London Stock Exchange

RNS Half-year/Interim Report

L&G Half Year Results 2021 Part 3

LEGAL & GENERAL GROUP PLC

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Legal & General Group Plc
Half Year Results 2021 Part 3

Asset and premium flows

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

For the six month period to 30 June 2021	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2021	**429.9**	**193.6**	**63.4**	**559.5**	**32.5**	**1,278.9**
External inflows	44.5	10.0	4.9	20.2	0.6	80.2
External outflows	(41.9)	(7.7)	(3.1)	(8.0)	(0.8)	(61.5)
Overlay net flows	-	-	-	6.6	-	6.6
ETF net flows	2.1	-	-	-	-	2.1
External net flows[3]	**4.7**	**2.3**	**1.8**	**18.8**	**(0.2)**	**27.4**
Internal net flows[4]	(0.3)	(2.3)	0.1	(0.2)	1.0	(1.7)
Total net flows	**4.4**	**-**	**1.9**	**18.6**	**0.8**	**25.7**
Cash management movements[5]	-	(0.4)	-	-	-	(0.4)
Market and other movements[3]	37.1	(3.1)	2.8	(14.6)	0.4	22.6
As at 30 June 2021	**471.4**	**190.1**	**68.1**	**563.5**	**33.7**	**1,326.8**
Assets attributable to:						
External						1,213.6
Internal						113.2

1. Assets under management (AUM) includes assets on our Investment Only Platform that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £345.3bn (30 June 2020: £348.3bn; 31 December 2020: £340.1bn) of derivative notionals associated with the Solutions business.
3. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 30 June 2021 was £51.5bn (30 June 2020: £62.3bn; 31 December 2020: £45.8bn) and the movement in these assets is included in market and other movements for Solutions assets.
4. Internal includes legacy assets from the Mature Savings business sold to ReAssure in 2020.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

Legal & General Group Plc
Half Year Results 2021 Part 3

Asset and premium flows

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

For the six month period to 30 June 2020	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2020	403.6	177.2	58.0	526.6	30.8	1,196.2

External inflows	27.7	9.5	4.3	10.9	0.6	53.0
External outflows	(32.3)	(9.0)	(2.7)	(22.7)	(0.4)	(67.1)
Overlay net flows	-	-	-	20.1	-	20.1
ETF net flows	0.2	-	-	-	-	0.2
External net flows[3]	(4.4)	0.5	1.6	8.3	0.2	6.2
Internal net flows	-	(0.2)	(0.7)	(0.1)	0.4	(0.6)
Total net flows	(4.4)	0.3	0.9	8.2	0.6	5.6
Cash management movements[4]	-	2.8	-	-	-	2.8
Market and other movements[3]	(4.1)	9.2	(1.8)	32.0	0.7	36.0
As at 30 June 2020	395.1	189.5	57.1	566.8	32.1	1,240.6
Assets attributable to:						
External						1,134.9
Internal						105.7

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

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

For the year ended 31 December 2020	Index £bn	Active strategies £bn	Multi asset £bn	Solutions[2] £bn	Real assets £bn	Total AUM £bn
As at 1 January 2020	403.6	177.2	58.0	526.6	30.8	1,196.2
External inflows	76.6	17.7	8.5	27.0	1.0	130.8
External outflows	(84.7)	(17.8)	(5.3)	(36.6)	(1.4)	(145.8)
Overlay net flows	-	-	-	33.9	-	33.9
ETF net flows	1.5	-	-	-	-	1.5
External net flows[3]	(6.6)	(0.1)	3.2	24.3	(0.4)	20.4
Internal net flows[4]	(0.2)	2.6	(0.4)	(0.3)	0.4	2.1
Total net flows	(6.8)	2.5	2.8	24.0	-	22.5
Cash management movements[5]	-	2.4	-	-	-	2.4
Market and other movements[3]	33.1	11.5	2.6	8.9	1.7	57.8
As at 31 December 2020	429.9	193.6	63.4	559.5	32.5	1,278.9
Assets attributable to:						
External						1,162.6
Internal						116.3

1. Assets under management (AUM) includes assets on our Investment Only Platform, that are managed by third parties, on which fees are earned.
2. Solutions include liability driven investments and £340.1bn of derivative notionals associated with the Solutions business.
3. External net flows exclude movements in short-term Solutions assets, as their maturity dates are determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2020 was £45.8bn and the movement in these assets is included in market and other movements for Solutions assets.
4. Internal net flows include flows in legacy assets from the Mature Savings business sold to ReAssure in 2020.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

5.02 LGIM total external assets under management and net flows

	Assets under management			Net flows[2]		
	30 Jun 2021 £bn	30 Jun 2020 £bn	31 Dec 2020 £bn	**30 Jun 2021 £bn**	30 Jun 2020 £bn	31 Dec 2020 £bn
International[1]	**344.8**	289.5	303.5	**15.0**	(3.2)	(1.0)

UK Institutional						
- Defined contribution	**125.5**	96.7	112.7	**4.4**	5.5	5.6
- Defined benefit	**689.6**	706.7	699.4	**4.6**	2.5	7.7
UK Retail						
- Retail intermediary	**39.2**	33.3	36.0	**1.5**	1.2	0.6
- Personal investing[3]	**6.3**	5.2	5.6	**(0.2)**	-	-
ETF[4]	**8.2**	3.5	5.4	**2.1**	0.2	1.3
Total external	**1,213.6**	1,134.9	1,162.6	**27.4**	6.2	14.2

1. International assets are shown on the basis of client domicile. Total International AUM including assets managed internationally on behalf of UK clients amounted to £434bn as at 30 June 2021 (30 June 2020: £385bn; 31 December 2020: £388bn).
2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability.
3. Personal investing includes £1.6bn as at 30 June 2021 (30 June 2020: £1.4bn; 31 December 2020: £1.4bn) of AUM relating to legacy Banks and Building Society customers which is driving net outflows.
4. ETF reflects external AUM and flows invested on the platform. Total AUM managed on the platform is $13.0bn in H1 21 (H1 20: $4.8bn) and flows of $3.4bn (H1 20: $0.4bn) which include internal investment from other LGIM asset classes.

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

	30 Jun 2021	30 Jun 2020	31 Dec 2020
	£bn	£bn	£bn
Assets under management	**1,327**	1,241	1,279
Derivative notionals[1]	**(351)**	(348)	(340)
Third party assets[2]	**(441)**	(399)	(419)
Other[3]	**10**	72	33
Total financial investments, investment property and cash and cash equivalents	**545**	566	553
Less: assets of operations classified as held for sale	**-**	(23)	-
Financial investments, investment property and cash and cash equivalents	**545**	543	553

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

Legal & General Group Plc
Half Year Results 2021 Part 3

Asset and premium flows Page 77

5.04 Assets under administration

	Workplace[1]	**Annuities[2]**	Workplace	Annuities	Workplace	Annuities
	30 Jun 2021	**30 Jun 2021**	30 Jun 2020	30 Jun 2020	31 Dec 2020	31 Dec 2020
	£bn	**£bn**	£bn	£bn	£bn	£bn
As at 1 January	**50.8**	**87.0**	40.3	75.9	40.3	75.9
Gross inflows	**7.5**	**3.7**	3.3	3.8	10.0	10.1
Gross outflows	**(1.5)**	**-**	(0.9)	-	(2.2)	-
Payments to pensioners	**-**	**(2.2)**	-	(2.1)	-	(4.3)
Net flows	**6.0**	**1.5**	2.4	1.7	7.8	5.8
Market and other movements	**3.4**	**(2.7)**	(1.2)	3.1	2.7	5.3
As at 30 June/31 December	**60.2**	**85.8**	41.5	80.7	50.8	87.0

1. Workplace assets under administration as at 30 June 2021 includes £60.1bn (30 June 2020: £41.5bn; 31 December 2020: £50.7bn) of assets under management included in Note 5.01.
2. Annuities assets under administration as at 30 June 2021 includes £77.3bn (30 June 2020: £73.8bn; 31 December 2020: £79.4bn) of assets under management included in Note 5.01.

Legal & General Group Plc
Half Year Results 2021 Part 3

Asset and premium flows Page 78

5.05 LGR new business

	6 months	6 months	6 months	Full year
	30 Jun	30 Jun	31 Dec	31 Dec
	2021	2020	2020	2020
	£m	£m	£m	£m
Pension risk transfer				

- UK[1]	**2,965**	3,176	4,417	7,593
- US	**107**	248	1,002	1,250
Individual annuities	**483**	421	489	910
Lifetime & Retirement Interest Only mortgage advances	**414**	362	429	791
Total LGR new business	**3,969**	4,207	6,337	10,544

1. UK pension risk transfer includes a £925m (H1 20: £nil; H2 20: £397m) Assured Payment Policy (APP).

5.06 LGI new business

	6 months 30 Jun 2021 £m	6 months 30 Jun 2020 £m	6 months 31 Dec 2020 £m	Full year 31 Dec 2020 £m
UK Retail protection	**105**	83	92	175
UK Group protection	**55**	65	52	117
US protection[1]	**43**	44	36	80
Total LGI new business	**203**	192	180	372

1. In local currency, US protection reflects new business of $59m for H1 2021 (H1 20: $56m; H2 20: $47m).

5.07 Gross written premiums on insurance business

	6 months 30 Jun 2021 £m	6 months 30 Jun 2020 £m	6 months 31 Dec 2020 £m	Full year 31 Dec 2020 £m
UK Retail protection	**714**	680	694	1,374
UK Group protection	**274**	245	137	382
US protection[1]	**512**	550	543	1,093
Longevity insurance	**152**	159	168	327
Total gross written premiums on insurance business	**1,652**	1,634	1,542	3,176

1. In local currency, US protection reflects gross written premiums of $712m for H1 2021 (H1 20: $693m; H2 20: $710m).

Legal & General Group Plc
Half Year Results 2021 Part 3

Capital Page 79

6.01 Group regulatory capital - Solvency II

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

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

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

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at 30 June 2021). The TMTP incorporates estimated impacts of end June 2021 economic conditions and changes during 2021 to the Internal Model and Matching Adjustment. This is in line with group's management of the capital position on a dynamic TMTP basis.

(a) Capital position

As at 30 June 2021, and on the above basis, the group had a surplus of £7.5bn (31 December 2020: £7.4bn) over its Solvency Capital Requirement, corresponding to a Solvency II capital coverage ratio on a "shareholder view" basis of 183% (31 December 2020: 177%). The shareholder view of the Solvency II capital position is as follows:

	30 Jun 2021 £bn	31 Dec 2020 £bn
Unrestricted Tier 1 Own Funds	**12.3**	12.3
Restricted Tier 1 Own Funds[1]	**0.5**	0.5
Tier 2 Subordinated liabilities[2]	**4.3**	4.5
Eligibility restrictions[3]	**(0.5)**	(0.2)
Solvency II Own Funds[4,5]	**16.6**	17.1
Solvency Capital Requirement	**(9.1)**	(9.7)
Solvency II surplus	**7.5**	7.4

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SCR Coverage ratio[6]	**183%**	177%

1. Restricted Tier 1 Own Funds represent Perpetual restricted Tier 1 contingent convertible notes.
2. Tier 2 subordinated liabilities include £0.3bn of subordinated debt issued during 2009, callable in 2021. On 26 May 2021, notification was given that the group intends to redeem these notes in full on 23 July 2021. Effective from the notification date, the notes were no longer treated as Tier 2 own funds for Solvency II purposes.
3. Eligibility restrictions include £0.3bn of subordinated debt, following the notification to redeem the notes in full.
4. Solvency II Own Funds do not include an accrual for the interim dividend of £309m (31 December 2020: £754m) declared after the balance sheet date.
5. Solvency II Own Funds allow for a Risk Margin of £5.5bn (2020: £6.1bn) and TMTP of £4.8bn (2020: £5.6bn).
6. SCR Coverage ratio is based on unrounded inputs.

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

On a proforma basis, which includes the contribution of the final salary pension schemes, the coverage ratio at 30 June 2021 is 182% (31 December 2020: 175%).

6.01 Group regulatory capital - Solvency II (continued)

(b) Methodology and assumptions

The methodology, assumptions and Partial Internal Model underlying the calculation of Solvency II Own Funds and associated capital requirements are broadly consistent with those set out in the group's 2020 Annual Report and Accounts and Full Year Results.

Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any margins for prudence. Future investment returns and discount rates are those defined by the PRA, using risk free rates based on market, LIBOR swap rates net of credit risk adjustment of 10 basis points (31 December 2020: 11 basis points) for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 30 June 2021 the Matching Adjustment for UK GBP denominated liabilities was 90 basis points (31 December 2020: 103 basis points) after deducting an allowance for the fundamental spread equivalent to 53 basis points (31 December 2020: 55 basis points).

(c) Analysis of change

The table below shows the movement (net of tax) during the six month period ended 30 June 2021 in the group's Solvency II surplus.

	6 months 30 Jun 2021 £bn	Full year 31 Dec 2020 £bn
Surplus arising from back-book (including release of SCR)	**0.7**	1.3
Release of Risk Margin[1]	**0.3**	0.6
Amortisation of TMTP[2]	**(0.2)**	(0.4)
Total operational surplus generation[3]	**0.8**	1.5
New business strain	**(0.2)**	(0.3)
Net surplus generation	**0.6**	1.2
Operating variances[4]	**-**	0.4
Mergers, acquisitions and disposals[5]	**-**	(0.1)
Market movements[6]	**0.6**	(1.4)
Restricted Tier 1 convertible notes[7]	**-**	0.5
Subordinated liabilities[8]	**(0.3)**	0.5
Dividends paid[9]	**(0.8)**	(1.0)
Total surplus movement (after dividends paid in the period)	**0.1**	0.1

1. Based on the Risk Margin in force at 31 December 2020 and does not include the release of any Risk Margin added by new business written in 2021.
2. TMTP amortisation based on a linear run down of the 31 December 2020 TMTP.
3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2021 these are primarily related to the planned reinsurance of back-book liabilities.
4. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, other management actions including changes in asset mix, hedging strategies, and Matching Adjustment optimisation.
5. 2020 primarily reflected the impacts of the sale of the Mature Savings business, which completed in H2 2020.
6. Market movements represent the impact of changes in investment market conditions over the year and changes to future economic assumptions. Market movements in 2021 include a decrease in the Risk Margin of £0.5bn net of tax (2020: increase of £0.7bn) and a decrease to TMTP of £0.5bn net of tax (2020: increase of £0.7bn).
7. Restricted Tier 1 Own Funds represent Perpetual restricted Tier 1 contingent convertible notes, issued in 2020. No additional issuance in 2021.
8. Subordinated liabilities reflect the restriction applied to the £0.3bn debt issued in 2009, which is no longer available as capital following the group's announcement in May 2021 to redeem these notes in full on 23 July 2021 (2020: Issuance of £0.5bn).
9. Dividends paid are the amounts from the 2020 final dividend paid in H1 2021 (2020: 2019 final dividend and 2020 interim dividend).

6.01 Group regulatory capital - Solvency II (continued)

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

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

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

(i) The table below provides a reconciliation of the group's IFRS Release from operations to Solvency II Operational surplus generation.

	6 months 2021 £bn	Full year 2020 £bn
IFRS Release from operations	**0.8**	1.3
Expected release of IFRS prudential margins	**(0.2)**	(0.5)
Releases of IFRS specific reserves[1]	**(0.1)**	(0.2)
Solvency II investment margin[2,3]	**-**	0.3
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	**0.3**	0.6
Solvency II Operational surplus generation[4]	**0.8**	1.5

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term longevity and expense margins).
2. Release of prudence related to differences between the PRA defined Fundamental Spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk-free rates over 2021.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2021 were reasonably expected to be implemented over the year.

(ii) The table below provides a reconciliation of the group's IFRS New business surplus to Solvency II New business strain.

	6 months 2021 £bn	Full year 2020 £bn
IFRS New business surplus	**0.1**	0.3
Removal of requirement to set up prudential margins above best estimate on new business	**0.2**	0.3
Set up of SCR on new business	**(0.4)**	(0.7)
Set up of Risk Margin on new business	**(0.1)**	(0.2)
Solvency II New business strain[1]	**(0.2)**	(0.3)

1. UK PRT new business volume during 2021 was £3.0bn, compared to £7.6bn over 2020.

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

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

	30 Jun 2021 £bn	31 Dec 2020 £bn
IFRS equity[1]	**10.3**	10.0
Remove DAC, goodwill and other intangible assets and associated liabilities	**(0.4)**	(0.4)
Add IFRS carrying value of subordinated borrowings[2]	**4.0**	4.0
Insurance contract valuation differences[3]	**4.0**	4.5
Difference in value of net deferred tax liabilities	**(0.7)**	(0.6)
SCR for final salary pension schemes	**(0.1)**	(0.2)
Eligibility restrictions[4]	**(0.5)**	(0.2)
Solvency II Own Funds[5]	**16.6**	17.1

1. IFRS equity represents equity attributable to owners of the parent and restricted Tier 1 convertible debt note as per the Consolidated Balance Sheet.
2. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
3. Differences in the measurement of technical provisions between IFRS and Solvency II.
4. Eligibility restrictions include the impact of redemption of £0.3bn of subordinated debt as announced by the group on 26 May 2021, in addition to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
5. Solvency II Own Funds do not include an accrual for the interim dividend of £309m (31 December 2020: £754m) declared after the balance sheet date.

Legal & General Group Plc
Half Year Results 2021 Part 3

Capital Page 82

6.01 Group regulatory capital - Solvency II (continued)

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 30 June 2021 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus 2021 £bn	**Impact on net of tax Solvency II coverage ratio 2021 %**	Impact on net of tax Solvency II capital surplus[1] 2020 £bn	Impact on net of tax Solvency II coverage ratio[1] 2020 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.5**	**11**	0.5	11
Credit spreads narrow by 100bps assuming an escalating addition to ratings[1,2]	**(0.7)**	**(12)**	(0.7)	(12)
Credit spreads widen by 100bps assuming a level addition to ratings[1]	**0.6**	**12**	0.7	13
Credit spreads of sub investment grade assets widen by 100bps assuming a level	**(0.3)**	**(5)**	(0.4)	(5)

addition to ratings[1,3]				
Credit migration[4]	**(0.8)**	**(9)**	(1.2)	(13)
25% fall in equity markets[5]	**(0.5)**	**(4)**	(0.5)	(4)
15% fall in property markets[6]	**(0.8)**	**(7)**	(0.6)	(6)
50bps increase in risk-free rates[7]	**0.5**	**11**	0.6	11
100bps increase in risk-free rates[7]	**1.0**	**21**	1.0	20
50bps decrease in risk-free rates[7,8]	**(0.7)**	**(12)**	(0.7)	(11)
50bps increase in future inflation expectations[7]	**(0.1)**	**(3)**	-	(2)
Substantially reduced Risk Margin[9]	**0.6**	**6**	0.5	5

1. The spread sensitivity applies to the group's corporate bond (and similar) holdings, with no change in long-term default expectations. Restructured lifetime mortgages are excluded as the underlying exposure is mostly to property.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100 basis points. To give a 100bps increase on the total portfolio, the spread stress increases in steps of 32bps, i.e. 32bps for AAA, 64bps for AA etc.
3. No stress for bonds rated BBB and above. For bonds rated BB and below the stress is 100bps. The spread widening on the total portfolio is 2bps as the group holds less than 2% in bonds rated BB and below. The impact is primarily an increase in SCR arising from the modelled cost of trading downgraded bonds back to a higher rating in the stress scenarios in the SCR calculation.
4. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds, and sale and leaseback rental strips; lifetime mortgage senior notes are excluded). Downgraded assets are assumed to be traded to their original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
5. This relates primarily to equity exposure in LGC but will also include equity-based mutual funds and other investments that receive an equity stress (for example, certain investments in subsidiaries). Some assets have factors that increase or decrease the stress relative to general equity levels via a beta factor.
6. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.
7. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.
8. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
9. Assuming a 2/3 reduction in the Risk Margin, allowing for offset from an equivalent reduction in the Transitional Measure on Technical Provisions.

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

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

Legal & General Group Plc
Half Year Results 2021 Part 3

Capital

6.02 Estimated Solvency II new business contribution

(a) New business by product[1]

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

	PVNBP[2]	**Contribution from new business[3]**	**Margin[4]**	PVNBP[2]	Contribution from new business[3]	Margin[4]
	6 months	**6 months**	**6 months**	Full year	Full year	Full year
	2021	**2021**	**2021**	2020	2020	2020
	£m	**£m**	**%**	£m	£m	%
LGR - UK annuity business	**3,269**	**274**	**8.4**	8,503	901	10.6
UK Protection Total	**1,089**	**83**	**7.6**	1,887	160	8.5
- Retail Protection	828	65	7.8	1,359	123	9.1
- Group Protection	261	18	7.1	528	37	7.0
US Protection[5]	**413**	**48**	**11.5**	829	94	11.2

1. Selected lines of business only.
2. PVNBP excludes quota share reinsurance single premium of £0.2bn relating to LGR new business, where the treaty was finalised after the balance sheet date.
3. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the year using the risk discount rate applicable at the end of the year.
4. Margin is based on unrounded inputs.
5. In local currency, US Protection reflects PVNBP of $574m (31 December 2020: $1,064m) and a contribution from new business of $66m (31 December 2020: $120m).

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

For UK Protection the contribution from new business is supported by strong volumes in Retail Protection where the reduction in margin is largely due to pricing action, movements in product mix and changes in market conditions in H1 2021.

The US Protection margin improved compared to the prior full year. The increase is driven by business mix and modified reinsurance terms on digital products.

(b) Basis of preparation

Solvency II new business contribution reflects the portion of Solvency II value added by new business written in the period. It has been calculated in a manner consistent with principles and methodologies which were set out in the group's 2020 Annual Report and Accounts and Full Year Results.

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

Intra-group reinsurance arrangements are in place between US, UK and Bermudan businesses and it is expected that these arrangements will be periodically extended to cover recent new business. The LGA new business margin assumes that the new business will continue to be reinsured in 2021 and looks through the intra-group arrangements.

Legal & General Group Plc
Half Year Results 2021 Part 3

Capital Page 84

6.02 Estimated Solvency II new business contribution (continued)

(c) Assumptions

The key economic assumptions are as follows:

	30 Jun 2021 %	31 Dec 2020 %
Margin for Risk	**3.6**	3.9
Risk-free rate		
- UK	**1.1**	0.5
- US	**1.5**	0.9
Risk discount rate (net of tax)		
- UK	**4.7**	4.4
- US	**5.1**	4.8
Long-term rate of return on non-profit annuities in LGR	**2.4**	2.1

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

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is calculated explicitly for each bulk annuity scheme written, and the weighted average deduction for business written in 2021 equates to a level rate deduction from the expected returns for the overall annuities portfolio of 15 basis points.

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

The profits on the new business are presented gross of tax.

Legal & General Group Plc
Half Year Results 2021 Part 3

Capital Page 85

6.02 Estimated Solvency II new business contribution (continued)

(d) Reconciliation of PVNBP to gross written premium

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

	Notes	6 months 2021 £bn	Full year 2020 £bn
PVNBP	6.02 (a)	**4.8**	11.2
Effect of capitalisation factor		**(1.3)**	(2.3)
New business premiums from selected lines		**3.5**	8.9
Other[1]		**0.7**	2.0
Total LGR and LGI new business	5.05,5.06	**4.2**	10.9
Annualisation impact of regular premium long-term business		**(0.2)**	(0.2)
IFRS gross written premiums from existing long-term insurance business		**1.6**	3.0
Deposit accounting for investment products		**(1.3)**	(1.2)
Total gross written premiums[2]		**4.3**	12.5

1. Other principally includes annuity sales in the US, lifetime and retirement interest only mortgage advances and the reversal of a quota share reinsurance single premium of £0.2bn relating to LGR new business, where the treaty was finalised after the balance sheet date.

2. Total gross written premiums include £55m of gross written premiums relating to a residual reinsurance treaty following the disposal of the General Insurance business.

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Investments

7.01 Investment portfolio

	Market value 30 Jun 2021 £m	Market value 30 Jun 2020 £m	Market value 31 Dec 2020 £m
Worldwide total assets under management[1,2]	**1,333,203**	1,247,960	1,285,489
Client and policyholder assets	**(1,218,560)**	(1,119,803)	(1,161,631)
Non-unit linked with-profits assets	**-**	(9,854)	-
Investments to which shareholders are directly exposed	**114,643**	118,303	123,858

1. Worldwide total assets under management include LGIM AUM and other group assets not managed by LGIM.
2. As part of a change in accounting policy in 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balance for Worldwide total assets under management has been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Analysed by investment class:

	Notes	**LGR investments 30 Jun 2021 £m**	**Other non-profit insurance investments 30 Jun 2021 £m**	**LGC investments 30 Jun 2021 £m**	**Other shareholder investments 30 Jun 2021 £m**	**Total 30 Jun 2021 £m**	Total 30 Jun 2020 £m	Total 31 Dec 2020 £m
Equities		**11**	**31**	**2,739**	**307**	**3,088**	2,812	3,086
Bonds[3]	7.03	**78,226**	**2,366**	**1,827**	**280**	**82,699**	81,337	85,502
Derivative assets[4]		**13,987**	**-**	**32**	**-**	**14,019**	22,388	20,936
Property	7.04	**4,639**	**-**	**464**	**-**	**5,103**	4,250	4,672
Loans[3,5]		**3,472**	**29**	**789**	**11**	**4,301**	2,000	4,248
Financial investments	4.04 (a)	**100,335**	**2,426**	**5,851**	**598**	**109,210**	112,787	118,444
Cash and cash equivalents		**1,866**	**242**	**1,222**	**410**	**3,740**	3,777	3,616
Other assets[6]		**100**	**-**	**1,593**	**-**	**1,693**	1,739	1,798
Total investments		**102,301**	**2,668**	**8,666**	**1,008**	**114,643**	118,303	123,858

3. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Bonds and Loans have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.
4. Derivative assets are shown gross of derivative liabilities of £17.7bn (30 June 2020: £24.9bn; 31 December 2020: £21.2bn). Exposures arise from use of

derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for assets and liability management.

