims handling provision					1
Total claims liabilities recognised in the Consolidated Balance Sheet					133

No net of reinsurance claim development table has been presented as it would not be materially different from the gross claims development table above.

21 Investment contract liabilities

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4. In the UK, participating investment contract liabilities are determined in accordance with guidance previously set out in FRS 27, including a value for guarantees, in the same way as participating insurance contracts. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

The group's non-participating investment contracts are all unit linked contracts. These liabilities are measured at fair value by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

Following the group's announcement in December 2017 to sell Mature Savings business to Swiss Re the participating investment contract liabilities, which are a part of Mature Savings business, have been classified as held for sale.

(i) Analysis of non-participating investment contract liabilities

	Gross 2018 £m	Reinsurance 2018 £m	Gross 2017 £m	Reinsurance 2017 £m
Total non-participating investment contracts	311,494	(183)	336,628	(317)
Less: liabilities of operations classified as held for sale[1]	(18,414)	131	(20,977)	48
Non-participating investment contract liabilities	293,080	(52)	315,651	(269)
Expected to be settled within 12 months (net of reinsurance)[2]	53,414		46,809	
Expected to be settled after 12 months (net of reinsurance)[2]	257,897		289,502	

1. Detailed disclosure relating to the liabilities of operations classified as held for sale is included in Note 27.
2. The expected maturity analysis between within and after 12 months is based on the Total non-participating investment contract liabilities.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly cash flows of unit linked liabilities have not been reported.

The presented fair values of the non-participating investment contract liabilities reflect quoted prices in active markets and they have been classified as Level 1 in the fair value hierarchy.

21 Investment contract liabilities (continued)

(ii) Movement in investment contract liabilities

	Gross 2018 £m	Reinsurance 2018 £m	Gross[3] 2017 £m	Reinsurance[3] 2017 £m
As at 1 January	**341,796**	**(317)**	326,448	(286)
Reserves in respect of new business	**45,476**	**(3)**	41,104	(6)
Amounts paid on surrenders and maturities during the year	**(58,626)**	**126**	(57,542)	19
Investment return and related benefits[1]	**(12,327)**	**11**	32,037	(44)
Management charges	**(248)**	**–**	(251)	–
Other	**–**	**–**	–	–
Total as at 31 December	**316,071**	**(183)**	341,796	(317)
Less: liabilities of operations classified as held for sale[2]	**(22,991)**	**131**	(26,145)	48
Total as at 31 December	**293,080**	**(52)**	315,651	(269)

1. Investment return and related benefits is disclosed on a total basis including discontinued operations. In the Consolidated Income Statement, the investment return for discontinued operations is included within 'Profit after tax from discontinued operations'.
2. Detailed disclosure relating to the liabilities of operations classified as held for sale items is included in Note 27.
3. Following further analysis of the 2017 Movement in investment contract liabilities, the Reserves in respect of new business, Amounts paid on surrenders and maturities during the year and Investment return and related benefits had to be adjusted. Total Investment contract liabilities as at 31 December 2017 was correct but the movement in the above lines was adjusted to reflect the accurate breakdown of the movement.

22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest rate method.

Borrowings comprise core borrowings such as subordinated bond issues and long term unsecured senior debt and operational borrowings such as commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities, including bank overdrafts. Borrowings secured on specific assets/cash flows are included as non recourse borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2018 £m	Unit linked borrowings 2018 £m	Total 2018 £m	Borrowings excluding unit linked borrowings 2017 £m	Unit linked borrowings 2017 £m	Total 2017 £m
Core borrowings	**3,922**	**–**	**3,922**	3,459	–	3,459
Operational borrowings	**993**	**61**	**1,054**	451	87	538
Total borrowings	**4,915**	**61**	**4,976**	3,910	87	3,997
Less: liabilities of operations classified as held for sale[1]	**(28)**	**–**	**(28)**	–	–	–
Borrowings	**4,887**	**61**	**4,948**	3,910	87	3,997

1. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 27.

£203m of interest expense was incurred during the year (2017: £191m) on borrowings excluding non recourse and unit linked borrowings. The total financing costs incurred for the year were £238m (2017: £212m).

(ii) Analysis by nature

(a) Core borrowings

	Carrying amount 2018 £m	Coupon rate 2018 %	Fair value 2018 £m	Carrying amount 2017 £m	Coupon rate 2017 %	Fair value 2017 £m
Subordinated borrowings						
5.875% Sterling undated subordinated notes (Tier 2)	**405**	**5.88**	**409**	408	5.88	428
10% Sterling subordinated notes 2041 (Tier 2)	**312**	**10.00**	**366**	311	10.00	397
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**569**	589	5.50	710
5.375% Sterling subordinated notes 2045 (Tier 2)	**603**	**5.38**	**627**	603	5.38	694
5.25% US Dollar subordinated rates 2047 (Tier 2)	**659**	**5.25**	**612**	628	5.25	679
5.55% US Dollar subordinated rates 2052 (Tier 2)	**387**	**5.55**	**356**	369	5.55	397
5.125% Sterling subordinated notes 2048 (Tier 2)	**399**	**5.13**	**401**	–	–	–
Client fund holdings of group debt[1]	**(31)**	**–**	**(30)**	(32)	–	(38)
Total subordinated borrowings	**3,323**		**3,310**	2,876		3,267
Senior borrowings						
Sterling medium term notes 2031-2041	**609**	**5.88**	**824**	609	5.88	857
Client fund holdings of group debt[1]	**(10)**	**–**	**(13)**	(26)	–	(37)
Total senior borrowings	**599**		**811**	583		820
Total core borrowings	**3,922**		**4,121**	3,459		4,087

1. £41m (2017: £58m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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

22 Borrowings (continued)

(ii) Analysis by nature (continued)

(a) 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. The notes are callable at par on 1 April 2019 and every five years thereafter. On 4 February 2019, notification was given that the group intends to redeem these notes in full on 1 April 2019. Effective from the notification date, the notes were no longer treated as tier 2 own funds for Solvency II purposes.

10% Sterling subordinated notes 2041

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

5.5% Sterling subordinated notes 2064

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

5.375% Sterling subordinated notes 2045

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

5.25% US Dollar subordinated notes 2047

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

5.55% US Dollar subordinated notes 2052

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

5.125% Sterling subordinated notes 2048

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

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

Senior borrowings

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

(b) Operational borrowings

	Carrying amount 2018 £m	Interest rate 2018 %	Fair value 2018 £m	Carrying amount 2017 £m	Interest rate 2017 %	Fair value 2017 £m
Short term operational borrowings						
Euro Commercial Paper	**293**	**0.93**	**293**	349	1.27	349
Non recourse borrowings						
Consolidated Property Limited Partnerships	**57**	**2.46**	**57**	57	2.46	57
Later Living portfolio	**76**	**2.75**	**76**	45	3.20	45
CALA revolving credit facility	**188**	**3.37**	**188**	–	–	–
Class B Surplus Note	**296**	**5.61**	**296**	–	–	–
Bank loans and overdrafts	**83**	**–**	**83**	–	–	–
Total operational borrowings[1]	**993**		**993**	451		451
Less: liabilities of operations classified as held for sale[2]	**(28)**	**2.46**	**(28)**	–		–
Operational borrowings	**965**		**965**	451		451

1. Unit linked borrowings with a carrying value of £61m (2017: £87m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,026m (2017: £538m).
2. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 27.

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

Non recourse borrowings include Property Funds loans with a charge on the assets of the relevant Property Fund, loan facilities to Later Living SPVs with a charge on all assets of each individual SPV company, CALA Group (Holdings) Limited's revolving credit facility 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 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 which has been classified as Level 3.

22 Borrowings (continued)
(iii) Analysis by maturity

As at 31 December 2018	Carrying amount £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
		Maturity profile of undiscounted cash flows					
Subordinated borrowings							
5.875% Sterling undated subordinated notes (Tier 2)[1]	405	(6)	–	–	–	(400)	(406)
10% Sterling subordinated notes 2041 (Tier 2)	312	(13)	–	–	(300)	–	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	603	(6)	–	–	–	(600)	(606)
5.25% US Dollar subordinated notes 2047 (Tier 2)	659	(10)	–	–	–	(667)	(677)
5.55% US Dollar subordinated notes 2052 (Tier 2)	387	(4)	–	–	–	(392)	(396)
5.125% Sterling subordinated notes 2048 (Tier 2)	399	(3)	–	–	–	(400)	(403)
Senior borrowings							
Sterling medium term notes 2031-2041	609	(11)	–	(590)	(10)	–	(611)
Client fund holdings of group debt	(41)	–	–	–	–	–	–
Total core borrowings	3,922	(53)	–	(590)	(310)	(3,059)	(4,012)
Operational borrowings							
Euro Commercial Paper	293	(293)	–	–	–	–	(293)
Bank loans and overdrafts	83	(83)	–	–	–	–	(83)
Non recourse borrowings							
Consolidated Property Limited Partnerships	57	–	(58)	–	–	–	(58)
Later Living portfolio	76	(15)	(61)	–	–	–	(76)
CALA revolving credit facility	188	(188)	–	–	–	–	(188)
Class B Surplus Note	296	–	–	–	(296)	–	(296)
Total operational borrowings	993	(579)	(119)	–	(296)	–	(994)
Less: borrowings of operations classified as held for sale[2]	(28)	–	28	–	–	–	28
Operational borrowings	965	(579)	(91)	–	(296)	–	(966)
Total borrowings excluding unit linked borrowings[3]	4,887	(632)	(91)	(590)	(606)	(3,059)	(4,978)
Contractual undiscounted interest payments		(195)	(1,240)	(2,050)	(1,358)	(715)	(5,558)
Total contractual undiscounted cash flows		(827)	(1,331)	(2,640)	(1,964)	(3,774)	(10,536)

1. On 4 February 2019, notification was given that the group intends to redeem these notes in full on 1 April 2019.
2. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 27.
3. Unit linked borrowings are excluded from the analysis above as the risk is retained by policyholders.

As at 31 December 2017	Carrying amount £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
		Maturity profile of undiscounted cash flows					
Subordinated borrowings							
5.875% Sterling undated subordinated notes (Tier 2)	408	(6)	–	–	–	(400)	(406)
10% Sterling subordinated notes 2041 (Tier 2)	311	(13)	–	–	(300)	–	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	603	(6)	–	–	–	(600)	(606)
5.25% US Subordinated notes 2047 (Tier 2)	628	(9)	–	–	–	(628)	(637)
5.55% US Subordinated notes 2052 (Tier 2)	369	(4)	–	–	–	(370)	(374)
Senior borrowings							
Sterling medium term notes 2031-2041	609	(11)	–	(350)	(250)	–	(611)
Client fund holdings of group debt	(58)	–	–	–	–	–	–
Total core borrowings	3,459	(49)	–	(350)	(550)	(2,598)	(3,547)
Operational borrowings							
Euro Commercial Paper	349	(349)	–	–	–	–	(349)
Non recourse borrowings							
Consolidated Property Limited Partnerships	57	–	(57)	–	–	–	(57)
Later Living portfolio	45	–	(46)	–	–	–	(46)
Total operational borrowings	451	(349)	(103)	–	–	–	(452)
Total borrowings excluding unit linked borrowings[1]	3,910	(398)	(103)	(350)	(550)	(2,598)	(3,999)
Contractual undiscounted interest payments		(161)	(837)	(1,868)	(1,153)	(823)	(4,842)
Total contractual undiscounted cash flows		(559)	(940)	(2,218)	(1,703)	(3,421)	(8,841)

1. Unit linked borrowings are excluded from the analysis above as the risk is retained by policyholders.

The maturity profile above is calculated on the basis that a facility to refinance a maturing loan is not recognised unless the facility and loan are related. If refinancing under the group's credit facilities was recognised, then all amounts shown as repayable within one year would be reclassified as repayable between one and five years. Unit linked borrowings are excluded from the analysis as the risk is retained by the policyholders.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

As at 31 December 2018, the group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 31 December 2018.

(iv) Movement in borrowings

	2018 £m	2017 £m
As at 1 January	**3,997**	3,501
Cash movements:		
– Proceeds from borrowings	**960**	1,232
– Repayment of borrowings	**(325)**	(600)
– Net increase in bank loans and overdrafts	**57**	81
Non-cash movements:		
– Acquisition[1]	**210**	45
– Amortisation	**(15)**	(17)
– Deconsolidation of investment in property fund	**–**	(150)
– Foreign exchange movements	**74**	(101)
– Other	**18**	6
Total borrowings as at 31 December	**4,976**	3,997
Less: liabilities of operations classified as held for sale[2]	**(28)**	–
Total borrowings	**4,948**	3,997

1. Includes borrowings in CALA Homes which have been consolidated following the stepped acquisition of CALA Homes during the year.
2. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 27.

23 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

The group operates a number of defined benefit and defined contribution pension schemes in the UK and overseas. The assets of all UK defined benefit schemes are held in separate trustee administered funds which are subject to regular actuarial valuations every three years, updated by formal reviews at reporting dates. The actuarial assumptions used in the triennial valuation would normally be consistent or more prudent than those used for the purposes of IAS 19 reporting.

The liability recognised in the Consolidated Balance Sheet in respect of the defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the Fund and Scheme is not restricted. Plan assets exclude the insurance contracts issued by the group. The defined benefit obligation is calculated actuarially each year using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

The group pays contractual contributions in respect of defined contribution schemes. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(i) Analysis of provisions

	2018 £m	2017 £m
Retirement benefit obligations	1,112	1,266
Other provisions	29	73
Total provisions	**1,141**	1,339
Less: liabilities of operations classified as held for sale[1]	(1)	(4)
Provisions	**1,140**	1,335

1. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 27.

(ii) Retirement benefit obligations

Defined contribution schemes

The group operates the following principal defined contribution pension schemes in the UK and overseas:

- Legal & General Group Personal Pension Plan (UK);
- Legal & General Staff Stakeholder Pension Scheme (UK);
- Legal & General America Inc. Savings Plan (US); and
- CALA defined contribution pension scheme

Contributions of £55m (2017: £49m) were charged as expenses during the year in respect of defined contribution schemes.

Defined benefit schemes

The group operates the following defined benefit pension schemes in the UK and overseas:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; the last full actuarial valuation was as at 31 December 2015;
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; the last full actuarial valuation was as at 31 December 2015;
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2017; and
- CALA Retirement and Death Benefits Scheme (UK). This scheme closed to new members from 31 December 2007 and closed to future accrual on 31 December 2015; the last triennial actuarial valuation was as at 30 April 2015.

The UK defined benefit schemes operate within the UK pensions' regulatory framework.

The UK Fund and Scheme were closed to future accrual on 31 December 2015. As part of this arrangement, payments to the Fund and Scheme in respect of future accruals ceased from this date and were replaced with a company contribution payment of between 5% and 15% into a defined contribution arrangement. In addition, as part of the closure, the company will contribute an additional £3m per annum until 31 December 2024 towards the deficit.

The assets of all UK defined benefit schemes are held in separate trustee administered funds to meet long term pension obligations to past and present employees. Trustees are appointed to the schemes and have a responsibility to act in the best interest of the scheme beneficiaries. The trustees' long term objectives are to minimise the risk that there are insufficient assets to meet the liabilities of the scheme over the longer term, control the on-going operational costs of the schemes and to maximise investment returns for the beneficiaries within an acceptable level of risk.

The total number of members of the Fund and Scheme was:

	2018	2017
Employed deferreds	**171**	264
Deferreds	**3,292**	3,568
Pensioners	**3,657**	3,593
Total	**7,120**	7,425

The group works closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below, the asset mix of the UK defined benefit schemes is primarily split between bonds including Liability Driven Investment (LDI) funds and unit trusts, equities and property. The main goal of the use of LDI is to hedge movements in the liabilities due to changes in interest rate and inflation expectations. On a gilts flat measure, the Fund and Scheme currently hedge 61% interest rate changes and 62% inflation expectation changes in respect of the non-insured liabilities.

Additionally, certain parts of the liabilities of the scheme are secured by way of annuities purchased from the group. These annuities are not recognised as an asset for IAS 19 purposes, but at 31 December 2018 the value of these annuities, on an IAS 19 basis, was £858m (2017: £875m).

The Fund and Scheme expose the group to a number of risks:

Risk	Detail
Uncertainty in benefit payments	The value of the group's liabilities for post-retirement benefits will ultimately depend on the amount of benefits paid out. This in turn will primarily depend on the level of inflation and how long individuals live.
Volatility in asset values	The group is exposed to future movements in the values of assets held in the Fund and Scheme to meet future benefit payments.
Uncertainty in cash funding	Movements in the values of the obligations or assets may result in the group being required to provide higher levels of cash funding, although changes in the level of cash required can often be spread over a number of years. In addition, the group is also exposed to adverse changes in pension regulation.

These risks are managed within the risk appetite of the Fund and Scheme. The sensitivity of the net obligations to changes in any of the variables are monitored and action is taken if any risk moves outside of the appetite.

Annuities are purchased to mitigate risks for certain parts of the pension liabilities which passes the risks from the Fund and Scheme onto the group.