5. Loans include reverse repurchase agreements of £4,152m (30 June 2020: £1,868m; 31 December 2020: £4,117m).

6. Other assets include finance leases of £87m (30 June 2020: £89m; 31 December 2020: £88m), associates and joint ventures of £314m (30 June 2020: £328m; 31 December 2020: £288m) and the consolidated net asset value of the group's investments in CALA Homes and other housing businesses.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments

7.02 Direct investments

(a) Analysed by asset class

	Direct[1] investments 30 Jun 2021 £m	Traded[2] securities 30 Jun 2021 £m	Total 30 Jun 2021 £m	Direct[1] investments 30 Jun 2020 £m	Traded[2] securities 30 Jun 2020 £m	Total 30 Jun 2020 £m	Direct[1] investments 31 Dec 2020 £m	Traded[2] securities 31 Dec 2020 £m	Total 31 Dec 2020 £m
Equities	**1,202**	**1,886**	**3,088**	1,142	1,670	2,812	1,145	1,941	3,086
Bonds[3,5]	**22,218**	**60,481**	**82,699**	20,612	60,725	81,337	21,555	63,947	85,502
Derivative assets	**-**	**14,019**	**14,019**	-	22,388	22,388	-	20,936	20,936
Property[4]	**5,103**	**-**	**5,103**	4,250	-	4,250	4,672	-	4,672
Loans and other receivables[5]	**119**	**4,182**	**4,301**	145	1,855	2,000	99	4,149	4,248
Financial investments	**28,642**	**80,568**	**109,210**	26,149	86,638	112,787	27,471	90,973	118,444
Cash and cash equivalents	**221**	**3,519**	**3,740**	69	3,708	3,777	42	3,574	3,616
Other assets	**1,693**	**-**	**1,693**	1,739	-	1,739	1,798	-	1,798
Total investments	**30,556**	**84,087**	**114,643**	27,957	90,346	118,303	29,311	94,547	123,858

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but excluded hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a direct investment, then it is classed as a traded security.
3. Bonds include lifetime mortgage loans of £6,325m (30 June 2020: £5,478m; 31 December 2020: £6,036m).
4. A further breakdown of property is provided in Note 7.04.
5. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Bonds and Loans and other receivables have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments

7.02 Direct investments (continued)

(b) Analysed by segment

-	LGR 30 Jun 2021 £m	LGC[1] 30 Jun 2021 £m	LGI 30 Jun 2021 £m	Total 30 Jun 2021 £m
Equities	**9**	**1,077**	**116**	**1,202**
Bonds[2]	**21,023**	**3**	**1,192**	**22,218**
Property	**4,639**	**464**	**-**	**5,103**
Loans and other receivables	**-**	**119**	**-**	**119**
Financial investments	**25,671**	**1,663**	**1,308**	**28,642**
Other assets, cash and cash equivalents	**100**	**1,814**	**-**	**1,914**
Total direct investments	**25,771**	**3,477**	**1,308**	**30,556**

1. LGC includes £52m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgage loans of £6,325m.

	LGR 30 Jun 2020 £m	LGC[1] 30 Jun 2020 £m	LGI 30 Jun 2020 £m	Total 30 Jun 2020 £m
Equities	-	1,068	74	1,142
Bonds[2,3]	19,444	3	1,165	20,612
Property	4,016	234	-	4,250
Loans and other receivables[3]	-	145	-	145
Financial investments	23,460	1,450	1,239	26,149
Other assets, cash and cash equivalents	104	1,700	4	1,808
Total direct investments	23,564	3,150	1,243	27,957

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

3. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were classified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Bonds and Loans and other receivables have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

	LGR 31 Dec 2020 £m	LGC[1] 31 Dec 2020 £m	LGI 31 Dec 2020 £m	Total 31 Dec 2020 £m
Equities	-	1,043	102	1,145
Bonds[2]	20,306	3	1,246	21,555
Property	4,319	353	-	4,672
Loans and other receivables	-	99	-	99
Financial investments	24,625	1,498	1,348	27,471
Other assets, cash and cash equivalents	106	1,730	4	1,840
Total direct investments	24,731	3,228	1,352	29,311

1. LGC included £47m of equities that belong to other shareholder funds.
2. Bonds include lifetime mortgage loans of £6,036m.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments Page 90

7.03 Bond portfolio summary

(a) Sectors analysed by credit rating

As at 30 June 2021	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB or below £m**	**Other £m**	**Total[2] £m**	**Total[2] %**
Sovereigns, Supras and Sub-Sovereigns	**1,925**	**10,091**	**1,249**	**335**	**10**	**-**	**13,610**	**17**
Banks:								
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**-**	**58**	**39**	**4**	**-**	**101**	**-**
- Senior	**-**	**1,024**	**3,490**	**790**	**2**	**-**	**5,306**	**6**
- Covered	**151**	**-**	**-**	**-**	**-**	**-**	**151**	**-**
Financial Services:								
- Tier 2 and other subordinated	**-**	**113**	**57**	**21**	**-**	**-**	**191**	**-**
- Senior	**55**	**443**	**406**	**393**	**9**	**-**	**1,306**	**2**
Insurance:								
- Tier 2 and other subordinated	**64**	**196**	**31**	**58**	**-**	**-**	**349**	**-**
- Senior	**-**	**221**	**405**	**542**	**-**	**-**	**1,168**	**1**
Consumer Services and Goods:								
- Cyclical	**-**	**84**	**1,135**	**1,772**	**193**	**-**	**3,184**	**4**
- Non-cyclical	**338**	**1,052**	**2,658**	**3,936**	**344**	**-**	**8,328**	**10**
- Health Care	**-**	**605**	**851**	**690**	**5**	**-**	**2,151**	**3**
Infrastructure:								
- Social	**208**	**746**	**4,669**	**916**	**77**	**-**	**6,616**	**8**
- Economic	**311**	**51**	**766**	**4,053**	**183**	**-**	**5,364**	**6**
Technology and Telecoms	**174**	**209**	**1,462**	**3,085**	**22**	**1**	**4,953**	**6**
Industrials	**-**	**31**	**672**	**694**	**22**	**-**	**1,419**	**2**
Utilities	**-**	**207**	**5,629**	**5,861**	**27**	**-**	**11,724**	**14**
Energy	**-**	**-**	**468**	**589**	**16**	**-**	**1,073**	**1**
Commodities	**-**	**-**	**365**	**910**	**8**	**-**	**1,283**	**2**
Oil and Gas	**-**	**560**	**1,047**	**389**	**274**	**-**	**2,270**	**3**
Real estate	**-**	**11**	**1,728**	**1,591**	**177**	**-**	**3,507**	**4**
Structured finance ABS / RMBS / CMBS / Other	**423**	**798**	**403**	**603**	**24**	**1**	**2,252**	**3**
Lifetime mortgage loans[1]	**3,852**	**1,509**	**524**	**427**	**-**	**13**	**6,325**	**8**
CDOs	**-**	**55**	**-**	**13**	**-**	**-**	**68**	**-**
Total £m	**7,501**	**18,006**	**28,073**	**27,707**	**1,397**	**15**	**82,699**	**100**
Total %	**9**	**22**	**34**	**33**	**2**	**-**	**100**	

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £78,226m, representing 95% of the total group portfolio.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments Page 91

7.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

As at 30 June 2020	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	2,521	11,299	738	449	26	-	15,033	19
Banks:								
- Tier 1	-	-	-	1	-	1	2	-
- Tier 2 and other subordinated	-	-	69	42	5	-	116	-
- Senior	-	1,335	2,192	545	1	-	4,073	5
- Covered	187	-	4	-	-	-	191	-
Financial Services:								
- Tier 2 and other subordinated	-	120	70	11	-	4	205	-
- Senior	2	447	176	267	9	-	901	1
Insurance:								
- Tier 2 and other subordinated	56	139	8	63	-	-	266	-
- Senior	-	257	538	311	-	-	1,106	1
Consumer Services and Goods:					-	-		-
- Cyclical	-	354	1,089	1,961	333	2	3,739	5
- Non-cyclical	305	883	2,803	4,006	316	1	8,314	10
- Health Care	-	376	856	636	7	-	1,875	2
Infrastructure:								
- Social	216	771	4,331	877	89	-	6,284	8
- Economic	332	58	920	3,626	337	-	5,273	7
Technology and Telecoms	206	204	1,612	2,844	41	-	4,907	6
Industrials	-	12	847	681	27	-	1,567	2
Utilities	-	221	5,540	5,733	6	-	11,500	15
Energy	-	-	424	859	12	-	1,295	2
Commodities	-	-	286	748	17	-	1,051	1
Oil and Gas	-	649	1,037	539	274	-	2,499	3
Real estate	-	7	1,685	1,608	101	-	3,401	4
Structured finance ABS / RMBS / CMBS / Other[3]	372	767	294	519	225	1	2,178	2
Lifetime mortgage loans[1]	3,427	1,384	304	350	-	13	5,478	7
CDOs	-	57	11	15	-	-	83	-
Total £m	7,624	19,340	25,834	26,691	1,826	22	81,337	100
Total %	9	24	32	33	2	-	100	

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £76,406m, representing 94% of the total group portfolio.
3. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

7.03 Bond portfolio summary (continued)

(a) Sectors analysed by credit rating (continued)

As at 31 December 2020	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Other £m	Total[2] £m	Total[2] %
Sovereigns, Supras and Sub-Sovereigns	2,747	12,187	903	398	9	-	16,244	19
Banks:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	61	43	3	-	107	-
- Senior	-	1,182	3,314	678	1	-	5,175	6
- Covered	158	-	-	-	-	-	158	-
Financial Services:								
- Tier 2 and other subordinated	-	120	71	10	-	3	204	-
- Senior	55	488	202	323	9	-	1,077	1
Insurance:								
- Tier 2 and other subordinated	65	161	8	59	-	-	293	-
- Senior	-	273	492	401	-	-	1,166	1
Consumer Services and Goods:								
- Cyclical	-	24	1,158	1,771	288	-	3,241	4
- Non-cyclical	366	1,153	2,849	4,057	324	-	8,749	10
- Health care	-	437	886	669	5	-	1,997	2

Infrastructure:								
- Social	217	766	4,579	814	79	-	6,455	8
- Economic	328	61	784	4,006	290	-	5,469	7
Technology and Telecoms	193	229	1,633	3,080	31	1	5,167	6
Industrials	-	16	709	759	26	-	1,510	2
Utilities	-	207	6,034	5,526	27	-	11,794	14
Energy	-	-	429	784	19	-	1,232	1
Commodities	-	-	351	919	7	-	1,277	2
Oil and Gas	-	773	958	467	276	-	2,474	3
Real estate	-	8	1,622	1,675	93	-	3,398	4
Structured finance ABS / RMBS / CMBS / Other	429	772	400	578	27	1	2,207	3
Lifetime mortgage loans[1]	3,611	1,533	494	385	-	13	6,036	7
CDOs	-	58	-	14	-	-	72	-
Total £m	8,169	20,448	27,937	27,416	1,514	18	85,502	100
Total %	9	24	33	32	2	-	100	

1. The credit ratings attributed to lifetime mortgage loans are allocated in accordance with the internal Matching Adjustment structuring.
2. The group's bond portfolio is dominated by LGR investments. These account for £80,438m, representing 94% of the total group portfolio.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile

As at 30 June 2021	**UK £m**	**US £m**	**EU excluding UK £m**	**Rest of the World £m**	**Total £m**
Sovereigns, Supras and Sub-Sovereigns	**9,937**	**1,900**	**861**	**912**	**13,610**
Banks	**1,807**	**1,828**	**1,241**	**682**	**5,558**
Financial Services	**532**	**344**	**555**	**66**	**1,497**
Insurance	**103**	**1,239**	**60**	**115**	**1,517**
Consumer Services and Goods:					
- Cyclical	**446**	**2,088**	**503**	**147**	**3,184**
- Non-cyclical	**1,952**	**5,822**	**382**	**172**	**8,328**
- Health care	**285**	**1,785**	**80**	**1**	**2,151**
Infrastructure:					
- Social	**5,826**	**582**	**160**	**48**	**6,616**
- Economic	**3,941**	**847**	**226**	**350**	**5,364**
Technology and Telecoms	**407**	**2,981**	**707**	**858**	**4,953**
Industrials	**186**	**815**	**351**	**67**	**1,419**
Utilities	**6,834**	**2,230**	**2,075**	**585**	**11,724**
Energy	**229**	**622**	**96**	**126**	**1,073**
Commodities	**6**	**564**	**183**	**530**	**1,283**
Oil and Gas	**213**	**634**	**792**	**631**	**2,270**
Real estate	**2,089**	**562**	**620**	**236**	**3,507**
Structured Finance ABS / RMBS / CMBS / Other	**919**	**1,237**	**11**	**85**	**2,252**
Lifetime mortgage loans	**6,325**	**-**	**-**	**-**	**6,325**
CDOs	**-**	**-**	**-**	**68**	**68**
Total	**42,037**	**26,080**	**8,903**	**5,679**	**82,699**

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 30 June 2020	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	11,035	2,603	859	536	15,033
Banks	998	1,696	1,181	507	4,382

Financial Services	415	189	490	12	1,106
Insurance	111	934	203	124	1,372
Consumer Services and Goods:					
- Cyclical	539	2,666	367	167	3,739
- Non-cyclical	1,715	6,037	424	138	8,314
- Health care	204	1,603	68	-	1,875
Infrastructure:					
- Social	5,670	452	111	51	6,284
- Economic	3,945	830	190	308	5,273
Technology and Telecoms	593	2,677	755	882	4,907
Industrials	78	1,075	348	66	1,567
Utilities	6,597	2,332	2,055	516	11,500
Energy	228	813	112	142	1,295
Commodities	4	346	167	534	1,051
Oil and Gas	253	644	796	806	2,499
Real estate	2,196	381	618	206	3,401
Structured Finance ABS / RMBS / CMBS / Other [1]	941	1,210	12	15	2,178
Lifetime mortgage loans	5,478	-	-	-	5,478
CDOs	-	-	-	83	83
Total	41,000	26,488	8,756	5,093	81,337

1. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments Page 95

7.03 Bond portfolio summary (continued)

(b) Sectors analysed by domicile (continued)

As at 31 December 2020	UK £m	US £m	EU excluding UK £m	Rest of the World £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	11,797	2,425	1,176	846	16,244
Banks	1,687	1,907	1,463	383	5,440
Financial Services	391	298	525	67	1,281
Insurance	109	1,049	181	120	1,459
Consumer Services and Goods					
- Cyclical	543	2,201	360	137	3,241
- Non-cyclical	1,789	6,403	389	168	8,749
- Health care	209	1,694	94	-	1,997
Infrastructure					
- Social	5,809	487	112	47	6,455
- Economic	4,071	853	231	314	5,469
Technology and Telecoms	485	3,098	754	830	5,167
Industrials	191	927	330	62	1,510
Utilities	6,886	2,236	2,097	575	11,794
Energy	244	758	105	125	1,232
Commodities	3	596	165	513	1,277
Oil and Gas	232	642	832	768	2,474
Real estate	2,168	384	634	212	3,398
Structured finance ABS / RMBS / CMBS / Other	944	1,207	11	45	2,207
Lifetime mortgage loans	6,036	-	-	-	6,036
CDOs	-	-	-	72	72
Total	43,594	27,165	9,459	5,284	85,502

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments Page 96

7.03 Bond portfolio summary (continued)

(c) Bond portfolio analysed by credit rating

As at 30 June 2021	**Externally rated £m**	**Internally rated[1] £m**	**Total £m**

AAA	**3,254**	**4,247**	**7,501**
AA	**14,732**	**3,274**	**18,006**
A	**20,595**	**7,478**	**28,073**
BBB	**21,462**	**6,245**	**27,707**
BB or below	**970**	**427**	**1,397**
Other	**1**	**14**	**15**
Total	**61,014**	**21,685**	**82,699**

As at 30 June 2020	Externally rated £m	Internally rated[1,2] £m	Total £m
AAA	3,808	3,816	7,624
AA	15,720	3,620	19,340
A	19,457	6,377	25,834
BBB	20,835	5,856	26,691
BB or below	1,114	712	1,826
Other	8	14	22
Total	60,942	20,395	81,337

As at 31 December 2020	Externally rated £m	Internally rated[1] £m	Total £m
AAA	4,101	4,068	8,169
AA	17,101	3,347	20,448
A	21,235	6,702	27,937
BBB	21,307	6,109	27,416
BB or below	1,049	465	1,514
Other	4	14	18
Total	64,797	20,705	85,502

1. Where external ratings are not available an internal rating has been used where practicable to do so.
2. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

7.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded

As at 30 June 2021	**Direct investments £m**	**Traded £m**	**Total £m**
Sovereigns, Supras and Sub-Sovereigns	**991**	**12,619**	**13,610**
Banks	**628**	**4,930**	**5,558**
Financial Services	**396**	**1,101**	**1,497**
Insurance	**162**	**1,355**	**1,517**
Consumer Services and Goods:			
- Cyclical	**469**	**2,715**	**3,184**
- Non-cyclical	**386**	**7,942**	**8,328**
- Health care	**339**	**1,812**	**2,151**
Infrastructure:			
- Social	**3,507**	**3,109**	**6,616**
- Economic	**3,696**	**1,668**	**5,364**
Technology and Telecoms	**129**	**4,824**	**4,953**
Industrials	**58**	**1,361**	**1,419**
Utilities	**1,656**	**10,068**	**11,724**
Energy	**331**	**742**	**1,073**
Commodities	**57**	**1,226**	**1,283**
Oil and Gas	**57**	**2,213**	**2,270**
Real estate	**2,109**	**1,398**	**3,507**
Structured Finance ABS / RMBS / CMBS / Other	**925**	**1,327**	**2,252**
Lifetime mortgage loans	**6,325**	**-**	**6,325**
CDOs	**-**	**68**	**68**

Total	**22,221**	**60,478**	**82,699**

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments

7.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded (continued)

As at 30 June 2020	Direct investments £m	Traded £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	846	14,187	15,033
Banks	482	3,900	4,382
Financial Services	250	856	1,106
Insurance	318	1,054	1,372
Consumer Services and Goods:			
- Cyclical	230	3,509	3,739
- Non-cyclical	469	7,845	8,314
- Health care	325	1,550	1,875
Infrastructure:			
- Social	3,417	2,867	6,284
- Economic	3,521	1,752	5,273
Technology and Telecoms	191	4,716	4,907
Industrials	78	1,489	1,567
Utilities	1,346	10,154	11,500
Energy	347	948	1,295
Commodities	58	993	1,051
Oil and Gas	55	2,444	2,499
Real estate	2,272	1,129	3,401
Structured Finance ABS / RMBS / CMBS / Other [1]	929	1,249	2,178
Lifetime mortgage loans	5,478	-	5,478
CDOs	-	83	83
Total	20,612	60,725	81,337

1. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity liabilities, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 30 June 2020 balances for Structured finance ABS / RMBS / CMBS / Other have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments

7.03 Bond portfolio summary (continued)

(d) Sectors analysed by Direct investments and Traded (continued)

As at 31 December 2020	Direct investments £m	Traded £m	Total £m
Sovereigns, Supras and Sub-Sovereigns	889	15,355	16,244
Banks	644	4,796	5,440
Financial Services	310	971	1,281
Insurance	282	1,177	1,459
Consumer Services and Goods:			
- Cyclical	351	2,890	3,241
- Non-cyclical	396	8,353	8,749
- Health care	363	1,634	1,997
Infrastructure:			
- Social	3,283	3,172	6,455
- Economic	3,726	1,743	5,469
Technology and Telecoms	93	5,074	5,167
Industrials	64	1,446	1,510
Utilities	1,475	10,319	11,794
Energy	355	877	1,232
Commodities	59	1,218	1,277

Oil and Gas	58	2,416	2,474
Real estate	2,301	1,097	3,398
Structured Finance ABS / RMBS / CMBS / Other	870	1,337	2,207
Lifetime mortgage loans	6,036	-	6,036
CDOs	-	72	72
Total	21,555	63,947	85,502

Legal & General Group Plc
Half Year Results 2021 Part 3

Investments — Page 100

7.04 Property analysis

Property exposure within Direct investments by status

As at 30 June 2021	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	**4,035**	**-**	**4,035**	**79**
Development	**604**	**323**	**927**	**18**
Land	**-**	**141**	**141**	**3**
Total	**4,639**	**464**	**5,103**	**100**

As at 30 June 2020	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	3,663	-	3,663	86
Development	353	104	457	11
Land	-	130	130	3
Total	4,016	234	4,250	100

As at 31 December 2020	LGR[1] £m	LGC[2] £m	Total £m	%
Fully let	3,974	-	3,974	85
Development	345	224	569	12
Land	-	129	129	3
Total	4,319	353	4,672	100

1. The fully let LGR property includes £4.0bn (30 June 2020: £3.5bn; 31 December 2020: £3.8bn) let to investment grade tenants.
2. The above analysis does not include assets related to the group's investments in CALA Homes and other housing businesses, which are accounted for as inventory within Receivables and other assets on the group's Consolidated Balance Sheet and measured at the lower of cost and net realisable value. At 30 June 2021 the group held a total of £2,190m (30 June 2020: £2,261m; 31 December 2020: £2,179m) of such assets.

Legal & General Group Plc
Half Year Results 2021 Part 3

Alternative Performance Measures — Page 101

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 and stakeholders 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 enhance understanding of the group's performance. However, APMs should be viewed as complementary to, rather than as a substitute for, the figures determined according to other regulations. The APMs used by the group are listed in this section, along with their definition/explanation, their closest IFRS measure and reference to reconciliations to those IFRS measures.

Group adjusted operating profit

Definition

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

Group adjusted operating profit was previously described as 'operating profit'. In order to maintain a consistent understanding of the group's performance the term 'operating profit' will continue to be used throughout the Interim Management Report, the Annual Report and Accounts, and other external reporting, as a substitute for group adjusted operating profit.

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2.01 Operating profit.

Return on Equity (ROE)

Definition

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

Closest IFRS measure

Calculated using:

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

Reconciliation

Calculated using annualised profit attributable to equity holders for the period of £2,130m (30 June 2020: £580m; 31 December 2020: £1,607m) and average equity attributable to the owners of the parent of £9,677m (30 June 2020: £9,140m; 31 December 2020: £9,270m).

Assets under Management

Definition

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

Closest IFRS measures

- Financial investments
- Investment property
- Cash and cash equivalents

Reconciliation

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

Net release from operations

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

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

Adjusted profit before tax attributable to equity holders

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2.01 Operating profit.

Legal & General Group Plc
Half Year Results 2021 Part 3

Glossary Page 102

* These items represent an alternative performance measure (APM)

Ad valorem fees

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

Adjusted profit before tax attributable to equity holders*

Refer to the alternative performance measures section.

Advisory assets

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

Alternative performance measures (APMs)

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

Annual premium

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

Annual premium equivalent (APE)

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

Annuity

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

Assets under administration (AUA)

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

Assets under management (AUM)*

Refer to the alternative performance measures section.

Back book acquisition

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

Bundled DC solution

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

Bundled pension schemes

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

CAGR

Compound annual growth rate.

Credit rating

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

Deduction and aggregation (D&A)

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

Earnings per share (EPS)

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

Eligible Own Funds

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

Employee engagement index

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

ETF

LGIM's European Exchange Traded Fund platform.

Euro Commercial paper

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

FVTPL

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

Full year dividend

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

Generally accepted accounting principles (GAAP)

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

Gross written premiums (GWP)

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

Group adjusted operating profit*

Refer to the alternative performance measures section.

ICAV - Irish Collective Asset-Management Vehicle

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

Index tracker (passive fund)

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

International financial reporting standards (IFRS)

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

Key performance indicators (KPIs)

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

LGA

Legal & General America.

LGAS

Legal and General Assurance Society Limited.

LGC

Legal & General Capital.

LGI

Legal & General Insurance.

LGI new business

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

LGIA

Legal & General Insurance America.

LGIM

Legal & General Investment Management

LGR

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

LGR new business

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

Liability driven investment (LDI)

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

Lifetime mortgages

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

Matching adjustment

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

Mortality rate

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

Net release from operations*

Refer to the alternative performance measures section.

New business surplus/strain

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

Open architecture

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

Overlay assets

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

Pension risk transfer (PRT)

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

Persistency

Persistency is a measure of LGIM client asset retention, calculated as a function of net flows and closing AUM.

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 IFRS surplus generated in the period from the difference between IFRS prudent assumptions and our best estimate of future experience for in-force LGR and UK Insurance businesses, the post-tax operating profit on other UK businesses, including the medium term expected investment return on LGC invested assets, and dividends remitted from LGIA.

Return on Equity (ROE)*

Refer to the alternative performance measures section.

Risk appetite

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

Single premiums

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

Solvency II

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

Solvency II capital coverage ratio

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

Solvency II capital coverage ratio (proforma basis)

The proforma basis Solvency II SCR coverage ratio incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions and the contribution of 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 the defined benefit pension scheme are excluded from both, the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 30 June 2021. This will be submitted to the PRA in August 2021.

Solvency II new business contribution

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

Solvency II risk margin

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

Solvency II surplus

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

Solvency Capital Requirement (SCR)

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

Total shareholder return (TSR)

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

Transitional Measures on Technical Provisions (TMTP)

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

Unbundled DC solution

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

With-profits funds

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

Yield

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

END

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L&G Half Year Results 2021 Part 2

LEGAL & GENERAL GROUP PLC

Released 07:00:07 04 August 2021

RNS Number : 4747H
Legal & General Group Plc
04 August 2021

Legal & General Group Plc
Half Year Results 2021 Part 2

1 INDEPENDENT REVIEW REPORT TO LEGAL & GENERAL GROUP PLC Page 33

Conclusion

We have been engaged by Legal & General Group plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows (pages 46 to 51) and the related explanatory notes to the interim financial statements (pages 35 to 45 and 52 to 72).

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

As disclosed in Note 4.01, the latest annual financial statements of the Group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

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

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

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

Rees Aronson

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square
London
E14 5GL
3 August 2021

Legal & General Group Plc
Half Year Results 2021 Part 2

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2.01 Operating profit#

For the six month period to 30 June 2021

	Notes	**6 months 2021 £m**	6 months 2020 £m	Full year 2020 £m
From continuing operations				
Legal & General Retirement (LGR)	2.03	**683**	720	1,728
- LGR Institutional (LGRI)		525	585	1,331
- LGR Retail (LGRR)[1]		158	135	397
Legal & General Investment Management (LGIM)[1]	2.04	**204**	197	407
Legal & General Capital (LGC)	2.05	**250**	123	275
Legal & General Insurance (LGI)	2.03	**134**	88	189
- UK and Other		96	57	205
- US (LGIA)		38	31	(16)
Operating profit from divisions:				
From continuing operations		**1,271**	1,128	2,599
From discontinued operations[2]		**-**	26	34
Operating profit from divisions		**1,271**	1,154	2,633
Group debt costs[3]		**(120)**	(115)	(233)
Group investment projects and expenses		**(72)**	(72)	(155)
Covid-19 costs[4]		**-**	(21)	(27)
Operating profit		**1,079**	946	2,218
Investment and other variances	2.06	**244**	(644)	(394)
Losses on non-controlling interests		**(3)**	(17)	(36)
Adjusted profit before tax attributable to equity holders		**1,320**	285	1,788
Tax attributable to equity holders	4.05	**(258)**	(12)	(217)
Profit for the period	3.01	**1,062**	273	1,571
Less: Profit after tax from discontinued operations[2]	3.01	**-**	(19)	(290)
Profit after tax from continuing operations	3.01	**1,062**	254	1,281
Total tax expense	3.01	**339**	88	218
Profit before tax	3.01	**1,401**	342	1,499
Profit attributable to equity holders		**1,065**	290	1,607
Earnings per share:				
Basic (pence per share)[5]	2.07	**17.78p**	4.89p	27.00p
Diluted (pence per share)[5]	2.07	**16.96p**	4.63p	25.60p

1. LGRR includes the Workplace Savings business which was previously reported in LGIM. Prior period comparatives have been restated to reflect the change in segmentation. Further details are provided in Note 2.08.
2. In 2020 discontinued operations included the results of the Mature Savings division, the sale of which completed on 7 September 2020.
3. Group debt costs exclude interest on non-recourse financing.
4. Covid-19 costs reflected incremental operational expenses incurred as a result of Covid-19.
5. All earnings per share calculations are based on profit attributable to equity holders of the company.

This supplementary operating profit information (one of the group's key performance indicators) provides additional analysis of the results reported under IFRS, and the group believes it provides stakeholders with useful information to enhance their understanding of the performance of the business in the period.

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

The group reports its results across the following business segments:

- LGR represents worldwide pension risk transfer business including longevity insurance (within LGRI), and retail retirement, workplace savings and lifetime mortgage loans (within LGRR).
- LGIM represents institutional and retail investment management.
- 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.

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

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosures on performance and Release from operations Page 36

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

For the six month period to 30 June 2021	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**363**	**83**	**446**	**117**	**8**	**12**	**-**	**583**	**100**	**683**
- LGRI	252	68	320	105	8	15	-	448	77	525
- LGRR[2]	111	15	126	12	-	(3)	-	135	23	158
LGIM[2]	**163**	**-**	**163**	**-**	**-**	**-**	**-**	**163**	**41**	**204**
LGC	**213**	**-**	**213**	**-**	**-**	**-**	**-**	**213**	**37**	**250**
LGI	**151**	**8**	**159**	**4**	**1**	**4**	**(64)**	**104**	**30**	**134**
- UK and Other	61	8	69	4	1	4	-	78	18	96
- US (LGIA)[3]	90	-	90	-	-	-	(64)	26	12	38
Total from divisions	**890**	**91**	**981**	**121**	**9**	**16**	**(64)**	**1,063**	**208**	**1,271**
Group debt costs	**(97)**	**-**	**(97)**	**-**	**-**	**-**	**-**	**(97)**	**(23)**	**(120)**
Group investment projects and expenses	**(30)**	**-**	**(30)**	**-**	**-**	**-**	**(31)**	**(61)**	**(11)**	**(72)**
Total	**763**	**91**	**854**	**121**	**9**	**16**	**(95)**	**905**	**174**	**1,079**

1. Release from operations within US (LGIA) includes £80m of dividends from the US.
2. LGRR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in segmentation. Further details are provided in Note 2.08.
3. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.

Release from operations for LGR and LGI UK and Other represents the expected IFRS surplus generated in the period from the difference between the prudent assumptions underlying the IFRS liabilities and our best estimate of future experience for in-force non-profit annuities, workplace savings and UK protection businesses. The LGI release from operations also includes dividends remitted from LGIA.

New business surplus/(strain) for LGR and LGI UK and Other represents the initial profit or loss from writing new business. This includes the costs associated with acquiring new business and setting up prudent reserves in respect of new business for UK non-profit annuities, workplace savings and protection, net of tax. The new business surplus and release from operations for LGR and LGI excludes any capital held in excess of the prudent reserves from the liability calculation.

LGR's new business metrics are presented based on a target long-term asset portfolio. At certain period ends, depending upon the quantum and timing of pension risk transfer (PRT) volumes, we may have sourced more or less of the high quality assets targeted to support that business. At period end, the profit impact of the difference between actual assets held (including alternative surplus assets where suitable) and the long-term asset mix is reflected in investment variance.

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

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

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

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

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosures on performance and Release from operations Page 37

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

For the six month period	Release from operations[1]	New business surplus/ (strain)	Net release from operations	Experience variances	Changes in valuation assumptions	Non-cash items	Other	Operating profit/ (loss) after tax	Tax expense/ (credit)	Operating profit/ (loss) before tax

to 30 June 2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
LGR	344	87	431	22	143	21	-	617	103	720
- LGRI	246	71	317	20	143	21	-	501	84	585
- LGRR[2]	98	16	114	2	-	-	-	116	19	135
LGIM[2]	158	-	158	-	-	-	-	158	39	197
LGC	97	-	97	-	-	-	-	97	26	123
LGI	163	(1)	162	(25)	8	(5)	(81)	59	29	88
- UK and Other	69	(1)	68	(25)	8	(5)	-	46	11	57
- US (LGIA)[3]	94	-	94	-	-	-	(81)	13	18	31
From continuing operations	762	86	848	(3)	151	16	(81)	931	197	1,128
From discontinued operations[4]	21	-	21	-	-	-	-	21	5	26
Total from divisions	783	86	869	(3)	151	16	(81)	952	202	1,154
Group debt costs	(93)	-	(93)	-	-	-	-	(93)	(22)	(115)
Group investment projects and expenses	(25)	-	(25)	-	-	-	(30)	(55)	(17)	(72)
Covid-19 costs[5]	-	-	-	-	-	-	(17)	(17)	(4)	(21)
Total	665	86	751	(3)	151	16	(128)	787	159	946

1. Release from operations within US (LGIA) includes £84m of dividends from the US.
2. LGRR includes the Workplace Savings business which was previously reported in LGIM. Further details are provided in Note 2.08.
3. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.
4. Discontinued operations include the results of the Mature Savings division, the sale of which completed on 7 September 2020.
5. Covid-19 costs reflect incremental operational expenses incurred as a result of Covid-19.

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

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

For the year ended 31 December 2020	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Exper-ience variances £m	Changes in valuation assump-tions £m	Non-cash items £m	Other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	685	262	947	99	400	32	-	1,478	250	1,728
- LGRI	492	220	712	81	314	30	-	1,137	194	1,331
- LGRR[2]	193	42	235	18	86	2	-	341	56	397
LGIM[2]	327	-	327	-	-	-	-	327	80	407
LGC	224	-	224	-	-	-	-	224	51	275
LGI	250	8	258	(41)	58	(5)	(115)	155	34	189
- UK and Other	146	8	154	(41)	58	(5)	-	166	39	205
- US (LGIA)[3]	104	-	104	-	-	-	(115)	(11)	(5)	(16)
From continuing operations	1,486	270	1,756	58	458	27	(115)	2,184	415	2,599
From discontinued operations[4]	28	-	28	-	-	-	-	28	6	34
Total from divisions	1,514	270	1,784	58	458	27	(115)	2,212	421	2,633
Group debt costs	(189)	-	(189)	-	-	-	-	(189)	(44)	(233)
Group investment projects and expenses	(56)	-	(56)	-	-	-	(61)	(117)	(38)	(155)
Covid-19 costs[5]	-	-	-	-	-	-	(20)	(20)	(7)	(27)
Total	1,269	270	1,539	58	458	27	(196)	1,886	332	2,218

1. Release from operations within US (LGIA) includes £84m of dividends from the US.

2. LGRR includes the Workplace Savings business which was previously reported in LGIM. Further details are provided in Note 2.08.
3. Other includes experience variances, changes in valuation assumptions and non-cash items for LGIA.
4. Discontinued operations include the results of the Mature Savings division, the sale of which completed on 7 September 2020.
5. Covid-19 costs reflect incremental operational expenses incurred as a result of Covid-19.

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

2.03 Analysis of LGR and LGI operating profit

For the six month period to 30 June 2021

	LGR[1] 6 months 2021 £m	**LGI 6 months 2021 £m**	LGR[1] 6 months 2020 £m	LGI 6 months 2020 £m	LGR[1] Full year 2020 £m	LGI Full year 2020 £m
Net release from operations	**446**	**159**	431	162	947	258
Experience variances						
- Persistency	**-**	**(6)**	3	(11)	7	3
- Mortality/morbidity	**42**	**3**	33	(17)	104	(46)
- Expenses	**(3)**	**(2)**	(3)	(5)	(18)	(5)
- Project and development costs	**(3)**	**-**	(4)	-	(9)	(1)
- Other[2]	**81**	**9**	(7)	8	15	8
Total experience variances	**117**	**4**	22	(25)	99	(41)
Changes in valuation assumptions						
- Persistency	**-**	**-**	-	-	-	(1)
- Mortality/morbidity	**-**	**-**	19	4	255	54
- Expenses	**-**	**-**	-	-	-	2
- Other[3]	**8**	**1**	124	4	145	3
Total changes in valuation assumptions	**8**	**1**	143	8	400	58
Movement in non-cash items						
- Acquisition expense tax relief	**-**	**-**	-	(2)	-	(3)
- Other[4]	**12**	**4**	21	(3)	32	(2)
Total movement in non-cash items	**12**	**4**	21	(5)	32	(5)
Other	**-**	**(64)**	-	(81)	-	(115)
Operating profit after tax	**583**	**104**	617	59	1,478	155
Tax expense	**100**	**30**	103	29	250	34
Operating profit before tax	**683**	**134**	720	88	1,728	189

1. LGR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in segmentation. Further details are provided in Note 2.08.
2. Other experience variances for LGR in the period to 30 June 2021 include the impact from an improvement in the quality of scheme data relating to bulk annuities, as well as the net impact of new reinsurance agreements relating to schemes transacted in different periods.
3. In 2020, the positive Other assumption change in LGR reflects a reduction in the assumed late retirement factors applied to deferred annuities.
4. LGR Other movement in non-cash items is driven by the net effect of the capitalisation and unwind of future asset management profits on activity managed by LGIM, and is a function of new business volumes and movements in the main unit cost assumptions.

2.04 LGIM operating profit

	6 months 2021 £m	6 months 2020 £m	Full year 2020 £m
Asset management revenue (excluding 3rd party market data)[1,2]	**471**	458	929
Asset management transactional revenue[3]	**9**	9	27
Asset management expenses (excluding 3rd party market data)[1,2]	**(276)**	(270)	(549)
Total LGIM operating profit[4]	**204**	197	407

1. Asset management revenue and expenses exclude income and costs of £18m in relation to the provision of third party market data (H1 20: £13m; FY 20: £27m).
2. The ETF operating result is included as part of asset management revenue and expenses.
3. Transactional revenue from external clients includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees.
4. The Workplace Savings business, which was previously reported in LGIM, has been transferred to LGRR. Prior year comparatives have been restated to reflect the change in segmentation. Further details are provided in Note 2.08.

2.05 LGC operating profit

	6 months 2021 £m	6 months 2020 £m	Full year 2020 £m
Direct investments[1]	**195**	36	112
Traded investment portfolio including treasury assets[2]	**55**	87	163
Total LGC operating profit	**250**	123	275

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

2.06 Investment and other variances

	6 months 2021 £m	6 months 2020 £m	Full year 2020 £m
Investment variance[1]	**255**	(599)	(691)
M&A related and other variances[2]	**(11)**	(45)	297
Total investment and other variances	**244**	(644)	(394)

1. The investment variance for the six months ended 30 June 2021 is driven by the formulaic impact of rising interest rates on LGI reserves of £230m (H1 20: £(483)m), along with strong portfolio performance in LGR and LGC, partially offset by the similarly formulaic but negative impact of rising interest rates on the value of the annuity obligations insured by LGAS in the group's defined benefit pension schemes, which drives the Group central expenses investment variance of £(132)m (H1 20: £71m).
2. M&A related and other variances includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. Full year 2020 includes a £335m profit on the disposal of the Mature Savings business.

Investment variance includes differences between actual and long term expected investment return on traded and real assets, economic assumption changes (e.g. credit default and inflation), the impact of any difference between the actual allocated asset mix and the target long-term asset mix on new pension risk transfer business, and excludes the yield associated with assets held for future new pension risk transfer business from the valuation discount rate.

The long term expected investment return is based on opening economic assumptions applied to the assets under management at the start of the reporting period. The assumptions underlying the calculation of the expected returns for traded equity and commercial property assets are based on market consensus forecasts and long term historic average returns expected to apply through the cycle. The principal assumptions are:

	6 months 2021	6 months 2020	Full year 2020
Equities	**7%**	7%	7%
Commercial property	**5%**	5%	5%
Residential property	**RPI + 50bps**	RPI + 50bps	RPI + 50bps

2.07 Earnings per share

(a) Basic earnings per share

	After tax 6 months	**Per share[1] 6 months**	After tax 6 months	Per share[1] 6 months	After tax Full year	Per share[1] Full year

	2021 £m	2021 p	2020 £m	2020 p	2020 £m	2020 p
Profit for the period attributable to equity holders	**1,065**	**17.96**	290	4.89	1,607	27.10
Less: coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	**(11)**	**(0.18)**	-	-	(6)	(0.10)
Total basic earnings	**1,054**	**17.78**	290	4.89	1,601	27.00
Less: earnings derived from discontinued operations	**-**	**-**	(19)	(0.32)	(290)	(4.89)
Basic earnings derived from continuing operations	**1,054**	**17.78**	271	4.57	1,311	22.11

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

(b) Diluted earnings per share

For the six month period to 30 June 2021	**After tax £m**	**Weighted average number of shares m**	**Per share[1] p**
Profit for the period attributable to equity holders	**1,065**	**5,929**	**17.96**
Net shares under options allocable for no further consideration	**-**	**45**	**(0.14)**
Conversion of restricted Tier 1 notes	**-**	**307**	**(0.86)**
Total diluted earnings	**1,065**	**6,281**	**16.96**
Diluted earnings derived from continuing operations	**1,065**	**6,281**	**16.96**

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

For the year ended 31 December 2020	After tax £m	Weighted average number of shares m	Per share[1] p
Profit for the year attributable to equity holders	1,607	5,930	27.10
Net shares under options allocable for no further consideration	-	40	(0.18)
Conversion of restricted Tier 1 notes	-	307	(1.32)
Total diluted earnings	1,607	6,277	25.60
Less: diluted earnings derived from discontinued operations	(290)	-	(4.62)
Diluted earnings derived from continuing operations	1,317	6,277	20.98

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

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosures on performance and Release from operations

2.08 Segmental analysis

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

From 1 January 2021, management of the Workplace Savings business has transferred from LGIM to LGRR, where it complements their retirement solutions offering and retail customer focus. The change in segment reporting has no impact on the profit or loss, or net assets, of the group. To enable comparison, segmental information for prior periods has been restated accordingly.

For 2020, continuing operations exclude the results of the Mature Savings division, the sale of which completed on 7 September 2020.

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

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

(i) Profit/(loss) for the period

	Group expenses and debt	Total continuing

For the six month period to 30 June 2021	LGR[1] £m	LGIM[1] £m	LGC £m	LGI £m	costs[2] £m	operations £m
Operating profit/(loss)#	**683**	**204**	**250**	**134**	**(192)**	**1,079**
Investment and other variances	**105**	**(7)**	**48**	**230**	**(132)**	**244**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Profit/(loss) before tax attributable to equity holders	**788**	**197**	**298**	**364**	**(327)**	**1,320**
Tax (expense)/credit attributable to equity holders	**(145)**	**(44)**	**(54)**	**(91)**	**76**	**(258)**
Profit/(loss) for the period	**643**	**153**	**244**	**273**	**(251)**	**1,062**

For the six month period to 30 June 2020	LGR[1] £m	LGIM[1] £m	LGC £m	LGI £m	Group expenses and debt costs[2] £m	Total continuing operations £m
Operating profit/(loss)#	720	197	123	88	(208)	920
Investment and other variances	73	4	(307)	(483)	71	(642)
Losses attributable to non-controlling interests	-	-	-	-	(17)	(17)
Profit/(loss) before tax attributable to equity holders	793	201	(184)	(395)	(154)	261
Tax (expense)/credit attributable to equity holders	(97)	(23)	33	70	10	(7)
Profit/(loss) for the period	696	178	(151)	(325)	(144)	254

For the year ended 31 December 2020	LGR[1] £m	LGIM[1] £m	LGC £m	LGI £m	Group expenses and debt costs[2] £m	Total continuing operations £m
Operating profit/(loss)#	1,728	407	275	189	(415)	2,184
Investment and other variances	15	1	(299)	(459)	24	(718)
Losses attributable to non-controlling interests	-	-	-	-	(36)	(36)
Profit/(loss) before tax attributable to equity holders	1,743	408	(24)	(270)	(427)	1,430
Tax (expense)/credit attributable to equity holders	(228)	(65)	(8)	58	94	(149)
Profit/(loss) for the year	1,515	343	(32)	(212)	(333)	1,281

1. LGR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in segmentation.
2. Group expenses and debt costs include £nil of incremental costs incurred as a result of Covid-19 (H1 20: £21m; FY 20: £27m).

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

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosures on performance and Release from operations Page 43

2.08 Segmental analysis (continued)

(ii) Revenue

(a) Total revenue

	6 months 2021 £m	6 months 2020 £m	Full year 2020 £m
Total income	**14,898**	17,419	50,231
Adjusted for:			
Share of (profit)/loss from associates and joint ventures, net of tax	**(21)**	23	28
Total revenue from continuing operations	**14,877**	17,442	50,259

(b) Total income

For the six month period to 30 June 2021	**LGR £m**	**LGIM[1,2] £m**	**LGI £m**	**LGC and other[3] £m**	**Total continuing operations £m**
Internal income	**-**	**80**	**-**	**(80)**	**-**

External income	**(13)**	**17,891**	**1,003**	**(3,983)**	**14,898**
Total income	**(13)**	**17,971**	**1,003**	**(4,063)**	**14,898**

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

For the year ended 31 December 2020	LGR £m	LGIM[1,2] £m	LGI £m	LGC and other[3] £m	Total continuing operations £m
Internal income	-	201	-	(201)	-
External income	15,057	20,878	1,799	12,497	50,231
Total income	15,057	21,079	1,799	12,296	50,231

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

2.08 Segmental analysis (continued)

(ii) Revenue (continued)

(c) Fees from fund management and investment contracts

For the six month period to 30 June 2021	**LGR[1] £m**	**LGIM[1] £m**	**LGI £m**	**LGC and other[2] £m**	**Total continuing operations £m**
Investment contracts	**46**	**-**	**-**	**-**	**46**
Investment management fees	**-**	**488**	**-**	**(80)**	**408**
Transaction fees	**-**	**9**	**-**	**-**	**9**
Total fees from fund management and investment contracts[3]	**46**	**497**	**-**	**(80)**	**463**

For the six month period to 30 June 2020	LGR[1] £m	LGIM[1] £m	LGI £m	LGC and other[2] £m	Total continuing operations £m
Investment contracts	38	-	-	-	38
Investment management fees	-	467	-	(96)	371
Transaction fees	-	9	-	-	9
Total fees from fund management and investment contracts[3]	38	476	-	(96)	418

For the year ended 31 December 2020	LGR[1] £m	LGIM[1] £m	LGI £m	LGC and other[2] £m	Total continuing operations £m
Investment contracts	79	-	1	-	80
Investment management fees	-	954	-	(188)	766
Transaction fees	-	27	-	-	27
Total fees from fund management and investment contracts[3]	79	981	1	(188)	873

1. LGR includes the Workplace Savings business which was previously reported in LGIM. Prior year comparatives have been restated to reflect the change in segmentation.
2. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
3. Fees from fund management and investment contracts are a component of Total revenue from continuing operations disclosed in Note 2.08 (ii)(a).

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosures on performance and Release from operations Page 45

2.08 Segmental analysis (continued)

(ii) Revenue (continued)

(d) Other operational income from contracts with customers

For the six month period to 30 June 2021	**LGR £m**	**LGIM £m**	**LGI £m**	**LGC and other £m**	**Total continuing operations £m**
House building	**-**	**-**	**-**	**651**	**651**
Professional services fees	**1**	**-**	**49**	**-**	**50**
Insurance broker	**-**	**-**	**2**	**-**	**2**
Total other operational income from contracts with customers[1]	**1**	**-**	**51**	**651**	**703**

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

For the year ended 31 December 2020	LGR £m	LGIM £m	LGI £m	LGC and other £m	Total continuing operations £m
House building	-	-	-	748	748
Professional services fees	1	-	83	-	84
Insurance broker	-	-	16	-	16
Total other operational income from contracts with customers[1]	1	-	99	748	848

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

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Primary Financial Statements Page 46

3.01 Consolidated Income Statement

For the six month period to 30 June 2021	Notes	**6 months 2021 £m**	6 months 2020 £m	Full year 2020 £m
Income				
Gross written premiums		**4,263**	5,497	12,545
Outward reinsurance premiums		**(1,605)**	(1,303)	(3,187)
Net change in provision for unearned premiums		**35**	10	12
Net premiums earned		**2,693**	4,204	9,370
Fees from fund management and investment contracts		**463**	418	873
Investment return		**11,018**	12,552	39,168
Other operational income		**724**	245	820
Total income	2.08	**14,898**	17,419	50,231
Expenses				
Claims and change in insurance contract liabilities		**540**	8,366	17,768
Reinsurance recoveries		**(1,313)**	(1,957)	(3,601)

Net claims and change in insurance contract liabilities		**(773)**	6,409	14,167
Change in investment contract liabilities		**12,232**	9,190	31,410
Acquisition costs		**436**	438	617
Finance costs		**157**	155	305
Other expenses		**1,445**	885	2,233
Total expenses		**13,497**	17,077	48,732
Profit before tax		**1,401**	342	1,499
Tax expense attributable to policyholder returns		**(81)**	(81)	(69)
Profit before tax attributable to equity holders		**1,320**	261	1,430
Total tax expense		**(339)**	(88)	(218)
Tax expense attributable to policyholder returns		**81**	81	69
Tax expense attributable to equity holders	4.05	**(258)**	(7)	(149)
Profit after tax from continuing operations	2.08	**1,062**	254	1,281
Profit after tax from discontinued operations[1]		**-**	19	290
Profit for the period		**1,062**	273	1,571
Attributable to:				
Non-controlling interests		**(3)**	(17)	(36)
Equity holders		**1,065**	290	1,607
Dividend distributions to equity holders during the period	4.03	**754**	754	1,048
Dividend distributions to equity holders proposed after the period end	4.03	**309**	294	754
		p	p	p
Total basic earnings per share[2]	2.07	**17.78**	4.89	27.00
Total diluted earnings per share[2]	2.07	**16.96**	4.63	25.60
Basic earnings per share derived from continuing operations[2]	2.07	**17.78**	4.57	22.11
Diluted earnings per share derived from continuing operations[2]	2.07	**16.96**	4.33	20.98

1. In 2020, discontinued operations include the results of the Mature Savings division, the sale of which completed on 7 September 2020.
2. All earnings per share calculations are based on profit attributable to equity holders of the company.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Primary Financial Statements

3.02 Consolidated Statement of Comprehensive Income

For the six month period to 30 June 2021	**6 months 2021 £m**	6 months 2020 £m	Full year 2020 £m
Profit for the period	**1,062**	273	1,571
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	**116**	(146)	(168)
Tax on actuarial gains/(losses) on defined benefit pension schemes	**(20)**	45	48
Total items that will not be reclassified subsequently to profit or loss	**96**	(101)	(120)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**(11)**	56	2
Movement in cross-currency hedge	**6**	75	7
Tax on movement in cross-currency hedge	**(4)**	(11)	(4)
Movement in financial investments designated as available-for-sale	**(8)**	(8)	2
Tax on movement in financial investments designated as available-for-sale	**1**	1	-
Total items that may be reclassified subsequently to profit or loss	**(16)**	113	7
Other comprehensive income/(expense) after tax	**80**	12	(113)

Total comprehensive income for the period	**1,142**	285	1,458
Total comprehensive income for the period from:			
Continuing operations	**1,142**	266	1,168
Discontinued operations	**-**	19	290
Total comprehensive income/(expense) for the period attributable to:			
Non-controlling interests	**(3)**	(17)	(36)
Equity holders	**1,145**	302	1,494

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Primary Financial Statements

3.03 Consolidated Balance Sheet

	Notes	**As at 30 Jun 2021 £m**	As at 30 Jun 2020[1] £m	As at 31 Dec 2020 £m
Assets				
Goodwill		**68**	68	68
Purchased interest in long term businesses and other intangible assets		**377**	221	329
Deferred acquisition costs		**46**	49	47
Investment in associates and joint ventures accounted for using the equity method		**314**	328	288
Property, plant and equipment		**322**	291	274
Investment property	4.04	**9,080**	8,041	8,475
Financial investments	4.04	**519,762**	513,602	526,057
Reinsurers' share of contract liabilities		**6,947**	6,694	6,939
Deferred tax assets	4.05	**12**	10	5
Current tax assets		**612**	508	634
Receivables and other assets		**14,331**	15,986	9,429
Assets of operations classified as held for sale		**-**	23,968	-
Cash and cash equivalents		**16,397**	21,700	18,020
Total assets		**568,268**	591,466	570,565
Equity				
Share capital	4.06	**149**	149	149
Share premium	4.06	**1,011**	1,003	1,006
Employee scheme treasury shares		**(90)**	(76)	(75)
Capital redemption and other reserves		**162**	302	198
Retained earnings		**8,620**	7,137	8,224
Attributable to owners of the parent		**9,852**	8,515	9,502
Restricted Tier 1 convertible notes	4.07	**495**	495	495
Non-controlling interests	4.08	**(34)**	34	(31)
Total equity		**10,313**	9,044	9,966
Liabilities				
Non-participating insurance contract liabilities		**86,339**	83,504	89,029
Non-participating investment contract liabilities		**358,613**	327,380	343,543
Core borrowings	4.09	**4,542**	4,651	4,558
Operational borrowings	4.10	**1,138**	1,195	1,055
Provisions	4.14	**1,113**	1,336	1,288
Deferred tax liabilities	4.05	**277**	237	207
Current tax liabilities		**57**	-	61
Payables and other financial liabilities	4.12	**80,785**	101,665	91,942
Other liabilities		**640**	540	756
Net asset value attributable to unit holders		**24,451**	33,883	28,160
Liabilities of operations classified as held for sale		**-**	28,031	-
Total liabilities		**557,955**	582,422	560,599
Total equity and liabilities		**568,268**	591,466	570,565

1. Following a change in accounting policy during the second half of 2020 for LGIA universal life and annuity reserves, a number of balance sheet items have been restated, notably financial investments, reinsurers' share of contract liabilities, capital redemption and other reserves, non-participating insurance contracts liabilities and deferred tax liabilities. The overall net impact on the group's retained earnings as at 30 June 2020 is a reduction of £316m. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Primary Financial Statements

3.04 Condensed Consolidated Statement of Changes in Equity

For the six month period to 30 June 2021	**Share capital £m**	**Share premium £m**	**Employee scheme treasury shares £m**	**Capital redemption and other reserves[1] £m**	**Retained earnings £m**	**Equity attributable to owners of the parent £m**	**Restricted Tier 1 convertible notes £m**	**Non-controlling interests £m**	**Total equity £m**
As at 1 January 2021	**149**	**1,006**	**(75)**	**198**	**8,224**	**9,502**	**495**	**(31)**	**9,966**
Total comprehensive income for the period	**-**	**-**	**-**	**(16)**	**1,161**	**1,145**	**-**	**(3)**	**1,142**
Options exercised under share option schemes	**-**	**5**	**-**	**-**	**-**	**5**	**-**	**-**	**5**
Net movement in employee scheme treasury shares	**-**	**-**	**(15)**	**(15)**	**(5)**	**(35)**	**-**	**-**	**(35)**
Dividends	**-**	**-**	**-**	**-**	**(754)**	**(754)**	**-**	**-**	**(754)**
Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief[2]	**-**	**-**	**-**	**-**	**(11)**	**(11)**	**-**	**-**	**(11)**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Currency translation differences	**-**	**-**	**-**	**(5)**	**5**	**-**	**-**	**-**	**-**
As at 30 June 2021	**149**	**1,011**	**(90)**	**162**	**8,620**	**9,852**	**495**	**(34)**	**10,313**

1. Capital redemption and other reserves as at 30 June 2021 include share-based payments £86m, foreign exchange £27m, capital redemption £17m, hedging reserves £37m and available-for-sale reserves £(5)m.
2. See Note 4.07 for details.