Full actuarial valuations are carried out on the Fund and Scheme every three years, updated by formal reviews at each reporting date. The actuarial assumptions used in the triennial valuation would normally be more prudent than those used for the purposes of IAS 19 reporting. Where the Fund or Scheme are in deficit following the triennial valuations, the group and the trustee agree a deficit recovery plan. Both the Fund and Scheme have formal deficit recovery plans which aim to make good the deficits over a certain period of time. The triennial valuation at 31 December 2015 showed a total funding deficit for both the Fund and Scheme of £599m. As a result of this, a recovery plan was agreed of £77m a year until 2024. The latest triennial valuation at 31 December 2015 was completed on 15 August 2017.

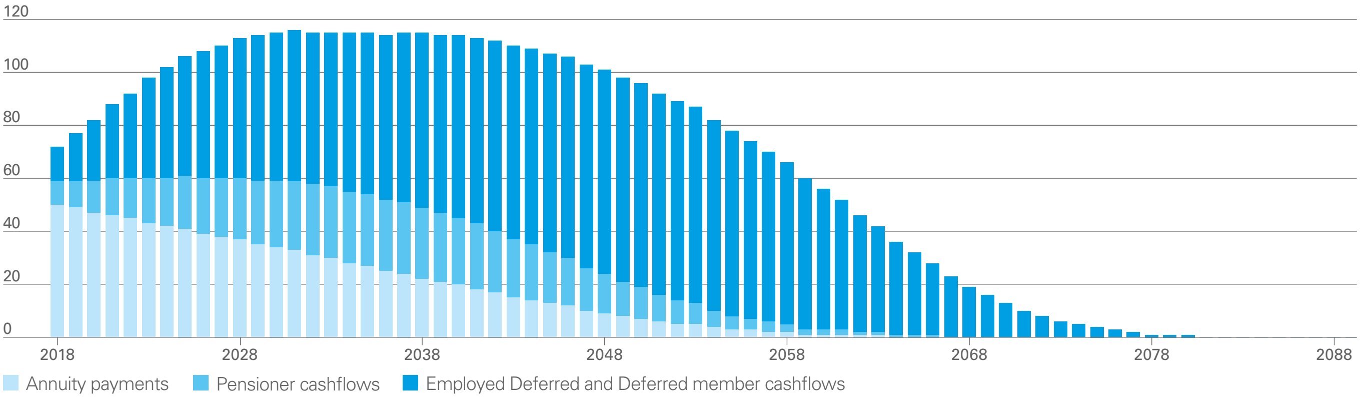
23 Provisions (continued)

(ii) Retirement benefit obligations (continued)

The Fund and the Scheme liabilities have an average duration of 19.1 years (2017: 19.8 years) and 18.7 years (2017: 20.1 years) respectively. The expected undiscounted benefits payments to members of the Fund and Scheme, including pensions in payment secured by annuities purchased from the group, are shown in the unaudited chart below:

Undiscounted benefit payments

Projected benefit payments (£m)



The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The group has no liability for retirement benefits other than for pensions. The Fund and Scheme account for all of the UK and over 90% of worldwide assets of the group's defined benefit schemes.

The principal actuarial assumptions for the Fund and Scheme were:

	Fund and Scheme 2018 %	Fund and Scheme 2017 %
Rate used to discount liabilities	**2.88**	2.47
Rate of increase in pensions in payment (pre-2006 service)	**3.69**	3.67
Rate of increase in deferred pensions (pre-2006 service)	**3.81**	3.78
Rate of general inflation (RPI)	**3.23**	3.18
Post retirement mortality		
2018: 75%/85% (Male/Female) (Fund) and 70%/80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2016 base date 2015 with long term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.		
2017: 80%/90% (Male/Female) (Fund) and 70%/80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2015 base date 2013 with long term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.		

This equates to average life expectancy as follows:

	Fund and Scheme 2018 years	Fund and Scheme 2017 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**87.7**	88.0
Female life expectancy at retirement age	**88.8**	88.9
Male life expectancy at 20 years younger than retirement age	**89.8**	90.6
Female life expectancy at 20 years younger than retirement age	**90.2**	90.6

	Fund and Scheme 2018 £m	CALA Homes and Overseas 2018 £m	Fund and Scheme 2017 £m	Overseas 2017 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(2,543)**	**(32)**	(2,628)	(32)
Acquisition[1]	**–**	**(87)**	–	–
Current service cost	**(3)**	**(2)**	(2)	(2)
Past service cost	**–**	**(1)**	–	–
Interest expense	**(60)**	**(4)**	(67)	(1)
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)				
– Change in financial assumptions	**186**	**5**	(102)	–
– Change in demographic assumptions	**30**	**–**	(11)	–
– Experience	**14**	**(7)**	23	(1)
Benefits paid	**193**	**10**	244	1
Exchange differences	**–**	**(2)**	–	3
As at 31 December	**(2,183)**	**(120)**	(2,543)	(32)
Movement in fair value of plan assets				
As at 1 January	**1,282**	**27**	1,394	27
Acquisition[1]	**–**	**77**	–	–
Expected return on plan assets at liability discount rate	**30**	**4**	37	1
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)	**(107)**	**(4)**	3	1
Employer contributions	**80**	**4**	92	1
Benefits paid	**(193)**	**(10)**	(244)	(1)
Exchange differences	**–**	**1**	–	(2)
As at 31 December	**1,092**	**99**	1,282	27
Gross pension obligations	**(1,091)**	**(21)**	(1,261)	(5)
Gross pension obligations included in provisions	**(1,091)**	**(21)**	(1,261)	(5)
Annuity obligations insured by LGAS	**858**	**–**	875	–
Gross defined benefit pension deficit	**(233)**	**(21)**	(386)	(5)
Deferred tax on defined benefit pension deficit	**41**	**1**	69	1
Net defined benefit pension deficit	**(192)**	**(20)**	(317)	(4)

1. Acquisition relates to CALA Homes defined benefit obligations and fair value of plan assets following stepped acquisition of CALA Homes in March 2018.

During 2018 annuities were purchased from the group. A premium of £59m (2017: £161m) was paid from the assets of the Fund and the Scheme to purchase these annuities. These annuities are not recognised as an asset for IAS 19 purposes and so the actuarial remeasurement recognised in the Consolidated Statement of Comprehensive Income includes allowance for this premium payment as well as annuity receipts over 2018 of £50m (2017: £53m).

On 26 October 2018, the High Court ruled that UK pension schemes must equalise Guaranteed Minimum Pensions (GMP) to ensure that male and female members of schemes were treated equitably. This judgement applied to GMP accrued between 17 May 1990 and 5 April 1997. The impact of GMP equalisation on the value of the group's defined benefit schemes is estimated to be negligible.

The effect on the defined benefit obligation of the Fund and Scheme of assuming reasonable alternative assumptions in isolation is shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits. These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Fund and Scheme.

	2018 £m	2017 £m
1 year increase in longevity	**(78)**	(92)
0.1% decrease in the rate used to discount liabilities	**(40)**	(43)
0.1% increase in the rate of general inflation (RPI)	**(20)**	(25)

23 Provisions (continued)

(ii) Retirement benefit obligations (continued)

The historic funding and experience adjustments are as follows:

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of defined benefit obligations	**(2,303)**	(2,575)	(2,660)	(2,317)	(2,404)
Fair value of plan assets	**1,191**	1,309	1,421	1,186	1,187
Gross pension obligations included in provisions	**(1,112)**	(1,266)	(1,239)	(1,131)	(1,217)
Experience adjustments on plan liabilities	**7**	22	76	38	(7)
Experience adjustments on plan assets	**(111)**	4	240	(62)	133

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2018	**Fund and scheme £m**	**CALA Homes and Overseas £m**	**Fund and scheme £m**	**CALA Homes and Overseas £m**
Equities	**113**	**21**	**–**	**–**
Bonds	**913**	**69**	**–**	**–**
Properties	**–**	**4**	**52**	**–**
Other investments[1]	**14**	**5**	**–**	**–**
Fair value of plan assets	**1,040**	**99**	**52**	**–**

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2017	Fund and scheme £m	Overseas £m	Fund and scheme £m	Overseas £m
Equities	78	13	–	–
Bonds	1,111	8	–	–
Properties	–	–	74	–
Other investments	19	3	–	3
Fair value of plan assets	1,208	24	74	3

1. Other investments mainly consist of cash and cash equivalents.

The bond assets are of investment grade as at 31 December 2018 (31 December 2017: Investment grade).

Employer contributions of £84m (2017: £93m) have been made during 2018. Employer contributions of £83m are expected to be paid to the plan during 2019.

The following amounts have been charged to the income statement:

	Fund and scheme 2018 £m	CALA Homes and Overseas 2018 £m	Fund and scheme 2017 £m	Overseas 2017 £m
Current service costs	**3**	**2**	2	2
Past service costs	**–**	**1**	–	–
Net interest expense	**29**	**–**	31	–
Total amounts included in other expenses	**32**	**3**	33	2

24 Payables and other financial liabilities

Derivative liabilities and repurchase agreements are measured at fair value, with changes in fair value recognised in profit or loss.

The fair value of derivative liabilities is derived using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Repurchase agreements are valued based on the discounted cash flows expected to be paid, using an observable market interest rate, in line with the value of the underlying security.

Collateral repayable on short position reverse repurchase agreements and other financial liabilities balances, including FX spots, broker and other payables, are measured at amortised cost. The carrying value of these liabilities approximates their fair value.

Trail commission represents a liability for the present value of future commission costs on distribution agreements with intermediaries, recognised in the Consolidated Balance Sheet on inception of the contract. At each subsequent reporting date the liability is remeasured, with changes reflected in profit or loss.

	2018 £m	2017 £m
Derivative liabilities	**7,791**	8,173
Repurchase agreements[1]	**43,775**	32,357
Other financial liabilities[2]	**11,406**	12,026
Total payables and other financial liabilities	**62,972**	52,556
Less: liabilities of operations classified as held for sale[3]	**(424)**	(310)
Payables and other financial liabilities	**62,548**	52,246
Due within 12 months[4]	**51,178**	47,212
Due after 12 months[4]	**11,794**	5,344

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, FX spots and collateral repayable on short position reverse repurchase agreements. The value of collateral repayable on short position reverse repurchase agreements was £4,883m (2017: £5,138m).
3. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 27.
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 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**

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

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. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the trail commission liability by £4m (2017: £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 2018 (31 December 2017: no significant transfers).

25 Management of capital resources

Solvency II

The group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a group level, Legal & General had to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) at the balance sheet date.

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

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at end December 2018). The TMTP incorporates estimated impacts of end 2018 economic conditions and changes during 2018 to the Internal Model and Matching Adjustment approvals. This is in line with group's management of the capital position on a dynamic TMTP basis.

The Solvency II results are estimated and unaudited.

As at 31 December 2018, and on the above basis, the group had a surplus of £6.9bn (31 December 2017: £6.9bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 188% (31 December 2017: 189%). The shareholder view of the Solvency II capital position is as follows:

	2018 £bn	2017 £bn
Core tier 1 Own Funds	**11.5**	11.6
Tier 2 subordinated liabilities[1]	**3.5**	3.1
Eligibility restrictions	**(0.2)**	(0.1)
Solvency II Own Funds[2,3]	**14.8**	14.6
Solvency Capital Requirement	**(7.9)**	(7.7)
Solvency II surplus	**6.9**	6.9
SCR coverage ratio[4]	**188%**	189%

1. Tier 2 subordinated liabilities include £400m of subordinated debt issued during 2018. Liabilities also include £400m of debt callable in 2019. On 4 February 2019, notification was given that the group intends to redeem these notes in full on 1 April 2019. Effective from the notification date, the notes would no longer be treated as tier 2 own funds for Solvency II purposes.
2. Solvency II Own Funds do not include an accrual for the full year dividend of £704m (2017: £658m) declared after the balance sheet date.
3. Solvency II Own Funds allow for a risk margin of £5.5bn (31 December 2017: £5.9bn) and TMTP of £5.2bn (31 December 2017: £6.2bn).
4. Coverage ratio is based on unrounded inputs.

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

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

On 6 December 2017 the group announced the sale of its Mature Savings business to Swiss Re. Swiss Re assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. It is expected that the formal transfer of the business will be completed in 2019, subject to satisfaction of normal conditions for a transaction including court sanction. The transfer will be effected by way of a Part VII transfer under the Financial Services Markets Act 2000. The impact of the risk transfer agreement is reflected in both Own Funds and SCR as at 31 December 2018.

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

	2018 £bn	2017[1] £bn
IFRS shareholders' equity[2]	**8.6**	7.5
Remove DAC, goodwill and other intangible assets and associated liabilities[2]	**(0.8)**	(0.4)
Add IFRS carrying value of subordinated debt treated as available capital under Solvency II[3]	**3.3**	2.9
Insurance contract valuation differences[4]	**5.1**	6.2
Difference in value of net deferred tax liabilities	**(0.3)**	(0.7)
SCR for with-profits fund and final salary pension schemes	**(0.8)**	(0.7)
Other[5]	**(0.1)**	(0.1)
Eligibility restrictions[6]	**(0.2)**	(0.1)
Solvency II Own Funds[7]	**14.8**	14.6

1. Following a change in accounting policy for LGIA term assurance reserves, specific IFRS balance sheet items have been restated, notably deferred acquisition costs, reinsurers' share of contract liabilities, non-participating insurance contracts, deferred tax liabilities and other liabilities. The overall net impact on the group's IFRS shareholders' equity as at 31 December 2017 is a reduction of £327m. Further details on the change in accounting policy is provided in Note 1.
2. Values are per the consolidated financial statements.
3. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
4. Differences in the measurement of technical provisions between IFRS and Solvency II.
5. Reflects valuation differences on other assets and liabilities, predominately in respect of borrowings measured at fair value under Solvency II.
6. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
7. Solvency II Own Funds do not include an accrual for the full year dividend of £704m (2017: £658m) declared after the balance sheet date.

Capital management policies and objectives

The group aims to manage its capital resources to maintain financial strength, policyholder security and relative external ratings advantage. The group also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt, subordinated debt and reinsurance.

Capital measures

The group measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the group operates and those which the directors consider most appropriate for managing the business. The measures used by the group include:

Accounting and economic bases

Management use financial information prepared on both an IFRS and Economic Capital basis to manage capital and cash flow usage and to determine dividend paying capacity.

The group maintains a risk-based capital model that is used to calculate the group's Economic Capital position and support the management of risk within the group. This modelling framework, suitably adjusted for regulatory constraints, also meets the needs of the Solvency II regime. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

Regulatory bases

The financial strength of the group's insurance subsidiaries is measured under various local regulatory requirements (see below).

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by insurance subsidiaries in excess of their insurance liabilities. The minimum capital requirements have been maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the group operates are detailed below:

Group regulatory basis

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

UK regulatory basis

At the balance sheet date, required capital for the life business was based on the Solvency II Framework Directive, as adopted by the PRA. All material EEA insurance firms, including Legal and General Assurance Society Limited, Legal & General Insurance Limited, and Legal and General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are required to hold eligible own funds in excess of their Solvency Capital Requirement, calculated on an Internal Model basis. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (LGRe) based in Bermuda contribute over 94% of the group's SCR.

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claims, expense and reserve items, with higher factors used for those items with greater underlying risk and lower factors for less risky items.

Bermudan regulatory basis

Bermudan regulated insurers are required to hold sufficient capital to meet 120% of the Bermudan Solvency Capital Requirement (BSCR). The BSCR model follows a standard formula framework; capital attributed to each risk is calculated by applying capital factors to the assets and liabilities. The individual risk elements (excluding operational risk) are combined using a covariance matrix and then added to an operational risk charge.

26 Acquisitions

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Purchased goodwill is recognised as an asset on the Consolidated Balance Sheet and is carried at cost less any accumulated impairment losses in accordance with IAS 36, 'Impairment of Assets'.

Private equity investment vehicles classified as subsidiaries are those entities over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control.

CALA Group (Holdings) Limited

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

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

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

The following table summarises the consideration for the acquisition, fair value of the 100% share of the assets acquired, liabilities assumed, and resulting allocation to goodwill.

	Fair value £m
Assets	
Intangible assets	25
Other non-current assets	4
Inventories	1,006
Other receivables	34
Cash and cash equivalents	18
Total assets	**1,087**
Liabilities	
Loans and borrowings	362
Trade and other payables	271
Other liabilities[1]	33
Total Liabilities	**666**
Fair value of net assets acquired	421
Fair value of purchase consideration	453
Goodwill arising on acquisition	**32**

1. Other liabilities include deferred tax balances.

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

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

Other acquisitions

During the year ended 31 December 2018, the group completed the acquisitions of 100% shareholdings in Canvas (the European exchange-traded fund platform) and Buddies Enterprises Limited.

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

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

27 Held for sale and discontinued operations

On 6 December 2017 the group announced the sale of its Mature Savings business to Swiss Re for £650m. The sale is expected to finalise in 2019 following the completion of the Part VII transfer.

On 1 June 2018 the group announced the sale of its stake in IndiaFirst Life Insurance Company Limited ("IndiaFirst Life"), a joint venture, to an affiliate of Warburg Pincus LLC for INR 7.1bn (c.£79m at GBP:INR 1:90). The sale completed on 7 February 2019.

The total balances classified as held for sale, and as discontinued operations, as a result of these transactions is presented below.

(i) Assets and liabilities of operations classified as held for sale

	2018 £m	2017 £m
Purchased interest in long term business and other intangible assets	3	3
Deferred acquisition costs	438	438
Investments in associates and joint ventures	33	73
Investment property	1,643	1,227
Financial investments	22,882	20,062
Reinsurers' share of contract liabilities	179	97
Cash and cash equivalents	767	322
Other assets[1]	289	362
Assets of operations classified as held for sale	**26,234**	22,584
Assets in consolidated funds[2]	3,067	11,065
Total assets of the disposal groups	**29,301**	33,649
Insurance contract and related liabilities[3]	6,243	7,136
Investment contract liabilities[4]	22,991	26,145
Operational borrowings	28	–
Payables and other financial liabilities	424	310
Other liabilities[1]	156	367
Liabilities of operations classified as held for sale	**29,842**	33,958
Total net liabilities of the disposal groups	**(541)**	(309)

1. Other assets and other liabilities include current and deferred tax balances.
2. Included in total assets of the disposal groups are assets in consolidated funds, which are held by the Mature Savings business and disclosed within financial investments on the Consolidated Balance Sheet. The group controls these funds and therefore consolidates 100% of the assets with any non-controlling interest recognised in the Net asset value attributable to unit holders. Following the disposal of the Mature Savings business, the group currently anticipates that it will retain control of these funds and so will continue to consolidate 100% of the assets while increasing the Net asset attributable to unit holders.
3. Insurance contract liabilities include participating insurance contracts, unallocated divisional surplus relating to with-profits business net of the value of in-force non-participating contracts.
4. Investment contract liabilities include participating and non-participating investment contracts.

(ii) Financial performance of discontinued operations

	2018 £m	2017 £m
Revenue[1]	(1,130)	3,000
Expenses[2]	1,209	(2,901)
Profit before tax	79	99
Tax expense	(15)	(19)
Profit after tax from discontinued operations	**64**	80
Total comprehensive income from discontinued operations	**64**	80

1. Revenue includes investment return.
2. Expenses include change in insurance and investment contract liabilities.

(iii) Cash flow information of discontinued operations

	2018 £m	2017 £m
Net cash outflow from operating activities	(31)	(464)
Net cash outflow from investing activities	–	–
Net cash outflow from financing activities	–	(89)

Financial Statements

Additional financial information

28 Segmental analysis

The group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

Reportable segments

The group has five reportable segments that are continuing operations, comprising LGR, LGIM, LGC, LGI and General Insurance, as set out in Note 2. Group central expenses and debt costs are reported separately. Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

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

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

(i) Profit/(loss) for the year

For the year ended 31 December 2018	LGR £m	LGIM £m	LGC £m	LGI £m	General Insurance £m	Group expenses and debt costs £m	Total continuing operations[1] £m
Operating profit/(loss)#	**1,548**	**407**	**322**	**308**	**–**	**(329)**	**2,256**
Investment and other variances	**95**	**(4)**	**(273)**	**(1)**	**(27)**	**22**	**(188)**
Losses attributable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(19)**	**(19)**
Profit/(loss) before tax attributable to equity holders	**1,643**	**403**	**49**	**307**	**(27)**	**(326)**	**2,049**
Tax (expense)/credit attributable to equity holders	**(267)**	**(81)**	**13**	**(39)**	**6**	**63**	**(305)**
Profit/(loss) for the year	**1,376**	**322**	**62**	**268**	**(21)**	**(263)**	**1,744**

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

1. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the year ended 31 December 2017, continuing operations also exclude profits relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.
2. The LGI tax credit of £182m in 2017 primarily reflects the impact of a one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate in 2017.

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

(ii) Revenue

Revenue comprises of the following:

Net premiums earned
Revenue from insurance and investment contracts has been described in section (e) of this Note.

Investment return
Investment return has been described in Note 29 of this report.

Fees from fund management and investment contracts*
The group generates revenue from acting as the investment manager for clients. Fees charged on investment management services are based on the contractual fee arrangements applied to assets under management and recognised as revenue as the services are provided.

The group's income from investment contracts is primarily derived from fees for administration and managing of funds in pension plans. Revenue generated on investment contracts is recognised as services are provided. No significant judgements are applied on the timing or transaction price. In the instances of performance fees where revenue is subject to meeting a certain performance threshold, such revenue is not recognised until the condition has been met, and it is highly probable that no significant reversal of amounts would occur. Variable costs directly related to securing new contracts are capitalised and amortised over the estimated period over which the revenue is expected to be generated.

Transaction fees are charged to implement trades for clients. Such fees are charged at the time the transaction takes place and are based on the size of the underlying contract.

House building*
House building revenue arises from the sale of residential properties and land, and is recognised net of discounts and sales incentives. Sales of private houses are recognised on legal completion. Following the implementation of IFRS 15, the sale proceeds of part exchange properties are also included in revenue. Sales of social housing, where multiple units are developed and sold under a contractual agreement with a single customer, typically a housing association, are recognised over time in accordance with construction progress. Sales of land and commercial property are recognised on unconditional exchange, namely when contracts are exchanged or missives concluded and, where appropriate, construction is complete. The transaction price is determined using extensive research and expert judgement, current market values and regional variations.

Warranties are provided on all properties and range from 2-10 years.

Professional services fees*
The group's professional services fees revenue arises from professional services provided by employed surveyors and third party providers, panel management fees and administration fees. These fees are based on fee scales or contracts. Revenue is recognised when the service has been rendered.

In addition, the group derives professional fees from facilitation of mortgage arrangements and related products such as conveyancing. These are based on an agreement/contract and could be tiered based on volume. The obligation in such instances is satisfied on completion of the mortgage/service, at which point the revenue is recognised. There is no significant judgement applied on the timing or amount of fee recognised.

Insurance broker*
Fees are charged on each performance obligation offered to the customer as per agreed structure. Revenue for placement services is recognised at the point in time when the intermediary has satisfied its performance obligation, that is when the terms of the insurance policy have been agreed contractually by the insurer and policyholder, and the insurer has a present right to payment from the policyholder. No significant judgements are applied on the timing or transaction price.

*Contracts are either expected to last one year or less, or reflect the right to consideration from a customer in an amount that corresponds directly with the value of the performance completed to date. As permitted under IFRS 15, the transaction price allocated to any unsatisfied contracts is not disclosed.

28 Segmental analysis (continued)

(ii) Revenue (continued)

Analysis of segmental information for continuing operations:

(a) Total revenue

	2018 £m	2017 £m
Total income	**1,264**	40,392
Share of profit from associates and joint ventures net of tax	**(15)**	(41)
Gain on acquisition/disposal of subsidiaries, associates and joint ventures	**(20)**	–
Total revenue from continuing operations[1]	**1,229**	40,351

1. Total revenue from continuing operations excludes the revenue of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For 2017, total revenue from continuing operations also excludes revenue relating to Legal & General Netherlands (£99m), and gain on sale of Legal & General Netherlands (£17m) which was included in the Consolidated Income Statement. Legal & General Netherlands was sold during 2017.

(b) Total income

For the year ended 31 December 2018	LGR £m	LGIM[1,2] £m	LGI £m	General Insurance £m	LGC and other[3] £m	Total continuing operations[4] £m
Internal income	–	172	–	–	(172)	–
External income	8,507	(10,654)	1,742	370	1,299	1,264
Total income	**8,507**	**(10,482)**	**1,742**	**370**	**1,127**	**1,264**

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

1. LGIM internal income relates to investment management services provided to other segments.
2. LGIM external income includes fees from fund management and investment return.
3. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
4. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.
5. Following a review of the segmentation of income between certain business divisions we have reallocated £518m for the year ended 31 December 2017 from LGI to LGC and other, as this better reflects the nature of that income.

(c) Fees from fund management and investment contracts

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

For the year ended 31 December 2017	LGIM £m	LGI[2] £m	LGC and other[1] £m	Total continuing operations[2] £m
Investment contracts	77	1	–	78
Investment management fees	768	1	(101)	668
Transaction fees	25	–	–	25
Total fees from fund management and investment contracts[3]	870	2	(101)	771

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
2. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.
3. Fees from fund management and investment contracts are a component of total revenue from continuing operations disclosed in Note 28 (ii)(a).

(d) Other operational income from contracts with customers

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

For the year ended 31 December 2017	LGR £m	LGIM £m	LGI[2] £m	LGC and other[1] £m	Total continuing operations[2] £m
House building	–	–	–	5	5
Professional services fees	1	2	168	(19)	152
Insurance broker	–	–	24	–	24
Total other operational income from contracts with customers[3]	1	2	192	(14)	181

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments. 2018 balances primarily reflects the consolidation of the results of CALA Homes.
2. Continuing operations exclude the results of the Mature Savings division which has been classified as discontinued following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For the year ended 31 December 2017, continuing operations also excludes income relating to Legal & General Netherlands, which was sold during 2017 and was previously reflected in the LGI divisional results.
3. Total other operational income from contracts with customers is a component of total revenue from continuing operations disclosed in Note 28 (ii)(a) and excludes the share of profit from associates and joint ventures and gain on acquisition of subsidiaries, associates and joint ventures.

(e) Gross written premiums on insurance contracts

Gross written premium represents the total premiums written by the group before deductions for reinsurance.

Long term insurance premiums are recognised as revenue when due for payment. General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums received relating to investment contracts are not recognised as income, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums from continuing operations are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

For the year ended 31 December 2018	LGR £m	LGI £m	General Insurance £m	Total continuing operations[1] £m
Gross written premiums	**10,263**	**2,580**	**410**	**13,253**

For the year ended 31 December 2017	LGR £m	LGI[1] £m	General Insurance £m	Total continuing operations[1] £m
Gross written premiums	4,971	2,530	369	7,870

1. Continuing operations exclude gross written premiums from the Mature Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this segmental analysis as at 31 December 2017, continuing operations also exclude the gross written premiums of Legal & General Netherlands. This business was sold during 2017 and was previously reflected in LGI divisional results.

29 Investment return

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The group earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders and as group capital.

	2018 £m	2017 £m
Dividend income	**5,204**	5,207
Interest income on financial investments at fair value through profit or loss	**4,897**	4,639
Other investment (expense)/income[1]	**(500)**	136
(Losses)/gains on financial investments designated at fair value through profit or loss	**(23,149)**	24,901
(Losses)/gains on derivative instruments designated as held for trading	**(36)**	772
Realised (losses)/gains on financial assets designated as available-for-sale	**(9)**	5
Financial investment return	**(13,593)**	35,660
Rental income	**444**	467
Net fair value gains on properties	**63**	21
Property investment return	**507**	488
Total investment return	**(13,086)**	36,148
Less investment return from discontinued operations	**1,239**	(2,691)
Investment return from continuing operations	**(11,847)**	33,457

1. Includes interest income of £50m (2017: £88m) on financial investments designated as available-for-sale. There was no significant impairment on assets classified as available-for-sale during the year (2017: £nil).

30 Tax

The tax shown in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income comprises current and deferred tax.

Current tax
Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Consolidated Income Statement unless it relates to items which are recognised in the Consolidated Statement of Comprehensive Income or directly in equity.

Deferred tax
Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited to the Consolidated Statement of Comprehensive Income or charged or credited directly in equity.

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.

Use of estimates
Tax balances include the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement. 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.

For tax this includes the determination of liabilities/recoverables for uncertain tax positions and estimation of future taxable income supporting deferred tax asset recognition.

As the group operates internationally, it is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice. The directors have assessed the group's uncertain tax positions and are comfortable that the provisions in place are not material individually or in aggregate, and that a reasonable possible alternative outcome in the next financial year would not have a material impact to the results of the group.

Tax rates
The table below provides a summary of the standard corporate income tax rates of territories we operate in.

	2018	2017
UK[1]	**19.0%**	19.25%
USA[2]	**21.0%**	35.0%
Bermuda	**0.0%**	0.0%
Hong Kong	**16.5%**	16.5%
Ireland	**12.5%**	12.5%
Japan	**30.86%**	30.86%

1. A reduction in the UK corporation tax rate to 17% from 1 April 2020 has been enacted in UK law. Rates between 19% and 17% have been applied to UK temporary differences to calculate UK deferred tax assets and liabilities on the basis of when temporary differences are expected to reverse.
2. A reduction in the US federal corporate income tax rate from 35% to 21% from 1 January 2018 has been enacted in US law. The rate of 21% has been applied to US temporary differences to calculate US deferred tax assets and liabilities.

30 Tax (continued)

(i) Tax charge in the Consolidated Income Statement

	2018 £m	2017 £m
Current tax	**358**	499
Deferred tax		
– Origination or reversal of temporary differences in the year	**(123)**	97
– Impact of reduction in UK and US corporate tax rates on deferred tax balances	**11**	(242)
Total deferred tax	**(112)**	(145)
Adjustment to equity holders' tax in respect of prior years	**(36)**	23
Total tax charge[1]	**210**	377
Less tax attributable to policyholder returns		
– Continuing operations	**(53)**	(70)
– Discontinued operations	**163**	(119)
	110	(189)
Total tax charge attributable to equity holders	**320**	188
Less: tax from discontinued operations attributable to equity holders	**(15)**	(19)
Tax from continuing operations attributable to equity holders	**305**	169

1. Total tax charge comprises tax attributable to continuing operations of £358m (2017: £239m) and a discontinued operations credit of £148m (2017: charge of £138m).

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

	Continuing operations 2018 £m	Total 2018 £m	Continuing operations 2017 £m	Total 2016 £m
Profit before tax attributable to equity holders	**2,049**	**2,128**	1,991	2,090
Tax calculated at 19.00% (2017: 19.25%)	**389**	**404**	383	402
Adjusted for the effects of:				
Recurring reconciling items:				
Income not subject to tax[1]	**–**	**–**	(11)	(11)
(Lower)/higher rate of tax on overseas profits[2]	**(55)**	**(55)**	1	1
Non-deductible expenses	**5**	**5**	1	1
Differences between taxable and accounting investment gains	**(4)**	**(4)**	(3)	(3)
Unrecognised tax losses	**–**	**–**	1	1
Non-recurring reconciling items:				
Income not subject to tax[1]	**(10)**	**(10)**	(4)	(4)
Non-deductible expenses	**5**	**5**	10	10
Differences between taxable and accounting investment gains	**–**	**–**	10	10
Adjustments in respect of prior years[3]	**(36)**	**(36)**	23	23
Impact of reduction in UK and US corporate tax rates on deferred tax balances[4]	**11**	**11**	(242)	(242)
Tax attributable to equity holders	**305**	**320**	169	188
Equity holders' effective tax rate[5]	**14.9%**	**15.0%**	8.5%	9.0%

1. The acquisition of the remaining share capital of CALA Homes in the year significantly reduced our non-taxable share of income from joint ventures.
2. The lower rate of tax on overseas profits in 2018 primarily relates to the effect of our Bermudan operations taxed at 0% and our US operations taxed at 21%.
3. Adjustments in respect of prior years relates to revisions to earlier estimates.
4. The US federal corporate income tax rate reduced from 35% to 21% from 1 January 2018. The enacted rate of 21% has been applied to the US temporary differences to calculate US deferred tax assets and liabilities on the basis of when temporary differences are expected to reverse. 2017 includes the impact of the one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate.
5. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

The UK standard rate of corporation tax is used in the above reconciliation as a significant proportion of the group's profits are earned and are taxable in the UK, which is also the main domicile for the group.

(ii) Deferred tax – Consolidated Balance Sheet

Deferred tax assets and liabilities have been recognised/(provided) for temporary differences and unused tax losses. The recognition of deferred tax assets in respect of temporary differences and tax losses are supported by management's best estimate of future taxable profits to absorb the losses in future years. Deferred tax assets and liabilities presented on the Consolidated Balance Sheet have been offset to the extent it is permissible under the relevant accounting standards. The net movement in deferred tax assets and liabilities during the year is as follows:

	Net tax liability as at 1 January 2018[1] £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Acquisitions £m	Net tax liability as at 31 December 2018 £m
Deferred acquisition expenses	15	6	4	–	25
– UK	(40)	–	–	–	(40)
– Overseas	55	6	4	–	65
Difference between the tax and accounting value of insurance contracts	(334)	(216)	(27)	–	(577)
– UK	(69)	(96)	(6)	–	(171)
– Overseas	(265)	(120)	(21)	–	(406)
Realised and unrealised gains on investments	(282)	202	8	–	(72)
Excess of depreciation over capital allowances	15	(3)	–	–	12
Excess expenses	31	(10)	–	–	21
Accounting provisions and other	(33)	27	–	(22)	(28)
Trading losses[2]	31	126	6	–	163
Pension fund deficit	70	(7)	(22)	–	41
Acquired intangibles	(2)	(2)	–	–	(4)
Total net deferred tax liabilities[3]	**(489)**	**123**	**(31)**	**(22)**	**(419)**
Less: net deferred tax liabilities of operations classified as held for sale	262	(165)	–	–	97
Net deferred tax liabilities	**(227)**	**(42)**	**(31)**	**(22)**	**(322)**
Presented on the Consolidated Balance Sheet as:					
– Deferred tax assets	7	–	–	–	7
– UK deferred tax liabilities	(13)	(80)	(29)	(22)	(144)
– Overseas deferred tax liabilities	(221)	38	(2)	–	(185)

1. US deferred tax liabilities in respect of deferred acquisition costs and non-participating insurance contracts have been restated following the change in accounting policy for LGIA term assurance reserves. Further details on the change of accounting policy are provided in Note 1. The net tax impact to overseas deferred tax liabilities is a reduction of £116m at 31 December 2017.
2. Trading losses include UK trade and US operating losses of £4m (2017: £4m) and £159m (2017: £27m) respectively.
3. Total net deferred tax liabilities are presented gross of held for sale liabilities in 2018. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 27.