For the six month period to 30 June 2020	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Restricted Tier 1 convertible notes £m	Non-controlling interests £m	Total equity £m
As at 1 January 2020	149	1,000	(65)	250	8,033	9,367	-	55	9,422
Change in accounting policy[2]	-	-	-	(45)	(284)	(329)	-	-	(329)
Restated as at 1 January 2020	149	1,000	(65)	205	7,749	9,038	-	55	9,093
Total comprehensive income for the period	-	-	-	113	189	302	-	(17)	285
Options exercised under share option schemes	-	3	-	-	-	3	-	-	3
Net movement in employee scheme treasury shares	-	-	(11)	(6)	11	(6)	-	-	(6)
Dividends	-	-	-	-	(754)	(754)	-	-	(754)
Restricted Tier 1 convertible notes	-	-	-	-	-	-	495	-	495
Movement in third party interests	-	-	-	-	-	-	-	(4)	(4)
Currency translation differences	-	-	-	26	(26)	-	-	-	-
Changes in accounting policy[2]	-	-	-	(36)	(32)	(68)	-	-	(68)
Restated as at 30 June 2020	149	1,003	(76)	302	7,137	8,515	495	34	9,044

1. Capital redemption and other reserves as at 30 June 2020 include share-based payments £79m, foreign exchange £150m, capital redemption £17m, hedging reserves £96m and available-for-sale reserves £(40)m.
2. Changes in accounting policy represents the impact on capital redemption and other reserves and retained earnings of the change in accounting policy in 2020 related to LGIA universal life and annuity reserves, described in Note 4.01.

3.04 Condensed Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2020	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Restricted Tier 1 convertible notes £m	Non-controlling interests £m	Total equity £m
As at 1 January 2020	149	1,000	(65)	205	7,749	9,038	-	55	9,093
Total comprehensive income for the year	-	-	-	7	1,487	1,494	-	(36)	1,458
Options exercised under share option schemes	-	6	-	-	-	6	-	-	6
Net movement in employee scheme treasury shares	-	-	(10)	16	12	18	-	-	18
Dividends	-	-	-	-	(1,048)	(1,048)	-	-	(1,048)
Coupon payable in respect of restricted Tier 1 convertible notes net of tax relief	-	-	-	-	(6)	(6)	-	-	(6)
Restricted Tier 1 convertible notes	-	-	-	-	-	-	495	-	495

Movement in third party interests	-	-	-	-	-	-	-	(50)	(50)
Currency translation differences	-	-	-	(30)	30	-	-	-	-
As at 31 December 2020	149	1,006	(75)	198	8,224	9,502	495	(31)	9,966

1. Capital redemption and other reserves as at 31 December 2020 include share-based payments £101m, foreign exchange £43m, capital redemption £17m, hedging reserves £35m and available-for-sale reserves £2m.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Primary Financial Statements Page 51

3.05 Consolidated Statement of Cash Flows

For the six month period to 30 June 2021	Notes	**6 months 2021 £m**	6 months 2020 £m	Full year 2020 £m
Cash flows from operating activities				
Profit for the period		**1,062**	273	1,571
Adjustments for non cash movements in net profit for the period				
Net gains on financial investments and investment property		**(5,227)**	(6,969)	(28,530)
Investment income		**(5,790)**	(4,578)	(9,761)
Interest expense		**157**	179	337
Tax expense		**339**	(17)	144
Other adjustments		**44**	18	(12)
Net decrease/(increase) in operational assets				
Investments held for trading or designated as fair value through profit or loss		**5,804**	6,032	6,519
Investments designated as available-for-sale		**15**	(35)	1,072
Other assets		**(4,931)**	(8,098)	(2,445)
Net increase/(decrease) in operational liabilities				
Insurance contracts		**(2,615)**	5,187	11,607
Investment contracts		**15,069**	6,789	20,855
Other liabilities		**(10,114)**	5,537	(5,900)
Net (decrease)/increase in held for sale net liabilities		**-**	(1,181)	-
Cash (utilised in)/from operations		**(6,187)**	3,137	(4,543)
Interest paid		**(160)**	(127)	(301)
Interest received		**3,368**	2,296	5,190
Rental income		**184**	173	384
Tax paid[1]		**(276)**	(279)	(554)
Dividends received		**2,307**	2,284	4,125
Net cash flows (utilised in)/from operations		**(764)**	7,484	4,301
Cash flows from investing activities				
Acquisition of plant, equipment, intangibles and other assets		**(137)**	(43)	(198)
Disposal of plant, equipment, intangibles and other assets		**2**	1	34
Acquisition of operations, net of cash acquired		**-**	1	1
Disposal of operations, net of cash transferred		**-**	-	(278)
Investment in joint ventures and associates		**(2)**	-	(16)
Net cash flows utilised from investing activities		**(137)**	(41)	(457)
Cash flows from financing activities				
Dividend distributions to ordinary equity holders during the period	4.03	**(754)**	(754)	(1,048)
Coupon payment in respect of restricted Tier 1 convertible notes, gross of tax		**(14)**	-	(7)
Options exercised under share option schemes	4.06	**5**	3	6
Treasury shares purchased for employee share schemes		**(24)**	(22)	(23)
Payment of lease liabilities		**(17)**	(18)	(37)
Proceeds from borrowings		**252**	869	1,086
Repayment of borrowings		**(162)**	(237)	(501)
Proceeds from issuance of restricted Tier 1 convertible notes, net of associated expenses		**-**	495	495
Net cash flows (utilised in)/from financing activities		**(714)**	336	(29)
Net (decrease)/increase in cash and cash equivalents		**(1,615)**	7,779	3,815
Exchange (losses)/gains on cash and cash equivalents		**(8)**	26	(28)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**18,020**	14,233	14,233
Total cash and cash equivalents		**16,397**	22,038	18,020
Less: cash and cash equivalents of operations classified as held for sale		**-**	(338)	-
Cash and cash equivalents at 30 June/31 December		**16,397**	21,700	18,020

1. Tax comprises UK corporation tax paid of £155m (H1 20: £203m; FY 20: £417m), withholding tax of £118m (H1 20: £95m; FY 20: £137m) and overseas corporate tax of £3m (H1 20: refund of £19m; FY 20: £nil).

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes Page 52

4.01 Basis of preparation

The group financial information for the six months ended 30 June 2021 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The group's financial information has also been prepared in line with the accounting policies which the group expects to adopt for the 2021 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2020 consolidated financial statements, except where changes have been outlined below in "New standards, interpretations and amendments to published standards that have been adopted by the group". These are consistent with IFRSs issued by the International Accounting Standards Board as adopted by the UK Endorsement Board for use in the United Kingdom.

The preparation of the interim management report includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2020 financial statements, except as disclosed in Note 2.03 and Note 4.14.

The results for the half year ended 30 June 2021 are unaudited but have been reviewed by KPMG LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results from the full year 2020 have been taken from the group's 2020 Annual Report and Accounts. Therefore, these interim accounts should be read in conjunction with the 2020 Annual Report and Accounts that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU), and with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS. KPMG LLP reported on the 2020 financial statements, and their report was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The group's 2020 Annual Report and Accounts has been filed with the Registrar of Companies.

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

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

Tax attributable to policyholders and equity holders
The total tax expense shown in the group's Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been split between tax attributable to policyholders' returns and equity holders' profits. Policyholder tax comprises the tax suffered on policyholder investment returns, while shareholder tax is corporation tax 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.

(a) Impact of changes in accounting policy in 2020

Legal & General Insurance America (LGIA) universal life and annuity liabilities
In 2020, the group changed its accounting policy for universal life and annuity liabilities on business transacted by its US subsidiaries, which was previously based on recognised actuarial methods reflecting US GAAP. From 1 July 2020, 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.

In addition, as at 1 July 2020 the group reclassified £1,621m of financial investments from designated as available-for-sale and amortised cost to designated as fair value through profit or loss. This represented a further change in accounting policy permitted by IFRS 4, 'Insurance Contracts'.

The above voluntary changes in accounting policy were applied in 2020 retrospectively, with prior year retained earnings adjusted accordingly. As a consequence of these changes, the Consolidated Balance Sheet as at 30 June 2020 has now also been restated, and the impact on each line item is shown in the table below:

	As reported at 30 June 2020 £m	Adjustments £m	As restated at 30 June 2020 £m
Financial investments	513,584	18	513,602
Reinsurers' share of contract liabilities	6,530	164	6,694
Non-participating insurance contract liabilities	82,792	712	83,504
Deferred tax liabilities	370	(133)	237
Capital redemption and other reserves	383	(81)	302
Retained earnings	7,453	(316)	7,137

4.01 Basis of preparation (continued)

(b) Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the group, its cash flows, liquidity position and borrowing facilities as at 30 June 2021 are described in the IFRS Primary Financial Statements and IFRS Disclosure Notes. Since the balance sheet date, Legal & General Group Plc (the company) has called at par £300m of 10% dated subordinated notes, which were issued in 2009. Principal risks and uncertainties are detailed on pages 28 to 29.

The directors have made an assessment of the group's going concern, considering both the group's current performance and outlook for a period of at least, but not limited to, 12 months from the date of approval of the interim financial information, which takes account of the current and future impact of the Covid-19 pandemic, using the information available up to the date of issue of this Interim Management Report.

The group manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. Our key sensitivities and the impacts on our capital position from a range of stresses is disclosed on page 82. These stresses, including the additional considerations and stresses applied in response to Covid-19, do not give rise to any material uncertainties over the ability of the group to continue as a going concern. Based upon the available information, the directors consider that the group has the plans and resources to manage its business risks successfully and that it remains financially strong and well diversified.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of Covid-19 and the current economic climate, as detailed on pages 28 to 29, the directors are confident that the group and company will have sufficient funds to continue to meet their liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of this Interim Management Report and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the interim financial information.

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

The group has applied the following amendments for the first time in its six months reporting period commencing 1 January 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform Phase 2
These amendments, issued in August 2020, address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. In particular, they offer practical expedients, under certain conditions, when a financial contract is modified due to a change resulting directly from IBOR reform. They also allow a series of exemptions from the current rules around hedge accounting. The amendments will be considered as new interest rate benchmarks are introduced. New disclosure requirements have also been introduced as part of Phase 2 on the nature and extent of risks to which the group is exposed arising from financial instruments subject to IBOR reform, how such risks are managed and the group's progress in completing its transition to alternative benchmark rates.

(d) Future accounting developments

IFRS 17 - Insurance Contracts
IFRS 17, 'Insurance Contracts' was originally issued in May 2017 and subsequent amendments were issued in June 2020. The standard is expected to be effective for annual periods beginning on or after 1 January 2023. Adoption by the group remains subject to endorsement for use in the UK. The standard provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure, and will be applied retrospectively, subject to the transitional options provided for in the standard. The group project to implement the standard is making substantial progress in ensuring technical compliance and in finalising the build of the required systems and operational capabilities.

IFRS 9 - Financial Instruments
In July 2014 the IASB issued IFRS 9, 'Financial Instruments', which is effective for annual periods beginning on or after 1 January 2018. The standard 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 group qualifies for, and is making use of an option provided by the IASB in 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to allow deferral of implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2023, whichever is the earlier. The group project to implement the standard has progressed in the development of the expected credit loss model and transitional requirements. Work will continue throughout the remainder of 2021 to develop the policy and operational changes needed for the implementation of the standard.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes

4.02 Post balance sheet events

LGIM Partnership with State Street
On 14 July 2021, the group announced that Legal & General Investment Management (LGIM) was extending its existing partnership with State Street, to increase the use of Charles River technology across the front office and to deliver middle office services going forward. The agreement is aligned to LGIM's strategy of building a market-leading global operating model, by enabling the division to offer a more automated, consistent and seamless business experience to its clients from all over the world.

As a result of this announcement, in the second half of the year the group will recognise a provision in relation to implementing this restructuring, in 'Investment and other variances'. The associated costs, the estimation of which is subject to ongoing review, are not expected to have a material impact on the group's results for the year ended 31 December 2021.

Subordinated Note Redemption
In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. Following the notification on 26 May 2021 of the group's intention to redeem these notes in full, they were called at par on 23 July 2021.

4.03 Dividends and appropriations

	Dividend 6 months 2021 £m	**Per share[1] 6 months 2021 p**	Dividend 6 months 2020 £m	Per share[1] 6 months 2020 p	Dividend Full year 2020 £m	Per share[1] Full year 2020 p
Ordinary dividends paid and charged to equity in the period:						
- Final 2019 dividend paid in June 2020	**-**	**-**	754	12.64	754	12.64
- Interim 2020 dividend paid in September 2020	**-**	**-**	-	-	294	4.93
- Final 2020 dividend paid in June 2021	**754**	**12.64**	-	-	-	-
Total dividends	**754**	**12.64**	754	12.64	1,048	17.57

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

Subsequent to 30 June 2021, the directors declared an interim dividend of 5.18 pence per ordinary share. This dividend will be paid on 20 September 2021. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2021 and is not included as a liability in the Consolidated Balance Sheet as at 30 June 2021.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes

4.04 Financial investments and investment property

	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
Equities[1]	**207,803**	189,798	189,089
Debt securities[2,3,6]	**278,858**	301,059	295,660

Derivative assets[4]	**15,449**	25,207	24,631
Loans[5,6]	**17,652**	19,035	16,677
Financial investments	**519,762**	535,099	526,057
Investment property	**9,080**	9,334	8,475
Total financial investments and investment property	**528,842**	544,433	534,532
Less: financial investments and investment property of operations classified as held for sale	**-**	(22,790)	-
Financial investments and investment property	**528,842**	521,643	534,532

1. Equity securities include investments in unit trusts of £15,681m (30 June 2020: £13,615m; 31 December 2020: £13,215m).
2. Debt securities include accrued interest of £1,389m (30 June 2020: £1,552m; 31 December 2020: £1,434m).
3. A detailed analysis of debt securities to which shareholders are directly exposed is disclosed in Note 7.03.
4. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £18,249m (30 June 2020: £27,550m; 31 December 2020: £23,208m).
5. Loans include £149m (30 June 2020: £122m; 31 December 2020: £131m) of loans valued at amortised cost.
6. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the half year 2020 balances for Debt securities, Accrued interest and Loans have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

(a) Fair value hierarchy

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

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

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

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

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

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

All of the group's Level 2 assets have been valued using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modeling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have therefore classified them as Level 2.

The group's investment properties are valued by appropriately qualified external valuers using unobservable inputs, resulting in all investment property being classified as Level 3.

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.

During 2020 the group enhanced the level of market data it uses to support the determination of the observability of valuation inputs, and this has increased the sensitivity of the levelling assessment to trading volumes, which in turn has increased the number of debt securities transferring between Level 1 and Level 2. At 30 June 2021 debt securities totalling £9,311m transferred from Level 2 to Level 1 in the fair value hierarchy, primarily due to suppressed trading volumes at 31 December 2020.

4.04 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

For the six month period to 30 June 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder and Non-profit non-unit linked				
Equity securities	**3,088**	**1,821**	**4**	**1,263**
Debt securities	**82,699**	**34,034**	**26,375**	**22,290**
Derivative assets	**14,019**	**2**	**14,017**	**-**
Loans at fair value[1]	**4,152**	**-**	**4,152**	**-**
Investment property	**5,103**	**-**	**-**	**5,103**
Total Shareholder and Non-profit non-unit linked	**109,061**	**35,857**	**44,548**	**28,656**
With-profits				
Equity securities	**-**	**-**	**-**	**-**
Debt securities	**-**	**-**	**-**	**-**
Derivative assets	**-**	**-**	**-**	**-**
Loans at fair value	**-**	**-**	**-**	**-**
Investment property	**-**	**-**	**-**	**-**
Total With-profits	**-**	**-**	**-**	**-**
Unit linked				
Equity securities	**204,715**	**204,055**	**23**	**637**
Debt securities	**196,159**	**146,780**	**49,029**	**350**

Derivative assets	**1,430**	**89**	**1,341**	**-**
Loans at fair value	**13,351**	**-**	**13,351**	**-**
Investment property	**3,977**	**-**	**-**	**3,977**
Total Unit linked	**419,632**	**350,924**	**63,744**	**4,964**
Total financial investments and investment property at fair value[1]	**528,693**	**386,781**	**108,292**	**33,620**

1. This table excludes loans (including accrued interest) of £149m, which are held at amortised cost.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes Page 57

4.04 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

For the six month period to 30 June 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder and Non-profit non-unit linked				
Equity securities	2,812	1,662	-	1,150
Debt securities	81,337	11,155	49,347	20,835
Derivative assets	22,388	6	22,382	-
Loans at fair value[1]	1,878	-	1,878	-
Investment property	4,250	-	-	4,250
Total Shareholder and Non-profit non-unit linked	112,665	12,823	73,607	26,235
With-profits				
Equity securities	2,846	2,664	-	182
Debt securities	4,960	1,542	3,418	-
Derivative assets	295	3	292	-
Loans at fair value	450	-	450	-
Investment property	455	-	-	455
Total With-profits	9,006	4,209	4,160	637
Unit linked				
Equity securities	184,140	183,466	21	653
Debt securities	214,762	153,360	61,116	286
Derivative assets	2,524	174	2,350	-
Loans at fair value	16,585	-	16,585	-
Investment property	4,629	-	-	4,629
Total Unit linked	422,640	337,000	80,072	5,568
Total financial investments and investment property at fair value[1,2,3]	544,311	354,032	157,839	32,440

1. This table excludes loans (including accrued interest) of £122m, which are held at amortised cost.
2. This table includes financial investments of £21,497m and investment property of £1,293m relating to assets of operations classified as held for sale.
3. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the half year 2020 balances for Debt securities and Accrued interest have been restated to reflect the fair value of those assets. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes Page 58

4.04 Financial investments and investment property (continued)

(a) Fair value hierarchy (continued)

For the year ended 31 December 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder and Non-profit non-unit linked				
Equity securities	3,086	1,905	16	1,165
Debt securities	85,502	29,898	33,935	21,669
Derivative assets	20,936	4	20,932	-
Loans at fair value[1]	4,117	-	4,117	-
Investment property	4,672	-	-	4,672
Total Shareholder and Non-profit non-unit linked	118,313	31,807	59,000	27,506
With-profits				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Derivative assets	-	-	-	-

Loans at fair value	-	-	-	-
Investment property	-	-	-	-
Total With-profits	-	-	-	-
Unit linked				
Equity securities	186,003	185,345	22	636
Debt securities	210,158	168,155	41,715	288
Derivative assets	3,695	224	3,471	-
Loans at fair value	12,429	-	12,429	-
Investment property	3,803	-	-	3,803
Total Unit linked	416,088	353,724	57,637	4,727
Total financial investments and investment property at fair value[1]	534,401	385,531	116,637	32,233

1. This table excludes loans (including accrued interest) of £131m, which are held at amortised cost.

4.04 Financial investments and investment property (continued)

(b) Level 3 assets measured at fair value

Level 3 assets, where modelling techniques are used, comprise property, unquoted securities, 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 and retirement interest only mortgages.

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

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

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

Equity securities

Level 3 equity securities amount to £1,900m (30 June 2020: £1,985m; 31 December 2020: £1,801m), of which the majority is made up of holdings in investment property vehicles and private investment funds. They are valued at the proportion of the group's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are valued by a number of third party specialists using a range of techniques which are often dependent on the maturity of the underlying investment but can also depend of the characteristics of individual investments. Such techniques include transaction values underpinned by analysis of milestone achievement, and cash runway for early/start-up stage investments, discounted cash flow models for investments at the next stage of development and earnings multiples for more mature investments.

Other financial investments

Lifetime mortgage (LTM) loans amount to £6,325m (30 June 2020: £5,478m; 31 December 2020: £6,036m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. The mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the house and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include short-term and long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 30 June 2021 reflects a long-term property growth rate assumption of RPI + 0.1%, after allowing for the effects of dilapidation. The values of the properties collateralising the LTM loans are updated from the date of the last property valuation to the valuation date by indexing using UK regional house price indices.

Private credit loans (including commercial real estate loans) amount to £12,146m (30 June 2020: £11,661m; 31 December 2020: £11,889m). Their valuation is determined by discounted future cash flows which are based on the yield curve of the LGIM approved comparable bonds and the initial spread, both of which are agreed by IHS Markit who also provide an independent valuation of comparable bonds. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments, which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 10.9 years, with a weighted average life of 13.1 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 BB.

Private placements held by the US business amount to £2,090m (30 June 2020: £1,870m; 31 December 2020: £2,049m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk-free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement. The valuation as at 30 June 2021 reflects illiquidity premiums between 10 and 70bps.

Commercial mortgage loans amount to £408m (30 June 2020: £469m; 31 December 2020: £419m) and are determined by incorporating credit risk for performing loans at the portfolio level and for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk free rate paths and are inclusive of an Option Adjusted Spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. The valuation as at 30 June 2021 reflects illiquidity premiums between 20 and 40bps.

Half Year Results 2021 Part 2

4.04 Financial investments and investment property (continued)

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

Income strip assets amount to £1,527m (30 June 2020: £1,400m; 31 December 2020: £1,449m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. The valuation as at 30 June 2021 reflects equivalent yield ranges between 2% and 6% and estimated rental values (ERV) between £6 and £337 per sq.ft.

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

Investment property

Level 3 investment property amounting to £9,080m (30 June 2020: £9,334m; 31 December 2020: £8,475m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also include an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. The valuation as at 30 June 2021 reflects equivalent yield ranges between 2% and 18% and ERV between £1 and £356 per sq.ft.

The below table breaks down the investment property by sector.

	30 Jun 2021 £m	30 Jun[1] 2020 £m	31 Dec 2020 £m
Retail	**962**	1,052	999
Leisure	**453**	452	440
Distribution	**1,277**	994	1,142
Office space	**3,832**	3,641	3,703
Industrial and other commercial	**1,803**	1,422	1,588
Accommodation	**753**	480	603
Total	**9,080**	8,041	8,475

1. The 30 June 2020 investment property by sector excludes £1,293m relating to assets of operations classified as held for sale.

Legal & General Group Plc
Half Year Results 2021 Part 2

4.04 Financial investments and investment property (continued)

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

	Equity securities 2021 £m	**Other financial investments 2021 £m**	**Investment property 2021 £m**	**Total 2021 £m**	Equity securities 2020 £m	Other financial investments[4] 2020 £m	Investment property 2020 £m	Total 2020 £m
As at 1 January	**1,801**	**21,957**	**8,475**	**32,233**	2,035	19,402	9,107	30,544
Total gains/(losses) for the period								
- in other comprehensive income	**-**	**(8)**	**-**	**(8)**	-	(44)	-	(44)
- realised and unrealised gains/(losses)[1]	**98**	**(431)**	**249**	**(84)**	(38)	924	(256)	630
Purchases/Additions	**90**	**2,007**	**449**	**2,546**	76	1,603	577	2,256
Sales/Disposals	**(59)**	**(821)**	**(93)**	**(973)**	(72)	(868)	(94)	(1,034)
Transfers into Level 3	**-**	**8**	**-**	**8**	44	5	-	49
Transfers out of Level 3	**(30)**	**(44)**	**-**	**(74)**	(61)	(26)	-	(87)
Foreign exchange rate movements[3]	**-**	**(28)**	**-**	**(28)**	1	125	-	126
As at 30 June	**1,900**	**22,640**	**9,080**	**33,620**	1,985	21,121	9,334	32,440

	Equity securities 2020 £m	Other financial investments 2020 £m	Investment property 2020 £m	Total 2020 £m
As at 1 January	2,035	19,402	9,107	30,544
Total gains/(losses) for the year				
- in other comprehensive income	-	2	-	2
- realised and unrealised gains/(losses)[1]	(85)	1,367	(85)	1,197
Purchases/Additions	283	2,491	1,019	3,793
Sales/Disposals[2]	(451)	(1,123)	(1,566)	(3,140)
Transfers into Level 3	52	-	-	52
Transfers out of Level 3	(32)	(87)	-	(119)
Foreign exchange rate movements	(1)	(95)	-	(96)
As at 31 December	1,801	21,957	8,475	32,233

1. Realised and unrealised gains/(losses) are recognised in investment return in the Consolidated Income Statement.
2. Disposals in 2020 include £926m of Investment property and £234m of Equity securities that relate to the sale of the Mature Savings business, which completed on 7 September 2020.
3. The 30 June 2020 balances have been restated to separately disclose foreign exchange rate movements from realised and unrealised gains/(losses).
4. As part of a change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves, certain financial investments were reclassified from designated as amortised cost to designated as fair value through profit or loss. Accordingly, the 1 January 2020 and 30 June 2020 balances for Other financial investments, as well as the realised gains for the period, have been restated to reflect the fair value of those assets at those reporting dates. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes Page 62

4.04 Financial investments and investment property (continued)

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

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

Where material, the group assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impact of applying these sensitivities on the fair value of Level 3 assets as at 30 June 2021. Further disclosure on how these sensitivities have been applied can be found in the descriptions following the table.

		Sensitivities	
	Fair value 30 June 2021 £m	Positive impact £m	Negative impact £m
Lifetime mortgages	**6,325**	**300**	**(380)**
Private credit portfolios	**14,644**	**824**	**(824)**
Investment property	**9,080**	**799**	**(826)**
Other investments[1]	**3,571**	**310**	**(292)**
Total Level 3 assets	**33,620**	**2,233**	**(2,322)**

1. Other investments include Level 3 equity securities, income strip assets and other traded debt securities which are Level 3.

The sensitivities are not a function of sensitising a single variable relating to the valuation of the asset, but rather a function of flexing multiple factors often at individual asset level. The following sets out a number of key factors by asset type, and how they have been flexed to derive reasonable alternative valuations.

Lifetime mortgages
Key assumptions used in the valuation of Lifetime mortgage assets are listed in Note 4.04(b) and sensitivities are applied to each assumption to arrive at the overall sensitised values in the above table. The most significant sensitivity by value is +/-10% instant reduction in property valuation across the portfolio which, applied in isolation produces sensitised values of £212m and £(297)m.