30 Tax (continued)

(ii) Deferred tax – Consolidated Balance Sheet (continued)

	Net tax liability as at 1 January 2017[1] £m	Tax (charged)/ credited to the income statement £m	Tax charged)/ credited to equity £m	Transfers[2] £m	Change in Accounting Policy[1] £m	Net tax liability as at 31 December 2017[1] £m
Deferred acquisition expenses	(280)	146	26	–	123	15
– UK	(45)	5	–	–	–	(40)
– Overseas	(235)	141	26	–	123	55
Difference between the tax and accounting value of insurance contracts	(286)	93	15	–	(156)	(334)
– UK	(123)	52	2	–	–	(69)
– Overseas	(163)	41	13	–	(156)	(265)
Realised and unrealised gains on investments	(255)	(20)	(7)	–	–	(282)
Excess of depreciation over capital allowances	15	–	–	–	–	15
Excess expenses	49	(18)	–	–	–	31
Accounting provisions and other	(51)	18	–	–	–	(33)
Trading losses	80	(45)	(4)	–	–	31
Pension fund deficit	82	(27)	15	–	–	70
Acquired intangibles	(13)	11	–	–	–	(2)
Total net deferred tax liabilities	(659)	158	45	–	(33)	(489)
Less: net deferred tax liabilities of operations classified as held for sale	–	–	–	262	–	262
Net deferred tax liabilities	(659)	158	45	262	(33)	(227)
Presented on the Consolidated Balance Sheet as:						
– Deferred tax assets	5	2	–	–	–	7
– UK deferred tax liabilities	(291)	(1)	17	262	–	(13)
– Overseas deferred tax liabilities	(373)	157	28	–	(33)	(221)

1. US deferred tax liabilities in respect of deferred acquisition costs and non-participating insurance contracts have been restated following the change in accounting policy for LGIA term assurance reserves. Further details on the change of accounting policy are provided in Note 1. The net impact to overseas deferred tax liabilities is a reduction of £116m at 31 December 2017.
2. Transfers include net deferred tax liabilities that are now classified as held for sale.

Unrecognised deferred tax assets

The group has the following unrelieved tax losses and deductible temporary differences carried forward as at 31 December 2018, none of which have expiry dates under current tax laws. No deferred tax asset has been recognised in respect of these as at 31 December 2018 (or 31 December 2017), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. These tax assets will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2018 is £31m (2017: £22m).

	Gross 2018 £m	**Tax 2018 £m**	Gross 2017 £m	Tax 2017 £m
Trading losses	**80**	**14**	31	5
Capital losses	**69**	**14**	69	14
Unrelieved interest payments on debt instruments	**14**	**3**	14	3
Unrecognised deferred tax assets[1]	**163**	**31**	114	22

1. Unrecognised deferred tax assets include UK balances of £25m (2017: £19m) and trade losses arising overseas of £6m (2017: £3m).

(iii) Current tax – Consolidated Balance Sheet

	2018 £m	2017 £m
Tax recoverable within 12 months	**230**	155
Tax recoverable after 12 months	**271**	265
Total current tax assets	**501**	420
Less: current tax assets of operations classified as held for sale[1]	**(83)**	(78)
Current tax assets	**418**	342

	2018 £m	2017 £m
Tax due within 12 months	**133**	223
Tax due after 12 months	**40**	47
Total current tax liabilities	**173**	270
Less: current tax liabilities of operations classified as held for sale[1]	**(2)**	(47)
Current tax liabilities	**171**	223

1. Detailed disclosure on liabilities of operations classified as held for sale items is included in Note 27.

(iv) Tax charged directly in equity

	Notes	2018 £m	2017 £m
Current tax		**(7)**	(2)
Deferred tax	30(ii)	**31**	(45)
Tax recognised directly in equity[1]		**24**	(47)

1. Tax recognised directly in equity wholly relates to continuing operations.

31 Auditor's remuneration

	2018 £m	2017 £m
Remuneration receivable by the Company's auditors for the audit of the consolidated and company financial statements	**1.1**	1.3
Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
– The audit of the Company's subsidiaries	**4.9**	4.8
– Audit related assurance services – required by national or EU legislation	**0.8**	0.8
– Audit related assurance services – other	**0.6**	1.0
– Other assurance services	**0.2**	0.4
Total assurance services	**7.6**	8.3
Tax compliance services	**0.1**	0.1
Other tax services	**0.1**	0.1
Services related to corporate finance transactions	**0.9**	0.3
Other services not covered above	**0.4**	0.3
Total non-assurance services	**1.5**	0.8
Total remuneration	**9.1**	9.1

In addition to the fees for 2018 shown above, during 2018 the group paid PwC £0.4m in relation to the 2017 audit of group subsidiaries.

The fee for non-audit services is less than 70% of the average of fees paid in the last three consecutive financial years for the statutory audit of the group.

32 Employee information

	2018	2017
Monthly average number of staff employed during the year:		
UK[1]	**7,974**	6,849
USA	**744**	653
Europe	**11**	43
Other	**41**	25
Worldwide employees	**8,770**	7,570

	Notes	2018 £m	2017 £m
Wages and salaries		**581**	459
Social security costs		**63**	70
Share-based incentive awards	33	**38**	31
Defined benefit pension costs	23	**84**	93
Defined contribution pension costs	23	**54**	49
Total employee related expenses		**820**	702

1. On 12 March 2018 the group increased its shareholding in CALA Group (Holdings) Limited to 100% resulting in an increase of 759 in the average number of UK staff employed.

33 Share-based payments

The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the Consolidated Income Statement and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the Consolidated Income Statement and the actual cost to the group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(i) Description of plans

The group provides a number of equity settled share-based long term incentive plans for directors and eligible employees.

The Savings Related Share Option Scheme (SAYE) allows employees to enter into a regular savings contract over three and/or five years, coupled with a corresponding option over shares of the group. The grant price is equal to 80% of the quoted market price of the group shares on the invitation date. Fair value is calculated using the Black-Scholes model.

Nil Cost Options can be granted to senior managers under the Performance Share Plan (PSP), based upon individual and company performance. Pre the 2014 award, the number of performance shares transferred to the individual at the end of the three year vesting period was dependent on the group's relative Total Shareholder Return (TSR). New performance conditions attached to awards from 2014 result in the number of options that vest being equally dependent on the group's relative TSR and earnings per share (EPS)/dividend per share (DPS) growth. In addition, the awards vest after the end of the three year performance period and become exercisable in thirds over three, four and five years. Further changes were made to the performance conditions for awards granted in 2018. The number of options that vest in respect of these awards is equally dependent on the group's relative TSR and EPS growth (subject to Solvency II objectives). The majority of awards vest after the end of the three year performance period and become exercisable in thirds in year three, four and five. Awards granted to Executive Directors and Persons Delivering Managerial Responsibilities vest after three years but any options that vest will not become exercisable until year five.

The Share Bonus Plan (SBP) awards restricted shares, combined awards of CSOP options and restricted shares and combined awards of CSOP options and nil-paid options. With the exception of the Executive Directors, recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments.

Under the HMRC tax-advantaged Employee Share Plan (ESP), permanent UK employees may elect to purchase group shares from the market at the prevailing market price on a monthly basis. The group supplements the number of shares purchased by giving employees one free matching share for every one share purchased up to the first £20 of the employees' contributions and one free matching share for every two shares purchased with contributions between £20 and £125. There is currently no match on contributions between £125 and £150. From time to time, the group may make a grant of free shares. Both the free and matching shares must be held in trust for three years. The fair value of granted shares is equal to the market value at grant date.

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	PSP
Award date	6 April 2018	16 April 2018
Weighted average share price	261.7p	268.0p
Weighted average exercise price	212.0p	n/a
Expected volatility	27%	29%
Expected life	3-5 years	3-5 years
Risk free investment rate	0.89-1.08%	0.92%
Dividend yield	5.6%	5.6%

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2018 was £38m (2017: £31m) before tax, all of which related to equity settled share schemes. This is broken down between the group's plans as detailed below:

	2018 £m	2017 £m
Share bonus plan (SBP)	24	17
Performance share plan (PSP)	10	9
Employee share plan (ESP)	2	3
Savings related share option scheme (SAYE)	2	2
Total share-based payment expense	**38**	**31**

(iii) Outstanding share options

	SAYE options 2018	Weighted average exercise price 2018 p	CSOP options 2018	Weighted average exercise price 2018 p	SBP options 2018	Weighted average exercise price 2018 p
Outstanding at 1 January	12,604,142	193	3,963,940	257	358,611	–
Granted during the year	4,163,957	212	1,396,946	269	103,791	–
Forfeited during the year	(863,280)	202	–	–	–	–
Exercised during the year	(2,333,913)	194	(6,117)	245	(12,768)	–
Expired during the year	(730,922)	196	(1,303,093)	281	(51,987)	–
Outstanding at 31 December	12,839,984	199	4,051,676	254	397,647	–
Exercisable at 31 December	66,991	205	3,252	118	–	–
Weighted average remaining contractual life (years)	2		8		8	

Exercised during the year includes 18,885 options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE options 2017	Weighted average exercise price 2017 p	CSOP options 2017	Weighted average exercise price 2017 p	SBP options 2017	Weighted average exercise price 2017 p
Outstanding at 1 January	14,803,696	185	3,897,089	246	393,574	–
Granted during the year	3,717,189	201	1,451,394	250	75,702	–
Forfeited during the year	(789,845)	199	–	–	–	–
Exercised during the year	(3,781,727)	169	(1,166,762)	212	(78,583)	–
Expired during the year	(1,345,171)	193	(217,781)	253	(32,082)	–
Outstanding at 31 December	12,604,142	193	3,963,940	257	358,611	–
Exercisable at 31 December	159,132	172	3,252	118	–	–
Weighted average remaining contractual life (years)	2		8		8	

Exercised during the year includes 1,245,345 options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

33 Share-based payments (continued)

(iv) Total options

Options over 17,289,307 shares (2017: 16,926,693 shares) are outstanding under CSOP, SAYE and SBP as at 31 December 2018. These options have a range of weighted average exercise prices between 0p and 254p (2017: 0p and 257p) and maximum remaining contractual life up to 2028 (2017: 2027).

34 Share capital, share premium and employee scheme treasury shares

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of own equity instruments, or is a derivative which will be settled only by the group exchanging a fixed amount of cash, or other financial assets, for a fixed number of its own equity instruments.

Where any group entity purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the Consolidated Balance Sheet.

(i) Share capital and share premium

Authorised share capital	2018 Number of shares	2018 £m	2017 Number of shares	2017 £m
As 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 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**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2017	5,954,656,466	149	981
Options exercised under share option schemes	3,781,727	–	7
As at 31 December 2017	5,958,438,193	149	988

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

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

(ii) Employee scheme treasury shares

The group uses the Employee Share Ownership Trust (ESOT) and the Legal & General Group Employee Share Plan (ESP) to purchase and hold shares of the group for delivery to employees under various employee share schemes. Shares owned by these vehicles are included at cost in the Consolidated Balance Sheet and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme treasury shares until they vest to employees. Share-based liabilities to employees may also be settled via purchases directly from the market or by the issue of new shares.

The ESOT has waived its voting rights and its rights to some of the dividends payable on the shares it holds. Employees are entitled to dividends on the shares held on their behalf within the ESP.

	2018 Number of shares	2018 £m	2017 Number of shares	2017 £m
As at 1 January	**23,275,545**	**40**	21,433,142	30
Shares purchased	**6,631,399**	**17**	6,988,042	16
Shares vested	**(2,430,847)**	**(5)**	(5,145,639)	(6)
As at 31 December	**27,476,097**	**52**	23,275,545	40

35 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.

36 Other liabilities

	2018 £m	2017[1] £m
Accruals	**375**	344
Deferred income	**53**	55
Other	**248**	146
Total other liabilities	**676**	545
Less: liabilities of operations classified as held for sale[2]	**(57)**	(54)
Other liabilities	**619**	491
Due within 12 months[3]	**595**	480
Due after 12 months[3]	**81**	65

1. Following the change in accounting policy for LGIA term assurance reserves other liabilities have been restated. The net impact of the restatement is a reduction in other liabilities of £72m. Further details on the change in accounting policy are provided in Note 1.
2. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 27.
3. The maturity analysis of the liabilities within and after 12 months is based on the Total other liabilities as at 31 December.

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

	2018 £bn	2017 £bn
Assets under management[1]	1,015	983
Derivative notionals[1,2]	(304)	(273)
Third party assets[1,3]	(284)	(261)
Other[1,4]	53	42
Total financial investments, investment property and cash and cash equivalents	480	491
Less: assets of operations classified as held for sale[5]	(25)	(22)
Financial investments, investment property and cash and cash equivalents	455	469

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

38 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 £84m (2017: £93m) for all employees.

At 31 December 2018 and 31 December 2017 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:

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

(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 £59m (2017: £161m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;
- Loans outstanding from related parties, including preference shares, at 31 December 2018 of £201m (2017: £203m), with a further commitment of £6m;
- The group has total other commitments of £837m to related parties (2017: £633m), of which £507m has been drawn at 31 December 2018 (2017: £357m).

39 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 judgements.

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

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

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

40 Commitments

(i) Capital commitments

	2018 £m	2017 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December:		
– Long term business	632	478

(ii) Operating lease commitments

	2018 £m	2017 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	29	24
– Later than 1 year and not later than 5 years	101	88
– Later than 5 years	350	360
Lease commitment payable	480	472
Future aggregate minimum sublease payments expected to be received under operating subleases	126	83
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	400	392
– Later than 1 year and not later than 5 years	1,455	1,445
– Later than 5 years	4,751	4,945
Lease commitment receivable	6,606	6,782

The group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

41 Post balance sheet events

IndiaFirst Life Insurance Company Limited

The sale of the group's stake in IndiaFirst Life Insurance Company Limited (announced on 1 June 2018) was completed on 7 February 2019.

5.875% Sterling undated subordinated notes

On 4 February 2019, notification was given that the group intends to redeem the 5.875% Sterling undated subordinated notes in full on 1 April 2019. Effective from the notification date, the notes were no longer treated as tier 2 own funds for Solvency II purposes.

42 Subsidiaries

The Companies Act 2006 requires disclosure of information about the group's subsidiaries, associates, joint ventures and other significant holdings. A complete list of the group's subsidiaries, associates, joint ventures and significant holdings in this context is provided in Notes 42 and 43.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet. The basis by which subsidiaries are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The particulars of the company's subsidiaries, mutual funds and partnerships that have been consolidated as at 31 December 2018 are listed below. The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All subsidiaries have a 31 December year end reporting date and are 100% owned, unless stated otherwise. The registered office of all subsidiaries in England and Wales is One Coleman Street, London EC2R 5AA, United Kingdom, and in Ireland is Dillon Eustace, 33 Sir John Rogerson's Quay, Dublin 2, Ireland, unless otherwise noted. All subsidiaries are held through intermediate holding companies unless noted that they are held directly by the company. Subsidiaries that are consolidated where the group owns less than 50% of the ordinary share capital, are consolidated based on an assessment of control normally arising from special rights attaching to the class of share owned, other contractual arrangements and factors such as the purpose of the investee, the nature of its relevant activities, voting rights (including potential voting rights) and substantive and protective rights.

The group reassesses the appropriateness of the consolidation of an investee whenever facts and circumstances indicate that there has been a change in the relationship between the group and the investee which affects control.

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Country of incorporation: England and Wales				
103 Wardour Street Retail Investment Company Limited	Investment vehicle	Ordinary	31-Dec	100.0
Access Development General Partner Limited	Fund general partner	Ordinary	31-Dec	100.0
Antham 1 Limited	Investment vehicle	Ordinary	31-Dec	100.0
Banner (Spare) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Construction Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Developments Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Freehold Limited[1]	Letting and operating of leased real estate	Ordinary	31-Dec	100.0
Banner Homes Bentley Priory Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Central Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Group Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Limited[1]	Dormant company	Ordinary	31-Dec	100.0
Banner Homes Midlands Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Southern Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Ventures Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
Banner Management Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
BTR Core Limited	Investment vehicle	Ordinary	31-Aug	100.0
Bucklers Park Estate Management Company Limited	Management of real estate	Limited by guarantee	31-May	100.0
Buddies Enterprises Limited	Pet insurance	Ordinary	31-Dec	100.0
CALA (ESOP) Trustees Limited[1]	Financial intermediation	Ordinary	31-Dec	100.0
CALA 1 Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Group (Holdings) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Chiltern) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Midlands) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (North Home Counties) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (South Home Counties) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Southern) Limited[1]	Non-trading company	Ordinary	31-Dec	100.0
CALA Homes (Thames) Limited[1]	Non-trading company	Ordinary	31-Dec	100.0
CALA Homes (Yorkshire) Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Properties Banbury Limited[1]	Dormant company	Ordinary	31-Dec	100.0
Care Secured Limited[1]	Dormant company	Ordinary	31-Dec	100.0
Chineham General Partner Limited	Dormant company	Ordinary	31-Dec	100.0
Chineham Shopping Centre Limited Partnership	Investment vehicle	Ordinary	31-Dec	100.0
City & Urban Developments Limited	Holding company	Ordinary	31-Dec	100.0
CleverMover Limited	Provision of services	Ordinary	31-Dec	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	Ordinary	31-Dec	100.0
Gresham Street General Partner Limited	Investment vehicle	Ordinary	31-Dec	100.0
Gresham Street Limited Partnership	Limited partnership	Ordinary	31-Dec	100.0
Haut Investments 2 Limited	Holding company	Ordinary	31-Dec	100.0
Haut Investments Limited	Holding company	Ordinary	30-Dec	100.0
Industrial Property Investment Fund	Investment vehicle	Ordinary	31-Dec	100.0
Investment Discounts On Line Limited	Insurance agents and brokers	Ordinary	31-Dec	100.0
IPIF Trade General Partner Limited	Dormant company	Ordinary	31-Dec	100.0
Jimcourt Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0

1. Registered office: CALA House, 54 The Causeway, Surrey, TW18 3AX

42 Subsidiaries (continued)

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Latchmore Park Nominee No.1 Limited	Non-trading company	Ordinary	31-Dec	100.0
Legal & General (Caerus) Limited	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General (PMC Trustee) Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General (Portfolio Management Services) Limited	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General (Portfolio Management Services) Nominees Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General (Strategic Land North Horsham) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General (Strategic Land) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General (Unit Trust Managers) Limited	Unit trust management	Ordinary	31-Dec	100.0
Legal & General (Unit Trust Managers) Nominees Limited	Non-trading company	Ordinary	31-Dec	100.0
Legal & General Affordable Homes (Development) Limited	Domestic building construction	Ordinary	31-Dec	100.0
Legal & General Affordable Homes (Operations) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Affordable Homes Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Capital Investments Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Co Sec Limited[2]	Dormant company	Ordinary	31-Dec	100.0
Legal & General Development Assets Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Distribution Services Limited	Distribution company	Ordinary	31-Dec	100.0
Legal & General Employee Benefits Administration Limited	Non-trading company	Ordinary	31-Dec	100.0
Legal & General Estate Agencies Limited[2]	Mortgage finance company	Ordinary	31-Dec	100.0
Legal & General Finance PLC[2]	Treasury operations	Ordinary	31-Dec	100.0
Legal & General FX Structuring (SPV) Limited	SPV[3]	Ordinary	31-Dec	100.0
Legal & General GP LLP	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Holdings No.2 Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Home Finance Administration Services Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Home Finance Holding Company Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Home Finance Limited	Mortgage finance company	Ordinary	31-Dec	100.0
Legal & General Homes (Services Co) Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Arborfield) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Crowthorne) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Shrivenham) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Communities Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Homes Modular Limited	Development of modular housing	Ordinary	31-Dec	100.0
Legal & General Insurance Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Insurance Holdings No. 2 Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Insurance Limited	General insurance	Ordinary	31-Dec	100.0
Legal & General International (Holdings) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General International Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Investment Management (Holdings) Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Investment Management Funds ICVC	Open ended investment company	Ordinary	31-Dec	100.0
Legal & General Investment Management Limited	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General Leisure Fund Trustee Limited	Investment vehicle	Ordinary	31-Dec	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	Ordinary	31-Dec	100.0

2. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.
3. Special Purpose Vehicle.

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Legal & General LTM Structuring (SPV) Limited	SPV[3]	Ordinary	31-Dec	100.0
Legal & General Middle East Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Overseas Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Overseas Operations Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Partnership Holdings Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Partnership Services Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Pension Fund Trustee Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General Pension Scheme Trustee Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General Pensions Limited	SPV[3]	Ordinary	31-Dec	100.0
Legal & General Property Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Property Partners (Industrial Fund) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Property Partners (Industrial) Nominees Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General Property Partners (IPIF GP) LLP	Investment in UK real estate	Partnership	31-Dec	100.0
Legal & General Property Partners (Leisure GP) LLP	Fund general partner	Partnership	31-Dec	100.0
Legal & General Property Partners (Leisure) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Property Partners (Life Fund) Limited	Investment vehicle	Ordinary	31-Dec	100.0
Legal & General Property Partners (Life Fund) Nominee Limited	Investment vehicle	Ordinary	31-Dec	100.0
Legal & General Property Partners (UK PIF Geared) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Property Partners (UK PIF) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Property Partners (UKPIF Geared Two) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Property Partners (UKPIF Two) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Re Holdings Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Resources Limited[2]	Provision of services	Ordinary	31-Dec	100.0
Legal & General Retail Investments (Holdings) Limited[2]	Holding company	Ordinary	31-Dec	100.0
Legal & General Senior Living Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Share Scheme Trustees Limited[2]	Dormant company	Ordinary	31-Dec	100.0
Legal & General Surveying Services Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Trustees Limited	Fund trustee	Ordinary	31-Dec	100.0
Legal & General UK PIF Two GP LLP	Investment in UK real estate	Partnership	31-Dec	100.0
Legal and General Assurance (Pensions Management) Limited	Long-term business	Ordinary	31-Dec	100.0
Legal and General Assurance Society Limited	Long-term and general insurance	Ordinary	31-Dec	100.0
LGIM Commercial Lending Limited	Commercial lending	Ordinary	31-Dec	100.0
LGIM Corporate Director Limited	Non-trading company	Ordinary	31-Dec	100.0
LGIM International Limited	Institutional fund management	Ordinary	31-Dec	100.0
LGIM Real Assets (Operator) Limited	Development of building projects	Ordinary	31-Dec	100.0
LGIM Real Assets Limited	Development of building projects	Ordinary	31-Dec	100.0
LGP Newco Limited	Dormant company	Ordinary	31-Dec	100.0
LGPL Cornwall Limited	Investment vehicle	Ordinary	31-Dec	100.0
LGV Capital Limited	Venture and development capital	Ordinary	31-Dec	100.0
LGV Capital Partners Limited	Venture and development capital	Ordinary	31-Dec	100.0
ND7 Limited	Development of building projects	Ordinary	31-Dec	100.0
New Bailey (East) Management Company Limited	Investment company	Limited by guarantee	31-Dec	100.0

2. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.
3. Special Purpose Vehicle.

42 Subsidiaries (continued)

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
New Bailey (West) Management Company Limited	Investment company	Limited by guarantee	31-Dec	100.0
New Life Mortgage Funding Limited	Mortgage finance company	Ordinary	31-Dec	100.0
Northampton General Partner Limited	Investment vehicle	Ordinary	31-Dec	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	Ordinary	31-Dec	100.0
NSC Building A Limited	Real estate trading	Ordinary	31-Dec	100.0
NSC Building B Limited	Real estate trading	Ordinary	31-Dec	100.0
Old Cornwall Limited	Investment vehicle	Ordinary	31-Dec	100.0
Performance Retail (General Partner) Limited	Development of building projects	Ordinary	31-Dec	100.0
Performance Retail (Nominee) Limited	Dormant company	Ordinary	31-Dec	100.0
Performance Retail Limited Partnership	Limited partnership	Ordinary	31-Dec	100.0
Senior Living (Bramshott Place) Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Caddington) Limited	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Durrants) Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Exeter) Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Freelands) Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Ledian Farm) Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Tattenhall) Limited[4]	Development of building projects	Ordinary	31-Dec	100.0
Senior Living (Tunbridge Wells) Limited	Buying and selling of own real estate	Ordinary	31-Dec	100.0
Senior Living (Turvey) Limited	Buying and selling of own real estate	Ordinary	30-Nov	100.0
Senior Living (Warwick Gates) Limited[4]	Development of building projects	Ordinary	31-Dec	100.0
Senior Living Finance 1 Limited	Dormant company	Ordinary	31-Dec	100.0
Senior Living Medici Holdco Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living Medici Limited[4]	Dormant company	Ordinary	31-Dec	100.0
Senior Living Urban (Bath) Limited	Dormant company	Ordinary	31-Oct	100.0
Senior Living Urban Limited	Holding company	Ordinary	31-Oct	100.0
Synergy Gracechurch Limited	Investment vehicle	Ordinary	31-Dec	100.0
Tattenhall Care Village LLP	Trading company	Ordinary	31-Dec	100.0
Terminus Road (Nominee 1) Limited	Dormant company	Ordinary	31-Dec	100.0
Terminus Road (Nominee 2) Limited	Dormant company	Ordinary	31-Dec	100.0
The Advantage Collection Limited[1]	Domestic building construction	Ordinary	31-Dec	100.0
The Pathe Building Management Company Limited	Investment vehicle	Ordinary	31-Dec	100.0
Warwick Gates LLP	Trading company	Ordinary	31-Dec	100.0
Whitegates (Holdings) Limited	Dormant company	Ordinary	31-Dec	100.0
L&G Future World Sustainable Opportunities	Unit trust	Unit	31-Dec	99.9
L&G Real Capital Builder Fund	Unit trust	Unit	31-Dec	99.9
L&G European Equity Income Fund	Unit trust	Unit	31-Dec	99.6
L&G Future World Gender in Leadership UK Index	Unit trust	Unit	31-Dec	98.8
L&G Real Income Builder Fund	Unit trust	Unit	31-Dec	95.8
L&G Multi-Asset Target Return Fund	Unit trust	Unit	31-Dec	93.0
L&G UK Smaller Companies Trust	Unit trust	Unit	31-Dec	92.9
L&G Growth Trust	Unit trust	Unit	31-Dec	91.2
L&G Cash Trust	Unit trust	Unit	31-Dec	80.4

1. Registered office: CALA House, 54 The Causeway, Surrey, TW18 3AX
4. Registered office: The Stanley Building, 7 St Pancras Square, London N1C 4AG

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
L&G UK Special Situations Trust	Unit trust	Unit	31-Dec	75.6
LGIM Global Corporate Bond Fund	Open ended investment company	Ordinary	31-Dec	73.0
L&G Global Developed Four Factor Scientific Beta Index Fund	Authorised contractual schemes	Ordinary	31-Dec	67.0
L&G European Trust	Unit trust	Unit	31-Dec	66.0
L&G UK Alpha Trust	Unit trust	Unit	31-Dec	61.7
L&G Global Real Estate Dividend Index Fund	Unit trust	Unit	31-Dec	59.3
L&G High Income Trust	Unit trust	Unit	31-Dec	55.0
L&G Dynamic Bond Trust	Unit trust	Unit	31-Dec	52.4
ECV Partnerships Tattenhall Limited[4]	Limited partnership	Ordinary	31-Dec	50.0
ECV Partnerships Warwick Limited[4]	Limited partnership	Ordinary	31-Dec	50.0
Thorpe Park Developments Limited[5]	Property development company	Ordinary	31-Dec	50.0
Thorpe Park Holdings Limited[5]	Holding company	Ordinary	31-Dec	50.0
TP 2005 Limited[5]	Dormant company	Ordinary	31-Dec	50.0
TP Property Services Limited[5]	Property services	Ordinary	31-Dec	50.0
L&G Future World Equity Factors Index Fund	Unit trust	Ordinary	31-Dec	49.0
L&G Multi Manager Balanced Trust	Unit trust	Unit	31-Dec	48.1
L&G European Index Trust	Unit trust	Unit	31-Dec	44.4
L&G Emerging Markets Government Bond (US$) Index Fund	Unit trust	Unit	31-Dec	42.9
L&G Ethical Trust	Unit trust	Unit	31-Dec	42.6
L&G Japan Index Trust	Unit trust	Unit	31-Dec	40.8
L&G Global Emerging Market Index Fund	Unit trust	Unit	31-Dec	40.0
L&G Fixed Interest Trust	Unit trust	Unit	31-Dec	36.6
L&G Global Infrastructure Fund	Unit trust	Unit	31-Dec	33.9
L&G UK Mid Cap Index Fund	Unit trust	Unit	31-Dec	31.7
L&G Emerging Markets Government Bond (Local Currency) Index Fund	Unit trust	Unit	31-Dec	30.8
L&G US Index Trust	Unit trust	Unit	31-Dec	28.7
L&G Mixed Investment 0-20% Fund	Unit trust	Unit	31-Dec	25.3
L&G Pacific Index Trust	Unit trust	Unit	31-Dec	24.8
Sapphire Campus Management Company Limited	Investment vehicle	Ordinary	31-Dec	9.5
Country of incorporation: Hong Kong				
Legal & General Investment Management Asia Limited[6]	Institutional fund management	Ordinary	31-Dec	100.0
Country of incorporation: Ireland				
L&G Future World Global Credit Fund – UK	QIAIF[7]	Ordinary	31-Dec	100.0
L&G Multi Asset Core 20 Fund	ICAV[8]	Ordinary	31-Dec	100.0
L&G Multi Asset Core 45 Fund	ICAV[8]	Ordinary	31-Dec	100.0
L&G Multi Asset Core 75 Fund	ICAV[8]	Ordinary	31-Dec	100.0
Legal & General Fund Managers (Ireland) Limited[9]	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General ICAV	Open Ended Umbrella Investment Company	Ordinary	31-Dec	100.0
Legal & General UCITS Managers (Ireland) Limited	Institutional fund management	Ordinary	31-Dec	100.0
LGIM (Ireland) Risk Management Solutions Plc	Management company	Ordinary	31-Dec	100.0
LGIM 2020 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0

4. Registered office: The Stanley Building, 7 St Pancras Square, London N1C 4AG
5. Registered office: Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ
6. Registered office: Room 902, 9th Floor, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong
7. Qualifying Investor Alternative Investment Fund.
8. Irish Collective Asset-management Vehicle.
9. Registered office: Grand Canal House, 1 Upper Grand Canal Street, Dublin 4, Ireland.

42 Subsidiaries (continued)

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM 2020 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2020 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2024 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2025 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2025 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2025 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2030 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2030 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2030 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2030 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2034 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2035 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2035 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2035 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2037 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2038 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2040 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2040 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2040 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2040 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2042 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2042 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2045 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2045 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2045 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2047 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2049 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2050 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2050 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2050 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2050 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2055 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2055 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2055 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2055 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2060 FIXED FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2060 INFLATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2060 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2060 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2062 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2068 LEVERAGED GILT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM 2068 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM Active Gilts All Stocks Fund AH	QIAIF[7]	Ordinary	31-Dec	100.0

7. Qualifying Investor Alternative Investment Fund.

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM Bespoke Active Credit Fund AM	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM Bespoke Active Credit Fund BP	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM Bespoke Active Credit Fund BS	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM CREDIT AND LIQUIDITY – FUND BN	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM CREDIT AND LIQUIDITY-FUND BM	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM EURO 2030 REAL FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM FIXED LONG DURATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM FIXED SHORT DURATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND A	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AC	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AK	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AN	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AO	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AP	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AQ	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AR	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AS	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AU	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AV	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AW	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AY	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND AZ	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND B	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND BA	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND BB	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND BF	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND BH	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND BJ	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND BR	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND C	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND DC	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND H	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND I	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND J	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND L	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND M	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND O	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND P	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND Q	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND R	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND V	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND W	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND WH	QIAIF[7]	Ordinary	31-Dec	100.0

7. Qualifying Investor Alternative Investment Fund.

42 Subsidiaries (continued)

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM HEDGING – FUND WS	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND WT	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING – FUND ZZ	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND AE	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND AI	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND BG	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND BI	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND BL	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND BT	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND CI	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING FUND CJ	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM HEDGING-FUND AT	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM LEVERAGED GILT PLUS FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM LEVERAGED INDEX LINK GILT PLUS FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM LEVERAGED SYNTHETIC EQUITY FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM LEVERAGED SYNTHETIC EQUITY FUND (GBP)	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM Liquidity Funds plc	Open Ended Umbrella Investment Company	Ordinary	31-Dec	100.0
LGIM Managers (Europe) Limited	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM REAL LONG DURATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM REAL SHORT DURATION FUND	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CA	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CB	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CC	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CD	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CE	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CF	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CG	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CH	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CP	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND CU	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND DB	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SOLUTIONS FUND DF	QIAIF[7]	Ordinary	31-Dec	100.0
LGIM SYNTHETIC LEVERAGED CREDIT FUND	QIAIF[7]	Ordinary	31-Dec	100.0
Sterling Liquidity Plus Fund	Open Ended Umbrella Investment Company	Ordinary	31-Dec	95.8
L&G Frontier Markets Equity Fund	ICAV[8]	Ordinary	31-Dec	81.9
US DOLLAR LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ordinary	31-Dec	63.6
STERLING LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ordinary	31-Dec	59.7
L&G Asia Pacific ex Japan Equity Index Fund	ICAV[8]	Ordinary	31-Dec	58.4
EURO LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ordinary	31-Dec	58.1
L&G Europe ex UK Equity Index Fund	Open Ended Umbrella Investment Company	Ordinary	31-Dec	33.6
L&G North American Equity Index Fund	ICAV[8]	Ordinary	31-Dec	32.2