Private credit portfolios
The sensitivity in the private credit portfolio has been determined through a method which estimates investment spread value premium differences as compared to the institutional investment market. Individual investment characteristics of each holding, such as credit rating and duration are used to determine spread differentials for the purposes of determining alternate values. Spread differentials are determined to be lower for highly rated and/or shorter duration assets as compared to lower rated and/or longer duration assets. A significant component of the spread differential is in relation to the selection of comparator bonds, which is the potential difference in spread of the basket of relevant comparators determined by respective investors. If we were to take an AA rated asset it may attract a spread differential of 15bps on the selection of comparator bonds as opposed to 40bps for a similar duration BBB rated asset. Applied in isolation the sensitivity used to reflect the spread in comparator bond selection results in sensitised values of £312m and £(312)m.

Investment property
Investment property holdings are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors (RICS). As such, sensitivities are calculated through a mixture of asset level and portfolio level methodologies which make reference to individual investment characteristics of the holding but do not flex individual assumptions used by the independent expert in valuing the holdings. Each method is applied individually and aggregated with equal weighting to determine the overall sensitivity determined for the portfolio. One method is similar to that used in the private credit portfolio as it determines the impact of an alternate property yield determined in reference to credit ratings, remaining term and other characteristics of each holding. In this methodology we would apply a lower yield sensitivity to a highly rated and/or shorter remaining term asset compared with a lower rated and/or longer remaining term asset. If we were to take an AA rated asset with remaining term of 25 years in normal market conditions this would lead to a 15bps yield flex (as opposed to a 35bps yield flex for a BBB rated asset with 30 year remaining term). The methodology which leads to the most significant sensitivity at the balance sheet date is related to an example in case law where it was found that an acceptable margin of error in a valuation dispute is 10% either way, subject to the valuation being undertaken with due care. If this sensitivity were to be taken without a weighting it would produce sensitised values of £637m and £(637)m.

It should be noted that some sensitivities described above are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Legal & General Group Plc
Half Year Results 2021 Part 2

IFRS Disclosure Notes Page 63

4.04 Financial investments and investment property (continued)

(d) Interest rate benchmark reform

In July of 2017, Andrew Bailey, the then chief executive of the FCA, announced in a speech that after 2021 the FCA would no longer compel panel banks to submit rate information to determine LIBOR, and encouraged the market to develop replacement benchmark rates.

In the UK, LIBOR will be replaced by SONIA from the end of 2021, and in the US LIBOR is expected to be replaced by mid-2023. Euribor will remain but will be administered by EMMI (Euro Money Markets Institute).

The key challenges for the group arise in the following areas:

• all financial contracts that reference LIBOR will need to be amended;
• derivatives and assets on balance sheet will be exposed to changes in market value when the reference rate changes;
• discount rates that are based on risk free curves will change, which primarily impacts the Solvency II balance sheet, although due to the Credit Risk Adjustment and Transitional Measures on Technical Provisions, the expected impact is small;
• customers will need to understand the implications for the products that they hold, and agree to the necessary changes.

To deal with these risks and to manage the groupwide conversion, the group initiated a project in 2019. To date, the group has made significant progress in identifying and addressing its investment exposures, remediating its contractual obligations, and has begun the necessary system upgrades to deal with the transition. LGIM is the reportable segment whose operations are most impacted regarding investments linked to LIBOR. Business as usual processes have been enhanced to include increased market surveillance on LIBOR trading, added record-keeping specific to LIBOR trades, increased client communications and additional complaints monitoring processes.

The largest shareholder exposures relate to LIBOR-linked derivates that are used for hedging the annuity business. In 2021 the group has stopped trading assets referenced to LIBOR (except in some very limited circumstances) and initiated a programme of replacing legacy assets denominated in LIBOR with new SONIA based positions. The unwinding of legacy exposure is well advanced across all asset types, with all GBP LIBOR interest rate swaps replaced. The group's plan is that, by the end of 2021, no GBP LIBOR risk remains on our balance sheet and non-GBP LIBOR exposure will continue to be unwound in line with the currency specific cessation dates.

4.05 Tax

(a) Tax charge in the Consolidated Income Statement

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

	Continuing operations 6 months 2021 £m	**Total 6 months 2021 £m**	Continuing operations 6 months 2020 £m	Total 6 months 2020 £m	Continuing operations Full year 2020 £m	Total Full year 2020 £m
Profit before tax attributable to equity holders	**1,320**	**1,320**	261	285	1,430	1,788
Tax calculated at 19.00%	**251**	**251**	50	54	272	340
Adjusted for the effects of:						
Recurring reconciling items:						
Income not subject to tax	**-**	**-**	-	-	(1)	(1)
(Lower)/higher rate of tax on profits taxed overseas[1]	**(32)**	**(32)**	(49)	(49)	(111)	(111)
Non-deductible expenses	**4**	**4**	6	6	11	11
Differences between taxable and accounting investment gains	**(9)**	**(9)**	(2)	(2)	(10)	(10)
Adjustments for non-controlling interests	**-**	**-**	3	3	-	-
Foreign tax	**-**	**-**	2	2	1	1
Unrecognised tax losses	**-**	**-**	1	1	14	14
Non-recurring reconciling items:						
Income not subject to tax	**-**	**-**	-	-	-	-
Non-deductible expenses	**-**	**-**	2	2	-	-
Adjustments in respect of prior years[2]	**12**	**12**	(14)	(14)	(42)	(42)
Impact of the revaluation of deferred tax balances[3]	**32**	**32**	7	7	16	16
Other	**-**	**-**	1	2	(1)	(1)
Tax attributable to equity holders	**258**	**258**	7	12	149	217
Equity holders' effective tax rate[4]	**19.5%**	**19.5%**	2.7%	4.2%	10.4%	12.1%

1. The lower rate of tax on overseas profits is principally driven by the 0% rate of taxation arising in our Bermudan reinsurance company, which provides the group with regulatory capital flexibility for both our PRT business and US term insurance business. This line also includes the impact of tax on our US operations which are taxed at 21%.
2. In line with normal practice, adjustments in respect of prior years relate to revisions of earlier estimates.
3. The Finance Act 2021 introduced a 25% tax rate on UK profits arising after 1 April 2023. As a result, UK deferred tax assets and liabilities previously recognised at 19% have been revalued to the appropriate tax rate which is expected to be in force when the deferred tax asset or liability is forecast to unwind. The group has spread the one-off forecasted tax impact of the revaluation of deferred taxes across the year as permitted by IAS 34, 'Interim Financial Reporting', recognising 50% of the forecasted impact as at 30 June 2021.
4. The tax charge attributable to equity holders has been calculated on a best estimate of the weighted average annual tax rate expected to apply for the year.

4.05 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	**30 Jun 2021 £m**	30 Jun 2020[1] £m	31 Dec 2020 £m
Deferred acquisition expenses	**88**	50	85
- UK	**-**	(40)	-

- Overseas	**88**	90	85
Difference between the tax and accounting value of insurance contracts	**(652)**	(557)	(557)
- UK	**(231)**	(232)	(207)
- Overseas	**(421)**	(325)	(350)
Unrealised gains on investments	**(22)**	(57)	(11)
Excess of depreciation over capital allowances	**23**	18	18
Excess expenses	**1**	19	1
Accounting provisions and other	**(37)**	(59)	(48)
Trading losses[2]	**320**	257	289
Pension fund deficit	**15**	34	22
Acquired intangibles	**(1)**	(2)	(1)
Total net deferred tax liabilities	**(265)**	(297)	(202)
Less: net deferred tax liabilities of operations classified as held for sale[3]	**-**	70	-
Net deferred tax liabilities	**(265)**	(227)	(202)
Analysed by:			
- UK deferred tax assets	**12**	5	5
- UK deferred tax liabilities	**(209)**	(186)	(168)
- Overseas deferred tax assets	**-**	5	-
- Overseas deferred tax liabilities[4]	**(68)**	(51)	(39)
Net deferred tax liabilities	**(265)**	(227)	(202)

1. US deferred tax liabilities have been restated following the change in accounting policy in the second half of 2020 for LGIA universal life and annuity reserves. Further details on the impact of the 2020 change in accounting policy are provided in Note 4.01. The impact to overseas deferred tax liabilities is a reduction of £133m as at 30 June 2020.
2. Trading losses include UK trade and US operating losses of £12m (H1 20: £5m; FY 20: £5m) and £308m (H1 20: £252m; FY 20: £284m) respectively.
3. Liabilities of operations classified as held for sale relate to the Mature Savings business, the sale of which completed on 7 September 2020.
4. Overseas deferred tax liability is wholly comprised of US balances as at 30 June 2021.

4.06 Share capital and share premium

Authorised share capital	**Number of shares**	**£m**
At 30 June 2021, 30 June 2020 and 31 December 2020: ordinary shares of 2.5p each	**9,200,000,000**	**230**

Issued share capital, fully paid	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2021	**5,967,358,713**	**149**	**1,006**
Options exercised under share option schemes	**2,500,221**	**-**	**5**
As at 30 June 2021	**5,969,858,934**	**149**	**1,011**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2020	5,965,349,607	149	1,000
Options exercised under share option schemes	1,225,772	-	3
As at 30 June 2020	5,966,575,379	149	1,003
Options exercised under share option schemes	783,334	-	3
As at 31 December 2020	5,967,358,713	149	1,006

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

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

4.07 Restricted Tier 1 convertible notes

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

The notes have no fixed maturity date. Optional cancellation of coupon payments is at the discretion of the issuer and mandatory cancellation is upon the occurrence of certain conditions. The Tier 1 notes are therefore treated as equity and coupon payments are recognised directly in equity when paid. During the period a coupon payment of £14m was made (H1 20: £nil; FY 20: £7m). The notes rank junior to all other liabilities and senior to equity attributable to owners of the parent. On the occurrence of certain conversion trigger events the notes are convertible into ordinary shares of the Issuer at the prevailing conversion price.

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

4.08 Non-controlling interests

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

As at 30 June 2021, non-controlling interests primarily represent third party ownership in Thorpe Park Holdings, a mixed residential/commercial retail space in which the group holds 50%.

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

4.09 Core borrowings

	Carrying amount 30 Jun 2021 £m	**Fair value 30 Jun 2021 £m**	Carrying amount 30 Jun 2020 £m	Fair value 30 Jun 2020 £m	Carrying amount 31 Dec 2020 £m	Fair value 31 Dec 2020 £m
Subordinated borrowings						
10% Sterling subordinated notes 2041 (Tier 2)[1]	**313**	**315**	312	339	313	329
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**771**	589	688	589	813
5.375% Sterling subordinated notes 2045 (Tier 2)	**604**	**699**	603	672	604	714
5.25% US Dollar subordinated notes 2047 (Tier 2)	**621**	**703**	693	733	628	703
5.55% US Dollar subordinated notes 2052 (Tier 2)	**364**	**413**	407	435	369	411
5.125% Sterling subordinated notes 2048 (Tier 2)	**400**	**478**	399	442	400	484
3.75% Sterling subordinated notes 2049 (Tier 2)	**598**	**659**	598	595	598	662
4.5% Sterling subordinated notes 2050 (Tier 2)	**500**	**582**	499	521	499	587
Client fund holdings of group debt (Tier 2)[2]	**(41)**	**(49)**	(43)	(47)	(42)	(51)
Total subordinated borrowings	**3,948**	**4,571**	4,057	4,378	3,958	4,652
Senior borrowings						
Sterling medium term notes 2031-2041	**603**	**866**	603	896	609	926
Client fund holdings of group debt[2]	**(9)**	**(12)**	(9)	(13)	(9)	(12)
Total senior borrowings	**594**	**854**	594	883	600	914
Total core borrowings	**4,542**	**5,425**	4,651	5,261	4,558	5,566

1. These notes were subsequently called at par on 23 July 2021.
2. £50m (30 June 2020: £52m; 31 December 2020: £51m) of the group's subordinated and senior borrowings are held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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

4.09 Core borrowings (continued)

Subordinated borrowings

10% Sterling subordinated notes 2041
In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes were callable at par on 23 July 2021 and every five years thereafter. On 26 May 2021, notification was given of the group's intention to redeem these notes in full. Effective from the notification date, the notes were no longer treated as Tier 2 own funds for Solvency II purposes. The notes were subsequently called at par on 23 July 2021.

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

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

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

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

April 2052.

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

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

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

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

Senior borrowings

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

4.10 Operational borrowings

	Carrying amount 30 Jun 2021 £m	**Fair value 30 Jun 2021 £m**	Carrying amount 30 Jun 2020 £m	Fair value 30 Jun 2020 £m	Carrying amount 31 Dec 2020 £m	Fair value 31 Dec 2020 £m
Euro Commercial Paper	**50**	**50**	100	100	50	50
Non-recourse borrowings	**1,064**	**1,064**	1,000	1,000	941	941
Bank loans and overdrafts	**2**	**2**	104	104	54	54
Total operational borrowings[1]	**1,116**	**1,116**	1,204	1,204	1,045	1,045
Less: liabilities of operations classified as held for sale	**-**	**-**	(30)	(30)	-	-
Operational borrowings	**1,116**	**1,116**	1,174	1,174	1,045	1,045

1. Unit linked borrowings with a carrying value of £22m (30 June 2020: £21m; 31 December 2020: £10m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,138m (30 June 2020: £1,195m; 31 December 2020: £1,055m).

Syndicated Credit Facility
As at 30 June 2021, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2023. No amounts were outstanding at 30 June 2021.

4.11 Movement in core and operational borrowings

	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
As at 1 January	**5,613**	5,140	5,140
Cash movements:			
- Proceeds from borrowings	**269**	869	1,022
- Repayment of borrowings	**(162)**	(237)	(501)
- Net (decrease)/increase in bank loans and overdrafts	**(17)**	59	64
Non-cash movements:			
- Amortisation	**1**	1	2
- Foreign exchange rate movements	**(19)**	104	(56)
- Other	**(5)**	(60)	(58)
Total core and operational borrowings	**5,680**	5,876	5,613
Less: liabilities of operations classified as held for sale	**-**	(30)	-
Core and operational borrowings	**5,680**	5,846	5,613

4.12 Payables and other financial liabilities

	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
Derivative liabilities	**18,249**	27,550	23,208
Repurchase agreements[1]	**47,703**	55,309	53,853
Other financial liabilities[2]	**14,833**	19,544	14,881
Total payables and other financial liabilities	**80,785**	102,403	91,942
Less: Payables and other liabilities of operations classified as held for sale	**-**	(738)	-
Payables and other financial liabilities	**80,785**	101,665	91,942

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, lease liabilities, FX spots and the value of short positions taken out to cover reverse repurchase agreements. The value of short positions as at 30 June 2021 was £4,320m (30 June 2020: £5,882m; 31 December 2020: £5,147m).

Fair value hierarchy

As at 30 June 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost[1] £m
Derivative liabilities	**18,249**	**397**	**17,780**	**72**	**-**
Repurchase agreements	**47,703**	**-**	**47,703**	**-**	**-**
Other financial liabilities	**14,833**	**5,484**	**15**	**10**	**9,324**
Total payables and other financial liabilities	**80,785**	**5,881**	**65,498**	**82**	**9,324**

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

As at 31 December 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost[1] £m
Derivative liabilities	23,208	300	22,826	82	-
Repurchase agreements	53,853	-	53,853	-	-
Other financial liabilities	14,881	5,222	29	11	9,619
Total payables and other financial liabilities	91,942	5,522	76,708	93	9,619

1. The carrying value of payables and other financial liabilities at amortised cost approximates its fair value.

Trail commission (included within Other financial liabilities) is modelled using expected cash flows, incorporating expected future persistency. It has therefore been classified as a Level 3 liability.

Significant transfers between levels

There have been no significant transfers of liabilities between Levels 1, 2 and 3 for the period ended 30 June 2021 (30 June 2020 and 31 December 2020: no significant transfers).

4.13 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	30 Jun 2021	30 Jun 2020	31 Dec 2020
United States dollar	**1.38**	1.24	1.37
Euro	**1.17**	1.10	1.12

Average exchange rates	6 months 2021	6 months 2020	Full year 2020
United States dollar	**1.39**	1.26	1.28

Euro	**1.15**	1.14	1.13

4.14 Retirement benefit obligations

The Legal & General Group UK Pension and Assurance Fund (Fund) and the Legal & General Group UK Senior Pension Scheme (Scheme) account for the majority of the UK and worldwide assets of, and contributions to, such arrangements. The Fund and Scheme were closed to future accrual on 31 December 2015. During the period, modelling of the Fund and Scheme's liabilities has been brought in-house. This has resulted in minor changes to the actuarial assumptions that are applied, which have had an immaterial impact on the valuation of the retirement benefit obligation as at 30 June 2021.

As at 30 June 2021, the combined obligation arising from these arrangements has been estimated at £980m (30 June 2020: £1,199m; 31 December 2020: £1,138m). The retirement benefit obligations are a component of Provisions on the Consolidated Balance Sheet. The after tax deficit, net of annuity obligations insured by Legal and General Assurance Society, has been calculated to be £28m (30 June 2020: £122m; 31 December 2020: £70m).

4.15 Contingent liabilities, guarantees and indemnities

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

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

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

4.16 Related party transactions

(i) Key management personnel transactions and compensation

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £52m (30 June 2020: £47m; 31 December 2020: £137m) for all employees.
At 30 June 2021, 30 June 2020 and 31 December 2020 there were no loans outstanding to officers of the company.

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

	6 months 2021 £m	6 months 2020 £m	Full year 2020 £m
Salaries	**3**	3	8
Share-based incentive awards	**5**	4	5
Key management personnel compensation	**8**	7	13

(ii) Services provided to and by related parties

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

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

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited of £nil (30 June 2020: £50m; 31 December 2020: £50m) were purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;

- During the period, the Legal & General Group UK Pension & Assurance Fund (the Fund) completed an Assured Payment Policy (APP) transaction with Legal and General Assurance Society Limited (LGAS), a group company. An APP is an investment contract product sold by LGR which, issued to a pension scheme, provides the scheme with a fixed or inflation linked schedule of payments to match the scheme's expected liabilities. In June 2021, £925m was paid by the Fund to LGAS, and LGAS and the Fund recognised an investment contract liability and an APP plan asset of the same amount, respectively.

- Loans outstanding from related parties at 30 June 2021 of £22m (30 June 2020: £86m; 31 December 2020: £89m), with a further commitment of £84m;

- The group has total other commitments of £1,206m to related parties (30 June 2020: £1,253m; 31 December 2020: £1,207m), of which £738m has been drawn at 30 June 2021 (30 June 2020: £820m; 31 December 2020: £772m).

END

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London Stock Exchange

RNS Half-year/Interim Report

L&G Half Year Results 2021 Part 1

LEGAL & GENERAL GROUP PLC

Released 07:00:03 04 August 2021

RNS Number : 4753H
Legal & General Group Plc
04 August 2021

H1 2021 Results: Strong financial performance - 14% growth in operating profit and 22% ROE

Strong financial performance[1], now well above pre-COVID 2019 levels

- **Operating profit of £1,079m, up 14%** (H1 2020: £946m), with double-digit growth or higher in LGC, LGI and LGRR
- **Earnings per share of 17.78p, up 21% on H1 2019** (14.74p) and **up significantly on H1 2020 (**4.89p)
- **Profit after tax[2] of £1,065m** (H1 2020: £290m) and **Return on equity of 22.0%** (H1 2020: 6.3%)
- **Solvency II coverage ratio[3] of 183%** (H1 2020: 173%)
- **Interim dividend of 5.18p, up 5%** (H1 2020: 4.93p), consistent with our stated ambition

Growing contribution to our five-year (2020-2024) ambitions[4]

- **Cash generation of £0.9bn, up 14% year on year. Capital generation of £0.8bn, up 9% year on year**
- **Cumulative cash and capital generation of £2.4bn and £2.3bn respectively**, against our ambition of £8.0-9.0bn by 2024
- **Cumulative dividends declared £1.4bn** (H1 2021: £309m, 2020: £1,048m) against our ambition of £5.6-5.9bn by 2024

Good PRT new business volumes and strong net flows

- **Global PRT new business premiums of £3.1bn** (H1 2020: £3.4bn) with £2bn already won/in exclusive negotiations for H2
- **LGIM external net flows of £27.4bn** (H1 2020: £6.2bn), with **AUM up 7% to £1.3tn**
- **Individual annuity premiums up 15% and LGI new business annual premiums up 6%**

Unique and growing alternative asset origination capabilities

- **Legal & General Capital (LGC) operating profit doubled to £250m** (H1 2020: £123m)
- **ESG-aligned asset origination expertise** in clean energy, residential property, digital infrastructure and SME finance
- **Third party capital AUM of £6.8bn against our ambition of £14bn by 2025**

Long-term, growth-oriented and highly synergistic business model

- **An established track record:** HY11 to HY21 CAGR of 11% in EPS, 12% in DPS and 7% in book value per share
- **Highly synergistic:** five focused divisions that create a virtuous circle of internal demand and supply, supporting c20% ROE
- **Long-term and predictable value creation**: 40+ year duration business with earnings driven by a growing stock of assets
- **Attractive global growth markets:** retirement solutions ($53tn), asset management ($136tn), climate change ($20tn)[5]
- **A longstanding commitment to Inclusive Capitalism and a leader in ESG**: rated #1 Life & Health insurer by ShareAction

"Thanks to the hard work and dedication of my colleagues across Legal & General, we have delivered a strong set of financial results, with EPS up 21% since H1 2019. And we expect to deliver double digit growth in operating profit at the full year.

We're continuing to make investments that are economically, environmentally and socially valuable, in line with our long-term commitment to delivering Inclusive Capitalism and supporting the Building Back Better and Levelling Up agenda.

We are already a leading asset manager and we remain focused on continuing to scale-up our asset origination capabilities which are a unique and important component of our synergistic business model which has driven our 22% ROE."

Nigel Wilson, Group Chief Executive

Financial summary

£m	H1 2021	H1 2020	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR)[6]	683	720	(5)
- LGR - Institutional (LGRI)	*525*	*585*	*(10)*
- LGR - Retail (LGRR)6	*158*	*135*	*17*
Legal & General Investment Management (LGIM)6	204	197	4
Legal & General Capital (LGC)	250	123	103
Legal & General Insurance (LGI)	134	88	52
Operating profit from continuing divisions6,[7]	**1,271**	**1,128**	**13**
	nil	26	n/a

Mature Savings[8]			
Operating profit from divisions	**1,271**	**1,154**	**10**
Group debt costs	(120)	(115)	(4)
Group investment projects and expenses	(72)	(72)	-
Exceptional COVID-19 related expenses[9]	nil	(21)	n/a
Operating profit[10]	**1,079**	946	**14**
Investment and other variances (incl. minority interests), excluding LGI	11	(178)	n/a
LGI investment variance[11]	230	(483)	n/a
Profit before tax attributable to equity holders[12]	**1,320**	**285**	**363**
Profit after tax attributable to equity holders	**1,065**	**290**	**267**
Earnings per share (p)	**17.78**	**4.89**	**264**
Book value per share (p)	**164**	148	11
Interim dividend per share (p)	**5.18**	4.93	5
Net release from continuing operations[7]	**854**	730	17
Net release from discontinued operations	**nil**	21	n/a

H1 2021 Financial performance

Income statement

Legal & General has made a strong start to the year, with H1 2021 operating profit up 14% to £1,079m (H1 2020: £946m). The strength of our diversified business model meant we were able to weather the volatility of 2020 and were well positioned to deliver profitable growth again in the first half of 2021. LGC, LGI and LGRR delivered at least double-digit growth, with strong contributions from LGRI and LGIM. All five businesses are well positioned to execute on compelling structural market opportunities to deliver further profitable growth.

LGRI delivered operating profit of £525m (H1 2020: £585m), underpinned by the performance of our growing annuity portfolio. In what was a somewhat quieter first half for the PRT market, we executed well, writing £3,072m[13] of global PRT at attractive Solvency II new business margins of 8.4%.[14]

LGRR operating profit increased 17% to £158m (H1 2020: £135m), supported by the ongoing release from the retail annuity portfolio. Individual annuities delivered 15% growth in new business against H1 2020, and retirement lending volumes 14% growth, as these markets started to recover following the impact of the COVID pandemic last year.

LGIM delivered operating profit growth of 4% to £204m (H1 2020: £197m), reflecting increased revenues from strong external net flows of £27.4bn (H1 2020: £6.2bn), and an increased focus on higher margin areas such as thematic ETFs and multi-asset. Assets under management increased by 7% to £1,326.8bn (H1 2020: £1,240.6bn), of which 33% is International AUM. The cost income ratio (58%) reflects our continued investment in the business, balanced with careful cost control (H1 2020: 58%).

LGC operating profit doubled to £250m (H1 2020: £123m) and is up 45% on pre-COVID levels (H1 2019: £173m). This growth is driven by strong performance in our alternative asset portfolio, where operating profit increased to £195m (H1 2020: £36m) predominantly as a result of a bounce-back in the housebuilding market. The portfolio has also seen valuation increases over H1 2021, notably in the Venture Capital portfolio and Pod Point (electric vehicle charging) in recognition of strong performance and increasing revenues.

LGI operating profit increased 52% to £134m (H1 2020: £88m), reflecting strong new business growth in UK retail protection, and the fact that adverse COVID-19 related claims during the period were provided for in the 2020 results. We previously provisioned for £110m of future COVID-19 related claims, c£30m of which remains unutilised as at the end of June, highlighting the significant impact of the second wave in both the UK and US over Q1 2021.

Profit before tax attributable to equity holders[15] was £1,320m (H1 2020: £285m), reflecting positive investment variance of £241m (H1 2020: £(661)m). The key drivers of this positive investment variance are from the formulaic impact of rising interest rates on LGI reserves, which has a £230m impact (compared to a £(483)m impact in H1 2020), and strong portfolio performance in both LGR and LGC.

Balance sheet and asset portfolio

The Group's Solvency II operational surplus generation from continuing operations was up 9% at £0.8bn (H1 2020: £0.8bn). New business strain was £(0.2)bn (H1 2020: £(0.1)bn) reflecting UK annuity new business written at a capital strain broadly in line with that of 2019, resulting in net surplus generation of £0.6bn (H1 2020: £0.7bn).

The Group reported a Solvency II coverage ratio[16] of 183% at the end of H1 2021 (FY 2020: 177%; H1 2020: 173%), principally reflecting the non-economic impact of higher interest rates on the valuation of our balance sheet[17], partially offset by payment of the 2020 final dividend and the provisioned redemption of £0.3bn of subordinated debt.

On a proforma calculation basis[18], our Solvency II coverage ratio was 182% at the end of June (FY 2020: 175%; H1 2020: 169%).