7. Qualifying Investor Alternative Investment Fund.
8. Irish Collective Asset-management Vehicle.

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Country of incorporation: Japan				
Legal & General Investment Management Japan KK[10]	Investment management	Ordinary	31-Dec	100.0
Country of incorporation: Jersey				
Atlantic Quay Three Limited[11]	Investment vehicle	Ordinary	31-Dec	100.0
Canary Property Unit Trust[12]	Unit trust	Unit	31-Dec	100.0
Chineham Shopping Centre Unit Trust[13]	Unit trust	Unit	31-Dec	100.0
Gracechurch Property Limited[12]	Investment vehicle	Ordinary	31-Dec	100.0
Gresham Street Unit Trust[13]	Unit trust	Unit	31-Dec	100.0
Northampton Shopping Centre Unit Trust[13]	Unit trust	Unit	31-Dec	100.0
Procession House One Unit Trust[14]	Unit trust	Unit	31-Dec	100.0
SCBD S6 Trust[12]	Unit trust	Unit	31-Dec	100.0
Senior Living (Liphook) Limited[15]	Investment vehicle	Ordinary	31-Dec	100.0
Synergy Gracechurch Holdings Limited[12]	Investment vehicle	Ordinary	31-Dec	100.0
Vantage General Partner Limited[16]	Fund general partner	Ordinary	31-Dec	100.0
Performance Retail Unit Trust[13]	Unit trust	Unit	31-Dec	50.1
Country of incorporation: Luxembourg				
L&G Buy & Maintain Credit Fund[17]	SICAV[18]	Ordinary	31-Dec	100.0
L&G Euro High Alpha Corporate Bond Fund[17]	SICAV[18]	Ordinary	31-Dec	100.0
L&G UK Core Plus Bond Fund[17]	SICAV[18]	Ordinary	31-Dec	100.0
Legal & General SICAV[17]	SICAV[18]	Ordinary	31-Dec	100.0
L&G Absolute Return Bond Plus Fund[17]	SICAV[18]	Ordinary	31-Dec	100.0
L&G Future World Global Credit Fund[17]	SICAV[18]	Ordinary	31-Dec	100.0
L&G Emerging Markets Bond Fund[17]	SICAV[18]	Ordinary	31-Dec	99.7
L&G Absolute Return Bond Fund[17]	SICAV[18]	Ordinary	31-Dec	95.1
L&G Commodity Index Fund[17]	SICAV[18]	Ordinary	31-Dec	91.0
L&G Emerging Markets Short Duration Bond Fund[17]	SICAV[18]	Ordinary	31-Dec	74.3
L&G Future World Global Equity Focus Fund[17]	SICAV[18]	Ordinary	31-Dec	69.3
Country of incorporation: Scotland				
CALA 1999 Limited[19]	Holding company	Ordinary	31-Dec	100.0
CALA Group Limited[19]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (East) Limited[20]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (North) Limited[20]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Scotland) Limited[20]	Non-trading company	Ordinary	31-Dec	100.0
CALA Homes (West) Limited[20]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes Limited[20]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Land Investments (Bearsden) Limited[19]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Land Investments Limited[19]	Development of building projects	Ordinary	31-Dec	100.0
CALA Limited[19]	Head office	Ordinary	31-Dec	100.0

10. Registered office: 22F Toranomon Kotohira Tower, 1-2-8 Toranomon, Minato-ku, Tokyo, 105-0001, Japan
11. Registered office: 12 Castle Street, St Helier, Jersey, JE2 3RT
12. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
13. Registered office: 47 Esplanade, St Helier, Jersey, JE4 9WG
14. Registered office: 44 Esplanade, St Helier, Jersey, JE4 9WG
15. Registered office: One, The Esplanade, St Helier, Jersey JE2 3QA
16. Registered office: 11-15 Seaton Place, St Helier, Jersey, JE4 0QH
17. Registered office: 2-4 Rue Eugene Ruppert, Luxembourg, L - 2453, Luxembourg
18. Société d'investissement à capital variable
19. Registered office: Adam House, 5 Mid New Cultins, Edinburgh, EH11 4DU
20. Registered office: Johnstone House, 52-54 Rose Street, Aberdeen, AB10 1HA

42 Subsidiaries (continued)

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
CALA Management Limited[19]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Properties (Holdings) Limited[20]	Domestic building construction	Ordinary	31-Dec	100.0
CALA Ventures Limited[19]	Non-trading company	Ordinary	31-Dec	100.0
LGV Capital Partners (GP) LLP[21]	Domestic building construction	Ordinary	31-Dec	100.0
LGV Capital Partners (Scotland) Limited[21]	Dormant company	Ordinary	31-Dec	100.0
Sauchiehall Trustee Limited[22]	Venture and development capital	Ordinary	31-Dec	100.0
UK PIF FGP LLP[21]	Investment vehicle	Ordinary	31-Dec	100.0
UK PIF Two Founder GP Limited[21]	Fund general partner	Ordinary	31-Dec	100.0
Country of incorporation: USA				
Banner Life Insurance Company[23]	Long-term business	Ordinary	31-Dec	100.0
FBV Financing-1, LLC[24]	Reinsurance	Ordinary	31-Dec	100.0
FBV Financing-2, LLC[24]	Reinsurance	Ordinary	31-Dec	100.0
First British Vermont Reinsurance Company II, Limited[25]	Reinsurance	Ordinary	31-Dec	100.0
First British Vermont Reinsurance Company III, Limited[24]	Reinsurance	Ordinary	31-Dec	100.0
Global Index Advisors Inc.[26]	Investment advisory	Ordinary	31-Dec	100.0
Legal & General America Inc.[27]	Holding company	Ordinary	31-Dec	100.0
Legal & General Investment Management America Inc.[27]	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General Investment Management United States (Holdings), Inc.[27]	Holding company	Ordinary	31-Dec	100.0
William Penn Life Insurance Company of New York Inc.[28]	Long-term business	Ordinary	31-Dec	100.0
Country of incorporation: Bermuda				
First British Bermuda Reinsurance Company II Limited[29]	Reinsurance	Ordinary	31-Dec	100.0
First British Bermuda Reinsurance Company III Limited[29]	Reinsurance	Ordinary	31-Dec	100.0
Legal & General Reinsurance Company Limited[30]	Reinsurance	Ordinary	31-Dec	100.0
Legal & General Resources Bermuda Limited[30]	Provision of services	Ordinary	31-Dec	100.0
Legal & General SAC Limited[30]	Reinsurance	Ordinary	31-Dec	100.0

19. Registered office: Adam House, 5 Mid New Cultins, Edinburgh, EH11 4DU
20. Registered office: Johnstone House, 52-54 Rose Street, Aberdeen, AB10 1HA
21. Registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
22. Registered office: Eversheds LLP, 3-5 Melville Street, Edinburgh, EH3 7PE
23. Registered office: 1701 Research Boulevard, Rockville, Maryland 20850, United States
24. Registered office: 850 New Burton Road, Suite 201, Dover, Delaware 19904, United States
25. Registered office: Marsh Management Services, 100 Bank Street, Suite 610, Burlington, Vermont 05402, United States
26. Registered office: 29 North Park Square, Ste.201, Marietta, Georgia 30060, United States
27. Registered office: Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, Delaware 19801, United States
28. Registered office: 100 Quentin Roosevelt Blvd, PO Box 519, Garden City, New York 11530, United States
29. Registered office: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
30. Registered office: Crown House, 4 Par La Ville Road, Hamilton HM08, Bermuda

43 Associates and joint ventures

Associates are entities over which the group has significant influence but which it does not control. It is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. Joint ventures are entities where the group and other parties undertake an activity which is subject to joint control. The basis by which associates and joint ventures are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The group has the following significant holdings classified as associates and joint ventures which have been included as financial investments, investments in associates or investments in joint ventures. The gross assets of these companies are in part funded by borrowings which are non recourse to the group.

Company name[1]	Country of incorporation	Accounting treatment	Investment type	Year end reporting date	Share class	% of equity shares held by the group
Bracknell Property Unit Trust[2,3]	Jersey	FVTPL	Joint Venture	31-Mar	Units	50.9
245 Hammersmith Road Limited Partnership[4]	England and Wales	FVTPL	Joint Venture	31-Dec	Partnership	50.0
Access Development Limited Partnership[5]	Jersey	Equity Method	Joint Venture	31-Dec	Ordinary	50.0
Central St Giles Unit Trust[6]	Jersey	FVTPL	Joint Venture	31-Mar	Units	50.0
Peel Holdings (Media) Limited[7]	England and Wales	Equity Method	Joint Venture	31-Mar	Ordinary	50.0
Bruntwood SciTech Limited[8]	England and Wales	Equity Method	Joint Venture	30-Sep	Ordinary	50.0
Inspired Villages Group[4]	England and Wales	FVTPL	Associate	31-Dec	Ordinary	49.0
Guild Living Limited[4]	England and Wales	FVTPL	Associate	30-Nov	Ordinary	49.0
Accelerated Digital Ventures Limited[9]	England and Wales	FVTPL	Associate	31-Dec	Ordinary	46.0
Salary Direct Holdings Limited[10]	England and Wales	FVTPL	Associate	31-Dec	Ordinary	40.0
English Cities Fund[4]	England and Wales	FVTPL	Associate	31-Mar	Units	35.4
NTR Wind Management Limited[11]	Ireland	FVTPL	Associate	31-Mar	Ordinary	25.0
Smartr365 Finance Limited[12]	England and Wales	FVTPL	Associate	31-Mar	Ordinary	25.0
Caresourcer Limited[13]	Scotland	FVTPL	Associate	31-Dec	Ordinary	20.0
Sennen Finance Designated Activity Company[14,15]	Ireland	Equity Method	Joint Venture	30-Jun	–	–

1. IndiaFirst Life Insurance Company Limited, a 26% joint venture has been classified as held for sale and excluded from the above following the group's announcement in June 2018 to sell its stake. Detailed disclosure relating to operations classified as held for sale is included in Note 27.
2. The Bracknell Property Unit Trust is not consolidated as the group does not have the power to control the entity.
3. Registered office: 40 Esplanade, St Helier, Jersey, JE2 3QB
4. Registered office: One Coleman Street, London, EC2R 5AA
5. Registered office: 11-15 Seaton Place, St Helier, Jersey, JE4 0QH
6. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
7. Registered office: Peel Dome Intu Trafford Centre, Traffordcity, Manchester, United Kingdom, M17 8PL
8. Registered office: Union, Albert Square, Manchester, England, M2 6LW
9. Registered office: Electric Works, Concourse Way, Sheffield, England, S1 2BJ
10. Registered office: 35-37 New Street, St Helier, Jersey, JE2 3RA
11. Registered office: Burton Court, Burton Hall Drive, Sandyford, Dublin 18, Ireland
12. Registered office: 1 Queen Caroline Street, Hammersmith, London, United Kingdom, W6 9YN
13. Registered office: Codebase, 38 Castle Terrace, Edinburgh, City Of Edinburgh, EH3 9DR
14. Registered office: 1-2 Victoria Buildings, Haddington Road, Dublin 4, D04 XN32, Ireland
15. The company is subject to joint control by the group and other parties by means of contractual arrangements or bases other than voting or similar rights. As such, it also meets the definition of a structured entity. Refer to Note 44 for further details on consolidated and unconsolidated structured entities.

43 Associates and joint ventures (continued)

(i) Joint ventures

Summarised financial information for joint ventures accounted for under the equity method is shown below:

Joint ventures	Equity method 2018 £m	Equity method 2017 £m
Current assets[1]	**71**	1,085
Non-current assets[1]	**1,046**	1,644
Current liabilities[1]	**72**	422
Non-current liabilities[1]	**520**	1,639
Profits from continuing operations – total	**30**	126
Profits from continuing operations – group's share	**15**	41
Total comprehensive income – total	**30**	126
Total comprehensive income – group's share	**15**	41

1. Reduction in assets and liabilities reflects the derecognition of Haut Investment Limited (CALA Homes) as a joint venture during the year, and its recognition as a subsidiary.

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has no commitments to provide funding to joint ventures.

(ii) Other significant holdings

The group has the following other significant holdings which have been included as financial investments.

Company name	Country of incorporation	Territory	Year end reporting date	Share class	% of equity shares held by the group
Mithras Investment Trust[1]	England and Wales	UK	31-Dec	Ordinary	27.8
Bishopsgate Long Term Property Limited Partnership[2]	Jersey	Jersey	31-Dec	Limited Partner	25.0

1. The net asset value at 31 December 2018 was £4.2m (2017: £15.5m) and the registered office is 1 Northumberland Avenue, Trafalgar Square, London, WC2N 5BW.
2. The net asset value at 31 December 2018 was £103.8m (2017: £147.7m) and the registered office is 12 Castle Street, St Helier, Jersey, JE2 3RT.

44 Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The group has interests in investment vehicles which, depending upon their status, are classified as either consolidated or unconsolidated structured entities as described below:

- Debt securities, consisting of traditional asset backed securities, together with securitisation and debentures and Collateralised Debt Obligations (CDOs);
- Investment funds, largely being unit trusts;
- Specialised investment vehicles, analysed between Irish Collective Asset-management Vehicles (ICAVs), Open Ended Investment Companies (OEICs), Societes d'Investissement a Capital Variables (SICAVs), Specialised Investment Funds (SIFs) and Property Limited Partnerships.

All of the group's holdings in the above vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

(a) Interests in consolidated structured entities

The group has determined that where it has control over an investment vehicle, that investment is a consolidated structured entity. The group has not provided, and has no intention to provide, financial or other support to any other structured entities which it does not consolidate.

(b) Interests in unconsolidated structured entities

As part of its investment activities, the group also invests in unconsolidated structured entities. As at 31 December 2018, the group's interest in such entities reflected on the group's Consolidated Balance Sheet and classified as financial investments held at fair value through profit or loss was £13,396m (2017: £11,800m). A summary of the group's interests in unconsolidated structured entities is provided below:

	Financial investments 2018 £m	Financial Investments 2017 £m
Debt securities		
Analysed as:		
Asset backed securities	**2,634**	2,383
Securitisations and debentures	**115**	125
CDOs	**94**	145
Investment funds		
Analysed as:		
Unit trusts	**8,465**	6,439
Property limited partnerships	**546**	376
Exchange traded funds	**60**	149
Specialised Investment Vehicles		
Analysed as:		
ICAVs	**57**	6
OEICs	**1,255**	1,892
SICAVs	**134**	84
SIFs	**4**	4
Property limited partnerships	**32**	197
Total	**13,396**	11,800

44 Interests in structured entities (continued)

(b) Interests in unconsolidated structured entities (continued)

Management fees received for investments that the group manages also represent interests in unconsolidated structured entities, and the group always maintains an interest in those funds which it manages. Where the group does not manage the investments, its maximum exposure to loss is the carrying amount in the group Consolidated Balance Sheet. Where the group does manage these investments, the maximum exposure is the underlying balance sheet value, together with future management fees.

The table below shows the assets under management of those structured entities which the group manages, together with investment management fees received from external parties.

	AUM 2018 £m	**Investment management fees 2018 £m**	AUM 2017 £m	Investment management fees 2017 £m
Investment funds	**45,394**	**112**	42,063	129
Specialised Investment Vehicles				
Analysed as:				
OEICs	**516**	**2**	1,085	3
SICAVs	**612**	**1**	651	1
Property limited partnerships	**4,068**	**18**	3,266	11
Other[1]	**1,453**	**8**	109	-
Total	**52,043**	**141**	47,174	144

1. Other relates to AUM and investment management fees from ACS and ICAVs as well as ETFs (following the acquisition of Canvas in March 2018).

No significant sponsorship has been provided to any of the above entities. The group has not, and has no intention, to provide any significant financial or other support to any other structured entities which it does not consolidate.

In addition to the above, the group has an exposure of £224m (2017: £228m) related to special purpose vehicles classified as joint ventures and accounted for using the equity method, with a carrying value on the group Consolidated Balance Sheet as at 31 December 2018 of £nil (2017: £nil).