Our IFRS return on equity of 22.0% reflects the impact of operating profit growth and unrealised positive investment variances (H1 2020: 6.3%).[19]

Our diversified balance sheet, and actively-managed asset portfolio, has continued to perform resiliently with no defaults. The annuity portfolio's direct investments continue to perform strongly, with 99.7% of scheduled cash-flows paid year to date, reflecting the high quality of our counterparty exposure.

COVID-19

Whilst we remain confident in our collective and successful emergence from the pandemic, COVID-19 is continuing to have a significant impact on our customers and our people, and on society at large. The Group has continued to support all our stakeholders, without relying on direct Government funding. Our priorities remain to look after our customers, to safeguard the wellbeing of our people and to support the development of the wider community through **Inclusive Capitalism** and by **investing in the real economy**.

Our purpose is to provide financial stability to our customers and their dependants in good times and in bad: it is "what we do". During H1 2021 we paid £1bn in gross protection claims and continued to provide financial stability through regular payments to over 1 million pensioners.

We continue to support our employees' mental and physical wellbeing through a range of resources including trained Mental Health First Aiders, a confidential employee assistance helpline, access to "Unmind" (a workplace mental health platform) and a dedicated COVID-19 intranet hub.

To support the communities around us, we have, amongst other initiatives, funded the expansion of the Samaritan's existing training programmes, as the charity looks at new volunteering models to improve their ability to assist those struggling to cope with mental health issues. We continue to support the elderly in isolation through our befriending scheme with Independent Age, the Royal Voluntary Service and Carers First. We have also worked closely with Let's Localise, which has seen hundreds of our recycled laptops donated to schools in need.

Legal & General experienced £79m of COVID-19-related claims in LGI in H1 2021, which were absorbed by the £110m provision raised at FY 2020. Our reinsurance strategy, which reinsures virtually all LGI's UK retail protection business, has substantially reduced the impact on LGI of higher claims, although we retain the majority of our exposure in the US and in UK group protection. During H1, LGR recognised a £49m reserve release in light of 2021 COVID-19 mortality experience.

Group Strategy

Legal & General is primarily a global provider of retirement solutions to corporates and individuals, with core skills in asset management and origination, longevity risk and technological innovation. We operate at scale and are strongly positioned to capitalise on significant growth opportunities across our chosen markets through our five businesses:

1. **Legal & General Retirement - Institutional** (LGRI) offers pension risk transfer (PRT) to institutional clients globally.
2. **Legal & General Retirement - Retail** (LGRR) is a waterfront provider of UK retail retirement solutions, including individual annuities, lifetime mortgages (LTMs) and workplace savings.
3. **Legal & General Investment Management** (LGIM) is the 11th largest global asset manager by AUM[20], primarily serving institutional pension clients.
4. **Legal & General Capital** (LGC) invests shareholder capital and originates alternative assets.
5. **Legal & General Insurance** (LGI) sells retail and group protection in the UK and retail protection in the US.

A unique, synergistic and long-duration business model

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

- **LGRI**, a market leader in UK PRT, and **LGRR**, a leading provider of UK individual annuities, have £85.8bn of annuity assets, providing long-term, captive AUM to **LGIM**. This portfolio is continually being enhanced with alternative assets originated by **LGC**.
- **LGIM** is a leading player in providing UK and US DB de-risking solutions and is uniquely positioned to support DB clients journeying to the full range of pension endgame destinations, including PRT and Assured Payment Policy with **LGRI.** 69% of LGRI's PRT transactions over the past three years were from existing LGIM clients.[21] Furthermore, when DB clients de-risk assets and liabilities through PRT with LGRI, LGIM then manages the associated assets. LGIM is also the market leader in UK DC pension scheme clients - a market with significant growth potential. Total UK DC assets are expected to more than double by 2028 to £955bn.[22]
- **LGC** invests shareholders' capital for society's benefit. As a core component of our retirement solutions business, LGC creates assets to back pensions (notably in **LGRI** and **LGRR**) and invests our shareholder funds to achieve more attractive risk adjusted returns. LGC is building alternative asset creation platforms, benefitting **LGIM** clients, and increasingly attracting third party capital investment.
- **LGI** is a market leader in UK protection and US brokerage term life insurance and provides significant Solvency II benefits to the Group by partially offsetting new business strain in **LGRI** and **LGRR**. LGI is a centre of excellence in technology, particularly in retail, and is working closely with other divisions to drive further tech synergies. Further, LGI's US business facilitates **LGRI**'s US PRT transactions, which are written onto the existing US balance sheet.

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

The integrated nature of our business model means that we have relationships with clients and customers that can and do last for decades. For example, an Index or Liability Driven Investing DB corporate client in LGIM typically becomes a PRT client after 14 years. LGRI will then typically have a relationship with that client for another 30-40 years. Equally, LGRR and LGIM may have a 30-40 year relationship with a customer during the DC accumulation phase, and then extend that relationship for another 15-30 years during the decumulation phase across a suite of decumulation products including individual annuities, lifetime mortgages and drawdown.

The Group continues to build out, in a measured fashion, its international retirement solutions franchise. We have made tremendous progress in the US over the last decade and will continue to build out our established businesses (LGRI, LGIM, LGI) in that market. LGIM is also making good progress against its international expansion plans in Europe. Kerrigan Procter has now moved to Hong Kong to co-ordinate the Group's expansion plans in Asia.

A long-term commitment to Sustainability, ESG and Inclusive Capitalism

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

This philosophy underpins our approach to Sustainability and to ESG (Environmental, Social, and Governance factors).[23] We think about Sustainability, and the long-term ESG impact of our business, in terms of:

1. **How we invest our £93bn of proprietary assets**.**[24]** Our ambition is to reduce our portfolio carbon emission intensity by half by 2030 and to net zero by 2050. In 2020 we reduced the carbon intensity of the Group's balance sheet by 2% versus 2019. We continue to make environmentally and socially useful investments. As at H1 2021, we have invested £1.4bn in clean energy and £7.8bn in social infrastructure. For more information, please see our latest Task Force on Climate-related Financial Disclosures (TCFD) report.[25]
2. **How we influence as one of the world's largest asset managers with £1.3 trillion AUM**. We have £252.3bn AUM in ESG strategies and during H1 2021 we cast over 50,000 stewardship votes as we continued to encourage investee companies to behave responsibly.[26] LGIM is rated A+ for responsible investment strategy and active ownership from the UN Principles for Responsible Investment, and ranked #1 among asset managers for its approach to climate change by both ShareAction and InfluenceMap.
3. **How our businesses operate**. We are committed to supporting our customers, employees, suppliers, shareholders and society at large. For information on what we are doing to support our key stakeholders, see pages 15-17 of our Sustainability report.[27] We have committed to reducing the carbon emission intensity of our operating businesses. Our ambition is to operate our offices and business travel with net zero emissions from 2030, and for all our new homes to be net zero operational carbon from 2030. From 2021, ESG criteria have been included in executives' objectives and remuneration targets.

Climate and COP26

Addressing Climate Change is one of Legal & General's six strategic growth drivers and is increasingly embedded throughout the group, supported by a rigorous governance framework and transparent metrics.

Climate change is not only the biggest challenge, but also the biggest investment opportunity, of our lifetimes, and we are committed to achieving net zero by 2050. It's a challenge and an opportunity that starts now. For context, it is estimated that $20 trillion of investment is needed by 2025 alone to put us on the path to achieving global net zero emissions by 2050.[28]

Our commitment to addressing climate change is increasingly reflected in our own asset allocation and risk management frameworks, in our balance sheet investments, in how we manage and steward money for external clients, in our real asset, housing, regeneration and VC portfolios, and in our direct operational emissions. Our approach is set out in more detail in our TCFD Report which describes how we invest, influence and operate. This also covers progress made to date and sets out the staging-posts we have set ourselves on the journey to our goal of net zero by 2050, including the adoption of science-based targets.

COP26, which will take place in November this year, will be a major milestone in the global journey to net zero. We are involved in several ways, notably through Michelle Scrimgeour's role as co-chair of the COP26 Business Leaders Group alongside the President for COP26, Rt Hon Alok Sharma MP, and through LGIM's participation in the Glasgow Financial Alliance for Net Zero (GFANZ). The principal challenge for governments, business and finance, however, remains not just agreeing the next global priorities and targets for climate, but implementing them. Here, Legal & General has a number of important technical roles. Nigel Wilson leads the Innovation Workstream for the Bank of England/FCA's Climate Financial Risk Forum and the Workstream on investment for the Insurance Sustainable Market Initiative, both of which will contribute to the work of COP26 and beyond. Many Legal & General employees provide expertise in specialist areas including, for example, through HM Treasury and the Bank of England's Productive Finance Committee, the Green Finance Institute and the Green Buildings Council.

Outlook

Medium term growth: ambitious and deliverable

Our strategy has delivered strong returns for our shareholders over time and has demonstrated resilience through the pandemic. We are confident we can continue to deliver profitable growth as we execute on our strategy.

We set out our five-year ambitions at our Capital Markets event last November. Cumulatively, over the period 2020-2024, our financial ambitions are for[29]:

1. Cash and capital generation significantly to exceed dividends (we intend to generate £8.0bn - £9.0bn of both cash and capital, and to pay dividends of £5.6bn - £5.9bn).[30]
2. Earnings per Share to grow faster than dividends, with the dividend growing at low to mid-single digits from 2021.
3. Net capital surplus generation (i.e. including new business strain) to exceed dividends.

We aim to deliver long-term, profitable growth across the Group. LGRI and LGRR provide highly predictable, stable cash flows from their growing back-books. The UK annuity portfolio will be fully self-financing[31] at c£100bn of AUM (H1 2021: £81.8bn) which we expect to achieve in the next three to five years. Our asset management and origination businesses, LGIM and LGC, operate in attractive and profitable markets, and maintain a strong commitment to ESG-aligned investing. With proven asset expertise in clean energy, residential property, digital infrastructure and SME finance, LGC provides unique asset origination capabilities in sectors that have significant growth potential, which produce yield-creating assets that drive our LGR business, and appeal to third party investors. LGI is applying technological innovation to sustain its UK leadership, to grow in the US and to continue to expand into adjacent markets.

We remain confident in our strategy and in our ability to deliver resilient, organic growth, supported by our strong competitive positioning in attractive and growing markets. Our confidence and our dividend paying capacity are underpinned by the Group's strong balance sheet, which has a £3.4bn IFRS credit default reserve and, for Solvency II, £7.5bn in surplus regulatory capital, in addition to significant buffers to absorb a market downturn. We have a proven operating model which is reinforced by robust risk management practices.

Confident in achieving our ambitions

We remain confident in achieving our five-year cumulative financial ambitions. In the first half of 2021, we continued to build on the good start we made in 2020. **We expect to deliver double digit growth in operating profit at the full year**.

Whilst PRT markets have been relatively subdued in the first half of 2021, we executed well in the UK at stable margins, and expect a stronger market in the second half of the year. At the UK market level, we are expecting around £20-£25bn to transact in 2021 for the year as a whole. We have **already won or are in exclusive negotiations on £2bn of UK PRT business in the second half.** We continue to anticipate long-term institutional demand to de-risk DB pension portfolios and remain confident in achieving our five-year ambition of writing £40-50bn of UK PRT and $10bn of International PRT.

LGIM continues to focus on attracting higher margin net flows and on diversifying and further internationalising its business. The business remains confident of achieving its ambition of growing cumulative profits in the range of 3-6%. LGC continues to grow Alternative AUM towards £5bn, with a blended portfolio return of 8-10%, creating assets for LGR and attracting third party capital. LGIM and LGC have benefited from rising equity markets and valuations and, in the case of LGC, a continuation of the rebound in the UK residential property market, which has also increased demand for UK retail protection from LGI, which we expect to persist.

In LGI, we continue to target mid-single digit growth in revenues across our UK protection businesses, and to achieve double digit growth in US new business sales. In line with previous years, we expect LGI's H2 to deliver greater operating profits than H1.

In LGRR, the markets for individual annuities and lifetime mortgages started to recover in H1 2021, following the impact of the pandemic last year. The longer-term outlook for both these markets remains attractive, driven respectively by ongoing growth in the DC market and by an increasing consumer requirement to look to multiple sources of wealth to fund retirement. However, the lifetime mortgage market is becoming more competitive and we will maintain pricing discipline at the expense of volumes if required.

We are pleased with the progress we have made year to date and are confident in our ability to deliver further profitable growth in the second half of the year. The immediate outlook for the broader economy is positive and we are well-positioned to support the UK Government's three flagship policies of "Build Back Better", "Levelling Up" and "Address Climate Change".

We will continue to maintain a defensive asset portfolio and a long-term investment horizon, supporting all our stakeholders by delivering Inclusive Capitalism through investments in infrastructure, clean energy and affordable housing, and by providing products to support individuals' financial resilience.

Business segment outlook

LGR Institutional (LGRI)

LGRI participates in the rapidly growing global PRT market, focusing on corporate defined DB pension plans in the UK, the US, the Netherlands, Ireland, and Canada, which together have nearly £7 trillion of pension liabilities due to **ageing demographics**.[32]

We are the only global player in PRT, writing direct business in the UK and US, and are market leaders in the UK. We are supported by **LGIM's long-standing client relationships** and **LGC's asset manufacturing capabilities**, as well as wide-ranging skills across the Group which enhance our asset strategy and product innovation. During H1 2021, 53% of our UK transactions were with LGIM clients, demonstrating the strength of our client relationships and the resilience provided by our unique position as the only firm operating across the full pension de-risking journey.

The UK is our primary market and it is the most mature PRT market globally with £2.3 trillion of UK DB pension liabilities, of which only c12% have been transferred to insurance companies to date.[33] This leaves a sizeable opportunity for future growth in this market. Demand from companies and pension plans for insurance remains robust: we expect the total UK PRT market to be around £20-£25bn in 2021 despite the relatively subdued first half of the year.[34] Market commentators anticipate between £150bn-£250bn of UK PRT demand over the next five years.[35] **Our ambition is to write £40bn to £50bn of new UK PRT over the next five years**, whilst remaining disciplined in our pricing and deployment of capital.

The US represents a further, significant market opportunity, with $3.4 (£2.5) trillion of DB liabilities, of which only c7% have transacted to date.[36] Since our market entry in 2015, our US business has written more than $5bn of PRT with 70 clients. We are the only insurer providing PRT directly to pension plans globally. This is anticipated by market commentators to be "one of the key levers that sponsors with UK and US obligations look to utilise going forwards".[37] **Our ambition is to write more than $10bn of international PRT over the next five years.**

Whilst new PRT business requires solvency capital on day one, this capital commitment pays back quickly, generating an attractive and long-term stream of operating surplus, which provides stability to the division's operating performance and means that LGRI is not solely dependent on new business to deliver profits. Our UK annuity portfolio (including LGRR individual annuities) is expected to be self-sustaining within 3-5 years as it reaches c£100bn AUM (H1 2021: £81.8bn). At that point, it will be able to fund new business, while both (a) paying its share of a progressive Group dividend and (b) contributing to an increase in the Group solvency coverage ratio over time.

LGR Retail (LGRR)

LGRR is a growth area for the Group and we expect its target market to continue to expand, driven by **ageing demographics** and **welfare reforms**. LGRR is a waterfront provider of UK retail retirement solutions, offering annuities, income drawdown, pension pot consolidation, lifetime mortgages (LTM) and LTM advice. To further complement LGRR's customer retirement and savings proposition, the Workplace Savings administration business was transferred from LGIM to LGRR at the start of the year. This enables us to better assist the 4.2 million Workplace customers in planning their retirement whilst they are saving with us, rather than when they come to retirement. This will provide better customer outcomes and, at the same time, help us to retain more of our customers and allow us to more easily offer them a wider range of L&G products. **Our ambition is to be the UK's leading retirement brand, enabling all our customers to have a secure retirement whilst generating long duration assets and profits for the Group and, over time, to expand internationally.**

Our primary market is the UK where currently, each year, there are £40bn of personal pension assets coming to maturity.[38] This is expected to grow to £50bn by 2024.[39] The individual annuity market currently accounts for just £4.2bn of total maturing assets, i.e. a little over 10%.[26] However, we expect the individual annuity market to grow in absolute and relative terms, as the DC market continues to grow, and as fewer people reach retirement with defined benefit pensions and so seek the longevity protection that an annuity provides. LGRR has a strong and growing market share in individual annuities. As at Q1 2021, we have a 22.6% market share in individual annuities.[40] We are building on the strength of that position by providing other retirement income products and services, recognising that each customer will have different needs and requirements.

The UK lifetime mortgages (LTM) market continues to represent a sizeable opportunity for LGRR, with UK housing equity in over 55s at £1.7 trillion across approximately 5.5m houses.[41] At present only c£4bn per year is being released through the LTM market. While we maintain our focus on the traditional LTM market, we continue to see interest from the "wealth" sector as those with higher value properties increasingly see the benefit in lifetime mortgages when planning the distribution of their estate to future generations.

There are currently £400bn in UK DC accumulation assets and this is expected to more than double to £955bn by 2028. As a market leading provider in Workplace Savings, we are well placed to benefit from this expected increase in DC pension assets, to grow administration revenues for LGRR, and fund management revenues for LGIM.

Legal & General Investment Management (LGIM)

LGIM benefits from a combination of scale businesses and a diversified asset base, underpinned by structural demand for our products and investment capabilities. Our purpose is to create a better future through responsible investing, and we are recognised as a global leader in ESG. Our five-year growth ambition is driven by the three pillars of our strategy to **modernise**, **diversify** and **internationalise** the business. We seek (i) to **grow cumulative profits in the range of 3% to 6%**, absent market shocks, (ii) **to increase AUM in international and higher margin areas**, and (iii) to continue to **diversify AUM** by client, channel and geography. We expect to **maintain a cost income ratio in the high 50 percent range over the next two to three years as we invest for growth**, after which we expect it to trend downwards.

LGIM plays a critical role in Legal & General's position as a leading, global pension solutions provider, as well as a significant UK leader in retail investment management. As such, LGIM intends to maintain its strong position in the UK, which has been the bedrock of its success to date, while continuing to diversify its capabilities and broaden its reach internationally.

Modernise: LGIM continues to invest in the business to achieve the resilience and global scalability critical to its future success. We are laying the foundations for continued global growth by investing in our people and our operating platform, and by refining our organisational structure. Our recently announced technology and Middle Office partnership with State Street further supports our strategic commitment to Modernise. It will support our ambition to scale, internationalise and diversify and enable us to better serve our clients.[42] We have also strengthened our senior leadership team, with the recent appointments of a Chief Technology Officer and a Chief Data Officer.

Diversify: We continue to cement our leadership in ESG investing and, in addition to offering a wide range of ESG-specific products, are driving further integration of ESG into our mainstream investment portfolios. We will continue to expand our investment offering, with a focus on higher margin areas such as Real Assets, ETFs, Multi Asset and Solutions. We see a sizeable opportunity in Real Assets - we are well known for our UK Real Estate Equity expertise and, increasingly, will also provide investors with access to our leading private credit capabilities. As UK and US DB schemes approach funding maturity, many clients will look for self-sufficiency or buy-out options that, together with LGRI, we are well positioned to deliver through our 'endgame' Solutions offering.

Internationalise: LGIM aims to be a disruptor in regions and countries where our strengths align to client needs. Over the last five years LGIM's international AUM has more than doubled to reach £434bn - 33% of LGIM's total AUM. Our ambition is to continue growing International AUM profitably and at pace in the US, Europe and Asia. In the US, we are deepening our strong client relationships through innovation in DC and leadership in ESG. In Europe, we will build on our successes in Germany and Italy, to expand further into European markets and channels. In Asia, our strategy is to retain and increase our share of wallet with existing clients and deepen our footprint in existing markets - Japan, China, Hong Kong, Taiwan and Korea - by showcasing investment solutions that address key market trends.

Legal & General Capital (LGC)

LGC, the Group's alternative asset platform, will continue to deploy capital in a range of underserved areas of the UK's real economy that are backed by long-term structural trends. LGC has built strong, scalable platforms which create attractive pipelines of investable assets that match **LGR's** annuity liabilities and the demands of **LGIM's** third party clients. Making a substantial contribution to shareholder value creation, LGC is well positioned to drive further meaningful growth as its businesses continue to scale and mature. Supporting the Levelling Up agenda, and society's need to Build Back Better and Address Climate Change, LGC's asset classes include residential property, specialist commercial real estate, clean energy and SME finance.

Over the next five years we expect to build LGC's diversified alternative AUM towards c£5bn using shareholder equity (H1 2021: £3.4bn), with a target blended portfolio return of 8% to 10%. Additionally, we plan to increase fee-generating third party capital to over £14bn (H1 2021: £6.8bn). Excluding LGR asset creation, **LGC expects to manage close to £20bn of alternative AUM by 2025.**

Supporting the Group's focus on climate and inclusive capitalism, our alternative asset strategy is made up of sectors where our investments change lives. We are creating much needed jobs, homes and infrastructure, driving growth, skills and innovation, and contributing towards a clean and green future:

- Through our **specialist commercial real estate** portfolio, which includes data centres, urban development, and science and technology-focused real estate, we are levelling-up, transforming our regions and growing the UK knowledge economy. Partnering with universities, local authorities and private sector experts, we have invested across sixteen UK towns and cities, creating jobs, driving economic growth and boosting local communities as the UK looks to build back better.
- As a leading provider of homes, with a commitment to tackling the structural shortages across the UK's housing market, LGC's **residential property** platform continues to expand across all tenures, ages and demographics, leveraging both traditional and modular construction in order to revolutionise and speed up delivery. We recognise the vital role that safe, quality housing plays in a healthy, equitable society and that the UK continues to fall far short of the over 300,000 new homes required annually. With a pressing need to ensure that the homes we build are also future-proofed and sustainable, we have committed that all our new homes will be operationally carbon emission-free from 2030.

  We are well positioned to achieve our long-term targets of delivering:

  - Over 3,000 traditional build to sell homes per annum, with the expected delivery of c2,900 new homes in 2021
  - 5,500 build to rent homes in our urban pipeline and an ambition to deliver 1,000 suburban rental homes each year
  - Up to 3,000 Affordable homes per year by 2023 to help meet the needs of the more than 1.4 million households on waiting lists for UK social housing
  - Around 4,500 Later Living homes in our pipeline to help address the housing requirements of last time buyers seeking to downsize
  - 670 new modular homes in our pipeline and creating up to 300 new jobs at our Leeds factory this year in order to support our ambition to deliver up to 3,000 modular homes a year by 2024
- In the **clean energy** sector, more than $130tn of investment is needed globally by 2050 to address climate change.[43] We are investing in early-stage scale-up companies to deliver the innovation, clean technologies and renewable energy infrastructure needed to accelerate progress towards a low-cost and low-carbon economy.
- In **SME Finance**, we are continuing to support UK and European innovation, investing in the real economy by creating a diverse portfolio of assets. We expect to continue to deploy our capital and focus to support the venture capital ecosystem to help create and grow the businesses of tomorrow.

Legal & General Insurance (LGI)

We anticipate continued premium growth across our UK and US businesses as **technological innovation** makes our products more accessible to customers and supports further product and pricing enhancements.

In the UK, our market leading retail protection business is supported by the strength of our distribution relationships, investment in our systems and platforms, and product enhancements. These strengths led to a strong performance in H1 2021. Our group protection business has also performed well. Note, however, that 2021 group protection new business volumes may not reach the record levels of 2020 as, typically, fewer large schemes are tendered in odd years than in even years. **In line with our five-year ambition, we are targeting mid-single digit growth in revenues across our UK protection businesses.**

In the US, we anticipate our on-going technology investments and new partnerships will position us for premium growth as the market continues to recover from the distribution and underwriting disruptions caused by COVID-19. We are using technology to improve customer experience while reducing cost and becoming the partner of choice for a wide range of distribution partners. We are already the largest provider of term life assurance in the brokerage channel, and our digital first approach is aiming to achieve **double digit growth in new business sales out to 2025**.

As we look to transform adjacent markets, we are also accelerating growth in our digital platforms. Salary Finance, our employee benefits platform business in which we have a 41% holding, continues to grow rapidly, with the platform now connected to over 3.8 million employees across the UK and US. Annualised run-rate gross revenue grew to £29m as at 30 June 2021, growth of 75% year on year. This trend is expected to continue with growing employee awareness and increasing platform engagement. Salary Finance remains one of the UK's fastest growing Fintechs and is well positioned for growth in the UK, the US and beyond.

In line with previous years, we expect H2 operating profit to be greater than H1.

Dividend

The Board has declared an interim dividend of 5.18p, up 5% from the prior year (4.93p). This is consistent with our stated ambition to grow the dividend at 3-6% per annum between 2021 and 2024.

Going forward, the Board intends to adopt a formulaic approach to the dividend whereby the interim dividend grows by the same percentage as the total dividend for the prior year.

LGR - Institutional

FINANCIAL HIGHLIGHTS £m	H1 2021	H12020
Operating Profit	**525**	585
Release from operations	252	246
New business surplus	68	71
Net release from operations	**320**	317
UK PRT	2,040	3,176
International PRT	107	248
Other PRT (longevity insurance, Assured Payment Policy, Insured Self-Sufficiency)	925	-
Total new business	**3,072**	3,424

Operating profit of £525m

LGRI continues to deliver strong operating profit of £525m (H1 2020: £585m). Profit was underpinned by the performance of our growing annuity portfolio, robust pension risk transfer (PRT) new business volumes and positive mortality experience due to the continued tragic impact of COVID-19. Note: a review of late retirement factors was undertaken in H1 2020, releasing £124m (net of tax).

Release from operations increased 2% to £252m (H1 2020: £246m), reflecting the scale of the business as prudential margins unwind from LGR's growing £85.8bn annuity portfolio (2020: £87.0bn).

Net release from operations was £320m (H1 2020: £317m) with new business surplus of £68m (H1 2020: £71m), reflecting successful execution with broadly consistent volume and new business profitability despite subdued PRT market volumes.

During H1 2021 we wrote £2,040m of UK PRT which, combined with Other PRT of £925m and £483m of individual annuities written in LGRR, delivered an 8.4% UK Solvency II new business margin (H1 2020: 10.6%). UK PRT capital strain remains broadly at the 4% mark.

Successful execution in a slower H1 market

During H1 2021 LGRI underwrote £3,072m of PRT across 20 deals globally (H1 2020: £3,424m, 29 deals).

Legal & General has demonstrated its resilience and continues to play a key role in the UK PRT market, despite the market being relatively subdued in the first half. However, we are still expecting around £20-£25bn to transact in the 2021 market and we are well placed to execute on this opportunity in H2, with **£2bn already won or in exclusive negotiations**. As the only whole-of-market provider in the UK we see nearly all deals coming to market and are well positioned to preserve (or build) market share.