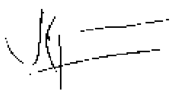
Company financial statements

Company Balance Sheet

As at 31 December 2018	Notes	2018 £m	2017 £m
Non-current assets			
Investments in subsidiaries	7	**8,465**	7,717
Loans to subsidiaries	7	**714**	720
Current assets			
Receivables	8	**1,364**	1,612
Derivative assets	11	**2**	–
Other financial investments		**163**	95
Cash and cash equivalents		**2**	2
Total assets		**10,710**	10,146
Non-current liabilities			
Payables: amounts falling due after more than one year	9	**3,959**	3,501
Current liabilities			
Payables: amounts falling due within one year	10	**138**	150
Derivative liabilities	11	**29**	119
Total liabilities		**4,126**	3,770
Net assets		**6,584**	6,376
Equity			
Share capital	13	**149**	149
Share premium		**992**	988
Revaluation reserve		**2,459**	2,459
Capital redemption and other reserves		**118**	77
Retained earnings		**2,866**	2,703
Total equity		**6,584**	6,376

The notes on pages 229 to 233 form an integral part of these financial statements.

The financial statements on pages 227 to 233 were approved by the directors on 5 March 2019 and were signed on their behalf by:



Sir John Kingman
Chairman

Nigel Wilson
Group Chief Executive

Stuart Jeffrey Davies
Group Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 December 2018	Called up share capital £m	Share premium account £m	Capital redemp-tion reserve £m	Hedging reserve £m	Share-based payment reserve £m	Re-valuation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2018	**149**	**988**	**17**	**(9)**	**69**	**2,459**	**2,703**	**6,376**
Profit for the financial year	–	–	–	–	–	–	**1,085**	**1,085**
Movement in cross-currency hedge	–	–	–	**29**	–	–	–	**29**
Options exercised under share option schemes	–	**4**	–	–	–	–	–	**4**
Shares vested and transferred from share-based payment reserve	–	–	–	–	**(26)**	–	**10**	**(16)**
Employee scheme treasury shares:								
– Value of employee services	–	–	–	–	**38**	–	–	**38**
Dividends	–	–	–	–	–	–	**(932)**	**(932)**
As at 31 December 2018	**149**	**992**	**17**	**20**	**81**	**2,459**	**2,866**	**6,584**

For the year ended 31 December 2017	Called up share capital £m	Share premium account £m	Capital redemp-tion reserve £m	Hedging reserve £m	Share-based payment reserve £m	Re-valuation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2017	149	981	17	–	60	2,459	1,804	5,470
Profit for the financial year	–	–	–	–	–	–	1,767	1,767
Addition to hedging reserve: cross-currency hedge	–	–	–	(9)	–	–	–	(9)
Options exercised under share option schemes	–	7	–	–	–	–	–	7
Shares vested and transferred from share-based payment reserve	–	–	–	–	(19)	–	4	(15)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	–	28	–	–	28
Dividends	–	–	–	–	–	–	(872)	(872)
As at 31 December 2017	149	988	17	(9)	69	2,459	2,703	6,376

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit and loss.

There were no material critical accounting estimates used or judgements made by management in the preparation of these financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined).
- The requirement of paragraph s 91 to 99 of IFRS 13 fair value measurement, where equivalent disclosures are included in the consolidated financial statements of the group.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows),
  - 16 (a statement of compliance with all IFRS),
  - 38 in respect of paragraph 79(a)(iv) (outstanding shares comparative),
  - 38A (requirement for minimum of two primary statements, including cash flow statement),
  - 38B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures);
- IAS 7, 'Statement of cash flows';
- IFRS 7 'Financial Instrument Disclosures';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group and key management compensation.

The company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the income statement conferred by Section 408 of that Act.

The company's financial statements have been prepared on a going concern basis.

Adoption of IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments, and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 'Financial Instruments: Recognition and Measurement', bringing together all aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. In 2018 the company has applied IFRS 9 for the first time.

Classification and measurement of financial assets
The standard introduces new assessments for the classification and measurement of financial assets, as detailed under 'Investments' below. The business model assessment was made as at the date of initial application, and then applied to those financial assets that were not derecognised before 1 January 2018. The 'SPPI' test was performed based on facts and circumstances as at the initial recognition of the asset.

There has been no change in classification and measurement of the company's financial assets as a result of the introduction of IFRS 9. Loans to subsidiaries and receivable balances remain at amortised cost. Other financial investments continue to be held at FVTPL.

Classification and measurement of financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities.

Impairment
IFRS 9 introduces a new impairment model for financial assets not held at FVTPL. As a result, the company must now determine forward looking expected credit losses (ECL) for all its financial assets held at amortised cost.

The company measures loss allowance at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities for which credit risk has not increased significantly since initial recognition. In these cases, ECLs are based on the 12-month ECL, which is the ECL that results from a possible default up to 12 months after the reporting date. The company uses relevant quantitative and qualitative information and analysis based on historical experience, and informed credit assessment including forward-looking information in order to evaluate the credit-worthiness of each security at each reporting date, to determine whether a significant increase in credit risk since origination occurred. Should this be the case, the allowance will be based on the lifetime ECL.

1 Accounting policies (continued)

ECLs are calculated by considering the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The PD is determined by reference to third party information on available companies, or using qualitative information available to the company, and depends on whether a financial asset requires determination of a 12-month ECL or lifetime ECL. The LGD is determined with reference to any exposure reducing instruments such as collateral or liquid assets that the counterparty may have. The EAD is determined as the amount of the loan balance outstanding at the reporting date.

The adoption of the ECL requirements of IFRS 9 did not result in the recognition of impairment losses as at the date of initial application or at the reporting date.

The company has applied the new standard retrospectively with an initial application date of 1 January 2018, however, as permitted by the transition provisions of IFRS 9, the company has elected not to restate comparative period information and the accounting policies as set out in the basis of preparation in the company Financial Statements for the year ended 31 December 2017. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised as an adjustment to retained earnings as at 1 January 2018. All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

Financial assets

On initial recognition, financial assets are measured at fair value. Subsequently, they can be measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification depends on two criteria:

(i) the business model within which financial assets are managed; and

(ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

A debt instrument is measured at amortised cost if it meets the following conditions:

(i) it is held within a business model that has an objective to hold financial assets to collect contractual cash flows; and

(ii) the contractual terms of the financial asset result in cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

A debt security is measured at FVOCI if it meets the following conditions:

(i) it is held for collection of contractual cash flows and for selling the financial assets; and

(ii) the asset's cash flows represent solely payments of principal and interest.

Movements in the carrying amount are recognised in other comprehensive income except for the recognition of impairment gains or losses and interest revenue which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Assets that are held at FVTPL include derivative assets which are held for trading (HFT) and financial assets that fail both the business model and SPPI tests. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the income statement.

The company has no equity instruments.

Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method.

Investment income

Investment income includes dividends and interest. Dividends receivable from group companies are recognised in the period in which the dividends are declared and approved at the general meeting or paid. Interest income is recognised using the effective interest method.

Distributions

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the company.

Interest expense

Interest expense reflects the underlying cost of borrowing, based on the effective interest method and includes payments and receipts made under derivative instruments which are amortised over the interest period to which they relate.

Investment in subsidiary undertakings

Investments in subsidiaries are held at cost less accumulated impairment losses.

Derivative financial instruments

The company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The company uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items are maintained at historic rates. Exchange gains or losses are recognised in the income statement.

Pension costs
The company participates in the group defined benefit schemes which are recognised on the Balance Sheet of Legal & General Resources Limited. These are multi-employer defined benefit schemes for which the company's share of the underlying assets and liabilities cannot be separately identified. Therefore the company's cost of participation has been treated as that of a defined contribution scheme for reporting purposes.

In addition to these schemes the company also contributes to defined contribution schemes. The company charges the costs of its pension schemes against profit as incurred. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision or prepayment in the balance sheet.

The assets of the defined benefit schemes and the defined contribution schemes are held in separate trustee administered funds, which have been subject to regular valuation every three years and updated by formal reviews at reporting dates by qualified actuaries.

Share-based payments
The company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

At each balance sheet date, the company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimate, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

2 Dividends

	Dividend 2018 £m	Per share 2018 p	Dividend 2017 £m	Per share 2017 p
Ordinary dividends paid and charged to equity in the year:				
– Final 2016 dividend	–	–	616	10.35
– Final 2017 dividend	658	11.05	–	–
– Interim dividend	274	4.60	256	4.30
	932	15.65	872	14.65
Ordinary share dividend proposed[1]	704	11.82	658	11.05

1. The dividend proposed has not been included as a liability in the balance sheet.

3 Directors' emoluments and other employee information

Full disclosures of Legal & General Group Plc directors' emoluments are contained within those parts of the Directors' Report on Remuneration which are described as having been audited. At 31 December 2018 there were no remuneration payments outstanding with directors of the company (2017: £nil). The company has no other employees (2017: nil).

4 Pensions

The company participates in the following pension schemes in the UK, which are operated by the group:

- Legal & General Group Personal Pension Plan
- Legal & General Staff Stakeholder Pension Scheme
- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2012.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2012.

These schemes operate within the UK pensions' regulatory framework.

There were no contributions prepaid or outstanding at either 31 December 2018 or 31 December 2017 in respect of these schemes.

The Fund and Scheme were closed to future accrual on 31 December 2015. The sponsoring employer is Legal & General Resources Limited and a deficit in respect of these schemes for the year ended 31 December 2018 of £192m (2017: £317m) is recognised on that company's Balance Sheet. Further information is given in Note 23 of the group's consolidated financial statements.

5 Share-based payments

The full disclosures required by IFRS 2 are provided in the group's consolidated financial statements (Note 33).

The total expense retained by the company in relation to share-based payments was £nil (2017: £nil).

6 Auditor's remuneration

Remuneration receivable by the company's auditors for the audit of the company's financial statements is not presented. The group's consolidated financial statements disclose the aggregate remuneration receivable by the company's auditors for the audit of the group's financial statements, which include the company's financial statements (Note 31).

The disclosure of fees payable to the auditors and its associates for other (non-audit) services has not been made because the group's consolidated financial statements are required to disclose such fees on a consolidated basis.

7 Non-current assets

	Investments in subsidiaries 2018 £m	Loans to subsidiaries 2018 £m	Total 2018 £m	Investments in subsidiaries 2017 £m	Loans to subsidiaries 2017 £m	Total 2017 £m
As at 1 January	**7,717**	**720**	**8,437**	7,252	19	7,271
Additions[1]	**748**	**–**	**748**	465	–	465
Transfer from/ (to) current assets	**–**	**(6)**	**(6)**	–	701	701
As at 31 December	**8,465**	**714**	**9,179**	7,717	720	8,437

1. Additions represent capital injections into group undertakings.

Full disclosure of the company's investments in subsidiary undertakings is contained in Note 42 of the group's consolidated financial statements.

8 Receivables

	2018 £m	2017 £m
Amounts owed by group undertakings[1]	**1,276**	1,427
Corporation tax	**53**	55
Deferred tax	**12**	20
Other debtors	**23**	110
Receivables	**1,364**	1,612

1. Amounts owed by group undertakings are repayable at the request of either party and include a £961m (2017: £1,083m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

9 Payables: amounts falling due after more than one year

	Note	2018 £m	2017 £m
Subordinated borrowings	12	**3,333**	2,879
Amounts owed to group undertakings[1]		**626**	622
Payables: amounts falling due after more than one year		**3,959**	3,501

1. Amounts owed to group undertakings falling due after more than one year are unsecured and include £601m (2017: £601m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2017: 5.71% and 6.12%).

10 Payables: amounts falling due within one year

	Note	2018 £m	2017 £m
Amounts owed to group undertakings[1]		**111**	97
Accrued interest on subordinated borrowings	12	**21**	29
Other payables		**6**	24
Payables: amounts falling due within one year		**138**	150

1. Amounts owed to group undertakings falling due within one year are interest free and repayable at the request of either party.

11 Derivative assets and liabilities

		Fair values	
	Contract/notional amount 2018 £m	Assets 2018 £m	Liabilities 2018 £m
Forward foreign exchange contracts – held for trading	**358**	**2**	**–**
Currency Swap contracts – held for trading	**1,099**	**–**	**29**
Derivative assets and liabilities		**2**	**29**

		Fair values	
	Contract/notional amount 2017 £m	Assets 2017 £m	Liabilities 2017 £m
Forward foreign exchange contracts – held for trading	28	–	–
Currency Swap contracts – held for trading	1,099	–	119
Derivative assets and liabilities		–	119

The descriptions of each type of derivative are given in Note 12 of the group consolidated financial statements.

12 Borrowings

	Carrying amount 2018[1] £m	Coupon rate 2018 %	Fair value 2018[1] £m	Carrying amount 2017[1] £m	Coupon rate 2017 %	Fair value 2017[1] £m
Subordinated borrowings[2]						
5.875% Sterling undated subordinated notes (Tier 2)	**405**	**5.88**	**409**	408	5.88	428
10% Sterling subordinated notes 2041 (Tier 2)	**312**	**10.00**	**366**	311	10.00	397
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**569**	589	5.50	710
5.375% Sterling subordinated notes 2045 (Tier 2)	**603**	**5.38**	**627**	603	5.38	694
5.25% US Dollar subordinated notes 2047 (Tier 2)	**659**	**5.25**	**612**	628	5.25	679
5.55% US Dollar subordinated notes 2052 (Tier 2)	**387**	**5.55**	**356**	369	5.55	397
5.125% Sterling subordinated notes 2048 (Tier 2)	**399**	**5.13**	**401**	–	–	–
Total subordinated borrowings	**3,354**		**3,340**	2,908		3,305

1. Includes accrued interest on subordinated borrowings of £21m (2017: £29m), including the impact of hedging arrangements.
2. Further details on the Subordinated borrowings of the company are provided in Note 22 of the group's consolidated financial statements.

13 Share capital and share premium

A summary of the company's ordinary share capital, share premium and options over the company's ordinary share capital are disclosed in Note 34 of the group's consolidated financial statements.

Directors' report

The Directors' report required under the Companies Act 2006 comprises this Directors' report, and certain other disclosures in the Strategic Report and the Notes to the group consolidated financial statements, including:

- an outline of important events that have occurred during the year (pages 12 to 31)
- an indication of likely future developments (pages 12 to 31)
- employee engagement (page 36)
- post-balance sheet events (Note 41)
- directors' biographies (pages 52 and 53)

Articles of Association
The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The company's Articles of Association were last amended at its AGM held on 26 May 2016.

Conflicts of interest
In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2018.

Powers of directors
The directors (as detailed on pages 52 and 53) may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

Appointment and replacement of directors
With regards to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act 2006 and related legislation. Directors may be appointed by an ordinary resolution of the company or by the Board, in each case subject to the provisions of the company's Articles of Association. The company may, by way of special resolution, remove any director before the expiration of his or her period of office. The company's Articles of Association (in line with the UK Corporate Governance Code) require all the directors to retire from office at each Annual General Meeting of the company.

Share capital
As at 31 December 2018, the company's issued share capital comprised 5,960,768,234 ordinary shares each with a nominal value of 2.5 pence. Details of the ordinary share capital can be found in Note 34 to the group consolidated financial statements.

At the 2018 AGM, the company was granted authority by shareholders to purchase up to 595,873,486 ordinary shares, being 10% of the issued share capital of the company as at 31 March 2018. In the year to 31 December 2018, no shares were purchased by the company. This authority will expire at the 2019 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2018 AGM, the directors were given the power to allot shares up to an amount of £49,656,123, being 33% of the issued share capital of the company as at 31 March 2018. This authority will also expire at the 2019 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

Further resolutions are proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 10% of the company's issued share capital as at 31 March 2019 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the company without prior approval of shareholders in a general meeting.

Interests in voting rights
Information on major interests in shares provided to the company under the Disclosure Guidance and Transparency Rules (DTR) of the UK Listing Authority is published via a Regulatory Information Service and on the company's website: legalandgeneralgroup.com. As at 31 December 2018, the company had been advised of the following significant direct and indirect interests in the issued share capital of the company:

	Number of ordinary shares of 2.5p	% of capital[1]	Total interest in issued share capital
Capital Group Companies Inc.	353,497,431	5.93	Indirect
BlackRock Inc.	298,315,445	5.00	Indirect
Invesco Ltd	297,898,241	4.99	Indirect

1. Using the voting rights figure as at 31 December 2018, as announced to the London Stock Exchange on 2 January 2019, of 5,960,768,234.

No material changes to the interests have been disclosed between 31 December 2018 and 5 March 2019.

Dividend
The company may, by ordinary resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. The directors propose a final dividend for the year ended 31 December 2018 of 11.82 pence per ordinary share which, together with the interim dividend of 4.60 pence per ordinary share paid to shareholders on 27 September 2018, will make a total dividend for the year of 16.42 pence (2017: 15.35 pence). Subject to shareholder approval at the AGM, the final dividend will be paid on 6 June 2019 to shareholders on the share register on 26 April 2019 provided that the Board of directors may cancel payment of the dividend at any time prior to payment in accordance with the Articles of Association, if it considers it necessary to do so for regulatory capital purposes.

Related party transactions
Details of related party transactions are set out in Note 38 to the group consolidated financial statements.