LGRI's brand, scale and asset origination capabilities - through synergies with, and expertise within, **LGIM** and **LGC** - are critical to our market leadership in the UK PRT market. Long term client relationships, typically fostered by LGIM, have allowed us to help many pension plans achieve their de-risking goals. In H1 2021 we demonstrated our market leadership and solutions capabilities by writing a series of innovative transactions, including:

- Small scheme solutions. With over 60% of our transactions smaller than £100m, we leveraged **technological innovation** to serve smaller pension plans more efficiently.
- c£800m buy-in with TUI group UK Pension Trust. This transaction marks the Scheme's first PRT transaction with Legal & General.
- A £925m Assured Payment Policy, our **capital-light** PRT product, for Legal & General's Group UK Pension and Assurance Fund. The policy provides asset yield, interest rate and inflation risk protection to the pension plan, paving a more secure path to buyout over a planned timeframe.
- First conversion of an Assured Payment Policy (APP) to a buy-in. A £61m transaction agreed with AIB Group UK Pension Scheme, converted c20% of the original APP transaction completed in December 2019. The transaction is a testament to our commitment in helping schemes along their de-risking journey, every step of the way, offering flexible solutions and enabling them to seize de-risking opportunities as they arise.

Well positioned to execute in H2 in the US

US PRT new business premiums of $149m (H1 2021: £107m; H1 2020: $312m; £248m), with the US PRT market typically slower in H1, and seeing relatively high levels of competition. As normal, we expect a much larger market in the second half, with activity typically concentrated in Q4 although, in fact, we have recently won a $181m US PRT deal. Market commentators expect US PRT volumes for 2021 to be higher than for 2020 ($27bn).[44]

Since entering the market in 2015, we have underwritten more than $5bn of premium with 70 clients.[45] As the only insurer providing PRT to pension plans globally, **Legal & General is uniquely positioned to offer holistic, global pension de-risking solutions**.

LGR - Retail

FINANCIAL HIGHLIGHTS £m	**H1 2021**	H1 2020
Operating Profit	**158**	135
Release from operations	111	98
New business surplus	15	16
Net release from operations	**126**	114
Workplace Savings net flows (£bn)	6.0	2.4
Individual single premium annuities	483	421
Lifetime & Retirement Interest Only mortgage advances	414	362

Total new business	**897**	783

Operating profit up 17% to £158m

LGRR operating profit increased 17% to £158m during H1 2021 (H1 2020: £135m), driven by the ongoing release from operations, and positive mortality experience due to the continued tragic impact of COVID-19.

Release from operations was £111m (H1 2020: £98m), an increase of 13%, reflecting the unwind of prudential margins from the annuity portfolio and increasing administration fees from the growing workplace assets.

Net release from operations was £126m (H1 2020: £114m) with new business surplus of £15m (H1 2020: £16m).

From 1 January 2021, the Workplace Savings administration business was transferred from LGIM to LGRR, building out LGRR's retail retirement proposition. Profits on the fund management services we provide are included in LGIM's asset management operating profit.

Resilient new business volumes in H1 2021

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

Individual annuity sales were up 15% to £483m in H1 2021 (H1 2020: £421m), as markets started to recover following the impact of the COVID pandemic last year. Our relative performance remained strong: our operational service, competitive pricing and increased intermediary presence allowed us to grow market share to 22.6%.[46]

Lifetime mortgage advances, including Retirement Interest Only mortgages, were up 14% to £414m (H1 2020: £362m). Throughout this period, we have maintained pricing and underwriting discipline whilst increasing advances. At the end of June 2021, LTMs were 7% of our total annuity assets and our LTM new business portfolio had an average customer age of 72 and a weighted average loan-to-value of c30% at point of sale.

Workplace Savings net flows were up 150% to £6.0bn (H1 2020: £2.4bn), driven by continued client wins and increased contributions. Members on the Workplace pension platform increased to 4.2 million in H1 2021. We are continuing to focus on improving efficiency and scale as the business grows.

Legal & General Retirement - Total Annuity Asset Portfolio

FINANCIAL HIGHLIGHTS £m	H1 2021	H1 2020
Operating Profit	**683**	720
Investment and other variances	105	73
Profit before tax	**788**	793
Total annuity assets (£bn)	**85.8**	80.7
Of which: Direct investments (£bn)	*25.8*	*23.6*

Profit before tax was £788m, with investment variance contributing positively due to standard unwind of margins and strong underlying performance.

Annuity asset portfolio

Legal & General Retirement's (LGR) **£85.8bn**[47] 'A minus' rated asset portfolio, which backs the IFRS annuity liabilities in LGRI and LGRR, is well diversified by sector and geography. **Our ambition is to continue to strengthen our asset sourcing capabilities (a core competitive advantage), including both self-manufactured and public assets with a strong ESG focus, as outlined in LGR's ESG strategy launched in 2020.** Current examples include Build to Rent and Affordable housing.

Credit portfolio management

LGR's £78.2bn fixed income portfolio is comprised of £57.2bn of listed bonds and £21.0bn of Direct Investments. Approximately two-thirds of the portfolio is rated A or better, 34% rated BBB and 2% sub-investment grade.

The key objective of our annuity-focused, fixed income fund managers in **LGIM** is to manage the portfolio to match liabilities, while minimising credit downgrades and avoiding defaults. We constantly review our asset portfolio, including sector allocations and asset classes, in order to manage portfolio credit quality and to mitigate risks. We have vigorously stress-tested our portfolio to build resilience against a range of scenarios. In addition, we hold a **£3.4bn IFRS credit default reserve**.

We have kept lower-rated, cyclical exposures to a minimum and only 13% of our BBB assets are BBB-. We actively manage our asset portfolio and continue to take opportunities to improve credit quality at attractive pricing levels.

This two-pronged approach, comprising **defensive positioning and active management**, has helped us mitigate downgrade and default risk. **Again, we have had no defaults**.

Direct Investment

LGR originated £1.4bn of new, high quality direct investments during H1 2021 which, along with market movements, brought the direct investment portfolio total to £25.8bn[48], including **£6.3bn in LTMs**. Consistent with the broader bond portfolio, approximately two-thirds of the direct investment bond portfolio was rated 'A' or above using robust and independent rating processes which take account of long-term stress events on the strong counterparties and the underlying collateral.

Across the Group, **our businesses help to meet the societal needs arising from welfare reforms by harnessing the power of pensions to deliver Inclusive Capitalism and to support the UK to Build back Better.** We aim to invest in sectors where long term funding is needed, for example, in assets providing social infrastructure, housing and clean energy across our UK towns and cities. Our ability to self-manufacture attractive, long-term assets to back annuities, such as Build To Rent or Affordable Housing, working with **LGIM**, **LGC**, or through LTMs, is a differentiating feature of LGR's business and remains a key competitive advantage.

Legal & General Investment Management

FINANCIAL HIGHLIGHTS £m	H1 2021	H1 2020
Management fee revenue	**471**	458
Transactional revenue	**9**	9

Total revenue	**480**	467
Total costs	**(276)**	(270)
Operating profit	**204**	197
Investment and other variances	**(7)**	4
Profit before tax	**197**	201
Net release from operations	**163**	158
Asset Management cost:income ratio (%)	**58**	58

NET FLOWS AND ASSETS £bn		
External net flows	**27.4**	6.2
Internal net flows	**(1.7)**	(0.6)
Total net flows	**25.7**	5.6
- Of which international[1]	***15.0***	*(3.2)*
Cash management flows	**(0.4)**	2.8
Persistency[49] (%)	**89**	86
Average assets under management	***1,280.5***	*1,218.4*
Assets under management as at 30 June	**1,326.8**	1,240.6
Of which:		
- International assets under management[2]	***434***	*385*
- UK DC assets under management	***125***	*97*

1. International asset net flows are shown on the basis of client domicile.
2. International AUM includes assets from internationally domiciled clients plus assets managed internationally on behalf of UK clients.

Operating profit growth of 4% to £204m

Operating profit increased by 4% to £204m (H1 2020: £197m), reflecting increased revenues from flows and favourable business mix.

Assets under management increased by 7% to £1,326.8bn (H1 2020: £1,240.6bn), benefitting from strong external net flows of £27.4bn (H1 2020: £6.2bn). Market movements were positive in H1 2021, reflecting our diverse asset base. Whilst rising interest rates reduced the value of fixed income assets, this was offset by an increase in equity markets.

Revenues increased 3% to £480m (H1 2020: £467m), supported by growth in higher margin areas including thematic ETFs and multi-asset, partially offset by the strengthening pound which reduced the value of our International revenues. Our strengths in ESG led to several ESG mandate wins in H1 2021, and we have continued to see good flows into our ESG products. The cost income ratio (58%) reflects our continued investment in the business, balanced with careful cost control.

Strong international flows

International external net flows of £15.0bn constituted over half of LGIM's total external net flows.

LGIM saw £8.8bn of further net flows from Japanese clients and we are now Japan's 9th largest asset manager.[50] The US saw net flows of £3.5bn, primarily into LDI and Fixed Income products, as US clients re-focused on long term de-risking objectives, reversing the trend seen last year. We continue to make good progress against our European growth strategy.

International AUM of £434bn is up 13% from H1 2020 (£385bn) and now constitutes 33% of total AUM. On a constant currency basis, International AUM is up 23% year on year. Our deep relationships with a number of leading international clients underpin our conviction in our ability to grow international AUM and earnings over the next five years.

Ongoing strength in UK institutional business

LGIM's UK Institutional business delivered strong external net flows of £9.0bn (H1 2020: £8.0bn).

As a leading Solutions provider, LGIM can support clients at all stages of their funding journey, eventually helping them transition into a PRT relationship with LGRI. At this point, these assets are returned to LGIM as captive AUM to manage for the long term. This means that as the UK DB market gradually de-risks, LGIM will continue to be a key participant, benefitting from a virtuous circle with LGRI. Within our suite of DB investment solutions, the Secure Income Assets Fund (SIAF) launched in 2020, offering DB clients the chance to invest in infrastructure debt, real estate debt and private corporate debt. The SIAF now has total commitments of over £300m.

The Defined Contribution (DC) business continues to attract flows, with external net flows of £4.4bn, supported by ongoing growth in LGRR's Workplace pension business, which now has 4.2 million members. Total UK DC AUM is up 30% since H1 2020 with total AUM of £125.5bn (H1 2020: £96.7bn). This success was made possible by LGIM's strong customer focus, as shown by our 2020 Global Investor Award and a 91% persistency rate among our DC customers.

LGIM also has one of the largest and fastest-growing UK Master Trusts, which now has £15.1bn AUM, reflecting the increasing appeal of the structure for DC plans wishing to outsource their governance, investment and administration. Growth in our UK Master Trust business continues to support growth in multi-asset flows, since multi-asset is the default option for many of our UK Master Trust clients.

Good growth in ETFs

2021 has marked the third anniversary following the acquisition of the Canvas ETF business in March 2018. Over this period, revenue has more than doubled. The business has continued to grow at a strong pace in 2021 (H1 2021: $3.4bn net flows) with the focus on thematic ETFs supporting our strategy of growth into higher margin areas. This has been the key driver of the more than 50% increase in ETF AUM over H1 2021 to $13.0bn. This builds on our position in 2020, a year in which we had the largest percentage increase in AUM (+89%) of any of the top 20 largest ETF issuers in Europe. [51]

LGIM is committed to growth via innovation and we have continued to develop ETFs with our proactive design approach. H1 2021 included a number of fund launches, including the expansion of our fixed income range. We now have over $1.3bn AUM in fixed income ETFs at the end of H1 2021.

LGIM has also continued to develop and grow its equities range and thematic expertise through ETFs. As at the end of H1 2021, the thematic range of ETFs exceeded $6bn in AUM. LGIM continues to be ranked second on both AUM and net flows in the European thematic ETF market, with over 16% market share. LGIM has launched two further thematic ETFs in H1 2021 to cover the emerging hydrogen economy and the digital payments evolution, with both products being first to market in Europe. These two ETFs have contributed over $450m in net flows in H1 2021. A range of equity ETFs focused on high quality dividend paying companies has also been launched in H1 2021 to target continued demand for income generating products.

Breadth of investment management solutions

Asset movements[1] **(£bn)**	Index	Active Strategies	Multi Asset	Solutions	Real assets	**Total AUM**
At 1 January 2021	**429.9**	**193.6**	**63.4**	**559.5**	**32.5**	**1,278.9**
External inflows	44.5	10.0	4.9	20.2	0.6	80.2
External outflows	(41.9)	(7.7)	(3.1)	(8.0)	(0.8)	(61.5)
Overlay net flows	-	-	-	6.6	-	6.6

ETF net flows	2.1	-	-	-	-	2.1
External net flows	**4.7**	**2.3**	**1.8**	**18.8**	**(0.2)**	**27.4**
Internal net flows	(0.3)	(2.3)	0.1	(0.2)	1.0	(1.7)
Total net flows	**4.4**	**-**	**1.9**	**18.6**	**0.8**	**25.7**
Cash management movements	-	(0.4)	-	-	-	(0.4)
Market and other movements	37.1	(3.1)	2.8	(14.6)	0.4	22.6
At 30 June 2021	**471.4**	**190.1**	**68.1**	**563.5**	**33.7**	**1,326.8**

1. Please see disclosure 5.01 for further details.

LDI Solutions continued to deliver positive external net flows of £18.8bn (H1 2020: £8.3bn) driven by strong demand from UK and US DB clients as they continue to de-risk. We manufacture Solutions products in both publicly and privately traded asset classes and combine these together in integrated portfolios for UK DB clients. We are well positioned to capitalise on this continuing trend. Together with our fiduciary business offering, and working closely with LGR's PRT business, we can tailor solutions to DB schemes at all stages of their funding journey.

Index reported external net flows of £4.7bn (H1 2020: £(4.4)bn) driven by new international flows, partially offset by Index outflows in the UK and US, reflecting the structural trend of DB schemes de-risking, and therefore shifting from index to LDI strategies.

Active Strategies (formerly Global Fixed Income and Active Equities) delivered external net flows of £2.3bn (H1 2020: £0.5bn) as a result of positive net inflows from US and UK DB clients.

Multi-asset strategies continue to be in demand from DC schemes and retail customers. External net flows into multi-asset funds were £1.8bn (H1 2020: £1.6bn).

Real Assets saw external net flows of £(0.2)bn (H1 2020: £0.2bn), as the market continues to assess the longer-term impact of COVID-19 on demand. LGIM Real Assets is, however, well positioned. We expect future growth in flows to be supported by our Build to Rent business, which now has a pipeline of c5,500 homes across the country, and by Private Credit, which offers clients diversification of secure income and value protection solutions.

Investment performance

In Solutions and Index, clients rely on us to deliver their target returns against defined benchmarks. For actively managed portfolios, investment outperformance versus either benchmarks or peer groups is an important driver of current and future client flows, and in 2021 LGIM's active teams delivered strong performance across multiple asset classes. Using our regulated UCITS and US Composites as a proxy for the performance returns[2] of our mainstream investment strategies, the vast majority of our strategies outperformed over 1, 3 and 5 year periods to 30 June 2021 as follows:

	% of outperforming funds		
Strategies	**1 year**	**3 year**	**5 year**
Multi asset	88%	86%	90%
Active Fixed Income (UK)	100%	100%	92%
Active Fixed Income (US)	71%	82%	82%
Active Equities	75%	55%	56%

2. Net fund performance data versus key comparators (benchmark or generic peer groups for bonds and equities as per the relevant prospectuses, and benchmark per the relevant prospectus or custom peer group for Multi Asset) sourced from Lipper for the LGIM UCITS and calculated internally for the U.S. composites. All data as at 30 June 2021.

Leading in responsible investing

LGIM continues to build on its credentials as a responsible investor and remains committed to leading the asset management industry in addressing the environmental and social challenges arising from a rapidly changing world.

As at 30 June 2021, **LGIM managed £252.3bn in responsible investment strategies explicitly linked to ESG criteria for a broad range of clients**.

LGIM has a strong, unified sense of purpose: to create a better future through responsible investing. To that end, we work to raise ESG standards on important global issues, leveraging our position as one of the largest global asset managers. LGIM is, for example, a founding signatory of the Net Zero Asset Managers Initiative. Recent achievements include:

- **Commitment to net zero:**
    1. In December 2020 we announced our intention to help our clients achieve net zero across their portfolios by 2050, in the same way that L&G has already committed to with its own balance sheet.
    2. Our DC default funds - available to over four million members across L&G Workplace Pensions and the L&G Mastertrust - have set interim targets to support their 2050 net-zero ambitions.
    3. At the end of 2020, LGIM Real Assets published a roadmap to help achieve its commitment to net zero emissions by 2050 or sooner across real estate assets.
- **Integration of ESG factors**: Using **technological innovation** to **address climate change**, LGIM has developed a bespoke climate risk framework, Destination@Risk. This has initially been used to analyse around 2,000 companies globally. A climate risk and temperature scenario alignment dashboard is now available to portfolio managers and analysts within LGIM, enabling LGIM to **embed climate risk and alignment in a consistent way throughout the entire global investment function and into our product range**.
- **Product innovation**: LGIM is committed to developing ESG-focused investment products that integrate the most forward-thinking ideas in the space. We continue to build on our strong heritage in using index and active ESG investing insights to develop innovative new products, with 55% of our EU domiciled UCITS funds classified as ESG-incorporated (articles 8 or 9) in the EU's first annual Sustainable Finance Disclosure Regulation (SFDR) exercise. Recent examples of ESG product innovation include:
    1. A low carbon transition index equity fund suite for UK pension clients, designed by LGIM in partnership with a key consultant, to reduce exposure to carbon emissions in alignment with 2050 net-zero goals, whilst also being aligned to LGIM's market leading engagement and voting activities.
    2. A multi-factor developed equity index fund with a strong focus on climate, which adheres to the EU's Climate Transition Benchmark framework.
    3. Successful launch of a number of ESG ETFs, including a Green Bond strategy, a Hydrogen Economy thematic ETF, and a range of Quality Dividend ETFs with ESG exclusions.
- **Stewardship with impact**: LGIM's Investment Stewardship team aim to protect clients' assets through raising market standards and best practice, and engaging with consequences. The team has engaged with over 300 companies and voted on over 50,000 resolutions in H1 2021. We also celebrated the fourth anniversary of our climate impact pledge, which has now grown to cover 1,000 global companies, responsible for more than half of the greenhouse-gas emissions from listed companies, across 15 climate-critical sectors. Companies falling short of LGIM's minimum standards are subject to voting sanctions and potential divestment. Encouragingly, since we launched the Pledge in 2018, we have seen positive progress being made across the most climate-critical areas of the global economy, with 22% of companies on LGIM's priority list setting a net-zero target this year.
- **Driving our industry forward:** Recognising the crucial role of international leadership and collaboration in the decarbonisation initiative, Legal & General is at the heart of the COP26 programme in 2021, with LGIM CEO, Michelle Scrimgeour, co-chairing COP26 Business Leaders alongside

the President for COP26, Rt Hon Alok Sharma MP.

Legal & General Capital

FINANCIAL HIGHLIGHTS £m	H1 2021	H1 2020
Operating profit	250	123
- Alternative asset portfolio	195	36
- Traded investment portfolio & Treasury	55	87
Investment and other variances	48	(307)
Profit before tax attributable to equity holders	298	(184)
Net release from operations	213	97
ALTERNATIVE ASSET PORTFOLIO £m		
Specialist commercial real estate	733	716
Clean energy	218	179
Residential property	1,914	1,636
SME Finance	561	502
	3,426	3,033
TRADED ASSET PORTFOLIO £m		
Equities	1,731	1,987
Fixed income	426	238
Multi-asset	223	242
Cash[1]	1,220	1,388
	3,600	3,855
LGC investment portfolio	**7,026**	6,888
Treasury assets at holding company	1,630	2,074
Total	**8,656**	8,962

1. Includes short term liquid holdings.

Total operating profit of £250m reflecting rebound to pre-pandemic growth targets

LGC operating profit doubled to £250m (H1 2020: £123m). This growth principally reflects increased profits from our alternative asset portfolio (H1 2020: £36m) as a result of a bounce-back in the housebuilding market and the continued maturing of our venture capital and clean energy businesses. Operating profit from the traded & treasury portfolio decreased to £55m (H1 2020: £87m), primarily driven by the continued sell down of listed equities in order to fund the increasing expansion of the alternative asset portfolio.

Profit before tax was £298m, driven by investment and other variances of £48m, compared to £(307)m in H1 2020, which reflects the rebound in alternative asset portfolio profits and equity market performance.

Our growing alternative asset portfolio achieved a net portfolio return of 10.7% (H1 2020: (5.9)%). In line with our business model, we expect to deliver a return of 8% to 10% over the medium term as our early stage businesses continue to mature.

Alternative asset portfolio grew 13% over H1 2021 to £3.4bn

LGC has continued to strengthen its capabilities across an increasingly established range of alternative assets that are underpinned by our structural growth drivers. Our alternative asset portfolio increased to £3,426m (H1 2020: £3,033m) as we deployed a further £0.2bn and made new undrawn commitments of £0.5bn across our existing investment platforms. Through these investments we create assets that generate returns for shareholders, create attractive yield-generating Matching Adjustment-eligible assets for LGRI and LGRR and supply desirable alternative assets to LGIM and other third party clients.

Our portfolio continues to be well diversified across the sectors we invest in:

- 55% invested in wholly-owned operating businesses, including our investments in Affordable Housing and CALA;
- 29% in joint ventures or partnerships with other investors, such as the Bruntwood SciTech partnership and our Oxford University Development partnership; and
- 16% in externally managed funds, including our investments in Pemberton funds and NTR, where in both cases we are a significant shareholder.

As we set out below, our Alternative asset portfolio is creating value for shareholders, driving growth in our LGR businesses and creating assets for third party clients, with a focus on ESG and delivering Inclusive Capitalism.

Investment in specialist commercial real estate: ongoing support of the levelling up agenda

Addressing a shortage of investment in specialist commercial real estate, we continue to invest in partnership with the public sector to drive forward some of the UK's largest urban transformation schemes, back digital infrastructure and fund the next generation of science and innovation centres. During H1 2021 our specialist commercial real estate portfolio increased marginally to £733m (H1 2020: £716m) as a result of continued investment in new and existing projects, and overall portfolio value growth.

Through Bruntwood SciTech, we have continued to develop world leading diagnostics infrastructure, growing our portfolio to over 2.5m sq ft. Valued at more than £600m and home to over 500 science and tech businesses, the Bruntwood SciTech network includes nine sector-specialist campuses across Manchester, Liverpool, Birmingham, Alderley Park and, most recently, Melbourn Science Park. Its development pipeline of over 6m sq ft includes Birmingham Health Innovation Campus, where construction of Birmingham's first smart-enabled building, Enterprise Wharf, is now well underway, and - as announced in June - a development partnership with the University of Manchester to deliver ID (Innovation District) Manchester, a new £1.5bn innovation district across 4m sq ft in the city centre which forms an ambitious plan to make Manchester the heart of innovation in Europe. To be delivered over a 15-year period and setting new benchmarks for mixed-use, net-zero carbon development, Manchester ID will create 10,000 full time jobs and facilitate the commercialisation of knowledge, ideas and innovation generated from one of the world's leading universities.

Our Clean Energy portfolio expanded to £218m (H1 2020: £179m)

Supporting the Group's climate ambitions, we invest in early-stage scale-up companies, across low-carbon heat, transport, and power generation, to deliver the innovation, clean technology and renewable energy infrastructure needed to meet UK and global UN climate targets and Sustainable Development Goals.

During H1 2021, our portfolio continued to make excellent progress in scaling up. One of our investee companies, Pod Point, in which we hold a c22% stake, is rapidly building its business to meet increased consumer demand for electric vehicles. By April 2021, Pod Point's partnership with Volkswagen and Tesco had provided more than 500,000 free top-ups at Tesco stores across the UK and powered more than 10 million miles of travel, helping to make electric vehicle charging accessible for all drivers and accelerate the adoption of electric vehicles. Pod Point has also expanded its partnership with Lidl to install rapid chargers at 350 stores.

Through another of our investee companies, NTR - a specialist clean energy fund manager - we are continuing to source, build and operate new renewable energy assets to create attractive returns for investors over the medium to long term. In January, the NTR Renewable Energy Income Fund II (NTR REIF II), acquired the 48.4 MW Artigues et Ollières wind park in France, which will provide sufficient electricity for 25,000 households. In February, NTR REIF II completed a 54MW solar & battery transaction for €29m which represents the Fund's first in the energy storage space. The battery element will help support the stability of the Irish grid and, once constructed in 2022, the solar park will provide sufficient power for 1,650 households.

Bounceback in housebuilding supports growth of our residential property platform

LGC continues to scale up its ambitions across all housing tenures, making good progress with projects and partners, and seeing a strong rebound in sales and reservations levels. Diversified across affordability and life stage, LGC's investments meet the UK's long term social and economic need for quality housing for all demographics. During H1 2021, our residential property portfolio grew to £1,914m (H1 2020: £1,636m) reflecting a bounceback in the housebuilding sector and sustained long term demand.

LGC's **Build to Sell** business, CALA, has performed exceptionally in H1 2021, rebounding strongly from its position in 2020 when it was impacted by a pause in construction and sales activity following the first COVID-19 lockdown. During H1 2021 CALA has delivered revenue of £610m (H1 2020: £205m) and profit before tax of £70m (H1 2020: £(19)m) through the sale of more than 1,450 units, significantly higher than H1 2020 and H1 2019 levels (H1 2020: 468 units; H1 2019: 1,025 units). Reservations on private units currently stand at 93% of the full year target, giving confidence in the full year outcome for 2021. The strong rebound has been supported by the extension of the Government's tax breaks, rising consumer confidence and a relatively limited supply of housing stock.

Our **Affordable Homes** business has continued to establish itself as one of the UK's leading institutional developers and managers of affordable housing. We now have a total of 1,066 homes in operation (H1 2020: 221) and have completed 100 shared ownership sales (H1 2020: 63). In only its second full year of operation, the business delivered £12m of profit in H1 2021 and we expect this to grow as we contine to scale. Our pipeline stands at over 6,000 homes across the UK, with a Gross Asset Value of around £1bn.

Our **Modular Housing** business, which made a £16m loss in H1 2021, is making good progress with projects and partners, gaining planning consent to deliver a further 153 homes at a site in Broadstairs in East Kent, delivering show homes to its 102 home site in Selby, and acquiring and starting on site at a 185 home scheme in Lockleaze, Bristol, developed in conjunction with Bristol City Council. We are creating some of the most energy efficient homes in the country with all homes from 2020 onwards achieving an Energy Performance Certificate (EPC) A rating, a standard met by only around 1% of new and existing dwellings in England & Wales.

Our **Build to Rent business** has a £1.9bn portfolio of c5,500 homes with 15 schemes in operation or development across the UK's major towns and cities. Our Urban Build to Rent portfolio is creating a strong pipeline of attractive, high quality assets for LGRI and LGRR, and for LGIM clients. We have continued to make strong development progress, with over 1,700 homes having completed or under management. We have also now appointed our Suburban Build to Rent senior leadership team, bringing in skills from across some of the UK's leading property companies, and put in a planning application for its first site in North Horsham. This is designed to deliver 124 new homes for suburban families, alongside a selection of affordable housing options, delivering a multi-tenure community in partnership with LGC's other housing businesses, including our modular homes business.