Rights and obligations attaching to shares

The rights and obligations relating to the company's ordinary shares are set out in the Articles of Association. A copy of the Articles of Association can be requested from the Company Secretary at the company's registered office.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the company's Articles of Association. Under the Companies Act 2006 and the Articles of Association, directors have the power to suspend voting rights and, in certain circumstances, the right to receive dividends in respect of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Board can decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless:

(a) the instrument of transfer is duly stamped and is left at the company's registered office or such other place as the Board may from time to time determine, accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transfer or to make the transfer;

(b) the instrument of transfer is in respect of only one class of share; and

(c) the number of joint holders does not exceed four.

Subject to the provisions of the Companies Act 2006, all or any of the rights attaching to an existing class of shares may be varied from time to time, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share schemes rank equally with all other ordinary shares in issue. Zedra Trust Company (Guernsey) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, held 0.42% of the issued share capital of the company as at 5 March 2019 in trust for the benefit of the executive directors, senior executives and employees of the group. This includes shares held as nominee on behalf of Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust which was wound up in 2017. The trustee of Legal & General Employees' Share Ownership Trust has waived the right of that trust to receive dividends on unallocated shares it holds. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision. Under the rules of the Legal & General Group Employee Share Plan (the 'Plan'), eligible employees are entitled to acquire shares in the company. Plan shares are held in trust for participants by Link Market Services Trustees Limited, which held 0.24% of the issued share capital of the company as at 5 March 2019. Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees, no vote is registered. In addition, the trustees do not vote on any unawarded shares held under the Plan as surplus assets.

The company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

Change of control

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. The rules of the company's share plans contain provisions under which options and awards to participants, including executive directors, may vest on a takeover or change of control of the company or transfer of undertakings. The company has a committed £1 billion bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30-day period following a change of control. As at 5 March 2019, the company has no borrowings under this facility. There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counterparties, under which derivative transactions are undertaken, include in some instances the provision for termination of transactions upon takeover/merger depending on the rating of the merged entity. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

Use of financial instruments

Information on the group's risk management process is set out on pages 44 to 49. More details on risk management and the financial instruments used are set out in Notes 15 to 17 of the group consolidated financial statements.

Indemnities

The company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. Qualifying pension scheme indemnities (as defined in section 235 of the Companies Act 2006) have been granted, to the extent permitted by law, to certain trustees of the company's pension schemes. The indemnities were in force throughout 2018 and remain so. Copies of the deeds of indemnity are available for inspection at the company's registered office and will also be available at the AGM.

Requirements of Listing Rule 9.8.4

Information to be included in the annual report and accounts under Listing Rule 9.8.4 may be found as follows:

Relevant Listing Rule	Page
LR 9.8.4R (12)	235
LR 9.8.4R (13)	235

Political donations
No political donations were made during 2018.

Forward-looking statements
The Directors' report is prepared for the members of the company and should not be relied upon by any other party or for any other purpose. Where the Directors' report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Insurance
The company has arranged appropriate directors' and officers' liability insurance for directors. This is reviewed annually.

Greenhouse gas disclosures (GHG)
Global GHG emissions Data

tCO_2e Emissions from	Jan–Dec 2018	Jan–Dec 2017
Scope 1	**12,446.82**	8,655.05
Scope 2		
Total	**28,981.83**	32,573.30
From renewable tariff	**24,428.85**	30,392.44
Scope 3 – Business travel	**7,315.52**	3,568.54
Total CO_2 (scope 1,2,3) (based on the scope of Legal & General's UK CRC energy efficiency scheme disclosed emissions, overseas property emissions and reported travel emissions)	**48,744.17**	44,796.89
Intensity ratio: $kgCO_2e$ Emissions per policy	**4.27**	3.99
Fugitive emissions	**856**	1,591.31

Please refer to our CSR report for further breakdown and analysis of emissions.

Methodology
We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013.

We have used the GHG reporting protocol to calculate our GHG emissions and applied the emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2018.

Disability
Our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. We make reasonable adjustments, as required under the Equality Act 2010, for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. We offer appropriate training, including training in relation to equality, and will make adjustments to this training where required.

Independent auditors
Following a tender process in 2016, KPMG LLP were appointed as the Company's external auditor commencing with the 2018 financial year and its appointment was approved by shareholders at the 2018 Annual General Meeting. Resolutions to reappoint KPMG LLP as auditor of the company and to authorise the directors to determine its remuneration are to be proposed at the forthcoming Annual General Meeting.

Directors' interests
The Directors' report on remuneration on pages 72 to 101 provides details of the interests of each director, including details of current incentive schemes and long-term incentive schemes, the interests of directors in the share capital of the company and details of their share interests, as at 6 March 2019.

Annual general meeting
The Company's AGM will be held on Thursday, 23 May 2019 at 11am at The British Medical Association, BMA House, Tavistock Square, Bloomsbury, London, WC1H 9JP.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and Accounts, including the Directors' report on remuneration and the financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and the company financial statements in accordance with United Kingdom (UK) Generally Accepted Accounting Practice (GAAP) (UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the EU have been followed for the group financial statements and UK Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- assess the group's and company's ability to continue as a going concern and whether the use of the going concern basis is appropriate, as well as disclose, if applicable, matters relating to going concern; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements and the Directors' report on remuneration comply with the Companies Act 2006, as regards to the group financial statements and Article 4 of the IAS Regulation.

They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The directors are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group's and the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and the company's position and performance, business model and strategy.

Each of the directors who held office at the date this report was approved, whose names and functions are listed in the Board of directors section, confirm that, to the best of their knowledge:

- the company's financial statements, which have been prepared in accordance with UK GAAP (UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework' and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company
- the group financial statements, 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
- the Strategic report includes a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that it faces

Fair, balanced and understandable

In accordance with the principles of the 2016 UK Corporate Governance Code, we have processes and procedures in place to ensure that the information presented in the annual report is fair, balanced and understandable. We describe these processes and procedures on page 58.

On the advice of the Audit Committee, the Board considers that the annual report, as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group's position, performance, business model and strategy.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates, key judgements and significant accounting policies conform with IFRS and are set out on page 122 of the consolidated financial statements. The directors have reviewed these policies and applicable estimation techniques and have confirmed them to be appropriate for the preparation of the 2018 consolidated financial statements.

Disclosure of information to auditors

As far as each of the directors in office at the date of this director's report is aware, there is no relevant audit information (as defined by section 418 (3) of the Companies Act 2006) of which the company's auditors are unaware, and each such director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

The Strategic report on pages 1 to 49 of this report includes information on the group's structure and business principles, the performance of the business areas, the impact of regulation and principal risks and uncertainties.

The group's performance detailed on page 1 includes information on the group's financial results, financial outlook, cash flow and net debt and balance sheet position. The consolidated financial statements include information on the group's financial investments and investment property (Note 11), derivatives (Note 12), cash and cash equivalents (Note 14), asset risk (Note 7), market, credit and insurance risks (Notes 15 to 17) and borrowings (Note 22).

In line with IAS 1 'Presentation of financial statements', and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

Details of the main risks affecting the group and how we manage and mitigate them are set out in 'Managing risks' on pages 44 to 49.

Having assessed the main risks and other matters discussed in connection with the Group Board viability statement set out on page 47, in accordance with the 2016 UK Corporate Governance Code and the FRC guidance, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

The Directors' report and Strategic report were approved by the Board, and signed on their behalf.

By order of the Board

G J Timms
Company Secretary

Shareholder information

Annual General Meeting

The 2019 AGM will be held on Thursday, 23 May 2019 at 11am at The British Medical Association, BMA House, Tavistock Square, Bloomsbury, London, WC1H 9JP. The AGM provides the Board with the opportunity to meet shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors. The Notice of Meeting and all other details for the AGM are available at: legalandgeneralgroup.com (the website).

Dividend information

Dividend per share

This year the directors are recommending the payment of a final dividend of 11.82 pence per share. If you add this to your interim dividend of 4.60 pence per share, the total dividend recommended for 2018 will be 16.42 pence per share (2017: 15.35 pence per share). The key dates for the payment of dividends are set out in the important dates section on page 239.

Communications

Internet

Information about the company, including details of the current share price, is available on the website, legalandgeneralgroup.com.

Investor relations

Private investors should contact the Registrar with any queries. Institutional investors can contact the investor relations team by email: investor.relations@group.landg.com.

Financial reports

The company's financial reports are available on the website. The Annual Report and Accounts are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on landgshareportal.com. If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the Registrar, who can arrange for your accounts to be amalgamated.

Registrar

Link Asset Services is the Registrar and offer many services to make managing your shareholding easier and more efficient.

Share Portal

The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- view your holding and get an indicative valuation
- change your address
- arrange to have dividends paid into your bank account
- request to receive shareholder communications by email rather than post
- view your dividend payment history
- make dividend payment choices
- buy and sell shares and access a wealth of stock market news and information
- register your proxy voting instruction
- download a stock transfer form.

To register for the Share Portal just visit landgshareportal.com. You will need is your Investor Code, which can be found on your share certificate or by contacting Link Asset Services.

Customer support centre

Alternatively, you can contact Link Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By phone – 0371 402 3341*

By email – landgshares@linkgroup.co.uk

By post – Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Sign up to electronic communications

Help us save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email.

Registering for electronic communications is very straightforward. Just visit landgshareportal.com. All you need is your Investor Code, which can be found on your share certificate or dividend confirmation.

Corporate sponsored nominee

The corporate sponsored nominee allows you to hold shares in the company without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Link Market Services Trustees Limited. To join or obtain further information, contact the Registrar. You will be sent a booklet outlining the terms and conditions under which your shares will be held.

Dividend payment options

Re-invest your dividends

Link's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend money to purchase additional shares. The plan is provided by Link Asset Services, a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack, please call 0371 402 3341.* Alternatively you can email landgshares@linkgroup.co.uk or log on to landgshareportal.com.

It is important to remember that the value of shares and income from them can fall as well as rise and you may not recover the amount of money you invest. Past performance should not be seen as indicative of future performance. This arrangement should be considered as part of a diversified portfolio.

Arrange to have your dividends paid direct into your bank account

The advantages are:

- your dividend reaches your bank account on the payment date
- it is more secure – cheques can sometimes get lost in the post
- you don't have the inconvenience of depositing a cheque
- it helps reduce cheque fraud.

If you have a UK bank account you can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

Choose to receive your next dividend in your local currency

If you live outside the UK, Link has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your local bank account or, alternatively, you can be sent a currency draft.

You can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

For further information contact Link

By phone – UK – 0371 402 3341*
By email – shareportal@linkgroup.co.uk

Buy and sell shares

A simple and competitively priced service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in. By visiting linksharedeal.com you can also access a wealth of stock market news and information free of charge.

For further information on this service, or to buy and sell shares, visit linksharedeal.com or call 0371 664 0445.**

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply.

Link Asset Services is a trading name of Link Market Services Trustees Limited, which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

* Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

** Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 8am to 4.30pm Monday to Friday excluding public holidays in England and Wales.

Important dates:

25 April 2019	• Ex-dividend date (final dividend)
15 May 2019	• Last day for DRIP elections
23 May 2019	• Annual General Meeting
6 June 2019	• Payment of final dividend for 2018 (to members registered on 26 April 2019)
7 August 2019	• Half-year results 2019
15 August 2019	• Ex-dividend date (interim dividend)
26 September 2019	• Payment of interim dividend for 2019 (to members registered on 16 August 2019)

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

Have you been:

- contacted out of the blue;
- promised tempting returns and told the investment is safe;
- called repeatedly; or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

1. **Reject cold calls**
   If you've been cold called with an offer to buy or sell shares, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.
2. **Check the firm on the FS register at fca.org.uk/register**
   The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.
3. **Get impartial advice**
   Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at fca.org.uk/scamsmart where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at actionfraud.police.uk.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Find out more at fca.org.uk/scamsmart.

General information

Capital gains tax: for the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share was 7.996 pence after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close company provisions: The company is not a close company within the terms of the Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: For details of shareholder offers on Legal & General products, call 0800 107 6830.

Alternative Performance Measures

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

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

Definition

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

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2 – Supplementary operating profit information – section (i).

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 for the year attributable to equity holders divided by average IFRS shareholders' funds (by reference to opening and closing shareholders' funds as provided in the IFRS consolidated statement of changes in equity for the period).

Closest IFRS measure

Calculated using:

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

Reconciliation

Calculated using profit attributable to equity holders of £1,827m (2017: £1,891m) and average equity attributable to the owners of the parent of £8,048 m (2017: £7,394m).

Assets under Management (AUM)

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 37 – 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

Note 2 – Supplementary operating profit information – sections (i) and (ii).

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

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2 – Supplementary operating profit information – section (i).

Glossary

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.

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 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 the group 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

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

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

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

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

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

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

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

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

* These items represent an alternative performance measure (APM)

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 fund 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 wellbeing.

ETF
LGIM's European Exchange Traded Fund platform.

Euro Commercial paper
Short term borrowings with maturities of up to one 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 funds, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

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

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

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

LGA
Legal & General America.

LGAS
Legal and General Assurance Society Limited.

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.

* These items represent an alternative performance measure (APM)

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 shareholders' 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.

* These items represent an alternative performance measure (APM)

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

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

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

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

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

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

Solvency II capital coverage ratio (shareholder view basis)
In order to represent a shareholder view of group solvency position, the contribution of with-profits funds and our defined benefit pension schemes is excluded from both the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2018. This will be submitted to the PRA in April 2019.

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

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

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

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

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

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

Unbundled DC solution
When investment 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.

* These items represent an alternative performance measure (APM)

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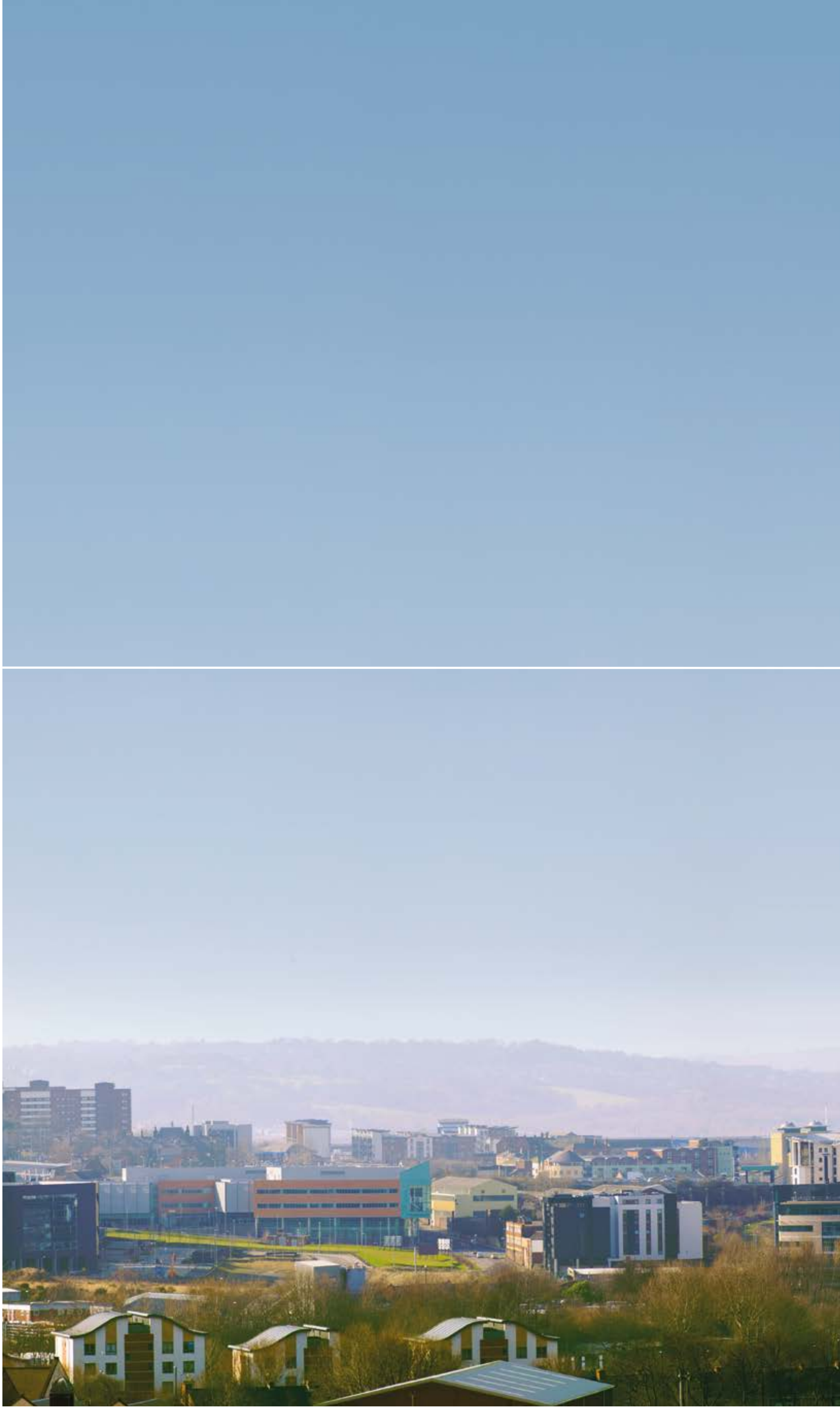

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