Our JV with NatWest Group Pension Fund enables our Later Living business to keep scaling at pace

Our **Later Living** platform addresses the growing demand for specialist age-appropriate homes. **Delivering on our ambitious third party capital strategy, we recently announced that we have entered into a 15-year joint venture (JV) partnership with NatWest Pension Trustee Limited (NWPTL), as trustee of the £53bn defined benefit pension scheme of NatWest Group, to invest £500m of equity in later living communities to be developed by Inspired Villages.** As part of the JV, Legal & General sold a 50% stake in Inspired Villages' first 11 sites to NWPTL based on an enterprise value of over £300m. This investment will support our future pipeline of 34 sites, which will deliver c5,100 homes, housing c8,000 residents and create an estimated Gross Development Value of c£4bn. The transaction is unique as it sees one of the largest UK pension funds investing directly into UK private social infrastructure.

In the meantime, growth in our Inspired Villages business continues at pace. The business has reserved 38% off plan for the first phase of its seventh scheme in Kent, ahead of completion at the end of the year. Our Later Living platform has also made good planning and development progress. It has secured planning permission for 141 homes in West Sussex, 133 homes in South Oxfordshire, 222 homes in Walton-on-Thames and 194 homes and care suites in Uxbridge. It has also broken ground on its first two operationally net-zero carbon developments, located in Bedfordshire and Hampshire, together bringing forward over 350 energy efficient homes.

SME Finance AUM increased to £561m (H1 2020: £502m)

Investing in the real economy through our **Alternative Finance** and our **Venture Capital** platforms, we are continuing to support growth businesses, delivering enhanced returns while boosting job creation, innovation, and science and technology advancements.

In the **Alternative Finance** sector we support UK and European mid-market lending through our investments in Pemberton, our asset manager specialising in private debt, in which we hold a 40% stake. The Pemberton platform has raised over €10.9bn (H1 2020: €7.4bn) across four strategies in the six years since we first invested in 2014, with 126 investors globally. It has deployed €8.3bn (H1 2020: €4.5bn) across 91 companies, actively engaging with borrowers to support sustainable growth.

Our Venture Capital Funds business backs over 300 start-up businesses across the UK and Europe through our fund-of-funds programme and via LGC's ownership in direct investment platform Accelerated Digital Ventures (ADV).

The venture capital fund-of-funds programme saw strong performance over the period, with NAV growing by 43% to £129m over the six months to end of Q1 2021. Many of the funds we invested in early in the programme are now maturing, with the strongest assets achieving new funding rounds at increased valuations. Demonstrating the value of our patient investment approach, the portfolio has now delivered an 18% IRR after fees, since inception.

We continue to work with LGIM to develop a viable solution for Defined Contribution clients which will democratise access to the venture capital asset class.

Legal & General Insurance

FINANCIAL HIGHLIGHTS £m	H1 2021	H1 2020
Operating profit	**134**	88
- UK	96	57
- US (LGIA)	38	31
Investment and other variances	230	(483)
Profit / (loss) before tax attributable to equity holders	**364**	(395)
Release from operations[1]	151	163
New business surplus / (strain)	8	(1)
Net release from operations	**159**	162
Solvency II New Business Value	**131**	138
LGI new business annual premiums	**203**	192
UK Retail Protection gross premiums	**714**	680
UK Group Protection gross premiums	**274**	245
US Protection (LGIA) gross premiums	**512**	550
Total gross premiums	**1,500**	1,475

1. Includes the annual dividend of $111m (H1 2020: $109m) paid by LGIA to the Group in March 2021.

Operating profit up £46m to £134m; strong new business growth in the UK

During the first half of 2021, LGI operating profit increased 52% to £134m (H1 2020: £88m), reflecting strong new business growth in UK retail protection, and adverse COVID-related claims during the period, which were provided for in the 2020 results. We previously provisioned for £110m of future COVID-19 related claims, c£30m of which remains unutilised, highlighting the significant impact of the second wave in both the UK and US over Q1 2021. As in previous years, we expect H2 operating profit to be greater than H1.

Honouring our promises and responding quickly and compassionately to our customers' needs is core to our values at Legal & General. LGI is especially aware of the importance of our commitments to our customers: we paid £1bn of protection claims in the first half of the year.

Profit before tax was predominantly impacted by the formulaic change in LGI's discount rates. LGI's positive investment variance of £230m was driven primarily by an increase in UK and US government bond yields which have resulted in a higher discount rate used to calculate the reserves. The UK 10 year gilt rate increased by 52 bps and US 10 year Treasury yields increased by 52bps.

Solvency II New Business Value decreased by £7m to £131m (H1 2020: £138m) reflecting the negative impacts of USD exchange rate weakening and lower volumes in Group Protection after a strong first half in 2020. Retail Protection new business value increased as a result of strong volumes. The protection business continues to generate Solvency II surplus immediately when written and provides diversification benefits to the **Group**, particularly **LGR**.

Gross written premium at £1,500m; good trading performance in the US and UK in H1

UK Retail Protection gross premium income increased to £714m (H1 2020: £680m), with new business annual premiums of £105m (H1 2020: £83m), up 27% on prior year as the market continues to recover from COVID-related disruption. We increased our market share to 26% in Q1 2021[52], up from 22% in Q1 2020, and strengthened our position as the leading provider of retail protection in the UK, delivering a point of sale decision for more than 80% of our customers. Our market share growth was supported by our innovation over the period. For instance, further enhancements to our Income Protection Benefit and good progress on critical illness cover attracted new customers in the first half and helped us achieve market leadership for these products.

UK Group Protection new business annual premiums were £55m (H1 2020: £65m) with gross written premiums increasing 12% to £274m (H1 2020: £245m). Through improved service and more refined pricing we are attracting a wider range of scheme sizes and actively dealing with more advisers in the group protection market, enabling us to gain market share and grow new business premiums. We anticipate that full year 2021 new business volumes may not reach the record levels of 2020 as typically fewer large schemes are tendered in odd years than in even years.

US Protection (LGIA) gross written premiums increased 3% (down 7% on a sterling basis) to $712m (H1 2020: $693m). New business annual premiums increased 5% to $59m (H1 2020: $56m), with strong new business margins of 11.5%. LGIA ranked number one in the brokerage general agency channel in the first quarter by both new premium and new policies issued. We continue to develop our market-leading, digital new business platform (Horizon) which we expect to drive further sales growth and to reduce unit costs over the coming years. Adoption of our Horizon platform is now above 50% of new business and we expect this to increase towards 100% by the end of the year. We have significantly reduced usage of physical examinations, from 85% of all applications needing an exam at the start of 2020 to less than 50% of Horizon applications currently. This has been achieved without a material expected impact to mortality through the use of alternative data sources. In addition, we have a range of further underwriting innovations being deployed to reduce usage of physical exams and shorten the time taken to provide an underwriting decision, which will in turn improve placement rates and so increase business volumes.

Legal & General Mortgage Club facilitated £47bn of mortgages, up 39% (H1 2020: £34bn), driven by the buoyant housing market due to the extension of the Stamp Duty holiday. We remain the largest participant in the UK intermediated mortgage market and are involved in around one in five of all UK mortgage transactions. Our Surveying Services business facilitated 263,000 surveys and valuations, compared to 185,000 surveys and valuations in the prior year. Since buying a new house is often a catalyst for purchasing life insurance, the Legal & General Mortgage Club is a supporting component of our overall offering to customers.

Scaling up our Fintech businesses

LGI has continued with its strategy to scale up its innovative fintech businesses in adjacent markets. Our strategy of "digital first" has proved to be resilient through the COVID period, driving further growth in value and revenue. Salary Finance, our employee benefits platform, in which we have a 41% holding, continues to grow rapidly, with the platform now connected to over 3.8 million employees across the UK and US. Annualised run-rate gross revenue grew to £29m as at June 2021, an increase of 75% year on year. This trend is expected to continue with growing employee awareness and increasing platform engagement. It remains one of the UK's fastest growing Fintechs and is well positioned for growth in the UK, the US and beyond.

The strategy of platform ownership and influence has continued to serve us well in the mortgage and home financing "ecosystem". Our SmartrFit mortgage criteria and sourcing system now reaches over 3,400 brokers in the mortgage broking market. Within our Legal & General surveying business, our work to digitise the market has proved invaluable for banks through the lockdown period. Our digital valuation services have been used by many of our key clients with over 90,000 completed since 2019. Elsewhere in the ecosystem, our c40% investment in Smartr365, a complete end-to-end mortgage and protection platform used to unite mortgage advisers and their clients, has moved from start up to scale up across the UK mortgage broking market. With licence numbers having grown fourfold since the start of the year, we now have just under 2,000 licences in place. We have received strong feedback on the proposition, and how it simplifies the mortgage advice journey for brokers and customers.

Borrowings

The Group's outstanding core borrowings totalled £4.5bn at 30 June 2021 (FY 2020: £4.6bn; H1 2020: £4.7bn). There is also a further £1.1bn (FY 2020: £1.0bn; H1 2020: £1.2bn) of operational borrowings including £1.1bn (FY 2020: £0.9bn; H1 2020: £1.0bn) of non-recourse borrowings.

Group debt costs of £120m (H1 2020: £115m) reflect an average cost of debt of 5.1% per annum (H1 2020: 5.0% per annum) on an average nominal value of debt balances of £4.8bn (H1 2020: £4.6bn).

In late May 2021, we gave notification of our intention to redeem £300m of 10% dated subordinated notes and they were subsequently called at par on 23 July 2021.

Taxation

Equity holders' Effective Tax Rate (%)	H1 2021	H1 2020
Equity holders' total Effective Tax Rate	**19.5**	4.2
Annualised rate of UK corporation tax	**19.0**	19.0

The effective tax rate reflects the impact of revaluing UK deferred tax assets and liabilities at 25%, following the announcement of an increase in the headline rate of UK corporation tax from 1 April 2023, and the different rates of tax that apply to Legal & General's overseas operations. This is higher than the effective tax rate at H1 2020 which was below the headline rate as a result of the impact of losses arising in the period through investment variance.

The tax rate on operating profits, excluding the impact of investment variance, was 16.1% (H1 2020: 16.8%).

Solvency II

As at 30 June 2021, the Group had an estimated Solvency II surplus of £7.5bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 183% on a shareholder basis.

Capital (£bn)	**H1 2021[1]**	**FY 2020[1]**
Own Funds	16.6	17.1
Solvency Capital Requirement (SCR)	(9.1)	(9.7)
Solvency II surplus	**7.5**	**7.4**
SCR coverage ratio (%)	**183**	**177**

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

Analysis of movement from 1 January 2021 to 30 June 2021[1] (£bn)	**Solvency II surplus**
Surplus arising from back-book (including release of SCR)	0.7
Release of Risk Margin	0.3
Amortisation of TMTP	(0.2)
Operational surplus generation	**0.8**
New business strain	(0.2)
Net surplus generation	**0.6**
Operating variances	-
Mergers, acquisitions and disposals	-
Market movements	0.6
Subordinated debt	(0.3)
Dividends paid	(0.8)
Total surplus movement (after dividends paid in the period)	**0.1**

Operational surplus generation from continuing operations increased to £0.8bn (H1 2020: £0.8bn), after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP) and release of Risk Margin.

New business strain was £(0.2)bn, primarily reflecting UK PRT volumes written at a capital strain of c4%. This resulted in net surplus generation of £0.6bn (H1 2020: £0.7bn).

Dividends paid represent the payment of the 2020 final dividend in June 2021, which is the larger of the two dividends paid during the year.

Operating variances include the impact of experience variances, changes to model calibrations, and management actions. The net impact of operating variances over the period was neutral. Market movements of £0.6bn reflect the impact of rising rates on the valuation of our balance sheet, and improved asset markets, predominantly in equities, as well as a number of other, smaller variances.

The movements shown above incorporate management's estimate of the impact of recalculating the TMTP as at 30 June 2021 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with UK regulatory requirements, a formal recalculation of the TMTP will take place no later than 31 December 2021.

When stated on a proforma basis, including the SCR attributable to the Group final salary pension schemes in both the Group's Own Funds and the SCR, the Group's coverage ratio was 182% (FY 2020: 175%; H1 2020: 169%).

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

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in H1 2021:

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

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in H1 2021:

	£bn
IFRS New business surplus	**0.1**
Removal of requirement to set up prudential margins above best estimate on new business	0.2
Set up of Solvency II Capital Requirement on new business	(0.4)
Set up of Risk Margin on new business	(0.1)
Solvency II New business strain	**(0.2)**

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

Sensitivity analysis[2]

	Impact on net of tax Solvency II capital surplus H1 2021 £bn	**Impact on net of tax Solvency II coverage ratio H1 2021 %**
Credit spreads widen by 100bps assuming an escalating addition to ratings	0.5	11
Credit spreads narrow by 100bps assuming an escalating addition to ratings	(0.7)	(12)

Credit spreads widen by 100bps assuming a level addition to ratings	0.6	12
Credit spreads of sub-investment grade assets widen by 100bps assuming a level addition to ratings	(0.3)	(5)
Credit migration	(0.8)	(9)
25% fall in equity markets	(0.5)	(4)
15% fall in property markets	(0.8)	(7)
100bps increase in risk free rates	1.0	21
50bps decrease in risk free rates	(0.7)	(12)
50bps increase in future inflation expectations	(0.1)	(3)
Substantially reduced Risk Margin	0.6	6

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

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

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

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

Solvency II new business contribution

Management estimates of the present value of new business (PVNBP) and the margin as at 30 June 2021 are shown below[1]:

	PVNBP	Contribution from new business	Margin %
LGR - UK annuity business (£m)	**3,269**	**274**	**8.4**
UK Protection Total (£m)	**1,089**	**83**	**7.6**
- Retail protection	828	65	7.8
- Group protection	261	18	7.1
US Protection (£m)	**413**	**48**	**11.5**

The key economic assumptions as at 30 June 2021 are as follows:

	%
Margin for risk	**3.6**
Risk free rate	
- UK	**1.1**
- US	**1.5**
Risk discount rate (net of tax)	
- UK	**4.7**
- US	**5.1**
Long term rate of return on non-profit annuities in LGR	**2.4**

1. Please see disclosure 6.02 for further details.

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

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

Principal risks and uncertainties

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

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation. The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, increasing the level of reserves and 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	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, morbidity, lapse rates, valuation interest rates, and expenses, as well as credit default in the assets backing our insurance liabilities. We continue to closely monitor the impacts of Covid-19 on the lives we insure and the impacts for longevity and other insurance assumptions. To date Covid-19 mortality has been lower than our 1-in-200 pandemic modelling scenario, and we have seen an offsetting effect in our annuity portfolios. Areas of uncertainty remain, however, including future virus mutations, the long-term efficacy of vaccines, the effects of 'long Covid' on morbidity and any impacts created by the deferral of some non-Covid-19 medical treatments during the course of the pandemic. Other risk factors remain, including dramatic advances in medical science, beyond that anticipated requiring adjustment to our longevity assumptions; the emergence of new diseases and changes in immunology impacting mortality and morbidity assumptions; and for our US term policies variances in the rate of policy renewal compared to our assumptions.

changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.

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 to meet the obligations from insurance business; the movement in certain investments directly impacts profitability. Interest rate movements and inflation changes can also change the value of our obligations. Losses can arise from market movements although we seek to match assets and liabilities. 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, potentially impacting capital requirements and surplus capital. Falls in investment values can reduce our investment management fee income.

Whilst the outlook for developed economies continues to improve, there remains significant uncertainty to the depth and sustainability of the recovery, with financial markets highly susceptible to shocks and the re-appraisal of asset values. Risk factors include the outlook for inflation and shifts in monetary policy by central banks should the current rates of growth in inflation become deep seated; as well as geo-political risks, including US - China tensions and disruptions to global supply chains. Uncertainty is also likely to persist in elements of commercial property markets pending easing from the effects of the pandemic restrictions. We cannot eliminate the downside impacts from these or other risk factors on our earnings, profitability or surplus capital, however, we continue to seek to model our business plans across plausible economic scenarios to ensure resilience across a range of outcomes.

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 some 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.

Despite recovery in the wider economy, a range of industries remain directly impacted by global lockdowns including the leisure, transport, travel and retail consumer cyclical sectors, with risk of downgrade and default persisting particularly as governments withdraw current economic support measures. We continue to actively manage our exposure to default risks within our bond portfolios, monitoring positions relative to our exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of secured property. We are also monitoring the effect of Covid-19 on reinsurance counterparties, although default generally remains a more remote risk, which we seek to mitigate through selectively collateralising significant exposures. We cannot, however, eliminate default risks or their impacts to our Solvency II and IFRS balance sheets, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios.

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RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products, and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	Regulatory driven change remains a significant risk factor across our businesses. Key drivers of future change include HM Treasury's consultation on Solvency II and the Future Regulatory Framework post Brexit. The FCA's proposal for a new Consumer Duty has also been published and we are preparing for transition from LIBOR to SONIA at the end of 2021. Regulatory focus also continues on operational resilience, the management of third parties and the financial risks presented from climate change. Alongside regulatory risk, we are monitoring potential for changes in UK fiscal policy arising from the need to fund government borrowing in response to Covid-19, and progressing our readiness for IFRS 17, which will introduce new financial reporting metrics. As part of our internal control framework we seek to ensure on-going compliance with relevant legislation and regulation and ensure we are proactive in addressing change. We cannot, however, fully eliminate the risks that controls may fail or that historic accepted practices may be reappraised by regulators, resulting in sanction against the group.
New entrants may disrupt the 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, including those domiciled overseas. It is possible that alternative digitally enabled financial services providers emerge with lower cost business models or innovative service propositions and capital structures, and disrupt the current competitive landscape, and that changes in legislation or regulation impact operating models	We continue to monitor the factors that may impact the markets in which we operate and are maintaining our focus on developing our digital platforms, recognising that the current operating environment is likely to have further hastened the transition to greater digital engagement with our customers. We also continue to invest in automation to improve business efficiency, and our businesses are well positioned for changes in the competitive landscape that may arise from the roll out of defined benefit 'superfund' consolidation schemes, pension dashboards and 'collective' pension scheme arrangements.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to steal customer data or perpetrate acts of fraud using digital media, and there is strong stakeholder expectation that our core business services are resilient to operational disruption	We are planning our future ways of working post Covid-19 to include a hybrid office:home working model that will maintain high standards of customer service and internal control. We remain vigilant to the associated operational risks and we continue to invest in our system capabilities, including those for the management of cyber risks, to ensure that our business processes are resilient. We also seek to closely manage our property construction and safety risks through robust internal control systems, including training, monitoring and independent assessments. We recognise, however, that residual risk will always remain across the spectrum of our business operations and we aim to develop response plans so that when adverse events occur, appropriate actions are deployed.
We fail to respond to the emerging threats from climate change for our investment portfolios and wider businesses. As a significant investor in financial markets, commercial real estate and housing, we are exposed to climate related transition risks, particularly should abrupt shifts in the political and technological landscape impact the value of those investment assets associated with higher levels of greenhouse gas emissions.	Climate change and failure to transition to a low carbon economy remains a significant risk that we believe has still to be fully priced in by financial markets, with delays in responding to the threats increasing the risk of sudden late policy action, leading to potentially large and unanticipated shifts in asset valuations for impacted industries. We continue to embed the assessment of climate risks in our investment process and have developed risk tolerances to manage our exposures to the risk. We also continue to seek investments in new technologies that offer good returns whilst meeting global goals for net zero carbon emissions and engage with regulators and investee companies in support of increased climate action.

Notes

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

A virtual presentation to analysts, fund managers and investors will be available from 7:00am UK time today at www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

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

Participant dial-in numbers

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

Please enter access code **110278** to gain access to the conference.

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

Financial Calendar	Date
2021 interim results announcement	**4 August 2021**
Ex-dividend date (2021 interim dividend)	**12 August 2021**
Record date	**13 August 2021**
Dividend payment date	**20 September 2021**
LGC Capital markets day	**14 October 2021**
2021 preliminary results announcement	**9 March 2022**

Definitions

Definitions are included in the Glossary on pages 102 to 105 of this release.

Forward looking statements

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

Going concern statement

Going concern statement is included on disclosure note 4.01(b) on page 52 of this release.

Directors' responsibility statement

We confirm to the best of our knowledge that:

i. The consolidated interim financial statements have been prepared in accordance with UK-adopted IAS 34 Interim Financial Reporting;

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

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

iv. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report and Accounts for 31 December 2020. A list of current directors is maintained on the Legal & General Group Plc website: www.legalandgeneralgroup.com/about-us/our-management/group-board/.

By order of the Board

Nigel Wilson	Stuart Jeffrey Davies
Group Chief Executive	Group Chief Financial Officer
4 August 2021	4 August 2021

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[1] The Group uses a number of Alternative Performance Measures (including operating profit, net release from operations, return on equity and LGIM AUM) to enhance understanding of the Group's performance. These are defined in the glossary, on pages 101 to 105 of this report.
[2] Profit after tax attributable to equity holders. Performance driven by strong business and market performance, in addition to partial reversal of formulaic impact of rates on LGI.
[3] Solvency II coverage ratio on a shareholder basis, which is adjusted for the Own Funds and SCR of the Group final salary pension plans. 183% coverage ratio is post £0.8bn payment of 2020 final dividend and provision for £0.3bn sub-debt redemption.
[4] Cash generation defined as net release from operations and Capital generation defined as Solvency II operational surplus generation.
[5] $53tn retirement solutions market, Willis Towers Watson, 2021 Global Pension Assets Study; $136tn asset management market, BCG, Global Asset Management 2021; $20tn climate change market based on forecast that $130tn of investment is needed to 2050 in order to achieve zero emissions, scaled pro-rata to 2025. BloombergNEF: New energy outlook 2021 https://about.bnef.com/new-energy-outlook/
[6] From 1 January 2021, the Workplace Savings administration business has transferred to LGRR, where it complements LGRR's retirement solutions offering and retail customer focus; LGIM continues to manage the assets and earn the asset management profit from this business. 2020 financials have been restated accordingly.
[7] Excludes Mature Savings.
[8] The sale of the Mature Savings business completed on 7 September 2020.
[9] COVID-19 costs reflect incremental operational expenses incurred in 2020 as a result of COVID-19 and include the provision of IT spend on remote working solutions.
[10] Operating profit is an Alternative Performance Measure and represents Group adjusted operating profit as defined on page 101.
[11] LGI investment variance is the formulaic impact of rising (positive) and falling (negative) interest rates on the discount rate (both UK and US) used to calculate LGI reserves.
[12] Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 101.
[13] £3.1bn of global PRT includes a £925m Assured Payment Policy for Legal & General's Group UK Pension.
[14] 8.4% Solvency II margin represents UK pension risk transfer volume (LGRI) and individual annuity volume (LGRR).
[15] Profit before tax attributable to equity holders is an Alternative Performance Measure and represents Adjusted profit before tax attributable to equity holders as defined on page 101.
[16] Solvency II coverage ratio on a "shareholder view". Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2021.
[17] For example, UK 10 year Gilts at 0.72% at the end of the period, having increased 52bps between 31 December 2020 and 30 June 2021.
[18] Solvency II coverage ratio on a proforma basis includes the SCR attributable to our Group final salary pension plans in both the Group's Own Funds and the SCR. Incorporates the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30 June 2021.
[19] Calculated using annualised profit for the year and average equity attributable to the owners of the parent of £9,677m.
[20] IPE, Top 500 Asset Managers 2021.
[21] Three year average (2018-2020) measured by UK PRT new business volumes. Three year average measured by UK PRT deal count from LGIM clients is 67%.
[22] Broadridge, UK Defined Contribution and Retirement Income report 2019. 2019 UK DC Assets: £438bn.
[23] For more information please refer to www.legalandgeneralgroup.com/investors/esg-investors/
[24] Proprietary assets relate to Investments to which shareholders are directly exposed (excluding client and policyholder assets, derivatives, cash, cash equivalents and loans), as disclosed in Note 7.01.
[25] www.legalandgeneralgroup.com/media/18377/fy2020-lg-tcfd-report.pdf
[26] Represents voting instructions for main FTSE pooled funds.
[27] 2020 Sustainability and Inclusive Capitalism 2020-2021
[28] $130tn investment needed to 2050 in order to achieve zero emissions, scaled pro-rata to 2025. BloombergNEF: New energy outlook 2021 https://about.bnef.com/new-energy-outlook/
[29] The ambition is based on the aggregate performance over a five-year period. Performance may vary from year to year and individual statements may not be met in each year on a standalone basis. Dividend decisions are subject to final Board approval.
[30] Cash generation is net release from operations, capital generation is Solvency II operational surplus generation. Dividends on a declared basis. On the basis of a flat final 2020 dividend, and 3-6% annual growth thereafter.
[31] Self-financing means that LGR can write up to £10-11bn of UK annuity new business volume per annum, while contributing to a) its share of a progressive Group dividend, and b) the Group Solvency coverage ratio increasing over time.
[32] Legal & General 2020 Capital Markets Event, slide 26.

[33] Pension Purple Book 2020, PPF; Hymans Robertson, 2019 Risk Transfer Report; 2021 de-risking report, Willis Towers Watson.
[34] LGR market view based on discussions with external Employee Benefit consultants.
[35] Pension buy-ins/outs: Predictions for 2021 and beyond; LCP.
[36] LIMRA, March 2020.
[37] Professional Pensions, "L&G announces bulk annuities with UK and US schemes", 13 May 2020.
[38] FCA Retirement Income Data Apr 2018 - March 2020.
[39] Broadridge DC Report 2019.
[40] ABI Q1 2021 Report.
[41] Legal & General 2020 Capital Markets Event, slide 79.
[42] Note: We expect a neutral financial impact. LGIM's financial ambitions remain as stated in previous market guidance.
[43] $130tn investment needed to 2050 in order to achieve net zero emissions (midpoint of estimated range), BloombergNEF: New energy outlook 2021 https://about.bnef.com/new-energy-outlook/
[44] LGRA market view based on discussions with external Employee Benefit consultants.
[45] 2015: $445m, 1; 2016: $448m, 6; 2017: $713m, 15; 2018: $844m, 21; 2019: $1,140m, 10; 2020: $1,614m, 17; H1 2021: $149m, 3.
[46] ABI Q1 2021 Report.
[47] LGR's total annuity asset portfolio represents our UK and US annuities businesses. See note 5.04 and note 7.01 for more detail.
[48] Includes LGR direct investment bonds (£21,023m), direct investment property (£4,639m), direct investments equity (£9m), and other assets (£100m). Please see note 7.02b for more information.
[49] Persistency is a measure of LGIM client asset retention, calculated as a function of net flows and closing AUM.
[50] Ranked ninth by AUM, Japanese industry publication Nenkin joho (Pension News) 5 Apr 2021.
[51] ETFBook. This source also applies to other references to market data, and to market shares, in this section.
[52] ABI Q1 2021 Report.

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